



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

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

December 26, 2013

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

Susan Hirschoten

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' COMMUNITY HEALTH PLAN
FINANCIAL AUDIT FOR THE YEARS ENDED JUNE 30, 2012 AND 2013**

Attached is the independent auditor's report on the financial statements of the Department of Health Services' Community Health Plan (CHP) for the years ended June 30, 2012 and 2013. 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 (DMHC). The statements must be accompanied by an opinion on the fairness of the financial statement presentation. Simpson's opinion indicates that the financial statements present fairly CHP's financial position and operating results, as of, and for, the years ended June 30, 2012 and 2013. CHP's audited financial statements will be submitted to DMHC by December 31, 2013.

In addition, Simpson's report noted that the transfer of CHP's health plan operations to L.A. Care was completed as of October 1, 2012. As a result, the CHP operated for only three months during the fiscal year ended June 30, 2013.

Report on Compliance and Internal Control over Financial Reporting

In completing their audit, Simpson noted no matters involving internal control for the year ended June 30, 2013. Simpson also reviewed the matters they identified in prior audits, including the need to replace CHP's outdated Patient Management System, and CHP's ability to handle increased growth. Although CHP's health plan operations have been transferred to L.A. Care, Simpson indicated that the prior year recommendations may still be relevant to the other functions of the Managed Care Services.

Simpson discussed their report with CHP management. The details of Simpson's findings regarding the prior matters are included in the management letter, which was sent to your Board separately.

Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:AB:RS

Attachment

c: William T Fujioka, Chief Executive Officer
Mitchell H. Katz, M.D., Director, Department of Health Services
John F. Krattli, County Counsel
Public Information Office
Audit Committee

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN**

**Financial Statements for the
Years Ended June 30, 2013 and 2012
with Independent Auditor's Report**



**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN**

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS
FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors of
the County of Los Angeles

Report on the Financial Statements

We have audited the accompanying financial statements of the **Los Angeles County Department of Health Services Community Health Plan (CHP) fund**, in the County of Los Angeles, California as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements which collectively comprise CHP's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.





Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CHP as of June 30, 2013 and 2012, and changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, the financial statements present only the CHP and do not purport to, and do not, present fairly the financial position of the Los Angeles County Department of Health Services, as of June 30, 2013 and 2012, and the changes in its financial position, or, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2013 on our consideration of CHP' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Simpson & Simpson".

Los Angeles, California
December 19, 2013

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Balance Sheets
For the Fiscal Years Ended June 30**

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 26,952,973	\$ 31,653,075
Receivables (Note 3)	431,903	3,612,352
Amount due from Los Angeles County (Note 5)	-	14,941,225
Total current assets	<u>27,384,876</u>	<u>50,206,652</u>
Noncurrent assets:		
Long-term investments	<u>303,504</u>	<u>303,504</u>
Total noncurrent assets	<u>303,504</u>	<u>303,504</u>
TOTAL ASSETS	<u>27,688,380</u>	<u>50,510,156</u>
 LIABILITIES AND FUND NET POSITION		
Current liabilities:		
Accrued capitation	-	871,884
Claims payable (Note 4)	238,850	1,712,663
Accounts payable	143,697	987,882
Accrued salaries and related benefits	1,544,379	1,620,549
Amount due to Los Angeles County (Note 5)	12,584,361	-
Other liability (Note 6)	-	795,528
Total current liabilities	<u>14,511,287</u>	<u>5,988,506</u>
Fund net position:		
Restricted	303,504	3,341,232
Unrestricted (Note 11)	<u>12,873,589</u>	<u>41,180,418</u>
Total fund net position	<u>13,177,093</u>	<u>44,521,650</u>
TOTAL LIABILITIES AND FUND NET POSITION	<u>\$ 27,688,380</u>	<u>\$ 50,510,156</u>

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

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statements of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Years Ended June 30**

	<u>2013</u>	<u>2012</u>
REVENUES		
Capitation premiums	2,052,829	184,123,166
OPERATING EXPENSES		
Cost of health care services:		
Capitation premiums	1,795,028	121,605,687
Medical services	765,016	13,658,615
Pharmacy	-	13,172,382
Medical supplies	20,653	59,101
Total cost of health care services	<u>2,580,697</u>	<u>148,495,785</u>
General and administrative:		
Salaries and employee benefits	143,498	7,213,962
Professional and consulting services	146,897	2,680,986
Rent	6,499	553,832
Office expense	-	1,493,708
Communications	9,927	353,991
Total general and administrative expenditures	<u>306,821</u>	<u>12,296,479</u>
Total operating expenses	<u>2,887,518</u>	<u>160,792,264</u>
OPERATING INCOME (LOSS)	(834,689)	23,330,902
OTHER REVENUES		
Interest income	252,330	358,950
Other revenues	1,346,856	720,984
Total other revenues	<u>1,599,186</u>	<u>1,079,934</u>
Increase in Fund Net Position	764,497	24,410,836
FUND NET POSITION, beginning of year	44,521,650	20,110,814
Transfer to LA County (Note 7)	<u>(32,109,054)</u>	<u>-</u>
FUND NET POSITION, end of year	<u>\$ 13,177,093</u>	<u>\$ 44,521,650</u>

The accompanying notes are integral part of these financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statements of Cash Flows
For the Fiscal Years Ended June 30

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Fund Net Postion	\$ 764,497	\$ 24,410,836
Adjustments to reconcile change in net income to net cash provided / used by operating activities		
Changes in operating assets and liabilities:		
Decrease in receivables	3,180,449	34,691,767
Decrease/(Increase) in due from Los Angeles County	27,525,586	(14,941,225)
Decrease in prepaid expense	-	2,273,266
(Decrease) in accrued capitation	(871,884)	(18,199,465)
(Decrease) in claims payable	(1,473,813)	(10,779,986)
(Decrease) in accounts payable	(844,185)	(2,387,576)
(Decrease) in accrued salaries and related benefits	(76,170)	(932,613)
(Decrease) in amount due to Los Angeles County	-	(9,165,400)
(Decrease) in other liability	(795,528)	(1,722,026)
Net cash provided by operating activities	<u>27,408,952</u>	<u>3,247,578</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer to Los Angeles County	<u>(32,109,054)</u>	-
Net cash used by financing activities	<u>(32,109,054)</u>	-
Net (decrease) increase in cash and cash equivalents	(4,700,102)	3,247,578
Cash and cash equivalents, beginning of the year	<u>31,653,075</u>	<u>28,405,499</u>
Cash and cash equivalents, end of the year	<u>\$ 26,952,973</u>	<u>\$ 31,653,075</u>

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

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 and the Personal Assistance Services Council - Service Employees International Union (PASC-SEIU) Homecare Worker Health Care Plan (See Note 12).

Medi-Cal Managed Care

CHP was 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 had over 1300 primary care physicians, over 1,500 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. Effective January 1, 2012, all Medi-Cal enrollees were transitioned to L.A Care Health Plan (See Note 12).

Healthy Families Program

CHP contracted 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 Poverty Level. Since the program began in 1998, Community Health Plan was designated the Community Provider Plan for Los Angeles County for the provision of health coverage. Effective September 30, 2012, the MRMIB contract ended and the Healthy Families Program was terminated (See Note 12).

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 provided IHSS Workers access to a provider network comprised of Los Angeles County Department of Health Services facilities and contract providers. Effective February 1, 2012, all In-Home Supportive Services Health enrollees were transitioned to L.A Care Health Plan (See Note 12).

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As a managed health care organization, CHP derived the majority of its revenues from capitation premiums received for providing prepaid health services and prepared 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, 2013 and 2012, actual results could differ from the estimates upon which the carrying values were based.

Basis of Presentation

The accounts of the DHS 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 balance, revenues and expenditures or expenses, as appropriate. CHP, an enterprise activity of the Managed Care Services Department of the DHS is reported in the DHS general fund of the County of Los Angeles. General fund is used to account for all financial resources except those required to be accounted for in another fund. Resources or expenditures not restricted for a particular purpose are accounted for in the general fund.

The financial statements of the CHP are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the DHS that is attributable to the transactions of the CHP. They do not purport to, and do not, present fairly the financial position of the Los Angeles Department of Health Services, as of June 30, 2013 and 2012, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

Recent Accounting Standards

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). (GASB No. 62). The requirements in this statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. CHP adopted GASB 62, effective July 1, 2012, and there was no material impact of this pronouncement on CHP's financial statements.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Standards (Continued)

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63). The requirements of this statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The CHP adopted GASB No. 63 effective July 1, 2012 and the primary change to the financial statement was changing references from net assets to net position.

Concentration of Source of Revenues

CHP operated for only three months during the fiscal year ended June 30, 2013 and discontinued its operations effective September 30, 2012. CHP had received approximately 56% of its premium revenues under service agreements with L.A. Care Health Plan in the prior year.

Cash and Cash Equivalents

Cash and 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, 2013 and 2012 were approximately 1% and 1.31%, respectively. As of June 30, 2013 and 2012, 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, 2013 and 2012.

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.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Capitation

CHP paid 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 of \$0 and \$871,884 as of June 30, 2013 and 2012, respectively.

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.

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 Net Position

Fund net position is 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 net position 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, 2013 and 2012 (See Notes 9 and 11).

Premium Revenues

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

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of Health Care Services

CHP contracted 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 included a provision for stop-loss and non-capitated services for which CHP was liable. Additionally, CHP contracted with certain hospitals to provide hospital care to enrolled members on a capitation basis.

The cost of health care services was recognized in the period in which services were provided and included an estimate of the cost of services which were incurred but not yet reported. Such costs included 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 similarity in its nature to demand deposits. The fair values of long-term investments are estimated based on quoted market prices and dealer quotes for similar investments.

Income Tax

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

NOTE 3 -- RECEIVABLES

Receivables are comprised of interest receivable, capitation premiums receivable, Quality Improvement Funding receivable and claims reimbursement receivable from health care service providers. As of June 30, 2013 and 2012, receivables consisted of the following:

	2013	2012
Capitation premiums receivable	\$ 1,548	\$ 1,613,363
Claims reimbursement receivable	1,027,540	2,096,349
Allowance for doubtful	(694,052)	(925,334)
Interest receivable	96,867	31,549
Quality Improvement Funding receivable	-	694,145
Other receivable	-	102,280
	\$ 431,903	\$ 3,612,352

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 – CLAIMS PAYABLE

Claims payable are comprised of claims payable, claims 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, 2013 and 2012, claims payable consisted of the following:

		2013		2012
Claims payable/pending adjudication	\$	2,986,101	\$	9,219,565
Claims incurred but not received		1,501		1,066,637
Less: Allowance for denied claims		(2,748,752)		(8,573,539)
	\$	238,850	\$	1,712,663

NOTE 5 – AMOUNTS DUE FROM AND DUE TO LOS ANGELES COUNTY

The Amount due from Los Angeles County Funds represents Out-of-Plan (OOP) claims that are the responsibility of the County hospitals and their affiliated health centers and comprehensive health centers; however, such recoupments had not occurred at year-end. In the previous years, CHP prepared internal vouchers monthly to recoup the OOP claims from the other County hospitals. As noted in Note 1 and 12, CHP's health plan operations were transferred to LA Care, therefore as of June 30, 2013 and 2012, the amount due from Los Angeles County amounted to \$0 and \$21,749,925, respectively.

Cash disbursements for CHP are made from the DHS general fund. 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 for CHP administrative operations including services and supplies (i.e., telephone, rent and information system support) and salary and employee benefits. The total amount due to Los Angeles County funds for CHP operational costs amounted to \$0 and \$6,808,700 for the fiscal year ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, a due to Los Angeles County funds totaling \$12,584,361 existed for funds withheld by CHP to reimburse the health plan for OOP expenditures paid by CHP, but identified as County hospitals and their affiliated health center and comprehensive health center costs.

		2013		2012
Amount due from Los Angeles County funds	\$	-	\$	21,749,925
Less: amount due to Los Angeles County funds		(12,584,361)		(6,808,700)
Net of Amount (due to) / from:	\$	(12,584,361)	\$	14,941,225

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – OTHER LIABILITY

Other liability is comprised of claims contingencies and payments to Department of Health Service passed through CHP. As of June 30, 2013 and 2012, other liabilities consisted of the following:

	2013	2012
Claims Contingencies	\$ -	\$ 636,693
Others	-	158,835
	<u>\$ -</u>	<u>\$ 795,528</u>

NOTE 7 – TRANSFER TO LOS ANGELES COUNTY

Prior to 2012-13, CHP transferred funds in excess of 150% of the total net position to the DHS general fund. CHP transferred \$22,151,651 to DHS during the fiscal year 2012-13. A transfer of \$9,957,403 was also recorded in CHP books. During fiscal year 2012-13, a due from the County funds (County's hospitals) of \$9,957,403 was transferred from the hospitals directly to the Los Angeles County General Fund; as such, these transfers did not pass through CHP's books during the year. Therefore, CHP recorded these transfers as "transfers to DHS" to reduce the Due from the LA County.

NOTE 8 – RETIREMENT PLAN

The County's retirement plan covers 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 – 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, 2013 and 2012, CHP met its regulatory requirements.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 – CONTINGENCIES

At June 30, 2013, a total of 6 claims were filed against CHP seeking reimbursement for claims that those providers deem to be underpaid. The claims in total amounted to \$2.5 million. Management of CHP has stated its intent to vigorously contest these lawsuits.

The County has agreed to fund CHP's 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 were provided to CHP at no cost.

NOTE 11 – RESTRICTED FUND NET POSITION

As a result of CHP's transition the restricted fund net position has been held until all claims and other liabilities are paid when due. The remaining restricted funds will be transferred to DHS.

**NOTE 12 – CHP'S DISCONTINUATION OF ITS HEALTH PLAN OPERATIONS
TRANSITION AND SAFETY NET SUPPORT AGREEMENT WITH L.A. CARE
HEALTH PLAN**

On March 29, 2011 the Los Angeles County Board of Supervisors (Board) approved the DHS Director's recommendation that all lines of the CHP business be transferred from CHP to L.A. Care and that L.A. Care assume all health plan functions. This transition was to occur gradually over the subsequent year and would eventually result in CHP's discontinuation as a managed care health plan.

On November 8, 2011 the Board authorized the Director of Health Services to execute an agreement with L.A. Care to structure a long term financial relationship between L.A. Care and the County of Los Angeles and to provide for the orderly transfer of health plan operations from CHP to L.A. Care, effective on the date of Board's approval through December 31, 2021.

Director of Health Services finalized negotiations with L.A. Care on the transition agreement (Community Health Plan Transition & Safety Net Support Agreement) with an effective date of January 1, 2012. The primary value of CHP to DHS over the years has been the revenue it brings in for patients who receive their care in the DHS system. Thus, in negotiating the long term agreement, the parties were to focus on the elements which would provide the basis for ongoing funding for DHS. The financial terms for the financial support from L.A. Care Health Plan to DHS are confidential and not subject to disclosure. These provisions are protected as proprietary and also subject to Section 1457 of the Health and Safety Code, among other confidential provisions and public record exemptions. The agreement included the following provisions:

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

**NOTE 12 – CHP’S DISCONTINUATION OF ITS HEALTH PLAN OPERATIONS
TRANSITION AND SAFETY NET SUPPORT AGREEMENT WITH L.A. CARE
HEALTH PLAN (CONTINUED)**

1. Mutual indemnification between the parties.
2. The County retained financial and other legal responsibilities as appropriate prior to the transition date. L.A. Care assumed financial and other legal health plan responsibilities thereafter.
3. Each party maintained certain recordkeeping responsibilities as appropriate.
4. The parties established payment to the County of any of its CHP accounts receivables that exist following the transition date(s).

Additionally, this transition included separate Hospital Services and Participating Provider agreements between DHS and L.A. Care (effective May 1, 2011 with the new Medi-Cal Seniors and Persons with Disabilities (SPD) product line). The Medi-Cal Non-SPD line of business was amended into these agreements effective October 1, 2011. The In Home Supportive Services (IHSS) and Healthy Families Program (HFP) lines of business were included in separate amendments, both effective February 1, 2012. These contracts and amendments firmly established DHS as a contracted institutional and professional services provider under L.A. Care Direct (L.A. Care’s fully owned and operated HMO subsidiary).

The CHP Medical Managed Care Program (MMCP) members transferred to LA Care Direct on January 1, 2012. The CHP IHSS members transferred to LA Care Direct on February 1, 2012. CHP had the preferred Community Provider Plan (CPP) designation for HFP enrollees for the contract year beginning October 1, 2011. Thus, these CHP HFP enrollees could not be transitioned to L.A. Care, per the Managed Risk Medical Insurance Board (MRMIB, which administers the HFP), and CHP continued as an operating Knox-Keene licensed health plan for the HFP through September 30, 2012. On this date, CHP ceased to be the designated CPP for the HFP. CHP HFP members received an Open Enrollment notification in July 2012 from the MRMIB. During this Open Enrollment period, they were asked to select a new HFP participating health plan and provider to become effective October 1, 2012.

The Knox-Keene license remains in force until DHS and DMHC completes ongoing discussions on its possible future use.

NOTE 13 – SUBSEQUENT EVENT

The CHP has evaluated events or transactions that occurred subsequent to June 30, 2013 through December 19, 2013, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that the subsequent matter requires disclosure or adjustment to the accompanying financial statements.

These notes are an integral part of the preceding financial statements.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS
FOUNDING PARTNERS
BRAHARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

U.S. BANK TOWER
633 WEST 5TH STREET, SUITE 3320
LOS ANGELES, CA 90071
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Supervisors of
the County of Los Angeles

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the **Los Angeles County Department of Health Services Community Health Plan (CHP)** as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon, dated December 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CHP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of CHP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CHP's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CHP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CHP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read 'Simpson & Simpson', is written in black ink.

Los Angeles, California
December 19, 2013