MGO Certified Public Accountants.

Los Angeles
777 S. Figueroa Street, Suite 2500
Los Angeles, CA 90017
213.408.8700

Sacramento

Walnut Creek

Oakland

Century City

Newport Beach

San Diego

Seattle

April 3, 2014

To the Honorable Board of Supervisors
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County) for the year ended June 30, 2013. We did not audit the financial statements of the Community Development Commission (CDC) (discretely presented component unit), Los Angeles County Children and Families First – Proposition 10 Commission (First 5 LA) (discretely presented component unit), and the Los Angeles County Employees Retirement Association (LACERA). Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 18, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. During the year ended June 30, 2013, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements;* GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34;* GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position;* and GASB Statement No. 66 ,*Technical Corrections – 2012, An Amendment of GASB Statements No. 10 and No. 62.* We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the County's financial statements were:

- Accrual and disclosure of claims liabilities
- Actuarial value of unfunded actuarial accrued liability (UAAL)
- Contractual adjustments and bad debt allowances for patient accounts receivable
- Depreciation estimates for capital assets and infrastructure assets
- Fair value of investments
- Pollution remediation liabilities

Management's estimates were based on the following:

- The liability for workers' compensation and long-term disability claims were based on actuarial valuations. General liability, automobile and medical malpractice liability claims were based on historical loss and other data.
- The UAAL was based on the actuarial valuation as of June 30, 2012.
- The liability for other claims was determined by County Counsel and attorney judgment about the ultimate outcome of the claims.
- Estimated contractual adjustments were based on prior cost report adjustments, previous regulatory settlements, and the potential future adjustments based on current laws and regulations.
- Estimated bad debt allowances for patient accounts receivable were based on historical loss levels.
- Useful lives for depreciable capital assets and infrastructure were determined by management based on the nature of the assets. The County uses the straight-line method of depreciation.
- The fair value of investments was based on the quoted market prices and pricing models.
- Estimated pollution remediation liabilities were determined by project managers, based on historical cost information for projects of the same type, size and complexity and measured at their current value.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the County's basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure of Pension Plan in Note 8 and the related UAAL and funded status.
- The disclosure of Hospital and Other Program Revenues in Note 14 to the financial statements related to the hospital funding sources.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that were included in the management representation letter dated December 16, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

With respect to the combining and individual fund statements and schedules accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the combining and individual fund statements and schedules to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Supervisors and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Macias Gini & O'Connell LLP

Macias Gini & O'Connell LLP

County of Los Angeles
Summary of Uncorrected Misstatements - Government-Wide
June 30, 2013

	Description	Statement of Net Assets		Statement of Activities	
		Debit	(Credit)	Debit	(Credit)
Business-Type Activities					
1	Net Patient Service Revenues			21,669,270	
	Net Position - Beginning Balance				(21,669,270)
	To adjust the provider fees for fiscal year 2012 that were recorded and received in fiscal year 2013.				
		$ -	$ -	$ 21,669,270	$ (21,669,270)

County of Los Angeles
Summary of Uncorrected Misstatements - Fund Based
June 30, 2013

Description	Balance Sheet/ Statement of Net Assets		Statement of Revenues, Expenditures/ Expenses and Changes in Fund Balance/ Fund Net Assets	
	Debit	(Credit)	Debit	(Credit)
Special Revenue - Regional Park & Open Space Districts				
1 Beginning Net Position	$	$	$ 2,441,248	$
Services & Supplies Expenditure				(2,441,248)
To reclassify the FY 2012 service fee recorded in FY 2013 as an adjustment to beginning net position.				
Special Revenue - Public Library				
2 Prepaid Assets	$ 185,000	$	$	$
Services & Supplies Expenditure				(185,000)
To record the prepaid subscription for FY 2014 as prepaid assets.				
Capital Project Funds - Public Buildings				
3 Debt Service - Principal	$	$	$ 189,065,000	$
Capital Outlay Expenditure				(189,065,000)
To reclassify debt service principal payments that were incorrectly classified as capital outlay expenditure in the Public Buildings Fund.				

County of Los Angeles
Summary of Uncorrected Misstatements - Fund Based
June 30, 2013

Description	Balance Sheet/ Statement of Net Assets Debit	Balance Sheet/ Statement of Net Assets (Credit)	Statement of Revenues, Expenditures/ Expenses and Changes in Fund Balance/ Fund Net Assets Debit	Statement of Revenues, Expenditures/ Expenses and Changes in Fund Balance/ Fund Net Assets (Credit)
LAC+USC				
4 Net Patient Service Revenues			10,219,666	
Beginning Net Position				(10,219,666)
To adjust the provider fees for fiscal year 2012 that were recorded and received in fiscal year 2013.				
Harbor-UCLA				
5 Net Patient Service Revenues			6,212,480	
Beginning Net Position				(6,212,480)
To adjust the provider fees for fiscal year 2012 that were recorded and received in fiscal year 2013.				
RLA				
6 Net Patient Service Revenues			2,094,368	
Beginning Net Position				(2,094,368)
To adjust the provider fees for fiscal year 2012 that were recorded and received in fiscal year 2013.				
Olive View				
7 Net Patient Service Revenues			3,142,756	
Beginning Net Position				(3,142,756)
To adjust the provider fees for fiscal year 2012 that were recorded and received in fiscal year 2013.				
8 Services and supplies expenses			929,032	
Beginning Net Position				(929,032)
To reverse the projected overstatement of accounts payable in prior year.				
9 Services and supplies expenses			1,481,000	
Other Operating Revenue				(1,481,000)
To reclassify the credit balance of medical malpractice expense that was presented as part of services and supplies expense.				
	$ 185,000	$ -	$ 215,585,550	$ (215,770,550)