COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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JOHN NAIMO
AUDITOR-CONTROLLER

March 7, 2016

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

FROM: John Naimo
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' COMMUNITY HEALTH PLAN FINANCIAL AUDIT FOR THE YEARS ENDED JUNE 30, 2014 AND 2015**

Attached is the independent auditor's report on the financial statements of the Department of Health Services' (DHS or Department) Community Health Plan (CHP) for the years ended June 30, 2014 and 2015. The audit was performed by Simpson & Simpson (Simpson), Certified Public Accountants.

State of California law requires CHP and other managed health care plans with an active Knox-Keene license 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 statements' 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, 2014 and 2015. CHP's audited financial statements have been submitted to DMHC.

Simpson's report indicates that CHP's transfer of managed health care plan operations to L.A. Care Health Plan, the County's local initiative for managed health care, was completed in October 2012. As a result, CHP had minimal financial activity during the two fiscal years covered by the audit. DHS will keep CHP's Knox-Keene license active until DMHC issues a final decision on the Department's request to modify the license from full-service to restricted status (i.e., to contract for services such as skilled nursing, home health, and hospice care).

In addition, Simpson's report noted that in August 2015, CHP transferred $10.7 million from its trust funds to the DHS general fund. Since CHP is only required by DMHC to meet the minimum balance of $1.0 million of Tangible Net Equity (TNE) to retain its license, any funds in excess of the TNE are transferred to the DHS general fund.

Report on Compliance and Internal Control over Financial Reporting

In completing their audit, Simpson did not identify any deficiencies in CHP's internal controls that they considered to be material weaknesses. However, Simpson did identify issues with untimely transfers of amounts due to/from DHS and CHP, which resulted in CHP's interest income being understated.

CHP agrees with Simpson's finding and recommendation. Details of Simpson's finding and CHP's response are included in Simpson's management letter, which was sent to your Board separately.

If you have any questions, please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:JU

Attachment

c: Sachi A. Hamai, Chief Executive Officer
Mitchell H. Katz, M.D., Director, Los Angeles County Health Agency
Mary C. Wickham, 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, 2015 and 2014
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

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, 2015 and 2014, 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 audits 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 opinion.

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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, 2015 and 2014, 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, 2015 and 2014, 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 October 22, 2015 on our consideration of CHP's 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.

Simpson & Simpson

Los Angeles, California
October 22, 2015

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

ASSETS	**2015**	**2014**
Current assets:		
Cash and cash equivalents	$ 13,544,925	$ 13,498,485
Receivables (Note 3)	8,803	57,318
Due from Los Angeles County (Note 5)	491,230	491,230
Total current assets	14,044,958	14,047,033
Noncurrent assets:		
Long-term investments	301,908	301,924
Total noncurrent assets	301,908	301,924
TOTAL ASSETS	$ 14,346,866	$ 14,348,957
LIABILITIES AND FUND NET POSITION		
Current liabilities:		
Claims payable (Note 4)	$ 20,000	$ 333,018
Accrued vacation	-	1,544,379
Due to Los Angeles County (Note 5)	1,658,862	-
Total current liabilities	1,678,862	1,877,397
Fund net position (Note 9):		
Restricted	301,908	301,924
Unrestricted	12,366,096	12,169,636
Total fund net position	12,668,004	12,471,560
TOTAL LIABILITIES AND FUND NET POSITION	$ 14,346,866	$ 14,348,957

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

	2015	2014
REVENUES		
Capitation premiums	$ -	$ -
OPERATING EXPENSES		
Cost of health care services:		
Medical services	(169,638)	330,810
Bad debt	10	-
Total cost of health care services	(169,628)	330,810
General and administrative:		
Office expense	10,000	10,666
Total general and administrative expenditures	10,000	10,666
Total operating expenses	(159,628)	341,476
OPERATING (LOSS) PROFIT	159,628	(341,476)
OTHER REVENUES		
Interest income	16,386	144,647
Other revenues	20,430	400,306
Total other revenues	36,816	544,953
Increase in Fund Net Position	196,444	203,477
FUND NET POSITION, beginning of year	12,471,560	13,177,093
Transfer to LA County (Note 6)	-	(909,010)
FUND NET POSITION, end of year	$ 12,668,004	$ 12,471,560

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 Fiscal Years Ended June 30

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Fund Net Position	$ 196,444	$ 203,477
Adjustment for non-cash item:		
Unrealized (gain) loss in value of investment	15	1,580
Adjustments to reconcile change in net income to net cash used by operating activities		
Changes in operating assets and liabilities:		
Decrease in receivables	48,516	374,585
Increase/(Decrease) in claims payable	(313,018)	94,168
Decrease in accounts payable	-	(143,697)
Decrease in accrued vacation	(1,544,379)	-
Increase/(Decrease) in due to/from Los Angeles County	1,658,862	(13,075,591)
Net cash provided / (used) in operating activities	46,440	(12,545,478)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer to Los Angeles County	-	(909,010)
Net cash used by financing activities	-	(909,010)
Net increase/(decrease) in cash and cash equivalents	46,440	(13,454,488)
Cash and cash equivalents, beginning of the year	13,498,485	26,952,973
Cash and cash equivalents, end of the year	$ 13,544,925	$ 13,498,485

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, 2015

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

The Community Health Plan (CHP) is Los Angeles County's full service health plan that is administered by the Department of Health Service (DHS) division of Managed Care Services. It is a federally qualified health maintenance organization (HMO) licensed by the State of California Department of Managed Health Care (DMHC) under the Knox-Keene Health Care Service Plan Act of 1975. During licensure, CHP provided a full range of health care services to its enrollees through DHS health care network.

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.

DHS decided to maintain a Knox-Keene license (restricted) for some of its arrangements for delivery of health care services through its health care system. The Knox-Keene license remains in force until DHS and DMHC completes ongoing discussions on its possible future use.

As of June 30, 2015, CHP's license modification request is still pending the DMHC's approval.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Currently a managed health care organization with no active members, CHP derived the majority of its revenues on interest earned from funds deposited in cash and investment pools. CHP 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, 2015 and 2014, actual results could differ from the estimates upon which the carrying values were based.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and 2014, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

Adoption of New Accounting (GASB) Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. This Statement is not applicable to CHP.

Concentration of Source of Revenues

CHP discontinued its operations as a managed health care organization with enrolling members effective September 30, 2012. For the fiscal years ended June 30, 2015 and 2014, CHP's primary sources of revenues are interest earned from cash and investment pools as well as provider's refunds which resulted from either overpayments or double-payments from claims settled in the previous years.

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, 2015 and 2014 were approximately 1%. As of June 30, 2015 and 2014, substantially all investments in the County investment pool were U.S. government securities, bankers' acceptances and negotiable certificates of deposit.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and 2014.

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, 2015 and 2014.

Cost of Health Care Services

Prior to the transition of CHP lines of business to L.A. Care, 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.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 earned from pooled cash and investments. Interest receivable amounted to $8,803 and $57,318 as of June 30, 2015 and 2014, respectively.

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, 2015 and 2014, claims payable consisted of the following:

	2015	2014
Claims Payable	$ 451,707	$ 333,018
Less: Allowance for denied claims	(431,707)	-
	$ 20,000	$ 333,018

NOTE 5 – AMOUNT DUE TO/FROM LOS ANGELES COUNTY

Cash disbursements and cash receipts for CHP are made through the general fund of Los Angeles County Department of Health Services (DHS). The amount Due to Los Angeles County represents amount owed to the DHS general fund and for disbursements paid on behalf of CHP but has not been reimbursed by CHP. Similarly, the amount Due from Los Angeles County represents the amount DHS owed CHP for certain receipts such as refunds from providers that has not been transferred back to CHP's trust fund.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 – AMOUNT DUE TO/FROM LOS ANGELES COUNTY (CONTINUED)

As of June 30, 2015, the balance due from Los Angeles County amounted to $491,230. This balance represents claims paid in previous years on behalf of DHS facilities and is reimbursable to CHP.

As of June 30, 2015, amount Due to Los Angeles County of $1,658,862 comprised of the following:

- Disbursements paid by DHS totaling $114,483 that has not been transferred by CHP.
- A reclassification of $1,544,379 for accrued vacation. This amount represents CHP's recognition of accrued vacation for former employees prior to the discontinuation of its health plan operation (see note 10). As employees were transferred to other departments within Los Angeles County, the accrued vacation balance was recognized as an amount due to Los Angeles County.

The net amount of $1,167,632 due to Los Angeles County was offset in August 2015 as part of the transfer from trust funds to the DHS (see note 11).

NOTE 6 – TRANSFER TO LOS ANGELES COUNTY

For the fiscal year ended June 30, 2014, CHP transferred $909,010 to the General Fund of DHS. For the year ended June 30, 2015, there were no transfers from CHP to the General Fund. See notes 9 and 11.

NOTE 7 – 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, 2015 and 2014, CHP met its regulatory requirements.

NOTE 8 – CONTINGENCIES

On February 19, 2014, a claim was filed against CHP seeking reimbursement for claims deemed to be underpaid from 2010 and 2011. On February 23, 2015, CHP was notified by claimant of an updated list for the unpaid or underpaid claims.

NOTE 8 – CONTINGENCIES (CONTINUED)

CHP is vigorously asserting that no additional payment is due because the dispute is untimely, with the large majority of the claims arising from a date of service of about four years ago.

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 9 – RESTRICTED FUND NET POSITION

As a result of CHP's transition, the restricted and unrestricted fund net position has been held until all claims and other liabilities are paid, at which time the remaining funds will be transferred to DHS. See note 11.

NOTE 10 – CHP'S DISCONTINUATION OF ITS HEALTH PLAN OPERATIONS TRANSISTION 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:

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).

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 – CHP'S DISCONTINUATION OF ITS HEALTH PLAN OPERATIONS TRANSISTION AND SAFETY NET SUPPORT AGREEMENT WITH L.A. CARE HEALTH PLAN (CONTINUED)

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.

NOTE 11 – SUBSEQUENT EVENT

In August 2015, CHP transferred a total of $10,654,860 from its various trust funds to the County DHS general fund. Since CHP is only required to meet the minimum balance of $1 million of Tangible Net Equity (TNE) to retain its current license, any transfer funds in excess of 100% TNE is transferred to the general fund of DHS.

The CHP has evaluated events or transactions that occurred subsequent to June 30, 2015 through October 22, 2015, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and no other matters require disclosure or adjustment to the accompanying financial statements.

SIMPSON & SIMPSON
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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, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon, dated October 22, 2015.

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 an opinion on the effectiveness of CHP's internal control. 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 importation 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*.

We noted a matter that we reported to management of CHP in a separate letter dated October 22, 2015.

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.

Simpson & Simpson

Los Angeles, California
October 22, 2015