



**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

OSCAR VALDEZ
AUDITOR-CONTROLLER

ASSISTANT AUDITOR-CONTROLLERS

**MAJIDA ADNAN
ROBERT G. CAMPBELL
CONNIE YEE**

December 1, 2023

TO: Supervisor Janice Hahn, Chair
Supervisor Hilda L. Solis
Supervisor Holly J. Mitchell
Supervisor Lindsey P. Horvath
Supervisor Kathryn Barger

FROM: Oscar Valdez
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' COMMUNITY HEALTH PLAN
FINANCIAL AUDIT FOR THE YEARS ENDED JUNE 30, 2022 AND 2023,
AND MANAGEMENT LETTER FOR THE YEAR ENDED JUNE 30, 2023**

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, 2022 and 2023 (Attachment I), and management letter for the year ended June 30, 2023 (Attachment II). The audit was performed by Simpson & Simpson (Simpson), Certified Public Accountants.

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, 2022 and 2023. 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 Health Authority for managed health care, was completed in October 2012. As a result, CHP had minimal financial activity in the two fiscal years covered by the audit. In September 2016, your Board approved DHS' request to modify CHP's Knox-Keene license from a full-service plan to a restricted plan

(i.e., to contract for services, such as skilled nursing, home health, and hospice care for Personal Assistance Service Counsel – Services Employee International Union Homecare Workers Health Care Plan members), which DHS has had on hold since June 2020. As of October 2023, DHS has no immediate plan to use or modify the license and intends to continue to maintain it active given the broad potential scope of changes in the Medi-Cal program over the next five years, which could create new opportunities to use the license.

Report on Compliance and Internal Controls over Financial Reporting

As part of the audit, Simpson reviewed CHP's internal controls over financial reporting, and did not identify any deficiencies that they considered to be material weaknesses.

If you have any questions please call me, or your staff may contact Mike Pirolo at mpirolo@auditor.lacounty.gov.

OV:RGC:MP:JU

Attachments

c: Fesia A. Davenport, Chief Executive Officer
Celia Zavala, Executive Officer, Board of Supervisors
Christina R. Ghaly, M.D., Director, Department of Health Services
Audit Committee
Countywide Communications

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN

Financial Statements for the
Years Ended June 30, 2023 and 2022
with Independent Auditor's Report



LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN

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Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRANARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors of
the County of Los Angeles

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022, and the related notes to the financial statements which collectively comprise CHP's basic financial statements as listed in the table of contents.

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, 2023 and 2022, 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.

Basis for Opinions

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CHP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CHP's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.





Auditor's Responsibilities for the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CHP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CHP's ability to continue as a going concern for a reasonable period of time.

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, 2023 and 2022, 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 4, 2023, on our consideration of the 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 solely 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 the effectiveness of the CHP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CHP's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Los Angeles, California
October 4, 2023

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

ASSETS	2023	2022
Current assets:		
Cash and cash equivalents	\$ 2,454,782	\$ 2,444,875
Receivables (Note 3)	21,946	3,994
Total current assets	<u>2,476,728</u>	<u>2,448,869</u>
Noncurrent assets:		
Long-term investments	300,062	300,659
Total noncurrent assets	<u>300,062</u>	<u>300,659</u>
TOTAL ASSETS	<u><u>\$ 2,776,790</u></u>	<u><u>\$ 2,749,528</u></u>
LIABILITIES AND FUND NET POSITION		
Current liabilities:		
Accounts Payable	\$ -	\$ 650
Total current liabilities	<u>-</u>	<u>650</u>
Fund net position (Note 7):		
Restricted	300,062	300,659
Unrestricted	2,476,728	2,448,219
Total fund net position	<u>2,776,790</u>	<u>2,748,878</u>
TOTAL LIABILITIES AND FUND NET POSITION	<u><u>\$ 2,776,790</u></u>	<u><u>\$ 2,749,528</u></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

	2023	2022
REVENUES		
Capitation premiums	\$ -	\$ -
OPERATING EXPENSES		
Cost of health care services:		
Medical services	-	-
Total cost of health care services	-	-
General and administrative:		
General expense	21,579	21,639
Total general and administrative expenditures	21,579	21,639
 Total operating expenses	 21,579	 21,639
OPERATING (LOSS) PROFIT	(21,579)	(21,639)
OTHER REVENUES		
Interest income	79,406	15,046
Total other revenues	79,406	15,046
 Increase/(Decrease) in Fund Net Position	 57,827	 (6,593)
FUND NET POSITION, beginning of year	2,748,878	2,746,695
Transfers In (Out) (Note 5)	(29,915)	8,776
FUND NET POSITION, end of year	\$ 2,776,790	\$ 2,748,878

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

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Fund Net Position	\$ 57,827	\$ (6,593)
Adjustment for non-cash item:		
Unrealized gain/loss in value of investment	597	1,310
Adjustments to reconcile change in net income to net cash used by operating activities		
Changes in operating assets and liabilities:		
Decrease in receivables	(17,952)	(2,710)
Decrease in accounts payable	(650)	650
Net cash provided by operating activities	<u>39,822</u>	<u>(7,343)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfers In	(29,915)	8,776
Transfers Out	-	-
Net cash used by financing activities	<u>(29,915)</u>	<u>8,776</u>
Net increase in cash and cash equivalents	9,907	1,433
Cash and cash equivalents, beginning of the year	<u>2,444,875</u>	<u>2,443,442</u>
Cash and cash equivalents, end of the year	<u><u>\$ 2,454,782</u></u>	<u><u>\$ 2,444,875</u></u>

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

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. This agreement has since then been extended through December 31, 2023.

In FY 2017, DHS decided to request 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. In FY 2018, after an August 18, 2017 conference call with the Department of Managed Health Care (DMHC), it was decided that "CHP's filing #20140637" (Material Modification to Convert License Type, DHS) would be withdrawn. This withdrawal request was submitted by CHP to DMHC on August 30, 2017 and was acknowledged by DMHC (order consenting to the withdrawal) on September 11, 2017. As of October 4, 2023, CHP's license modification request continues to be on hold.

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, 2023 and 2022, actual results could differ from the estimates upon which the carrying values were based.

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, 2023 and 2022, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

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, 2023 and 2022, CHP's primary sources of revenues are interest earned from cash and investment pools.

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. For the fiscal years ended June 30, 2023 and 2022, the earnings rate on the Los Angeles County cash and investment pool ranged from 1.35% to 3.81% and 0.44% to 1.11%, respectively. As of June 30, 2023 and 2022, substantially all investments in the County investment pool were U.S. government securities, commercial paper, bank notes, and 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, 2023 and 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023 and 2022.

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 \$21,946 and \$3,994 as of June 30, 2023 and 2022, respectively.

NOTE 4 – AMOUNT DUE TO THE 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. As of June 30, 2023 and 2022, there were no balance due to the Los Angeles County.

NOTE 5 – TRANSFERS IN (OUT)

CHP transferred out \$29,915 to the general fund of DHS and transferred in \$8,776 from the general fund of DHS for the fiscal years ended June 30, 2023 and 2022, respectively.

NOTE 6 – 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, 2023 and 2022, CHP met its regulatory requirements.

NOTE 7 – RESTRICTED FUND NET POSITION

Since CHP is only required to meet the minimum balance of \$1 million of Tangible Net Equity (TNE) to retain its current license, any funds in excess of 100% TNE are transferrable to the general fund of DHS. But, at this time, all remaining funds will be held to cover startup costs related to initiation of activities under an approved restricted license.

NOTE 8 – 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. The long-term financial relationship, also known as, the Community Health Plan Transition & Safety Net Support Agreement, was executed on January 1, 2012 between LA Care and DHS pursuant to the County of Los Angeles Board of Supervisors authority through December 31, 2021 and was subsequently extended through December 31, 2022. This agreement is in the process of being extended through December 31, 2023.

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.

**NOTE 8 – CHP’S DISCONTINUATION OF ITS HEALTH PLAN OPERATIONS
TRANSITION AND SAFETY NET SUPPORT AGREEMENT WITH L.A. CARE
HEALTH PLAN (CONTINUED)**

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). Similarly, DHS is contracted to provide institutional and professional services for the In Home Supportive Services (IHSS) line of business under the L.A. Care Health Plan Joint Powers Authority, (another separate L.A. Care fully owned and operated HMO subsidiary), effective February 1, 2012.

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 9 – SUBSEQUENT EVENT

The CHP has evaluated events or transactions that occurred subsequent to June 30, 2023 through October 4, 2023, 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
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRANARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

**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, 2023 and 2022, and the related notes to the financial statements, and have issued our report thereon, dated October 4, 2023.

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 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.





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 that reads "Simpson & Simpson".

Los Angeles, California
October 4, 2023



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRANARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

October 4, 2023

To the Board of Supervisors of
the County of Los Angeles

We have audited the financial statements of the Los Angeles County Department of Health Services Community Health Plan (CHP) fund as of and for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in the executed Work Order No. 9-46A. 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 CHP are described in Note 2 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2023. We noted no transactions entered into by CHP 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 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. We are pleased to report that there were no known and likely misstatements identified during the course of our audit, other than those that are clearly trivial.

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 are included in the management representation letter dated on October 4, 2023.

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 CHP'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 CHP's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



Restriction on Use

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

Very truly yours,

A handwritten signature in black ink that reads "Simpson & Simpson". The signature is written in a cursive, flowing style.

Simpson & Simpson