

BOARD OF GOVERNORS

Finance & Budget Committee

Meeting Minutes – June 28, 2017

1055 W. 7th Street, Los Angeles, CA 90017



L.A. Care
HEALTH PLAN

Members

Michael Rembis, *Chairperson* *
Mark Gamble
Louise McCarthy
Hilda Perez
Kimberly Uyeda, MD

Management/Staff

John Baackes, *Chief Executive Officer*
Phinney Ahn, *Chief of Staff*
Augustavia J. Haydel, Esq., *General Counsel*
Dino Kasdagly, *Chief Operations Officer*
Marie Montgomery, *Chief Financial Officer*
Richard Seidman, MD, *Chief Medical Officer*
Tom Schwaninger, *Chief Information Officer*

*Absent ** Via Teleconference

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
CALL TO ORDER Louise McCarthy	Louise McCarthy, <i>Board Chairperson</i> , called the meeting to order at 1:05 p.m. She announced that members of the public may address the Committee on each matter listed on the agenda before or during the Committee's consideration of the item, or on any other topic at the Public Comment section.	
APPROVE MEETING AGENDA	The Agenda for today's meeting was approved.	Approved unanimously. 3 AYES (Gamble, McCarthy, and Perez)
PUBLIC COMMENTS	There were no public comments.	
APPROVE MEETING MINUTES	The minutes of the May 24, 2017 meeting were approved as presented.	Approved unanimously. 3 AYES
CHAIRPERSON'S REPORT	There was no report from the Chairperson.	
CHIEF EXECUTIVE OFFICER REPORT	John Baackes, <i>Chief Executive Officer</i> , reported <ul style="list-style-type: none"> • A vote on the health coverage bill was postponed in the U.S. Senate. 	

APPROVED

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	<ul style="list-style-type: none"> • L.A. Care is raising awareness that the bill fundamentally changes the historical funding for Medicaid. • L.A. Care worked with other health plans and submitted a letter to the Senate leadership. • L.A. Care will continue to work with other health plans to continue to seek opportunities to help legislators support Medi-Cal beneficiaries and the safety net providers. <p>Mr. Baackes noted that the letter received positive response. Cherie Compartore, <i>Senior Director of Government Affairs</i>, is in Washington, D.C. to visit legislators. She has received positive responses to the letter.</p>	
COMMITTEE ITEMS		
CHIEF FINANCIAL OFFICER REPORT Marie Montgomery	<p>Marie Montgomery, <i>Chief Financial Officer</i>, provided highlights on the FY 2016-17 Financial Report for the period ended May 31, 2017. <i>(A copy of the report can be obtained by contacting Board Services).</i></p> <p><u>Membership</u> Membership is unfavorable by about 40,000 member months through May 2017 when compared to forecast, primarily because of lower than expected enrollment in Medi-Cal, likely due to disenrollment during the redetermination of eligibility process.</p> <p><u>Consolidated Financial Performance</u></p> <ul style="list-style-type: none"> • Net revenue surplus for the month is \$5.5 million; \$92 million year to date. The positive variance is primarily driven by a favorable operating margin. • Year to date operating margin is favorable despite the lower membership. • Operating expense is \$575,000, which is favorable to the forecast. Overall expense is expected to be close to forecast, with the potential to run an unfavorable variance for the year due to costs for software licenses and general services. • The non-operating income is favorable by \$3 million, primarily driven by investment income. <p><u>Operating margin by segment</u></p> <ul style="list-style-type: none"> • Plan Partner Medical Cost Ratio (MCR) is consistent with expectation. 	

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	<ul style="list-style-type: none"> Seniors and People with Disabilities (SPDs) and Coordinated Care Initiative (CCI) program performance is favorable to forecast driven by the timing of claims paid and reserve adjustments. TANF/MCE program is unfavorable due to unfavorable volume, reserve adjustments and paid claims. Medical cost ratio for L.A. Care's commercial program is favorable to forecast for the year. <p><u>Key Financial Ratios</u> Key Financial Ratios are positive. Cash to Claims ratio is slightly lower due to a delay in the payment from the State. June will also be low, which is typical at the end of the state fiscal year.</p>	
Approval of Financial Report FY 2016-17 Marie Montgomery	<i>(Member Uyeda joined meeting)</i> <u>Motion FIN 100.0717</u> To accept the Financial Report for the period ended May 31, 2017, as submitted.	Approved unanimously. 4 AYES (Gamble, McCarthy, Perez, and Uyeda)
Investment Transactions Marie Montgomery	Ms. Montgomery referred to a report on investment transactions included in the meeting materials for Committee member review. <i>(A copy of the report can be obtained by contacting Board Services).</i> As of May 31, 2017, L.A. Care's total investment market value was \$2.3 billion. <ul style="list-style-type: none"> \$2.18 billion managed by Paydel & Rygel \$65 million in Local Agency Investment Fund \$71 million in Los Angeles County Pooled Investment Fund 	
Quarterly Reports Required by Internal Policies Marie Montgomery	As required by L.A. Care's internal policies, Ms. Montgomery presented reports for the period January through March 2017: <i>(A copy of the report can be obtained by contacting Board Services):</i> <ul style="list-style-type: none"> Policy AFS-006 (Authorization and Approval Limits) Policy AFS-007 (Procurement) Policy AFS-027 (Travel Expense Report) Policy AFS-004 (Non-Travel Expense Report) 	
Revisions to Accounting & Finance Services	Ms. Montgomery presented a motion to revise the Accounting & Financial Services Policy AFS -006 (Authorization and Approval Limits). The proposed revisions will improve the	

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<p>Policy AFS 006 (Authorization and Approval Limits)</p> <p>Marie Montgomery</p>	<p>overall efficiency of the approval process with appropriate controls over spending. The most significant change is the increase in limits. This will decrease the volume of motions presented to the Board, allowing faster decision-making at the staff level and freeing the Board from consideration of operations motions.</p> <p>Mr. Baackes added that the authorization limits have not been changed in several years. Staff will continue to provide quarterly reports on expenditures as required by internal policies. The overwhelming majority of motions are presented for Board approval of the vendor to be used for expenditures that were approved in the Budget, as most expenditures are already included in the approved Budget. The Committee asked that the reports be sorted by value, with the highest cost items first on the list.</p> <p><u>Motion FIN 101.0717</u> To approve the revisions to Accounting & Financial Services Policy AFS-006 (Authorizations and Approvals), as attached, and to authorize staff to make non-substantive changes.</p>	<p>Approved unanimously. 4 AYES</p> <p>The Committee approved to include this motion to the Consent Agenda for the July 26, 2017, Board of Governors meeting.</p>
<p>Edmund Jung & Associates Contract Amendment</p> <p>Dino Kasdagly</p>	<p>Tom Schwaninger, <i>Chief Information Officer</i>, presented three motions:</p> <p>To amend the contract with Edmund Jung & Associates (EJA). A request for proposal was conducted in late 2012/early 2013. L.A. Care's Appeals & Grievances (A&G) system was implemented by EJA. The system is still in use and has helped a great deal with compliance with complicated A&G rules. EJA will continue to make enhancements to improve workflows. Funds for this fiscal year are included in the approved budget and will be budgeted for next year.</p> <p><u>Motion FIN 102.0717</u> To authorize staff to amend a contract in the amount of \$612,000.00 with Edmund Jung & Associates, to provide support services for the period of July 1, 2017 to December 31, 2018. Total costs of contract not to exceed \$1,137,000.</p>	<p>Motions FIN 102, FIN 103 and FIN 104 were simultaneously approved unanimously. 4 AYES</p> <p>The Committee approved to include these motions to the Consent Agenda for</p>
<p>Information Technology Motions</p> <p>Tom Schwaninger</p>	<p>Request for authorization to procure equipment, software and installation services from ePlus, Inc. The increased demand for information storage and data processing requirements is driving the need to upgrade to new servers. Funds were included in the approved budget.</p>	<p>The Committee approved to include these motions to the Consent Agenda for</p>

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	<p><u>Motion FIN 103.0717</u> To authorize staff to procure equipment, software and installation services from ePlus, Inc. in amount not to exceed \$800,000 to replenish L.A. Care’s storage hardware.</p> <p>Request for authorization to procure equipment, software and installation services from ePlus, Inc. to purchase Vmware NSX network and security software to enhance L.A Care’s internal server architecture. This additional software will allow different security zones, other levels of insulation and security to provide more protection. A request for proposal process was conducted and ePlus was selected for lowest cost.</p> <p>Member Uyeda asked if these security measures meet industry standard and if there are any requirements for cyber security. Mr. Schwaninger noted that there are many different standards, with the most secure being the Department of Defense (DOD) standards. L.A. Care does not go as far as DOD standards, but complies with standards required by the Office of the Inspector General (OIG) and other pertinent regulations applicable to L.A. Care. Additionally, regular penetration tests and audits help test the strength of security measures. L.A. Care utilizes independent security firms to conduct tests on the adequacy of cyber security measures. Mr. Schwaninger noted that L.A. Care conducts cyber security awareness training for all employees and has an incident response plan and a process to respond to a breach of security.</p> <p><u>Motion FIN 104.0717</u> To authorize staff to procure equipment, software and installation services from ePlus, Inc. in amount not to exceed \$800,000 to purchase Vmware NSX Network and Security Software to enhance L.A Care’s internal server architecture.</p>	<p>the July 26, 2017, Board of Governors meeting.</p>
<p>ADJOURN TO CLOSED SESSION</p>	<p>Augustavia J. Haydel, Esq., <i>General Counsel</i>, announced the items that the Committee will discuss in closed session. There was no public comment on the Closed Session items, and the meeting adjourned to closed session at 1:39 p.m.</p> <p>CONTRACT RATES Pursuant to Welfare and Institutions Code Section 14087.38(m)</p> <ul style="list-style-type: none"> • Plan Partner Rates • Provider Rates • DHCS Rates 	

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	<p>REPORT INVOLVING TRADE SECRET Pursuant to Welfare and Institutions Code Section 14087.38(n) Discussion Concerning New Product Lines <i>Estimated date of public disclosure: June 2019</i></p> <p>CONFERENCE WITH LEGAL COUNSEL—ANTICIPATED LITIGATION Significant exposure to litigation pursuant to Section 54956.9(d)(2)Ralph M. Brown Act: one case</p>	
RECONVENE IN OPEN SESSION	The meeting reconvened in open session at 1:50 p.m. No reportable actions were taken during the closed session.	
ADJOURNMENT	The meeting was adjourned at 1:51 p.m.	

APPROVED BY:

Respectfully submitted by:
Malou Balones, *Committee Liaison, Board Services*
Linda Merkens, *Manager, Board Services*



Michael Rembis, *Chair*

Date Signed

7/26/17

APPROVED