

# BOARD OF GOVERNORS

## Audit Committee Meeting Minutes – July 22, 2020

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



**L.A. Care**  
HEALTH PLAN

### Members

Alvaro Ballesteros, *Chairperson*  
Layla Gonzalez  
Stephanie Booth, MD

*\* Absent \*\* Teleconference*

### Management/Staff

John Baackes, *Chief Executive Officer*  
Augustavia J. Haydel, Esq., *General Counsel*  
Marie Montgomery, *Chief Financial Officer*

### Guests

Rosie Procopio, *Lead Client Service Provider, Deloitte & Touche*  
Angelica Kocharova, *Audit Sr. Manager, Deloitte & Touche*

**California Governor issued Executive Order No. N-29-20, which among other provisions amends the Ralph M. Brown Act  
Members of the public can listen to this meeting via teleconference.**

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
<b>CALL TO ORDER</b> Alvaro Ballesteros	Alvaro Ballesteros, <i>Committee Chair</i> , called the meeting to order at 11:35 a.m.  He welcomed everyone to the meeting and summarized the process for public comment during this teleconference meeting as reflected on the meeting agenda. Public comments received by voicemail, email or text received prior to the start of the meeting will be sent to Committee members in writing and will be read for 3 minutes during the meeting. If you wish to submit public comment on an item, you must submit it at any time prior to the time the Chair starts consideration of the item. The Chair will ask for public comment and will announce the item. The Chair will then announce when public comment period is over for that item.	
<b>PUBLIC COMMENT</b>	There were no public comments.	
<b>APPROVE MEETING AGENDA</b> Alvaro Ballesteros	Today's Agenda was approved as submitted.	<b>Approved unanimously by roll call. 3 AYES (Ballesteros, Booth and Gonzalez)</b>
<b>APPROVE MEETING MINUTES</b> Alvaro Ballesteros	The May 29, 2020 meeting minutes were approved as submitted.	<b>Approved unanimously by roll call. 3 AYES</b>

**APPROVED**

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
<b>CHAIRPERSON'S REPORT</b>	There was no report from the Chairperson.	
<b>CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER REPORT</b>	<p>John Baackes, <i>Chief Executive Officer</i>, reported:</p> <ul style="list-style-type: none"> <li>• L.A. Care leadership decided, as result of resurgence of COVID-19 infection, staff will continue to work remotely until January 2021, except for specific exceptions. Management will continue to review the situation. Employees who cannot work at home productively may apply to return on September 1 but this will be limited to up to 10% of employees to maintain distancing, especially in the use of elevators. The plan was well received by staff.</li> <li>• Los Angeles Unified School District and other school districts help staff with school age children.</li> <li>• L.A. Care's Statement of Principles will be sent to Board members for consideration at the July 30 board meeting.</li> <li>• L.A. Care has formed an Equity Council Steering Committee, chaired by Dr. James Kyle, <i>Medical Director for Quality Improvement</i>. The Steering Committee includes conveners of three distinct Equity Councils dedicated to L.A. Care members, providers and vendors, and staff. The Steering Committee's work has just begun, and they have played an active role in refining L.A. Care's Statement of Principles, helping to ensure it is equity-focused and inclusive.</li> </ul> <p>Marie Montgomery, <i>Chief Financial Officer</i>, reported:</p> <ul style="list-style-type: none"> <li>• It is a challenging year. The State budget will hit health plans hard financially.</li> <li>• 1.5% retroactive rate reduction for Medi-Cal will result in about \$55-60 million reduction in revenue for the fiscal year ending September 30, 2020.</li> <li>• Anticipating lower cost related to the deferral of elective procedures.</li> <li>• Higher paid claims as L.A. Care accelerated claims payments to assist providers.</li> <li>• Working closely with Deloitte &amp; Touche (D&amp;T) approaching year end</li> <li>• D&amp;T will look at L.A. Care's financial reserve position as of August 2020 and then will move forward with September.</li> <li>• Staff is monitoring paid claims trends.</li> </ul>	

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	<ul style="list-style-type: none"> <li>• A risk corridor was put in place during the bridge period (18 month rate cycle for a transition from fiscal year to calendar year rate setting).</li> <li>• L.A. Care is advocating for reasonable rates and will continue to work with state representatives.</li> <li>• At the May 29 Audit Committee meeting the Committee accepted staff's recommendation to re-engage with D&amp;T for the FY 2019-20 financial audit.</li> </ul>	
<b>COMMITTEE ISSUES</b>		
<b>Presentation of Audit Plan for Fiscal Year 2019-20</b>	<p>Rosie Procopio, <i>Lead Client Service Provider</i>, and Angelica Kocharova, <i>Audit Sr. Manager, Deloitte &amp; Touche</i>, presented the Deloitte &amp; Touche (D&amp;T) Audit Plan for FY 2019-20. <i>(A copy of plan may be requested by contacting Board Services.)</i></p> <ul style="list-style-type: none"> <li>• D&amp;T identified the following key areas of risk in the audit: <ol style="list-style-type: none"> <li>1. IBNR reserve valuation</li> <li>2. Revenue retroactive adjustment, and</li> <li>3. Risk related to potential management override of controls (an AICPA audit standard)</li> </ol> </li> <li>• The audit will focus on: <ol style="list-style-type: none"> <li>1. An assessment of the risk of material misstatement</li> <li>2. Any significant changes to the business or level of transactions</li> <li>3. Key accounting estimates and a retrospective look-back of management's prior year estimates, and</li> <li>4. Knowledge of the industry and trends affecting L.A. Care.</li> </ol> </li> <li>• D&amp;T commits to complete the audit by December 2020</li> </ul> <p>Member Booth asked about the references to triangles in data. Ms. Procopio responded that the triangles refer to the process where claims are received and paid, with claims paid full set data calculated independently of actuarial analysis, which it is used to confirm.</p> <ul style="list-style-type: none"> <li>• The scope of audit, work plan and timeline were discussed.</li> <li>• The cost of engagement is \$380,000 plus expenses</li> </ul>	

**APPROVED**

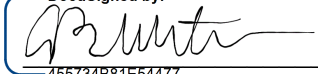
AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<p>Member Booth asked about the Office of Management and Budget (OMB) requirement. How much work still needs to be done? do. She emphasized the value of the information. Ms. Procopio responded that the federal grant amounts are below the requirement for a compliance audit, so that audit was removed. Ms. Montgomery noted that the information reported in prior years was only for grant activity not L.A. Care operations</p> <p>Member Booth asked if this is in compliance with local state and federal requirements if we receive more than the limit of federal funds other than grants. Ms. Procopio responded that D&amp;T evaluates controls and compliance. If any information arises that calls compliance into question it is discussed.</p> <p>D&amp;T will continue to bring information related to COVID-19 to L.A. Care. Ms. Procopio noted that the Public Company Accounting Oversight Board (PCAOB)'s new guidelines for audits shows D&amp;T has lowest number of comments and findings among the big firms. D&amp;T continues to monitor compliance with audit quality.</p> <p>Ms. Kocharova reviewed the engagement letter and the audit timeline agreed on with management. With help of L.A. Care management, D&amp;T has already started updating audit plan, scope and procedures for certain areas of risk.</p> <p>Ms. Procopio stated that the only change in the engagement letter will be the OMB requirements.</p> <p>Chair Ballesteros asked about the December issues with reports, letters and results and final audit procedures.</p> <p>Ms. Procopio noted that the audit will be split into two periods, interim and final. The final period involves the remaining transactions through September 30.</p> <p>Ms. Procopio thanked L.A. Care for the re-engagement and looks forward to working with everyone.</p> <p>Ms. Montgomery noted that L.A. Care is in good shape with this audit plan. L.A. Care has to do its part to accelerate procedures and complete the audit timely.</p>	

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	<p>Member Booth asked if anybody in any other profession besides medicine has to deal with the state fixing rates retroactively.</p> <p>Ms. Montgomery thinks that L.A. Care is unique in that regard.</p> <p>Ms. Procopio stated that it is unusual.</p> <p><b><u>Motion AUD A.0720</u></b>  <b>To accept the Audit Plans of the Deloitte &amp; Touches' audit of L.A. Care's financial statements for the fiscal year 2019-20, as presented, and authorize execution of the engagement letter.</b></p>	<p><b>Approved unanimously by roll call. 3 AYES</b></p>
<b>ADJOURNMENT</b>	<p>Committee expressed appreciation to staff for organizing the meeting.</p> <p>The meeting was adjourned at 12:18 pm.</p>	

Respectfully submitted by:  
Malou Balones, *Board Specialist III*  
Victor Rodriguez, *Board Specialist II*  
Linda Merkens, *Senior Manager, Board Services*

APPROVED BY:

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Al Ballesteros, MBA, *Chairperson*  
Date Signed: 12/16/2020 | 12:17 PM PST

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