

BOARD OF GOVERNORS

Audit Committee Meeting

August 19, 2024 • 1:00 PM

L.A. Care Health Plan

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

L.A. Care offices has moved to 1200 W. 7th Street, Los Angeles, CA 90017, but will continue to have its public meetings at 1055 W. 7th Street until early 2025.



AGENDA

**Audit Committee Meeting
Board of Governors**

Tuesday, August 19, 2024, 1:00 P.M.
1055 West 7th Street, Conference Room 100
Los Angeles, CA 90017

Members of the Committee, staff and the public can attend the meeting in person at the address listed above. Public comment can be made live and in person at the meeting. A form will be available at the meeting to submit public comment.

To listen to the meeting via videoconference please register by using the link below:

<https://lacare.webex.com/lacare/j.php?MTID=m6f3e44b9fdbf5518699d7b3170da3f6b>

To listen to the meeting via teleconference please dial: +1-213-306-3065

Meeting Number: 2487 700 0052 Password: lacare

Teleconference Sites

Hector De La Torre

Gateway Cities Council of Governments
16401 Paramount Blvd.
Paramount, CA 90723

Layla Gonzalez

3452 E. Foothill blvd., Suite #900
Pasadena, CA 91107

George Greene, Esq.

602 Indiana Place
South Pasadena, CA 91030

For those not attending the meeting in person, public comments on Agenda items can be submitted prior to the start of the meeting in writing by e-mail to BoardServices@lacare.org, or by sending a text or voicemail to (213) 628-6420. Due to time constraints, we are not able to transcribe and read public comment received by voice mail during the meeting. Public comment submitted by voice messages after the start of the meeting will be included in writing at the end of the meeting minutes.

The purpose of public comment is an opportunity for members of the public to inform the governing body about their views. The Committee appreciates hearing the input as it considers the business on the Agenda. All public comments submitted will be read for up to 3 minutes during the meeting. The process for public comment is evolving and may change at future meetings. We thank you for your patience.

All votes in a teleconferenced meeting shall be conducted by roll call.

If you are an individual with a disability and need a reasonable modification or accommodation pursuant to the Americans with Disabilities Act (ADA) please contact L.A. Care Board Services staff prior to the meeting for assistance by text to 213 628-6420 or by email to BoardServices@lacare.org.

Welcome

Hector De La Torre
Chairperson

1. Approve today's Agenda

2. Public Comment *(Please read instructions above.)*

Chair

3. Approve December 21, 2023 meeting minutes p. 4 *Chair*
4. Chairperson's Report *Chair*
5. Chief Executive Officer / Chief Financial Officer Reports John Baackes
Chief Executive Officer
Afzal Shah
Chief Financial Officer

Committee Issues

6. Presentation of Audit Plan for Fiscal Year 2023-24 p.12 Afzal Shah
 - Approve Audit Plan for Fiscal Year 2023-24 (AUD A) p.11

ADJOURNMENT

Chair

The Audit Committee meets as needed.

Public comments will be read for up to three minutes.

The order of items appearing on the agenda may change during the meeting.

THE PUBLIC MAY SUBMIT COMMENTS TO THE AUDIT COMMITTEE BEFORE DISCUSSION OF EACH ITEM LISTED ON THE AGENDA BY SUBMITTING THE COMMENT IN WRITING BY TEXT MESSAGE TO 213 628 6420, OR IN WRITING BY EMAIL TO BoardServices@lacare.org. Please follow additional instructions on the first page of this Agenda.

ACTION MAY NOT BE TAKEN ON ANY MATTER RAISED DURING THE PUBLIC COMMENT PERIODS UNTIL THE MATTER IS SPECIFICALLY LISTED ON A FUTURE AGENDA, according to California Govt Code Section 54954.2 (a)(3) and Section 54954.3.

NOTE: THE AUDIT COMMITTEE CURRENTLY MEETS AS NEEDED. AGENDA and PRINTED MEETING MATERIALS ARE AVAILABLE FOR INSPECTION AT <http://www.lacare.org/about-us/public-meetings/board-meetings> and by email request to BoardServices@lacare.org

Any documents distributed to a majority of the Board Members regarding any agenda item for an open session after the agenda has been posted will be available for public inspection at 1055 W. 7th Street, Los Angeles, CA, in the reception area in the main lobby or at <http://www.lacare.org/about-us/public-meetings/board-meetings> and can be requested by email to BoardServices@lacare.org.

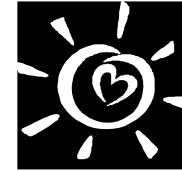
An audio recording of the meeting is made to assist in writing the minutes and is retained for 30 days.

Meetings are accessible to people with disabilities. Individuals who may require any accommodations (alternative formats - i.e., large print, audio, translation of meeting materials, interpretation, etc.) to participate in this meeting and wish to request an alternative format for the agenda, meeting notice, and meeting packet may contact L.A. Care's Board Services Department at (213) 628 6420. Notification at least one week before the meeting will enable us to make reasonable arrangements to ensure accessibility to the meetings and to the related materials.

BOARD OF GOVERNORS

Audit Committee Meeting Minutes–December 21, 2023, 2:30 PM

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



L.A. Care
HEALTH PLAN

Members

Hector De La Torre, *Chairperson*
George Greene, Esq. *
Layla Gonzalez

*Absent **Teleconference

Management/Staff

John Baackes, *Chief Executive Officer*
Augustavia J. Haydel, Esq., *General Counsel*
Afzal Shah, *Chief Financial Officer*
Todd Gower, *Chief Compliance Officer*
Terry Brown, *Chief Human Resources Officer*

Guests

Rosie Procopio, *Audit & Assurance Managing Director, Deloitte & Touche (D&T)*
Justine Lee, *Manager, D&T*

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
CALL TO ORDER	Committee Chairperson, Hector De La Torre, called to order the L.A. Care Audit Committee and the L.A. Care Joint Powers Authority Audit Committee meetings at 2:31 p.m. The meetings were held simultaneously. He welcomed everyone to the meetings. For those who provided public comment for this meeting by voice message or in writing, we are really glad that you provided input today. The Committee will hear your comments and we also have to finish the business on our Agenda today. If you have access to the internet, the materials for today’s meeting are available at the lacare.org website. If you need information about how to locate the meeting materials, please let us know. Information for public comment is on the Agenda available on the web site. Staff will read the comment from each person for up to three minutes. The Chairperson will invite public comment before the Committee starts to discuss an item. If the comment submitted is related to the topic for a specific agenda item, it will be read at the general Public Comment item 2 on today’s agenda. He provided information on how to submit a public comment live and directly using the “chat” feature.	
APPROVE MEETING AGENDA	Today’s Agenda was approved as submitted.	Approved unanimously 2 AYES (De La Torre, and Gonzalez)
PUBLIC COMMENT	There was no public comment.	

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AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
APPROVE MEETING MINUTES	The August 22, 2023 meeting minutes were approved as submitted.	Approved unanimously 2 AYES
CHAIRPERSON’S REPORT	There was no report from the Chairperson. Committee Chairperson De La Torre wished everyone Happy Holidays.	
CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER REPORT	<p>There was no CEO Report.</p> <p>Afzal Shah, <i>Chief Financial Officer</i>, provided an update on the Fiscal Year 2022-23 financial statement. Net surplus was \$646.1 million, excluding \$473.7 million for Unsatisfactory Immigration Status (UIS) programs. Some of the key reasons related to the surplus were rate increases for Medi-Cal Expansion for the UIS population membership increases. The redetermination period was delayed until July 2023. These numbers were consistent with what was presented to the Board for year end September 2023.</p> <p>Mr. Shah reported on the the treatment for Government Accounting Standards Board (GASB) Statement No. 96 Subscription-based Information Technology Arrangements which was adopted in the current year. These 80 arrangements were reflected on the balance sheet as capital assets similar to the right of use lease assets and the prior year related to GASB updates. On the P&L, transferring software license expense to additional amortization of the subscription assets. Interest will also be recorded the commitments recognizing these long term contracts greater than 1 year have not been previously recorded.</p> <p>Angela Bergman, <i>Director, Accounting Operations</i>, is currently working on an update for this. L.A. Care is currently evaluating its contracts because not all contracts would fall under GASB 96.</p> <p>Mr. Shah reported on the inflow of resources mentioned in the representation letter item number 6. It was an immaterial representation that was discovered during the Los Angeles County’s financial audit. L.A. Care believes the effects of</p>	

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<p>the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2022. During the year ended September 30, 2023, the Organization identified \$31.4 million of deferred inflow of resources of which \$30.6 million should be classified as accounts payable and accrued expenses and \$0.7 million should be classified as noncurrent liabilities with no impact to the Organization's net position as of September 30, 2022.</p> <p>Ms. Bergman added this is because of the long term nature of the program of the deferred revenue that L.A. Care were receiving so it is not a material difference, but there is a change in presentation on the balance sheet.</p> <p>Mr. Shah noted that for the 2024 related to claims payment process, this is with the SAP implementation. The claims process payment process was changed because L.A. Care was getting voided checks that were not posted to the expense account. Finance Department caught the error prior to the year end and corrected.</p> <p>For FY 2003-24, L.A. Care is currently working on implementing and executing COVID 19 provide settlement. This is both delegated providers as well as paying claims for Fee For Service (FFS). There is a large volume that L.A. Care needs to pay to providers and the expectation from that is that these payments will be done February 2024.</p> <p>Mr. Shah talked about the medical targeted rate increases. The state recently did a webinar directly with providers on the impact of these increases for primary care, especially behavioral health and services with the Medicaid. Medi-Cal fee schedule is going to go up to roughly 287.5, sort of Medicare. There's a lot of work that all plans have to do to implement these changes and be able to pay FFS or capitative providers. The State is giving L.A. Care extra time. They are not expecting L.A. Care to implement this in January 2024. There is a staggered timeline starting with July onto October when L.A. Care have to make these payments, but the</p>	

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AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<p>payments will be retroactive to January 2024. This will be a major undertaking by all plans to be able to implement this program successfully.</p> <p>Chairperson De La Torre asked if L.A. Care foresee any problems not being able to adhere to that timeline.</p> <p>Mr. Shah noted the issue is on the complicated contracts. L.A. Care have to figure out the additional value for every provider and negotiate with the providers. The State is going to come up with additional guidance on what plans can and cannot do, what base data to use, etc. Very time and resource intensive. L.A. Care have to re-negotiate and re-contract the entire network to be able to do this. On the capitation side, the challenge is that the State is expecting L.A. Care to pay Prop 56 payments to FFS providers when it comes in because the Prop 56 money has been absorbed into the rates. Again, administratively, this is going to take a lot of resources. Mr. Shah added from his perspective, this is going to be very confusing to the providers and L.A. Care will probably spend more time trying to explain what L.A. Care has done.</p>	
<p>COMMITTEE ISSUES</p> <ul style="list-style-type: none"> • Presentation of the Audited Financial Report for FY 2022-23 	<p>Mr. Shah introduced Rosie Procopio, <i>Audit & Assurance Managing Director, Deloitte & Touche (D&T)</i> who presented the Audited Financial Report for FY 2022-23.</p> <p>Ms. Procopio noted that the Audited Financial Report for FY 2022-23 is consistent with prior year. The financial statements will be issued right after the holidays after D&T has completed some of the minor edits that staf talked about and D&T's quality checks. Ms. Procopio commented on what staff covered and did not anticipate any issues on the changes made in the current year, both with respect to the prior year.</p> <p>D&T's procedures are in accordance with the engagement letter issued in August 2023. D&T have looked and made sure the financial statements are materially free from statement. D&T calculate materiality amount. They do not test every transaction in the financial statements, but there are certain areas that they do due</p>	

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<p>to systems and additional tools they use. D&T reviews internal controls with management every year to make sure there were no changes in internal controls. D&T do not issue a separate opinion like they do with their public company audits, but D&T inquire to make sure controls were appropriately designed and implemented; and if there were any significant deficiencies for material weaknesses. Those policies that are significant to the financial statements are always going to be reflected in the Notes to the financial statements as well if there are certain GASB statements. One of which is the issue that Ms. Bergman reported earlier related to subscription based arrangements which is consistent to what was done last year. D&T also look every year to make sure there is no change in how significant policies are applied. If management changed the way they were accounting for, or processing any kind of transactions, D&T evaluate and make sure whether or not, they are still consistent with the policy.</p> <p>Ms. Procopio showed the accounting estimates. Accounting estimates are those estimates that D&T consider material to the financial statements the largest estimates that requires judgment in the financial statements, continues to be. For claims, the amounts that are recorded by management in both 2022 and 2023 between 784 last year and a \$142 million. This year, D&T engaged their actuarial specialists to run an independent estimate. The team goes through all of the claims data, test that data. D&T make selections and make sure the data are appropriate. D&T's actuarial specialist range came in this year at \$759 million to \$855 million. L.A. Care is right within that range. L.A. Care is only about 4% higher than what D&T estimate was. Last year, D&T were approximately 1% lower. The recast came in a little bit more favorable than what management and D&T estimated again. They are both L.A. Care and D&T's estimates – they are never exactly correct but to be within 1% and 4%. To recap, Ms. Procopio thinks this a very good results.</p> <p>There were discussions with management and their actual team well before D&T start the audit to make sure D&T understands the changes to assumptions things that might be impacting the model to factor in. Again nothing unusual to report.</p>	

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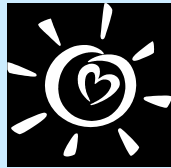
AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<p><u>Uncorrected, misstatements and disclosure items</u> D&T has not identified anything and agree with the items management covered, both were immaterial to the financial statements if there were any material corrected. D&T have no material corrections to the financial statements.</p> <p>There was no disagreements with management. D&T is not aware of any consultation management had with other accountants. Management always provides D&T full unrestricted access to all books and records. There were no difficulties encountered in performing the audit.</p> <p>Chairperson De La Torre expressed that he has commented many times before, he thinks this is one of the strengths of L.A. Care as organization based on D&T's comments about the estimates. Same thing on its annual estimates in terms of the fiscal reporting to the Board of Governors on medical loss ratio estimate. All of these things tend to come in right around where staff is projecting, and it is not easy because you were hitting a moving target. Chairperson De La Torre added that L.A. Care has almost doubled in size in terms of membership. Overall, with that kind of growth and yet staff are hitting the estimated targets very close to D&T's every year.</p> <p>Chairperson De La Torre acknowledged that he has has been away from the Audit Committee for many years. Now that he is back to the committee and getting the same kind of reporting, and thanked D&T and staff.</p> <p>The Committee members did not have a separate conversation with Deloitte & Touche.</p>	
<ul style="list-style-type: none"> • Accept Audited Financial Report for FY 2022-23 	<p><u>Motion AUD A.1223</u> To accept the findings of the Deloitte & Touches' audit of L.A. Care's financial statements for the fiscal year ended September 30, 2023, as presented.</p>	<p>Approved unanimously 2 AYES</p>
<p>ADJOURNMENT</p>	<p>The Chair adjourned the meeting at 2:58 pm.</p>	

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

APPROVED BY:

Hector De La Torre, *Committee Chairperson*
Date Signed: _____

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L.A. Care
HEALTH PLAN

Board of Governors
MOTION SUMMARY

Date: August 19, 2024

Motion No. AUD A.0824

Committee: Audit

Chairperson: Hector De La Torre

Issue: To accept the Audit Plans of the Deloitte & Touche’s audit of L.A. Care’s financial statements for the fiscal year 2023-24.

Background:

Member Impact Statement: Fiscal responsibility by the Board of Governors is enhanced by an independent third party audit of L.A. Care’s financial condition, confirming the financial stability of the organization so important health care coverage can continue for L.A. Care’s members.

Budget Impact: N/A

Motion: To accept the Audit Plans of Deloitte & Touche’s of L.A. Care’s financial statements for the fiscal year 2023-24, as presented, and authorize execution of the engagement letter.



Setting a higher standard in quality and fueling client service excellence

Our 2024 client service plan for Local Initiative Health Authority for Los Angeles County, a local public entity operating and doing business as L.A. Care Health Plan and Joint Powers Authority

August 19, 2024 (Prepared as of August 16, 2024) | Rosie Procopio, Audit & Assurance Lead Client Service Partner (LCSP)

This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

August 16, 2024

The Audit Committee of the Board of Governors
Local Initiative Health Authority for Los Angeles County, a local public entity operating
and doing business as L.A. Care Health Plan and Joint Powers Authority
1055 West 7th Street
Los Angeles, CA 90017

Dear Audit Committee Members:

We are pleased to present Deloitte & Touche LLP's 2024 client service plan for Local Initiative Health Authority for Los Angeles County, a local public entity operating and doing business as L.A. Care Health Plan and Joint Powers Authority ("L.A. Care Health Plan"). First and foremost, we value our role as your independent auditor. We are extremely proud of our long-standing relationship with L.A. Care Health Plan and the high-talent team of Deloitte professionals dedicated to serving your organization—professionals with a deep knowledge of your business, how your team operates, and your culture.

Our first priority is delivering high-quality audits, and our inspection results demonstrate that we continue to be the sustained leader of the profession in audit quality. We are proud to be at the forefront of transformation, not only responding to change but reshaping what is possible by leveraging data analytics, automation, digitization, and cognitive technologies to enhance audit quality and transform our audit service delivery. We are committed to being responsive to your needs and delivering a smarter audit that is rich with insights that matter to your business, including financial and internal control risks, while reducing the audit burden on your organization.

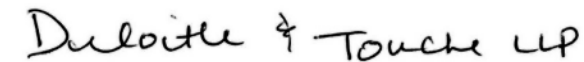
Our audit plan reflects our commitment to providing you with high-quality, proactive service that is delivered with integrity, objectivity, and independence. Our audit addresses financial statement and internal control risks through targeted procedures that are responsive to the nature of the risks, including changes in L.A. Care Health Plan, the business environment, and the regulatory landscape.

The scope and approach for the 2024 engagement are well designed and comply with all applicable professional standards. The following information is intended to provide an overview of our audit strategy as of the date of this presentation. We will separately communicate any significant changes to the planned audit strategy during the course of our audit and the reasons for such changes, as necessary.

Our teams are equipped with best-in-class technology solutions and capabilities to effectively work in a hybrid model, and we are committed to finding ways to connect so that we are together when it matters. We assure you that we remain focused on professional excellence in the delivery of our audit services, with timely, forthright, and candid communications to you and management of L.A. Care Health Plan during this time.

We appreciate the opportunity to serve L.A. Care Health Plan and hope the accompanying information will be useful to you. We look forward to answering your questions about our plan.

Yours truly,



cc: The Management of L.A. Care Health Plan

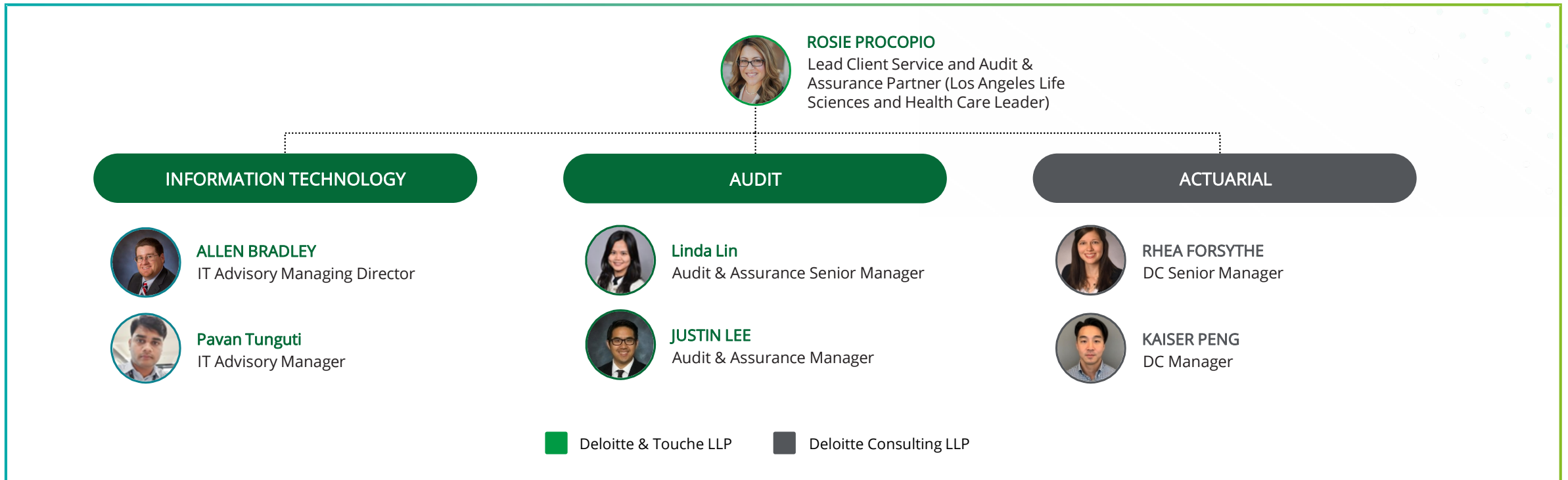
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Engagement Structure

We have structured our team to serve L.A. Care Health Plan, both from an audit perspective and as it relates to the subject matter specialists who complement our core team with specialized technical knowledge and insights. The engagement leadership team remains consistent with the prior year.



Engagement Structure(Continued)

Personnel of Deloitte & Touche LLP's subsidiary, Deloitte & Touche Assurance & Enterprise Risk Services India Private Limited, will assist us in performing audit procedures during the current-period audit. Those personnel are considered members of the engagement team and are subject to our supervision, and their work is subject to our review.

Audit procedures in the current-period audit will also be performed by the following:

Accounting firm name and location	Planned responsibilities
Deloitte & Touche LLP, United States	Information Technology (IT) Advisory Specialists led by Allen Bradley to assist in the testing of IT systems and controls
Deloitte Consulting LLP, United States	Actuarial Specialists led by Rhea Forsythe to assist in the testing of the actuarial valuation of IBNR reserve.



Our commitment to Purpose and Diversity, Equity, and Inclusion at Deloitte

Purpose and Diversity, Equity, and Inclusion is important to us

OUR DELOITTE US WORKFORCE DATA

47%

overall US percentage of racial and/or ethnic diversity



25.2%

of US partners, principals, and managing directors (PPMDs) are racially and/or ethnically diverse



45.3%

US female representation

30.3%

US female PPMD representation

Source: [2023 DEI Transparency Report](#)

NATIONAL COMMUNITIES

Deloitte professionals can see their identities reflected in our Inclusion Councils and National Communities and have their voices heard in actionable and meaningful ways.

- **Black & Allies**
- **East and Southeast Asian & Allies**
- **Faith & Allies**
- **Hispanic/Latinx & Allies**
- **LGBTQIA+ & Allies**
- **Middle Eastern/North African & Allies**
- **Native America, Pacific Islander & Allies**
- **People with Disabilities & Allies**
- **South Asian & Allies**
- **Veterans, Military, Spouses & Allies**
- **Women & Allies**

Examples of our yearly Inclusion and Belonging initiatives

Leadership Summits –

The Black & Allies Community, Asian & Allies Community and the Hispanic/Latinx & Allies Community hosted leadership summits to connect on shared identity and celebrate culture and heritage

History and Heritage Months –

Dedicated months, such as Disability Awareness Month, MENA Heritage Month and LGBTQIA+ Pride Month, to celebrate identity, community, and culture

Say This Not That –

A series that includes sessions covering commonly used, potentially offensive phrases impacting People with Disabilities, Women, Asian, Black, Hispanic/Latinx, and LGBTQIA+ communities

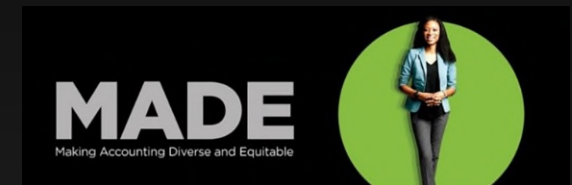
Investing in our people

Our ability to bring such a strong team to L.A. Care Health Plan starts with the investments we make in our people. We invest heavily in training and actively harness strength from a diversity of backgrounds, experiences, and perspectives.

Have a look at our insights and resources to support racial equality and social justice, including the following:



2023 DEI Transparency Report: This report summarizes Deloitte's commitments to diversity, equity, and inclusion



MADE | Making Accounting Diverse and Equitable:

- 1) \$25 million in Deloitte Foundation accounting scholarships for tax and accounting master's degrees
- 2) 35,000+ high school and university students have been served with MADE programming
- 3) Engagement with 150+ experienced professionals through various interactive programs

Culture matters

and Deloitte's culture is unique

A culture of valuing all people



A culture of innovation

\$1.6B+ investment
 \$750M+ investment in our global digital innovation and transformation of our audits over the last five years with \$850M+ of additional investment over the next three years.

WINNER 2022, 2021, 2020, 2018, 2015
Digital Innovation of the Year
International Accounting Bulletin
 (Finalist 2023, 2019, 2017, 2016)

WINNER 2022
Product, Service & Solution, and Organization & Culture
International Innovation Awards

WINNER 2020
Best Firms for Technology
Accounting Today

A culture of brand integrity

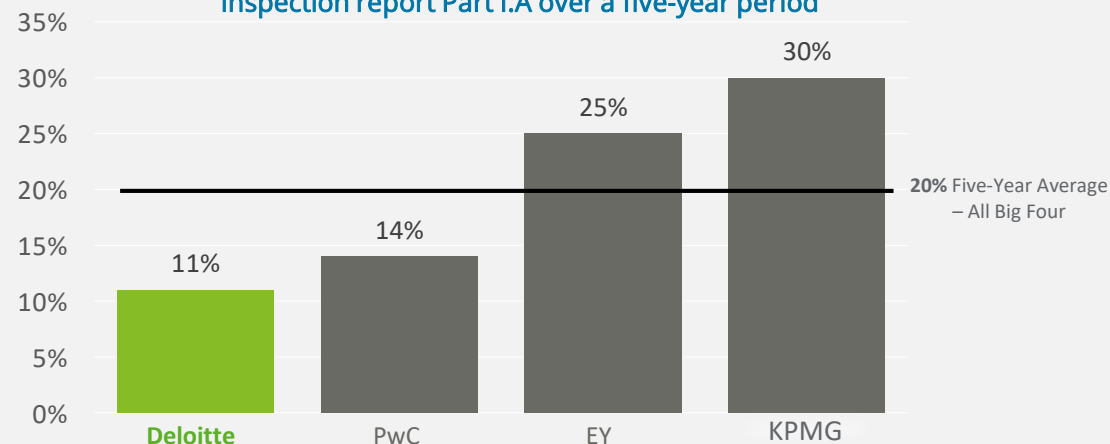


Strongest and Most Valuable Commercial Services brand

6 years running

A culture of sustained quality¹

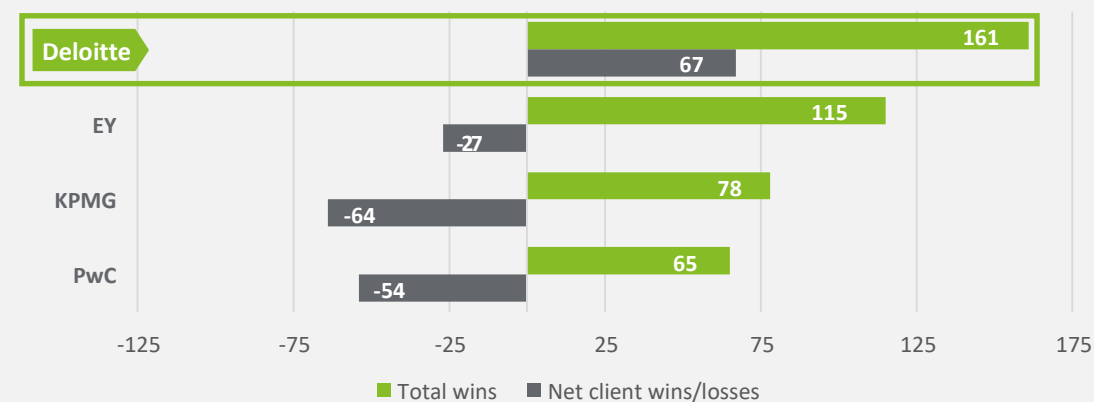
Lowest average percentage of audits included in PCAOB inspection report Part I.A over a five-year period



Click each firm above to see Page 7 of their inspection reports on the [PCAOB's website](#)

A culture of sustained client trust²

Public company audit wins (2019-2023)



By an overwhelming margin, clients of other audit firms are switching to Deloitte and our existing clients are staying with us. ² Annual win/loss data published [Audit Analytics](#) (2019-2023)

¹ Source: [PCAOB website, Firm Inspection Reports](#)

The value of a Deloitte audit

Driving exceptional audit quality and value in an increasingly complex world through our culture combined with our multidisciplinary service model

To audit your most complex areas and provide business insight, we bring a vibrant, multidisciplinary skillset combining the best technical expertise with leading domain and industry subject matter expertise.

This allows you to benefit from our...



INSIGHT & PERSPECTIVE

Diverse and deeply skilled teams with immediate access to interconnected subject matter resources such as cloud, cyber, tax, strategy, climate, governance, valuation, and AI/data science; these professionals not only serve audits, but also advise some of the world's leading organizations, which brings you actionable insights



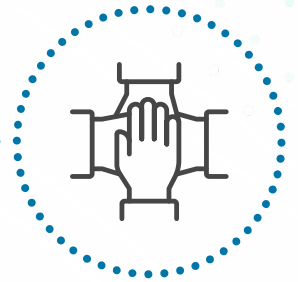
RESILIENCE & INVESTMENT

Our diversified base of services and clients offers stability regardless of market conditions; and our multidisciplinary model and size provides greater scale to attract, retain and invest in world class professionals, new technologies, and audit quality that adapt to changes in the business landscape



FLEXIBILITY & AGILITY

Our professionals serve clients across regulatory, technology, and global complexities resulting in differentiated insights, access to leading experts and differentiated talent opportunities. This, combined with our innovative technology, allows us to flex as your company, and the environment it operates in, evolves; regardless of your maturity, size, market, or industry



GREATER PURPOSE

We invest holistically in programs that matter to us and society, such as Making Accounting Diverse & Equitable ("MADE") and commitment to science-based net-zero with 2030 goals; thereby creating diverse teams for differentiated insights along with a complete set of services to serve our role in enhancing trust to the capital markets



Planned scope of the audit



Planned scope of the audit

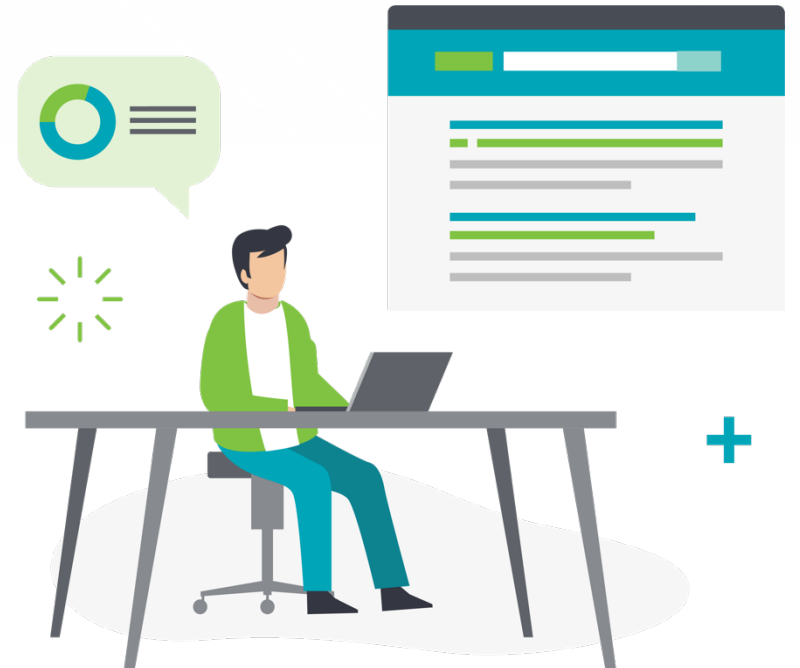
We will plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether caused by error or fraud. We are committed to enhancing audit quality and have a strong drive to achieve a more efficient audit by focusing on areas of greatest risk, as well as increasing the effectiveness of our procedures by leveraging leading-edge technologies and analytics. Through careful planning and a robust and customized risk assessment that leverages our understanding of facets specific to L.A. Care Health Plan we are able to devote greater attention to areas that matter most and spend less time reviewing areas of lower risk.

Internal Controls

We will focus our efforts on certain areas of significance to our audits. In order to determine the nature and extent of our substantive audit procedures, we will obtain an understanding of all business cycles, including general information technology controls. We will perform tests of certain relevant controls for each business cycle in order to determine whether such controls have been appropriately designed and implemented. However, we do not plan to adopt a control-reliance strategy in the performance of our audit of the financial statements.

Materiality

Materiality is the amount we use as our basis for planning the scope of our audit of the financial statements, and it is the amount of misstatement we judge to be significant to the financial statements on which we are reporting. The determination of materiality is a complex issue requiring consideration of qualitative and quantitative factors, and it is a matter of professional judgment taking into account our knowledge of the entity, our assessment of engagement risk, and the reporting requirements for the financial statements. Our consideration of materiality is influenced by our perception of the needs of users of the financial statements.

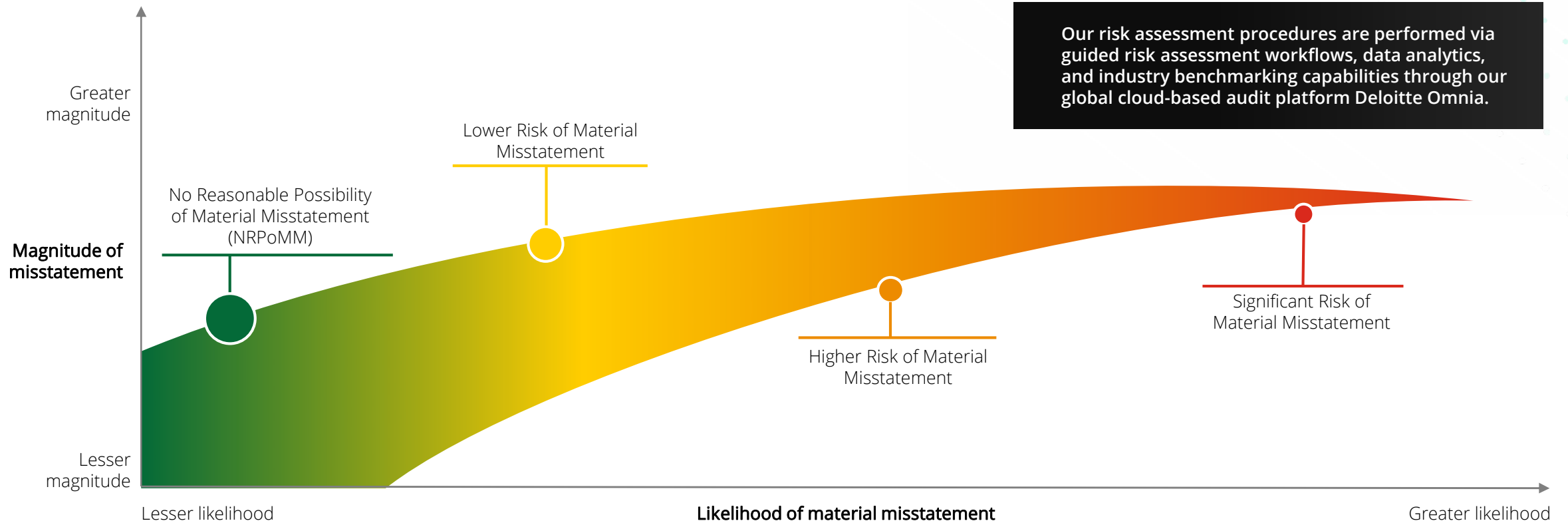


Risk assessment

Focus on what matters

A risk-based audit approach only makes a difference if the audit execution is dictated by the assessed risk. Below, we have provided a view into how our audit is focused on areas of risk. We execute based on our assessment.

A risk-based audit approach only makes a difference if the audit execution is dictated by the assessed risk. Below, we have provided a view into how we focus the audit on areas of risk that really matter. We execute based on our assessment.



Significant risks

As of the date of this report, we have identified certain significant risks, including fraud risks, during our risk assessment procedures. A significant risk is a risk of material misstatement of the financial statements that requires special audit consideration or for which the assessment of inherent risk is closer to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur. The significant risks we have identified during our risk assessment procedures and our preliminary audit response, including the nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate the audit results, are detailed in the following slides.

We will separately communicate any significant changes to these significant risks during the course of our audit and the reasons for such changes, as necessary.

Key area	Significant risks	Planned audit response
Management override of controls (Presumed risk of fraud under AICPA Standards)	Management is in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding established controls that otherwise appear to be operating effectively. The risk of management override of controls is pervasive. Because of its unpredictable nature, this risk could result in a material misstatement. This significant risk also represents a fraud risk.	<ul style="list-style-type: none"> • Use our proprietary quantitative financial analysis and benchmarking analysis capability to identify unusual trends in account balances and ratios. • Engage in fraud discussions with certain members of senior management and others. • Consider the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates. • Evaluate whether L.A. Care Health Plan has entered into any significant unusual transactions and, if so, the nature, terms, and business purpose (or lack thereof) of those transactions and whether such transactions involved related parties. • Evaluate L.A. Care Health Plan’s fraud risk assessment and controls over financial reporting • Test journal entries that exhibit characteristics of possible management override of controls, identified using electronic data interrogation techniques. • Test design and implementation of controls over significant, unusual transactions, particularly those that result in late or unusual journal entries and controls over journal entries and adjustments made in the period-end financial reporting process.

Significant risks (continued)

As of the date of this report, we have identified certain significant risks, including fraud risks, during our risk assessment procedures. A significant risk is a risk of material misstatement of the financial statements that requires special audit consideration or for which the assessment of inherent risk is closer to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur. The significant risks we have identified during our risk assessment procedures and our preliminary audit response, including the nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate the audit results, are detailed in the following slides.

We will separately communicate any significant changes to these significant risks during the course of our audit and the reasons for such changes, as necessary.

Key area	Significant risks	Planned audit response
Assumptions utilized in IBNR valuation	<p>The valuation of IBNR reserve requires management estimation and judgment. Management uses significant assumptions and judgments in estimating the cost of claims, specifically those that are made to adjust IBNR reserve, which include, among other factors, the average interval between the date services are rendered and the date claims are paid, utilization, seasonality patterns, changes in membership, and known environmental factors. Management also leverages calculations and estimates developed by its internal actuarial team when considering the liability estimate. There is a significant risk that management may not use a complete, accurate, or valid set of assumptions within its estimate. This significant risk also represents a fraud risk.</p>	<ul style="list-style-type: none"> • Perform inquiries of management and test design and implementation of internal control activities involving management's process for estimating the IBNR reserve. • Conduct meetings with the L.A. Care Health Plan's actuaries to assess the consistency of the methodology utilized for calculating the accruals for IBNR estimates. Furthermore, hold discussions with claims operations personnel to better understand performance over time and its impact on the claims reserve. • Involve actuarial specialists from Deloitte Consulting LLP to review management's methods and assumptions used to develop the reserve estimates and prepare an independent estimated range of reasonable reserves in order to evaluate the appropriateness management's estimate of its claims-based liability. Assess information such as claims inventory, high dollar claims and other environmental factors to conclude on actuarial assumptions utilized. • Direct data integrity testing of information utilized by the L.A. Care Health Plan's actuaries, including tests of details on paid claims (see page 15) and claims inventory for accuracy and completeness. • Perform retrospective lookback (recast) of management's prior year estimates.

Other areas of audit focus

As part of our planning procedures, we have identified other areas of audit focus. The table describes these areas and our planned approach to address them. If there are changes identified as we perform our audits, we will communicate those to you.

Audit area	Planned audit response
Valuation of investments, including government-pooled funds	<ul style="list-style-type: none"> • Test design and implementation of internal controls over the treasury (investment) cycle. • Leverage the assistance of the Investment Center of Excellence, which is comprised of a team of highly skilled professionals with deep knowledge and experience in auditing investments for a variety of clients • Perform a combination of detail testing, substantive analytics and confirmation procedures • Level 1 & 2 Investments: <ul style="list-style-type: none"> – Obtain confirmation from the custodian – Utilize Omnia DNAV to price substantially all securities – Review the investment classification and fair value disclosures to test that investments are appropriately classified as to type and fair value hierarchy • For selected government-pooled funds: <ul style="list-style-type: none"> – Obtain confirmations of the ending balance and capital activity for each investment, along with the latest audited financial statements available, from state and city treasurer office (“investees”) – For investees with the same fiscal year end as L.A. Care Health Plan, we will recalculate the investment value as of fiscal year end based on the net asset value per the investee financial statements – For investees with different fiscal year ends than 9/30, we will develop an expectation of the ending value based on the beginning balance, activity during the year and expected rate of return – Perform a retrospective analysis of the fair value recorded during the prior year to subsequent investment statements received

Other areas of audit focus

As part of our planning procedures, we have identified other areas of audit focus. The table describes these areas and our planned approach to address them. If there are changes identified as we perform our audits, we will communicate those to you.

Audit area	Planned audit response
Revenue	<ul style="list-style-type: none">• Test design and implementation of internal controls over the revenue cycle.• Perform a combination of detail testing and/or substantive analytics over the various revenue line of businesses.• Inspect regulatory communications to identify rate adjustments, as well as settlement arrangements with the state, if any.• Recalculate significant rate adjustments and assess the completeness and accuracy of such adjustments, if any.• Inquire with management and gain an understanding of risk-sharing arrangements including the methodology used to develop the estimates and test the reasonableness of the significant assumptions used, as well as the underlying data.
Medical expense – pricing of medical claims	<ul style="list-style-type: none">• Test design and implementation of internal control activities over medical expense cycle.• Reconcile paid claims detail with the general ledger and perform further audit procedures over reconciling differences, if any.• Test claim paid amount by computing an expected reimbursement amount using contracts, fee tables and/or other relevant pricing methodology as prescribed by state or federal agency.



Audit timeline



Audit timeline

We will plan the performance of our audit in accordance with the following estimated timetable:

ACTIVITY	2024							
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Conduct periodic meetings with management to coordinate client assistance, as well as communicate industry and accounting matters and current service needs	●	●	●	●	●	●	●	●
Conduct planning meetings with the audit team and client personnel		●	●					
Perform preliminary planning, risk assessment and develop detailed audit plan			●	●				
Perform audit procedures on significant risk areas, as well as significant estimates			●	●			●	●
Perform interim audit procedures			●	●				
Report results of interim audit procedures to senior management				●				
Perform information technology audit procedures				●	●	●		
Perform final audit procedures							●	●
Resolution of audit findings (ongoing)			●	●	●	●	●	●
Issuance of financial statements and audit report								●
Meetings with the Audit Committee of the Board of Governors to:								
Discuss the audit plan, scope, risk of fraud and fees				●				
Discuss the results of our audit and provide year-end required communications to Audit Committee								●








Estimated professional fees







Transforming the audit profession

Deloitte's investments in innovation are transforming the way audits are delivered

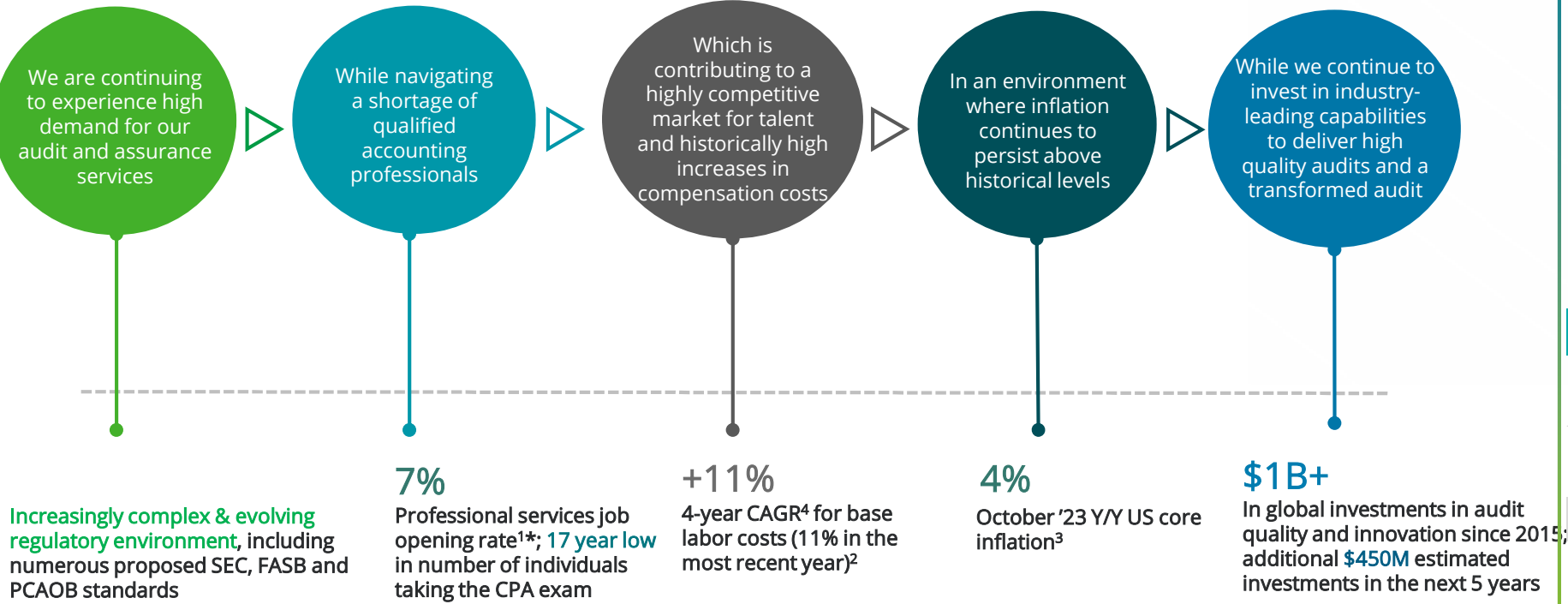
	Our investment	Significant investments in audit transformation
	Change in how audits are executed	Shift in how we deliver from field hours to an audit utilizing technology, intellectual property, audit delivery centers, and professionals with specialized data skills
	Operating model	Combination of field hours, off-site delivery centers, innovative technologies, and data analytics
	Insights	The Deloitte Audit Experience: valuable insights, risk focus, and timely, high-quality audits
	Reimagined audit	Focus effort where it matters, deliver valuable insights, less burden on your staff, more timely audits

Estimating recurring audit fees based on field hours alone is no longer appropriate

-  Field hours alone do not reflect the effort to deliver an audit
-  There has been a shift in inputs for delivering an audit from primarily time spent on-site to a combination of field hours, innovative tools and technologies, and off-site delivery centers
-  Certain field professional hours are being replaced with annual recurring costs to maintain innovative technologies to deliver a high-quality audit
-  Our investment in smarter audits benefits our clients and the investing public through a higher-quality audit, less effort from client personnel, and deeper insights

Estimated professional fees

As we continue to deliver a **transformed audit experience** that is **high-quality, less burdensome, and provides deeper insights**, the current market and regulatory environment continues to drive substantial increases in our cost to deliver.



In estimating our fees for 2024, we have considered our knowledge of your operations, changes in your organization structure and the regulatory environment, and other risks. We developed our fees based on the time required to complete our planned procedures. Our proposed 2024 audit fees are as follows:

Fee Description	Amount
2024 Financial Statement Audit – Base fees excluding expenses	\$476,000
Deloitte Accounting Research Tool Subscription Fee – Per user	2,495
2024 estimated fees	\$476,000

* The number of job openings on the last business day of the month as a percentage of total employment plus job openings

1 [Bureau of Labor Statistic - Job Openings](#)

2 Internal cost rate

3 [Bureau of Labor Statistic - CPI Index](#)

4 Compound annual growth rate

Appendix A

Independence



Ethics, independence, and compliance



All professionals of the Deloitte US Entities are expected to act with integrity in accordance with high ethical standards as presented in our [US Code of Ethics & Professional Conduct](#) (the Code), which includes our Global Principles of Business Conduct. The Code specifies expectations for all professionals of the Deloitte US Entities regarding ethics and compliance standards, as well as explains each individual's responsibilities to the public, clients, and colleagues.



Our independence requirements apply to all Deloitte US Entities' professionals, regardless of whether they are directly involved in delivering audit services. The National Managing Partner for the Independence & Conflicts Network (ICN) is responsible for overseeing independence matters, including the design, implementation, operation, monitoring, and maintenance of the System of Quality Control [hereafter SQC] related to independence. The National Managing Partner for ICN is also responsible for making sure appropriate disciplinary action is taken when independence policy or regulatory violations occur.



We use a variety of communication channels and approaches to promote and reinforce the importance of ethical behavior; compliance with laws, professional standards, and responsibilities; and compliance with policies across the Deloitte US Entities, including timely and accurately reporting personal financial relationships in the Deloitte Tracking & Trading system. These communications and channels include our intranet site, newsletters, email communication campaigns, leadership messages, mandatory training, and embedded messaging in various career milestone trainings (including pre-hire and onboarding).



Our ethics, independence, and compliance programs also include the following elements, among others:

- Ethics, independence, confidentiality, data privacy, and compliance training
- The Compliance Help Desk and My Compliance Dashboard
- Integrity Helpline
- Individual compliance and internal monitoring
- Personal representations on independence, ethics, and compliance



Additionally, Deloitte's global independence team performs the following activities, among others:

- Sets independence policies and procedures based on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and, where applicable, the independence rules of the US SEC and the PCAOB.
- Supports member firms, as needed, with their annual SQC monitoring activities and gives insights into global areas of focus. On a three-year cycle, performs network monitoring activities through its monitoring program, providing recommendations and observations for consideration as part of firms' Monitoring & Remediation activities. In-dept follow-up reviews are conducted as needed.
- Provides member firms with technical independence as required, which also informs potential enhancements to global policies, procedural expectations, tools, and practice support activities.
- Delivers global systems to provide its people with entity information to support compliance with personal and professional independence requirements, including financial interests and scope-of-services approvals.
- Promotes independence awareness across the Deloitte network through active engagement with independence and business leadership groups, periodic communications and alerts, and development of guidance, learning, and instructions.

Appendix B

Draft engagement letter



[PLACEHOLDER]



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (DTTL), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States, and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.