FINANCE & BUDGET COMMITTEE MEETING

Board of Governors

October 26, 2020 • 1:00 PM
L.A. Care Health Plan
1055 W. 7th Street, Los Angeles, CA 90017
AGENDA
Finance & Budget Committee Meeting
Board of Governors
Monday, October 26, 2020, 1:00 P.M.
L.A. Care Health Plan, 1055 West 7th Street, 10th Floor, Los Angeles

California Governor issued Executive Order No. N-25-20 and N-29-20, which among other provisions amend the Ralph M. Brown Act. Accordingly, members of the public may now listen to this meeting via teleconference as follows:

To join and LISTEN ONLY via videoconference please register by using the link below:
https://lacare.webex.com/lacare/j.php?MTID=m4abe79e14c6d15c0deccc6d2abece964d

To join and LISTEN ONLY via teleconference please dial: (213) 306-3065
Access code: 146 975 5243

Members of the Finance & Budget Committee or staff may also participate in this meeting via teleconference. The public is encouraged to submit public comments or comments on Agenda items in writing by e-mail to BoardServices@lacare.org, or by sending a text or voicemail to (213) 628-6420.

The text, voicemail, or email must indicate if you wish to be identified or remain anonymous, and must also include the name of the item to which your comment relates.

Comments received by voicemail, email or text by 1:00 pm on October 26, 2020 will be provided to the members of the Board of Governors that serve on the Finance & Budget Committee. Public comments submitted will be read for 3 minutes.

Once the meeting has started, voicemails, emails and texts for public comment should be submitted before the item is called by the meeting Chair. If you wish to submit public comment on an item, you must submit it at any time prior to the time the Chair announces the item and asks for public comment. The Chair will announce when public comment period is over.

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
Robert H. Curry, Chair
1. Approve today’s meeting Agenda
Chair
2. Public Comment (please see instructions above)
Chair
3. Approve September 28, 2020 meeting minutes p.4
Chair
4. Chairperson’s Report
Chair
5. Chief Executive Officer’s Report
John Baackes
Chief Executive Officer

COMMITTEE ITEMS
Marie Montgomery
Chief Financial Officer

6. Chief Financial Officer’s Report
- Annual Review of Accounting & Finance Services Policies (FIN 100) p.14
  o AFS-002 (Capital Assets)
  o AFS-004 (Non-Travel and Other Related Expenses)
  o AFS-008 (Annual Investments)

10/23/2020 8:10 AM
AFS-025 (Tangible Net Equity)
AFS-027 (Travel Expenses)
AFS-029 (Annual Budgets and Board of Governors Oversight)

7. Information Technology Motions
   • Cognizant, HCL, and Infosys Contract Amendments for IT Staff Augmentation (FIN 101) on p.90
   • CenturyLink/Lumen Technologies Contract (FIN 102) on p.91
   • Healthx Contract Amendment (FIN 103) on p.92

ADJOURN TO CLOSED SESSION (Est. time: 10 mins.)

8. CONTRACT RATES
   Pursuant to Welfare and Institutions Code Section 14087.38(m)
   • Plan Partner Rates
   • Provider Rates
   • DHCS Rates

9. REPORT INVOLVING TRADE SECRET
   Pursuant to Welfare and Institutions Code Section 14087.38(n)
   Discussion Concerning New Service, Program, Technology, Business Plan
   Estimated date of public disclosure: October 2022

10. CONFERENCE WITH REAL PROPERTY NEGOTIATORS
    Pursuant to Section 54956.8 of the Ralph M. Brown Act
    Property: 2864 W. Imperial Highway, Inglewood, CA
    Agency Negotiator: John Baackes
    Negotiating Parties: Upside Crenshaw Holding, LLC, c/o Newmark Merrill Companies
    Negotiator: Darren Bovard
    Under Negotiation: Price and Terms of Payment

RECONVENE IN OPEN SESSION

ADJOURN

The next Finance & Budget Committee meeting is scheduled
On Monday, November 16, 2020 at 1:00 p.m.

Public comments will be read for three minutes or less.

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

If a teleconference location is listed at the top of this agenda, the public can listen to the meeting by calling the teleconference call in number provided. If teleconference arrangements are listed at the top of this Agenda, note that the arrangements may change prior to the meeting.

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 Government Code Section 54954.2 (a)(3) and Section 54954.3.

THE FINANCE & BUDGET COMMITTEE CURRENTLY MEETS ON THE FOURTH MONDAY OF MOST MONTHS AT 1:00 P.M. AGENDA AND MEETING MATERIALS AVAILABLE on www.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 www.lacare.org.

An audio recording of the meeting may be made to assist in writing the minutes and is retained for 30 days.
**Board of Governors**  
Finance & Budget Committee  
Meeting Minutes – September 28, 2020  
1055 W. 7th Street, Los Angeles, CA 90017  

**Members**  
Robert H. Curry, Chairperson  
Stephanie Booth, MD  
Hector De La Torre  
Hilda Perez  
G. Michael Roybal, MD

*Absent ** Via Teleconference

California Governor issued Executive Order Nos. N-25-20 and N-29-20, which among other provisions amend the Ralph M. Brown Act. Members of the public can listen to this meeting via teleconference.

<table>
<thead>
<tr>
<th>AGENDA ITEM/PRESENTER</th>
<th>MOTIONS / MAJOR DISCUSSIONS</th>
<th>ACTION TAKEN</th>
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</thead>
<tbody>
<tr>
<td><strong>CALL TO ORDER</strong></td>
<td>Robert H. Curry, Chairperson, called the meeting to order at 1:10 p.m. He welcomed everyone to the meeting and summarized the process for public comment during this teleconference meeting as reflected on the meeting agenda.</td>
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<td>• The Governor’s Executive Order temporarily set aside some provisions of the Brown Act because of public health guidelines.</td>
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<td>• Board Meetings are conducted electronically so that all attendees can be safe and practice social distancing.</td>
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<td>• Comments from anyone who would like to address the Board and its committees are welcome.</td>
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<td>• L.A. Care members need us to continue the work of the Board, and the meetings are run so that members of the public can hear the meeting and can submit their comments by voice mail, text, or email.</td>
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<td>• Staff puts the oral comments in writing and sends all comments to the Board before the meeting.</td>
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<td>• All public comment is included in the minutes of the meeting, and any comments that were not read during the meeting are added to the minutes.</td>
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<td>AGENDA ITEM/PRESENTER</td>
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<td>• Submitters of public comment must identify the Agenda item which the comment is addressing.</td>
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<td>• If the submitter does not identify an agenda item, the submitter’s comment will be read for 3 minutes at the “Public Comment” item.</td>
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<td>• At the appropriate item on the Agenda, staff will read for 3 minutes the public comment from each submitter. Depending on how many comments are submitted, the 3-minute time could be adjusted to allow for more submitters to have the comments read.</td>
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<td>• The Board will keep reviewing and improving how public comments are received and distributed to Board members.</td>
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<tr>
<td>APPROVE MEETING AGENDA</td>
<td>The Agenda for today’s meeting was approved.</td>
<td>Approved unanimously by roll call. 5 AYES (Booth, Curry, De La Torre, Perez and Roybal)</td>
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<tr>
<td>PUBLIC COMMENTS</td>
<td>Text received September 27 at 8:54 pm, Anonymous Public comment, Ms Haydel, I just read your comment my concern has already been discussed (but not to my satisfaction). I have not seen any answer addressing why LA Care is not following up with Synermed affected enrollees, the answers I have heard is denial there was a contract, stating no longer have a contract, I specifically asked why LA Care is not adhering to the DMHC corrective action you signed that stated LA Care is to “identify and follow up with affected enrollees”, I know of affected people who have not been followed up with, I know of dead people because of those jokers, WHO has LA Care followed up with regarding Synermeds aka EHS’s atrocities against enrollees, NO ONE has notified us? I believe the name EHS has been an excuse that EHS wasn’t Synermed when DMHC determined EHS was run by Synermed, I will ask about it all I want, other people are disgusted by this also, that they begged for help and you people ignored them for years!</td>
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<td></td>
<td>September 28, 2020 at 9:10pm, Anonymous</td>
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### AGENDA

<table>
<thead>
<tr>
<th>ITEM/PRESENTER</th>
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Public comment, (see photo of DMHC action). It says to contact affected enrollees, I don’t believe LA Care has done this so you are in breach of a state corrective action!
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<td>This enforcement (see photo) signed by LA Care attorney’s clearly states who LA Care was dealing with for years while likely thousands of enrollees tried to alert your “advocates” there was a serious issue going on and you people ignored the problem! People are dead because of your negligence handing money over to those scammers who in turn blocked people’s care, including the care of special needs people and they or their guardians are not being told as ordered in the state corrective action! I believe LA Care is still using abusive, corrupt people to oversee people’s “care”!</td>
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<td>Text received September 28, 2020 at 9:15 am, Anonymous</td>
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<td>Public comment, if LA Care never had a contract with Synermed, why does your own board minutes (you forgot to take down) state Achieva Med was taking over for Synermed, I find it odd Achievamed is misspelled!</td>
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<td><em>Why doesn’t this say Achievamed (oddly misspelled “Achieva Med”) was “taking over for EHS”, this tells me LA Care likely knew Synermed and EHS were / are the SAME PEOPLE! It says taking over for Synermed, how do you explain that? LA Care stinks to high heaven!</em></td>
<td>Approved unanimously by roll call. 5 AYES (Booth, Curry, De La Torre, Perez and Roybal)</td>
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</table>
|                      | Email received September 28, 2020 at 11:52am, from Maria Vazquez  
*I cannot believe that Synermed is not taking any responsibility for their fraud. They hurt people and denied many health care without them knowing their rights and appeals. I have the contracts that Synermed and EHS and LA Care is denying they had. I was the one that provided the DOJ and State of California the contracts. I hope someone is held accountable for the death of many and the healthcare that were denied.* | |
| MEETING MINUTES      | The August 24, 2020 meeting minutes were approved as submitted. | |
| CHAIRPERSON’S REPORT | Chairperson Curry shared that the COVID-19 cases for the hospital system have dramatically gone down from 200 to 30 a day. Reagents are becoming more available so they can test sooner. He added that in terms of public interest, the hospitals require flu shots for all staff unless they have a specific religious or personal care item, such as the inability to receive the vaccination due to a physical condition. | |
| CHIEF EXECUTIVE OFFICER’S REPORT | John Baackes, *Chief Executive Officer*, reported:  
*Marie Montgomery, Chief Financial Officer,* will report a financial result much better than forecast for August, with a net operating gain for the month. This had a positive effect on L.A. Care’s year to date results. He cautioned Committee Members that many risks discussed with the Board at the September meeting, during its consideration of the Operating Budget, will remain risks for the immediate future. Some risks have been favorably resolved for L.A. Care. A risk remaining is the rate development for the next rate year, beginning in January, 2021. L.A. Care has not yet been notified of those 2021 rates. It seems that rates will be heavily dependent on another federal stimulus bill being approved by the U.S. Congress. The stimulus proposal has been mired in a legislative deadlock for some months.* | |
**AGENDA ITEM/PRESENTER**

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| • In November, it is expected that the Supreme Court of the United States (SCOTUS) will hear a case challenging the constitutionality of the Affordable Care Act (ACA). This is a momentous case, even prior to Justice Ruth Bader Ginsburg’s death. With the potential nomination of Judge Amy Coney Barrett, who has a documented history of opposition to ACA, it would seem that the case that will be argued the week after the presidential election is even more ominous for L.A. Care’s future. Mr. Baackes noted that if the ACA is declared unconstitutional, no action would be taken immediately to eliminate health coverage provided under the ACA. The distressing thing that will keep L.A. Care in limbo for years is that in the 10 years since the ACA was passed, those opposed to the ACA have not proposed an alternative health coverage plan. So it is the unknown, and now the potential appointment of a judge who has a track record of opposing the ACA, that makes this case very concerning.  
• There is a potential that this could be mitigated if a Democrat is elected president and if a majority of Democrats are elected to the U.S. Senate. The legislators could reinstate a tax penalty for the ACA. He offered that information as something to think about, and he noted that registering to vote in the coming election is very important. L.A. Care will continue to monitor the situation closely, and to explore other options that may develop. This is of grave concern for L.A. Care’s members. | |
the new calendar year (CY) 2020 Coordinated Care Initiative (CCI) rates. The adjustment was $34 million. These new rates are retroactive to January 1, 2020.

The revenue includes higher than forecasted COVID-19 risk corridor revenue of $19 million and $6 million for the CMC CY 2018 Quality Withhold adjustment.

L.A. Care experienced reported claims at $247 million for August 2020, $12 million unfavorable to the forecast. Year to date, Fee for Service (FFS) claims are unfavorable by approximately $19 million to the forecast. Staff will continue to monitor claims patterns and review reserve estimates.

Pharmacy costs were favorable for the month by $1.7 million and about $2 million favorable to the forecast year to date.

Administrative expenses are $4.4 million favorable due to lower spending in purchased services. Staff will continue to focus on administrative expenses.

Non-operating result is $1.6 million favorable due to timing in grant spending. The unrealized gain position has been volatile due to market conditions which is expected to continue.

Operating Margin by Segment

- Overall Medical Cost Ratio (MCR) is 94.5% versus a forecast of 95.7%, due to the CY 2020 CCI rates and the COVID-19 risk corridor revenue.
- Plan Partners MCR is equal to forecast.
- SPD/CCI MCR is ahead of forecast as mentioned earlier.
- TANF/MCE MCR is ahead of the forecast due to the COVID-19 risk corridor revenue and lower FFS claims.
- CMC MCR is ahead of the forecast due to the $6 million quality withhold revenue.
- Commercial MCR is lower than the forecast due to collection of the LACC risk corridor from CMS.

Key Financial Ratios

- The administrative ratio was 5.3%, ahead of the forecast of 5.5%.
- Working Capital and Tangible Net Equity are ahead of benchmarks.
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<td>• Cash to claims ratio is below the target. The cash to claims ratio will not fully recover until the In-Home Support Services (IHSS) balances with the Department of Health Care Services (DHCS) is settled. Tangible Net Equity (TNE) and Days of Cash on Hand Fund Balance was $1.1 billion which represents 563% of TNE. The target of 600% was based on the average of eight other Local Initiatives and County Organized Health Systems. L.A. Care has enough cash to cover operating expenses for the next 47 days. <strong>Motion FIN 100.1020</strong> To accept the Financial Report as submitted for August 2020.</td>
<td>Approved unanimously by roll call. 4 AYES (Booth, De La Torre, Perez and Roybal) Chairperson Curry experienced technical difficulties.</td>
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| Investment Monthly Transactions Report | Ms. Montgomery referred to the investment transactions report included in the meeting materials. *(A copy of the report can be obtained by contacting Board Services).* As of August 31, 2020, L.A. Care's total investment market value was $1.5 billion  
• $1.2 billion managed by Payden & Rygel  
• $73 million in Local Agency Investment Fund  
• $202 million in Los Angeles County Pooled Investment Fund  
Chairperson Curry asked about benchmarks for investments. Ms. Montgomery responded that benchmarks are included in each quarterly investment report. Chairperson Curry then asked if the overall assessment is favorable. Ms. Montgomery responded that our investments are within our expectations and are performing well. L.A. Care has placed additional funds in Los Angeles County Pooled Investment Fund. | |
| Spinnaker Support, LLC Contract for Oracle | Tom MacDougall, *Chief Information & Technology Officer*, presented a motion requesting approval to execute a contract for Oracle Technical Support Services through November 10, 2023. L.A. Care has used Oracle software products and services since 1999 for member auto | |

Finance and Budget Committee Meeting Minutes  
September 28, 2020, Page 8 of 10  

DRAFT
AGENDA

ITEM/PRESENTER

Software Products
Technical Support Services

MOTIONS / MAJOR DISCUSSIONS

assignment, encounter data processing and repository, database for Enterprise Data Warehouse, and numerous other functions, all of which are vital components to L.A. Care’s business continuity. These support services are necessary for continued operations under the existing Oracle platform.

Oracle has been a sole source provider for this support in the past. Staff researched the option for third party services through Rimini Street Inc. and Spinnaker Support, LLC (Spinnaker). After assessing the proposals, Spinnaker was selected due to service and cost. Mr. McDougall added that using a third party is an accepted approach within the industry. This will provide an overall savings of approximately $4.9 million over the three-year term.

Motion FIN A.0920
To authorize staff to execute a contract with Spinnaker Support, LLC, for Technical Support Services for L.A. Care’s Oracle software products in an amount not to exceed $1,955,931 through November 10, 2023.

ACTION TAKEN

Approved unanimously by roll call. 5 AYES (Booth, Curry, De La Torre, Perez and Roybal)

ADJOURN TO CLOSED SESSION

Public Comments

Text received September 28, 2020 at 1:29 pm, Anonymous

Public comment, the other public commenter asked me to make sure her comment is read, it also said Synermed people got $500 bonuses for intimidating enrollees and getting them to disenroll which is exactly what they did to our autistic adult daughter!

Text received September 28, 2020 at 1:34 pm, Anonymous

I cannot believe that Synermed is not taking any responsibility for their fraud. They hurt people and denied many health care without them knowing their rights and appeals. I have the contracts that Synermed and EHS and LA Care is denying they had. I was the one that provided the DOJ and State of California the contracts. I hope someone is held accountable for the death of many and the healthcare that were denied. Synermed had a contest to dump high risk patients. The winner got a cash prize of 500 dollars.

Augustavia J. Haydel, Esq., General Counsel, 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 1:48 pm.

CONTRACT RATES

Pursuant to Welfare and Institutions Code Section 14087.38(m)

- Plan Partner Rates
- Provider Rates
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<td>• DHCS Rates</td>
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<td>REPORT INVOLVING TRADE SECRET</td>
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<td>Pursuant to Welfare and Institutions Code Section 14087.38(n)</td>
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<td>Discussion Concerning New Service, Program, Technology, Business Plan</td>
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<td>Estimated date of public disclosure: <em>September 2022</em></td>
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**RECONVENE IN OPEN SESSION**

The meeting reconvened in open session at 2:04 p.m.

Ms. Haydel advised the public that no reportable actions were taken during the closed session.

Mr. Baackes applauded Chairperson Curry for his focus on ‘flu vaccinations. He would like the committee to be aware that L.A. Care will be having ‘flu shot clinics at FRCs and CRCs beginning in October. The clinics will be available to the public. He noted that ‘flu shots are widely available at pharmacies.

Ms. Perez thanked staff and Mr. Baackes for inviting the Health Promoters to volunteer and assist at the ‘flu shot clinics.

**ADJOURNMENT**

The meeting was adjourned at 2:05 pm.

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

APPROVED BY:

Robert H. Curry, *Chair*
Date Signed ______________________________
Board of Governors
MOTION SUMMARY

Date: October 26, 2020  
Motion No. FIN 100.1120

Committee: Finance & Budget  
Chairperson: Robert H. Curry

Issue: Annual Board Review and Approval of updates to the Accounting & Financial Services Policies.

Background: Annually, L.A. Care’s Financial policies are brought to the Board for review, updates and approval. This year, we are bringing six policies to the Board for review which have minor updates and/or Code changes related to the policies. A summary of these policies is provided below:

AFS-002: Capital Assets:
- Policy defines capitalization, fixed asset categorization, guidelines and procedures for acquisition, safeguarding and disposal, and establishes levels of authorization and oversight.
- Updated definitions to include assets located at the Community Resource Centers (CRC’s) and other minor updates.

AFS-004: Non-Travel and Other Related Expenses
- Policy defines approvals and appropriate expenses related to non-travel.
- Minor updates.

AFS-008: Annual Investments:
- Policy aligns requirements for investments to the CA Government Code and directs the Board to provide oversight.
- Updated the policy to reflect updates in the CA Government Code related to public banks.

AFS-025: Tangible Net Equity:
- Policy provides for the establishment, maintenance, and utilization of Tangible Net Equity.
- Updated definition to reflect updates in the CA Code of Regulations and other minor updates.

AFS-027: Travel Expenses:
- Policy defines approvals and appropriate expenses related to travel.
- Minor Updates

AFS-029: Annual Budgets and Board of Governors Oversight:
- Policy establishes the authority of spending assigned to the Board of Governors.
- Updated policy to better reflect the content of the Financial Statements.

Member Impact: This action will not directly affect L.A. Care members.

Budget Impact: None
Motion: To approve the revisions of the following Accounting & Financial Services Policies as submitted:

* AFS-002 (Capital Assets)
* AFS-004 (Non-Travel and Other Related Expenses)
* AFS-008 (Annual Investments)
* AFS-025 (Tangible Net Equity)
* AFS-027 (Travel Expenses)
* AFS-029 (Annual Budgets and Board of Governors Oversight)
### CAPITAL ASSETS

**DEPARTMENT**: FINANCE SERVICES

Supersedes Policy Number(s)

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### DATES

<table>
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<tr>
<th>Effective Date</th>
<th>Review Date</th>
<th>Next Annual Review Date</th>
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<tbody>
<tr>
<td>Legal Review Date</td>
<td>10/22/2019</td>
<td>10/28/2020</td>
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<tr>
<td>Committee Review Date</td>
<td>10/26/2020</td>
<td>10/25/2021</td>
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</tbody>
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### LINES OF BUSINESS

- [ ] Cal MediConnect
- [ ] L.A. Care Covered
- [ ] L.A. Care Covered Direct
- [x] Internal Operations
- [ ] PASC-SEIU Plan

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### DELEGATED ENTITIES / EXTERNAL APPLICABILITY

- [ ] PP – Mandated
- [ ] PP – Non-Mandated
- [ ] PPGs/IPA
- [ ] Hospitals
- [ ] Specialty Health Plans
- [ ] Directly Contracted Providers
- [ ] Ancillaries
- [ ] Other External Entities

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### ACCOUNTABILITY MATRIX

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<th>Enter policy §§ here</th>
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<tr>
<td>IT Operations &amp; Infrastructure</td>
<td>ITOI-006, ITOI-010</td>
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### ATTACHMENTS

- Enter all attachments here (e.g., desktop procedures/job aids, templates, reports, letters)

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### ELECTRONICALLY APPROVED BY THE FOLLOWING

<table>
<thead>
<tr>
<th>OFFICER</th>
<th>DIRECTOR</th>
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<tbody>
<tr>
<td>NAME</td>
<td>Marie Montgomery</td>
</tr>
<tr>
<td>DEPARTMENT</td>
<td>Finance Services</td>
</tr>
<tr>
<td>TITLE</td>
<td>Chief Financial Officer</td>
</tr>
</tbody>
</table>
**AUTHORITIES**

- FASB Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles
- FASB ASC 360, Property, Plant, and Equipment
- FASB ASC 350-40, Internal-Use software
- FASB Accounting Standards Updates (ASU) 2015-05, Intangibles – Goodwill and other Internal-Use Software
- Financial Accounting Standards (FAS) No. 142, Goodwill and Other Intangible Assets
- GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets

**REFERENCES**

- ITOI-006 “Asset Management Guidelines”
- ITOI-010 “Secure Data Disposal”

**HISTORY**

<table>
<thead>
<tr>
<th>Revision Date</th>
<th>Description of Revisions</th>
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<tbody>
<tr>
<td>05/11/09</td>
<td>Supersedes Policy #1503</td>
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<tr>
<td>06/11/14</td>
<td>Supersedes Policies AFS-003 and AFS-005</td>
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<tr>
<td>10/28/2019</td>
<td>Annual update of Policy; revised format and wordings</td>
</tr>
<tr>
<td>10/26/2020</td>
<td>Annual update of Policy; no material changes made</td>
</tr>
</tbody>
</table>

**DEFINITIONS**

Please visit the L.A. Care intranet for a comprehensive list of definitions used in policies:
http://insidelac/ourtoolsandresources/departmentpoliciesandprocedures
1.0 Overview:

The objective is to establish L.A. Care Health Plan (L.A. Care)’s policy for capital assets and to clarify definitions of the capitalization policy, fixed asset categorization, guidelines and procedures for acquisition, safeguarding and disposal. This policy assures that L.A. Care complies with the requirements of Generally Accepted Accounting Principles (GAAP) referenced in Section 2.16 below to ensure proper recording and control of the capital assets.

2.0 DEFINITION(S):

Whenever a word or term appears capitalized in this Policy and Procedure, the reader should refer to the “Definitions” below.

2.1 Account #10915 “Work in Progress”: Includes costs associated with on-going projects related to software development, computer equipment, leasehold improvement or furniture purchases for office relocations.

2.2 Account #10916 “Inventory – IT Equipment”: Includes costs associated with inventories of computer equipment purchased at one time to take advantage of cost savings and deployed over several months.

2.3 Account #10925 “Furniture - Sac”: Includes all capitalized expenditures in L.A. Care’s Sacramento office for office furniture, including desks, chairs, file cabinets, bookcases, and tables including modular furniture.

2.4 Account #10927 “Furniture – 7th St”: Includes all capitalized expenditures for office furniture, including desks, chairs, file cabinets, bookcases, and tables including modular furniture located in the buildings on 7th street in Los Angeles.

2.5 Account #10928 “Office Equipment”: Includes all capitalized expenditures for office equipment, including copiers, mailing machines, reproduction and graphics equipment, fax machines, video equipment, and projection machines.

2.5.6 Account #10929 “Office Equipment - CRCs”: Includes all capitalized expenditures for office equipment located at a Community Resource Center (CRC), including copiers, mailing machines, reproduction and graphics equipment, fax machines, video equipment, and projection machines.

2.6.7 Account #10930 “Telephone Equipment”: Includes all capitalized expenditures for telephone equipment, including switches, reader boards, PBX and Star/conferencing equipment, and dedicated servers. Individual telephone units are not included.
2.72.8 Account #10935 “Personal Computers and Printers”: Includes all capitalized expenditures for individual workstation PCs, monitors, and printers. Networked, high-speed printers are included in other computer equipment. Expendable computer supplies, purchases of computer mouse, keyboards, pads, diskettes, and memory upgrades shall not be capitalized.

2.82.9 Account #10940 “Other Computer Equipment”: Includes all capitalized expenditures for network equipment such as servers, racks, switches, and high-speed network printers, except those dedicated to the phone systems.

2.92.10 Account #10945 “Computer Software”: This account category is intended for recording enterprise-wide systems and software-application implementations that are purchased by L.A. Care. Software licenses, maintenance agreements, upgrades, or additional user fees should not be capitalized.

2.102.11 Account #10951 “Leasehold Improvements 7th”: Includes expenditures greater than $10,000 for improving or reconfiguring the functional use of leased building/space located on 7th street, Los Angeles.

2.112.12 Account #10961 “Data Mastery Repository (DMR)”: Includes expenditures associated with the development of a centralized data repository for L.A. Care’s administrative personnel and management.

2.122.13 Account #10962 “CORE System”: Includes expenditures associated with the development of a centralized data system to standardize L.A. Care’s business processes to serve the needs of members and providers.

2.132.14 Account #10975 “Capital Leases”: Asset account to be used when entering into equipment leases whose financial terms and conditions meet the criteria set forth in the Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases.

2.142.15 Custodian: The person to whom an asset is assigned for use or safekeeping.

2.152.16 Fixed Asset System (FAS): The Accounting & Financial Services software used to manage fixed assets.

2.162.17 Generally Accepted Accounting Principles (GAAP): The common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of authoritative standards and requirements of FASB and Governmental Accounting Standards.
Board (GASB), which simply set the commonly accepted ways of recording and reporting accounting information.

2.17.18 **Information Systems Assets:** For purposes of this policy, this includes items capitalized in the following general ledger accounts:

- 10930 Telephone Equipment;
- 10935 Personal Computers and Printers;
- 10940 Other Computer Equipment;
- 10945 Computer Software;
- 10961 Data Master Repository (DMR);
- 10962 CORE System.

2.18.19 **Non-Information Systems Assets:** For purposes of this policy, this includes items capitalized in the following general ledger accounts:

- 10925 Furniture - Sac;
- 10927 Furniture – 7th St;
- 10928 Office Equipment;
- 10929 Office Equipment – CRCs;
- 10951 Leasehold Improvements.

2.19.20 **Per Unit:** Consists of items, units or components that work together and are generally not separated during the life of the asset. The Accounting & Financial Services Department will determine the exact composition of the unit to be capitalized.

2.20.21 **Designee(s):** A “Designee” is someone who is designated by the authorized approver to approve on their behalf when the authorized approver is not available or wishes to delegate this authority. A list of all authorized designees will be kept in Accounts Payable department as an internal document maintained on a regular basis.

3.0 **POLICY:**

**Capitalization**

3.1 L.A. Care records and capitalizes purchases of furniture, fixtures, office equipment, software, and computer equipment as capital assets, when cost (including freight and taxes), **Per Unit**, is $10,000 or greater effective October 1, 2017. The capitalization threshold was $5,000 effective June 1, 2014 and $2,000 prior to June 1, 2014. Assets that work together and generally are not separated during the life of the asset should be capitalized as one (1) asset (i.e., office furniture grouping, PC components).
3.2 For items less than $10,000 total value Per Unit, see policy ITOI-006 “Asset Management Guidelines”.

3.3 For leasehold improvements, the capitalization threshold amount outlined in 3.1 above applies, which shall be $10,000, and the financial standards criteria for definition and accounting for leasehold improvements in accordance with GAAP shall be met.

3.4 For intangible assets including internally developed software, only costs associated with the development stage are eligible for capitalization. Cloud-based application implementation with embedded license will be treated as software.

The software development costs may be capitalized if the software:

3.4.1 (1) is an integral part of the IT system, or, identifiably enhances the functionality of the system because of its direct relationship to it;

(2) requires substantial customized modifications to achieve expected level of performance;

(3) is obtained through a long term contractual arrangement.

(4) Capitalized development costs are limited to:

3.4.2 (2) Fees paid to third parties (including travel expenses) to customize the software;

(1) Costs of obtaining software from third parties;

(2) Salaries, benefits and travel expenses of employees who devote their time to develop the software (must be supported by or records);

(3) Interest costs, if applicable.

3.4.3 Indirect costs including senior manager’s time, project management, training, overhead and data conversion are excluded.

3.4.4 Modification of computer software that is already in operation should be capitalized in the same manner as outlined above if the modification results in an increase in functionality, efficiency, or extension of the estimated useful life.
Depreciation

3.5 L.A. Care will depreciate furniture over sixty (60) months and all other capital equipment and computer software over thirty-six (36) months.

3.6 Expenditures capitalized and charged to the Account #10951 - Leasehold Improvement will be amortized over the number of months remaining in the related building lease.

3.7 Capitalized software and development costs should be amortized over useful life not to exceed sixty (60) months.

3.8 The useful life should be determined by Information Technology (IT) Department of all pertinent factors impacting the estimated useful life, including the expected use, any legal, regulatory, or contractual provisions, and the effects of obsolescence, demand, competition and the level of maintenance expenditures required.

4.0 PROCEDURES:

4.1 L.A. Care has established the following capital asset categories:

<table>
<thead>
<tr>
<th>Account No.</th>
<th>Category</th>
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<tbody>
<tr>
<td>10915</td>
<td>Work in Progress (WIP)</td>
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<td>Work in Progress (WIP) – Inventory</td>
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<td>Furniture – 7th St/Garland</td>
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<td>Office Equipment</td>
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<td>Office Equipment – CRC’s</td>
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<td>Telephone Equipment</td>
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<td>Personal Computers</td>
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<td>10940</td>
<td>Other Computer Equipment</td>
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<td>10945</td>
<td>Computer Software</td>
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<tr>
<td>10951</td>
<td>Leasehold Improvements</td>
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<td>10960</td>
<td>MIS Project (inactive)</td>
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<tr>
<td>10961</td>
<td>DMR (Data Mastery Repository - inactive)</td>
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<tr>
<td>10962</td>
<td>CORE System</td>
</tr>
<tr>
<td>10965</td>
<td>EDS Beneficiary Eligibility (inactive)</td>
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<tr>
<td>10975</td>
<td>Capital Leases</td>
</tr>
</tbody>
</table>
Acquisitions

4.2 Managers making the fixed asset purchases will notify Procurement and Accounting & Financial Services Departments in advance of delivery and request for an asset tag for each capital item.

4.3 An asset tag should be affixed to an accessible location on the asset upon arrival of the capital item.

4.3.1 For Information Services Assets, this procedure should be performed by the Help Desk, or Managers making the purchases in the I.T. Operations & Infrastructure Department.

4.3.2 For Non-Information Services Assets, this procedure should be performed by Facilities Services.

4.3.3 If an asset cannot be physically tagged, a tag number must still be assigned. The tag should be affixed to the invoice and filed in the permanent files.

4.4 Fixed assets, with the exception of laptop computers, should remain within L.A. Care premises. In the case where assets must be removed from L.A. Care premises, the removal and return of the asset should be documented and approved by the Senior Director of Information :T:ransformation Operations, Infrastructure & Security for Information Services Assets and by the Senior Director of Facility Services for Non-Information Services Assets. Examples of such cases would be Information Systems assets used for disaster recovery tests or office equipment assigned to Community Advisory Committees (CAC’s) or the Executive Consumer Advisory Committee (ECAC).

4.5 The Custodian, Custodian’s department, location floor, and room number should be recorded in the FAS System at acquisition, and kept up to date for all fixed assets.

4.6 The Accounting & Financial Services staff will determine the cost and useful life of the asset and enter all required information into the FAS System upon complete process of payment and validation against the invoice of all asset tags issued in Section 4.3 above.

4.6.1 A copy of the information entered into the system, as well as any allocation worksheets, will be affixed to the documentation received from Accounts Payable and retained by the Accounting & Financial Services Department.
4.6.2 The FAS System will be reconciled with the general ledger on a monthly basis to ensure that all acquisitions are recorded properly.

**Disposal**

4.7 An asset may be disposed of if the asset is damaged, obsolete, or in rare cases lost or stolen. The disposal of assets for L.A. Care will strictly adhere to the procedures outlined in this policy.

4.8 The Custodian should notify the department responsible for the asset:

4.8.1 For Information Services assets, notify the Help Desk.

4.8.2 For Non-Information Services assets, notify the Director of Facilities Services or Designee.

4.8.3 If an asset is stolen, a police report should be provided as well.

4.8.4 If an asset is lost, a written explanation and acknowledgement from the Custodian's department director should be provided as well.

4.9 The Help Desk or Facilities Services, as applicable, should retrieve the asset(s) to be disposed of and stored in a locked room while maintaining an asset log for all these items. Accounting & Financial Services should be notified of the tag number(s), method of disposal, and reason for disposal. The Accounting & Financial Services Staff will remove the tag from the asset and visually confirm that the item is safeguarded in the locked room for disposal.

4.10 The responsible Accounting & Financial Services staff will complete a Fixed Asset Disposal Form for each asset to be disposed of and affix the asset tag to the disposal form.

4.10.1 For stolen assets, a copy of the police report should be attached to the disposal form.

4.10.2 For lost assets, a written explanation acknowledged by the Custodian's department Director should be attached.

4.11 The Fixed Asset Disposal form(s) should be reviewed and approved:

4.11.1 For Information Services Assets, the form should be reviewed and approved by the Controller, the Chief Information and
Technology and Information Officer and the Chief Financial Officer or respective designees.

4.11.2 For Non-Information Services Assets, the form should be reviewed and approved by the Controller, the Senior Director of Facilities Services, and the Chief Financial Officer or designees.

4.12 After approval is obtained, Accounting & Financial Services staff will notify the Help Desk or Senior Director of Facilities Services, as applicable, that the asset can be disposed of in the manner noted on the Fixed Asset Disposal form.

4.12.1 All assets that contain Protected Health Information (PHI), as defined by the Health Insurance Portability and Accountability Act (HIPAA), must be disposed of in accordance with policy ITOI-010 “Secure Data Disposal” Policy. This includes desktop and laptop computers, hard drives, media, flash drives, external hard drives, and any other devices that can store data and may contain PHI.

4.13 Accounting & Financial Services staff will record the disposal date in the FAS System and General Ledger. The original Fixed Asset Disposal form will be retained in the Accounting & Financial Services department.

**Impairment**

4.14 Impairment exists when the carrying amount of an intangible asset exceeds its fair value and is non-recoverable and the loss shall be recognized in accordance with GAAP.

4.15 All capital assets, including software and development costs, shall be tested annually for impairment based on the evaluation by IT and Facility Services staff of all pertinent factors impacting the fair value, including any significant changes in the service potential (retired or no longer fulfilling the same purpose), the use of the software, costs of making necessary modifications, the effects of obsolescence, etc.

5.0 **MONITORING**
5.1 To verify that fixed asset assignments are being kept up to date, Accounting & Financial Services will, at least every other year, conduct a full physical inventory of all fixed assets capitalized and recorded in the FAS System.

5.1.1 The inventory process will include verification of the fixed asset Custodian, department, location, and floor.

5.1.2 Accounting & Financial Services will correct any outdated information in the FAS System.

5.1.3 The Chief Financial Officer and Chief Technology and Information Officer or Designees will be notified of any fixed assets that cannot be located or are reported as lost or stolen at the time of inventory.

6.0 REPORTING

6.1 The Finance department is responsible for presenting financial statements to the Board of Governors on a monthly basis. Capital assets are included within the financial statements on the balance sheet.
## NON-TRAVEL AND OTHER RELATED EXPENSES

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<tr>
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<th>ACCOUNTING AND FINANCIAL SERVICES</th>
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<td>Supersedes Policy Number(s)</td>
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## Dates

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<td>Next Annual Review Date</td>
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| Legal Review Date    | 10/22/2019 |
| Committee Review Date | 10/28/2019 |

## Lines of Business

- ☐ Cal MediConnect
- ☐ L.A. Care Covered
- ☐ L.A. Care Covered Direct
- ☐ MCLA
- ☐ PASC-SEIU Plan
- ☒ Internal Operations

## Delegated Entities / External Applicability

- ☐ PP – Mandated
- ☐ PP – Non-Mandated
- ☐ PPGs/IPA
- ☐ Hospitals
- ☐ Specialty Health Plans
- ☐ Directly Contracted Providers
- ☐ Ancillaries
- ☐ Other External Entities

## Accountability Matrix

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## Attachments

- ➢ Enter all attachments here (e.g., desktop procedures/job aids, templates, reports, letters) See 2 attachments – No updates required

## Electronically Approved By The Following

<table>
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<tr>
<th>OFFICER</th>
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</tr>
</thead>
<tbody>
<tr>
<td>NAME</td>
<td>Marie Montgomery</td>
</tr>
<tr>
<td></td>
<td>Angela Bergman</td>
</tr>
<tr>
<td>DEPARTMENT</td>
<td>Finance Services</td>
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<td></td>
<td>Accounting Services</td>
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<tr>
<td>TITLE</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td></td>
<td>Controller</td>
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1 of 9
1.0 OVERVIEW:

1.1 This policy establishes L.A. Care Health Plan’s (L.A. Care) policy for non-travel-related and other related expenses, incurred by employees, members of the Board of Governors, stakeholder committees, and members of the Community Advisory Committees (CAC) on behalf of L.A. Care. Please refer to policy AFS-027, “Travel Expenses,” for information on reimbursable travel and other expenses.

2.0 DEFINITIONS:

Whenever a word or term appears capitalized in this policy and procedure, the reader should refer to the “Definitions” below.

2.1 Designee(s): A “Designee” is someone who is designated by the authorized approver to approve on their behalf when the authorized approver is not available or wishes
to delegate this authority. A list of all qualified employees authorized as Designees will be kept in Accounts Payable department as an internal document maintained on a regular basis.

2.2 Business Unit Manager: A Business Unit Manager is someone who is authorized to make spending decisions for a department.

3.0 POLICY:

3.1 L.A. Care, as a public entity, has a fiduciary responsibility to utilize funds in a responsible and prudent manner. All employees, Board members, stakeholder committee members and CAC members have a fiduciary role when requesting reimbursement for business-related expenditures, to provide adequate supporting documentation, rationale, and explanation for all reimbursable expenses.

3.2 Expenses covered under this policy. Expenses covered under this policy are Non-Travel-Related Meal and Event Expenses, and expenses that are necessary, reasonable, appropriate, and allowable. Examples of such expenses include, but are not limited to:

3.2.1 Any lunch, event, or gathering at which stakeholders are in attendance, such as Board of Governors’ meetings, stakeholder relationship events/outreach, and education events.

3.2.2 Any lunch, event, or gathering for internal staff only (no stakeholders in attendance), such as:

3.2.2.1 Recruitment or on-boarding/orientation events as approved by Human Resources (HR) department.

3.2.2.2 Discretionary staff spending for recognition, retention, and employee engagement as approved by HR department.

3.2.2.3 Group trainings and development sessions that extend through normal break or meal times as approved by HR department.

3.2.2.4 Weekend or Holiday work deemed mandatory or high-priority at the Officer or Deputy Officer-level.

3.2.2.5 Extenuating circumstances as approved by CFO or Designee only.
3.2.3 These expenses must be pre-approved in accordance with the procedures referenced in Section 3.0.

3.3 **Expenses not covered under this policy.** Under no circumstances will L.A. Care reimburse for any expenses that are not covered under this policy. Examples of expenses which are not covered under this policy and will not be reimbursed include, but are not limited to:

3.3.1 The purchase of alcoholic beverages.

3.3.2 Routine working lunches onsite or offsite.

3.3.3 Staff meetings.

3.3.4 Group trainings and development sessions that extend through normal break or meal times not approved by HR department.

3.3.5 Non-travel-related meal expenses or event expenses for:

3.3.5.1 Birthdays, retirement, or holiday parties.

3.3.5.2 Workplace programs and employee recognition retention and employee engagement not approved through the expense approval procedure referenced in Section 3.0.

3.3.5.3 **Gifts.** L.A. Care will not reimburse for purchases of gifts.

   3.3.5.3.1 **Expression of Concern.** Contact the Human Resources department if an expression of concern is appropriate. L.A. Care will not reimburse personal expenses for such expressions of concern.

   3.3.5.3.2 **Special Occasions.** L.A. Care will not reimburse the costs of personal gifts for special occasions, including holiday gifts, flowers, or birthday cakes.

   3.3.5.3.3 **Credit Cards.** L.A. Care does not provide reimbursement for credit card late payment charges, annual credit card fees, or credit card service charges for non-sufficient funds/checks.
3.3.5.3.4 **Cellular Phone.** L.A. Care will not reimburse for the cost of purchasing and/or installing a mobile/cellular telephone and/or related communications equipment, except in accordance with L.A. Care policy ITOI-019, “Laptop and Mobile Devices.”

3.3.5.3.5 **Furniture, Equipment, and Other Capital Assets.** L.A. Care will not reimburse for purchases of furniture, office or computer equipment, and other capital assets. These items should be acquired through the purchasing process.

### 3.4 Special Considerations

#### 3.4.1 Stationery, Books, Supplies.

3.4.1.1 All supplies should be purchased directly by L.A. Care in accordance with AFS-007 “Procurement Policy”. If exceptional circumstances require employees, Board members, or CAC members to incur the expense themselves, approval must be obtained from the Accounting department prior to processing any employee reimbursements, and the approval process outlined in Section 4.0 must be followed.

#### 3.4.2 Tuition, Professional Licenses/Certification, Professional Exams.

3.4.2.1 For education expenses, such as tuition reimbursement where employees seek to expand and broaden their professional skills and knowledge through regionally accredited colleges, university programs, and recognized professional institutions, please see policy HR-710, “Reimbursement for Educational Expenses Policy” and consult with the Human Resources department.

3.4.2.2 For reimbursement of professional expenses for employees whose positions are required by regulation to maintain current licenses, certifications, or memberships in order to perform the duties and functions of the job, please see policy HR-118, “Reimbursement for License/Certification Renewal Expenses.”
3.4.2.3 For training not covered above and performed onsite, offsite, or online, please see policy AFS-027 “Travel and Other Expenses.”

3.4.3 Child/Dependent Care Expenses (Board and CAC Members only)

3.4.3.1 Board members and CAC members may seek reimbursement of reasonable out-of-pocket expenses related to care-taking services for their own children and/or dependents while attending L.A. Care business-related meetings and functions. Board and CAC members are encouraged to use personal resources to limit the amount of expense incurred. All child and/or dependent care expense reimbursement requests are subject to designated L.A. Care staff review and approval.

3.4.3.2 Reimbursement for child and/or dependent care services shall not be provided to Board members or CAC members when attending meetings or events at which child and/or dependent care services have been arranged and paid for by L.A. Care unless special circumstances have been determined and pre-approved by designated L.A. Care staff.

3.4.3.3 Child and/or dependent care expenses shall not be reimbursed to L.A. Care employees.

3.4.4 Personal Property/Clothing and Household Expenses (Employees Only).

3.4.4.1 L.A. Care has no obligation or liability to reimburse for the cost of stolen or misplaced personal property. Therefore, individuals are discouraged from using personal items for business purposes.

3.4.4.2 All L.A. Care uniforms must be purchased and approved by the Sales and Marketing Department Designee.

3.5 Disciplinary Action (Employees). Employees who violate this policy may be subject to disciplinary action up to and including immediate termination of employment. Failure of temporary agency staff members to comply with this policy will result in appropriate action up to ending the temporary staff member’s assignment with L.A. Care.
3.6 **Board and CAC Members.** If a member of the Board or a CAC member fails to meet the requirements of this policy, he or she will be notified separately of such non-compliance by the CFO, the CEO or their Designees. Any repetition of the offence or any other circumstance of non-compliance which calls for corrective action may result in removal from the position in accordance with applicable laws and/or L.A. Care policies, procedures, operating rules, or by-laws.

4.0 **PROCEDURES:**

4.1 **Expenses must be pre-approved in accordance with the following procedures:**

**Expense Approval Process:**

4.1.1 The Business Unit Manager or Designee must complete and submit a Project & Event Justification Form (See Attachment 1) prior to expenses being incurred. Business Unit Manager or Designee must plan in advance to account for approval lead times.

4.1.2 The Business Unit Manager or Designee must use the most recent federal guidelines per diem rates for meals when determining request amounts for expenses covered under this policy. These per diem rates will provide per person dollar amount guidelines for breakfast, lunch, and dinner. The GSA per diem rate guidelines can be found at http://www.gsa.gov/portal/category/100120.

4.1.3 The Business Unit Manager or Designee must complete and acquire approval of the Project & Event Justification Form from the responsible director and officer or deputy officer before submitting to Accounting Services. Accounting Services will seek to obtain CFO and CEO approvals. The following limits indicate when Board of Governors approval will also be required.

4.1.3.1 Expenses of up to $10,000 per project must be approved by CFO and CEO or respective Designees.

4.1.3.2 If the cost of project is greater than $10,000 per project, approvals will be required by CEO and CFO as well as Board of Governors. Business Unit Manager or Designee must submit a motion through his or her division first to the Finance &
Budget Committee, then to the Board of Governors for consideration, discussion, and approval.

4.1.3.3 Business Unit Manager or Designee must not submit more than one Project & Event Justification Form for one individual project or event in order to keep forms under the $10,000 threshold and avoid Board of Governors’ approval.

4.1.4 When the Project & Event Justification Form and motion (when applicable) are approved, the Accounting and Finance department will open a project code for the approved expenses and communicate this code to the Business Unit Manager.

4.1.5 The Business Unit Manager or Designee is responsible for managing to the dollar amount of the approved expense. The per-year spending shall not exceed the per-year dollar amount maximum of approved Project & Event Justification Form and/or motion.

4.1.6 After the expense is approved and when the actual purchases need to be made on expenses covered under this policy, the Business Unit Manager or Designee must submit a Non-Travel Meals Request Form for approval in advance of the event.

4.1.6.1 Exception for Extenuating Circumstances. If completing a Non-Travel Meals Request Form in advance of the event is not feasible due to extenuating circumstances, the form may be submitted after the event with CFO or CEO approval.

4.1.7 The Non-Travel Meals Request Form must include the assigned project code and be approved by the operational manager and officer or deputy officer.

4.1.8 Accounting and Finance will first ensure that the Project & Event Justification Form is properly approved, then either approves or rejects the Non-Travel Meals Request Form (Attachment 2) based on approved expense limits, which are not to exceed GSA limits.

4.1.8.1 Signed invoices and Check Request Forms should be submitted to Accounts Payable along with the approved Non-Travel Meals Request Form for payment.
4.1.8.2 Original itemized receipts are required under policy AFS-004 for reimbursement.

4.1.8.3 If not approved, the spending cannot be paid by L.A Care.

4.1.9 **Retroactive Approval.** A retroactive approval is considered only in extenuating circumstances. A request after the fact must be submitted to the applicable officer or deputy officer, and CFO or Designee for approval. Once the CFO or Designee has approved the expenditure, the requestor must bring the approval to the Accounting and Finance department for final processing.

4.1.10 **Oversages.** Overages of 10% or less of the original project approval amount can be processed with CEO approval. For overages over 10% of the original project approval amount, the Business Unit Manager or Designee must complete the Expense Approval Process (Section 4.1).

4.1.11 **Disputes.** The CFO or Designee shall make the final determination on disputed expenses.

4.2 All decisions not approving projects/events are final and not appealable.

5.0 **MONITORING:**

5.1 The Business Unit Manager or Designee is responsible for ensuring that all expenses are processed timely and coded with the correct project codes.

6.0 **REPORTING:**

6.1 Variance reports between actual versus budgeted project costs will be provided to Business Unit Managers on a monthly basis. Expenditures for expenses covered under this policy will be reported to the Board of Governors on a quarterly basis.
# ANNUAL INVESTMENT POLICY

**Department**: ACCOUNTING AND FINANCIAL SERVICES  

**AFS-008**

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<td>Next Annual Review Date</td>
<td>10/25/2021</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Legal Review Date</th>
<th>Committee Review Date</th>
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<tbody>
<tr>
<td>10/13/2020</td>
<td>10/26/2020</td>
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</table>

## Lines of Business

- Cal MediConnect
- L.A. Care Covered
- L.A. Care Covered Direct
- MCLA
- PASC-SEIU Plan
- Internal Operations

## Delegated Entities / External Applicability

- PP – Mandated
- PP – Non-Mandated
- PPGs/IPA
- Hospitals
- Specialty Health Plans
- Directly Contracted Providers
- Ancillaries
- Other External Entities

## Accountability Matrix

<table>
<thead>
<tr>
<th>Finance and Accounting Services</th>
<th>AFS-008</th>
<th></th>
</tr>
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## Attachments

- N/A

## Electronically Approved by the Following

<table>
<thead>
<tr>
<th>Officer</th>
<th>Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
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</tr>
<tr>
<td>Department</td>
<td></td>
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<tr>
<td>Title</td>
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</table>

<table>
<thead>
<tr>
<th>Name</th>
<th>Angela Bergman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department</td>
<td>Accounting and Finance Services</td>
</tr>
<tr>
<td>Title</td>
<td>Controller</td>
</tr>
</tbody>
</table>
1.0 OVERVIEW:

1.1 To establish the investment guidelines for all operating funds and Board designated reserve funds of L.A. Care Health Plan (L.A. Care) invested on and after November 1, 2020. The objective is to ensure L.A. Care’s funds are prudently invested in compliance with applicable requirements and according to the Board of Governors’ objectives to preserve capital, provide necessary liquidity, and to achieve a market average rate of return through economic cycles.

1.2 This Policy only applies to L.A. Care’s investment funds. The Policy does not include retirement, retiree health care savings/trust/plan(s), or deferred compensation plans.
2.0 DEFINITIONS:

Whenever a word or term appears capitalized in this policy and procedure, the reader should refer to the “Definitions” below.

2.1 **Agent:** An independent third party acting for the Custodian. The Investment Manager may act as Agent.

2.2 **Approved NRSRO:** Approved NRSROs consists of the following NRSROs: 1) Standard and Poor’s, 2) Moody’s, and 3) Fitch Ratings.

2.3 **Bankers Acceptance:** Time drafts which a bank “accepts” as its financial responsibility as a part of trade finance process.

2.4 **Commercial Paper:** Unsecured promissory notes issued by companies and government entities at a discount.

2.5 **Credit Risk:** The risk of principal loss due to the failure of the issuer of the security.

2.6 **Custodian:** A financial institution that holds securities for the benefit of L.A. Care and has legal responsibility for those securities.

2.7 **Delivery vs. Payment:** A settlement system that stipulates that payment for security must be made at the time the security is delivered to the purchaser or purchaser’s agent.

2.8 **Diversification:** The reduction of risk by investing in a variety of assets which ensures that a portfolio is not concentrated in securities of any one type, industry, or entity.

2.9 **Federal Agencies and U.S. Government Sponsored Enterprises:** Investments which are obligations, participations, and other instruments of, or issued by, a federal agency or a United States government sponsored enterprise, including instruments issued by, or fully guaranteed as to principal and interest by the issuers.

2.10 **Floating Rate Securities:** Securities that provide for the automatic adjustments of its interest rate whenever a specified interest rate changes.

2.11 **Government Pooled Funds:** Funds of various governmental agencies that are pooled together for investment purposes.

2.12 **Investment Manager:** An individual designated by the Chief Financial Officer (CFO) to manage all or any part of the investment portfolio.

2.13 **Liquidity:** The ability to convert an asset into cash quickly.
2.14 **London Interbank Offered Rate (LIBOR):** The average interest rate that leading banks in London charge when lending to other banks and used as a benchmark for Finance.

2.15 **Market Risk:** The risk of market value fluctuations due to economic change in the interest rate markets.

2.16 **Maturity:** The stated final date at which the principal of the security must be paid, or the unconditional put option date, if the security contains such a provision.

2.17 **Medium Term Maturity Corporate Securities:** Notes issued by a corporation organized and operating within the United States or by depository institutions licensed by the United States, or by any state and are operating within the United States.

2.18 **Money Markets:** A component of financial markets for assets involved in short-term borrowing and lending with original maturities of one year or shorter time frames.

2.19 **Mortgage or Asset Backed Securities:** Securities whereby cash flow from the mortgages, receivables and other assets underlying the security are passed-through as principal and interest payments to the investor.

2.20 **Mutual Funds:** A type of professionally managed investment scheme which pools money from many investors.

2.21 **Nationally Recognized Statistical Rating Organization (NRSRO):** A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. The SEC's Office of Credit Ratings administers the SEC's rules relating to NRSROs, in addition to performing various other functions with respect to NRSROs.

2.22 **Negotiable Certificates of Deposit/Time Deposits:** A negotiable receipt for a time deposit at a bank or other financial institution for a fixed time and interest rate.

2.23 **Public bank:** A corporation, organized under the Nonprofit Mutual Benefit Corporation Law or the Nonprofit Public Benefit Corporation Law for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, local agencies, or a joint powers authority formed pursuant to the Joint Exercise of Powers Act that is composed only of local agencies.

2.24 **Repurchase Agreements:** A purchase of securities under simultaneous agreement to sell these securities back at a fixed price on some future date.
2.25 **State of California and Local Agency Obligations:** Registered state warrants, treasury notes or bonds of the State of California and bonds, notes and warrants or other evidence of indebtedness of any local agency of the state including bonds payable solely out of the revenue from a revenue producing property owned, controlled, or operated by the State or local agency or by a department, board, agency, or authority of the State or local agency.

2.26 **Term:** The remaining time to Maturity when the asset is purchased.

2.27 **U.S. Treasuries:** Direct obligations of the United States government and securities which are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States.

2.28 **Variable Rate Securities:** Securities that provide for the automatic establishment of a new interest rate on set dates.

### 3.0 POLICY:

#### 3.1 General

Investment of funds may only be made as authorized by this policy, which conforms to California Government Code (the Code) §53600 et seq., and complies with §1346(a)(11) and §1375.1 et seq. of the California Health & Safety Code, specifically §1376, related to the operations of L.A. Care as a health care service plan licensed pursuant to Health and Safety Code Section 1340, et seq. and engaged in Medi-Cal, Medicare, and other programs, as well as to customary standards of prudent investment management. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered immediately, incorporated into this policy, and appropriately adopted by the Board of Governors and L.A. Care management.

#### 3.2 Investment Objectives

In accordance with the regulations cited herein, L.A. Care’s primary annual investment objectives are in order of priority as follows:

##### 3.2.1 Safety and Preservation of Capital

Each investment transaction shall seek to ensure that the capital losses are avoided due to market erosion of security value and institutional default or broker-dealer default. L.A. Care shall seek to preserve capital by mitigating the two types of risk, Credit Risk and Market Risk, as follows:

- **3.2.1.1 Credit Risk** will be mitigated through diversification of the investment portfolio.

- **3.2.1.2 Market Risk** will be mitigated by matching Maturity dates to coincide, as much as possible, with L.A. Care’s cash flow.
requirements. It is explicitly recognized herein, however, that in a diversified portfolio, occasional capital losses are inevitable and must be considered within the context of the overall investment return.

3.2.2 Liquidity and Flexibility
The portfolio investments need to be comprised of investments for which there is a secondary market and which offer the flexibility to be sold at any time at prevailing market values with minimal risk of loss of principal and interest.

3.2.3 Total Return
L.A. Care’s portfolio will be designed to achieve a market average rate of return similar to other authorized instruments and securities which have similar security, maturities and levels of risk.

3.3 Authority to Invest

3.3.1 The CFO shall have the authority to invest L.A. Care funds and manage the investment portfolio. Such authority is derived by order from the Board of Governors.

3.3.2 The CFO may designate an Investment Manager(s) to manage all or such portions of L.A. Care’s funds as the CFO shall determine from time to time. Such Investment Manager(s) shall be subject to this policy and investment guidelines and any directions provided by the CFO. The CFO will be responsible for all actions undertaken and shall establish a system on internal controls to regulate the activities of subordinate officials, including the Investment Manager(s). Additional information regarding Investment Manager(s) can be found in Paragraph 3.6.

3.3.3 No person may engage in an investment transaction except as provided herein and in the procedures established by the CFO and/or Board of Governors.

3.4 Prudence
L.A. Care’s Board of Governors, CFO, and persons authorized to make investment decisions on behalf of L.A. Care are trustees and fiduciaries subject to the Prudent Investor Standard, defined as follows:

3.4.1 The Prudent Investor Standard, as defined in Government Code §53600.3, requires that when investment officials are investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing funds on behalf of L.A. Care, the investment officials shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited
to, the general economic conditions and the anticipated needs of L.A. Care. That a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of L.A. Care. The Prudent Investor Standard shall be applied in the context of managing an overall portfolio.

3.4.2 L.A. Care’s investment trustees and fiduciaries as mentioned in Paragraph 3.4 acting in accordance with this policy and any applicable written procedures shall be relieved of personal responsibility for an individual security’s credit risk or market risk.

3.5 Ethics and Conflict of Interest

3.5.1 L.A. Care’s officers and employees involved in the investment process or having authority or influence over such activities are not permitted to have any material financial interests in financial institutions that conduct business with L.A. Care, and they are not permitted to have any personal financial investment holdings that could be materially related to the performance of L.A. Care’s investments.

3.5.2 L.A. Care officers and employees involved in the investment of funds will follow applicable compliance policies related to disclosure of potential conflicts to the extent the personal business activity or material financial interest is one capable of being known.

3.6 Investment Manager

3.6.1 Any designated Investment Manager(s) shall be a fiduciary subject to the Prudent Investor Standard in Section 3.4.1 with respect to the funds under management.

If outside professional investment management firms are engaged, such firms must be registered investment advisors with the U.S. Security Exchange Commission (the “SEC”), or be appropriately exempt from registration under the SEC Investment Advisers Act of 1940, as amended.

3.6.2 The CFO will:

3.6.2.1 Evaluate candidates for the role of Investment Manager(s). The selected candidates will be reviewed and approved by the Chief Executive Officer (CEO), and Finance and Budget Committee and the Board of Governors.

3.6.2.2 Obtain certification from outside Investment Managers that they will purchase securities from broker-dealers (other than
themselves) or financial institutions in compliance with Government Code Section 53601.5 and the Annual Investment Policy.

3.6.2.3 Provide all Investment Manager(s) with a copy of the Annual Investment Policy which will be included in the Investment Manager’s contract.

3.6.2.4 Establish and review the targeted average maturities periodically with the Investment Manager(s).

3.6.2.5 Review the investment diversification and portfolio performance monthly to ensure that the Investment Manager’s compliance with this policy, risk levels and returns are reasonable, and that investments are diversified according to the policy.

3.6.2.6 Investigate any investment made by the Investment Manager(s) which is not authorized by the policy for possible cause for termination of contract.

3.7 Authorized Investments

3.7.1 Maturity and Term
All investments are subject to a maximum five (5) year Maturity or Term.

3.7.2 Eligible Instruments
L.A. Care’s Policy is to invest in the high quality instruments as permitted by the Government Code, subject to the limitations of the Annual Investment Policy.

3.7.3 U.S. Treasuries (Government Code Section 53601(b))

<table>
<thead>
<tr>
<th>Types of US Treasuries</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury Bills</td>
<td>3 months, 6 months, and one year securities and traded at a discount.</td>
</tr>
<tr>
<td>Treasury Notes and Bonds</td>
<td>Interest bearing instruments issued with maturities of 2 to 5 years</td>
</tr>
</tbody>
</table>
Treasury STRIPS | US Treasury securities that have been separated into their component parts of principal and interest payments and recorded as such in the Federal Reserve book-entry record keeping system.

US Treasury coupon and principal STRIPS | These are not to be considered to be derivatives for the purpose of the Annual Investment Policy and are permitted investments.

3.7.3.1 Maximum Term: Five (5) Years

3.7.4 Federal Agencies and US Government Sponsored Enterprises (Government Code Section 53601(f))

3.7.4.1 These are U.S. Government related organizations, the largest of which are federal intermediaries assisting credit markets, and are often simply referred to as “Agencies.” Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically listed below is not a permitted investment instrument.

"Agencies" are limited to:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Abbreviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Agriculture Mortgage Association</td>
<td>FRMDN</td>
</tr>
<tr>
<td>Federal Home Loan Banks</td>
<td>FHLB</td>
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<tr>
<td>Federal Home Loan Mortgage Corporation</td>
<td>FHLMC</td>
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<tr>
<td>Federal National Mortgage Association</td>
<td>FNMA</td>
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<tr>
<td>Federal Farm Credit Banks</td>
<td>FFCB</td>
</tr>
<tr>
<td>Student Loan Marketing Association</td>
<td>SLMA</td>
</tr>
<tr>
<td>Government National Mortgage Association</td>
<td>GNMA</td>
</tr>
<tr>
<td>Small Business Administration</td>
<td>SBA</td>
</tr>
<tr>
<td>Export-Import Bank of the United States</td>
<td>Ex-Im Bank</td>
</tr>
<tr>
<td>U.S. Maritime Administration</td>
<td>MARAD</td>
</tr>
<tr>
<td>U.S. Department of Housing and Urban Developments</td>
<td>HUD</td>
</tr>
<tr>
<td>Tennessee Valley Authority</td>
<td>TVA</td>
</tr>
</tbody>
</table>

3.7.4.2 Maximum Term: Five (5) Years

3.7.5 State of California and Local Agency Obligations (Government Code Sections 53601(a), (c), (e))

3.7.5.1 Such obligations must be rated A-1, P-1, or equivalent or better short term; or /A-, or equivalent or better long term, by an
Approved NRSRO. Public agency bonds issued for private purposes (industrial development bonds) are specifically excluded as permitted investments.

3.7.5.2 Maximum Term: Five (5) Years

3.7.6 Other States’ Obligations (Government Code Section 53601(d))

3.7.6.1 Other states’ obligations are permitted provided that:

3.7.6.1.1 Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California. However, ownership of out of state local agency bonds is not allowed.

3.7.6.1.2 Such obligations must be rated A-1, P-1, or equivalent or better short term; or A-/A3, or equivalent or better long term, by an Approved NRSRO.

3.7.6.2 Maximum Term: Five (5) Years

3.7.7 Bankers’ Acceptances (BA) (Government Code Section 53601(g))

3.7.7.1 These short term notes are sold at a discount, and are obligations of the drawer (the bank’s trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon Maturity if the drawer does not pay.

3.7.7.2 Eligible Bankers’ Acceptances are Bankers’ Acceptances that are eligible for purchase by the Federal Reserve System, and

3.7.7.3 Drawn on and accepted by a bank rated F1 or better by Fitch, or are rated A-1 for short-term deposits by Standard and Poor’s or P-1 for short-term deposits by Moody’s.

3.7.7.4 No more than five percent (5%) of L.A. Care’s investment funds may be invested in any one commercial bank.

3.7.7.5 Maximum Term: 180 days
3.7.8 Commercial Paper (Government Code Section 53601(h))

3.7.8.1 Commercial Paper is negotiable, although it is usually held to Maturity. The maximum Maturity is 270 days with most Commercial Paper issued for terms of less than 30 days.

3.7.8.2 Investments in Commercial Paper must be:

3.7.8.2.1 Rated A-1, or equivalent, or higher by an Approved NRSRO.

3.7.8.2.2 Issued by corporations rated A-3, or equivalent, or higher by an Approved NRSRO on long term debt, if any, and

3.7.8.2.3 Issued by U.S. corporations or non-U.S. corporations organized and operating within the United States and having total assets in excess of five hundred million dollars ($500,000,000).

3.7.8.2.4 Asset backed Commercial Paper issued by special purpose vehicles (structure investment vehicles) are prohibited.

3.7.8.3 L.A. Care’s investment funds may not be used to purchase more than ten percent (10%) of the outstanding Commercial Paper issued by any single issuer.

3.7.8.4 Maximum Term: 270 days

3.7.9 Negotiable Certificates of Deposit (CD) (Government Code Section 53601(i))

3.7.9.1 Negotiable Certificates of Deposit must be issued by a nationally or state chartered bank or savings association, state or federal credit unions or by a state-licensed branch of a foreign bank, which have been rated as F1 or better by Fitch, or rated as A-1 for short-term deposits by Standard & Poor’s or P-1 for short-term deposits by Moody’s. No investment shall be made in Negotiable Certificates of Deposit issued by a state or federal credit union if an Investment Official also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the Negotiable Certificates of Deposit.

3.7.9.2 Maximum Term: 270 days
3.7.10 Non-Negotiable Certificates of Deposit (CD) (Government Code Sections 53601.8 & 53635.8)

3.7.10.1 Investment funds managed by an external Investment Manager may not invest in Non-Negotiable Certificates of Deposit.

3.7.10.2 L.A. Care must choose a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution, and the funds shall be known as “Placement Service Deposits.”

3.7.10.3 The selected depository institution may submit the funds to a private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States, for the local agency's account.

3.7.10.4 The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

3.7.10.5 Maximum Term: Five (5) years

3.7.11 Repurchase Agreements (Government Code Section 53601(j))

3.7.11.1 Repurchase Agreements are permitted provided that:

3.7.11.1.1 The terms of the agreement do not exceed one year.

3.7.11.1.2 Repurchase Agreements are permitted if collateralized by U.S. Agencies or U.S. Treasuries with any registered broker-dealer or commercial bank insured by the FDIC so long as at the time of the investment:

3.7.11.1.2.1 Such registered broker-dealer is a recognized primary dealer, and

3.7.11.1.2.2 Such primary broker-dealer (or its parent) has an uninsured, unsecured and unguaranteed obligation rated A-1 short term or A long term, or equivalent or better by an Approved NRSRO.
3.7.11.2 A broker dealer master Repurchase Agreement must be signed by the Investment Manager (acting as “Agent”) and approved by the Investment Professional prior to entering into any repurchase transaction.

3.7.11.3 The securities are held free and clear of any lien by L.A. Care’s Custodian or Agent for the Custodian, and such third party is a:

3.7.11.3.1 Federal Reserve Bank, or

3.7.11.3.2 A bank which is a member of the Federal Deposit Insurance Corporation (FDIC) and which has a combined capital surplus and undivided profits of not less than $50 million and the Custodian shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as Agent for L.A. Care’s Custodian, and

3.7.11.3.3 A perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq., or 31 C.F.R 350.0 et seq. in such securities is created for the benefit of L.A. Care’s Custodian.

3.7.11.4 The Agent must provide L.A. Care’s Custodian and Investment Professionals with a valuation of the collateral securities value no less frequently than weekly and shall liquidate the collateral securities if any deficiency in the required one hundred and two percent (102%) collateral percentage is not restored within two business days of such valuation.

3.7.11.5 Maximum Term: One (1) year.

3.7.11.6 Reverse Repurchase Agreements are not allowed.

3.7.12 Medium Term Maturity Corporate Securities (Government Code Section 53601(k))

3.7.12.1 Medium Term Maturity Corporate Securities are corporate and depository institution debt securities with a maximum remaining maturity of five years (5) or less. Medium Term Maturity Corporate Securities must:
3.7.12.1.1 Be Corporate Securities that have a rating of A- or equivalent or better by an Approved NRSROs with a Maturity of five (5) years or less,

3.7.12.1.2 Be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or by any state and are operating within the United States that have total assets in excess of five hundred million dollars ($500,000,000),

3.7.12.1.3 Represent no more than five percent (5%) of the issue in the case of a specific public offering. This limitation does not apply to debt that is “continuously offered” in a mode similar to Commercial Paper. (i.e., medium term notes (MTN’s)), and

3.7.12.1.4 Represent no more than 5% of the portfolio for both MTN’s or any corporate security of any one corporate issuer.

3.7.12.2 Maximum Term: Five (5) years

3.7.13 Money Market and Mutual Funds (Government Code Section 53601(l))

3.7.13.1 Investments in shares of beneficial interest issued by diversified management companies (Money Market Funds or Mutual Funds) must be with a company that:

3.7.13.1.1 Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized rating services, or

3.7.13.1.2 If unrated, all funds must be invested 100% in government securities or securities backed by government collateral.

3.7.13.1.3 Any investments in a Mutual Fund must be with a Mutual Fund that invests in the securities and obligations authorized by Government Code Sections 53601(a) to (r), inclusive.

3.7.13.1.4 Any investments in a Money Market Fund must be with a Money Mutual Fund that follows regulations specified by the SEC under the Investment Company Act of 1940.

3.7.13.1.5 Not more than ten percent (10%) of L.A. Care’s investment funds may be invested in any one Mutual
Fund. However, Money Market Funds are not subject to a maximum investment limitation per fund.

3.7.14 Mortgage or Asset Backed Securities (Government Code Section 53601(o))

3.7.14.1 Though these securities may contain a third-party guarantee, they are a package of assets being sold by a trust, not a debt obligation of the sponsor. Other types of “backed” debt instruments have assets (such as leases or consumer receivables) pledged to support the debt service. However, Mortgage Backed Securities primarily backed by sub-prime collateral are not allowed.

3.7.14.2 Investments in any Mortgage Pass-Through Securities, collateralized Mortgage Obligations, Mortgage Backed or other pay through bond, equipment lease backed certificate, consumer receivable pass through certificate, or consumer receivable backed bonds must be:

3.7.14.2.1 Rated AA-, or its equivalent or better by an Approved NRSRO.

3.7.14.3 Maximum Term: Five (5) years

3.7.15 Variable and Floating Rate Securities

3.7.15.1 Variable and Floating Rate Securities are an appropriate investment when used to enhance yield and reduce risk. They should have the same stability, liquidity and quality as traditional market securities.

3.7.15.2 Variable and Floating Rate Securities with a final Maturity not to exceed five (5) years as described above, must utilize traditional Money Market asset indices such as U.S. Treasury Bills, Federal Funds, Commercial Paper or LIBOR. Investment in Floating Rate Securities whose reset is calculated using more than one of the above indices are not permitted, i.e., dual index notes.

3.7.15.3 No investments shall be made in inverse floaters, range notes, interest-only strips derived from mortgage pools, and securities that could result in zero-interest accrual if held to maturity. Zero-interest accruals mean the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level
below the face value are permissible because the value does increase.

3.7.15.4 Maximum term is determined by the underlying security type

3.7.16 Government Pooled Funds (Government Code Section 53601(p))

3.7.16.1 Investments are permitted in Government Pooled Funds including, but not limited to, County Pooled Investment Funds, Joint Powers Authority Pools, the Local Agency Investment Fund, and the Voluntary Investment Program Fund.

3.7.16.2 A Joint Powers Authority Pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years of experience investing in instruments authorized by Government Code Sections 53601(a) to (r).

3.7.16.3 Any investments in the Voluntary Investment Program Fund must be between $200 million and $10 billion dollars and must be approved by the Board of Governors.

3.7.16.4 For any investments in the Local Agency Investment Fund or County Pooled Investment Fund, the CFO may provide to the Board of Governors and the auditor the most recent statement or statements received from those institutions in lieu of the information otherwise required to be provided in the quarterly reports pursuant to Paragraph 6.2.

3.7.16.5 Maximum Term: Five (5) years (per Government Code Section 53601)

3.7.17 Supranational Obligations (Government Code Section 53601(q))

3.7.17.1 Certain supranational obligations are permitted provided that the obligations are:

3.7.17.1.1 U.S. Dollar denominated,

3.7.17.1.2 Senior Obligations,

3.7.17.1.3 Issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank,
3.7.17.1.4 Eligible for purchase and sale within the United States, and

3.7.17.1.5 Rated AA-, or equivalent or better by an Approved NRSRO.

### 3.7.18 Public bank debt and obligations (Government code section 53601(r))

#### 3.7.18.1 A public bank is as defined under section 2.23 of this policy and must be wholly owned by a local agency, local agencies, or a joint powers authority in California.

#### 3.7.18.2 Certain Public bank debt and obligations are permitted as follows:

**3.7.18.2.1 Medium Term Maturity Debt Securities.** Medium Term Maturity Securities must:

- **3.7.18.2.1.1** Be rated A- or equivalent or better by an Approved NRSROs with a Maturity of five (5) years or less,

- **3.7.18.2.1.2** Represent no more than five percent (5%) of the issue in the case of a specific public offering,

- **3.7.18.2.1.3** L.A. Care’s investment funds may not be used to purchase more than five percent (5%) of the outstanding debt securities issued by any single public bank issuer.

**3.7.18.2.2 Commercial Paper.** Investments in public bank Commercial Paper must be:

- **3.7.18.2.2.1** Rated A-1, or equivalent, or higher by an Approved NRSRO.

- **3.7.18.2.2.2** Issued by public banks rated A-3, or equivalent, or higher by an Approved NRSRO on long term debt, if any, and

- **3.7.18.2.2.3** L.A. Care’s investment funds may not be used to purchase more than ten percent (10%) of the outstanding Commercial Paper issued by any single public bank issuer.
3.7.18.2.2.4 Maximum Term: 270 days

3.7.18.3.19 Securities Lending

3.7.18.3.19.1 Securities lending is allowed but are subject to the conditions and restrictions in the California Government Code Sections 53601(j) and 53601(l).

3.7.19.3.20 Derivatives

3.7.19.3.20.1 Investments in derivative securities are not allowed, except as permitted by this Annual Investment Policy, including but not limited to, US Treasury STRIPS as discussed in Section 3.7.3.

3.8 Diversification Guidelines

3.8.1 Investment Security Diversification at the time of purchase:

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Maximum Portfolio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasuries, including STRIPS</td>
<td>100%</td>
</tr>
<tr>
<td>Federal Agencies, and US Government Enterprises</td>
<td>100%</td>
</tr>
<tr>
<td>State Obligations (CA and others) and CA Local Agency Obligations</td>
<td>25% 30%</td>
</tr>
<tr>
<td>Bankers Acceptances</td>
<td>40%</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>25%</td>
</tr>
<tr>
<td>Negotiable Certificates of Deposit</td>
<td>30%</td>
</tr>
<tr>
<td>Non-Negotiable Certificates of Deposit</td>
<td>100%</td>
</tr>
<tr>
<td>Placement Service Deposits</td>
<td>30%</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>100%</td>
</tr>
<tr>
<td>Medium Term Maturity Corporate Securities</td>
<td>30%</td>
</tr>
<tr>
<td>Money Market Funds and Mutual Funds Combined</td>
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</tr>
<tr>
<td>Mortgage and Asset Backed Securities</td>
<td>20%</td>
</tr>
<tr>
<td>Variable and Floating Rate Securities</td>
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</tr>
<tr>
<td>Government Pooled Funds</td>
<td>100%</td>
</tr>
<tr>
<td>Certain Supranational Obligations</td>
<td>30%</td>
</tr>
<tr>
<td>Public Bank Obligations</td>
<td>30%</td>
</tr>
</tbody>
</table>

* Maximum holding percentage is based on underlying security type limits listed.

3.8.2 Issuer / Counterparty Diversification Guidelines:
<table>
<thead>
<tr>
<th>Issuer / Counterparty</th>
<th>Maximum Portfolio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any one Federal Agency or Government Sponsored Enterprise</td>
<td>100%</td>
</tr>
<tr>
<td>Any one Repurchase Agreement counterparty name:</td>
<td></td>
</tr>
<tr>
<td>If Maturity / Term is less than or equal to 7 days</td>
<td>50%</td>
</tr>
<tr>
<td>If Maturity / Term is greater than 7 days</td>
<td>25%</td>
</tr>
</tbody>
</table>

3.8.3 For all other securities described under Authorized Investments that are permitted investments, no more than two percent (2%) of L.A. Care’s funds may be invested with any one company, corporation, bank, local agency, or other investment vehicle, unless otherwise stated.

3.8.4 L.A. Care’s CFO and Investment Manager(s) (if any) must review the portfolio he/she manages to ensure compliance with L.A. Care’s Diversification guidelines at the time of each purchase.

3.9 Leverage

3.9.1 The investment portfolio, or investment portfolios managed by an Investment Manager, cannot be used as collateral to obtain additional investment funds.

3.10 Underlying Nature of Investments

3.10.1 L.A. Care and its Investment Manager(s) shall not make investments in organizations which have a line business that is visibly in conflict with public health or the mission of L.A. Care.

3.10.2 L.A. Care and its Investment Manager(s) shall not make investments in Negotiable Certificates of Deposit of a state or federal credit union if a member of its Board or Executive Officers also serves on the Board of Governors of that credit union.

3.10.3 L.A. Care will provide the Investment Manager(s) with a list of corporations that do not comply with the Annual Investment Policy and shall notify its Investment Manager(s) of any changes.

3.10.4 Investment Manager(s) will not enter into any investments with any institutions with which the Investment Manager is affiliated.

3.11 Rating Downgrades

3.11.1 L.A. Care may from time to time be invested in a security whose rating is downgraded below the quality permitted in this Annual Investment Policy.
3.11.2 For any security, whose credit rating falls below the minimum required rating required as per the California Government Code and the Investment Policy, the CFO will make the decision whether to continue to hold the security. For all other security rating downgrades, the decision as to whether L.A. Care will continue to hold that security will be left to the Investment Manager.

3.12 Rating Guidelines

3.12.1 A security must be rated by one or more of the following Approved NRSROs: 1) Standard and Poor’s 2) Moody’s, or 3) Fitch Ratings. Unless specifically stated otherwise for a specific asset class, if a security is rated at different rating levels by two or more Approved NRSRO’s, the highest rating will apply.

3.12.2 All investments must adhere to rating requirements outlined under the sections authorizing their purchase under section 03.7.

3.12.3 Notwithstanding Section 3.7.16, L.A. Care may invest in Government Pooled Funds that invest only in high grade securities or obligations.

4.0 PROCEDURES:

4.1 Safekeeping and Delivery

4.1.1 Investments purchased shall be held by a Custodian bank acting as agent for L.A. Care and such custody agreement shall be in compliance with Government Code Section 53608.

4.1.2 All security transactions, including collateral for repurchase agreements, shall be conducted on a Delivery vs. Payment (DVP) basis. Any exception to this standard delivery practice, e.g., DVP failure necessitating delivery other than by simultaneous exchange, shall require written procedural approval by the CFO.

4.2 Authorized Financial Dealers and Institutions

4.2.1 In compliance with Government Code Section 53601.5, investment transactions initiated by or on behalf of L.A. Care may only be transacted with the following,

4.2.1.1 Banks and securities broker dealers designated as “Primary Dealers” defined by the Federal Reserve Bank of New York.
4.2.1.2 An institution licensed by the state as a broker dealer as defined in section 25004 of the California Corporations Code.

4.2.1.3 A member of a federally regulated securities exchange.

4.2.1.4 A national or State Chartered Bank.

4.2.1.5 A savings association or federal association as defined by section 5102 of the California Financial Code.

5.0 **MONITORING:**

5.1 **Board of Governors**

5.1.1 The CFO is responsible for providing the Board of Governors with an Annual Investment Policy, and the Board of Governors is responsible for adopting the Annual Investment Policy and ensuring investments are made in compliance with the AFS-008, Annual Investment Policy. Investments will be made in recognition of L.A. Care’s need to comply with tangible net equity (Title 28 California Code of Regulations Section 1300.76) and other solvency and financial reporting requirements set forth by the Department of Managed Health Care. This Annual Investment Policy shall be reviewed and approved annually by the Board of Governors at a public meeting pursuant to Section 53646(a) (2) of the California Government Code.

5.1.2 The CFO is responsible for directing L.A. Care’s investment program and for compliance with this policy pursuant to the delegation of authority to invest funds or to sell or exchange securities. The CFO shall provide a quarterly report to the Board of Governors. The CFO shall also provide the Board of Governors with a monthly report of investment transactions.

5.2 **Finance and Budget Committee**

5.2.1 Duties and responsibilities of the Finance and Budget Committee are distinct from those of the CFO as follows:

5.2.1.1 The CFO and staff are responsible for the day-to-day management of L.A. Care’s investment portfolio and the making of specific investments.

5.2.1.2 The Board of Governors is responsible for the Annual Investment Policy. The Finance and Budget Committee shall not make or direct L.A. Care management to make any particular investment, purchase any particular investment product, or do
business with any particular investment companies or brokers. It shall not be the purpose of the Finance and Budget Committee to provide advice to the CFO on particular investment decisions of L.A. Care.

### 5.2.2 The duties and responsibilities of the Finance and Budget Committee shall consist of the following:

- **5.2.2.1** Review of the Annual Investment Policy annually before its consideration by the Board of Governors and recommend revisions.
- **5.2.2.2** Review L.A. Care’s investment portfolio quarterly to confirm compliance with the Annual Investment Policy, including its diversification and maturity guidelines.
- **5.2.2.3** Provide comments to the CFO regarding potential investments and potential investment strategies.
- **5.2.2.4** Periodically review investment security diversification and investment strategies with Investment Manager(s).
- **5.2.2.5** Perform such additional duties and responsibilities as may be required from time to time by specific action and direction of the Board of Governors.

### 5.3 Internal Control and Audit

- **5.3.1** The CFO shall establish internal controls to provide reasonable assurance of compliance with the Annual Investment Policy and the California Government Code. The controls shall also be designed to prevent theft and misuse of funds.
- **5.3.2** Internal controls should include, but are not limited to:
  - **5.3.2.1** Segregation of duties (e.g., the purchaser of investments is different than the person recording the transaction),
  - **5.3.2.2** Reconciliation of investment report and cash balances, and
  - **5.3.2.3** Authorization of transactions.
- **5.3.3** To ensure compliance with the Annual Investment Policy, the investment portfolio holdings shall be reviewed monthly by the CFO and staff, and the portion of the investment portfolio that each investment Manager is responsible for shall be reviewed by the respective Investment Manager(s).
5.3.4 An independent review shall be performed on LA Care’s investment holdings on a quarterly basis. This review will provide internal control by assuring compliance with investment portfolio requirements established by the Annual Investment Policy.

5.3.5 Investment transactions of L.A. Care may be reviewed during the annual audit performed by the public accounting firm selected by the Audit Committee. The results of the audit of the investment transactions shall be presented in a report prepared by the auditors to the Audit Committee and the Board of Governors for their review, acceptance, and action as the Board of Governors deems necessary. A full audit of the investment of L.A. Care may be requested by the Finance and Budget Committee or Board of Governors at any time.

5.4 Performance Benchmarks

5.4.1 L.A. Care’s investment portfolio shall be designed to achieve a market-average rate of return through economic cycles similar to authorized investment instruments, which have similar security maturities and levels of risk.

5.4.2 The performance benchmarks for the investment portfolio will be based upon the market indices for short term investments of comparable risk and duration. These performance benchmarks will be agreed to by the CFO and the Investment Manager(s) and the relative performance of the investment portfolio will be reviewed with the Finance and Budget Committee quarterly.

6.0 REPORTING:

6.1 Monthly (Government Code Section 53607)

6.1.1 The CFO shall submit a monthly report of investment transactions to the Finance and Budget Committee as outlined under Government Code Section 53607.

6.2 Quarterly (Government Code Section 53646)

6.2.1 At a minimum, the CFO shall present a quarterly report with the following information to the Finance and Budget Committee:

   6.2.1.1 Type of investment;
   6.2.1.2 Issuer name;
6.2.1.3 Date of maturity;

6.2.1.4 Par amount;

6.2.1.5 Dollar amount invested in all securities and investments and monies held by L.A. Care;

6.2.1.6 A description of the funds, investments, and programs (including lending programs) managed by contracted parties (i.e., LAIF, investment pools, outside money managers, and securities lending agents);

6.2.1.7 Current market value as of the date of the report of all funds held by L.A. Care and under management of any outside party that is not also a local agency or LAIF and the source of the valuation;

6.2.1.8 A statement of compliance with the investment policy or an explanation for non-compliance; For funds that have been placed in a county investment pool, LAIF, or FDIC insured bank deposit, the CFO may substitute the most recent account statement received from those entities in lieu of the information on these investments that is otherwise required by Section 53646.

6.2.1.9 Return on investments on the total portfolio made by L.A. Care.
## Dates

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<th>Review Date</th>
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<tr>
<td>Committee Review Date</td>
<td>11/18/2019</td>
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## Lines of Business

- Cal MediConnect
- L.A. Care Covered
- L.A. Care Covered Direct
- MCLA
- PASC-SEIU Plan
- Internal Operations

## Delegated Entities / External Applicability

- PP – Mandated
- PP – Non-Mandated
- PPGs/IPA
- Hospitals
- Specialty Health Plans
- Directly Contracted Providers
- Ancillaries
- Other External Entities

## Accountability Matrix

-
-
-

## Attachments

- [ ]

## Electronically Approved by the Following

<table>
<thead>
<tr>
<th>Officer</th>
<th>Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAME</td>
<td></td>
</tr>
<tr>
<td>Marie Montgomery</td>
<td>Angela Bergman</td>
</tr>
<tr>
<td>DEPARTMENT</td>
<td></td>
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<tr>
<td>Finance Services</td>
<td>Accounting Services</td>
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<tr>
<td>TITLE</td>
<td></td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>Controller</td>
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TANGIBLE NET EQUITY AND WORKING CAPITAL RESERVE

AUTHORITIES

 Title 28, California Code of Regulations, Sections 1300.76 and 1300.84.3
 Health and Safety Code Sections 1340 and 1376

REFERENCES



HISTORY

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<th>REVISION DATE</th>
<th>DESCRIPTION OF REVISIONS</th>
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<td>Accounting and Financial Services AFS-025</td>
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<td>6/8/2012</td>
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<td>9/26/2018</td>
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<tr>
<td>10/28/2019</td>
<td>Annual review of Policy; revised format and wordings</td>
</tr>
<tr>
<td>10/28/2020</td>
<td>Annual review of Policy; revised format and wordings</td>
</tr>
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</table>

DEFINITIONS

Please visit the L.A. Care intranet for a comprehensive list of definitions used in policies:
http://insidelac/ourtoolsandresources/departmentpoliciesandprocedures
1.0 OVERVIEW:

1.1 L.A. Care Health Plan’s ("L.A. Care") policy is to establish, maintain, and utilize Tangible Net Equity ("TNE") funds for the benefit of L.A. Care's long-term financial solvency.

2.0 DEFINITIONS:

Whenever a word or term appears capitalized in this policy and procedure, the reader should refer to the “Definitions” below.

2.1 Tangible Net Equity ("TNE") "Tangible Net Equity" means net equity (excess of total assets over total liabilities excluding liabilities that have been subordinated in a manner acceptable to the Department of Managed Health Care) reduced by the value assigned to intangible assets including, but not limited to: goodwill; going concern value; organizational expense; starting-up costs; obligations of officers, directors, owners, or affiliates which are not fully secured, except short-term obligations of affiliates which are not fully secured, except short-term obligations of affiliates for goods or services arising in the normal course of business which are payable on the same terms as equivalent transactions with non-affiliates and which are not more than sixty (60) days past due; long term prepayments of deferred charges, and non-returnable deposits. An obligation is fully secured for the purposes of this subsection if it is secured by tangible collateral, other than by securities of the plan or an affiliate, with equity of at least one hundred and ten percent (110%) of the amount owing. [Rule 1300.76(ce)].

2.2 Board-Designated Funds — means reserves identified and accounted for in L.A. Care's financial records in order to meet expected future payments and other obligations designated by an official action of the L.A. Care Board of Governors (“Board”).

2.3 Liquid Assets — means accounts or securities that can be easily converted to cash at little or no loss of value. Examples of Liquid Assets include: cash, money in bank accounts, money markets mutual funds and U.S. treasury bills.

2.4 Solvency — means the degree to which the current assets of an organization exceed the current liabilities of the organization.

2.5 Undesignated Funds — means total revenues in excess of total expenses which are not designated for a specific use by the L.A. Care Board, or required to meet TNE requirements, or needed to meet Working Capital Reserve levels adopted by the L.A. Care Board.

2.6 Directly Contracted Providers — means health care providers who have contracted with L.A. Care to provide medical or administrative goods and services. This definition does not include health care service plans.
Please see the L.A. Care Intranet for the CMS Glossary of Terms for other definitions and acronyms that are designed mainly for the use of Medicare beneficiaries and the general public.

3.0 POLICY:

3.1 Maintaining appropriate levels of reserves is a fiscal responsibility of L.A. Care and required pursuant to L.A. Care's licensure as a Licensed Health Care Service Plan pursuant to the Knox-Keene Health Care Service Plan Act of 1975, as amended [Health & Safety Code Section 1340, et seq.] ("Act").

3.2 As required by the State of California Department of Managed Health Care ("DMHC"), L.A. Care shall maintain at all times the minimum TNE required by Section 1376 of the Act, calculated in accordance with Title 28 California Code of Regulations ("Rule[s]"), Section 1300.76. The TNE required by the Act and the Rules is a minimum required amount and is not considered by the DMHC as an appropriate or sufficient reserve amount.

4.0 PROCEDURES:

4.1 Board-Designated Reserve Funds Allocation: Prior to the end of each month, L.A. Care's Chief Financial Officer ("CFO"), Chief Executive Officer ("CEO") or Designee shall instruct the Controller or Designee to identify on the balance sheet a specified dollar amount for Board-Designated Funds. Said funds shall be consistent with either a Board approved motion or resolution, or a Board approved budget or expenditure.

4.2 The Calculation and Reservation of Tangible Net Equity Allocation: On a monthly basis, the calculation and reservation for the TNE will be reviewed by the CFO according to the Rules and, if required, adjusted as follows:

4.2.1 The calculation of TNE shall be according to Section 1300.76 of the Rules.

4.2.2 The reservation of TNE shall be according to Section 1300.84.3 of the Rules.

5.0 MONITORING:

5.1 Accounting and Finance department is responsible for ensuring that the TNE calculation is in accordance with regulatory requirements and that the presentation of TNE in the financial statements is accurate.

6.0 REPORTING:

6.1 When reporting L.A. Care's financial results, the CFO or Designee shall routinely update the Board as to the status of TNE and Board-Designated Reserve Funds. The status report shall be rendered on a quarterly basis, or more frequently as directed
by the Board. The accumulated reserves for each allocation, including TNE shall be shown on L.A. Care's balance sheet.
TRAVEL EXPENSES

DEPARTMENT | ACCOUNTING AND FINANCIAL SERVICES
Supersedes Policy Number(s) | 1900

DATES

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Review Date</th>
<th>Next Annual Review Date</th>
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<td>8/21/1997</td>
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Legal Review Date | Committee Review Date |
4/24/2019        | 11/18/2019    |
10/23/2020       | 10/26/2020    |

LINES OF BUSINESS

- Cal MediConnect
- PASC-SEIU Plan
- L.A. Care Covered
- Internal Operations
- L.A. Care Covered Direct
- MCLA

DELEGATED ENTITIES / EXTERNAL APPLICABILITY

- PP – Mandated
- PP – Non-Mandated
- Specialty Health Plans
- Directly Contracted Providers
- Specialty Health Plans
- Hospitals
- PPGs/IPA
- Ancillaries
- Other External Entities

ACCOUNTABILITY MATRIX

| Accounting | All sections |

ATTACHMENTS

- Electronically Approved By The Following

<table>
<thead>
<tr>
<th>NAME</th>
<th>OFFICER</th>
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</tr>
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<tbody>
<tr>
<td>Marie Montgomery</td>
<td>Finance Services</td>
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</table>
AUTHORITIES

- California Welfare & Institutions Code §14087.96 et seq.

REFERENCES

- AFS-004 “Non-Travel Expenses”
- AFS-006, “Authorization and Approval Limits”
- HR-122 “Transportation Incentive Allowance”
- HR-101 “Auto Allowance, Mileage Reimbursement, and Vehicle Damage Reimbursement”
- HR-122 “Transportation Incentive Allowance”
- HR-322 “Relocation Expenses”
- LS-006 “Gifts and Donations”
- http://www.gsa.gov/travel
- LS-006, “Gifts and Donations”
- AFS-004, “Non-Travel Expenses”
- HR-101 “Auto Allowance, Mileage Reimbursement, and Vehicle Damage Reimbursement”

HISTORY

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<td>05/07/2015</td>
<td>Revised to include language from AFS-004 (split into two policies)</td>
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<td>09/26/2018</td>
<td>Used latest policy template dated 2017-10-04; revised format and wordings</td>
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<td>10/28/2019</td>
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<td>Annual review of policy; no material changes made; revised wordings</td>
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DEFINITIONS

Please visit the L.A. Care intranet for a comprehensive list of definitions used in policies:
http://insidelac/ourtoolsandresources/departmentpoliciesandprocedures
1.0 OVERVIEW:

1.0 This policy establishes L.A. Care Health Plan’s (L.A. Care) policy for reimbursement of actual and necessary business-related travel expenses incurred by employees, members of the Board of Governors, Stakeholder Committees, and members of the Community Advisory Committees (CACs) on behalf of L.A. Care. Please refer to policy_AFS-004 “Non-Travel Expenses” for information on reimbursable non-travel-related expenses.

2.0 DEFINITIONS:

Whenever a word or term appears capitalized in this policy and procedure, the reader should refer to the “Definitions” below.

2.1 Designee(s): A “Designee” is someone who is designated by the authorized approver to approve on their behalf when the authorized approver is not available or wishes to delegate this authority. A list of all authorized designees will be kept in Accounts Payable department as an internal document maintained on a regular basis.

2.2 Please see the L.A. Care Intranet for the CMS Glossary of Terms for other definitions and acronyms that are designed mainly for the use of Medicare beneficiaries and the general public.

3.0 POLICY:

3.0 L.A. Care, as a public entity, has a fiduciary responsibility to utilize funds in a responsible and prudent manner. All employees, Board members, and Community Advisory Committees (CAC) members have a fiduciary role when requesting reimbursement for business-related expenditures, to provide adequate supporting documentation, rationale, and explanation for all reimbursable expenses.

3.1 L.A. Care will reimburse certain travel expenses, for employees, Board members, CAC members, and Stakeholder Committee members, when such expenses are covered under this policy and approved through the procedures in Section 43.0.

3.2 Reimbursable and Non-Reimbursable Travel Expenses

3.2.1 Travel and Training Budget

3.2.1.1 Travel expenses are reimbursable when incurred in connection with activities that are related to official L.A. Care business. All reasonable expenses, including the cost of transportation, lodging, and miscellaneous expenses for gratuities, transportation to and from airports, etc., incurred during an authorized trip are reimbursable as outlined herein and in Section 3.0.
3.2.1.2 Expenses of a personal nature, such as entertainment, movies, sightseeing, health club fees, etc., are not reimbursable.

3.2.2 Airlines

3.2.2.1 L.A. Care will reimburse acceptable air travel which is properly booked through L.A. Care’s authorized travel application in accordance with procedures listed in Section 3.0.

3.2.2.2 L.A. Care will not reimburse for the following charges, and the employee, Board member, CAC member, or Stakeholder Committee member will be held responsible for the charges:

3.2.2.2.1 Membership fees for private clubs, air travel clubs, airline-sponsored lounges, and frequent flier clubs.

3.2.2.2.2 The cost of any in-flight movies or other similar pay-per-view entertainment, or for any in-flight alcoholic drinks.

3.2.2.2.3 Upgrades considered to be solely for the convenience or comfort of the traveler without a valid business justification.

3.2.2.2.4 Any expenses due to the loss of your personal baggage.

3.2.2.2.5 Flying personal aircraft while on L.A. Care business is strictly prohibited.

3.2.2.2.6 Cost of kennel fees and/or house-sitters.

3.2.3 Out-of-Town Lodging

3.2.3.1 L.A. Care will reimburse for out-of-town lodging with appropriate approval in accordance with this policy and procedures listed in Section 3.0.

3.2.3.2 L.A. Care will not reimburse for:

3.2.3.2.1 Charges for guaranteed reservations that the employee, Board member, CAC member, or Stakeholder Committee member fails to timely cancel, unless caused by L.A. Care conflicts. (Obtain a confirmation number from the hotel verifying the cancellation of the guaranteed reservation).
3.2.3.2 Charges in-lieu of hotel accommodation when staying at the private residence of a friend, family member, etc.

3.2.3.2.2 Charges in-lieu of hotel accommodation when staying at the private residence of a friend, family member, etc.

3.2.3.2.3 The cost of alcoholic beverages, television movies, mini-bar charges, personal toiletry needs, newspapers, or other incidentals.

3.2.3.2.4 Costs incurred by a spouse, family member, or significant other who accompanies the employee, Board member, CAC member, or Stakeholder Committee member on the business trip.

3.2.4 Parking

3.2.4.1 Airport parking expenses incurred at the home airport are reimbursable. If parking is in excess of two days, reimbursement will be for long-term parking rates only. Employees, Board members, CAC members, and Stakeholder Committee members shall endeavor to obtain validated parking “stickers” from hosting locations whenever possible.

3.2.4.2 Parking fees incurred in attendance of business meetings at locations other than L.A. Care’s office are reimbursable.

3.2.5 Mileage

3.2.5.1 Mileage incurred in the use of a personal automobile while on L.A. Care business is reimbursable at the then-prevailing amounts allowed by the Internal Revenue Service (IRS). These rates are updated annually each January 1st, and will be utilized by L.A. Care as L.A. Care’s mileage reimbursement rate. Please refer to Section 3.0 for more information.

3.2.5.2 Examples of reimbursable mileage include:

3.2.5.2.1 Miles from home or office to airport and return (less base mileage).

3.2.5.2.2 Miles from office to assigned worksite(s) (and return), as in the case of field workers (auditors; UM nurses; case workers).

3.2.5.2.3 Miles from office to offsite business meeting location(s) (and return).

3.2.5.2.4 Mileage in-lieu of airfare, if driving instead of flying to a meeting.

3.2.5.2.5 Business mileage incurred on non-scheduled work days, and holidays.
3.2.6 Rental Cars

3.2.6.1 The cost of rental cars on out-of-town travel assignments will be reimbursed only with advance approval by the responsible officer in accordance with this policy. Please refer to Section 3.0 for more information.

3.2.7 Traffic/Parking Tickets

3.2.7.1 Automobile traffic and/or parking tickets are not reimbursable.

3.2.8 Taxis, Transportation Network Companies (TNCs) and Other Public Transportation

3.2.8.1 Out-of-Town Travel

Business-related taxis, TNCs (such as Uber or Lyft), train, and other public transportation costs while on out-of-town assignments or business are reimbursable, provided that a rental car has not been approved. However, employees, Board members, CAC members, and Stakeholder Committee members are discouraged from using taxis or TNCs unless necessary. Examples of trips where taxis and TNCs are appropriate are trips to/from terminals and hotels when guest transportation services are not conveniently available, or when transporting heavy work papers.

3.2.8.2 In-town Travel

While mileage is the preferred method of reimbursement for in-town travel, the costs of using taxis, TNC’s (such as Uber or Lyft), train and other public transportation for in-town travel may be reimbursed if the travel is separate from normal commuting or the requester does not have access to a car. A valid business justification must be provided.

3.2.8.2.1 The costs of using Taxis, TNCs, trains or other public transportation for in-town travel are not reimbursable for individuals receiving Auto Allowance per Policy HR-101.

3.2.8.2.2 The costs of using Taxis, TNCs and Public transportation for normal commuting to and from L.A. Care’s offices are not reimbursable.

3.2.9 Meals Related to Business Travel
3.2.9.1 L.A. Care reimburses employees, Board members, CAC members, and Stakeholder Committee members for actual reasonable costs incurred for out-of-town meals while traveling on L.A. Care business. Please refer to Section 3.0 for more information.

3.2.9.1.1 Out-of-town is defined as over 50 miles from home or L.A. Care’s office.

3.2.9.1.2 Expenses incurred when meals are provided by the conference are not reimbursable.

3.2.9.2 The purchase of alcoholic beverages with L.A. Care funds is prohibited.

3.2.9.3 Please refer to AFS-004, “Non-Travel Expenses” for more information on non-travel meals.
4.0 PROCEDURES:

4.1 Approval and Reimbursement Process
Prior to traveling, L.A. Care employees, Board members, CAC members, and Stakeholder Committee members must complete a travel authorization request and receive a Request ID Number. Employees wishing to be reimbursed for travel expenses can apply for applicable reimbursements by submitting Expense Reports through the Travel Reimbursement System (Concur).

4.1.1 PowerPoint instructions for using the Concur System are available on the L.A. Care intranet.


4.1.2 Travel Authorization Requests

4.1.2.1 Requests for reimbursement of airfare, hotel, and other expenses incurred beyond 50 miles from L.A. Care or home require a travel authorization request and shall be submitted on Concur and must be approved. No booking should be made until final approval is received from Finance Department. All employees must receive approval in advance for travel.

4.1.2.2 Travel authorizations grant approval to travel and are required for all business travel. Payment does not occur upon approval of travel authorizations. Reimbursements for expenses are processed after the travel upon approval of the Expense Report, unless the employee is approved for a Travel Advance.

4.1.2.3 The traveler will use their own resources for travel, including personal credit cards. Travelers who have a personal credit card, but are unable to pay for the entire cost of approved travel up front may request a Travel Advance. Employees who are required to travel but are unable to use personal resources may apply for use of L.A. Care Procurement card for hotel and rental cars only through the Procurement-Accounts Payable Department. (See section 4.3.4 for details).

4.1.2.4 Approval. The request is to be completed in full and approved by the employee’s director, or senior director. Following this intermediate approval, each request is then forwarded to the responsible officer and Chief Financial officer (“CFO”) or Designee for final approval. The travel authorization requests will be assigned a travel authorization number (Request ID Number) for tracking purposes. The Request ID Number is then matched to invoices for direct payment, and/or used as supporting documentation for Expense Report reimbursement.
4.1.2.5 If travel expenses are incurred without pre-approval due to extenuating circumstances, the requestor must provide an explanation of the circumstances and submit the request and appropriate documentation for retroactive approval in Concur. CFO or designee approval will be required to process all reimbursements with retroactive approvals.

4.1.2.6 All international Travel Requests must be approved and authorized by Chief Executive officer (“CEO”).

4.1.2.7 Officers and Executive Directors are exempt from attaining a Travel Authorization while traveling within California.

4.1.2.8 In-Town travels are travels less than 50 miles from the L.A. Care or home.

4.1.3 Expense Reports

4.1.3.1 Requests for reimbursement of expenses shall be submitted through Expense Reports in Concur.

4.1.3.2 Only Expense Reports with direct manager’s or director’s electronic approval will be processed and approved in accordance with Authorizations and Approvals policy (AFS-006).

4.1.3.3 Expense Report approvals for employees must be executed by direct managers and above.

4.1.3.4 No employee may approve his or her own Expense Report.

4.1.3.5 Expense Reports of the CEO shall be reviewed and approved by the CFO, or Designee, and Chair of the Board.

4.1.3.6 Expense report approvals for members of the Board of Governors and Community Advisory Committees (CAC) shall be reviewed and approved by the CFO and CEO or their respective Designees.

4.1.3.7 Expense report approvals for members of Stakeholder Committees shall be reviewed and approved by the CFO and CEO or their respective Designees.

4.1.3.8 The Expense Report information must be filled out completely, including business purpose and location of expense/meeting and participant names and affiliations.

4.1.3.9 Expense Reports are required to be submitted monthly, although there is an additional 30 day grace period for late submissions.
4.1.3.10 Expense Reports submitted after 60 calendar days will not be honored unless approved by the CFO or Designee.

4.1.3.11 Documentation Requirements:

4.1.3.11.1 Images of all required receipts should be uploaded into the electronic expense report for reimbursable expenses in excess of $25.

4.1.3.11.2 Receipts must demonstrate proof of payment.

4.1.3.11.3 See section 4.2.6.1.5 and 4.2.6.1.6 for information on when travelers will be reimbursed at Per Diem rates and receipts will not be required.

4.1.3.11.4 All reimbursable expenditures must be fully documented and supported on the Expense Report in conformity with IRS Guidelines and L.A. Care policy.

4.1.3.11.5 If receipts cannot be obtained or have been lost, a statement to that effect shall be made on the Expense Report, along with an appropriate explanation. In the absence of a satisfactory explanation, the amount involved shall not be allowed.

4.1.3.11.6 The business purpose of the expenditure, including applicable names, titles, etc., must be provided in all cases.

4.1.3.11.6.1 Providing initials instead of the name is insufficient.

4.1.3.11.6.2 If required receipts and/or required documentation of the business purpose are not provided, the expense will not be reimbursed.

4.1.3.11.6.3 All requests for reimbursement are subject to reasonability. The CFO or Designee shall make the final determination on disputed expenses.

4.1.3.11.7 An itemized statement for hotel, meal and rental car charges must be attached.
4.2 Specialized Travel Expenses

4.2.1 Airlines

4.2.1.1 All L.A. Care employees, Board members, CAC members, and Stakeholder Committee members must use Concur to book air travel for L.A. Care business.

4.2.1.1.1 Exception for extenuating circumstances. Airfare may be purchased outside of Concur only if prior approval is obtained from the CFO or Designee. In such cases, the purchaser will only be reimbursed for economy class accommodations.

4.2.1.2 Airfare purchased through the Cal-Travel Store without an approved Travel Authorization in Concur will require Business Justification and CFO approval for extenuating circumstances.

4.2.1.3 If the airfare is not purchased through Concur, then the purchaser must include an image of the receipt portion of the boarding pass for reimbursement. If using E-tickets, the employee, Board member, CAC member, or Stakeholder Committee member must request a passenger receipt when checking in at the ticket counter.

4.2.1.2 Frequent Flyer Benefits. Employees, Board members, CAC members, and Stakeholder Committee members may earn personal frequent flyer credit for flights taken on L.A. Care business. However, employees, Board members, CAC members, and Stakeholder Committee members may not incur abnormal travel time or incur any additional expenses for the purpose of acquiring frequent flyer mileage. Employees, Board members, CAC members, and Stakeholder Committee members may not specify that an airline reservation must be made with a specific airline to gain frequent flyer credits.

4.2.2 Out-Of-Town Lodging

4.2.2.1 Out-of-town lodging is defined as lodging located over 50 miles from L.A. Care’s office or home. Lodging within 50 miles from L.A. Care’s office or home is considered as In-Town travels and is only reimbursable for multi-day conferences.

4.2.2.2 All hotel stays require an approved travel authorization request.
4.2.2.3 Hotels are to be booked by the traveler through Concur, and the reservation will be held by the L.A. Care Purchasing Card. Employees will then use their personal credit card to pay for the hotel upon arrival, and request reimbursement through Concur. If a personal credit card is not available, refer to section 4.3 for Travel Advances.

4.2.2.4 With advance approval by the CFO or Designee, L.A. Care will reimburse employees, Board members, CAC members, or Stakeholder Committee members for hotel and meal charges if early check-ins or staying over an extra day to save on airfare. (e.g., L.A. Care will reimburse for reasonable hotel, parking, meal expenses if arriving early at the work location to receive a discount “Saturday stay-over” airline rate.) This policy is designed to be a net benefit to both the individual and L.A. Care. If the cost of the hotel, parking, and meal expenses exceeds the savings on the Saturday stay-over, then the excess becomes a personal cost and is not subject to reimbursement.

4.2.2.5 The hotel folio must be attached to the Expense Report and the bill must be itemized on the Expense Report (e.g., business-related telephone calls, meals, and parking separated from the room charges).

4.2.2.5.1 Credit card receipts are not acceptable documentation for hotel expenses.

4.2.2.5.2 Personal items must be identified (movies, mini-bar, personal phone calls, etc.) and excluded from the reimbursement request.

4.2.2.5.3 Meal expenses reflected on the hotel bill must be claimed separately as part of meal expense and not part of the hotel expense. (See section 3.2.6 for details).

4.2.2.5.4 The hotel bill must show the name of the hotel, location of the hotel, date(s) registered at the hotel, room charges, and applicable taxes, laundry (reimbursable only if the stay exceeds four nights), telephone charges, and other charges (such as parking).

4.2.2.6 Hotel rates must be a reasonable amount based on the standards identified by Concur for the travel destination. Travelers should seek lodging rates at or below the federal government’s Per Diem rate, found on the U.S. General Services Administration Website, www.gsa.gov. If these rates are not available, a hotel’s discounted government rate will be acceptable.
4.2.2.7 If neither GSA nor government rates are available, additional justification should be provided. Exceptions to these maximum standards must be authorized by the CFO or Designee.

4.2.3 In-Town Lodging

4.2.3.1 Lodging within 50 miles from L.A. Care’s office or home is considered as In-Town travels. In-Town Lodging is only reimbursable for multi-day conferences with prior approved Travel Authorization. Refer to section 3.2.2 for document requirements.

4.2.3.2 L.A. Care employees, Board members, CAC members, and Stakeholder Committee members attending a conference are allowed to stay at the host hotel, even if it exceeds the average hotel cost.

4.2.3.3 L.A. Care employees, Board members, CAC members, and Stakeholder Committee members may be reimbursed for their Local Business Travel (In-Town) expenses when attending a conference.

4.2.4 Mileage

4.2.4.1 When departing from or returning to home directly from a business meeting, the amount of reimbursement will be computed by indicating the number of business miles driven less base mileage (home to office, round trip), times the allowable IRS mileage rate. Documentation of the mileage traveled and base mileage must be electronically completed and submitted by the employee.

4.2.4.2 In order to obtain reimbursement for mileage, the business purpose for the trip must be stated on the Expense Report. In case of multiple employees, Board members or CAC members sharing a personal automobile, only the employee, Board member, CAC member, or Stakeholder Committee member incurring the usage cost, is allowed reimbursement.

4.2.4.3 Mileage reimbursement applies only to the use of an employee’s, Board member’s, CAC member’s or Stakeholder Committee member’s personal vehicle and not for any form of public transportation.

4.2.4.4 If the employee normally uses public transportation to commute to work, L.A. Care will not reimburse unused commuter fares if his/her personal auto is used for business.

4.2.4.5 All mileage reimbursements will deduct the mileage between the home and office of an employee’s normal commute if they were to
have driven, regardless of if the employee actually drives to the office on a regular basis.

4.2.4.6 Mileage incurred while receiving a Transportation Allowance is not reimbursable.

4.2.4.7 Mileage to attend volunteer activities is not reimbursable.

4.2.4.8 Travelers who use their personal vehicle on L.A. Care business are required to have adequate insurance coverage as required by state law.

4.2.4.9 L.A. Care shall compensate property damages to an individual’s personal vehicle that occur during business travel when the individual is not at fault. L.A. Care will compensate up to $250 or the amount of the deductible on the individual’s insurance policy, whichever is the lesser amount, for each accident.

4.2.4.10 L.A. Care shall not reimburse mileage for an employee’s standard commute to work. A transportation incentive will be provided to eligible employees. Please refer to policy HR-122 “Transportation Allowance” for more information.

4.2.5 Rental Cars

4.2.5.1 If the rental car is used for business purposes, the employee, Board member, CAC member, or Stakeholder Committee member must purchase and will be reimbursed for the optional collision coverage and/or optional personal liability coverage offered by the rental car company.

4.2.5.2 If available, rental car companies should be selected from those listed in the Travel Reimbursement System to achieve the best rates possible.

4.2.5.3 When renting a car for business purposes, luxury and specialty car models are not authorized.

4.2.5.4 Economy Class vehicles should be selected whenever four or fewer individuals, including the driver, will be traveling in the rental automobile at any one time.

4.2.5.5 Mid-size Class vehicles may be selected in the event that more than four individuals will be riding in the rental automobile at any one time, or in the event that an economy class vehicle is not available and immediate departure is necessary.
4.2.5.6 If the rental car is used for business purposes, the employee, Board member, CAC member, or Stakeholder Committee member will be reimbursed for the additional expense of a Global Positioning System (GPS).

4.2.5.7 Whenever possible, an effort should be made to return the rental car with a full tank of gas and refueling options are to be declined from the rental agency.

4.2.5.8 Mileage will not be reimbursed for employees who opt to use a rental car rather than their personal vehicle. Receipts may be submitted for gas expense reimbursement through Concur.

4.2.6 Meals Related to Business Travel

4.2.6.1 For single day travel or In-Town travels, where the work day will extend beyond normal business hours, Meal reimbursement amount will be based on receipts of the actual costs of meals related to business travel with a maximum reimbursement not to exceed the Federal Daily (M& IE) GSA Per Diem limits.

4.2.6.1.1 Itemized receipts and appropriate explanations are required for all meals on single day travel, regardless of the amount.

4.2.6.1.2 Gratuities should be reasonable and not exceed 20% of the total bill, unless restaurant minimum charges/ restrictions are in place, in which case these circumstances must be documented.

4.2.6.1.3 The Expense Report should include employee names if the meal was for more than one individual. The employees in attendance should all have approved travel authorizations.

4.2.6.1.4 For meals not pertaining to travel, please follow the processes set forth in the Non-Travel Expense Policy AFS-004.

4.2.6.1.5 For multi-day travel, L.A. Care employees, Board members, CAC members, and Stakeholder Committee members will be reimbursed at the Federal Daily Per Diem (www.gsa.gov/perdiem) maximum allowable amount for meals expenses. Receipts will not be required in the Expense Reports for these meals to be reimbursed at Per Diem rate. In accordance with the GSA guidelines, the meal expenses for first and last day of the travel is allowed at a rate of 75 % of the Federal Daily Per Diem.
4.2.6.1.6 In lieu of Per Diem, receipts may be submitted for reimbursement less than Per Diem limits.

4.2.6.1.7 Receipts for meals which exceed GSA Per Diem limits will be reimbursed only at Per Diem limits.

4.3 Advances for Travel

4.3.1 L.A. Care employees should utilize their own financial resources (e.g., credit card) for authorized travel, meetings, conferences, etc., and obtain reimbursement after the event in accordance with this policy.

4.3.2 In cases where funding the entire cost of the travel from personal means is not feasible, employees may request a Travel Advance up to the amount requested in the Approved Travel Authorization.

4.3.3 Travel Advances may be used to cover the cost of reasonable travel expenses including lodging, meals and other expenses.

4.3.4 In cases where no personal credit card is available, arrangements can be made to have L.A. Care pay hotel costs in advance through the company Procurement Card. A check request should be submitted to the accounts payable department with the request.

4.3.5 The cost of airfare and a rental Car should be excluded from Travel Advance requests as the preferred method is to select the Enterprise Rental Car option for corporate account billing. Airfare booked through Concur upon authority of Approved Travel Authorization will be charged to the corporate Procurement card.

4.3.6 To receive an advance for travel, the employee should fill out an Advance Request in Concur and receive approval from the Controller or Designee.

4.3.7 Prior to travel, when requesting a Travel Advance, employees must complete the following steps:

4.3.7.1 Request and receive an approved Travel Authorization from Concur one month before the Travel date.

4.3.7.2 Travel Advance is not available for requests without a 30 days advance notice.

4.3.7.3 Complete the Travel Advance Request through Concur.

4.3.7.4 Receive approval for the Travel Advance from the Controller or Designee.
4.3.8 The receipts and unused cash from the Travel Advance must be returned to L.A. Care as an Expense Reimbursement Request within 30 days of the conclusion of the travel. Reconciliation Expense Forms and cash not returned within 60 days will be taxed as wages per IRS Guidelines.

4.4 Special Considerations

4.4.1 The purchase of any capitalized assets, small equipment, furniture, etc., by employees will not be reimbursed by L.A. Care.

4.4.2 Conferences, seminars, training for development and continuing education travel, which is travel to and from continuing education courses, is reimbursable for employees only if pre-approved by the responsible manager and officer.

4.4.3 The cost of the seminar or conference should be included in the travel authorization, but the payment can be processed through standard Procurement processes outside of Concur.

4.5 Pre-Employment Travel

4.5.1 The Talent Acquisition department may request approval to reimburse travel expenses associated with recruiting (e.g. airfare for a candidate) by initiating a travel authorization in Concur.

4.5.2 The Human Resources Department must approve all receipts, which will be subject to the requirements set forth in this policy.

4.5.3 Once all approvals have been obtained, the Talent Acquisition department will submit a Check Request form, approved by the Human Resources Department, to Finance so that a reimbursement can be made to the candidate.

4.5.4 This policy provides guidelines on expense reimbursements for recruiting travel and pre-employment travel. Refer to policy HR-322449, “Relocation Expenses” for guidelines on mileage and other expense reimbursements associated with relocation.

4.5.5 Employees who work remotely will be reimbursed according to their signed agreement with Human Resources Department.

4.6 Travel Paid for by Third Parties

4.6.1 All L.A. Care employees, Board and CAC members who have been offered and/or considering accepting a payment or reimbursement for travel, lodging/hotel, meals or conferences from a third party must consult with General Legal Services Unit of Legal Services Department prior to accepting such payments. General Legal Services Department can provide guidance on whether acceptance of such payments is permissible under applicable laws and
policies relating to gifts. Please also refer to policy LS-006 “Gifts and Donations”.

4.6.2 If traveling under a contract with third party, the contract should be affixed to all reimbursement requests and provided to L.A. Care.

5.0 **MONITORING:**

5.1 The Business Unit Manager or Designee is responsible for ensuring that all expenses are processed timely and coded correctly.

6.0 **REPORTING:**

6.1 Variance reports between actual versus budgeted costs will be provided to Business Unit Managers on a monthly basis. Expenditures for expenses covered under this policy will be reported to the Board of Governors on a quarterly and annual basis.
ANNUAL BUDGETS AND BOARD OF GOVERNORS’ FINANCIAL OVERSIGHT

DEPARTMENT | FINANCE SERVICES
Supersedes Policy Number(s) | 2100

DATES

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LINES OF BUSINESS

- Cal MediConnect
- L.A. Care Covered
- L.A. Care Covered Direct
- MCLA
- PASC-SEIU Plan
- Internal Operations

DELEGATED ENTITIES / EXTERNAL APPLICABILITY

- PP – Mandated
- PP – Non-Mandated
- PPGs/IPA
- Hospitals
- Specialty Health Plans
- Directly Contracted Providers
- Ancillaries
- Other External Entities

ACCOUNTABILITY MATRIX

ATTACHMENTS

ELECTRONICALLY APPROVED BY THE FOLLOWING

<table>
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<tr>
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<tr>
<td>NAME</td>
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<td>Marie Montgomery</td>
<td>Angela Bergman</td>
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AUTHORITIES

- Government Accounting Standards Board (GASB) Codification Section P80 “Proprietary Fund Accounting and Financial Reporting”
- Government Accounting Standards Board (GASB) Codification Section 1800.141 “Reporting Restrictions in Proprietary Funds”
- Financial Accounting Standards Board (FASB) “Accounting Standards Codification (ASC)”
- Generally Accepted Accounting Principles (GAAP)

REFERENCES

- Enter all references, including policies and procedures, here.

HISTORY

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DEFINITIONS

Please visit the L.A. Care intranet for a comprehensive list of definitions used in policies: http://insidelac/ourtoolsandresources/departmentpoliciesandprocedures

2 of 7
1.0 OVERVIEW:

1.1 To insure the financial viability of L.A. Care Health Plan (L.A. Care), to charge the Board of Governors with the responsibility for the oversight of funds expended, and to provide the L.A. Care staff authorization to expend monies for budgeted and planned operational activities. To establish a process for the L.A. Care Chief Executive Officer (CEO), Chief Financial Officer (CFO) and finance staff to prepare the annual budget for review and approval by the Board of Governors. The approved budget will authorize the L.A. Care staff to expend funds included and planned in the budget in accordance with established L.A. Care policies and procedures.

2.0 DEFINITIONS:

2.1 Please see the L.A. Care Intranet for the CMS Glossary of Terms for other definitions and acronyms that are designed mainly for the use of Medicare beneficiaries and the general public.

3.0 POLICY:

3.1 To insure the financial viability of the L.A. Care, the Board of Governors is charged with the responsibility for the oversight of funds expended, and provides the L.A. Care staff the authorization to expend monies for budgeted and planned operational activities.

4.0 PROCEDURES:

IMPLEMENTATION GUIDELINES:

4.1 Budget Preparation:

4.1.1 Planning: At the direction of the CEO and the CFO, the L.A. Care finance staff will prepare an annual budget. Appropriate planning and forecasting will be incorporated into the budget process. The budget and planning process will incorporate:

4.1.1.1 Regulatory required activities,

4.1.1.2 Board of Governors organizational financial goals and objectives,

4.1.1.3 Expenditure forecasting and inflation consideration,

4.1.1.4 Enrollment forecasts and revenue growth projections by segments,
4.1.4 Healthcare Expense projections by segments,

   Capital resource requirements,

   Outsourcing efficiency opportunities,

4.1.5 Plan Partner oversight responsibilities,

4.1.6 Quality improvement and oversight responsibilities,

4.1.5 Administrative Expense projections for departmental functions and operational needs,

4.1.6 Capital resource requirements,

4.1.7 Outsourcing efficiency opportunities,

4.1.8 State, federal, local and internal reporting requirements,

4.1.9 Public Communication and member outreach,

4.1.10 Contingencies and reserve requirements.

4.1.2 Budget Detail and Schedules: The budget will be prepared by the L.A. Care Finance Department in sufficient detail so that planned expenditures will reflect projected operational activities, expected transactions, and specific departmental functions. The preliminary budget assumptions will be delivered to the Finance & Budget Committee, a committee of the Board of Governors, in August for comments and suggestions and to the Board for approval at the September meeting. The budget will at a minimum include the following schedules:

4.1.2.1 Projected balance sheet

4.1.2.2 Forecast cash flow statement

4.1.2.3 Financial statement of revenues and expenses

4.1.2.4 Enrollment projections by segments

4.1.2.5 Expenses by natural classification

4.1.2.6 Capital expenditures and proposed projects

4.1.2.7 Staffing and total cost of labor

4.1.2.8 Discussion of budget assumptions
4.2  Budget Review and Approval Process

4.2.1 Board Committee and Advisory Committee Input: Appropriate sections of the budget will be reviewed with relevant Board Committees and Advisory Committees as communicated through Board member representatives for their input and counsel. Recommendations will be incorporated into the budget as appropriate.

4.2.2 Finance & Budget Committee Review: The preliminary budget assumptions and budget will be presented to the Finance & Budget Committee for its review and approval in August, or as soon thereafter as practicable.

4.2.3 Board of Governors Review and Approval: Upon approval by the Finance & Budget Committee, the Committee Chairperson will present the budget to the Board of Governors for their review and approval. Upon Board approval, L.A. Care’s finance staff will incorporate Board recommendations into the final budget.

4.2.4 Staff Authority to Expend Funds: Board of Governors’ approval of the budget will authorize the CEO, CFO and L.A. Care staff to expend monies budgeted and planned on behalf of L.A. Care. All expenditures will be made in accordance with established L.A. Care financial and operational policies and procedures.

4.2.5 Policy, Procedure and Financial Safeguards

4.2.5.1 L.A. Care staff will develop and present to the Board of Governors policies and procedures which will include safeguards to insure that L.A. Care funds are expended effectively, efficiently and with Board approval. A Summary of Significant Accounting Policies and procedures will be included in the Notes to the Combined Financial Statements as appropriate. The Board will be involved in decisions regarding material cash transactions, significant non-budgeted expenditures, internal control procedures and capital purchases in excess of established amounts.

4.2.5.2 Policies will be adopted in the following areas:

4.2.5.2.1 Accounts Payable, disbursements and related areas

4.2.5.2.2 Procurement and purchase authorization limits

4.2.5.2.3 Banking, cash, and check signing limits
4.2.5.2.4 Payroll and human resources

4.2.5.2.5 Financial Statement preparation and supporting documentation

4.2.5.2.6 Investments and cash management

4.2.5.2.7 Revenue recognition and recording

4.2.5.2.8 Fixed asset acquisition and control

5.0 **MONITORING:**

5.1 Annual Audit

5.1.1 Annually, the books and records supporting the Financial Statements of the L.A. Care will be examined and analyzed by a public accounting firm whose selection will have been previously approved by the Audit Committee a committee of the Board of Governors, and the Board. Prior to commencement of the audit, the Audit Committee will meet with the appointed auditors to discuss scope of work to be performed. The results of the annual audit and accompanying reports of the auditors will be presented by the auditors to the Audit Committee, a committee of the Board of Governors, for review and acceptance.

5.1.2 L.A. Care’s finance staff will prepare a response and action plan to implement the operational findings and recommendations of the auditors. Prior to submitting the action plan to the Board, the audit findings will be reviewed with the Audit and Finance & Budget Committees.

5.1.3 Subsequent to the Audit Committee review, the audited Financial Statements and accompanying reports of the auditors will be presented to the full Board of Governors for their review and action as required.

5.1.4 The action plan will be presented to the Board of Governors for their review, input, revision and approval.

6.0 **REPORTING:**

6.1 Board of Governors and Finance & Budget Committee Oversight

6.1.1 L.A. Care financial transactions and operational activities will be subject to the Board of Governors oversight on a regular basis as follows:
6.1.1.1 Monthly Financial Statements – Finance & Budget Committee and Board Review.

6.1.1.1.1 The Finance & Budget Committee, a committee of the Board of Governors, will review detailed monthly Financial Statements prepared by the L.A. Care finance staff.

6.1.1.2 Financial Statements should properly reflect the operational activities, financial status and transactions of the organization.

6.1.1.3 Financial statements will be prepared according to Generally Accepted Accounting Principles (GAAP), Government Accounting Standards Board (GASB) where applicable and Financial Accounting Standards Board (FASB) “Accounting Standards Codification (ASC).”

6.1.2 Monthly and year-to-date The CFO will present the Financial Statements to the Finance & Budget Committee and the Board of Governors according to the approved Board schedule or as directed by the Board and/or the CEO, expenditure variances as compared to budget will be adequately explained by L.A. Care staff.

6.1.2.1 Monthly, L.A. Care’s finance staff will present Financial Statements to the Board of Governors for their review.
Date: October 26, 2020

Committee: Finance & Budget

Chairperson: Robert H. Curry

Issue: To authorize spending with the following vendors; Cognizant, Infosys, and HCL for professional services to support various Information Technology projects through 09/30/21.

☐ New Contract  ☒ Amendment  ☐ Sole Source  ☒ RFP/RFQ was conducted

Background: In June 2015 the Board of Governors approved motion FIN 107.0615 authorizing staff to negotiate contracts with Cognizant, Infosys, and HCL, following a competitive bidding process. L.A. Care requests approval to amend the contracts with the three vendors listed above in an amount not to exceed $3,750,000 (capital and operating expense inclusive) through September 30, 2021. These vendors will provide development, reporting, and support services for the FY20-21 IT Strategic Projects.

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Estimated Contract Totals</th>
<th>Total Estimated Contracts Not to Exceed</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCL</td>
<td>$669,518</td>
<td>$1,732,181</td>
</tr>
<tr>
<td>Infosys</td>
<td>$1,651,633</td>
<td>$3,113,017</td>
</tr>
<tr>
<td>Cognizant</td>
<td>$1,428,848</td>
<td>$2,636,848</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,750,000</strong></td>
<td><strong>$7,482,047</strong></td>
</tr>
</tbody>
</table>

Member Impact: The services purchased under these contracts will directly support L.A. Care’s strategic initiatives, which will result in better and more efficient services to all members.

Budget Impact: The cost of these agreements was anticipated and are included in the approved Information Technology Department budget for FY 2020-21.

**Motion:** To authorize additional spending with the following vendors: Cognizant, HCL, and Infosys, in an amount not to exceed $3,750,000, total contracts not to exceed $7,482,047, for consulting expenditures through September 30, 2021.
Date: October 26, 2020

Motion No. FIN 102.1120

Committee: Finance & Budget

Chairperson: Robert H. Curry

Issue: Approval of funds to establish a new Telecommunications Service Agreement with CenturyLink/Lumen Technologies.

☒ New Contract ☐ Amendment ☒ Sole Source ☐ RFP/RFQ was conducted

Background: CenturyLink (Recently rebranded to Lumen Technologies) provides Multiprotocol Label Switching (MPLS), Internet, and Phone services for all L.A. Care locations, including Community Resource Centers. These services allow for the secure transfer of data and communication between L.A. Care and its members, providers, and business partners. After conducting an assessment of these services, IT staff, alongside Procurement, are negotiating a new agreement that will help align existing services (Internet, MPLS, Voice Over Internet (VOIP)) and reduce overall annual cost.

L.A. Care staff requests approval to execute a contract with CenturyLink/Lumen Technologies for a 3-year term in an amount not to exceed $3,500,000. Vendor will continue to provide Telecommunication Services at a fixed rate for the next 3 years. L.A. Care requires these services to ensure business continuity.

No request for proposal was conducted as CenturyLink/Lumen Technologies is a preferred vendor that’s already providing services for L.A. Care. The new agreement is intended to replace and consolidate existing agreements that are outdated. There are currently several orders/service agreements with different term dates that have ended their initial term, and are now on a month-to-month service basis. The new agreement will re-align current service orders under one main term for the next 3 years.

Currently, L.A. Care spends approximately $1.4 million annually combined for these services. Under the new agreement, total annual cost will be reduced to an estimated combined amount of $1.1 million (negotiations are still taking place) saving the company approximately $330,000 yearly or $990,000 over the next 3 years.

Member Impact: The services under this agreement ensures that Members have a means of communication with L.A. Care as well as access to Health Plan information.

Budget Impact: The cost was anticipated and included in the approved budget under the Information Technology Department for FY2020-21. We will budget the balance in future fiscal years.

Motion: To authorize staff to execute a contract in an amount not to exceed $3,500,000 with CenturyLink/Lumen Technologies to provide Telecommunication Services for a 3-year term.
**Board of Governors**

**MOTION SUMMARY**

**Date:** October 26, 2020  
**Motion No.** FIN 103.1120

**Committee:** Finance & Budget  
**Chairperson:** Robert H. Curry

**Issue:** Amend a contract with Healthx, Inc. (Healthx) to provide member and provider portal hosting services.

- New Contract  
- Amendment  
- Sole Source  
- RFP/RFQ was conducted in 2014-2015

**Background:** In February 2015, the Board of Governors approved motion (FIN 109.0215) authorizing staff to contract with one or more existing key vendors for L.A. Care’s Member and Provider Portal Strategic implementation services. L.A. Care had conducted a competitive request for proposal (RFP) process in 2014-2015 and selected Healthx as the vendor of choice given its proven expertise, health plan experience, and fit with L.A. Care’s strategic goals.

L.A. Care staff is now requesting to amend a contract with Healthx, extending its term through September of 2023, in the amount of $3,509,572 to continue to provide hosted services including:

- Member portal
- Member portal Healthx mobile application
- Member portal modifications to accommodate increased L.A. Care Covered membership
- Member and provider strategic enhancements

**Member Impact:** L.A. Care uses the Healthx platform to host our portal for members and will continue to do so while implementing enhancements and modifications. L.A. Care will continue to implement additional portal functionality on the Healthx platform for use by our providers.

**Budget Impact:** The cost of the contract was anticipated and included in the approved budget for the Information Technology (IT) department for FY 2020-21. The remaining amount will be included in the ensuing years.

**Motion:** To authorize staff to amend a contract with Healthx in the amount of $3,509,572 (total contract not to exceed $11,097,572) for hosting services through September 30, 2023.