



**L.A. Care**  
HEALTH PLAN<sup>®</sup>

*For All of L.A.*

# AUDIT COMMITTEE MEETING

## Board of Governors

August 4, 2022 • 4:00 PM

L.A. Care Health Plan

1055 W. 7<sup>th</sup> Street, Los Angeles, CA 90017



**ELEVATING  
HEALTHCARE**  
IN LOS ANGELES COUNTY  
SINCE 1997



**AGENDA**  
**Audit Committee Meeting**  
**Board of Governors**

Thursday, August 4, 2022, 4 P.M.

L.A. Care Health Plan, 1055 West 7<sup>th</sup> Street, Conference Room 1025, Los Angeles

**DRAFT**

Please recheck these directions for updates prior to the start of the meeting.

This meeting will be conducted in accordance with the provisions of the Ralph M. Brown Act , allowing members of the Board, members of the public and staff to participate via teleconference, because State and Local officials are recommending measures to promote social distancing. Accordingly, members of the public should join this meeting via teleconference as follows:

<https://lacare.webex.com/lacare/j.php?MTID=m5089a9ae70cf6085e6274c8258e48b5d>

Audio Call (213) 306-3065

English Access Code **2486 705 9974** Password: **lacare**

Members of the Audit Committee or staff may participate in this meeting via teleconference. *The public is encouraged to submit public comments or comments on Agenda items by e-mail to [BoardServices@lacare.org](mailto:BoardServices@lacare.org), or by sending a text or voicemail to (213) 628-6420.*

Attendees who log on to lacare.webex using the URL above will be able to use “chat” during the meeting for public comment. You must be logged into Webex to use the “chat” feature. The log in information is at the top of the meeting Agenda. We continue to use different ways to submit public comment live and direct during the meeting.

1. To use the “chat” to submit public comment at any time during the meeting, look at the bottom right of your screen for the icon that has the word, “chat” on it.
2. Click on the chat icon. It will open two small windows.
3. Select “Everyone” in the To: window.
4. Type your public comment in the box that says “Enter chat message here”. The chat message, 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.
5. When you hit the enter key, your message is sent and everyone can see it.
6. L.A. Care staff will read the chat messages for up to three minutes during public comment so people who are on the phone can hear the comment.

If we receive your comment by 4:00 pm on August 4, 2022, it will be provided to the members of the Audit Committee at the beginning of the meeting. **The chat message, 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.** Public comments submitted will be read for up to 3 minutes during the meeting.

Once the meeting has started, public comment must be received before the agenda item is called by the meeting Chair and staff will read those comments for up to three minutes. Chat messages submitted during the public comment period for before each item will be read for up to three minutes. If your public comment is not related to any of the agenda item topics, your public comment will be read in the general public comment agenda item.

These are extraordinary circumstances, and the process for public comment is evolving and may change at future meetings. We thank you for your patience.

Please note that there may be delay in the digital transmittal of emails, texts and voicemail. The Chair will announce when public comment period is over for each item. If your public comments are not received

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on time for the specific agenda item you want to address, your public comments will be read at the public comment section prior to the board going to closed session.

The purpose of public comment is that it is an opportunity for members of the public to inform the governing body about their views. The Board appreciates hearing the input as it considers the business on the Agenda.

**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](mailto:BoardServices@lacare.org).

**Welcome**

Alvaro Ballesteros, *Chair*

1. Approve today's Agenda *Chair*
2. Public Comment (*Please read instructions above.*) *Chair*
3. Approve December 13, 2021 meeting minutes p.4 *Chair*
4. Chairperson's Report *Chair*
  
5. Chief Executive Officer / Chief Financial Officer Reports John Baackes  
*Chief Executive Officer*  
Marie Montgomery  
*Chief Financial Officer*

**Committee Issues**

6. Presentation of Audit Plan for Fiscal Year 2021-22 Marie Montgomery
  - Approve Audit Plan for Fiscal Year 2021-22 (AUD A) p.9

**Adjournment**

*Chair*

**The Audit Committee meets as needed.**

Public comments will be read for up to three minutes.

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

If a teleconference location is listed at the top of this agenda, the public can participate in 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.

**THE PUBLIC MAY SUBMIT COMMENTS TO THE BOARD OF GOVERNORS BEFORE DISCUSSION OF EACH ITEM LISTED ON THE AGENDA BY SUBMITTING THE COMMENT IN WRITING BY TEXT MESSAGE TO 213 628 6420, OR IN WRITING BY EMAIL TO [BoardServices@lacare.org](mailto:BoardServices@lacare.org). Please follow additional instructions on the first page of this Agenda.**

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

**NOTE: THE BOARD OF GOVERNORS CURRENTLY MEETS ON THE FIRST THURSDAY OF MOST MONTHS AT 2:00 P.M.**

**AGENDA and PRINTED MEETING MATERIALS ARE AVAILABLE FOR INSPECTION AT <http://www.lacare.org/about-us/public-meetings/board-meetings> and by email request to [BoardServices@lacare.org](mailto:BoardServices@lacare.org)**

Any documents distributed to a majority of the Board Members regarding any agenda item for an open session after the agenda has been posted will be available for public inspection at <http://www.lacare.org/about-us/public-meetings/board-meetings> and can be requested by email to [BoardServices@lacare.org](mailto:BoardServices@lacare.org).

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

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

# BOARD OF GOVERNORS

## Audit Committee Meeting Minutes – December 13, 2021

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



**L.A. Care**  
HEALTH PLAN

**Members**

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

**Management/Staff**

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

**Guests**

Deloitte & Touche  
Rosie Procopio, *Audit & Assurance Managing Director*  
Angelica Kocharova, *Audit & Assurance Senior Manager*

State and local officials continue to impose or recommend measures to promote social distancing to reduce transmission of the COVID 19 virus. It is prudent to use caution in protecting the health of the public, L.A. Care’s employees and its members where adequate virtual means exist to permit the meeting to occur by teleconference/videoconference with the public being afforded the ability to comment in real time. The Board of Governors and all legislative bodies of the L.A. Care Health Plan, and the Board of Directors and all legislative bodies of the Joint Powers Authority will continue to meet virtually and the Boards will review that decision on an on-going basis as provided in the Brown Act. Members of the public had the opportunity to listen to the meeting via teleconference, and share their comments via voicemail, email, or text.

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
<p><b>CALL TO ORDER</b> Alvaro Ballesteros</p>	<p>Alvaro Ballesteros, MBA, <i>Committee Chair</i>, called the meetings to order for the L.A. Care Audit Committee and the L.A. Care Joint Powers Authority Audit Committee at 2:02 p.m. The meetings were held simultaneously. He welcomed everyone to the meetings. He explained how the public can participate in the meetings.</p> <ul style="list-style-type: none"> <li>• The WebEx chat function will be available during the meeting for public comment. This is a new function so public comments can be made live and direct.</li> <li>• L.A. Care will open the “chat” feature on Webex to submit public comments in real time and directly to the Audit Committee members. The log in information is at the top of the meeting Agenda. You must be logged into Webex to use the “chat” feature.</li> <li>• L.A. Care staff will read the chat messages for up to three minutes during public comment so people who are on the phone can hear the comment. (continued next page)</li> </ul>	

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AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<ul style="list-style-type: none"> <li>Information for public comment is on the Agenda available on the web site. Staff will read the comment from each person for up to three minutes.</li> <li>Chairperson Ballesteros will invite public comment period before each item is discussed, not after. The public comment will be read before the Committee starts to discuss the item.</li> <li>If the comment is not on a specific agenda item, it will be read at the general Public Comment item 2 on today's agenda.</li> </ul>	
<b>APPROVE MEETING AGENDA</b>  Alvaro Ballesteros	Today's Agenda was approved as submitted.	<b>Approved unanimously by roll call. 3 AYES (Ballesteros, Booth and Gonzalez)</b>
<b>PUBLIC COMMENT</b>	There was no public comment.	
<b>APPROVE MEETING MINUTES</b>  Alvaro Ballesteros	<b>The July 30, 2021 meeting minutes were approved as submitted.</b>	<b>Approved unanimously by roll call. 3 AYES</b>
<b>CHAIRPERSON'S REPORT</b>	There was no report from the Chairperson.	
<b>CHIEF EXECUTIVE OFFICER/CHIEF FINANCIAL OFFICER REPORT</b>	<p>John Baackes, <i>Chief Executive Officer</i>, stated results are positive this year, reversing what was L.A. Care's most difficult year because of the COVID-19 pandemic in the prior fiscal year.</p> <p>Marie Montgomery, <i>Chief Financial Officer</i>, reported that the financial statement reflects the results that the Board reviewed earlier this month. The net surplus is approximately \$133 million. Ms. Montgomery highlighted significant items in the financial statements, such as claims reserves and the Incurred But Not Reported (IBNR) results.</p>	

AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<p>As part of disclosures in the financial statements, there is a footnote disclosing \$142 million in favorable growth from the prior year, reserve balances reflect paid claim information. Due to the COVID-19 pandemic and changes in the claims payment patterns, L.A. Care was conservative in setting that reserve. There is \$45 million in explicit margin or provision for adverse deviation is a component of that amount.</p>	
<b>COMMITTEE ISSUES</b>		
<p><b>Review of Audit Findings FY 2020-21</b></p>	<p>Deloitte &amp; Touche (D&amp;T) presented L.A. Care’s audited financial statements for the fiscal year ended September 30, 2021. <i>(A copy of the report may be requested by contacting Board Services.)</i></p> <p>Rosie Procopio, <i>Audit &amp; Assurance Managing Director, D&amp;T</i>, provided an overview of the findings.</p> <ul style="list-style-type: none"> <li>• D&amp;T received full cooperation from management and staff and had unrestricted access to the senior management in the performance of the audits.</li> <li>• D&amp;T evaluated the significant qualitative aspects of the organization’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.</li> <li>• Accounting estimates are an integral part of the combined financial statements prepared by management and are based on management’s current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the organization's 2021 audited financial statements include the Incurred but not Reported Claims (“IBNR”) Reserve Valuation.</li> <li>• The valuation of IBNR reserve requires management estimation and judgment. Management uses significant assumptions and judgments in estimating the cost of claims, specifically those that are made to adjust IBNR reserve. Management also leverages calculations and estimates developed by its internal actuarial team when considering the liability estimate.</li> </ul>	

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AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<ul style="list-style-type: none"> <li>• D&amp;T made inquiries of management and tested the design and implementation of internal control activities involving management’s process for determining IBNR reserves.</li> <li>• D&amp;T conducted meetings with the organization’s actuaries to assess the consistency of the methodology utilized for calculating the accruals for IBNR reserve estimate. Discussions were also held with claims operations personnel to better understand performance over time and its impact on the claims reserves.</li> <li>• Actuarial specialists from Deloitte Consulting LLP were involved to review management’s methods and assumptions used to develop the reserve estimates and an independent range of reasonableness in order to corroborate management’s estimate of its claims-based liability. The specialists assessed information such as claims inventory, high dollar claims and other environmental factors to conclude on actuarial assumptions utilized, including consideration of COVID-specific assumptions. Run-off data available were assessed subsequent to year-end close for potential recording or reporting. They performed data integrity testing of information utilized by actuaries, including a test of details on paid claims and claims inventory for accuracy and completeness.</li> <li>• D&amp;T performed a retrospective look-back (recast) of management's prior year estimates.</li> <li>• There were no uncorrected misstatements or disclosure items identified passed during our audit.</li> <li>• There were no material misstatements that were brought to the attention of management as a result of our audit procedures.</li> <li>• There were no disagreements with management related to matters that are material to the Organization’s 2021 financial statements.</li> <li>• D&amp;T is not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2021.</li> </ul>	

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AGENDA ITEM/PRESENTER	MOTIONS / MAJOR DISCUSSIONS	ACTION TAKEN
	<ul style="list-style-type: none"> <li>Throughout the year, routine discussions were held or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Audit Committee.</li> </ul> <p>Ms. Procopio expressed her appreciation to the L.A. Care team</p> <p>Chair Ballesteros asked Committee members if there is need to talk to D&amp;T separately. The Committee members reached consensus that a discussion with the D&amp;T is not necessary.</p>	
<b>Approve Audit Findings for FY 2020-21</b>	<u><b>Motion AUD A.1221</b></u> <b>To accept the findings of the Deloitte &amp; Touches' audit of L.A. Care's financial statements for the fiscal year ended September 30, 2021, as presented.</b>	<b>Approved unanimously by roll call. 3 AYES</b>
<b>ADJOURNMENT</b>	The Chair adjourned the meeting at 2:45 pm.	

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

APPROVED BY:

\_\_\_\_\_  
Al Ballesteros, MBA, *Chairperson*  
Date Signed: \_\_\_\_\_

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**L.A. Care**  
HEALTH PLAN

**Board of Governors**  
**MOTION SUMMARY**

**Date:** August 4, 2022

**Motion No.** AUD A.0822

**Committee:** Audit

**Chairperson:** Alvaro Ballesteros, MBA

**Issue:** To accept the Audit Plans of the Deloitte & Touche's audit of L.A. Care's financial statements for the fiscal year 2021-22.

**Background:**

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

**Budget Impact:** N/A

**Motion:** To accept the Audit Plans of Deloitte & Touche's of L.A. Care's financial statements for the fiscal year 2021-22, as presented, and authorize execution of the engagement letter.



## Raising the bar in quality and client service excellence

Our 2022 Client service plan for Local Initiative Health Authority for Los Angeles County  
a local public entity operating and doing business as L.A. Care Health Plan and Joint Powers Authority

August 4, 2022 (prepared as of July 27, 2022) | Rosie Procopio | Los Angeles

August 4, 2022

The Audit Committee of  
L.A. Care Health Plan  
1055 West 7<sup>th</sup> Street  
Los Angeles, CA 90017

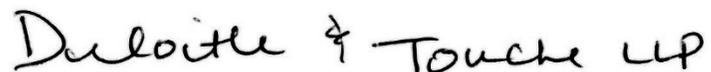
Dear Audit Committee Members:

We are pleased to present Deloitte & Touche LLP's 2022 client service plan for Local Initiative Health Authority for Los Angeles County, a local public entity operating and doing business as L.A. Care Health Plan and Joint Powers Authority ("L.A. Care"). First and foremost, we value our role as your independent auditor. We are proud of our long-standing relationship and are committed to serving you with distinction by delivering insights and ideas for enhanced value. As important as our past efforts together have been, we look forward to the exciting opportunities that lie ahead.

Our audit plan reflects our commitment to providing you with high-quality, proactive service that is delivered with integrity, objectivity, and independence. Our audit addresses financial statement and internal control risks through targeted procedures that are responsive to the nature of the risks, including changes at L.A. Care, the business environment, the regulatory landscape, and as a result of the COVID-19 pandemic. The plan also outlines Deloitte's approach to audit delivery and how our investments in audit transformation will be applied to your audit through new technology capabilities like big-data analytics, automation, artificial intelligence, and enhanced audit delivery processes.

We recognize the future of work is changing through accelerating connectivity, new talent models, and cognitive technologies. We want to assure you that as we navigate these changes, our priority is serving you with excellence and distinction while safeguarding our employees. We appreciate the opportunity to serve L.A. Care. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.

This report is intended solely for the information and use of L.A. Care's Audit Committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



cc: Management of L.A. Care Health Plan



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# Executive summary

## What we've done

- Accelerated issuance timeline through expanded interim procedures, implementation of new procedures in the areas of claims expenses and other medical expenses, and increased use of data analytics and other audit technology
- Continued to adapt our audit to changes within L.A. Care and macroeconomic environment to consider the impact of the evolving COVID-19 events during our preliminary risk assessment
- Held annual debrief/planning sessions on the prior year engagement with CFO, Senior Director of Finance, and Controller
- Evaluated market conditions, prior-year results, and company-specific considerations as well as assessment of potential changes in response to COVID-19, as we continue to perform our iterative risk assessment procedures

## What's ahead

- **Significant risks:**
  - Management override of controls
  - Assumptions related to IBNR valuation
- **Other areas of focus:**
  - Fair value of investments
  - Revenue
  - Medical expenses (pricing of claims)
  - Risk sharing arrangements (e.g. COVID and other)

### **Other Planned Procedures:**

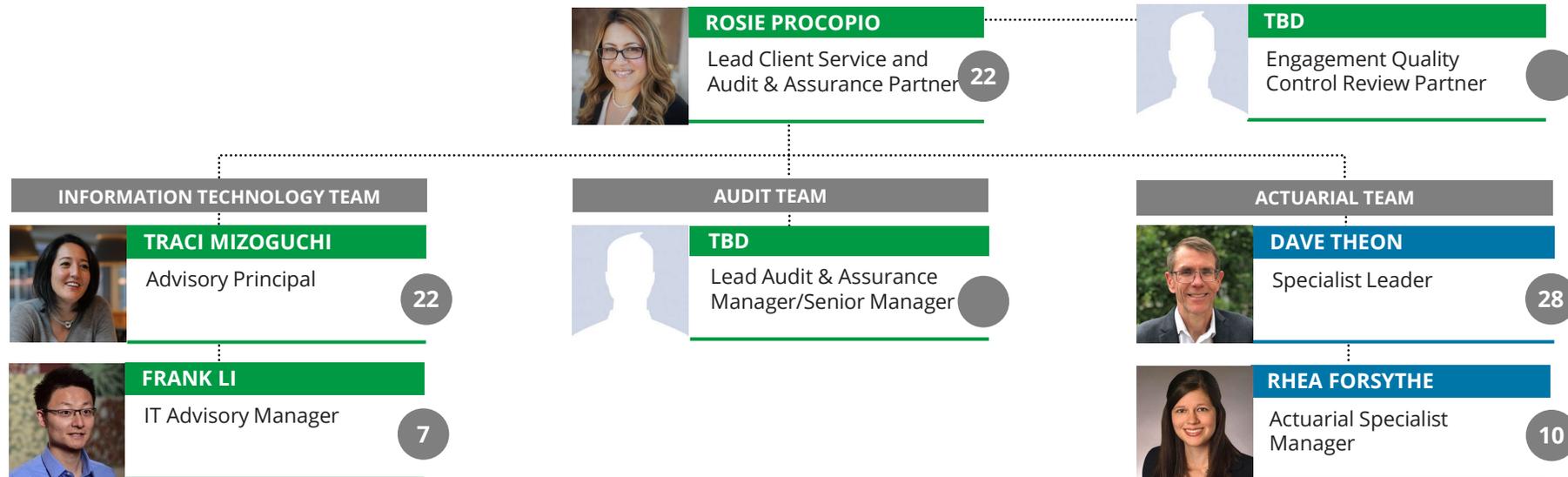
- Virtual control walkthroughs
- Ongoing evaluation of nature and timing of procedures and use of audit technology
- Continued evaluation of new accounting standards
- Continue to adapt to changes with L.A. Care and the macroeconomic environment; specifically, the continued impact of COVID-19 events
- Continue to communicate with management on a regular basis throughout the year for timely identification and resolution of accounting and other matters.

We are pleased to present an overview of our plan to serve L.A. Care.

We are committed to providing a high-quality audit that strives to reduce the burden on your people, increase effectiveness in the audit, and provide valuable insights.

# Engagement Structure

## Deloitte leadership team serving L.A. Care Health Plan



# Our commitment to diversity, equity, and inclusion at Deloitte

## Deloitte team serving L.A. Care

The engagement team assembled to serve L.A. Care represents a balance of local engagement team members and national and industry specialists. Overall, we strive to bring familiar faces, emphasizing the importance of continuity to enhance delivery of insights gained from the audit and the overall efficiency of our service to you.

We are committed on providing an L.A. Care audit engagement team that is comprised of a diverse and professional team, with the mix of industry and other specialists to create value for L.A. Care .

## Diversity, equity, and inclusion is important to us

### Our Deloitte US workforce data



**41.0%** racially diverse and **6.8%** ethnically diverse professionals



**17.1%** racially diverse and **3.6%** ethnically diverse partners, principals, and managing directors



**45.5%** female professionals and **28.2%** female partners, principals, and managing directors

Source: 2021 [Audit Quality Report](#)

Deloitte is widely recognized as an **employer of choice**, as evidenced by:



## Investing in our people

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

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

- **2022 Diversity, Equity, and Inclusion Transparency Report:** This report summarizes Deloitte's commitments on diversity, equity, and inclusion
- **MADE | Making Accounting Diverse and Equitable:** Deloitte commits \$75 million to fuel greater racial and ethnic diversity in tax and accounting

# Digitized audit and benefits

## Bring your audit into focus

Tailored audits to fit each unique business



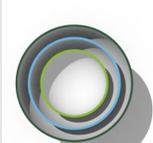
**Deloitte Omnia**

We focus on what matters in the audit, so you can focus on what matters to you.

You benefit from our investment of \$1 billion and counting to digitize the audit and enhance your audit experience.



Reduced audit burden



Deeper insights



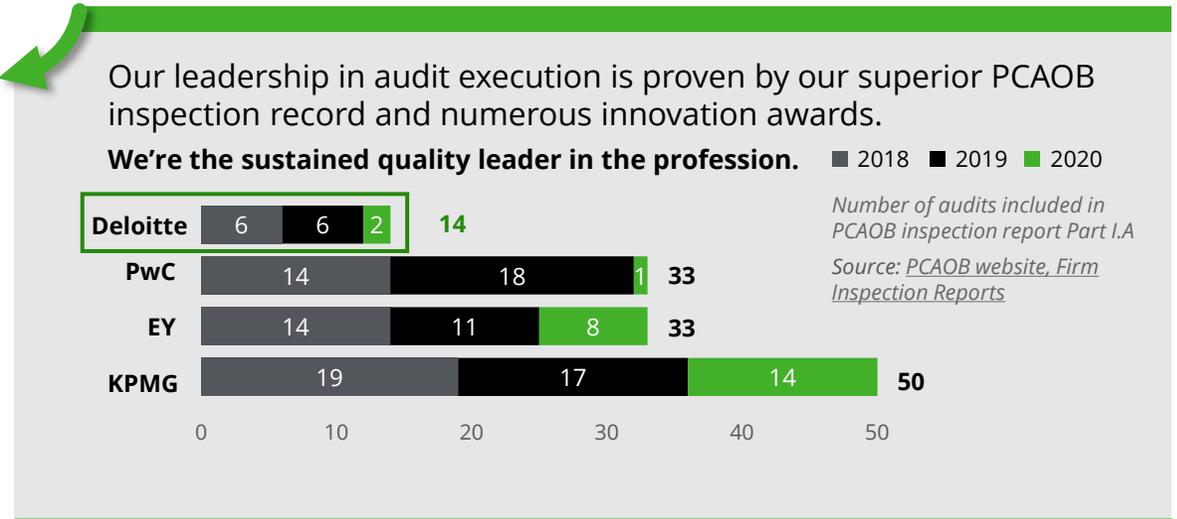
A smarter audit

**WINNER 2020**  
Best Firms for Technology  
*Accounting Today*

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

**WINNER 2016**  
Most Innovative Practice,  
*British Accountancy Awards*





# Digitized audit and benefits (continued)

## Tangible benefits for you

Digital. Dynamic. Cloud-based. Deloitte Omnia, our global audit platform, brings bright minds, a flexible methodology, and world-class audit technology together to provide a more focused audit experience. Deloitte Omnia provides a tailored audit that fits your unique business needs.

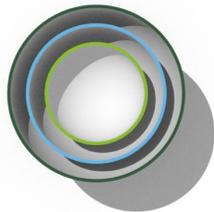


### Reduced audit burden.

- Smart automation
- Unparalleled transparency
- Putting your data to work

Achieving a higher-quality, more insightful audit shouldn't take more effort from you. **Through focus, flexibility, and advanced audit technology**, Deloitte Omnia delivers more relevant insights, all while reducing the burden on your team.

- Digital risk assessment to focus on areas with the highest risk, limiting effort in less critical areas
- Automating manual processes that reduce the burden on your teams
- Centralizing project management for a more seamless exchange of information and access to up-to-the-moment progress reports
- Streamlining data retrieval so you spend less time wrangling data and more time putting it to work



### Deeper insights.

- Identifying what matters
- Harnessing your data

Insights come in many shapes and sizes. Deloitte Omnia produces **insights that are tailored** for your specific business and the industry in which it operates. This focused approach enhances audit quality and improves your overall experience.

- Performing more comprehensive risk assessments and delivering industry benchmarking, perspectives, and visualization
- You receive accounting, operational, and control insights that might otherwise be buried in large quantities of data
- Unlocking the true potential of your data by helping zero in on the insights that can truly make a difference



### A smarter audit.

- Digitizing the process
- Focusing on what matters

Driving value through a high-quality audit is not only what we do, it's in our DNA. Our diverse and highly skilled teams are constantly analyzing changes in your risk profile to **focus** on the unique risks facing your business.

- Leveraging the power of artificial intelligence
- Homing in on higher risks with advanced document interrogation and analysis capabilities
- Performing digital inspections that transmit results in near real time
- For fixed income and equity securities with readily determinable fair values (level 1 and 2 securities) utilize Deloitte's Omnia DNAV\* to price 100% of securities as of period-end.

*\*DNAV is a digital, cloud-based solution that revolutionizes the audit of securities and investments through the innovative use of proprietary algorithms to establish a new way of performing investment valuations. DNAV combines digital technologies, automation, data science, and artificial intelligence with auditor judgment to drastically reduce manual effort, allow for 100% coverage of securities and enable auditors and clients to focus on what matters.*



# Digitized audit and benefits (continued)

## Omnia's connect capability

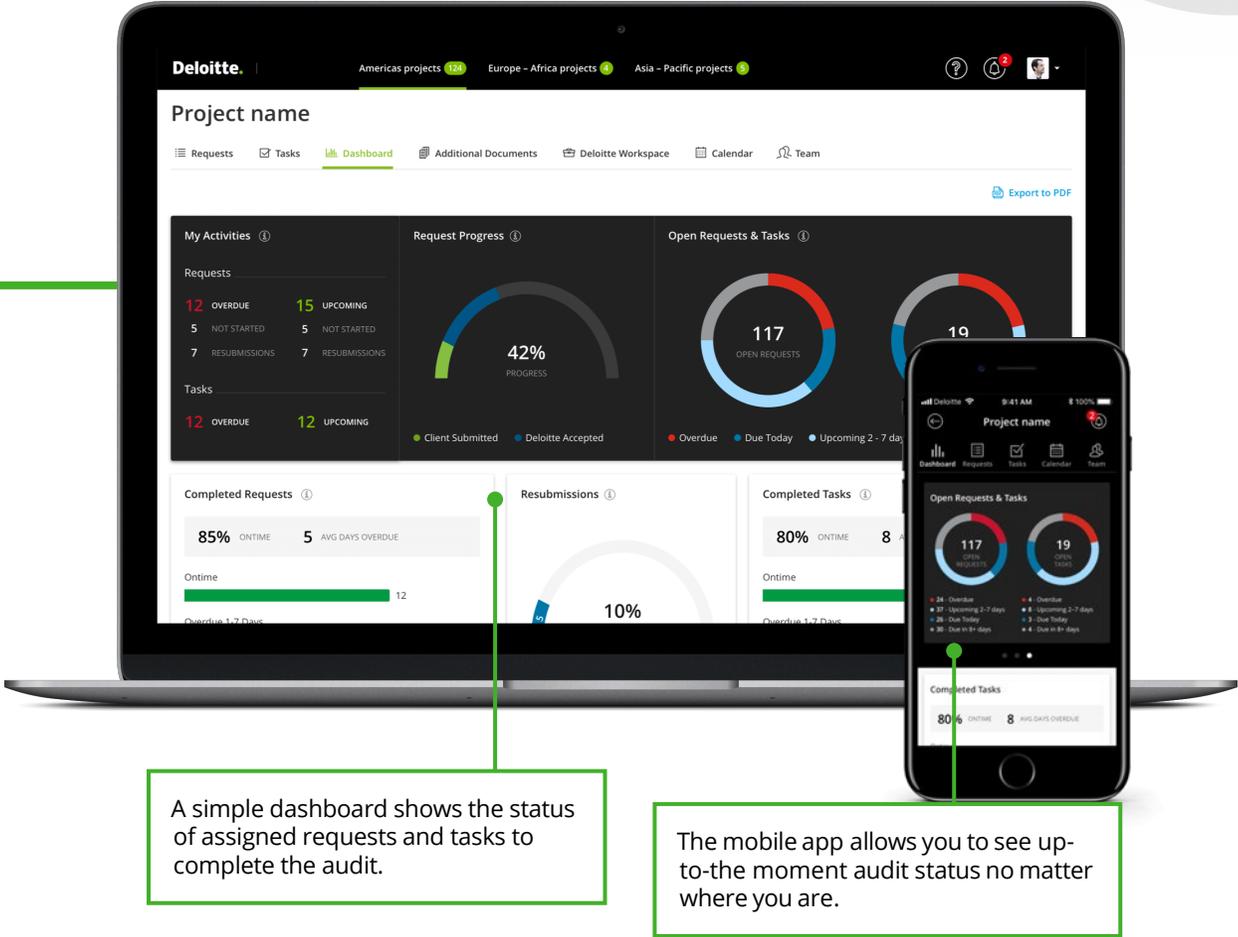
### Web-based global request and coordination portal

Enabling enhanced coordination and communication between your team and ours

#### Benefit to L.A. Care

#### Reduced back and forth and fewer surprises

- Provides greater visibility to both our team and yours through real-time status dashboards and a mobile app
- Reduces the administrative burden around information exchange, eliminates duplicate requests, and reduces the need for constant reconciliation
- Alerts both the audit team and your team to upcoming due dates, allowing us to stay ahead of matters



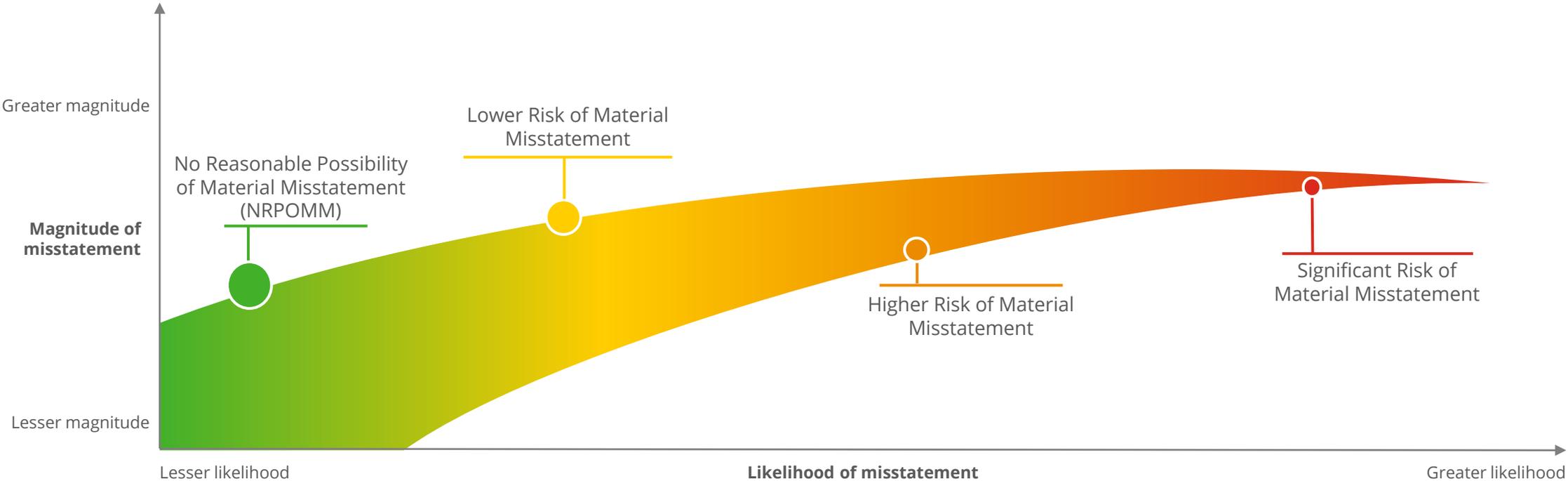
A simple dashboard shows the status of assigned requests and tasks to complete the audit.

The mobile app allows you to see up-to-the moment audit status no matter where you are.

# Risk assessment

## Focus on what matters

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

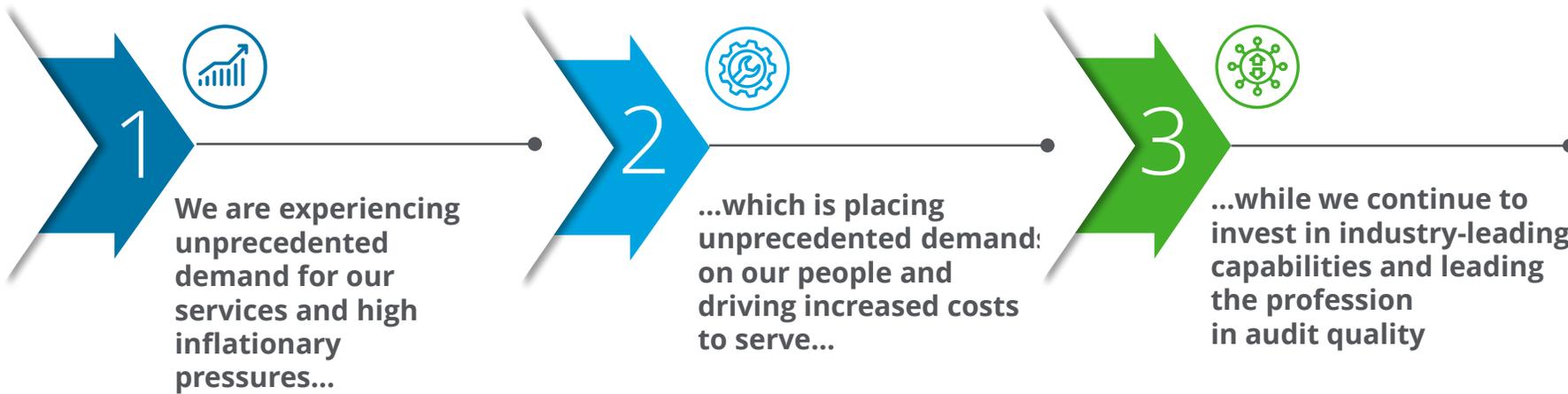


**Here's how we do it:**

- We use a risk-based approach
- We communicate up front with management on our audit planning and risk assessment procedures
- We use an integrated technology platform to streamline the audit

# Professional fees (continued)

## Delivering high-value audits in the current market landscape



**8.3%** Year-over-year US inflation; remains near its fastest pace in 40 years

**Record M&A activity** – Largest volume of US M&A deals in history (7,890 in 2021)

**Compared to pre-pandemic costs:**

**30%+** Base labor cost increase

**50%+** All-in cash compensation cost increase

**\$350M+** Investments in technologies over the next 5 years

**#1** Market-leading momentum and client acquisitions, as well as profession-leading position in quality and digital transformation



In order to **attract and retain top talent** in this post-pandemic environment, we have experienced significant increases in talent-related costs that impact our cost to serve.

# Our proposed 2022 audit fees

Service Description	Approved Fees (excluding expenses)
Financial Statement Audit <b>(1)</b>	\$403,000
Deloitte Accounting Research Tool subscription fee per user	1,895
Total 2022 Audit fees	\$404,895

Notes:  
(1) Fee included is as proposed and included in our proposal for the external audit.



# Appendix A

## Required communications

# Significant risks

As of the date of this report, we have identified certain significant risks, including fraud risks, during our risk assessment procedures. A significant risk is a risk of material misstatement of the financial statements that requires special audit consideration. The significant risks we have identified during our risk assessment procedures and our preliminary audit response, including the nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate the audit results, are detailed in the slide that follows.

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

## Significant risks (continued)

Audit area	Significant risks	Planned audit response
<b>Assumptions utilized in IBNR Valuation</b>	<p>The valuation of IBNR reserve requires management estimation and judgment. Management uses significant assumptions and judgments in estimating the cost of claims, specifically those that are made to adjust IBNR reserve. Management also leverages calculations and estimates developed by its internal actuarial team when considering the liability estimate. This significant risk also represents a fraud risk.</p>	<ul style="list-style-type: none"> <li>• We will make inquiries of management and test the design and implementation of internal control activities involving management's process for estimating the IBNR reserve.</li> <li>• We will conduct meetings with the Company's actuaries to assess the consistency of the methodology utilized for calculating the accruals for IBNR estimates. Furthermore, hold discussions with claims operations personnel to better understand performance over time and its impact on the claim reserves.</li> <li>• We will involve actuarial specialists from Deloitte Consulting LLP to review management's methods and assumptions used to develop the reserve estimates and prepare an independent estimated range of reasonable reserves in order to corroborate management's estimate of its claims-based liability. Assess information such as claims inventory, high dollar claims and other environmental factors to conclude on actuarial assumptions utilized.</li> <li>• We will perform data integrity testing of information utilized by the Company's actuaries, including test of details on paid claims and claims inventory for accuracy and completeness.</li> <li>• We will also perform a retrospective look-back (recast) of management's prior year estimates.</li> </ul>
<b>Management override of controls</b> <i>(Presumed risk of fraud under AICPA Standards)</i>	<p>Management is in a unique position to perpetrate fraud because of its ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding established controls that otherwise appear to be operating effectively. The risk of management override of controls is pervasive. Because of its unpredictable nature, this risk could result in a material misstatement. This significant risk also represents a fraud risk.</p>	<ul style="list-style-type: none"> <li>• We will assess the design and implementation of the company's fraud risk assessment and other entity-level internal controls and internal controls over the closing and reporting process. We will assess the controls over significant, unusual transactions, particularly those that result in late or unusual journal entries and the design and implementation of controls over journal entries and adjustments made in the period-end financial reporting process.</li> <li>• We will use our proprietary quantitative financial analysis and benchmarking analysis capability to identify unusual trends in account balances and ratios.</li> <li>• We will engage in periodic fraud discussions with certain members of senior management and others, internal counsel, and the audit committee.</li> <li>• We will consider the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates.</li> <li>• We will evaluate whether the company has entered into any significant unusual transactions and, if so, the nature, terms, and business purpose (or lack thereof) of those transactions and whether such transactions involved related parties.</li> <li>• We will test journal entries that exhibit characteristics of possible management override of controls, identified using electronic data interrogation techniques.</li> </ul>



# Appendix B

## Audit timeline

# Using the work of our professionals in India and other persons who perform audit procedures

## Use of Deloitte & Touche Assurance & Enterprise Risk Services India Private Limited

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

## Other persons who perform audit procedures

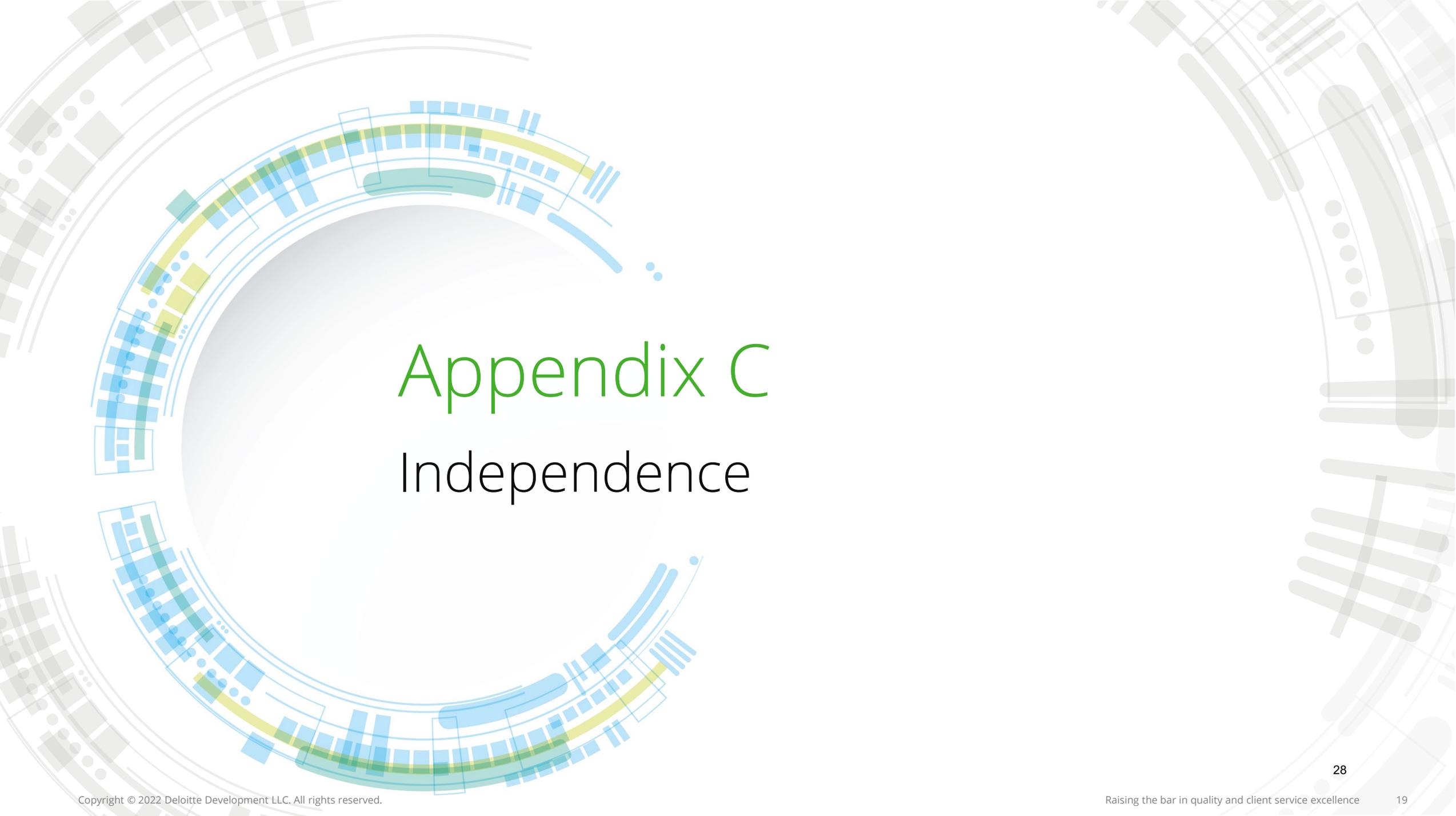
Audit procedures in the current-period audit will also be performed by the following:

📍 Accounting firm name and location	✍️ Planned responsibilities
Deloitte & Touche LLP	Information Technology (IT) Advisory Specialists led by Traci Mizoguchi to assist in the testing of general IT controls
Deloitte Consulting LLP	Actuarial Specialists led by Dave Thoen to assist in the testing of the actuarial valuation of IBNR reserve

# Audit timeline

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

Activity	2022												2023
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN
Conduct periodic meetings with management to communicate industry and accounting matters and discuss current developments in the business	●	●	●	●	●	●	●	●	●	●	●	●	●
Meet with the Audit Committee							●						●
Conduct planning meetings with the audit team and client personnel						●							
Perform preliminary planning, risk assessment, and develop detailed audit plan							●	●					
Perform interim audit procedures							●	●					
Report results of interim audit procedures to senior management								●					
Perform year-end audit procedures											●	●	
Resolution of audit findings (ongoing)							●	●	●	●	●	●	
Issue audit reports													●
Report final results of our audit and provide year-end required communications to the Audit Committee													●



# Appendix C

## Independence

# Ethics, independence, and compliance



All professionals of the Deloitte US Entities are expected to act with integrity in accordance with high ethical standards as presented in our US Code of Ethics and Professional Conduct (the Code), which includes our Global Principles of Business Conduct available at: <https://ecode.deloitte.com/welcome>. The Code specifies expectations for all professionals of the Deloitte US Entities regarding ethics and compliance standards, and explains each individual's responsibilities to the public, clients, and colleagues.



Our independence requirements apply to all Deloitte US Entities' professionals, regardless of whether they are directly involved in delivering audit services. The national managing partner for the Independence & Conflicts Network (ICN) is responsible for overseeing independence matters, including the design, implementation, operation, monitoring, and maintenance of the system of quality control related to independence. The chief ethics and compliance officer is responsible for making sure appropriate disciplinary action is taken when independence policy or regulatory violations occur.



We use a variety of communication channels and approaches, such as our intranet site, newsletters, email communication campaigns, leadership messages, mandatory training, and embedded messaging in various career milestone trainings (including pre-hire and onboarding) to promote and reinforce the importance of ethical behavior; compliance with laws, professional standards, and responsibilities; and policies across the Deloitte US Entities.



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

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



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

- Sets independence policies and procedures based on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and the independence rules of the US SEC and the PCAOB. Performs full reviews of independence quality controls on a three-year cycle; provides an annual focused review program to be performed by member firms for off-cycle years; and performs in-depth follow-up reviews as needed.
- Performs ongoing monitoring activities of firms, enabling continuous enhancements to global policies, quality controls, tools, and practice support activities.
- Delivers global systems to provide professionals with entity information to support compliance with personal and professional independence requirements, including financial interests and scope-of-service approvals.
- Supports independence awareness across the Deloitte network through active engagement with independence and business leadership groups, periodic communications and alerts, and the development of guidance, learning, and instructions.



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