

**Ventura County Medi-Cal Managed  
Care Commission (VCMMCC) dba  
Gold Coast Health Plan  
Commission Meeting**

2240 E. Gonzales, Suite 200, Oxnard, CA 93036  
**Monday, September 24, 2012**  
**3:00 p.m.**

**AMENDED AGENDA**

**CALL TO ORDER / ROLL CALL**

**PUBLIC COMMENT / CORRESPONDENCE**

1. **APPROVE MINUTES**
  - a. Regular Meeting of August 27, 2012
2. **CEO MONTHLY REPORT**
3. **ACCEPT AND FILE FINANCIAL REPORT**
  - a. July Unaudited Financials
  - b. FY10-11 Audit Results
4. **CONSIDERATION OF ELIMINATION OF HIRING FREEZE**
5. **CONTRACT REVIEW**  
Extension of Tatum Contract
6. **UPDATE ON RGS CONVERSION**
7. **ADOPT 2013 MEETING SCHEDULE**
8. **CONFLICT OF INTEREST BIENNIAL REVIEW**

Meeting Agenda available at <http://www.goldcoasthealthplan.org>

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ADMINISTRATIVE REPORTS RELATING TO THIS AGENDA AND MATERIALS RELATED TO AN AGENDA ITEM SUBMITTED TO THE COMMISSION AFTER DISTRIBUTION OF THE AGENDA PACKET ARE AVAILABLE FOR PUBLIC REVIEW DURING NORMAL BUSINESS HOURS AT THE OFFICE OF THE CLERK OF THE BOARD, 2220 E. GONZALES ROAD, SUITE 200, OXNARD, CA.

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT TRACI AT 805/981-5320. REASONABLE ADVANCE NOTIFICATION OF THE NEED FOR ACCOMMODATION PRIOR TO THE MEETING (48 HOURS ADVANCE NOTICE IS PREFERABLE) WILL ENABLE US TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING

## **COMMENTS FROM COMMISSIONERS**

### **ADJOURNMENT**

Unless otherwise determined by the Commission, the next regular meeting of the Commission will be held on October 22, 2012 at **6:00 p.m.** at 2240 E. Gonzales Road, Suite 200, Oxnard CA 93036

Meeting Agenda available at <http://www.goldcoasthealthplan.org>

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**Ventura County Medi-Cal Managed Care Commission  
(VCMMCC) dba Gold Coast Health Plan (GCHP)  
Commission Meeting Minutes  
August 27, 2012  
(Not official until approved)**

**CALL TO ORDER**

Chair Gonzalez called the meeting to order at 3:06 p.m. in Suite 200 at the Ventura County Public Health Building located at 2240 E. Gonzales Road, Oxnard, CA 93036.

The Pledge of Allegiance was recited.

**ROLL CALL**

**COMMITTEE MEMBERS PRESENT**

**David Araujo, MD**, Ventura County Medical Center Family Medicine Residency Program  
**Maylee Berry**, Medi-Cal Beneficiary Advocate  
**Anil Chawla, MD**, Clinicas del Camino Real, Inc.  
**Lanyard Dial, MD**, Ventura County Medical Association  
**John Fankhauser, MD**, Ventura County Medical Center Executive Committee  
**Robert Gonzalez, MD**, Ventura County Health Care Agency  
**Robert S. Juarez**, Clinicas del Camino Real, Inc.  
**Catherine Rodriguez**, Ventura County Medical Health System

**EXCUSED / ABSENT COMMITTEE MEMBERS**

**Laurie Eberst**, Private Hospitals / Healthcare System  
**David Glycer**, Private Hospitals / Healthcare System  
**Kathy Long**, Ventura County Board of Supervisors

**STAFF IN ATTENDANCE**

**Cassie Undlin**, Interim CEO  
**Nancy Kiersten Schreiner**, Legal Counsel  
**Sonia DeMarta**, Interim Chief Financial Officer  
**Charlie Cho, MD**, Chief Medical Officer  
**Steven Lalich**, Communications Manager  
**Traci R. McGinley**, Clerk of the Board  
**Paula Cabral**, Administrative Assistant

Language Interpreting and Translating services provided by GCHP from Lourdes González Campbell of Lourdes González Campbell and Associates.

## **PUBLIC COMMENT / CORRESPONDENCE**

David Cruz, President of Health Education League Association (HELA) and Operating Officer of Channel 25, requested a town hall meeting to bring together the community, Commission and incoming CEO. He noted that recently Erika Reyes, Guillermo Gonzalez and Dr. Robert Gonzalez from the Plan were on his radio program to answer questions.

Marco Benitez stated that there will be many changes with the new CEO and requested more communication with the community, especially with the Mixteco community. He noted that it had been requested a number of times that the meeting time change from 3:00 to 6:00 p.m. to allow people the time to get to the meetings.

Carmen Jasso requested assistance with the treatment of her feet. She stated that she continues to work, but does not feel she is being treated properly. She has also had payment and collection issues.

Ramon Ortiz explained that he has lived, worked and raised a family in the community for the last 35 years. He belongs to the migrant program and represents over 300 families; as well as some of the people from the dialysis clinic. He requested the hour of the meeting be changed because they work and are unable to attend during the day. He stated that Clinicas provides service and understands that they desperately need the service.

Maria Cruz, Ph.D., Education Researcher at UCSB, stated that she was representing many women, some of which were unable to attend the meeting because it was the first day of school for many children. She explained that she goes into the community and sees the needs of the people. She stated that she is looking forward to working with the organization.

Martha Diaz expressed concern for her elderly neighbor as it is difficult for her to get around due to the great deal of pain she endures and the lack of medical care.

Ursala Petronila stated that she has been going to El Camino Real in Las Islas since June. She is in great pain, has received MRI's and X-rays, and needs a hip replacement. She has Medi-Cal and is receiving huge bills, the doctor's office said they will fix it, but she continues to receive bills. She indicated that an explanation of billing is needed so patients do not have the added stress of worrying about paying bills. Chair Gonzalez asked that she provide her information to Guillermo Gonzalez.

Antonio Bernal spoke regarding his work situation, unemployment and the fact that he is unable to receive disability benefits. Medi-Cal was taken away and he is only receiving Medicaid and getting a small amount from Social Security. He noted that he has medical issues and wanted to know about receiving assistance for medical bills that are not being covered.

## 1. APPROVE MINUTES

- a. Regular Meeting of June 25, 2012
- b. Regular Meeting of July 23, 2012

The June 25, 2012 minutes were pulled.

Commissioner Dial moved to approve the July 23, 2012 minutes. Commissioner Araujo seconded the motion. The motion carried. **Approved 9-0.**

## 2. CEO REPORT

Interim CEO Undlin updated the Commission regarding the RGS transition. An Interim Human Resources Manager has been brought in and payroll will move effective September 1, 2012. Contracts have been prepared for employee's signature. She stated that she will bring an agreement for health benefits with CalPERS to the Commission for formal ratification before the end of September.

Interim CEO Undlin noted that she is working with ACS to enhance the management of the contract and assess and monitor issues. The Plan is still being monitored by DHCS. As part of our contract, in October we will be doing a customer satisfaction survey. In the process of performing a patient access survey, after hour calls and surveying wait times will be performed, which is all part of the contract with the State.

Interim CEO Undlin reported that the Plan has hired a Provider Contract Manager. A Social Worker and four case managers have been added under ACS, but two medical managers have been lost. Interviewing is coming to a close on the Chief Operating Officer. Director of Health Services recruitment has been going on for some time so we are considering a recruiting organization for assistance. A QI Master Training position to perform facility audits has been posted. Human Resources Manager recruitment is in progress. Candidates have been interviewed for the IT Director and a search for Medical Management Managers has been ongoing.

An additional 1,600 square feet of office space was obtained for Health Services and the move is scheduled for the first week of September. Parking for the Plan continues to be an issue; as well as obtaining meeting areas and conference rooms.

Interim CEO Undlin reported that the website activity is very similar to last month, about 6,000 visits. English is the predominant language being accessed with most viewed being the Provider portals and Provider Welcome page.

Interim CEO Undlin and Government Relations Director Gonzalez attended the California CEO meeting on August 16<sup>th</sup> and met with the other COHS organizations in the State.

The Medicare fee will be paid no lower than the Medicare fee schedule. It was asked if the Medicare fee schedule is for the Providers reimbursement for primary care and if capitation will be going away. Interim CEO Undlin responded that it will not go away, but will be recalculated because Medicare pays higher than Medi-Cal. The capitation rate will need to be reevaluated by January 1, 2013.

Interim CEO Undlin commented on the Healthy Families Kaiser issue, Kaiser will allow a zero percentage administration load to the Plan and there will be work involved in doing that. Discussions with Kaiser have taken place.

Phase 3 of the Healthy Families Program Transition to Medi-Cal is August 1, 2013. The Chief Medical Officer confirmed the need for staffing and the inability to fill some of the Plans positions.

Interim CEO Undlin reported that a claims editing software is being implemented and an enhanced interface with the documentation system has been performed with ACS. Provider mailings have been sent. The pre-authorization list has been updated. The Plan is auto adjudicating far less of the EDI claims than the paper claims. This has been an issue because of additional attachments sent with the paper claims and this will be looked into.

Commissioner Juarez raised concern regarding the Healthy Families transition and the Kaiser "lives" that are in the county which are being proposed to the State with them to be automatically assigned to Kaiser. Interim CEO Undlin stated that it was not completely done. She indicated that she did hear from the State that they like the Kaiser model and do not want to break the "continuity of care." Commissioner Juarez stated that it is his understanding that it is a recommendation, not something we as a COHS must follow; it is not a written mandate. Interim CEO Undlin responded, so noted.

### **3. ADOPTION OF BUDGET**

Interim CFO DeMarta stated that several budget meetings have taken place with the Executive Finance Committee.

Membership has been budgeted for minimal growth (.3% or 268 members). Expect to receive an additional 1,000 from CBAS. Ending enrollment for FY 2013 is 97,808.

Premium increase rates are not finalized but 3.9% PMPM (per member per month) will increase from \$248 to \$258 PMPM excluding CBAS. An additional \$3.7 million per year in loss of revenue is projected for the year. The premium rates do not reflect any reductions with AB97. Operating under the assumption of 2.2% of gross revenue.

Healthcare cost projections are based upon historical data received from Milliman.

Capitation rates are planned to remain the same. Any changes in Medicare rates will take effect in 2013.

There are 23 new positions in the budget. Case Management is expected to stay with ACS until July 2013. There are 55 full time employees through the end of 2013.

Anticipating a move but it has not been budgeted at this time; there will be additional reviews. Admin expenses budgeted for an increase in software purchases for the new Milliman software to be used by the nurses when they transition to Gold Coast.

Anticipating a net profit of about 2% at the end of the year. Our TNE requirements are 68%. Premiums have not been officially finalized by DCHS and it could change. Issues with AB97 are still being adjudicated but could be resolved in a few months or it could go on longer. Utilization rates and history is based on averages because of the limited experience we have. Whatever new legislation comes up between now and next year, including MCO taxes, could also impact our rates and may require revision of the budget.

Chair Gonzalez noted that the membership is lower due to the fact the State is not sending retroactive members into the Plan. Projections are based upon 96,000 plus lives as opposed to the 101,000 lives from last year.

Commissioner Rodriguez moved to accept the budget with an extension to revisit the budget when the new CEO comes on board in September. Commissioner Juarez seconded. The motion carried. **Approved 8-0.**

#### **4. ADOPTION OF PERSONNEL, RULES, REGULATIONS AND POLICIES**

Agenda Item #4, #6 and #7 were taken together.

#### **5. ADOPTION OF SALARY SCHEDULE**

Interim CEO Undlin reported that she met with the Human Resources Compensation Committee and established minimum and maximum salary ranges for the job positions in the organization. There are seven levels per position. Based upon this review and a review of current salaries it will require approximately \$45,000 for adjustments to bring some employees up to the minimum.

Commissioner Juarez added that the Committee discussed that since the amounts were fairly minimal and some people were brought in at a lower range this is why the salary adjustments were needed. Most are in the \$1,200-\$1,500 range. He stated that the Committee recommended that the Commission approve the budget and the salary increases for the entry level employees.

Commissioner Juarez moved to approve the adoption of the Salary Schedule and salary increases for those staff members. Commissioner Araujo seconded. The motion carried. **Approved 8-0.**

## 6. ADOPTION OF HAZARD COMMUNICATION PROGRAM

Agenda Item #4, #6 and #7 were taken together.

## 7. ADOPTION OF INJURY AND ILLNESS PREVENTION PROGRAM

Interim CEO Undlin noted that RGS allowed Gold Coast Health Plan to use their Personnel, Rules, Regulations and Policies; Hazard Communication Program and their Injury and Illness Prevention Program. Interim CEO Undlin was requesting approval with the idea that the new CEO will work on recreating these policies on a timeframe with his vision of the organization.

Commissioner Juarez stressed that there were personnel policies that had been discussed at the Human Resources Compensation Committee, such as the benefit package being at 42% and he was not pleased were still in the policies. Interim CEO Undlin responded that the comments were duly noted and the intent is to roll over the current staff on day one.

Legal Counsel Schreiner stated the policies and benefit plans will go into effect on September 2, 2012, but can be amended and / or revised in the future and provided to all employees after the new CEO has had an opportunity to review them. Interim CEO Undlin explained that a hiring freeze has been issued until this has been reviewed. Legal Counsel Schreiner noted that the benefits listed are what is being offered to employees receiving employment agreement letters and that they are in effect until the Commission adopts or rescinds them. She added that the CEO does not have authority to change the personnel rules.

Commissioner Dial moved Agenda Item #4 *Adoption of Personnel, Rules, Regulations and Policies*; Agenda Item #6 *Adoption of Hazard Communication Program* and Agenda Item #7 *Adoption of Injury and Illness Prevention Program* and no new employees be hired effective after September 2, 2012 until the benefit package has been reviewed by the new incoming CEO and brought back to the Commission. Commissioner Juarez seconded. The motion carried. **Approved 8-0.**

## 8. ADOPTION OF CODE OF CONDUCT

Interim CEO Undlin noted that she put together the Code of Conduct along with staff, but that it went through the Compliance Committee. Commissioner Rodriguez and Legal Counsel Schreiner attended the meeting. It details what is expected in the way employees are to conduct business. Commissioner Juarez questioned the Commission being held under different standards. Commissioner Rodriguez explained that it has been reviewed and the Commission is held under higher standards (i.e. gifts, etc.).

Commissioner Rodriguez moved to approve the adoption of the Code of Conduct. Commissioner Berry seconded. The motion carried. **Approved 8-0.**



## **9. APPOINTMENT OF PROVIDER ADVISORY COMMITTEE**

A recommendation was brought forward by a Provider Advisory Committee Member to fill the position left open by Terrie Stanley with Joan Araujo.

Commissioner Berry moved to appoint Joan Araujo to the Provider Advisory Committee; Commissioner Fankhauser seconded. The motion carried. **Approved 7-0**, Commissioner Araujo recused himself.

## **ADJOURN TO CLOSED SESSION GC§ 54956.9**

- **Conference with Legal Counsel-Anticipated Litigation pursuant to Government Code Section 54956.9 (3 case)**

The Commission adjourned to Closed Session at 4:55 pm.

## **RETURN TO OPEN SESSION**

The Regular Meeting reconvened at 6:10 p.m. There were no announcements made from Closed Session.

## **COMMENTS FROM COMMISSIONERS**

Commissioner Berry noted that the Outreach Advisory Committee is doing an outstanding job.

## **ADJOURNMENT**

Meeting adjourned at 6:15 pm.

**GOLD COAST HEALTH PLAN**  
**SUMMARY FINANCIAL RESULTS**  
Rolling Twelve Months Actual Trend

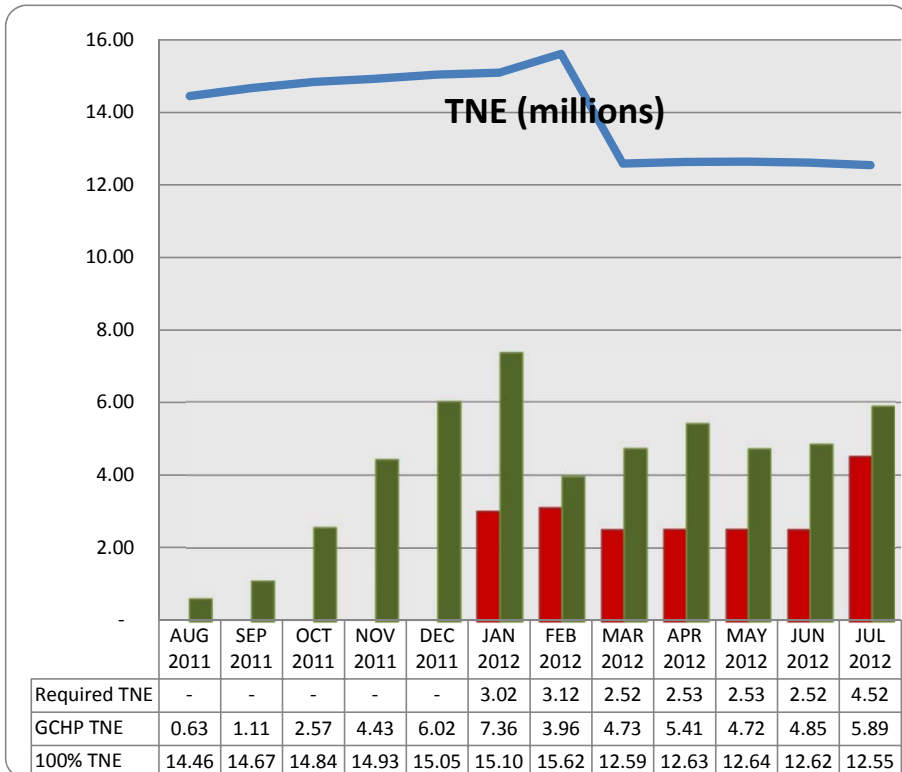
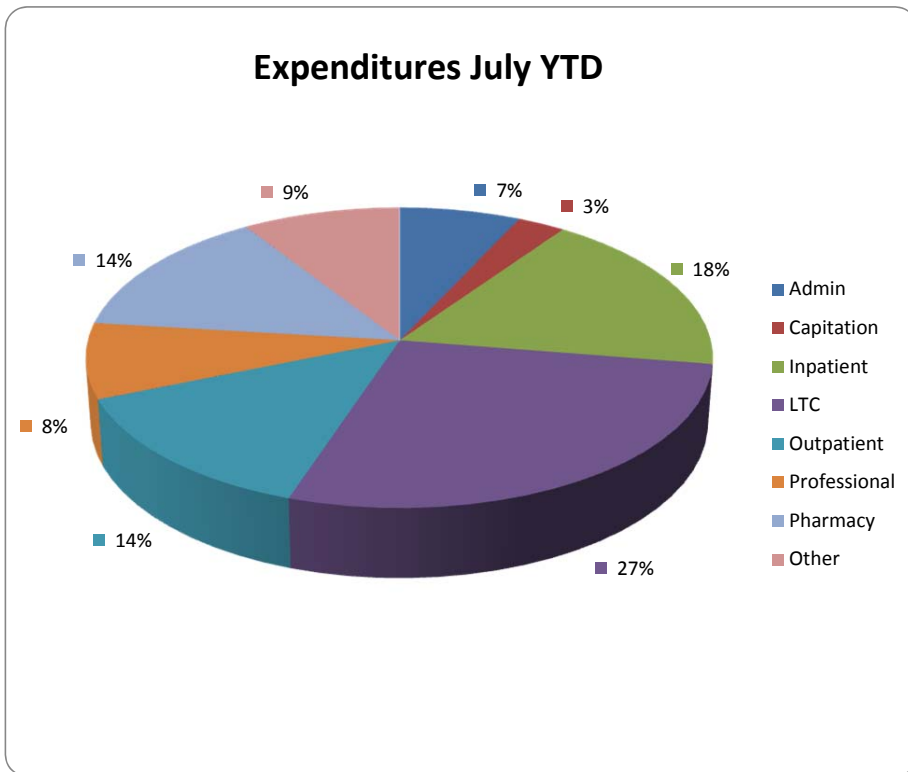
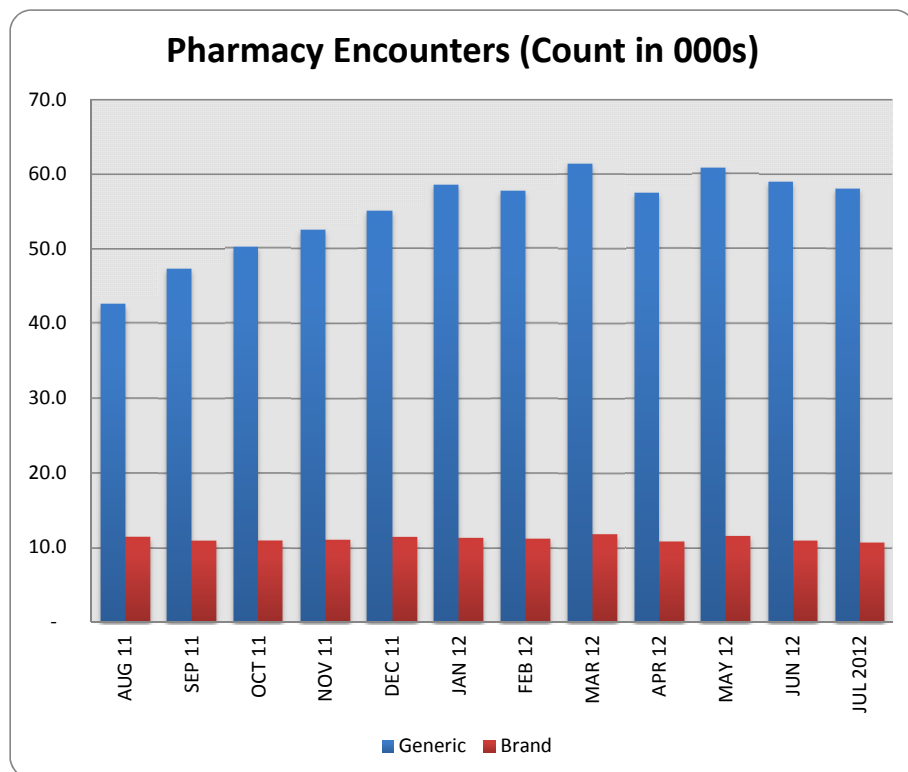
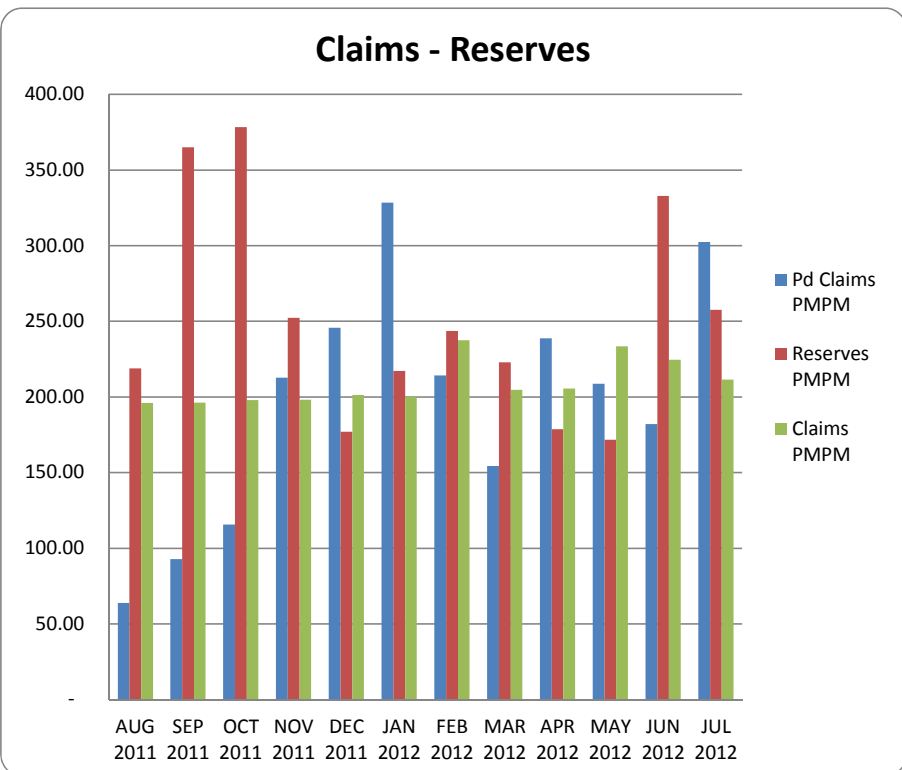
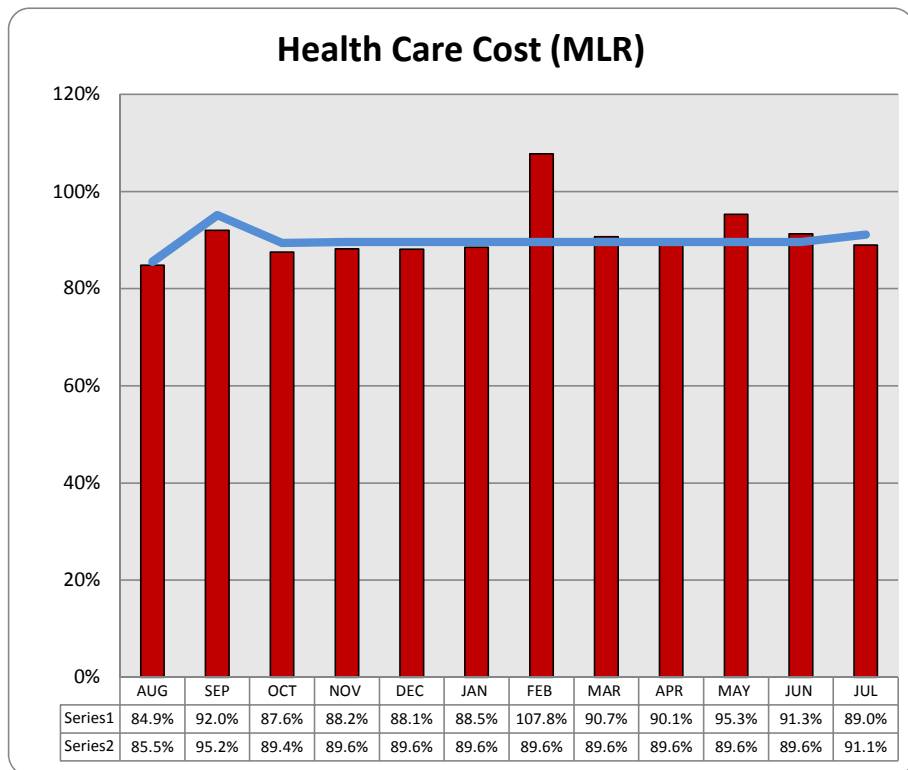
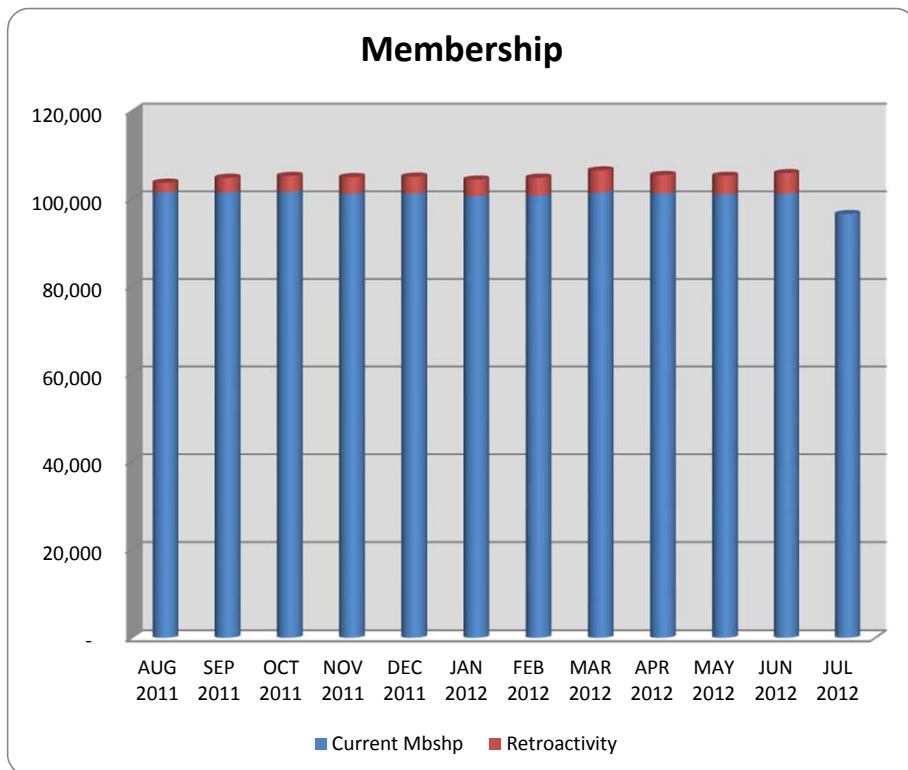
Description	Actual August 2011 - June 2012 Monthly Results											Actual 2012
	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
Member Months	103,689	104,821	105,245	104,979	105,079	104,418	104,839	106,503	105,446	105,262	105,875	96,540
<b>Revenue</b>	<b>25,035,423</b>	<b>23,740,361</b>	<b>25,199,998</b>	<b>24,946,694</b>	<b>25,440,875</b>	<b>24,990,447</b>	<b>24,231,927</b>	<b>25,411,162</b>	<b>25,427,262</b>	<b>25,299,965</b>	<b>25,447,390</b>	<b>23,806,175</b>
<i>pmpm</i>	241.45	226.48	239.44	237.64	242.11	239.33	231.13	238.60	241.14	240.35	240.35	246.59
<b>Health Care Costs</b>	<b>21,245,838</b>	<b>21,839,899</b>	<b>22,065,987</b>	<b>22,003,480</b>	<b>22,415,249</b>	<b>22,121,202</b>	<b>26,111,143</b>	<b>23,045,202</b>	<b>22,918,149</b>	<b>24,107,688</b>	<b>23,225,105</b>	<b>21,181,745</b>
<i>pmpm</i>	204.90	208.35	209.66	209.60	213.32	211.85	249.06	216.38	217.34	229.03	219.36	219.41
% of Revenue	84.9%	92.0%	87.6%	88.2%	88.1%	88.5%	107.8%	90.7%	90.1%	95.3%	91.3%	89.0%
							(1)		(2)			
<b>Admin Exp</b>	<b>1,354,008</b>	<b>1,413,721</b>	<b>1,672,837</b>	<b>1,084,862</b>	<b>1,440,127</b>	<b>1,529,225</b>	<b>1,516,129</b>	<b>1,615,365</b>	<b>1,829,630</b>	<b>1,883,097</b>	<b>2,092,320</b>	<b>1,587,586</b>
<i>pmpm</i>	13.06	13.49	15.89	10.33	13.71	14.65	14.46	15.17	17.35	17.89	19.76	16.44
% of Revenue	5.4%	6.0%	6.6%	4.3%	5.7%	6.1%	6.3%	6.4%	7.2%	7.4%	8.2%	6.7%
<b>Net Income</b>	<b>2,435,577</b>	<b>486,741</b>	<b>1,461,174</b>	<b>1,858,351</b>	<b>1,585,499</b>	<b>1,340,019</b>	<b>(3,395,346)</b>	<b>750,595</b>	<b>679,482</b>	<b>(690,820)</b>	<b>129,965</b>	<b>1,036,844</b>
<i>pmpm</i>	23.49	4.64	13.88	17.70	15.09	12.83	(32.39)	7.05	6.44	(6.56)	1.23	10.74
% of Revenue	9.7%	2.1%	5.8%	7.4%	6.2%	5.4%	-14.0%	3.0%	2.7%	-2.7%	0.5%	4.4%
100% TNE	14,455,522	14,671,236	14,837,677	14,925,890	15,048,230	15,101,073	15,615,661	15,685,187	15,730,358	15,793,552	15,797,312	12,549,950
Required TNE	-	-	-	-	-	3,020,215	3,123,132	3,137,037	3,146,072	3,158,710	3,137,023	4,517,982
<b>GCHP TNE</b>	<b>627,031</b>	<b>1,113,773</b>	<b>2,574,946</b>	<b>4,433,298</b>	<b>6,018,797</b>	<b>7,358,815</b>	<b>3,963,469</b>	<b>4,714,065</b>	<b>5,393,547</b>	<b>4,702,727</b>	<b>4,832,692</b>	<b>5,888,836</b>

Note (1): February Health Care Costs include \$4M added to reserves pursuant to updated Milliman IBNR methodology.

Note (2): May Health Care Costs include \$3M added to reserves.

Note (3): June Health Care Costs include \$2M added to IBNR.

GOLD COAST HEALTH PLAN  
Financial Scorecard - July 2012



	AUG 2011	SEP 2011	OCT 2011	NOV 2011	DEC 2011	JAN 2012	FEB 2012	MAR 2012	APR 2012	MAY 2012	JUN 2012	JUL 2012
Required TNE	-	-	-	-	-	3.02	3.12	2.52	2.53	2.53	2.52	4.52
GCHP TNE	0.63	1.11	2.57	4.43	6.02	7.36	3.96	4.73	5.41	4.72	4.85	5.89
100% TNE	14.46	14.67	14.84	14.93	15.05	15.10	15.62	12.59	12.63	12.64	12.62	12.55

**Gold Coast Health Plan**  
**Comparative Balance Sheet**  
**July 31, 2012**

	<u>7/31/12</u>	<u>6/30/12</u>	<u>6/30/11</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
<b>Total Cash and Cash Equivalents</b>	<b>24,424,061</b>	<b>23,740,502</b>	<b>660,697</b>
Medi-Cal Receivable	26,815,002	28,534,938	-
Provider Receivable	3,128,213	6,233,287	-
Other Receivables	1,346,264	1,367,855	9,155
<b>Total Accounts Receivable</b>	<b>31,289,479</b>	<b>36,136,079</b>	<b>9,155</b>
Total Prepaid Accounts	1,092,941	1,128,838	40,127
Total Other Current Assets	375,000	750,000	-
<b>Total Current Assets</b>	<b>57,181,482</b>	<b>61,755,420</b>	<b>709,979</b>
<b>Total Fixed Assets</b>	<b>92,492</b>	<b>94,298</b>	<b>87,638</b>
<b>Total Assets</b>	<b>57,273,974</b>	<b>61,849,718</b>	<b>797,617</b>
<b>LIABILITIES &amp; FUND BALANCE</b>			
<b>Current Liabilities</b>			
Incurred But Not Reported	24,868,367	35,251,106	-
Claims Payable	10,889,499	9,284,705	-
Capitation Payable	624,487	633,276	-
Accrued Premium Reduction	7,287,718	6,700,285	-
Accounts Payable	4,244,099	1,788,086	47,377
Accrued Expenses	-	-	201,553
Accrued ACS	-	-	1,329,863
Accrued RGS	-	375,000	1,301,643
Accrued Premium Tax	1,188,600	602,900	-
Current Portion of Deferred Revenue	460,000	460,000	-
Current Portion Of Long Term Debt	500,000	500,000	500,000
<b>Total Current Liabilities</b>	<b>50,062,771</b>	<b>55,595,360</b>	<b>3,380,436</b>
<b>Long-Term Liabilities</b>			
Other Long-term Liability	-	41,667	-
Deferred Revenue - Long Term Portion	1,341,667	1,380,000	1,840,000
<b>Total Long-Term Liabilities</b>	<b>1,341,667</b>	<b>1,421,667</b>	<b>1,840,000</b>
<b>Total Liabilities</b>	<b>51,404,438</b>	<b>57,017,026</b>	<b>5,220,436</b>
Beginning Fund Balance	4,832,692	(4,422,819)	-
Net Income Current Year	1,036,844	9,255,511	(4,422,819)
<b>Total Fund Balance</b>	<b>5,869,535</b>	<b>4,832,692</b>	<b>(4,422,819)</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>57,273,974</b>	<b>61,849,718</b>	<b>797,617</b>

**Gold Coast Health Plan**  
**Income Statement Comparison**  
**For The Period Ended July 31, 2012**

	2012 Actual Trend			July'12 Month-To-Date		Variance
	Apr	May	Jun	Actual	Budget	Fav/(Unfav)
<b>Membership</b>	101,272	101,041	101,207	96,540	96,540	-
<b>Revenue:</b>						
Premium	\$ 26,558,134	\$ 26,432,002	\$ 26,583,453	\$ 24,923,409	\$ 24,937,223	\$ (13,814)
Reserve for Rate Reduction	(563,998)	(564,990)	(565,653)	(587,433)	(588,844)	1,411
MCO Premium Tax	(624,116)	(621,152)	(624,711)	(585,700)	(586,025)	325
<b>Total Net Premium</b>	<b>25,370,020</b>	<b>25,245,860</b>	<b>25,393,089</b>	<b>23,750,276</b>	<b>23,762,354</b>	<b>(12,078)</b>
<b>Other Revenue:</b>						
Interest Income	18,908	15,771	15,968	17,566	14,962	2,604
Miscellaneous Income	38,333	38,333	38,333	38,333	38,333	0
<b>Total Other Revenue</b>	<b>57,242</b>	<b>54,105</b>	<b>54,301</b>	<b>55,899</b>	<b>53,295</b>	<b>2,604</b>
<b>Total Revenue</b>	<b>25,427,262</b>	<b>25,299,965</b>	<b>25,447,390</b>	<b>23,806,175</b>	<b>23,815,649</b>	<b>(9,474)</b>
<b>Medical Expenses:</b>						
<u>Capitation</u>	631,706	634,809	633,276	624,487	626,428	1,941
<u>Incurred Claims:</u>						
Inpatient	4,414,111	5,050,059	4,879,263	4,053,600	4,194,405	140,805
LTC/SNF	6,540,243	7,675,933	7,307,150	6,286,933	5,962,631	(324,302)
Outpatient	2,659,531	3,049,193	2,941,681	2,431,578	2,513,376	81,798
Laboratory and Radiology	224,241	255,670	247,691	204,092	210,489	6,397
Emergency Room Facility Services	516,532	595,058	571,756	469,752	485,905	16,153
Physician Specialty Services	2,014,947	2,300,063	2,226,777	1,848,209	1,898,845	50,636
Pharmacy	3,244,925	3,292,480	3,330,093	3,186,191	3,205,671	19,480
Other Medical Professional	281,320	312,135	304,096	263,752	199,088	(64,664)
Other Medical Care Expenses	-	-	504	836	-	(836)
Other Fee For Service Expense	1,496,864	1,706,929	1,655,161	1,410,880	1,416,591	5,711
Transportation	290,339	333,734	321,236	272,336	271,491	(845)
Total Claims	21,683,054	24,571,254	23,785,408	20,428,159	20,358,492	(69,667)
Medical & Care Management Expense	511,080	529,018	545,482	516,815	503,219	(13,596)
Reinsurance	92,309	92,158	91,947	224,938	224,938	(0)
Claims Recoveries		(1,719,551)	(1,831,008)	(612,655)	-	612,655
Sub-total	603,390	(1,098,376)	(1,193,579)	129,099	<b>728,157</b>	599,058
<b>Total Cost of Health Care</b>	<b>22,918,149</b>	<b>24,107,688</b>	<b>23,225,105</b>	<b>21,181,745</b>	<b>21,713,077</b>	<b>531,332</b>
<b>Contribution Margin</b>	<b>2,509,112</b>	<b>1,192,277</b>	<b>2,222,285</b>	<b>2,624,430</b>	<b>2,102,572</b>	<b>521,858</b>
<b>General &amp; Administrative Expenses:</b>						
Salaries and Wages	239,560	301,593	310,409	311,747	288,889	(22,858)
Payroll Taxes and Benefits	83,567	88,190	118,072	108,967	99,910	(9,057)
Total Travel and Training	2,856	2,005	4,833	1,472	7,117	5,645
Outside Service - ACS	940,899	956,991	910,666	864,935	867,355	2,420
Outside Service - RGS	9,056	9,732	10,198	10,858	10,196	(662)
Outside Services - Other	266,888	289,582	12,001	10,257	40,697	30,440
Accounting & Actuarial Services	52,750	28,495	42,907	-	7,500	7,500
Legal Expense	33,002	2,350	85,387	13,600	11,500	(2,100)
Insurance	2,959	2,959	2,958	3,424	3,255	(169)
Lease Expense - Office	10,269	11,869	8,389	11,869	13,420	1,551
Consulting Services Expense	44,007	69,350	269,744	121,319	24,640	(96,679)
Translation Services	550	1,051	2,736	1,020	743	(277)
Advertising and Promotion Expense	8,384	9,466	-	3,500	-	(3,500)
General Office Expenses	112,799	61,719	76,450	45,869	48,486	2,617
Depreciation & Amortization Expense	1,461	1,461	1,461	1,806	1,806	(0)
Printing Expense	1,995	2,977	27,618	2,386	2,001	(385)
Shipping & Postage Expense	1,868	2,467	155,250	13,572	415	(13,157)
Interest Exp	16,761	40,841	53,241	60,986	22,005	(38,981)
<b>Total G &amp; A Expenses</b>	<b>1,829,630</b>	<b>1,883,097</b>	<b>2,092,320</b>	<b>1,587,586</b>	<b>1,449,935</b>	<b>(137,651)</b>
<b>Net Income / (Loss)</b>	<b>\$ 679,482</b>	<b>\$ (690,820)</b>	<b>\$ 129,965</b>	<b>\$ 1,036,844</b>	<b>\$ 652,637</b>	<b>\$ 659,510</b>

**Gold Coast Health Plan**  
**PMPM Income Statement Comparison**  
For The Period Ended July 31, 2012

	2012 Actual Trend			July'12 Month-To-Date		Variance Fav/(Unfav)
	Apr	May	Jun	Actual	Budget	
<b>Members (Member/Months)</b>	101,272	101,041	101,207	96,540	96,540	-
<b>Revenue:</b>						
Premium	262.25	261.60	262.66	258.17	258.31	(0.14)
Reserve for Rate Reduction	(5.57)	(5.59)	(5.59)	(6.08)	(6.10)	0.01
MCO Premium Tax	(6.16)	(6.15)	(6.17)	(6.07)	(6.07)	0.00
<b>Total Net Premium</b>	<b>250.51</b>	<b>249.86</b>	<b>250.90</b>	<b>246.01</b>	<b>246.14</b>	<b>(0.13)</b>
<b>Other Revenue:</b>						
Interest Income	0.19	0.16	0.16	0.18	0.15	0.03
Miscellaneous Income	0.38	0.38	0.38	0.40	0.40	0.00
<b>Total Other Revenue</b>	<b>0.57</b>	<b>0.54</b>	<b>0.54</b>	<b>0.58</b>	<b>0.53</b>	<b>0.05</b>
<b>Total Revenue</b>	<b>251.08</b>	<b>250.39</b>	<b>251.44</b>	<b>246.59</b>	<b>246.69</b>	<b>(0.10)</b>
<b>Medical Expenses:</b>						
<u>Capitation</u>	6.24	6.28	6.26	6.47	6.49	(0.02)
<u>Incurred Claims:</u>						
Inpatient	43.59	49.98	48.21	41.99	43.45	(1.46)
LTC/SNF	64.58	75.97	72.20	65.12	61.76	3.36
Outpatient	26.26	30.18	29.07	25.19	26.03	(0.85)
Laboratory and Radiology	2.21	2.53	2.45	2.11	2.18	(0.07)
Emergency Room Facility Services	5.10	5.89	5.65	4.87	5.03	(0.17)
Physician Specialty Services	19.90	22.76	22.00	19.14	19.67	(0.52)
Pharmacy	32.04	32.59	32.90	33.00	33.21	(0.20)
Other Medical Professional	2.78	3.09	3.00	2.73	2.06	0.67
Other Medical Care Expenses	-	-	0.00	0.01	-	0.01
Other Fee For Service Expense	14.78	16.89	16.35	14.61	14.67	(0.06)
Transportation FFS	2.87	3.30	3.17	2.82	2.81	0.01
<b>Total Claims</b>	<b>214.24</b>	<b>243.18</b>	<b>235.02</b>	<b>211.60</b>	<b>210.88</b>	<b>0.72</b>
Medical & Care Management	5.05	5.24	5.39	5.35	5.21	0.14
Reinsurance	0.91	0.91	0.91	2.33	2.33	0.00
Claims Recoveries	-	(17.02)	(18.09)	(6.35)	-	(6.35)
<b>Sub-total</b>	<b>5.96</b>	<b>(10.87)</b>	<b>(11.79)</b>	<b>1.34</b>	<b>7.19</b>	<b>(5.86)</b>
<b>Total Cost of Health Care</b>	<b>226.30</b>	<b>238.59</b>	<b>229.48</b>	<b>219.41</b>	<b>224.91</b>	<b>(5.50)</b>
<b>Contribution Margin</b>	<b>24.78</b>	<b>11.80</b>	<b>21.96</b>	<b>27.18</b>	<b>21.78</b>	<b>5.41</b>
<b>Administrative Expenses</b>						
Salaries and Wages	2.37	2.98	3.07	3.23	2.99	0.24
Payroll Taxes and Benefits	0.83	0.87	1.17	1.13	1.03	0.09
Total Travel and Training	0.03	0.02	0.05	0.02	0.07	(0.06)
Outside Service - ACS	9.29	9.47	9.00	8.96	8.98	(0.03)
Outside Service - RGS	0.09	0.10	0.10	0.11	0.11	0.01
Outside Services - Other	2.64	2.87	0.12	0.11	0.42	(0.32)
Accounting & Actuarial Services	0.52	0.28	0.42	-	0.08	(0.08)
Legal Expense	0.33	0.02	0.84	0.14	0.12	0.02
Insurance	0.03	0.03	0.03	0.04	0.03	0.00
Lease Expense -Office	0.10	0.12	0.08	0.12	0.14	(0.02)
Consulting Services Expense	0.43	0.69	2.67	1.26	0.26	1.00
Translation Services	0.01	0.01	0.03	0.01	0.01	0.00
Advertising and Promotion Expense	0.08	0.09	-	0.04	-	0.04
General Office Expenses	1.11	0.61	0.76	0.48	0.50	(0.03)
Depreciation & Amortization Expense	0.01	0.03	0.01	0.02	0.02	0.01
Printing Expense	0.02	0.02	0.27	0.14	0.02	0.12
Shipping & Postage Expense	0.02	0.40	1.53	0.63	0.00	0.63
Interest Exp	0.17	-	0.53	-	0.23	(0.23)
<b>Total Administrative Expenses</b>	<b>18.07</b>	<b>18.64</b>	<b>20.67</b>	<b>16.44</b>	<b>15.02</b>	<b>1.43</b>
<b>Net Income / (Loss)</b>	<b>6.71</b>	<b>(6.84)</b>	<b>1.28</b>	<b>10.74</b>	<b>6.76</b>	<b>3.98</b>

**Gold Coast Health Plan**  
**Income Statement Comparison**  
**July vs. June 2012 Actual Month Activity**

	2012 Actual		\$ Variance Fav/(Unfav)	% Variance Fav/(Unfav)	Explanation
	JUN	JUL			
<b>Members (Member/Months)</b>	101,207	96,540	(4,667)		
<b>Revenue</b>					
Premium	\$ 26,583,453	\$ 24,923,409	\$ (1,660,044)	-6.2%	Rates revised by State and lower membership
Reserve for Retro-Active Rate Reduction	(565,653)	(587,433)	(21,780)	-3.9%	
MCO Tax	(624,711)	(585,700)	39,011	-6.2%	
<b>Total Net Premium</b>	<b>25,393,089</b>	<b>23,750,276</b>	<b>(1,642,813)</b>	<b>-6.5%</b>	
<b>Other Revenue:</b>					
Interest Income	15,968	17,566	1,598	10.0%	
Miscellaneous Income	38,333	38,333	0	0.0%	
<b>Total Other Revenue</b>	<b>54,301</b>	<b>55,899</b>	<b>1,598</b>	<b>2.9%</b>	
<b>Total Revenue</b>	<b>25,447,390</b>	<b>23,806,175</b>	<b>(1,641,215)</b>	<b>-6.4%</b>	
<b>Medical Expenses:</b>					
<u>Capitation</u>	633,276	624,487	8,789	1.4%	
<u>Incurred Claims</u>					
Inpatient	4,879,263	4,053,600	825,663	16.9%	\$2M added to IBNR, in June effected all categories of incurred claims expense except for Pharmacy
LTC/SNF	7,307,150	6,286,933	1,020,217	14.0%	Lower July expenses
Outpatient	2,941,681	2,431,578	510,103	17.3%	
Laboratory and Radiology	247,691	204,092	43,599	17.6%	
Emergency Room Facility Services	571,756	469,752	102,004	17.8%	
Physician Specialty Services	2,226,777	1,848,209	378,568	17.0%	
Pharmacy	3,330,093	3,186,191	143,902	4.3%	Lower utilization in July
Other Medical Professional	304,096	263,752	40,344	13.3%	
Other Medical Care	504	836	(332)	-65.9%	
Other Fee For Service	1,655,161	1,410,880	244,281	14.8%	
Transportation	321,236	272,336	48,900	15.2%	
<b>Total Claims</b>	<b>23,785,408</b>	<b>20,428,159</b>	<b>3,357,249</b>	<b>14.1%</b>	
Medical & Care Management	545,482	516,815	28,667	5.3%	
Reinsurance	91,947	224,938	(132,991)	-144.6%	
Claims Recoveries	(1,831,008)	(612,655)	(1,218,353)	66.5%	
<b>Sub-total</b>	<b>(1,193,579)</b>	<b>129,099</b>	<b>(1,322,678)</b>	<b>110.8%</b>	
<b>Total Cost of Health Care</b>	<b>23,225,105</b>	<b>21,181,745</b>	<b>2,043,359</b>	<b>8.8%</b>	
<b>Contribution Margin</b>	<b>2,222,285</b>	<b>2,624,430</b>	<b>(402,145)</b>	<b>-18.1%</b>	
<b>Administrative Expenses</b>					
Salaries and Wages	310,409	311,747	(1,338)	-0.4%	
Payroll Taxes and Benefits	118,072	108,967	9,105	7.7%	
Total Travel and Training	4,833	1,472	3,361	69.5%	
Outside Service - ACS	910,666	864,935	45,731	5.0%	Decrease in July membership resulted in lower expense billed by ASC
Outside Service - RGS	10,198	10,858	(660)	-6.5%	
Outside Services - Other	12,001	10,257	1,744	14.5%	
Accounting & Actuarial Services	42,907	-	42,907	100.0%	Milliman billing in June for IBNR analysis and data warehouse project
Legal Expense	85,387	13,600	71,787	84.1%	RGS, Nordman Cormany Hair and Compton LLP billing in June
Insurance	2,958	3,424	(466)	-15.7%	
Lease Expense -Office	8,389	11,869	(3,480)	-41.5%	
Consulting Services Expense	269,744	121,319	148,425	55.0%	Tatum, RGS, Jennifer Palm, Ann McCarty higher billing in June
Translation Services	2,736	1,020	1,716	62.7%	
Advertising and Promotion Expense	-	3,500	(3,500)	-100.0%	
General Office Expenses	76,450	45,869	30,581	40.0%	
Depreciation & Amortization Expense	1,461	1,806	(345)	-23.6%	
Printing Expense	27,618	2,386	25,232	91.4%	Resolved disputed charge resulted in higher June payment
Shipping & Postage Expense	155,250	13,572	141,678	91.3%	Resolved disputed charge resulted in higher June payment
Interest Exp	53,241	60,986	(7,745)	-14.5%	
<b>Total Administrative Expenses</b>	<b>2,092,320</b>	<b>1,587,586</b>	<b>504,734</b>	<b>24.1%</b>	
<b>Net Income / (Loss)</b>	<b>\$ 129,965</b>	<b>\$ 1,036,844</b>	<b>\$ 906,878</b>	<b>-697.8%</b>	

**Gold Coast Health Plan**  
**General Office Expense**  
**Period Ended July 31, 2012**

	<b>JUN 2012</b>	<b>JUL 2012</b>
Committee/Advisory	1,150	-
Non-Capital - Furniture & Equip.	10,212	580
Non-Capital Equipment - Computer	9,071	5,650
Software Licenses	11,671	24,590
Repairs & Maintenance	7,243	631
Telephone Services/ Internet Charges	11,245	1,825
Office & Operating Supplies	12,390	869
Bank Service Fees Expense	192	37
EE Recruitment	6,664	5,942
Prof Dues, Fees and Licenses	6,163	5,427
Subscriptions and Publications	450	319
<b>General Office Expenses</b>	<b>76,450</b>	<b>45,869</b>



**Gold Coast Health Plan**  
**Statement of Cash Flows**  
**Month Ended July 31, 2012**

Cash Flow From Operating Activities	
Collected Premium	26,643,345
Miscellaneous Income	17,566
<u>Paid Claims</u>	
Medical & Hospital Expenses	(22,626,234)
Pharmacy	(1,929,229)
Capitation	(633,276)
Reinsurance of Claims	(41,086)
Reinsurance Recoveries	-
Payment of Withhold / Risk Sharing Incentive	-
Paid Administration	(747,526)
Repay Initial Net Liabilities	-
MCO Taxes Expense	-
Net Cash Provided/(Used) by Operating Activities	<b>683,559</b>
Cash Flow From Investing/Financing Activities	
Proceeds from Paid in Surplus/Issuance of Stock	-
Costs of Capitalization	-
Net Acquisition of Property/Equipment	-
Net Cash Provided/(Used) by Investing/Financing	-
<b>Net Cash Flow</b>	<b>683,559</b>
Cash and Cash Equivalents (Beg. of Period)	23,740,502
Cash and Cash Equivalents (End of Period)	24,424,061
	<b>683,559</b>
Adjustment to Reconcile Net Income to Net Cash Flow	
Net Income/(Loss)	1,036,844
Depreciation & Amortization	1,806
Decrease/(Increase) in Receivables	4,846,600
Decrease/(Increase) in Prepaids & Other Current Assets	410,897
(Decrease)/Increase in Payables	2,081,013
(Decrease)/Increase in LT Liabilities	(80,000)
Purchase of fixed Assets	-
Changes in Withhold / Risk Incentive Pool	-
Change in MCO Tax Liability	585,700
Changes in Claims and Capitation Payable	2,183,438
Changes in IBNR	(10,382,739)
	<b>683,559</b>
<b>Net Cash Flow from Operating Activities</b>	<b>683,559</b>

## Brand vs. Generic Prescription Drugs Comparison

FOR THE MONTH ENDED JULY 31, 2012

### Summary Key Points

- Membership enrollment remains steady.
- Utilization is 23.0% of total enrollment.
- **Cost Per Claim Summary:**
  - Total number of claims paid per member is 0.07 favorable to budget (0.71 Actual vs. 0.78 Budget).
  - The average cost per claim for the month ended July 31, 2012 is \$177.44 (Brand) vs. \$21.96 (Generic). Generic tends to remain flat but Brand tends to fluctuate in relation to fluctuations in number of claims paid and utilization.
  - Plan combined (Brand and Generic) expense is \$20K favorable in comparison to budget (\$3.19M Actual vs. \$3.21M Budget); cost per pmpm is \$.21 favorable to budget (\$33.00 Actual vs. \$33.21 Budget).
  - The actual cost combined (Brand and Generic) per encounter amount to \$46.22 as compared to a budgeted \$42.46, resulting in (\$3.75) unfavorable variance .
  - Brand accounted for 15.6% and Generic of 84.4% of total Pharmacy orders.

# Gold Coast Health Plan

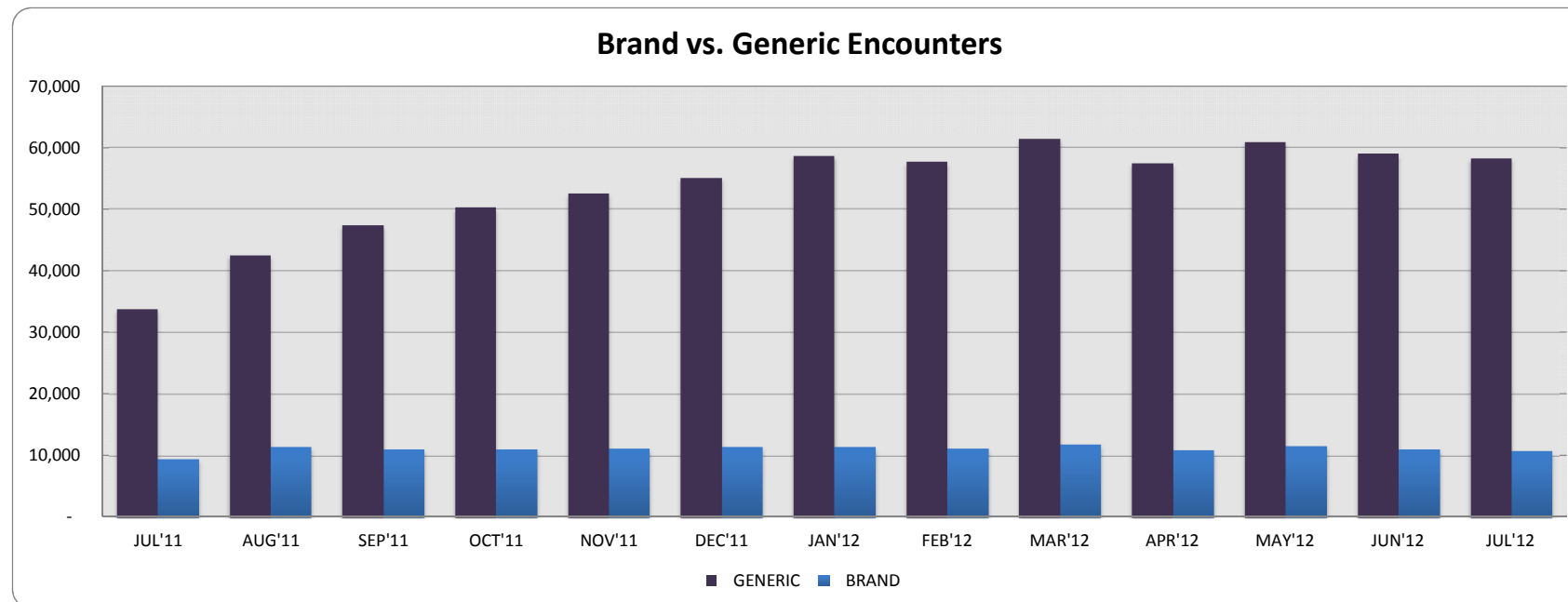
Script Care Plan Utilization and Cost Trend  
For The Month Ended July 31, 2012

	JUL'11	AUG'11	SEP'11	OCT'11	NOV'11	DEC'11	JAN'12	FEB'12	MAR'12	APR'12	MAY'12	JUN'12	JUL'12	BUDGET	FAV/ (UNFAV)
<b>Enrollment</b> <sup>1</sup>	102,033	101,487	101,470	101,619	101,174	101,243	100,636	100,768	101,439	101,272	101,041	101,207	96,540	96,540	-
<b>Utilization</b> <sup>2</sup>	16,567	19,366	20,731	21,710	22,389	23,000	23,775	23,926	24,981	23,349	24,216	23,089	22,167		
% (enrollment)	16.2%	19.1%	20.4%	21.4%	22.1%	22.7%	23.6%	23.7%	24.6%	23.1%	24.0%	22.8%	23.0%		
<b>Number Of Claims Paid</b> <sup>2</sup>															
BRAND	9,545	11,471	11,068	11,060	11,197	11,482	11,421	11,267	11,903	10,888	11,617	11,052	10,757	18,873	8,116
GENERIC	33,835	42,558	47,334	50,240	52,560	55,093	58,588	57,714	61,435	57,443	60,861	58,950	58,183	56,618	(1,565)
Total	43,380	54,029	58,402	61,300	63,757	66,575	70,009	68,981	73,338	68,331	72,478	70,002	68,940	75,491	6,551
pmpm	0.43	0.53	0.58	0.60	0.63	0.66	0.70	0.68	0.72	0.67	0.72	0.69	0.71	0.78	0.07
BRAND %	22.0%	21.2%	19.0%	18.0%	17.6%	17.2%	16.3%	16.3%	16.2%	15.9%	16.0%	15.8%	15.6%	25.0%	9.4%
GENERIC %	78.0%	78.8%	81.0%	82.0%	82.4%	82.8%	83.7%	83.7%	83.8%	84.1%	84.0%	84.2%	84.4%	75.0%	-9.4%
<b>Plan Cost</b> <sup>2</sup>															
BRAND	1,551,076	1,802,384	1,733,036	1,800,249	1,760,284	1,963,430	1,815,536	1,816,430	1,908,982	1,951,084	1,939,649	2,056,168	1,908,700		
GENERIC	725,182	899,611	1,014,144	1,100,743	1,153,712	1,254,143	1,304,658	1,259,202	1,348,636	1,293,842	1,370,173	1,273,925	1,277,492		
Total	\$ 2,276,259	\$ 2,701,995	\$ 2,747,179	\$ 2,900,992	\$ 2,913,996	\$ 3,217,573	\$ 3,120,194	\$ 3,075,632	\$ 3,257,618	\$ 3,244,925	\$ 3,309,822	\$ 3,330,093	\$ 3,186,191	\$ 3,205,671	\$ 19,480
pmpm	\$22.31	\$26.62	\$27.07	\$28.55	\$28.80	\$31.78	\$31.00	\$30.52	\$32.11	\$32.04	\$32.76	\$32.90	\$33.00	\$33.21	\$0.20
avg. claim cost (Br & Gen)	\$52.47	\$50.01	\$47.04	\$47.32	\$45.70	\$48.33	\$44.57	\$44.59	\$44.42	\$47.49	\$45.67	\$47.57	\$46.22	\$42.46	(\$3.75)
BRAND %	68.1%	66.7%	63.1%	62.1%	60.4%	61.0%	58.2%	59.1%	58.6%	60.1%	58.6%	61.7%	59.9%		
GENERIC %	31.9%	33.3%	36.9%	37.9%	39.6%	39.0%	41.8%	40.9%	41.4%	39.9%	41.4%	38.3%	40.1%		
avg. claim cost (Brand)	\$162.50	\$157.13	\$156.58	\$162.77	\$157.21	\$171.00	\$158.96	\$161.22	\$160.38	\$179.20	\$166.97	\$186.04	\$177.44		
avg. claim cost (Generic)	\$21.43	\$21.14	\$21.43	\$21.91	\$21.95	\$22.76	\$22.27	\$21.82	\$21.95	\$22.52	\$22.51	\$21.61	\$21.96		

**Note:**

1) The actual stats obtained from California Department of Health Care Services.

2) The actual stats obtained from Script Care, Ltd.





McGladrey LLP

801 Nicollet Mall  
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Minneapolis, MN 55402-2526  
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August 20, 2012

Ms. Sonia M. DeMarta  
Interim Chief Financial Officer  
Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan  
2220 E. Gonzales Road, Ste. 200  
Oxnard, CA 93036

Dear Ms. DeMarta:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast) as of June 30, 2011. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, Gold Coast will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, Gold Coast also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor / client relationship has been terminated when Gold Coast seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

A handwritten signature in black ink that reads "Steve Draxler". The signature is written in a cursive, flowing style.

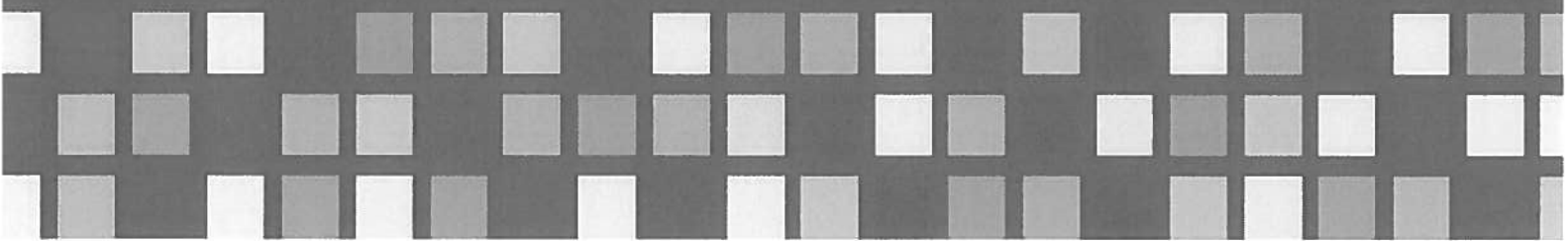
Steven J. Draxler, Partner  
612.376.9590

wpd  
Attachment

**Ventura County Medi-Cal Managed Care  
Commission/dba Gold Coast Health Plan**

**A Development-Stage Company**

Financial Report  
(With Independent Auditor's Report Theron)  
June 30, 2011



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**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Management's Discussion and Analysis**

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The intent of management's discussion and analysis of Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan's (Gold Coast or the Plan) financial performance is to provide readers with an overview of the agency's financial activities for the period from inception (April 26, 2010) through June 30, 2011. Readers should review this summation in conjunction with Gold Coast's financial statements and accompanying notes to the financial statements to enhance their understanding of Gold Coast's financial performance.

**GOLD COAST OVERVIEW**

On June 2, 2009, the Ventura County Board of Supervisors approved the implementation of a county-organized health system (COHS) model to transition from fee-for service Medi-Cal to a managed care model. Ordinance 4409 (April 2010) established the Ventura County Medi-Cal Managed Care Commission as an oversight entity. The Commission's 11 members oversee a single plan—Gold Coast Health Plan—to serve Ventura County Medi-Cal beneficiaries. The Plan began operations in July 2011.

As a COHS, Gold Coast entered into an exclusive contract with the State of California to arrange for the provision of health care services to Ventura County's approximately 100,000 Medi-Cal beneficiaries. The Plan will receive approximately 100 percent of its revenue in the form of capitation from the State of California.

Gold Coast's operations for the period ended June 30, 2011, consisted primarily of activities in support of the formation and startup of the health plan prior to the effective date of its contract with the State of California. Consequently, there were no revenues earned during this period, and the operations consisted entirely of administrative activities.

**FINANCIAL HIGHLIGHTS**

At June 30, 2011, Gold Coast had current assets consisting of \$660,697 in cash, \$9,155 in accounts receivable, and prepaid expenses of \$40,127. Capital assets amounted to \$87,638. Current liabilities consisted of \$47,377 in accounts payable, \$2,631,506 payable to contract vendors and \$201,553 in accrued expenses. Long-term debt and other long-term liabilities amounted to \$2,340,000. No capital was provided by the County of Ventura, and financing during the startup phase was provided in the form of favorable terms from suppliers and an implementation advance in the amount of \$2,300,000 under the terms of a vendor contract.

**RESULTS OF OPERATIONS**

Gold Coast's exclusive Medi-Cal contract was not effective until July 1, 2011, and as a result, the Plan had no revenues and incurred no medical benefit expenses for the period ended June 30, 2011. Expenses consisted of administrative costs during the formation and planning of the program. Regional Government Services (RGS) provides staffing and human resources support to Gold Coast. All Plan staff are employees of RGS, and as such all salaries and benefits are compensated through RGS. Salaries and benefits incurred through RGS amounted to \$2,049,283. Contract vendor fees for implementation costs and administrative services were \$1,143,760, and other professional fees were \$261,938. Expenses incurred for outreach activities, including postage and printing, amounted to \$495,293. All other expenses totaled \$472,545. The final result for the period was a net loss of \$4,422,819.

**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Management's Discussion and Analysis**

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**FISCAL 2012 ENROLLMENT, PREMIUM REVENUE, AND MEDICAL EXPENSES**

Certain representations included in this discussion contain expectations regarding the Plan's future performance, fiscal year 2012 risks, pending transactions/events, and the impact of new or proposed legislation. These "forward-looking statements" are based on currently available financial and economic data and operating plans. They are inherently uncertain, and readers must recognize that actual events and results may turn out to be significantly different from these expectations.

Enrollment is divided into significant aid categories, which correspond to specific rates of capitation to be received by the Plan from the state. At this time, the Plan is able to provide preliminary data for the fiscal year ended June 30, 2012, in comparison with the approved Plan budget for the period. The average monthly enrollment is as follows:

Enrollment Category	Approved Fiscal 2012 Budget	Preliminary Fiscal 2012 Actual
Family/Adult	74,975	74,571
Aged—Medi-Cal	1,250	1,233
Disabled—Medi-Cal	7,774	7,804
Long-Term Care—Medi-Cal	70	68
Aged—Dual	9,118	9,096
Disabled—Dual	7,396	7,373
Long-Term Care—Dual	873	886
BCCTP	250	253
Total average monthly enrollment	101,706	101,282

"Dual" coverage refers to enrollees who are eligible for both Medicare and Medi-Cal benefits. "BCCTP" is the Breast and Cervical Cancer Treatment Program, which provides cancer treatment for eligible, low-income California residents who are screened by approved cancer detection programs.



**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Management's Discussion and Analysis**

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Premium revenue (capitation received by the Plan from the state) is determined by rates set by the state at the beginning of the plan year. Rates are expressed on a per member, per month (pmpm) basis, and generally are effective for the entire year. However, during fiscal year 2012, state budget reforms called for premium rate cuts, which translated to an overall 2.2 percent reduction in the Plan's rates. This action (AB97) has been challenged by other entities, and the outcome is not yet certain. Consequently, the Plan has received capitation payments at the original rates, but has recorded a reserve for the difference. A comparison of the rates is as follows:

Enrollment Category	Original Fiscal 2012 Rates	With AB97 Reduction
Family/Adult	\$ 131.64	\$ 130.34
Aged—Medi-Cal	521.14	520.99
Disabled—Medi-Cal	832.79	826.55
Long-Term Care—Medi-Cal	7,027.51	6,732.03
Aged—Dual	233.69	224.19
Disabled—Dual	197.32	189.36
Long-Term Care—Dual	4,494.06	4,216.68
BCCTP	1,062.47	1,058.01

In the event that the rate reductions stand, the Plan's revenue will retain the recorded premium reduction of \$6.7 million, resulting in forecasted net premium of \$306.6 million for the year. Without the reduction, the premium would be an expected \$313.3 million. All premium revenue is subject to a 2.35 percent Managed Care Organization (MCO) tax.

Medical expenses for fiscal 2012 were budgeted using actuarial assumptions regarding enrollment trends, utilization and medical costs as applied to historical data for years prior to the Plan's inception. Budgeted rates for fiscal 2012 were developed for major categories of medical costs and are as follows:

Health Care Cost Category	Rate (PMPM)
Inpatient Hospital	\$ 36.37
Long-Term Care Facility	67.58
Outpatient Hospital	22.05
Laboratory and Radiology Expense	2.22
Emergency Room Facility	4.31
Physician Specialty Services	19.26
Other Medical Professional	2.00
Pharmacy	32.58
Other Fee for Service Expense	13.77
Transportation Expense	2.81
	\$ 202.95

**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Management's Discussion and Analysis**

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At this time, these rate assumptions contain the largest risk to the Plan's budget. Medical claims typically need long periods of time to run out, as submission delays, processing times and retroactive enrollment can affect the time elapsed from the date of service to actual payment. As a new plan, Gold Coast has not compiled enough historical data, which would normally be used to develop benchmarks such as completion factors, utilization rates and cost trends, and which could be used to refine rates. Revisions will be made as more data is collected, and there is no assurance that actual costs will not exceed the budgeted amounts.

Capitation payments to providers represent monthly payments for enrollees assigned to specific primary care providers (PCP). This is known as subcapitation. Rates are fixed by contract with participating providers and are generally known at the beginning of the fiscal year. Subcapitation is paid for three categories of enrollment (Family/Adult, Aged and Disabled). However, not all members of these categories are required to select a PCP. The budgeted subcapitation payment rates for fiscal 2012 are as follows:

Enrollment Category	Rate (PMPM)
Family/Adult	\$ 8.38
Aged—Medi-Cal	10.99
Disabled—Medi-Cal	12.06

Total subcapitation payments to providers is expected to be \$7.5 million in fiscal year 2012, which is significantly below the approved budget amount of \$8.5 million.

Based on preliminary results for the fiscal year ended June 30, 2012, the Plan is expected to generate net income of approximately \$11 million, compared with a budgeted \$7.5 million. A positive cash flow of \$23 million is expected, and net assets are projected to be approximately \$7 million.



## Independent Auditor's Report

To the Board of Directors  
Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan

We have audited the accompanying balance sheet of Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast) as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the period from inception (April 26, 2010) through June 30, 2011. These financial statements are the responsibility of Gold Coast's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gold Coast's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements referred to above present only Gold Coast and do not purport to, and do not, present fairly the financial position, changes in financial position, or cash flows of Ventura County, California, in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information, such as the management's discussion and analysis on pages 1 through 4, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gold Coast as of June 30, 2011, and the changes in its net assets and its cash flows for the period from inception (April 26, 2010) through June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

*McGladrey LLP*

Minneapolis, Minnesota  
August 9, 2012

**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Balance Sheet  
June 30, 2011**

**Assets**

Current Assets	
Cash	\$ 660,697
Accounts receivable	9,155
Prepaid expenses	40,127
<b>Total current assets</b>	<u>709,979</u>
Capital Assets (Note 4)	87,638
<b>Total assets</b>	<u><u>\$ 797,617</u></u>

**Liabilities and Net Assets (Deficit)**

Current Liabilities	
Accounts payable	\$ 47,377
Accrued implementation costs and administrative services (Note 3)	791,738
Accrued payroll and benefit services (Note 3)	1,301,643
Accrued membership outreach costs (Note 3)	78,125
Other accrued expenses (Note 3)	201,553
Implementation advance, current (Note 3)	460,000
<b>Total current liabilities</b>	<u>2,880,436</u>
Implementation Advance, less current portion (Notes 3 and 5)	1,840,000
Accrued Implementation Costs, less current portion (Notes 3 and 5)	500,000
<b>Total liabilities</b>	<u>5,220,436</u>
Commitments and Contingencies (Notes 3 and 6)	
Net Assets (Deficit) Accumulated During the Development Stage	
Invested in capital assets, net of related debt (Note 4)	87,638
Unrestricted net assets (deficit)	(4,510,457)
<b>Total net assets (deficit) accumulated during the development stage</b>	<u>(4,422,819)</u>
<b>Total liabilities and net assets (deficit)</b>	<u><u>\$ 797,617</u></u>

See Notes to Financial Statements.

**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Statement of Revenues, Expenses and Changes in Net Assets  
Period From Inception (April 26, 2010) Through June 30, 2011**

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Administrative expenses:	
Salaries, benefits and compensation (Note 3)	\$ 2,049,283
Outside services—implementation costs and administrative services (Note 3)	1,018,850
Outside services—membership outreach costs (Note 3)	78,125
Outside services—payroll and benefit services (Note 3)	46,785
Other outside services and professional fees	261,938
Interest (Note 3)	10,913
Occupancy (Note 6)	58,560
Marketing	43,826
Printing and postage	495,293
Office expense and other	359,246
<b>Total administrative expenses</b>	<u>4,422,819</u>
<b>Decrease in net assets during the development stage</b>	(4,422,819)
Net assets, beginning	-
Net assets (deficit) accumulated during the development stage	<u>\$ (4,422,819)</u>

See Notes to Financial Statements.

**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Statement of Cash Flows  
Period From Inception (April 26, 2010) Through June 30, 2011**

<hr/>	
Cash Flows From Operating Activities	
Cash paid for supplies, purchased services and other	\$ (1,551,665)
<b>Net cash used in operating activities</b>	<u>(1,551,665)</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from implementation advance	2,300,000
Purchases of capital assets	<u>(87,638)</u>
<b>Net cash provided by capital and related financing activities</b>	<u>2,212,362</u>
<b>Net change in cash</b>	660,697
Cash, beginning	-
Cash, ending	<u><u>\$ 660,697</u></u>
Reconciliation of Decrease in Net Assets to Net Cash Used in Operating Activities	
Decrease in net assets	\$ (4,422,819)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Changes in assets and liabilities:	
Accounts receivable	(9,155)
Prepaid expenses	(40,127)
Accounts payable	47,377
Accrued implementation costs and administrative services	1,291,738
Accrued payroll and benefit services	1,301,643
Accrued membership outreach costs	78,125
Other accrued expenses	<u>201,553</u>
<b>Net cash used in operating activities</b>	<u><u>\$ (1,551,665)</u></u>

See Notes to Financial Statements.

**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Notes to Financial Statements**

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**Note 1. Organization and Operations**

**Organizational structure:** Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast or the Plan) is a county-organized health system (COHS) organized to serve primarily Medi-Cal beneficiaries in Ventura County, California. The formation of Gold Coast was approved by the Board of Supervisors of the County of Ventura in December 2009 through the adoption of Ordinance No. 4409.

As a COHS, Gold Coast maintains an exclusive contract with the state of California Department of Health Services (DHS) to arrange for the provision of health care services to Ventura County's approximately 105,000 Medi-Cal beneficiaries. All of Gold Coast's revenues will be earned from the State of California in the form of capitation payments based on estimated enrollment and capitation rates as provided for in the state contract. The Plan began providing services to Medi-Cal beneficiaries in July 2011.

**Note 2. Summary of Significant Accounting Policies**

**Basis of presentation:** The Plan is a county-organized health system governed by an 11-member board of directors appointed by Ventura County. Gold Coast is not reported as a component unit of any governmental entity.

**Accounting basis and standards:** Gold Coast uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The accompanying financial statements have been prepared in accordance with the standards of the Governmental Accounting Standards Board (GASB). As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Gold Coast has elected to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued after November 30, 1989, which have been codified under Accounting Standards Codification (ASC), except for those that conflict with or contradict GASB pronouncements.

**Financial statement presentation:** Gold Coast applies the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (Statement 34), as amended by GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash:** Cash is carried at cost, which approximates fair value.

**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Custodial credit risk—deposits:** Custodial credit risk is the risk that in the event of a bank failure Gold Coast may not be able to recover its deposits or collateral securities that are in the possession of an outside party. The California Government Code requires that a financial institution secure deposits made by public agencies by pledging securities in an undivided collateral pool held by a depository regulated under the state law. At June 30, 2011, all accounts are covered by posted collateral.

**Capital assets:** Capital assets are stated at cost at the date of acquisition. The costs of normal maintenance, repairs and minor replacements are charged to expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Long-lived assets are periodically reviewed for impairment. The estimated useful lives of three to seven years are used for computer equipment and software. As capital assets were not in service during the development stage, no depreciation expense was recognized for the period ended June 30, 2011.

**Accrued expenses:** Gold Coast has contracted with Regional Government Services (RGS) for employee services. All employee expenses are accrued as services are provided, including compensated absences, which are accrued and recorded in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, and are included in accrued payroll and employee benefits. Implementation costs are accrued as services are performed over the term of the contract (see Note 3).

**Implementation advance:** The implementation advance represents cash received from Affiliated Computer Services (ACS) in accordance with an agreement with them for implementation services (see Note 3). Amounts received in advance will be amortized on a straight-line basis over the five-year contractual period of the agreement and will be recognized as a reduction of administrative expenses beginning in July 2011.

**Premium deficiency reserves:** Gold Coast performed an analysis of its expected future health care and maintenance costs to determine whether such costs will exceed anticipated future revenues under the contracts entered into as of June 30, 2011. Should expected costs exceed anticipated revenues, a premium deficiency reserve would be accrued. Gold Coast contract rates and anticipated expenses did not require a premium deficiency reserve at June 30, 2011.

**Net assets:** Net assets are broken down into two categories, defined as follows:

***Invested in capital assets, net of related debt:*** This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable (if any) to the acquisition, construction or improvement of those assets.

***Unrestricted:*** This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt" in accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*.

**Administrative expenses:** Administrative expenses are recognized as incurred and consist of administrative expenses that directly relate to the implementation costs of the Plan. Policy acquisition costs are expensed in the period incurred.



**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

**Income taxes:** Gold Coast operates under the purview of the Internal Revenue Code, Section 501(a), and corresponding California Revenue and Taxation Code provisions. As such, Gold Coast is not subject to federal or state taxes. Accordingly, no provision for income tax has been recorded in the accompanying financial statements.

**Risk management:** The Plan is exposed to various risks of loss from torts, business interruption, errors and omissions, and natural disasters. Commercial insurance coverage is purchased by Gold Coast for claims arising from such matters. Settled claims have not exceeded this commercial coverage in the period from inception through June 30, 2011.

**Note 3. Administrative Services Agreements**

**Affiliated Computer Services:** On June 23, 2010, Gold Coast entered into a five-year agreement with ACS to provide certain operational services. Compensation for these services is based on a per member per month cost at varying membership levels. The agreement also calls for a monthly management fee. These costs are recorded as expenses in the period incurred. Total expense for services for the period ended June 30, 2011, is approximately \$312,800.

The agreement also calls for ACS to charge for implementation services. The cost for these services for the period ended June 30, 2011, was \$1,000,000 and is payable in 24 monthly payments of \$41,667 beginning with the operational start date of July 1, 2011. At June 30, 2011, \$1,000,000 is recorded as implementation cost expense and accrued implementation costs.

ACS provided Gold Coast with an advance payment of \$2,300,000 in 2011. According to the terms of the agreement, should Gold Coast terminate the agreement prior to the end of the stated five-year term, Gold Coast is required to repay any unamortized portion to ACS. The implementation payment is recorded as a liability and will be amortized ratably over the 60-month term of the agreement and recognized as a reduction in administrative expense.

On March 3, 2011, Gold Coast entered into an agreement with ACS Health Administration, Inc. (an affiliate of ACS) to provide medical management services under the supervision of Gold Coast's management team. Total expense for the period ended June 30, 2011, is approximately \$78,100.

**Regional Government Services:** RGS provides staffing and human resources support to Gold Coast. All Plan staff are employees of RGS, and as such all salaries and benefits are compensated through RGS. Included in the benefits are a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and a 403(b) defined contribution supplemental retirement plan. Worker's compensation, commercial and general liability insurance and crime insurance policies are obtained by RGS through the California Joint Powers Insurance Agency (CJPIA). Total fees, including interest, to RGS were approximately \$2,107,000 for the period ended June 30, 2011.

**Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company**

**Notes to Financial Statements**

**Note 4. Capital Assets**

Capital asset activity during the period ended June 30, 2011, consisted of the following:

	Balance April 26, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets:				
Software and equipment	\$ -	\$ 87,638	\$ -	\$ 87,638
Total capital assets	<u>\$ -</u>	<u>\$ 87,638</u>	<u>\$ -</u>	<u>\$ 87,638</u>

As these capital assets were not yet in service as of June 30, 2011, no depreciation expense was recognized for the period ended June 30, 2011.

**Note 5. Long-Term Liabilities**

Activity in the implementation advance and accrued implementation costs for the period ended June 30, 2011, was as follows:

	Balance April 26, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Implementation advance	\$ -	\$ 2,300,000	\$ -	\$ 2,300,000	\$ 460,000
Accrued implementation costs	-	1,000,000	-	1,000,000	500,000
Total long-term liabilities	<u>\$ -</u>	<u>\$ 3,300,000</u>	<u>\$ -</u>	<u>\$ 3,300,000</u>	<u>\$ 960,000</u>

**Note 6. Commitments and Contingencies**

**Restricted net assets:** When Gold Coast begins providing services to Medi-Cal beneficiaries in July 2011, Gold Coast will be required by statute to meet and maintain a minimum level of tangible net equity (TNE). As of June 30, 2011, the Plan has no minimum TNE requirement.

**Line of credit:** Gold Coast has a \$2,200,000 unsecured line of credit available from the County of Ventura through July 2014, with an option to extend for an additional two years. Interest on advances is based upon the Ventura County Treasury Pool rate and loan repayment monthly (approximately 1 percent at June 30, 2011). Gold Coast had no outstanding balance on the line of credit at June 30, 2011, and there were no draws during the period ended June 30, 2011.

Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan  
A Development-Stage Company

Notes to Financial Statements

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**Note 6. Commitments and Contingencies (Continued)**

**Lease commitments:** Gold Coast leases office space and equipment under long-term operating leases with minimum annual payments as follows:

<u>Years Ending June 30,</u>	<u>Minimum Lease Payments</u>
2012	\$ 36,483
2013	35,600
2014	36,002
2015	36,820
2016	21,030
2017	337

**Contingencies:** Through the course of ordinary business, the Plan could become party to various legal actions and subject to various claims arising as a result. There are no such known claims.

**Performance measures:** Gold Coast's contract, effective July 1, 2011, with ACS requires the Plan to be in compliance with certain financial and nonfinancial performance measures, as defined in the contract. Management believes that the Plan is in compliance.

**Health care regulatory environment:** The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Gold Coast is in compliance with fraud and abuse as well as the other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.



McGladrey LLP

801 Nicollet Mall  
West Tower Ste 1100  
Minneapolis, MN 55402-2526  
O 612.332.4300  
www.mcgladrey.com

August 16, 2012

Ms. Sonia M. DeMarta  
Interim Chief Financial Officer  
Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan  
2220 E. Gonzales Road, Ste. 200  
Oxnard, CA 93036

Dear Ms. DeMarta:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the report to the Executive/Finance Committee for Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast) for the period ended June 30, 2011. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

This report is not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of this report previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, Gold Coast will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, Gold Coast also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when Gold Coast seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

A handwritten signature in black ink that reads "Steve Draxler". The signature is written in a cursive, flowing style.

Steven J. Draxler, Partner  
612.376.9590

wpd  
Attachment

# **Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan**

Report to the Executive/Finance Committee  
August 9, 2012



August 9, 2012

Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan  
2220 E. Gonzales Road, Ste. 200  
Oxnard, CA 93036

Attention: Members of the Executive/Finance Committee

We are pleased to present this report related to our audit of the financial statements of Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast) for the period from inception (April 26, 2010) through June 30, 2011. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Gold Coast's financial reporting process.

This report is intended solely for the information and use of the Executive/Finance Committee, Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to Gold Coast.

*McGladrey LLP*

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# Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to their responsibilities in overseeing the financial reporting process. The following summarizes these communications:

<b>Area</b>	<b>Comments</b>
<b>Auditor's Responsibility Under Professional Standards</b>	Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated February 7, 2012.
<b>Accounting Practices</b>	<p><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast). See Note 2 of the financial statements for a summary of accounting principles adopted.</p> <p><b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus, except as follows:</p> <p>Gold Coast received a payment of \$2.3 million from the vendor hired to provide implementation services. Gold Coast management analyzed the transaction and concluded that the payment should be reported as a liability and amortized on a straight-line basis over the term of the implementation contract as a reduction to the implementation expenses, rather than recognize it as revenue at the time of receipt.</p> <p><b>Alternative Treatments Discussed With Management</b> We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p>
<b>Management's Judgments and Accounting Estimates</b>	We did not identify significant accounting estimates in which the process for determining an account balance was sensitive to an estimation process used by management.



<b>Area</b>	<b>Comments</b>
<b>Financial Statement Disclosures</b>	<p>In our meeting with you in September 2012, we will discuss the following items as they relate to the neutrality, consistency and clarity of the disclosures in the financial statements:</p> <ul style="list-style-type: none"> <li>• Implementation costs and advance</li> <li>• Administrative costs</li> <li>• Commitments and contingencies</li> </ul>
<b>Audit Adjustments</b>	<p>There were no audit adjustments made to the original trial balance presented to us to begin our audit.</p>
<b>Uncorrected Misstatements</b>	<p>Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements.</p>
<b>Disagreements With Management</b>	<p>We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.</p>
<b>Consultations With Other Accountants</b>	<p>We were informed by management that they obtained an opinion from Vavrinek, Trine, Day &amp; Co., LLP, independent accountants, on the application of U.S. generally accepted accounting principles regarding the implementation advance. For additional information on this matter, see the notes to the financial statements as well as our previous comments under the heading, Accounting Practices.</p>
<b>Significant Issues Discussed With Management</b>	<p>No significant issues arising from the audit were discussed or were the subject of correspondence with management.</p>
<b>Difficulties Encountered in Performing the Audit</b>	<p>We did not encounter any difficulties in dealing with management during the audit.</p>
<b>Certain Written Communications Between Management and Our Firm</b>	<p>Copies of certain written communications between our firm and the management of Gold Coast are attached as Exhibits A, B, C and D.</p>

**Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan  
Summary of Uncorrected Misstatements  
Period Ended June 30, 2011**

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the balance sheet, results of operations, and cash flows and to the related financial statement disclosures. Following is a summary of those differences:

Description	Increase (Decrease) in Assets	(Increase) Decrease Liabilities	(Increase) Decrease Net Assets	(Increase) Decrease in Revenue	Increase (Decrease) in Expense
<b>Current-year misstatements:</b>					
Adjust RGS expenses	\$ -	\$ (4,300)	\$ -	\$ -	\$ 4,300
Adjustment for straight-line rent expense	-	(3,000)	-	-	3,000
				<u>\$ -</u>	<u>\$ 7,300</u>
Close revenue/expense to net assets	-	-	7,300		
Net understatement of net assets	<u>\$ -</u>	<u>\$ (7,300)</u>	<u>\$ 7,300</u>		

**Exhibit A—Qualifications Letter**



## Qualifications Letter of Independent Auditors

To the Executive/Finance Committee  
Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast) as of June 30, 2011, and the related statement of revenues, expenses and changes in net assets, and cash flows for the period from inception (April 26, 2010) through June 30, 2011, and have issued our report thereon dated August 9, 2012. In connection therewith, we advise you as follows:

1. We are independent certified public accountants with respect to Gold Coast and conform to the standards of the profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the California Board of Public Accountancy.
2. The engagement partner and engagement director, who are certified public accountants, have 15 years and 11 years, respectively, of experience in public accounting and are experienced in auditing insurance companies. Members of the engagement team, 43 percent of whom have had experience in auditing insurance companies and 57 percent of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
3. We understand that Gold Coast intends to file its audited financial statements and our report thereon with the California Department of Managed Health Care and that the California Department of Managed Health Care will be relying on that information in monitoring and regulating the financial condition of Gold Coast.

While we understand that an objective of issuing a report on the financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, Gold Coast and the California Department of Managed Health Care should understand that the objective of an audit of financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the financial statements present fairly, in all material respects, the assets, liabilities, net assets, results of operations, and cash flows in accordance with accounting principles generally accepted in the United States of America.

Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatement resulting from fraud. Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements caused by error or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of Gold Coast to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

The California Department of Managed Health Care should exercise due diligence to obtain whatever other information may be necessary for the purpose of monitoring and regulating the financial position of Gold Coast and should not rely solely upon the independent auditor's report.

4. We will retain the workpapers prepared in the conduct of our audit until the California Department of Managed Health Care has filed a Report of Examination covering fiscal 2011, but not longer than seven years. After notification to Gold Coast, we will make the workpapers available for review by the California Department of Managed Health Care at the offices of the insurer, at our offices, at the offices of the California Department of Managed Health Care, or at any other reasonable place designated by the California Department of Managed Health Care. Furthermore, in the conduct of the aforementioned periodic review by the California Department of Managed Health Care, photocopies of pertinent audit workpapers may be made (under the control of the accountant), and such copies may be retained by the California Department of Managed Health Care.
5. The engagement partner has served in that capacity with respect to Gold Coast since 2011, is authorized by the California Board of Public Accountancy to practice public accounting in the state of California through a Privilege to Practice Public Accounting, and is a member in good standing of the American Institute of Certified Public Accountants.
6. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC *Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This communication is intended solely for the information and use of the Executive/Finance Committee, Board of Directors, and management of Gold Coast and is not intended to be, and should not be, used by anyone other than these specified parties.



**Exhibit B—Representation Letter**



August 9, 2012

McGladrey LLP  
801 Nicollet Avenue  
11<sup>th</sup> Floor, West Tower  
Minneapolis, MN 55402

In connection with your audit of the balance sheet of Ventura County Medi-Cal Managed Care Commission / dba Gold Coast Health Plan (Gold Coast or the Plan) as of June 30, 2011 and the related statement of revenues, expenses and changes in net assets and cash flows for the period from inception (April 26, 2010) through June 30, 2011, we confirm that we are responsible for the fair presentation in the balance sheet, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief, as of August 9, 2011 the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all:
  - a. Financial records and related data.
  - b. Minutes of the meetings of directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. We have made available to you all significant contracts and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. We have also informed you of all oral agreements for which signed documents have not yet been prepared through June 30, 2011.
4. We have no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management,
  - b. Employees who have significant roles in the internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting Gold Coast received in communications from employees, former employees, analysts, regulators, or others.
7. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect Gold Coast's ability to record, process, summarize, and report financial data.
8. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
9. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
  - a. Gold Coast has no significant amounts of idle property and equipment.
  - b. Gold Coast has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.

10. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
  - b. Lines of credit or similar arrangements.
  - c. All leases and material amounts of rental obligations under long-term leases.
  - d. All significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.
11. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
  - a. To reduce receivables to their estimated net collectable amounts.
  - b. For expected retroactive insurance premium adjustments applicable to periods through June 30, 2011.
  - c. For any material loss to be sustained in the fulfillment of or from the inability to fulfill any commitments.
  - d. For the best estimate of our ultimate expected insurance related liabilities.
12. There are no:
  - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
  - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification.
  - d. Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements.
  - e. Guarantees, whether written or oral, under which the Plan is contingently liable.
  - f. Anticipated withdrawals of funds in material amounts from Plan for any reason.
  - g. Derivative financial instruments.
  - h. Liens or encumbrances on assets or other pledges of assets.
  - i. Amounts of contractual obligations for plant construction and/or purchase of real property, equipment, other assets, and intangibles.
  - j. Security agreements in effect under the Uniform Commercial Code.
  - k. Agreements to repurchase assets previously sold.



- l. Liabilities that are subordinated to any other actual or possible liabilities of the Plan.
  - m. Investments in debt or equity securities.
  - n. Related-party relationships, transactions, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
- 13. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingencies Topic of the FASB Accounting Standards Codification.
- 14. The Plan has satisfactory title to all owned assets.
- 15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance including Tangible Net Equity (TNE) requirements.
- 16. All reported receivables represent valid claims.
- 17. An adequate provision has been made for uncollectible amounts, discounts, and allowances that may be incurred in the collection of receivables.
- 18. There were no reinsurance contracts in effect with respect to its ceding and assuming reinsurance activities as of June 30, 2011.
- 19. No deferred acquisition costs have been recorded as the Plan's policy is to expense these costs as incurred.
- 20. No liability for unpaid claims (or claims adjustment expenses) is required as of June 30, 2011.
- 21. No premium deficiency reserve is required as of June 30, 2011.
- 22. Capitalized fixed assets were not ready for their intended purpose or placed into service as of June 30, 2011. Accordingly, depreciation of these assets did not occur prior to June 30, 2011.
- 23. There have been no reports of regulatory examinations that have been completed in the past year and we have informed you that there are no examinations currently in process. We are not aware of any allegations of noncompliance that should be considered for disclosure or as a basis for recording a loss contingency.
- 24. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Gold Coast has elected to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued after November 30, 1989, which have been codified under Accounting Standards Codification (ASC), except for those that conflict with or contradict GASB pronouncements.
- 25. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through August 9, 2012 have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the balance sheet date and through August 9, 2012 that would require recognition or disclosure in the financial statements. We further represent that as of August 9, 2012, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.
- 26. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

27. All balance sheet and income statement accounts have been reconciled to the underlying books and records without exception as of June 30, 2011.

As of and for the year ended June 30, 2011, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

**Ventura County Medi-Cal Managed Care Commission / dba Gold Coast Health Plan  
Schedule Of Uncorrected Misstatements  
June 30, 2011**

Description	Increase (Decrease) in Assets	(Increase) Decrease Liabilities	Decrease Net Assets	(Increase) Decrease in Revenue	Increase (Decrease) in Expense
Current-year misstatements:					
Adjust RGS expenses	\$ -	\$ (4,300)	\$ -	\$ -	\$ 4,300
Adjustment for straight-line rent expens	-	(3,000)	-	-	3,000
				<u>\$ -</u>	<u>\$ 7,300</u>
Close revenue/expense to net assets	-	-	7,300		
Net understatement of net assets	<u>\$ -</u>	<u>\$ (7,300)</u>	<u>\$ 7,300</u>		

Respectfully,

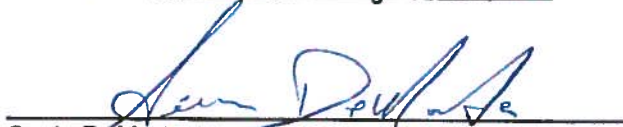
Ventura County Medi-Cal Managed Care Commission / dba Gold Coast Health Plan



Cassie Undlin

Interim Chief Executive Officer

Date Signed 8-17-, 2012



Sonia DeMarta

Interim Chief Financial Officer

Date Signed August 16, 2012



Lyndon Turner

Interim Controller

Date Signed AUGUST 16, 2012

**Exhibit C—Independence Letter**



Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan  
2220 E. Gonzales Road, Ste. 200  
Oxnard, CA 93036

Attention: Members of the Executive/Finance Committee

We were engaged to audit the financial statements of Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast) as of and for the period ended June 30, 2011, and have issued our report thereon.

Our audit was conducted in accordance with audit and related professional practice standards of the American Institute of Certified Public Accountants (AICPA), the Independence Standards Board (ISB), and the independence standards of the *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Independence from Gold Coast is crucial to the performance of our audit services. We have been asked to communicate the following to the Executive/Finance Committee of Gold Coast:

1. Disclose, in writing, all relationships between our firm and Gold Coast that, in our professional judgment, may reasonably be thought to bear on independence.
2. Confirm in writing that, in our professional judgment, we are independent of Gold Coast.

We are not aware of any relationship between our firm and Gold Coast that, in our professional judgment, may reasonably be thought to bear on our independence.

In our professional judgment, McGladrey LLP is independent with respect to Gold Coast within the meaning of the ISB and Rule 101 of the AICPA Code of Professional Conduct as well as GAS standards.

This report is intended solely for the information and use of the Executive/Finance Committee, Board of Directors, management, and others within Gold Coast and is not intended to be, and should not be, used by anyone other than these specified parties.

*McGladrey LLP*

Minneapolis, Minnesota  
August 9, 2012

## **Exhibit D—Management Letter**



To the Executive/Finance Committee  
Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan  
2220 E. Gonzales Road, Ste. 200  
Oxnard, CA 93036

Members of the Executive/Finance Committee:

This letter includes comments, observations and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan (Gold Coast or the Plan) for the period from inception (April 26, 2010) through June 30, 2011. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving Gold Coast's practices and procedures.

#### **INTERNAL AUDIT FUNCTION**

The Executive/Finance Committee's commitment to the growth and improvement of Gold Coast should include an ongoing commitment to develop and enhance the performance capabilities of an internal audit function.

While a formal internal audit function is not required, we recommend the Plan begin developing a department that can effectively execute the functions of an internal audit department. We suggest the implementation of this department over time as Gold Coast develops into an established entity. The objectives of an internal audit function are to assist the Executive/Finance Committee and management in the effective discharge of their responsibilities by furnishing them with analyses, recommendations and risk mitigation suggestions concerning the activities reviewed. This involves going beyond the accounting and financial records to regularly test financial cycles and specific areas of risk.

An internal audit function, with a thorough risk assessment and annual plan, would provide operational benefits for Gold Coast. We recommend Gold Coast perform specific reviews in accordance with an annual plan and as requested by management or the Executive/Finance Committee. The annual plan should be developed by the internal audit function and should focus on key risk areas. The audit plan should encompass the entirety of Gold Coast's operations, including all transaction cycles, departments, internal controls, etc.

We also recommend Gold Coast consider the need to invest in an internal audit director through Regional Government Services (RGS) or another vendor to oversee this function and serve as a primary contact for the Executive/Finance Committee.

We recommend an internal audit function with some of the following attributes:

- The audit/compliance staff should have no direct responsibilities for nor authority over any of the activities reviewed. Therefore, the internal audit review and appraisal does not in any way relieve other employees of Gold Coast of the responsibilities assigned to them.
- In some cases, it may be logical to enlist the use of specialists to assist in the audit or compliance projects. In those circumstances, the internal staff should closely oversee and review the analyses performed.
- The internal audit function should operate as the liaison to the external auditors. Gold Coast should provide the internal audit personnel full access to all records and personnel relevant to the subject under review. By establishing an internal audit function, more accurate and timely data will be available regarding operational activities in various departments. This will allow financial services to better monitor their financial activities, as well as strengthen the existing internal control structure and provide more timely identification and resolution of issues.

In addition to the orthodox internal audit approach, which concerns itself with control testing, detection and prevention of fraud, and deviations from Gold Coast policies, the activities of an internal audit function should also include operational auditing. Operational auditing is an objective appraisal of the activities of a department or service within an organization with a view toward evaluating the efficiency and effectiveness of various activities within a department or service organization. Some examples of successful operational auditing include:

- Medical claims processing—The claims processing cycle is the backbone of Gold Coast. Ensuring appropriate payment processing according to contractual fee schedules, efficient flow of member information, and accurate data collection for actuary assessment and financial reporting is paramount in every insurance organization. Internal audit should play a vital role in overseeing and supporting Gold Coast through claims processing cycle auditing.
- Administrative services management—While a focus on the medical claims expense is important for any insurance provider, the cost of professional services accounts for a significant portion of Gold Coast's operating budget. Assuring that professional service providers have the capability to adequately process and report activity is essential. The internal audit function can have a positive impact on managing and monitoring the design, transaction integrity and reporting measures, in both a financial and operational aspect, for professional service contracts.
- Cash receipts and disbursements—Gold Coast should ensure that there are policies and procedures in place related to the following:
  - 1) Segregation of duties in the cash receipt and disbursement cycles is adequate.
  - 2) Accounts payable invoices are processed timely in order to maximize discounts and avoid finance/late charges.
  - 3) Accounts payable invoices are properly canceled so as to avoid a duplicate payment.
  - 4) Proper authorization is obtained before payments are made, and vendor listings are periodically reviewed.
  - 5) Checks and check writing capabilities are secured.
  - 6) Bank statements are reviewed and reconciled on a monthly basis.

- Business risk management—The auditing profession has issued an auditing standard that encourages organizations to consider their own fraud prevention controls and programs. As a result, we encourage management to consider what the risks are related to potential fraud and what procedures are in place or should be put into place to reduce the risks. This is a role that could be assumed by an internal audit function.
- Significant new systems—While internal audit should not be overwhelmed with special projects, this department can be a valuable source for testing of specific areas identified by finance, risk management, legal counsel or the compliance function.

### **PROFESSIONAL SERVICES REVIEW**

We recommend that management, ideally as a function of the internal audit function, perform an annual claims audit and/or require a SOC 1 (previously referred to as a SAS 70) report from its third-party vendors who process Gold Coast's claims, specifically, ACS Health Administration, Inc. (ACS) and ScriptCare Ltd. Due to the nature and susceptibility of processing data electronically, management should ensure that the necessary controls are in place and operating effectively to make certain that the data being sent to the third parties and subsequently reviewed and uploaded to Gold Coast's financial and claims system is complete and accurate. While there may be other mitigating controls in place to prevent claims transactions that are not properly formatted or have duplicated/conflicting information from being processed, we recommend that management perform an audit on the procedures performed by third-party vendors who process claims information and consider requiring the vendor to obtain a SOC 1 report.

In addition, we recommend an additional clause in these administrative contracts limiting Gold Coast's exposure for errors made by the professional service provider. This clause should limit the period that Gold Coast will compensate for errors made in claims or payroll processing (i.e., 12 months), and would not allow for compensation over an indefinite period of time.

### **ACCOUNTING DEPARTMENT AND BUSINESS CONTINUITY**

**Staffing:** We noted that Gold Coast has experienced some delays in its accounting and reporting processes due to an inundated accounting department. Timely and accurate financial information can significantly assist senior management, such as providing relevant oversight and budgetary control, and quickly addressing the cash flow issues that currently affect Gold Coast. As the growth in the Plan continues, we recommend considering hiring additional resources to assist the accounting and finance department.

**Recordkeeping and business continuation planning:** As is the case in many new organizations, Gold Coast has experienced turnover in management and other key personnel. Any time there is turnover at a key accounting position, there is a significant learning curve to get the replacement up to speed with daily and monthly tasks, reconciliation procedures, computer and manual reports, and reports/data to be distributed to parties inside and outside Gold Coast. To assure these transitions provide little disruption to operations and reporting, management should assure all signed agreements are maintained in a central location. For example, while audit fieldwork was in process, accounting personnel were unable to easily locate an executed version of Task Order No. 2 in relation to the ACS contract. Assuring a central filing system is maintained and regularly updated would provide efficiencies in processing and assure adequate data is available. Additionally, the development of an accounting procedures manual, which details tasks performed by title/function, would facilitate performing critical functions during short-term periods along with easing any future permanent transitions.



To the Executive/Finance Committee  
Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan  
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In addition, when preparing financial reporting documentation, management should prepare and retain schedules to support GAAP-related financial decisions. Maintaining these schedules provides support for financial decisions as well as audit support. For example, we recommend preparing and maintaining an analysis for equipment leases for reporting as an operating lease vs. a capital lease. In addition to analyzing the type of lease, an analysis of GAAP straight-line method of accounting for building leases should also be incorporated versus expensing as payments are due.

#### **CLOSING**

Gold Coast's written responses to these observations identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We appreciate the opportunity to be of service to Gold Coast and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

This letter is intended solely for the information and use of the Executive/Finance Committee, Board of Directors, management and others within Gold Coast and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey LLP*

Minneapolis, Minnesota  
August 9, 2012

## **Exhibit E—Management’s Response to the Management Letter**

August 10, 2012

Executive/Finance Committee  
Ventura County Medi-Cal Managed Care Commission/  
dba Gold Coast Health Plan  
2220 E. Gonzales Road, Suite 200  
Oxnard, CA 93036

This letter is in response to the comments, observations and suggestions that were submitted by McGladrey LLP with its audit of the financial statements of Ventura County Medi-Cal Managed Care Commission/dba Gold Coast Health Plan for the period ended June 30, 2011. We understand that the items were offered as constructive suggestions to aid us in the ongoing process of modifying and improving the Plan's practices and procedures, and we thank McGladrey for bringing them to our attention. Many of the suggestions have been implemented subsequent to the period under audit but prior to the issue date of the report, while other items are being contemplated as the Plan's resources will allow.

#### **Audit and Compliance Department**

Gold Coast Health Plan hired a Compliance Specialist at the beginning of its operational period in July 2011. This individual enjoys independence from other departments, although the function is mainly focused on ensuring compliance with state mandated regulations. Since the Plan was held to a tight budget regarding staffing levels, it has not been feasible to build an internal audit function. However, while certainly not a replacement for an internal audit department, the Plan is in the process of forming an audit committee which may serve as a direct liaison with the external auditor and will act independently from management.

The Plan has also engaged several consultants which have examined, tested and evaluated medical claims processing and administrative services management. The result of the examination has led to the implementation of several process improvements. One such consultant has also delivered regular reports to state authorities to assuage any concerns regarding timely payment of claims and other operational metrics. We agree that the claims processing cycle is of vital importance and, as a new health plan, have made considerable progress. We also recognize that this is an ongoing process and are continuing to work through several refinements. In connection with the ongoing monitoring, the Plan has hired a Vendor Contract Manager who is charged with ensuring that the administrative services organization handles its obligations timely, and with a level of expertise as called for in the contract.

While there has been no formal internal audit function regarding Gold Coast Health Plan's cash receipts and disbursements, we believe they are being administered in compliance with accepted standards. The items mentioned are in place: accounts payable invoices are processed timely; accounts payable invoices are canceled and monitored by invoice number to avoid duplicate payment; proper authorization is obtained before payments are made; check writing capabilities are secured and bank statements are reviewed and reconciled on a monthly basis. The adequate segregation of duties has previously not been achieved due to the staffing budget issued mentioned, but the recent hiring to expand the finance department will remedy this situation.

Business risk management, specifically in regard to fraud prevention, has been addressed by the Plan's Compliance Specialist and has resulted in the establishment of a fraud hotline. This service allows anonymous reporting of instances of suspected fraud, abuse or waste by employees, members, providers and vendors by telephone or internet. Reports are forwarded to the Compliance Specialist for investigation,

and all cases are stamped and tracked by compliance software. Cases must be reported to the Department of Health Care Services within 10 days. In addition, a Compliance Committee has been formed to review suspected cases of fraud and abuse, and identify opportunities for improving fraud and abuse prevention policies. Finally, employees receive mandatory fraud and abuse training upon hire and receive refresher courses on an annual basis.

### **Professional Services Review**

We agree that it is essential for the Plan to perform claims audits and reviews to ensure that necessary controls are operating effectively. Several recent developments or contemplated actions will have a positive impact on the Plan's ability to continuously monitor the processing of claims. A goal for the Plan's compliance department, once the claims system has produced enough historical data, is to contract with a company (such as Emdeon, TC3 or Bloodhound) for claims mining to identify possible fraudulent billing practices and anomalous trends. The Plan has also contracted with Milliman to install MedInsight, a data warehouse and platform that will enable Gold Coast Health Plan personnel from various disciplines to analyze and evaluate claims data. This project has resulted in rigorous reconciliation and testing of data from the claims system, and has been accompanied by the hiring of additional staff to aid the Plan in data mining and analysis. A claims recovery specialist has also been added to track and analyze claims for purposes of possible reinsurance and duplicate payment recoveries. Finally, as mentioned above, the Vendor Contract Manager, who has a high degree of technical expertise, is developing a relationship with the administrative services provider. This work includes on-site visits to better monitor the claims processing cycle.

### **Accounting Department and Business Continuity**

As mentioned earlier, the tight budget for early-phase staffing precluded Gold Coast Health Plan from creating an accounting staff that could immediately meet the needs of a plan serving 100,000 members. However, recent hiring gains have resulted in a highly educated and seasoned professional staff. Monthly reporting packages have been continually expanded and presented timely with ongoing improvements as a goal. Schedules to support journal entries and account balances are now updated periodically. Budgets have been given heightened focus by the department and are continually refined as new information is gathered.

Record keeping and file organization was challenging due to staff issues and implementation deadlines. Progress has been made in maintaining organized documents, but is an evolving process. A large part of the problem has been addressed with the implementation of Compliance 360, a contract storage and monitoring system which will serve as a central repository for all contracts and important documents.

### **Conclusion**

We appreciate McGladrey's attention to the details of our accounting and operations. As we move forward, our goal is to overcome the challenges that commonly appear before new organizations and quickly transition to the form of an efficient and effective enterprise. We will certainly keep the audit firm's suggestions in mind as we refine our policies, procedures and operational improvements.