



CalOptima Health

It Has Accumulated Excessive Surplus Funds and Made Questionable Hiring Decisions

Background

The Orange County Health Authority, referred to as CalOptima Health (CalOptima), is the sole Medi-Cal managed care plan in Orange County. As such, CalOptima arranges for the provision of health care services to qualifying individuals in the county who lack sufficient income to meet the cost of health care. CalOptima serves nearly one million members and had a fiscal year 2022–23 budget of \$4 billion. Its governance is vested in a board of directors (board) consisting of 10 individuals.

Key Recommendations

- CalOptima should create and implement a detailed plan to spend its surplus funds for the specified purposes that the Orange County ordinance requires.
 - » Although CalOptima questioned the prudence of spending its surplus funds and suggested it feels justified retaining a higher level of reserves than its policy allows, according to its CFO, CalOptima’s existing reserve level is sufficient.
- CalOptima should adopt a policy to provide that, if surplus funds accrue in the future, it will use those funds as the county ordinance requires.
- CalOptima should amend its bylaws to prohibit individuals who serve on its board from being employed by CalOptima for a period of one year after their term on the board ends.
- CalOptima should adopt a policy that governs its hiring process for all positions, including executive positions.

Key Findings

- CalOptima accumulated hundreds of millions of dollars that it should have used to improve services.
 - » CalOptima had \$1.2 billion in unrestricted funds as of June 2022, including \$675 million of surplus funds in excess of its designated reserves.
 - » Regardless of an Orange County ordinance that requires CalOptima to use surplus funds for specified purposes such as improving benefits, CalOptima allowed its surplus funds to increase by hundreds of millions of dollars from 2014 to 2022.
 - » According to CalOptima, it has recently accelerated its allocation of surplus funds, and it believes it has spent such funds in a manner consistent with the county ordinance.
- CalOptima made questionable hiring decisions.
 - » An individual who previously served on CalOptima’s board may have violated a state law when he entered into an employment contract with CalOptima. He subsequently served as its chief executive officer from 2020 to 2021.
 - » CalOptima lacks a written hiring policy and did not follow the hiring process it described to us for three of six executive hires we reviewed.

CalOptima’s Surplus Funds Have Significantly Exceeded Its Reserves for Several Years

