Partners In Care Foundation, Inc. and Subsidiary

Consolidated Financial Statements, Schedule of Expenditures of Federal and Non-Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance

Year Ended June 30, 2017

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Year Ended June 30, 2017

Partners In Care Foundation, Inc. and Subsidiary

Contents

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Independent Auditor's Report

Board of Directors
Partners In Care Foundation, Inc. and Subsidiary
San Fernando, CA

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Partners In Care Foundation, Inc. and Subsidiary ("Partners"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and those standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Partners In Care Foundation, Inc. and Subsidiary as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3, Partners previously had recorded on the statement of financial position $604,319 of accounts receivable due from MSSP. However, it has been determined that this amount was not a true receivable and will not be collected. Partners also corrected the temporarily restricted net asset balance by $741,790 and contract advances by $112,340 due to errors noted in these balances at June 30, 2016. In addition, Partners also recorded an asset and corresponding liability in the amount of $697,240 on the statement of financial position related to a previously unrecorded deferred compensation liability. Partners restated the 2016 consolidated financial statements for the correction of the misstatement. Our opinion on the 2017 consolidated financial statements is not modified with respect to this matter.

Other Matters

Report on 2016 Summarized Comparative Information

The 2016 consolidated financial statements of Partners In Care Foundation, Inc. and Subsidiary were audited by other auditors, whose report dated December 20, 2016 expressed an unmodified audit opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects and as adjusted for the matters above, with the audited consolidated financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal and Non-Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit & Requirements for Federal Awards* (Uniform Guidance), is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018, on our consideration of Partners In Care Foundation, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Partners' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Partners In Care Foundation, Inc. and Subsidiary's internal control over financial reporting and compliance.

BDO USA LLP

October 15, 2018

Consolidated Financial Statements

Partners In Care Foundation, Inc. and Subsidiary

Consolidated Statements of Financial Position

For June 30, 2017 (with comparative totals for June 30, 2016, as restated)

	Unrestricted	Temporarily Restricted	**2017**	2016, As Restated
Assets				
Cash and cash equivalents (Note 2)	$ 1,143,538	$ 271,458	**$ 1,414,996**	$ 3,540,402
Accounts receivable net of allowance for doubtful accounts of $250,000	2,928,919	-	**2,928,919**	2,637,967
Prepaid expenses	66,393	-	**66,393**	89,412
Deposits	4,150	-	**4,150**	5,152
Investments (Note 4)	199,843	213,721	**413,564**	460,399
Deferred compensation plan assets (Notes 3 and 12)	759,177	-	**759,177**	697,240
Charitable remainder unitrust (Note 5)	-	163,307	**163,307**	130,113
Property and equipment, net (Note 7)	538,032	-	**538,032**	654,215
Total assets	$ 5,640,052	$ 648,486	**$ 6,288,538**	$ 8,214,900
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 311,440	$ -	**$ 311,440**	$ 272,873
Accrued liabilities (Note 8)	790,304	-	**790,304**	1,065,961
Deferred compensation plan liability (Notes 3 and 12)	759,177	-	**759,177**	697,240
Contract advances	-	-	**-**	-
Line of credit (Note 9)	-	-	**-**	-
Total liabilities	1,860,921	-	**1,860,921**	2,036,074
Net assets				
Unrestricted	3,779,131	-	**3,779,131**	5,120,756
Temporarily restricted (Note 11)	-	648,486	**648,486**	1,058,070
Total net assets	3,779,131	648,486	**4,427,617**	6,178,826
Total liabilities and net assets	$ 5,640,052	$ 648,486	**$ 6,288,538**	$ 8,214,900

See accompanying notes to consolidated financial statements.

Partners In Care Foundation, Inc. and Subsidiary

Consolidated Statements of Activities

For the year ended June 30, 2017 (with comparative totals for the year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	**2017**	2016, As Restated
Revenue and support				
Direct service income	$ 3,924,322	$ -	**$ 3,924,322**	$ 5,145,887
Government contracts	4,694,497	-	**4,694,497**	4,942,371
Project contracts	2,078,395	113,899	**2,192,294**	1,729,570
Project income	36,031	-	**36,031**	1,747,513
Special events income	497,255	-	**497,255**	498,407
Less costs of direct benefit to donors	(152,492)	-	**(152,492)**	(191,964)
Net special events revenue	344,763		**344,763**	306,443
Contributions	13,506	-	**13,506**	106,255
Interest and dividends	19,431	-	**19,431**	10,235
Other revenues	25,858	-	**25,858**	-
Gain (loss) on investments	62,384	-	**62,384**	(71,067)
Change in the value of charitable remainder unitrust	-	33,194	**33,194**	12,359
Net assets released from purpose restrictions	556,677	(556,677)	**-**	-
Total revenue and support	11,755,864	(409,584)	**11,346,280**	13,929,566
Expenses				
Program services	10,001,260	-	10,001,260	10,573,461
Management and general	2,759,931	-	2,759,931	2,328,410
Fundraising	336,298		336,298	362,377
Total expenses	13,097,489	-	**13,097,489**	13,264,248
Change in net assets	(1,341,625)	(409,584)	**(1,751,209)**	665,318
Net assets, beginning of year, as restated	5,120,756	1,058,070	**6,178,826**	5,513,508
Net assets, end of year	$ 3,779,131	$ 648,486	**$ 4,427,617**	$ 6,178,826

See accompanying notes to consolidated financial statements.

Partners In Care Foundation, Inc. and Subsidiary

Consolidated Statements of Functional Expenses

For the year ended June 30, 2017 (with comparative totals for the year ended June 30, 2016, as restated)

	Network Services	Long-Term Support Services	Care Coordination	Health Self-Management	Fiscal Intermediary	Total Program Services
Salaries, payroll taxes, and benefits	$ 2,006,069	$ 2,343,814	$ 1,571,703	$ 895,849	$ 117,995	$ 6,935,430
Contract labor	286,336	61,074	111,784	150,634	227,762	837,590
Purchased services	1,335	880,802	23,942	463	18	906,560
Travel and entertainment	76,184	32,955	49,140	65,158	42,993	266,430
Office supplies and expenses	124,957	94,722	27,597	29,151	25,703	302,130
Professional fees	240,816	1,500	-	8,614	-	250,930
Occupancy	-	117,278	15,642	3,000	-	135,920
Telephone and internet	13,003	51,609	30,422	4,672	654	100,360
Insurance	17,686	36,589	10,715	-	-	64,990
Dues, licenses, and subscriptions	61,267	75,296	3,854	24,534	1,139	166,090
Depreciation	-	-	-	-	-	-
Public relations and recruitment	4,663	3,911	3,235	3,841		15,650
Bank charges		-	510	-		510
Other expenses		-	3867	14,803		18,670
Total 2017 functional expenses	$ 2,832,316	$ 3,699,550	$ 1,852,411	$ 1,200,719	$ 416,264	$ 10,001,260
Total 2016 functional expenses, as restated	$ 1,707,195	$ 3,502,935	$ 3,684,377	$ 1,290,469	$ 390,029	$ 10,573,461

See accompanying notes to consolidated financial statements.

Partners In Care Foundation, Inc. and Subsidiary

Consolidated Statements of Functional Expenses (Continued)

For the year ended June 30, 2017 (with comparative totals for the year ended June 30, 2016, as restated)

For the year ended June 30, 2017 (with comparative totals for the year ended June 30, 2016, as restated)

	Management and General	Fundraising	Total Supporting Services	**2017**	2016, As Restated
Salaries, payroll taxes, and benefits	$ 1,559,495	$ 307,007	$ 1,866,502	**$ 8,801,932**	$ 8,921,971
Contract labor	427,814	15,625	443,439	**1,281,029**	1,449,324
Purchased services	901	2,417	3,318	**909,878**	992,092
Travel and entertainment	51,253	-	51,253	**317,683**	443,399
Office supplies and expenses	69,890	9,216	79,106	**381,236**	356,379
Professional fees	177,710	-	177,710	**428,640**	293,713
Occupancy	34,069	-	34,069	**169,989**	171,028
Telephone and internet	46,300	-	46,300	**146,660**	139,374
Insurance	21,981	-	21,981	**86,971**	126,079
Dues, licenses, and subscriptions	124,189	2,033	126,222	**292,312**	215,149
Depreciation	105,755	-	105,755	**105,755**	95,580
Public relations and recruitment	16,524	-	16,524	**32,174**	35,796
Bank charges	15,365	-	15,365	**15,875**	18,893
Other expenses	108,685	-	108,685	**127,355**	5,471
Total 2017 functional expenses	$ 2,759,931	$ 336,298	$ 3,096,229	**$ 13,097,489**	
Total 2016 functional expenses, as restated	$ 2,328,410	$ 362,377	$ 2,690,787		$ 13,264,248

See accompanying notes to consolidated financial statements.

Partners In Care Foundation, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Year ended June 30, 2017 (with comparative totals for June 30, 2016, as restated)

Years ended June 30,	**2017**	2016, As Restated
Cash flows from operating activities		
Change in net assets	**$ (1,751,209)**	$ 665,318
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	**105,755**	95,580
(Gain) loss on investments	**(62,384)**	71,067
Change in value of charitable remainder trust	**(33,194)**	(12,359)
(Increase) decrease in operating assets:		
Accounts receivable	**(290,952)**	1,434,029
Prepaid expenses	**55,179**	12,073
Deposits	**1,002**	18,520
Increase (decrease) in operating liabilities:		
Accounts payable	**38,567**	4,477
Accrued liabilities	**(275,657)**	286,659
Deferred revenue	**-**	(242,228)
Net cash (used in) provided by operating activities	**(2,212,893)**	2,333,136
Cash flows from investing activities		
Purchase of property and equipment	**(21,732)**	(171,644)
Purchase of investments and reinvested dividends	**(8,168)**	(12,424)
Proceeds from sale of investments	**117,386**	13,497
Net cash provided by (used in) investing activities	**87,487**	(170,571)
Net (decrease) increase in cash and cash equivalents	**(2,125,406)**	2,162,565
Cash and cash equivalents, beginning of year	**3,540,402**	1,869,816
Cash and cash equivalents, ended of year	**$ 1,414,996**	$ 3,540,402

See accompanying notes to consolidated financial statements.

1. Organization

Partners In Care Foundation, Inc. and Subsidiary ("Partners") has been in the business of bringing medicine, families, and community-based services together since its inception in 1997. Partners was founded to enhance healthcare by partnering with organizations, families and community leaders to better serve communities and improve quality of life. Its vision is to be both a think-tank and proving ground for shaping a new era of healthcare that integrates medical and social services for adults with chronic and disabling conditions. Partners develops, tests and disseminates high-impact, innovative models of home and community based care that bring efficient and effective health and social services to diverse people and communities. We are a state and national leader in disseminating evidence-based, health-impacting, self-management programs throughout care systems and community settings. In addition to developing collaborative networks that address comprehensive and continuous quality care to older adults, Partners is also at the forefront of reducing hospital readmissions and nursing home placement, a leadership effort that began long before the issue gained national prominence under the Affordable Care Act.

Partners' model in-home and community-based programs and services have focused on improving chronic disease self-management, identifying dangerous medication errors, preventing falls, averting costly hospitalizations and readmissions, and preventing premature nursing home placement for diverse low income populations across the southland. These programs yield high-impact health results, meeting the widely recognized Institute for Healthcare Improvement's Triple Aim model of better population health, better patient experience, and reduced per-capita cost. Partners was awarded a 2-year National Committee for Quality Assurance (NCQA) accreditation-the second Community Based Organization in the country to have received this prestigious honor.

Partners has the following programs that are included within the Program Services within the Consolidated Statement of Functional Expenses:

Partners at Home Network

Partners at Home is the culmination of years of effort to build a network of community-based organizations with the expertise, local knowledge, and cultural sensitivity to deliver services that enable people to live in the community, streamlining access to these services for health plans, hospitals and physician groups.

Partners at Home provides:

- A single point of access to a large spectrum of services, scalable for regional and state coverage
- Coordination of resources (medication management, home services, meal delivery, etc.) provided at a competitive price
- Continuity of services provided by culturally diverse providers with local expertise to engage patients in their own outcomes
- A quality-accredited provider of a full-continuum of patient centered services

HomeMeds^{SM} and HomeMeds Plus

Data shows that 40-50% of elders using home or community-based care are using medications inappropriately, leading to a range of preventable issues including falls, 911 calls, ER visits, and hospitalization. HomeMeds^{SM} utilizes an evidenced-based computerized risk assessment and alert process. A social worker gathers the information in the home and a pharmacist reviews medications to identify problems and follows through with the patient, their family, and the prescriber. HomeMeds^{SM} was awarded with the Highest Evidence Level rating by the U.S. Administration for Community Living and it is now being implemented across 45 sites in 18 states.

HomeMeds Plus adds psychosocial, functional needs and safety assessments to the evaluation. Performed by highly skilled health coaches competent in cultural and linguistic diversity, adept at patient engagement and knowledgeable about community resources, these evaluations are carried out in the home to create an individualized service plan.

Community-Based Adult Services Assessments ("CBAS")

Partners is the largest provider of eligibility evaluations in California, serving four major managed care plans and more than 200 CBAS centers throughout the state. Our team of multi-lingual and culturally competent registered nurses is highly-experienced in undertaking "face-to-face" screening evaluations via the CBAS Eligibility Determination Tool, either at a CBAS center or at a member's home.

Community-Based Care Transitions Program ("CCTP")

Partnering with hospitals, health plans and medical providers, this program helps individuals returning home from a hospital or nursing home to develop self-care skills, track medications, identify the red flags pointing to worsening conditions, and connect patients and their caregivers with community resources. Partners' longstanding work in the provision of evidence-based, in-home support services and strong relationships with regional hospitals, health plans and physician networks resulted in the Centers for Medicare and Medicaid Services ("CMS") awarding Partners one of only 72 CCTP grants nationally.

Multipurpose Senior Services Program ("MSSP")

This program empowers the low income frail elderly on Medi-Cal to live independently in the community for as long as possible, thus delaying or avoiding entirely the need for nursing home placement. Trained coaches visit the person at home to conduct a health and psychosocial assessment, enabling them to determine the best range of services for each individual's needs. Services may include home delivered meals, transportation, chore and personal assistance, emergency response system, home safety modifications, medical equipment, protective supervision, counseling, and caregiver respite.

Chronic Disease Self-Management Education

Partners offers a range of powerful consumer empowerment tools including the Stanford University developed and licensed Chronic Disease, Diabetes, and Chronic Pain Self-Management Programs. Each workshop is six weeks long, and guides participants through peer led sessions to develop skills and learn new tools to help them manage their conditions on a daily basis. Topics covered include healthy eating, symptom and medications management, physical activity, and communicating with medical providers. The overall Chronic Disease Self-Management Program is a cross-cutting program for any chronic condition, such as high blood pressure, arthritis, diabetes, and heart disease, while the others have specific focus for individuals with diabetes or chronic pain. Participants who attend workshops are better able to manage symptoms, exercise more, are better able to communicate with physicians, and have better self-reported health and improved exercise. They typically also spend fewer days in the hospital or have fewer outpatient visits and hospitalizations. The workshop is also available in Spanish as "Tomando Control de su Salud."

Evidence-Based Leadership Council ("EBLC")

EBLC is a collaboration among twelve national partner organizations, offering 19 highly recognized evidence-based, health promotion programs delivered via a network of more than 2,000 community-based organizations. Programs include: Healthy IDEAS - designed to detect and reduce the severity of depressive symptoms in older adults with chronic conditions; Fit and Strong! - an eight-week physical activity and behavior change program for older adults with mobility and balance challenges; and A Matter of Balance - a program designed to reduce the fear of falling and increase activity levels among older adults. The team helps scale this work statewide and leads a coalition in partnership with state Department of Aging to train, share license and coordinate statewide strategies for outreach and support.

Geriatric Social Work Education Consortium ("GSWEC")

As one of ten Centers of Excellence, Partners is a founding partner in the collaboration of universities and agencies facilitating the GSWEC program - the nation's first integrated network to improve social work education and field training among those working in older adult services and care.

In-Home Palliative Care

Developed with Kaiser, and a standard of care in many areas of their system, the In-Home Palliative Care model is based on the premise that patients are empowered when they understand their treatment and actively participate in care decisions. This interdisciplinary program provides home visits by physicians, nurses, social workers, and other healthcare professionals to patients with an estimated life expectancy of one year. The program has resulted in significant increases in quality of life indicators, and a 30% reduction in costs associated with the last year of life. Partners' offers consultancy services to assist healthcare providers in the planning of palliative care programs.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Basis of Presentation

Principles of Consolidation

The consolidated financial statements include the accounts of Partners In Care Foundation, Inc., and California Health Innovation Center, Inc. ("CHIC"). CHIC, a for-profit corporation, became a subsidiary of Partners effective October 2010. All material inter-organization transactions have been eliminated. The two organizations are collectively referred to as "Partners" in these consolidated financial statements.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Basis of Accounting

The accompanying consolidating financial statements are prepared in conformity with U.S. GAAP and are presented on an accrual basis of accounting.

Cash and Cash Equivalents

Partners has defined cash and cash equivalents as cash in banks and all liquid investments purchased with a maturity date of three months or less. Money market deposits are also held as part of cash and cash equivalents.

Accounts Receivable

Accounts receivable balances are comprised of contracts and grants and are stated at the amount management expects to collect from outstanding balances. Partners provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on an assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable.

Accounts receivable also includes $803,989 of unbilled receivables at June 30, 2017.

Partners established an allowance for doubtful accounts based on historical loss experience and management's evaluation of collectability. The allowance for doubtful accounts at June 30, 2017 was $250,000.

Investments

Investments consist of mutual funds and are reported at fair value. Realized and unrealized gains and losses are reflected in the consolidated statements of activities.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the cost of an asset is greater than or equal to $1,000 and the useful life is greater than one year. Provision for depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets as follows:

Description	Estimated Service Lives
Furniture and equipment	5 years
Computers and software	5 years
Vehicles	5 years
Leasehold improvements	Shorter of estimated life or term of the lease

Net Assets

Partners' net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net asset changes therein are classified and reported as follows:

Unrestricted - These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted – Partners reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently Restricted - These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit Partners to expend all of the income (or other economic benefits) derived from the donated assets. Partners did not have any permanently restricted assets at June 30, 2017.

Revenue Recognition

Revenue is recognized when earned. Revenue from direct service income, contracts and projects are recognized to the extent of allowable expenses incurred applicable to the grant or contract. Any difference between allowable expenses incurred and the total funds received (not to exceed the grant or contract maximum) is recorded as a payable, receivable, unearned income or an advance, whichever is applicable. Revenue from direct service, contracts and projects are recognized on accrual basis as earned according to the provisions of the grant.

Contributions of Cash

Contributions primarily include unconditional promises to give cash or other assets. Contributions, whether temporarily restricted or unrestricted, are recognized as revenue when they are received. Unconditional promises to give are reported at fair value on the date the promise is received. Conditional promises to give are reported at fair value when the conditions expire. There were no conditional promises to give the year ended June 30, 2017.

Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the cash or other assets. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Financial Instruments and Concentration of Credit Risks

Financial instruments that potentially subject Partners to concentrations of credit risk consist principally of cash and cash equivalents and investments held at credit worthy financial institutions. The majority of financial instruments are held in trust in the name of Partners, which protects against credit risk of the financial institutions holding the instrument. At times, such cash balances at several financial institutions may be in excess of the Federal Deposit Insurance Corporation insurance limit. Historically, Partners has not incurred losses related to these accounts and believes it is not exposed to significant credit risks on its cash and cash equivalents.

The accounts receivable balance outstanding at June 30, 2017 consists primarily of government contract receivables due from county, state, and federal granting agencies, and receivables from reputable private foundations. Credit risk with respect to these receivables is limited, as the majority of Partners' receivables consist of earned fees from contract programs granted by governmental agencies and grants awarded for the performance of services.

Approximately 40% of revenue generated by Partners at June 30, 2017 was derived from government contracts. In addition, for the year ended June 30, 2017 revenue from the Multipurpose Senior Services Program contracts represents 37% of total revenue and support.

Reclassifications

Certain amounts previously in the 2016 consolidated financial statements have been reclassified to conform with the current year presentation.

Special Events

Partners holds two special events each year. For the year ended June 30, 2017 the direct expenses associated with these events, included within costs of direct benefit to donors in the consolidated statements of activities was $152,492.

Income Tax Status

Partners in Care Foundation, Inc. is exempt from taxation under Internal Revenue Code (IRC) Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. In addition, the Internal Revenue Service (IRS) has determined that the organization is not a private foundation, as defined in section 509(a) of the IRC.

CHIC, a for-profit subsidiary, accounts for income taxes in accordance with generally accepted accounting principles. These principles require an asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method deferred tax liabilities and assets are determined based on the difference between the consolidated financial statements carrying amounts and the tax basis of assets and liabilities using enacted laws and rates currently in effect. For the year ended June 30, 2017, CHIC has not recorded any tax asset or liability in its consolidated financial statements in the belief that these amounts would be immaterial.

U.S. GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Partners in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Partners' returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing Partners' programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. During the period, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and supporting services by a method that best measures the relative degree of benefit. Partners allocates indirect costs based on ratios determined by management.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard provides entities with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. The guidance permits entities to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of the ASU to fiscal years beginning after December 15, 2018. Partners is in the process of evaluating the impact of adoption on their consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Partners is in the process of evaluating the impact of adoption on their consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the [Name of Entity]'s financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Partners is currently evaluating the impact of this ASU on their consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU will assist in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. The ASU is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Partners is currently evaluating the impact of this ASU on their consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events through October 15, 2018, the date which the consolidated financial statements were available to be issued. No events or transactions have occurred during this period that require recognition or disclosure in the consolidated financial statements, except as discussed in Note 9 and Note 12.

3. Restatement

During fiscal year 2017, it was determined that the contracts receivable had been misapplied and were incorrectly recognized and, therefore, were not true receivables and would not be collected. The gross receivable balance was $604,319 and had a $250,000 allowance applied to it. The gross receivable balance has been written off in its entirety, and the $250,000 allowance for doubtful accounts has been applied to accounts receivable. The 2016 consolidated financial statement accounts have been restated for this item.

In addition, it was determined that temporarily restricted net assets included $741,790 that was unrestricted.

In addition, it was determined that the contract advances of $112,340 reported at June 30, 2017 were earned prior to June 30, 2016.

Finally, it was determined that there was an unrecorded deferred compensation asset and liability as of June 30, 2016 in the amount of $697,240.

The effect of these items on the June 30, 2016 consolidated financial statements is as follows:

Consolidated Statement of Financial Position	June 30, 2016 As previously reported	Adjustment	As restated
Contracts receivable, net of allowance for doubtful accounts of $250,000	$ 354,319	$ (354,319)	$ -
Deferred compensation plan assets	-	697,240	697,240
Accounts receivable, net of allowance for doubtful accounts of $250,000	2,857,110	(250,000)	2,607,110
Deferred compensation plan liability	-	697,240	697,240
Contract advances	112,340	(112,340)	-
Temporarily restricted net assets	1,799,860	(741,790)	1,058,070
Unrestricted net assets	4,870,945	249,811	5,120,756
Total Net Assets	$ 6,670,805	$ (491,979)	$ 6,178,826

Consolidated Statement of Activities	June 30, 2016 As previously reported	Adjustment	As restated
Net Assets, beginning of year	$ 6,005,487	$ (491,979)	$ 5,513,508
Net Assets, end of year	6,670,805	(491,979)	6,178,826

4. Investments

Investments, at fair value, consist of the following at June 30,

	2017
Mutual funds	$ 413,564

5. Charitable Remainder Unitrust

In 1995, a donor established an irrevocable charitable remainder unitrust with a local bank naming Partners as the sole beneficiary. Under the terms of the trust agreement, the donor will receive distributions equal to 9% of the fair market value of the trust for the donor's lifetime. At the end of the trust's term, the remaining assets are available for Partners' use. The charitable remainder unitrust is reported at the market value of the investments of the trust, as reported by the trustee, and the estimated present value of the benefits expected to be received by Partners at June 30, 2017 was estimated to be $163,307.

6. Fair Value Measurements

Partners' follows Accounting Standards Codification (ASC) 820, *Fair Value Measurements,* to determine fair value for its financial assets and financial liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing the asset or liability.

ASC 820 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available.

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by Partners for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities that Partners has the ability to access as of the measurement date.

Level 2 Inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

Level 3 Unobservable inputs for the asset or liability. In these situations, Partners develops inputs using the best information available in the circumstances.

Partners is required to measure investments and the charitable remainder unitrusts at fair value. The specific techniques used to measure fair value for the consolidated financial statement elements are described in the notes below.

The table below presents the balances of Partners' instruments measured at fair value on a recurring basis at June 30, 2017:

June 30, 2017	Level 1	Level 2	Level 3	Total
Mutual funds				
Equity funds:				
Large blend	**$ 148,777**	**$ -**	**$ -**	**$ 148,777**
Small blend	**63,400**	**-**	**-**	**63,400**
Mid cap growth	**98,014**	**-**	**-**	**98,014**
	310,191	**-**	**-**	**310,191**
Bond funds		**-**		
High yield bond	**103,373**		**-**	**103,373**
	413,564	**-**	**-**	**413,564**
Charitable remainder unitrust	**-**	**-**	**163,307**	**163,307**
	$ 413,564	**$ -**	**$ 163,307**	**$ 576,871**

The fair value of mutual funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs). The fair value of the charitable remainder unitrust has been measured on a recurring basis by calculating the change in the value of Partners' beneficial interest in the trust based on the fair values of trust assets (Level 3 inputs).

The following is a reconciliation of the beginning and ending balance of assets measured at the fair value on a recurring basis using unobservable inputs (Level 3) for the year ended June 30, 2017:

Fair value at June 30, 2016	$ 130,113
Change in value of beneficial interest	33,194
Fair value at June 30, 2017	$ 163,307

7. Property and Equipment

Property and equipment at June 30, 2017 consists of the following:

		2017
Leasehold improvements	$	743,559
Furniture and equipment		575,350
Computers and software		423,407
Vehicles		92,878
		1,835,194
Less: accumulated depreciation and amortization		1,297,162
	$	538,032

Depreciation and amortization expense for the year ended June 30, 2017 was $105,755.

8. Accrued Liabilities

Accrued liabilities at June 30, 2017 consist of the following:

		2017
Accrued expenses	$	299,863
Accrued payroll		293,172
Accrued vacation		197,269
	$	790,304

9. Line of Credit

Partners had a revolving line of credit, with a bank, in the amount of $1,350,000. There were no borrowings during the year and the line of credit matured on May 31, 2017. As such, there was no balance due as of June 30, 2017. Subsequent to year end on November 21, 2017, the line of credit was reinstated with a total potential draw down amount of $1,350,000. The interest rate was 1% in excess of the Reference Rate, which means the rate announced by the Bank from time to time at its corporate headquarters. The line of credit matures on February 28, 2019.

10. Commitments and Contingencies

Obligations Under Operating Leases

Partners leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Years ending June 30,	Amount
2018	$ 103,912
2019	101,535
2020	67,562
2021	43,319
2022	43,319
Thereafter	-
	$ 359,647

Rent expense under operating leases for the year ended June 30, 2017 was $162,849.

Contracts

Partners' grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated by management and, accordingly, Partners has no provision for the possible disallowance of program costs on its consolidated financial statements.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 consist of the following:

	2017
Partners caregiver support	$ 294,698
Care coordination	270,065
Health self-management	83,723
	$ 648,486

For years ended June 30, 2017 net assets released from restrictions were $556,677.

12. Employee Profit Sharing Plan and Deferred Compensation

Partners has adopted a 401(k) plan for eligible employees. Employees of Partners become eligible participants in the plan upon reaching 21 years of age and completing a minimum of 90 days of employment. Eligible participants may contribute from 1 % to 90% of their eligible compensation to the plan. The total amount to be contributed however is limited to the maximum as determined by the Internal Revenue Service for each year.

Partners' contributions to the plan are categorized as safe harbor, and are equal to 100% of the first 4% of eligible pay contributed by the participant to the plan on a pay period basis. The participant becomes immediately vested at 100% in the matching contributions. Partners contributed $389,608 during the year ended June 30, 2017.

Partners has a nonqualified deferred compensation plan, available to one member of senior management. The Organization made contributions to the plan based upon an amount determined by the Board of Directors. There were no contributions to the plan for year ended June 30, 2017. The plan financing is provided by a separate account invested in annuities with a cash value of $759,177 at June 30, 2017. The statement of financial position also includes a deferred compensation plan liability of $759,177. In the third-quarter of 2018, the above annuities were transferred to a trust on behalf of the one member of senior management.

Schedule of Expenditures of Federal Awards

Partners In Care Foundation, Inc. and Subsidiary

Schedule of Expenditures of Federal and Non-Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Identifying Number	Federal CFDA Number	Provided To Subrecipients	Total Federal Expenditures	Non-Federal Expenditures	Total Expenditures
U.S. Department of Health and Human Services ("DHHS"):						
Pass-through, State of California - Department of Aging:						
Medical Assistance Program	MS-1617-40	93.778	$ -	$ 353,513	$ 353,513	$ 707,026
Medical Assistance Program	MS-1617-54	93.778	-	342,800	342,800	685,600
Medical Assistance Program	MS-1617-43	93.778	-	970,553	970,552	1,941,105
Medical Assistance Program	MS-1617-51	93.778	-	357,797	357,798	715,595
Subtotal			-	2,024,663	2,024,663	4,049,326
Pass-through, State of California - Department of Health Care Services						
Money follows the person rebalancing demonstration	16-93468	93.791	-	77,698	-	77,698
Pass-through, City of Los Angeles - Department of Aging:						
Special programs for the Aging - Title III - Part D Disease Prevention and Health Promotion Services	C-128373	93.043	-	238,391	-	238,391
Pass-through, County of Los Angeles						
Title III - D Disease Prevention and Health Promotion	DPHP161701	93.043	-	343,584	-	343,584
Subtotal			-	581,975	-	581,975
Administration for Community Living:						
Falls Prevention - Health Self-Management Project	n/a	93.761	-	308,667	-	308,667
Total DHHS programs			-	2,993,003	2,024,663	5,017,666
U.S. Department of Housing and Urban Development ("HUD"):						
Pass-through, City of Los Angeles - Department of Aging:						
Evidence Based Program CDBG Funds/CDBO Funds/City General Funds:						
West Adams and Technical Assistance (04/2016 through 03/2017)	C-127892	14.218	-	68,457	-	68,457
West Adams and Technical Assistance (04/2017 through 03/2018)	C-129426	14.218	-	51,519	-	51,519
Southwestern Service Area (04/2016 through 03/2017)	C-127892	14.218	-	56,085	-	56,085
Southwestern Service Area (04/2017 through 03/2018)	C-129426	14.218	-	17,852	-	17,852
Total HUD programs			-	193,913	-	193,913
Total Expenditures of Federal and Non-Federal Awards			$ -	$ 3,186,916	2,024,663	$ 5,211,579

The accompanying notes are an integral part of this schedule.

Partners In Care Foundation, Inc. and Subsidiary

Notes to Schedule of Expenditures of Federal and Non-Federal Awards
For the Year Ended June 30, 2017

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal and Non-Federal Awards (the "Schedule") includes the federal and non-federal award activity of Partners under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Partners, it is not intended to and does not present the financial position, changes in net assets or cash flows of Partners.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through or other identifying numbers are presented where available.

Non-Federal Matching Share

The City and County of Los Angeles require non-federal match on certain contracts. Partners for the year ended June 30, 2017 matched with grants from non-federal resources the following contracts:

	Contract Number	CFDA Number	Match
Special programs for the Aging - Title III - Part D Disease Prevention and Health Promotion Services	C-128373	93.043	$91,505
Title III - D Disease Prevention and Health Promotion	DPHP161701	93.043	$69,834

Note 3 - Indirect Cost Rate

Partners has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Independent Auditor's Reports Required by *Government Auditing Standards* and the Uniform Guidance

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Partners In Care Foundation, Inc. and Subsidiary
San Fernando, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Partners In Care Foundation, Inc. and Subsidiary ("Partners"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Partners' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Partners' internal control. Accordingly, we do not express an opinion on the effectiveness of Partners' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material* weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Partners' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. During the course of the audit we became aware of site reviews performed on the major programs that are described at item 2017-003.

Partners In Care Foundation, Inc. and Subsidiary's Response to Findings

Partners' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Partners' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA LLP

October 15, 2018

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Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Partners In Care Foundation, Inc. and Subsidiary
San Fernando, California

Report on Compliance for Each Major Federal Program

We have audited the Partners In Care Foundation, Inc. and Subsidiary's ("Partners") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Partners' major federal programs for the year ended June 30, 2017. Partners' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Partners' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Partners' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of Partners' compliance.

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Basis for Qualified Opinion on CFDA 93.778

As described in the accompanying schedule of findings and questioned costs, Partners did not comply with requirements for U.S. Department of Health and Human Services, pass-through from the State of California - Department of Aging - Medical Assistance Program, CFDA 93.778 as described in finding numbers 2017-012 for activities allowed or unallowed; allowable costs/cost principles and 2017-015 for activities allowed or unallowed; allowable costs/cost principles.

Compliance with such requirements is necessary in our opinion, for Partners to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 93.778

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph above, Partners complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.778, Medical Assistance Program for the year ended June 30, 2017.

Basis for Qualified Opinion on CFDA 93.043

As described in the accompanying schedule of findings and questioned costs, Partners did not comply with requirements for U.S. Department of Health and Human Services, pass-through from the City and County of Los Angeles – Title III-D Disease Prevention and Heath Promotion program, CFDA 93.043 as described in finding numbers 2017-012 for activities allowed or unallowed; allowable costs/cost principles and 2017-015 for activities allowed or unallowed; allowable costs/cost principles. Compliance with such requirements is necessary in our opinion, for Partners to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 93.043

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph above, Partners complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.043, Title III-D Disease Prevention and Health Promotion for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-004 through 2017-011, and 2017-013, 2017-014 and 2017-016. Our opinion on each major federal program is not modified with respect to these matters.

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Partner's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Partners' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Partners is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Partners' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Partners' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-012, 2017-014 and 2017-015 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-004 through 2017-011, 2017-013 and 2017-016 to be significant deficiencies.

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Partner's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Partners' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA LLP

October 15, 2018

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with U.S. GAAP	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	x yes	no
• Significant deficiency(ies) identified?	x yes	none reported
Noncompliance material to financial statements noted?	x yes	no

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	x yes	no
• Significant deficiency(ies) identified?	x yes	none reported

Type of auditor's report issued on compliance for major federal programs:

Federal Agency and Name of Major Program	Type of opinion on Major Program
U.S. Department of Health and Human Services	
Pass-through, State of California Department of Aging – 93.778	Qualified
Pass-through, City of Los Angeles – Department of Aging CFDA 93.043 and Pass-through, County of Los Angeles – Title III-D CFDA 93.043	Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	x yes	no

Identification of Major Federal Programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.778	Medical Assistance Program
93.043	Title III-D Disease Prevention and Health Promotion

Dollar threshold used to distinguish Between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	yes	x no

Section II – Financial Statement Findings

Finding 2017-001: Financial Statement Reconciliation and Close Process

Criteria

Partners is required to maintain effective internal control over financial reporting in accordance with *Government Auditing Standards* and U.S. GAAP.

Condition

1. Partners has restated its June 30, 2016 consolidated financial statements for four items. Two of the adjustments related to balances with the major programs related to prior years activity. It was determined that the outstanding contracts receivable from prior years had been incorrectly recognized and, therefore, were not true receivables and would not be collected. The gross receivable balance was $604,319 and had a $250,000 allowance applied to it. The gross receivable balance has been written off in its entirety, and the $250,000 allowance for doubtful accounts has been applied to other accounts receivable for which a reserve is deemed necessary. In addition, deferred revenue of $112,340 at June 30, 2016 required reversing due to a lack of evidential material to support this balance. Also, temporarily restricted net assets in the amount of $741,790 were determined to be incorrectly stated at June 30, 2016. In addition, Partners also recorded an asset and corresponding liability in the amount of $697,240 on the statement of financial position related to a previously unrecorded deferred compensation liability. The 2016 consolidated financial statement accounts have been restated accordingly.
2. There were 20 audit adjustments to correct balances in the original trial balance for the year ended June 30, 2017 to balances that could be supported by evidential material. These adjustments affected both federal and nonfederal activity. Accounts requiring adjustment include cash, accounts receivable, net assets, revenue and expenses.
3. We also identified issues with how Partners books accounts receivable entries for transactions that are ultimately billed through a third party payer system. We observed that entries booked internally to accounts receivable and revenue did not correspond or support the same entry in the third party reimbursement request. Due to this type of issue, we noted an entry for $37,354 for the overstatement of accounts receivable and revenue.
4. In general, there was a lack of general ledger reconciliation including reconciliation of the Schedule of Expenditures of Federal and Non-Federal Awards.
5. We noted that an invoice was issued under an expired agreement and management had not detected the issue despite the invoice being outstanding for many months due to lack of timely reconciliations.
6. A Partners' bank account was not previously recorded in the general ledger.

Cause

The financial records of Partners were incomplete and reconciliations had not been performed even well after year-end, or if performed, were not done correctly or reviewed. There was also considerable difficulty, during the audit process, in obtaining supporting documentation in a timely manner.

Effect or Potential Effect

There were numerous adjustments during the audit process to various account balances affecting certain assets, liabilities, revenues, and expenses.

In addition, the 2016 financial statements were restated to properly reflect receivables, deferred compensation asset and liability, deferred revenue, and net assets.

Recommendation

Monthly reconciliations performed on a timely basis and properly reviewed play a key role in the accuracy of accounting data and information included in the financial statements. The lack of timely reconciliations leads to a continuing and growing backlog of transactions and journal entries that are not posted into the accounting system, which does not provide accurate accounting information to management and the board to use in making well informed business decisions. This can also lead to significant errors in the financial records and financial statements as well as allow possible irregularities, including fraud, to exist and continue without notice.

In order to provide more accurate and timely accounting information, we strongly recommend that Partners establish more effective general ledger account reconciliation and review policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of all accounts, making adjustments throughout the year that were typically made at year-end only, and performing more frequent reviews of the general ledger throughout the year. Appropriate analysis and review of the accounts should be made on a regular basis to ensure that financial statements are prepared in accordance with generally accepted accounting principles.

Views of Responsible Officials

Management concurs with this finding and has noted that the restatements were necessary after a complete reconciliation was done for prior period records. Partners had to manually reconcile and validate all entries due to significant software delays and incomplete software implementation over the fiscal year. The bank account mentioned was not part of normal operations since 2012 and there has been no activity in the account since that time.

Management's corrective action is to continue to strengthen the staffing infrastructure for financial statement close, reconciliation and review processes. Management is currently in the selection process to have an external third party review our current financial and contractual systems, staffing and internal control processes for completeness and sufficiency.

Finding 2017-002: Segregation of Duties

Criteria

Partners is required to design its control environment such that management or employees, in the normal course of performing their assigned functions, will likely prevent, or detect and correct, financial misstatements on a timely basis. Segregation of duties is a common and effective design feature of such a control environment.

Condition

Partners' Vice President of Finance had administrator rights over the accounting system during fiscal year 2017.

Cause

The former IT staff of Partners was assigned this function in the past, but the elimination of this position did not transfer these administrator rights to any other individual in the information technology area. The VP of Finance was given these rights to continue the flow of operations for the accounting system.

Effect or Potential Effect

The lack of segregation creates a risk for fraud.

Recommendation

We recommend Partners segregate financial system administration rights from the finance function.

Views of Responsible Officials

Management concurs with this finding and has remedied the segregation concern by the addition of an IT manager for the IT department that is the sole individual with administrator rights over the accounting system effective October 1, 2018.

Finding 2017-003: Findings Identified from Site Review

Criteria

Partners is required to maintain effective internal controls over financial reporting and accounting for operations in accordance with *Government Auditing Standards*, U.S. GAAP, and the Uniform Guidance.

Condition

During the course of the audit we became aware that the County of Los Angeles has performed a site review of the County Title III-D program for the years ended June 30, 2016 and 2017. The official report has not been received to date, however based on the preliminary report received the County identified $9,881 in potentially disallowed costs. In addition, the pass-through from the State of California Department of Aging MSSP site 51 under CFDA 93.778 was audited by the State of California for fiscal years 2013 through 2016. The audit included the financial closeout reports, accounting records, internal controls and compliance with grant requirements. Based on the report issued, the State noted that there were findings related to allowable expenditures for Care Management, Care Management Support and Waiver Services. The report noted that there were $45,232 in potentially disallowed costs. Partners' management is currently working with both parties to reach an agreement on the potentially disallowed costs and determine the final resolution to these audits.

Cause

Partners doesn't have procedures in place to timely reconcile amounts billed to federal entities and ensure all amounts are supported by documentation.

Effect or Potential Effect

Potential disallowed costs may exist.

Recommendation

In order to provide more accurate and timely accounting information, we strongly recommend that Partners establish more effective general ledger account reconciliation and review policies and procedures as a customary part of the accounting process. This would involve monthly reconciliations of all accounts, making adjustments throughout the year that were typically made at year-end only, and performing more frequent reviews of the general ledger throughout the year. Appropriate analysis and review of the accounts should be made on a regular basis to ensure that financial statements are prepared in accordance with generally accepted accounting principles.

Views of Responsible Officials

Management's corrective action is to continue to strengthen the staffing infrastructure for financial statement close, reconciliation and review processes. Management is currently in the selection process to have an external third party review our current financial and contractual systems, staffing and internal control processes for completeness and sufficiency.

Section III - Federal Award Findings and Questioned Costs

Finding 2017-004: Reporting
CFDA # 93.043 **U.S. Department of Health and Human Services**
Pass-through from City of Los Angeles – Department of Aging
Pass-through identifying number: C-128373

Criteria

2 CFR Part 200.328 notes that the non-Federal entity must submit reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Partners should comply with certain reporting requirements in accordance with the terms and provisions of the pass-through agreement. Per the City of Los Angeles pass-through contract, monthly expenditure reports are required to be submitted within 5 days of the end of the month.

Condition

We selected 3 of the twelve monthly expenditure reports for testing and noted that all were submitted past the due date (33, 147 and 208 days late, respectively).

Cause

The third party reporting system the program staff utilizes to prepare the monthly reports was not available for several months of the year under audit. This resulted in reports not being filed by the required due date.

Effect or Potential Effect

Not meeting reporting requirements constitutes noncompliance with the award terms.

Questioned Costs

No questioned costs were noted with this finding.

Context

Partners did not comply with the reporting requirement for 3 of the 12 monthly expenditure reports tested.

Recommendation

We recommend Partners develop a formal system to ensure reports are prepared and submitted timely in accordance with the award agreement. If timely filing is not possible, Partners should request extensions in writing to substantiate the approval of late reports from the pass-through entity.

Views of Responsible Officials

Management concurs with this finding and has implemented a plan of action for a manual backup process to ensure reports are submitted as pass-through award guidelines require. A copy of the report shall be provided to the Vice President of Finance to monitor and track program report submissions according to contract/grant requirements.

Finding 2017-005: Reporting

CFDA # 93.043 **U.S. Department of Health and Human Services**
Pass-through from County of Los Angeles
Pass-through identifying number: DPHP161701

Criteria

2 CFR Part 200.328 notes that the non-Federal entity must submit reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Partners should comply with certain reporting requirements in accordance with the terms and provisions of the grant agreement. For the County of Los Angeles pass-through contract, semi-annual narrative reports are required to be submitted within a certain number of days after the period end.

Condition

We selected 1 of 2 semi-annual narrative reports for testing and noted that it was submitted 7 days past the due date.

Cause

Partners did not appear to exercise due diligence in monitoring the reporting deadlines and ensuring the accuracy of the reports being submitted to the federal agency. Further, management changes within Partners and lack of timely reconciliations also caused delays. Partners also was in the process of implementing a new software platform and reports were delayed during this implementation.

Effect or Potential Effect

Not meeting reporting requirements constitutes noncompliance with the award terms.

Questioned Costs

No questioned costs were noted with this finding.

Context

Partners did not comply with the reporting requirement for 1 of the 2 semi-annual narrative reports tested.

Recommendation

We recommend Partners develop a formal system to ensure reports are prepared and submitted timely in accordance with the award agreement. If timely filing is not possible, Partners should request extensions in writing to substantiate the approval of late reports from the pass-through entity.

Views of Responsible Officials

Management concurs with this finding and has implemented a backup process to document submission of reports based on submission date of report. A copy of the report shall be provided to the Vice President of Finance to monitor and track semi-annual narrative program report submissions according to contract/grant requirements.

Finding 2017-006: Special Tests and Provisions
CFDA # 93.043 U.S. Department of Health and Human Services
Pass-through from County of Los Angeles
Pass-through identifying number: DPHP161701

Criteria

Partners should comply with certain special tests and provisions required in the terms and provisions of the pass-through agreement. Per the County of Los Angeles pass-through agreement, each subrecipients' staff/employee providing services under this subaward who is in a designated sensitive position, as determined by the County, in County's sole discretion, shall undergo and pass a background investigation to the satisfaction of the County as a condition of beginning and continuing to provide services under this subaward.

Condition

We selected all 11 employees for testing and noted that 2 did not have the required background checks performed prior to them working on the program.

Cause

There was not a proper control in place to ensure all terms and provisions of the pass-through agreement were met.

Effect or Potential Effect

Not complying with this special provision requirement constitutes noncompliance with the pass-through agreement terms.

Questioned Costs

No questioned costs were noted with this finding.

Context

Partners did not comply with the background investigation provision in the pass-through agreement for 2 of the 11 employees tested.

Recommendation

We recommend background checks be performed prior to the person providing services in accordance with the pass-through agreement.

Views of Responsible Officials

Management concurs with this finding. Partners' background screening policy has been updated to include that clearances will be conducted for all employees regardless of length of service in the organization. We have also reviewed our list of sensitive positions that must have a background screening performed to current standards.

Finding 2017-007: Reporting

CFDA # 93.778 **U.S. Department of Health and Human Services**
Pass-through from State of California – Department of Aging
Pass-through identifying number: MS-1617-40

Criteria

2 CFR Part 200.328 notes that the non-Federal entity must submit reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Partners should comply with certain reporting requirements in accordance with the terms and provisions of the pass-through agreement. For the State of California - Department of Aging pass-through contract, quarterly status reports are required to be submitted within a certain number of days after the quarter end.

Condition

We selected 1 of 2 quarterly reports for testing and noted it was submitted two days past the due date.

Cause

Partners did not appear to exercise due diligence in monitoring the reporting deadlines and ensuring the accuracy of the reports being submitted to the federal agency. Further, management changes within Partners and lack of timely reconciliations also caused delays. Partners also was in the process of implementing a new software platform and reports were delayed during this implementation.

Effect or Potential Effect

Not meeting reporting requirements constitutes noncompliance with the award terms.

Questioned Costs

No questioned costs were noted with this finding.

Context

Partners did not comply with the reporting requirement for 1 of the 2 quarterly reports tested.

Recommendation

We recommend reports be prepared and submitted in accordance with the award agreement. If timely filing is not possible, Partners should request extensions in writing to substantiate the approval of late reports from the pass-through entity.

Views of Responsible Officials

Management concurs with this finding and has implemented a backup process to document submission of reports based on submission date of report. A copy of the report shall be provided to the Vice President of Finance to monitor and track program report submissions according to contract/grant requirements.

Finding 2017-008: Reporting

CFDA # 93-778 U.S. Department of Health and Human Services
Pass-through from State of California – Department of Aging
Pass-through identifying number: MS-1617-51 and MS-1617-54

Criteria

2 CFR Part 200.328 notes that the non-Federal entity must submit reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Partners should comply with certain reporting requirements in accordance with the terms and provisions of the pass-through agreement. For the State of California - Department of Aging pass-through contract, monthly active waiver participant count reports are required to be submitted within 5 days after the month end.

Condition

We selected 5 monthly active waiver participant count reports for testing and noted that 3 were submitted past the due date by 1 day.

Cause

Partners did not appear to exercise due diligence in monitoring the reporting deadlines and ensuring the accuracy of the reports being submitted to the federal agency. Further, management changes within Partners and lack of timely reconciliations also caused delays. Partners also was in process of implementing a new software platform and reports were delayed during this implementation.

Effect or Potential Effect

Not meeting reporting requirements constitutes noncompliance with the pass-through agreement terms.

Questioned Costs

No questioned costs were noted with this finding.

Context

Partners did not comply with the waiver participant reporting requirement for 3 out of the 5 reports selected from the population of 48 total monthly active waiver participant count reports.

Recommendation

We recommend reports be prepared and submitted in accordance with the award agreement. If timely filing is not possible, Partners should request extensions in writing to substantiate the approval of late reports from the pass-through entity.

Views of Responsible Officials

Management concurs with this finding and has implemented a backup process to document submission of reports based on submission date of report. A copy of the report shall be provided to the Vice President of Finance to monitor and track program report submissions according to contract/grant requirements.

Finding 2017-009: Reporting

CFDA # 93.778 — **U.S. Department of Health and Human Services**
Pass-through from State of California – Department of Aging
Pass-through identifying number: MS-1617-43 and MS-1617-40

Criteria

2 CFR Part 200.328 notes that the non-Federal entity must submit reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Partners should comply with certain reporting requirements in accordance with the terms and provisions of the grant agreement. For the State of California - Department of Aging pass-through contract, encounter data is required to be submitted within 3 months of end of month of service.

Condition

We selected 3 of 24 reports for testing and noted that no encounter data had been submitted for the year ended June 30, 2017.

Cause

Partners did not appear to exercise due diligence in monitoring the reporting deadlines and ensuring the accuracy of the reports being submitted to the federal agency. Further, management changes within Partners and lack of timely reconciliations also caused delays. All data was required to be submitted electronically and meet specialized reporting parameters as established and approved by the Healthplan and the State of California. Partners was transitioning from their legacy platform to a newly developed Multipurpose Senior Services Program platform. Partners' new encounter data system is still under development.

Effect or Potential Effect

Not meeting reporting requirements constitutes noncompliance with the award terms.

Questioned Costs

No questioned costs were noted with this finding.

Context

Partners did not submit 3 of the 24 total encounter reports timely.

Recommendation

We recommend reports be prepared and submitted in accordance with the award agreement. If timely filing is not possible, Partners should request extensions in writing to substantiate the approval of late reports from the pass-through entity.

Views of Responsible Officials

Management concurs with this finding. Upon completion of the implementation of this software, a copy of the report shall be provided to the Vice President of Finance to monitor and track program report submissions according to contract/grant requirements.

Finding 2017-010: Level of Effort

CFDA # 93.778 **U.S. Department of Health and Human Services**
Pass-through from State of California – Department of Aging
Pass-through identifying number- MS-1617-51 and MS-1617-54

Criteria

Partners should comply with certain level of effort requirements in accordance with the terms and provisions of the pass-through agreement. Per the State of California - Department of Aging pass-through agreement, if the Contractor's active participant count falls below 95% of the number of budgeted slots for more than three consecutive months, the Contractor shall be required to submit an enrollment plan for review, approval, and monitoring by the Department of Aging.

Condition

We selected all 12 months to review for each of the 4 sites and noted that Partners was below the threshold for 5 consecutive months for two of the sites, however no enrollment plan was prepared and submitted.

Cause

Partners had staffing vacancies in hiring a nurse, which is required to enroll new clients into the plan. Due to the low enrollment, plan directors provided email confirmations in lieu of enrollment plan submissions to Department of Aging informing them of unfilled slots. (Kern Site)

Partners experienced staffing turnovers that delayed the enrollment of new clients at the site. In lieu of enrollment plan submission, directors provided email confirmations to Department of Aging informing them of unfilled slots. (Santa Barbara Site)

Effect or Potential Effect

Not meeting level of effort requirements constitutes noncompliance with the grant terms.

Questioned Costs

No questioned costs were noted with this finding.

Context

There were 48 total months in the sample population to calculate eligibility based on 12 monthly reports for each of the 4 sites.

Recommendation

We recommend that level of effort metrics be reviewed and if they fall below the required levels, communication from Partners to the State of California – Department of Aging be initiated in accordance with the pass-through agreement.

Views of Responsible Officials

Management concurs with this finding. Management has hired a nurse for the Kern Site and all slots have been filled. Management has also filled all positions at Santa Barbara location to assist with filling all open slots. Management also has established that all level of effort metrics deficiencies will be reported in the manner outlined by the agreement unless prior authorization in writing is provided by the Department of Aging.

Finding 2017-011: Eligibility

CFDA # 93.043 **U.S. Department of Health and Human Services**
Pass-through from County of Los Angeles
Pass-through identifying number: DPHP161701

Criteria

Partners should comply with certain eligibility requirements in accordance with the terms and provisions of the pass-through agreement. Per the County of Los Angeles pass-through agreement, one of the eligibility requirements is that participants in the program are required to be over 60 years of age.

Condition

We selected 28 participants to test for eligibility under this agreement and noted that 1 participant did not meet the age requirement and noted no additional documentation as to how the age requirement was met.

Cause

There were not proper controls in place to ensure compliance with all eligibility requirements.

Effect or Potential Effect

Not meeting participant eligibility requirements constitutes noncompliance with the award terms.

Questioned Costs

No questioned costs were noted with this finding.

Context

No additional contextual information was identified.

Recommendation

We recommend participant eligibility requirements be adhered to in accordance with the pass-through agreement.

Views of Responsible Officials

Management concurs with this finding and shall provide a confirming validation on all client eligibility documents prior to admission to the program.

Finding 2017-012: Activities Allowed or Unallowed; Allowable Costs/Cost Principles

CFDA # 93.778	**U.S. Department of Health and Human Services** **Pass-through from State of California – Department of Aging** **Pass-through identifying number: MS-1617-40, MS-1617-43, MS-1617-51, MS-1617-54**
CFDA # 93.043	**U.S. Department of Health and Human Services** **Pass-through from City and County of Los Angeles** **Pass-through identifying number: C-128373, DPHP161701**

Criteria

Partners should comply with certain allowable cost requirements per section 200.300 of the Uniform Guidance. Appropriate documentation must be retained to support expenditures incurred in the execution of federally funded programs.

Condition

We selected 60 payroll selections and noted that for 21 of those selections, there was a calculated variance in cost allocated to the program when comparing the time allocated based on review of timesheets. The total net impact of the 21 selections was a potential $2,328 of excess payroll costs. Also during this testing, Partners could not provide 1 employee's personnel file to support the wages charged to the award. Also, there was an allocation of an independent contractor's time that could not be supported. As such, we were unable to validate the contractor costs charged to this program. There were also a number of project codes established for these programs and Partners performed reclassifications between the various general ledger project codes. Out of the 60 selections noted above, 6 selections related to entries for reclassification of amounts within the same grant, but between projects that were not adequately supported. The total unsupported reclassifications tested totaled to $3,510.

Cause

Policies and procedures either did not exist or were not appropriately being implemented to ensure that supporting documentation was maintained correctly.

Effect or Potential Effect

Because of the absence of appropriate documentation, we were unable to confirm the allowability, validity, and completeness of the amounts noted above.

Questioned Costs

We noted $5,838 of known potential questioned costs based on the comments within the condition section above. The amounts for the independent contractor's time charged could not be determined.

Context

We selected 60 payroll transactions, out of roughly 1,000 payroll transactions, that were allocated to the major programs.

Recommendation

We recommend Partners revisit its procedures to ensure adequate documentation and reconciliation of federal expenditures and billings. We also recommend that accounting and designated management staff review the underlying support before submitting a payment request or invoice to the agency.

Views of Responsible Officials

Management concurs with this finding and is working on an implementation of time card review by supervisors and employees in a timely matter. This will include employee and supervisor approval before timecard is submitted for processing and locked in the system. Also, a new system for time allocation was implemented that will directly report payroll entries and once timecards are processed the pay period will be locked.

Finding 2017-013: Procurement, Suspension and Debarment

CFDA # 93.778	**U.S. Department of Health and Human Services** **Pass-through from State of California – Department of Aging** **Pass-through identifying number: MS-1617-40, MS-1617-43, MS-1617-51, MS-1617-54**
CFDA # 93.043	**U.S. Department of Health and Human Services** **Pass-through from City and County of Los Angeles** **Pass-through identifying number: C-128373, DPHP161701**

Criteria

Partners should comply with certain procurement, suspension and debarment requirements under Uniform Guidance sections 200.318 through 200.326. This also requires that recipients of federal awards have adequate procedures and controls in place related to procurement and that they ensure that procedures are properly documented. Procedures should provide for full and open competition supported by a cost or price analysis. They should necessitate obtaining a vendor debarment or suspension certification and also provide for retention of files and other supporting documentation that provides evidence of compliance with specified requirements.

Condition

We noted that Partners does not have adequate policies and procedures to ensure that federally funded contracts are not being entered into with any suspended and/or debarred vendors. We also noted there were not written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts.

Cause

Partners' procurement policies and procedures do not include requirements to verify that a vendor is not suspended or debarred from doing business with the federal government.

Effect or Potential Effect

An ineffective control system related to the procurement process can lead to noncompliance with laws and regulations. Partners could inadvertently contract with, or make sub-awards to, parties that are suspended or debarred from doing business with the federal government, as well as award contracts to vendors whose contract prices are unreasonable. Contracts awarded to invalid vendors may result in disallowed expenditures.

Questioned Costs

No questioned costs were noted with this finding.

Context

In the course of our audit no cases were noted where Partners used a disbarred contractor. This is a control matter.

Recommendation

We recommend Partners adopt the policy of documenting that vendors are not disbarred for federal purposes, as well as adopting a written standards of conduct covering conflicts of interest. We recommend implementing procedures with a special focus on the contracting officers and their responsibilities to ensure compliance with the required procurement process, and also properly document the vendor selection process.

Views of Responsible Officials

Management concurs with this finding and has created a contracts review policy to insure all compliance requirements are reviewed and validated according to the Uniform Guidance requirements.

Finding 2017-014: Reporting

CFDA # 93.778	**U.S. Department of Health and Human Services** **Pass-through from State of California - Department of Aging** **Pass-through identifying number: MS-1617-40, MS-1617-43, MS-1617-51, MS-1617-54**
CFDA # 93.043	**U.S. Department of Health and Human Services** **Pass-through from City and County of Los Angeles** **Pass-through identifying number: C-128373, DPHP161701**

Criteria

The Single Audit must be completed and submitted with the Data Collection Form (DCF) within nine months after the end of the fiscal year.

Condition

Partners did not timely complete the Single Audit and file the 2017 Data Collection Form. During our audit we also noted there were not proper controls surrounding the preparation and review of financial records including the schedule of expenditures of federal and non-federal awards (SEFA). This schedule was not reviewed by any member of management other than the person who prepared the schedule.

Cause

Controls and adequate reconciliation procedures were not in place to ensure the accuracy of the financial records. Thus, timely and accurate filing was not facilitated by accounting personnel.

Effect or Potential Effect

Not completing the Single Audit and not filing the Data Collection Form timely constitutes noncompliance with the Uniform Guidance.

Questioned Costs

No questioned costs were noted with this finding.

Context

No additional contextual information was identified.

Recommendation

We recommend Partners implement controls surrounding the preparation, review and timely submission of financial records, including the SEFA. With regard to the SEFA, the reviewer should be someone different than who prepares the schedule and both personnel should be experienced with the federal programs. The preparation and review should incorporate review procedures to ensure a) all federal award program expenditures for the period covered are included in the total federal awards expended total, b) all federal programs are listed individually by federal agency, c) the proper presentation of federal awards received as a subrecipient, including the name of the pass-through entity and identifying number as assigned by the pass-through entity, d) the accuracy of the CFDA number and e) any noncash awards received are also reported on the face of the SEFA.

Views of Responsible Officials

Management concurs with this finding and has implemented a system for tracking and recording of all report due dates and submissions. Management's corrective action is to continue to strengthen the staffing infrastructure for financial statement close, reconciliation and review processes. Management is currently in the selection process to have an external third party review our current financial and contractual systems, staffing and internal control processes for completeness and sufficiency.

Finding 2017-015: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
CFDA # 93.778 U.S. Department of Health and Human Services
Pass-through from State of California – Department of Aging
Pass-through identifying number: MS-1617-40, MS-1617-43, MS-1617-51, MS-1617-54

Criteria

OMB Compliance Supplement section 3.2-B-44, states that for costs to be allowable under Federal awards, they must be adequately documented.

Condition

The agency set an overall budget for the MSSP program, which comprised of several categories. The agency also sets billing limits to each of those categories. Partners did not exceed to overall budget. However, during our testing, we noted that for 10 out of 17 sampled invoices submitted to the agency, the supporting documentation was not adequate and invoices submitted did not reconcile to the underlying participants served multiplied by the agreed upon rate per category. We also observed that Partners has not appropriately billed with the approved budget for amounts allowed under the categories under Care Management (CM), Care Management Support (CMS) and Waiver Services (WS). Partners also submitted and received reimbursement for expenses that exceeded allowable amounts.

Cause

Policies and procedures either did not exist or were not appropriately being implemented to ensure that supporting documentation was maintained correctly.

Effect or Potential Effect

Because of the absence of appropriate reconciliation, we were unable to confirm the allowability, validity, and completeness of the entire amount charged and submitted for reimbursement to the agency approved per the budget.

Questioned Costs

Questioned costs were not determinable.

Context

This is a condition identified per review of Partners' compliance with specified requirements.

Recommendation

We recommend Partners revisit its procedures to ensure adequate documentation and reconciliation of federal expenditures and billings to the agency. We also recommend that accounting and designated management staff review the underlying support before submitting a payment request or invoice to the agency. We also recommend Partners implement internal controls to ensure claims for reimbursement do not exceed allowable amounts.

Views of Responsible Officials

Management concurs with this finding and will implement procedures to ensure adequate documentation of federal expenditures. Partners has changed the priorities of the VP of Finance to focus more on monthly accounting oversight, review and reconciliation of year end process. Also, new procedures will be written and approved surrounding program documentation and validation of expenditures to ensure allowable costs and budget tracking procedures for both program staff and fiscal staff.

Finding 2017-016: Matching
CFDA # 93.043 **U.S. Department of Health and Human Services**
Pass-through from County of Los Angeles
Pass-through identifying number: DPHP161701

Criteria

OMB Compliance Supplement section 3.2-G-2, states that matching costs under Federal awards, must be adequately documented.

Condition

During our testing, we noted that Partners' matching schedule indicated they had met their match requirement, however there was no supporting evidence to support the full time equivalent (FTE) percentages in the matching schedule. Also, there was an allocation of an independent contractor's time that could not be supported. As such, we were unable to validate the contractor costs used for matching to this program.

Cause

Policies and procedures either did not exist or were not appropriately being implemented to ensure that supporting documentation was maintained correctly.

Effect or Potential Effect

Because of the absence of appropriate documentation, we were unable to confirm the allowability, validity, and completeness of the entire amount selected for matching.

Questioned Costs

Expenditures in the amount of $64,531 could not be verified as there was no supporting evidence to support the FTE percentages in the schedule.

Context

This is a condition identified per review of Partners' compliance with specified requirements.

Recommendation

We recommend Partners revisit its procedures to ensure adequate documentation and reconciliation of federal expenditures with regard to matching requirements established by the agency.

Views of Responsible Officials

Management concurs with this finding and will implement procedures to ensure adequate documentation of federal expenditures with regard to matching requirements.

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Appendix A - Management's Corrective Action Plan
Year Ended June 30, 2017

Finding 2017-001: Financial Statement Reconciliation and Close Process

Responsible Person: Alexandra Cisneros, VP of Finance
818-837-3775 Ext. 107
Projected Implementation Date: January 31, 2019

Partners recognizes the importance of maintaining effective internal control over financial reporting and has implemented improvements to strengthen the infrastructure of these.
Management's corrective action is to continue to strengthen the staffing infrastructure for the financial statement close, reconciliation and review process. New written processes will be put in place, requiring at the minimum, quarterly reconciliations for all accounts including accounts receivable, cash receipts and general ledger entries to be implemented no later than January 31, 2019. An enhanced review of the contracts receivable aging reconciliations will also be performed and reviewed by the VP of Finance at the close of each month to identify any uncollectable amounts with a substantial explanation of how it was calculated rather than a percentage basis to avoid adjustments and delays in the year end close process.

Finding 2017-002: Segregation of Duties

Responsible Person: Irma Shirvanian, IT Manager
818-837-3775 Ext. 168
Projected Implementation Date: Immediately - October 1, 2018

A control environment is necessary where during the normal course of performing duties by management or employees will likely prevent or detect and correct financial misstatements. A common form for this is segregation of duties. Partners' VP of Finance was the administrator for the accounting system during the year end June 30, 2017, which created a lack of segregation of duties. Partners eliminated the previous IT staff position that held this function and to continue workflow the VP of Finance was given that function.

Management has remedied the segregation of duties issue effective October 1, 2018 and the IT Manager is now the sole individual with administrator rights over the accounting system.

Finding 2017-003: Findings Identified from Site Review

Responsible Person: Alexandra Cisneros, VP of Finance
818-837-3775 Ext. 107
Projected Implementation Date: November 31, 2018

Management is aware of the site review findings and has been in communication with the State of California. Due to issues in system migration, discrepancies and delays in the prior management's audit data Partners has requested to review findings and provide accurate information to resolve the questioned costs and to determine any disallowable costs, if any.

Finding 2017-004: Reporting

Responsible Person: Dianne Davis, VP of Health Self - Management
818-837-3775 Ext. 116
Projected Implementation Date: Immediately - October 1, 2018

Under the City of Los Angeles pass-through contract, monthly reports are required to be submitted within 5 days of the following month. Three selected invoices which were submitted past the due date by 33, 147 and 208 days late did not meet contract requirements. Partners uses a third-party reporting system that was not available for several months of the year which resulted in late submission of reports.

Management's corrective action implemented as of October 1, 2018 consists of, a manual backup process to ensure reports are time stamped to prove they are submitted as grant guidelines require. This process has been implemented and is currently in effect and it includes a print screen and backup paper copy of the report when it is being submitted with time and date as well as an email to City contact staff with reporting progress notes as applicable. If a system issue occurs and reports are not able to be submitted a formal written request for an extension will be requested.

Finding 2017-005: Reporting

Responsible Person: Dianne Davis, VP of Health Self - Management
818-837-3775 Ext. 116
Projected Implementation Date: Immediately - October 1, 2018

Under the County of Los Angeles pass-through contract, semi-annual narrative reports are required to be submitted within a certain number of days following the period end. One selected report was submitted past the due date by 7 days and did not meet contract requirements. The Organization uses a third-party reporting system that was not available for several months of the year under audit which resulted in late submission of reports.

Management's corrective action implemented as of October 1, 2018 consists of a manual backup process to ensure reports are time stamped to prove they are submitted as grant guidelines require. In addition, a formal system has been put in place as of October 1, 2018 and will have a written process to be presented to Senior Management Council by October 15, 2018. Program staff preparing the report must sign off on and it must be submitted to the VP of Health Self-Management and a copy must be sent to the VP of Finance to monitor and track per grant requirement.

Finding 2017-006: Special Tests and Provisions

Responsible Person: Briana Hathaway, Senior Director Human Resources
818-837-3775 Ext. 109
Projected Implementation Date: Immediately - October 1, 2018

Partners should comply with special test and provisions required under the grant agreement per the County of Los Angeles including the requirement to pass a background investigation for any staff/employee under this subaward. A total of 2 employees out of the 11 selected (18%) were mistakenly noted as not sensitive staff for background screening due to the staff being long time employees. Although Partners implemented background checks on all new employees they failed to identify that staff that was previously hired many years back did not have background checks as that was not implemented at the time of hire.

Management has updated their policy to include clearances for all employees working under subawards regardless of length of service with the organization. An analysis of all current staff has been conducted and a list of personnel that must perform screening to meet current standards were brought up to date.

Finding 2017-007: Reporting

Responsible Person: Alexandra Cisneros, VP of Finance & Anwar Zoueihid, Vice President Health Services
818-837-3775 Ext. 107 & Ext 137, respectively
Projected Implementation Date: Immediately - October 1, 2018

For the State of California contract, quarterly reports are required to be submitted within a certain number of days after the quarter end. Two selected quarterly reports during testing were noted as submitted past the due date. The late reporting was caused by Partners implementing a new software platform in 2016 (and still in process during 2017) and during the implementation phase of the software reports were delayed.

Management has implemented a process to ensure submission of reports regardless of system issues. If there are issues with the system an email of the report or a request of extension will be submitted to the California Department of Aging. In addition, a revised process is in place that consists of a copy of the report being submitted to the VP of Finance by program staff to monitor and track report submissions according to contract requirements.

Finding 2017-008: Reporting

Responsible Person: Anwar Zoueihid, Vice President Health Services
818-837-3775 Ext. 137
Projected Implementation Date: Immediately - October 1, 2018

For the State of California contract, monthly active waiver participant count reports are required to be submitted within a certain days after the month end. Five monthly reports during testing were selected and three were noted as submitted past the due date. The late reporting was caused by Partners implementing a new software platform in 2016 (and still in process during 2017) and during the implementation phase of the software reports were delayed.

Management has implemented a process to ensure submission of reports regardless of system issues. If there are issues with the system, an email of the report or a request of extension will be submitted to the California Department of Aging. In addition, a revised process is in place that consists of a copy of the report submitted being sent to the VP of Finance by program staff to monitor and track report submissions according to contract requirements.

Finding 2017-009: Reporting

Responsible Person: Alexandra Cisneros, VP of Finance
818-837-3775 Ext. 107
Projected Implementation Date: Immediately - October 1, 2018

For the State of California contract, monthly encounter data reports are required to be submitted within a certain days after the month end. The three missing reports were not submitted due to Partners implementing a new software platform in 2016 (and still in process during 2017) and during the implementation phase of the software reports were not available with correct information.

Management has implemented a process to ensure submission of reports regardless of system issues. If there are issues with the system, an email of the report or a request of extension will be submitted to the California Department of Aging. In addition, a revised process is in place that consists of a copy of the report submitted sent to the VP Health Services as the initial preparing department for these reports is Finance and to monitor and track report submissions according to contract requirements.

Finding 2017-010: Level of Effort

Responsible Person: Anwar Zoueihid, Vice President Health Services
818-837-3775 Ext. 137
Projected Implementation Date: Immediately - October 1, 2018

Under the State of California contract terms Partners must submit an enrollment plan for review, approval and monitoring by the Department if the active participant count falls below 95% of the number budgeted slots for more than three consecutive months. All sites and months were reviewed and two of the sites fell below the threshold for 5 months with no enrollment plan submitted to the Department for review and approval.

Management actively reports staffing levels in monthly and quarterly reports, the State provides guidelines on if and when enrollment plans are needed. If determined by the State that only a notice in writing from the Director is necessary, Partners will request in writing a confirmation that no additional action needs to be taken from the State and will be kept for internal tracking. If an enrollment plan is required per the State agreement, management will provide according to contract requirements.

Finding 2017-011: Eligibility

Responsible Person: Dianne Davis, VP of Health Self-Management
818-837-3775 Ext. 116
Projected Implementation Date: October 1, 2018

Eligibility requirements including age of clients must be verified for participants under the County program. Partners provides additional funding for programs that assist in funding clients that do not meet eligibility requirements under this grant and no formal tracking of these clients had been implemented.

Management concurs with this finding and effective October 1, 2018 shall provide a confirming validation on all client's eligibility upon the initial session and document it appropriately prior to reporting to the County. If the client is to be funded by another source, workshop information will be clearly marked for internal record keeping.

Finding 2017-012: Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Responsible Person: Alexandra Cisneros, VP of Finance & Briana Hathaway, Director of Human Resources
818-837-3775 Ext. 107 & Ext 109, respectively
Projected Implementation Date: November 30, 2018

Partners must be able to provide appropriate documentation of cost incurred and supported by federally funded programs. During the audit, several instances of discrepancies were noted.

Management concurs with this finding and the following steps have been taken to prevent discrepancies.

- A new system for time allocation was implemented which will directly report payroll entries and once timecards are processed the pay period will be locked.
- Implementation of time cards review by supervisors and employees will be done in a timely matter. This will include employee and supervisor's approval (time stamped) before timecard is submitted for processing and locked in the system.

Finding 2017-013: Procurement, Suspension and Debarment

Responsible Person: Alexandra Cisneros, VP of Finance
818-837-3775 Ext. 107
Projected Implementation Date: January 31, 2019

Management concurs with this finding and will implement a review of debarment for all vendor agreements as well as a policy to review compliance for requirements under the Uniform Guidance. As of January 31, 2019, a new policy will be in place for procurement and will reiterate the employee handbook policy for conflict of interest that is already in place. In addition, a review of vendor applications will be completed and requests for new vendor applications will be posted on our website for open bidding when applicable.

Finding 2017-014: Reporting

Responsible Person: Alexandra Cisneros, VP of Finance
818-837-3775 Ext. 107
Projected Implementation Date: November 30, 2018

Management concurs with finding and is implementing processes for preparation, review and timely submission of the SEFA. New procedures will be implemented by November 30, 2018 which include assigning a preparer for the SEFA and a reviewer that will sign off on the report as submitted and quarterly completion of reconciliations to timely complete SEFA as required at year end. Partners has changed the priorities of the VP of Finance to focus more on monthly accounting oversight, review and reconciliations and year end process. In doing so, Partners will be restructuring staffing for Finance by November 30, 2018 to include a staff member for monthly reconciliations and grant and audit preparation. This position will have among their duties tracking federal awards revenue and expenditures monthly and reconciling quarterly to prepare SEFA at year end. The VP of Finance will oversee staff and will review and approve reconciliation and SEFA at year end to ensure accuracy and timely submission.

Finding 2017-015: Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Responsible Person: Alexandra Cisneros, VP of Finance
818-837-3775 Ext. 107
Projected Implementation Date: January 31, 2019

Management concurs with this finding and will implement procedures to ensure adequate documentation of federal expenditures. Partners has changed the priorities of the VP of Finance to focus more on monthly accounting oversight, review and reconciliation of year end process. In doing so, Partners will be restructuring staffing for Finance by November 30, 2018 to include a staff member for monthly reconciliations and grant and audit preparation. Within their duties will be tracking federal awards revenue and expenditures monthly. The VP of Finance will oversee staff and will review and approve reconciliation and invoices before submitted for payment. Also, new procedures will be written and approved surrounding program documentation and validation of expenditures to ensure allowable costs and budget tracking procedures for both program staff and fiscal staff. All changes including the new procedures will be in effect by January 31, 2019.

Finding 2017-016: Matching

Responsible Person: Alexandra Cisneros, VP of Finance
818-837-3775 Ext. 107
Projected Implementation Date: November 30, 2019

Management concurs with this finding and will implement procedures to ensure adequate documentation of federal expenditures with regard to matching requirements. Procedures implemented by November 30, 2019, will include tracking of independent contractors' task related to match requirements and appropriate allocation of FTE's that report time as supportive match.