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**PRIORITY HEALTH CARE, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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Postlethwaite & Netterville

A Professional Accounting Corporation

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PRIORITY HEALTH CARE, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Priority Health Care, Inc.  
Marrero, Louisiana

### Report on the Financial Statements

We have audited the accompanying financial statements of Priority Health Care, Inc. (“the Organization”), a nonprofit organization, which comprise the statement of financial position as of December 31, 2017, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors’ Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

*Opinion*

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Priority Health Care, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of compensation, benefits and other payments to agency head; and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018, on our consideration of the Organization'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 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 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 the Organization's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 25, 2018

PRIORITY HEALTH CARE, INC.

STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2017

ASSETS

**Assets:**

Cash	\$	1,355,454
Grants receivable		512,497
Pharmacy receivable, net of allowance of \$184,236		250,832
Other patient receivables, receivable net of allowance of \$136,569		85,348
Pharmacy inventory		146,807
Other assets		10,337
Total current assets		<u>2,361,275</u>
Property and equipment, net		<u>65,728</u>
<b>Total assets</b>	<b>\$</b>	<b><u><u>2,427,003</u></u></b>

LIABILITIES AND NET ASSETS

**Liabilities:**

Accounts payable and accrued expenses	\$	120,881
Accrued salaries and related liabilities		56,328
Deferred grant revenue		12,672
Total liabilities		<u>189,881</u>

**Net assets:**

Unrestricted		<u>2,237,122</u>
Total net assets		<u>2,237,122</u>
<b>Total liabilities and net assets</b>	<b>\$</b>	<b><u><u>2,427,003</u></u></b>

The accompanying notes are an integral part of these financial statements

**PRIORITY HEALTH CARE, INC.**  
**STATEMENT OF ACTIVITIES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Unrestricted Revenues and Support**

Patient service revenue, net of contractual adjustments of \$1,684,608	\$ 603,857
Pharmacy revenue, net of contractual adjustments of \$725,669	3,899,016
Less: provision for doubtful accounts	(412,650)
Net patient and pharmacy revenue	<u>4,090,223</u>
Grants and contracts	1,841,855
Interest	9,368
Other income	<u>126,067</u>
Total unrestricted revenues and support	<u>6,067,513</u>
<b>Expenses</b>	
Program services	4,603,947
Support services	603,138
Fundraising	<u>9,488</u>
Total expenses	<u>5,216,573</u>
Change in net assets	850,940
Net assets, beginning of year	<u>1,386,182</u>
Net assets, end of year	<u><u>\$ 2,237,122</u></u>

The accompanying notes are an integral part of these financial statements.

**PRIORITY HEALTH CARE, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Program Services</u>	<u>Support Services</u>	<u>Fundraising</u>	<u>Total</u>
Client services	\$ 136,626	\$ 8,529	\$ 451	\$ 145,606
Contract services	130,619	66,527	7,569	204,715
Depreciation	-	32,147	-	32,147
Facilities & equipment	10,568	10,112	-	20,680
Insurance	177,197	52,244	-	229,441
Lab fees & vaccine	10,332	-	-	10,332
Marketing	1,706	64,919	831	67,456
Memberships, dues & subscriptions	231	13,478	-	13,709
Postage & printing	4,030	8,267	-	12,297
Prescriptions & medication	2,053,446	-	-	2,053,446
Professional fees	10,500	615	-	11,115
Rent	172,356	53,700	-	226,056
Salaries & wages	1,854,596	242,113	-	2,096,709
Supplies	9,540	16,843	637	27,020
Utilities	26,649	21,021	-	47,670
Travel & training	5,241	4,159	-	9,400
Miscellaneous	310	8,464	-	8,774
<b>TOTAL EXPENSES</b>	<b><u>\$ 4,603,947</u></b>	<b><u>\$ 603,138</u></b>	<b><u>\$ 9,488</u></b>	<b><u>\$ 5,216,573</u></b>

The accompanying notes are an integral part of these financial statements.

**PRIORITY HEALTH CARE, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 850,940
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Provision for doubtful accounts	412,650
Depreciation	32,147
(Increase) decrease in operating assets:	
Grant receivable	(182,228)
Pharmacy receivable	(351,442)
Other patient receivables	(198,391)
Pharmacy inventory	(43,956)
Other assets	(6,277)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	35,573
Accrued salaries and related liabilities	45,335
Deferred grant revenue	(4,439)
	<hr/>
Net cash provided by operating activities	589,912
	<hr/>
Net change in cash	589,912
Cash, beginning of year	765,542
	<hr/>
Cash, end of year	<u>\$ 1,355,454</u>

The accompanying notes are an integral part of these financial statements.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

1. **Summary of Significant Accounting Policies**

Organization

Priority Health Care, Inc. (the Organization) is a non-profit, federally qualified health center who provides primary medical, behavioral health, pharmacy, and social support services to residents within the New Orleans metro area. The Organization is classified by the IRS as a 501(c)(3) tax exempt organization, and serves the parishes of Jefferson, Orleans, St. Bernard, St. Tammany, St. Charles, St. John the Baptist, St. James and Plaquemines, with its clinic and offices located in Marrero, I.A.

The mission of the Organization is to provide holistic health care to underserved communities that empower people to live healthy lives. The purpose is to offer services on a sliding fee scale to ensure everyone has access to needed care which they can afford in order to adopt lifestyle choices that have a positive effect on their health.

Basis of Accounting

The financial statements of the Organization are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP).

Financial Statement Presentation

The accounting for not-for-profit organizations requires the reporting of information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets, based on donor stipulations and restrictions placed on contributions, if any. Accordingly, net assets and changes therein are classified and reported as follows:

- Unrestricted Net Assets – Support, revenue, and expenses for the general operation of the Organization.
- Temporarily Restricted Net Assets – Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period. The Organization had no net assets classified as temporarily restricted as of December 31, 2017.
- Permanently Restricted Net Assets – Contributions specifically authorized by the grantor or donor to be held in perpetuity. The Organization had no net assets classified as permanently restricted as of December 31, 2017.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives and valuation of fixed assets and the valuation of receivables. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

1. **Summary of Significant Accounting Policies (continued)**

Grants, Contributions, and Revenue Recognition

Grants and contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support.

Patient Service Fees, Pharmacy Revenue, and Revenue Recognition

Patient service fees and pharmacy revenue represent the estimated net realizable amounts from patients, third party payors, and others for services rendered or prescriptions dispensed. Revenues are recorded during the period the health care services are provided or prescriptions dispensed, based upon the estimated amounts due from payers. Estimates of contractual allowances are based upon the specified payment terms.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The estimated reimbursement amounts are made on a payer-specific basis and are recorded based on the best information available regarding management's interpretation of the applicable laws, regulations and contract terms. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals. Due to the complexities involved in the classification and documentation of health care services authorized and provided, the estimation of revenues earned and the related reimbursement are often subject to interpretations that could result in payments that are different from the Organization's estimates.

The Organization provides discounts from gross charges to uninsured patients who do not qualify for Medicaid. These discounts are similar to those provided to many local managed care plans. After the discounts are applied, if the Organization is still unable to collect a significant portion of uninsured patients' accounts, it records significant provisions for doubtful accounts (based upon historical collection experience) related to uninsured patients in the period the services are provided. The Organization receives payments for patient services from the federal government under the Medicare program, state governments under their respective Medicaid or similar programs, managed care plans, private insurers, and directly from patients.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

Patient Service Fees, Pharmacy Revenue, and Revenue Recognition (continued)

Net patient and pharmacy revenues from third-party payers and the uninsured for the year ended December 31, 2017 are summarized as follows:

Medicare	\$	160,470
Medicaid		736,386
Managed care and other insurers		3,265,813
Ryan White, federal grant funding		340,204
Net patient and pharmacy revenues before provision for doubtful accounts		4,502,873
Less: provision for doubtful accounts		(412,650)
Net patient and pharmacy revenue	\$	<u>4,090,223</u>

Cash

Cash includes amounts on deposit at local financial institutions.

Allowance for Uncollectible Accounts

Patients are expected to pay for services rendered at the time of the clinic visits. If a patient is unable to pay at the time of service, a receivable is recorded. Patients are sent a billing statement following the date of visit. Receivables are recorded at estimated net realizable value.

The Organization maintains an allowance for doubtful accounts based on management's assessment of collectability, current economic conditions, and prior experience. The Organization determines if pharmacy and patient accounts receivable are past-due based on the date of service; however, the Organization does not charge interest on past-due accounts. The Organization charges off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful. Accounts are written off when all reasonable collection efforts have been performed.

Pharmacy Inventory

Pharmacy inventory consists primarily of drugs and medical supplies and are stated at the lower of cost (using the first-in, first-out method) or net realizable value.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at historical cost, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset (greater than one year) and with a unit cost of greater than \$5,000 are capitalized.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

1. **Summary of Significant Accounting Policies (continued)**

Property, Plant, and Equipment (continued)

Depreciation is provided using the straight-line method over the estimated useful lives of the related assets which range from 3 to 27 years. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gains and losses are recognized in the Organization's annual operations. Maintenance and repair expenditures are expensed as incurred.

Functional Allocation of Expenses

Expenses presented in the financial statements are allocated between program services, support services, and fundraising based on the function benefited.

Advertising

Advertising costs are expensed as incurred.

Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from State income taxes under Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950. Accordingly, no provision for income taxes has been included in the financial statements.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statement. As of December 31, 2017, the Organization has determined that it does not have any uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax returns generally remain subject to examination by the taxing authorities for three years.

New Accounting Pronouncement

In July 2015, FASB issued Accounting Standards Update (ASU) 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory*. This update requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Organization adopted this ASU prospectively effective January 1, 2017. The adoption of this standard did not have a material impact on the Organization's financial statements.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

Accounting Pronouncements Issued But Not Yet Adopted

FASB has issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under the ASU, the number of net asset classes is decreased from three to two; enhanced disclosures of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how an entity manages its liquid available resources and liquidity risks is required. This standard is effective for fiscal years beginning after December 15, 2017. Early application of the standard is permitted.

FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*, to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This standard will be effective for periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet as well as additional disclosures. The updated guidance is effective for annual periods beginning after December 15, 2019.

The Organization is currently assessing the impact of these pronouncements on its financial statements.

**2. Grants Receivable**

As of December 31, 2017, grants receivable consisted of the following:

<u>Description</u>	<u>Amount</u>
Mayor's Office of Health Policy	\$ 347,477
Louisiana Office of Public Health	100,521
Health Resources and Service Administration	62,134
Other	2,365
Total	<u>\$ 512,497</u>

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**3. Pharmacy and Other Patient Receivables**

The Organization grants credit without collateral to its patients, most of whom are local residents that may or may not be insured by a third party payer. The Organization's accounting policy for these revenues and related receivables are included in Note 1. Receivables related to pharmacy and other patient services are as follows:

	Receivables
Blue Cross	2%
Commercial	29%
Medicaid	13%
Medicare	6%
Private Pay	1%
Ryan White (federal grant)	49%

**4. Property, Plant and Equipment**

Property and equipment at December 31, 2017 consisted of the following:

Equipment, furniture, and fixtures	\$	104,853
Leasehold improvements		29,553
		<u>134,406</u>
Less: accumulated depreciation		(68,678)
Property and equipment, net	\$	<u>65,728</u>

Depreciation expense for the year ended December 31, 2017 totaled \$32,147.

**5. Contingencies**

The Organization participated in a number of state and federally-assisted programs in fiscal year 2017. The programs are subject to compliance audits. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. The Organization believes that the amount of disallowances, if any, which may arise from future audits, will not be material to the financial statements.

**6. Business and Credit Concentrations**

The Organization maintains its cash investments with several financial institutions operating primarily in southern Louisiana. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

6. **Business and Credit Concentrations (continued)**

The Organization grants credit to patients, substantially all of whom are local residents. The Organization does not require collateral or other security in extending credit to patients. The mix of receivables from patients and third-party payors at December 31, 2017 is described in Note 3.

7. **Leases**

The Organization leases various pieces of equipment and operating facilities under operating leases which expire at various dates through September 15, 2020. Total rental expenses under these leases totaled approximately \$226,056 during the year ended December 31, 2017. The following is a schedule by year of future minimum lease payments required under all of these operating leases which have an initial or remaining non-cancelable lease terms in excess of one year:

<u>Year ending</u> <u>December 31st</u>	<u>Amount</u>
2018	\$ 124,372
2019	67,872
2020	<u>48,076</u>
	\$ <u><u>240,320</u></u>

8. **Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 25, 2018, and determined that there were no subsequent events requiring disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

**SUPPLEMENTARY INFORMATION**

PRIORITY HEALTH CARE, INC.

SCHEDULE OF COMPENSATION, BENEFITS, AND  
OTHER PAYMENTS TO AGENCY HEAD

FOR THE YEAR ENDED DECEMBER 31, 2017

Agency Head Name: Tamara Boutte

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 160,430
Benefits - insurance	7,589
Travel	291
	<u>\$ 168,310</u>

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' 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  
Priority Health Care, Inc.  
Marrero, Louisiana

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 financial statements of Priority Health Care, Inc. (“the Organization”), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization’s 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

*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 financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 25, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors  
Priority Health Care, Inc.  
Marrero, Louisiana

**Report on Compliance for Each Major Federal Program**

We have audited Priority Health Care, Inc.'s (the Organization's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2017. The Organization's major federal program is identified in the summary of auditors' 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance the Organization's major federal program 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 of 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 the Organization's 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

*Opinion on the Major Federal Program*

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

*Report on Internal Control over Compliance*

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose expressing an opinion on compliance for the 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 the Organization's internal control over compliance.

*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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 25, 2018

PRIORITY HEALTH CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>GRANTOR</u>	<u>CFDA NUMBER</u>	<u>ENTITY NUMBER</u>	<u>PASS-THROUGH TO SUBRECIPIENTS</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Health &amp; Human Services</u></b>				
<u>Direct:</u>				
<u>Health Resources and Service Administration</u>				
Community Health Centers, Health Care for the Homeless and Public Housing Primary Care	93.224	N/A	\$ -0-	\$ 609,201
<u>Pass-through program from:</u>				
<u>City of New Orleans</u>				
Ryan White-HIV Emergency Relief Project Grant	93.914	N/A	-0-	1,099,206
<u>Louisiana Department of Health and Hospitals</u>				
HIV Prevention Activities Health Department Based	93.940	N/A	-0-	384,415
<u>Louisiana Public Health Institute</u>				
Community Programs to Improve Minority Health Grant Program	93.137	N/A	-0-	<u>22,816</u>
<b>Total Expenditures of Federal Awards</b>			-0-	<u><u>\$ 2,115,638</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

**PRIORITY HEALTH CARE, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Priority Health Care, Inc. (the Organization) under programs of the federal government for the year ended December 31, 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization. The Organization is defined in Note 1 to the financial statements for the year ended December 31, 2017. All federal awards received directly from federal agencies are included on the schedule, as well as federal awards passed-through other government agencies, as applicable.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Organization's financial statements for the year ended December 31, 2017. Such expenditures are recognized following the cost principles contained in accordance with the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Financial Statements

Federal revenues of \$1,775,434 are included in the Statement of Activities in the category "Grants and Contracts." Additional federal revenues of \$61,458 and \$278,746 are included in the Statement of Activities in the categories of "Patient Service Revenue" and "Pharmacy Revenue," respectively.

4. Relationship to Federal Financial Reports

Amounts reported in the Schedule agree with the amounts reported in the related federal financial reports, except for the amounts in reports submitted as of a date subsequent to December 31, 2017.

5. De Minimis Cost Rate

During the year ended December 31, 2017, the Organization did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

PRIORITY HEALTH CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

(1) Summary of Independent Auditors' Results

*Financial Statements*

The type of report issued on the financial statements: Unmodified opinion

Internal control over financial reporting:

a. Material weakness(es) identified? No

b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None noted

Noncompliance material to the financial statements noted? No

*Federal Awards*

Internal controls over major program:

c. Material weakness(es) identified? No

d. Significant deficiency(ies) identified that are not considered to be material weaknesses? None noted

Type of auditor's report issued on compliance for major program: Unmodified opinion

Any audit findings which are required to be reported under the Uniform Guidance? No

Identification of major program:

United States Department of Health and Human Services:  
Passed through the City of New Orleans  
Ryan White -- HIV Emergency Relief Project Grant 93.914

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee under Section 530 of The Uniform Guidance: Yes

PRIORITY HEALTH CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

Not Applicable.

(3) Findings and Questioned Costs relating to Federal Awards:

Not Applicable.

**PRIORITY HEALTH CARE, INC.**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Finding 2016-01**

Criteria: 2 CFR Section 200.318 through 200.326, Part 3 Section I. states non-federal entities other than states, including those operating federal programs as subrecipients of states, must follow the procurement standards set out at 2 CFR Sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal statutes and the procurement requirements identified in 2 CFR Part 200.

Condition: Management was unable to provide evidence their documented procedures used to procure services used in the grant.

Cause: Management failed to document their procedures used to procure services used in the grant properly.

Effect: Priority Health Care, Inc. is in non-compliance with Uniform Guidance Suspension and Debarment.

Recommendation: It is recommended that management and responsible personnel document and preserve the procedures used to procure services used for federal grants.

Current Status: This finding is resolved.



The Board of Directors  
Priority Health Care, Inc.  
Marrero, Louisiana

In planning and performing our audit of the financial statements of Priority Health Care, Inc. (a nonprofit organization) (the Organization) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 were not identified. However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency of the Organization. We previously reported on the Organization's internal control in our report dated June 25, 2018. This letter does not affect our report dated June 25, 2018 on the financial statements of the Organization.

Our recommendations are summarized in Appendix A, which also contains management's response to the current year recommendations.

This report is intended solely for the information and use of the Board, management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 25, 2018

**CURRENT YEAR RECOMMENDATIONS AND MANAGEMENT'S RESPONSE**

**2017-001 Accounts Receivable: review of historical collections and allowance methodology**

The Organization should review its allowance methodology for doubtful accounts and contractual adjustments. Healthcare entities should maintain estimates of allowances for contractual adjustments and doubtful accounts based on management's assessment of collectability, current economic conditions, and prior experience. Those estimates should be reviewed and compared to actual cash receipts on historical receivables on a periodic basis. Management should review current collections on prior period receivable balances as a way to determine whether the allowances recorded in the prior period were reasonable and whether the current allowances should be adjusted based on actual historical results.

*Management's Response*

Priority Health Care calculates allowances for doubtful accounts based upon management's assessment of collectability, current economic conditions, and prior experience. These estimates are reviewed and compared to actual cash receipts on historical receivables on a periodic basis. Outside of third party governmental and commercial payors, Priority Health Care accounts for amounts due from the City of New Orleans HIV/AIDS Ryan White Program within the accounts receivable balance. From a consolidated review standpoint and due to the volume of services provided, infrequent and sporadic reimbursement experienced from the City of New Orleans HIV/AIDS Ryan White Program, overall collections appear to be low, but these amounts are collectible. Priority Health Care is also working with staff to enhance and/or design workflows to assist in expediting the payment process.

**2017-002 Information Technology: user access**

In reviewing the Organization's information technology systems, opportunities for improvement were identified with regard to user access. The Organization should formalize information technology policies and procedures with respect to user access and access management. At least on an annual basis, current users, their assigned job duties, and respective roles in each system should be compared to the level of access granted in each of the systems. Results of this review should be documented and approved by another employee with appropriate knowledge and responsibility to manage user access. Administrator access and segregation of duties considerations should also be a factor in this process.

*Management's Response*

Priority Health Care has informal policies and procedures related to information technology. To assist in creating adequate workflows and formalized policies and procedures, Priority Health Care is in the process of engaging a third-party consulting firm to perform the following:

1. HIPAA Security & Risk Assessment
  - a. Site Survey (Main Location and additional locations)
  - b. Information Security Program Overview
  - c. HIPAA Technical Vulnerability and System Scans
2. Assess the current operating environment and evaluate existing security practices
3. Develop, review and/or access current policies and procedures
4. Assist in staff training and ongoing monitoring

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**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**

**STATEWIDE AGREED-UPON PROCEDURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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Postlethwaite & Netterville

A Professional Accounting Corporation

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PRIORITY HEALTH CARE, INC.  
MARRERO, LOUISIANA

STATEWIDE AGREED-UPON PROCEDURES

FOR THE YEAR ENDED DECEMBER 31, 2017

**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors of Priority Health Care, Inc.  
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Priority Health Care, Inc. (the Organization) and the Louisiana Legislative Auditor (LLA) (the specified parties) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2017 through December 31, 2017. The Organization's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read "*no exception noted.*" If not, then a description of the exception ensues.

***Written Policies and Procedures***

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1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
  - a) Budgeting, including preparing, adopting, monitoring, and amending the budget  
*No exception noted.*
  - b) Purchasing, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.  
*No exception noted.*
  - c) Disbursements, including processing, reviewing, and approving  
*No exception noted.*
  - d) Receipts, including receiving, recording, and preparing deposits  
*No exception noted.*
  - e) Payroll/Personnel, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.  
*No exception noted.*

*Written Policies and Procedures (continued)*

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- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process

*The Organization has written policies and procedures for contracting. However, the policies and procedures do not contain attribute (3) above for legal review.*

Management's response: Obtaining legal representation to review and provide feedback on all contracts would create undue burden upon the organization, both financially and operationally. Due to these constraints, Priority Health Care plans to continue following current policies and procedures related to contracting. Legal representation will be utilized at the discretion of the Board of Directors and/or Executive Director and will be based upon factors such as cost, materiality and/or risk.

- g) **Credit Cards** (and debit cards, fuel cards, P-Cards, if applicable), including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage

*No exception noted.*

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

*The Organization has written policies and procedures for travel and expense reimbursement. However, the policies and procedures do not contain attribute (2) above for dollar thresholds by category of expense.*

Management's response: Priority Health Care will revise existing policies and procedures to specify dollar thresholds by category of expense. In addition, and as part of the implementation of a new accounting information system, expense report entry and approval rules will be created through automation.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofits.

*The Organization is a non-profit. Thus, this procedure is not applicable.*

- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

*The Organization is a non-profit. Thus, this procedure is not applicable.*

***Board (or Finance Committee, if applicable)***

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2. Obtain and inspect the board/committee minutes for the fiscal period, and:

- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

*The Organization's bylaws indicate that the Board shall meet monthly. During the period January 1, 2017 through December 31, 2017, the Board did not meet in February 2017. The Board met in May 2017, but a quorum was not present. Additionally, the Board did not meet in August 2017, but held two meetings in September 2017 to make up for the missed August meeting.*

*Management's response:* Priority Health Care's Board of Directors will review language within the current bylaws to factor in unforeseen circumstances which may cause meetings to be canceled and/or rescheduled.

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis). If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

*No exception noted in the nine Board meetings held during 2017.*

- c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

*No exception noted.*

***Bank Reconciliations***

---

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

*A listing of bank accounts was provided and included a total of 7 bank accounts. A signed representation by management was obtained on the completeness of the listing provided.*

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement. For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

*From the listing provided, we selected 5 accounts and obtained the bank reconciliations for each of the twelve months ending December 31, 2017, resulting in 54 bank reconciliations obtained and subjected to the below procedures.*

- a) Bank reconciliations have been prepared;

*No exception noted.*

### *Bank Reconciliations (continued)*

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- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and

*No exception noted.*

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

*No exception noted.*

### *Collections*

---

- 5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

*A listing of cash collection locations was provided and included a total of 3 cash collection locations. A signed representation by management was obtained on the completeness of the listing provided.*

- 6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement. For each cash collection location selected:

*We selected 3 locations and performed the procedures noted below.*

- a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

*No exception noted.*

- b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

*No exception noted.*

- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

*Using the collection data, we determined the highest collection week during the year ending December 31, 2017 for each respective collection location and performed the procedures noted below:*

- Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.

*Collections (continued)*

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*The 3 deposits tested were not made within one day of collection. One deposit in the amount of \$164.54 was made 12 days after collection. Two deposits in the amount of \$90 and \$520, respectively, were made 54 days after collection.*

*Management's response:* Priority Health Care's current policy states as follows:

1. Cash/Check deposits are to be deposited, generally within five (5) business days of receipt. Payments received in cash/check or unable to be deposited within (5) business days are maintained in the safe, secured with a combination lock and key, only to be opened by one of the two authorized individuals.
2. Deposits are to be recorded into the accounting system by the Senior Accountant, generally within three (3) business days of deposit.
3. Checks are to be posted against patient accounts, generally within five (5) business days of receipt.

Existing workflows related to cash collection will be reviewed to ensure policies and procedures are being followed. In addition, additional training will be provided to staff.

- Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

*No exception noted.*

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

*No exception noted.*

*Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)*

---

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

*The listing of beginning and ending check ranges for all bank accounts was provided related to the reporting period. A signed representation by management was obtained on the completeness of the listing provided.*

9. Using the disbursement population from #8 above, select 25 disbursements (or select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

*We randomly selected 25 disbursements and performed the procedures below.*

*Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)  
(continued)*

---

- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

*The Organization's policies and procedures do not require requisitions or purchase orders for all transactions. Of the 25 disbursements tested, there were 21 for which a requisition/purchase order was not prepared.*

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

*Of the 25 disbursements tested, there were 4 for which a requisition/purchase order was prepared and we could perform this procedure. No exceptions were noted in these 4.*

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

*Of the 25 disbursements selected, 21 of the 25 did not include an approved requisition, purchase order, or electronic equivalent. All 25 disbursements included an evidence of receipt of goods or services, and an approved invoice.*

Management's response: Priority Health Care's current policy states as follows:

1. Priority Health Care (PHC) shall:

- a. Abide by appropriate federal and state regulations pertaining to purchasing and allowable costs.
- b. Provide equal opportunities to all suppliers to present their products without regard to race, color, religion, sex, disability or national origin.

2. PHC employees involved in the purchasing process shall:

- a. Be responsible for buying items consistent with quality requirements at the best price available, securing at least 3 price quotes on purchases of \$3,000 or more.
- b. Exercise control of supply inventories to effectively maintain PHC operational activities.
- c. Locate and develop resources to ensure an uninterrupted supply.
- d. Be responsible for constantly seeking improved products and materials.

3. System-numbered purchase orders shall be used for all purchases excluding:

- a. Recurring expenses such as rent or utilities.
- b. Contractual agreements which are automatically billed by the vendor.
- c. Purchases made with cash, following procedures outlined in the Petty Cash Policy.
- d. Purchases made with the organization's credit card, following procedures outlined in Company Credit Card Policy.

4. The Chief Financial Officer or Chief Executive Officer shall approve all purchase orders for unusual or large purchases before orders are placed.

5. All purchase requisitions and orders shall be legible, accurate and properly authorized by approved department heads.

*Disbursements – General, excluding credit card/debit card/fuel card/P-Card purchases or payments  
(continued)*

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6. Purchases exceeding \$25,000 shall require competitive bids following procedures outlined in the Competitive Bid Policy.

Priority Health Care will revise existing policies and procedures to specify dollar thresholds by category of expense. Existing workflows related to purchasing and procurement will be reviewed to ensure existing policies and procedures are being followed and additional training will be provided to staff.

In addition, Priority Health Care will be implementing a new accounting information system which will have an automated purchasing module where approval and threshold rules will be created through automation.

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

*No exception noted.*

11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

*No exception noted.*

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, inspect entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

*No exception noted.*

13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

*No signature stamp or signature machine is used. Thus, this procedure is not applicable.*

*Credit Cards/Debit Cards/Fuel Cards/P-Cards*

---

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

*A listing of cards was provided by management of the Organization. A signed representation by management was obtained on the completeness of the listing provided.*

15. Using the listing prepared by management, select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

*We selected one card and performed the procedures below.*

*Credit Cards/Debit Cards/Fuel Cards/P-Cards (continued)*

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Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.)]

*No exception noted.*

- b) Report whether finance charges and/or late fees were assessed on the selected statements.

*On the statements tested, there were no finance charges and/or late fees assessed.*

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:

- An original itemized receipt (i.e., identifies precisely what was purchased)

*No exception noted.*

- Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.

*No exception noted.*

- Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

*No exception noted.*

- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

*No exception noted.*

- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

*No exception noted.*

### *Travel and Expense Reimbursement*

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17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

*We obtained a listing of all travel related expense reimbursement transactions. A signed representation by management was obtained on the completeness of the listing provided.*

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)) and report any amounts that exceed GSA rates.

*No exception noted.*

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

*No exception noted.*

- b) Report whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]

*The 3 expense reimbursements selected were mileage reimbursements. Thus, this procedure was not applicable.*

- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).

*No exception noted.*

- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

*No exception noted.*

- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

*No exception noted.*

- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

*No exception noted.*

## *Contracts*

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20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

*A listing of general ledger activity was provided in order to summarize contracts in effect during the fiscal period. A signed representation by management was obtained on the completeness of the listing provided.*

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

*The top five vendors were selected for testing using the procedures below.*

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

*No exception noted.*

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

- If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)

*Of the 5 vendors selected, 1 was subject to the bid law. A State of Louisiana contract was used for this purchase.*

- If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

*Of the 5 vendors selected, 4 were not subject to the bid law. There was no evidence showing solicitation of quotes as a best practice.*

- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

*Of the 5 vendors selected, there were no amendments to these agreements/contracts during 2017. Thus, this procedure was not applicable.*

- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.

*No exception noted.*

*Contracts (continued)*

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- e) Obtain/inspect contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

*Of the 5 vendor payments selected, 2 of the 5 were noted as having Board approval.*

*Management's response:* Priority Health Care's current policy states as follows:

1. Purchases exceeding \$25,000 shall require competitive bids following procedures outlined in the Competitive Bid Policy.

Priority Health Care is in compliance with internal policies/procedures and external regulatory requirements regarding purchases exceeding \$25,000 and bid policy. At the time of contract execution, which may have occurred prior to 2017, the contracts notated as exceptions were not equal to nor greater than \$25,000. At the time of audit, the 12-month expenses per individual contract were equal to or greater than \$25,000.

*Payroll and Personnel*

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22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Select five employees/officials, obtain their personnel files, and:

*A listing of employees was provided. A signed representation by management was obtained on the completeness of the listing provided.*

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

*No exception noted.*

- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

*No exception noted.*

23. Obtain attendance and leave records and select one pay period in which leave has been taken by at least one employee. Within that pay period, select 25 employees/officials (or select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

*No exception noted.*

- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

*No exception noted.*

- c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

*No exception noted.*

*Payroll and Personnel (continued)*

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24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

*A listing of employees terminated during the fiscal period was provided. A signed representation by management was obtained on the completeness of the listing provided. The Organization does not pay accumulated leave time upon termination. There were no severance or leave payments during 2017. Thus, this procedure is not applicable.*

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

*No exception noted.*

*Ethics (excluding nonprofits)*

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*Items 26-27 were not included, as the procedures are not applicable to non-profits.*

*Debt Service (excluding nonprofits)*

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*Items 28-30 were not included, as the procedures are not applicable to non-profits.*

*Other*

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31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/inspect supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

*Management of the Organization noted that there were no misappropriations of public funds or assets during 2017.*

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at [www.la.gov/hotline](http://www.la.gov/hotline)) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

*No exception noted.*

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

*No exception noted.*



We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 25, 2018