

THE CATALYST FOUNDATION

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2012

CONTENTS

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Independent Auditors' Report | 1-2 |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Functional Expenses | 5 |
| Statement of Cash Flows | 6 |
| Notes to Financial Statements | 7-12 |
| Supplemental Schedule: | |
| Schedule of Expenditures of Federal Awards | 13 |
| Additional Information: | |
| 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 <i>Government Auditing Standards</i> | 14-15 |
| Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 | 16-17 |
| Schedule of Findings and Questioned Costs | 18-38 |

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Catalyst Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of The Catalyst Foundation (a nonprofit organization), which comprise the Statement of Financial Position as of December 31, 2012, and the related Statements of Activities, 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 auditors' 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 auditors consider internal control relevant to The Catalyst Foundation'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 above present fairly, in all material respects, the financial position of The Catalyst Foundation as of December 31, 2012, 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.

INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of The Catalyst Foundation as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, "*Audit of States, Local Government, and Nonprofit Organizations*" is presented for the purpose of additional analysis and is 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.

Summarized Comparative Information

The financial statements of The Catalyst Foundation as of December 31, 2011 were audited by other auditors whose report dated January 24, 2013 expressed an unmodified opinion on those statements. In our opinion the summarized comparative information presented herein as of and for the year December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 on our consideration of The Catalyst Foundation' 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 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 Catalyst Foundation' internal control over financial reporting and compliance. The Summary of Previous Audit Findings on page 21 was subjected to the auditing procedures applied in the December 31, 2011 audit of the financial statements by other auditors whose report on such information was dated January 24, 2013.

Harrington Group

Pasadena, California
October 29, 2013

THE CATALYST FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2012

With comparative totals at December 31, 2011

| | 2012 | (Restated) 2011 |
|---------------------------------------------------|-------------------|--------------------|
| Assets | | |
| Cash | \$ 184,345 | \$ 27,842 |
| Contracts and grants receivable (Note 2) | 197,562 | 285,612 |
| Other receivable (Note 2) | 61,644 | - |
| Prepaid expenses and other assets | 24,335 | 4,738 |
| Property and equipment (Note 3) | 20,834 | 38,652 |
| Total assets | \$ 488,720 | \$ 356,844 |
| Liabilities and net assets | | |
| Liabilities | | |
| Accounts payable and accrued liabilities (Note 4) | \$ 382,082 | \$ 245,349 |
| Line of credit | - | 17,500 |
| Loan payable to officer (Note 6) | 28,526 | 39,790 |
| Total liabilities | 410,608 | 302,639 |
| Net assets | | |
| Unrestricted | 78,112 | 54,205 |
| Total net assets | 78,112 | 54,205 |
| Total liabilities and net assets | \$ 488,720 | \$ 356,844 |

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

THE CATALYST FOUNDATION

STATEMENT OF ACTIVITIES

For the year ended December 31, 2012

With comparative totals for the year ended December 31, 2011

| | 2012 | (Restated) 2011 |
|------------------------------------------|------------------|--------------------|
| Revenue and support | | |
| Government contracts and grants (Note 8) | \$ 2,037,166 | \$ 1,085,240 |
| Donations | 316,359 | 246,599 |
| In-kind donations | - | 98,400 |
| Fees for services | 20,393 | 68,906 |
| Other income | 6,494 | 46,611 |
| | <u>2,380,412</u> | <u>1,545,756</u> |
| Total revenue and support | 2,380,412 | 1,545,756 |
| Expenses | | |
| Program services | 2,036,074 | 1,259,356 |
| General and administrative | 171,112 | 212,684 |
| Fundraising | 149,319 | 83,249 |
| | <u>2,356,505</u> | <u>1,555,289</u> |
| Total expenses | 2,356,505 | 1,555,289 |
| Change in net assets (Note 10) | 23,907 | (9,533) |
| Net assets, beginning of year | 54,205 | 63,738 |
| Net assets, end of year | \$ 78,112 | \$ 54,205 |

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

THE CATALYST FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2012

With comparative totals for the year ended December 31, 2011

| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Fund Raising</u> | <u>2012</u> | (Restated) <u>2011</u> |
|---------------------------------------|-----------------------------|---------------------------------------|-------------------------|---------------------|---------------------------|
| Salaries | \$ 706,237 | \$ 40,127 | \$ 56,178 | \$ 802,542 | \$ 741,645 |
| Employee benefits | 131,708 | 7,772 | 9,907 | 149,387 | 138,813 |
| Payroll taxes | 57,770 | 3,283 | 4,595 | 65,648 | 68,597 |
| Total personnel costs | 895,715 | 51,182 | 70,680 | 1,017,577 | 949,055 |
| | | | | | |
| Bartz-Altadonna CHC - subcontract | 442,555 | | | 442,555 | - |
| Housing assistance program expense | 392,057 | | | 392,057 | 11,491 |
| Rent | 80,275 | 4,561 | 6,386 | 91,222 | 88,371 |
| Advertising | | | 58,241 | 58,241 | 690 |
| Miscellaneous expense | | 36,099 | | 36,099 | 20,054 |
| Utilities | 53,157 | 687 | 963 | 54,807 | 44,870 |
| Consultants | 43,175 | | | 43,175 | 98,400 |
| Professional services | 10,968 | 29,267 | 872 | 41,107 | 128,491 |
| Penalties, taxes, and interest | | 39,143 | | 39,143 | 2,398 |
| Travel and entertainment | 31,067 | 1,764 | 2,472 | 35,303 | 8,962 |
| Supplies | 17,502 | 995 | 1,392 | 19,889 | 35,476 |
| Insurance expense | 14,496 | 824 | 1,153 | 16,473 | 29,483 |
| Depreciation | 13,480 | 766 | 1,072 | 15,318 | 16,304 |
| Office expense | 7,111 | 2,719 | 3,807 | 13,637 | 799 |
| Repairs and maintenance expense | 8,449 | 481 | 672 | 9,602 | 10,317 |
| Equipment expense | 6,348 | 360 | 505 | 7,213 | 27,807 |
| Postage and printing | 5,408 | 308 | 430 | 6,146 | 4,319 |
| Foodbank program expense | 5,584 | | | 5,584 | 4,352 |
| Dues, subscriptions, and publications | 4,818 | 274 | 383 | 5,475 | 2,268 |
| Education and seminars | 3,659 | 208 | 291 | 4,158 | 2,430 |
| Bank charges | 250 | 1,474 | | 1,724 | 689 |
| Medical expenses | | | | - | 68,263 |
| | | | | | |
| Total 2012 functional expenses | \$ 2,036,074 | \$ 171,112 | \$ 149,319 | \$ 2,356,505 | |
| | | | | | |
| Total 2011 functional expenses | \$ 1,259,356 | \$ 212,684 | \$ 83,249 | | \$ 1,555,289 |

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

THE CATALYST FOUNDATION

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

With comparative totals for the year ended December 31, 2011

| | <u>2012</u> | <u>(Restated) 2011</u> |
|---------------------------------------------------------------------------------------------|--------------------------|----------------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 23,907 | \$ (9,533) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 15,318 | 16,304 |
| Loss on disposal of property and equipment | 2,500 | - |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 88,050 | (102,700) |
| (Increase) in other receivable | (61,644) | - |
| (Increase) decrease in prepaid expenses and other assets | (19,597) | 500 |
| Increase in accounts payable and accrued liabilities | 136,733 | 148,428 |
| Deferred revenue | - | (18,233) |
| | <u>185,267</u> | <u>34,766</u> |
| Net cash provided by operating activities | | |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | - | (2,500) |
| | <u>-</u> | <u>(2,500)</u> |
| Net cash (used) by investing activities | | |
| Cash flows from financing activities: | | |
| Payments on line of credit | (17,500) | (32,500) |
| Net (payments) proceeds on loan payable to officer | (11,264) | 23,769 |
| | <u>(28,764)</u> | <u>(8,731)</u> |
| Net cash (used) by financing activities | | |
| Net increase in cash | 156,503 | 23,535 |
| Cash, beginning of year | <u>27,842</u> | <u>4,307</u> |
| Cash, end of year | <u><u>\$ 184,345</u></u> | <u><u>\$ 27,842</u></u> |
| Supplemental disclosure of cash flow information: | | |
| Operating activities reflect interest paid of: | <u><u>\$ 4,732</u></u> | <u><u>\$ 2,388</u></u> |

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

THE CATALYST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Catalyst Foundation (“the Foundation”) is a California nonprofit corporation formed in 1993. The Foundation’s offices are located in Lancaster, California, providing medical and supportive services to low income, uninsured, and homeless persons regardless of financial ability to pay for the services. In addition, the Foundation provides support groups, community education and public awareness. The Foundation is governed by a volunteer Board of Directors.

The Foundation offers the following programs:

- *Primary and Specialty Medical Care* is provided through the Foundation’s State Licensed Community Clinic Services included specialty treatment for persons with HIV/AIDS and Hepatitis C, reproductive healthcare services, and general medical care for the medically indigent and low income.
- *Supportive Services/Basic Needs* is a program provided by the Foundation to serve the homeless and impoverished and ensures those served are provided with compassionate care while looking beyond the immediate need to the root cause of the problem. This program provides everything from case management to food and housing for the clients it serves.
- *Supportive Services for Veteran Families* is a program provided by the Foundation to serve veterans who are homeless or at risk of homelessness and ensures those served are provided with compassionate care while looking beyond the immediate need to the root cause of the problem. This program provides everything from case management to housing and utility assistance for the clients it serves.
- *Enrichment Services* provides comfort, healing, and wellness through a variety of media. The Foundation features classes in art, mediation, yoga, and martial arts, while also offering both personal and group therapy sessions from a trauma theory based model of care. A keystone program operated under Enrichment Services is the *Creative a Healing Society* program.
- *The Healing Center* provides assessment for the scope and severity of past abuse and trauma, and an individualized treatment plan is developed in collaboration with each client that focuses on two areas: the client’s long-term life goals and their unresolved trauma issues. Individual and group therapy is provided in which foundational concepts of healthy, successful living are learned and applied to the clients’ lives.
- *Outreach and Prevention* focuses on populations at high risk of HIV/HCV infection, which includes people who are low income, homeless, or abuse substances. The outreach staff provides education and testing in the field and at the clinic for high-risk groups.

2. Summary of Significant Accounting Policies

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

continued

THE CATALYST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of The Foundation are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net assets as follows:

Unrestricted. These generally result from revenues 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. The Foundation 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 expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions. The Foundation had no temporarily restricted net assets as of December 31, 2012.

Permanently Restricted. These net assets are restricted by donors who stipulate the resources are to be maintained permanently, but permit the Foundation to expend all of the income (or other economic benefits) derived from the donated assets. The Foundation had no permanently restricted net assets as of December 31, 2012.

Grant Funding

The Foundation receives multi-year grant funding from various sources, which in accordance with generally accepted accounting principles are recorded in the period received or pledged. However, expenditures related to these grants can occur over several years. As a result, timing differences are created which can have an effect on changes in net assets.

Contracts and Grants Receivable

Contracts and grants receivable are primarily receivables from government entities and other established organizations. These amounts are deemed fully collectible as they primarily related to contracted services. Therefore, no allowance for doubtful accounts has been provided. Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. At December 31, 2012, the Foundation had no promises to give expected beyond one year. Conditional promises to give are not included as support until the conditions are substantially met.

continued

THE CATALYST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Other Receivable

During the fiscal year ended December 31, 2012, the Foundation suffered losses due to misappropriation of assets by an employee (no longer with the organization). While investigation on this fraudulent activity is still on-going, the Foundation is expecting to recuperate these losses from that former employee. For the fiscal year ended December 31, 2012, the estimated amount of such losses was \$61,644.

Concentrations of Credit Risk

The Foundation places its temporary cash investments with high-credit, quality financial institutions. At times, the operating accounts may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Foundation has not incurred losses related to these operating accounts.

The primary contracts and grants receivable balance outstanding at December 31, 2012 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risk with respect to these receivables are limited, as the majority of the Foundation's receivables consist of earned fees from contract programs granted by governmental agencies.

For the fiscal year ended December 31, 2012, approximately 86% of the Foundation's revenue and support was received from governmental agencies.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of the donation if donated. Depreciation 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 two thousand dollars and the useful life is greater than one year.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. During the year ended December 31, 2012, the Foundation did not receive any donations of materials or services which met the criteria for recognition.

continued

THE CATALYST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

The Foundation is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide 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 the Foundation in its federal and state exempt organizations tax returns are more likely than not to be sustained upon examination. The Foundation 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

Cost of providing the Foundation's program and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Certain indirect costs have been allocated among the programs and supporting services benefited based upon estimated usage.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient details to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through October 29, 2013, the date which the financial statements were available.

continued

THE CATALYST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

3. Property and Equipment

Property and equipment at December 31, 2012 consist of the following:

| | |
|--------------------------------|------------------|
| Computer and equipment | \$ 73,713 |
| Vehicles | 62,987 |
| Office furniture | 49,629 |
| Leasehold improvements | <u>35,510</u> |
| Total property and equipment | 221,839 |
| Less: accumulated depreciation | <u>(201,005)</u> |
| | <u>\$ 20,834</u> |

Depreciation expense for the year ended December 31, 2012 was \$15,318

4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31, 2012 consist of the following:

| | |
|----------------------------------------------------|------------------|
| Payroll tax liabilities and penalties (see Note 5) | \$243,695 |
| Accrued salaries | 46,493 |
| 403(b) payable | 38,678 |
| Accrued vacation | 34,815 |
| Other payables and accrued expenses | <u>18,401</u> |
| | <u>\$382,082</u> |

5. Payroll Tax Liabilities and Penalties

For the fiscal year ended December 31, 2012, the Foundation failed to remit all payroll taxes due for both employer's and employees' portions to the Internal Revenue Service (IRS) and partial payroll taxes due to Employment Development Department (EDD) in the total amount of \$207,360. Penalties and interest on the amount owed, as calculated through December 31, 2012, were \$36,335. Therefore, the outstanding payroll taxes plus penalties and interest at December 31, 2012 were \$243,695 (see Note 4). Upon discovery of the failure to remit by its former employee, the Foundation immediately contacted the IRS and EDD and made full payments to both tax authorities in 2013 to resolve the issue.

6. Loan Payable to Officer

The Foundation was advanced \$50,000 in February of 2007 by the Foundation's Executive Director. The advance was unsecured, non-interest bearing and due on demand. The outstanding balance on the loan payable to officer at December 31, 2012 was \$28,526. Currently, the Foundation is making payments of \$951 monthly. As such, the Foundation expects to satisfy the advance as follows:

| | |
|---------------------|-----------------|
| <u>December 31,</u> | |
| 2013 | \$11,412 |
| 2014 | 11,412 |
| 2015 | <u>5,702</u> |
| | <u>\$28,526</u> |

continued

THE CATALYST FOUNDATION

NOTES TO FINANCIAL STATEMENTS

7. Commitments and Contingencies

Contracts

The Foundation's 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 often cannot be reasonably estimated and accordingly, the Foundation have no provisions for the possible disallowance of program costs on its financial statements at December 31, 2012.

8. Government Contracts

Government contracts for the year ended December 31, 2012 consist of the following:

| | |
|----------------------------------------------------------------------|--------------------|
| Supportive Services for Veterans Family program | \$1,006,702 |
| Health Resources and Services Administration/Ryan White | 511,940 |
| Substance Abuse and Mental Health Services Administration | 310,361 |
| Housing Opportunities for Persons with Aids | 123,049 |
| Office of Aids Program and Policy/Division of HIV and STD Programs | 62,688 |
| Public Health Foundation Enterprises/Los Angeles Family Aids Network | <u>22,426</u> |
| | <u>\$2,037,166</u> |

9. Employee Retirement Plan

The Foundation maintains a deferred annuity plan under Internal Revenue Code Section 403(b) which covers all full-time employees who have been employed by the Foundation for at least 90 days. Employee contributions are voluntary. The Foundation makes a discretionary matching contribution at a rate of 100% of employee contributions not to exceed \$100 per pay period per employee. The Foundation's contributions to the plan for the years ended December 31, 2012 were \$11,276.

10. Prior Period Adjustment

Unrestricted net assets as of June 30, 2012 have been restated to properly reflect accounts payable. Had the transaction been properly recorded, accounts payable and miscellaneous expense would have increased by \$20,054. Correspondingly, unrestricted net assets would have decreased by \$20,054. The following shows the amounts that have been restated in the June 30, 2012 comparative information:

| | As previously <u>Reported</u> | <u>Adjustment</u> | As <u>Restated</u> |
|---------------------------------------------------------|----------------------------------|-------------------|-----------------------|
| <u>Statement of Financial Position:</u> | | | |
| Accounts payable and accrued liabilities | \$225,295 | \$20,054 | \$245,349 |
| Unrestricted net assets | \$74,259 | \$(20,054) | \$54,205 |
| <u>Statement of Activities and Functional Expenses:</u> | | | |
| Program services | \$1,239,302 | \$20,054 | 1,259,356 |
| Change in net assets | \$10,521 | \$(20,054) | \$(9,533) |
| Miscellaneous expense | \$0 | \$20,054 | \$20,054 |

SUPPLEMENTAL SCHEDULE

THE CATALYST FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2012

| Program Name | Contract Number | Federal CFDA No. | Federal Expenditures |
|------------------------------------------------------------------------------------------|----------------------|------------------------|-------------------------|
| Federal awards | | | |
| U.S. Department of Veteran Affairs: | | | |
| Supportive Services for Veteran Families (a) | R-12-CA-362 | 64.003 | 1,006,702 |
| Total U.S. Department of Veteran Affairs | | | 1,006,702 |
| | | | |
| U.S. Department of Health and Human Services (DHHS) - Direct Programs | | | |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (a) | | | |
| Ryan White - Part C | H76HA00784B0 | | 412,663 |
| Ryan White - Capacity | P06HA23191A0 | | 99,277 |
| | | 93.918 | 511,940 |
| Substance Abuse and Mental Health Service Administration (a) | H9TI19742A | 93.243 | 310,361 |
| Sub -total Department of Health and Human Services - Direct Programs | | | 822,301 |
| | | | |
| Pass-through, County of Los Angeles Public Health: | | | |
| HIV Prevention Activities Health Department Based | | | |
| HCT/Storefront Based | PH-000818 Schedule 6 | | 56,298 |
| HCT/Storefront Based | PH-000818 Schedule 7 | | 6,390 |
| Sub-total pass-through, County of Los Angeles Public Health | | 93.940 | 62,688 |
| | | | |
| Pass-through, Public Health Foundation Enterprise Inc.: | | | |
| HIV Care Formula Grants | VN121895 | 93.917 | 22,426 |
| Sub-total pass-through, Public Health Foundation Enterprise Inc. | | | 22,426 |
| Total Department of Health and Human Services | | | 907,415 |
| | | | |
| U.S Department of Housing and Urban Development ("HUD"): | | | |
| Pass-through, County of Los Angeles: | | | |
| Housing Opportunities for Person with AIDS (HOPWA) | 120289 | 14.241 | 123,049 |
| Sub-total pass-through, County of Los Angeles | | | 123,049 |
| | | | \$ 2,037,166 |
| Total federal awards | | | |

(a) Audited as a major program

Summary of Significant Accounting Policies

1. Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
2. The Catalyst Foundation is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

ADDITIONAL INFORMATION

**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
The Catalyst Foundation

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 The Catalyst Foundation, which comprise the Statement of Financial Position as of December 31, 2012, and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Catalyst Foundation'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 Catalyst Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of The Catalyst Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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, as described in the accompanying schedule of findings and questioned costs, we identified 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 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 to be a material weakness (2012-01).

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 deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2012-02, 2012-03 and 2012-04).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Catalyst Foundation'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*.

The Catalyst Foundation's Responses to Findings

The Catalyst Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Catalyst Foundation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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***
continued

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

Harrington Group

Pasadena, California
October 29, 2013

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
The Catalyst Foundation

Report on Compliance for Each Major Federal Program

We have audited The Catalyst Foundation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Catalyst Foundation's major federal programs for the year ended December 31, 2012. The Catalyst Foundation's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Catalyst Foundation's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Catalyst Foundation'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 Catalyst Foundation's compliance.

Basis for Qualified Opinion on CFDA 64.003 Supportive Services for Veteran Families Program, CFDA 93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease, and CFDA 93.243 Substance Abuse and Mental Health Services – Projects of Regional and National Significance

As described in the accompanying schedule of findings and questioned costs, The Catalyst Foundation did not comply with requirements regarding CFDA 64.003 Supportive Services for Veteran Families, CFDA 93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease, and CFDA 93.243 Substance Abuse and Mental Health Services – Projects of Regional and National Significance as described in finding number **2012-05**. Compliance with such requirements is necessary, in our opinion, for The Catalyst Foundation to comply with the requirements applicable to those programs.

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

continued

Qualified Opinion on CFDA 64.003 Supportive Services for Veteran Families Program, CFDA 93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease, and CFDA 93.243 Substance Abuse and Mental Health Services – Projects of Regional and National Significance

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, The Catalyst Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 64.003 Supportive Services for Veteran Families, CFDA 93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease, and CFDA 93.243 Substance Abuse and Mental Health Services – Projects of Regional and National Significance for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of The Catalyst Foundation 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 Catalyst Foundation's 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 OMB Circular A-133, 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 Catalyst Foundation's internal control over compliance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2012-08** to be a material weakness.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2012-09** to be a significant deficiency.

The Catalyst Foundation's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Catalyst Foundation's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harrington Group

Pasadena, California
October 29, 2013

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Type of auditors’ report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Identification of Major Programs:

U.S. Department of Veteran Affairs:

Supportive Services for Veteran Families 64.003

U.S. Department of Health and Human Services:

Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease 93.918

Substance Abuse and Mental Health Services – Projects of Regional and National Significance 93.243

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section II – Financial Statements Findings

2012-01. Lack of segregation of duties and timely review of daily financial transactions leading to misappropriation of assets. Due to the small size of the accounting staff, we noted a significant lack of segregation of duties. For most of the year, the Foundation employed a CFO (no longer with the organization at the time of audit) who had been trusted to manage the Foundation's books, including but not limited to performing the recording of payroll, bank reconciliations, invoice approval and processing, and depositing money for bi-weekly payroll transaction purposes. Most, if not all, of the work that this former CFO did was not reviewed timely by the appropriate foundation management for its accuracy, completeness, existence, and for proper presentation in the interim financial reports. Upon the hiring of an independent accountant, after the departure of the CFO, the Foundation determined that the Foundation's assets had been misappropriated and identity theft fraud had occurred on the Foundation's Director of Operation's debit card. The total estimated losses due were estimated at \$61,644. The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. In addition, timely review should be performed in all key areas (i.e. cash disbursements, bank reconciliations, cash receipts, and payroll processing) to ensure accuracy and propriety.

We recommend that management implement procedures to appropriately segregate incompatible duties (authorization, recording, and custody) in each of the key accounting areas, and that procedures be put in place to ensure that timely review and reconciliation of these areas are performed to safeguard the Foundation's assets.

Management response: The foundation has expanded its accounting department with non profit (including government grants) experienced staff. We have established accounting procedures and internal controls to promote efficiency and safeguards for the foundation. All levels of management are directly involved in ensuring that the internal controls are being implemented. All levels of management are actively involved in overseeing that the operations are being executed correctly. At month end, a staff independent of the day to day operations performs the bank reconciliations. Also at month end, financial statements are prepared and reviewed by the CEO and the Board of Directors.

2012-02. Account Reconciliation. We noted that various balance sheet, revenue, and expense accounts did not appear to be reconciled on a monthly basis. Therefore, significant audit adjustments were made to reconcile those accounts. In order to properly maintain the accounts and produce timely, complete and accurate interim financial statements to facilitate management decisions, we recommend that management perform regular reconciliation of all significant balance sheet accounts on a monthly basis.

Management response: On a monthly basis, a staff will review all balance sheet accounts and determine the accuracy of the balance and make any adjustments necessary. Also, a staff will review the general ledger for coding accuracy.

2012-03. Bank Reconciliations. During our walkthrough and testing of the bank reconciliations, we noted that bank reconciliations for the three bank accounts were not prepared timely. Those bank reconciliations were prepared by the Foundation's outside accountant for the purpose of preparing for the audit. Additionally, we noted the bank reconciliations for the accounts were not signed (initialed) and dated by both a preparer and a reviewer. Thus, evidence of review of the bank reconciliations did not exist. We also noted that some checks older than six months were still listed on the bank reconciliations.

We recommend that bank reconciliations be prepared on a monthly basis and reviewed by an individual independent of the preparation for their appropriateness and accuracy. We also recommend the bank reconciliations be signed and dated by both the preparer and the reviewer as evidence of timely preparation and review. Furthermore, unusual reconciling items, if any, should be researched and resolved timely. We also recommend that management periodically investigate checks that do not clear in a timely manner and determine a time period (i.e. 6 months) to write off such checks.

Management response: We have implemented a system whereby the bank reconciliations will be completed on a timely manner. The bank reconciliations will be complete by the 20th of the subsequent month. As part of the reconciliation old stale checks will be investigated and resolved.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section II – Financial Statements Findings, continued

2012-04. Missing Supporting Documentation. During the course of our audit, we noted that certain supporting documentation, including cash receipts support and cash disbursements support were frequently lost or misplaced due to inadequate document filing and control systems. Supporting documentation is an important part of the accounting records, an effective internal control system, and constitutes sufficient and appropriate audit evidence. Without the appropriate supporting documentation, a charge to a federal grant may be disallowed upon audit, cash receipts may be compromised, and cash disbursements may be questioned for their legitimacy. We recommend that management establish certain policies and procedures to ensure supporting documentation for all cash receipts and cash disbursements, including but not limited to, support for government contracts and grant agreements, are properly maintained and readily available.

Management response: To ensure all supporting documentation is properly filed and maintained records are kept at the same location of the fiscal manager. The fiscal manager creates and maintains the vendor and deposit records and periodically reviews the files. The independent bank reconciliation preparer also reviews the files.

Section III – Federal Award Findings and Questioned Costs

2012-05

U.S. Department of Veteran Affairs

CFDA# 64.003 Supportive Services for Veteran Families

U.S. Department of Health and Human Services

CFDA# 93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

CFDA# 93.243 Substance Abuse and Mental Health Services – Projects of Regional and National Significance

Activities Allowed/Unallowed and Allowable Costs/Cost Principles

Statement of Condition

The Foundation was unable to locate certain supporting documentation selected for testing during fieldwork.

Criteria

In accordance with OMB Circular A-133, the Foundation is required to maintain supporting documentation for expenditures to justify whether the monies spent are on activities allowed with reasonable and allowable costs per federal contract and/or grant agreement.

Effect

Expenditures lacking supporting documentation may be questioned and perhaps disallowed by the respective federal awarding agency.

Questioned costs

\$3,171 (CFDA #64.003); \$108,519 (CFDA #93.918); \$5,475 (CDFA #93.243)

Cause

Due to personnel changes and inadequate document control systems, the financial records were not maintained appropriately filed in several locations within the same office where audit fieldwork was performed.

Recommendation

The Foundation should implement a system which maintains all supporting documentation for future examination.

Management Response

The significant questioned costs (related to CFDA #9.918) were for subcontract expenses to Bartz-Altadonna. We recognize that although we gave our auditors checks and bank statements to substantiate payments made, the back-up support was not always completely provided by Bartz-Altadonna. We have implemented new systems to monitor and ensure that all invoices have detailed and approved supporting documentation. We also have developed new and improved filing procedures.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors)

Financial Statement Findings

2011-01

Statement of Condition

Our audit procedures disclosed that revenues from certain grants were recorded on cash basis of accounting.

Criteria

Generally accepted accounting principles ("GAAP") requires financial statements to be recorded on an accrual basis of accounting.

Effect

As a result, material adjustments were required to be recorded to bring the financial statements in line with GAAP.

Cause

The current control system in place does not provide for adequate review and supervision of reporting requirements.

Recommendation

Policies and procedures should be established to ensure that accruals are recorded at the end of each reporting period.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experienced in government grants. We are now recording our financial statements on an accrual basis of accounting.

2011-02

Current Status

Closed – Management implemented prior auditor's recommendation.

Statement of Condition

Our audit procedures disclosed that certain supporting documentation, including cash receipts, cash disbursements, and grant agreements, was frequently lost or misplaced.

Criteria

Supporting documentation is an important part of the books and records, and effective internal control procedures to provide for audit evidence.

Effect

Without the appropriate supporting documentation a charge to a federal grant may be disallowed.

Cause

The current control system in place does not provide for an adequate filing system.

Recommendation

Policies and procedures should be established to ensure supporting documentation, including cash receipts, cash disbursements, and grant agreements, are properly maintained and readily available.

Management's Response

Management has implemented a system to keep supporting documentation in an organized and complete manner. With the hiring of a Bookkeeper in July 2012, complete supporting documentation is now maintained at one location in an organized manner.

Current Status

Repeated – See Finding **2012-04**.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2011-03

Statement of Condition

Our audit procedures revealed numerous instances of non-compliance with Federal grant requirements.

Criteria

Federal funds impose very specific and stringent reporting requirements that consume considerable staff time and related overhead expense to administer them. The Organization obtains a substantial portion of its revenue from federal grants and therefore it is imperative that the Organization dedicate the appropriate resources to administer these programs.

Effect

Without the appropriate supporting documentation, a charge to a federal grant may be disallowed.

Cause

The current control system in place does not provide for adequate review and supervision of reporting requirements.

Recommendation

We suggest the Organization appoint an individual which could be a member of the Board of Directors, with experience with Federal grant compliance requirements to oversee the administration of these grants.

Management's Response

Our current Board of Director's Treasurer who is well experienced with Federal grant compliance requirements has been appointed to oversee the administration of these grants.

Current Status:

Repeated – See Finding **2012-04**.

2011-04

Statement of Condition

Our audit procedures disclosed that the Organization does not maintain records to properly keep track of grants that have restrictions as to their use.

Criteria

The Organization receives grants that have certain restrictions as to their use.

Effect

The Organization risks accidentally using restricted funds for purposes other than what they are restricted for

Cause

The current control system in place does not provide for adequate review and supervision of reporting requirements

Recommendation

We suggest the Organization put in place procedures to continually keep track of temporarily restricted grants.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

Management's Response

Management has implemented procedures to adequately keep track of temporarily restricted grants with the support of the Bookkeeper hired in July 2012 who is closely monitoring such grants.

Current Status

Closed – Management implement prior auditor's recommendation

2011-05

Statement of Condition

At the time of the audit, the Organization's accounting records, supporting schedules, documents, and other files were not readily available.

Criteria

Orderly accounting records and supporting document files should be maintained on a consistent basis so that this information is readily available. Financial statements should be well supported by the corresponding backup information included in these records.

Effect

Inefficiencies in the audit process resulting in failure to produce financial statements and timely file with federal agencies.

Cause

The current control system in place does not provide for adequate review and supervision of reporting requirements.

Recommendation

We suggest that efforts be made to improve accounting processes and the condition of the records and files.

Management's Response

A competent Bookkeeper and part-time CFO experienced in nonprofit accounting have been hired to ensure all accounting records and supporting documentation is properly filed and made available.

Current Status

Repeated – See Finding **2012-04**.

2011-06

Statement of Condition

During our examination of controls, we were unable to observe and verify that the Foundation provided for adequate segregation of duties. However, the Foundation maintained an accounting policies and procedures manual outlining a system of internal controls.

Criteria

The Foundation should establish and implement internal accounting controls ensuring segregation of authorization, control, and recording tasks.

Effect

Not maintaining adequate controls to reduce risk to a relatively low level to prevent and detect and correct fraudulent or erroneous transactions on a timely basis that may affect the financial statements and assets of the Foundation.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

Cause

The current control system in place does not provide adequate verifiable evidence of segregation of duties, such as initialing of the bank reconciliation as evidence the reconciliation was reviewed.

Recommendation

It is recommended that the Foundation evaluate and modify its current policies and procedures to provide adequate segregation of duties to prevent, detect and correct, in a timely manner, errors due to fraud or error, and that generates evidence those controls are operating effectively.

Management's Response

Management is committed to improving internal controls as recommended above. As such we have reviewed all internal controls and with the hiring of the new Director of Finance in the fall of 2011 and the Bookkeeper in July 2012 have implemented adequate segregation of duties.

Current Status

Repeated – See Findings **2012-01, 2012-02, and 2012-03.**

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

Major Federal Award Program Findings

2011-07

U.S. Department of Health and Human Services
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
5H79TIO 19742-04
5H76HA00784-09-0 I

Activities Allowed or Unallowed

Statement of Condition

The Foundation expended federal awards for unallowed activities.

Criteria

In accordance with OMB Circular A-133 and in accordance with each federal awarding agency's Notice of Award, the Foundation must expend federal awards only on activities specified by each federal awarding agency.

Effect

Federal expenditures of unallowed activities may be questioned and perhaps disallowed by the respective federal awarding agency.

Cause

The Foundation has not implemented proper training on compliance with activities allowed and unallowed. Five transactions out of a sample of sixty transactions were activities considered unallowed.

Recommendation

The Foundation should implement internal or external training seminars to properly inform all program and finance directors involved in the approval and execution of expenditures of federal awards with activities allowed and unallowed.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experience in government grants and in the process providing training to department directors with respect to OMB Circular A-122 and the respective grant agreement requirements. Also, in 2012, a competent bookkeeper experienced in nonprofit accounting assisted in developing a written cost allocation plan, which the Foundation has implemented.

Current Status

Repeated – See Findings 2012-06 and 2012-07.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2011-08

U.S. Department of Health and Human Services
U.S. Department of Veterans Affairs
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient fairlry Intervention Services with Respect to HIV Disease
64.003 Supportive Services for Veteran Families
5H79TIOI9742-04
5H76HA00784-09-0 I
11-CA-362

Cash Management

Statement of Condition

The Foundation does not expend federal drawdowns within specified time frames required by the federal awarding agency.

Criteria

Grantees must ensure cash management controls are fully addressed in the policies and procedures manual. The Department of Human Health and Services' Payment Management System permits grantees to drawdown funds in advance for disbursement of funds to be made within seventy-two (72) hours of the drawdown.

Effect

Federal grant funds were not put to immediate use within the 72 hour time frame. Funds not immediately used were not earning interest.

Cause

The Foundation does not have written policies and procedures that address cash management controls related to drawdown of federal funds.

Recommendation

It is recommended that the Foundation should prepare written policies and procedures and implement a system which addresses this cash management issue.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experienced in government grants and has implemented the policies and procedures to draw down funds as required by OMB Circular A-133. However, until the hiring of the Director of Finance, the Foundation continued its practice of drawing funds based on estimated cash flow needs.

Current Status

Closed – Management implemented prior auditor's recommendation.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2011-09

U.S. Department of Health and Human Services
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
51-179TIO 19742-04
51-1761-IA00784-09-0 I

Allowable Cost/Cost Principle

Statement of Condition

The Foundation was unable to locate certain supporting documentation selected for testing during fieldwork.

Criteria

In accordance with OMD Circular A-133, the Foundation is required to maintain supporting documentation for expenditures.

Effect

Expenditures lacking supporting documentation may be questioned and perhaps disallowed by the respective federal awarding agency.

Cause

Due to personnel changes, the 2011 and subsequent financial records were filed in several locations in different office buildings where audit fieldwork was performed. Five transactions out of a sample of sixty transactions in connection with tests of Allowable Cost/Cost Principles did not have supporting documentation.

Recommendation

The Foundation should implement a system which maintains all supporting documentation for future examination.

Management's Response

Management has implemented a system to keep supporting documentation in an organized and complete manner. With the hiring of a Bookkeeper in July 2012, complete supporting documentation is now maintained at one location in an organized manner.

Current Status

Repeated – See Findings **2012-06** and **2012-07**.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2011-10

U.S. Department of Health and Human Services
U.S. Department of Veterans Affairs
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
64.003 Supportive Services for Veteran Families
5H79TIOI9742-04
5H76HA00784-09-0 I
11-CA-362

Allowable Costs / Cost Principle

Statement of Condition

The Foundation accounts for salary and wage expense based on budgeted expenditures of the programs.

Criteria

Salary and wage expense should be allocated based on actual time spent on specific programs as specified in OMB Circular A-122.

Effect

Not following federal requirements for salaries to multiple programs, grantors cannot ensure charges to federal grants are accurate, and may result in questioned or disallowed costs.

Cause

The Foundation allocates salary expenditures based on budgeted allocations utilizing a method internally generated, which estimates time spent on specific programs.

Recommendation

Time entry systems for both exempt and non-exempt employees should account for actual time spent on specific programs.

Management's Response

In the fall of 2011, the Foundation hired a new Director of finance who is well experienced in government grants and has providing training to department directors with respect to OMB Circular A-122 requirements regarding timekeeping for exempt and non-exempt employees.

Current Status

Closed – Management implemented prior auditor's implementation.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2011-11

U.S. Department of Health and Human Services
U.S. Department of Veterans Affairs
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
64.003 Supportive Services for Veteran Families
SH79TIOI9742-04
SH76HA00784-09-0 I
IL-CA-362

Allowable Cost/Cost Principle

Statement of Condition

The Foundation does not have a system in place for adequate review and supervision of direct and indirect cost allocation to federal programs and it does not adequately adhere to the written cost allocation plan.

Criteria

The Foundation must allocate direct and indirect costs to federal programs as specified in OMB Circular A-122 and the grant agreements.

Effect

Not following federal requirements for documentation or allocation of direct and indirect costs to multiple programs, grantors may consider charges to federal grants are inaccurate, and may result in questioned or disallowed costs.

Cause

The current control system does not provide for adequate review and supervision of direct and indirect cost requirements in accordance with OMB Circular A-122 and as specified in the respective grant agreement requirements.

Recommendation

Policies and procedures should be established to ensure expenditures are allocated based on requirements in accordance with OMB Circular A-122 and the respective grant agreement requirements. Additionally, the Foundation should properly adhere to the written cost allocation plan approved by the federal awarding agencies.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experienced in government grants and in the process providing training to department directors with respect to OMB Circular A-122 and the respective grant agreement requirements. Also, in 2012, a competent bookkeeper experience in nonprofit accounting assisted in developing a written cost allocation plan, which the Foundation has implemented.

Current Status

Closed – Management implement prior auditors' recommendation.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2011-12

U.S. Department of Health and Human Services
U.S. Department of Veterans Affairs
CFDA Number and Title: 93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
64.003 Supportive Services for Veteran Families
5H79TIOI9742-04
5H76HA00784-09-01
11-CA-362

Matching, Level of Effort, Earmarking

Statement of Condition

The Foundation does not have a system in place for adequate review and supervision of ensuring level of effort maintenance and earmarking requirements are sufficiently and properly met.

Criteria

The Foundation must ensure specified expenditure levels are sufficiently maintained and maximum limits for specified purposes have been properly expended in accordance with OMB Circular A-133 and in accordance with each federal awarding agency's grant agreement.

Effect

Not following federal and grant requirements for sufficiently maintaining specified expenditure levels or maximum limits, grantors may consider charges to federal grants are inaccurate, and may result in questioned or disallowed costs.

Cause

The current control system does not provide for adequate review and supervision of level of effort and earmarking requirements in accordance with OMB Circular A-133 and as specified in the respective grant agreement requirements.

Recommendation

The Foundation should implement internal or external training seminars to properly inform all program and finance directors involved in the approval and execution of expenditures of federal awards with specified activity levels and maximum limits for specified purposes in accordance with OMB Circular A-133 and federal grant agreements.

Management's Response

In the beginning of 2012, the Foundation was able to implement general ledger segments that provide the proper "earmarking" requirements. With the hiring of experienced staff, management has implemented a system in place that ensures adequate review and supervision of expenditures of federal awards in accordance with OMB Circular A-133 and federal grant agreements.

Current Status

Closed – Management implemented prior auditor's recommendation.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2011-13

U.S. Department of Health and Human Services
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
5H79TIOI9742-04
5H76HA00784-09-0 I

Reporting

Statement of Condition

The Foundation does not have a system in place for timely and accurate submission of required reports.

Criteria

Federal Financial Reports are to be filed with a specified time frame as prescribed by the federal awarding agency. These reports should be accurate.

Effect

The Foundation was not in compliance with the reporting requirements specified by the Health Resources and Services Administration agreement and Substance Abuse and Mental Health Services agreement.

Cause

The current control system in place does not provide for adequate review and supervision of reporting requirements.

Recommendation

The Foundation should evaluate and modify current policies and procedures in place to provide an appropriate level of review and supervision regarding timely and accurate reporting required by the federal awarding agency.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experienced in government grants and has implemented the policies and procedures for adequate review and supervision of timely and accurately filed reports required by OMB Circular A-133.

Current Status

Closed – Management implemented prior's auditor recommendation.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2011-14

U.S. Department of Health and Human Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
5H76HA00784-09-0 I

Subrecipient Monitoring

Statement of Condition

The Foundation does not have a system in place for monitoring the subrecipient's use of federal awards to determine whether the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of grant agreements and whether performance goals are achieved.

Criteria

The pass-through entity is responsible for determining subrecipient eligibility, identifying proper federal award information and compliance requirements to the subrecipient, and monitoring the activities of the subrecipient during the award to ensure the subrecipient administers federal awards in accordance with OMB Circular A-133 and grant agreements.

Effect

The Foundation was not in compliance with the subrecipient monitoring requirements specified by OMB Circular A-133.

Cause

The Foundation lacks a system for monitoring the activities of the subrecipient.

Recommendation

The Foundation should evaluate and prepare policies and procedures to provide an appropriate level of monitoring regarding the administration of federal awards by the subrecipient during the award.

Management's Response

The Foundation provided financial oversight to the Part C contract managed by Bartz-Altadonna Community Health Center through the two agencies' shared CFO, who provided detailed drawdown information on Part C expenditures to the Foundation prior to the Foundation completing the drawdowns. After August 1 (the official date of the split), programmatic oversight was provided by Dr. Emery Chang, who was the Foundation's HIV Medical Director but who transitioned to Bartz-Altadonna Community Health Center after the split. There were many complications related to the split which caused disruptions in the programmatic oversight provided directly by the Foundation. Informal programmatic oversight continued to take place, however, in the form of weekly meetings between the CEO's of both organizations. These issues have been resolved, however, and in 2012 the Foundation was able to resume direct oversight of the Part C program.

Current Status

Closed – Management implemented prior auditor's recommendation.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2010-01

Statement of Condition

During our examination of controls, we were unable to observe and verify that the Foundation provided for adequate segregation of duties. However, the Foundation maintained an accounting policies and procedures manual outlining a system of internal controls.

Criteria

The Foundation should establish and implement internal accounting controls ensuring segregation of authorization, control, and recording tasks.

Effect

Not maintaining adequate controls to reduce risk to a relatively low level to prevent and detect and correct fraudulent or erroneous transactions on a timely basis that may affect the financial statements and assets of the Foundation.

Cause

The current control system in place does not provide adequate verifiable evidence of segregation of duties, such as initialing of the bank reconciliation as evidence the reconciliation was reviewed.

Recommendation

It is recommended that the Foundation evaluate and modify its current policies and procedures to provide adequate segregation of duties to prevent, detect and correct, in a timely manner, errors due to fraud or error, and that generates evidence those controls are operating effectively.

Management's Response

Management is committed to improving internal controls as recommended above. As such we have reviewed all internal controls and with the hiring of the new Director of Finance in the fall of 2011 and the Bookkeeper in July 2012 have implemented adequate segregation of duties.

Current Status

Repeated, see Finding 2011-06.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2010-02

U.S. Department of Health and Human Services
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
5H79TIOI9742-03
5H76HA00784-08-00

Allowable Cost/Cost Principle

Statement of Condition

The Foundation was unable to locate certain supporting documentation selected for testing during fieldwork.

Criteria

In accordance with OMB Circular A-133, the Foundation is required to maintain supporting documentation for expenditures.

Effect

Expenditures lacking supporting documentation may be questioned and perhaps disallowed by the respective federal awarding agency.

Cause

Due to personnel changes, the 2010 and subsequent financial records were filed in several locations within the same office where audit fieldwork was performed.

Recommendation

The Foundation should implement a system which maintains all supporting documentation for future examination.

Management's Response

Management has implemented a system to keep supporting documentation in an organized and complete manner. With the hiring of a Bookkeeper in July 2012, complete supporting documentation is now maintained at one location in an organized manner.

Current Status

Repeated, see Finding 2011-09.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2010-03

U.S. Department of Health and Human Services
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
5H79TIO 19742-03
5H76HA00784-08-00

Cost Principles

Statement of Condition

The Foundation accounts for salary and wage expense based on budgeted expenditures of the programs.

Criteria

Salary and wage expense should be allocated based on actual time spent on specific programs as specified in OMB Circular A-122.

Effect

Not following federal requirements for salaries to multiple programs, grantors cannot ensure charges to federal grants are accurate, and may result in questioned or disallowed costs.

Cause

The Foundation allocates salary expenditures based on budgeted allocations utilizing a method internally generated with the assistance of the County of Los Angeles, which estimates time spent on specific programs.

Recommendation

Time entry systems for both exempt and non-exempt employees should account for actual time spent on specific programs.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experienced in government grants and in the process providing training to department directors with respect to OMB Circular A-122 requirements regarding timekeeping for exempt and non-exempt employees.

Current Status

Repeated, see Finding 2011-10.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2010-04

U.S. Department of Health and Human Services
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
5H79TIO 19742-03
5H76HA00784-08-00

Allowable Costs I Cost Principle

Statement of Condition

The Foundation does not have a system in place for adequate review and supervision of direct and indirect cost allocation to federal programs and it does not have a written cost allocation plan.

Criteria

The Foundation must allocate direct and indirect costs to federal programs as specified in OMB Circular A-122 and the grant agreements.

Effect

Not following federal requirements for documentation or allocation of direct and indirect costs to multiple programs, grantors cannot ensure charges to federal grants are accurate, and may result in questioned or disallowed costs.

Cause

The current control system does not provide for adequate review and supervision of direct and indirect cost requirements in accordance with OMB Circular A-122 and as specified in the respective grant agreement requirements.

Recommendation

Policies and procedures should be established to ensure expenditures are allocated based on requirements in accordance with OMB Circular A-122 and the respective grant agreement requirements.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experienced in government grants and in the process providing training to department directors with respect to OMB Circular A-122 and the respective grant agreement requirements. Also, in 2011, a competent bookkeeper experienced in nonprofit accounting assisted in developing a written cost allocation plan, which the Foundation is in process of implementing.

Current Status

Repeated, see Finding **2011-11**.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2010-05

U.S. Department of Health and Human Services
93.243 Substance Abuse and Mental Health Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
5H79TIO 19742-03
5H76HA00784-08-00

Cash Management

Statement of Condition

The Foundation does not expend federal drawdowns within specified time frames required by the federal awarding agency.

Criteria

Grantees must ensure cash management controls are fully addressed in the policies and procedures manual. The Department of Human Health and Services' Payment Management System permits grantees to drawdown funds in advance for disbursement of funds to be made within seventy-two (72) hours of the drawdown.

Effect

Federal grant funds were not put to immediate use within the 72 hour time frame. Funds not immediately used were not earning interest.

Cause

The Foundation does not have written policies and procedures that address cash management controls related to drawdown of federal funds.

Recommendation

It is recommended that the Foundation should prepare written policies and procedures and implement a system which addresses this cash management issue.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experienced in government grants and in the process of implementing the policies and procedures to drawdown funds as required by OMB Circular A-133. However, during 2010, the Foundation continued its practice of drawing funds based on estimated cash flow needs.

Current Status

Repeated, see Finding 2011-08.

The Catalyst Foundation
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012
continued

Section IV – Summary Schedule of Prior Year Findings (Noted by the Other Auditors), continued

2010-06

U.S. Department of Health and Human Services
93.918 Outpatient Early Intervention Services with Respect to HIV Disease
5H76HA00784-08-00

Reporting

Statement of Condition

The Foundation does not have a system in place for timely and accurate submission of required reports.

Criteria

Federal Financial Reports are to be filed with a specified time frame as prescribed by the federal awarding agency. These reports should be accurate.

Effect

The Foundation was not in compliance with the reporting requirements specified by the Health Resources and Services Administration agreement.

Cause

The current control system in place does not provide for adequate review and supervision of reporting requirements.

Recommendation

The Foundation should evaluate and modify current policies and procedures in place to provide an appropriate level of review and supervision regarding timely and accurate reporting required by the federal awarding agency.

Management's Response

In the fall of 2011, the Foundation hired a new Director of Finance who is well experienced in government grants and in process of implementing the policies and procedures for adequate review and supervision of timely and accurately filed reports required by OMB Circular A-133.

Current Status

Repeated, see Finding **2011-13**.