August 22, 2023

Ginger Griffeth, Chief Executive Officer
5950 NW 1st Place, Suite 300
Gainesville, FL 32607

RE: CJ149- FY 2023-2024, Notice of Forensic Audit Findings and Corrective Action Plan Request

Dear Ms. Griffeth,

Thomas Howell Ferguson P.A. ("THF") was engaged by the Department to perform a forensic audit concerning the financial records of Partnership for Strong Families, Inc., based on findings identified by the Office of the Inspector General in an audit of *Contractor Related Parties*. The records reviewed were for a time period of July 1, 2019, through June 30, 2021, and included interviews with key Partnership for Strong Families, Inc. and Department personnel. A summary of the findings and observations is contained below, please see the attached document for the full report:

- **Noncompliance with Competitive Procurement Requirements for Related Entities**
  Document Retention Related to Multi-Year Service Providers: Partnership procured material amounts of counseling services from an entity related to one of its key staff. However, Partnership was unable to provide documentation of the original procurement of such services – which occurred several years before the analysis period began. Partnership is unable to demonstrate that certain appropriate and necessary precautions regarding this related party procurement were followed. Other appropriate and necessary precautions regarding the administration of the related party contract were noted to be in effect. This finding does not lead to any directly questioned costs.
  Relationship with Service Management Solutions for Children, Inc.: The outsourcing of substantially all – if not all – of Partnership's management and administrative functions to a newly-created related party, SMS, was not conducted appropriately. Significant organizational conflicts of interest existed and continue to exist between Partnership and SMS, and there is no indication that certain appropriate and necessary precautions regarding this related party procurement were followed. Additionally, Partnership procured the services from SMS using a noncompetitive process without demonstrating the need for and appropriateness of such an approach. The agreement between Partnership and SMS was not procured appropriately and leads to substantial questioned costs.
- **Cost Allocation Methodologies and Application**
  Partnership's approved Cost Allocation Plans require that all "costs related to each activity are based on the current reporting month." However, following the creation and noncompetitive engagement of its related party SMS for management and administrative services, certain key expenses have been allocated to Partnership's OCA-level reporting each month on the basis of initial time estimates – i.e., they are not updated monthly or even annually for actual activity by OCA code. This results in likely questioned costs.

- **Captive Insurance Arrangements**
  The investment in and purchase of insurance services from a captive insurer by Partnership results in noncompetitive procurements and the existence of unaddressed organizational conflicts during the Analysis period. Despite the CBC's assertion that "The concept of procurement does not apply" to its purchase of insurance from its captive, and its belief that FAR 31.205-19 provides some sort of exception whereby "insurance services provided by a captive" are not deemed to be "acquired" or "purchased services," those same FAR 31.205-19 regulations – which do not apply in this situation – would, if they applied, still require competitive cost analysis for insurance purchased from a captive. A competitive cost analysis was not performed by the CBC. This results in questioned costs.
- **Rental Activities of Real Estate Acquisition for Children, LLC**
  Partnership purchased material amounts of case management services from unrelated third-party entities during the Analysis period. Two of those case management agencies leased real estate from REACH, a wholly owned subsidiary of SMS, during a time when SMS served as Partnership's management and administrative entity. This organizational conflict of interest was not addressed by the CBC despite their acknowledgement that there is a "control group centered around SMS." This results in an increased risk of improprieties related to potential procurement deficiencies inherent in all organizational conflicts of interest. This finding does not lead to any directly related costs.

A Corrective Action Plan (CAP) is required to address these deficiencies. This CAP must include immediate remedies to address the findings of the forensic audit. Partnership for Strong Families' response is due within 10 business days of this issuance notice. The Department will require the submission of documentation to evidence satisfactory progress and completion of the CAP. In response to the audit, the following actions must be taken by Partnership for Strong Families:

- **Noncompliance with Competitive Procurement Requirements for Non-Related Entities**
  Action: Partnership for Strong Families must competitively procure all non-related contracts that were not competitively procured that are above the simplified acquisition threshold of $250,000, within 60 days (release solicitation) of notice.
- **Noncompliance with Competitive Procurement Requirements for Related Entities**
  Action: Partnership for Strong Families must competitively procure all related party contracts that were not competitively procured, regardless of the contract amount, within 60 days (release solicitation) of notice.
- **Establishment of Sub-Contracts to Related Parties that Provide Administrative Support and Management Services**
  Action: To improve transparency, it is recommended that Partnership for Strong Families eliminate contracts with related parties for management and administrative functions of the CBC.
- **Establishment of Sub-Contracts to Related Parties**
  Action: Partnership for Strong Families must provide a written justification to the Department within 60 days of notice as to why the creation and operation of these ancillary companies is necessary for their operations.
- **Non-Compliance with Cost Allocation Plan**
  Action: Partnership for Strong Families must comply with their Department approved Cost Allocation Plan and must review all related party contracts and billing arrangements to ensure federal compliance. Partnership for Strong Families must recalculate over- or under- billings related to its cost allocation percentages during the Analysis Period and immediately adjust its

monthly invoicing procedures to comply with the approved plan. Partnership for Strong Families must provide a signed attestation within 60 days indicating they have completed this review.

Partnership for Strong Families failure to comply with the timely development and implementation of a satisfactory CAP may result in increasing penalties, including but not limited to, contract termination. If you have any questions regarding the content of this letter, please contact your assigned Contract Manager, Melissa Trentham, via email at Melissa.Trentham@myflfamilies.com.

Sincerely,

Kathryn Williams
Assistant Secretary, Office of Child & Family Well-Being

CC: Casey Penn, Deputy Secretary
Daniel May, Deputy Assistant Secretary
Ralph Silverstein, Chief of Contracts
Christy Gillis, Community Director (Interim)

State of Florida
Department of Children and Families

Report of Forensic Accountants
Partnership for Strong Families, Inc.

July 1, 2019 through June 30, 2021

Thomas Howell Ferguson P.A.

Certified Public Accountants

State of Florida
Department of Children and Families

Report of Forensic Accountants
Partnership for Strong Families, Inc.

July 1, 2019 through June 30, 2021

Table of Contents

Thomas Howell Ferguson P.A.
Certified Public Accountants

Report of Forensic Accountants

To the State of Florida
Department of Children and Families

Terms of the Engagement

Thomas Howell Ferguson P.A. ("THF") performed forensic accounting consulting services as requested by the State of Florida Department of Children and Families ("the Department") under purchase order C0EA90 with respect to Partnership for Strong Families, Inc. ("Partnership" or "PSF" or "the CBC") for the period July 1, 2019 through June 30, 2021 ("the Analysis Period"). The services requested by the Department are outlined in Request for Quote DCF RFQ 2122 045 and the attachments thereto (collectively, "the RFQ") as well as THF's response to the RFQ and the above-mentioned purchase order (together with the RFQ, "our Agreement"). We conducted the engagement in accordance with the terms of our Agreement and the *Statement on Standards for Consulting Services* promulgated by the American Institute of Certified Public Accountants.

This report, including the information contained within the reporting package as outlined in the Table of Contents, is intended to satisfy Attachment A, Scope of Work, Deliverable 4.2.2. of our Agreement.

The CBC and its Related Parties

During the Analysis Period, Partnership operated under contract CJ149 with the Department, as amended from time to time ("DCF Contract CJ149"). Partnership is a not-for-profit corporation organized in the state of Florida in 2002 and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), except on net income from business activities unrelated to the purpose for which the tax exemption was granted, pursuant to an Internal Revenue Service ("IRS") determination letter. Partnership has an Employer Identification Number ("EIN").

Refer to Table I for the total amounts paid to Partnership by the Department during the Analysis Period. In both years, Partnership recognized 96-97% of its revenue from its contract with the Department if Paycheck Protection Program ("PPP") proceeds are excluded from the calculation. With PPP proceeds included, the percentage is 94-96%. Thus, we determined that substantially all of the CBC's revenue during the Analysis Period relates to its contract with the Department.

Table I
Partnership's "Government Grant - DCF" Revenue per its Audited Financial Statements During the Analysis Period

Years ended June 30,		
2020	**2021**	**Total**
$37,346,844	$39,756,691	**$77,103,535**

Partnership has multiple affiliates and/or other related parties, principally including the following:

1. Service Management Solutions for Children, Inc. ("SMS"), a Florida not-for-profit corporation organized in 2017 that is exempt from federal income taxes under Section 501(c)(3) of the IRC pursuant to an IRS determination letter dated September 20, 2018. SMS has its own EIN. Per the CBC, "SMS is a management company that has a management services agreement with Partnership." SMS owns or controls other entities that are, by virtue of their common control under SMS, affiliates of Partnership as more fully described and defined below – i.e., REACH, TASC, and IAAME.

2. Real Estate Acquisition for Children, LLC ("REACH"), a Florida Limited Liability Company organized in 2017. REACH is a wholly owned subsidiary of SMS, has its own EIN, does not have its own 501(c)(3) exemption, is considered a disregarded entity of SMS for federal income tax reporting purposes, and is included in SMS's consolidated financial reporting. Per the CBC, "There are no contracts between Partnership and REACH or between SMS and REACH" and "There is no relationship between REACH and Partnership." REACH does, however, lease property to two unrelated third parties – both of which provided services to Partnership during the Analysis Period.

3. Technology and Solutions for Children, LLC ("TASC"), a Florida Limited Liability Company organized in 2017. TASC is a wholly owned subsidiary of SMS, has its own EIN, does not have its own 501(c)(3) exemption, is considered a disregarded entity of SMS for federal income tax reporting purposes, and is included in SMS's consolidated financial reporting. Per the CBC, "Partnership did not have a relationship with TASC for the year ended June 30, 2020. For the year ended June 30, 2021, there was an agreement established between TASC and Partnership for an application that is being used in the Federal Demonstration Project. This project is a direct federal grant outside of DCF." TASC does, however, have various business relationships with other affiliates including (as defined below) IAAME and CBCI.

4. Intercountry Adoption Accreditation and Maintenance Entity, Inc. ("IAAME"), a Florida not-for-profit corporation organized in 2017 that is exempt from federal income taxes under Section 501(c)(3) of the IRC pursuant to an IRS determination letter dated October 9, 2018. IAAME has its own EIN. IAAME prepares its own, i.e., non-consolidated, financial statements and federal income tax return. SMS has the "Sole Membership Interest" of IAAME, which we understand means that IAAME operates as a standalone not-for-profit corporation that has no shareholders or owners, including neither Partnership nor SMS, with SMS serving as its only "member" under the categories of membership established in IAAME's bylaws. Per the CBC, there is no relationship between IAAME and Partnership other than participating "in a control group centered on SMS for the purposes of benefits and insurance." IAAME has a business relationship with TASC.

5. Community Based Care Integrated Health, LLC ("CBCIH"), a Florida Limited Liability Company organized in 2012 that provides care coordination and administrative services for both mental and general health for children in care. CBCIH has its own EIN. Per the CBC, "Partnership is a minority shareholder [sic] in CBCIH and is not involved in its operations. Partnership does not sit on the Board and does not vote on its Board actions." Also per the CBC, "Partnership is not affiliated or related to CBCIH. Partnership is a class C owner with two shares of stock [sic], representing 2% of the total company." Partnership provided child welfare mental health services to CBCIH totaling approximately $183,000 and $79,000 during the years ended June 30, 2021 and 2020, respectively.

6. CBC Casualty Insurance Ltd. ("CBCI"), a Cayman Islands captive insurance entity organized in 2016. CBCI is occasionally referred to by Partnership as CBC Casualty Insurance, LLC or CBCCI. CBCI has six (6) shareholders including Partnership, with each owning 16.667% of the entity. CBCI elected to be taxed as a U.S. insurance company starting with the 2017 tax year and asserts that it qualifies as a "micro captive" for IRC purposes during the Analysis Period. CBCI was "established for the purpose of issuing deductible buy-back insurance policies and providing risk management support to the participating members." Partnership purchases certain insurance coverage from CBCI. TASC provides certain services either to CBCI itself or to the members of CBCI, including Partnership. However, per the CBC, "there was no agreement between TASC and any company – including PSF – as it relates to the ERMS [Event Risk Management Solution] system" during the Analysis Period, with such TASC-Partnership agreement not executed until 2022. Further, "Use of the system [by CBCI and its shareholders] was free of charge while the design, development, and implementation were completed," i.e., during the Analysis Period.

7. Village Counseling Center of Gainesville, Inc. ("Village"), a Florida for-profit corporation organized in 2004. Village is or was owned by the spouse of the individual who was, during the Analysis Period, the CBC's Senior Vice President of Clinical and Community Services. Partnership purchased services from Village totaling approximately $989,000 and $946,000 for the years ended June 30, 2021 and 2020, respectively.

Procedures

The RFQ outlines specific Service Tasks to be completed by THF regarding the CBC. Service Tasks 4.1.1.1.1. through 4.1.1.1.7. were completed without material exception, including (1) reviewing DCF Contract CJ149, (2) interviewing Department personnel, (3) gaining an understanding of the Department's contract payment process, (4) testing the CBC's submitted invoices for adjustments to reflect material differences between actual expenditures and amounts advanced by the Department, (5) testing the OCA Summary and Detail reports for material agreement to the CBC's Monthly Actual Expenditure reports, (6) testing the CBC's Monthly Actual Expenditure reports for material reconciliation to the CBC's general ledger subject to any differences being resolved to the Department's satisfaction, and (7) testing the CBC's deferred revenue, if any, for proper return to the Department if applicable.

Following completion of those initial tasks, THF was directed under Service Tasks 4.1.1.2. and 4.1.3. to perform additional forensic accounting consulting procedures related to the CBC's related parties. The findings, observations, recommendations, and other conclusions presented herein are a result of those additional procedures.

The additional forensic accounting consulting procedures included gaining an understanding of (1) Partnership's operations, (2) the procurement of services from and operation of SMS, as well as its operations and legal structure, including the operations and legal structure of its subsidiaries, (3) the operations and legal structures of CBCIH and CBCI, (4) the procurement, operation, and nature of the services provided to Partnership by Village, and (5) the general procurement policies of Partnership or, if and as applicable, SMS. Such procedures also included asking questions of Partnership and/or its related party management company, SMS, receiving responses from authorized Partnership and/or SMS personnel, and analyzing such responses, in addition to receiving and analyzing financial documents for Partnership, SMS, REACH, TASC, and IAAME.

Our Agreement included other related or incidental Service Tasks, all of which were completed.

Summary of Findings and Observations

Extensive Organizational Conflicts of Interest, as that term is defined in 2 CFR 200.318 and related citations, exist within Partnership and the "control group centered around SMS." Substantially all findings and observations THF identified relate to Partnership incorrectly applying the procurement requirements to which it was bound during (or prior to) the Analysis Period. Such mandatory procurement requirements arise from DCF Contract CJ149, 2 CFR 200, 45 CFR 95, Section 287.057, *Florida Statutes*, and – if it is deemed to apply – FAR 31.205-19.

Highly summarized descriptions of THF's findings and observations are as follows:

2021-01, *Document Retention Related to Multi-year Service Providers*
Partnership procured material amounts of counseling services from an entity related to one of its key staff. However, Partnership was unable to provide documentation of the original procurement of such services – which occurred several years before the Analysis Period began. Partnership is unable to demonstrate that certain appropriate and necessary precautions regarding this related party procurement were followed. Other appropriate and necessary precautions regarding the administration of the related party contract were noted to be in effect. This finding does not lead to any directly questioned costs.

2021-02, *Relationship with Service Management Solutions for Children, Inc.*
The outsourcing of substantially all – if not all – of Partnership's management and administrative functions to a newly-created related party, SMS, was not conducted appropriately. Significant organizational conflicts of interest existed and continue to exist between Partnership and SMS, and there is no indication that certain appropriate and necessary precautions regarding this related party procurement were followed. Additionally, Partnership procured the services from SMS using a noncompetitive process without demonstrating the need for and appropriateness of such an approach. The agreement between Partnership and SMS was not procured appropriately and leads to substantial questioned costs.

2021-03, *Cost Allocation Methodologies and Application*
Partnership's approved Cost Allocation Plans require that all "costs related to each activity are based on the current reporting month." However, following the creation and noncompetitive engagement of its related party SMS for management and administrative services, certain key expenses have been allocated to Partnership's OCA-level reporting each month on the basis of initial time estimates – i.e., they are not updated monthly or even annually for actual activity by OCA code. This results in likely questioned costs.

2021-04, *Captive Insurance Arrangements*
The investment in and purchase of insurance services from a captive insurer by Partnership result in noncompetitive procurements and the existence of unaddressed organizational conflicts of interest during the Analysis Period. Despite the CBC's assertion that "The concept of procurement does not apply" to its purchase of insurance from its captive, and its belief that FAR 31.205-19 provides some sort of exception whereby "insurance services provided by a captive" are not deemed to be ""acquired" or "purchased" services," those same FAR 31.205-19 regulations – which do not apply in this situation – would, if they applied, still require competitive cost analysis for insurance purchased from a captive. A competitive cost analysis was not performed by the CBC. This results in questioned costs.

2021-05, *Rental Activities of Real Estate Acquisition for Children, LLC*
Partnership purchased material amounts of case management services from unrelated third-party entities during the Analysis Period. Two of those case management agencies leased real estate from REACH, a wholly owned subsidiary of SMS, during a time when SMS served as Partnership's management and administrative entity. This organizational conflict of interest was not addressed by the CBC despite their acknowledgement that there is "a control group centered around SMS." This results in an increased risk of improprieties related to potential procurement deficiencies inherent in all organizational conflicts of interest. This finding does not lead to any directly questioned costs.

Summary of Questioned Costs

2021-01, *Document Retention Related to Multi-year Service Providers*
As noted above, this finding did not lead to any directly questioned costs.

2021-02, *Relationship with Service Management Solutions for Children, Inc.*
$3,023,092 ($1,550,000 for FY2021 and $1,473,092 for FY2020).

2021-03, *Cost Allocation Methodologies and Application*
An amount could not be determined based on the information provided. Although the total expense appears to be supported, the allocation by OCA code could not be recalculated.

2021-04, *Captive Insurance Arrangements*
$225,493, net ($112,433 for FY2021 and $113,060 for FY2020).

2021-05, *Rental Activities of Real Estate Acquisition for Children, LLC*
As noted above, this finding did not lead to any directly questioned costs.

Summary of Recommendations

THF believes the complete outsourcing of management and administrative functions by a CBC to a related party, particularly if such outsourcing is not properly procured in a competitive manner, is counter to the public's interest and should not be permitted. This recommendation is supported by the regulations that govern the CBC's agreement with the Department, including 2 CFR 200.

Highly summarized descriptions of THF's recommendations are as follows:

2021-01, *Document Retention Related to Multi-year Service Providers*
The CBC should re-procure any contract(s) that cannot be demonstrated to comply with applicable procurement requirements. Additionally, with respect to all CBC contracts with related parties, the Department should consider requiring frequent certification regarding the CBC's compliance with applicable related party procurement requirements.

2021-02, *Relationship with Service Management Solutions for Children, Inc.*
The Department should consider prohibiting CBC management service contracts with related parties or, at a minimum, prohibiting sole-source or other noncompetitive procurements of such services. In the event that recommendation is not adopted, or as an interim step prior to uniform adoption of that recommendation, the Department should consider requiring that the CBC re-procure its management and administrative services contract in a manner that (1) is not sole source, (2) appropriately addresses organizational conflicts of interest, and (3) complies with the State prohibition against perpetual contracts.

2021-03, *Cost Allocation Methodologies and Application*

The Department should require the CBC to adhere to its approved cost allocation plans. The Department should consider implementing a corrective action plan under which the CBC would recalculate over- or under-billings related to its cost allocation percentages during the Analysis Period, potentially repay or request reimbursement for any amounts determined to be unsubstantiated or over- and under-billed, and immediately adjust its monthly invoicing procedures to comply with the approved cost allocation plans.

2021-04, *Captive Insurance Arrangements*

Similar to Finding 2021-01, the CBC should re-procure any contract(s) that cannot be demonstrated to comply with applicable procurement requirements. Additionally, with respect to all CBC contracts with related parties, the Department should consider requiring frequent certification regarding the CBC's compliance with applicable related party procurement requirements. To the extent captive insurance investments and relationships are permitted by the Department, all CBCs should be required to net premium rebates, refunds, returns, or other similar credits against the gross insurance expenses charged to their contracts with the Department.

2021-05, *Rental Activities of Real Estate Acquisition for Children, LLC*

The Department should consider prohibiting any agreements that result in costs charged to its contracts where organizational conflicts of interest exist or, at a minimum, requiring that any contracts where organizational conflicts of interest exist be specifically reviewed and approved by the Department.

Closing

The services provided by THF and this report are subject to certain inherent limitations including the assumption that the CBC provided THF with all material information responsive to THF's requests and that such information is accurate and complete. Additionally, the findings or other observations, recommendations and other conclusions, and narrative descriptions contained within this report are based on presently available information and the work performed through the date of this report. If additional information is made available to THF, or if the assumptions described above are inaccurate, the findings, observations, recommendations, conclusions, and descriptions contained in this report may change.

THF appreciates the opportunity to be of service to the Department and is available to answer any questions the Department may have related to this report.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
July 21, 2023

Findings and Observations

2021-01, ***Document Retention Related to Multi-year Service Providers***

Criteria:	2 CFR 200.318(i)
Condition:	During the Analysis Period, the CBC purchased counseling services from a related party, Village Counseling Center of Gainesville, Inc. During the relevant period, Village was owned by the spouse of the individual who was the CBC's Senior Vice President of Clinical and Community Services. Although there are certain questions regarding the ability of the CBC to comply with 2 CFR 300.318(c)(1) related to this procurement, Partnership was able to demonstrate that the Senior Vice President described above did not participate in management decisions related to the services provided by Village during the Analysis Period. Per the CBC, "PSF uses an open network to secure mental and behavioral health services. Providers who wish to contract with PSF may apply to do so at any point. All applicants who meet the standards in the PSF request for qualification (RFQ) may do so at any point." Partnership indicated that Village has provided it with services under this "open network" approach since at least 2009. Partnership's records retention policy does not include the maintenance of 2009-era records through the dates this forensic engagement was performed.
Cause:	The CBC does not have a records retention policy that ensures compliance with the Criteria stated above. The CBC does not "maintain records sufficient to detail the history of procurement" related to Village.
Effect:	The CBC is unable to provide evidence of its initial procurement of services from Village. As a result, reviewers cannot determine the appropriateness of this related-party procurement and the CBC is not in compliance with the Criteria stated above.
Questioned Costs:	Total Partnership costs related to Village are approximately $989,000 and $946,000 for the years ended June 30, 2021 and 2020, respectively. These have not been deemed questioned costs for purposes of finding #2021-01.
Recommendation:	The Department already requires its CBC lead agencies to comply with the Criteria stated above. Partnership is not in compliance with the Criteria, in particular with respect to Village. The Department should consider requiring the re-procurement of all contracts that, like Partnership's contract with Village, cannot be demonstrated to comply with applicable procurement requirements due to ineffective records retention policies or other explanations. Additionally, with respect to all CBC contracts with related parties, the Department should consider requiring frequent, i.e., at least annual, certification that all Federal and State procurement requirements and other contractual requirements regarding related party transactions are met.

2021-02, *Relationship with Service Management Solutions for Children, Inc.*

Criteria:

2 CFR 200.318
2 CFR 200.319
Section 287.057, *Florida Statutes*
DCF Contract CJ149

Condition:

In 2017, Partnership's Board of Directors authorized the creation and initial $650,000 funding of a related party, Service Management Solutions for Children, Inc. During the Analysis Period, Partnership and SMS were parties to a Management and Administrative Services Agreement which purports to engage SMS to provide "management and administrative services to implement the mission, purposes, and day-to-day operations of PSF" for an initial term from July 1, 2017, through June 30, 2022, with subsequent automatic one-year renewals ("the SMS Agreement"). There is no defined end date for such automatic renewals. Either party has the option to terminate the SMS Agreement under certain circumstances.

Further details regarding the origination of SMS and the SMS Agreement are included in the Department's Office of Inspector General Internal Audit Report for Project #A-1819DCF-043 dated December 3, 2021 ("the OIG Report"); see Finding #1 of that report. The relevant portions of the OIG Report are incorporated by reference into this finding #2021-02.

SMS is a related party with respect to Partnership. Partnership outsourced substantially all – if not all – of its management and oversight duties and responsibilities to SMS. At the time the SMS Agreement was executed, the signor for Partnership (Edward C. Peddie) was a director of both Partnership and SMS, and the signor for SMS (Dr. Michael V. Bowie) was a director of both SMS and Partnership. During the Analysis Period, Partnership did not have its own senior leadership or executive/managerial staff; all such staffing for the CBC was provided by SMS under the terms of the SMS Agreement. Both Partnership and SMS report each other as "related organizations" in their federal income tax filings.

Partnership's procurement activities which led to the SMS Agreement were not competitive, and Partnership asserts that competitive procurement was not required for the services at issue under the SMS Agreement. As noted in the OIG Report, Partnership's then-President/CEO stated that "PSF established SMS specifically to act as a management agency for PSF… PSF established this relationship as a sole source. There was not publication. The very nature of the relationship means that this is a market of one." The CBC's Chief Financial Officer Michael Reneke, who is an employee of SMS, contends that sole-source procurement was permitted under 2 CFR 200.320(c)(2) since "The item [management services for PSF] is available only from a single source." This statement is inaccurate; it is widely known that there are various non-SMS entities in Florida that manage other CBCs.

The CBC contends that the Department was made aware of both the creation of SMS and the sole-source procurement that led to the SMS Agreement, and therefore this "other very pertinent information" mitigates any technical violations of 2 CFR 200 or Partnership's contract with the Department. Regardless of the level of "awareness" certain Department personnel may or may not have had concerning the creation of SMS, Partnership retains ultimate and absolute responsibility for its compliance with 2 CFR 200 and its obligations under DCF Contract CJ149. There is no indication the Department affirmed in any official manner that creating and using a related party such as SMS was appropriate or that the SMS Agreement itself had been reviewed and approved by the Department.

In essence, Partnership entered a material contract with a related party, outsourced its entire management function to that related party, did not competitively procure the services provided by that related party, did not demonstrate that any formal cost analysis had been performed regarding the related party contract, and agreed to the perpetual annual renewal of the related party contract. Each of these activities was not conducted in accordance with established policies, procedures, contractual obligations, and/or regulations and represent violations of 2 CFR 200, Section 287.057, *Florida Statutes*, and/or DCF Contract CJ149.

Cause: The CBC failed to follow appropriate procurement policies that were designed to ensure compliance with the Criteria stated above.

Effect: Noncompliance with Section 1.4.3 of Attachment I to DCF Contract CJ149 which requires compliance with 2 CFR 200, including 2 CFR 200.318, *General Procurement Standards*, and 2 CFR 200.319, *Competition*. Excerpts from those regulations include the following:

> 2 CFR 200.319(a), "All procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a matter providing full and open competition consistent with the standards of this section and § 200.320."
>
> 2 CFR 200.319(b), "...Some of the situations considered to be restrictive of competition include... (1) Placing unreasonable requirements on firms in order for them to qualify to do business... (3) Noncompetitive pricing practices between firms or between affiliated companies... (5) Organizational conflicts of interest."

> 2 CFR 200.318(c)(2), "If the non-Federal entity has a parent, affiliate, or subsidiary organization that is not a State, local government, or Indian tribe, the non-Federal entity must also maintain written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest means that because of relationships with a parent company, affiliate, or subsidiary organization, the non-Federal entity is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization."

Noncompliance with Section 1.9.3.2 of Attachment I to DCF Contract CJ149 which provides in part that "The Lead Agency [Partnership] shall conduct a detailed cost analysis for all subcontracts in excess of $250,000.00... The Lead Agency shall conduct competitive procurement for subcontracted services in accordance with the Lead Agency's established and Department-approved procurement operating procedures." Even if such cost analysis was contemporaneously performed, the services at issue were not competitively procured as required.

Noncompliance with Section 5.9 of Attachment I to DCF Contract CJ149 which provides in part that "One hundred percent (100%) of the policy making, management and operational control of a non-governmental Lead Agency shall be vested in a self-perpetuating Board of Directors..." By outsourcing complete operational control to SMS, Partnership violated this contract provision.

Noncompliance with Section 5.10 of Attachment I to DCF Contract CJ149 which provides that "The Lead Agency's Board of Directors shall establish uniform and consistent policies to address procurement requirements for any related party transactions which include, at a minimum, the prohibition of any conflicts of interest among the Lead Agency, its staff, its Board of Directors, and its subcontractors." To the extent such policies had been established, they were not appropriately followed. The very creation and initial funding of SMS, to say nothing of the outsourcing of Partnership's management and operational control under the SMS Agreement, represent "related party transactions" between "the Lead Agency, ...its Board of Directors, and its subcontractors."

Noncompliance with Section 287.057(14), *Florida Statutes*, which provides in part that "Contracts for commodities or contractual services may be renewed for a period that may not exceed 3 years or the term of the original contract, whichever is longer." Further, "Exceptional purchase contracts pursuant to paragraphs (3)(a) and (c) may not be renewed." Section 287.057(3)(c), *Florida Statutes*, addresses "Commodities or contractual services available only from a single source." The services at issue under the SMS Agreement did not meet the qualifications for "single source" procurement under either Florida Statutes or 2 CFR 200 but, regardless, even if they did, such a sole-source contract is not eligible for renewal under this statute. For this and other reasons, the perpetual renewal of the SMS Agreement violates Section 287.057, *Florida Statutes*.

Questioned Costs: The questioned costs related to SMS are $1,550,000 and $1,473,092 for the years ended June 30, 2021 and 2020, respectively. For the year ended June 30, 2021, there was an additional $201,198 paid from Partnership to SMS that was paid using "unrestricted funds" because of SMS's Partnership-related costs exceeding $1,550,000 for that year.

Recommendation: The Department already requires its CBC lead agencies to comply with the Criteria stated above. Partnership is not in compliance with the Criteria with respect to the SMS Agreement. The Department should consider requiring the re-procurement of all contracts that, like Partnership's contract with SMS, cannot be demonstrated to comply with Federal and/or State procurement requirements, including the State-level prohibition against perpetual contracts for services – including the blanket prohibition on the renewal of contracts for services that are procured using noncompetitive methods. Additionally, with respect to CBC management services contracts with related parties, the Department should consider prohibiting arrangements of this type or, at a minimum, prohibiting the sole-source or other noncompetitive procurement of such services and requiring that any contracts where organizational conflicts of interest exist be specifically reviewed and approved by the Department.

Arrangements of this type create significant additional risks for fraud and abuse due to the ability of related parties to control or manipulate financial records and allocations to result in higher amounts of State and Federal funds being charged (i.e., more than the time and effort required to actually perform the services). The Department should closely monitor all related party allocations of time and effort and require frequent reconciled supporting documentation to support such allocations of costs from all related management companies when a CBC requests reimbursement, to the extent any related management companies are approved by the Department.

2021-03, ***Cost Allocation Methodologies and Application***

Criteria: 2 CFR 200.405, 2 CFR 200.430(i)(1)(viii), and various other citations
45 CFR 95
DCF Contract CJ149

Condition: Partnership prepared Cost Allocation Plan ("CAP") documents for both FY2020 and FY2021. Both CAPs included a signed "Certification by Responsible Individual" form; both were executed by Partnership's then-President/CEO H. Stephen Pennypacker, Esq. Both signed CAP Certifications included the statement "Costs related to each activity are based on the current reporting month. All costs have been screened for allowable costs in accordance with 2 CFR, Part 200." The FY2020 and FY2021 CAPs were approved by the Department in letters to Partnership dated December 3, 2019, and December 17, 2020, respectively.

Upon the creation of SMS and the implementation of the SMS Agreement, OCA cost allocation percentages were determined by Partnership and/or SMS. Those cost allocation percentages were used throughout the Analysis Period instead of being updated monthly to reflect the actual costs incurred.

Per inquiry of SMS's outsourced accountant Tiffany Edwards, Partnership and/or SMS "took the payroll data by OCA [Other Cost Accumulators] when [the employees] were still PSF employees and then calculated the percentages across all employees and used those same percentages on the management fee to mimic how the staff would have been coded if they were PSF staff." Per inquiry of the CBC's Chief Financial Officer Michael Reneke, who is an employee of SMS, "To be clear, we allocate costs to these OCAs based upon the approved Cost Allocation Plan. The data/methodology that was/is used is based upon the actual data that was used prior to the creation of SMS."

These statements are inconsistent. Partnership can either "allocate costs to [the] OCAs based upon the approved Cost Allocation Plan," which is what the Department expected based on the approved CAPs described above wherein actual costs by OCA code would be updated monthly for each billing, or Partnership can incorrectly decide that "The data/methodology that was/is used is based upon the actual data that was used prior to the creation of SMS" and follow the approach described by Ms. Edwards, where allocation percentages were fixed at the time SMS was created (fiscal year 2018) and those same percentages were used each month. Partnership chose the latter of these two options, in violation of its Cost Allocation Plan.

Approved CAPs are required both by Partnership's contract with the Department and under 45 CFR 95 Subpart E. Relevant cost accounting principles and standards were contained in 2 CFR 230 and OMB Circular A-133 at the time DCF Contract CJ149 was negotiated, with the Uniform Guidance since superseding that guidance via 45 CFR 75 and 2 CFR 200.

Testing performed of the monthly costs incurred by SMS and charged to Partnership related to DCF Contract CJ149 confirmed that rates determined when PSF was created were used throughout the Analysis Period. Based on limited sampling and recalculation of monthly costs reported by Partnership, it appears that the administrative OCA code "00000" was under-reported and various project OCA codes, including "DCMPR" and "TRCOR," were over-reported during the Analysis Period. It was also noted that various personnel charged to project OCA codes did not appear to qualify for inclusion under project OCA codes, such as the Partnership/SMS Chief Financial Officer being partially charged to "DCMPR."

Cause: Partnership, through its related party management company SMS, did not follow its cost allocation and reporting policy that could have ensured compliance with the Criteria stated above. Various costs are invoiced from SMS to Partnership monthly based on time estimates established in 2017 instead of being periodically updated (e.g., monthly) to reflect actual time and effort.

Effect: Noncompliance with Partnership's Department-approved CAPs.

Noncompliance with Section 1.5.1.12 of Attachment I to DCF Contract CJ149 and the related "accounting principles and standards prescribed in... 2 CFR Part 230" which have since been superseded by the Uniform Guidance via 45 CFR 75 and 2 CFR 200.

Noncompliance with 2 CFR 200, which is constructed around the premise that actual incurred costs form the basis for the determination of allowable and reasonable costs to be charged to Federal projects. Citations include, among many others, 2 CFR 200.405, *Allocable costs*, and 2 CFR 200.430(i)(1)(viii) which provides in part that "Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards..."

Noncompliance with Section 4.2 of Attachment I to DCF Contract CJ149 which provides in part that Partnership operates under a cost reimbursement contract with the Department and that "All costs incurred by the Lead Agency in the provision of foster care and related services must be of a type authorized by this Contract, allowable in nature under Federal standards and state law, allocable to this Contract, reasonable in amount and prudently incurred in the performance of services under this Contract."

Questioned Costs: Undetermined. Although the administration portion was determined to be under-reported and the project portion was determined to be over-reported for the sample period inspected, based on the data provided for review it was not possible to calculate total amounts for the entire Analysis Period. Additionally, various personnel charged to project OCA codes do not appear to qualify under those Department-approved project OCA codes.

Recommendation: The Department should require the CBC to comply with its approved CAPs. The Department may wish to also consider establishing a corrective action plan under which the CBC:

1) quantifies its over- or under-billings by comparing the amounts that would have been billed had the approved CAPs been used on a monthly basis and applied to the services provided during the Analysis Period instead of the unchanging percentages that have been used since SMS was created,
2) completes a similar analysis for all costs incurred and charged to DCF Contract CJ149 since July 1, 2021 (i.e., costs incurred and billed after the Analysis Period and through its most recent Department-approved invoice),
3) potentially repays or requests reimbursement for any amounts determined to be unsubstantiated or over- and under-billed, and
4) corrects its billing processes for all future periods to ensure compliance with the approved CAPs.

As the CBC recalculates its cost allocations between the state and federally funded portions of its operations, attention should be given to the personnel charged to each project OCA code. As indicated above, various personnel whose roles are strictly administrative in nature appear to be charged to project OCA codes.

2021-04, ***Captive Insurance Arrangements***

Criteria:

2 CFR 200.318
2 CFR 200.319
DCF Contract CJ149
FAR 31.205-19, to the extent it is applicable

Condition:

In response to questions about the original and ongoing procurement of insurance services from CBC Casualty Insurance Ltd., a Cayman Islands captive insurance entity organized in 2016, Partnership stated that "The concept of procurement does not apply in this situation." In response to follow up questions concerning that position, Partnership again stated that "The subsidiary [CBCI] is formed and exists to serve the needs of its owners and lower costs. Competitive procurement would not apply in this circumstance."

Partnership, through its Chief Executive Officer Ginger Griffeth, who is an employee of SMS, acknowledges that "2 CFR 200.319(a) provides that "All procurement transactions for the *acquisition of property or services* required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and § 200.320." (Emphasis added.)." However, Partnership asserts that "The federal government does not generally consider insurance services provided by a captive as "acquired" or "purchased" services" and asserts that Federal Acquisition Regulation ("FAR") 31.205-19(b) provides an exception to competitive procurement for insurance services provided by a related party captive. Partnership also asserts that "An "organizational conflicts of interest" [sic] would only exist if the relationship with the affiliate would cause PSF to be unable or appear to be unable to be impartial in conducting a procurement action involving a related organization. However, in this instance, competitive procurement would be inappropriate."

There is no indication that a cost analysis of the insurance services purchased from CBCI was performed during the Analysis Period and, as noted above, Partnership does not believe the "concept of procurement" applies with respect to its purchase of insurance services from CBCI. Further, there is no direct connection between DCF Contract CJ149 and FAR 31.205-19, as suggested by Partnership. However, to the extent those regulations are deemed to apply in this situation, FAR 31.205-19(c)(3) explicitly requires cost analyses be performed, stating that, in order for any self-insurance charges to be deemed allowable, a comparison of such costs against the costs of externally purchased insurance must be completed.

Partnership and CBCI were related organizations during the Analysis Period. Partnership's procurement activities which led to the initial and ongoing purchase of insurance services from CBCI were not competitive, and Partnership asserts that competitive procurement was not required for such services. However, there are no exceptions to competitive procurement that are known to apply in this situation.

Cause: The CBC has neither a procurement policy that ensures compliance with the Criteria stated above, nor an organizational conflicts of interest policy that would prevent noncompliance of this type. The CBC states "The concept of procurement does not apply in this situation." The CBC asserts that FAR 31.205 applies to DCF Contract CJ149. Although it does not directly apply, the CBC quotes FAR 31.205-19(b) as evidence of the federal government's apparent view about captive insurance costs but did not extend its analysis to include the language in FAR 31.205-19(c)(3).

Effect: Noncompliance with Section 1.4.3 of Attachment I to DCF Contract CJ149 which requires compliance with 2 CFR 200, including 2 CFR 200.318, *General Procurement Standards*, and 2 CFR 200.319, *Competition*. Excerpts from those regulations include the following:

> 2 CFR 200.319(a), "All procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a matter providing full and open competition consistent with the standards of this section and § 200.320."
>
> 2 CFR 200.319(b), "...Some of the situations considered to be restrictive of competition include... (5) Organizational conflicts of interest."
>
> 2 CFR 200.318(c)(2), "If the non-Federal entity has a parent, affiliate, or subsidiary organization that is not a State, local government, or Indian tribe, the non-Federal entity must also maintain written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest means that because of relationships with a parent company, affiliate, or subsidiary organization, the non-Federal entity is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization."

To the extent it applies, noncompliance with FAR 31.205-19 which "considers insurance provided by captive insurers... as self-insurance" and which further states, in part, that "If purchased insurance is available, any self-insurance charge plus insurance administration expenses in excess of the cost of comparable purchased insurance plus associated insurance administration expenses is unallowable."

Questioned Costs: The net questioned costs related to CBCI are $112,433 and $113,060 for the years ended June 30, 2021 and 2020, respectively.

Recommendation: The Department already requires its CBC lead agencies to comply with the Criteria stated above, with the possible exception of FAR 31.205-19 which is of uncertain (and unlikely) applicability. Partnership is not in compliance with the Criteria with respect to CBCI. The Department should consider requiring the re-procurement of all contracts that, like Partnership's contract with CBCI, cannot be demonstrated to comply with Federal procurement requirements due to a lack of documented cost analysis and/or the noncompetitive procurement of such services without a valid and well-documented reason for such noncompetitive procurement. Additionally, with respect to all CBC contracts with related parties, the Department should consider requiring frequent, i.e., at least annual, certification that all Federal and State procurement requirements and other contractual requirements regarding related party transactions are met and/or requiring that any contracts where organizational conflicts of interest exist be specifically reviewed and approved by the Department.

To the extent the Department permits expenses for insurance coverage related to captive insurance arrangements be charged to its contracts with CBCs, the Department should require that (1) the CBC itself own the captive insurer instead of such ownership being held by related party management companies or other affiliates and (2) any rebates, refunds, returns of premiums, or similar credits be used to reduce the amount of insurance expense charged to the CBC's contract with the Department.

2021-05, ***Rental Activities of Real Estate Acquisition for Children, LLC***

Criteria:

2 CFR 200.318(c)(2)
DCF Contract CJ149

Observation:

Contemporaneously with the creation of SMS in 2017, Real Estate Acquisition for Children, LLC was organized as a wholly owned subsidiary of SMS. SMS provided management and administrative services to Partnership throughout the Analysis Period. Partnership and SMS are related parties; by virtue of REACH being a wholly owned subsidiary of SMS, Partnership and REACH are also related parties.

In response to inquiries about REACH and its relationships with the CBC, Partnership, through its Chief Executive Officer Ginger Griffeth, who is an employee of SMS, stated that "There are no contracts between Partnership and REACH or between SMS and REACH" and that "There is no relationship between REACH and Partnership." In the absence of any disconfirming information, it is not disputed that there are no contractual agreements between those two parties, Partnership and REACH.

Although "There is no [direct] relationship between REACH and Partnership," due to REACH and Partnership being related parties via SMS, REACH's contractual relationships with third parties, and Partnership's contractual relationships with those same third parties for activities paid for under DCF Contract CJ149, the potential for related party activity that violates either 2 CFR 200 or DCF Contract CJ149 exists.

During the Analysis Period, "REACH owned two properties leased by case management agencies: Devereux from December 1, 2019 to June 30, 2021 [and] Camelot from August 1, 2020 to present." During the Analysis Period, REACH charged rent to Devereux of $41,708 and Camelot of $56,837. Also during the Analysis Period, Partnership paid for case management services from Devereaux totaling $1,388,488 and Camelot totaling $1,908,249.

In short: Partnership is managed by its related party SMS; a wholly owned subsidiary of SMS leases property to various third-party case management agencies; and those same third-party case management agencies charge Partnership for material amounts of services. Both the case management services and the management/administrative services paid for by Partnership are charged to DCF Contract CJ149.

Cause:

THF believes an organizational conflict of interest exists with respect to Partnership and SMS, including SMS's subsidiaries and other affiliates. The CBC does not appear to believe this organizational conflict of interest exists. Any safeguards that are in place to mitigate organizational conflicts of interest are ineffective.

Effect: Increased risk of improprieties related to potential procurement deficiencies inherent in all organizational conflicts of interest.

Noncompliance with Section 1.4.3 of Attachment I to DCF Contract CJ149 which requires compliance with 2 CFR 200, including 2 CFR 200.318, *Competition.* That regulation includes the following:

> 2 CFR 200.318(c)(2), "If the non-Federal entity has a parent, affiliate, or subsidiary organization that is not a State, local government, or Indian tribe, the non-Federal entity must also maintain written standards of conduct covering organizational conflicts of interest. Organizational conflicts of interest means that because of relationships with a parent company, affiliate, or subsidiary organization, the non-Federal entity is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization."

Noncompliance with Section 5.10 of Attachment I to DCF Contract CJ149 which provides that "The Lead Agency's Board of Directors shall establish uniform and consistent policies to address procurement requirements for any related party transactions which include, at a minimum, the prohibition of any conflicts of interest among the Lead Agency, its staff, its Board of Directors, and its subcontractors." To the extent such policies had been established, they were not appropriately followed.

Questioned Costs: Undetermined. This observation is intended to be nonmonetary in nature.

Recommendation: The Department already requires its CBC lead agencies to comply with the Criteria stated above. THF believes Partnership is not in compliance with the Criteria with respect to its contracts with the two third party case management agencies by virtue of its management and administration agreement with SMS. The Department should consider prohibiting any agreements that result in costs charged to its contracts where organizational conflicts of interest exist or, at a minimum, requiring that any contracts where organizational conflicts of interest exist be specifically reviewed and approved by the Department.

Arrangements of this type create significant additional risks for fraud and abuse due to the ability of related parties to influence third party behavior in ways that can result in higher amounts of State and Federal funds being charged (e.g., by essentially forcing would-be service providers to enter into contracts with related parties for the benefit of a non-CBC related party, thereby increasing the costs charged by the service provider to the CBC and, by extension, to the Department). The Department should closely monitor all CBCs for evidence of organizational conflicts of interest.