



**State of Florida
Department of Children and Families**

Ron DeSantis
Governor

Shevaun L. Harris
Secretary

July 25, 2024

Larry Rein, Chief Executive Officer
ChildNet, Inc.
4100 Okeechobee Boulevard
West Palm Beach, FL 33409

RE: IJ706 and JJ217 - FY 2023-2024, Notice of Forensic Examination Findings and Corrective Action Plan Request

Dear Mr. Rein,

Carr Riggs, & Ingram (CRI), LLC. was engaged by the Department to perform a forensic examination concerning the financial records of ChildNet, 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 ChildNet and department personnel. A summary of the findings is contained below, please see the attached document for the full report:

- **Noncompliance with Competitive Procurement Requirements for Non-Related Entities**
ChildNet generally does not release new solicitations for certain existing vendors when the contract term (including renewals) ends. Within the sampled contract selection, ChildNet entered into new contracts above the Simplified Acquisition threshold of \$250,000 where no competitive solicitation was conducted. Thus, these contracts were not procured in compliance with ChildNet's policies and procedures as well as federal and state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.320. The costs associated with these contracts may be considered unallowable expenditures.
- **Insufficient Cost Allocations**
ChildNet's allocations of its administrative costs are insufficient. Certain administrative/indirect costs (including executive compensation) were not appropriately allocated to ChildNet's non-Department grants, other revenue sources and Broward Care for Kids Foundation, Inc. These insufficient allocations resulted in ChildNet overbilling the Department by approximately \$54,126.
- **Allocated Officer Compensation in Excess of Mandatory Caps**
ChildNet's chief executive officer's base salary is in excess of the salary caps established by HHS. ChildNet charged unallowable salary costs totaling \$22,062 related to the HHS salary cap.

A Corrective Action Plan (CAP) is required to address these deficiencies. This CAP must include immediate remedies to address the findings of the forensic examination. ChildNet's 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 examination, the following actions must be taken by ChildNet:

- **Noncompliance with Competitive Procurement Requirements for Non-Related Entities**

Action: ChildNet 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.

This item will be considered completed based on evidence of competitive procurements being submitted to the Department for all necessary contracts including, at a minimum, a listing of all contracts, solicitation documents, evidence of solicitation postings, and the resulting executed contracts.

- **Insufficient Cost Allocations**

Action: ChildNet must comply with their Department approved Cost Allocation Plan and must review all contracts and billing arrangements to ensure all amounts charged to the CBC are allowable under federal compliance. ChildNet 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, ensuring that all allocations are allowable and appropriate under the Department contract. ChildNet must provide a signed attestation within 60 days indicating they have completed this review and submit any allowable costs back to the Department, including any associated documentation and calculations.

- **Allocated Officer Compensation in Excess of Mandatory Caps**

Action: ChildNet must come into compliance with Federal and State laws immediately and submit all corresponding documentation to verify compliance.

In addition, the following findings/observations were noted in the forensic examination, but do not require a corrective action plan.

- **Potential Consideration of Integrated Health Funds as Contract Related Funds (this is an observation, not a finding, thus does not require a CAP)**

ChildNet's ownership interested in Integrated Health appear to have arisen directly due to ChildNet's contract with the Department and may be considered as program income (2 CFR 80.120). ChildNet's ownership interest was likely acquired with funds generated from Integrated Health. The ownership interests and related generated revenue/distributions may be considered program income directly related to performance under the Contract.

ChildNet's annual spending plan must include CBC-IH distributions as additional revenue for the budget. This will require documentation of CBC-IH distributions received as program income.

- **Budgeted Deficits for Contract Funds Approved by Board of Directors (Finding)**

ChildNet's management and its Board of Directors approved annual internal budget for Department funds related to the Palm Beach County contract, which exceeded Department approved funding. ChildNet planned to expend more than Department allocated funding, which may have in part led to funding deficits.

The Department acknowledges that ChildNet has worked with the Department to develop a balanced budget based on contract revenue. Although during the examination review period, the Lead Agency did not have a balanced budget submitted to their Board of Directors (BOD), as of 8/22/23 (Palm Beach) and 10/20/23 (Broward), the Department has received and approved and balanced budget for FY 23/24 that has also been approved by the Lead Agency's BOD, therefore, this finding will not require an associated CAP.

Pursuant to the 2023-2024 General Appropriations Act (GAA) Line 328, if at any time during the fiscal year the Lead Agency anticipates a deficit budget, they must resubmit an updated BOD approved spending plan for Department review.

Childnet's failure to comply with the timely development and implementation of a satisfactory CAP may result in increasing penalties.

If you have any questions regarding the content of this letter, please contact your assigned Contract Manager, Adrienne Reid, via email at Adrienne.Reid@myflfamilies.com.

Sincerely,



Kate Williams

Assistant Secretary, Office of Child & Family Well-Being

CC: Chad Barrett, Assistant Secretary for Administration
Amanda Vanlaningham, Deputy Assistant Secretary
Contract File



ChildNet, Inc.

**Forensic Examination Report and
Supplementary Information**

March 1, 2024

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Executive Summary

Carr, Riggs & Ingram, LLC (CRI) was engaged to perform an inquiry concerning the financial records of certain community-based care lead agencies contracted by the Florida Department of Children and Families (Department or DCF). This specific inquiry concerned the financial records of ChildNet, Inc. (ChildNet). This inquiry was based upon findings identified by the Office of the Chief Inspector General.

CRI performed certain procedures on ChildNet's books and records for July 1, 2019 through June 30, 2021. These procedures included, but were not limited to, interviews with key ChildNet personnel, interviews with key Department personnel, analysis of financial records, analysis of related party transactions and examination of compensation payments. Summaries of the major findings/observations, based on the investigative procedures performed, are listed below.

Findings

▪ **Noncompliance with Competitive Procurement Requirements for Non-Related Entities**

ChildNet generally does not release new solicitations for certain existing vendors when the contract term (including renewals) ends. Within the sampled contract selection, ChildNet entered into new contracts above the Simplified Acquisition threshold of \$250,000 where no competitive solicitation was conducted. Thus, these contracts were not procured in compliance with ChildNet's policies and procedures as well as federal and state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.320. The costs associated with these contracts may be considered unallowable expenditures. Refer to Finding 4.

▪ **Budgeted Deficits for Contract Funds Approved by Board of Directors**

ChildNet's management and its Board of Directors approved an annual internal budget for Department funds related to the Palm Beach County contract, which exceeded Department approved funding. ChildNet planned to expend more than Department allocated funding, which may have in part led to funding deficits. Refer to Finding 5.

▪ **Insufficient Cost Allocations**

ChildNet's allocations of its administrative costs are insufficient. Certain administrative/indirect costs (including executive compensation) were not appropriately allocated to ChildNet's non-Department grants, other revenue sources and Broward Cares for Kids Foundation, Inc. These insufficient allocations resulted in ChildNet overbilling the Department by at least \$54,126. Refer to Finding 6.

▪ **Allocated Officer Compensation in Excess of Mandatory Caps**

ChildNet's chief executive officer's base salary is in excess of the salary caps established by HHS. ChildNet charged unallowable salary costs totaling \$22,062 related to the HHS salary cap. Refer to Finding 7.

Observations

▪ **Potential Consideration of Integrated Health Funds as Contract Related Funds**

ChildNet's ownership interest in Integrated Health appears to have arisen directly due to ChildNet's Contract with the Department and may be considered as program income (2 CFR 80.120). ChildNet's ownership interest was likely acquired with funds generated from Integrated Health. The ownership interests and related generated revenue/distributions may be considered program income directly related to performance under the Contract. Refer to Finding 6.¹

Based upon the investigative procedures performed and the corresponding findings, ChildNet had limited related party transactions in both nature and scale. ChildNet does not procure related party services/contracts, and it does not incur direct costs associated with its related parties. ChildNet did not sufficiently allocate its administrative costs between its various programs and Broward Cares for Kids Foundation, Inc. These insufficient allocations resulted in at least \$54,126 in overbillings to the Department during the review period. The Department should consider further investigating to determine whether the Integrated Health revenues/distributions are Contract related, subject to federal/state requirements and offset Contract funds. The procedures performed by CRI and the resulting findings are discussed in greater detail within the Forensic Examination Report. This executive summary is not intended to stand alone without the additional context included within the Forensic Examination Report.

¹ Subsequent to the review period and subsequent to CRI's initial forensic examination reports of other CBC lead agencies, Sunshine Health terminated its relationship with Integrated Health, which was Integrated Health's sole source of revenue generation.

Background

The Florida Department of Children and Families (the Department or DCF) was created by Florida Statutes to “work in partnership with local communities to protect the vulnerable, promote strong and economically self-sufficient families, and advance personal and family recovery and resiliency.”² The Department “shall deliver services by contract through private providers.”³

In or around 2011, the Florida Legislature initiated a comprehensive redesign of Florida’s child welfare system.⁴ This initiative resulted in community-based care, which “combines the outsourcing of foster care and related services to competent service agencies with an increased local community ownership.”⁵ The Department initiates a competitive process through which qualified community-based care organizations serve as lead agencies for foster care and related services.⁶ In fiscal year 2019-2020, the Department contracted with 18 lead community-based care agencies to provide these services to Florida’s various counties/regional areas with the total contract awards in excess of \$919 million.⁷

ChildNet, Inc. (formerly known as Community Based Solutions, Inc.) was established in 2001. ChildNet, Inc. (ChildNet) functioned as the lead agency for Broward County since 2002. In or around July 2019, the Department entered into a new contract with ChildNet to provide foster care and related services to Broward County.⁸ The Broward contract award for fiscal year 2019-2020 was \$80,686,202.⁹ In or around 2012, ChildNet also began functioning as the lead agency for Palm Beach County. In or around July 2014, the Department entered into a separate contract with ChildNet to provide foster care and related services to Palm Beach County.¹⁰ The Palm Beach contract award for fiscal year 2019-2020 was \$48,365,551.¹¹

In or around June 2022, the Department accepted proposals for forensic accounting services related to certain community-based care lead agencies that were contracted with the Department. Areas of concern included administrative costs, intercompany transactions and related party transactions. CRI was subsequently engaged to provide the requested forensic accounting services on ChildNet, Inc. as well as other lead agencies.

Scope

Our investigation was for the period beginning July 1, 2019 through June 30, 2021 (review period). Our work was limited to those specific areas identified by the Florida Department of Children and Families. Had additional documents been provided to CRI or additional individuals interviewed, additional information may have been discovered that could impact the findings in this report.

² Florida Statutes 2019, Title IV, 20.19(1)(a).

³ Florida Statutes 2019, Title IV, 20.19(1)(c).

⁴ <https://www.myflfamilies.com/services/child-family/child-and-family-well-being/community-based-care> (accessed April 26, 2023).

⁵ Ibid.

⁶ Ibid.

⁷ CBC Lead Agency Contract Amounts FY 19-20.

⁸ Florida DCF Standard Contract CN-PJL04.

⁹ CBC Lead Agency Contract Amounts FY 19-20.

¹⁰ Florida DCF Standard Contract CN-PJL04.

¹¹ CBC Lead Agency Contract Amounts FY 19-20.

Approach

Our engagement was conducted in accordance with the Statement on Standards for Forensic Services No. 1 (SSFS), applicable professional standards promulgated by the American Institute of Certified Public Accountants (AICPA) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). The AICPA's SSFS does not specifically require or promote the use of certain methodologies, techniques, etc. for forensic engagements. This is due to the fact that no single standard can be extensive enough to consider all of the potential methodologies, techniques, etc. that could be applied to every forensic engagement.

Rather, this statement implements general standards that should be followed during a forensic engagement. These standards include that an AICPA member should have the professional competence to perform the engagement and exercise due professional care during the performance of the engagement. These standards were followed during the course of our engagement.

As indicated by the SSFS, "forensic accounting services generally involve the application of specialized knowledge and investigative skills by a member to collect, analyze, and evaluate certain evidential matter and to interpret and communicate findings." Due to the nature of the concerns involved, CRI was required by professional standards to conduct this engagement under SSFS. It should not be construed that attest standards (i.e., audit related engagements under the professional standards) would be more applicable to the subject engagement or yield a different/more reliable result. It should be noted that auditors conducting financial statement audits consider fraud, specifically as to whether it would result in a material misstatement of the financial statements.¹² It is an organization's management that is responsible for the design, implementation of programs and controls to prevent, deter and detect fraud.¹³ The SSFS requires that practitioners "obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations." CRI obtained such sufficient relevant data to support the basis for its conclusions and recommendations.

We confirm that the authors and other professional staff involved in preparing this report acted independently and objectively. The fees for this engagement were based on professional time expended. Our fees were not contingent upon the final results, conclusions or resolutions.

Using the data provided to us, we performed the procedures delineated below. We also applied various commonly used forensic data mining techniques to the provided data to identify trends, patterns, unallowable costs and findings in the data provided. These techniques and the identified trends/patterns/unallowable costs/findings are outlined below.

Expert Qualifications

Carr, Riggs & Ingram, LLC (CRI) is a regional certified public accounting and consulting firm with roots going back to 1972. Currently ranked among the top 25 public accounting firms in the United States, CRI is the South's largest regional firm. The CRI forensic team provides a spectrum of forensic and litigation services ranging from prevention to detection in response to fraud. The CRI forensic team includes members who have received forensic accounting designations from the most widely recognized forensic accounting associations. These designations include Certified Public Accountant, Certified Fraud Examiner and Certified in Financial Forensics.

¹² AU Section 316, *Consideration of Fraud in a Financial Statement Audit*.

¹³ *Ibid*.

Brent Sparkman, CPA, CFF, CITP

Brent Sparkman has over 27 years of experience in public accounting for non-profit and for-profit accounting, auditing and consulting services. Mr. Sparkman specializes in providing forensic and litigation support services involving white-collar crime, civil litigation and other related consulting services. Mr. Sparkman speaks regularly on leadership, professional coaching as well as various technical matters.

Mr. Sparkman is a Certified Public Accountant, which is the premier designation in the accounting industry. The Certified Public Accountant license is regarded as a symbol that an accountant has mastered the vital elements of the accounting profession and is a high standard that is globally recognized as an assurance of skill, dedication and quality. Mr. Sparkman is also Certified in Financial Forensics. This forensic credential requires that the holders be certified public accountants and demonstrate considerable expertise in forensic accounting through their knowledge, skills and experience. A summary of Mr. Sparkman's résumé and qualifications are included in Appendix A of this report.

Ben Kincaid, CPA, CFE, CVA, CFF

Ben Kincaid has over 11 years of experience in public accounting and in providing a variety of forensic accounting services. These forensic accounting services include litigation support, financial fraud investigations, business valuations, lost profit calculations, etc. Mr. Kincaid has served as a consultant for several state, county and other local law enforcement agencies/governments and has served on the Florida Institute of Certified Public Accountant's Valuation, Forensic Accounting and Litigation Committee.

Additionally, Mr. Kincaid is a Certified Public Accountant, which is the premier designation in the accounting industry. The Certified Public Accountant license is regarded as a symbol that an accountant has mastered the vital elements of the accounting profession and is a high standard that is globally recognized as an assurance of skill, dedication and quality. Mr. Kincaid has also received the Certified Fraud Examiner and Certified in Financial Forensics designations. These forensic accountant designations are considered to be the most valuable forensic certifications. Holders of these forensic accountant designations are required to demonstrate a high level of knowledge and competence within the field of forensic accounting. Mr. Kincaid is also a Certified Valuation Analyst, which is the most widely recognized business valuation credential. A summary of Mr. Kincaid's résumé and qualifications are included in Appendix A of this report.

Summary of Procedures Performed

1. Reviewed the ChildNet, Inc.'s contract including any amendments with the Department.
2. Conducted interviews with the following key personnel within the Department to obtain an understanding of the community-based care lead agencies, the related contracts, operations, policies and procedures, etc.:
 - a. Barney Ray, former Director of Revenue Management and Partner Compliance;
 - b. Winston Maxwell, Financial Analyst;
 - c. Mark Holsapfel, former Contract Manager Supervisor; and,
 - d. Teresa Janeczek, Contract Manager.
3. Conducted interviews with the following key personnel within ChildNet, Inc. and its related companies to obtain an understanding of its operations, books and records:
 - a. Larry Rein, Chief Executive Officer, ChildNet, Inc.;
 - b. Donna Eprifania, Chief Financial Officer, ChildNet, Inc.;
 - c. Julie DeMar, Chief Program Officer, ChildNet, Inc.;
 - d. Bobbi Combs, Controller, ChildNet, Inc.;
 - e. Denesee Rankine-Palmer, Director of Contracts, ChildNet, Inc.;
 - f. Joseph Rogers, former Board Treasurer, ChildNet, Inc.; and,
 - g. Michael Lepera, Board Member, ChildNet, Inc.
4. Reviewed general ledgers and financial records and identified any accounting irregularities that are not in compliance with federal and state laws, rules, regulations and policies.
5. Analyzed budget reports, audited financial statements, Forms 990 and other representations and determined whether the period cost and accruals were fairly represented.
6. Analyzed administrative costs, intercompany and related party transactions for allowability and proper disclosure/representations.
7. Examined the allowability of compensation accruals and payments made to officers in comparison to federal requirements, state laws, rules and regulations, and ChildNet, Inc.'s policies and procedures.
8. Reviewed invoices submitted by ChildNet, Inc. and determined whether the invoices were adjusted to reflect differences between actual expenditures and amounts advanced by the Department.
9. Analyzed the Other Cost Accumulators (OCA) summary and detail reports and reconciled to the amount reported by OCA on the monthly actual expenditure report. Identified and resolved any differences.
10. Reviewed monthly actual expenditure reports submitted by ChildNet, Inc. and reconciled to the general ledger. Identified and resolved any differences.
11. Analyzed any deferred revenue (contract liabilities and refundable advances) to determine whether it represents funds received that have not been earned and whether it is properly maintained as a liability on the statement of financial position.

Source Documentation

We reviewed and relied upon the documentation listed in Appendix B of this report during our investigation. These documents included, but were not limited to, contracts, financial statements, general ledgers and payroll reports.

Finding 1

Contract Understanding

The Department entered into a five year contract, Contract JJ217, with ChildNet, Inc. (ChildNet) in or around July 2019. Contract JJ217 established ChildNet as the provider or lead agency delivering a comprehensive array of family support, adoption, foster care and related services as defined in the relevant Florida Statutes to eligible children and families in Broward County. Contract JJ217 has been amended 8 times through the most recent amendment effective as of June 28, 2021. The contract amendments primarily related to increases in the contract amount available to ChildNet.

The Department separately entered into a five year contract, Contract IJ706, with ChildNet in or around January 2014. Contract IJ706 established ChildNet as the provider or lead agency delivering a comprehensive array of family support, adoption, foster care and related services as defined in the relevant Florida Statutes to eligible children and families in Palm Beach County. Contract IJ706 has been amended 34 times through the most recent amendment effective as of June 2, 2021. The contract amendments primarily related to increases in the contract amount available to ChildNet and extensions to the contract term.

Both Contract JJ217 and Contract IJ706 are collectively referred to as the “Contract” within this report. The Contract and associated amendments document the scope of work and services to be provided by ChildNet, the deliverables due to the Department during contract performance, the payment methodology and other special provisions as defined within the Contract and its amendments.

The clients to be served under the Contract are eligible children and families who are in need of family support services, safety management services, independent living services, adoption services and post-adoption services. Under the provisions of the Contract, ChildNet will work with the Department to identify current services provided, needed services not presently provided, gaps in services being provided and the causes of the gaps, and work with the Department to develop and provide services to the children and families to be served.

The original contract amount for Contract JJ217 was \$377.43 million. As of June 28, 2021, the contract amount for Contract JJ217 was amended and increased to \$418.96 million, which is an increase of \$41.53 million. The original contract amount for Contract IJ706 was \$198.46 million. As of June 2, 2021, the contract amount for Contract IJ706 was amended and increased to \$483.99 million, which is an increase of \$285.53 million. The Contract is a combination of an advanced fixed price, fixed payment and cost reimbursement contract comprised of federal sources and a grant of state funds. Costs paid under another contract/source are not eligible for payment under the Contract. Fixed contract payments are made on a monthly basis. To mitigate financial risks to eligible lead agencies, a Community-Based Care Risk Pool (Risk Pool) was established by Florida Statutes. Lead agencies may petition for relief from the Risk Pool should factors outside a lead agency’s control cause costs to rise and may impede the lead agency’s ability to provide the contracted services.¹⁴ Lead agencies may also receive “Back of the Bill” funding from the Florida Legislature.

¹⁴ <https://www2.myflfamilies.com/service-programs/child-welfare/kids/publications/risk-pool-reports.shtml>

Lead agencies, including ChildNet, are required to be aware of and comply with all state and federal laws, rules and regulations related to the Contract. They must also maintain compliance with Title 2 Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements For Federal Awards*.

Finding 2

Understanding of the Department's Operations and Policies and Procedures

The interviews with key Department staff related to the Contract provided us with an understanding of the administration of the community-based care (CBC) contracts by the Department and how the Department interacts with ChildNet including training, resource development, performance reviews, financial reviews and program monitoring. The interviews also provided us with an understanding of the primary individuals within ChildNet that represent it in communications and submission of deliverables to the Department.

The Department provided an overview of the JJ217 and IJ706 contracts with ChildNet. The Department also provided an overview of ChildNet's operations. The Department indicated that ChildNet, Tech Care for Kids, Inc. (Tech Care) and Broward Cares for Kids Foundation, Inc. (Foundation) are related parties. The Department also noted one other related entity, Community Based Care Integrated Health, LLC (Integrated Health).

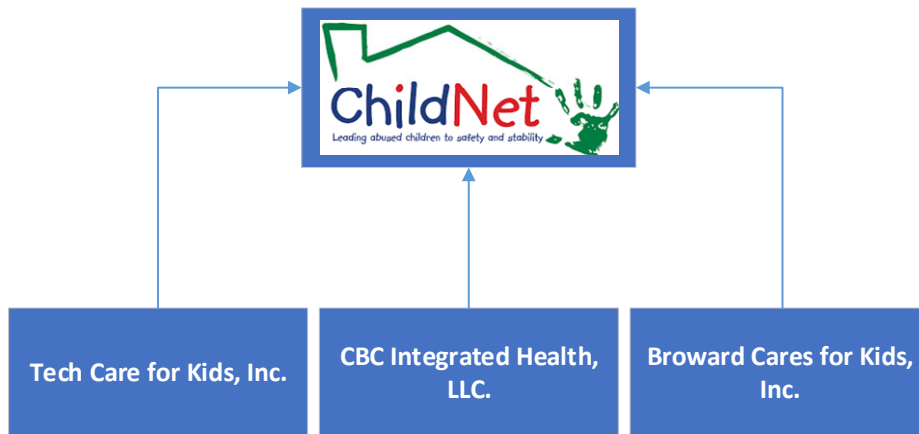
The Department's primary interaction with ChildNet is during the monthly submission of the Contract invoice and Monthly Actual Expenditure Report. The Department reviews these monthly submissions and reconciles these documents to the Other Cost Accumulator (OCA) Summary and Detail Report, which contains the actual programmatic expenditures at the participant level managed within Florida Safe Families Network (FSFN). The Department also receives and reviews the program budget and cost allocation plan submitted by ChildNet at the start of each fiscal year. At or around fiscal year-end, a final reconciliation of the administrative costs and actual expenditures incurred is performed by the Department. Annual desk reviews and periodic onsite monitoring every two to three years are performed by the Department based upon a risk assessment performed annually for all of the contracts managed by the Department.

The Office of the Chief Inspector General (OIG) issued a report dated June 30, 2021 (CIG Number: 2021-01-25-0017) regarding certain organizations' executive compensation. This review arose from the Florida Coalition Against Domestic Violence, Inc. using "funds from the Department of Children and Families to subsidize exorbitant executive leadership team compensation payouts." ChildNet was identified by the Department as having various related party relationships including with Tech Care and the Foundation.

Finding 3

Understanding of ChildNet and its Related Entities

The interviews provided us with an understanding of ChildNet's books, records and policies and procedures. The interviews also provided us an understanding of how ChildNet conducts the CBC programs within the Contract scope and how it operates within the related parties. ChildNet essentially functions as the parent organization for Tech Care. ChildNet is the primary entity generating revenues/expenditures. No ChildNet costs are allocated to Tech Care or the Foundation. ChildNet also maintains an ownership interest in Integrated Health. A graphical depiction of the related party entities is presented below.



With the exception of Integrated Health and Tech Care, these entities are Florida not-for-profit corporations designated as a 501(c)(3) organization under the Internal Revenue Code. Integrated Health is a for-profit, Florida limited liability company, and Tech Care is a for-profit, Florida social purpose corporation. ChildNet maintains its books and records within Micro Information Products Fund Accounting (MIP), an accounting software. The books and records for ChildNet, Tech Care and the Foundation are separated and tracked by utilizing specific company codes, cost centers, program codes, etc. ChildNet does not maintain the books and records for Integrated Health. As non-profit organizations, ChildNet and the Foundation do not have members, shareholders, etc. ChildNet consolidates its audited financial statements with Tech Care. ChildNet's audited financial statements reflect that Tech Care's stock is fully owned by ChildNet.

Understanding of ChildNet

As previously indicated, ChildNet serves as the lead agency for child welfare services in Broward and Palm Beach counties, working to ensure the safety, permanency and well-being of children served by child welfare. The core programs provided by ChildNet include, but may not be limited to, foster home licensing, diversion/family support services, out-of-home services (foster care), kinship services, youth services and adoption.

After the planning work is performed in conjunction with the Department that identifies the services needed by the applicable population, ChildNet's management determines the scope of services to be provided to meet the identified needs and seeks out providers to deliver the identified services. The majority of the CBC programs administered by ChildNet are delivered through third-party

providers/subcontractors, who have contracted directly with ChildNet. Once a provider has been identified and contracted, ChildNet will monitor the delivery of the contracted services to ensure the services meet the requirements established in the Contract between the Department and ChildNet as well as the policies established by ChildNet.

ChildNet's process to identify providers and vendors involves a formalized procurement process developed to comply with the Contract and applicable federal and state laws, regulations, etc. This procurement process includes multiple defined thresholds based on the size or type of services to be provided. The monitoring of sub-recipients/subcontractors providing services under executed client services contracts is also a required element of the administration of the Contract. The monitoring process approved by ChildNet's management includes performance of a risk assessment for each individual contract and performance of monitoring activities at least once every three years. Financial monitoring is conducted annually by ChildNet.

Understanding of Tech Care for Kids, Inc.

Tech Care for Kids, Inc. (Tech Care) is a wholly-owned subsidiary of ChildNet. Although there is cross over between Tech Care and ChildNet's Board of Directors, the Board of Directors for Tech Care is not the same as ChildNet. Tech Care was established to create, design, deliver and support technology related to child welfare services. Per management, Tech Care's operations did not materialize and incurs minimal costs annually. Tech Care has no operations and no costs are charged to ChildNet or the Contract.

Understanding of the Foundation

Broward Cares for Kids Foundation, Inc. (Foundation) was established in or around September 2004. Management indicated that the Foundation's Board of Directors meets separately from ChildNet's Board of Directors. During the review period, two of the five members of the Foundation's Board of Directors also serve on the Board of Directors for ChildNet. Per management, the Foundation was established to perform advocacy for ChildNet and functions in part as ChildNet's fundraising arm. In or around 2009, the Foundation purchased a property to lease to ChildNet's providers. Per management, this purchase was due in part to the lack of properties available to ChildNet's providers. Management indicated that the property was purchased with funds raised by the Foundation.

Understanding of Integrated Health

Integrated Health was organized to engage in the child welfare managed care business throughout Florida by managing the Medicaid services provided to children in Sunshine Health's Child Welfare Specialty Plan (the Plan). Integrated Health is partially owned through a 1% ownership interest held by ChildNet. Integrated Health has contracted with the majority of the CBCs within Florida to obtain care coordination and enrollment services for eligible participants to the Plan.¹⁵

¹⁵ Subsequent to the review period and subsequent to CRI's initial forensic examination reports of other CBC lead agencies, Sunshine Health terminated its relationship with Integrated Health, which was Integrated Health's sole source of revenue generation.

Finding 4

Review of General Ledgers and Financial Records

We reviewed ChildNet's general ledgers and sampled various financial records for the review period. As outlined in the following sections of this report, the financial records were analyzed for compliance with federal and state laws, rules, regulations and policies.

Overview of Contract Procurement

ChildNet is required by the Contract to implement procurement policies and procedures. These policies and procedures are to be current and reviewed at least annually for compliance. ChildNet's procurement policies and procedures were established by ChildNet. ChildNet reviews the procurement policies and procedures annually in accordance with the Contract.

The procurement policies and procedures establish a protocol of procedures for selecting agencies and individuals to provide goods and services related to community based care, either directly to clients or to ChildNet. The procurement policy defines several thresholds to determine solicitation methods including: purchases less than \$2,500; purchases between \$2,501 and \$35,000; purchases between \$35,001 and \$250,000; and purchases over \$250,000.¹⁶ These thresholds also determine the *minimum* type of solicitation process to be used.

Non-competitive proposals may be procured if at least one of the following circumstances apply: the item is available only from a single source, a public emergency will not permit a delay resulting from a competitive solicitation, exempt purchases, the Federal awarding or pass-through agency expressly authorizes, or after performing a competitive solicitation, competition is determined inadequate.

For purchases over \$250,000, the approved procurement policies state that the applicable organization's procurement file will include, but is not limited to, the following:

- i. Method of competitive procurement selected;
- ii. Cost Analysis;
- iii. Bids or proposals received from offerors;
- iv. Evaluations of bids or proposals; and,
- v. Approved contract or purchase order.

Based on the foregoing information, the procurement policies and procedures adopted by ChildNet comply with provisions of 2 CFR Part 200. It also appears that ChildNet recognizes the need to comply with applicable federal and state laws, rules, regulations, etc.

¹⁶ It should be noted that ChildNet's procurement policies reference the Simplified Acquisition Threshold as \$150,000. The Simplified Acquisition Threshold changed to \$250,000 in 2018, which indicates that ChildNet has not been evaluating/updating its policies and procedures on a regular basis.

Contract Procurement for Non-Related Entities

A haphazard selection of five non-related party sub-recipients and contractors receiving annual payments during the review period in excess of \$250,000 from ChildNet was made to determine ChildNet's compliance with its procurement policies and procedures as well as federal and state laws, regulations, etc. As part of the sample selections, CRI requested the underlying contracts, cost price analyses, procurement records and documentation of management of the contracted activity related to the services received during review period.

Per management, due to the separate Department contracts for Broward County and Palm Beach County, ChildNet procures separate vendor contracts for each county should the vendor service both the Broward County and Palm Beach contracts.

ChildNet indicated that the sampled entities had been providing services to ChildNet for several years. As such, procurement for these services had not been performed during the review period for these entities. CRI requested the underlying procurement documentation for these entities. Management was unable to produce public notice/solicitation for certain sampled entities. ChildNet indicated that certain of the sampled entities had contracts that were exempt from the competitive solicitation requirements and/or were procured underneath an emergency process.

ChildNet entered into *new* contracts or amended contracts with entities where no procurement documentation was produced and competitive solicitation exemptions were not applicable. The existence of new contracts was supported by newly defined contract periods, newly defined contract renewal periods, lack of referral to prior contracts, etc. During CRI's interviews with ChildNet, CRI asked a series of questions regarding contract renewals versus new contracts. Multiple personnel confirmed that ChildNet does not generally release new solicitations for existing vendors when the contract terms (including renewals) end unless ChildNet is unhappy with a vendor's performance, needs a new vendor or needs a new service.

ChildNet has re-procured goods/services with certain entities under new contracts above the Simplified Acquisition threshold of \$250,000 without following the competitive procurement process. Based on the foregoing information, certain ChildNet contracts that were renewed via a new contract are not in compliance with federal and state procurement laws, regulations, etc. including, but not limited to, 2 CFR Part 200.320.

Contract Procurement for Related Entities

2 CFR Part 200.319 requires 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." This CFR section specifically indicates that "organizational conflicts of interest" may be considered a restriction on competition. Per management, ChildNet does not procure services from Tech Care. These statements were supported by CRI's analysis of both ChildNet and Tech Care's general ledger detail reports.

ChildNet's policies and procedures prohibit employees, officers, agents, etc. from being involved in the selection, award or administration of a contract where a conflict of interest would be involved. Management noted that one of its non-voting board members was an officer of a subcontractor utilized by ChildNet. Management indicated that this board member was recused from discussions

involving the subcontractor and did not vote on any matters. These statements were supported by CRI's inspection of the board meeting minutes, conflict of interest disclosures, etc. No other conflicts of interest were noted.

Paycheck Protection Program Analysis – ChildNet

Per management, ChildNet did not apply for or obtain a Paycheck Protection Program (PPP) loan. This statement was supported by ChildNet's financial statements. CRI also separately confirmed through publically available PPP loan records that neither ChildNet nor its related entities received a PPP loan.

Finding 5

Analysis of Financial Reports - Budgets

The Contract requires ChildNet to prepare and submit an annual budget to the Department. The budgeted amount for each fiscal year must equal the contracted funds awarded to ChildNet. If Contract amendments revise the contracted funds awarded to ChildNet for the fiscal year, ChildNet must submit a revised budget to the Department. The revised budget must also equal the revised contracted funds awarded to ChildNet.

During the review period, fiscal year budgets were prepared by management and approved by ChildNet's Board of Directors. ChildNet also submitted fiscal year budgets for the Contract in conjunction with the annual cost allocation plan (CAP) to the Department. These budgets were obtained from management and compared to documentation maintained by the Department. For fiscal year 2019-2020, no variances were noted. In fiscal year 2020-2021, no variances were noted in relation to the Department contract for Broward County. For the Department contract related to Palm Beach County, ChildNet's Board of Directors approved a deficit of approximately \$327,000, which was not reflected on the budget submitted to the Department.

Per discussions with members of the Board of Directors as well as management, ChildNet has not generally submitted/approved deficit budgets. Management indicated that over the past three years (including fiscal year 2020-2021), ChildNet has approved deficit budgets related to the Department contract for Palm Beach County. No deficit budgets have been submitted related to the Department contract for Broward County.

As previously indicated, CBC lead agencies are required to submit a budget that equals their contracted funding levels for the applicable fiscal years. Additional funding opportunities for CBC lead agencies may exist via risk pool funds or "Back of the Bill" funding. The risk pool funding should only be utilized for factors that may arise outside a lead agency's control and cause costs to rise that may impede the lead agency's ability to provide the contracted services. By ChildNet budgeting more in Department expenditures than the contracted funds, ChildNet is essentially planning on spending more than the funds allocated to it. This leads to funding deficits caused by the lead agency's failure to properly budget and plan revenues/expenditures within its contracted funds.

Analysis of Financial Reports – Audited Financial Statements

During the review period, external audits were completed annually for ChildNet by Marcum LLP. The audited financial statements of ChildNet are prepared on a consolidated basis and include the operations of ChildNet and Tech Care. In the presentation of the audited financial statements of ChildNet, the Contract with the Department is included within the note disclosures, none of which

present current financial information in a format that represents the contract-specific expenses for the respective fiscal year. The information disclosed related to the Contract with the Department includes reference to the duration of the Contract including renewals, notations that future awards are conditional and contingent upon meeting requirements within the Contract, funding concentrations and cost allocations related to the Contract. The notes of the audited financial statements do not include details related to ChildNet's ownership interest in Integrated Health or its relationship with the Foundation.

Analysis of Financial Reports – Forms 990

ChildNet's Forms 990, Return of Organization Exempt From Income Tax, were analyzed for the review period. The Forms 990 were prepared by Marcum LLP. Marcum LLP also performs the annual consolidated financial statement audits and applicable single audits for ChildNet. The Forms 990 filed for ChildNet are not consolidated and only include the financial activities for ChildNet. Financial balances including assets, liabilities, revenues and expenses reconcile to the respective audited financial statements for each of the fiscal years within the review period. Separate tax returns are prepared by Marcum LLP for Tech Care and the Foundation.

Schedule J, Part II of each respective Form 990 filed for the review period delineates the base, bonus & incentive, retirement, and nontaxable compensation/benefits for officers, directors, trustees, key employees and highest compensated employees. This form is only completed for officers, directors, etc. that receive compensation above \$150,000. For ChildNet, these employees include the chief executive officer, chief financial officer, chief program officer, chief clinical quality officer and chief human resource and legal officer. Executive officer compensation reported by ChildNet corresponds to the reported compensation within ChildNet's Form 990 for the review period. The executive officer compensation was also compared to the underlying payroll records. No discrepancies were noted.

Form 990, Schedule R is utilized to report information/transactions between related organizations. ChildNet properly reported Tech Care and the Foundation as related organizations on its Forms 990, Schedule R filed during the review period.

Finding 6

Analysis of Administrative, Intercompany and Related Company Costs

As previously indicated, ChildNet functions as the lead agency/provider for the Contract. Its wholly-owned subsidiary, Tech Care, is not operational and has a *de minimis* amount of costs. The Foundation functions as ChildNet's fundraising arm and leases a property to one of ChildNet's providers. Integrated Health oversees the Medicaid managed care services.

ChildNet and the Foundation share common management, and ChildNet maintains the books and records of the Foundation. ChildNet does not allocate costs to the Foundation. Per management, there is no contract between ChildNet and the Foundation, and the Foundation does not charge ChildNet for any services. This was supported by CRI's analysis of ChildNet's and the Foundation's general ledger detail reports.

ChildNet utilizes the direct allocation method for cost allocation purposes. The direct allocation method treats all costs as direct costs except general administrative and general expenses. For direct costs that are identifiable to more than one program or cost pool, these direct costs are prorated using an appropriate base for the allocation. All other general and administrative costs are allocated using an appropriate base. As part of the cost allocation process, ChildNet has established various cost pools to account for various programs, grants, indirect costs, etc.

Although ChildNet and the Foundation share executive management, finance, accounting, etc., ChildNet did not allocate any administrative expenses to the Foundation. This is further supported by the Foundation's books, which do not reflect expenditures related to management, finance, internal accounting, information technology, etc. ChildNet's management confirmed that there were no such allocations to the Foundation and indicated that any allocations would be minimal due to the limited amount of activity generated by the Foundation.

One of ChildNet's cost pools is Cost Pool 910, Administrative Expenses. Per ChildNet's cost allocation plan, the administrative cost pool includes administrative or indirect costs; such as, expenses related to executive officers, personnel administration, accounting, information technology, etc. During CRI's analysis of ChildNet's general ledger detail reports, as well as the related allocation schedules, CRI noted that ChildNet's administrative cost pool was allocated solely to the Department's Contract.¹⁷ ChildNet's management confirmed that the administrative cost pool is not allocated outside of the Contract to other grants or programs.

For example, in fiscal year 2020-2021, the chief executive officer and chief financial officer's compensation was fully allocated to the Contract, despite ChildNet generating approximately \$1.87 million in non-Contract programs. This is also despite executive management's related costs benefiting all programs including the Foundation. Other non-compensation related indirect costs were not allocated to all non-Contract programs. Thus, ChildNet's administrative/indirect costs were not allocated in accordance with its cost allocation plan or in accordance with 2 CFR 200.

In fiscal year 2020-2021, the administrative cost pool totaled \$3,244,437.91 (all of which was allocated to the Contract). Had these administrative costs been allocated using the number of full-time equivalent (FTE) positions related to each program (excluding the Foundation), this would have resulted in an estimated reduction in administrative costs billed to the Department of \$49,303. In fiscal year 2019-2020, the administrative cost pool totaled \$2,691,782.64 (all of which was allocated to the Contract). Had these administrative costs been allocated using the number of FTE positions related to each program (excluding the Foundation), this would have resulted in an estimated reduction in administrative costs billed to the Department of \$4,823. Thus, ChildNet may have overbilled the Department by at least \$54,126.

¹⁷ It should be noted that ChildNet does allocate the administrative cost pool between the Department's Broward County contract and the Department's Palm Beach County contract based upon the number of full-time equivalent (FTE) employees assigned to each contract.

Analysis of Related Companies - Integrated Health Activities

Integrated Health has an agreement with Sunshine Health to help manage/coordinate the Medicaid services provided to eligible children within the Plan. Sunshine Health in turn is contracted with the Florida Agency for Health Care Administration to manage the Plan. Integrated Health's agreement with Sunshine Health is Integrated Health's sole source of revenue. The revenues are generated from managing/coordinating Medicaid services provided to children enrolled in the Plan. The primary sources of revenues are monthly capitation payments, which are per member per month fees. Integrated Health also receives certain variable consideration as provided under the agreement with Sunshine Health. The variable consideration is established for the purpose of sharing financial savings with Integrated Health for its assistance in helping Sunshine Health meet certain medical cost savings and quality goals.

Integrated Health represents 16 CBCs and is managed by Embrace Families, Inc.^{18, 19} Integrated Health subcontracts the management/coordination of the Medicaid services provided with the various CBC lead agencies throughout the State. Each CBC lead agency provides these services in their respective geographical areas. If a CBC lead agency loses its CBC lead agency designation, Integrated Health is required by Sunshine Health to terminate the subcontract with the applicable CBC.²⁰ Integrated Health is also required to make "every good faith effort to contract with the new designated lead agency CBC in the impacted area."²¹ The CBC lead agencies are compensated in part by a per member per month fee for the eligible children enrolled in the Plan for their respective geographical regions.

Integrated Health has three classes of membership units (i.e., Class A, Class B and Class C). Each participating CBC lead agency owns Class C membership units in Integrated Health. These ownership interests generally range between 1% and 4% for each CBC lead agency. ChildNet held a 0% and 1% ownership interest in Integrated Health in fiscal years 2019-2020 and 2020-2021, respectively. The Class C membership appoints one of the five Board Managers.

The Class B membership units are held by Embrace Families, Inc. and consist of a 35% ownership interest in Integrated Health. Embrace Families, Inc. appoints two of the five Board Managers. The Class A membership units are held by Juno IH, LLC, a private-equity investment fund, and consist of the remaining 35% ownership interest. June IH, LLC also appoints two of the five Board Managers. Both Embrace Families, Inc. and June IH, LLC are classified as managing members of Integrated Health. Each member in Integrated Health is entitled to receive distributions from Integrated Health in proportion to their respective ownership interest.

As a participating CBC lead agency, ChildNet receives revenue from Integrated Health. For the years ended June 30, 2020 and 2021, ChildNet received \$679,961 and \$847,028 in revenue from Integrated Health, respectively. ChildNet did not receive membership distributions from Integrated Health during the review period. ChildNet considers both the revenues as well as the distributions to be unrestricted funds (i.e., non-State, non-Contract, etc. related funds).²²

¹⁸ Vendor Agreement between Integrated Health and Sunshine Health dated December 12, 2016.

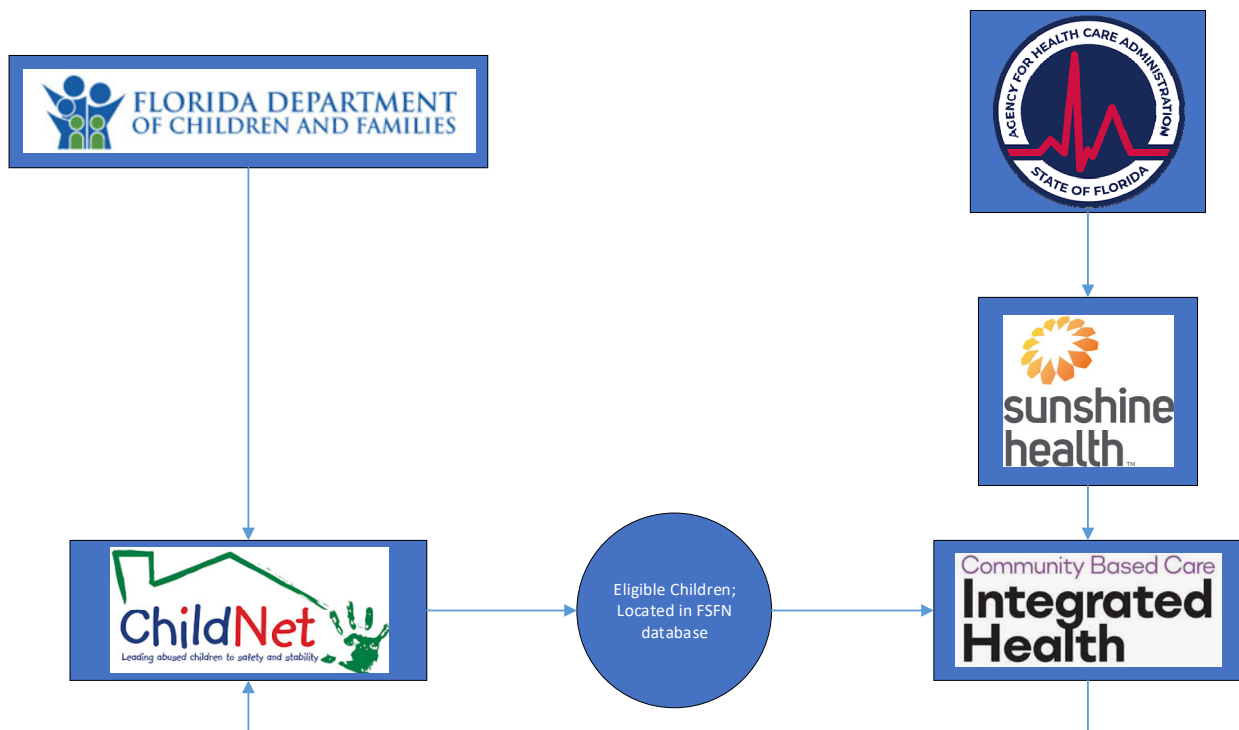
¹⁹ The number of CBCs represented may change depending on the time period referenced.

²⁰ Vendor Agreement between Integrated Health and Sunshine Health dated December 12, 2016.

²¹ Ibid.

²² It is important to note that unrestricted funds are funds that management/the Board of Directors can use for whatever purpose it deems appropriate.

As outlined above, ChildNet and the other CBC lead agencies have considered the funds generated via Integrated Health to be unrestricted/non-Contract funds. Per Exhibit II-C of the Child Welfare Specialty Plan dated February 1, 2018 as well as management, the children that are eligible to participate in the Plan are the same children already serviced/being serviced by the CBC lead agencies under their respective contracts with the Department. Sunshine Health’s contract with the Florida Agency for Health Care Administration requires that it coordinate its services with the CBC lead agencies to ensure effective program coordination and no duplication of services.²³ Sunshine Health is also required to collaborate with the CBC lead agencies to facilitate obtaining medical and case plan information and records.²⁴ Sunshine Health accomplishes coordination/collaboration with the CBC lead agencies through Integrated Health. As Sunshine Health’s subcontractor, Integrated Health is further required to subcontract and work with the CBC lead agencies. An illustration of these relationships/contracts is presented below.



Title 2 CFR 200.400 states that the “application of these cost principles is based on the fundamental premises that:...(g) The non-Federal entity may not earn or keep any profit resulting from Federal financial assistance, unless explicitly authorized by the terms and conditions of the Federal award.” ChildNet’s Contract does not entitle it to earn/keep “profits” resulting from the Contract. In or around February 2021, ChildNet invested \$47,900 in Integrated Health for a 1% ownership interest. ChildNet had previously not acquired an ownership interest in Integrated Health. ChildNet utilized unrestricted funds for this purchase, which likely accumulated in part due to the revenue ChildNet receives from Integrated Health.

²³ Exhibit II-C, Child Welfare Specialty Plan dated February 1, 2018.

²⁴ Ibid.

Title 2 CFR 200.307 states that “non-federal entities are encouraged to earn income to defray program costs where appropriate” including via program income. Program income is defined by 2 CFR 80.120 as “gross income received by the grantee or subgrantee and earned only as a result of the grant during the grant period.” Program income may include revenue from services performed under a grant, sales of items produced under a grant, etc. As previously stated, Integrated Health was established to represent CBC lead agencies, and Integrated Health can only subcontract the coordination services with CBC lead agencies. In other words, if it were not for the contract with the Department, the CBC lead agency could not earn revenue from Integrated Health and could likely not hold an ownership interest in it. It is also likely that the ownership interests in Integrated Health and Integrated Health itself arose directly from the CBC lead agencies contracts with the Department. It is unclear whether Department funds are indirectly utilized to help generate revenues under Integrated Health. Notably, one CBC lead agency in its application/proposal for Department risk pool funding stated that it proposed using the risk pool funds to “increase revenue through CBCIH [Integrated Health] plan enrollment for dependent children.”²⁵ Based on the foregoing information, the income/distributions arising from Integrated Health may be considered program income and should be utilized to offset the costs billed to the Department.

Due to its for-profit corporation status, transparency into Integrated Health, its operations and its financials is limited. Although Integrated Health represents the majority of the CBC lead agencies and the majority of its membership interest is owned by non-profit organizations (i.e., CBC lead agencies and ChildNet, Inc.), disclosure of Integrated Health’s financials is limited to the note disclosures of the various CBC lead agencies’ audited financial statements. ChildNet’s audited financial statements do not contain note disclosures regarding Integrated Health.

Finding 7

Analysis of Officer Compensation

ChildNet’s officers/executive management include the chief executive officer (CEO), chief financial officer (CFO), chief program officer, chief human resource and legal officer and chief clinical quality officer. ChildNet’s officers/executive management are employed directly by ChildNet, and the CEO’s compensation is generally determined by ChildNet’s Board of Directors. In Section 5 of the Contract, it states that ChildNet “shall without exception be aware of and comply with all state and federal laws, rules and regulations relating to its performance under this Contract as they may be enacted or amended from time-to-time.” As indicated by the Contract, its amendments and ChildNet’s audited financial statements, ChildNet receives significant pass-through federal funding via the Contract. A large portion of these federal funds originated from the U.S. Department of Health and Human Services (HHS).

Costs that are considered unallowable costs in accordance with federal cost principles, Uniform Guidance and other federal and state laws, rules and regulations cannot be charged to federal/state grant awards or federal pass-through grant awards. Unallowable costs would include direct salary costs in excess of salary cap limitations established by the respective federal and state laws, rules and regulations.

²⁵ Children’s Network of Hillsborough, LLC’s Risk Pool Funding Application SFY 2022-2023.

HHS established a salary cap limitation for its direct federal awards and federal pass-through grants. ChildNet received federal pass-through grants (via the Department) from HHS. As a result, ChildNet was required to comply with the applicable salary cap limitations for its salary allocations. The HHS salary cap limitation is separate and apart from the salary limitations established by Florida Statutes.

Per the applicable laws, rules and guidance (including the Consolidated Appropriations Acts), award funds from HHS may not be used to pay the salary, or any percentage of salary, to an individual at a rate in excess of the established salary cap. In other words, if an individual's salary exceeds the established salary cap, the payroll allocation percentage is based on the established salary cap amount not the individual's actual salary amount. For example, if the salary cap is \$150,000 and an individual's salary is \$300,000, the payroll allocation percentage is applied to the \$150,000 salary cap. In applying this limitation, base salary is utilized. Other federal cost principles and Uniform Guidance still apply.

During the review period, Mr. Rein's, the CEO, compensation exceeded the established salary cap in both fiscal years. As previously indicated, Mr. Rein's compensation was fully allocated to the Contract. Although the allocated dollar amounts did not exceed the established salary cap dollar amounts for the Department's Broward County contract or the Department's Palm Beach County contract, ChildNet allocated these salaries based on a higher base salary amount versus the established salary cap amount as required. As a result, ChildNet allocated approximately \$22,062 in unallowable base salary costs during the review period. It is important to notate that the Contract comprises both federal and state funds. ChildNet does not distinguish between the state and federal funds from the Contract within its books and records. As a result, we were unable to determine how much of the \$22,062 in unallowable salary costs were charged to federal funds. Per the Schedule of Funds in Amendment 8 (Broward) and Amendment 33 (Palm Beach) to the Contract, federal funds comprised 46.10% (Broward) and 46.29% (Palm Beach) of the total Contract funds.

In accordance with Florida Statute, 409.992(3), the Department has established limits to the administrative compensation that can be charged to the Contract. For both fiscal years within the review period, the annual administrative compensation limit was \$213,819. The state administrative compensation limit includes base pay combined with bonus or incentive payments. The state limit does not prevent any entity from providing additional compensation with non-State funds. During the review period, no salaries exceeded the established state salary cap.

Finding 8

Invoice Analysis

ChildNet submits monthly invoices to the Department based on a fixed payment schedule detailed within the Contract as amended during the contract period. Ten invoices are submitted for the months of September through June for each fiscal year of the Contract. The June and August contract payments are initiated by the Department based on the Contract terms. Invoices are submitted for payment to the Department in conjunction with the monthly financial reporting packet required by the Department. For the ten invoices submitted during each of the 2021 and 2020 fiscal years, the amount invoiced agreed without exception to the fixed payment schedule within the Contract as amended.

Finding 9

Reporting Analysis

CRI obtained from the Department the monthly actual expenditure reports submitted by ChildNet for the fiscal years ending June 30, 2020 and 2021. CRI also obtained from the Department the monthly OCA summary and detail reports for the fiscal years ending June 30, 2020 and 2021. CRI also obtained from ChildNet the monthly reporting packages submitted to the Department that includes the monthly actual expenditure reports. CRI verified that the monthly actual expenditure reports provided by the Department agreed to the monthly actual expenditure reports provided by ChildNet. After confirming the reporting retained by management agreed to the reporting provided to the Department, we performed a review of the monthly expenditure report to the OCA summary for each month and contract through use of the monthly FSFN to CBC expenditure reconciliation report. This report is prepared by ChildNet and provided along with the monthly expenditure report to the Department as part of the monthly reporting package. This document is the one of the main documents used by the Department in agreeing and reconciling ChildNet's reporting to the monthly OCA and FSFN generated reports.

CRI reviewed the monthly expenditure reports, FSFN to CBC expenditure reconciliation report, and the monthly OCA summary and detail reports for each month within the review period. The analysis did not identify any unreconciled differences between the monthly expenditure reporting provided by the Department and ChildNet, the monthly FSFN to CBC expenditure reconciliation report, and the monthly OCA summary and detail reports.

Finding 10

Analysis of Expenditure Reports

In conjunction with reconciling the monthly actual expenditure reports to the OCA summary and detail reports, CRI also analyzed and reconciled the monthly actual expenditure reports submitted by ChildNet during the review period to ChildNet's general ledger. The general ledger details were obtained from the Department's retained submission of the monthly financial reporting packet and from ChildNet directly. This procedure was performed for each month within the review period. The analysis identified various monthly differences. However, these monthly differences were resolved in subsequent months or during the year-end reporting. As such, we did not identify unreconciled differences between the monthly expenditure reporting prepared by ChildNet and ChildNet's general ledger.

Finding 11

Deferred Revenue Analysis

At times during performance of the Department's Contract, ChildNet may expend less funds to deliver the contracted services than initially budgeted/contractually funded. This results in ChildNet submitting invoices under the fixed fee billing arrangement in excess of actual contract expenses. This then leads to the recognition of these unexpended funds as deferred revenue. Within the provisions of the Department's Contract, following the end of any State fiscal year, the Department will identify the amount of unexpended state funds for each lead agency. The lead agency will document any unexpended Department funds (i.e., deferred revenue) from the prior fiscal year and submit a State Funds Carry Forward Report as a supplement to the CBC Monthly Actual Expenditure Report to account for those expenditures when requesting payment.

Since ChildNet has separate contracts with the Department for Broward County and Palm Beach County, ChildNet maintains separate deferred revenue balances (carry forward amounts) for each contract. No discrepancies were noted in the deferred revenue balances reported by ChildNet. It should be noted that this analysis focuses on the deferred revenue as reported by ChildNet. It does not consider the impact of the other findings within this report on deferred revenue.

Summarized Findings, Observations and Effects

A summary of the aforementioned findings, observations and the related effects is presented below.

Findings

1. Non-Compliant Contract Procurement for Non-Related Entities

Finding: ChildNet generally does not release new solicitations for certain existing vendors when the contract term (including renewals) ends. Within the sampled contract selection, ChildNet entered into new contracts above the Simplified Acquisition threshold of \$250,000 where no competitive solicitation was conducted. Thus, these contracts were not procured in compliance with federal and state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.320.

Effect: ChildNet is not in compliance with its procurement policies and procedures and federal and state procurement laws, rules, regulations, etc. (including 2 CFR Part 200.320) for certain long-term sub-recipients/contractors. The costs associated with these contracts may be considered unallowable expenditures.

2. Board Approval of Department Deficit Budgets

Finding: ChildNet's management and its Board of Directors prepared and approved an annual budget for Department funds related to the Palm Beach County contract, which exceeded Department approved funding.

Effect: In certain cases, ChildNet's Board approved budgets do not align with the Department approved budgets. During the review period, ChildNet budgeted or planned to expend more than Department allocated funding resources, which may have in part led to funding deficits. This presents questions regarding ChildNet's management and administration of the Contract within the constraints of the contracted funding.

3. Insufficient Cost Allocations

Finding: ChildNet incurs costs that are directly and indirectly allocable to its programs and the Contract. Certain administrative/indirect costs (including executive compensation) were not allocated to ChildNet's non-Department grants, other revenue sources and the Foundation. Had ChildNet appropriately allocated these administrative/indirect costs to the non-Department programs and the Foundation, estimated costs totaling at least \$54,126 would not have been billed to the Department. Thus, ChildNet's administrative/indirect costs were not allocated in accordance with its cost allocation plan or in accordance with 2 CFR 200 and ChildNet may have overbilled the Department.

Effect: ChildNet may overbill the Department for costs allocable to other non-Department funding sources.

4. Allocated Officer Compensation in Excess of Mandatory Caps

Finding: ChildNet’s chief executive officer’s base salary is in excess of the salary caps established by HHS. Under the HHS salary cap established by the Consolidated Appropriations Act, ChildNet charged unallowable salary costs totaling \$22,062 during the review period. It is unclear whether all or a portion of these unallowable salary costs were charged to federal funds due to the lack of segregation of state/federal funds within ChildNet’s books.

Effect: ChildNet charged unallowable compensation costs to the Contract.

Observations

1. Consideration of Integrated Health Funds as Intellectual Property and/or Program Income

Finding: ChildNet’s ownership interest in Integrated Health appears to have arisen directly due to ChildNet’s Contract with the Department and may be considered as program income (2 CFR 80.120). ChildNet’s ownership interest was likely acquired with funds generated from Integrated Health. The ownership interests and related generated revenue/distributions may be considered as arising from program income directly related to performance under the Contract for which ChildNet was fully compensated for.

Effect: The revenues/distributions from Integrated Health may be considered Contract related funds and subject to federal and state requirements. These revenues/distributions may also be required to offset Contract funds.

Conclusion

Based upon the foregoing information, ChildNet had limited related party transactions during the review period. ChildNet did not procure services with its related entities, and it did not incur direct costs related to these related entities. ChildNet did not sufficiently allocate its administrative costs between its various programs including the Foundation. These insufficient allocations resulted in approximately \$54,126 in overbillings to the Department during the review period. ChildNet also billed the Department unallowable compensation costs that were in excess of the applicable salary caps.

Non-related party contracts were not competitively procured in accordance with ChildNet’s policies and procedures as well as federal and state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320. These expenditures may be considered unallowable costs. The Department should consider further investigating to determine whether or not the Integrated Health revenues/distributions are Contract related, subject to federal and state requirements and offset Contract funds.²⁶

²⁶ Subsequent to the review period and subsequent to CRI’s initial forensic examination reports of other CBC lead agencies, Sunshine Health terminated its relationship with Integrated Health, which was Integrated Health’s sole source of revenue generation.

Supplementary Information

ChildNet, Inc.

Forensic Examination Supplementary Information

Schedule A - Historical Consolidated Statements of Financial Position for ChildNet, Inc.

For the fiscal years ending June 30,	2020	2021	2022
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 18,777,599	\$ 18,511,911	\$ 19,146,070
Restricted Cash	967,366	1,019,698	811,925
Grants and Other Receivables	2,467,660	1,105,616	137,814
Prepaid Expenses	234,335	300,727	1,552,757
Total Current Assets	\$ 22,446,960	\$ 20,937,952	\$ 21,648,566
Fixed Assets			
Property and Equipment, Net	\$ 379,913	\$ 421,206	\$ 425,367
Total Fixed Assets	\$ 379,913	\$ 421,206	\$ 425,367
Other Assets			
Other Assets	\$ 343,093	\$ 421,950	\$ 421,572
Total Other Assets	\$ 343,093	\$ 421,950	\$ 421,572
Total Assets	\$ 23,169,966	\$ 21,781,108	\$ 22,495,505
Liabilities and Equity			
Liabilities			
Current Liabilities			
Accounts Payable and Accrued Expenses	\$ 1,070,208	\$ 20,466	\$ -
Accounts Payable - Providers	8,530,546	1,788,245	2,285,668
Accrued Salaries and Annual Leave	3,683,756	3,705,832	3,359,392
Funds due to Florida Department of Children and Families	-	1,544,800	3,172,163
Funds due to Clients - Social Security Benefits	967,366	1,019,698	811,925
Current Portion of Note Payable	6,157	6,466	-
Deferred Revenue	3,251,260	11,310,998	14,282,134
Total Current Liabilities	\$ 17,509,293	\$ 19,396,505	\$ 23,911,282
Long-Term Liabilities			
Note Payable, Net of Current Portion	\$ 9,792	\$ 4,496	\$ -
Deferred Rent	709,927	634,084	980,486
Total Long-Term Liabilities	\$ 719,719	\$ 638,580	\$ 980,486
Total Liabilities	\$ 18,229,012	\$ 20,035,085	\$ 24,891,768
Commitments and Contingencies			
Net (Deficit) Assets			
Without Donor Restrictions	\$ 4,555,955	\$ 1,501,304	\$ (2,726,965)
With Donor Restrictions	384,999	244,719	330,702
Total Net (Deficit) Assets	\$ 4,940,954	\$ 1,746,023	\$ (2,396,263)
Total Liabilities and Net Assets	\$ 23,169,966	\$ 21,781,108	\$ 22,495,505

Forensic Examination Supplementary Information

Schedule B - Historical Consolidated Statements of Activities for ChildNet, Inc.

For the fiscal years ending June 30,	2020	2021	2022
Revenue			
Government Grants and Contracts	\$ 130,795,456	\$ 126,705,339	\$ 139,271,482
Contributions	121,391	219,315	287,893
In-Kind Contributions	954,247	1,397,605	1,462,796
Other Revenue	60,804	28,011	7,591
Total Revenue	\$ 131,931,898	\$ 128,350,270	\$ 141,029,762
Expenses			
Contract and Other Services	\$ 89,426,303	\$ 86,921,536	\$ 97,724,938
Data Communications	577,336	713,839	919,703
Depreciation and Amortization	246,536	129,654	162,849
Donations	-	-	-
Dues and Subscriptions	-	-	-
Emergency Response/Covid Expenditures	596,980	404,354	333,394
Equipment and Leases	429,150	88,613	355,502
In-Kind Expenses	954,247	1,397,605	1,462,796
Insurance	1,107,137	1,401,433	1,720,126
Maintenance	135,127	167,899	299,687
Marketing and Community Outreach	180,918	215,014	258,477
Occupancy and Utilities	3,456,909	3,550,467	3,744,886
Office and Computer Supplies	233,699	244,912	276,947
Personnel Costs	26,832,416	34,586,254	35,685,529
Postage	-	-	-
Professional Fees	687,650	767,596	575,979
Staff Training and Recruitment	190,017	85,412	603,706
Telephone	659,021	557,852	473,293
Travel	333,478	312,761	574,236
Total Expenses	\$ 126,046,924	\$ 131,545,201	\$ 145,172,048
Change in Net Assets	\$ 5,884,974	\$ (3,194,931)	\$ (4,142,286)

See Forensic Examination Report.

ChildNet, Inc.
Forensic Examination Supplementary Information
Schedule C - Summary of Unallowable Salary Costs

Unallowable HHS Salary Costs	FY 2019-2020	FY 2020-2021	Total
Applicable HHS Salary Cap Limitation	\$ 194,950.00	\$ 198,300.00	\$ 393,250.00
Effective Allocation Rate	100.00%	100.00%	
Allowed Salary Allocation	\$ 194,950.00	\$ 198,300.00	\$ 393,250.00
Larry Rein Allocated Base Salary	205,600.00	209,712.00	415,312.00
Total Unallowable HHS Salary Allocation	\$ 10,650.00	\$ 11,412.00	\$ 22,062.00

See Forensic Examination Report.

ChildNet, Inc.

Forensic Examination Supplementary Information
Appendix A – Expert Qualifications



Ben Kincaid, CPA, CFE, CFF, CVA
Partner in the Forensic Accounting & Dispute Services Line
(850) 837-3141 phone | BKincaid@CRIcpa.com

Experience

Known for his data analytics and translating the data into defensible, investigative results, Ben Kincaid has over 11 years of experience in providing forensic accounting, litigation support and business valuation services across CRI's footprint. These services have included investigating compliance, employee malfeasance, hidden asset schemes, breach of contract claims, business interruption losses, economic damages, due diligence and valuation disputes. Ben has provided these services to a wide range of clients and industries; such as, state, county and local governments as well as private companies, non-profit organizations and publicly traded companies.

Ben speaks regularly on the topics of fraud prevention, fraud detection and business valuations. Ben has also worked with various law firms and law enforcement on civil and criminal matters and presented findings to various law enforcement agencies including the FBI, FDLE, DOJ and GBI. Ben also provides expert witness services and has qualified as an expert witness in various state courts. Ben is a graduate from Pensacola Christian College with a Bachelor of Science Degree in Business with a double concentration in Accounting and Finance. Ben served on the FICPA's Valuation, Forensic Accounting and Litigation Committee.

Education, Licenses & Certifications

- BS, Business, Pensacola Christian College
- Certified Public Accountant (CPA) – Indiana and Florida
- Certified Fraud Examiner (CFE)
- Certified Valuation Analyst (CVA)
- Certified in Financial Forensics (CFF)

Professional Affiliations/Awards

- American Institute of Certified Public Accountants (AICPA)
- Florida Institute of Certified Public Accountants (FICPA)
- Association of Certified Fraud Examiners (ACFE)
- National Association of Certified Valuators and Analysts (NACVA)
- 2021 AICPA Forensic and Valuation Services Standing Ovation Award Recipient

Forensic Examination Supplementary Information
Appendix A – Expert Qualifications



Brent Sparkman, CPA, CFE, CITP

Partner in the Forensic Accounting & Dispute Services Line

(850) 878-8777 phone

BSparkman@CRLcpa.com

Experience

Brent has over 27 years of experience in public accounting with concentrations in non-profit and for-profit accounting, auditing, tax and consulting. Brent is an audit and consulting partner, forensic and IT specialist within the Tallahassee practice unit. Brent has specific training and expertise in forensic accounting, litigation support and expert witness testimony. Brent is also Certified in Financial Forensics (CFF) by the American Institute of Certified Public Accountants (AICPA). Brent has served as a consultant for numerous for-profit and non-profit organizations as well as State and local Governments.

He has investigated numerous white-collar crimes, fraud and embezzlement cases. Additionally, he has served as a consultant for numerous for profit and non- profit organizations, as well as State and local Governments related to forensic matters.

Brent is also certified by the AICPA as a Certified IT Professional (CITP) and has specialized training in IT general controls related to financial reporting. His experience includes financial statement and compliance audits of state and local governmental entities, non-profit organizations, and for-profit businesses. Brent oversees IT general controls assessment and testing for the Tallahassee audit practice. Brent is also a regular speaker on leadership, professional coaching and various technical matters. Brent is a trained continuing professional education (CPE) instructor and annually teaches courses to hundreds of professionals in related industry.

In 2020, Brent was appointed to the State Of Florida Board of Accountancy by Governor Ron DeSantis, responsible for the examination, licensure, and regulation of over 35,000 CPAs and over 5,600 accounting firms.

Education, Licenses & Certifications

- BS, Accounting, Florida State University
- BS, Finance, Florida State University
- Certified Public Accountant – Florida
- Certified in Financial Forensics (CFF)
- Certified Information Technology Professional (CITP)

Professional Affiliations

- American Institute of Certified Public Accountants
- Florida Institute of Certified Public Accountants
- Information Systems Audit and Control Association
- State of Florida Board of Accountancy, Board Member - Active

ChildNet, Inc.

Forensic Examination Supplementary Information
Appendix B – Source Documentation

We reviewed and relied upon the following documentation during our investigation:

- Contract and related amendments between the Department and ChildNet;
- ChildNet Funding Profile provided by the Department;
- Applicable Florida Safe Families Network data;
- 2019-20 CBC Desk Review Financial Monitoring Report, prepared by the Department’s Office of CBC/ME Financial Accountability;
- 2020-21 CBC Desk Review Financial Monitoring Report, prepared by the Department’s Office of CBC/ME Financial Accountability;
- ChildNet Articles of Incorporation including amendments;
- ChildNet Bylaws;
- ChildNet Policies and Procedures;
- ChildNet Board of Director Rosters;
- ChildNet Board of Director Meeting Minutes and Packets;
- ChildNet Committee Meeting Minutes;
- ChildNet Cost Allocation Plans for fiscal years 2020 and 2021;
- ChildNet Consolidated Financial Statements audited by Marcum LLP for the fiscal years ending June 30, 2019 through 2022;
- ChildNet Forms 990 for the fiscal years ending June 30, 2019 through 2022 prepared by Marcum LLP;
- ChildNet General Ledger Detail Report for the fiscal years ending June 30, 2020 and 2021;
- ChildNet Budgets for fiscal years 2020 and 2021;
- ChildNet Monthly Submission Reports and Data to the Department for fiscal years 2020 and 2021;
- ChildNet Selected Procurement and Invoice Data for fiscal years 2020 and 2021;
- ChildNet Payroll Reports for the fiscal years ending June 30, 2020 and 2021;
- ChildNet bank statements for the fiscal years ending June 30, 2020 and 2021;
- ChildNet master vendor lists for the fiscal years ending June 30, 2020 and 2021;
- ChildNet Select Allocation Supporting Schedules for the fiscal years ending June 30, 2020 and 2021;
- ChildNet Trial Balance Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- Invoices and related supporting documentation for related party expenditures including management fees;
- Tech Care Articles of Incorporation;
- Tech Care Bylaws;
- Tech Care Board of Director Rosters;
- Tech Care General Ledger Detail Report for the fiscal years ending June 30, 2020 and 2021;
- Tech Care bank statements for the fiscal years ending June 30, 2020 and 2021;
- Foundation Articles of Incorporation including amendments;
- Foundation Bylaws;
- Foundation Board of Director Rosters;
- Foundation Lease Agreement;
- Foundation bank statements for the fiscal years ending June 30, 2020 and 2021;

**Forensic Examination Supplementary Information
Appendix B – Source Documentation**

- Foundation General Ledger Detail Report for the fiscal years ending June 30, 2020 and 2021;
- Foundation Forms 990 for the fiscal years ending June 30, 2019 through 2022 prepared by Marcum LLP;
- Data Compilation and Statutory Compensation Limit Review (CIG Number 2021-01-25-0017) prepared by the Office of the Chief Inspector General;
- Contractor Related Parties assurance report prepared by the Department, Office of Inspector General;
- Vendor Agreement between Integrated Health and Sunshine State Health Plan and Amendments;
- Office of Federal Assistance Management, Division of Grants Policy, External Grants Policy Bulletins related to Salary Cap Limitations; and,
- Applicable Federal and State Laws, Rules, Regulations, etc. including, but not limited to, 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; Florida Statutes Section 215.97; and, Florida Statutes Section 402.7305(4).