



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

**Ron DeSantis**  
Governor

**Shevaun L. Harris**  
Secretary

---

July 25, 2024

Carol Deloach, Chief Executive Officer  
Communities Connected for Kids, Inc.  
549 NW Lake Whitney Place, Suite 204  
Port St. Lucie, FL 34986

RE: ZJK85 - FY 2023-2024, Notice of Forensic Examination Findings and Corrective Action Plan Request

Dear Ms. Deloach,

Thomas Howell Ferguson P.A. ("THF"), was engaged by the Department to perform a forensic examination concerning the financial records of Communities Connected for Kids, Inc. (CCKids), 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 CCKids 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 Related Entities**  
*Relationship with the Devereux Foundation:* CCK procured material amounts of services from a related party, the Devereux Foundation, under a contract that was not procured appropriately. Significant organizational conflicts of interest existed between CCKids and the Foundation between October 2013 and October 2019. Further, CCKids procured these services from the Foundation using noncompetitive sole-source processes without fully demonstrating the appropriateness of such an approach, particularly after an amendment to DCF contract ZJK85 became effective which removed any prior waiver of proper procurement of that contract. Additionally, significantly and in apparent violation of Florida law, CCKids embedded various renewal options into such contracts with the Foundation. Since the agreements between CCKids and the Foundation were not procured or renewed appropriately, this results in substantial questioned 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 examination. CCKids 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 CCKids:

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

Action: CCKids must competitively procure all related party contracts that were not competitively procured, regardless of the contract amount, 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.

In addition, the following observation was noted in the forensic examination, but does not require a corrective action plan.

- **Items Paid by the Devereux Foundation on Behalf of CCKids**

CCKids has a contract with the Foundation for administrative services. This contract relates to the performance of certain administrative functions of CCKids. Part of those services in practice involves the Foundation including CCKids' employees on the Foundation's health insurance policies, mobile phone contracts, defined contribution retirement plan, and other shared contracts. If these entities were truly unrelated, this would be a highly unusual set of services and degree of interrelationship. Additionally, certain contracts entered into on behalf of CCKids by the Foundation, are initially paid for by the Foundation using its own funds and are later requested for reimbursement by CCKids to the Foundation. Again, this would be a highly unusual payment protocol and degree of interrelationship between entities that are not, in fact, related parties. This type of administrative service arrangement allows for the potential that certain services or contracts could be procured outside of authorized State purchasing rules and presents an increased risk for fraud.

To ensure that all expenses incurred by CCKids are procured in accordance with Florida Statutes and the Uniform Guidance, the Department recommends that any administrative services contracts between CCKids and the Foundation be further detailed to include all services provided by the Foundation, including contracting with third parties on CCKids' behalf while later seeking repayment of such advanced amounts.

CCKids 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, Nancy Wall, via email at [Nancy.Wall@myflfamilies.com](mailto:Nancy.Wall@myflfamilies.com).

Sincerely,



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

CC: Chad Barrett, Assistant Secretary for Administration  
Amanda Vanlaningham, Director of Partnerships and Prevention  
Contract File

State of Florida  
Department of Children and Families

**Report of Forensic Accountants  
Communities Connected for Kids, Inc.**

*July 1, 2019 through June 30, 2021*

State of Florida  
Department of Children and Families

Report of Forensic Accountants  
Communities Connected for Kids, Inc.

July 1, 2019 through June 30, 2021

**Table of Contents**

**Report of Forensic Accountants**

Terms of the Engagement .....	1
The CBC and its Related Parties.....	1
Procedures.....	2
Summary of Findings and Observations.....	3
Summary of Questioned Costs.....	4
Summary of Recommendations.....	4
Closing.....	5

**Findings and Observations**

2021-01, <i>Relationship with the Devereux Foundation</i> .....	FO-1
2021-02, <i>Observation: Items Paid by the Devereux Foundation on Behalf of CCKids</i> .....	FO-6

## **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 C26F00 with respect to Communities Connected for Kids, Inc. (CCKids, 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, CCKids operated under contract ZJK85 with the Department, as amended from time to time (DCF Contract ZJK85). CCKids was organized in the state of Florida in 2012 under the name Devereux Community Based Care. CCKids changed its name from Devereux Community Based Care effective July 1, 2018, to its current name. CCKids 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. CCKids has its own Employer Identification Number (EIN).

Refer to Table I for the contractual amounts paid to CCKids by the Department during the Analysis Period. Per the audited financial statements of Communities Connected for Kids, Inc., CCKids recognized substantially all of its revenue from DCF Contract ZJK85 during the years ended June 30, 2020 and 2021.

**Table I**  
**DCF Contract ZJK85 Amounts Paid to**  
**CCKids During the Analysis Period<sup>1</sup>**

<b>Years ended June 30,</b>		<b>Total</b>
<b>2020</b>	<b>2021</b>	
<b>\$33,232,704</b>	<b>\$33,982,293</b>	<b>\$67,214,997</b>

During portions of the Analysis Period, CCKids had multiple affiliates and/or other related parties, principally including the following:

1. The Devereux Foundation (the Foundation), a Pennsylvania not-for-profit corporation organized in 1934 that is exempt from federal income taxes under Section 501(c)(3) of the IRC pursuant to an IRS determination letter. The Foundation is part of the Devereux National Network. Per the Services Agreement between CCKids and the Foundation, the Foundation is a national provider of mental health and child welfare services. The Foundation provides services in twelve states, including Florida. These services include various administrative services including, but not limited to, payroll processing, assisting CCKids H/R with technical assistance, preparation of bank account and general ledger reconciliations, providing access to information systems purchased by the Foundation for transaction processing, maintaining banking relationships on behalf of CCKids, legal support through The Foundation's in-house general counsel, annual preparation of the Form 990 informational income tax return, support during audits, professional development and training programs, processing A/P transactions, and allowing CCKids employees to participate in the Foundation-sponsored defined contribution retirement plan.
2. Devereux Advanced Behavioral Health Florida (Devereux ABH), Devereux ABH is part of the Devereux National Network, was organized in 1987, and is exempt from federal income taxes under Section 501(c)(3) of the IRC pursuant to an IRS determination letter. The services provided by Devereux ABH include admission of Circuit 19 dependency children into Devereux ABH facilities in other Circuits at a daily occupied bed rate for Specialized Therapeutic Group Homes (STGH) negotiated by those other Circuits.

## **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 ZJK85, (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

---

<sup>1</sup> Amounts are shown gross and have been reconciled to FLAIR.

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) CCKids' initial formation, legal structure, and relevant history, (2) CCKids' operations, (3) the general procurement policies of CCKids, (4) the procurement of services from the Foundation and Devereux ABH by CCKids, and (5) areas where potentially duplicative personnel and costs may exist between CCKids and the Foundation. Such procedures also included asking questions of CCKids, receiving responses from authorized CCKids personnel, and analyzing such responses, in addition to receiving and analyzing financial documents for CCKids as well as asking questions of and receiving guidance from the Department.

Our Agreement included other related or incidental Service Tasks, all of which were completed without material exception.

### **Summary of Findings and Observations**

Organizational conflicts of interest, as that term is defined in 2 CFR 200.318 and related citations, exist within CCKids and the control group centered around the Foundation at CCKids' formation in 2012. The most significant findings and observations THF identified relate to CCKids incorrectly applying the procurement requirements to which it was bound during (and prior to) the Analysis Period.

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

#### *2021-01, Relationship with the Devereux Foundation*

CCKids procured material amounts of services from a related party, the Devereux Foundation, under a contract that was not procured appropriately. Significant organizational conflicts of interest existed between CCKids and the Foundation between October 2013 and October 2019. Further, CCKids procured these services from the Foundation using noncompetitive sole-source processes without fully demonstrating the appropriateness of such an approach, particularly after an amendment to DCF Contract ZJK85 became effective which removed any prior waiver of proper procurement of that contract. Additionally, significantly and in apparent violation of Florida law, CCKids embedded various renewal options into such contracts with the Foundation. Since the agreements between CCKids and the Foundation were not procured or renewed appropriately, this results in substantial questioned costs.

2021-02, Observation: *Items Paid by the Devereux Foundation on Behalf of CCKids*

CCKids has a contract with the Foundation for administrative services. This contract relates to the performance of certain administrative functions of CCKids. Part of those services in practice involves the Foundation including CCKids' employees on the Foundation's health insurance policies, mobile phone contracts, defined contribution retirement plan, and other shared contracts. If these entities were truly unrelated, this would be a highly unusual set of services and degree of interrelationship. Additionally, certain contracts are entered into on behalf of CCKids by the Foundation, are initially paid for by the Foundation using its own funds, and are later requested for reimbursement by CCKids to the Foundation. Again, this would be a highly unusual payment protocol and degree of interrelationship between entities that are not, in fact, related parties. This type of administrative service arrangement allows for the potential that certain services or contracts could be procured outside of authorized State purchasing rules and presents an increased risk for fraud.

**Summary of Questioned Costs**

2021-01, *Relationship with the Devereux Foundation*

\$4,426,823 (\$2,385,433 for FY2020 and \$2,041,390 for FY2021).

2021-02, Observation: *Items Paid by the Devereux Foundation on Behalf of CCKids*

N/A; observation only. Included in the questioned costs for finding 2021-01 above.

**Summary of Recommendations**

THF believes the engagement by a CBC of a related party to provide services on its behalf requires heightened scrutiny, particularly if such engagement was not properly procured in a competitive manner. This broad 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, *Relationship with the Devereux Foundation*

The Department should consider requiring that the CBC re-procure any active contract that, like CCKids' contracts with the Foundation, cannot be demonstrated to comply with Federal and/or State procurement requirements. Additionally, the Department should insist that all contracts comply with State statutory requirements including the prohibition against renewal of those contracts.

2021-02, Observation: *Items Paid by the Devereux Foundation on Behalf of CCKids*

The Department should consider requiring that any administrative services contract between CCKids and the Foundation be further detailed to include all services provided by the Foundation, including contracting with third parties on CCKids' behalf as well as any continued use of Foundation funds to pay invoices on CCKids' behalf while later seeking repayment of such advanced amounts. This would help ensure that all expenses incurred by CCKids are procured in accordance with Florida Statutes and the Uniform Guidance.



### **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.C.*

Tallahassee, Florida  
February 29, 2024

## **Findings and Observations**

**2021-01, *Relationship with the Devereux Foundation***

Criteria: 2 CFR 200.318  
2 CFR 200.319  
Section 287.057, *Florida Statutes*  
DCF Contract ZJK85

Condition: On September 12, 2012, a new Florida corporation and separate 501(c)(3) in the name of Devereux Community Based Care (DCBC) was created in order to apply for the DCF ITN for the Circuit 19 lead agency contract. The contract was awarded to DCBC and executed on or about October 30, 2013. The DCBC Board of Directors structure and the involvement of Devereux Foundation employees were outlined in the response to the ITN and were ultimately included as a special provision in the original contract between DCF and DCBC. Specifically, that original DCF contract contained a special contract provision allowing the Devereux Foundation to appoint a simple majority of the DCBC Board of Directors. The bylaws executed on or about November 1, 2013, were required to be approved by DCF prior to contract execution and included language specifically allowing Devereux-appointed DCBC Board members to participate in discussions related to the administrative services to be provided by the Devereux Foundation.

As reported by the CBC, the administrative services agreement was proposed by the Devereux Foundation in their response to the lead agency ITN as a strategy to reduce DCBC's administrative cost through economies of scale and the purchasing power already established within the Devereux Foundation. The initial administrative services agreement was executed concurrently with the award of the initial contract with DCF and provided an array of established administrative services. The original administrative structure for DCBC that was proposed to DCF in the response to the ITN named a Devereux Foundation employee as the Board chair, and another Devereux Florida employee to perform CFO functions. The response to the ITN additionally included the proposal to provide human resources, payroll, accounts payable, legal counsel, IT and other specified administrative functions through the administrative services contract. During the transition from the prior Circuit 19 lead agency, United for Families (UFF), a number of UFF administrative positions were deleted as their functions were assumed under the new administrative services contract. It is the position of CCKids (formally DCBC) that the 2013 award and initial execution of the Circuit 19 Lead Agency contract incorporating the DCBC response to the ITN, which outlines the Board structure and the related administrative services, constitutes express permission by DCF to contract with the Devereux Foundation for administrative services without requiring DCBC (now CCKids) to conduct a competitive procurement.

CCKids generally contends the Department was made aware of all contractual arrangements involving the Foundation, that in some instances approval of the related party contract(s) was granted by the Department, and that this mitigates any technical violations of 2 CFR 200, Section 287.057, *Florida Statutes*, and/or CCKids' contract(s) with the Department.

For the 2013 contacts between the Foundation and DCBC, the initial contract points to some documented awareness by the Department related to the procurement of services from the Foundation, the proposed Board composition, and the inherent conflicts of interest surrounding such an arrangement. However, there is no specific indication that the Department acknowledged in any official manner that a lack of competitive procurement in obtaining these services from the Foundation was appropriate, or that a lack of documentation of the same was acceptable. Regardless of the level of awareness certain Department personnel may or may not have had concerning the creation and execution of these contracts, CCKids retains ultimate and absolute responsibility for its compliance with 2 CFR 200 and applicable Florida Statutes, as well as its obligations under DCF Contract ZJK85. However, the language in the initial agreement makes the existence of the conflict and the nature of the agreements apparent, with both clearly described in initial contract between the Department and DCBC.

Effective July 1, 2018, Devereux Community Based Care, Inc. changed its name to Communities Connected for Kids, Inc. (CCKids). The DCF contract with CCKids was renewed and amended effective July 1, 2018. In that contract renewal/amendment, the special conditions clauses regarding the Devereux Foundation's appointment of a simple majority to the Board of the CBC were removed. Additionally, language concerning fact that the directors and officers of the Lead Agency shall have no business or financial ties to any suppliers that result in a personal financial gain to any director or officer was added. Finally, all references to the administrative services agreement between the Devereux Foundation and DCBC (now CCKids) were removed. As such, at least as of the time of this amendment, all future contracts between CCKids and the Foundation were affirmatively required to be procured in accordance with the amended contract, 2 CFR 200, and applicable Florida Statutes, and all remaining conflicts of interest should have been subject to routine policies limiting any potential impartial participation in contract negotiations or approval. Also at this time, the bylaws of CCKids were updated to include conflict of interest policies stating that any conflict by a Board member should be communicated and would require nonparticipation of the affected Board member.

From July 2018 through October 2019, members of the Foundation's executive leadership continued to serve on the board of CCKids. While this membership no longer constituted a simple majority of the CCKids Board and would not, in isolation, demonstrate the Foundation's control over the CCKids Board, such involvement on the Board and in key CBC decisions nonetheless is considered a conflict of interest. The Foundation was a related party to CCKids until at least October 2019.

CCKids entered into a new contract with the Foundation on July 1, 2018. This contract was not competitively procured and lacked any known authorization from the Department for sole-source procurement from a related party. Further, no documentation concerning any application of the CBC's conflict-of-interest policies to remove the Board members with relationships to the Foundation was obtained; instead, the documentation suggests that such individuals played a key role in determining the services to be provided from the Foundation to CCKids under such contract. This contract's term was initially from July 1, 2018 to June 30, 2019, but was automatically renewed for an additional 6 months until January 2020.

Based on the Board member composition, in October 2019, the related party relationship between the Foundation and CCKids appears to have ended.

In January 2020, CCKids entered into a similar agreement with the Foundation for administrative services for an initial term of January 1, 2020 through June 30, 2021, again with automatic renewal options. While the related party relationship was no longer considered a factor, this contract was not competitively procured in accordance with the Uniform Guidance, Florida Statutes, or DCF Contract ZJK85.

CCKids generally contends that the Department's initial approval of its agreement with the Foundation in 2013 allowed CCKids to continue to noncompetitively enter into this and other related contracts over a span of nearly a decade due to the cost analysis proposal in 2013 which contended that the agreement between DCBC (now CCKids) and the Foundation would result in projected cost savings over a ten year period.

In essence, CCKids entered various material contracts with a related party, did not competitively procure the services provided by that related party using purported lead agency approval exceptions, and agreed to permit renewals of the noncompetitively-procured related party contract beyond the initial term of the contract. Such activities were not conducted in accordance with established or appropriate policies, procedures, contractual obligations, and/or regulations and thus appear to represent violations of 2 CFR 200, Section 287.057, *Florida Statutes*, and/or DCF Contract ZJK85.

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 ZJK85 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 5.10 of Attachment I to DCF Contract ZJK85 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 robust policies had been established, they were not appropriately followed. The existence of a vendor’s executive leadership’s involvement in the Board of Directors of the CBC alone represent the “related party” nature of the two entities, to say nothing of the contracts described herein.

Noncompliance with Section 287.057(14), *Florida Statutes*, which provides in part that “Exceptional purchase contracts pursuant to paragraphs (3)(a) and (c) may not be renewed.” Section 287.057(3)(c), *Florida Statutes*, which is the section apparently relied upon by CCKids, addresses procurements when “Commodities or contractual services available only from a single source may be excepted from the competitive-solicitation requirements... If it is determined in writing by the agency, after reviewing any information received from prospective vendors that the commodities or contractual services are available only from a single source, the agency shall provide notice of its intended decision to enter a single-source purchase contract.” The services at issue under these agreements with the Foundation do not appear to meet the qualifications for a sole-source procurement under applicable Florida Statutes or 2 CFR 200 but, regardless, even if they did, such emergency procurements are not eligible for renewal under this statute. For this and other reasons, the renewal of these agreements by CCKids violates Section 287.057, *Florida Statutes*.

Questioned Costs: The questioned costs are as follows:

<b>Contract</b>	<b>FY2020</b>	<b>FY2021</b>	<b>Total</b>
Administrative Services	\$ 575,000	\$ 500,000	\$ <b>1,075,000</b>
Cost Reimbursements	<u>1,810,433</u>	<u>1,541,390</u>	<u><b>3,351,823</b></u>
<b>Total</b>	<u><b>\$ 2,385,433</b></u>	<u><b>\$ 2,041,390</b></u>	<u><b>\$ 4,426,823</b></u>

Recommendation: The Department already requires its CBC lead agencies to comply with the Criteria stated above. CCKids is not in compliance with the criteria with respect to the administrative services provided by the Foundation. The Department should consider requiring the re-procurement of any active contract that, like CCKids’ contracts with the Foundation, cannot be demonstrated to comply with Federal and/or State procurement requirements, including the State-level prohibition on the renewal of contracts for services that are procured using noncompetitive methods, e.g., when designated as emergency or sole-source procurements. Additionally, the Department may wish to consider an affirmative requirement that any contracts where organizational conflicts of interest exist be specifically reviewed and approved by the Department in advance of execution thereof.

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 allocations of costs from all related party contracts when a CBC requests reimbursement of such costs, to the extent any related party contracts are approved by the Department.

**2021-02, Observation: *Items Paid by the Devereux Foundation on Behalf of CCKids***

Observation:

CCKids has a contract with the Foundation for administrative services. This contract relates to the performance of certain administrative functions of CCKids. Part of those services in practice involves the Foundation including CCKids' employees on the Foundation's health insurance policies, mobile phone contracts, defined contribution retirement plan, and other shared contracts. If these entities were truly unrelated, this would be a highly unusual set of services and degree of interrelationship. Additionally, certain contracts are entered into on behalf of CCKids by the Foundation, are initially paid for by the Foundation using its own funds, and are later requested for reimbursement by CCKids to the Foundation. Again, this would be a highly unusual payment protocol and degree of interrelationship between entities that are not, in fact, related parties. This type of administrative service arrangement allows for the potential that certain services or contracts could be procured outside of authorized State purchasing rules and presents an increased risk for fraud.

Attempts to test the reimbursements of these costs to the actual underlying invoice documenting the origin of the expense were, in some instances, able to be performed and it was determined that the costs charged to CCKids were reasonably supported. However, certain costs could only be agreed to internal spreadsheets and records provided by the Foundation to CCKids. CCKids does not in certain circumstances obtain the original source invoice from a third-party service provider for its own review and approval of such expenses. These types of transactions lead to the potential that costs charged to CCKids by the Foundation include additional service charges and costs beyond the actual costs of the service provided by the third party.

Additionally, at times the Foundation makes payments toward CCKids' accounts payable on CCKids' behalf from the Foundation's own bank account and later requests reimbursement. This again would be a highly unusual practice for a truly unrelated accounting service provider to offer to a truly unrelated client. Based on the extensive involvement by the Foundation in the transaction processing, accounting, and reconciliation cycles of CCKids, this manner of service leads to an increased risk of fraud.

The Department may wish to consider the totality of the matters identified in Finding 2021-01 as well as this Observation 2021-02 and evaluate all CBC related party contracts using a similar perspective. The Department may also wish to obtain more detailed supporting information for such costs in the future and require the CBC to implement more stringent internal controls regarding its review of items billed to it by the Foundation.