



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

Ron DeSantis
Governor

Shevaun L. Harris
Secretary

August 22, 2023

Michael Bryant, Chief Executive Officer (Interim)
Embrace Families Community Based Care, Inc.
901 N. Lake Destiny Road, Suite 400
Maitland, FL 32751

RE: GLJ58- FY 2023-2024, Notice of Forensic Audit Findings and Corrective Action Plan Request

Dear Mr. Bryant,

Carr Riggs, & Ingram (CRI), LLC. was engaged by the Department to perform a forensic audit concerning the financial records of Embrace Families Community Based Care, 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 Embrace Families CBC 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**
Based on sample selections, Embrace Families CBC entered into three new contracts above the Simplified Acquisition threshold of \$250,000 where no competitive solicitation was conducted as required. It was unclear whether another new contract was appropriately procured due to the lack of supporting documentation provided. Thus, these contracts were not procured in compliance with Embrace Families CBC's policies and procedures as well as federal/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.
- **Noncompliance with Competitive Procurement Requirements for Related Entities**
Embrace Families CBC did not engage in a competitive procurement process for its related party contracts including with Embrace Families, Inc., Solutions and Foundation. No competitive procurement waivers were obtained from the Department for these contracts. Thus, Embrace Families CBC did not comply with its policies and procedures as well as federal/state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320 for its related party contracts. The costs associated with these contracts may be considered unallowable expenditures. Refer to Finding 4.
- **Overbilling Related to Paycheck Protection Program (PPP) Loan Forgiveness**
Embrace Families, Inc. received a PPP loan that was utilized for payroll costs allocated to Embrace Families CBC. Neither Embrace Families, Inc. nor Embrace Families CBC provided a credit/reduction in the payroll costs charged to the Contract, which were funded by the

Embrace Families, Inc. PPP loan. Thus, Embrace Families CBC overbilled the Department by approximately \$523,342. Embrace Families CBC did not comply with Office of Management and Budget, M 20-26, Contract Section 3 and Contract Section 22. Refer to Finding 4.

- **Budgeted Deficits for Contract Funds Approved by Board of Directors**
Embrace Families CBC's Management and its Board of Directors knowingly approved annual internal budgets for Department funds that exceeded both Department approved funding and expenditures. Thus, Embrace Families CBC planned to expend more than Department allocated funding, which has in part led to funding deficits. Refer to Finding 5.
- **Complexity and Establishment of Embrace "Family of Companies" Appears Unnecessary**
The establishment and complexity of the Embrace "family of companies" appears unnecessary. It also obscures the nature/extent of the "family of companies" transactions and underlying costs including executive compensation. The establishment and complexity of the related party entities may result in increased organizational costs. Refer to Finding 6.
- **Potential Improper Award of Integrated Health Founder Shares to Embrace Families, Inc.**
Embrace Families, Inc. ownership interest in Integrated Health was provided to Embrace Families, Inc. as founder shares. It appears that these founder shares and the creation of Integrated Health arose from services performed by/under Embrace Families CBC not Embrace Families, Inc. As such, after further review, it is possible that the ownership interest in Integrated Health should be owned by Embrace Families CBC, not Embrace Families, Inc. Embrace Families, Inc. has accumulated net assets totaling \$10.6 million as of June 30, 2022, in part due to its ownership in Integrated Health. Refer to Finding 6.
- **Potential Consideration of Integrated Health Funds as Contract Related Funds**
Embrace Families CBC and Embrace Families, Inc.'s ownership interests in Integrated Health appear to have arisen directly due to the Contract and may be considered as intellectual property (Contract Section 14) and/or program income (2 CFR 80.120). As the ownership interests arose outside of the review period and other contracts were in effect, CRI was not provided with all relevant contracts, documents, minutes, etc. related to the generation of the ownership interests in Integrated Health. As such, the ownership interests and related generated revenue/distributions may be considered intellectual property and/or program income directly related to performance under the Contract. Refer to Finding 6.
- **Allocated Officer Compensation in Excess of Mandatory Caps**
Embrace Families CBC's allocated officer base salaries are in excess of the respective salary caps established by HHS and the State. Embrace Families CBC charged estimated unallowable salary costs totaling \$101,205 related to the HHS salary cap and approximately \$145,554 related to Florida Statute 409.992(3) in conjunction with the general requirements of Uniform Guidance. The unallowable administrative compensation is in part duplicative of the HHS unallowable salary cost allocations. Refer to Finding 7.

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

- **Noncompliance with Competitive Procurement Requirements for Non-Related Entities**
Action: Embrace Families must competitively procure all non-related contracts that were not competitively procured that are above the simplified acquisition threshold of \$250,000, within 60 days (release solicitation) of notice.
- **Noncompliance with Competitive Procurement Requirements for Related Entities**
Action: Embrace Families must competitively procure all related party contracts that were not competitively procured, regardless of the contract amount, within 60 days (release solicitation) of notice.
- **Overbilling Related to Paycheck Protection Program (PPP) Loan Forgiveness**
Action: Embrace Families must provide the Department with repayment of contract funds used for expenses covered by PPP loan forgiveness within 30 days of notice.
- **Budgeted Deficits for Contract Funds Approved by Board of Directors**
Action: Embrace Families' Board of Directors must certify budget approved does not exceed revenues for DCF approval.
- **Complexity and Establishment of Embrace "Family of Companies" Appears Unnecessary**
Action: To improve transparency, it is recommended that Embrace Families eliminate contracts with related parties for management and administrative functions of the CBC.
- **Potential Improper Award of Integrated Health Founder Shares to Embrace Families, Inc. and Potential Consideration of Integrated Health Funds as Contract Related Funds**
Action: Embrace Families annual spending plan must include CBC IH distributions as additional revenue for the budget. This will require documentation of CBC-IH distributions received.
- **Allocated Officer Compensation in Excess of Mandatory Caps**
Action: Embrace Families must come into compliance with Federal and State laws immediately.

Embrace Families failure to comply with the timely development and implementation of a satisfactory CAP may result in increasing penalties, including but not limited to, contract termination.

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

Sincerely,



Kathryn Williams

Assistant Secretary, Office of Child & Family Well-Being

CC: Casey Penn, Deputy Secretary
Daniel May, Deputy Assistant Secretary
Ralph Silverstein, Chief of Contracts
Kristi Gray, Community Director



Carr, Riggs & Ingram, LLC
500 Grand Boulevard
Suite 210
Miramar Beach, FL 32550

850.837.3141
850.654.4619 (fax)
CRICpa.com

July 25, 2023

Mr. Barney Ray
Director of Revenue Management and Partner Compliance
Office of the Assistant Secretary for Administration
Florida Department of Children and Families
2415 North Monroe Street, Suite 400
Tallahassee, FL 32303

Re: Forensic Examination of Embrace Families Community Based Care, Inc.

Dear Mr. Ray:

Our firm was engaged to perform an inquiry concerning the financial records of Embrace Families Community Based Care, Inc., which is a community-based care lead agency contracted by the Florida Department of Children and Families. This inquiry was predicated upon findings identified by the Office of the Chief Inspector General. Attached is Carr, Riggs & Ingram, LLC's Forensic Examination Report detailing the procedures performed and the resulting findings.

We have performed this engagement in accordance with the Statement on Standards for Forensic Services No. 1 as promulgated by the American Institute of Certified Public Accountants (AICPA) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). While our work involved analysis of accounting records, our engagement did not constitute an audit in accordance with generally accepted auditing standards, an examination of internal controls, or any other attestation or review service in accordance with standards established by the AICPA. Had other procedures been performed, other matters may have come to our attention that may have affected the findings reported herein.

This report is intended solely for the use of the Florida Department of Children and Families and should not be used for any other purpose without prior permission from CRI. We have no obligation, but reserve the right, to update this report for information that comes to our attention after the date of this report.

Sincerely,

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Certified Public Accountants



**Embrace Families
Community Based Care, Inc.**

**Forensic Examination Report and
Supplementary Information**

July 25, 2023



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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 Embrace Families Community Based Care, Inc. (Embrace Families CBC). This inquiry was based upon findings identified by the Office of the Chief Inspector General.

CRI performed certain procedures on Embrace Families CBC's books and records for July 1, 2019 through June 30, 2021. These procedures included, but were not limited to, interviews with key Embrace Families CBC 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, based on the investigative procedures performed, are listed below.

- **Noncompliance with Competitive Procurement Requirements for Non-Related Entities**
Based on sample selections, Embrace Families CBC entered into three new contracts above the Simplified Acquisition threshold of \$250,000 where no competitive solicitation was conducted as required. It was unclear whether another new contract was appropriately procured due to the lack of supporting documentation provided. Thus, these contracts were not procured in compliance with Embrace Families CBC's policies and procedures as well as federal/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.
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Embrace Families Community Based Care, Inc. Executive Summary

- **Complexity and Establishment of Embrace “Family of Companies” Appears Unnecessary**
The establishment and complexity of the Embrace “family of companies” appears unnecessary. It also obscures the nature/extent of the “family of companies” transactions and underlying costs including executive compensation. The establishment and complexity of the related party entities may result in *increased* organizational costs. Refer to Finding 6.
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Embrace Families CBC’s allocated officer base salaries are in excess of the respective salary caps established by HHS and the State. Embrace Families CBC charged estimated unallowable salary costs totaling \$101,205 related to the HHS salary cap and approximately \$145,554 related to Florida Statute 409.992(3) in conjunction with the general requirements of Uniform Guidance. The unallowable administrative compensation is in part duplicative of the HHS unallowable salary cost allocations. Refer to Finding 7.

Based upon the investigative procedures performed and the corresponding findings, the Embrace “family of companies” is complex in nature and scale of the related party transactions. This limits transparency into the organizations and their effective costs. This related party structure has allowed the siloing of “profits” of purported unrestricted funds within Embrace Families, Inc. Embrace Families, Inc. has in part utilized the profits/distributions from Integrated Health to fund higher compensation for Management. This compensation may not have been allowable/possible otherwise. 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 Department should consider further investigating whether Management’s bonus compensation constitutes an inurement of the organizations’ net earnings. The Department should also consider investigating whether the “founder share” award in Integrated Health was proper. 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.

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.”¹ The Department “shall deliver services by contract through private providers.”²

In or around 2011, the Florida Legislature initiated a comprehensive redesign of Florida’s child welfare system.³ 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.”⁴ The Department initiates a competitive process through which qualified community-based care organizations serve as lead agencies for foster care and related services.⁵ 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.⁶

Embrace Families Community Based Care, Inc. (formerly known as Community Based Care of Central Florida, Inc.) was established in 2001 and has functioned as the lead agency for Seminole County since 2004.⁷ In 2011, Embrace Families Community Based Care, Inc. took over as the lead agency for Orange and Osceola counties.⁸ In or around July 2019, the Department entered into a new contract with Embrace Families Community Based Care, Inc. to provide foster care and related services to Orange, Osceola and Seminole counties.⁹ The contract award for fiscal year 2019-2020 was \$74,726,571.¹⁰

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 Embrace Families Community Based Care, 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.

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

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

³ <https://www.myflfamilies.com/services/child-family/child-and-family-well-being/community-based-care> (accessed April 26, 2023)

⁴ Ibid.

⁵ Ibid.

⁶ CBC Lead Agency Contract Amounts FY 19-20.

⁷ Embrace Families Funding Profile.

⁸ Ibid.

⁹ CBC Lead Agency Contract Amounts FY 19-20.

¹⁰ Ibid.

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.¹¹ It is an organization's management that is responsible for the design, implementation of programs and controls to prevent, deter and detect fraud.¹² 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.

¹¹ AU Section 316, *Consideration of Fraud in a Financial Statement Audit*.

¹² *Ibid.*

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.

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.

Embrace Families Community Based Care, Inc. Forensic Examination Report

Brian Manuel, CPA, CFE

Brian Manuel has over 15 years of experience in public accounting for non-profit, closely held businesses, and state and local governmental organizations. Mr. Manuel specializes in planning, supervising and conducting audits and forensic examinations for a variety of organizations. Mr. Manuel also serves as president of the Tallahassee chapter of the Association of Certified Fraud Examiners.

Mr. Manuel 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. Manuel has also received the Certified Fraud Examiner designation. This forensic accountant designation is considered to be one of the most valuable forensic certifications. Holders of this forensic accountant designation are required to demonstrate a high level of knowledge and competence within the field of forensic accounting. A summary of Mr. Manuel's résumé and qualifications are included in Appendix A of this report.

Summary of Procedures Performed

1. Reviewed the Embrace Families Community Based Care, 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, Director of Revenue Management and Partner Compliance;
 - b. Annie Wang, Government Analyst;
 - c. Sumer Bray, Contract Manager;
 - d. Adam Maul, Contracts Supervisor;
 - e. Akeem Tory, Government Operations Consultant III; and,
 - f. Daniel Papka, Operations and Management Consultant III.
3. Conducted interviews with the following key personnel within Embrace Families Community Based Care, Inc. and its related companies to obtain an understanding of its operations, books and records:
 - a. Glen Casel, Chief Executive Officer, Embrace Families, Inc.;
 - b. Michael Bryant, Chief Operating Officer, Embrace Families, Inc.;
 - c. Catherine Macina, Chief Financial Officer, Embrace Families, Inc.;
 - d. Michael Margerum, Finance Director, Embrace Families, Inc.;
 - e. Susan Lowe, Network Support Director, Embrace Families, Inc.;
 - f. Denise Bower, Finance Director and Master Trust Director, Embrace Families, Inc.;
 - g. Angela Folger, Board Chair, Embrace Families, Inc.; and,
 - h. Peter Amico, Board Chair, Embrace Families Community Based Care, 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.

Embrace Families Community Based Care, Inc. Forensic Examination Report

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 Embrace Families Community Based Care, Inc.'s policies and procedures.
8. Reviewed invoices submitted by Embrace Families Community Based Care, 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 Embrace Families Community Based Care, 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 GJL58 (Contract), with Embrace Families Community Based Care, Inc. (Embrace Families CBC) in or around June 2019. The Contract established Embrace Families CBC 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 Orange, Osceola and Seminole counties. The Contract has been amended 14 times through the most recent amendment effective as of April 7, 2023. The Contract amendments primarily related to increases in the contract amount available to Embrace Families CBC. The Contract and associated amendments document the scope of work and services to be provided by Embrace Families CBC, the deliverables due to the Department during contract performance, the payment methodology and other special provisions as defined within the Contract and its amendments.

Embrace Families Community Based Care, Inc. Forensic Examination Report

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, Embrace Families CBC 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 the five year term was \$352.09 million. As of April 7, 2023, the contract amount was amended and increased to \$423.30 million, which is an increase of \$71.21 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.¹³ Lead agencies may also receive "Back of the Bill" funding from the Florida Legislature.

Lead agencies, including Embrace Families CBC, 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 Embrace Families CBC including training, resource development, performance reviews, financial reviews and program monitoring. The interviews also provided us with an understanding of the primary individuals within Embrace Families CBC that represent it in communications and submission of deliverables to the Department.

The Department provided an overview of the GJL58 contract with Embrace Families CBC. The Department also provided an overview of the Embrace Families CBC operations. The Department indicated that Embrace Families CBC is part of a "family of companies" that include Embrace Families, Inc., Embrace Families Solutions, Inc. (Solutions) and Embrace Families Foundation, Inc. (Foundation). The Department also noted two other related entities in the "family," Community Based Care Integrated Health, LLC (Integrated Health) and CBC Casualty Insurance Limited (Casualty Insurance).

The Department's primary interaction with Embrace Families CBC 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

¹³ <https://www2.myflfamilies.com/service-programs/child-welfare/kids/publications/risk-pool-reports.shtml> (accessed April 26, 2023).

Embrace Families Community Based Care, Inc. Forensic Examination Report

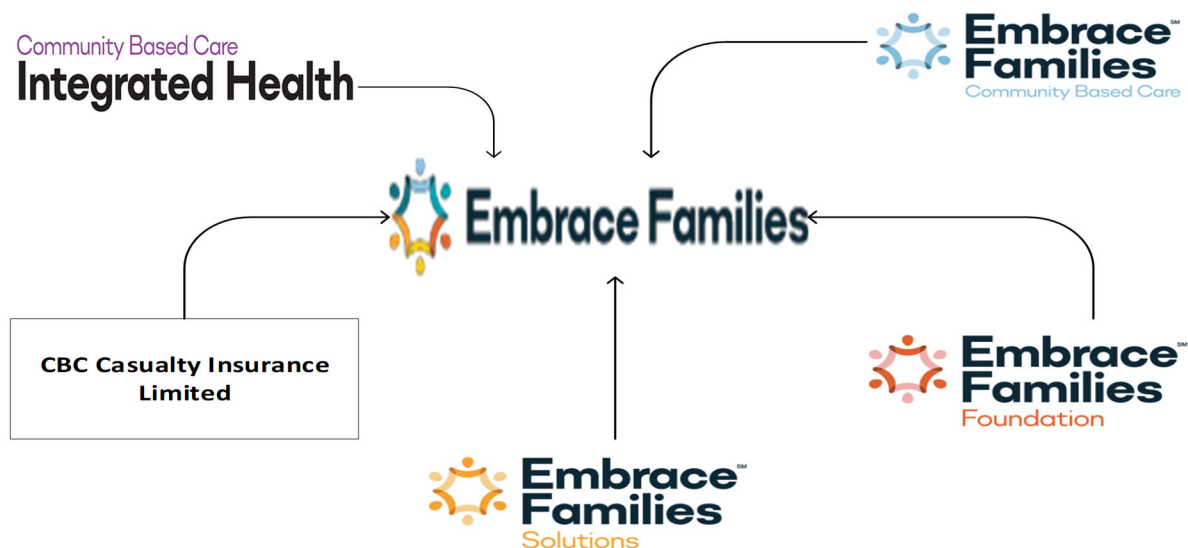
and Detail Report, which contains the actual programmatic expenditures at the participant level managed within Florida Safe Families Network (FSFN). The Department also receives and reviews the program budget and cost allocation plan submitted by Embrace Families CBC at the start of each fiscal year. 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." Embrace Families CBC was identified within the OIG report as having various related party relationships including with Embrace Families, Inc., which provides contracted management and administrative services to its related organizations.

Finding 3

Understanding of Embrace Families

The interviews provided us with an understanding of the Embrace "family of companies" books, records and policies and procedures. The interviews also provided us an understanding of how Embrace Families CBC conducts the CBC programs within the Contract scope and how it operates within the "family of companies." Embrace Families CBC operates within the aforementioned "family of companies" that include Embrace Families, Inc., Solutions, Foundation, Integrated Health and Casualty Insurance. Other entities exist within the "family of companies" but had minimal or no activity during the review period per Embrace Families, Inc. personnel. Embrace Families, Inc. functions as the "administrative and management company" for the "family of companies" including executive management.¹⁴ As such, each organization pays a management fee to Embrace Families, Inc. A graphical depiction of the primary entities within the Embrace "family of companies" is presented below.



¹⁴ Embrace Families CBC Response to inquiries from the Department dated April 16, 2021.

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With the exception of Integrated Health and Casualty Insurance, these entities are Florida not-for-profit corporations designated as 501(c)(3) organizations under the Internal Revenue Code. Integrated Health is a for-profit, Florida limited liability company, and Casualty Insurance is a limited liability company organized in the Cayman Islands. The Embrace “family of companies” maintain its books and records within Microsoft Dynamics, an accounting software. The books and records for the “family of companies” are separated and tracked by utilizing specific company codes, cost centers, program codes, etc.

As non-profit organizations, Embrace Families, Inc., Embrace Families CBC, Solutions and Foundation do not have members, shareholders, etc. However, Embrace Families, Inc. consolidates its audited financial statements with Embrace Families CBC, Solutions and Foundation. Embrace Families, Inc.’s audited financial statements refer to Embrace Families CBC, Solutions and Foundation as its subsidiaries and state that Embrace Families, Inc. “acts as a parent company.” The respective audited financial statements for Embrace Families CBC, Solutions and Foundation refer to themselves as “wholly owned [subsidiaries] of Embrace Families, Inc.” Integrated Health is referred to by Embrace Families, Inc. and Integrated Health’s audited financial statements as being a related party.

The current structure of the Embrace “family of companies” arose in or around 2013. Previous to 2013, only one organization was in operation, which was Embrace Families CBC (formerly known as Community Based Care of Central Florida, Inc.). In a communication to the Department dated June 26, 2013 from Embrace Families CBC, the purpose of the reorganization/creation of the “family of companies” was to “enhance our mission and service to our kids.” “The opportunity at the doorstep is the Health/Mental Health Care Medicaid ITN which necessitated us to rethink how we should be structured.” The Invitation to Negotiate (ITN) referenced here relates to the eventual agreement between Integrated Health and Sunshine State Health Plan, Inc. (Sunshine Health) to manage Florida Medicaid services within Sunshine Health’s Child Welfare Specialty Plan.

Per discussion with Mr. Glenn Casel, Chief Executive Officer (CEO) for the related/“family of companies,” the reorganization/creation of the “family of companies” was solely due to the opportunity with Sunshine Health. Due to the reorganization/creation of the “family of companies,” the executive management team, administrative services, etc. was transitioned into Embrace Families, Inc., which resulted in the subsidiary organizations contracting with Embrace Families, Inc. to provide the same services. The reorganization/creation of the “family of companies” is discussed in greater detail within Finding 6 of this report.

Understanding of Embrace Families CBC

Embrace Families CBC is a wholly owned subsidiary of Embrace Families, Inc. As previously indicated, Embrace Families CBC serves as the lead agency for child welfare services in Orange, Osceola and Seminole counties, working to ensure the safety, permanency and well-being of children served by child welfare. The core programs provided by Embrace Families CBC 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.

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After the planning work is performed in conjunction with the Department that identifies the services needed by the applicable population, Embrace Families CBC'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 Embrace Families CBC are delivered through third-party providers/subcontractors, who have contracted directly with Embrace Families CBC. Once a provider has been identified and contracted, Embrace Families CBC will monitor the delivery of the contracted services to ensure the services meet the requirements established in the Contract between the Department and Embrace Families CBC as well as the policies established by Embrace Families CBC.

Embrace Families CBC'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 Embrace Families CBC's management includes performance of a risk assessment for each individual contract and performance of monitoring activities at least once every three years.

Related party services provided to Embrace Families CBC by Embrace Families, Inc. include contracted management services, direct operational support services, and technology and supporting services. Related party services provided by Solutions to Embrace Families CBC include contracted network provider services and Medicaid care coordination services. Related party services provided by the Foundation to Embrace Families CBC include community impact services and communications, marketing and public relation services. Embrace Families CBC also engages in other related party transactions with the aforementioned "family of companies." These related party services are discussed in further detail in Finding 6 of this report.

Understanding of Embrace Families, Inc.

As previously indicated, Embrace Families, Inc. acts as the parent organization of Embrace Families CBC, Solutions and Foundations. Embrace Families, Inc. provides primarily management and administrative services to its self-defined subsidiaries and Integrated Health. Embrace Families, Inc. also provides certain staffing services (including executive management services) to Embrace Families CBC, Solutions, Foundation and Integrated Health. In addition to the contracted management and administrative services provided as well as the staffing services provided by Embrace Families Inc., Embrace Families, Inc. also provides information and technology services to the "family of companies."

Understanding of Solutions

Solutions is a wholly owned subsidiary of Embrace Families, Inc. and was incorporated “to improve the well-being of vulnerable children and their families through community-driven solutions.”¹⁵ Solutions provides services funded via individual contributions, grants or related party contracts, including contracts with Embrace Families CBC. Program services provided by Solutions include a system of care involving case management, access to therapeutic services, diagnostic services, financial stability programs and child victim services including advocacy and related support. Solutions also provides financial needs-based assistance for housing and household-stabilizing support and provides career development and educational enrichment for vulnerable and/or disconnected youth populations.

Understanding of Foundation

The Foundation is a wholly owned subsidiary of Embrace Families, Inc. and was incorporated “to support efforts which aim to enhance the well-being of children, families and other vulnerable populations.”¹⁶ The Foundation manages and maintains the Child Welfare Specialty Plan Reinvestment Fund (the CWSP Fund) acting as a fiduciary agent for the CWSP Fund. The Foundation’s operating activities include marketing, management and administrative services related to community relations and community relations support services primarily to the “family of companies.”

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).¹⁷ Integrated Health is partially owned by the “family of companies” through a 35% ownership interest held by Embrace Families, Inc. and a 3% ownership interest held by Embrace Families CBC.¹⁸ 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.

Understanding of Casualty Insurance

CBC Casualty Insurance Limited is a limited liability company organized in the Cayman Islands, whose purpose is to pay insurance liability claims that are not covered by a participating member’s primary insurance carrier. Embrace Families, Inc. has a 16.67% investment in Casualty Insurance. The remaining ownership interest is held equally among five other CBC organizations in Florida. Embrace Families CBC did not directly make premium payments to Casualty Insurance during the review period and Casualty Insurance reported minimal net income.

¹⁵ Embrace Families Solutions, Inc. Financial and Compliance Report for the year-ended June 30, 2021.

¹⁶ Embrace Families Foundation, Inc. Financial and Compliance Report for the year-ended June 30, 2021.

¹⁷ Community Based Care Integrated Health, Inc. Financial Report for the year-ended June 30, 2021.

¹⁸ It should be noted that Embrace Families CBC’s ownership interest in Integrated Health may vary from year to year depending on the sale/purchase of membership units in Integrated Health by the CBCs.

Finding 4

Review of General Ledgers and Financial Records

We reviewed Embrace Families CBC'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

Embrace Families CBC 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. Embrace Families CBC's procurement policies and procedures were established by Embrace Families, Inc. and apply to each organization within the "family of companies." Embrace Families, Inc. reviews the procurement policies and procedures at the beginning of every fiscal year in accordance with the Contract. Per its Contracts and Grants Policy, the Embrace "family of companies" is to "ensure compliance with fiscal requirements of funding sources whether public or private," and contract and grants must be in compliance with "federal or state contract requirements and Embrace Families' policies and procedures."

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 Embrace Families CBC. The procurement policies and procedures state that Embrace Families will make a "case-by-case determination whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a sub-recipient or a contractor." The procurement policies and procedures define several allowable procurement methods including: micro-purchases for goods/services less than \$3,500; small purchases for goods/services less than \$250,000; sealed bids for contracts above \$150,000; competitive proposals for contracts above \$250,000; and, non-competitive proposals for the contracting of goods/services not feasible under the other identified procurement methods.

Non-competitive proposals for contracting of goods/services and exceptions to the approved procurement process are defined under the following categories: emergency purchases; single source purchases; funder authorizes an exemption to the competitive procurement; attempted competition with no response; and, specific approval by a member of the executive management team upon the completion of the Embrace Families' Non-Competitive Procurement form. Regarding an additional use of the non-competitive procurement form, the procurement policies and procedures also state that contracts can be assigned to other entities within the "family of companies" after a reasonable cost estimate is performed and a non-competitive procurement form is completed, but the assigned contract must still meet the specific client eligibility criteria required by the applicable funding source.

For competitive proposals, the approved procurement policies and procedures note that the applicable organization's procurement file will include the following:

- i. Cost or Price Analysis for bids in excess of the Simplified Acquisition Threshold of \$250,000;
- ii. Public notice;
- iii. Copy of request for proposal (including technical requirements, statement of work, cost requirements and evaluation criteria);

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- iv. Proposals Submitted;
- v. Evaluation of Proposals;
- vi. Board Approval of Contracts (not applicable per Embrace Families Board Resolution); and,
- vii. Fixed Price or Cost Reimbursement Contract awarded to responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

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

Contract Procurement for Non-Related Entities

A haphazard selection of seven non-related party sub-recipients and contractors receiving annual payments in excess \$250,000 from Embrace Families CBC was made to determine Embrace Families CBC’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. A summary of the sampled non-related parties and the corresponding results are presented in the below table.

Sampled Entities	Signed Contract	Invoices	Public Notice/ Solicitation	Budget/ Cost Price Analysis	Consideration of Multiple Applicants
One Hope United, Inc. ¹⁹	X	X	X	X	X
On Site Medical Services, Inc.	X	X	X	X	X
IMPower, Inc.	X	X		X	
Adventurous Analytics, LLC	X	X	X		
Adolescent Life Coaching Center, Inc.	X	X			
The Key Haven Group Home, Inc.	X	X			
Gulf Coast Jewish Family and Community Services, Inc.	X	X	X	X	X

The Embrace “family of companies” management (Management) indicated that several of the above sampled entities had been providing services to Embrace Families CBC for several years. As such, procurement for these services had not been performed during the review period for these entities. CRI subsequently requested the underlying procurement documentation for these entities. As identified in the above table, Management was unable to produce sufficient procurement documentation for three of the seven sampled entities. For Adventurous Analytics, LLC, Management produced procurement documentation, but no documentation was retained/provided regarding the consideration of other applicants, if there were any, or a budget/cost price analysis. Additionally, no documentation was provided to indicate that Management sole-sourced Adventurous Analytics, LLC.

As identified above, Embrace Families CBC entered into *new* contracts with three entities where no procurement documentation was produced. The existence of new contracts was supported by newly defined contract periods, newly defined contract renewal periods, lack of referral to prior contracts,

¹⁹ The contracted services for One Hope United, Inc. were resolicited during the review period. One Hope United, Inc. was previously contracted by Embrace Families CBC to provide similar services prior to the re-solicitation in late 2019. Although requested, Embrace Families did not produce documentation that the previous One Hope United, Inc. contract was properly solicited and included the consideration of multiple applicants.

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etc. For example, there were two separate contracts for IMPower, Inc. for fiscal year 2020 and 2021. No solicitation documentation was provided by Management for either contract, and no solicitations for these services were identified as being posted to Embrace Families CBC's website per review of the available internet archives. During an interview with Ms. Susan Lowe, Network Support Director for Embrace Families, Inc., CRI asked a series of questions regarding contract renewals versus new contracts. Ms. Lowe confirmed that Embrace Families CBC does not generally release new solicitations for existing vendors when the contract terms (including renewals) end unless Embrace Families CBC is unhappy with a vendor's performance, needs a new vendor or a new service. Per Ms. Lowe, exceptions to this would include the larger case management contracts, which are resolicited at the end of the contract terms. Ms. Lowe also stated that documentation of the public posting of any solicitations were maintained in the procurement files. However, Management did not provide any documentation of these public postings to CRI to confirm that the solicitations were properly posted.

Embrace Families CBC 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. Embrace Families CBC appears to recognize within its procurement policies and procedures that new contracts must follow the requisite procurement process by stating that "Embrace Families will include renewal and contract extension options in all contracts to minimize system of care and provider changes for our children and families and lengthen the time between procurements as an efficiency." Embrace Families CBC may also not have properly procured Adventurous Analytics, LLC's services. Based on the foregoing information, certain Embrace Families CBC contracts that were renewed via a new contract are not in compliance with federal/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. This CFR section also states "noncompetitive procurements can only be awarded in accordance with §200.320(c)." 2 CFR Part 200.320(c) states that a "noncompetitive procurement can only be awarded if one or more of the following [5] circumstances apply:"

- 1) "The acquisition of property or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold...;
- 2) The item is available only from a single source;
- 3) The public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation;
- 4) The Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity; or,
- 5) After solicitation of a number of sources, competition is determined inadequate."

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As previously indicated, Embrace Families CBC contracts with the various other entities within the Embrace “family of companies” for certain goods/services. In prior inspector general/audit reports conducted by the State as well as during interviews with certain board members, the Embrace “family of companies” have disputed certain characterizations of the Embrace “family of companies” relationships as being related parties, having parent-child relationships, etc. This is despite Embrace Families, Inc.’s audited financial statements continually referring to Embrace Families CBC, Solutions and Foundation as its subsidiaries and stating that Embrace Families, Inc. “acts as a parent company” even after Embrace Families, Inc. has disputed these characterizations. The Embrace “family of companies” have also continually reported each other as “Related Tax-Exempt Organizations” on their respective Forms 990, Return of Organization Exempt From Income Tax.

2 CFR Part 200.318 requires non-Federal entities with a parent, affiliate or subsidiary organization to maintain written standards of conduct covering organizational conflicts of interest. This CFR section further defines organizational conflicts of interest as follows: “because of relationship 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.” Based on the foregoing information as well as applicable federal/state laws, regulations, etc., 2 CFR Part 200.318 and the organizational conflicts of interest apply to Embrace Families CBC and its “family of companies.”

Embrace Families CBC’s procurement policies and procedures state that “Embrace Families has established 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 our agency, its staff, its Board of Directors, and its subcontractors.” Beyond Embrace Families CBC’s conflict of interest policies as they relate to related party transactions, it is unclear what other uniform and consistent policies have been established by Embrace Families CBC for related party transactions. In interviews with Management including Ms. Lowe and Mr. Michael Margerum, Finance Director of Embrace Families, Inc., Management stated that there is not a difference between the procurement process for related and non-related entities. The procurement of these related entity contracts are discussed in the following sections of this report.

Contract Procurement for Related Entities – Embrace Families, Inc.

As previously indicated, Embrace Families CBC has contracted with Embrace Families, Inc. to provide management and administrative services. These services include, but are not limited to, executive management services, human resources support services, finance support services, information technology support services and operational consulting services. Embrace Families, Inc. bills Embrace Families CBC for shared direct expenses and an administrative services rate, which varied during the review period.

Embrace Families CBC and Embrace Families, Inc. entered into a new contract effective July 1, 2020 for the aforementioned management and administrative services. Per discussion with Ms. Lowe, this contract was not an amendment or renewal of the prior contracts. Ms. Lowe indicated that the new contracts were generally due to an expansion of services, and the new contract would effectively terminate the old contract. CRI requested documentation reflecting Embrace Families CBC compliance with its procurement policies and procedures including, but not limited to, solicitations, cost price analysis, public notices, etc. No such documentation was provided.

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In response to the Florida Auditor General's inquires for documentation in or around April 2016, Management stated the following:

"In regards to competitive procurement, the Agreement with CBC of Central Florida– Holdings [now Embrace Families, Inc.] was not competitively procured. Holdings was created to work with CBCCF [now Embrace Families CBC] and included the same management and administrative personnel and structure; seeking proposals was never pondered or intended. There would have been no benefit to the State, the Department or CBCCF in such a process. If CBCCF had tried to contract for these services with an independent, unrelated third party, the terms would be less favorable. The intent throughout our structural transition was for Holdings to administratively support CBCCF and ultimately expand its services to reduce the administrative overhead costs charged to the Department's contracts. This design and intent was reviewed by DCF. Now that the structure has been implemented, CBCCF and its Board of Directors review and approve the Agreement and costs annually and can, at their discretion, change or reject the Agreement."

"CBCCF would like to emphasize the care and transparency taken with the Department throughout our transition to our current structure in 2013. Our efforts have always been to operate as a partner with DCF. We met with both Regional and Headquarter staff of DCF prior to these changes. In addition, we shared all impacted amendments and documents, including the Management Agreement between Holdings and CBCCF, with our partners at DCF. Further, DCF was an open part of the planning and implementation into our current structure and specifically was included in the administrative design. Further, DCF conducted a legal review of our proposal and even recommended changes to our proposed bylaws. As a result, CBCCF further revised our bylaws to ensure structural agreement with DCF. At no time during the planning and implementation process were concerns raised that CBCCF was not prepared or willing to address. Though we welcome this continued dialogue and review, we wish to reiterate that we have always worked in partnership with the State and with the best interests of our clients front and center." (emphasis added in bold).

Both Mr. Glen Casel, Chief Executive Officer (CEO) of Embrace Families, Inc., and Ms. Catherine Macina, Chief Financial Officer (CFO) of Embrace Families, Inc., indicated that the Department and the respective board of directors are fully aware and approved the related party transactions including, but not limited to, the management and administrative services contract between Embrace Families CBC and Embrace Families, Inc. CRI inquired when this approval was granted and whether it was documented. Management indicated that the Department reviews and approves of these related party services via the annual cost allocation plan that is submitted to and approved by the Department. Management also stated that "while our structure was new to DCF and the State, we have openly shared information before, during and after our structural change. We included administrative information in our bid to DCF for our contract procurement. We negotiated and continue to negotiate our administrative rate. We are committed to reducing administrative rate over the entire 10 years of our current contract. And we have endured multiple reviews by DCF and the Legislature to ensure our proper operation."

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CRI also inquired with the Department regarding whether the Department granted/approved any waivers to the competitive procurement process for Embrace Families CBC. The Department identified a June 27, 2013 correspondence from Mr. Casel explaining the proposed organizational changes to the Department. The Department was unable to locate any correspondence or documentation allowing Embrace Families CBC to waive the competitive procurement process.

Although the Department has been aware of the related party contracts and approves the annual cost allocation plan, this “approval” does not meet the requirements of 2 CFR Part 200.318/319/320. As previously indicated, 2 CFR Part 200 provides for exceptions to the required competitive procurement process. The only potential applicable exceptions here relate to single source procurement and an *express* authorization from the Department for a noncompetitive procurement. The single source procurement and competitive procurement waiver would have to be completed for each new contract including the contract effective July 1, 2020. Based on the foregoing information, Embrace Families CBC did not follow its own procurement policies and procedures related to its contract with Embrace Families, Inc., and the procurement of this contract does not comply with the applicable federal/state laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320.

In addition to the management and administrative services provided to Embrace Families CBC, Embrace Families, Inc. also provides direct operations support services related to the Department’s Contract, and technology and shared operational services. Management has not provided a cost price analysis related to these services, and Management has not provided documentation of an approved non-competitive procurement. Thus, these services also do not comply with the applicable federal/state laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320. During the review period, the amount of services provided by Embrace Families, Inc. not in compliance with the applicable federal/state laws, rules, regulations, etc. total \$12,282,830.43. Of this amount, the total amount charged to the Department’s Contract totaled \$12,007,014.50.

Contract Procurement for Related Entities – Solutions

Solutions provides direct services to Embrace Families CBC through executed contracts. For the contracted services provided by Solutions during the review period. Management has not provided a cost price analysis related to these services, documentation of competitive procurement and/or documentation of an approved non-competitive procurement. Similar to the above finding related to the Embrace Families, Inc. contract, Embrace Families CBC did not follow its own procurement policies and procedures related to its contracts with Solutions, and the procurement of these contracts does not comply with the applicable federal/state laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320.

Solutions also provides Medicaid care coordination services in relation to Embrace Families CBC’s contract with Integrated Health. As discussed in further detail in subsequent sections of this report, the Medicaid care coordination services are classified by Embrace Families CBC as non-Department related funds. The Medicaid care coordination services provided by Solutions during the review period have not been defined within any contract provided by Management. Management has also not provided a cost price analysis related to these services, documentation of competitive procurement or documentation for an approved non-competitive procurement.

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During the review period, the amount of services provided by Solutions to Embrace Families CBC not in compliance with the applicable federal/state laws, rules, regulations, etc. total \$2,033,595.31. Of this amount, the total amount charged to the Department's Contract totaled \$1,043,704.81.

Contract Procurement for Related Entities – Foundation

The Foundation provides contracted community impact and communications, marketing and public relation services to Embrace Families CBC. For the contracted services provided by the Foundation during the review period, Management has not provided a cost price analysis related to these services, documentation of proper/competitive procurement for contracts less than \$250,000 and/or documentation of an approved non-competitive procurement. Similar to the above finding related to the Embrace Families, Inc. and Solutions contracts, Embrace Families CBC did not follow its own procurement policies and procedures related to its contracts with the Foundation, and the procurement of these contracts does not comply with the applicable federal/state laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320. During the review period, the amount of services provided by Foundation to Embrace Families CBC not in compliance with the applicable federal/state laws, rules, regulations, etc. total \$535,200.61. Of this amount, the total amount charged to the Department's Contract totaled \$385,200.65.

Paycheck Protection Program Analysis – Embrace Families CBC

On or around April 6, 2020, Embrace Families CBC applied for a Paycheck Protection Program (PPP) loan under the rules/guidelines established by the U.S. Small Business Administration (SBA).²⁰ Embrace Families CBC was approved and issued a PPP loan totaling \$1,028,572.47 on April 17, 2020.²¹ On July 12, 2021, Embrace Families CBC received forgiveness for the full PPP loan amount of \$1,028,572.47.²²

The intended purpose of the PPP was to assist businesses and organizations in maintaining employment levels during the economic uncertainty caused by the Novel Coronavirus (COVID-19), which was characterized as a pandemic by the World Health Organization in March 2020.²³ Loans issued under the PPP were designed to be forgiven if the loan recipient utilized the funds for payroll and other specific costs as well as met certain employee retention criteria.²⁴

The majority of Embrace Families CBC's activities are funded fully or in part by Federal, State and/or Local grants. The primary source of revenue for Embrace Families CBC is its Contract with the Department, which represents 96.5% of its \$86 million reported revenue per Embrace Families CBC's 2021 audited financial statements. Embrace Families CBC's Contract with the Department is in part based on cost reimbursement, wherein Embrace Families CBC must incur allowable costs to be allocated to the Contract and submitted for reimbursement. Costs offset by other funding sources are not allowed to be allocated to the Contract.²⁵

²⁰ Embrace Families CBC Paycheck Protection Program, Borrower Application Form.

²¹ Embrace Families CBC SBA Loan Note.

²² Embrace Families CBC SBA Notice of PPP Forgiveness Payment.

²³ <https://www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program/first-draw-ppp-loan> (accessed April 26, 2023)

²⁴ Ibid.

²⁵ Contract GJL58, Section 3.

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After Embrace Families CBC received notice of full PPP loan forgiveness in July 2021, Embrace Families CBC prepared an allocation indicating that \$718,623.37 (or 69.87%) of the PPP loan forgiveness related to the Department's Contract. As such, Embrace Families CBC reclassified \$718,623.37 in Department related payroll costs to a non-Department OCA. This reclassification allowed Embrace Families CBC to separately track these funds and avoid using the Department's Contract funds to reimburse costs already offset/paid for by the PPP loan forgiveness. CRI did not review Embrace Families CBC's initial calculation related to the \$718,623.37 PPP allocation to Department Contract funds for reasonableness.

Per Management, the Department requested that Embrace Families CBC credit the entire PPP loan forgiveness to the Department Contract funds. Embrace Families CBC agreed and reclassified the remaining \$310,030.65 in Department related payroll costs to the same non-Department OCA. CRI did not conduct an analysis to consider the impact of the PPP loan forgiveness and its treatment by Embrace Families CBC on other governmental funding sources outside of the Contract.

The above is supported by the Department's Risk Pool Peer Review Committee Report regarding Embrace Families CBC's application for risk pool funding for fiscal year 2020-2021. This report stated that "EFCBC received \$1,028,572 in Paycheck Protection Program (PPP) funds on April 17, 2020...Once the PPP loan is forgiven, EFCBC will record this as grant income in a separate non-DCF Cost Center...EFCBC will then reclassify allowable expenses from DCF to the non-DCF Cost Center to offset the revenue received. This action will result in a credit to DCF in the month of reclassification." Based on the foregoing information, the Department was appropriately credited for Embrace Families CBC's PPP loan forgiveness.

Paycheck Protection Program Analysis – Embrace Families, Inc.

As previously indicated, Embrace Families, Inc. provides management, administrative and other services to Embrace Families CBC and the other related entities. Embrace Families, Inc. charges fees for these services to Embrace Families CBC and the other related entities. For Embrace Families CBC, Embrace Families, Inc. bills Embrace Families CBC an administrative/management percentage fee for its indirect costs. Embrace Families, Inc. also bills Embrace Families CBC cost reimbursement for shared direct operating expenses. For the administrative/management percentage fee, Embrace Families CBC annually reports the proposed administrative rate to the Department for approval as part of its annual cost allocation plan. At the end of each fiscal year, Embrace Families, Inc. prepares a reconciliation of actual costs incurred in delivering the administrative/management services to Embrace Families CBC to document that the management fee charged did not exceed actual cost incurred. If actual costs are lower than the charged management fee, the Contract is credited for the difference.²⁶

Both the management fee and the shared direct operating expenses billed to Embrace Families CBC by Embrace Families, Inc. include payroll related expenses. These payroll expenses relate to personnel employed directly by Embrace Families, Inc. These Embrace Families, Inc. employees may have time that is directly and/or indirectly allocable to Embrace Families CBC, and the applicable costs are allocated/billed to Embrace Families CBC accordingly.

²⁶ Embrace Families CBC Response to inquiries from the Department dated April 16, 2021.

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On or around April 6, 2020, Embrace Families, Inc. applied for a PPP loan under the rules/guidelines established by the SBA.²⁷ Embrace Families, Inc. was approved and issued a PPP loan of \$1,130,816.97 on April 20, 2020.²⁸ On August 4, 2021, Embrace Families, Inc. received forgiveness for the full loan amount of \$1,130,816.97.²⁹ Although a substantial amount of Embrace Families, Inc.'s payroll costs are billed directly or indirectly to Embrace Families CBC, no credit was provided to Embrace Families CBC or the Contract for the payroll costs funded by Embrace Families, Inc. PPP loan.

Upon initial inquiry with Ms. Macina regarding the Embrace Families, Inc. PPP loan, Ms. Macina indicated that Embrace Families, Inc. had not yet considered how the Embrace Families, Inc.'s PPP loan forgiveness would impact the fees billed by Embrace Families, Inc. to Embrace Families CBC. Ms. Macina indicated that Management would be consulting with its external auditors on how to appropriately treat the Embrace Families, Inc.'s PPP loan forgiveness.³⁰ Upon further inquiry, Mr. Casel sent a memorandum on March 24, 2023 titled *Narrative for PPP Loan Forgiveness and DCF Allocation*, which in part stated the following:

“[Embrace Families, Inc.] received \$1,130,816.97 [in PPP funds]. However, [Embrace Families, Inc.] funded [Embrace Families CBC] \$1,000,000.00 in 2020 and has since funded an additional \$3,500,000. Our auditors have asked us to record the [Embrace Families, Inc.] PPP funds that were forgiven as Grant income; not to offset expenses directly. We are working with our auditors to ensure we follow GAAP and SBA requirements for the treatment of PPP Loans and Forgiveness Awards. DCF is fully aware of the financial (cash) support [Embrace Families, Inc.] has given [Embrace Families CBC] since the pandemic and has accepted our annual submission of Administrative Funds without question.”

CRI requested and analyzed Embrace Families, Inc.'s PPP loan application. Within the data provided by Management, CRI noted that Embrace Families, Inc.'s full payroll costs were utilized to maximize Embrace Families, Inc.'s PPP loan. As such, Embrace Families, Inc. payroll costs that were directly and/or indirectly allocable/billed to Embrace Families CBC were included in Embrace Families, Inc.'s PPP loan application. Embrace Families, Inc. did not provide its supporting documentation that reflected which payroll costs were utilized in the PPP forgiveness calculations.

During an interview with Mr. Casel on April 27, 2023, Mr. Casel confirmed that the Embrace Families, Inc. PPP loan forgiveness was not allocated to Embrace Families CBC or the other related entities. Mr. Casel stated that he did not believe any portion of the PPP loan forgiven within Embrace Families, Inc. needed to be offset against payroll or allocated against its management contracts as all conditions of the PPP loan forgiveness were met previously. During this interview, CRI provided an example of the payroll allocation process and further inquired why Mr. Casel believed that the PPP funds *should not* offset the payroll costs allocated to its “family of companies,” specifically Embrace Families CBC. Mr. Casel was adamant in his response to these questions that the PPP loan forgiveness requirements were met and there should be no payroll cost offsets to Embrace Families CBC due to the Embrace Families, Inc.'s PPP loan forgiveness.

²⁷ Embrace Families, Inc. Paycheck Protection Program, Borrower Application Form.

²⁸ Embrace Families, Inc. SBA Loan Note.

²⁹ Embrace Families, Inc. SBA Notice of PPP Forgiveness Payment.

³⁰ It is important to notate that the audited financial statements for Embrace Families CBC for fiscal year 2021-2022 were issued on the same day that this conversation occurred with Ms. Macina.

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During an interview with Ms. Macina the following day on April 28, 2023, Ms. Macina stated Embrace Families, Inc. was still going through the process of allocating Embrace Families, Inc.'s PPP loan forgiveness across payroll allocated to its subsidiaries and its management agreements. Ms. Macina noted that Embrace Families, Inc. was working in conjunction with its independent auditor to determine the appropriate allocation methodology. During this interview, CRI provided an example of the payroll allocation process and further inquired if Ms. Macina believed that the PPP funds *should* offset the payroll costs allocated to its "family of companies," specifically Embrace Families CBC. Ms. Macina confirmed that there would be an offset of the payroll costs allocated to Embrace Families CBC in fiscal year 2022-2023, which would act as a credit to the Contract. Ms. Macina indicated that the amount that would be allocated/credited to Embrace Families CBC/Contract was still being determined.

During this interview with Ms. Macina, CRI noted that Ms. Macina's answer regarding the Embrace Families, Inc. PPP loan forgiveness being allocated to Embrace Families CBC was markedly different than Mr. Casel's responses to the same questions the day prior. Ms. Macina stated that while she was not involved in Mr. Casel's interview to know exactly what was asked, Ms. Macina indicated that Mr. Casel may have not fully understood CRI's questions related to the Embrace Families, Inc. PPP loan forgiveness. Ms. Macina also stated that Mr. Casel was aware that there would be some future allocation/credit to Embrace Families CBC related to the Embrace Families, Inc. PPP loan forgiveness. In response to CRI's question regarding when these discussions with Mr. Casel occurred, Ms. Macina indicated that it was a few months ago. Ms. Macina further noted that Mr. Casel may have been considering that a portion of the Embrace Families, Inc. PPP funds had previously been loaned to Embrace Families CBC. This related party loan was made to meet certain cash deficits incurred within Embrace Families CBC.³¹

During the interview with Ms. Macina, CRI noted that the Embrace Families, Inc.'s PPP loan was funded in April 2020, the PPP loan was forgiven in August 2021, Embrace Families CBC's PPP loan forgiveness was credited to the Contract in fiscal year 2021-2022, yet as of April 28, 2023, Embrace Families, Inc. still had not performed or identified its PPP loan forgiveness allocable/creditable to Embrace Families CBC/the Contract. CRI further inquired whether Management had notified the Department of this pending credit. Ms. Macina indicated that she did not believe this had been communicated to the Department. The Department separately stated to CRI that it was not aware of this pending credit. The Department was also not notified of this pending credit by Embrace Families CBC in its application for risk pool funding for fiscal year 2020-2021 nor on any of Embrace Families CBC's monthly/annual submissions to the Department.

As previously indicated, costs offset by other funding sources are not allowed to be allocated to the Contract. Section 22 of the Contract also states that the lead agency "shall return to the Department any overpayments due to unearned funds or funds disallowed that were disbursed" to the lead agency as well as any interest. On June 18, 2020, the Office of Management and Budget issued a memorandum regarding the extension of administrative relief for recipients and applicants of federal financial assistance directly impacted by the Novel Coronavirus (COVID-19) due to loss of

³¹ It should be noted that Embrace Families, Inc. charges Embrace Families CBC a nominal interest rate for these related party loans.

Embrace Families Community Based Care, Inc. Forensic Examination Report

operations.³² This memorandum/federal guidance stated that “payroll costs paid with the Paycheck Protection Program (PPP) loans or any other Federal CARES Act programs must not be also charged to current Federal awards as it would result in the Federal government paying for the same expenditures twice.” Since Embrace Families CBC receives significant pass-through federal funding via the Contract, Management did not comply with federal guidance on the allocation of Embrace Families, Inc.’s PPP loan nor with the Contract. As such, Embrace Families CBC overbilled the Department.

Due to the absence of an allocation methodology from Management and a lack of documentation provided by Management related to the Embrace Families, Inc. PPP loan forgiveness, we were unable to determine the specific amount of overbilling by Embrace Families CBC to the Contract related to the Embrace Families, Inc.’s PPP loan forgiveness. Per Embrace Families, Inc.’s payroll register for fiscal year 2020-2021, Embrace Families, Inc.’s total gross pay for its employees totaled \$6,748,312.41. Of this amount, \$1,444,850 (or 21.41%) in gross pay was allocated to Embrace Families CBC via the management fee charged by Embrace Families, Inc. in fiscal year 2020-2021. Another \$1,678,000 (or 24.87%) in estimated gross pay was allocated to Embrace Families CBC via shared direct operating expenses for a total of \$3,122,850 (or 46.28%) in Embrace Families, Inc.’s estimated gross pay being allocated/billed to Embrace Families CBC for fiscal year 2020-2021. Based on the foregoing information, the estimated overbilling by Embrace Families CBC related to Embrace Families, Inc.’s PPP loan forgiveness is \$523,342, which is 46.28% of Embrace Families, Inc.’s PPP loan.

Finding 5

Analysis of Financial Reports - Budgets

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

During the review period, two fiscal year budgets were prepared by Management and approved by Embrace Families CBC’s Board of Directors. Embrace Families CBC also submitted two 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. Both versions of the budgets reviewed contained sufficient detail to segregate the Contract activity from other programs conducted by the CBC. As illustrated in the below table, the comparison of these budgets for each fiscal year resulted in the identification of lower budgeted Contract expenditures reported to the Department compared to the budgeted expenditures contained within Embrace Families CBC’s Board approved budget.

³² Office of Management and Budget, M 20-26.

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July 1, 2019 - June 30, 2020 Fiscal Year			
	Total Budgeted Revenue	Total Budgeted Expense	Budgeted Surplus/(Deficit)
CBC Board Approved Budget for Department Contract	\$ 75,016,104	\$ 75,508,793	\$ (492,689)
Contract Budget Submitted to the Department	74,726,571	74,726,571	-
Variance between Approved Budget and Department Budget	\$ 289,533	\$ 782,222	\$ (492,689)

July 1, 2020 - June 30, 2021 Fiscal Year			
	Total Budgeted Revenue	Total Budgeted Expense	Budgeted Surplus/(Deficit)
CBC Board Approved Budget for Department Contract	\$ 77,319,582	\$ 82,290,476	\$ (4,970,894)
Contract Budget Submitted to the Department	76,280,240	76,280,240	-
Variance between Approved Budget and Department Budget	\$ 1,039,342	\$ 6,010,236	\$ (4,970,894)

As identified in the above table, in both fiscal years, both the budgeted revenue and expenditures approved by the Embrace Families CBC Board exceeded the budgeted revenue and expenditures submitted to the Department. CRI inquired further regarding these variances to confirm our understanding. In response, Ms. Denise Bower, Finance Director for Embrace Families, Inc., stated that “the DCF Budget Reports will not match the Company Budget Reports because in both years more expenses were budgeted than [the] amount of DCF awarded funding.” In the December 12, 2019 Embrace Families CBC Board meeting, the Board discussed and approved a budget related to Department funds in excess of the contracted funds. Per the Board meeting minutes, Embrace Families CBC was working with the Department regarding the projected deficits and the corresponding plans and operational changes occurring. The Board meeting minutes further stated that “Embrace Families feels the reason is right for the deficit, the timing and positioning are right for child welfare and that the risk is reasonable and this is why it was brought to the F&A [Finance and Audit] committee to contemplate.”

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 Embrace Families CBC budgeting more in Department funding and expenditures than the contracted funds, Embrace Families CBC 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. This also presents questions regarding the lead agency’s management and administration of the Contract within the constraints of the contracted funding as well as its representations regarding the causes of deficits within the organization.

Analysis of Financial Reports – Audited Financial Statements

During the review period, external audits were completed annually for Embrace Families CBC by RSM US LLP, who also completes the external audits of Embrace Families, Inc., Solutions, Foundation and Integrated Health. The audited financial statements of Embrace Families, Inc. are prepared on a consolidated basis and include the operations of Embrace Families CBC, Solutions and Foundation.

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In the presentation of the audited financial statements of Embrace Families CBC, the Contract with the Department is included within three separate disclosures, none of which present current financial information in a format that represents the contract specific revenues or expenses for the respective fiscal year. The information disclosed related to the Contract with the Department include reference to the duration of the Contract including potential renewal, notation that future awards are conditional and contingent upon meeting requirements within the Contract, and information describing Embrace Families CBC's receipt of additional core funding and requests for risk pool assistance.

The audited financial statements of Embrace Families CBC as well as of the related entities contained disclosures of the related party activities including receipts, expenditures, receivables and payables between the Embrace "family of companies." A summary of the intercompany receipts and expenditures (rounded to the nearest thousandth) directly related to Embrace Families CBC as disclosed within the audited financial statements are presented below.

Related Entity Activity	2020		2021	
	Receipts	Expenditures	Receipts	Expenditures
Embrace Families, Inc.				
Management agreement and technical fees	\$ -	\$ 6,122,000	\$ -	\$ 6,161,000
Contributions received	98,000	-	-	-
Total Embrace Families, Inc.	\$ 98,000	\$ 6,122,000	\$ -	\$ 6,161,000
Solutions				
CBC contracted care coordination	\$ -	\$ 534,000	\$ -	\$ 509,000
Care coordination - Medicaid enrollment	-	472,000	-	518,000
Total Solutions	\$ -	\$ 1,006,000	\$ -	\$ 1,027,000
Foundation				
Marketing contract	\$ -	\$ 50,000	\$ -	\$ 100,000
Community impact contract	-	203,000	-	183,000
In-kind contributions	365,000	-	118,000	-
Total Foundation	\$ 365,000	\$ 253,000	\$ 118,000	\$ 283,000
Integrated Health				
Care coordination contract - Medicaid enrollment	\$ 472,000	\$ -	\$ 518,000	\$ -
Distribution of equity	40,000	-	140,000	-
Total Integrated Health	\$ 512,000	\$ -	\$ 658,000	\$ -
Total Related Party Activities within Embrace Families CBC	\$ 975,000	\$ 7,381,000	\$ 776,000	\$ 7,471,000

The notes to the audited financial statements of Embrace Families CBC did not specifically address the disbursement of funds from Embrace Families CBC to Solutions regarding the care coordination services provided by Solutions. These services were denoted within the notes to Solutions' audited financial statements. Since the Department only receives the audited financial statements of Embrace Families CBC, the lack of disclosure of this related party activity limits the Department's insight into these transactions. As delineated in subsequent sections of this report, Embrace Families CBC classifies the care coordination services as not being related to Department funding.

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Analysis of Financial Reports – Forms 990

Embrace Families CBC's Forms 990, Return of Organization Exempt From Income Tax, were analyzed for the review period. The Forms 990 were prepared by RSM US LLP, which also prepares the Forms 990 for the related entities (Embrace Families, Inc., Solutions and Foundation) as well as the Forms 1065, U.S. Return of Partnership Income, for Integrated Health. RSM US LLP also performs the annual financial statement audits and applicable single audits for each of the "family of companies." The Forms 990 filed for Embrace Families CBC contain only the operating activities of Embrace Families CBC, and no other entity activities are consolidated within the returns. 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.

Schedule J, Part II of each respective Form 990 filed for the review period delineate the base, bonus & incentive, retirement, and nontaxable compensation/benefits for officers, directors, trustees, key employees and highest compensated employees. For Embrace Families CBC, these employees include the President, Chief Operating Officer, Chief Financial Officer, Chief Legal Officer and the Vice President of Operations. The Vice President of Operations is the only reported employee that received compensation directly from Embrace Families CBC. The President and other executive officers are compensated directly from related organizations, specifically, Embrace Families, Inc.

Executive officer compensation reported by Embrace Families, Inc. and the other related entities correspond to the reported compensation within Embrace Families CBC'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. Embrace Families CBC properly reported Embrace Families, Inc., Solutions and Foundation as related tax-exempt organizations on its Forms 990, Schedule R filed during the review period. Neither Embrace Families CBC nor Embrace Families, Inc. reported Integrated Health as a related organization taxable as a partnership. This lack of disclosure is not consistent with Internal Revenue Service instructions/guidance.^{33, 34} Although Embrace Families does not have more than 50% ownership in Integrated Health, Integrated Health only has two managing members and Integrated Health's executive officers are the same as the other Embrace "family of companies." As such, there is deemed control of Integrated Health under Internal Revenue Service instructions/guidance and Integrated Health should have been reported as a related organization taxable as a partnership on the Forms 990. This lack of disclosure impacts the awareness and transparency of Integrated Health's relationship/transactions with the Embrace "family of companies."

³³ Department of the Treasury, Internal Revenue Service, Instructions for Schedule R (Form 990).

³⁴ <https://www.irs.gov/charities-non-profits/exempt-organizations-annual-reporting-requirements-form-990-schedule-r-meaning-of-control-for-organizations-with-owners> (accessed April 26, 2023).

Finding 6

Analysis of Administrative, Intercompany and Related Company Costs

As previously indicated, Embrace Families CBC operates within the aforementioned “family of companies” that include Embrace Families, Inc., Solutions, Foundation and Integrated Health. Embrace Families, Inc. is generally understood to function as the management entity within the “family,” Solutions is viewed as the service or program delivery arm within the “family,” Foundation is viewed as the public face of the “family,” Embrace Families CBC functions as the lead agency/provider for the Contract and Integrated Health oversees the Medicaid managed care services.

The Embrace “family of companies” share common policies and procedures, employees and various direct and indirect costs among the entities that comprise the “family of companies.” These shared costs include, but are not limited to, rent, utilities, executive management, finance, accounting, information technology, etc. Due to the nature of the shared costs, Embrace Families, Inc. generally functions as the payer for these shared costs. The shared costs are then allocated to the respective entities via intercompany (due to/from) accounts and the entities repay Embrace Families, Inc. for their respective shared cost allocations. As delineated by the below table, the executive management team consisting of the CEO, CFO and COO are the same for each entity within the Embrace “family of companies.” The executive management team is employed directly and paid by Embrace Families, Inc. and their compensation costs are then allocated/charged to the applicable entities.

Position	Embrace Families, Inc.	Embrace Families CBC	Solutions	Foundation	Integrated Health
Chief Executive Officer/President	Glen Casel	Glen Casel	Glen Casel	Glen Casel	Glen Casel
Chief Financial Officer	Catherina Macina	Catherina Macina	Catherina Macina	Catherina Macina	Catherina Macina
Chief Operating Officer	Michael Bryant	Michael Bryant	Michael Bryant	Michael Bryant	Michael Bryant

Analysis of Related Companies – Establishment and Complexity of “Family”

As previously described, the Embrace “family of companies” arose in or around 2013. Prior to 2013, only one organization (e.g., Embrace Families CBC) was in operation. Management described in communications to the Department that the purpose of the reorganization/creation of the “family of companies” was to “enhance our mission and service to our kids.” “The opportunity at the doorstep is the Health/Mental Health Care Medicaid ITN which necessitated us to rethink how we should be structured.” The Invitation to Negotiate (ITN) referenced here relates to the eventual agreement between Integrated Health and Sunshine State Health Plan, Inc. (Sunshine Health) to manage Florida Medicaid services within Sunshine Health’s Child Welfare Specialty Plan.

CRI inquired with Management regarding the purpose of the reorganization and the benefits of this structure. Certain members of Management described the reorganization as an opportunity to grow the Embrace “family,” specifically into other states that were considering community-based care models similar to Florida.³⁵ These members of Management also indicated that the reorganization allowed the sharing of costs among the entities; thereby, reducing the administrative costs on

³⁵ It should be noted that these members of Management were not employed or members of Management at the time of reorganization in or around 2013.

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Embrace Families CBC and its Contract. Management also indicated that there were no laws, rules, regulations, etc. that prevented it from providing these services under one organization. One board member indicated that the separation of the companies was valuable to potential donors that want more clarity regarding how their funding was being utilized.³⁶

During an interview with Mr. Casel, Mr. Casel stated that the reorganization into the “family of companies” was solely due to the opportunity with Sunshine Health. Mr. Casel’s statements align with Embrace Families CBC correspondence to the Department in June 2013. Mr. Casel also described the organizations within the “family of companies” as divisions of a larger organization. Mr. Casel’s description of the divisions was based on his prior experience with the Children’s Home Society, which was a single entity with several internal operating divisions. Each of the entities within the Embrace “family of companies” are established as separate legal entities. Management indicated that it is careful to respect the nature of these legal entities, but “in function the entities work towards a common purpose under a common organizational and management structure.”

Each entity within the “family” has its own board members. Although there are “separate” boards established for each entity, the board members across the Embrace “family of companies” are very similar. For example, in fiscal year 2019-2020, 8 out of 11 board members for Embrace Families CBC also served as board members for Embrace Families, Inc. In the same fiscal year, 9 out of 11 board members for Embrace Families CBC also served as board members for at least one of the other “family of companies.” In fiscal year 2020-2021, 7 out of 10 board members for Embrace Families CBC also served as board members for Embrace Families, Inc. In the same fiscal year, 8 out of 10 board members for Embrace Families CBC also served as board members for at least one of the other “family of companies.” Per the applicable bylaws, both Embrace Families CBC and Solutions have board members that are appointed directly by Embrace Families, Inc.

Additionally, the boards for Embrace Families, Inc., Embrace Families CBC, Solutions and Foundation have shared board committees where one or more board members for each entity serve on a shared board committee. These shared board committees include, but are not limited to, the executive committee and the finance and audit committee. The finance and audit committee reviews the financial statements/budgets for all of the entities. Per discussion with Management and various board members, the shared committees make recommendations for each respective entity and the applicable entity’s board then votes to accept or reject any recommendations made by the shared committees. Mr. Casel stated that the “family of companies” were “designed to operate in conjunction with each other.”

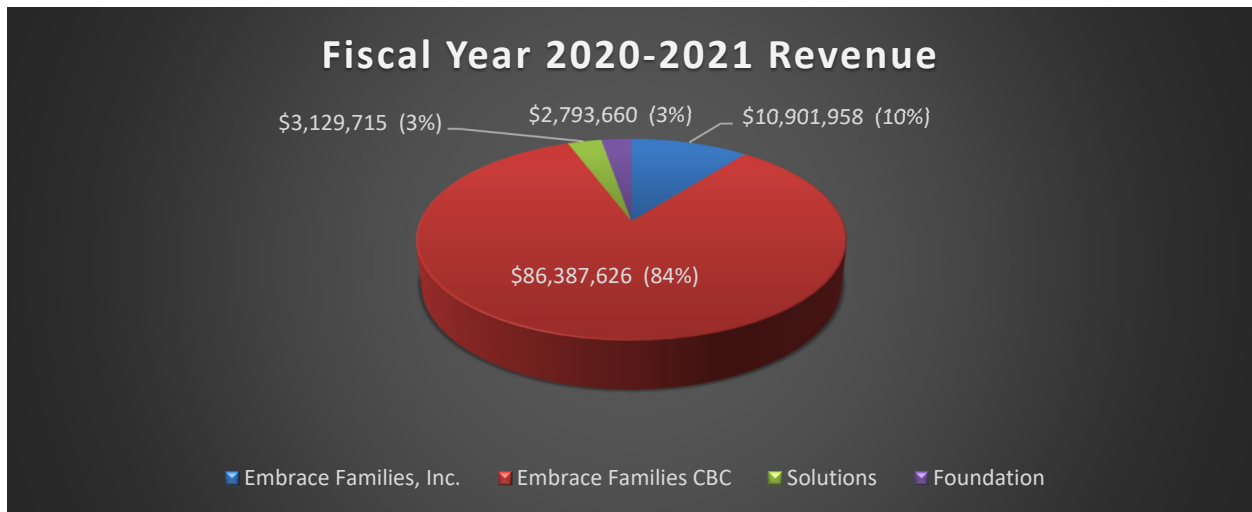
Board members interviewed indicated that their roles were limited to a high-level overview/oversight of the organizations’ operations. This high-level oversight includes approving the annual budgets. Board members indicated that they do not review/approve the contracts within the organizations. This role is delegated to Management. Board members also indicated that they do consider whether the “family of companies” should be providing certain services versus a third-party entity and the Boards’ focus is more on managing the financial impact of the delivery of services.

³⁶ It should be noted that the Embrace “family of companies” receives minimal donor funding when compared to the aggregated revenue of the “family.”

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As aforementioned, Embrace Families, Inc. consolidates its audited financial statements that include Embrace Families CBC, Solutions and Foundation. Embrace Families, Inc.'s audited financial statements refer to Embrace Families CBC, Solutions and Foundation as its subsidiaries and states that Embrace Families, Inc. "acts as a parent company." The respective audited financial statements for Embrace Families CBC, Solutions and Foundation refer to themselves as "wholly owned [subsidiaries] of Embrace Families, Inc." Integrated Health is referred to by Embrace Families, Inc. and Integrated Health's audited financial statements as being a related party. Embrace Families, Inc.'s Forms 990, Schedule R also state that Embrace Families, Inc. the direct controlling entity for Embrace Families CBC, Solutions and Foundation. Based on the foregoing information, Embrace Families, Inc. effectively controls Embrace Families CBC, Solutions, Foundation and Integrated Health. All of these entities including Embrace Families, Inc. are effectively controlled by Management.³⁷

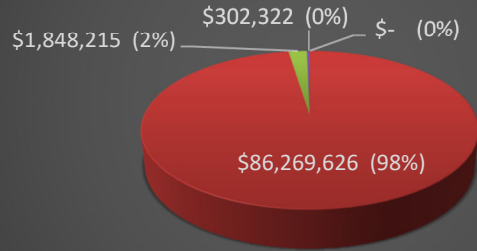
Embrace Families, Inc., Embrace Families CBC, Solutions and Foundation generate and report their own revenues. These revenues include extensive related party transactions and non-cash revenue. This is illustrated by the below series of charts. The first chart reflects the revenues reported by Embrace Families, Inc., Embrace Families CBC, Solutions and Foundation on their respective audited financial statements for fiscal year 2020-2021. In aggregate, these entities generated \$103,212,959 in revenue. Of this amount, \$83,091,919 (80.51%) in revenue was related to the Contract.



The next chart reflects the revenues reported by Embrace Families, Inc., Embrace Families CBC, Solutions and Foundation on their respective audited financial statements for fiscal year 2020-2021 less related party revenues (including Integrated Health) and non-cash revenues. This resulted in aggregate revenues of \$88,420,163. Of this amount, \$83,091,919 (93.97%) related to the Contract.

³⁷ As previously outlined, Management has stated that the Department has been well aware of the structure of the Embrace "family of companies." In response to prior inspector general reports, Management stated that "the Department has been made aware of this type of corporate structure. In the case of Embrace Families CBC, the Department knew of the agency's corporate structure referenced in the Draft Report when it entered agreements with the organization. The Draft Report attempts to criticize these corporate structures despite knowing that the Department was well-aware of the corporate structures and has said nothing. In fact in the case of Embrace Families CBC, the Department went as far as to indicate ways Embrace Families CBC should revise its bylaws to accommodate this corporate structure."

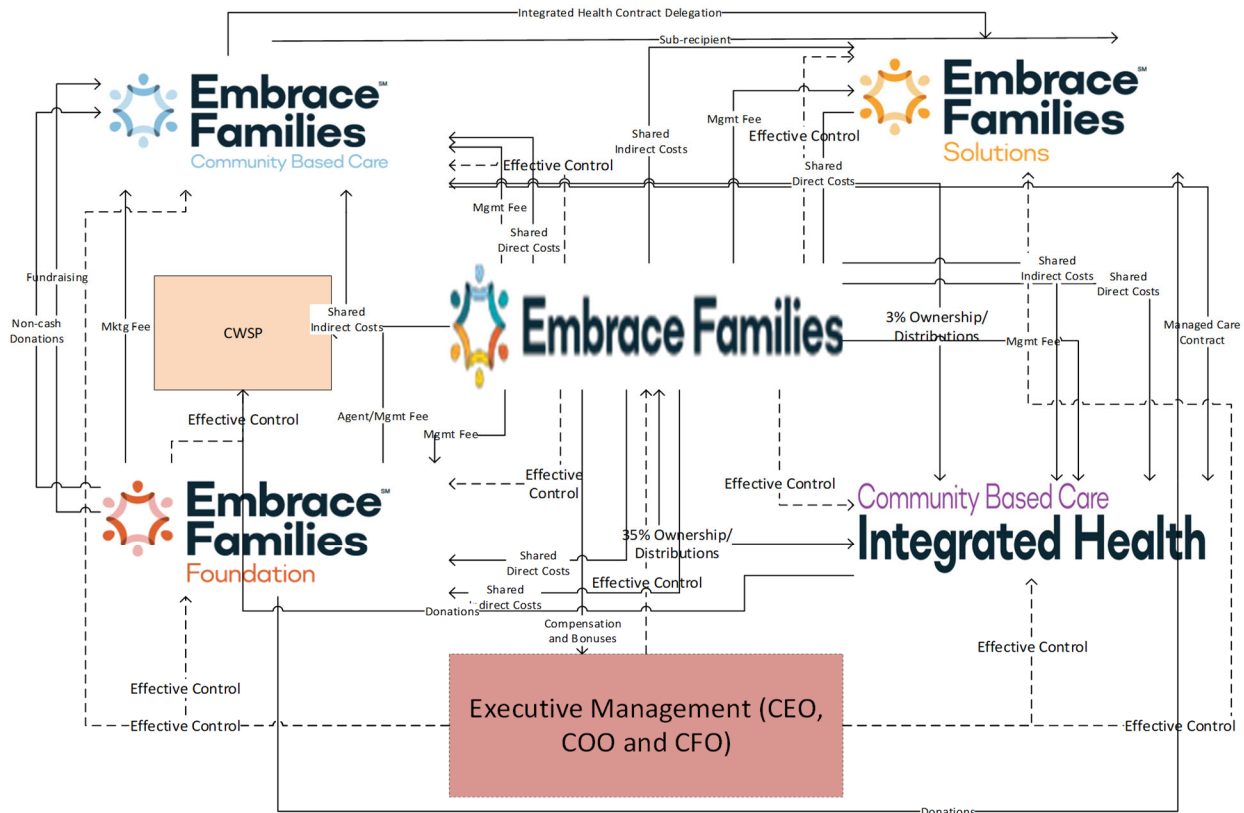
Fiscal Year 2020-2021 Revenue Excluding Related Party and Non-Cash Revenues



■ Embrace Families, Inc.
 ■ Embrace Families CBC
 ■ Solutions
 ■ Foundation

The above charts demonstrate that Embrace Families, Inc., Embrace Families CBC, Solutions and Foundation’s revenues are predominantly related to the Contract when related party and non-cash revenues are excluded. The remaining revenues are primarily generated from other state and federal grants. As such, Embrace Families, Inc., Embrace Families CBC, Solutions and Foundation’s revenues are almost exclusively generated by federal and state funds.

An illustration of the effective control, ownership interests and the network of related party transactions is presented below. This illustration highlights the complexity of the organizational relationships within the Embrace “family of companies,” the related party contracts, the related party transactions, etc. The establishment, network and complexity of these transactions appears unnecessary and obscures and reduces transparency into the “family of companies” transactions and the underlying costs. This illustration is also presented in Schedule F of this report.



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The related party relationships and associated transactions within the Embrace “family of companies” are discussed further in the following sections of this report.

Analysis of Related Companies – Embrace Families, Inc. Activities

Embrace Families, Inc. has entered into an agreement with Embrace Families CBC to provide management and administrative services. These services include the compensation costs of Embrace Families CBC’s executive officers along with other personnel to deliver the contracted services. Embrace Families, Inc. also provides management and administrative services through agreements to Solutions, Foundation and Integrated Health. The scope of the management and administrative service agreements generally include the following: executive management services; HR support services; finance support services; management information systems and data management support; and, operational consulting support. The management fee charged varies among the Embrace “family of companies.”

Embrace Families, Inc. charges Embrace Families CBC a management fee based on a percentage of the allowable expenses incurred. In fiscal year 2020-2021, this rate was 3.85% (3.90% in fiscal year 2019-2020). The rate is approved by the Department each year and Management agreed to a rate reduction of 0.05% each year for 10-years as part of its bid proposal to the Department. At the end of each fiscal year, Embrace Families, Inc. prepares a reconciliation of actual costs incurred in delivering the administrative/management services to Embrace Families CBC to document that the management fee charged did not exceed actual cost incurred. If actual costs are lower than the charged management fee, the Contract is credited for the difference in the following fiscal year.³⁸

As delineated in Finding 4 of this report, the management agreement between Embrace Families, Inc. and Embrace Families CBC was not competitively procured as required. Embrace Families CBC did not conduct any market analysis to determine whether the rate/cost structure including the shared costs of the management agreements with Embrace Families, Inc. were comparable. Management has frequently stated that contracting with a third-party for these same services would cost significantly more than the agreements with Embrace Families, Inc. However, Management has not completed any analysis to support this assertion. Despite Management’s assertion that the related party companies are treated no differently than third-party entities, these contracts and the associated contract terms used for the related parties do not align with the contracts and associated contract terms for third-party entities.

The management fees charged to Embrace Families CBC by Embrace Families, Inc. during the review period were compared to the management agreement and related supporting documentation. No exceptions were noted.

Embrace Families CBC also receives direct operational support and technical support services from Embrace Families, Inc. These activities directly relate to the delivery of services provided by Embrace Families CBC under the Department’s Contract. The Embrace “family of companies” also shares indirect costs; such as, rent, utilities, other facility costs, etc. Embrace Families, Inc. primarily allocates these direct and indirect costs (including payroll) to Embrace Families CBC based on the volume of transactions processed, square footage utilized, nodes, revenue, etc. within Embrace Families CBC. In addition to providing staffing/labor related to the management, direct operational support and technical support services, Embrace Families, Inc. provides all of the employee staffing for Foundation and Integrated Health. As such, Foundation and Integrated Health have no employees.

³⁸ Embrace Families CBC Response to inquiries from the Department dated April 16, 2021.

Analysis of Related Companies – Foundation Activities

Embrace Families CBC has contracted with Foundation to provide community-impact services. The Foundation provides these services at a rate of 90% of expenses incurred related to community impact services, not to exceed \$207,000 per year. Embrace Families CBC, Embrace Families, Inc. and Solutions have also contracted with Foundation to provide services including marketing, communications, community relations, in-kind donations, event management, board management, volunteer management and administrative support management. The costs as detailed in the agreements were compared to the actual costs and no discrepancies were noted. As delineated in Finding 4 of this report, these agreements were not competitively procured as required. Despite Management’s assertion that the related party companies are treated no differently than third-party entities, these contracts and the associated contract terms used for the related parties do not align with the contracts and associated contract terms for third-party entities.

Analysis of Related Companies – Solutions Activities

Embrace Families CBC has entered into agreements with Solutions as a network provider/sub-recipient to provide two programs, Pathways to Home and Child Advocacy Center. The terms for these programs are documented under Embrace Families CBC’s individual standard network provider contracts. The costs as detailed in the agreements were compared to the actual costs and no discrepancies were noted. As delineated in Finding 4 of this report, these agreements between Embrace Families CBC and Solutions were not competitively procured as required.

Embrace Families CBC entered into an agreement with Integrated Health to provide care coordination services for eligible children enrolled in Sunshine Health’s Child Welfare Specialty Plan (the Plan). Integrated Health functions as a subcontractor to Sunshine Health. Integrated Health then delegates certain services from Integrated Health to the CBC lead agencies including Embrace Families CBC. Embrace Families CBC and the other CBC lead agencies are compensated for eligible children enrolled in the Plan through a per member per month rate. Amounts received by Embrace Families CBC under the agreement with Integrated Health totaled \$471,610 and \$518,281 for the fiscal years ended June 30, 2020 and 2021, respectively. Management considers these funds to be non-State/non-Contract funds. Management indicated that the agreement with Integrated Health was delegated to Solutions. As such, all revenue received by Embrace Families CBC was subsequently directed to Solutions.

Mr. Bryant stated the delegation of Embrace Families CBC’s agreement to Solutions was done as the outreach activity required under the agreement best matched Solutions’ position within the Embrace “family of companies.” CRI requested a copy of the contract between Embrace Families CBC and Solutions related to this delegation. No contracts were provided and it appears that there is no such contract. This does not conform to Embrace Families CBC’s procurement policies and procedures and federal/state procurement laws, rules, regulations, etc.

Per the agreement between Embrace Families CBC and Integrated Health, a CBC lead agency can choose to sub-delegate services to another provider, but the provider must be approved by Integrated Health. As Embrace Families, Inc. manages Integrated Health and shares common executive management and other employees with Embrace Families CBC, Solutions, etc., any approval would be pro forma. Due to the lack of terms available for CRI’s review, it is unclear whether the payments from Embrace Families CBC to Solutions related to Integrated Health were proper. Management noted that most CBC lead agencies perform the services directly, but Embrace Families

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CBC decided to delegate these services. As there is likely a “profit” component in providing these services, any “profits” generated by providing these services are fully allocated to Solutions in lieu of Embrace Families CBC. Due to the lack of detail within the general ledger details provided for Solutions, we were unable to determine the “profit,” if any, that was delegated to Solutions during the review period.

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.^{39, 40} 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.⁴¹ Integrated Health is also required to make “every good faith effort to contract with the new designated lead agency CBC in the impacted area.”⁴² 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. Embrace Families CBC held a 4% and 3% 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.

³⁹ Vendor Agreement between Integrated Health and Sunshine Health dated December 12, 2016.

⁴⁰ The number of CBCs represented may change depending on the time period referenced.

⁴¹ Vendor Agreement between Integrated Health and Sunshine Health dated December 12, 2016.

⁴² Ibid.

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As a participating CBC lead agency, Embrace Families CBC receives revenue from Integrated Health, which is fully passed through to Solutions as previously described in this report. For the years ended June 30, 2020 and 2021, Embrace Families CBC received \$471,610 and \$518,281 in revenue from Integrated Health, respectively. As a member of Integrated Health, Embrace Families CBC also received \$40,000 and \$140,000 in distributions from Integrated Health during the years ended June 30, 2020 and 2021, respectively. Embrace Families CBC considers both the revenues as well as the distributions to be unrestricted funds (i.e., non-State, non-Contract, etc. related funds).⁴³

As outlined above, Integrated Health was the sole reason for the reorganization from Embrace Families CBC into the Embrace “family of companies.” Per Mr. Casel, prior to the reorganization in 2013, Embrace Families CBC partnered with Magellan Health under a pilot program established by the State to provide similar Florida Medicaid management/coordination services. Per Mr. Casel, as part of this pilot program, Embrace Families CBC informally agreed to share a portion of the “profits” earned from this pilot program with the other CBC lead agencies. Embrace Families CBC retained these funds and recorded the other CBC lead agencies’ “profits” as a liability on its books. Upon reorganization and establishment of Integrated Health, the other CBC lead agencies’ “profits” retained by Embrace Families CBC were utilized to “purchase” their respective membership interests/fund Integrated Health. These “profits” and subsequent “investments” were considered unrestricted funds by Embrace Families CBC and the other CBC lead agencies.

Per discussion with Mr. Casel, Embrace Families, Inc. did not fund/invest in Integrated Health in consideration for Embrace Families, Inc.’s ownership interest in Integrated Health. Instead, Embrace Families, Inc.’s ownership interest in Integrated Health was awarded as “founder shares.” In response to CRI’s question as to why the “founder shares” were not awarded/assigned to Embrace Families CBC given it was the only entity established/operating the pilot program with Magellan Health, Mr. Casel stated that he was the primary reason that led to the creation of Integrated Health. As such, his role/experience in the creation of Integrated Health, the Magellan Health pilot program, child welfare services, etc. were the primary reasons for the “founder share” award to Embrace Families, Inc. Mr. Casel also stated that at the time of the award, he was an employee of Embrace Families, Inc. and as such there was no reason to provide the “founder shares” to Embrace Families CBC. Due to its 35% ownership interest in Integrated Health, Embrace Families, Inc. received distributions of \$350,000 and \$1,225,000 from Integrated Health for the years ended June 30, 2020 and 2021, respectively.

No apparent consideration for the “founder share” award was provided to Embrace Families CBC for its role in the pilot program with Magellan Health and Mr. Casel was an employee of Embrace Families CBC during the pilot program with Magellan Health. As the “founder shares” were awarded outside of the review period, CRI did not obtain all relevant contracts, documents, minutes, etc. related to this award. Based on the limited information available, it is possible that the “founder shares” were not properly awarded/transferred/assigned to Embrace Families, Inc. It is possible that the “founder shares” should have been awarded to Embrace Families CBC in light of its role, risk, establishment, etc.

⁴³ It is important to note that unrestricted funds are funds that management/the Board of Directors can use for whatever purpose it deems appropriate.

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Substantial funds/assets have accumulated in Embrace Families, Inc.; whereas, Embrace Families CBC has accumulated a deficit. For example, Embrace Families CBC had a deficit of \$2,926,235 as of June 30, 2022. Embrace Families, Inc. had net assets totaling \$10,604,077 as of June 30, 2022. Embrace Families, Inc.'s largest asset is cash totaling \$6,330,372 as of June 30, 2022. A summary of Embrace Families CBC Statements of Financial Position and Statements of Activities for fiscal years 2019-2020, 2020-2021 and 2021-2022 are presented in Schedules A and B of this report. A summary of Embrace Families, Inc.'s Statements of Financial Position and Statements of Activities for fiscal years 2019-2020, 2020-2021 and 2021-2022 are presented in Schedules C and D of this report.

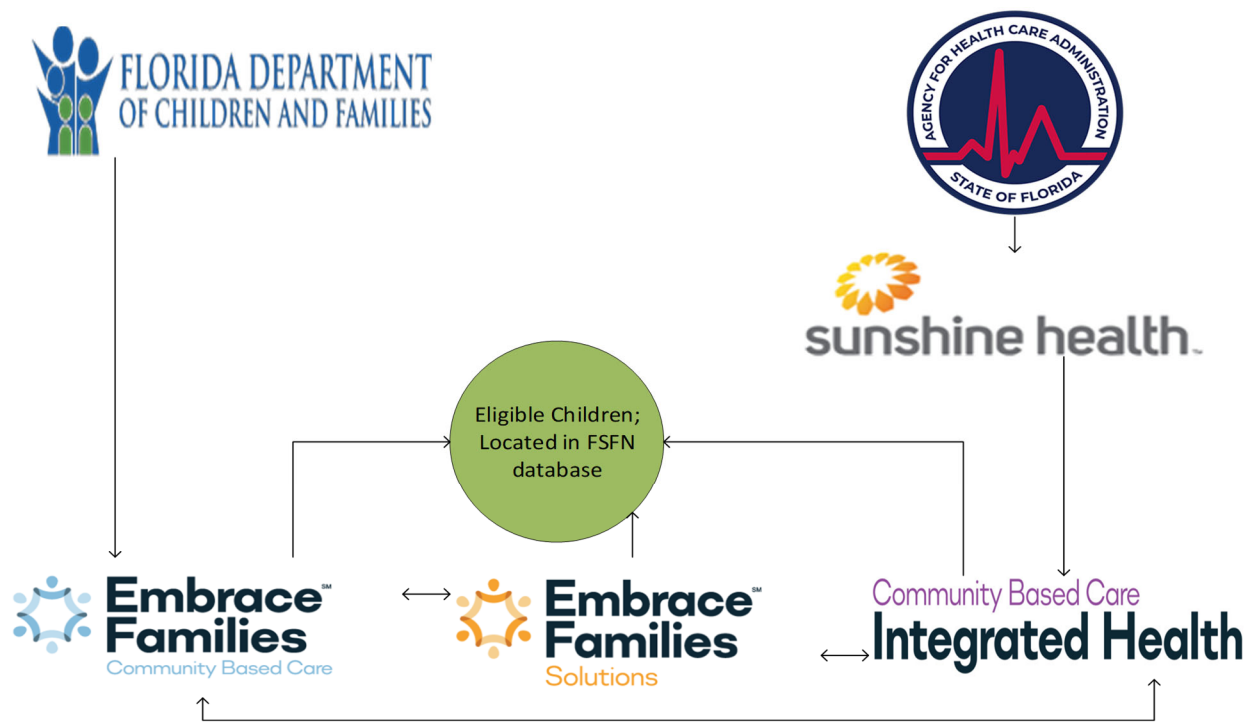
Per Management and the Board members interviewed, the management fees and distributions related to Integrated Health are the primary generators of the funds accumulated within Embrace Families, Inc. The funds accumulated in Embrace Families, Inc. are intended by Management/Board for "big idea" projects that will help positively change/impact the child welfare system in the State. Management and the Board members interviewed rejected the idea that the funds accumulated in Embrace Families, Inc. should be utilized to help support Embrace Families CBC. Instead, they indicated that it is the State's obligation to fund the CBC lead agencies including Embrace Families CBC.⁴⁴ Mr. Casel stated that Embrace Families, Inc. under certain circumstances, would consider contributing some funds to Embrace Families CBC; such as, the current situation where Embrace Families CBC has a significant deficit and there were uncertainties whether the Department would fund the deficit.

Based on the foregoing information, Embrace Families, Inc. has accumulated a substantial amount of unrestricted funds, which primarily arose from the Integrated Health distributions and management fees. Had the 35% "founder shares" in Integrated Health been held by Embrace Families CBC, the funds could have been utilized to offset Embrace Families CBC's accumulated deficit.

⁴⁴ In fiscal year 2015-2016, Embrace Families CBC forgave \$1,150,000 in related party loans to Embrace Families, Inc. These related party loans related to Embrace Families CBC funding/paying certain expenditures related to Embrace Families, Inc. These loans were purportedly made with non-Contract funds. In fiscal year 2018-2019, Embrace Families, Inc. forgave \$915,800 in related party loans given to Embrace Families CBC. The forgiveness of these loans further highlight the lack of separation between these entities.

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As outlined above, Embrace Families CBC, Embrace Families, Inc. 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.⁴⁵ Sunshine Health is also required to collaborate with the CBC lead agencies to facilitate obtaining medical and case plan information and records.⁴⁶ 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.” Embrace Families CBC’s Contract does not entitle it to earn/keep “profits” resulting from the Contract. Further, Section 14 of the Contract addresses intellectual property that may arise in relation to Embrace Families CBC’s performance under the Contract. Specifically, Section 14 of the Contract states it “is agreed that all intellectual property, inventions, written or electronically created materials, including manuals, presentations, films, or other copyrightable materials, arising in relation

⁴⁵ Exhibit II-C, Child Welfare Specialty Plan dated February 1, 2018.

⁴⁶ Ibid.

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to Provider's performance under this Contract, and the performance of all of its officers, agents and subcontractors in relation to this Contract, are works for hire for the benefit of the Department, fully compensated by the Contract amount, and that neither the Provider nor any of its officers, agents nor subcontractors may claim any interest in any intellectual property rights accruing under or in connection with the performance of this Contract." As evidenced by previously cited contracts/contract terms, it is more than likely that Embrace Families CBC, Embrace Families, Inc. and the other CBC lead agencies' ownership interests arose directly from their contracts with the Department. As the ownership interests arose outside of the review period and other contracts were in effect, CRI was not provided with all relevant contracts, documents, minutes, etc. related to the generation of the ownership interests in Integrated Health. As such, the ownership interests and the related generated revenue/distributions may be considered as arising from intellectual property related to their performance under contracts with the Department for which these organizations were fully compensated.

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 from 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."⁴⁷ 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 Embrace Families, Inc.), disclosure of Integrated Health's financials is limited to the note disclosures of the various CBC lead agencies' audited financial statements. At the Department's behest, Management provided CRI with the financial statements and general ledger details for Integrated Health for the review period. Upon review, CRI noted Integrated Health's primary expenditures relate to subcontracts with the various CBC lead agencies as well as the administrative/management costs charged/allocated to Integrated Health by Embrace Families, Inc. CRI also noted \$443,540 in lobbying costs within Integrated Health's financials. If these funds were considered to be Contract related funds, these expenditures would be considered an unallowable cost.

⁴⁷ Children's Network of Hillsborough, LLC's Risk Pool Funding Application SFY 2022-2023.

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Management’s compensation is determined by the Embrace Families, Inc. Board of Directors. Management’s compensation costs are then fully allocated amongst the other Embrace “family of companies.” Management’s compensation is in part determined by a market pricing analysis conducted in 2018 as well as the Board’s own analysis of compensation for similar non-profit organizations. Management may receive bonus compensation on an annual basis as approved by Embrace Families, Inc.’s Board of Directors. During the review period, Management received bonuses totaling \$337,228.24. A summary of these bonuses by position and fiscal year are presented below.⁴⁸

Position	Wages for FY 19-20	Bonuses for FY 19-20	Bonus %	Wages for FY 20-21	Bonuses for FY 20-21	Bonus %
Glen Casel, CEO	\$ 314,659.88	\$ 67,354.09	21.41%	\$ 304,116.41	\$ 146,534.53	48.18%
Catherina Macina, CFO	185,873.54	22,943.98	12.34%	175,862.96	26,266.27	14.94%
Michael Bryant, COO	230,862.23	27,735.25	12.01%	229,572.22	46,394.12	20.21%
Totals	\$ 731,395.65	\$ 118,033.32	16.14%	\$ 709,551.59	\$ 219,194.92	30.89%

Management’s bonus compensation during the review period was paid via funds generated by Integrated Health. More specifically, per the Board members interviewed, Management’s bonus compensation was awarded by Integrated Health’s Board of Managers as a performance bonus for Management. As Management is employed directly by Embrace Families, Inc., the award by Integrated Health’s Board of Managers is presented to the Embrace Families, Inc. Board of Directors for consideration on whether to accept these bonus funds and subsequently pay the bonuses to Management.

As each entity was incorporated as a not-for-profit organization, the entities’ articles of incorporation require that “all of the assets or earnings shall be used exclusively for [conducting the Corporation’s stated purpose], including payments of expenses incidental thereto. No part of the net earnings shall inure to the benefit of any individual.” This provision is in line with Florida Statutes for non-profit entities as well as the Internal Revenue Code for tax-exempt organizations and federal cost principles. Based on the available information, it is possible that Management’s compensation, specifically bonus compensation, constitute an inurement of the net earnings of the Embrace “family of companies.”

Finding 7

Analysis of Officer Compensation

As previously indicated, Embrace Families CBC’s officers/executive management include the CEO, COO and CFO. The executive management is employed directly by Embrace Families, Inc. and executive management’s compensation is generally determined by the Embrace Families, Inc. Board of Directors. Embrace Families, Inc. charges a management fee percentage to Embrace Families CBC that includes an allocation of the executive management’s compensation within the management fee percentage. The management fee percentage is reviewed and approved by the Department annually. Within Embrace Families CBC’s submission detail for the management fee percentage to the Department, a detailed cost allocation summary is provided that delineates the compensation allocations for each executive and non-executive position comprised within the management and administration contract.

⁴⁸ Note that the Chief Legal Officer received bonus compensation as well.

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The executive base compensation for the CEO, CFO and COO that is charged to Embrace Families CBC by Embrace Families, Inc. is approved by Embrace Families CBC’s Board of Directors. The total approved compensation is included in the management fee and is not based on the actual level of effort. The Board approved base compensation charged to Embrace Families CBC for the CEO, CFO and COO is presented in the below table. It should be noted that the Embrace Families CBC Board approved base compensation for executive management is capped/lower than the actual compensation received/approved by Embrace Families, Inc. Board.

Position	Fiscal Year 2019-2020	Fiscal Year 2020-2021
Chief Executive Officer	\$ 113,850	\$ 122,331
Chief Financial Officer	100,625	90,432
Chief Operating Officer	106,375	115,719
Total Approved Executive Management Base Compensation	\$ 320,850	\$ 328,482

The non-executive compensation allocations are derived primarily from the volume of transactions processed or contracts managed within the Embrace Families CBC compared to the total transactions and contracts managed by Embrace Families, Inc. under all of its management and administrative services contracts. The executive compensation allocations are in part based on Management’s estimate of what should be reasonably charged to the CBC and the Department’s Contract in an effort to reduce the impact of executive compensation on the administrative services rate. Ms. Macina noted that the level of effort provided by the executive management is likely significantly higher than the internal allocation rate applied to Embrace Families CBC and ultimately the Department’s Contract.

It is important to notate that the effective executive compensation allocated to the Contract is *higher* than the executive compensation amounts disclosed within the management fee cost allocation summary submitted to the Department. This is due to the complicated organizational structure and extensive related party transactions within the Embrace “family of companies.” For example, Embrace Families, Inc. charges management fees to both Solutions and Foundation in addition to Embrace Families CBC. Embrace Families CBC separately contracts with Solutions and Foundation for certain services. Within the fee structure for the contracts with Solutions and Foundation, a component includes an allocated portion of the management fees (and executive compensation) charged by Embrace Families, Inc. Thus, executive compensation charged to the Contract is allocated directly from Embrace Families, Inc. as well as indirectly through Embrace Families CBC’s contracts with Solutions and Foundation. Based on the level of general ledger details provided by Management for Solutions and Foundations, it was not possible to quantify the effective executive compensation allocated to the Contract.

In Section 5 of the Contract, it states that Embrace Families CBC “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 Embrace Families CBC’s audited financial statements, Embrace Families CBC 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).

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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/state laws, rules and/or regulations.

HHS established a salary cap limitation for its direct federal awards and federal pass-through grants. Embrace Families CBC received both direct awards and federal pass-through grants (via the Department) from HHS. As a result, Embrace Families CBC 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. Casel and Mr. Bryant's base salaries exceeded the established salary cap in both fiscal years. The base salaries were allocated either to the direct HHS grant awards or the HHS pass-through grants (via the Department). Although the allocated dollar amounts did not exceed the established salary cap dollar amounts, Embrace Families CBC/Embrace Families, Inc. effectively allocated these salaries based on a higher base salary amount versus the established salary cap amount as required. As a result, Embrace Families CBC allocated approximately \$101,205 in unallowable base salary costs during the review period assuming these salaries were fully charged to the HHS pass-through grants (via the Contract). It is important to note that the Contract comprises both federal and state funds. Embrace Families CBC 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 \$101,205 in unallowable salary costs were charged to federal funds. Per the Schedule of Funds in Amendment 7 to the Contract, federal funds comprised 42.44% 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 \$213,819. The administrative compensation limit includes base pay combined with bonus or incentive payments. The limit does not prevent any entity from providing additional compensation with non-State funds. If this limit is to be used in a manner consistent with the general requirements of Uniform Guidance (including 2 CFR 200.4), then the payroll allocation percentage should be applied to the cap similar to the HHS cap limitation. As such, Embrace Families may have allocated approximately \$145,554 in unallowable administrative compensation during the review period. As this limitation includes both the State and Federal pass-through portion of the Contract funds, the unallowable administrative compensation is in part duplicative of the HHS unallowable salary cost allocations. A summary of these unallowable salary cost allocations are presented in Schedule E of this report.

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During interviews with Management, Management described its process for allocating costs, specifically compensation costs from Embrace Families, Inc. to Embrace Families CBC. Management confirmed that 100% of the executive management and non-executive compensation is allocated directly or indirectly among Embrace Families CBC, Solutions, Foundation and Integrated Health. With the exception of bonus compensation, none of the compensation is allocated to Embrace Families, Inc. When CRI inquired into the reasons as to why no compensation is being allocated to Embrace Families, Inc., Management indicated that they believed their current allocation of compensation is appropriate, but that the question was reasonable and it was something they would consider if necessary. As described in Finding 6 of this report, Embrace Families, Inc. has accumulated surplus funds over the years. This accumulated surplus is in part attributable to the lack of compensation being allocated to Embrace Families, Inc. despite the services rendered by its employees. If compensation costs were allocated to Embrace Families, Inc., this would reduce the amount of compensation costs being allocated directly or indirectly to Embrace Families CBC. As such, it would also reduce the costs allocated to the Contract. Due to a lack of data, it was not possible to calculate the appropriate compensation allocations for Embrace Families, Inc. and the related effects on the Contract.

Finding 8

Invoice Analysis

Embrace Families CBC 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 Embrace Families CBC 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 Embrace Families CBC the monthly reporting package 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 Embrace Families CBC. 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 through use of the monthly FSFN to CBC expenditure reconciliation report. This report is prepared by Embrace Families CBC 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 Embrace Families CBC's reporting to the monthly OCA and FSFN generated reports.

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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 Embrace Families CBC, 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 Embrace Families CBC during the review period to Embrace Families CBC’s general ledger. The general ledger details were obtained from the Department’s retained submission of the monthly financial reporting packet and from Embrace Families CBC 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 any unreconciled differences between the monthly expenditure reporting prepared by Embrace Families CBC and Embrace Families CBC’s general ledger.

Finding 11

Deferred Revenue Analysis

At times during performance of the Department’s Contract, Embrace Families CBC may expend less funds to deliver the contracted services than initially budgeted/contractually funded. This results in Embrace Families CBC 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.

Embrace Families CBC initiated the 2020 fiscal year with \$984,857 in deferred revenue (State fund carryforward), which originated under Contract GJL57 that concluded on June 30, 2019. During the 2020 fiscal year and first year under Contract GJL58, Embrace Families CBC requested and was approved a budget increase for additional client assistance for out-of-home and prevention services. As a result, Embrace Families CBC expended the full carryforward balance in fiscal year 2020 over four consecutive months as follows:

Month	Carryforward Expenditures
Feb-20	\$ 701,000
Mar-20	94,777
Apr-20	94,536
May-20	94,544
Total	\$ 984,857

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Embrace Families CBC did not generate any deferred revenue/State fund carryforwards during the remainder of the review period. It should be notated that this analysis focuses on the deferred revenue as reported by Embrace Families CBC. It does not consider the impact of the other findings within this report on deferred revenue.

Summarized Findings and Effects

A summary of the aforementioned findings and the related effects are presented below.

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

Finding: Embrace Families CBC generally does not release new solicitations for certain existing vendors when the contract term (including renewals) ends. Within the sampled contract selection, Embrace Families CBC entered into three new contracts above the Simplified Acquisition threshold of \$250,000 where no competitive solicitation was conducted. It was unclear whether another new contract was appropriately procured due to the lack of supporting documentation provided. Thus, these contracts were not procured in compliance with federal/state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.320.

Effect: Embrace Families CBC is not in compliance with its procurement policies and procedures and federal/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. Non-Competitive Procurement for Related Entities

Finding: Embrace Families CBC did not engage in a competitive procurement process for its related party contracts including with Embrace Families, Inc., Solutions and Foundation. No competitive procurement waivers were obtained from the Department for these contracts. Thus, Embrace Families CBC did not comply with federal/state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320 for its related party contracts.

Effect: Embrace Families CBC is not in compliance with its procurement policies and federal/state procurement laws, rules, regulations, etc. (including 2 CFR Part 200.318/319/320) for its related party contracts. The costs associated with these contracts may be considered unallowable expenditures.

3. Overbilling Related to Embrace Families, Inc. Paycheck Protection Program Loan Forgiveness

Finding: Embrace Families, Inc. has not credited/reduced its management fees/salary allocations to Embrace Families CBC to account for the PPP funds that covered certain Embrace Families, Inc. payroll. These PPP loan proceeds were received in 2020 and were subsequently forgiven in 2021. The lack of credit/reduction in the management fees/salary allocations to Embrace Families CBC by Embrace Families, Inc. does not comply with the Office of Management and Budget, M 20-26, Contract Section 3 and Contract Section 22. Thus, it is estimated that Embrace Families CBC overbilled the Department by \$523,342.

Effect: Embrace Families CBC did not comply with Office of Management and Budget, M 20-26, Contract Section 3 and Contract Section 22 related to the forgiveness of Embrace Families, Inc.'s PPP loans. Embrace Families, Inc. and thereby Embrace Families CBC overbilled the Department for certain payroll costs.

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4. Board Approval of Department Deficit Budgets

Finding: Embrace Families CBC's Management and its Board of Directors knowingly prepared and approved annual budgets for Department funds that exceeded both Department approved funding and Department approved expenditures.

Effect: Embrace Families CBC Board approved budgets do not align with the Department approved budgets. During the review period, Embrace Families CBC budgeted or planned to expend more than Department allocated funding resources, which has in part led to funding deficits. This presents questions regarding Embrace Families CBC's management and administration of the Contract within the constraints of the contracted funding as well as its representations regarding the causes of deficits within Embrace Families CBC.

5. Non-Disclosure of Integrated Health as a Related Organization

Finding: Neither Embrace Families, Inc. nor Embrace Families CBC disclosed Integrated Health as a related party partnership on its annual Forms 990, Schedule R as required by Internal Revenue Service instructions and guidance.

Effect: The lack of disclosure of Integrated Health as a related party does not comply with Internal Revenue Service instructions and guidance. The lack of disclosure may also impact the awareness and transparency of Embrace Families CBC's relationship and transactions with Integrated Health.

6. Establishment and Complexity of "Family of Companies" Appears Unnecessary

Finding: The establishment of the Embrace "family of companies" appears unnecessary. The complexity of the related party relationships, related party contracts, related party transactions, etc. also appear unnecessary and obscure the nature/extent of the "family of companies" transactions and underlying costs including executive compensation.

Effect: The establishment and complexity of the related party entities and their respective relationships reduce the transparency of the "true" costs of the organizational structure including the allocation of executive management's compensation. The establishment and complexity of the related party entities may actually result in *increased* organizational costs.

7. Delegation of Revenue Generated from Integrated Health

Finding: Embrace Families CBC has a contract with Integrated Health to provide certain Medicaid managed/coordinated care services. Embrace Families CBC delegated this contract and its resulting revenues in its entirety to Solutions. These revenues totaled \$989,891 during the review period. Management did not provide any contract documentation between Embrace Families CBC and Solutions for this delegation and it appears that no contract exists. This does not conform to Embrace Families CBC's procurement policies and procedures and federal/state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320.

Effect: Embrace Families CBC may not have properly procured Solutions' services related to Integrated Health. Embrace Families CBC does not receive any "profits"/benefits from its contract with Integrated Health as they are fully delegated to Solutions.

Embrace Families Community Based Care, Inc. Forensic Examination Report

8. Potential Improper Award of Integrated Health Founder Shares in Embrace Families, Inc.

Finding: Embrace Families, Inc. has a 35% ownership percentage in Integrated Health. This ownership interest was provided to Embrace Families, Inc. as founder shares. It appears that these founder shares and the creation of Integrated Health arose from services performed by/under Embrace Families CBC not Embrace Families, Inc. As such, after further review, it is possible that the ownership interest in Integrated Health should be owned by Embrace Families CBC not Embrace Families, Inc.

Effect: Embrace Families CBC's assets and fund balance may be understated if it is determined that Integrated Health should be owned by Embrace Families CBC.

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

Finding: Embrace Families CBC and Embrace Families, Inc.'s ownership interest in Integrated Health appear to have arisen directly due to Embrace Families CBC's Contract with the Department and may be considered as intellectual property (Contract Section 14) or program income (2 CFR 80.120). As the ownership interests arose outside of the review period and other contracts were in effect, CRI was not provided with all relevant contracts, documents, minutes, etc. related to the generation of the ownership interests in Integrated Health. As such, the ownership interests and related generated revenue/distributions may be considered as arising from intellectual property and/or program income directly related to performance under the Contract for which Embrace Families CBC was fully compensated for.

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

10. Allocated Officer Compensation in Excess of Mandatory Caps

Finding: Embrace Families CBC's allocated officer base salaries are in excess of the respective salary caps established by HHS and the State when applying the applicable allocation percentages consistent with the Consolidated Appropriations Act, Uniform Guidance and other federal cost principles. Under the HHS salary cap established by the Consolidated Appropriations Act, Embrace Families CBC charged unallowable salary costs totaling \$101,205 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 Embrace Families CBC's books. Under Florida Statute 409.992(3) in conjunction with the general requirements of Uniform Guidance, Embrace Families CBC may have allocated approximately \$145,554 in unallowable administrative compensation during the review period. As the State limitation applies to all of the Contract (state and federal pass-through) funds, the unallowable administrative compensation is in part duplicative of the HHS unallowable salary cost allocations.

Effect: Embrace Families CBC charged unallowable compensation costs to the Contract.

11. Compensation not Allocated to Embrace Families, Inc.

Finding: Embrace Families, Inc. directly or indirectly allocates 100% of its compensation to its related organizations including Embrace Families CBC. As such, with the exception of certain bonus compensation, no compensation is allocated to Embrace Families, Inc. By not allocating compensation costs to Embrace Families, Inc. for services rendered, Embrace Families, Inc. is in part able to accumulate surplus funds. Allocating compensation costs to Embrace Families, Inc. would reduce the compensation costs allocated directly/indirectly to Embrace Families CBC.

Effect: Embrace Families CBC may be overbilled for Embrace Families, Inc.'s allocated compensation costs.

Conclusion

Based upon the foregoing information, the Embrace “family of companies” is a complex network of organizations with extensive related party transactions. The complex nature of the organizations and the scale of the related party transactions limits the transparency into the organizations and their effective costs. It has also allowed Embrace Families CBC to overbill the Department by approximately \$523,342 related to Embrace Families, Inc.’s PPP loan.

The related party transactions were not competitively procured in accordance with Embrace Families CBC’s policies and procedures as well as federal/state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320. These transactions totaled over \$13.4 million in expenditures billed to the Contract during the review period. These expenditures may be considered unallowable costs. Additional non-related party contracts were identified as not being competitively procured.

It appears that the creation of the Embrace “family of companies” was unnecessary. This related party structure has allowed the siloing of “profits” of purported unrestricted funds within Embrace Families, Inc. Embrace Families, Inc. has, in part, utilized the profits and distributions from Integrated Health to fund higher compensation including bonuses for Management. This compensation, including the bonuses, may not have been allowable/possible otherwise. Embrace Families CBC has also billed the Department unallowable compensation costs that were in excess of the applicable salary caps.

The Department should consider further investigating to determine whether or not the Integrated Health revenues/distributions are Contract related, subject to federal/state requirements and offset Contract funds. The Department should consider further investigating whether or not Management’s higher compensation costs, specifically bonus compensation, constitute an inurement of the net earnings of the Embrace “family of companies.” The Department should also consider investigating whether the award/assignment/etc. of the “founder shares” in Integrated Health was proper.

Supplementary Information

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Schedule A - Historical Statements of Financial Position for Embrace Families CBC

For the fiscal years ending,	2020	2021	2022
Assets			
Current Assets			
Cash	\$ 2,107,617	\$ 31,202	\$ 5,251,396
Restricted cash held for master trust	222,371	303,939	412,940
Accounts Receivable, net	3,562,402	7,295,336	1,713,733
Prepaid expenses and other assets	339,925	243,761	285,536
Total Current Assets	\$ 6,232,315	\$ 7,874,238	\$ 7,663,605
Fixed Assets			
Investment in limited liability company	\$ 188,658	\$ 224,775	\$ 99,664
Property and equipment, net	361,003	347,400	333,797
Total Fixed Assets	\$ 549,661	\$ 572,175	\$ 433,461
Total Assets	\$ 6,781,976	\$ 8,446,413	\$ 8,097,066
Liabilities and Equity			
Liabilities			
Current Liabilities			
Accounts Payable and accrued expenses	\$ 6,053,345	\$ 5,674,275	\$ 7,966,896
Deferred revenues	5,756	26,891	1,458
Due to Embrace Families, Inc.	953,211	1,526,206	1,091,482
Assets held for master trust	222,371	303,939	412,940
Notes payable - related party	220,000	1,220,000	1,220,000
Total Current Liabilities	\$ 7,454,683	\$ 8,751,311	\$ 10,692,776
Long-Term Debt			
Custodial assets held for others	\$ 348,648	\$ 339,586	\$ 330,525
Notes payable	1,028,572	1,028,572	-
Total Long-Term Debt	\$ 1,377,220	\$ 1,368,158	\$ 330,525
Total Liabilities	\$ 8,831,903	\$ 10,119,469	\$ 11,023,301
Net Assets			
Net assets without donor restrictions	\$ (2,049,927)	\$ (1,673,056)	\$ (2,926,235)
Total Net Assets	\$ (2,049,927)	\$ (1,673,056)	\$ (2,926,235)
Total Liabilities and Net Assets	\$ 6,781,976	\$ 8,446,413	\$ 8,097,066

See Forensic Examination Report.

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Schedule B - Historical Statements of Activities for Embrace Families CBC

For the fiscal years ending,	2020	2021	2022
Revenue			
Grants and contracts	\$ 80,256,684	\$ 85,765,725	\$ 85,047,413
Forgiveness of PPP Loan	-	-	1,028,572
Contributions and other income	950,562	621,901	406,498
In-kind contributions	-	-	177,587
Total Revenue	\$ 81,207,246	\$ 86,387,626	\$ 86,660,070
Expenses			
Program services			
Foster Care	\$ 9,967,898	\$ 11,772,701	\$ 12,946,889
Adoptions	21,365,897	23,044,705	21,953,212
Residential	11,281,700	12,642,450	13,441,902
Independent living	9,133,750	9,536,039	9,145,533
System of care	12,747,935	11,770,871	11,906,475
Financial Assistance	13,868,501	11,877,610	10,580,099
Other program services	3,227,262	3,262,673	5,867,864
Total Program Services	81,592,943	83,907,049	85,841,974
Supporting Services			
General and administrative	1,741,209	2,103,706	2,071,275
Fundraising	50,000	-	-
Total Supporting Services	1,791,209	2,103,706	2,071,275
Total Expenses	\$ 83,384,152	\$ 86,010,755	\$ 87,913,249
Change in net assets	\$ (2,176,906)	\$ 376,871	\$ (1,253,179)

See Forensic Examination Report.

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Schedule C - Historical Statements of Financial Position for Embrace Families, Inc.

For the fiscal years ending,	2020	2021	2022
Assets			
Current Assets			
Cash	\$ 4,257,132	\$ 4,025,824	\$ 6,330,372
Accounts Receivable, net	1,136,516	1,240,677	1,213,098
Prepaid expenses and other assets	872,730	404,002	350,614
Due from Embrace Families Community Based Care, Inc.	953,211	1,526,206	1,091,482
Note receivable from Embrace Families Community Based Care, Inc.	220,000	-	-
Note receivable from related parties	-	1,295,000	1,295,000
Assets held for retirement obligations	-	863,324	1,007,555
Total Current Assets	\$ 7,439,589	\$ 9,355,033	\$ 11,288,121
Fixed Assets			
Investment in limited liability companies	\$ 1,010,938	\$ 1,984,115	\$ 409,118
Property and equipment, net	240,645	269,492	1,090,738
Total Fixed Assets	\$ 1,251,583	\$ 2,253,607	\$ 1,499,856
Total Assets	\$ 8,691,172	\$ 11,608,640	\$ 12,787,977
Liabilities and Equity			
Liabilities			
Current Liabilities			
Accounts Payable and accrued expenses	\$ 794,414	\$ 742,129	\$ 1,015,615
Current portion of capital lease obligations	36,855	37,896	37,896
Refundable advances	-	35,101	70,723
Notes payable, current portion	376,939	-	-
Total Current Liabilities	\$ 1,208,208	\$ 815,126	\$ 1,124,234
Long-Term Debt			
Capital lease obligations, less current portion	\$ 90,008	\$ 52,111	\$ 52,111
Notes payable, less current portion	753,878	1,130,817	-
Retirement obligations	498,443	863,324	1,007,555
Total Long-Term Debt	\$ 1,342,329	\$ 2,046,252	\$ 1,059,666
Total Liabilities	\$ 2,550,537	\$ 2,861,378	\$ 2,183,900
Net Assets			
Net assets without donor restrictions	\$ 6,140,635	\$ 8,747,262	\$ 10,604,077
Total Net Assets	6,140,635	8,747,262	10,604,077
Total Liabilities and Net Assets	\$ 8,691,172	\$ 11,608,640	\$ 12,787,977

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Schedule D - Historical Statements of Activities for Embrace Families, Inc.

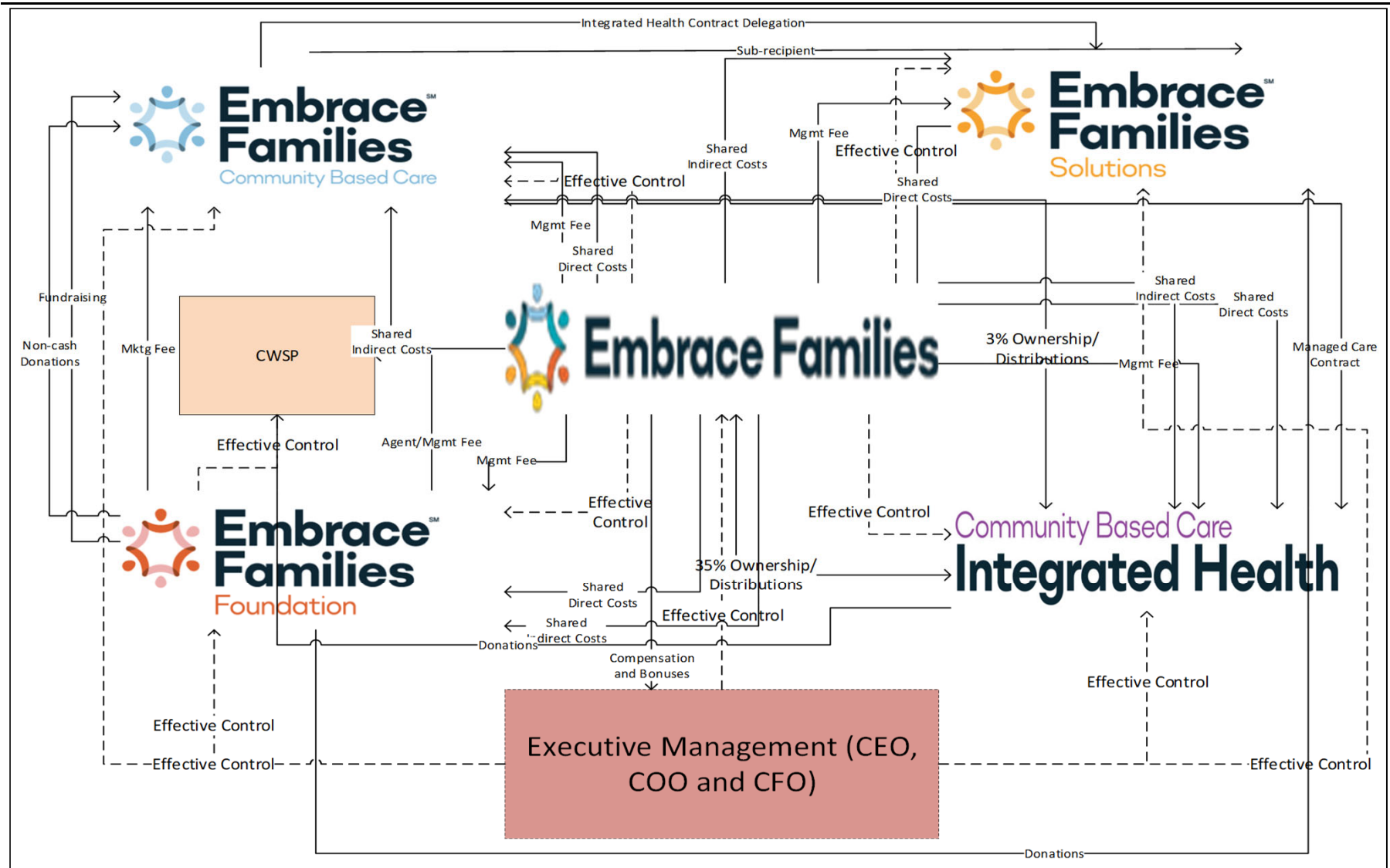
For the fiscal years ending,	2020		2021		2022	
Revenue						
Grants and contracts	\$	7,878,591	\$	8,537,982	\$	11,184,905
Contributions and other income		25,930		165,796		1,146,319
Earnings in equity method investments, net		467,474		2,198,180		12,950
Total Revenue	\$	8,371,995	\$	10,901,958	\$	12,344,174
Expenses						
Program services						
Other program services	\$	3,175	\$	-	\$	-
Total Program Services	\$	3,175	\$	-	\$	-
Supporting Services						
General and administrative	\$	8,100,612	\$	8,295,331	\$	10,449,464
Total Supporting Services	\$	8,100,612	\$	8,295,331	\$	10,449,464
Total Expenses	\$	8,103,787	\$	8,295,331	\$	10,449,464
Change in net assets	\$	268,208	\$	2,606,627	\$	1,894,710

See Forensic Examination Report.

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Schedule E - Summary of Unallowable Salary Costs

Unallowable HHS Salary Costs	FY 2019-2020	FY 2020-2021	Total
<i><u>Glen Casel Unallowable Costs</u></i>			
Glen Casel's Base Salary	\$ 290,799.79	\$ 299,661.78	\$ 590,461.57
Glen Casel Allocated Base Salary	113,900.00	122,331.00	236,231.00
Effective Allocation Rate	39.17%	40.82%	
Applicable HHS Salary Cap Limitation	\$ 194,950.00	\$ 198,300.00	\$ 393,250.00
Effective Allocation Rate	39.17%	40.82%	
Allowed Salary Allocation	\$ 76,361.92	\$ 80,946.06	\$ 157,307.98
Glen Casel Allocated Base Salary	113,900.00	122,331.00	236,231.00
Total Casel Unallowable HHS Salary Allocation	\$ 37,538.08	\$ 41,384.94	\$ 78,923.02
<i><u>Michael Bryant Unallowable Costs</u></i>			
Michael Bryant's Base Salary	\$ 210,201.00	\$ 226,844.59	\$ 437,045.59
Michael Bryant Allocated Base Salary	106,400.00	115,719.00	222,119.00
Effective Allocation Rate	50.62%	51.01%	
Applicable HHS Salary Cap Limitation	\$ 194,950.00	\$ 198,300.00	\$ 393,250.00
Effective Allocation Rate	50.62%	51.01%	
Allowed Salary Allocation	\$ 98,683.69	\$ 101,152.83	\$ 199,836.52
Michael Bryant Allocated Base Salary	106,400.00	115,719.00	222,119.00
Total Bryant Unallowable HHS Salary Allocation	\$ 7,716.31	\$ 14,566.17	\$ 22,282.48
Total Unallowable HHS Salary Allocation	\$ 45,254.39	\$ 55,951.11	\$ 101,205.50
Unallowable State Salary Costs			
<i><u>Glen Casel Unallowable Costs</u></i>			
Glen Casel's Base Salary including Bonuses	\$ 358,153.88	\$ 446,196.31	\$ 804,350.19
Glen Casel Allocated Base Salary including Bonuses	113,900.00	122,331.00	236,231.00
Effective Allocation Rate	31.80%	27.42%	
Applicable State Salary Cap Limitation	\$ 213,819.06	\$ 213,819.06	\$ 427,638.12
Effective Allocation Rate	31.80%	27.42%	
Allowed Salary Allocation	\$ 67,994.46	\$ 58,629.19	\$ 126,623.65
Glen Casel Allocated Base Salary including Bonuses	113,900.00	122,331.00	236,231.00
Total Casel Unallowable State Salary Allocation	\$ 45,905.54	\$ 63,701.81	\$ 109,607.35
<i><u>Michael Bryant Unallowable Costs</u></i>			
Michael Bryant's Base Salary including Bonuses	\$ 237,936.61	\$ 273,238.71	\$ 511,175.32
Michael Bryant Allocated Base Salary including Bonuses	106,400.00	115,719.00	222,119.00
Effective Allocation Rate	44.72%	42.35%	
Applicable State Salary Cap Limitation	\$ 213,819.06	\$ 213,819.06	\$ 427,638.12
Effective Allocation Rate	44.72%	42.35%	
Allowed Salary Allocation	\$ 95,619.88	\$ 90,552.37	\$ 186,172.25
Michael Bryant Allocated Base Salary including Bonuses	106,400.00	115,719.00	222,119.00
Total Bryant Unallowable State Salary Allocation	\$ 10,780.12	\$ 25,166.63	\$ 35,946.75
Total Unallowable State Salary Allocation	\$ 56,685.66	\$ 88,868.44	\$ 145,554.10

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Schedule F - Flow Chart of the Related Party Transactions



See Forensic Examination Report.

Embrace Families Community Based Care, 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

Embrace Families Community Based Care, Inc.
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

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Appendix A – Expert Qualifications



Brian Manuel, CPA, CFE

Manager in the Forensic Accounting & Dispute Services Line
(850) 878-8777 phone

BManuel@CRlcpa.com

Experience

Brian is a CPA in the audit and forensic department of Tallahassee office of Carr, Riggs & Ingram, LLC. He has over 15 years of experience providing tax and assurance services for closely held businesses, non-profit organizations, municipalities and state agencies. Brian currently serves as a manager at CRI in planning, supervising, and conducting audits and forensic examinations of governmental, not-for-profit, and local for-profit entities. Brian has extensive experience with audits of local governments, cities and municipalities ranging from cities with a few thousand residents to the serving as manager of the audits of the City of Jacksonville and City of Tallahassee. Brian has accumulated substantial experience through his career in internal control and compliance monitoring and auditing under Federal Acquisition Regulation (FAR), OMB Uniform Guidance, the North Carolina statues over single audits, and the Florida Single Audit Act.

Brian received his Bachelors of Science and Master of Accounting degrees from Appalachian State University in North Carolina. Brian is a member of the American Institute of Certified Public Accountants (AICPA), the Florida Institute of Certified Public Accountants (FICPA), and the North Carolina Association of Certified Public Accountants (NCACPA). Brian serves as the president of the Tallahassee chapter of the Association of Certified Fraud Examiners (ACFE). Brian also serves on the Board of Directors of 2-1-1 Big Bend a community services information and crisis hotline and the Tallahassee based Board of Directors of the Boy Scouts of America.

Education, Licenses & Certifications

- BSBA, Accounting, Appalachian State University
- MS, Accounting, Appalachian State University
- Certified Public Accountant (CPA) – North Carolina and Florida
- Certified Fraud Examiner (CFE)

Professional Affiliations/Awards

- American Institute of Certified Public Accountants (AICPA)
- Florida Institute of Certified Public Accountants (FICPA)
- North Carolina Association of Certified Public Accountants (NCACPA)
- Association of Certified Fraud Examiners (ACFE)

Embrace Families Community Based Care, 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 Embrace Families CBC;
- Embrace Families CBC Funding Profile provided by the Department;
- Applicable Florida Safe Families Network data;
- 2019-20 CBC-ME Financial Monitoring Tool, Desk Review, prepared by the Department's Office of CBC/ME Financial Accountability;
- 2020-21 CBC-ME Financial Monitoring Tool, Desk Review, prepared by the Department's Office of CBC/ME Financial Accountability;
- 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;
- Embrace Families, Inc. Articles of Incorporation;
- Embrace Families, Inc. Bylaws as amended;
- Embrace Families, Inc. Board of Director Resolutions;
- Embrace Families, Inc. Policies and Procedures;
- Embrace Families, Inc. Board of Director Meeting Minutes;
- Embrace Families Executive Committee Meeting Minutes;
- Embrace Families Finance and Audit Committee Meeting Minutes;
- Embrace Families Contract Procurement;
- Embrace Families Contract Monitoring;
- Embrace Families Employee Handbook;
- Embrace Families Finance and Accounting Policies and Procedures;
- Embrace Families, Inc. and Subsidiaries Consolidated Financial Report audited by RSM US LLP for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families, Inc. preliminary trial balance report for the fiscal year ending June 30, 2022 prepared by Embrace Families, Inc.'s management;
- Embrace Families, Inc. Forms 990 for the fiscal years ending June 30, 2020 and 2021 prepared by RSM US LLP;
- Embrace Families, Inc. General Ledger Detail Report for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families, Inc. Payroll Reports for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families, Inc. Report to the Board of Directors prepared by RSM US LLP for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families, Inc. Trial Balance Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- Management and Administrative Services Agreement between Embrace Families, Inc. and Embrace Families CBC;
- Invoices and related supporting documentation for related party expenditures including management fees;
- Embrace Families, Inc. Paycheck Protection Program Loan and Forgiveness Applications;
- Embrace Families CBC Articles of Incorporation;
- Embrace Families CBC Bylaws as amended;

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Appendix B – Source Documentation

- Embrace Families CBC Board of Director Resolutions;
- Embrace Families CBC Board of Director Meeting Minutes;
- Embrace Families CBC Financial and Compliance Report audited by RSM US LLP for the fiscal years ending June 30, 2020, 2021 and 2022;
- Embrace Families CBC Forms 990 for the fiscal years ending June 30, 2020 and 2021 prepared by RSM US LLP;
- Embrace Families CBC General Ledger Detail Report for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families CBC Audit Trail Report for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families CBC Payroll Reports for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families CBC Forms W-2 and 1099 Data for the fiscal years 2020 and 2021;
- Embrace Families CBC Compensation Market Pricing Report dated March 14, 2018;
- Embrace Families CBC Report to the Board of Directors prepared by RSM US LLP for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families CBC Trial Balance Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- Embrace Families CBC Paycheck Protection Program Loan and Forgiveness Applications;
- Embrace Families CBC Cost Allocation Plans for fiscal years 2020 and 2021;
- Embrace Families CBC Administrative Rate Submission and Supporting Documentation for fiscal years 2020 and 2021;
- Embrace Families CBC Budgets for fiscal years 2020 and 2021;
- Embrace Families CBC Monthly Submission Reports and Data to the Department for fiscal years 2020 and 2021;
- Embrace Families CBC Selected Procurement, Monitoring and Invoice Data for fiscal years 2020 and 2021;
- Network Provider Contracts between Embrace Families CBC and Solutions;
- Solutions Articles of Incorporation;
- Solutions Bylaws as amended;
- Solutions Board of Director Resolutions;
- Solutions Financial and Compliance Report audited by RSM US LLP for the fiscal years ending June 30, 2020 and 2021;
- Solutions Forms 990 for the fiscal years ending June 30, 2020 and 2021 prepared by RSM US LLP;
- Solutions General Ledger Detail Report for the fiscal years ending June 30, 2020 and 2021;
- Solutions Trial Balance Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- Services Agreements between Embrace Families CBC and Foundation;
- Foundation Articles of Incorporation;
- Foundation Bylaws as amended;
- Foundation Board of Director Resolutions;
- Foundation Financial and Compliance Report audited by RSM US LLP for the fiscal years ending June 30, 2020 and 2021;
- Foundation Forms 990 for the fiscal years ending June 30, 2020 and 2021 prepared by RSM US LLP;

Embrace Families Community Based Care, Inc.
Forensic Examination Supplementary Information
Appendix B – Source Documentation

- Foundation General Ledger Detail Report for the fiscal years ending June 30, 2020 and 2021;
- Foundation Trial Balance Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- Data Compilation and Statutory Compensation Limit Review (CIG Number 2021-01-25-0017) prepared by the Office of the Chief Inspector General;
- Embrace Families CBC Response dated April 16, 2021 to inquires from the Department;
- Contractor Related Parties assurance report prepared by the Department, Office of Inspector General;
- Embrace Families CBC Response dated August 27, 2021 to the draft Contractor Related Parties report prepared by the Department's Inspector General;
- Embrace Families CBC Response to Florida Auditor General's Request for Documentation dated April 20, 2016;
- Embrace Families CBC Response to the Office of the Chief Inspector General's Survey and Data Request;
- Embrace Families CBC Presentation to the Department regarding corporate reorganization dated 2013;
- Embrace Families CBC Board Meeting Minutes summary related to corporate reorganization;
- Embrace Families CBC Risk Pool Peer Review Committee Report for fiscal year 2020-2021;
- Integrated Health's Forms 1065 for the fiscal years ending June 30, 2020 and 2021 prepared by RSM US LLP;
- Integrated Health's Financial Reports audited by RSM US LLP for the fiscal years ending June 30, 2020 and 2021;
- Integrated Health's Report to the Board of Managers prepared by RSM US LLP for the fiscal years ending June 30, 2020 and 2021;
- Integrated Health's Trial Balance Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- Integrated Health General Ledger Detail Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- 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;
- 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).
- Nelson Mullins Correspondence to CRI dated April 7, 2023; and,
- CBC Casualty Insurance Limited Professional and General Liability Insurance Policies for fiscal years 2020 and 2021.