



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

Ron DeSantis
Governor

Shevaun L. Harris
Secretary

July 25, 2024

John Cooper, Chief Executive Officer
Kids Central, Inc.
901 Industrial Dr. Ste 200
Wildwood, FL 34785

RE: PJ503 - FY 2023-2024, Notice of Forensic Examination Findings and Corrective Action Plan Request

Dear Mr. Cooper,

Carr Riggs, & Ingram (CRI), LLC. was engaged by the Department to perform a forensic examination concerning the financial records of Kids Central, Inc. (KCI), 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 Kids Central 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**
Kids Central generally does not release new solicitations for certain existing vendors when the contract term (including renewals) ends. Within the sampled contract selection, Kids Central entered into four new contracts above the Simplified Acquisition Threshold of \$250,000 where no competitive solicitation was conducted. Thus, these contracts were not procured in compliance with Kids Central's policies and procedures as well as federal and state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.320. The costs associated with these contracts may be considered unallowable expenditures.
- **Inaccurate/Insufficient Cost Allocations**
Kids Central's allocations of its administrative costs are inaccurate and/or insufficient. Certain administrative/indirect costs (including executive compensation) were not appropriately allocated to Kids Central's non-Department grants, other revenue sources and Community Behavioral Health Approach, LLC. These inaccurate and/or insufficient allocations resulted in Kids Central overbilling the Department by approximately \$61,340.

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

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

Action: Kids Central must competitively procure all non-related contracts that were not competitively procured that are above the simplified acquisition threshold of \$250,000, within 60 days (release solicitation) of notice.

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

- **Inaccurate/Insufficient Cost Allocations**

Action: Kids Central must comply with their Department approved Cost Allocation Plan and must review all contracts and billing arrangements to ensure all amounts charged to the CBC are allowable under federal compliance. Kids Central must recalculate over- or under-billings related to its cost allocation percentages during the Analysis Period and immediately adjust its monthly invoicing procedures to comply with the approved plan, ensuring that all allocations are allowable and appropriate under the Department contract. Kids Central must provide a signed attestation within 60 days indicating they have completed this review and submit any allowable costs back to the Department, including any associated documentation and calculations.

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

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

Kids Central's ownership interested in Integrated Health appear to have arisen directly due to the Contract and may be considered as intellectual property (Contract Section 24) 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.

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

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

Kids Central's management and its Board of Directors approved annual internal budgets for Department funds that exceeded Department approved funding. Kids Central planned to expend more than Department allocated funding, which may have in part led to funding deficits.

The Department acknowledges that Kids Central has worked with the Department to develop a balanced budget based on contract revenue. Although during the examination review period, the Lead Agency did not have a balanced budget submitted to their Board of Directors (BOD), as of 12/14/23, the Department has received and approved and balanced

budget for FY 23/24 that has also been approved by the Lead Agency's BOD, therefore, this finding will not require an associated CAP.

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

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

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

Sincerely,



Kate Williams

Assistant Secretary, Office of Child & Family Well-Being

CC: Chad Barrett, Assistant Secretary for Administration
Kristi Gray, Community Director
Contract File



Kids Central, Inc.

**Forensic Examination Report and
Supplementary Information**

March 1, 2024

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Executive Summary

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

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

Findings

- **Noncompliance with Competitive Procurement Requirements for Non-Related Entities**
Kids Central generally does not release new solicitations for certain existing vendors when the contract term (including renewals) ends. Within the sampled contract selection, Kids Central entered into four new contracts above the Simplified Acquisition threshold of \$250,000 where no competitive solicitation was conducted. Thus, these contracts were not procured in compliance with Kids Central's policies and procedures as well as federal and state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.320. The costs associated with these contracts may be considered unallowable expenditures. Refer to Finding 4.
- **Budgeted Deficits for Contract Funds Approved by Board of Directors**
Kids Central's management and its Board of Directors approved annual internal budgets for Department funds that exceeded Department approved funding. Kids Central planned to expend more than Department allocated funding, which may have in part led to funding deficits. Refer to Finding 5.
- **Inaccurate/Insufficient Cost Allocations**
Kids Central's allocations of its administrative costs are inaccurate and/or insufficient. Certain administrative/indirect costs (including executive compensation) were not appropriately allocated to Kid Central's non-Department grants, other revenue sources and Community Behavioral Health Approach, LLC. These inaccurate and/or insufficient allocations resulted in Kids Central overbilling the Department by approximately \$61,340. Refer to Finding 6.

Observations

- **Potential Consideration of Integrated Health Funds as Contract Related Funds**
Kids Central's ownership interests in Integrated Health appear to have arisen directly due to the Contract and may be considered as intellectual property (Contract Section 24) 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 6.¹

¹ Subsequent to the review period and subsequent to CRI's initial forensic examination reports of other CBC lead

Based upon the investigative procedures performed and the corresponding findings, Kids Central had limited related party transactions in both nature and scale. Kids Central does not procure related party services/contracts, and it does not incur direct costs associated with its related parties. Kids Central did not sufficiently or accurately allocate its administrative costs between its various programs including with its wholly-owned subsidiary, Community Behavioral Health Approach, LLC. These inaccurate and/or insufficient allocations resulted in approximately \$61,340 in overbillings to the Department during the review period. The Department should consider further investigating to determine whether the Integrated Health revenues/distributions are Contract related, subject to federal and state requirements and offset Contract funds. The procedures performed by CRI and the resulting findings are discussed in greater detail within the Forensic Examination Report. This executive summary is not intended to stand alone without the additional context included within the Forensic Examination Report.

agencies, Sunshine Health terminated its relationship with Integrated Health, which was Integrated Health's sole source of revenue generation.

Background

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

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

Kids Central, Inc. (formerly known as Community Based Care of Ocala, Inc.) was established in 2002. Kids Central functioned as the lead agency for Citrus, Hernando, Lake, Marion, and Sumter counties since 2002. In or around July 2011, the Department entered into a new contract with Kids Central to provide foster care and related services to the aforementioned counties.⁸ The contract award for fiscal year 2019-2020 was \$53,170,881.⁹

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 Kids Central, Inc. as well as other lead agencies.

Scope

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

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

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

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

⁵ Ibid.

⁶ Ibid.

⁷ CBC Lead Agency Contract Amounts FY 19-20.

⁸ Florida DCF Standard Contract CN-PJL04.

⁹ CBC Lead Agency Contract Amounts FY 19-20

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.¹⁰ It is an organization's management that is responsible for the design, implementation of programs and controls to prevent, deter and detect fraud.¹¹ The SSFS requires that practitioners "obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations." CRI obtained such sufficient relevant data to support the basis for its conclusions and recommendations.

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

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

Expert Qualifications

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

¹⁰ AU Section 316, *Consideration of Fraud in a Financial Statement Audit*.

¹¹ *Ibid*.

Brent Sparkman, CPA, CFF, CITP

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

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

Ben Kincaid, CPA, CFE, CVA, CFF

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

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

Summary of Procedures Performed

1. Reviewed the Kids Central, Inc.'s contract including any amendments with the Department.
2. Conducted interviews with the following key personnel within the Department to obtain an understanding of the community-based care lead agencies, the related contracts, operations, policies and procedures, etc.:
 - a. Barney Ray, former Director of Revenue Management and Partner Compliance;
 - b. Winston Maxwell, Financial Analyst;
 - c. Maria Nistri, Contract Manager Supervisor; and,
 - d. Phebe Wehlen, Contract Manager.
3. Conducted interviews with the following key personnel within Kids Central, Inc. and its related companies to obtain an understanding of its operations, books and records:
 - a. John Cooper, Chief Executive Officer, Kids Central, Inc.;
 - b. Shalonda McHenry-Sims, Chief of Operations, Kids Central, Inc.;
 - c. John Aitken, Chief Financial Officer, Kids Central, Inc.;
 - d. David DeStefano, Chief of Strategy, Kids Central, Inc.;
 - e. Shelly LaFrance, Senior Director of Finance, Kids Central, Inc.;
 - f. Rebecca Shatt, Board Member, Kids Central, Inc.; and,
 - g. Lance Kinney, Board Chair, Kids Central Inc.
4. Reviewed general ledgers and financial records and identified any accounting irregularities that are not in compliance with federal and state laws, rules, regulations and policies.
5. Analyzed budget reports, audited financial statements, Forms 990 and other representations and determined whether the period cost and accruals were fairly represented.
6. Analyzed administrative costs, intercompany and related party transactions for allowability and proper disclosure/representations.
7. Examined the allowability of compensation accruals and payments made to officers in comparison to federal requirements, state laws, rules and regulations, and Kids Central, Inc.'s policies and procedures.
8. Reviewed invoices submitted by Kids Central, 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 Kids Central, 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 PJO4 (Contract), with Kids Central, Inc. (Kids Central) in or around July 2011. The Contract established Kids Central 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 Citrus, Hernando, Lake, Marion, and Sumter counties. The Contract has been amended 52 times through the most recent amendment effective as of September 8, 2021. The Contract amendments primarily related to increases in the contract amount available to Kids Central. The Contract and associated amendments document the scope of work and services to be provided by Kids Central, the deliverables due to the Department during contract performance, the payment methodology and other special provisions as defined within the Contract and its amendments.

The clients to be served under the Contract are eligible children and families who are in need of family support services, safety management services, independent living services, adoption services and post-adoption services. Under the provisions of the Contract, Kids Central 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 \$226.79 million. As of September 8, 2021, the contract amount was amended and increased to \$525.69 million, which is an increase of \$298.9 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.¹² Lead agencies may also receive "Back of the Bill" funding from the Florida Legislature.

Lead agencies, including Kids Central, 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*.

¹² <https://www2.myflfamilies.com/service-programs/child-welfare/kids/publications/risk-pool-reports.shtml> (accessed April 26, 2023).

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

The Department provided an overview of the PJO4 contract with Kids Central. The Department also provided an overview of the Kids Central operations. The Department indicated that Kids Central, Inc., and Community Behavioral Health Approach, LLC (CBHA) are related parties. The Department also noted two other related entities, Community Based Care Integrated Health, LLC (Integrated Health) and CBC Casualty Insurance Limited (Casualty Insurance).

The Department's primary interaction with Kids Central is during the monthly submission of the Contract invoice and Monthly Actual Expenditure Report. The Department reviews these monthly submissions and reconciles these documents to the Other Cost Accumulator (OCA) Summary and Detail Report, which contains the actual programmatic expenditures at the participant level managed within Florida Safe Families Network (FSFN). The Department also receives and reviews the program budget and cost allocation plan submitted by Kids Central 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." Kids Central was identified by the Department as having various related party relationships including with CBHA.

Finding 3

Understanding of Kids Central and its Related Entities

The interviews provided us with an understanding of Kids Central's books, records and policies and procedures. The interviews also provided us an understanding of how Kids Central conducts the CBC programs within the Contract scope and how it operates within the related parties. Kids Central essentially functions as the parent organization for CBHA. Kids Central is the primary entity generating revenues/expenditures and allocates certain costs to CBHA. Kids Central also maintains an ownership interest in Integrated Health and Casualty Insurance. A graphical depiction of the related party entities is presented on the following page.

Kids Central, Inc. Forensic Examination Report



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

As non-profit organizations, Kids Central and CBHA do not have members, shareholders, etc. Kids Central consolidates its audited financial statements with CBHA. Kids Central's audited financial statements refer to CBHA as a wholly-owned subsidiary, which was created "to establish a network of qualified subcontracts to provide Comprehensive Behavioral Health Assessments for the children placed in [Kids Central's] care." Integrated Health is referred to by Kids Central's audited financial statements as being a related party.

Understanding of Kids Central

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

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

Kids Central'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 Kids Central's management includes performance of a risk assessment for each individual contract and performance of monitoring activities at least once every three years. Financial monitoring is conducted annually by Kids Central.

The current structure of Kids Central arose in or around 2015. Per discussions with management, Kids Central had difficulties obtaining quality behavioral health assessments in its geographical area. As such, Kids Central created CBHA to address this need. Kids Central provides referrals to CBHA for behavioral health assessments. Medicaid pays CHBA for these assessments, and Kids Central allocates certain costs to CBHA. These allocated costs are discussed in further detail in Finding 6 of this report.

Understanding of Community Behavioral Health Approach, LLC

Community Behavioral Health Approach, LLC is a wholly-owned subsidiary of Kids Central, and CBHA's board of directors is the same as Kids Central's board of directors. CBHA is an approved Medicaid provider for behavioral health assessments. CBHA maintains a network of mental health care agencies to conduct these behavioral health assessments as well as perform quality reviews of the behavioral health assessments. Medicaid pays CBHA for these behavioral health assessments. No direct CBHA costs are charged to Kids Central or the Contract. Certain employee compensation and indirect costs are paid by Kids Central, and these costs are allocated from Kids Central to CBHA.

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. Kids Central, Inc. has a 16.67% investment in Casualty Insurance. The remaining ownership interest is held equally among five other CBC organizations in Florida. Kids Central paid \$135,909 in premium payments to Casualty Insurance during the review period, and Casualty Insurance reported minimal net income.

Understanding of Integrated Health

Integrated Health was organized to engage in the child welfare managed care business throughout Florida by managing the Medicaid services provided to children in Sunshine Health's Child Welfare Specialty Plan (the Plan). Integrated Health is partially owned through a 2% ownership interest held by Kids Central. 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.¹³

Finding 4

Review of General Ledgers and Financial Records

We reviewed Kids Central'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.

¹³ Subsequent to the review period and subsequent to CRI's initial forensic examination reports of other CBC lead agencies, Sunshine Health terminated its relationship with Integrated Health, which was Integrated Health's sole source of revenue generation.

Overview of Contract Procurement

Kids Central 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. Kids Central's procurement policies and procedures were established by Kids Central. Kids Central reviews the procurement policies and procedures annually in accordance with the Contract.

The procurement policies and procedures establish a protocol of procedures for selecting agencies and individuals to provide goods and services related to community based care, either directly to clients or to Kids Central. The procurement policy defines several thresholds to determine solicitation methods including: purchases less than \$3,000; purchases between \$3,001 and \$10,000; purchases between \$10,001 and \$100,000; purchases between \$100,001 and \$250,000; and purchases over \$250,000. These thresholds also determine the *minimum* type of solicitation process to be used.

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

For purchases over \$250,000, the approved procurement policies state that the applicable organization's procurement file will include the following:

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

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

Contract Procurement for Non-Related Entities

A haphazard selection of four non-related party sub-recipients and contractors receiving annual payments during the review period in excess of \$250,000 from Kids Central was made to determine Kids Central'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 is presented in the below table.

Kids Central, Inc.
Forensic Examination Report

Sampled Entities	Signed Contract	Invoices	Public Notice/Solicitation	Budget/Cost Price Analysis	Consideration of Multiple Applicants
Youth and Family Alternatives, Inc.	X	X		X	X
Lifestream Behavioral Center, Inc.	X	X		X	
Camelot Community Care, Inc.	X	X		X	X
The Centers, Inc.	X	X		X	X

Kids Central indicated that the above sampled entities had been providing services to Kids Central 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, Kids Central was unable to produce public notice/solicitation for the four entities sampled. Kids Central did provide public notice/solicitation documentation for three of these entities that occurred in relation to prior year contracts. For Lifestream Behavioral Center, Inc., Kids Central provided documentation reflecting that the contract was procured in 2016 through emergency procurement. No documentation was provided reflecting competitive procurement for Lifestream Behavioral Center, Inc. in the years subsequent to this emergency procurement.

As identified above, Kids Central entered into *new* contracts with four entities where no solicitation documentation for the new contracts was provided. The existence of new contracts was supported by newly defined contract periods, newly defined contract renewal periods, lack of referral to prior contracts, etc. For example, Kids Central provided a contract for Youth and Family Alternatives, Inc. for fiscal year 2019-2020. The provided contract for this entity did not make a reference to a prior contract. For support of a competitive solicitation, Kids Central provided solicitation documentation related to this entity/procured services that had occurred in late 2015. No solicitation documentation was provided by Kids Central for the fiscal year 2019-2020 contract, and no solicitations for these services were identified as being posted to Kids Central’s website per review of the available internet archives. During CRI’s interviews with Kids Central, CRI asked a series of questions regarding contract renewals versus new contracts. Multiple personnel confirmed that Kids Central does not generally release new solicitations for existing vendors when the contract terms (including renewals) end unless Kids Central is unhappy with a vendor’s performance, needs a new vendor or needs a new service.

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

Contract Procurement for Related Entities

2 CFR Part 200.319 requires that “all procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and § 200.320.” This CFR section specifically indicates that “organizational conflicts of interest” may be considered a restriction on competition. Per management, Kids Central does not procure services from its related entity. These statements were supported by CRI’s analysis of both Kids Central and CBHA’s general ledger detail reports.

Kids Central's policies and procedures prohibit employees, officers, agents, etc. from being involved in the selection, award or administration of a contract where a conflict of interest would be involved. Management noted that one of its non-voting board members was the chief executive officer of a subcontractor utilized by Kids Central. Management indicated that this board member was recused from discussions involving the subcontractor and did not vote on any matters. These statements were supported by CRI's inspection of the board meeting minutes, conflict of interest disclosures, etc. No other conflicts of interest were noted.

Paycheck Protection Program Analysis – Kids Central

On or around April 3, 2020, Kids Central applied for a Paycheck Protection Program (PPP) loan under the rules/guidelines established by the U.S. Small Business Administration (SBA).¹⁴ Kids Central was approved and issued a PPP loan totaling \$1,732,700 on or around April 6, 2020.¹⁵ On or around May 27, 2021, Kids Central received forgiveness for the full PPP loan amount of \$1,750,074, including accrued interest.¹⁶

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 2020.¹⁷ 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.¹⁸

The majority of Kids Central's activities are funded fully or in part by federal, state and/or local grants. The primary source of revenue for Kids Central is its Contract with the Department, which represents 91% of its \$55 million in reported revenue per Kids Central's 2021 audited financial statements. Kids Central's Contract with the Department is in part based on cost reimbursement, wherein Kids Central 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.¹⁹

After Kids Central received notice of full PPP loan forgiveness in May 2021, Kids Central prepared an allocation indicating that \$1,587,216.40 (or 91.60%) of the PPP loan forgiveness amount (excluding interest) was related to the Department's Contract. Per Mr. Aitken, Kids Central's CFO, Kids Central recognized the PPP loan forgiveness as grant revenue in fiscal year 2020-2021 and submitted monthly expenditure reports to the Department reflecting the PPP loan forgiveness credit of \$1,587,216.40. Per Mr. Aitken, the Department subsequently requested that the PPP loan forgiveness credit be applied to fiscal year 2021-2022 instead. Kids Central complied with this request and increased its deferred revenue to account for this change.

CRI analyzed Kids Central's PPP allocation schedule, and it appears that Kids Central's PPP allocation was reasonable. Kids Central also provided documentation reflecting its credit of the PPP loan forgiveness in fiscal year 2021-2022. Based on the foregoing information, the Department was appropriately credited for Kids Central's PPP loan forgiveness.

¹⁴ Kids Central Paycheck Protection Program, Borrower Application Form.

¹⁵ Kids Central SBA Loan Note.

¹⁶ Kids Central Citizens First Bank Loan Statement.

¹⁷ <https://www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program/first-draw-ppp-loan> (accessed April 26, 2023).

¹⁸ Ibid.

¹⁹ Contract PJJ04, Section 36.

Finding 5

Analysis of Financial Reports - Budgets

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

During the review period, two fiscal year budgets were prepared by management and approved by Kids Central's Board of Directors. Kids Central 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. For fiscal year 2019-2020, there was a significant variance between the budgeted expenditures submitted to the Department and the initial budgeted expenditures approved by the Board of Directors. This resulted in a budgeted deficit of \$1,143,117 related to the Contract for fiscal year 2019-2020. In February 2020, the Board of Directors approved a revised budget with decreased budgeted expenditures, which resulted in a reduced budgeted deficit of \$287,040.

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 Kids Central budgeting more in Department expenditures than the contracted funds, Kids Central 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.

Per discussions with members of the Board of Directors as well as management, they do not generally rely on "Back of the Bill" funding or risk pool funds, as there is no guarantee that they will receive the funds. In certain cases, management will take various actions throughout the year to help limit or cut costs to avoid deficits. Management also indicated that it is allowed to generate/run deficits related to the Contract. Kids Central also submits corrective action plans to the Department related to any deficits to help alleviate the deficits. Management further indicated that by the end of the fiscal year, it is generally able to limit projected deficits within a few hundred thousand dollars each year.

Analysis of Financial Reports – Audited Financial Statements

During the review period, external audits were completed annually for Kids Central by Purvis, Gray and Company, LLP. The audited financial statements of Kids Central are prepared on a consolidated basis and include the operations of Kids Central and CBHA. In the presentation of the audited financial statements of Kids Central, the Contract with the Department is included within the note disclosures, none of which present current financial information in a format that represents the contract-specific expenses for the respective fiscal year. The information disclosed related to the Contract with the Department includes reference to the duration of the Contract including renewals, notations that future awards are conditional and contingent upon meeting requirements within the Contract, funding concentrations and cost allocations related to the Contract. The notes of the audited financial

statements also include details related to Kids Central's ownership interest in Integrated Health and Casualty Insurance.

Analysis of Financial Reports – Forms 990

Kids Central's Forms 990, Return of Organization Exempt From Income Tax, were analyzed for the review period. The Forms 990 were prepared by Purvis, Gray and Company, LLP. Purvis, Gray and Company, LLP also performs the annual consolidated financial statement audits and applicable single audits for Kids Central. The Forms 990 filed for Kids Central are consolidated and include the financial activities for both Kids Central and CBHA. 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 delineates the base, bonus & incentive, retirement, and nontaxable compensation/benefits for officers, directors, trustees, key employees and highest compensated employees. This form is only completed for officers, directors, etc. that receive compensation above \$150,000. For Kids Central, the Chief Executive Officer (CEO) is the only reported employee that received compensation in excess of \$150,000. Executive officer compensation reported by Kids Central corresponds to the reported compensation within Kids Central'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. Kids Central properly reported CBHA as a disregarded entity on its Forms 990, Schedule R filed during the review period.

Finding 6

Analysis of Administrative, Intercompany and Related Company Costs

As previously indicated, Kids Central functions as the lead agency/provider for the Contract. Its wholly-owned subsidiary, CBHA, provides behavioral health assessments for children in care that are required to have such assessments. Integrated Health oversees the Medicaid managed care services.

Kids Central and CBHA share common management, board of directors, policies and procedures, employees and various direct and indirect costs. These shared costs include, but are not limited to, rent, utilities, information technology services, employee compensation, etc. Per management, there is no contract between Kids Central and CBHA, and CBHA does not charge Kids Central for any services. This was supported by CRI's analysis of Kids Central and CBHA's general ledger detail reports.

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

For employees including management that may be identifiable to one or more programs or cost pools, Kids Central requires these employees to prepare and submit monthly time logs. The employee's recorded time is utilized as the allocation base between the different programs and cost pools. Kids Central indicated that only one employee works directly on CBHA related activities. This employee also works on programs for Kids Central. As such, the number of hours in a month this employee spends on CBHA related activities compared to the employee's total monthly hours is utilized to allocate the applicable payroll costs to CBHA from Kids Central. No other employee's payroll costs are allocated to CBHA.

CRI requested the payroll documentation for Kids Central as well as the monthly time logs. CRI compared the provided payroll documentation for Kids Central to the applicable general ledgers. No discrepancies were noted. CRI subsequently analyzed the monthly time logs and subsequent cost allocations for accuracy. CRI noted limited discrepancies between the monthly time logs and the actual cost allocations. It appears that these discrepancies were due to input/coding errors, and the discrepancies resulted in a *de minimis* amount of inaccurate allocations. Other discrepancies related to the lack of allocations related to the CEO's medical insurance expense.

Although Kids Central and CBHA are consolidated for tax and audit purposes and share executive management, finance, accounting, etc., Kids Central did not allocate any executive compensation to CBHA. Kids Central's management confirmed that there were no such allocations to CBHA and indicated that any allocations would be minimal due to the limited amount of activity generated by CBHA.

One of Kids Central's cost pools is Cost Pool 105, Administrative. Per Kids Central's cost allocation plan, the administrative cost pool includes administrative or indirect costs; such as, expenses related to executive officers, personnel administration, accounting, etc. During CRI's analysis of Kids Central's general ledger detail reports, as well as the related allocation schedules, CRI noted that Kids Central's administrative cost pool was allocated solely to the Department's Contract. Kids Central's management confirmed that the administrative cost pool is not allocated outside of the Contract to other grants or programs unless an employee directly works on that grant or program.

The time logs submitted by executive management and other administrative personnel reflect that the majority of their time is spent on the Department's Contract. Time recorded by executive management and other administrative personnel related to the Contract are charged to the administrative cost pool. Any time directly spent by executive management and other administrative personnel on these other programs are denoted on the time logs and the costs are directly allocated to these programs accordingly. There is no indirect allocations of the executive management and other administrative personnel's compensation and other related costs to these other non-Contract programs.

For example, in fiscal year 2020-2021, the CFO's compensation was directly allocated to six out of the twelve non-Contract programs (including CBHA), which indicates that six non-Contract programs (including CBHA) were not allocated any costs related to the CFO. This is despite the CFO related costs benefiting all programs including CBHA. Other non-compensation related indirect costs including audit expenditures were not allocated to all non-Contract programs (including CBHA). Thus, Kids

Central's administrative/indirect costs were not allocated in accordance with its cost allocation plan or in accordance with 2 CFR 200.

In fiscal year 2020-2021, the administrative cost pool totaled \$2,083,055.64 (all of which was allocated to the Contract). Had these administrative costs been allocated using the number of full-time equivalent (FTE) positions related to each program (including CBHA), this would have resulted in an estimated reduction in administrative costs billed to the Department of \$42,910. In fiscal year 2019-2020, the administrative cost pool totaled \$1,806,836.76 (all of which was allocated to the Contract). Had these administrative costs been allocated using the number of FTE positions related to each program (including CBHA), this would have resulted in an estimated reduction in administrative costs billed to the Department of \$18,430. Thus, Kids Central may have overbilled the Department by approximately \$61,340.

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.^{20, 21} 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.²² Integrated Health is also required to make "every good faith effort to contract with the new designated lead agency CBC in the impacted area."²³ 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. Kids Central held a 2% ownership interest in Integrated Health in fiscal years 2019-2020 and 2020-2021, respectively. The Class C membership unit appoints one of the five Board Managers.

The Class B membership units are held by Embrace Families, Inc. and consist of a 35% ownership

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

²¹ The number of CBCs represented may change depending on the time period referenced.

²² Vendor Agreement between Integrated Health and Sunshine Health dated December 12, 2016.

²³ Ibid.

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

As a participating CBC lead agency, Kids Central receives revenue from Integrated Health. For the years ended June 30, 2020 and 2021, Kids Central received \$339,486 and \$357,917 in revenue from Integrated Health, respectively. As a member of Integrated Health, Kids Central also received \$20,000 and \$70,000 in distributions from Integrated Health during the years ended June 30, 2020 and 2021, respectively. Kids Central considers both the revenues as well as the distributions to be unrestricted funds (i.e., non-State, non-Contract, etc. related funds).²⁴

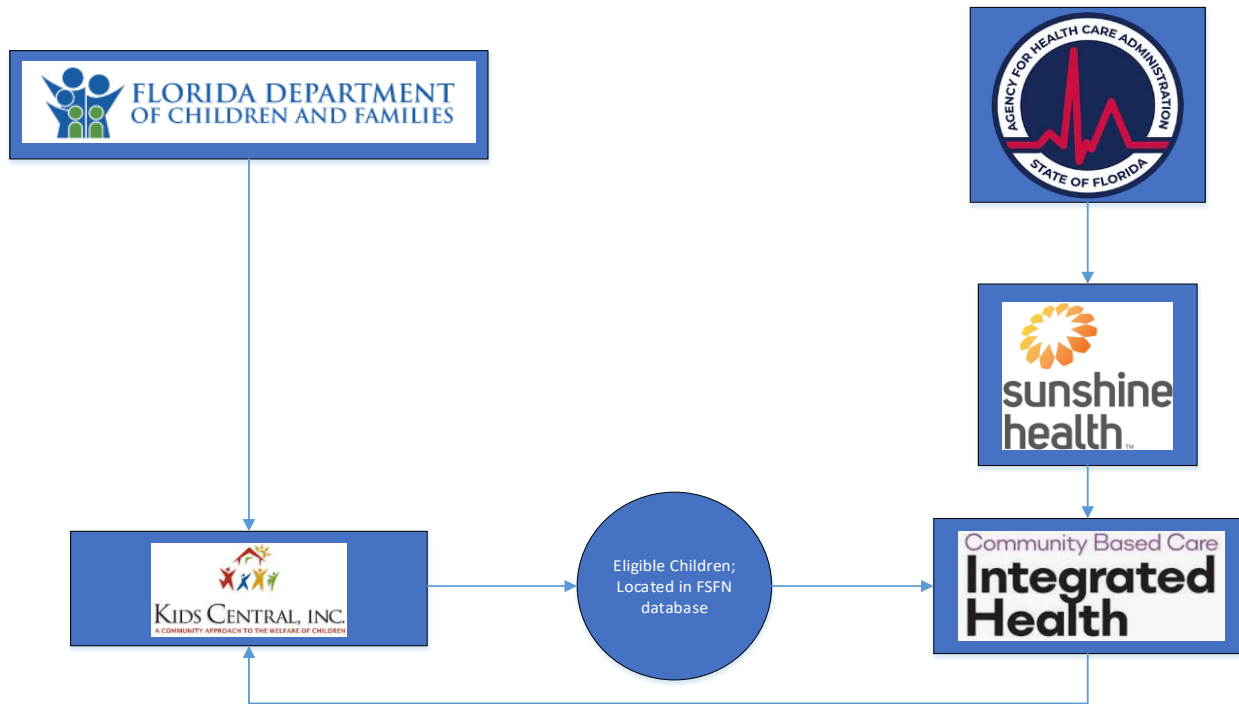
As outlined above, Kids Central and the other CBC lead agencies have considered the funds generated via Integrated Health to be unrestricted/non-Contract funds. Per Exhibit II-C of the Child Welfare Specialty Plan dated February 1, 2018 as well as management, the children that are eligible to participate 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.²⁵ Sunshine Health is also required to collaborate with the CBC lead agencies to facilitate obtaining medical and case plan information and records.²⁶ 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.

²⁴ It is important to note that unrestricted funds are funds that management/the Board of Directors can use for whatever purpose it deems appropriate.

²⁵ Exhibit II-C, Child Welfare Specialty Plan dated February 1, 2018.

²⁶ Ibid.

Kids Central, Inc. Forensic Examination Report



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.” Kids Central’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 Kids Central’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 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 Kids Central, 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 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.”²⁷ 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 Kids Central, Inc.), disclosure of Integrated Health’s financials is limited to the note disclosures of the various CBC lead agencies’ audited financial statements. Kids Central’s audited financial statements contain note disclosures recognizing CBC Integrated Health, LLC as a related party.

Finding 7

Analysis of Officer Compensation

Kids Central’s officers/executive management include the CEO, CFO and COO. The CEO, CFO and COO are employed directly by Kids Central, and the CEO’s compensation is generally determined by Kids Central’s Board of Directors. In Attachment I, Section B.1.a.6 of the Contract, it states that Kids Central shall “comply with all state laws and rules and federal laws and regulations.” As indicated by the Contract, its amendments and Kids Central’s audited financial statements, Kids Central receives significant pass-through federal funding via the Contract. A large portion of these federal funds originated from the U.S. Department of Health and Human Services (HHS).

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

HHS established a salary cap limitation for its direct federal awards and federal pass-through grants. Kids Central received federal pass-through grants (via the Department) from HHS. As a result, Kids Central 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

²⁷ Children’s Network of Hillsborough, LLC’s Risk Pool Funding Application SFY 2022-2023.

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, no salaries exceeded the established salary cap.

In accordance with Florida Statute, 409.992(3), the Department has established limits to the administrative compensation that can be charged to the Contract. For both fiscal years within the review period, the annual administrative compensation limit was \$213,819. The 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. During the review period, no salaries exceeded the established salary cap.

Finding 8

Invoice Analysis

Kids Central 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 Kids Central 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 Kids Central 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 Kids Central. 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 Kids Central 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 Kids Central's reporting to the monthly OCA and FSFN generated reports.

CRI reviewed the monthly expenditure reports, FSFN to CBC expenditure reconciliation report, and the monthly OCA summary and detail reports for each month within the review period. The analysis did not identify any unreconciled differences between the monthly expenditure reporting provided by the Department and Kids Central, 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 Kids Central during the review period to Kids Central's general ledger. The general ledger details were obtained from the Department's retained submission of the monthly financial reporting packet and from Kids Central directly. This procedure was performed for each month within the review period. The analysis identified various monthly differences. However, these monthly differences were resolved in subsequent months or during the year-end reporting. As such, we did not identify unreconciled differences between the monthly expenditure reporting prepared by Kids Central and Kids Central's general ledger.

Finding 11

Deferred Revenue Analysis

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

Kids Central initiated the 2020 fiscal year with deferred revenue (State fund carryforward). During the review period, Kids Central generated additional deferred revenue (State fund carryforward) in part due to the PPP loan forgiveness. No discrepancies were noted in the deferred revenue balances reported by Kids Central. It should be noted that this analysis focuses on the deferred revenue as reported by Kids Central. It does not consider the impact of the other findings within this report on deferred revenue.

Summarized Findings, Observations and Effects

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

Findings

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

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

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

2. Board Approval of Department Deficit Budgets

Finding: Kids Central's management and its Board of Directors prepared and approved annual budgets for Department funds that exceeded Department approved funding.

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

3. Inaccurate/Insufficient Cost Allocations

Finding: Kids Central incurs costs that are directly and indirectly allocable to its programs and the Contract. Administrative and indirect costs are allocated to the programs based on the methodologies outlined in Kids Central's annual cost allocation plan. In limited instances, direct and indirect costs were not allocated in accordance with the cost allocation plan and/or the supporting allocation documentation. These limited instances resulted in a *de minimis* amount of inaccurate allocations. In other instances, certain administrative/indirect costs (including executive compensation) were not appropriately allocated to Kid Central's non-Department grants, other revenue sources and CBHA. Had Kids Central appropriately allocated these administrative/indirect costs to the non-Department programs (including CBHA), estimated costs totaling \$61,340 would not have been billed to the Department. Thus, Kids Central's administrative/indirect costs were not allocated in accordance with its cost allocation plan or in accordance with 2 CFR 200, and Kids Central may have overbilled the Department.

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

Observations

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

Finding: Kids Central's ownership interest in Integrated Health appears to have arisen directly due to Kids Central's Contract with the Department and may be considered as intellectual property (Contract Section 24) 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 Kids Central 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.

Conclusion

Based upon the foregoing information, Kids Central had limited related party transactions during the review period. Kids Central did not procure services with its related entities, and it did not incur direct costs related to these related entities. Kids Central did not sufficiently or accurately allocate its administrative costs between its various programs including with its wholly-owned subsidiary, CBHA.

These inaccurate and/or insufficient allocations resulted in approximately \$61,340 in overbillings to the Department during the review period.

Non-related party contracts were not competitively procured in accordance with Kids Central's policies and procedures as well as federal and state procurement laws, rules, regulations, etc. including, but not limited to, 2 CFR Part 200.318/319/320. These expenditures may be considered unallowable costs. The Department should consider further investigating to determine whether or not the Integrated Health revenues/distributions are Contract related, subject to federal and state requirements and offset Contract funds.²⁸

²⁸ Subsequent to the review period and subsequent to CRI's initial forensic examination reports of other CBC lead agencies, Sunshine Health terminated its relationship with Integrated Health, which was Integrated Health's sole source of revenue generation.

Supplementary Information

Kids Central, Inc.
Forensic Examination Supplementary Information
Schedule A - Historical Consolidated Statements of Financial Position

For the fiscal years ending,	2020	2021	2022
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 6,685,103	\$ 9,398,131	\$ 10,269,462
Accounts Receivable			
Grants and Provider Receivable	927,350	412,316	895,187
Unbilled Grants Receivable	653,229	950,334	1,103,445
Other Receivable	13,563	6,319	5,953
Prepays	121,824	94,734	190,847
Total Current Assets	\$ 8,401,069	\$ 10,861,834	\$ 12,464,894
Property and Equipment, Net	373,407	275,553	1,020,794
Other Assets			
Restricted Cash - Client Trust Funds	\$ 278,990	\$ 510,689	\$ 357,122
Investments	-	769,176	-
Other Assets	137,448	137,448	131,232
Total Other Assets	\$ 416,438	\$ 1,417,313	\$ 488,354
Total Assets	\$ 9,190,914	\$ 12,554,700	\$ 13,974,042
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable - Operating	\$ 2,693,243	\$ 2,261,453	\$ 3,429,801
Accounts Payable - DCF	395,945	1,871,334	1,356,490
Accrued Payroll and Related Expenses	1,199,251	1,745,627	2,005,377
Deferred Revenue	269,209	3,291,583	2,665,327
Total Current Liabilities	\$ 4,557,648	\$ 9,169,997	\$ 9,456,995
Long-Term Liabilities			
Note Payable (PPP Loan)	\$ 1,732,700	\$ -	\$ -
Master Trust Liability	278,990	510,689	355,738
Total Long-Term Liabilities	\$ 2,011,690	\$ 510,689	\$ 355,738
Total Liabilities	\$ 6,569,338	\$ 9,680,686	\$ 9,812,733
Net Assets			
Without Donor Restrictions			
Invested in Property and Equipment	\$ 373,407	\$ 275,553	\$ 1,020,794
Undesignated	2,248,169	2,598,461	3,140,515
Total Net Assets	\$ 2,621,576	\$ 2,874,014	\$ 4,161,309
Total Liabilities and Net Assets	\$ 9,190,914	\$ 12,554,700	\$ 13,974,042

See Forensic Examination Report.

Kids Central, Inc.
Forensic Examination Supplementary Information
Schedule B - Historical Consolidated Statements of Activities

For the fiscal years,	2020	2021	2022
Revenue and Support			
State and Federal Revenues			
DCF Services Contract	\$ 53,439,047	\$ 52,960,377	\$ 61,018,549
Grants - Other	374,181	2,460,242	797,541
Total State and Federal Revenues	\$ 53,813,228	\$ 55,420,619	\$ 61,816,090
Other Revenues			
Donations	\$ 205,934	\$ 175,350	\$ 184,572
Interest Income	21,388	11,046	15,397
Gain/(Loss) on Investments	-	18,556	(95,795)
Contractual Service Revenue	2,133,846	2,214,924	3,191,584
Other Revenue	104,595	209,784	191,712
Total Other Revenues	\$ 2,465,763	\$ 2,629,660	\$ 3,487,470
Total Revenue and Support	\$ 56,278,991	\$ 58,050,279	\$ 65,303,560
Expenses			
Salaries	\$ 9,006,464	\$ 12,003,053	\$ 13,544,037
Benefits	2,103,203	2,886,749	3,139,257
Out-of-Home Care Payments	22,904,149	24,179,603	29,640,424
Contracted Services	18,480,532	14,953,682	13,260,957
Flex Funds	41,739	19,639	21,563
Staff Recruitment	-	303	6,544
Training	36,250	27,965	88,687
Travel	358,932	235,257	375,461
Occupancy and Utilities	644,098	785,865	900,227
Telephone and Data Lines	220,229	275,860	317,420
Supplies	155,632	114,182	289,319
Postage	20,371	21,387	21,554
Professional Fees	496,390	628,001	771,875
Consultants	197,053	369,426	235,342
Insurance	309,492	326,610	332,297
Minor Equipment and Maintenance	238,447	285,486	313,449
Other Expenses	550,096	487,074	535,116
Depreciation	240,178	197,699	222,736
Total Expenses	\$ 56,003,255	\$ 57,797,841	\$ 64,016,265
Change in Net Assets	\$ 275,736	\$ 252,438	\$ 1,287,295

See Forensic Examination Report.

Kids Central, 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

Kids Central, 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

Kids Central, 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 Kids Central;
- Kids Central Funding Profile provided by the Department;
- Applicable Florida Safe Families Network data;
- 2019-20 CBC Desk Review Financial Monitoring Report, prepared by the Department's Office of CBC/ME Financial Accountability;
- 2020-21 CBC Desk Review Financial Monitoring Report, prepared by the Department's Office of CBC/ME Financial Accountability;
- Kids Central Articles of Incorporation;
- Kids Central Bylaws as amended and restated;
- Kids Central Policies and Procedures;
- Kids Central Board of Director Rosters;
- Kids Central Board of Director Meeting Minutes and Packets;
- Kids Central Committee Meeting Minutes;
- Kids Central Cost Allocation Plans for fiscal years 2020 and 2021;
- Kids Central Financial Statements and Additional Information audited by Purvis, Gray and Company, LLP for the fiscal years ending June 30, 2019 through 2022;
- Kids Central Forms 990 for the fiscal years ending June 30, 2019 through 2022 prepared by Purvis, Gray and Company, LLP;
- Kids Central General Ledger Detail Report for the fiscal years ending June 30, 2020 and 2021;
- Kids Central Budgets for fiscal years 2020 and 2021;
- Kids Central Monthly Submission Reports and Data to the Department for fiscal years 2020 and 2021;
- Kids Central Selected Procurement and Invoice Data for fiscal years 2020 and 2021;
- Kids Central Payroll Reports for the fiscal years ending June 30, 2020 and 2021;
- Kids Central Time Log Reports for the fiscal years ending June 30, 2020 and 2021;
- Kids Central bank statements for the fiscal years ending June 30, 2020 and 2021;
- Kids Central master vendor lists for the fiscal years ending June 30, 2020 and 2021;
- Kids Central Select Allocation Supporting Schedules for the fiscal years ending June 30, 2020 and 2021;
- CBC Casualty Insurance Limited Professional and General Liability Insurance Policies for fiscal years 2020 and 2021.
- Kids Central Trial Balance Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- Kids Central Paycheck Protection Program Loan and Forgiveness Applications;
- Invoices and related supporting documentation for related party expenditures including management fees;
- CBHA Articles of Organization;
- CBHA Trial Balance Reports prepared by management for the fiscal years ending June 30, 2020 and 2021;
- CBHA General Ledger Detail Report 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;



Kids Central, Inc.
Forensic Examination Supplementary Information
Appendix B – Source Documentation

- Contractor Related Parties assurance report prepared by the Department, Office of Inspector General;
- Vendor Agreement between Integrated Health and Sunshine State Health Plan and Amendments;
- Office of Federal Assistance Management, Division of Grants Policy, External Grants Policy Bulletins related to Salary Cap Limitations; and,
- Applicable Federal and State Laws, Rules, Regulations, etc. including, but not limited to, 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; Florida Statutes Section 215.97; and, Florida Statutes Section 402.7305(4).