



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

Ron DeSantis
Governor

Shevaun L. Harris
Secretary

August 22, 2023

Nadereh Salim, Chief Executive Officer
Children's Network of Southwest Florida, LLC
2232 Altamont Avenue
Fort Myers, FL 33901

RE: QJ016 FY 2023-2024, Notice of Forensic Audit Findings and Corrective Action Plan Request

Dear Ms. Salim,

Thomas Howell Ferguson P.A. ("THF"), was engaged by the Department to perform a forensic audit concerning the financial records of Children's Network of Southwest Florida, LLC (CNSWFL), 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 CNSWFL and Department personnel. A summary of the findings and observations is contained below, please see the attached document for the full report:

- **Noncompliance with Competitive Procurement Requirements for Related Entities**
Relationship with Camelot Community Care, Inc.: CNSWFL procured material amounts of services from its parent company, Camelot, under three contracts that were not procured appropriately. Significant organizational conflicts of interest existed and continue to exist between the CBC and its parent company. Further, CNSWFL procured these services from Camelot using noncompetitive "emergency" processes without fully demonstrating the appropriateness of such an approach and, more significantly in apparent violation of Florida law, embedded various renewal options into such "emergency" contracts. Since the agreements between CNSWFL and Camelot were not procured or renewed appropriately, this results in substantial questioned costs.
Camelot's Administrative Costs Allocated to its Contracts with CNSWFL: Camelot charges CNSWFL various administrative expenses that are allocated across many of Camelot's activities. Certain of the administrative expenses passed through to the CBC are not allowable under applicable federal cost principles, including fundraising, promotion and/or marketing, and interest. This results in questioned costs.
- **Overbilling Related to Paycheck Protection Program (PPP) Loan Forgiveness**
Camelot received a Paycheck Protection Program loan and used expenses incurred during the COVID-19 pandemic to apply for and receive forgiveness of such loan. Using the same administrative expense allocation practices previously described, Camelot charged CNSWFL for certain wages and benefits that were also submitted as partial qualification for loan forgiveness. This results in questioned costs.

- **Surplus Funds Under Contracts**

The CBC determined that payments made to Camelot, its parent company, in excess of the allowable program expenses for the year ended June 30, 2020, and June 30, 2021, could be retained by Camelot in lieu of returning those excess funds to CNSWFL. This results in questioned costs.

- **Lump-Sum Payment Under Contracts**

The CBC retroactively modified a contract with Camelot, its parent company, during FY2020 to provide additional compensation for services purportedly rendered during FY2019. The CBC described this as a fixed rate or lump sum contract, but the contract was structured to be based on actual costs incurred. This raises questions about Camelot's ability to exert influence and control over its subsidiary, CNSWFL, including influence and control that creates a benefit to Camelot.

- **Tracking for Contract Costs**

Camelot does not assign a specific ledger code to track expenses associated with contract SBR02. As neither management of the CBC nor of Camelot provided a listing of expenditures for contract SBR02, our testing did not result in a conclusive determination about whether CBC expenditures for such contract resulted in excess funding, i.e., profit earned by Camelot.

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. CNSWFL'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 audit, the following actions must be taken by CNSWFL:

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

Action: CNSWFL 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: CNSWFL 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: CNSWFL must review all related party contracts and billing arrangements to ensure that all amounts charged to the CBC are allowable under applicable federal cost principles and must provide the Department with repayment of any contract funds used for expenses covered by PPP loan forgiveness within 30 days of notice.

- **Non-Compliance with Cost Allocation Plan**

Action: CNSWFL must comply with their Department approved Cost Allocation Plan and must review all related party contracts and billing arrangements to ensure that all amounts charged to the CBC are allowable under federal compliance. CNSWFL 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. CNSWFL must provide a signed attestation within 60 days indicating they have completed this review.

CNSWFL's 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, Juliana Pinero, via email at Juliana.Pinero@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
Aaron Stitt, Community Director (Interim)

State of Florida
Department of Children and Families

**Report of Forensic Accountants
Children's Network of Southwest Florida, LLC**

July 1, 2019 through June 30, 2021



State of Florida
Department of Children and Families

Report of Forensic Accountants
Children’s Network of Southwest Florida, LLC

July 1, 2019 through June 30, 2021

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Report of Forensic Accountants

To the State of Florida
Department of Children and Families

Terms of the Engagement

Thomas Howell Ferguson P.A. (“THF”) performed forensic accounting consulting services as requested by the State of Florida Department of Children and Families (“the Department”) under purchase order C0EA90 with respect to Children’s Network of Southwest Florida, LLC (“CNSWFL” or “the CBC”) for the period July 1, 2019 through June 30, 2021 (“the Analysis Period”). At all times material hereto, CNSWFL had a single holder of its membership interests, i.e., a single owner/parent company: Camelot Community Care, Inc. The services requested by the Department are outlined in Request for Quote DCF RFQ 2122 045 and the attachments thereto (collectively, “the RFQ”) as well as THF’s response to the RFQ and the above-mentioned purchase order (together with the RFQ, “our Agreement”). We conducted the engagement in accordance with the terms of our Agreement and the *Statement on Standards for Consulting Services* promulgated by the American Institute of Certified Public Accountants.

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

The CBC and its Related Parties

During the Analysis Period, CNSWFL operated under contract HJ300 with the Department, as amended from time to time (“DCF Contract HJ300”). CNSWFL is a limited liability entity organized in the state of Florida in 2006, a disregarded entity of Camelot Community Care, Inc., and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”), except on net income from business activities unrelated to the purpose for which the tax exemption was granted, pursuant to an Internal Revenue Service (“IRS”) determination letter. CNSWFL has its own Employer Identification Number (“EIN”).

Refer to Table I for the contractual amounts paid to CNSWFL by the Department during the Analysis Period. Per the consolidated audited financial statements of Camelot Community Care, Inc. and its wholly-owned subsidiary CNSWFL, the CBC recognized substantially all of its revenue from DCF Contract HJ300 during the years ended June 30, 2020 and 2021.

Table I
DCF Contract HJ300 Amounts Paid to
CNSWFL During the Analysis Period¹

Years ended June 30,		Total
2020	2021	
\$48,958,853	\$52,865,707	\$101,824,560

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

1. Camelot Community Care, Inc. (“Camelot”), a Florida not-for-profit corporation organized in 1999 that is exempt from federal income taxes under Section 501(c)(3) of the IRC pursuant to an IRS determination letter. Per Camelot’s audited financial statements for both years during the Analysis Period, Camelot exists “for the purpose of providing behavioral health and child welfare services to children and adolescents. These services include therapeutic foster homes, in-home counseling, interventions, school-based services, juvenile justice programs, and child welfare services to children under state custody.” Camelot owns or controls other entities that are, by virtue of their common control under Camelot, affiliates of CNSWFL as more fully described and defined below – i.e., Camelot itself, Bright Future, and CCC Property.

2. Bright Future for Families, Inc. (“Bright Future”), a not-for-profit corporation organized in Florida in 2015. Bright Future is a wholly owned subsidiary of Camelot, has its own EIN, and does not appear to have any material ongoing activity based on our inspection of its publicly available recent federal tax filings. The remainder of this report does not reference Bright Future; it is included here for definitional and information purposes only.

3. Camelot Community Care Property Holdings, Inc. (“CCC Property”), a not-for-profit corporation organized in Florida on or about June 28, 2021, which is approximately three days before the end of the Analysis Period. Review of CCC Property was deemed to be outside of the scope of services for the Analysis Period. According to publicly available information, prior to August 2023 CCC Property reported assets of \$3,930,277 and gross receipts of \$293,670, however, through August 2023 no copies of any Form 990 tax filings are available for CCC Property through usual public data sources. The remainder of this report does not reference CCC Property; it is included here for definitional and information purposes only.

¹ Amounts are shown gross and have been reconciled to FLAIR. Repayments of \$208,201 and \$161,951 related to FY2020 and FY2021, respectively, are excluded from Table I. Additionally, at the financial reporting level Camelot and CNSWFL reported an increase in their refundable advances for both FY2020 (\$361,585) and FY2021 (\$4,927,999). Such increases generally correlate to the amount of rolled-forward funds reported to the Department by the CBC for those two years.

Procedures

The RFQ outlines specific Service Tasks to be completed by THF regarding the CBC. Service Tasks 4.1.1.1.1. through 4.1.1.1.7. were completed without material exception, including (1) reviewing DCF Contract HJ300, (2) interviewing Department personnel, (3) gaining an understanding of the Department's contract payment process, (4) testing the CBC's submitted invoices for adjustments to reflect material differences between actual expenditures and amounts advanced by the Department, (5) testing the OCA Summary and Detail reports for material agreement to the CBC's Monthly Actual Expenditure reports, (6) testing the CBC's Monthly Actual Expenditure reports for material reconciliation to the CBC's general ledger subject to any differences being resolved to the Department's satisfaction, and (7) testing the CBC's deferred revenue, if any, for proper return to the Department if applicable.

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

The additional forensic accounting consulting procedures included gaining an understanding of (1) Camelot's operations and legal structure, (2) CNSWFL's operations, (4) the general procurement policies of CNSWFL or, if and as applicable, Camelot, (4) the procurement of services from CNSWFL by Camelot, and (5) areas where potentially duplicative personnel and costs may exist between CNSWFL and Camelot. Such procedures also included asking questions of CNSWFL and/or its parent company Camelot, receiving responses from authorized CNSWFL and/or Camelot personnel, and analyzing such responses, in addition to receiving and analyzing financial documents for both CNSWFL and Camelot as well as asking questions of and receiving guidance from the Department.

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

Summary of Findings and Observations

Extensive organizational conflicts of interest, as that term is defined in 2 CFR 200.318 and related citations, exist within CNSWFL and the control group centered around Camelot. The most significant findings and observations THF identified relate to CNSWFL incorrectly applying the procurement requirements to which it was bound during (and prior to) the Analysis Period. The other findings and observations THF identified generally relate to CNSWFL and/or its parent company, Camelot, incorrectly applying applicable cost allocation requirements and procedures. Such mandatory procurement and cost allocation requirements arise from DCF Contract HJ300, the CBC's own contracts with Camelot, 2 CFR 200, 45 CFR 95, Section 287.057, *Florida Statutes*, and the provision of Office of Management and Budget (OMB) Memorandum No. 20-26.

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

2021-01, Relationship with Camelot Community Care, Inc.

CNSWFL procured material amounts of services from its parent company, Camelot, under three contracts that were not procured appropriately. Significant organizational conflicts of interest existed and continue to exist between the CBC and its parent company. Further, CNSWFL procured these services from Camelot using noncompetitive "emergency" processes without fully demonstrating the appropriateness of such an approach and, more significantly and in apparent violation of Florida law, embedded various renewal options into such "emergency" contracts. Since the agreements between CNSWFL and Camelot were not procured or renewed appropriately, this results in substantial questioned costs.

2021-02, Camelot's Administrative Costs Allocated to its Contracts with CNSWFL

Camelot charges CNSWFL various administrative expenses that are allocated across many of Camelot's activities. Certain of the administrative expenses passed through to the CBC are not allowable under applicable federal cost principles, including fundraising, promotion and/or marketing, and interest. This results in questioned costs that are also included as part of Finding 2021-01.

2021-03, Camelot's Paycheck Protection Program Loans

Camelot received a Paycheck Protection Program loan and used expenses incurred during the COVID-19 pandemic to apply for and receive forgiveness of such loan. Using the same administrative expense allocation practices described in Finding 2021-02, Camelot charged CNSWFL for certain wages and benefits that were also submitted as partial qualification for loan forgiveness. This results in questioned costs that are also included as part of Finding 2021-01.

2021-04, Surplus Funds for FY2020 under Contracts FBN05 and ABP04

The CBC determined that payments made to Camelot, its parent company, in excess of allowable program expenses for the year ended June 30, 2020, could be retained by Camelot in lieu of returning those excess funds to CNSWFL. This results in questioned costs that are also included as part of Finding 2021-01.

2021-05, Surplus Funds for FY2021 under Contracts FBN05, ABN03, and ABP04

The CBC determined that payments made to Camelot, its parent company, in excess of allowable program expenses that were in the range of 0.0% to 2.0% of each individual contract's budgeted expenditures for the year ended June 30, 2021, could be retained by Camelot in lieu of returning those excess funds to CNSWFL. This results in questioned costs that are also included as part of Finding 2021-01.

2021-06, Observation: *Lump-Sum Payment for FY2019 under Contract ABN03*

The CBC retroactively modified a contract with Camelot, its parent company, during FY2020 to provide additional compensation for services purportedly rendered during FY2019. The CBC described this as a fixed rate or lump sum contract, but the contract was structured to be based on actual costs incurred. This raises questions about Camelot's ability to exert influence and control over its subsidiary, CNSWFL, including influence and control that creates a benefit to Camelot.

2021-07, Observation: *Contract Costs under Contract SBR02*

Camelot does not assign a specific ledger code to track expenses associated with contract SBR02. As neither management of the CBC nor of Camelot provided a listing of expenditures for contract SBR02, our testing did not result in a conclusive determination about whether CBC expenditures for such contract resulted in excess funding, i.e., profit earned by Camelot.

Summary of Questioned Costs

2021-01, *Relationship with Camelot Community Care, Inc.*

\$11,916,965 (\$6,013,691 for FY2020 and \$5,903,274 for FY2021).

2021-02, *Camelot's Administrative Costs Allocated to its Contracts with CNSWFL*

Approximately \$21,300 (\$9,300 for FY2020 and \$12,000 for FY2021), which is included as part of Finding 2021-01 as well.

2021-03, *Camelot's Paycheck Protection Program Loans*

\$126,839 (\$54,657 for FY2020 and \$72,182 for FY2021), which is included as part of Finding 2021-01 as well.

2021-04, *Surplus Funds for FY2020 under Contracts FBN05 and ABP04*

\$263,070, which is included as part of Finding 2021-01 as well.

2021-05, *Surplus Funds for FY2021 under Contracts FBN05, ABN03, and ABP04*

\$115,225, which is included as part of Finding 2021-01 as well.

2021-06, Observation: *Lump-Sum Payment for FY2019 under Contract ABN03*

N/A; observation only.

2021-07, Observation: *Contract Costs under Contract SBR02*

N/A; observation only.

Summary of Recommendations

THF believes the engagement by a CBC of a related party to provide services on its behalf requires heightened scrutiny, particularly if such engagement was not properly procured in a competitive manner. This broad recommendation is supported by the regulations that govern the CBC's agreement with the Department, including 2 CFR 200.

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

2021-01, *Relationship with Camelot Community Care, Inc.*

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

2021-02, *Camelot's Administrative Costs Allocated to its Contracts with CNSWFL*

The Department should consider requiring CBC review of all related party contracts and billing arrangements to ensure that all amounts charged to the CBC are allowable under applicable federal cost principles.

2021-03, *Camelot's Paycheck Protection Program Loans*

Similar to Finding 2021-02, the Department should consider requiring CBC review of all related party contracts and billing arrangements to ensure that all amounts charged to the CBC are allowable under applicable federal cost principles.

2021-04, *Surplus Funds for FY2020 under Contracts FBN05 and ABP04*

The Department should consider requiring the repayment of questioned costs that represent payments made by CNSWFL to a related party in excess of actual expenditures by that related party for FY2020. Additionally, the Department should consider requiring frequent certifications for all related party contracts related to program income and/or requiring that any contracts and contract close-out reconciliations where organizational conflicts of interest exist be specifically reviewed and approved by the Department.

2021-05, *Surplus Funds for FY2021 under Contracts FBN05, ABN03, and ABP04*

Similar to Finding 2021-04, the Department should consider requiring the repayment of questioned costs that represent payments made by CNSWFL to a related party in excess of actual expenditures by that related party for FY2021. Additionally, the Department should consider requiring frequent certifications for all related party contracts related to program income and/or requiring that any contracts and contract close-out reconciliations where organizational conflicts of interest exist be specifically reviewed and approved by the Department.

2021-06, Observation: *Lump-Sum Payment for FY2019 under Contract ABN03*

The Department may wish to consider the CBC's routine vendor management practices, including assessing the manner and frequency with which CNSWFL provides retroactive compensation to its service providers.

2021-07, Observation: *Contract Costs under Contract SBR02*

The Department may wish to consider the totality of the matters identified in Findings 2021-01 through 2021-05, as well as Observation 2021-06, and evaluate all of the CBC's related party contracts using a similar perspective.

Closing

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

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

Thomas Howell Ferguson P.A.

Tallahassee, Florida
August 10, 2023

Findings and Observations

2021-01, Relationship with Camelot Community Care, Inc.

Criteria: 2 CFR 200.318
2 CFR 200.319
Section 287.057, *Florida Statutes*
DCF Contract HJ300

Condition: Before, throughout, and beyond the Analysis Period, CNSWFL engaged Camelot to provide certain services for individuals who receive care under the CBC’s programs. As noted in the body of this report, Camelot is a related party with respect to CNSWFL; in fact, Camelot is the parent company of CNSWFL. The three agreements at issue for this finding are referred to as FBN05 (In Home Family Services and Care Coordination Services for Lee, Collier, Charlotte, Hendry, and Glades Counties), ABN03 (Foster Care and Related Services for Charlotte County), and ABP04 (Foster Care and Related Services for Collier, Hendry, and Glades Counties). A summary of each initial contract effective date, initial contract end date, and the terms under which renewals could be made is as follows:

Contract	Contract Start Date	Initial End Date	Available Renewal Periods
FBN05	12/01/2016	06/30/2017	1 term of up to 5 years
ABN03	05/15/2017	06/30/2018	Multiple terms of between 6-12 months to end by 06/30/2022
ABP04	01/29/2018	06/30/2019	Multiple terms of between 6-12 months to end by 06/30/2022

The services Camelot was engaged to provide under each of those contracts were previously provided to CNSWFL by unrelated third parties as outlined below. In all three situations, CNSWFL relied upon certain emergency procurement provisions of Florida Statutes in its contracting with Camelot.

- FBN05 includes services that had been provided by Father Flanagan’s Boys Town Florida, Inc. (“Boys Town”) until notice was provided by Boys Town on or about October 25, 2016, that it intended to terminate its contract with CNSWFL. The agreed effective date for Boys Town’s termination was November 30, 2016.
- ABN03 includes services that had previously been provided by Lutheran Services Florida, Inc. (“LSF”) until early 2017. Email correspondence referenced “hoping for a start date of 4/1/2017” for the transition of these services from LSF to Camelot. Ultimately, LSF provided services through approximately May 14, 2017.

- ABP04 includes services that had been provided by Family Preservation Services of Florida, Inc. d/b/a Pathways Human Services of Florida ("Pathways") until notice was provided by Pathways on or about December 5, 2017, that it intended to terminate its contract with CNSWFL on or about February 9, 2018. The agreed effective date for Pathways' termination was January 28, 2018.

The CBC generally contends the Department was made aware of all three contractual arrangements with Camelot, that in some instances approval of the related party contract(s) was granted by the Department, and that this mitigates any technical violations of 2 CFR 200, Section 287.057, *Florida Statutes*, and/or CNSWFL's contract with the Department. For contract ABP04, some documented awareness by the Department related to the initial emergency procurement exists. However, for contracts FBN05 and ABN03, there is no specific indication that the Department acknowledged in any official manner that using a related party such as Camelot was appropriate, or that the agreements with Camelot had been reviewed and approved by the Department. Regardless of the level of awareness certain Department personnel may or may not have had concerning the creation and execution of these contracts, CNSWFL retains ultimate and absolute responsibility for its compliance with 2 CFR 200 and applicable Florida Statutes, as well as its obligations under DCF Contract HJ300.

In essence, CNSWFL entered three material contracts with a related party, did not competitively procure the services provided by that related party using purported emergency procurement exceptions, and agreed to permit renewals of each "emergency" related party contract beyond the initial term of each contract. Such activities were not conducted in accordance with established or appropriate policies, procedures, contractual obligations, and/or regulations and thus appear to represent violations of 2 CFR 200, Section 287.057, *Florida Statutes*, and/or DCF Contract HJ300.

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

Effect: Noncompliance with Section 1.4.3 of Attachment I to DCF Contract HJ300 which requires compliance with 2 CFR 200, including 2 CFR 200.318, *General Procurement Standards*, and 2 CFR 200.319, *Competition*. Excerpts from those regulations include the following:

2 CFR 200.319(a), "All procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a matter providing full and open competition consistent with the standards of this section and § 200.320."

2 CFR 200.319(b), “...Some of the situations considered to be restrictive of competition include... (1) Placing unreasonable requirements on firms in order for them to qualify to do business... (3) Noncompetitive pricing practices between firms or between affiliated companies... (5) Organizational conflicts of interest.”

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

Noncompliance with Section 5.10 of Attachment I to DCF Contract HJ300 which provides that “The Lead Agency’s Board of Directors shall establish uniform and consistent policies to address procurement requirements for any related party transactions which include, at a minimum, the prohibition of any conflicts of interest among the Lead Agency, its staff, its Board of Directors, and its subcontractors.” To the extent such robust policies had been established, they were not appropriately followed. The parent-subsidiary relationship between Camelot and CNSWFL itself represents “related party transactions,” to say nothing of the contracts described herein.

Noncompliance with Section 287.057(14), *Florida Statutes*, which provides in part that “Exceptional purchase contracts pursuant to paragraphs (3)(a) and (c) may not be renewed.” Section 287.057(3)(a), *Florida Statutes*, which is the section relied upon by CNSWFL, addresses procurements when “an immediate danger to the public health, safety, or welfare or other substantial loss to the state requires emergency action.” The services at issue under these three agreements with Camelot do not appear to meet the qualifications for an “immediate danger” emergency or sole-source procurement under applicable Florida Statutes or 2 CFR 200 but, regardless, even if they did, such emergency procurements are not eligible for renewal under this statute. For this and other reasons, the renewal of these agreements violates Section 287.057, *Florida Statutes*.

Questioned Costs: The questioned costs are as follows:

Contract	FY2020	FY2021	Total
FBN05	\$ 774,870	\$ 748,990	\$ 1,523,860
ABN03	1,907,548	1,823,011	3,730,559
ABP04	3,331,273	3,331,273	6,662,546
Total	\$ 6,013,691	\$ 5,903,274	\$ 11,916,965

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

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

2021-02, Camelot's Administrative Costs Allocated to its Contracts with CNSWFL

Criteria: 2 CFR 200.421, 2 CFR 200.442, 2 CFR 200.449, and various other citations
45 CFR 95
DCF Contract HJ300

Condition: Under CNSWFL's related party contracts with Camelot (refer to Finding 2021-01), Camelot applies an overhead cost allocation in addition to the cost of direct activities it performs for CNSWFL. This results in various administrative charges from Camelot being billed to the CBC for ultimate payment by the Department.

The indirect administrative costs allocated to Camelot's various programs and activities include salaries and benefits for Camelot's chief executive officer, chief operating officer, chief financial officer, chief legal officer, chief development officer, director of communications, risk manager, IT personnel, various accountants, human resource personnel, and others; rent and utilities for Camelot's administrative office; accreditation fees; Camelot-wide software licenses and subscriptions, including its human resource information system and accounting system; Camelot-wide trainings; banking fees; legal fees not directly related to a particular program; administrative travel; and accounting/auditing fees.

Testing performed of the costs included in these indirect cost categories revealed various charges that were ultimately allocated to Camelot's contracts with the CBC – and, thus, to the Department – for unallowable activities including fundraising, promotion and marketing, and interest.

Additionally, it was noted that such administrative cost allocations result in the Department being charged for administrative personnel at both the CBC and at Camelot.

Cause: The CBC was either unaware of the need to consider the underlying composition of Camelot's administrative cost allocations or it otherwise failed to follow appropriate invoice review, processing, and payment policies that were designed to ensure compliance with the Criteria stated above. While the charges were incurred and calculated by Camelot and then passed through to CNSWFL, it is ultimately a responsibility of the CBC to ensure that it complies with the Criteria stated above.

Effect: Noncompliance with Section 1.4.3 of Attachment I to DCF Contract HJ300 which requires compliance with 2 CFR 200, including 2 CFR 200.421, *Advertising and public relations*, 2 CFR 200.442, *Fund raising and investment management costs*, and 2 CFR 200.449, *Interest*.

Noncompliance with the attachments to DCF Contract HJ300 and the related "specific compliance requirements" under what was previously referred to as OMB Circular A-133, as revised, which have since been superseded by the Uniform Guidance via 45 CFR 75 and 2 CFR 200.

Noncompliance with Section 4.2 of Attachment I to DCF Contract HJ300 which provides in part that CNSWFL operates under a cost reimbursement contract with the Department and that "All costs incurred by the Lead Agency in the provision of foster care and related services must be of a type authorized by this Contract, allowable in nature under Federal standards and state law, allocable to this Contract, reasonable in amount and prudently incurred in the performance of services under this Contract."

Questioned Costs: The questioned costs are approximately \$9,300 and \$12,000 for the years ended June 30, 2020 and 2021, respectively.

These questioned costs represent only a portion of the administrative costs charged to the contracts between Camelot and CNSWFL and were calculated based on the proportional share of identified unallowable costs (i.e., advertising, fundraising, and interest) in relation to the total administrative cost allocation charged by Camelot. Additionally, these amounts are included in the gross questioned costs identified as part of Finding 2021-01.

These questioned costs do not include any effects or potentially disallowed amounts related to Camelot charging the CBC for administrative positions (such as its CEO, CFO, and other executives) that may be duplicative of the services provided by the CBC's own administrative personnel.

Recommendation: The Department already requires its CBC lead agencies to comply with the Criteria stated above. CNSWFL is not in compliance with the Criteria with respect to the advertising, fundraising, and interest expenses charged to the CBC under its related party agreements with Camelot. Questioned costs of this type help illustrate the risks of related party transactions because of the enhanced possibility that unallowable costs may be included as part of an intercompany charge and not be subject to the same level of scrutiny as charges for similar "administrative services" provided by an unrelated third party would be.

To the extent related party transactions are approved going forward, the Department should consider requiring CBC review of all related party contracts and billing arrangements to ensure that all amounts charged to the CBC are allowable under applicable federal cost principles, and may also wish to consider specific CBC certification regarding its review of all costs passed through to it for allowability.

2021-03, Camelot's Paycheck Protection Program Loans

Criteria: 2 CFR 200.403 - .405
DCF Contract HJ300

Observation: Under CNSWFL's related party contracts with Camelot (refer to Finding 2021-01), Camelot applies an overhead cost allocation in addition to the direct activities it performs for CNSWFL (refer to Finding 2021-02). This results in various administrative charges from Camelot being billed to the CBC for ultimate payment by the Department.

Camelot received a Paycheck Protection Program ("PPP") loan pursuant to The Coronavirus Aid, Relief, and Economic Security ("CARES") Act of 2020 and received partial forgiveness of such PPP loan. For both FY2020 and FY2021, the administrative costs charged by Camelot to the CBC included certain expenses that were also used by Camelot to qualify for forgiveness of its PPP loan. Although the CBC did not pay its parent company Camelot for wages and benefits of directly-charged employees whose costs were used to qualify for Camelot's PPP forgiveness, the costs associated with various administrative personnel were not reduced by the amount of the PPP funding received for such administrative personnel.

Cause: The CBC failed to follow appropriate invoice review, processing, and payment policies that were designed to ensure compliance with the Criteria stated above. While the charges were incurred and calculated by Camelot and then passed through to CNSWFL, it is ultimately a responsibility of the CBC to ensure that it complies with the Criteria stated above.

Effect: Noncompliance with Section 1.4.3 of Attachment I to DCF Contract HJ300 as well as Appendix A, Item 1 of OMB Memorandum No. 20-26 which both require compliance with 2 CFR 200, including 2 CFR 200.403, *Factors affecting allowability of costs*, 2 CFR 200.404, *Reasonable costs*, and 2 CFR 200.405, *Allocable costs*. From OMB Memorandum No. 20-26:

"Under this flexibility, 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."

Noncompliance with Section 4.2 of Attachment I to DCF Contract HJ300 which provides in part that CNSWFL operates under a cost reimbursement contract with the Department and that "All costs incurred by the Lead Agency in the provision of foster care and related services must be of a type authorized by this Contract, allowable in nature under Federal standards and state law, allocable to this Contract, reasonable in amount and prudently incurred in the performance of services under this Contract."

Questioned Costs: The questioned costs are approximately \$54,657 and \$72,182 for the years ended June 30, 2020 and 2021, respectively. These amounts are included in the gross questioned costs identified as part of Finding 2021-01.

Recommendation: The Department already requires its CBC lead agencies to comply with the Criteria stated above. CNSWFL is not in compliance with the Criteria with respect to wage and benefit costs charged both to the CBC under its related party agreements with Camelot and to the Federal government through Camelot's PPP loan. Questioned costs of this type help illustrate the risks of related party transactions because of the enhanced possibility that unallowable costs may be included as part of an intercompany charge and not be subject to the same level of scrutiny as charges for similar services provided by an unrelated third party would be.

To the extent related party transactions are approved going forward, the Department should consider requiring CBC review of all related party contracts and billing arrangements to ensure that all amounts charged to the CBC are allowable under applicable federal cost principles, and may also wish to consider specific CBC certification regarding its review of all costs passed through to it for allowability.

2021-04, *Surplus Funds for FY2020 under Contracts FBN05 and ABP04*

Criteria: 2 CFR 200.400
DCF Contract HJ300
DCF CBC Subcontracting Guidelines dated 10/26/2012, to the extent it applies
CNSWFL Contract FNB05
CNSWFL Contract ABP04

Condition: Under CNSWFL's related party contracts FBN05 and ABP04 with Camelot for the fiscal year ended June 30, 2020 (refer to Finding 2021-01), Camelot did not expend enough to completely account for the amounts it received from CNSWFL. Camelot records its various activities using location-based coding within its accounting system. The "Income Statement" report from Camelot identified as "49 - Fort Myers" for contract FBN05 reflects revenue over expenses of \$217,432.74 for FY2020, while the "Income Statement" report from Camelot identified as "47 - Naples" for contract ABP04 reflects revenue over expenses of \$45,636.79 for FY2020.

Upon inquiry regarding the \$217,432.74 and \$45,636.79 surpluses apparently retained by Camelot for FY2020 under contracts FBN05 and ABP04, respectively, CNSWFL states that the excesses were not repaid to the CBC and suggested that various COVID-19 emergencies, as well as the purported "fixed fee" contracts themselves, allowed Camelot to retain the funds paid to it in excess of its actual costs.

A similar condition existed in FY2019 for contract FBN05. In an email from CBC Chief Financial Officer Dennis Andrews to Camelot Chief Executive Officer Michael DiBrizzi and Camelot Chief Financial Officer James Ecklof on July 30, 2019, Mr. Andrews stated that "FBN05 Diversion [sic] (Ft Myers 49) is showing a final profit of \$203,497 for the year (on \$780,674 in billings) which is 26.07%. I would like to propose retaining \$100,000 and leave the balance for reinvestment into the program for FY 19-20. This would bring the profit level into a reasonable range..." On August 1, 2019, Mr. DiBrizzi responded "That can work. Thanks so much."

CNSWFL asserts that the DCF CBC Subcontracting Guidelines dated 10/26/2012 allow for certain excess funds to be retained by the CBC's subcontractors or vendors. However, the alleged exceptions neither alter the CBC's requirement to comply with 2 CFR 200 nor do they convert the related party nature of the CNSWFL-Camelot relationship into one that can be considered "arm's length." Camelot is the parent company of CNSWFL and thus an inherent organizational conflict of interest exists between these two entities that cannot readily be overcome; Camelot exercises governance and financial control over CNSWFL at all times. For purposes of 2 CFR 200 and the CBC's contract with the Department, CNSWFL does not have a vendor relationship with Camelot.

Cause: The CBC has neither appropriate procurement and payment policies to ensure compliance with the Criteria stated above nor an organizational conflicts of interest policy that would prevent noncompliance of this type.

Effect: Noncompliance with Section 1.4.3 of Attachment I to DCF Contract HJ300 which requires compliance with 2 CFR 200, including 2 CFR 200.400, *Policy guide*. Excerpts from that regulation include the following:

“The application of these cost principles is based on the fundamental premises that:

- (a) The non-Federal entity is responsible for the efficient and effective administration of the Federal award through the application of sound management practices.
- (b) The non-Federal entity assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

...

- (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. See also § 200.307 [*Program income*].”

To the extent it applies, noncompliance with the DCF CBC Subcontracting Guidelines dated 10/26/2012. However, as related to these contracts, Camelot is not considered a vendor, subcontractor, or subrecipient of CNSWFL.

Noncompliance with the CBC's own contracts with its parent company, Camelot. The contract for FBN05 stated that “Any surplus funds resulting from payments to the provider [Camelot] over and above the actual cost of delivering services may be reinvested into the program after a thorough analysis and approval from CNSWFL. A justification for reinvesting the funds into the program will be submitted with each quarterly expenditure report.” The contract for ABP04 was even more direct, stating that “Any surplus funds resulting from payments to the provider [Camelot] over and above the actual cost of delivering services shall be returned to CNSWF[L].”

Questioned Costs: The questioned costs for the year ended June 30, 2020, are \$217,433 and \$45,637 related to contracts FNB05 and ABP04, respectively. Together these total \$263,070. These amounts are included in the gross questioned costs identified as part of Finding 2021-01.

Recommendation: The Department already requires its CBC lead agencies to comply with the Criteria stated above, although the CBC Subcontracting Guidelines are of uncertain (and unlikely) applicability for these contracts. CNSWFL is not in compliance with the Criteria with respect to contracts FNB05 or ABP04 between the CBC and its parent company, Camelot. Regardless of the Department's conclusion regarding Finding 2021-01, the Department should consider requiring the repayment of the questioned costs as they represent payments made by CNSWFL to a related party in excess of actual expenditures by that related party for FY2020.

Additionally, with respect to all CBC contracts with related parties, the Department should consider requiring frequent, i.e., at least annual, certification that all Federal and State program income requirements and other contractual requirements regarding related party transactions are met and/or requiring that any contracts and contract close-out reconciliations where organizational conflicts of interest exist be specifically reviewed and approved by the Department.

2021-05, *Surplus Funds for FY2021 under Contracts FBN05, ABN03, and ABP04*

Criteria: 2 CFR 200.400
DCF Contract HJ300
DCF CBC Subcontracting Guidelines dated 10/26/2012, to the extent it applies

Condition: Under CNSWFL’s three related party contracts with Camelot for the fiscal year ended June 30, 2021 (refer to Finding 2021-01), Camelot did not expend enough to completely account for the amounts it received from CNSWFL. Camelot records its various activities using location-based coding within its accounting system. All three “Income Statement” reports from Camelot for these contracts reflect revenues over expenses for FY2021, as summarized below:

Contract	Location Code	Amount
FBN05	Ft Myers 49	\$ 203,552.11
ABN03	Charlotte County 48	79,074.02
ABP04	Naples 47	292,944.89
Total	All three contracts with Camelot	\$ 575,571.02

Amended contract language was in effect for all three contracts as compared to the discussion included in Finding 2021-04. As of FY2021, CNSWFL authorized Camelot to retain “surplus funds up to 2% of the approved budget” following request for same, with “any amount of surplus funds that exceeds 2% of the approved budget” returned to CNSWFL. Analysis indicates that Camelot returned “surplus funds” in excess of 2% of each contract’s FY2021 budget, but that “surplus funds” up to 2% of such budgets were retained by Camelot. These amounts equal \$11,803.21, \$36,795.90, and \$66,625.45 for contracts FBN05, ABN03, and ABP04, respectively.

CNSWFL asserts that the DCF CBC Subcontracting Guidelines dated 10/26/2012 allow for certain excess funds to be retained by the CBC’s subcontractors or vendors. However, the alleged exceptions neither alter the CBC’s requirement to comply with 2 CFR 200 nor do they convert the related party nature of the CNSWFL-Camelot relationship into one that can be considered “arm’s length.” Camelot is the parent company of CNSWFL and thus an inherent organizational conflict of interest exists between these two entities that cannot readily be overcome; Camelot exercises governance and financial control over CNSWFL at all times. For purposes of 2 CFR 200 and the CBC’s contract with the Department, CNSWFL does not have a vendor relationship with Camelot.

Cause: The CBC has neither appropriate procurement and payment policies to ensure compliance with the Criteria stated above nor an organizational conflicts of interest policy that would prevent noncompliance of this type.

Effect: Noncompliance with Section 1.4.3 of Attachment I to DCF Contract HJ300 which requires compliance with 2 CFR 200, including 2 CFR 200.400, *Policy guide*. Excerpts from that regulation include the following:

“The application of these cost principles is based on the fundamental premises that:

(c) The non-Federal entity is responsible for the efficient and effective administration of the Federal award through the application of sound management practices.

(d) The non-Federal entity assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

...

(h) 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. See also § 200.307 [*Program income*].”

To the extent it applies, noncompliance with the DCF CBC Subcontracting Guidelines dated 10/26/2012. However, as related to these contracts, Camelot is not considered a vendor, subcontractor, or subrecipient of CNSWFL.

Questioned Costs: The questioned costs for the year ended June 30, 2021, are as follows:

Contract	Location Code	Amount
FBN05	Ft Myers 49	\$ 11,803.21
ABN03	Charlotte County 48	36,795.90
ABP04	Naples 47	66,625.45
Total	All three contracts with Camelot	\$ 115,224.56

These amounts are included in the gross questioned costs identified as part of Finding 2021-01.

Recommendation: The Department already requires its CBC lead agencies to comply with the Criteria stated above, although the CBC Subcontracting Guidelines are of uncertain (and unlikely) applicability for these contracts. CNSWFL is not in compliance with the Criteria with respect to contracts FNB05, ABN03, or ABP04 between the CBC and its parent company, Camelot. Regardless of the Department's conclusion regarding Finding 2021-01, the Department should consider requiring the repayment of the questioned costs as they represent payments made by CNSWFL to a related party in excess of actual expenditures by that related party for FY2021.

Additionally, with respect to all CBC contracts with related parties, the Department should consider requiring frequent, i.e., at least annual, certification that all Federal and State program income requirements and other contractual requirements regarding related party transactions are met and/or requiring that any contracts and contract close-out reconciliations where organizational conflicts of interest exist be specifically reviewed and approved by the Department.

2021-06, Observation: *Lump-Sum Payment for FY2019 under Contract ABN03*

Observation:

During FY2020, the CBC amended its related party contract ABN03 with its parent company to compensate Camelot an additional \$110,000 for services purportedly rendered during the prior fiscal year, i.e., FY2019. The documentation provided by CNSWFL indicates that this retroactive contract amendment and increased compensation for Camelot was related to the services at issue being performed under a “fixed rate” contract and that such retroactive contract modifications are not unusual for the CBC, both with related and unrelated vendors.

As the amendment pertains to a fiscal year outside of the Analysis Period, this was not identified as a finding for this review cycle. However, based on the extensive organizational conflicts of interest that exist between the CBC and Camelot, and all related matters identified as Findings 2021-01 through 2021-05, it is appropriate to make this observation so the Department can determine what, if any, course of action it may wish to take regarding this apparent additional compensation. As a further observation, it is generally unusual to retroactively compensate vendors – whether related or unrelated parties – at a rate greater than that which the vendor would have otherwise received under a fixed rate contract. Further, although the CBC describes contract ABN03 as a fixed rate or lump sum contract, the contract is structured to be based on actual costs incurred. This raises questions about Camelot's ability to exert influence and control over its subsidiary, CNSWFL, including influence and control that creates a benefit to Camelot.

The Department may wish to consider the CBC's routine vendor management practices, including assessing the manner and frequency with which CNSWFL provides retroactive compensation to its service providers.

2021-07, Observation: *Contract Costs under Contract SBR02*

Observation:

The CBC has a contract with its parent company, Camelot, identified as SBR02. Such contract relates to the placement of Circuit 20 dependency children with Camelot at a daily occupied bed rate. However, certain enhanced placements result in charges in excess of the daily base rate established in that related party contract. When this occurs, Camelot charges CNSWFL additional amounts that the CBC asserts are based on the rates approved by Medicaid for similar services.

Attempts to test this assertion were challenged by the manner in which Camelot tracks its costs for contract SBR02. Per the CBC's Chief Financial Officer, Camelot does not assign a specific ledger code to track expenses associated with that contract. As neither the CBC's management nor that of Camelot are able to provide a listing of expenditures for contract SBR02, it was not possible to test such contract for potential excess funding, i.e., profit earned by Camelot due to payments by CNSWFL exceeding the actual costs incurred by Camelot. The rates charged by Camelot did appear to be reasonable in comparison to the Medicaid-approved rates in effect for 2022 but were also noted to include various other administrative fees unrelated to the Medicaid-approved rates.

The Department may wish to consider the totality of the matters identified in Findings 2021-01 through 2021-05, as well as Observation 2021-06, and evaluate all of the CBC's related party contracts using a similar perspective.