

**DEPARTMENT OF CHILDREN AND  
FAMILIES AND SELECTED  
COMMUNITY-BASED CARE LEAD  
AGENCIES AND BEHAVIORAL HEALTH  
MANAGING ENTITIES**

Cost Allocation Plans



Sherrill F. Norman, CPA  
Auditor General

## Department of Children and Families

The Department of Children and Families (Department) is established by Section 20.19, Florida Statutes. The head of the Department is the Secretary who is appointed by the Governor and subject to confirmation by the Senate. Mike Carroll served as Department Secretary during the period of our audit.

### Community-Based Care Lead Agencies

Pursuant to Section 409.986(1)(a), Florida Statutes, the Department contracts with Community-Based Care Lead Agencies (CBCs) to provide child protection and child welfare services. The six CBCs selected for audit field work, and the respective CBC Chief Executive Officers who served during the period of our audit were:

Big Bend Community Based Care, Inc.	Mike Watkins
Community Based Care of Central Florida, Inc.	Glen Casel
Devereux Community Based Care Inc.	Carol DeLoach
Kids Central, Inc.	John Cooper
Our Kids of Miami-Dade/Monroe, Inc.	Jackie Gonzalez, from September 2, 2014 Joyce Taylor, Interim, through September 1, 2014
St. Johns County Board of County Commissioners	Shawna Novak, Interim, from August 3, 2015 Joy Andrews, through August 2, 2015

### Behavioral Health Managing Entities

Pursuant to Section 394.9082(4), Florida Statutes, the Department contracts with Behavioral Health Managing Entities (MEs) for the purchase and management of substance abuse and mental health services for the State. The four MEs selected for audit field work, and the respective ME Chief Executive Officers who served during the period of our audit were:

Big Bend Community Based Care, Inc.	Mike Watkins
Central Florida Behavioral Health Network, Inc.	Linda McKinnon
Lutheran Services Florida, Inc.	Christine Caulfield, from August 1, 2014 Samuel Sipes, Interim, July 26, 2014, through July 31, 2014 Tina St. Clair, through July 25, 2014
Southeast Florida Behavioral Health Network, Inc.	Ann Berner

The audit was supervised by Lisa Norman, CPA.

Please address inquiries regarding this report to Lisa Norman, CPA, Audit Manager, by e-mail at [lisanorman@aud.state.fl.us](mailto:lisanorman@aud.state.fl.us) or by telephone at (850) 412-2831.

This report and other reports prepared by the Auditor General are available at:

[www.myflorida.com/audgen](http://www.myflorida.com/audgen)

Printed copies of our reports may be requested by contacting us at:

**State of Florida Auditor General**

**Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722**

# DEPARTMENT OF CHILDREN AND FAMILIES AND SELECTED COMMUNITY-BASED CARE LEAD AGENCIES AND BEHAVIORAL HEALTH MANAGING ENTITIES

## Cost Allocation Plans

### **SUMMARY**

---

This operational audit of the Department of Children and Families (Department) and selected Community-Based Care Lead Agencies (CBCs) and Behavioral Health Managing Entities (MEs) focused on the preparation, submission, review, and approval of CBC and ME cost allocation plans. Our audit disclosed the following:

**Finding 1:** Department procedures for the review of CBC and ME cost allocation plans need improvement to ensure that the plans are appropriately prepared and that Department records evidence adequate review of the plans.

**Finding 2:** The Department did not always ensure that CBC cost allocation plans were timely reviewed or approved.

**Finding 3:** CBC records did not always support the appropriateness or reasonableness of costs included in one CBC cost allocation plan. In addition, some ME cost allocation plans did not accurately describe the methodology used to allocate administrative costs.

### **BACKGROUND**

---

State law<sup>1</sup> provides that the Department of Children and Families (Department) is 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. State law also specifies that the Department is responsible for providing various services, including services related to child care regulation, child welfare, substance abuse, and mental health.

Pursuant to State law,<sup>2</sup> the Department contracts with Community-Based Care Lead Agencies (CBCs) to provide child protection and child welfare services, including family preservation, child protection, foster care and permanency services, independent living, and adoption and post-adoption services. A significant portion of the contracted services provided by the CBCs are funded through the Department's Federal grant awards<sup>3</sup> for programs including, but not limited to, the Foster Care, Adoption Assistance, and Independent Living programs. During the period July 2014 through January 2016, the Department had 20 contracts with 17 CBCs, and made payments totaling approximately \$1.37 billion in State and Federal funds for the 20 contracts.

---

<sup>1</sup> Section 20.19, Florida Statutes.

<sup>2</sup> Section 409.986(1)(a), Florida Statutes.

<sup>3</sup> Temporary Assistance for Needy Families (Catalog of Federal Domestic Assistance (CFDA) No. 93.558), Foster Care Title IV-E (CFDA No. 93.658), Adoption Assistance (CFDA No. 93.659), Social Services Block Grant (CFDA No. 93.667), and Chafee Education and Training Vouchers Program (CFDA No. 93.599).

State law<sup>4</sup> also authorizes the Department to contract for the purchase and management of behavioral health services with community-based behavioral health managing entities (MEs). The Department works in conjunction with the MEs to develop service delivery strategies to improve the coordination, integration, and management of the delivery of behavioral health services to individuals who have mental or substance use disorders. Each ME is to have a network of providers that includes, but need not be limited to, community mental health agencies, substance abuse treatment providers, and best practice consumer services providers. A significant portion of the contracted services provided by MEs are funded through the Department's Federal grant awards,<sup>5</sup> including, but not limited to, the Substance Abuse and Mental Health programs. During the period July 2014 through January 2016, the Department had contracts with seven MEs, and made payments totaling approximately \$855 million from State and Federal funds for the seven contracts.

The Department's contracts with the CBCs and MEs required the CBCs and MEs to annually submit to the Department a cost allocation plan prepared in accordance with applicable Federal regulations. The cost allocation plan was to summarize the methods and procedures used by the CBC or ME to identify, measure, and allocate all costs, including costs for centralized services (e.g., purchasing, accounting, and computer centers), to the specific programs and services operated or supervised by the CBC or ME. The Department was to make monthly payments to the CBCs and MEs based on invoices that included costs allocated utilizing the methodologies outlined in the cost allocation plans.

The Department, Office of CBC and ME Financial Accountability (FAO), was responsible for financial oversight of the CBCs and MEs. The responsibilities of the FAO included maintaining templates to be used by the CBCs and MEs to prepare cost allocation plans, and reviewing submitted cost allocation plans no less frequently than annually to ensure that the plans were in accordance with applicable Federal regulations and cost principles, State laws and rules, contract provisions, and generally accepted accounting principles.

As part of our audit, we performed audit procedures to evaluate the preparation, submission, review, and approval of the 2015-16 fiscal year cost allocation plans submitted to the Department by the CBCs and MEs shown in Table 1.

**Table 1**  
**CBCs and MEs Selected for Audit**

<b>Community-Based Care Lead Agencies</b>	<b>Behavioral Health Managing Entities</b>
Big Bend Community Based Care, Inc.	Big Bend Community Based Care, Inc.
Community Based Care of Central Florida, Inc. (CBCCF)	Central Florida Behavioral Health Network, Inc. (CFBHN)
Devereux Community Based Care Inc. (Devereux CBC)	Lutheran Services Florida, Inc. (LSF)
Kids Central, Inc.	Southeast Florida Behavioral Health Network, Inc. (SEFBHN)
Our Kids of Miami-Dade/Monroe, Inc.	
St. Johns County Board of County Commissioners	

<sup>4</sup> Section 394.9082(4)(a), Florida Statutes.

<sup>5</sup> Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959) and Block Grants for Community Mental Health Services (CFDA No. 93.958).

## ***FINDINGS AND RECOMMENDATIONS***

---

### **Finding 1: Department Review of CBC and ME Cost Allocation Plans**

Federal regulations<sup>6</sup> require the Department, in reviewing and approving cost allocation plans, to ensure that the CBCs and MEs apply cost accounting principles on a consistent basis. To allow the Department to determine whether CBC and ME cost allocation plans accurately described the methods and procedures used to identify, measure, and allocate costs to the specific programs and services operated or supervised by the CBC or ME, the Department required CBC and ME cost allocation plans to include certain financial information, such as the indirect cost rates used to allocate administrative costs to various program functions. Also, the FAO provided templates to the CBCs and MEs that CBC and ME staff were to complete with details on how the CBC or ME planned to comply with specific cost allocation requirements.

The FAO established technical review questions<sup>7</sup> and a checklist for staff to use to review CBC and ME cost allocation plans; however, the FAO had not established detailed procedures for the cost allocation plan review process. Although detailed procedures had not been established, our inquiries and inspection of cost allocation plan documentation disclosed that, upon receipt, FAO staff reviewed the cost allocation plans primarily to verify that the standard wording included in the templates had not been changed and that the explanations provided by CBC or ME staff satisfied the cost allocation requirements. After the initial review of a cost allocation plan, FAO staff sent the CBC or ME a revised cost allocation plan containing Department-proposed changes, as well as a separate document with review questions for the CBC or ME to address. FAO staff repeated the review and revision process, as necessary, until all review questions were resolved. After completing a cost allocation plan review, the Department sent a cost allocation plan approval letter to the CBC or ME.

As part of our audit, we evaluated the FAO's cost allocation plan templates, technical review questions, and checklist related to the preparation, submission, review, and approval of CBC and ME cost allocation plans, and examined documentation related to the FAO's review of six CBC and four ME cost allocation plans for the 2015-16 fiscal year. Our audit procedures disclosed that improvements in FAO procedures were needed to ensure that CBC and ME cost allocation plans were appropriately prepared and that Department records evidenced adequate review of the plans. Specifically, we found that:

- FAO staff did not review financial information, such as information included with independent audit reports, provided by the CBCs or MEs to determine whether all costs were accurately identified in and appropriately allocated by the cost allocation plans.
- While FAO records documented the questions sent to each CBC and ME during the review process, FAO staff did not complete the established checklist to document the review of each cost allocation plan.

---

<sup>6</sup> Title 2, Parts 200.331, 200.400(e), and 200.414, Code of Federal Regulations.

<sup>7</sup> Department, CFO Group Procedures, *Review of Cost Allocation Plans*.

In response to our audit inquiry, Department management indicated that they were in the process of enhancing FAO cost allocation plan review procedures for the 2016-17 fiscal year to incorporate additional review criteria and procedures.

The establishment of detailed cost allocation plan review procedures and the completion of plan review checklists would assist Department management in ensuring and demonstrating that CBC and ME cost allocation plans appropriately identify and allocate all costs in accordance with applicable Federal regulations and cost principles, State laws and rules, Department contract provisions, and generally accepted accounting principles.

**Recommendation:** We recommend that Department management enhance procedures for the review of CBC and ME cost allocation plans, including the examination of pertinent financial information, to ensure that cost allocation plans accurately identify and appropriately allocate all costs. To demonstrate that cost allocation plan reviews are consistently conducted, we also recommend that Department management ensure that checklists are completed documenting the review of all CBC and ME cost allocation plans.

## **Finding 2: Timeliness of CBC Cost Allocation Plan Review and Approval**

The Department's contracts with the CBCs and MEs required the CBCs and MEs to submit cost allocation plans, which covered the period July 1 through June 30, to the Department for review and approval by July 31 of each fiscal year. In addition, the Department's contracts with the MEs provided that, within 15 days of submission, the Department was to review a ME's cost allocation plan and provide any comments. The contracts also specified that the Department would not make any further payments to MEs that did not have an approved cost allocation plan by September 20.

As part of our audit, we examined Department records related to the submission, review, and approval of six CBC and four ME cost allocation plans for the 2015-16 fiscal year to determine whether the Department ensured that the cost allocation plans were timely reviewed and approved. The Department's contracts with the CBCs did not specify required time frames for Department review and approval of cost allocation plans, therefore, we evaluated the timeliness of the Department's review of both the ME and the CBC cost allocation plans based on the time frames provided in the ME contracts. Our examination disclosed that, while the FAO timely reviewed and approved the four selected ME cost allocation plans, the FAO did not always timely review or approve CBC cost allocation plans. Specifically, we noted that:

- 82 to 112 days (average of 97 days) elapsed from the dates four of the CBC cost allocation plans were submitted for FAO review to completion of the FAO's review of the plans.
- 16 to 284 days (average of 150 days) elapsed from September 20, 2015, to the FAO's approval of the CBC cost allocation plans. Further, two of the CBC cost allocation plans were not approved until June 30, 2016, the end of the cost allocation plan period. Throughout the period the CBCs were operating and submitting monthly invoices based on unapproved cost allocation plans, the Department continued to provide full payments to the CBCs. Regardless of the actual approval date, the Department indicated in the approval letters for each of the six CBC cost allocation plans that the approval was considered retroactive to July 1, 2015.

In response to our audit inquiry, FAO management indicated that a change in Federal requirements for foster care training expenditures necessitated changes in the CBC cost allocation plans and contributed

to the delays in reviewing and approving the plans. In addition, the Department updated the 2016-17 fiscal year CBC standard contract document to include time frames for the review and final approval of cost allocation plans.

Timely review and approval of cost allocation plans would enhance the Department's ability to ensure that costs billed to the Department based on allocation methodologies outlined in the cost allocation plans complied with applicable Federal regulations and cost principles, State laws and rules, Department contract provisions, and generally accepted accounting principles, and reduce the risk that the Department may make overpayments to the CBCs.

**Recommendation: We recommend that Department management ensure that CBC cost allocation plans are reviewed and approved in accordance with established contractual time frames.**

### **Finding 3: CBC and ME Cost Allocation Plans**

The contracts between the CBCs and MEs and the Department specified that CBC and ME cost allocation plans were to conform to the accounting principles and standards prescribed by applicable Federal regulations and other pertinent Department instructions. Federal regulations<sup>8</sup> provide that, in order for costs to be allowable under a Federal award, the costs must be necessary, reasonable, and adequately documented.

We examined the 2015-16 fiscal year cost allocations plans, and related expenditure reports and supporting documentation for the months of October 2015 and January 2016, for the six selected CBCs and four selected MEs to determine whether the plans were prepared in accordance with applicable laws, rules, regulations, and contract provisions; supported by appropriate documentation; and reflected the actual methodologies used by the CBCs and MEs to allocate costs. Our examination disclosed that one CBC cost allocation plan did not adequately document that all costs included were appropriate or reasonable, and we also found that some ME cost allocation plans described cost allocation methodologies that did not reflect the actual methodologies used. Specifically, we found that:

- The CBCCF included administrative fees in its cost allocation plan that were calculated as a percentage of direct costs. The administrative fees represented amounts that the CBCCF paid to CBC of Central Florida – Holdings, Inc., a separate, but related,<sup>9</sup> non-profit corporation that the CBCCF subcontracted with to perform administrative support functions. The CBCCF cost allocation plan indicated that the administrative fees amount was determined based on historical administrative costs and current needs. Although CBCCF's contract with the Department required the CBCCF to perform a detailed cost analysis evidencing the reasonableness of all subcontracts in excess of \$250,000,<sup>10</sup> the CBCCF had not performed a cost analysis to support the reasonableness of the subcontract with CBC of Central Florida – Holdings, Inc., including the administrative fees paid. In response to our audit inquiry, CBCCF management provided a spreadsheet reflecting actual and projected administrative costs incurred by CBC of Central Florida – Holdings, Inc. for the 2015-16 fiscal year. The spreadsheet showed that, for the 2015-16

<sup>8</sup> Title 2, Subpart E Part 200.403, Code of Federal Regulations.

<sup>9</sup> Senior management of the CBCCF, such as the Chief Executive Officer, Chief Financial Officer, and General Counsel, were employees of CBC of Central Florida – Holdings, Inc.

<sup>10</sup> Subsequent to the submission of the CBCCF's 2015-16 cost allocation plan and effective January 2016, the threshold for analyzing subcontracts was decreased to \$150,000.

fiscal year, the CBCCF had paid, or was projected to pay, administrative fees totaling \$2,934,196 to the CBC of Central Florida – Holdings, Inc., and the CBC of Central Florida – Holdings, Inc., had administrative costs totaling \$2,760,653 related to the CBCCF contract. In addition, CBCCF management indicated that the projected net revenue, totaling \$173,543, resulting from the subcontract with CBC of Central Florida – Holdings, Inc., would be recognized as retained earnings. However, this amount would not be reported to the Department on the CBCCF's final 2015-16 fiscal year expenditure report, or otherwise, potentially limiting the Department's oversight opportunities.

- The CBCCF included audit costs, totaling \$1,945, as both a direct expense used to calculate administrative costs and as a direct administrative charge for the months of October 2015 and January 2016, resulting in the CBCCF overbilling the Department by \$165. In response to our audit inquiry, CBCCF management indicated that the CBCCF's final 2015-16 fiscal year expenditure report would be adjusted to correct the overbilling.
- For the CFBHN, LSF, and SEFBHN MEs, the methodology for allocating administrative costs described in the cost allocation plans was not the actual methodology used by the MEs to allocate costs. In response to our audit inquiry, Department and applicable ME management indicated that the methodology for allocating ME administrative costs changed between the 2014-15 and 2015-16 fiscal years from allocating costs to each program based on the program's share of total expenditures, to costs being charged directly to a specific line item for administration. As a result of ME staff oversight, the cost allocation plans were not updated to reflect the change in methodology.

Absent cost analyses evaluating the reasonableness of all applicable subcontracts, a CBC cannot adequately demonstrate compliance with all contractual requirements and the reasonableness of all contract charges. In addition, properly prepared ME cost allocation plans that represent the actual methodologies used to allocate costs help support the reasonableness and allowability of charges submitted to the Department for payment.

**Recommendation:** We recommend that CBCCF management conduct cost analyses evaluating the reasonableness of all applicable subcontracts and ensure that net revenues, if any, from the subcontract with CBC of Central Florida – Holdings, Inc. are properly reported to the Department and used only for allowable purposes. Additionally, we recommend that CBCCF management ensure that appropriate actions are taken to correct audit cost overbillings. We also recommend that Department and ME management ensure that cost allocation plans accurately reflect the methodology used to allocate costs.

#### **Follow-Up to CBCCF Management's Response**

*CBCCF management indicated in their written response that CBCCF management met with Department staff prior to subcontracting with CBC of Central Florida – Holdings, Inc. and that historical expenditures show that the administrative rate charged was reasonable. However, the point of our finding was that, although required by its contract with the Department, the CBCCF had not performed a detailed cost analysis evidencing the reasonableness of the subcontract with CBC of Central Florida – Holdings, Inc. Consequently, the finding and related recommendation stand as presented.*

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2016 through June 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit of the Department of Children and Families (Department) focused on the preparation, submission, review, and approval of Community-Based Care Lead Agency (CBC) and Behavioral Health Managing Entity (ME) cost allocation plans. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, rules, regulations, Department procedures, contract documents, and other guidelines, and interviewed Department personnel to gain an understanding of the process for preparing, submitting, reviewing, and approving CBC and ME cost allocation plans.
- Examined Department procedures and checklists related to the preparation, submission, review, and approval of CBC and ME cost allocation plans to determine whether the procedures and checklists were adequately designed to facilitate the preparation of CBC and ME cost allocation plans in accordance with applicable laws, rules, and regulations, and supported by adequate records.
- From the population of 20 CBC and 7 ME cost allocation plans submitted to the Department for the 2015-16 fiscal year, examined Department records for 6 CBC and 4 ME cost allocation plans to determine whether the cost allocation plans were timely submitted, reviewed, and approved.
- From the population of 20 CBC and 7 ME cost allocation plans submitted to the Department for the 2015-16 fiscal year, examined 6 CBC and 4 ME cost allocation plans, and related expenditure reports and supporting documentation for the months of October 2015 and January 2016, to determine whether the plans were prepared in accordance with applicable laws, rules, and regulations, supported by appropriate documentation, and reflected the actual methodologies used by the CBCs and MEs to allocate costs.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's responses are included in this report under the heading **MANAGEMENT'S RESPONSES**.

## **AUTHORITY**

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA  
Auditor General

# **MANAGEMENT'S RESPONSES**

---

	<b>Page No.</b>
<b>Department of Children and Families .....</b>	<b>10</b>
<b>Community-Based Care Lead Agencies and Behavioral Health Managing Entities:</b>	
<b>Central Florida Behavioral Health Network.....</b>	<b>12</b>
<b>Community Based Care of Central Florida .....</b>	<b>13</b>
<b>Lutheran Services Florida .....</b>	<b>16</b>
<b>Southeast Florida Behavioral Health Network.....</b>	<b>17</b>



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

**Rick Scott**  
*Governor*

**Mike Carroll**  
*Secretary*

September 27, 2016

Sherrill Norman, Auditor General  
State of Florida  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Ms. Norman:

Thank you for the opportunity to respond to your September 8 list of preliminary and tentative audit findings and recommendations on the operational audit of the Department of Children and Families and selected Community-Based Care Lead Agencies and Behavioral Health Managing Entities cost allocation plans.

Enclosed is the department's response. Should you have any questions, please contact Kimberly McMurray, DCF Chief Financial Officer, at (850) 717-4733.

Sincerely,

Mike Carroll  
Secretary

Enclosure

1317 Winewood Boulevard, Tallahassee, Florida 32399-0700

Mission: 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

## RESPONSE TO PRELIMINARY AND TENTATIVE FINDINGS

### *DEPARTMENT OF CHILDREN AND FAMILIES AND SELECTED COMMUNITY-BASED CARE LEAD AGENCIES AND BEHAVIORAL HEALTH MANAGING ENTITIES – COST ALLOCATION PLANS*

**Finding 1:** Department procedures for the review of CBC and ME cost allocation plans need improvement to ensure that the plans are appropriately prepared and that Department records evidence adequate review of the plans.

**Recommendation:** We recommend that Department management enhance procedures for the review of CBC and ME cost allocation plans, including the examination of pertinent financial information, to ensure that cost allocation plans accurately identify and appropriately allocate all costs. To demonstrate that cost allocation plan reviews are consistently conducted, we also recommend that Department management ensure that checklists are completed documenting the review of all CBC and ME cost allocation plans.

**DCF Response:** The Department has enhanced its procedures for the review of CBC and ME cost allocation plans as recommended. Checklists were also created and completed by staff conducting reviews of the Fiscal Year 2016-2017 Cost Allocation Plans for all CBCs and MEs.

**Finding 2:** The Department did not always ensure that CBC cost allocation plans were timely reviewed or approved.

**Recommendation:** We recommend that Department management ensure that CBC cost allocation plans are reviewed and approved in accordance with established contractual time frames.

**DCF Response:** The Department has implemented a tool for the cost allocation review process that tracks the review timeframe to help ensure the plans are reviewed in accordance with contractual time frames.

**Finding 3:** CBC records did not always support the appropriateness or reasonableness of costs included in one CBC cost allocation plan. In addition, some ME cost allocation plans did not accurately describe the methodology used to allocate administrative costs.

**Recommendation:** We recommend that CBCCF management conduct cost analyses evaluating the reasonableness of all applicable subcontracts and ensure that net revenues, if any, from the subcontract with CBC of Central Florida – Holdings, Inc. are properly reported to the Department and used only for allowable contract expenditures. Additionally, we recommend that CBCCF management ensure that appropriate actions are taken to correct audit cost overbillings. We also recommend that Department and ME management ensure that cost allocation plans accurately reflect the methodology used to allocate costs.

**DCF Response:** The Department's Fiscal Year 2016-2017 desk monitoring process will test reports and documentation provided by the CBC or ME against the cost allocation plans for compliance for the methodology approved to allocate costs.



Collaborating for Excellence

September 12, 2016

Ms. Sherrill F. Norman, CPA  
Auditor General  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Ms. Norman,

Thank you very much for a copy of the preliminary and tentative audit findings and recommendations for the Department of Children & Families, selected Community-Based Care Lead Agencies and Behavioral Health Managing Entities.

Please note that in finding 3, in the report attached that due to ME staff oversight, the cost allocation plans were not updated to reflect the change in methodology. ME's are required to complete the Cost Allocation plan template provided. The ME's add information where required and submit to the department for approval. The ME's receive approval from the Department. The ME will work in conjunction with the department to verify the proper template is utilized in the future.

We agree that going forward, the ME's & the Department will need to work more closely together, ensure that the cost allocation plans accurately reflect the metrology used to allocate costs.

Sincerely,

A handwritten signature in blue ink that reads "Linda McKinnon".

Linda McKinnon  
President & CEO  
Central Florida Behavioral Health Network, Inc.



719 South US Highway 301, Tampa, FL 33619 • phone: 813-740-4811 fax: 813-740-4821 • www.cfbhn.org



September 29, 2016

Sherrill F. Norman, CPA, Auditor General  
State of Florida  
Claude Denson Pepper Building, Ste. G74  
111 West Madison St.  
Tallahassee, Florida 32399-1450

Re: Dept. of Children and Families and Selected Community-Based Care Lead Agencies and Behavioral Health Managing Entities Cost Allocation Plans – Operational Audit Report.

Dear Ms. Norman:

We are in receipt of the preliminary audit findings and recommendations related to the above-referenced report. Per your request, please find our responses to the items relevant to Community Based Care of Central Florida (CBCCF) below:

Auditor General Comment:

The CBCCF included administrative fees in its cost allocation plan that were calculated as a percentage of direct costs. The administrative fees represented amounts that the CBCCF paid to CBC of Central Florida – Holdings, Inc. a separate, but related, non-profit corporation that the CBCCF subcontracted with to perform administrative support functions. The CBCCF cost allocation plan indicated that the administrative fees amount was determined based on historical administrative costs and current needs. Although CBCCF’s contract with the Department required the CBCCF to perform a detailed cost analysis evidencing the reasonableness of all subcontracts in excess of \$250,000, the CBCCF had not performed a cost analysis to support the reasonableness of the subcontract with CBC of Central Florida – Holdings, Inc., including the administrative fees paid. In response to our audit inquiry, CBCCF management provided a spreadsheet reflecting actual and projected administrative costs incurred by CBC of Central Florida – Holdings, Inc. for the 2015-16 fiscal year. The spreadsheet showed that, for the 2015-16 fiscal year, the CBCCF had paid, or was projected to pay, administrative fees totaling \$2,934,196 to the CBC of Central Florida – Holdings, Inc. and the CBC of Central Florida – Holdings, Inc., had administrative costs totaling \$2,760,653 related to the CBCCF contract. In addition, CBCCF management indicated that the projected net revenue, totaling \$173,543, resulting from the subcontract with CBC of Central Florida – Holdings, Inc., would be carried forward to subsequent fiscal years to fund future expenditures. However, the net revenue would not be reported on the CBCCF’s final 2015-16 fiscal year expenditure report to the Department, potentially limiting the Department’s oversight opportunities.



Admin. Support Center:	4001 Pelee Street · Orlando, FL 32817	(321) 441-2060
West Orange County Office:	5749 Westgate Drive · Orlando, FL 32835	(321) 441-1567
East Orange County Office:	1900 N. Alafaya Trail, Ste. 900, Orlando, FL 32826	(407) 207-8200
Osceola County Office:	111 E. Monument Ave., Ste. 501 · Kissimmee, FL 34741	(321) 442-8487
Seminole County Office:	2921 South Orlando Ave., Ste. 150 · Sanford, FL 32773	(407) 688-9650



Community Based Care of Central Florida is a 501(C)3 non-profit organization. Federal Tax ID 01-0631375



**CBCCF Response:**

Dating back to the development and implementation of our current structure in 2013, CBCCF took great care to engage DCF as an integral part of the discussion, ensuring transparency with DCF throughout the transition and requesting input in the administrative design. Our efforts have always been to operate as a partner with DCF. We met with both DCF Regional and Headquarters staff prior to implementing these changes. In addition, we shared all impacted amendments, resolutions and agreements – including the Management Agreement between CBCCF – Holdings, Inc. and CBCCF, with our partners at DCF. Further, DCF conducted a legal review of our proposal, resulting in the recommendation of changes to the proposed bylaws of CBCCF – Holdings, Inc., which we accordingly revised to ensure structural agreement with DCF. At no time during the planning and implementation process were concerns raised that CBCCF was not prepared or willing to address.

As noted in the Auditor General’s preliminary comments, CBCCF – Holdings, Inc. provided both the budget and the actual expenditures for FY 2015-16. This demonstrates that the established Management Agreement rate was reasonable. CBCCF received an approval from DCF of the FY 2015-16 cost allocation plan (effective July 1, 2015) with a rate of 4.25%. Additionally, CBCCF has received approval of our FY 2016-17 cost allocation plan (effective July 1, 2016) with a rate of 4.15%. The historical expenditures show that this rate is reasonable, and when compared to other CBC lead agencies throughout the state, it is also well within the reasonable test expected.

The reasonableness test as defined in *Part 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (200.404) is clear about an entity’s ability to negotiate a reasonable indirect rate. It states that, “A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.” Appendix IV to Part 200 – *Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations*), Section C. *Negotiation and Approval of Indirect Cost Rates* – states that a “predetermined rate means an indirect cost rate, applicable to a specified current or future period, usually the organization’s fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment.” Upon review of these requirements, CBCCF believes that the approved indirect rate of 4.25% is reasonable. The historical expenditures show that this rate is reasonable, and when compared to other CBC lead agencies throughout the state, it is also well within the reasonable test expected. In compliance with the above-referenced Section C. CBCCF – Holdings, Inc. will, however, consider conducting a Single Audit in future years to further illustrate its commitment to transparency.



Admin. Support Center:	4001 Pelee Street · Orlando, FL 32817	(321) 441-2060
West Orange County Office:	5749 Westgate Drive · Orlando, FL 32835	(321) 441-1567
East Orange County Office:	1900 N. Alafaya Trail, Ste. 900, Orlando, FL 32826	(407) 207-8200
Osceola County Office:	111 E. Monument Ave., Ste. 501 · Kissimmee, FL 34741	(321) 442-8487
Seminole County Office:	2921 South Orlando Ave., Ste. 150 · Sanford, FL 32773	(407) 688-9650



Community Based Care of Central Florida is a 501(C)3 non-profit organization. Federal Tax ID 01-0631375



While we acknowledge that CBCCF and CBCCF – Holdings, Inc. are related entities, we wish to emphasize that both are separate legal entities, each liable for their own contracts; any contract they enter into with each other is a legally binding agreement that can be enforced against each party. The concept of a “related party transaction” sometimes carries a negative connotation because there is an inference that one of the related parties is benefitting at the expense of a not-for-profit organization. However, in this case both entities are tax-exempt 501(c)3 organizations with distinct boards of directors, so there is no benefit flowing to any private person or individual. CBCCF and CBCCF – Holdings, Inc. have similar missions and purposes to support a high quality system of care. Due to the non-profit nature of both parties, the terms of the contract are actually at rates most favorable to the party receiving and paying for the services. If CBCCF were to contract for these services with an independent, unrelated third party, the terms would be less favorable to CBCCF and the children and families we serve.

Auditor General Comment:

The CBCCF included audit costs, totaling \$1,945, as both a direct expense used to calculate administrative costs and as a direct administrative charge for the months of October 2015 and January 2016, resulting in the CBCCF overbilling the Department by \$165. In response to our audit inquiry, CBCCF Management indicated that the CBCCF’S final 2015-16 fiscal year expenditure report would be adjusted to correct the overbilling.

CBCCF Response:

As was presented during our discussions with Lisa Norman and Donna Edwards, we acknowledge the \$165 error and corrected it immediately. The final FY 2015-16 expenditure report did not include the \$165 charge.

We appreciate the opportunity to discuss the preliminary audit report with your office. Please let us know if we can provide any further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Glen Casel".

Glen Casel  
President/CEO



Admin. Support Center:	4001 Pelee Street • Orlando, FL 32817	(321) 441-2060
West Orange County Office:	5749 Westgate Drive • Orlando, FL 32835	(321) 441-1567
East Orange County Office:	1900 N. Alafaya Trail, Ste. 900, Orlando, FL 32826	(407) 207-8200
Osceola County Office:	111 E. Monument Ave., Ste. 501 • Kissimmee, FL 34741	(321) 442-8487
Seminole County Office:	2921 South Orlando Ave., Ste. 150 • Sanford, FL 32773	(407) 688-9650



Community Based Care of Central Florida is a 501(C)3 non-profit organization. Federal Tax ID 01-0631375



HEALTH  
SYSTEMS

10/6/2016

• • •

Auditor General Office – State of Florida  
Att: Sherrill Norman, CPA  
Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, FL 32399-1450

Ms. Norman:

I was writing in response to the LSF (EH003) Cost Allocation Plan (CAP) for FY 16-17, and the recommendations concerning Finding #3 in the preliminary audit findings dated September 8, 2016.

Upon reviewing the original submission of our CAP from 8/30/16, and the comments made by the Department, a complete review and update of the whole plan was done. A detailed process for invoice and payment processing for our sub-providers was added, indicating timeframes and systems used. The wording of the whole document needed to be updated and adjusted accordingly.

A detailed process and procedures for ME operational costs were added to include a description of how the accounting system captures only allowable costs and allocates the costs to the administrative cost pool. All charts and graphs were updated to include current systems and account codes.

We submitted our revised CAP on September 16<sup>th</sup> and received approval from our contract manager on September 20<sup>th</sup>. The following week I received a phone call from Barney Ray from the Office of Financial Accountability. He mentioned the finding #3 from the preliminary report and asked that I focus specifically on Section 5 and update the wording to better reflect our current processes. He did not ask for a revision, but suggested I update this now to have it available for the next revision requirement.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Turton'.

John Turton  
Finance Director – LSF Health Systems



---

9428 Baymeadows Rd. • Bldg. III, Ste. 320 • Jacksonville, FL 32256 • Phone: 904-900-1075 • Fax: 904-900-1628

---

September 26, 2016

*Board of Directors*

*Officers*

Mr. Vern Melvin - Chairman  
Mr. John Fowler - Vice Chair  
Mr. Larry Rein - Secretary  
Ms. Cheri Sheffer - Treasurer

*Directors*

Mr. James Davis  
Dr. Linda DePiano  
Mr. Jaime Estremera-Fitzgerald  
Ms. Abbey Friedman  
Chief Deputy Mike Gauger  
Representative Gayle Harrell  
Mr. Jary Lewis  
Mr. John Romano  
Dr. Joe Speicher  
Mr. Gregory Starling  
Mr. Alton Taylor  
Major Pat Tighe  
Rev. George A. Lynch IV  
Mr. Sean Boyle

Ms. Sherrill F. Norman, CPA  
Auditor General, State of Florida  
G74 Claude Denson Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Re: Department of Children and Families and Selected Community-Based Care  
Lead Agencies and Behavioral Health Managing Entities Cost Allocation Plans

Dear Ms. Norman:

Southeast Florida Behavioral Health Network, Inc. (SEFBHN) received your request to respond to the above referenced report in which a preliminary audit finding and recommendation were made regarding SEFBHN's cost allocation plan. This correspondence is intended to acknowledge the finding and address the implementation of the recommendation.

Specifically, SEFBHN's 2015-16 cost allocation plan did not accurately describe the methodology used to allocate administrative costs, which changed from our 2014-15 plan. Our current methodology is to directly charge costs to a specific line item for administration. This change in methodology was incorporated into our 2016-17 cost allocation plan, submitted to the Department of Children and Families on August 31, 2016.

Thank you for the opportunity to respond. I can be reached at 561-203-2485 or by email at [Ann\\_Berner@ssefbhn.org](mailto:Ann_Berner@ssefbhn.org) if needed.

Regards,



Ann M. Berner  
President/CEO

Cc: Vern Melvin, Board Chair  
Terri Mills, Director of Budget & Planning  
Debora Schindler, DCF Contract Manager