



# AUDIT REPORT



*To preserve the public trust as guardians of the people's records and assets*

**DATE** September 2, 2022

**NO.** 2022-004

## NOT-FOR-PROFIT CONTRACTS

INTERNAL AUDIT DIVISION  
ROGER D. EATON  
CLERK OF THE CIRCUIT COURT AND COUNTY COMPTROLLER  
CHARLOTTE COUNTY FLORIDA



**ROGER D. EATON**  
Clerk of the Circuit Court and County Comptroller

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To: The Honorable Roger D. Eaton, Charlotte County Clerk of the Circuit Court and County Comptroller

From: Dan Revallo, Internal Audit Director

Date: September 2, 2022

Subject: Not-For-Profit Agency Contracts Audit

Honorable Clerk Eaton,

The Internal Audit Division has completed an audit of Charlotte County Not-For-Profit Agency contracts. Misti Payette Internal Auditor II conducted this review.

The audit client's response is attached to this report. We would like to thank client management and staff for their cooperation and assistance in the completion of this audit.

The report will be posted to the Clerk of Courts website, [charlotteclerk.com](http://charlotteclerk.com), under Internal Audit, Audit Reports. A link to this report has been sent to the appropriate parties.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Dan Revallo, CIA, CFE  
Internal Audit Director  
Charlotte County Clerk of the Circuit Court and County Comptroller

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## EXECUTIVE SUMMARY

The Internal Audit Division has completed an audit of the Charlotte County not-for-profit agency contracts. The purpose of the audit was to report on contract compliance and related internal controls. A few specific control weaknesses were noted; generally however, controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

**Based upon the results of our audit, we offer a summary of recommendations. These recommendations are discussed in detail later in this report:**

1. **We recommend** Fiscal Services require compliance with contract requirements and applicable Florida Statutes prior to contract payouts and funding request approvals.
2. **We recommend** Fiscal Services increase controls to ensure contract funding amounts agree with Board of County Commissioner (BOCC) approvals.
3. **We recommend** Fiscal Services ensure master files reflect the latest documents on record, and are properly indexed.

**We additionally recommend** Fiscal Services enforce contract master file obligations.

4. **We recommend** Fiscal Services update the application template to include evidence of not-for-profit status, required master file documents, and program budget details for completeness and accuracy.

**We additionally recommend** public funding application postings be current.

5. **We recommend** Fiscal Services ensure grant funds not spent within the contract year are managed in compliance with the contracts.
6. **We recommend** Fiscal Services update their not-for-profit grant standard operating procedure for consistency with current practices.

**We additionally recommend** Fiscal Services address County funding of the United Way in these procedures.

7. **We recommend** Fiscal Services ensure not-for-profits schedules of service are in compliance with contractual provisions.

## BACKGROUND

The Charlotte County Board of County Commissioners awards grant funds to Charlotte County not-for-profit, 501(c)3 agencies that perform or provide certain beneficial services that are otherwise unappropriated by traditional budgetary sources. To be considered, agencies must complete and submit an application to the County's Fiscal Services Division.

Applicants are required to provide agency information, financial disclosures, and program details (program intent, program budget, and measurable program objectives). In addition, applicants must provide required master file documents, which include: 1) the agency's latest audited or unaudited financials, 2) the agency's latest IRS Form 990 filed, 3) a copy of the agency's most recent Florida Department of State Division of Corporations Annual Report, and 4) current evidence of the agency's 501(c)3 status. If an agency is seeking \$50,001 or more, audited financials are required.

If approved, the agency signs a contract agreement with Charlotte County that outlines the general contract provisions as well as the contract obligations of both parties. This typically includes (but is not limited to) providing quarterly and annual project reporting, updates on any organizational changes, providing annual audited or unaudited financials and tax filings, maintaining agency records for inspection, review and/or audit by County personnel, and compliance with applicable laws, etc.

Contract agreements designate the participant not-for-profit agency as an “independent contractor” for which the County assumes no responsibility for the means or manner in which it provides its service(s), and establishes a requirement for the agency to maintain liability and property damage insurance in amounts approved by the County.

Contract agreements generally cover from October 1<sup>st</sup> to September 30<sup>th</sup> consistent with the County’s fiscal year and cover a 2-year period. Grant funds awarded are typically distributed in an annual lump sum amount or in block sums that are distributed either monthly or quarterly.

The current contracts were awarded to the following agencies and program(s) for the purposes identified:

<b>Not-For-Profit Agency</b>	<b>Mission (Purpose)</b>
<u>Arts and Humanities Council of Charlotte County, Inc.</u> Program(s): <ul style="list-style-type: none"> <li>• Charlotte Arts Gallery</li> <li>• Art in Public Places</li> <li>• Cultural e-blast and Calendar</li> <li>• Art Sensations Arts and Cultural Festival</li> </ul>	To encourage, strengthen, and foster cultural and artistic opportunities for all residents and visitors to Charlotte County.
<u>Charlotte Harbor Environmental Center, Inc. (CHEC)</u> Program(s): <ul style="list-style-type: none"> <li>• Public Environmental Education, Recreation, and Outreach</li> </ul>	To raise public awareness regarding the value of our natural and cultural resources by providing environmental education, research, and management of conservation lands.
<u>Military Heritage Museum, Inc.</u> Program(s): <ul style="list-style-type: none"> <li>• General Operations Experience</li> <li>• History Academy</li> </ul>	To promote an understanding and respect for both the rich military heritage of the United States and the sacrifices made by all who serve, living and deceased, emphasizing that freedom isn’t free.
<u>United Way of Charlotte County, Inc. (UWCC)</u> Program(s) <ul style="list-style-type: none"> <li>• Funds are distributed by UWCC to client agencies.</li> </ul>	Mobilizing the power of our community to break the cycle of poverty.
<u>Charlotte Behavioral Health Care, Inc. (CBHC)</u> Program(s): <ul style="list-style-type: none"> <li>• Central Receiving Facility (Marchman Addiction Receiving Facility, Crisis Stabilization Unit, and Crisis Support)</li> </ul>	Partnering to instill hope, inspire growth, and embrace life.

<ul style="list-style-type: none"> <li>• Adult and Children Behavioral Health and Substance Use Service (including Medical Services)</li> <li>• Case Management Services</li> <li>• Substance Abuse Recovery Services (Inpatient Voluntary Detoxification and Inpatient Residential I)</li> </ul>	
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The following table reports the prior and current contract funding amounts by the County’s fiscal year. The current contracts were approved by the Charlotte County Board of County Commissioners on September 14, 2021 for fiscal years 2022 and 2023.

<u>Not-For-Profit Agency</u>	<u>Prior Contract</u>		<u>Current Contract</u>	
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Arts & Humanities Council of Charlotte County, Inc.	25,000	25,000	20,300	20,030
Charlotte Harbor Environmental Center, Inc.	35,000	35,000	37,500	37,500
Military Heritage Museum, Inc.	15,000	15,000	22,500	22,500
United Way of Charlotte County, Inc.	650,000	764,033	784,000	784,000
Charlotte Behavioral Health Care, Inc.	1,382,676	1,382,676	1,648,361	1,648,361
<b>Total Awarded per Fiscal Year</b>	<b>2,107,676</b>	<b>2,221,709</b>	<b>2,512,661</b>	<b>2,512,391</b>

#### AUDIT OBJECTIVES

1. To determine whether or not the internal controls established by the not-for-profit contracts are adequate to ensure the funding objectives are met; and
2. To determine if the recipient agencies and Charlotte County are in compliance with contract requirements.

#### SCOPE AND METHODOLOGY

Internal Audit reviewed both the current and prior not-for-profit contracts for each participating agency. The current, active contracts are ongoing and cover the period of October 1, 2021 through September 31, 2023. The prior, now expired contracts covered the period of October 1, 2019 through September 30, 2021. Contracts were reviewed to determine the requirements for both the County and each agency.

The assessment of internal controls and compliance with contract requirements were determined through review of key documents (i.e. applications, master file documents), agency site visits, and interviews with key department personnel and agency principals, etc.

#### COMMENTS AND RECOMMENDATIONS

##### 1. Agency non-compliance with contract requirements and applicable Florida Statutes.

The Arts and Humanities Council of Charlotte County is not operating in compliance with contract requirements or applicable Florida laws. Specifically, we noted the following:

- a) Non-compliance with FL Statutes, Chapter 496 “Solicitation of Funds” – The agency’s registration with the FL Department of Agriculture and Consumer Services (“FDACS”) expired on 4/30/2020, and the agency’s status is currently listed as “Not Soliciting”.
- b) Non-compliance with FL Statutes, Chapter 607 “Business Corp. Act” – The agency’s status with the FL Department of State was found to be “inactive” and administratively dissolved on 9/25/2020. Florida Statutes, Chapter 607 Florida Business Corporation Act s.1622, require an annual report be filed between January 1 and May 1 of each calendar year. The latest annual report filed at the time of our review was dated 6/25/2019 for the 2019 year. The agency reinstated with the FL Department of State on 2/23/2022 after Internal Audit identified the exception and inquired about the agency’s status.
- c) The quarterly reports submitted do not comply with the contract requirements.
  - o The reports were not filed timely, as they were submitted to the County's Budget and Administrative Services office anywhere between 15 and 113 days late.
  - o The reports lack transparency, as they do not include any financial details (i.e. details on how the County grant funds were used (allocated) each quarter, and the overall value/impact on the Charlotte County community).
  - o The reports had minimal updates/changes from quarter to quarter.
- d) The agency was not responsive to our requests for site visit and access to agency records. The agency was also not located at the address stated in the application and current contract. It was later determined the agency receives its mail at the Tourism Office, a County-owned facility, and that agency records are currently in storage. There does not appear to be a current rental agreement in place or a formal static location for this agency.

The agency has received \$45,300 in grant funds while not in compliance with the identified Florida Statutes.

**We recommend** Fiscal Services require compliance with contract requirements and applicable Florida Statutes prior to contract payouts and funding request approvals.

## **2. Contract funding amount discrepancy and fiscal year date errors identified.**

The contract between Charlotte County and Arts and Humanities Council of Charlotte County does not reflect the amount approved by the Charlotte County Board of County Commissioners (BOCC) on September 14, 2021. The BOCC approved \$20,030 per year for fiscal years 2022 and 2023. The contract reflects \$20,300 for the first payment and \$20,030 for the second. The contract also states, “The second payment of \$20,030 shall be paid on or soon after the beginning of fiscal year 2022.” This should reflect 2023, not 2022. (Similar date errors were also identified in the contracts with Charlotte Harbor Environmental Center and the United Way of Charlotte County.)

**We recommend** Fiscal Services increase controls to ensure contract funding amounts agree with Board of County Commissioner approvals.

**3. Some master file documents are outdated and needs update.**

The master files maintained generally contained outdated financials and IRS form 990 filings. In addition, only one (1) of the five (5) master files reviewed contained current evidence of the agency's 501(c)3 status. Specifically;

- a) Arts and Humanities Council of Charlotte County, Inc.
  - o The latest unaudited financial statement was for period ended 9/30/2018.
  - o The latest IRS Form 990 was for period ended 9/30/2018.
  - o The latest 501(c)3 status was a 1996 Determination Letter.
- b) Charlotte Harbor Environmental Center, Inc.
  - o The latest unaudited financial statement was for period ended 6/30/2019.
  - o The latest IRS Form 990 was for period ended 9/30/2019.
  - o The latest 501(c)3 status was a 2014 Determination Letter.
- c) Military Heritage Museum, Inc.
  - o The latest 501(c)3 status was a 2004 Determination Letter.
- d) Charlotte Behavioral Health Care, Inc.
  - o The latest IRS Form 990 was for period ended 6/30/2018.
- e) United Way of Charlotte County, Inc.
  - o The latest IRS Form 990 was for period ended 3/31/2016.
  - o The latest audited financial statement was for period ended 3/31/2018.
  - o The latest 501(c)3 status was a 2009 Determination Letter.

In addition, some master file documents were mislabeled and/or duplicated. Master files with outdated, duplicated or mislabeled documents can impede oversight efforts, providing opportunity for misuse of funds.

**We recommend** Fiscal Services ensure master files reflect the latest documents on record, and are properly indexed.

**We additionally recommend** Fiscal Services enforce contract master file obligations.

**4. Some control deficiencies were identified during audit procedures.**

Some control deficiencies were identified within the application processes. Specifically;

- a) The application template provided for fiscal years 20-21 application window is outdated and continues to be posted on the Fiscal Services webpage.
- b) No website or public notice occurred for the fiscal years 22-23 grant application window. Only the existing program participants were notified.
- c) The application template provided for fiscal years 22-23 application window did not require the applicant agency to provide current 501(c)3 status as a required "Master File Enclosures" document. This is not consistent with the Master File contract requirements.
- d) The budget details provided with the fiscal years 22-23 applications did not appear to satisfy the application requirements for three (3) out of four (4) applications reviewed (excludes the United way of Charlotte County).



Other control deficiencies noted include incorrect dates recorded in the "NFP Tracking List" control document maintained by Fiscal Services. This document is used to track the receipt of required documents.

**We recommend** Fiscal Services update the application template to include evidence of not-for-profit status, required master file documents, and program budget details for completeness and accuracy.

**We additionally recommend** public funding application postings be current.

**5. No monitoring is performed to determine if grant refunds are due.**

The grant recipients are not monitored to ensure grant funds are refunded if not spent within the 12-month contract year, as required by contract. This is a contract provision for all contracts, except for the contract with the United Way of Charlotte County.

**We recommend** Fiscal Services ensure grant funds not spent within the contract year are managed in compliance with the contracts.

**6. The Standard Operating Procedure (SOP) document is outdated and omits key guidance.**

The SOP document "Process on Managing the Not-For-Profit Grants" does not reflect the Division's current procedures for the receipt and storage of key documents (i.e. submitted applications, executed contracts, required quarterly filings, master file documents).

The SOP also does not address the contract between Charlotte County and the United Way of Charlotte County.

**We recommend** Fiscal Services update their not-for-profit grant standard operating procedure for consistency with current practices.

**We additionally recommend** Fiscal Services address County funding of the United Way in these procedures.

**7. The Schedule of Service contract provision is not enforced.**

Some agency administrative hours of operation varied from contract provisions. Specifically;

- a) The administrative hours for the Arts and Humanities Council of Charlotte County could not be verified. The agency's website indicates Monday through Friday, 9:00am-5:00pm.
- b) The administrative hours for the Charlotte Harbor Environmental Center were determined to be Monday through Friday, 8:00am-4:00pm.

The other agencies noted administrative personnel available, at a minimum of Monday through Friday 8:00am-5:00pm, which is consistent with the contract provisions.

**We recommend** Fiscal Services ensure not-for-profits schedules of service are in compliance with contractual provisions.

### **CONCLUSION**

A few specific control weaknesses were noted; generally however, controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

### **ACKNOWLEDGEMENT**

We would like to thank members of the Charlotte County Fiscal Services Division, Charlotte Behavioral Health Care, United Way of Charlotte County, Charlotte Harbor Environmental Center, Military Heritage Museum and Arts and Humanities Council of Charlotte County for any cooperation and assistance provided in completing this audit.

Audit performed by:  
Misti Payette  
Internal Auditor II  
Charlotte County Clerk of Circuit Court and County Comptroller



## MEMORANDUM

Date: 7-26-2022

To: Dan Revallo, Internal Audit Director, Charlotte County Clerk of Courts and Comptroller

From: Gordon Burger, Budget & Administrative Services Director

Subject: Responses to the Internal Audit review of the Not for Profit Contracts

**Please find below the list of recommendations from your department and the response from the Board.**

1. We recommend Fiscal Services require compliance with contract requirements and applicable Florida Statutes prior to contract payouts and funding request approvals.

**Response: Fiscal Services has updated the Standard Operating Processes (SOP) to include review of compliance documents before requests are submitted to Finance for payment.**

2. We recommend Fiscal Services increase controls to ensure contract funding amounts agree with Board of County Commissioner (BOCC) approvals.

**Response: Fiscal Services has updated processes to include an additional validation before requests are submitted to Finance for payment.**

3. We recommend Fiscal Services ensure master files reflect the latest documents on record, and are properly indexed. We additionally recommend Fiscal Services enforce contract master file obligations.

**Response: Fiscal Services has updated and properly indexed all Master File documents for all subrecipients. We have also updated the SOP to include a checklist of Master File documents for enforcement of obligations.**

4. We recommend Fiscal Services update the application template to include evidence of not-for-profit status, required master file documents, and program budget details for completeness and accuracy. We additionally recommend public funding application postings be current.

**Response: Fiscal Services has updated the application to include NFP status, required documents and budget detail. NFP funding is appropriated by the Board of County Commissioners and not competitive. Therefore, public announcement is not needed and has been removed from the public site.**



5. We recommend Fiscal Services ensure grant funds not spent within the contract year are managed in compliance with the contracts.

**Response: Fiscal Services with approval from County Attorney's office have updated of the contract agreement to include information regarding reimbursement of unused funds.**

6. We recommend Fiscal Services update their not-for-profit grant standard operating procedure for consistency with current practices. We additionally recommend Fiscal Services address County funding of the United Way in these procedures.

**Response: Fiscal Services has updated the SOP to conform with current practices as well as included the United Way funding procedures and requirements.**

7. We recommend Fiscal Services ensure not-for-profits schedules of service are in compliance with contractual provisions.

**Response: Fiscal Services determined it was not necessary to include the schedule of services in the contract agreement and have removed this section.**



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