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MEMORANDUM

DATE: February 16, 2016

TO: Citrus County Community Charitable Foundation, Inc.

From: Robin Barclay, Chief Audit Officer

Through: Angela Vick, Citrus County Clerk of the Circuit Court & Comptroller

SUBJECT: #2016-02
Review of the Citrus County Community Charitable Foundation, Inc.

The Citrus County Clerk of the Circuit Court & Comptroller's Internal Audit Services (IA) has completed a review of the organizational and financial records of the Citrus County Community Charitable Foundation, Inc. (CCCCF), pursuant to audit authority granted in Chapter 2014-254, Laws of Florida and the CCCCFF's bylaws.

The purpose of the audit was to determine if the CCCCFF was operating in compliance with applicable laws, rules, bylaws, and other guidelines. The audit review period was October 1, 2014 through September 30, 2015 (the first fiscal year since inception as a Florida not-for-profit corporation). The review included examinations of various governance and accounting documents in effect throughout the audit period.

Background

The Citrus County Hospital Board (CCHB), an independent special district of the State of Florida, entered into a 50-year long-term lease agreement with Hospital Corporation of America (HCA) on October 31, 2014 to take over operations of Citrus Memorial Hospital. This transaction agreement made proceeds available to establish the Citrus County Community Charitable Foundation, Inc.

CCCCF, a Florida not-for-profit corporation, was created in accordance with Chapter 617 of the Florida Statutes and Laws of Florida, Chapter 2014-254. The mission of the CCCCFF was to award grants to groups and organizations that establish programs, research, or initiatives that promote the health or satisfy the medical needs of the residents of Citrus County.

The CCCCFF held its first organizational meeting on January 22, 2015.

Standing committees (Personnel Committee, Audit Committee, and Investment Committee) were not yet populated as of September 30, 2015. Ad-Hoc committees (Bylaws Committee and Grant/Grant Application Committee) were populated and had regular meetings.

The bylaws were amended three times (February, May, and June 2015) since they were initially adopted in October 2014.

No funds were expended for charitable purposes during the first fiscal year. The bylaws indicated that all funds received from the HCA transaction must be held for a period of 24 months from the date of receipt, without expending any of the funds other than for the payment of administrative expenses.

Banking services were initiated with Regions Bank on September 16, 2015, with a deposit of \$53,420.39. Funds received were from two CCHB interest bearing accounts: an indemnity escrow account (JP Morgan) and a pension escrow account (Fifth Third Bank). Administrative expenses totaled \$544.20 which included: public meeting notices published in the Chronicle, post office box rentals, and a registration application fee to the Florida Department of Agriculture and Consumer Services.

Summary Review

Internal Audit Services concluded that the CCCCCF was operating in compliance with applicable laws, rules, bylaws, and other guidelines. The Board of Directors continues to review and amend its bylaws in an effort to enhance governance. Further, ongoing efforts include developing the grant process and grant application, populating the standing committees, and procuring legal counsel and a web master. Future activity of the CCCCCF will require additional staffing to provide adequate and timely management of the above listed functions.

We wish to express our appreciation to the CCCCCF's Board of Directors, especially the Secretary/Treasurer, for continued cooperation and provision of documents during our review.

Discussion Point 1 – Annual report was not filed in a timely manner with the Department of State, Division of Corporations.

A review of the Florida Department of State (DOS), Division of Corporations website on December 7, 2015, disclosed that the status of the Citrus County Community Charitable Foundation, Inc. was "Inactive."

The required annual report was not filed with DOS, which resulted in the administrative dissolution of the corporation on September 25, 2015.

According to Chapter 617.1622, Florida Statutes, all Florida non-for-profit corporations must file an annual report yearly to maintain "Active" status. The first report was due in the year following formation. The report had to be filed electronically online between January 1st and May 1st.

The annual report was filed on November 6, 2015, and the corporation status was reinstated as "Active."

RECOMMENDATION:

No recommendation—Compliance issue. Be vigilant with compliance requirements and dates for submission of required documentation to the Department of State.

Discussion Point 2 – A formal written conflict of interest policy was not developed.

The bylaws included a section which addressed conflict of interest and related-party transactions. The spirit of the language provided a general directive. It addressed posing restrictions on directors (or family members of the directors) for engaging in contracts or transactions which could potentially result in a conflict of interest.

It also included a directive that the CCCCCF would adopt an additional and separate conflict of interest policy, augmenting the section in the bylaws, to ensure appropriate disclosure by all directors and ongoing monitoring by the CCCCCF. During the review, IA asked for a copy of the conflict of interest policy. However, a formal written conflict of interest policy was not yet developed.

RECOMMENDATION:

R1. The Board of Directors should adopt and regularly evaluate a formal written conflict of interest policy separate from, and in addition to, CCCCCF bylaws.

The policy should include a disclosure form, which is signed by the board members annually. The policy should also include procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified. In addition, the Board of Directors should regularly monitor and enforce compliance with the conflict of interest policy.

MANAGEMENT RESPONSE R1:

Board of Directors are in current review of several draft/examples of such policies from other organizations to enhance the current CCHB approved By Laws addressing this issue. As noted in the January, 2016 Board meeting this was discussed and is on the Agenda for the February, 2016 meeting. Anticipated/Target date for completion of policy and Board approval to be no later than the May, 2016 meeting (affording discussion and review at the February meeting, with submission of draft at the March meeting, submission of corrected draft at the April meeting with final adoption at the May meeting).

Discussion Point 3 – Separation of financial duties was inadequate.

The bylaws dictated that the directors were the officers, which consisted of a Chair, Vice Chair, and Secretary/Treasurer (being one officer). The duties of the officers were also prescribed in the bylaws.

The duties of the Secretary/Treasurer included having custody of all corporate funds and financial records, keeping full and accurate records of receipts and disbursements, and rendering accounts.

An interview with the Secretary/Treasurer disclosed that the duties of signing checks, recording transactions, and reconciling bank statements, were all performed by the Secretary/Treasurer.

RECOMMENDATION:

R2. The Board of Directors should separate financial and administrative duties of officers to serve as a checks and balances system. The distribution of duties provides maximum protection from fraud and error. It reduces the risk that financial transactions are not properly authorized, appropriated, executed, and recorded.

IA recognizes that the Board of Directors has discussed the need for hiring an assistant to provide administrative support and recommends that they should seek to increase their staffing. It is prudent of the CCCCCF to meet the increasing demands of current and future internal needs by making adequate investments in the organizational infrastructure needed to support their goals.

MANAGEMENT RESPONSE R2:

CCCCF, Inc. has discussed the administrative duties of the CCCCCF, Inc. Officers. Discussion at the June, 2015 meeting addressed such action and the unanimous approval was to delay the hiring of an Assistant at this time. This decision was based upon fiscal responsibility of expending citizens' monies until the task warrants time commitment of more than a few hours a week. The job description for such position has been created and approved. The current financial duties include the following: the Secretary Treasurer receives the invoice, the invoice is presented for approval to the CCCCCF, Inc. Board of Directors at meeting immediately following receipt of said invoice, upon approval the check is written and signed by two Directors who have authorization to be a check signer (President, Vice President, Secretary-Treasurer). At each CCCCCF Inc. Board meeting financial report is offered including all receipts, invoices, expenditures, and bank statements.

R3. The Board of Directors should establish formal written policies and procedures to clarify the roles and responsibilities for each person having fiscal duties.

Check signers should not be involved in basic accounting procedures. Someone outside of the accounting function should open and log all checks received. Bank statements should be reconciled by someone having no check writing or bookkeeping functions.

MANAGEMENT RESPONSE R3:

The By-laws Committee is in continuing discussion for amendments and revisions to the CCCCCF, Inc. By-laws, anticipation is that such duties for Officers will be more clearly defined as to the roles of the Officers and Foundation Assistant, once employed. By-laws review for approval anticipated for said financial review responsibilities will be at the CCCCCF, Inc. February meeting, with such being approved (per FL law) by the Citrus County Hospital Board, no later than May, 2016.

Discussion Point 4 – Check signing requirements should be amended in the current bylaws.

According to the bylaws, all checks, drafts, or orders for the payment of money, notes, or other evidences of indebtedness issued in the name of CCCCCF require the signatures of two officers.

A review of expenditures disclosed that all four checks issued during the review period were properly signed by two officers.

However, on December 7, 2015, an interview with the Secretary/Treasurer indicated that the Board of Directors approved and authorized the Secretary/Treasurer to pay disbursements in the amount of \$500.00 and under without a second officer's signature.

RECOMMENDATION:

R4. Amend the bylaws to include the approved motion giving the Secretary/Treasurer the authority to administer payment of checks with a limit of \$500.00. The bylaws should include a requirement that all checks written under this delegation of authority must have written documentation of after-the-fact approval by an officer independent of check preparation and bookkeeping activities.

MANAGEMENT RESPONSE R4:

Current By-Laws indicate checks to be signed by two designated Officers after CCCCCF, Inc. approval for such expenditure. Due to incident awareness of time requirement for expenditure, at the December, 2015 CCCCCF, Inc. approved the expenditure (payment) for such invoice, if such is due prior to the next CCCCCF, Inc. meeting. This check can be for no more than \$500. Included in this approval was the requirement of such be addressed for approval at the next scheduled CCCCCF, Inc. Board meeting. Such approval status will be added to the CCCCCF, Inc. By-laws as amended by Committee action, CCCCCF, Inc. Board of Directors approval and subsequent CCHB approval. Anticipate completion by May, 2016.

Discussion Point 5– Bonding insurance coverage was not established.

The bylaws indicated that the duties of the Secretary/Treasurer included having custody of all corporate funds. The bylaws also stated,

‘If so required by the Board of Directors, the Secretary/Treasurer shall give a bond for the faithful discharge of such Secretary/Treasurer’s duties in such sum and with such surety or sureties as the Board of Directors may deem appropriate.’

During the review, IA asked the Secretary/Treasurer if bonding insurance was in place. The IA was told that the CCCCCF did not have coverage. Establishing such coverage was to be discussed and presented for approval at a future Board of Directors meeting.

RECOMMENDATION:

R5. All officers, employees, and agents who handle cash or have access to an organization's funds should be bonded to protect the organization from theft. Consideration should be given to obtaining bonding insurance.

MANAGEMENT RESPONSE R5:

By-laws indicated that the Secretary- Treasurer shall be bonded. This action is currently in the process of being completed with Hagar Insurance. The bonding will include not only for the Secretary Treasurer but for the President and the Vice President, as they too are authorized as check signers. The anticipated date for the bonds to be in effect is no later than April 1, 2016; dependent upon bond amount approval by the CCCCCF, Inc. Board of Directors and the completion of Bond Application documents.

Discussion Point 6– The adopted bylaws (October 2014) did not reflect the date of adoption.

The completed application for recognition of exemption (IRS Form 1023) was reviewed. Part 2, Number 5 pertained to the adopted bylaws. The item was checked “yes”, indicating that bylaws were adopted. The application gave instructions to attach a copy of the bylaws, showing the date of adoption. However, they were not attached to the copy of the application that was provided to IA for review.

The Citrus County Hospital Board enclosed bylaws of the CCCCCF with a letter that was received by the Citrus County Board of County Commissioners on December 15, 2014. The letter was sent as notification of the CCCCCF’s first organizational meeting on January 22, 2015.

On the last page (page 14) of the bylaws, the date of adoption was blank. Consequently, formal approval and adoption of the bylaws by the CCCCCF Board of Directors was not determined by the IA.

RECOMMENDATION:

R6. The code of rules for the regulation and management of the activities of the CCCCCF was formalized in its bylaws. Although not required, best practices suggest that the date of approval should appear at the bottom of finalized documents.

MANAGEMENT RESPONSE R6:

The initial By-laws were adopted by the CCHB, October, 2014. There have been approved amendments to the By-laws by the CCCCCF, Inc. These dates include: February 19, 2015, May 28, 2015, and June 25, 2015, with anticipation of such on February 23, 2016. These dates will be so documented with signatures by the CCCCCF, Inc. Officer once dated approval is received by the CCHB. As each Board (CCCCCF, Inc. and CCHB) meet monthly such coordination indicates anticipation completion of this documentation no later than May, 2016.

CC: Ken Hinkle, Chairman
Citrus County Community Charitable Foundation, Inc.
William J. Grant, Esq.
The Law Office of Grant & Dozier, LLC