

April 3, 2019



# Reichert House Youth Academy – Governance, Financial Processes, and Performance Metrics

## SPECIAL NOTE – COVER PAGE

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On March 11, 2019, I met with the Interim City Manager and the City Attorney to go over the draft report of the audit of Reichert House Youth Academy.

On March 12, 2019, I forwarded an electronic copy to the Interim City Manager and the City Attorney's Office only marked "CONFIDENTIAL & EXEMPT FS 119.0713 (2)(b)" on every page as well as a diagonal watermark going across every page labeled "CONFIDENTIAL." The Cover page was marked as follows:

**CONFIDENTIAL:** Pursuant to Section 119.0713 (2)(b), Florida Statutes, the audit report of an internal auditor prepared for or on behalf of a unit of local government becomes a public record when the audit report is presented to the unit of local government. Audit work papers and notes related to such audit are confidential and exempt from Section 119.07(1), Florida Statutes and s. 24(a), Article I of the State Constitution until the audit is complete and the audit report becomes final.

On March 22, 2019, I was notified by the City Attorney that "a city employee has provided a copy of the draft report" to a member of the public. Further, under relevant Florida law, no further purpose is served by preventing public access to the document as advising me whether I should consider to continue to withhold delivery of the draft report to the City Commission.

I responded on March 23, 2019, notifying the Interim City Manager and City Attorney that I was considering appropriate actions due to the increased risk that the City employee or the member of the public who received the report would continue disseminating a draft report not yet in its final form and issued in draft due to not yet having feedback from the auditee.

Due to the likelihood that draft reports may be circulated to unknown parties and made public, I am releasing the report to the City Commission ahead of placing it in Legistar for the April 18<sup>th</sup>, 2019, City Commission meeting.

FINAL REPORT  
PART A



**A Report to the  
City Commission**

**Mayor**  
Lauren Poe

**Mayor-Commissioner Pro Tem**  
Adrian Hayes-Santos

**Commission Members**

David Arreola

Gail Johnson

Gigi Simmons

Harvey Ward

Helen K. Warren

**Audit of the City of Gainesville's  
Reichert House Youth Academy –  
Governance, Financial Processes, and  
Performance Metrics**

**Part A**

April 3, 2019

**City of  
Gainesville  
Office of the City  
Auditor**

Carlos L. Holt – City Auditor

## EXECUTIVE SUMMARY

April 3, 2019



### Why We Did This Audit

The audit was included in the City Auditor's 2019 Fiscal Year Audit Plan due to a lack of clear understanding of governance and financial processes regarding the Reichert House Youth Academy (RHYA - city run program) and Reichert House, Inc. (a non-city entity).

### Related instances of concerns:

- **2010:** City Auditor's summary report of issues recommending reducing "intertwining of financial resources".
- **2013:** Qualified opinion financial audit of Reichert House, Inc. that was unable to obtain sufficient evidence of various contributions.
- **2013:** City paid out \$185k for a lawsuit related to a non-city entity's employee's at-fault accident while driving a Reichert House van in support of the program.
- **2016:** [City Auditor's investigation](#) not substantiating claims of grant misuse. However, the City Auditor learned that a City employee kept the books and oversaw the checking account for Reichert House, Inc. (a 501(C)(3)).
- **2017:** A non-city attorney intervened in city matters with FL DCF .
- **2014-2018:** Past City Finance Directors and City Managers have expressed concerns over the dynamics surrounding RHYA financial operations.

# Reichert House Youth Academy – Governance, Financial Processes, and Performance Metrics

## BACKGROUND

**Note: This audit did not examine the operational processes nor methods used by Reichert House Youth Academy's interactions with at-risk youth. This audit focused on the governance structure, financial processes, use of funds, and performance metrics.**

As described by their website, "Reichert House is an after school program designed for youth who are in need of assistance in making the transition from adolescence to adulthood. The Reichert House is operated in a para military fashion. The program has a middle school and separate high school component. The 31-year-old program consists of about 120 students from 31 schools."

Numerous testimonials and presentations around the City of Gainesville, professional organizations, and community groups have relayed the many successes that Reichert House Youth Academy program has had over the years.

The Reichert House Youth Academy program keeps many at-risk kids engaged and out of trouble, this is indisputable. The Reichert House Youth Academy has many successful outcomes.

### Part A and Part B of this Audit

Due to the non-availability of financial information from Reichert House, Inc. and only partial information from Palm Breeze Youth Services, Inc. as of the date of this report, we have found it necessary to report on the analysis of those transactions separately.

- Part A (presented here) is the bulk of the Reichert House Youth Academy audit and accompanying observations and recommendations.
- Part B to be produced later, will consist of an analysis of the deposits, withdrawals, checks cleared, and any supporting documentation provided by Reichert House Youth Academy, Reichert House, Inc., or Palm Breeze Youth Services, Inc. This engagement will be completed in the coming 90 days. Citizens and organizations who support the good work done by Reichert House Youth Academy deserve to know how dollars for this program are being spent. We endeavor to perform this service for them. Due to workload, an external CPA firm will perform Part B.
- **Note:** We spent five months (October 25 – April 3, 2019) trying to collect as much information as possible and ultimately exhausted our resources (citywide and with non-city entities) to compose this report.

## TIMELINE

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- **February 2010:** Previous City Auditor releases “Summary Report of Issues” to Gainesville Police Department leadership noting issues with city resources intertwined with Reichert House, Inc., and an absence of regular monitoring of financial resources and budgets;
- **April-September 2016:** City Auditor works with Executive Chief of Staff (Baker) on several issues related to “Reichert House”;
- **November 4, 2016:** Gainesville Police Department employees (D. Holt<sup>1</sup> and Woody) request internal control checklists and other items in order to prepare for an eventual/discussed audit;
- **November 8, 2016:** City Auditor completes investigation of claim of improper use of grant funds and misuse of deposits by “Reichert House”, claims not substantiated by City Auditor;
- **November 21, 2016:** City Auditor meets with Gainesville Police Department staff (D. Holt, Woody) staff to discuss various internal control implementation plan and references;
- **December 29, 2016:** City Auditor and Asst. City Auditor meet with City of Gainesville Director of Finance (Shuping) to get her understanding of Reichert House Youth Academy organizational structure and finances (Shuping noted issues between 501(c)(3) Reichert House, Inc. and city program, City employees on non-city entity boards doing business with Reichert House Youth Academy, time usage overlaps between 501(c)(3) functions and City program functions since City employees are performing 501(c)(3) organizational functions);
- **December 2016:** City Auditor discusses plan to audit Reichert House Youth Academy in one to two years with City Attorney (Shalley) and City Manager (Lyons), acknowledging that Gainesville Police Department and Reichert House Youth Academy were currently working to implement better controls;
- **November 17, 2017:** City Commission Approves City Auditor’s fiscal year 2018 Annual Audit Plan including Audit of Reichert House Youth Academy. The fiscal year 2018 was later amended, May 3, 2018, for an additional engagement which delayed the start of the Reichert House Youth Academy audit;
- **September 20, 2018:** City Commission Approves City Auditor’s fiscal year 2019 Annual Audit Plan including carried forward audit of Reichert House Youth Academy since it was not performed in 2018 as planned;
- **October 25, 2018:** City Auditor announces audit start of Reichert House Youth Academy.

## OBJECTIVES

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The objectives of the audit were to determine the following:

- Is the present governance structure designed and implemented to effectively carry out the mission of the Reichert House Youth Academy?
- Are the financial operations of the Reichert House Youth Academy documented, transparent, and carried out in an effective manner?
- Are the resources provided by the City of Gainesville and other entities being used in an effective manner?
- Is the performance of the Reichert House Youth Academy captured through an accurate and understandable performance metric?

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<sup>1</sup> No relation to City Auditor

## WHAT WE FOUND

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- Lack of standard business processes;
- Lack of transparency;
- Grants being obtained and managed outside the City's oversight;
- Inaccurate and inadequate procedures for performance metrics;
- Poorly documented purchase transactions.

## PREVIOUS INTERACTIONS

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The City Auditor's 2016 investigation of a hotline complaint against Reichert House Youth Academy and Reichert House, Inc. (resolved with no allegations being substantiated) resulted in an increased awareness of the organization and need for transparency in financial transactions regarding the Reichert House Youth Academy (a City program).

Although seemingly well intentioned, interactions between City employees and non-city entities indicated there was little separation of, or identity of, transactions. Over the next six months, the City Auditor and Assistant City Auditor met with the City Manager's Executive Chief of Staff (Baker), Reichert House Youth Academy Finance Technician (Albright - also serving as the bookkeeper and bank account holder for Reichert House, Inc.), the newly hired Director of Youth and Community Services, and the Reichert House Youth Academy Director. The Reichert House Youth Academy Director was subsequently reassigned on March 13, 2017, but was brought back as Director on November 5, 2017.

The City Auditor expressed his concerns and desire for better internal controls to be put in place. The City Manager's Executive Chief of Staff (Baker) ensured effort was being applied to institute necessary controls, processes, and documentation to ensure progress was being made. Over the course of 2017, the City Auditor was made keenly aware of increased efforts to improve documentation and controls with Reichert House Youth Academy and Gainesville Police Department staff (Belk, D. Holt, Woody) requesting information and references on the subject matter. A tentative audit was planned for fiscal year 2018. The City Auditor briefed the City Manager and the City Attorney on the agreed plans.

The Reichert House Youth Academy program was placed on the fiscal year 2018 audit plan but was pushed to the fiscal year 2019 plan due to the fiscal year 2018 audit plan being amended for the Combined Communication Center engagement and other additional work.

## OVERALL CONCLUSION

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Recruitment of fiscal and non-monetary resources for the Reichert House Youth Academy program are hindered by the inessential structured links, unnecessary efforts, inefficient and non-transparent resource flow, and the present design of working relationships. A reconfiguration, with a focus on limited and fully transparent relationships, could allow the Reichert House Youth Academy to greatly enlarge its resource base. The current structure presents unnecessary risks to the City of Gainesville from third party non-city entities.

Despite these issues, the Reichert House Youth Academy has produced a large number of successful outcomes that are profiled in the community on almost a weekly basis. With an enhanced structure and transparency of resource use, the Reichert House Youth Academy could generate even higher numbers of at risk youth making personal and professional achievements.

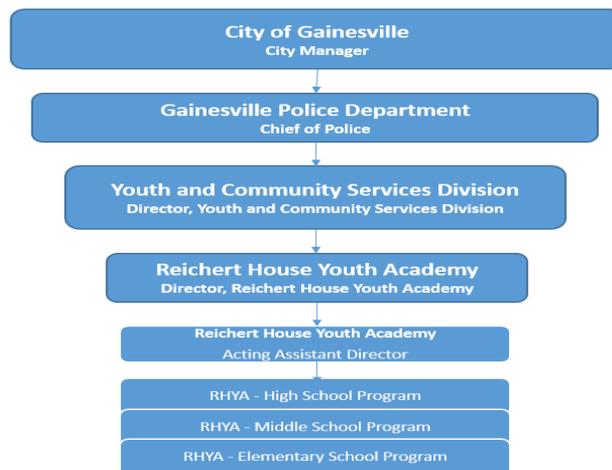
## GOVERNANCE

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The Reichert House Youth Academy is located within the City of Gainesville’s Police Department. The Chief of Police is a direct report to the City Manager. The City Manager is one of six charter officers that reports directly to the City Commission.

The Reichert House Youth Academy is within the Youth and Community Services Division of the Gainesville Police Department. The Director of the Youth and Community Services Division is the next reporting City of Gainesville employee under the Chief of Police and oversees all youth services. The Reichert House Youth Academy Director reports to the Director of the Youth and Community Services. There are three programs of the Reichert House Youth Academy shown below.

**Figure 1: Organization and Structure of Reichert House Youth Academy Program**



Source: City of Gainesville Internal Documents

There are four separate non-city entities (Reichert House, Inc., Palm Breeze Youth Services, Inc., Community Foundation of North Central Florida – Friends of Reichert House, and Black on Black Crime Task Force) that have played key roles with the Reichert House Youth Academy; but to date operate without official contractual arrangements. Three of which either had joint bank accounts or have City of Gainesville employees keeping their financial records and functioning as signatories on their bank accounts.

## SCOPE AND METHODOLOGY

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This audit concentrated on Reichert House Youth Academy program during the period October 1, 2015 – September 30, 2018. During the engagement, we attended meetings, interviewed key personnel, observed and mapped processes, examined documents, attempted to recalculate figures, and compared program reports to known data. Additionally, we requested bank statements and cancelled checks from non-city entities that we found had either accepted or disbursed funds intended for the benefit of Reichert House Youth Academy.

We first requested bank account statements from Reichert House, Inc. from the Registered Agent, who is also the Director of Reichert House Youth Academy, on December 18, 2018. Shortly thereafter, we received a letter from an attorney at the firm of Bobi J. Frank, Attorney at Law, stating, “no documents will be supplied concerning the Reichert House, Inc.” We subsequently sent certified letters to the four

board members (as of fiscal year 2018) requesting the records and were soon mailed a response stating they agreed to the request. However, we have yet to receive any of the documents. The Reichert House, Inc. response letter indicated that the letter from the non-city attorney “was neither requested nor authorized by Reichert House, Inc.” and in a recorded phone call that the attorney did not currently represent their organization. It remains unknown precisely who or what caused the December 18 letter to be sent to the City Auditor. Then, we made additional requests of Reichert House, Inc. and have since made them aware of some bank account activity in their name that the current board was unaware of and also of accounts that checks made out to Reichert House, Inc. were deposited into. Our requests are pending at this time.

During the same time period, we requested bank account statements for Palm Breeze Youth Services, Inc. from the Registered Agent, also the City of Gainesville Chief of Police. He relayed that he had forwarded the request but had not received a reply. We followed up with certified letters to all 12 board members (serving as of fiscal year 2018), receiving a reply from one board member on February 6, 2019. We received an initial batch of bank statements from a Palm Breeze Youth Services, Inc. account on February 22, 2019, indicating that more would be forthcoming. To date, we have not received additional statements. We followed up to ensure that the board member and attorney assisting us (the same attorney, discussed above, that sent the negative response letter about Reichert House, Inc.) was in fact the board’s appointed representative. On March 7, 2019, the Chair and Co-Chair confirmed the attorney was their board member and their representative to assist us and that another attorney was available to assist. We subsequently received another letter from the attorneys stating that what had been sent is the complete set of applicable documents.

## **CITY OF GAINESVILLE PROVIDED RESOURCES**

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The City of Gainesville provided the following resources during October 1, 2015 – September 30, 2018:

<b>Fund</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
Fund 001	\$ 533,083.54	\$726,410.69	\$931,857.08
Fund 501	\$0.00	\$28,727.00	\$80,360.55

*Source: CGI Advantage for Unit Code: 8158 Reichert House Youth Academy*

In addition to the yearly expenditures, the City holds buildings, vehicles and land for the Reichert House Youth Academy program.

## **NON-CITY ENTITIES**

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Non-city entities can be private voluntary agencies, educational institutions, not-for-profit firms, other governments, other non-governmental entities, and private individuals. Examples of some other non-city entities with relationships with the City of Gainesville are: Gainesville Housing Authority, Combined Communications Center and Friends of Nature Parks, a 501(c)(3).

Close working relationships with non-city entities normally result in a contractual arrangement spelling out the parameters of the relationship and precisely what is expected from each of the parties. Many non-city entities closely related to governments are organized as not-for-profit 501(c)(3) organizations.

We would expect one of the following type contractual arrangements in place, as it relates to Reichert House Youth Academy and the non-city entities named below:

- 1) The non-city entity is to raise funds and/or provide in-kind benefits to the City’s program via either direct access or on a reimbursement basis; or

- 2) The City to provide funds via direct grants or on a reimbursable basis to the non-city entity, who performs desired and agreed upon program elements for the City of Gainesville (subject to various performance standards).

The non-city entities related to the Reichert House Youth Academy and this engagement are:

**Reichert House, Inc.:**

Reichert House, Inc. was incorporated as a 501(c)(3) in 2006 and registered by John Alexander (currently Director of Reichert House Youth Academy). Additionally, we noted a former City employee and possibly a current City employee maintained the accounting records for Reichert House, Inc. on City time.

The purpose for which this corporation was organized (as noted in FL registration): “To serve needy and at-risk youth in Alachua County and North Central Florida, for the advancement of charitable, educational and scientific purposes, and any other related purpose by the distribution of its funds for such purposes.”

A majority of the outside grants that we have become aware of were awarded to Reichert House, Inc. (GRU, Cox Cable, Community Agency Partnership Program (CAPP) and United Way) for the Reichert House Youth Academy program but are not being managed nor are the funds being maintained in Reichert House, Inc. accounts. Reichert House, Inc. does not have a contractual arrangement in place with Reichert House Youth Academy nor with the other non-city entities maintaining the grant funds awarded to Reichert House, Inc.

**Palm Breeze Youth Services, Inc.:**

Palm Breeze Youth Services, Inc. was incorporated as a 501(c)(3) in 2008 and registered by the current City of Gainesville Chief of Police. The Director of Reichert House Youth Academy is not only a board member but also a signatory on their bank account, along with a Gainesville Police Department officer being another signatory on the account.

The purpose for which this corporation was organized (as noted in FL registration): “To serve the youth of Alachua County through the provision of academic and vocational education, training in life skills and civic responsibility, for the advancement of charitable, educational and scientific purposes, and any other related purpose by the distribution of its funds for such purposes.”

A majority of the outside grants that we have become aware of that have been awarded to Reichert House, Inc. are being managed and maintained currently in the Palm Breeze Youth Services, Inc. bank accounts. Additionally, a federal funds grant by the National Police Athletic League awarded to the City of Gainesville Tax ID number is being managed in their bank accounts, as well. They do not have a contractual arrangement in place with Reichert House Youth Academy.

**Black on Black Crime Task Force:**

Black on Black Crime Task Force Gainesville, Alachua County, Inc. was reinstated as a 501(c)(3) in 1998. The current chairman is Rosa B. Williams and two Gainesville Police Department employees sit on the board: one officer and one executive assistant. The Gainesville Police Department officer (as part of an outside employment) does the accounting records for Black on Black Crime Task Force and is the signatory on a Palm Breeze Youth Services, Inc. bank account.

The purpose for which this corporation was organized (as noted in FL registration): “To encourage, assist and engage in all kinds of work to improve the social, educational, and conditions of Blacks and other minority groups in the community, and to bring about coordination and cooperation among other existing agencies, organizations, businesses and elements of government, local, state and federal, to the same end.”

The organization provides in-kind services to Reichert House Youth Academy of \$20,537 according to Black on Black Crime Task Force IRS Form 990 for fiscal year 2017. Additionally, we identified three bank accounts appearing as jointly held by "Reichert House" with the current Director of Youth and Community Services and the same Gainesville Police Department officer as signatories on the account. They do not have a contractual arrangement in place with Reichert House Youth Academy. At her interview during the audit, the chairman was unaware of the existence of Palm Breeze Youth Services, Inc. and the joint accounts it had with "Reichert House".

Additionally in 2013, the City of Gainesville paid out \$185k to resolve a lawsuit brought against a Black on Black Crime Task Force employee resulting from an accident they had in a City owned van because the individual was driving on behalf of the Reichert House Youth Academy program.

#### **Community Foundation:**

Community Foundation of North Central Florida was incorporated as a 501(c)(3) in 1998.

According to the Community Foundation website, "The mission of the Community Foundation of North Central Florida is to promote and sustain philanthropy among the communities of North Central Florida."

The Community Foundation has two accounts earmarked for Reichert House, Inc. for funding of the Reichert House Youth Academy program.

- "The Reichert House, Inc. Endowment Fund" was established in 2010 by the Community Foundation and Reichert House, Inc. via a contractual arrangement.
- The "Friends of Reichert House Fund" was established in 2016, as a donor-designated fund. There is not a contractual arrangement in place.

This entity has held funds for Reichert House, Inc. since fiscal year 2016 including a United Way grant (later retracted due to noncompliance). However, City employees requested \$41k in funds to be disbursed from the Community Foundation to Palm Breeze Youth Services, Inc.

**Note:** Community Foundations have been open and transparent during the audit and have willingly provided information to the City Auditor's Office.

#### **Non-City Attorney:**

On May 29, 2017, an attorney from the firm of Bobi J. Frank, Attorney at Law sent a letter to the Florida Department of Children and Families (DCF) about a complaint concerning the Reichert House Youth Academy. The City of Gainesville and Reichert House Youth Academy do not have a contractual arrangement with this law firm.

Pursuant to Article III, Section 3.03 of the City Charter, the City Attorney "shall be the legal advisor to and attorney for the city." The City Attorney confirmed that in-house attorneys are available for any legal assistance requested by the City's Reichert House Youth Academy, that an in-house attorney represented the City in the DCF case referenced above, and that no outside counsel has been retained by the City Attorney's Office for Reichert House Youth Academy legal matters.

Again, on December 18, 2018, a negative response letter from the same non-city attorney was sent to the City Auditor on behalf of Reichert House, Inc. in response to a request for documents. However, a subsequent communication from the Reichert House, Inc. board stated that the attorney was not requested or authorized to respond on their behalf.

**Figure 2: Flowchart of all Related Parties and Known Flow of Funds**



\*\* Amount of the Grant

Flowchart of Reichert House Youth Academy Program Financial Operations

Source: Process document created based on various interviews and limited documentation

## OBJECTIVES AND CONCLUSIONS

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- 1) Is the present governance structure designed and implemented to effectively carry out the mission of the Reichert House Youth Academy?

**Generally, no.**

Due to the lack of standard business processes (no contractual arrangements or up-to-date policies and procedures – see Observation A) and a significant lack of transparency (see Observation B & C), along with the fact that there is no clear relationship between the City and the non-city entities (employees acting on their behalf in many capacities), a significant redesign of the governance and financial operations is warranted.

- 2) Are the financial operations of the Reichert House Youth Academy documented, transparent, and carried out in an effective manner?

**No.**

Due to the significant issues regarding transparency from City employees and non-city entities, and poorly documented transactions (see Observation E), we have no reasonable assurance that financial operations are carried out in an effective manner.

**At the conclusion of Part A, there is no assurance that all funds intended for the Reichert House Youth Academy program’s mission have been expended for the program.**

- 3) Are the resources provided by the City of Gainesville and other entities being used in an effective manner?

**Unknown.**

Expenditures of funds from Cox Cable donations (amount unknown), Gainesville Regional Utilities donations (\$6k), and an Alachua County Community Agency Partnership Program (CAPP) grant (\$37,341) are unclear due to the use of non-city entity bank accounts (see Observation B & C). A United Way grant of \$11,172 had to be returned due to lack of follow-through with reporting requirements and program implementation. We do not have reasonable assurance and are unable to determine how various funds were spent, where they were deposited, and if they were used to benefit the Reichert House Youth Academy program (see Observation C & E).

- 4) Is the performance of the Reichert House Youth Academy captured through an accurate and understandable performance metric?

**No.**

There is only one performance metric that Reichert House Youth Academy captures and that is graduation rate. However, the graduation rate reported by Reichert House Youth Academy is not consistently tracked nor reported, the calculation is not reliable and the way it is currently calculated cannot be compared to graduation rates documented at the county, state and federal

level. The metric only attempts to calculate the percentage of those participants in the 12<sup>th</sup> grade who attend the academy and graduate high school (see Observation D).

**Note: Evidence indicates there are many successful outcomes at various levels as a result of the operations of the Reichert House Youth Academy program. It is very likely a performance metric that is measured over time could be devised showing these successful outcomes.**

## **AUDIT OBSERVATIONS**

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Internal control helps entities achieve important objectives, sustain, and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework (2013 Framework)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision-making and governance of the organization. The audit observations listed are offered to help management fulfill their internal control responsibilities.

### ***Observation A: Lack of Standard Business Processes***

#### ***Condition:***

Reichert House Youth Academy lacks up-to-date policies and procedures (last updated 2006) related to the governance and financial operations of the program. Similarly, they lack very important contractual arrangements with numerous non-city entities. Such contractual arrangements would outline and establish both parties' roles. The known non-city entities are:

- a. Reichert House, Inc.;
- b. Palm Breeze Youth Services, Inc.;
- c. Community Foundation – Friends of Reichert House account;
- d. Black on Black Crime Task Force, Inc.

Presently and over the past nine years or more, City employees act on behalf of these non-city entities by:

- Conducting transfers of funds from one non-city entity to another;
- Obtaining grants on behalf of the non-city entity;
- Maintaining the non-city entities' accounting records;
- Controlling and accessing the non-city entities' bank accounts;
- Accepting a position on the entities' board of directors and/or being the Registered Agent or other official of a non-city entity.

#### ***Cause:***

The underlying cause for each issue noted above can be attributed to the lack of business acumen.

#### ***Criteria:***

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*,

- Control Environment – Principle 5 - “The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.”
- Risk Assessment – Principle 7 - “The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.”
- Risk Assessment – Principle 8 - “The organization considers the potential for fraud in assessing risks to the achievement of objectives.”
- Control Activities – Principle 10 - “The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.”
- Control Activities – Principle 12 - “The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”
- Information and Communication – Principle 13 - “The organization obtains or generates and uses relevant, quality information to support the functioning of internal controls.”
- Information and Communication – Principle 14 - “The organization internally communicates information, including objectives and responsibilities for internal controls, necessary to support the functioning of internal controls.”
- Monitoring – Principle 16 - “The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”

### **Effect:**

The potential effect of not having standard business processes are:

- Inconsistent practices among entities;
- Lack of transparency from City employees and related entities;
- There are no clear lines of roles and responsibilities of either entity;
- Risk of liability as it relates to related funding entities’ practices;
- Increases the risk of the related funding entity not following through with their role;
- Increases the risk of fraudulent activity.

### **Risk:**

- Fraudulent activity;
- Noncompliance with best practices;
- Donor or grant funding does not reach the program.

### **Recommendations:**

A. Management should:

- 1) Assess current upper management of the Reichert House Youth Academy and compare to required competencies;
- 2) Create standard operating procedures for all roles and process areas;

- 3) Closely examine all related non-city entities by seeking to dissolve any relationships related to funding except that of accepting donations by the City's Reichert House Youth Academy program and through in-kind donations made directly or into City maintained accounts;
- 4) Work with the City Attorney to create or update contractual arrangements for any remaining non-city entity that is deemed vital (such as maintaining the Community Foundation relationship and Black on Black Crime Task Force). Such arrangements should include an audit clause, full transparency facilitation, and quarterly activity reports;
- 5) Use the Community Foundation's account as a holding account for any resources that cannot be accepted directly by city government accounts. Ensure no transfers are made to any non-city entity accounts.

### **Observation B: Lack of Transparency**

#### **Condition:**

There is a significant lack of transparency in regards to the governance and financial operations of Reichert House Youth Academy program. This is evidenced by an unrealistic representation of previous and current relationships with non-city entities, including:

1. **Palm Breeze Youth Services, Inc.:** Neither the Director of Youth and Community Services nor the Director of Reichert House Youth Academy disclosed the previous and current funding transfer relationship; rather, it was described as a future relationship they were seeking. City employees and management that handle Palm Breeze Youth Services, Inc. accounts and checkbooks initially refused the City Auditor access to any information. Only after letters to all 12 board members did they provide cancelled checks and monthly statements (completeness has not yet been determined – will be tested in Part B). Lastly, no documentation was provided upon our request to support a \$41k transfer from Community Foundation to Palm Breeze Youth Services, Inc. during fiscal year 2018.
2. **Reichert House, Inc.:** The Director of Youth and Community Services, the Director of Reichert House Youth Academy and a Gainesville Police Department officer told us this entity is no longer an active entity which we determined to be inaccurate since funds were deposited in Community Foundation accounts on behalf of Reichert House, Inc. during fiscal year 2018 (the funds were later transferred to Palm Breeze Youth Services, Inc.). Interestingly, the same Gainesville Police Department officer created a *Facebook* post requesting donations to Reichert House, Inc. on December 18, 2018.

When City employees and management were initially contacted by the City Auditor's Office requesting access to bank statements, a letter from a non-city attorney was quickly received stating, "No documents will be supplied concerning the Reichert House, Inc." After certified letters were produced to the Board of Directors requesting documents, the Chairman replied (on February 12, 2019) and indicated that the letter from the non-city attorney "was neither requested nor authorized by Reichert House, Inc." and in a recorded phone call that the attorney did not currently represent their organization and agreed to cooperate.

Further communications are ongoing.

3. **Community Foundation – Friends of Reichert House Account:** The Director of Youth and Community Services and the Director of Reichert House Youth Academy stated this entity holds all reimbursed funds for grants managed outside the City, which we determined to be false. At the request of the

Director of Youth and Community Services and the Director of Reichert House Youth Academy, numerous transfers were made directly to Palm Breeze Youth Services, Inc. not to City managed accounts. However, the Community Foundation willingly and promptly provided financial information to the City Auditor's Office during the engagement.

4. **Black on Black Crime Task Force:** Provides many benefits to Reichert House Youth Academy including monetary, labor, and in-kind donations. It was found to have had several bank accounts jointly titled with Reichert House, Inc. but denied the City Auditor's Office any access to assess the joint account and relationship. The books and accounting records are kept by an active Gainesville Police Department officer who keeps the books as a side business for \$300 a month from Black on Black Crime Task Force. The same Gainesville Police Department police officer is the one mentioned above regarding Reichert House, Inc. and Palm Breeze Youth Services, Inc. It is unknown if he is issued an IRS Form 1099-Misc<sup>2</sup> for the income he receives.

Overall, there is a layer of administration and communication necessary to interact with the non-city entities regarding City employees' interactions in their organizations and accounts. Accordingly, there is no clear line of delineation of where the City program ends and non-city entities begin since City employees are frequently acting on behalf of the non-city entities by conducting bank account transfers, obtaining grants through the non-city entities, maintaining the non-city entity accounting records and bank accounts, and assuming board/registered agent positions.

### **Cause:**

The underlying cause for each issue noted above can be attributed to the fact the Reichert House Youth Academy program has out-of-date policies and procedures, lacks contractual arrangements with related non-city entities and does not have proper management oversight.

### **Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*,

- Control Environment – Principle 5 - “The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.”
- Risk Assessment – Principle 7 - “The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.”
- Risk Assessment – Principle 8 - “The organization considers the potential for fraud in assessing risks to the achievement of objectives.”
- Control Activities – Principle 10 - “The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.”
- Control Activities – Principle 12 - “The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”
- Information and Communication – Principle 13 - “The organization obtains or generates and uses relevant, quality information to support the functioning of internal controls.”

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<sup>2</sup> IRS Form 1099-Misc is used to report payments made to contractors or others if paid \$600 or more in one year. One copy is provided to the contractor and another to the Internal Revenue Service.

- Information and Communication – Principle 14 - “The organization internally communicates information, including objectives and responsibilities for internal controls, necessary to support the functioning of internal controls.”
- Monitoring – Principle 16 - “The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”

***Effect:***

The potential effect of not having the necessary policies and procedures, contractual arrangements and management oversight for the Reichert House Youth Academy:

- Inconsistent practices;
- An almost complete lack of transparency;
- No clear line of roles and responsibilities of either entity;
- Increases the risk of the related entity not following through with their role.

***Risk:***

- Opportunity for fraudulent activity;
- Potential noncompliance with grant requirements;
- Donor or grant funding does not reach the program or is withdrawn.

***Recommendations:***

B. Management should:

- 1) Formalize a contractual arrangement between Reichert House Youth Academy program and Black on Black Crime Task Force and Community Foundation, including an audit clause and quarterly reports;
- 2) Work with the City’s finance department to transfer all funds from non-city entities to City-held bank accounts in cases where that is possible. As an alternative, use Community Foundation for funds that cannot be accepted directly by a government entity;
- 3) Assess and determine if it is appropriate from a State ethics standpoint, if City or Reichert House Youth Academy employees should resign from non-city entity boards and other positions such as registered agents;
- 4) Insist that no City employee handle the books, accounting records (on or off the clock) nor control bank accounts for non-city entities that work closely with the City of Gainesville per Outside Employment guidelines.

***Observation C: Obtaining and Managing Grants Outside of the City’s Oversight***

## Condition:

Current documentation has not been provided and is not readily available to determine the status or expenditures associated with various grants and donations.

- **GRU grant:** We are unable to locate the depository account owner of the fiscal year 2017 \$2,500 disbursement to Reichert House, Inc. from GRU's ledger. We were able to determine it was deposited in a Harbor Community Bank account but GRU is still researching to determine the owner of the account.

**Note: GRU has no legal authority to obtain information on the ownership of the depository account.**

- **Cox Cable grant:** We were unable to determine where the Cox Cable funds were deposited because none of the deposits disclosed to us were labeled as such and no other documentation nor details were provided.
- **United Way grant:** This \$11,172 grant was retracted by United Way due to non-performance and lack of follow through with reporting requirements. The United Way Executive Director stated that when they learned that the program had not actually been implemented, the funds were requested to be returned (the funds resided in the Community Foundation account at the time of retraction).
- **Alachua County Community Agency Partnership Program (CAPP) grant:** We were not provided with the fiscal year 2016 and fiscal year 2017 Community Agency Partnership Program (CAPP) reimbursement reports from City management nor the County. However, the County provided a ledger of the amounts reimbursed to Reichert House, Inc.

In fiscal year 2016, we noted the grant's max reimbursement for the Community Agency Partnership Program grant was \$19,500; however, the County's books show a total reimbursement of \$40,878.04. We were not able to obtain any explanation nor documentation to support the reimbursement nor the excess reimbursement.

For both fiscal year 2016 and fiscal year 2017, we are unable to determine how these funds were spent, where they were deposited, and if they were used to benefit the Reichert House Youth Academy program, as intended.

The fiscal year 2018 reimbursement report was provided, but we are unable to determine if the expenses submitted for grant reimbursement were actually withdrawn for the noted purposes or if they were only reimbursed once. The reimbursements provided by the County were deposited but with limited access, we were unable to determine where.

Additionally, this grant was applied for and awarded to the Director of Reichert House Youth Academy in their official capacity; but on behalf of Reichert House, Inc.

- **Police Athletic League (PAL) grant:** We were not provided the completed reimbursement reports for any of the fiscal years. Accordingly, we are unable to determine how the funds for the following grant were spent, where they were deposited and if they were used to benefit the Reichert House Youth Academy program.

The grant was applied for and awarded to the Director of Reichert House Youth Academy in their official capacity; but oddly applied for under an organization that does not exist in any official

capacity “Gainesville PAL, Inc.” using the City of Gainesville DUNS<sup>3</sup> and EIN<sup>4</sup> number. In the limited documentation provided, invoices for mentoring from various individuals (at \$15 per hour) were submitted with Palm Breeze Youth Services, Inc. checks for reimbursement from National PAL. The invoices show a “Gainesville Police Athletics League - Established 2017” emblem but the organization could not be found to be registered in any capacity with an EIN number, DUNS number, or State of Florida registration. No taxes nor other deductions were shown to have been withheld. It is unknown if these amounts were submitted to the Internal Revenue Service (IRS), as income for services rendered and if so, and what EIN would have been used since “Gainesville PAL, Inc.” which is needed for reporting income to the IRS.

Additionally, the Director of Reichert House Youth Academy program submitted the same travel expense for “the National PAL grant recipient training” in January 2018 to National PAL, as they did to the City totaling \$1,318.94. Upon reviewing the limited documentation provided, we are unable to determine if the funds requested for reimbursement from National PAL were appropriate and not a duplicate request since we are unable to locate the reimbursement being paid back to the City of Gainesville, appearing as if the City employee was reimbursed twice.

### **Cause:**

There is no contractual arrangement in place with the non-city entities managing the grants; and the current process lacks transparency.

### **Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*,

- Control Environment – Principle 5 - “The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.”
- Risk Assessment – Principle 7 - “The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.”
- Risk Assessment – Principle 8 - “The organization considers the potential for fraud in assessing risks to the achievement of objectives.”
- Control Activities – Principle 10 - “The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.”
- Control Activities – Principle 12 - “The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”
- Information and Communication – Principle 13 - “The organization obtains or generates and uses relevant, quality information to support the functioning of internal controls.”
- Information and Communication – Principle 14 - “The organization internally communicates information, including objectives and responsibilities for internal controls, necessary to support the functioning of internal controls.”
- Monitoring – Principle 16 - “The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”

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<sup>3</sup> Data Universal Numbering System from Dun & Bradstreet is a global business identification numbering system

<sup>4</sup> Employer Identification Number through the Internal Revenue Service

### ***Effect:***

The potential effect of grants being managed outside of the City for Reichert House Youth Academy program:

- Lost grant revenues;
- Mismanagement of cash equivalent assets;
- Increases the risk of the related funding entity not following through with their role.

### ***Risk:***

- Grant funding does not reach the program for the intended purpose;
- Grant funding can be retracted and the City of Gainesville could be liable for it;
- Fraudulent activity.

### ***Recommendations:***

C. Management should:

- 1) Discontinue the use of any bank accounts as it relates to expenses and reimbursements for Reichert House Youth Academy through non-city entities: Palm Breeze Youth Services, Inc., Reichert House Inc., and any yet undisclosed entity;
- 2) Work with the City Attorney to create a standardized contractual arrangement for future relationships that enables acceptance of fund donations or in-kind donations but does not allow other entities to play any role in the operations or holding of finances with the Reichert House Youth Academy. The below listed attributes should be considered:
  - i. Roles and established responsibilities of each organization;
  - ii. Consistent and established process;
  - iii. Full transparency;
  - iv. An audit clause;
  - v. Requires all contributions collected on behalf of grants awarded to the program to be held and managed by the City or by Community Foundation;
  - vi. Required quarterly financial activity reports to Reichert House Youth Academy program and City management.
- 3) Ensure all Reichert House Youth Academy mentors were provided IRS Form 1099-Misc for all income paid as mentors for the past three years if they received \$600 or more in any year, and that a copy was provided to the IRS.

## **Observation D: Inaccurate and Inadequate Procedures for Performance Metrics**

### **Condition:**

The graduation rate reported is not consistently tracked nor reported; the calculation is not reliable and the way it is currently calculated cannot be compared to graduation rates documented at the county, state, or federal levels. The only measure calculated is the high school graduation rate for those individuals who were in the program at the 12<sup>th</sup> grade level.

### **Cause:**

Inconsistencies between the measure definition and calculation, inadequate written procedures for collecting, measuring, reporting and comparing performance.

### **Criteria:**

Federal regulations (34 C.F.R. §200.19) require each state to calculate a four-year adjusted cohort graduation rate, which includes standard diplomas but excludes GEDs (regular and adult) and special diplomas.

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*,

- Risk Assessment – Principle 7 - “The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.”
- Control Activities – Principle 10 - “The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.”
- Control Activities – Principle 12 - “The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”
- Information and Communication – Principle 13 - “The organization obtains or generates and uses relevant, quality information to support the functioning of internal controls.”
- Monitoring – Principle 16 - “The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”

### **Effect:**

The potential effect of performance metric inaccuracies and inadequate procedures could diminish transparency, accountability and negatively affect confidence in the program. The meaningful data related to the students in the program who do not attend the 12<sup>th</sup> grade is lost.

### **Risk:**

Donors and funding entities lose faith in the program and no longer donate.

## **Recommendations:**

D. Management should:

- 1) Management should work with City leadership and reach out to other outside organizations to devise a performance metric that can be tracked over time, is accurate, and demonstrates the many successful outcomes of the Reichert House Youth Academy program;
- 2) Management should develop written procedures for collecting, calculating, and reporting performance measures.

## **Observation E: Poorly Documented and Unusual Transactions**

### **Condition:**

We noted there were numerous instances that the purchase card transactions for Reichert House Youth Academy did not comply with the Financial Procedure Manual and Cardholder Training. The following instances raise the most concerns:

- 14 transactions totaling \$1,180.83 were reimbursed without a receipt;
- 212 transactions totaling \$41,777.51 reimbursed without an explanation of how the expense benefited the program;
- 75 transactions totaling \$15,926.66 reimbursed using Reichert House Youth Academy funds but were expenses to other City programs or non-city entities.

After briefly reviewing the bank statements provided to us from Palm Breeze Youth Services, Inc., we noted numerous checks were made out to cash and City employees with limited documentation and explanation.

Additionally, we noted several payments were made for the “Reichert House Scholarship Apartment” leased by the Director of Reichert House Youth Academy. A cursory review of the recently received Palm Breeze Youth Services, Inc. bank information indicates an apartment rent has been paid for an extended period of time. Interviews indicate that among others, a Deputy and recent graduates of the Reichert House Youth Academy were residents in the apartment. We did not come across any deposits into Palm Breeze Youth Services, Inc. accounts for rents paid by occupants. The situation has resulted in the City of Gainesville employee acting as a landlord without the proper planning or controls in place.

### **Cause:**

There is not proper discretion being used when spending funds nor the necessary management oversight.

### **Criteria:**

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*,

- Control Activities – Principle 12 - “The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”

- Monitoring – Principle 16 - “The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.”

***Effect:***

Inappropriate use of funds and ineffective monitoring contributes to a weak internal control environment, which can leave the City vulnerable to fraud, waste, and abuse. Additionally, leasing an apartment opens the City of Gainesville to an unacceptable amount of liability.

***Risk:***

- Fraudulent activity;
- Noncompliance with City policies;
- Liability for acts at the leased apartment.

***Recommendations:***

E. Management should:

- 1) Discontinue leasing apartments;
- 2) Ensure new oversight and monitoring above the Director level of expenditures;
- 3) Work with the City’s finance department to ensure compliance with purchasing requirements.

**GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit 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 observations and conclusions based on our audit objectives.

**AUDIT TEAM**

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Carlos L. Holt, CPA, CFF, CIA, CGAP, CFE, City Auditor  
Emily Bowie, CPA, Senior Auditor



Office of the City Manager

## Memo

To: Carlos Holt, City Auditor

From: Deborah Bowie, Interim City Manager

Date: March 25, 2019

Re: CONFIDENTIAL & EXEMPT 119.0713 2b- Office of the City Manager (OCM) Response to DRAFT Audit of the City of Gainesville's Reichert House Youth Academy - Governance, Financial Processes, and Performance Metrics

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Please see the attached responses from the Office of the Interim City Manager (OCM).

Additionally, it is opinion of the Interim City Manager that a probable conflict of interest likely exists between the City Auditor and the Gainesville Police Department, which oversees the Youth and Community Services Division and subsequently, the Reichert House Youth Academy (the subject of the audit).

Specifically, the OCM notes the following timeline:

- The City's Human Resources Department launched an investigation of a complaint against the City Auditor on August 27, 2018. The allegations in the complaint resulted in dispatching law enforcement to the City Auditor's home on the date the complaint was received.
- During the fact finding phase of the investigation, Human Resources obtained police reports documenting the City Auditor and his family had significant interactions with the Gainesville Police Department since 2015 (i.e. 13 calls for service at the Auditor's personal residence);
- HR concluded its investigation on Oct. 25, 2018, and reported its findings to the City Commission;
- The City Auditor launched his formal investigation into the Reichert House the following month, November 2018.

This timeline and the investigation surrounding the City Auditor's prior interaction with Gainesville Police could be the basis of a conflict of interest between the City Auditor and the subject of his audit. A conflict of interest, according to the Government Auditing Standards Yellow Book (2018 Revision)\* is characterized in Section 3.11 (*Objectivity*) of Chapter 3 (Ethics, Independence and Professional Judgment) as:

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

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Auditors' objectivity in discharging their professional responsibilities is the basis for the credibility of auditing in the government sector. Objectivity includes independence of mind and appearance when conducting engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments affect auditors' objectivity.

Further, the Institute of Internal Auditors cites a conflict of interest as a "situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest" that may make it difficult to fulfill his or her duties impartially even if no unethical or improper act results.

While it is the opinion of the Interim City Manager that the basis for a conflict of interest can be made, it is not intended to be interpreted as a dismissal of the report. In fact, it should be clearly noted that the OCM's response to the Auditor's report is to review its contents, follow up with appropriate staff and address each issue contained within.

As this report has been deemed Part A of a two-part audit, it is further the recommendation of this office that an independent, outside auditing firm be retained by the City of Gainesville to complete Part B to avoid even the appearance of impropriety that could ultimately undermine confidence in this report and its findings.

\* The Yellow Book is used by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. It outlines the requirements for audit reports, professional qualifications for auditors, and audit organization quality control. Auditors of federal, state, and local government programs use these standards to perform their audits and produce their reports.

CC: Tony Jones, Police Chief  
Nicolle Shalley, City Attorney  
Diane Wilson, Finance Director  
Lisa Jefferson, Human Resources Director

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

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### **City Auditor’s Response (GAS 7.37\*):**

**Faulty timeline:** The audit of Reichert House Youth Services has been on the City Commission approved audit plan for last two fiscal years (it has never been characterized as an “investigation” as noted above). The audit was staffed and initial audit announcement sent to the Charter Officers and City Commission by email on October 25, 2018 at 8:34 a.m., not “November 2018”, as noted above. The first meeting was held with Reichert House Youth Academy and Gainesville Police Department personnel on November 5, 2018 and a larger formal opening conference held on November 28, 2019, that included the Police Chief, Police Chief Inspector, Director of Community relations, Internal Control Manager and others.

Although an inquiry may have been performed and completed by Human Resources, as described above, on October 25, 2018; the City Auditor was completely unaware of any such report until he met with the Mayor on December 4, 2018 and subsequently requested a copy from the Human Resources Director. The City Auditor was not afforded an opportunity to review or comment on any information in the Human Resource report before it was completed and distributed. It should be further noted, that neither the City Auditor nor his family were found to have violated any law of any kind or any city policies or procedures.

**Initial Claim Made of Conflict of Interest:** Despite the October 25, 2018 announcement to City Management, Charter Officers, City Commission, and Gainesville Police Department, there was no mention of a claim of conflict of interest by anyone until made by the Interim City Manager on March 18, 2019, which was **six days after receiving the draft report**. Further, after being provided a copy the draft report and a discussion of the issues with the City Auditor and City Attorney on March 12, 2019 the Interim City Manager was very receptive of the need for change.

However, six days later and after a request to the City Auditor (by the Interim City Manager) to delay the City Commission presentation from April 4, 2019 to April 18, 2019 was not initially agreed, the first claim of conflict of interest was made by the Interim City Manager to the City Auditor. Clearly, the time for making such a claim (of this type) would have been made prior to October 2018. Claims made after receiving, what may be considered an unfavorable audit report, should be considered invalid.

**Living in the City Limits:** Although not required to reside in the City limits, as several other Charters are, the City Auditor chose to do so to become part of the community he hoped to help improve. Such residency necessitates that the City Auditor use available city services, such as: trash pick-up, GRU utilities, GFR ambulatory services, GFR fire services, pay city property taxes, and summon the City’s police department when anyone in the household thinks it is necessary. The City Auditor and his family have used all of the above. If such use of city services makes one have a conflict of interest then there should be a requirement that the City Auditor live outside the city limits. One should not be penalized for using city services made available to their residents and anyone located in the City.

**No Conflict of Interest:** As defined in the Government Accountability Office - Government Auditing Standards a conflict of interest is one in which the auditor has a “competing professional or personal interest.” It is difficult to understand based on the information provided, that this could be considered a conflict of interest, as the City Auditor nor his family have any complaints against the Gainesville Police Department nor Human Resources. The City Auditor has nothing to gain or lose by issuing a favorable or unfavorable report. On the contrary, the intervention by Gainesville Police Department, the Employee Assistance Program (Dr. Bordini), several caring City Commissioners, HR Director, and family counseling (Dr. Lew Fabrick and Kathleen Joseph & Associates) have resulted in a huge benefit to the City Auditor and his family. Thank you to all of those who have assisted us in our time of need.

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing responses to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendations for City Management:</i>		
A.1 Assess current upper management of the Reichert House Youth Academy and compare to required competencies.	<b>Concurs</b> – The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation.	<b>Ongoing</b>
A.2 Create standard operating procedures for all roles and process areas.	<b>Concurs</b> – The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation.	<b>Ongoing</b>
A.3 Closely examine all related non-city entities by seeking to dissolve any relationships related to funding except that of accepting donations by the City’s Reichert House Youth Academy program through in-kind donations made directly or into City maintained accounts.	<p><b>Disagrees</b> – The Office of the City Manager (OCM) disagrees with the City Auditor’s recommendation. There is insufficient evidence contained in the Auditor’s report to support an immediate dissolution of the City’s ability to receive funding from non-city entities that provide critical support to the Reichert House Youth Academy.</p> <p>Rather, the main issue appears to be that the City currently does not have active contracts in place with non-city entities. It is the OCM’s recommendation that attempts to secure contracts that define the City’s relationship with non-city entities and establish the review and compliance standards be sought, executed and implemented (also addressed in Section A.4).</p>	
<p><b>City Auditor’s Response (GAS 7.37*):</b> The City and Reichert House Youth Academy may receive donations and in-kind donations from organizations without formal relationships. With the exception of BOBCTF, almost all funds the CAO was made aware of from the non-city entities were obtained from grants and donations through the actions of our own City employees on non-city entities behalf and funds transferred from other non-city entities bank accounts into bank accounts we have no access to (and, with no ability to be reviewed for audit purposes). Note, it does not appear there is actual fund raising happening outside of the work of our own employees.</p>		
A.4 Work with the City Attorney to create or update contractual arrangements for any remaining non-city entity that is deemed vital	<b>Partially disagrees</b> – The Office of the City Manager (OCM) partially disagrees with the City Auditor’s recommendation. The determination of which non-city entities are	<b>Under review</b>

**APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN**

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
(such as maintaining the Community Foundation relationship and Black on Black Crime Task Force). Such arrangements should include an audit clause, full transparency facilitation, and quarterly activity reports.	vital to the needs of the Reichert House Youth Academy are best made by the Gainesville Police Department and Reichert House management in consultation with the City Manager. The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation that contracts with non-city entities be executed and should include an audit clause, full transparency facilitation, and quarterly activity reports.  <b>(Concurrence on creation of contracts in A.5)</b>	
<b>City Auditor’s Response (GAS 7.37*):</b> It appears from the written OCM response, they agree with the recommendation to determine which entities are vital and establish a contractual arrangement with the entity.		
A.5 Use the Community Foundation’s account as a holding account for any resources that cannot be accepted directly by city government accounts. Ensure no transfers are made to any non-city entity accounts.	<b>Neither agrees or disagrees</b> – The Office of the City Manager (OCM) neither agrees nor disagrees with the City Auditor’s recommendation as the decision to use the Community Foundation as the holding account for any resources for the Reichert House Youth Academy is a decision that can only be made by the Community Foundation. Initial discussions about the City’s relationship to the Community Foundation are currently underway.	<b>Under review</b>
<b>City Auditor’s Response (GAS 7.37*):</b> OCM response fails to address the current lack of transparency of transfers between various non-city entity accounts (e.g. Reichert House, Inc. and Palm Breeze Youth Services, Inc. bank accounts). The decision to use the fully transparent Community Foundation is not a decision that can “only be made by the Community Foundation.” Rather, the Community Foundation would have to agree to a City decision to utilize it and of course be willing to enter into a contractual agreement.		
B.1 Formalize a contractual arrangement between Reichert House Youth Academy program and Black on Black Crime Task Force and Community Foundation, including an audit clause and quarterly reports.	<b>See Section A.4 – Lack of Standard Business Processes</b>	<b>Under review</b>
B.2 Work with the City’s finance department to transfer all funds	<b>Disagrees</b> – The Office of the City Manager (OCM) disagrees with the City Auditor’s	<b>Second part Under review</b>

**APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN**

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>from non-city entities to City-held bank accounts in cases where that is possible. As an alternative, use Community Foundation for funds that cannot be accepted directly by a government entity.</p>	<p>recommendation to work with the City’s finance department to transfer funds from non-city entities, particularly as the City lacks the legal authority to make such requests given the lack of existing contractual agreements and is likely not viable. As for the recommendation to use the Community Foundation as the holding account for the City, see Section A.5 – <i>Lack of Standard Business Processes</i>.</p>	
<p><b>City Auditor’s Response (GAS 7.37*):</b> Response solidifies the finding and recommendation because the City’s Finance department and other departments have no visibility of funds that are held by these entities to benefit a City run program, Reichert House Youth Academy. All the bank accounts we have become aware of with Palm Breeze Youth Services, Inc. and Reichert House, Inc. have had our own City employees as authorized signatories thereby appearing as if the City has a right to the use of these funds.</p>		
<p>B.3 Assess and determine if it is appropriate from a State ethics standpoint, if City or Reichert House Youth Academy employees should resign from non-city entity boards and other positions such as registered agents.</p>	<p><b>Concurs</b> – The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation and has initiated the process to require City and/or Reichert House Youth Academy employees (who are also City employees) to resign from non-city entity boards and other positions such as registered agents.</p>	<p><b>In progress</b></p>
<p>B.4 Insist that no City employee handle the books, accounting records (on or off the clock) nor control bank accounts for non-city entities that work closely with the City of Gainesville per Outside Employment guidelines.</p>	<p><b>Concurs</b> – The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation.</p>	<p><b>In progress</b></p>
<p>C.1 Discontinue the use of any bank accounts as it relates to expenses and reimbursements for Reichert House Youth Academy through non-city entities: Palm Breeze Youth Services, Inc., Reichert House, Inc., and any yet undisclosed entity.</p>	<p><b>Concurs</b> – The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation although wishes to clarify that the use of any bank accounts housed by and for non-city entities as it relates to expenses and reimbursements is more accurately described as an access issue primarily due to employees serving in fiduciary roles on non-city entity boards.</p>	<p><b>In progress</b></p>
<p>C.2 Work with the City Attorney to create a standardized contractual arrangement for future relationships that enables</p>	<p><b>See Section A.4 – Lack of Standard Business Processes</b> <b>Copied from A.4:</b></p>	<p><b>Under review</b></p>

**APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN**

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>acceptance of fund donations or in-kind donations but does not allow other entities to play any role in the operations or holding of finances with the Reichert House Youth Academy. The below listed attributes should be considered:</p> <ul style="list-style-type: none"> <li>i. Roles and established responsibilities of each organization;</li> <li>ii. Consistent and established process;</li> <li>iii. Full transparency;</li> <li>iv. An audit clause;</li> <li>v. Requires all contributions collected on behalf of grants awarded to the program to be held and managed by the City or by Community Foundation;</li> <li>vi. Required quarterly financial activity reports to Reichert House Youth Academy program and City management.</li> </ul>	<p><b>Partially disagrees</b> - The Office of the City Manager (OCM) partially disagrees with the City Auditor’s recommendation. The determination of which non-city entities are vital to the needs of the Reichert House Youth Academy are best made by the Gainesville Police Department and Reichert House management in consultation with the City Manager. The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation that contracts with non-city entities be executed and should include an audit clause, full transparency facilitation, and quarterly activity reports.</p>	
<p><b>City Auditor’s Response (GAS 7.37*):</b> As noted above, it appears from the written OCM response, they agree with the recommendation to determine which entities are vital and establish a contractual arrangement with the entity.</p>		
<p>C.3 Ensure all Reichert House Youth Academy mentors were provided IRS Form 1099-Misc for all income paid as mentors for the past three years if they received \$600 or more in any year, and that a copy was provided to the IRS.</p>	<p><b>Concurs</b> – The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation assuming all mentors are non-city employees. (Verification and review currently underway).</p>	<p><b>Under review</b></p>
<p>D.1 Management should work with City leadership and reach out to other outside organizations to devise a performance metric that can be tracked over time, is accurate, and demonstrates the many successful outcomes of the</p>	<p><b>Concurs</b> – The Office of the City Manager (OCM) concurs with the City Auditor’s recommendation.</p>	<p><b>Under review</b></p>

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Reichert House Youth Academy program.		
D.2 Management should develop written procedures for collecting, calculating, and reporting performance measures.	<p><b>Neither agrees or disagrees</b> – The Office of the City Manager (OCM) neither agrees nor disagrees with the City Auditor’s recommendation, although fully recognizes the practice of developing written procedures for collecting, calculating and reporting performance measures as part of good governance and performance management. It should be noted the City, as a whole, currently does not have a uniform policy nor practice of collecting, calculating and reporting performance measures across the organization so perhaps the recommendation is best suited as an operational and performance goal for the entire City of Gainesville as opposed to a Reichert House Youth Academy recommendation alone. Further, it is worth noting that few programs are currently required to meet this threshold, which is why the effort to operationalize performance measures is a goal of Strategic Initiatives and currently being developed.</p>	
<p><b>City Auditor’s Response (GAS 7.37*):</b> Based on OCM written response, it appears they agree with the recommendation that management needs to put a policy and procedure in place as it relates to performance metrics since it is a citywide issue. That policy and procedure then needs to be implemented at Reichert House Youth Academy. An easy to communicate performance metric could only enhance the ability to seek support for this valuable program.</p>		
E.1 Discontinue leasing apartments.	<p><b>Disagrees (not verified)</b> – The Office of the City Manager (OCM) disagrees with the incomplete findings of this section and subsequent recommendations that may be factually inaccurate yet proffered in Section E in the City Auditor’s report as fact. Specifically, we note the following concerns:</p> <p>The report alleges the Director of the Reichert Academy has a lease for a “Reichert</p>	<b>Under review</b>

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	<p>House Scholarship Apartment.” Additionally, the report mentions bank statements that indicate apartment rent has been paid. However, no lease or copy of a lease was provided nor requested by the Audit team. This, along with the incomplete bank records from Palm Breeze Youth Services, Inc., make it indeterminable at this point as to whether a lease by Reichert House exists; rent is being paid, for how long and for whom. To be clear: The issue of discontinuing leases as an inappropriate practice of the Reichert House is not in dispute by the OCM (we are in agreement on that part of the recommendation), but rather if a lease, in fact, exists to support the recommendation in the report. (This is currently under review).</p>	
<p><b>City Auditor’s Response (GAS 7.37*):</b> There is plenty of evidence that an apartment is maintained to support the Reichert House Youth Academy program.</p> <p>The Director of Reichert House Youth Academy stated in his recorded interview that he took over the apartment in November 2017 and they used the Reichert House Scholarship apartment for various reasons over the years.</p> <p>In October 2018, The Emmer Group contacted the City regarding late rent payments (\$2,130) for the Stoneridge apartment stating that “John Alexander was contacted and told us he would pay the balance a few weeks ago but we haven’t seen any payment and the deadline was last Friday.” In that email itself, the Director of Reichert House Youth Academy acknowledged it was not a lease with the City nor an expense of the City and CAO did not want to negate that by requesting a lease, which was clearly stated as not a City lease.</p> <p>Additionally, the general ledger used to create the fiscal year 2016 Form 990’s from Reichert House, Inc. show payments made back to October 2015 for the same apartments when our City employee (Albright) wrote the checks. A limited review of the checks from Palm Breeze Youth Services, Inc. show continued checks to the apartment complex during 2018.</p> <p>All support has been previously provided to OCM.</p>		
<p>E.2 Ensure new oversight and monitoring above the Director level of expenditures.</p>	<p><b>Disagrees (report’s findings may predate City’s Internal Control update of Director-level expenditures, 8/2018)</b> – The report includes a total of 301 transactions via the City’s purchasing card system that resulted in transactions without a receipt in some</p>	<p><b>Implemented August 2018</b></p>

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	cases or an explanation of expenses in others; however, the transactions included in the Auditor’s report range from 10/1/16 through 08/2018, all <u>prior</u> to the implementation of additional purchasing processes and controls implemented during the City’s 2018 overhaul of Director-level expenditures. A more complete review of the Auditor’s supporting materials is currently underway to assess which transactions (regardless of when they occurred) lack proper documentation.	
<p><b>City Auditor’s Response (GAS 7.37*):</b> Even though the instances presented occurred in August 2018 or before the internal control update of Director-level expenditures (8/2018), it is management’s responsibility to ensure the policy and procedures have been implemented appropriately for the program going forward.</p>		
E.3 Work with the City’s finance department to ensure compliance with purchasing requirements.	<p><b>Disagrees (report’s findings predate City’s Internal Control update of Director-level expenditures, 8/2018)</b> – Since the 301 transactions included in the report appear to have occurred before the City’s implementation of stronger internal controls regarding Director-level expenditures, the Office of the City Manager (OCM) cannot affirm whether there is currently a compliance issue with P-card transactions. (This is currently under review).</p>	<p><b>Implemented August 2018</b></p>
<p><b>City Auditor’s Response (GAS 7.37*):</b> Even though the instances presented occurred in August 2018 or before the internal control update of Director-level expenditures (8/2018), it is management’s responsibility to ensure the policy and procedures have been implemented appropriately for the program going forward.</p>		

**\* Government Auditing Standards (GAS) – 2011 Edition – Section 7.37:**

*“When the audited entity’s comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors’ recommendations, the auditors should evaluate the validity of the audited entity’s comments. When the audited entity’s comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors’ recommendations, the auditors should evaluate the validity of the audited entity’s comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.”*