

Audit Report

Healthy Texas Women and Family Planning Program Contract Compliance

The Heidi Group

July 30, 2021
OIG Report No. AUD-21-018



**Inspector
General**

Texas Health
and Human Services



Texas Health and Human Services Office of Inspector General Audit and Inspections Division

HEALTHY TEXAS WOMEN AND FAMILY PLANNING PROGRAM CONTRACT COMPLIANCE

The Heidi Group

July 30, 2021

Dear Ms. Everett:

In response to a referral from Health and Human Services Commission (HHSC), the Health and Human Services (HHS) Office of Inspector General (OIG) conducted a preliminary investigation, and based on the issues identified in that investigation, the OIG Audit and Inspections Division (OIG Audit) initiated an audit of the Heidi Group. The objective of OIG's audit was to determine whether (a) expenses reimbursed were allowable and (b) expenses were allocated as required under the terms of its Healthy Texas Women program (HTW) and Family Planning Program (FPP) contracts, which ended in December 2018. This audit represents the final conclusions of OIG on its audit and on its initial investigation; therefore, this audit supersedes OIG's previous investigation report of November 6, 2019.

HTW and FPP were new programs initiated for the first time in 2016, and these contracts were the Heidi Group's first state government contracts. To help administer the new grant programs, the Heidi Group hired certain financial staff; however, control weaknesses still existed in its financial processes. In addition, control weaknesses in HHSC's contract oversight existed by former HHSC program oversight personnel. Specifically, HHSC's former program oversight personnel did not address weaknesses in invoice documentation submitted by the Heidi Group when it reimbursed the Heidi Group's reported costs. As a result, those weaknesses went undetected until HHSC's Fiscal Monitoring Unit conducted on-site reviews in April 2018, after which HHSC made a referral to OIG for further review. HHSC subsequently terminated the Heidi Group's HTW and FPP contracts effective December 11, 2018.

OIG Audit did not find evidence of fraud during the course of this audit or during its investigation, and most costs for which the Heidi Group received reimbursement were allowable costs for which the Heidi Group was able to provide support. For example, the Heidi Group charged costs related to salaries that it paid to its employees, subrecipient costs that it paid to its subrecipients, and other administrative and program costs to support the HTW and FPP programs. In addition, except for certain costs for which it received

approval from HHSC, the Heidi Group ensured that it only charged costs that were incurred after the effective date of its contracts.

However, the Heidi Group was reimbursed for some costs that were duplicative, unsupported, or unallowable under the terms of its contracts with HHSC and as established by the Uniform Grant Management Standards.

Specifically, the Heidi Group:

- Incorrectly charged and was paid for duplicate costs totaling at least \$104,012.22. For example, between May 2017 and September 2017, the Heidi Group charged some payroll and contract labor costs twice, and as a result, was overpaid \$69,998.66 for labor costs during that period.
- Received reimbursement for at least \$32,743.20 in costs (a) which were not allowed according to the terms of its contracts, or (b) for which it could not provide key support, such as time sheets, invoices, or receipts, to support the costs claimed for reimbursement.

These errors occurred because the Heidi Group did not have effective financial controls to help ensure that it only charged (a) each cost one time, (b) costs that were allowable according to its contract, (c) costs for which it had adequate support, and (d) costs that were approved in its established budget. The issues identified resulted in the Heidi Group receiving at least \$136,755.42 in reimbursements through its HTW and FPP grants which were not allowable under its contract or not adequately supported to determine allowability.

In addition to these issues, the Heidi Group was unable to provide support for the methodology it used to allocate costs to the HTW and FPP programs, which prevented OIG Audit from determining what amount, if any, may have been incorrectly allocated to each program.

The Heidi Group also did not ensure that it included all planned costs in its budgets, which were incorporated as part of its contracts with HHSC for the HTW and FPP programs. Specifically, the Heidi Group did not include administrative fees that it charged on a per claim basis into its approved budgets. However, the Heidi Group did include information related to its administrative fees in its subrecipient agreement template, which it provided

Background

The Heidi Group contracted with HHSC to provide services under two state programs, HTW and FPP.

Through HTW, HHSC offered women's health and family planning services to eligible women at no cost. The Heidi Group was paid a total of \$2,571,707 through its contract to administer HTW, which was effective from July 15, 2016, through December 11, 2018.

Through its FPP contract, HHSC provided accessible family planning and reproductive healthcare to eligible women and men in Texas. The Heidi Group was paid a total of \$1,508,607 through its contract to administer FPP, which was effective from January 5, 2017, through December 11, 2018.

This audit was conducted in response to an HHSC executive management request that OIG investigate possible contractual issues related to the Heidi Group. After OIG conducted an investigation, the matter was referred for a full audit in November 2019.

to HHSC for review. Based on OIG Audit's review of emails related to the subrecipient agreement template, HHSC reviewed and commented on elements of the subrecipient agreement but did not comment on or question the Heidi Group's planned administrative fees.

Reviews conducted by the HHSC Fiscal Monitoring Unit and a third-party audit conducted by a public accounting firm identified significant weaknesses in the Heidi Group's compliance with grant requirements. Those previous reviews and OIG's initial investigation looked at a portion of the period for which the Heidi Group received funds. Given the previous risks identified, this audit was initiated to examine the funds for the full period of both contracts. As a result of the Fiscal Monitoring Unit's review, which identified questioned costs, the Heidi Group returned \$29,431.28 to HHSC by crediting its reimbursement request voucher for August 2018. OIG Audit adjusted the audit scope to remove costs for which the Heidi Group had returned payment.

This audit focused on reimbursements HHSC provided to the Heidi Group. This audit did not include a review of claims for healthcare services, which were typically submitted through the Texas Medicaid Healthcare Partnership (TMHP).

OIG Audit did not make recommendations to the Heidi Group because the Heidi Group no longer had active contracts with HHSC. The Heidi Group provided a significant amount of documentation for costs it charged to its HTW and FPP contracts; however, as of June 18, 2021, the Heidi Group had not provided documentation to resolve the issues identified in this audit report.

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

Based on the totality of the circumstances, OIG is not seeking a recovery from the Heidi Group. The attachment to this letter contains additional details on issues auditors identified.

Sincerely,



Audrey O'Neill, CIA, CFE, CGAP
Chief of Audit and Inspections

Attachment

cc: Cecile Erwin Young, HHS Executive Commissioner
Sylvia Hernandez Kauffman, HHS Inspector General

ATTACHMENT

Section 1: Summary of Audit Results

OIG Audit did not find evidence of fraud during the course of this audit, and most costs for which the Heidi Group received reimbursement were allowable costs. However, the audit identified issues related to (a) duplicate, unsupported, and unallowable costs submitted by the Heidi Group and paid by HHSC and (b) the lack of a supported or consistent allocation methodology. As a result, the Heidi Group was paid at least \$136,755.42 for costs not allowed by its contracts, and OIG Audit identified a significant contractual issue related to cost allocation.

ISSUE 1: THE HEIDI GROUP SUBMITTED AND WAS REIMBURSED FOR AT LEAST \$136,755.42 IN DUPLICATE, UNSUPPORTED, AND UNALLOWABLE COSTS

While most costs charged by the Heidi Group were allowable, it was reimbursed for (a) \$104,012.22 in duplicate charges and (b) at least \$32,743.20 in costs that were unallowable or unsupported.

The Heidi Group Submitted and Was Paid for \$104,012.22 in Duplicate Charges

The Heidi Group incorrectly charged \$104,012.22 in costs to the HTW and FPP programs because it charged some costs more than once. As a result, the Heidi Group received reimbursements for those costs twice.

For its direct costs, the Heidi Group submitted duplicate payroll and non-payroll costs in the vouchers it submitted to HHSC for reimbursement. Specifically, the Heidi Group submitted and was reimbursed for:

- \$81,097.83 in duplicate payroll and contract labor costs for the HTW and FPP programs.
- \$1,052.27 in duplicate meal receipts that it submitted for the HTW and FPP programs.
- \$1,170.00 for a duplicate advertising cost for the HTW and FPP programs.

In addition, the Heidi Group submitted and paid some costs incurred by its subrecipients¹ twice. OIG Audit reviewed costs submitted to HHSC twice by the Heidi Group for its subrecipients that exceeded \$500.00, and identified \$20,692.12

¹ Subrecipient costs are those related to funds passed through to subrecipient providers.

in duplicate costs, including pharmaceutical costs, office supplies costs, and subrecipient personnel costs.

In some cases, the Heidi Group submitted the same direct and subrecipient costs on its vouchers for one program in multiple months. In other cases, the Heidi Group submitted a cost at its full amount to both the HTW and FPP programs. These errors occurred because the Heidi Group did not have effective controls to ensure that it only submitted costs once and that the total amount that it submitted for all programs did not exceed the amount of its costs. The Heidi Group asserted that it identified duplicate charges that it submitted to HHSC in later months and then corrected those on subsequent vouchers it submitted for reimbursement; however, the Heidi Group did not provide evidence that it made corrections for the duplicate payments identified in this issue.

The Heidi Group Charged and Was Paid for at Least \$32,743.20 in Direct Costs That Were Not Supported or Not Allowable

The Heidi Group received payment for at least \$32,743.20 in costs (a) which were unallowable or (b) for which it could not provide key support, such as time sheets, invoices, or receipts.

The Uniform Grant Management Standards, to which the Heidi Group was required to adhere based on its contracts with HHSC, require that costs be adequately documented, including but not limited to time sheets, invoices, and other support.² In addition, those standards establish requirements for allowable costs, including that costs be reasonable and necessary to support the programs.

Throughout the audit, OIG Audit requested support for costs reported by the Heidi Group for which it received payment, and the Heidi Group provided substantial amounts of documentation. However, the Heidi Group could not provide support for all paid costs, and some costs for which it provided support were not allowable.

OIG Audit reviewed direct costs reported by the Heidi Group for which it received payment exceeding \$500.00 to determine whether those costs were allowable and supported. Specifically, OIG Audit identified the following issues:

- The Heidi Group was reimbursed for \$8,285.34 in costs which were not allowable according to the Uniform Grant Management Standards. For example, one cost of \$1,085.34 billed to FPP was for client laboratory services, but the client listed as receiving those services was not enrolled in either HTW or FPP.

² Texas Comptroller of Public Accounts, *Uniform Grant Management Standards*, § II, Attachment A(C)(1)(j) (Mar. 7, 2016).

- The Heidi Group could not provide key support, such as payroll reports and rental agreements, for some of its costs, and it charged an incorrect amount for some fringe benefit costs. As a result, the Heidi Group was reimbursed for at least \$6,017.86 in costs which did not meet requirements established by the Uniform Grant Management Standards.

In addition, for some administrative fees included in its charges, the Heidi Group incorrectly charged \$70 per claim, instead of \$50 per claim as established in its subrecipient agreements. As a result, the Heidi Group was reimbursed for \$18,440.00 in administrative fees that exceeded the amounts established in those subrecipient agreements.

These issues occurred because the Heidi Group did not have effective controls to ensure that it, (a) only charged the amount established by its contracts with HHSC, (b) only charged costs allowed by the Uniform Grant Management Standards, (c) only sought reimbursement of costs for which it had required support, and (d) maintained appropriate support for costs after it submitted its requests for reimbursement.

ISSUE 2: THE HEIDI GROUP DID NOT HAVE A SUPPORTED OR CONSISTENT ALLOCATION METHODOLOGY

The Heidi Group did not meet requirements related to how it allocated payroll and non-payroll costs to the HTW and FPP programs. Specifically, the Uniform Grant Management Standards establish requirements for payroll costs, including requirements that when employees work on multiple activities (such as both the HTW and FPP programs), a distribution of their salaries or wages must be supported by personnel activity reports or other documentation.³ That support must:

- Reflect an after-the-fact distribution of the actual activity of each employee
- Account for the total activity for which each employee is compensated
- Be prepared at least monthly and coincide with one or more pay periods
- Be signed by the employee and the supervisory official having first-hand knowledge of the work performed by the employee

³ Texas Comptroller of Public Accounts, *Uniform Grant Management Standards*, § II, Attachment B(11)(h) (Mar. 7, 2016).

Additionally, for all costs, including non-payroll costs, Texas Administrative Code requires that cost allocation methodologies be (a) reasonable and (b) consistently applied across the organization.⁴

The Heidi Group generally split most costs it incurred evenly between the HTW and FPP contracts; however, it could not provide support for how it determined that was an appropriate methodology. For example, the Heidi Group split most of its payroll costs evenly between programs, but it did not (a) employ detailed timekeeping records to track the number of hours staff spent working on each program or on other Heidi Group initiatives or (b) obtain an after-the-fact certification of the actual activity of each employee as required.

In addition to not having support for its methodology, the Heidi Group did not consistently allocate costs to the HTW and FPP contracts. For example, for some costs, the Heidi Group charged costs exclusively to one program or allocated costs unevenly between the programs without support for why it used those different allocation methods.

As a result of the Heidi Group's lack of documentation for its allocation methodology, OIG Audit could not determine whether the Heidi Group appropriately allocated its costs to the HTW and FPP programs.

ADMINISTRATIVE FEES

Administrative Fees that the Heidi Group Paid to its Subrecipients Were Reviewed by HHSC but Not Incorporated into the Heidi Group's Contracts

The Heidi Group was reimbursed for administrative fees it charged on a per claim basis.⁵ Those fees were designed to help offset administrative costs associated with the HTW and FPP programs. The Heidi Group did not include these fees in the budgets it submitted as part of its HTW and FPP contracts with HHSC, and as a result, those costs were not clearly allowed by its contracts.

While the Heidi Group did not include these fees in its contract budgets, it did include information related to its administrative fees in its subrecipient agreements and provided a template of those agreements to HHSC for review.⁶ HHSC reviewed the subrecipient contract template and provided comments to the Heidi

⁴ 1 Tex. Admin. Code § 355.102(j) (Jan. 1, 2015, and Mar. 1, 2018).

⁵ According to a review of the Heidi Group's general ledger and payment voucher information, the Heidi Group was reimbursed \$456,540 for its administrative fees.

⁶ The Heidi Group's FPP and HTW subrecipient contracts specified that qualified expenses for reimbursements be reimbursed at \$50.00 per patient for medical personnel based on submitted Remittance and Status Reports.

Group; however, based on OIG Audit's review of emails related to the subrecipient agreement template, those comments did not include feedback on or questions about the Heidi Group's planned administrative fees.

Section 2: Objective, Scope, Methodology, Criteria, and Standards

OIG Audit completed an audit of the Heidi Group. The audit focused on the Heidi Group's (a) HTW contract, which was effective for the period from July 15, 2016, through December 11, 2018, and (b) FPP contract, which was effective for the period from January 5, 2017, through December 11, 2018.

Objective and Scope

The objectives of the audit were to determine whether:

- Expenses reimbursed were allowable, specifically whether:
 - Expenses were charged only during the contract funding period.
 - Expenses charged to the program were within the parameters of the scope of the contracts and did not benefit activities separate and apart from the contracts.
 - Expenses reimbursed to subrecipients were allowable under the terms of the contracts.

- Expenses were allocated as required under the terms of the contracts.

The audit scope included a review of costs reimbursed to the Heidi Group and its subrecipients under its HTW and FPP contracts. These costs were reimbursed between October 2016 and March 2019. The Heidi Group returned some funds to HHSC based on the results of HHSC's Fiscal Monitoring Unit review. OIG Audit removed from the audit scope costs for which the Heidi Group had returned payment. In addition, OIG Audit limited its review of costs for support and allowability to costs that exceeded \$500.

Methodology

OIG Audit collected information for this audit through discussions and electronic communications with the Heidi Group management and staff. The audit team reviewed information including but not limited to:

- Bank statements for the scope of the audit
- Payroll records, including time sheets for staff
- Receipts for some expenses
- HTW contract and amendments
- FPP contract and amendments
- Tax return documents
- General ledger entries
- Invoices for some expenses

In addition to interviews identified and conducted by OIG Audit through the standard audit process, the Heidi Group provided a list of individuals for OIG auditors to interview. OIG Audit reached out to each individual listed and interviewed all individuals who agreed to an interview. However, some individuals did not respond to the interview request or did not agree to be interviewed.

Throughout the audit, OIG Audit requested support for costs reported by the Heidi Group for which it received payment, and the Heidi Group provided substantial amounts of documentation. However, as of June 18, 2021, the Heidi Group had not provided documentation to resolve the issues identified in the audit report.

Auditors did not use a sampling methodology on this audit and instead collected, reviewed and analyzed complete populations of data to perform selected tests and other procedures. As described in the scope, to determine whether costs were supported and allowable, auditors reviewed costs charged to the FPP and HTW programs that exceeded \$500. Therefore, auditors did not need to project testing results to the populations. Expenses identified as reimbursed to HHSC prior to the audit were not included in the audit work performed.

Criteria

- 1 Tex. Admin. Code § 355.102(j) (2015 and 2018)
- Texas Comptroller of Public Accounts, *Uniform Grant Management Standards* (2016)
- Texas Healthy Women Contract #529-16-0132-00006 (2016 through 2018)
- Family Planning Program Contract #529-16-0102-00053 (2017 through 2018)

Auditing Standards

Generally Accepted Government Auditing Standards

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

Section 4: The Heidi Group Management Response



July 9, 2021

Via Email: Audrey.Oncill@hhs.Texas.gov

Audrey O'Neill, CIA, CFE, CGAP
Chief of Audit and Inspections
Texas Health and Human Services Commission
Office of the Inspector General
Mail Code 1310
P.O.Box 85200
Austin, Texas 78708-5200

Re: The Heidi Group Management Response to HHSC-OIG Audit of Healthy Texas
Women and Family Planning Program Contract Compliance

Dear Ms. O'Neill:

Thank you for the opportunity to respond to the OIG's Draft Audit Report regarding The Heidi Group's two contractual engagements with the Texas Health and Human Services Commission's Women's Health Program. First, let me thank you for the professional way that you led this audit since taking the lead last year.

We are gratified that the OIG came to recognize in the course of this audit what has always been true – The Heidi Group committed no fraud in its 2.5 years of work for the state. Indeed, after 20 months of rigorously intense professional scrutiny, the audit report concludes that: "OIG Audit did not find evidence of fraud."

Importantly, by issuing this report, OIG Audit dissociates itself from the previous significant and substantial overreaches committed by OIG Internal Affairs in its November 2019 Final Report. Thankfully, OIG has withdrawn and replaced that errant report with this much more accurate review.

The superseded Final Report wrongfully determined that THG preliminarily owed the state over \$1.5 million, based upon its review of a seven-month period (September 2017-April 2018) of THG activities under the Texas Health and Human Services Commission's (HHSC) Healthy Texas Women (HTW) and Family Planning Program (FPP) contracts. Based upon its wrongful determination, the OIG ordered a full audit of THG's two contracts, presumably under the belief that there were millions to recover.

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Ms. Audrey O'Neill
July 9, 2021
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Now, after nearly three years of OIG investigation and audit— at great cost to THG - the final amount plummeted to \$136,755.42, under ten percent of the original amount found in the Final Report and just over three percent of the total amount expended by THG in its two contracts with the state. Moreover, this comparatively small sum was the result of bookkeeping and accounting deficiencies, not any nefarious plot on the part of THG to defraud or abuse as was inferred by the 2019 Final Report. THG appreciates the current auditors determining that, under the “totality of the circumstances,” this amount does not need to be repaid.

Moreover, the state acknowledges in the audit that the causes underlying its assessment include poor oversight by the state, which was substantially a product of HHSC’s failure to provide THG with adequate program training and guidance. As the audit notes, the financial controls at THG were imperfect, especially true during the early stages of the program. But this was most certainly the case with every vendor in the HTW program and the FPP, symptomatic of the fact that both programs were “start-ups.” By October 2018 – the month that the state terminated THG’s contracts without providing any reason – THG was operating much more effectively and efficiently, having learned many lessons along the way.

The bottom line is this: the state never indicated why it terminated THG’s contracts, but, in so doing, publicly inflicted severe and irreparable damage to THG. If the state suspected fraud, as a criminally-tainted former THG employee falsely reported to the OIG, it now knows that was wrong. THG appreciates the current auditors for setting the record straight on this important issue.

Unfortunately, the damage the state’s devastating determinations (in the now-withdrawn Final Report) did to THG is incalculable, and its effect has pushed THG, a non-profit that long served needy Texas women, to the brink of closure. Now that we know the truth – that there was no fraud (as imputed by the Final Report), where does The Heidi Group go to get its reputation back? In the non-profit world, maintaining a reputation for integrity is essential to success. The state’s erroneous Final Report robbed THG of that well-earned reputation and perhaps permanently harmed its capacity to succeed. This is a story of injustice for which there should be some remedy beyond this largely exculpatory audit.



Carol Everett, Chief Executive Officer
The Heidi Group

The Heidi Group Management Response to HHSC-OIG Audit of Healthy Texas Women and Family Planning Program Contract Compliance

Auditor Comment

OIG appreciates the acknowledgement of the Issues identified in this final audit report and the feedback provided by the Heidi Group in its management response letter.

However, the management response letter incorrectly describes the significance of the control weaknesses and contractual violations confirmed in the OIG final audit report. A review by HHSC's Fiscal Monitoring Unit, a third-party audit conducted by a public accounting firm, and the OIG identified significant weaknesses in the Heidi Group's compliance with grant requirements. OIG stands by its findings and conclusions and reiterates the serious contractual violations that stemmed from significant weaknesses in the Heidi Group's financial controls.

Section 4: Report Team

Report Team

OIG staff members who contributed to this audit report include:

- Audrey O’Neill, CIA, CFE, CGAP, Chief of Audit and Inspections
- Kacy J. VerColen, CPA, Deputy Inspector General of Audit and Inspections
- Bruce Andrews, CPA, CISA, Director
- Paris Pham, Staff Auditor
- Olivia Sheridan, Staff Auditor
- Karen Mullen, CGAP, Quality Assurance Reviewer
- Mo Brantley, Senior Audit Operations Analyst
- Ashley Rains, CFE, Senior Audit Operations Analyst

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- Nicole Guerrero, Director of Internal Audit

The Heidi Group

- Carol Everett, Chief Executive Officer and Board of Directors
- Katherine Winniford, Board of Directors
- Stephen Casey, Board of Directors
- Dic Humphrey, Board of Directors
- Stuart Bowen, Jr., Attorney for the Heidi Group
- Ed Watt, Attorney for the Heidi Group

Section 5: OIG Mission, Leadership, and Contact Information

The mission of OIG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of OIG's mission and statutory responsibility includes:

- Sylvia Hernandez Kauffman, Inspector General
- Susan Biles, Chief of Staff
- Dirk Johnson, Chief Counsel
- Christine Maldonado, Chief of Operations and Workforce Leadership
- Juliet Charron, Chief of Strategy
- Steve Johnson, Chief of Investigations and Reviews

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