
**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF INVESTIGATIONS
INVESTIGATIVE MEMORANDUM**

June 22, 2005
CEN-TEX FAMILY SERVICES, INC.
Bastrop, Texas
HILL, WINDY
Bastrop, Texas
Head Start Program / Grant Fraud
6-04-00095-9

This is the Closing Investigative Memorandum.

This case was predicated on a referral from HHS/Office of Audit Services concerning grant fraud in the Head Start Program. An audit performed revealed that Cen-Tex Family Services, Inc. (Cen-Tex) paid bonuses and expenses without adequate support or authorization. On May 10, 2004, this office received additional information regarding Windy Hill, the former Executive Director of Cen-Tex from 1993 through January 5, 2002. She became the HHS Head Start Associate Commissioner on January 6, 2002.

The audit raises questions about the financial management of Cen-Tex during Hill's tenure, as well as questions as to whether she benefited financially as a result of the program's violations. In addition, it was alleged that Cen-Tex improperly drew down and deposited federal funds that it was not legally entitled to receive.

Interviews were conducted of current and former board members, employees, and contractors of Cen-Tex. Cen-Tex records were reviewed. OAS auditors reviewed Cen-Tex records and participated in interviews. Audit work papers were prepared by OAS based on documents obtained and reviewed.

This case was declined by the US Attorney's office in Austin, Texas and the District Attorney's office in Bastrop, Texas due to a lack of resources and not meeting the minimum guidelines established by these offices.

The investigation revealed several areas of concern which are addressed in detail in a final report. Exhibits were provided which support the report findings. This report was provided to Dr. Wade Horn of ACF. Hill provided a response to ACF addressing these areas of concern. The Office of Investigations did not obtain a copy of Hill's responses. On May 27, 2005, Hill resigned from her position as Head Start Associate Commissioner.

This case will be closed.

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This case was investigated as possible violations of Title 18 U.S.C. 641 (Public Money, Property, or Records), 18 U.S.C. 371 (Conspiracy), and 18 U.S.C. 666 (Theft or Bribery Concerning Programs Receiving Federal Funds).

United States
Department of Health
And Human Services



OFFICE OF INSPECTOR GENERAL
OFFICE OF INVESTIGATIONS
REPORT OF INVESTIGATION CONCERNING

Hill, Windy
6-04-00095-9

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Section A – NARRATIVE

Issue

This case was predicated on a referral from HHS/Office of Audit Services (OAS) concerning grant fraud in the Head Start Program. An audit performed by an independent public accountant revealed that Cen-Tex Family Services, Inc. (Cen-Tex) paid bonuses and expenses without adequate support or authorization.

On May 10, 2004, this office received additional information regarding Windy Hill, the former Executive Director of Cen-Tex from 1993 through January 5, 2002. She became the HHS Head Start Associate Commissioner on January 6, 2002. The audit raised questions about the financial management of Cen-Tex during Hill's tenure, as well as questions as to whether she benefited financially as a result of the program's violations. In addition, it is alleged that Cen-Tex improperly drew down and deposited federal funds that it was not legally entitled to receive.

Background

The Head Start Program is a federal program that provides funding for early learning and other services that benefit children of low-income families. Cen-Tex is a non-profit organization that provides child development services to children 1-5 years of age. The Head Start program is Cen-Tex's only major program. It provides services for children in four counties and has been operating since 1992. For the year ending January 31, 2002, Cen-Tex's Head Start funding totaled \$2.1 million and its total revenue and contributions from all sources was \$2.8 million.

Cen-Tex has a governing Board of Directors (Board). The Board is responsible for appointing the executive director, establishing policies, and managing Cen-Tex's business and affairs. The Executive Director is responsible for administering Cen-Tex's programs, finances and personnel within the framework of the policies, principles, and practices established by the Board.

The Department of Health and Human Services, Administration for Children and Families (ACF), and an independent public accountant (IPA), Lockart, Atchley & Associates examined Cen-Tex's financial records during 2002. At Cen-Tex's request, ACF's Dallas regional office performed a review of Cen-Tex's financial management system and completed a report on their findings. (See Exhibit 4)

On December 7, 2002, the IPA issued its audit report of Cen-Tex's financial statements for the fiscal year ending January 31, 2002. The report identified ten reportable conditions, of which IPA considered two to be material weaknesses. In the prior 3 years, the accounting firm of Kolheim, Rogers & Taylor (Rogers) had performed financial audits for Cen-Tex and did not identify any reportable conditions.

Investigative Activity

OI and OAS conducted an on-site review of records as well as several interviews of those connected with Cen-Tex. Several issues were investigated which included but were not limited to the initial allegations. Interviews included Hill, current and former Cen-Tex employees, former contractors, and Board members. OAS met with the IPA to discuss details of their

findings. A summary of the reports of interview is found in Section E-Witnesses and Evidence. Interviews were conducted in an effort to gather testimonial evidence as to the validity of the allegations. Hill's interview and response to allegations are located at Exhibits 1 and 2. ACF financial review work papers were reviewed. Cen-Tex records were reviewed on-site. This included financial and personnel records, Cen-Tex policy and procedure manuals.

The investigation addresses eight main areas of interest, which will be explained in more detail below.

Areas of Interest

Request for Reimbursement for expenses for tuition fees for Fall 2001 semester and Spring 2002 at St. Edwards University in Austin, Texas.

On October 19, 2001, Windy Hill filled out a purchase requisition for Fall 2001 tuition fees in the amount of \$2,396.00. Historically, checks for Hill's tuition went directly to St. Edwards University. In this instance, she requested reimbursement to herself. St. Edwards' records indicate that Hill did not register for or attend classes in Fall 2001. Evidence suggests that Hill used a copy of a bill from a previous semester and attached it to this purchase request. The purchase request form states that the reimbursement is for "Tuition fee for Fall 2001 semester." A check was issued to Hill in the amount of \$2,396.00.

On December 6, 2001, a check was cut to St. Edwards in the amount of \$1,262.00 for an Internet course for Spring 2002. At the time of Hill's purchase request, evidence shows that she knew that she would be taking the job in Washington, D.C. Cen-Tex paid for a course using Head Start funds that Hill would take when she was no longer employed by Cen-Tex.

Evidence includes the fact that on November 29, 2001, Hill signed her SF Form 278, the Executive Branch Personnel Public Financial Disclosure Report. In addition, Hill went to the Dallas Regional office in early December 2001 to discuss her plan for Cen-Tex once she left for her new position in Washington, D.C. These dates show that she had knowledge that she would not be working for Cen-Tex during Spring 2002. Therefore, Cen-Tex paid for a course using Head Start funds after Hill left the agency.

The supporting exhibits can be found at Exhibits 5-9.

Bonuses

Bonuses were reviewed for the time period 1999 through 2002. The review showed that Hill received bonuses each year. Cen-Tex personnel policies reflected that employees could receive up to a 10 percent bonus annually. However, the review showed that Hill was the only one who received these annual bonuses, and hers exceeded 10 percent. Bonuses for the Executive Director were to be approved by the Board.

FY 1999 Bonus

For FY 1999, Hill received a 14 percent bonus check dated June 6, 2000 in the amount of \$6,644.25. Board minutes for April 12, 2000, signed by Hill, state that the Board moved by consensus to accept and approve the Executive Director's overall performance appraisal of "Outstanding".

On June 5, 2000 there are unsigned minutes, which state that the Board moved by unanimous consensus to accept and approve the annual performance appraisal of the Executive Director and performance enhancement incentive award. Handwritten notes for these minutes were determined to be from Sandy Scott.

Hill submitted a purchase requisition for this bonus on June 7, 2000. There is no percentage written in the Board minutes or handwritten minute notes. The percentage of the bonus (14 percent) was written on this purchase requisition by Hill. This investigation found no evidence to suggest that this check was reported for tax purposes through a payroll W-2 or a form 1099.

Bonus work papers prepared by OI and OAS can be found at Exhibits 27 and 28. Supporting documentation for the FY 1999 bonus can be found at Exhibits 29 through 33.

FY 2000 Bonus

For FY 2000, Hill received a 14 percent bonus check dated April 24, 2001 in the amount \$7,170.38. In an Interoffice Memorandum dated March 17, 2001 from Hill to Board Chairman Clinton Wright, Hill requests a 13 percent performance incentive. This memo indicates that this percentage is "one percent greater than last year's award." Records indicate that the prior year's bonus was actually 14 percent.

Board minutes dated March 17, 2001 and signed by Windy Hill indicate a motion to accept and approve the Executive Director's annual performance evaluation and authorize a performance enhancement incentive. The notes for this Board meeting were also taken by Sandy Scott and the minutes were signed by Hill. No amount or percentage to be awarded for this performance incentive is found in Board minutes and meeting notes.

On April 24, 2001, Hill submitted a purchase requisition for this performance enhancement. A check for the bonus was cut on that same day. Taxes were not withheld on this bonus; however, Hill was issued a corrected W-2 after Cen-Tex identified this problem. This was discovered by an IPA after Hill was no longer employed at Cen-Tex.

Supporting documentation for the FY 2000 bonus can be found at Exhibits 34 through 39.

FY 2001

For FY 2001, Hill received a 13.445 percent bonus. The audit found no Board minutes or Board meetings to support this bonus. A purchase requisition was submitted by Hill on January 11, 2002 and a check with the same date was issued in the amount of (b)(6). Records reflect that this purchase requisition and check were completed by Hill after she had begun her job in Washington, D.C. Hill returned to the Cen-Tex office over the weekend following her official

appointment in Washington, D.C. Interviews indicate that Hill met with Board members that same weekend and they were unaware that Hill had accepted and had already begun working in Washington, D.C. After Cen-Tex discovered that Hill had not been issued a 1099, an amended one was mailed to her.

Supporting documentation for the FY 2001 bonus can be found at Exhibits 40 through 42.

Over the same weekend, Hill submitted a purchase requisition and was reimbursed \$500.00 in miscellaneous "expenses" without supporting documentation. This was also dated January 11, 2002. This is explained in more detail in the "purchase requisitions" section.

Hill began employment with Health and Human Services on January 6, 2002. At this point, the Board did not know that she had accepted the job in Washington, D.C. Hill met with two of the Board members the morning of Saturday, January 12, 2002, and told them she would decide about the job by the end of January. According to interviews, the Board members found out through a newspaper article later that same weekend that Hill had already begun working for Health and Human Services.

The investigation disclosed that Cen-Tex employees also thought Hill was still in charge of Cen-Tex and that she was on vacation until the end of January 2002, and then would take an 18-month leave of absence. Hill instructed Cen-Tex employees to tell anyone who called, including Board members, that she was on vacation until the end of January 2002, and then would be on an extended leave of absence. After Hill left, she communicated to employees through Sandy Scott. Employee meeting notes from different sources support these instructions from Hill.

During an interview with Hill she was questioned as to why she was paid out of the general account for some bonuses and the payroll account on other occasions. Hill stated that she thought she could decide how she would be paid. She stated that she did not do this in order to avoid paying payroll taxes.

Vacation Pay

The employee handbook states that *"a maximum of 80 hours of vacation time may be carried over from year to year. Vacation in excess of 80 hours must be taken, or it will be lost at the end of the calendar year. Accrued but unused vacation in excess of 80 hours will not be paid upon termination of employment for any reason."*

Hill received a payment for vacation hours over the 80 per year allowed by the employee handbook. Hill was paid for a total of 750 vacation hours during her last 3 months of her employment, of which 634 hours (b)(6) were paid in excess of the 80 hours of vacation time allowed by Cen-Tex policy. This does not include a January 1997 payment for 225 vacation hours (b)(6) received by Hill. Meeting minutes in 1996 and 1997 did not indicate that the Board discussed or approved any vacation payments, although a vacation-hour carryover was approved a year earlier, in January 1996. While Board member Hodges and Wright signed this check, Board minutes did not indicate any discussion or approval of this payment.

Documents reflected that the agenda for the October 31, 2001 Board meeting, listed accrued vacation pay as an item. At that board meeting, Hill requested that her leave, along with the leave of Sandy Scott, Mary Garcia-Todd, and Rebecca Werchan (two managers), be paid.

Interviews with Scott, Todd, and Werchan indicate that they did not request for this leave to be paid. In addition, Todd stated that she was saving her leave to use later and she did not want to be paid for her leave. Hill just handed each of them a check and stated it was for their vacation accrued over 80 hours. Hill was paid for 432 hours initially, Scott 60 hours, Todd 76 hours, and Werchan 8 hours.

The unsigned typed minutes indicate that the accrual vacation pay was approved with Board member Ken Blaschke abstaining from the motion. A check dated November 1, 2001 in the amount of (b)(6) was issued to Hill for 432 hours of vacation pay.

An interview with Board member Ken Blaschke indicates that he was against paying this amount of leave for Hill since it was such a large amount. He told Hill that she should just take the leave. Blaske felt the Board members who were close to Hill, Hodges and Wright, wanted to help her out. During an interview with Hill, she stated that she requested to take a few months off and the Board decided to pay her for her leave instead.

Interviews of Board members and reviews of Board meeting minutes indicate that Hill never requested leave, only having her leave paid. Records indicate that Hill's payment also included an out of schedule payroll check in the amount of (b)(6). None of the others who had their leave paid received an additional payroll check. Interviews indicate that Board members were not aware that leave was paid other than this initial request.

On December 31, 2001, Williams issued a check to Hill in the amount of (b)(6) based on what Hill instructed her to do. The following day, Williams found the check voided and a new check issued in the amount of (b)(6). Hill had reissued the check and changed the amount of taxes taken out. Fewer taxes were taken out of the second check, which was cut by Hill. According to Williams, Hill would have had to manually change the taxes to make this change in the payroll system.

There were no Board minutes to support this payment. The 176 hours of accrued vacation were not in the system. The investigation revealed that these hours were added by Hill to retroactively increase booked accruals one hour per pay period for 176 pay periods. A memo from the payroll clerk, Sue Williams, to Hill states that vacation accruals increased to 12 hours per month "per the Board." There are no Board minutes to support this increase. The adjustment was issued based on information provided to Williams from Hill. According to Williams, Hill showed her a document and then calculated this amount. Hill instructed Williams to cut a check for this amount.

On January 10, 2002, a check was cut by Hill in the amount of (b)(6) or payment of 142 hours of accrued leave. No documentation or Board approval was found to support this payment of accrued leave. This check was cut by Hill upon her return to the Cen-Tex office after Hill had begun working in Washington, D.C.

During the interview with Hill she stated that from December 18, 2001 through January 6, 2002, she was rarely in the office and was mainly doing personal things to prepare for her move to Washington. During this time period she did not submit any leave requests.

OAS and OI vacation accrual work papers can be found at Exhibits 43 and 44. Supporting documentation can be found at Exhibits 45 through 53.

Extra payroll checks

In November 2001, Hill received two out-of-schedule payroll checks. On November 1, 2001, Hill was paid for 432 hours of vacation hours. With this leave accrual pay, an additional out-of-schedule payroll of \$1,000.00 was included with this check. At that time, three other Cen-Tex employees were paid for their leave exceeding 80 hours. Hill was the only employee to receive this additional payroll with accrued leave payment. An interview with Sue Williams, the payroll clerk, indicates that Hill cut these payroll checks. According to Williams, Hill would have had to manually put in the amount paid. Hill and Williams were the only Cen-Tex employees who cut checks.

On November 15, 2001, Hill received a payroll adjustment in the amount of \$2,544.48. This adjustment is unexplained and there is no support for this additional pay.

Williams and Hill were the only ones who cut checks for Cen-Tex during that time period. Hill had authority to sign checks under \$1,000.00 with only her signature. Checks over \$1,000.00 needed the signatures of Board members Jewell Hodges and/or Clinton Wright. Interviews with these Board members indicate that if a check had a purchase requisition signed by Hill, they would typically sign the check without question.

The additional payroll adjustment can be found at Exhibit 50. The additional out-of-schedule payroll added to the accrued vacation pay can be found at Exhibit 49.

Purchase Requisitions without Proper Documentation

OMB Circular A-122 states that to be allowable under an award, costs must, "be adequately documented."

The Cen-Tex Procedures Manual stated "routine...purchases must have prior approval from the Executive Director or her designee... and non-routine purchases of supplies, equipment, or services may only be made with Executive Director approval." The revised Policies and Procedures Manual, effective October 31, 2001, stated, "The Executive Director provides final approval of all requisitions."

The Cen-Tex Procedures Manual also stated that purchase orders, invoices, and supporting documentation would be submitted to the Executive Director for payment and check signing. A second signature is obtained from a designated Board member when appropriate.

Board minutes dated April 12, 2000, give Hill sole check signing authority on checks less than \$1,000.00. All checks over \$1,000.00 must have a second signature of an appropriate Board member.

Interviews of Board members indicate that little oversight was used on signing checks. If a purchase requisition was signed by Hill, the Board members would often sign without reviewing it closely. In many instances, the Board did not exercise their fiduciary duty to properly monitor Cen-Tex. Board member interviews can be found at Exhibits 10-14.

During fiscal year 2001, Hill submitted several non-payroll Purchase Requisitions. Cen-Tex issued 40 checks to Hill during that fiscal year for \$36,606.65. Of this amount, \$27,770.85 had

inadequate or no support. This includes payment for two bonuses without supporting documentation. (See OAS work paper at Exhibit 54)

After starting her job with Health and Human Services on January 6, 2002, Hill returned to the Cen-Tex office over the following weekend. On Friday, January 11, 2002, Hill signed purchase requisitions and cut checks to herself for a bonus (\$7,155.00) and for "Expenses" of \$500.00. There is no supporting documentation for either purchase requisition.

Board members Jewell Hodges and Clinton Wright signed these checks; however, at that time they were unaware that Hill had accepted and started the job in Washington, D.C. Hill never submitted a letter of resignation and did not notify the Board that she had accepted the position as Associate Commissioner of Head Start. At the time that Board members Hodges and Wright signed these checks they did not know that Hill was no longer working for Cen-Tex.

From February 2001 through December 2001 Hill submitted purchase requisitions for the payment of her cell phone usage. For these 10 months, Hill's cell phone bill was \$4,050.00, which averages \$405.00 per month. Support documentation for these payments appears to be inadequate.

An OAS work paper for Hill's non-payroll Purchase Requisitions for FYE January 31, 2001 can be found at Exhibit 54.

The purchase requisition and check for "Expenses" dated January 11, 2002 can be found at Exhibit 57. The purchase requisition and check for the bonus dated January 11, 2002 can be found at Exhibits 40 and 41. The OAS schedule of cell phone payments work paper can be found at Exhibit 55.

Tax Issues

The IRS requires that individual taxpayers report all income. This includes wages and bonuses. The Form 4582 instructions state if the employer doesn't issue a W-2 for the bonus, the employee should complete the Form 4852 (Substitute for Form W-2, Wage and Tax Statement). The amount of the bonus should be reported on line 7 (wages, salaries, tips, etc.) of the Form 1040. Taxpayers or their representatives complete Form 4852 when their employer gives them an incorrect Form W-2 or an incorrect Form 1099-R. This form is also used when the employer or payer does not give the taxpayer a Form W-2 or Form 1099-R. This form serves as a substitute for Form W-2, W-2c, or 1099-R.

The IRS also requires that employers report wages, vacation allowances and bonuses paid to employees. Specifically, IRS Publication 15 states: "Wages subject to Federal employment taxes include all pay that you give an employee for services performed. The pay may be in cash or in other forms. It includes salaries, vacation allowances, bonuses, commissions and fringe benefits." The Form W-2 instructions require the employer to report, "Total wages, bonuses, prizes, and awards paid to employees during the year," in box 1 of the W-2.

The Cen-Tex Handbook states, "Income tax is deducted from employees' pay as required by federal law. Social Security and Medicare taxes are also deducted from pay in an amount determined by federal law."

Based on records reviewed on-site, no documents were found to reflect that Hill was issued a

W-2 or 1099 for her FY 1999 bonus in the amount of b6

For FY 2000, Hill was paid a \$7,170.38 bonus. After Hill left Cen-Tex, an outside auditor determined that taxes were not paid on this bonus. At that time, Hill was issued a corrected Form W-2.

For FY 2001 bonus, Hill was paid a \$7,155.00 bonus on January 11, 2002. Cen-Tex did not discover Hill had received this bonus until an outside auditor determined taxes had not been paid. Hill was later issued a Form 1099, since this check had been cut from the general account and not the payroll account. The interview with Hill disclosed that she felt she could choose from which account she could be paid.

Hill was reimbursed for 176 hours of accrued leave on December 31, 2001 in the amount of b6 (check cleared in 2002). Cen-Tex was not aware that Hill had been paid for this leave. A corrected W-2 was issued for the 176 hours after the outside auditor discovered this.

Hill provided unsigned copies of her amended tax returns for 2001 and 2002. These were not complete returns. The check paid to the IRS indicates that these returns were not amended until May 2004. According to documentation provided by the current Executive Director, Mary Todd, a corrected Form W-2 was sent to Hill on January 10, 2003 for 2001. This included the \$7,170.38 bonus and b6(6) accrued vacation payment.

For 2001, an increase in adjusted gross income of \$4,294.00 was shown on Hill's amended return. It consisted of b6 or the 2000 performance bonus, in addition to b6 or the 176 hour retroactive vacation payment. The amended W-2 was increased by \$ b6. Records indicate that this was offset by b6 or additional rental property expenses and depreciation reported.

For 2002, Hill's amended return consisted of an additional b6 or the 2001 performance bonus. Records indicate that this was offset by \$7,422.00 for "additional expenses on rental property previously overlooked."

Copies of Hill's Form 278 Financial Disclosure Reports were obtained. Hill's report signed on November 29, 2001 does not report rental income of any kind. Rental income is not reported on Hill's Financial Disclosure Report until June 27, 2004, which would be for the prior year 2003. Fred Rogers, former Cen-Tex financial consultant, completed Hill's amended returns.

Documents provided by Hill can be found at Exhibit 3. Hill's financial disclosure forms and tax returns can be found at Exhibits 82 and 83.

Contracts

Title 45 CFR 74 requires free and open competition to the maximum extent practical, for all contracts. Without competitive procedures, Cen-Tex had less assurance of receiving the best prices possible.

OMB Circular A-122 requires, as a basic principle of cost allowability, proper documentation of costs. The Circular also requires adequate contractual agreements with consultants, including description of service, estimate of time required, rate of compensation, and termination provisions.

Cen-Tex policies, enacted in October 2001, required three formal bids for purchases costing \$5,000.00 to \$24,999.00. Accounting personnel were to attach the bids and justification for selection to the purchase requisition.

Just prior to Hill leaving Cen-Tex, she secured contracts with Fred Rogers, Terrie Jackson, George Smith, Livvy Wilson, and Speedy Delivery. Review of records indicate that Hill did not follow required competitive bidding procedures and did not have adequate contract agreements such as termination clauses or clear contract requirements.

See OAS work papers located at Exhibits 63 and 64.

Fred Rogers, former CPA for Cen-Tex, provided annual audits and fiscal support to Cen-Tex during Hill's tenure. Rogers contract paid him \$2,500.00 per month, which was an increase of \$18,000.00 from the prior year. No documentation supporting this increase was found. At the time Hill issued Rogers new contract, Rogers was appealing the suspension of his certificate to practice public accountancy for issues related to his prior work for another Head Start program located in Houston, Texas.

According to Texas State Board of Public Accountancy, Rogers had his CPA certificate suspended for a period of 2 years due to issues dealing with Gulf Coast Community Services Association, a Head Start program in Houston, Texas.

Because of his suspension, Rogers would be unable to perform the annual audit for Cen-Tex. Terrie Jackson, was contracted by Hill to perform the annual audits. Jackson shares a billing address with Rogers in Houston, Texas. Jackson and Rogers are now suing Cen-Tex after Cen-Tex re-bid all contracts in order to comply with regulations.

Rogers provided very limited work papers after being served a subpoena for Cen-Tex records. Rogers stated that he shredded all work papers as he was not required to keep them. During an interview of Rogers, he stated that he maintained all records in a house in Louisiana. After a subpoena for records was served, however, Rogers claimed the documents had been shredded. Rogers was unable to adequately explain a \$900,000.00 decrease in fixed assets for Cen-Tex from 2000 to 2001.

According to interviews, Rogers would not provide work papers to Cen-Tex for the 2001 audit. In 2001, Rogers was paid \$67,700.00 and Cen-Tex cannot find any work papers, or other documents to support these payments. Cen-Tex had clean annual audits when Rogers performed the annual audits for Cen-Tex. After Hill left, a new audit firm was brought in to perform annual audits which exposed several areas of concern.

In April or May 2002, Hill's current office (ACF) requested that Rogers assist her in an on-site review of a Head Start program in Nevada. Rogers, along with Hill, went with a review team to review a Head Start program with problems. Terrie Jackson was also present at this review. Typically, reviewers are randomly selected; however, they can be specifically requested due to experience. Jackson and Rogers were requested by Hill's office to participate in the onsite review with Hill. *Documentation for this request can be found at Exhibit 75.*

Cen-Tex employees questioned the contractors hired by Hill. George Smith was a mental health consultant from Chicago, Illinois. Hill would fly Smith to Bastrop, Texas several times a year

and pay for his flight, hotel, rental car, and daily fee of \$500.00. Cen-Tex employees questioned why someone just as competent couldn't be found in the nearby Austin, Texas area.

OAS work papers for contracts are located at Exhibit 63 and 64. Supporting documents are located at Exhibits 71 through 79.

Contract with Family Member

Title 45 CFR 74 requires all procurement transactions to be conducted in a manner that provides free and open competition, to the maximum extent practical. Recipients of Federal funds are to avoid the appearance of conflicts of interest—no employee may participate in the selection, award or administration of a contract if a real or apparent conflict of interest is involved. A conflict would arise if an employee, or any member of their immediate family has a financial or other interest in the firm selected for award

The investigation disclosed that Speedy Delivery provided general maintenance, lawn services, and vehicle washing and maintenance for Cen-Tex. Speedy Delivery is owned and operated by Robie and Charles Brown, Hill's sister and brother-in-law. The Browns were interviewed. According the Browns, services were requested by Hill and the amount to be paid was determined jointly by the Browns and Hill. According to Robie Brown, they worked only on weekends.

During Hill's interview with this agent, she was specifically asked if her sister, Robie Brown, was involved in any way with Speedy Delivery. Hill indicated that Charles Brown was in charge of Speedy Delivery and that Robie may have helped him out occasionally. Hill stated that Sandy Scott supervised Brown and that she (Hill) was not involved in any capacity. Interviews with the Browns appear to contradict Hill's statements. The on-site determined that there were several checks from Cen-Tex signed solely by Hill made out to Robie Brown and/or Speedy Delivery. Robie Brown signed a majority of the invoices submitted for services.

In addition, evidence shows that Hill gave her sister access to the Cen-Tex credit cards for purchase and maintenance purposes. According to an interview with the Board Chair, they were not aware that Speedy Delivery was owned by relatives of Hill. Hill was the sole signature on a majority of the checks to Speedy Delivery and Robie Brown.

According to Cen-Tex records, Macy Scott was paid \$2,500.00 for the removal of three trees. Checks were cut on June 27, 2001 and July 10, 2001 in the amount of \$600.00 and \$1,900.00. Initially, when interviewed Scott stated that he cut down one tree for Cen-Tex and did some landscaping. He amended his statement to reflect that the payment was for the removal of two trees and lawn maintenance after he was advised that records showed the bills were for the removal of more than one tree. According to Scott, the two trees were removed at the LaGrange Center and the landscaping was done at the Smithville Center. Scott is the nephew of former Cen-Tex employee Sandy Scott.

Sandy Scott signed as requester for the two purchase requisitions. Hill signed as Executive Director on the purchase requisitions and also signed checks to Macy Scott. A memo from Macy Scott to Hill is dated June 27, 2001. Comments to Hill state "Here is the information you requested."

OAS work paper identifying payments to Speedy Delivery is located at Exhibit 65. Supporting documents for Speedy Delivery are located at Exhibits 66 through 70. Supporting documents for Macy Scott are located at Exhibits 80 and 81.

b6,7c

Summer Hires

Records reflect that during the year ending January 31, 2002, Cen-Tex paid \$5,451.00 to children ranging from ages 10 to 16 years old. According to the Fair Labor Standards Act, 14 is the minimum age for most non-farm workers. Three children were under the age of 14. These children were paid \$8.55 per hour, which is the same rate Cen-Tex paid teacher's assistants. Cen-Tex paid teachers \$9.61 per hour.

The investigation uncovered that Hill hired children of family members and friends as summer hires for Cen-Tex. Hill's [redacted] worked for Cen-Tex. Sandy Scott supervised the children. Interviews of Cen-Tex employees indicate that Scott is very close to Hill. Scott was part of a takeover Board directed by Hill after her (Hill's) departure from Cen-Tex.

[redacted] were also hired by Cen-Tex as summer hires. Interviews have determined that Hill decided the hourly rate to pay the summer hires. Scott would have been supervising [redacted] Some of these minors received over \$600.00 in the calendar year but were not issued 1099's. Several checks were signed by Hill without proper documentation to support payment.

Windy Hill

On June 2, 2004, Special Agent [REDACTED] and OAS auditors [REDACTED] interviewed Windy Hill. Hill provided the following information during the interview:

- Hill was the Executive Director of Cen-Tex , a Head Start Grantee located in Bastrop, Texas, from 1993 until January 6, 2002.
- From December 10th through the 19th of 2001, Hill spoke with all of the Cen-Tex Board members except one to tell them that she was accepting the appointment of Associate Commissioner position for Head Start in Washington, D.C.
- From December 18, 2001 through January 6, 2002, she was rarely in the Cen-Tex office. She was mainly doing personal things to prepare for her move to Washington, D.C.
- Hill did not direct or participate in the draw down of funds that occurred between January 8, 2002 and January 29, 2002.
- In October 2001, Hill submitted a leave request to the Board for approximately 2 ½ months of annual leave or payment for the accrued leave. The Board decided they could not afford to have her away from Cen-Tex that long, so they decided to pay for her annual leave.
- Hill's bonuses were paid through accounts payable instead of the payroll account because Hill preferred to get paid in a lump sum and be issued a Form 1099. Hill felt this was an individual preference she could choose.
- Hill's brother-in-law, Charles Brown, did provide car-detailing services for Cen-Tex in program year 2002. Brown contracted his services and was not an employee of Cen-Tex. Sandy Scott supervised Brown and Hill was not involved in any capacity. Hill is not sure how much Brown was paid for his services.
- Hill's sister, Robie Brown, did not work for Cen-Tex. Robie Brown may have helped her husband, Charles Brown, with washing cars. Hill's daughter worked one summer for Cen-Tex and was not supervised by Hill. Sandy Scott supervised the summer hires.
- Hill set up new contracts with vendors prior to her departure.

The Report of Interview for Windy Hill is located at Exhibit 1 and a copy of her response to initial allegations is located at Exhibit 2.

Allegation 1. "[Windy] Hill also was in charge when HHS rules were broken by improperly drawing down and depositing \$140,115 in federal funds that Cen-Tex was not legally entitled to receive and later was ordered to return."

Facts

- My Service Computation Date as Associate Commissioner for the Head Start Bureau was January 6, 2002 and I took no leave (annual or sick) during the period of time in question. (See Exhibit A)

In January 2002, I was not responsible for the draw down of federal funds at Cen-Tex Family Services, Inc. (Cen-Tex). The current Executive Director of Cen-Tex was responsible for the draw down of federal funds and the Fiscal Officer was responsible for the disbursement of account payables, which occurred at the end of the Cen-Tex grant year [January 31, 2002]. (See Exhibits B and O, p.18)

- In a letter dated March 1, 2004 to the United States Department of Health and Human Services Departmental Appeals Board, the current Cen-Tex Family Services, Inc. Executive Director Mary Garcia-Todd, states,

The alleged question cost was not a disallowed cost. The finding in question relates to the fact that Cen-Tex drew down, from the PMS system, all funds remaining at the end of the grant year [Cen-Tex's grant year end is January 31.]. (See Exhibit C)

- For the month of January 2002, Cen-Tex drew down grant funds totaling \$371,498.69. The draw down of excess grant funds by Cen-Tex took place on January 17 and January 29, 2002. (See Exhibits D and S)
- \$127,600.20 of the January 2002 excess draw downs was moved from the General Fund to a separate account, "Building Account" No. 0179515, on May 15, 2002 (\$27,600.20) and June 4, 2002 (\$100,000) by the current Executive Director. (See Exhibits E and F)
- The Regional Office VI approved the reprogramming of \$140,115 in excess draw downs of grant funds and authorized the use of these funds for allowable costs for the year ending January 31, 2003. (See Exhibits C and G)

Response

I, Windy Hill, did not direct or participate in the draw down and deposit of \$140,115 in Federal grant funds. Documentation to support this fact was available on file at the Cen-Tex Family Services, Inc. at the time of preparation of the Cen-Tex Family Services, Inc. Financial Statements and Independent Auditors' Report January 31, 2002

Allegation 2. "Thousands of dollars in unauthorized pay. [Windy] Hill was awarded "three large bonuses...during a year and a half period," with no justification to indicate the basis for the "bonus" and no employment policy that provided for bonuses in the first place.

Facts

- The Cen-Tex Family Services, Inc. Personnel Policies & Employee Handbook July 2001 on incentive compensation (p.5) stated that,

Incentive compensation of up to 10 percent per year may be authorized for employees based on cost reduction, or efficient performance, suggestion awards, etc. (OMB Circular A-122)...Recommendations for incentive compensation must be written and include substantiation of efficient performance. (See Exhibit H)

- After my annual performance evaluation and based on a written request from me to the Board Chair, the Cen-Tex Board approved and authorized a performance incentive award for my "effective and efficient performance" in 2000 on March 17, 2001. (See Exhibit I) The check payment of the incentive award authorized by the Board was signed by Board Secretary, Ruby Buie, and Board Chair, Clinton M. Wright, was drawn from the General Fund Account. (See Exhibit J)
- After my annual performance evaluation and based on a written request from me to the Board Chair, the Cen-Tex Board approved and authorized a performance incentive award for my "effective and efficient performance" in 2001 on November 28, 2001. The check payment of the incentive award authorized by the Board was signed by the Board Treasurer, Jewell Hodges, and Board Chair, Clinton M. Wright, was drawn from the General Fund Account and was paid as part of my final compensation. (See Exhibit K)

Response

I, Windy Hill, did not receive any unauthorized pay. I did receive annual performance incentive awards based on Cen-Tex personnel policies and the approval of and authorization by the Cen-Tex Board of Directors.

Allegation 3. "More significantly, the review found and the outside audit confirmed that these bonuses where made through Cen-Tex's accounts payable system so that "the funds were not taxed nor reported to the IRS as income for the employee [Hill] nor included in the employee's W-2 form as income."

Facts

- The Board of Directors approved and authorized incentive compensation for 2000 in the amount of \$7,170.38 and for 2001 in the amount of \$7,155 which were paid through the Cen-Tex accounts payable system. (See Exhibit J and K)
- Cen-Tex management, consistent with the Department of Treasury Internal Revenue Service (IRS) requirements, reported the payment of each incentive award and those funds were taxed. (See Exhibits L, M and N)

Response

The reporting of wages, tips and other compensation, whether on Form W-2 or Form 1099-MISC for tax year 2001 and 2002, was the responsibility of the Acting Executive Director and Fiscal Officer. I had no responsibility following my departure from Cen-Tex for directing or participating in IRS reporting.

Allegation 4. "The federal government has required Cen-Tex to pay back taxes and penalties out of non-federal funds and pay back the amount of the bonuses to the federal government."

Facts

- The Cen-Tex Family Services, Inc. Financial Statements and Independent Auditors' Report for the year ending January 31, 2002 did not identify any questioned costs in the findings for the HHS program Head Start (93.600) (See Exhibit O).
- The Administration for Children and Families (ACF) Regional Office VI conducted a desk review of Cen-Tex Family Services, Inc. Financial Statements and Independent Auditors' Report for the year ending January 31, 2002. The Regional Grants Officer for Regional Office VI affirmed in writing that,

Based on discussion with the auditor [Lockart, Atchley & Associates, L.L.P.], the questioned costs for unallowable expenditures equaled the refundable advances—Head Start on p.3 less interest income reported on p.10)(\$140,115). (See Exhibit P)

- Subsequent correspondence by the Regional Grants Office for Regional Office VI documents that Cen-Tex submitted and the Regional Office VI received and reviewed additional documentation which documented Cen-Tex had received authorization to "reprogram this amount [\$140,115]" and the alleged disallowance reversed (See Exhibit G).

Response

There is no evidence to substantiate this allegation. Cen-Tex was not required to pay back the amount of the bonuses to the federal government.

Allegation 5. "Thousands of dollars in unauthorized vacation time. Upon leaving Cen-Tex to take her job at the Head Start Bureau, Hill had Cen-Tex pay her 634 hours of accrued leave—nearly four months—even though Cen-Tex had a "use it or lose it" policy—a policy she was responsible for enforcing, that allowed for the accumulation of no more than 80 hours of leave and had no policy for "buying out" leave. Moreover, Cen-Tex never budgeted for the funds used to pay for this buyout so the funds undoubtedly came out of the program services. The federal government has asked that the cost of this improper vacation time buyout to be quantified and the funds returned to the federal government."

Facts

- My accrual of vacation was authorized, reported regularly to my immediate supervisor, the Board Chair and Treasurer, through bi-weekly payroll information and is documented and reported as "Accrued salaries" under Cen-Tex's Statements of Financial Position in the audit report for the period ending January 31, 2001. (See Exhibits Q and R)
- While an employee of Cen-Tex, on October 31, 2001, I requested Board of Directors approval for two months of vacation or payment for 432 hours of accrued vacation. The Board of Directors approved my request for payment in lieu of leave for 432 hours of earned vacation time. (See Exhibit T)

Response

The Cen-Tex Board of Directors deemed it in the best interest of the organization to buyout 432 hours of accrued vacation time instead of approving 432 hours of vacation time off. The Board of Directors were allowed by the 2001 Cen-Tex personnel policies to pay for accrued leave, and exercised its authority to approve and pay for my accumulated accrued leave. Further, I was paid for 432 hours of accrued leave while still an employee of Cen-Tex.

Allegation 6. "Nepotism and payment of undocumented "expenses." Numerous procurement irregularities were noted in the federal review of Hill's operation, including failure to conduct open competitions and failure to "follow the procedures prohibiting nepotism." An outside audit report confirms that Hill paid vendors "out of pocket" and made the agency reimburse her for those payments. The report further stated that some of the reimbursement checks "were issued with no authorization." The federal government has asked Cen-Tex to quantify the amount of the impermissible expense payments and to return the funds to the federal government."

Facts

The "Nepotism and Conflict of Interest" policy under Cen-Tex Family Services, Inc. Personnel Policies and Employee Handbook 2001 states,

No employee may hold a job with Cen-Tex while he or she or a member of his or her immediate family (as defined below) serves on the Cen-Tex Board of Directors or Head Start Policy Council.

No employee may hold a job over which a member of his or her immediate family exercises supervisory authority.

Immediate family for purposes of this provision is defined to include: husband, son, brother, father, daughter, mother, sister, wife, mother- or father-in-law, son- or daughter-in-law. (See Exhibit H)

All Staff Personnel were hired in compliance with Cen-Tex Family Services, Inc. Personnel Policies and Employee Handbook 2001 and no member of my immediate family was employed by Cen-Tex during my tenure.

b6 I worked during the summer of program year 2002, collated and assembled materials for distribution for parents but was not supervised by me. Other children including children of agency staff were also paid for similar services.

b6 My brother-in-law washed the agency's cars as a service in program year 2002 and was supervised by Sandy Scott.

During my tenure, the expenditures of grant funds were based on the actual weekly and bi-weekly accounts payable needs.

During my tenure, agency did not have any credit cards or petty cash for the urgent or emergency purchase of services. When necessary to support program services, I paid some unexpected expenses out-of-pocket and sought reimbursement from the agency. At the time payment was authorized, documentation was attached to each request.

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF INVESTIGATIONS
REPORT OF INTERVIEW**

Windy Hill was interviewed on June 2, 2004 by Special Agent [REDACTED] b6 b7c. Also present at the interview were auditors [REDACTED] of the Office of Investigations/Office of Audit Services. After being advised of the nature of the interview and the identity of the auditors and Special Agent, Windy Hill provided the following information, in substance:

Hill is currently the Associate Commissioner of the Federal Head Start Program for the Department of Health and Human Services. She was the Executive Director of Cen-Tex Family Services Inc. (Cen-Tex), a Head Start Grantee located in Bastrop, Texas, from 1993 until January 6, 2002. She began her current position as Associate Commissioner on January 6, 2002.

From December 10th through the 19th of 2001, Hill spoke with all of the Cen-Tex Board members except one to tell them that she was accepting the appointment of the Associate Commissioner position for Head Start in Washington, D.C. Ken Blaschke was not available and was the only Board member she did not discuss her new position with.

Hill provided a list of Board members as of December 31, 2001. Members include Clinton Wright, Jewel Hodges, Cheryl Schmidt, Harvey Steward, Ken Blaschke, Debra Dunagan, and Rubie Buie. Wright, one of the original Board members, was the Chairperson for the Board. Hodges was the Vice-Chairperson and Treasurer. Debra Dunagan was a parent member of the Board. Dunagan was the Policy Council Chairman with voting rights on the Board.

On December 10, 2001, Hill met with the Head Start Regional office staff in Dallas, Texas, to talk about the direction of Cen-Tex. Sandy Scott attended the meeting with Hill. Scott is a staff member and was part of the transition team. At that time, part of the budget was \$100,000 for the purchase of a building in Cedar Creek, near Dallas, Texas. Also in the budget was \$65,000 for an employee pension plan. These plans were discussed at the meeting at the regional office in Dallas.

b6

Hill stated that from December 18, 2001 through January 6, 2002, she was rarely in the Cen-Tex office. She was mainly doing personal things to prepare for her move to Washington. This included getting her daughter enrolled in a new high school.

b6 b7c

Interview Conducted on	June 2, 2004	At	330 C Street, SW Washington, DC 20447
By	[REDACTED]	SA Phone Number	[REDACTED]
Date Prepared	June 9, 2004	By	[REDACTED]
		Case Number	004000959

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Hill stated that she was not responsible for the draw down of federal funds at Cen-Tex. According to Hill, the draw downs occurred between January 8th and January 29th of 2002. At this time, she was no longer acting in the capacity of Executive Director and had nothing to do with the drawdowns. The current Executive Director of Cen-Tex, Mary Garcia-Todd was responsible for the draw down of these funds. According to a letter provided by Hill to this agent, Todd stated that the alleged questioned cost was not a disallowed cost.

During the month of January 2002, Cen-Tex drew down \$371,498.69. Part of this budget included funds for the building and pension plan mentioned above. This was "on the table" when Hill left her position at Cen-Tex. In January 2002, the current Executive Director, Mary Todd, moved \$127,600.20 of the excess draw down from the General Fund to a separate account. This money was received for specific intentions and was spent on on-going activities. The Head Start Regional Office had approved the reprogramming of \$140,115 in excess draw downs of grant funds and authorized the use of these funds for allowable costs for the year ending January 31, 2003.

After Hill left Cen-Tex, the Board requested that the Dallas Regional Office conduct an investigation. A "trip report" was issued by Dorothy Ferguson of the Dallas office, which addresses most of the allegations now under scrutiny.

Hill received performance incentive awards annually from 1997 until her departure in January 2002. Awards started at 10 percent and went up to 13 percent. Although the policy handbook states that incentive compensation is up to 10 percent per year, the Board does have discretion to make changes if they see fit.

Hill stated that according to the Personnel Policies and Employee Handbook, incentive compensation of up to 10 percent per year can be authorized for employees based on cost reduction, or efficient performance, suggestion awards, etc. After receiving a favorable performance appraisal, Hill provided a written request for a performance incentive award to the Board Chairperson, Clinton Wright.

The Board of Directors for Cen-Tex met four times annually. At this time, bonuses were approved. Minutes for these meetings are kept and should be located at the Cen-Tex office.

On March 17, 2001, Hill submitted a memorandum to the Board for a performance enhancement incentive award. This was submitted for the 2000 federal performance review. Hill received a bonus in March of 2001 for the previous year in the amount of \$6,000. The check was dated April 24, 2001 and was signed by Board members Ruby Buie and Clinton Wright.

According to minutes provided by Hill of the March 17th meeting, Board attendees for this meeting were Clinton Wright, Jewell Hodges, Ruby Buie, Harvey Steward, and Sandra Green. These minutes were signed and submitted by Windy Hill. Hill verified that this was her signature but did not think she would have signed the Board of Directors meeting minutes.

Documents provided by Hill include a purchase requisition form dated January 11, 2002. Hill initialed as the requestor and supervisor approval was signed by Board member Clinton Wright. Fiscal approval was dated January 13, 2002. This documents states the total check amount of *bb* with a description of "bonus/transition, 13% of salary."

Hill took very little leave during her employment at Cen-Tex due to work demands. She often worked weekends. If she had errands or appointments during the day, she did not submit a leave slip to the Board. Hill would just make up the time afterwards. She would submit a leave slip if she was going to be out of the office more than a few days. She recalls submitting a leave slip for a week when she went on vacation to Florida. The payroll system used at Cen-Tex is TCS accounting software.

According to Hill, she accrued six hours of annual leave every two weeks. Employee payroll records provided by Hill, indicate that in 2001 she was earning five hours of annual leave per pay period. The employee handbook allowed for only 80 hours of leave to be carried over annually.

In October 2001, Hill submitted a leave request to the Board for approximately two and a half months of annual leave or payment for the accrued leave. The Board decided that they could not afford to have her away from Cen-Tex that long, so they decided to pay for her annual leave. Hill stated that she requested the leave prior to knowing about the Associate Commissioner of the Federal Head Start Program position.

As of November 2, 2001, Hill had 547 hours of annual leave. The following pay period, her leave balance was at 120 hours. On November 1st, she was paid *(b)(6)* check for 432 hours of annual leave. Board members Jewell Hodges and Clinton Wright signed this check. Hill also received a check dated January 10, 2002 in the amount of *(b)(6)* which Hill stated, would have been for the remainder of her annual leave. Hill thought it was for approximately 136 hours of leave, which was her balance as of December 31, 2001.

According to Hill, Sandy Scott, Becky Werchan, and current Executive Director Maria Garcia-Todd were also compensated for annual leave exceeding the 80-hour limitation.

Bonuses were paid through accounts payable because Hill preferred to get paid in a lump sum and be issued a Form 1099. No employee taxes were taken out of these bonuses. Hill felt this was an individual preference she could choose.

A letter provided by Hill dated January 10, 2003 from current Executive Director Mary Garcia-Todd provides a copy of a Form W-2C, Corrected Wage and Tax Statement for 2002. This letter states that during an audit it was determined that two payments made to Hill during 2001 were not properly included in the original Form W-2. The W-2 was increased by \$ *(b)(6)*

Hill filed an amended tax return for calendar year 2002. The tax return provided by Hill was dated May 10, 2004. Fred Rogers, of Kolheim, Rogers & Taylor in Houston, signed as the tax return preparer.

Cen-Tex did not keep a credit card or petty cash account for payment to vendors for maintenance. Vendors were paid by cash through the accounts payable system. A receipt would be provided to the Treasurer, Jewell Hodges, for payment. Hodges would not sign a purchase requisition or a check without a receipt. Services included lawn service, car washing, and general property maintenance. A Cen-Tex credit card was available for office supplies and materials.

Hill's brother-in-law, Charles Brown, did provide car-detailing services for Cen-Tex in program year 2002. Brown contracted his services and was not an employee of Cen-Tex. Hill stated that it was well known in the community that Brown was working for Cen-Tex. Sandy Scott supervised Brown and Hill was not involved in any capacity. Hill is not sure how much Brown was paid for his services.

Hill's sister, Robie Brown, did not work for Cen-Tex. Robie Brown may have helped her husband, Charles Brown, with washing cars. [redacted] b6 [redacted] worked one summer for Cen-Tex and was not supervised by Hill. Other employee's children also occasionally worked for Cen-Tex when needed. [redacted] b6 [redacted] each worked one summer for Cen-Tex. Sandy Scott supervised the summer hires for Cen-Tex.

Hill set up new contracts with vendors prior to her departure. Fred Rogers worked with Sue Williams in fiscal matters. According to tax documents received by Hill, Rogers also submitted Hill's personal taxes. Terry Jackson was to perform the annual audit of Cen-Tex. Livy Wilson worked with human resources. George Smith worked with Cen-Tex approximately four to five years. He provided mental health services for the program.

Hill was read the Federal Employee Warning Form advising her of her rights by this agent. The letter was signed by Hill and witnessed by OAS auditor [redacted] b6 [redacted] was also present.

The following information was obtained by interview of Windy Hill:

SSN: [redacted] b6 [redacted]

Phone: [redacted] b2 [redacted] b6 [redacted] c