



An Audit Report on

# On-site Financial Audits of Selected Residential Foster Care Contractors

The following providers were audited for this report:

- Covenant Kids Inc., a licensed child-placing agency.
- Bluebonnet Haven LLC, a licensed general residential operation.

Lisa R. Collier, CPA, CFE, CIDA  
State Auditor

The two residential childcare contractors (providers) audited—Covenant Kids Inc. and Bluebonnet Haven LLC—had weaknesses in their financial and cost reporting processes.

The child-placing agency audited—Covenant Kids Inc.—conducted quarterly supervisory visits at foster homes as required by the Health and Human Services Commission (Commission). However, the provider did not consistently comply with all foster home monitoring requirements.

- [Background](#) | p. 4
- [Audit Objectives](#) | p. 22

*This audit was conducted in accordance with Texas Government Code, Section 2155.1442.*

## **PRIORITY**

### **COVENANT KIDS INC. – FISCAL PROCESSES**

Covenant Kids had significant weaknesses in its cost reporting and expenditure approval processes, and it did not comply with audit and cash reserve requirements, which increases the risk that it will not operate on a sound fiscal basis.

[Chapter 1-A | p. 6](#)

## **MEDIUM**

### **COVENANT KIDS INC. – FOSTER HOME MONITORING**

Covenant Kids conducted visits with children in the care of its foster families. However, it did not consistently observe and document all the information required by the Commission's *Minimum Standards for Child-Placing Agencies*.

[Chapter 1-B | p. 12](#)

## **PRIORITY**

### **BLUEBONNET HAVEN LLC – FISCAL PROCESSES**

Bluebonnet Haven did not have adequate financial processes. Significant weaknesses were identified with Bluebonnet Haven's oversight and cost reporting of its expenditures, including related-party transactions.

[Chapter 2 | p. 15](#)

For more information about this audit, contact Audit Manager Willie Hicks or State Auditor Lisa Collier at 512-936-9500.

October 2025 | Report No. 26-002

---

## Note on Confidential Findings

---

To minimize security risks, auditors communicated details about audit findings related to certain security weaknesses in separate reports to Covenant Kids Inc. and Bluebonnet Haven LLC.

**HIGH**

The Covenant Kids Inc. finding was rated High, indicating substantial risk. Prompt action is needed to address the noted concerns and reduce risk to a more desirable level.

**MEDIUM**

The Bluebonnet Haven LLC finding was rated Medium, indicating moderate risk. Action is needed to address the noted concerns and reduce risk to a more desirable level.

The separate reports reference confidential information. Pursuant to Standard 9.61 of the U.S. Government Accountability Office's *Government Auditing Standards*, certain information was omitted from this report because that information was deemed to present potential risks related to public safety, security, or the disclosure of private or confidential data. Under the provisions of Texas Government Code, Section 552.139, the omitted information is also exempt from the requirements of the Texas Public Information Act.

---

## Summary of Management Responses

---

Auditors made recommendations to address the issues identified during this audit, provided at the end of each chapter in this report. Covenant Kids Inc. and Bluebonnet Haven LLC agreed with the findings and recommendations.

## Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objectives.

**PRIORITY**: Issues identified present risks or effects that if not addressed could ***critically affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

**HIGH**: Issues identified present risks or effects that if not addressed could ***substantially affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

**MEDIUM**: Issues identified present risks or effects that if not addressed could ***moderately affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

**LOW**: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks ***or*** effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see [Report Ratings](#) in Appendix 1.

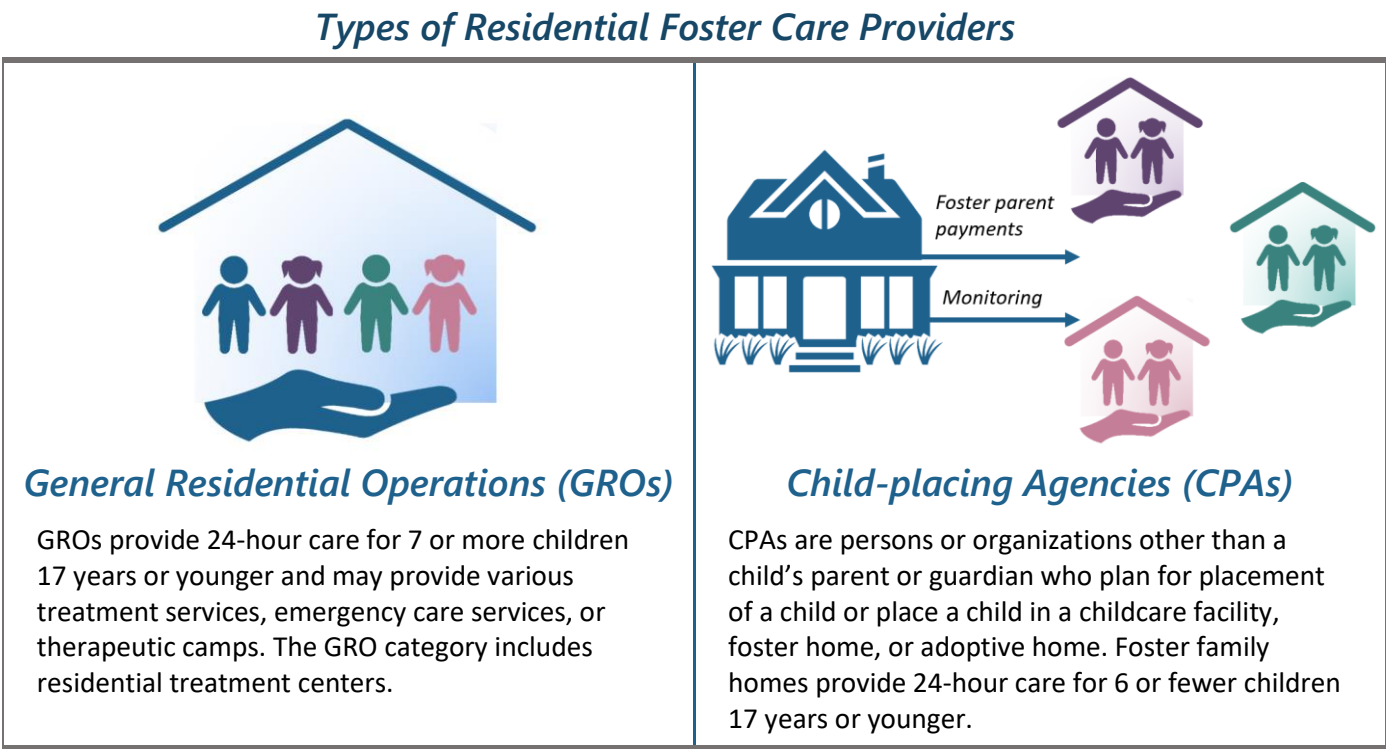
# Background Information

## Residential Foster Care Contractors

The State of Texas uses two models to oversee children in its care: (1) the community-based care model, in which the Department of Family and Protective Services (Department) has performance-based contracts with Single Source Continuum Contractors, and (2) the legacy model, in which the Department directly monitors childcare providers. This audit focused on two types of providers in the legacy model: general residential operations and child-placing agencies (see Figure 1). In fiscal year 2024, the Department contracted with 226 of these providers.

These providers support the mental and physical well-being of children placed in their care by supplying therapy, food, shelter, and clothing as needed. Providers must report associated revenues, expenses, and other required information to the Health and Human Services Commission (Commission) in annual cost reports.

Figure 1



Source: The Commission.

---

## Audit Requirements

---

Texas Government Code, Section 2155.1442(b), requires the Commission to contract with the State Auditor’s Office to perform on-site financial audits of providers that deliver foster care services for the Department as necessary. The State Auditor’s Office, in consultation with the Commission, shall select the providers to audit based on providers’ risk assessment rating, allegations of fraud or misuse of state or other contract funds, or other appropriate audit selection criteria.



**PRIORITY**

## Chapter 1-A Covenant Kids Inc. – Fiscal Processes

Covenant Kids Inc. (Covenant Kids), a licensed child-placing agency, had significant weaknesses in its financial processes, including inadequate oversight of its expenditures, as well as noncompliance with audit and cash reserve requirements and with the fiscal year 2024 cost report instructions. In addition to those weaknesses, Covenant Kids obtained cash advances during the fiscal year. Without adequate financial processes, there is an increased risk that Covenant Kids will not operate on a sound fiscal basis.

Covenant Kids had adequate controls over its information technology, including data backups and current anti-virus software. However, auditors identified certain weaknesses that were communicated in a separate report to the provider’s management.

**Covenant Kids had significant weaknesses in some financial processes.**

Covenant Kids’ financial processes included:

- Accurately recording payroll and non-payroll expenditures in its general ledger and maintaining supporting documentation for the expenses.

*Fiscal Year 2024 Summary <sup>a</sup>*

Child-placing agency permit issued in 2002

A nonprofit corporation located in Arlington, Texas, with branch locations in Plano and Waco, Texas

296 employees administering 13 Department contracts in the areas of foster care and other family-related services

60 children served as part of the Arlington child-placement contract with the Department

Total expenditures reported on cost report for all foster-care-related Department contracts: **\$11,040,384**

<sup>a</sup> From January 1, 2024, to December 31, 2024.

Sources: Covenant Kids Inc., Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

- Preparing monthly bank reconciliations. All three months of bank reconciliations<sup>1</sup> tested were appropriately completed and the applicable account balances reconciled to the general ledger.
- Creating an annual budget for fiscal year 2024 as required by the Health and Human Services Commission's (Commission) *Minimum Standards for Child-Placing Agencies (Minimum Standards)*, which are described in Texas Administrative Code, Title 26, Chapter 749. (See text box for information on the fiscal requirements for child-placing agencies.)
- Adopting administrative policies and procedures that met the Commission's *Minimum Standards* in the areas of personnel, record-keeping, information technology, and conflicts of interest.

#### Fiscal Requirements for Child-placing Agencies

The Commission's *Minimum Standards* require providers to establish and maintain their operations on a sound fiscal basis, including (1) paying employees timely; (2) paying foster parents according to established agreements; and (3) ensuring that the needs of children in the provider's care are being met. Providers must also maintain complete financial records and make available for review either (1) an annual review of financial records or (2) proof of reserve funds equal to at least three months of operating expenses.

Source: Texas Administrative Code, Title 26, Section 749.161.

In addition, Covenant Kids maintained most of the information required by the Commission's *Minimum Standards* in its personnel records for the 45 employees associated with the payroll expenditures tested, such as a job description and qualifications for the position.

However, within the financial processes tested, Covenant Kids had the following significant weaknesses.

**Insufficient Segregation of Duties.** Covenant Kids did not have adequate segregation of duties to prevent its management and executive personnel from approving payments for their own purchases. While Covenant Kids adopted a policy that established escalating levels of approval based on the dollar amount of a purchase<sup>2</sup>, that approach did not restrict management and executive personnel from approving their own purchases for payment. As a result, 8 (13

<sup>1</sup> Monthly reconciliations for five bank accounts were identified and tested. A targeted sample of monthly reconciliations for each bank account was selected for testing to gain coverage of the beginning, middle, and end of the Covenant Kids' 2024 fiscal year.

<sup>2</sup> Covenant Kids required that purchases (1) less than \$500 be approved by a manager or supervisor, (2) between \$500 and \$1,000 be approved by a director, (3) greater than \$1,000 be approved by executive management.

percent) of 62 non-payroll expenditures tested were for purchases that were requested and approved by the same individual. This included 2 related-party payments, totaling \$15,121, that were approved by the chief financial officer, who also worked for the related-party business that was paid. Not ensuring segregation of duties increases the risk of fraud and abuse and minimizes Covenant Kids' ability to identify and correct errors.

**Noncompliance with Fiscal Requirements.** Covenant Kids did not (1) obtain an annual review of its financial records by an independent certified public accountant or (2) provide support to show it maintained reserve funds equal to at least three months of operating expense as required by the Commission's *Minimum Standards*. While Covenant Kids had a contract with an independent certified public accountant to conduct annual financial statement audits, the most recent audit completed was for fiscal year 2021. Not receiving timely independent audits or ensuring that it maintains three months of reserve funds increases the risk that Covenant Kids will not have sufficient funds to maintain its operations on a sound fiscal basis.

---

### The cost report included unallowable costs and inaccuracies.

---

Auditors tested a sample from Covenant Kids' general ledger of 62 non-payroll expenditures<sup>3</sup> totaling \$27,912 and 64 payroll expenditures<sup>4</sup> totaling \$52,159, as well as 7 expenditure line items<sup>5</sup> totaling \$3,000,830 from Covenant Kids' fiscal year 2024 cost report. All non-payroll and payroll expenditures tested were supported, allowable, and classified appropriately. However, 4 (57 percent) of the 7 expenditure line items tested contained errors.

---

<sup>3</sup> The sample of non-payroll expenditures tested was based on a population of 2,402 transactions totaling \$397,525 recorded in Covenant Kids' fiscal year 2024 general ledger. The sample was chosen primarily using random selection; two targeted sample items were selected using professional judgment based on dollar amounts and payees.

<sup>4</sup> The sample of payroll expenditures tested was based on a population of 8,139 payroll transactions totaling \$2,516,563 recorded in Covenant Kids' fiscal year 2024 general ledger. The sample was chosen primarily using random selection; plus four targeted sample items were selected using professional judgment based on dollar amounts and payees.

<sup>5</sup> The targeted sample was selected by identifying significant line items that had high dollar amounts or belonged to commonly misreported expenditure categories.



**Unallowable Expenditures.** On its fiscal year 2024 cost report, Covenant Kids reported \$21,974 in expenditures that were unallowable according to the Commission's *2024 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)*. These included advertising expenses, contributions to a charity organization, and telecommunication expenses for a related-party business.

**Inaccurate Line Items.** Three line items tested were not supported by the general ledger, as required by the cost report instructions, resulting in the costs being understated on the cost report by \$1,354.

---

### The cost report did not include all related-party transactions.

---

Covenant Kids accurately reported on its 2024 cost report 3 related-party expenditures totaling \$575,993 for (1) wages paid to the chief executive officer (CEO) and a family member and (2) payments for accounting services. However, Covenant Kids did not report, as required, 2 related-party expenditures for wages paid to 2 additional family members of the CEO, totaling \$6,415.

Additionally, Covenant Kids did not disclose on its cost report that it received 2 cash advances, totaling \$100,000, from related-party businesses during fiscal year 2024. While Covenant Kids did not make any repayments on the cash advances during fiscal year 2024, the cash advances it received should have been reported as required by the Commission's cost report instructions.

---

### Covenant Kids paid its foster parents in accordance with the Commission's *Minimum Standards*.

---

Covenant Kids accurately recorded payments to foster parents in its general ledger and ensured that its foster families were verified before issuing payments. For all 50 foster parent payments, totaling \$45,883, Covenant Kids paid the correct amounts to foster parents based on its fee policy.

---

## Recommendations

---

Covenant Kids should:

- Implement segregation of duties for its financial processes.
- Immediately obtain an independent audit from a certified public accountant or establish reserve funds equal to at least three months of operating expenses.
- Report only allowable expenditures on its cost report.
- Identify, support, and disclose all related-party expenses in accordance with the Commission's cost report instructions.

---

## Management's Response

---

The management response in relation to the fiscal processes are as follows:

### **Insufficient Segregation of Duties Management Response**

We agree with the findings. The Chief Financial Officer will implement an expense platform that allows for automated workflow to ensure the supervisor of each employee, no matter their position, approves each expense. This new platform will be implemented by February 1, 2026.

### **Noncompliance with Fiscal Requirements Management Response**

We agree with the findings. The Chief Financial Officer has engaged with CliftonLarsonAllen to complete the annual financial statement audit by December 31, 2025.

### **Unallowable Expenditures Management Response**

We agree with the findings. Covenant Kids recently hired a new Chief Financial Officer who will be reviewing all accounting processes to ensure expenses are categorized in compliance with the Cost Report and only allowable expenses are reported.

In addition, beginning with FY25 Cost Report, the Chief Financial Officer will implement a second level of review prior to submission of the final cost report.

**Inaccurate Line Items Management Response**

We agree with the findings. Covenant Kids recently hired a new Chief Financial Officer who will be reviewing all accounting processes to ensure expenses are categorized in compliance with the Cost Report and to ensure all related party expenses are disclosed in accordance with the Commission's Cost Report Instructions.

In addition, beginning with FY25 Cost Report, the Chief Financial Officer will implement a second level of review prior to submission of the final cost report.

**MEDIUM**

## Chapter 1-B

**Covenant Kids Inc. – Foster Home Monitoring****Covenant Kids did not consistently comply with foster home monitoring requirements.**

Covenant Kids conducted monitoring visits with foster children, including monthly and quarterly visits and at least 1 monitoring visit with all household members present, for the 11 foster homes tested<sup>6</sup>. Additionally, Covenant Kids performed two unannounced monitoring visits for six applicable foster homes tested, as required by the Commission's *Minimum Standards*. (See text box for details about monitoring visit requirements.)

However, the documentation for some of those visits either was not provided or did not include all required elements. Specifically, Covenant Kids could not provide all required monitoring forms for some of the monitoring visits at 2 (18 percent) of 11 foster homes tested. In addition, for 8 (73 percent) of 11 foster homes tested, the documentation did not include the names of all household members present for the visit.

Monitoring visits are a primary way for child-placing agencies to help ensure that foster homes comply with all Commission requirements. A lack of consistency in conducting and adequately documenting the results of all its monitoring visits weakens Covenant Kids' ability to identify areas in which foster parents may need additional resources to meet the needs of the children in their care.

**Minimum Standards for  
Monitoring Visits Conducted by  
Child-placing Agencies**

Child-placement staff must conduct supervisory visits: (1) in the foster home at least quarterly; (2) with both foster parents, if applicable, at least once every six months; and (3) with all household members at least once a year. At least two supervisory visits must be unannounced.

Each visit must be documented in the foster home's record and include names of all household members present during the visit, results of the evaluation, and be signed by (1) each foster parent present for the visit and (2) the child-placement staff conducting the visit.

Source: Texas Administrative Code, Title 26, Section 749.2815.

<sup>6</sup> A random sample of 11 foster homes was tested from the 51 foster homes that had children in their care during Covenant Kids' 2024 fiscal year.

---

## Recommendations

---

Covenant Kids should ensure compliance with all monitoring visit requirements established in the Commission's *Minimum Standards* by:

- Documenting the observations and results of foster home monitoring visits.
- Documenting the names of all household members present for monitoring visits.

---

## Management's Response

---

The management response in relation to foster home monitoring are as follows:

We agree with the findings. Foster Home Reviews are completed quarterly in compliance with Minimum Standards for all active foster parents. A report will be generated for the month following each quarter to ensure these are completed timely.

Effective April 1, 2025, Covenant Kids updated the instructions on the Foster Home Acknowledgement form, which is used to capture the type of supervisor visit completed and who was present. Case Managers will complete during each home visit. Within 72 hours of the visit, the form will be routed to the Case Management Supervisor. The Case Management Supervisor will review the acknowledgement form to ensure it is completed in its entirety and accurately. The form will then be routed to be filed into the family's chart.

The written process was updated and the Case Management Supervisors and Managers of Foster Care were retrained by their Director to ensure the quarterly Foster Home Review is not finalized until all three months of Foster Home Review Acknowledgement Forms are present in the family chart. The Senior Director of Family Services will ensure all Case Management staff are retrained by October 1, 2025.

As part of our Continuous Quality Improvement process, monthly and quarterly audits will be completed and reviewed with action plans

implemented. This audit will ensure that all Foster Home Reviews are completed quarterly, Acknowledgement Forms are completed monthly, and all present in the family chart.

**PRIORITY**

## Chapter 2

### Bluebonnet Haven LLC – Fiscal Processes

Bluebonnet Haven LLC (Bluebonnet Haven), a licensed general residential operation, had significant weaknesses in its financial processes for fiscal year 2024, including inadequate oversight that resulted in a failure to (1) maintain support for certain expenditures or (2) disclose related-party transactions on its cost report.

Bluebonnet Haven had adequate controls over its accounting and time-keeping systems, including data backups and anti-virus software. However, auditors identified certain weaknesses that were communicated in a separate report to Bluebonnet Haven.

---

**Bluebonnet Haven had significant weaknesses in some financial processes.**

---

Bluebonnet Haven established procedures for its financial processes that included:

- Accurately recording payroll expenditures in the general ledger and maintaining timesheets and supporting documentation for employee pay rates.



*Fiscal Year 2024 Summary <sup>a</sup>*



General residential operation permit issued in 2019

A limited liability company, located in Brenham, Texas

44 employees



86 children served

Total expenditures reported on cost report: **\$3,464,297**

<sup>a</sup> From January 1, 2024, to December 31, 2024.

Sources: Bluebonnet Haven LLC, Department of Family and Protective Services, Health and Human Services Commission, and Internal Revenue Service.

- Preparing monthly bank reconciliations. All three months of bank reconciliations<sup>7</sup> tested were appropriately completed and applicable account balances reconciled to the general ledger.
- Creating an annual budget for fiscal year 2024 as required by the Health and Human Services Commission's (Commission) *Minimum Standards for General Residential Operations (Minimum Standards)*, which are listed in Texas Administrative Code, Title 26, Chapter 748. (See text box for information on the fiscal requirements for general residential operations.)
- Adopting administrative policies and procedures that met the Commission's *Minimum Standards* in the areas of personnel, record-keeping, information technology, and conflicts of interest.

#### Fiscal Requirements for General Residential Operations

The Commission's *Minimum Standards* require providers to establish and maintain their operation on a sound fiscal basis, including (1) paying employees timely and (2) ensuring that the children's needs are being met. Providers must also maintain complete financial records.

Source: Texas Administrative Code, Title 26, Section 748.161.

In addition, Bluebonnet Haven maintained most of the information required by the Commission's *Minimum Standards* in its personnel records, such as qualifications for the position and a job description, for the 46 employees associated with the payroll expenditures tested.

However, for the financial processes tested, Bluebonnet Haven had the following significant weaknesses.

**Non-payroll Expenditures.** Bluebonnet Haven did not have adequate documentation to support expenditures totaling \$12,174 in its general ledger, as required by the Commission's *Minimum Standards*. Specifically, Bluebonnet Haven could not provide documentation, such as receipts or service agreements, for 11 (17 percent) of the 65 non-payroll expenditures<sup>8</sup> tested.

**Financial Policies and Procedures.** Bluebonnet Haven did not have adequate policies and procedures for its key financial activities, such as reviewing and approving purchases and payments. Clearly documented policies and

<sup>7</sup> Monthly reconciliations for five bank accounts were identified and tested. A targeted sample of monthly reconciliations for each bank account was selected for testing to gain coverage of the beginning, middle, and end of Bluebonnet Haven's 2024 fiscal year.

<sup>8</sup> The sample of non-payroll expenditures tested was based on a population of 3,340 transactions totaling \$1,651,254 recorded in Bluebonnet Haven's fiscal year 2024 general ledger. The sample was chosen primarily using random selection; plus five targeted sample items were selected using professional judgment based on payees, payee amounts, and commonly misreported and unallowable expenses.



procedures are important to help the provider ensure that the state funds received are spent on appropriate and allowable costs for the children in its care.

---

### Related-party costs were not disclosed on the cost report.

---

Auditors identified 6 related-party transactions, totaling \$721,459, that were not reported as required by the Commission's *2024 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)*. These transactions included (1) vendor payments and bonuses paid to the chief executive officer (CEO), who is paid as a subcontractor, (2) wages and bonuses paid to a family member of the CEO, and (3) rent payments for property leased from a business owned by the managing board members. In addition, Bluebonnet Haven did not maintain documentation to demonstrate the accuracy and appropriateness of \$173,734 paid to the CEO and a related family member.

---

### The weaknesses in Bluebonnet Haven's financial processes caused errors in the fiscal year 2024 cost report.

---

Auditors tested a sample from Bluebonnet Haven's general ledger of 65 non-payroll expenditures totaling \$36,710 and 77 payroll expenditures<sup>9</sup> totaling \$107,450, as well as 8 expenditure line<sup>10</sup> items totaling \$2,269,336 from Bluebonnet Haven's fiscal year 2024 cost report. Payroll expenditures were generally allowable, supported, and accurately calculated. However, some non-payroll expenditures and line items tested did not meet the cost report requirements.

---

<sup>9</sup> The sample of payroll expenditures tested was based on a population of 1,245 payroll transactions recorded in Bluebonnet Haven's fiscal year 2024 general ledger. The sample was chosen primarily using random selection; three targeted sample items were selected using professional judgment based on the payment amounts.

<sup>10</sup> The targeted sample was selected by identifying significant line items that had high dollar amounts or belonged to commonly misreported expenditure categories.

**Unallowable Expenditures.** Bluebonnet Haven reported \$19,158 in expenditures that were unallowable according to the Commission's cost report instructions. These included the unsupported non-payroll expenditures discussed above, as well as a payment for an employee bonus, for which Bluebonnet Haven did not have a documented policy that indicates how a bonus is earned and who is eligible.

**Inaccurate Line Items.** The amounts provided for 3 (38 percent) of 8 line items tested were not supported by the general ledger, as was required by the Commission's cost report instructions. Bluebonnet Haven erroneously reported an expense for employee liability insurance as vehicle insurance, resulting in one line item being overstated by \$7,690. In addition, wages were understated by \$21,777 due to errors on 2 cost report lines. Finally, the CEO's compensation, totaling \$168,350, was not included on the cost report as required.

In addition, Bluebonnet Haven did not develop a crosswalk to trace the expense amounts from its trial balance to its cost report as required by the Commission's cost report instructions. As a result, Bluebonnet Haven could not demonstrate the calculation underlying the line items tested. Using a crosswalk would help Bluebonnet Haven verify that the expenses included in the cost report are accurately calculated and complete before submission.

---

## Recommendations

---

Bluebonnet Haven should:

- Maintain complete and accurate documentation, including original receipts and invoices, that support all financial expenditures.
- Establish a process to authorize and approve purchases and payments.
- Adequately support and accurately report all expenditures on its cost report.
- Report, properly support, and disclose all related-party expenses in accordance with the Commission's cost report instructions.
- Prepare a reconciliation worksheet to act as a crosswalk between the trial balance and cost report as required by the Commission's cost report instructions.

---

## Management's Response

---

### **Non-Payroll Expenditures**

We agree with the findings that we did not have adequate documentation to support expenditures. Bluebonnet Haven did have documentation to support most of their expenditures, but there were some expenditures that needed more documentation. The Accounting Director commits that they will maintain complete and accurate documentation with strict controls over non-payroll expenditures to ensure accountability, compliance with DFPS/HHSC standards, and accurate financial recordkeeping.

### **Financial Process Improvements**

We agree with the findings that we did not have adequate policies and procedures for its key financial activities, such as reviewing and approving purchases and payments. Since July 2025, Bluebonnet Haven has implemented significant improvements to its financial management systems. A comprehensive "Financial Controller Policies & Procedures" Manual has been developed and adopted to strengthen internal controls, ensure transparency, and align practices with Texas Child-Care Minimum Standards and DFPS/HHSC regulations.

### **Related-Party Transactions and Cost Reporting**

We agree with the findings that related-party transactions need to be better documented. Bluebonnet Haven affirms its commitment to report, properly support, and disclose all related-party expenses in accordance with the Commission's cost report instructions. The following measures have been implemented to ensure that all related-party transactions are properly documented and reported: 1) Inclusion in Cost Reporting, 2) CEO Contractual Agreement with Board of Directors, 3) Employment Agreement for Related Parties, and 4) Rental Payments to Related Parties. These actions reflect Bluebonnet Haven's commitment to strengthening financial accountability, ensuring compliance with cost reporting rules, and maintaining transparency with both the Board of Directors and state regulators.

**Errors in the Fiscal Year 2024 Cost Report**

We agree with the findings that there were some errors in the 2024 Cost Report. In July 2025, Bluebonnet Haven adopted and implemented the new Financial Controller Policies & Procedures, which will strengthen its internal controls to ensure that expenditures, and line items are recorded with greater accuracy. These corrective measures will minimize reporting errors and ensure ongoing compliance with cost reporting requirements.

**Crosswalk Development for Cost Reporting**

We agree with the findings that we did not develop a crosswalk to trace the expense amounts in the 2024 cost report. Going forward, the Accounting Director will implement the use of a crosswalk tool to trace expense amounts from the organization's trial balance to the submitted cost report, as required by the Commission's cost report instructions. The crosswalk will serve as an internal control mechanism to ensure that all expenses reported are accurate, verify that cost report submissions are complete, and provide a clear audit trail. By adopting this practice, Bluebonnet Haven strengthens its commitment to accuracy, accountability, and regulatory compliance in all future cost reporting.

**Corrective Action for Cost Reporting Weaknesses**

We agree with the findings that there are weaknesses in our financial processes which contributed to errors in the fiscal year 2024 Cost Report. The Accounting Director has addressed these errors through corrective adjustments and resubmissions to the 2024 cost report. To prevent any recurrence of these errors in the future, Bluebonnet Haven has implemented the following corrective measures:

- Adoption of a comprehensive Financial Controller Policies & Procedures Manual to strengthen oversight and internal controls.
- Improved documentation and review protocols for all expenditures prior to inclusion in cost reports.
- Development of a crosswalk tool to reconcile the trial balance with the cost report, ensuring accuracy and completeness.

- Strengthened financial oversight by implementing enhanced internal controls for the Financial Controller and increased Board of Directors review of fiscal activities.

Through these corrective actions, Bluebonnet Haven demonstrates its commitment to continuous improvement, compliance, and the accurate reporting of financial data to support the care and well-being of children entrusted to our facility.



## Appendix 1

# Objectives, Scope, and Methodology

## Objectives

The objectives of this audit were to perform on-site financial audits of selected residential foster care contractors (providers) and verify whether the selected providers are spending federal and state funds on required services that promote the well-being of foster children in their care.

Texas Government Code, Section 2155.1442(b), requires the Health and Human Services Commission (Commission) to contract with the State Auditor's Office to perform on-site financial audits of selected providers as necessary.

## Scope

The scope of this audit included the fiscal year 2024 cost-reporting period for two selected providers that delivered 24-hour residential childcare services for the Department of Family and Protective Services (Department).

The scope also included a review of significant internal control components related to the providers' financial and foster home monitoring processes, as applicable.

### The following members of the State Auditor's staff performed the audit:



- Jessica McGuire, MSA (Project Manager)

- Daniel Spencer, MSA, CIA, CFE (Assistant Project Manager)
- Alariyah Burr
- Rory Hardin, CFE
- Ansley Tarbet, MBA, CFE
- Robby Webb
- Josh Wright
- Robert G. Kiker, CFE, CGAP (Quality Control Reviewer)
- Willie Hicks, CIA, CISA, CGAP, MBA (Audit Manager)

---

## Methodology

---

We conducted this performance audit from March 2025 through September 2025 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 findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to each provider's management for consideration.

### Addressing the Audit Objectives

We selected two providers to audit based on (1) risk rankings developed by auditors with input from the Department, (2) contract value, and (3) the type of contract and the location of the provider. The two providers selected were:

- Bluebonnet Haven LLC, a general residential operation.
- Covenant Kids Inc., a child-placing agency.

During the audit, we performed the following:

- Tested the appropriateness of user access controls over information systems used by the providers and, if applicable, their subcontractors. We tested the entire population of users for the information systems identified.
- Determined whether selected providers had adequate controls over financial processes, foster home monitoring, and cost reporting to ensure compliance with requirements in Texas Administrative Code, Title 1, Chapter 355, and Title 26, Chapters 748 and 749; and the Commission's *2024 Cost Report Instructions for 24-Hour Residential Child Care Program (24RCC)*, by:
  - Interviewing management and staff at the Commission, the Department, and the providers to identify processes for managing fiscal responsibilities, cost reporting, and monitoring foster homes, including the internal controls and information that supports those processes.

- Reviewing providers' policies and procedures.
- Testing all related-party expenditures reported on the providers' cost reports or identified throughout testing.
- Comparing providers' general ledgers to selected expenditure line items on providers' cost reports. We selected line items based on certain risk factors.
- Determining whether providers reconciled all applicable bank accounts appropriately by testing a non-representative sample of three monthly bank reconciliations.
- Selecting and testing non-statistical samples of the following:
  - Providers' expenditures, payroll records, and foster parent payments (if applicable).
  - Child-placing agencies' monitoring forms to ensure coverage of the providers' monitoring visits.

Most of the samples were chosen through random selection to obtain a cross section of the populations tested. In some cases, we selected targeted sample items using professional judgment to address certain risk factors. In addition, the samples described were not necessarily representative of the populations, and the results, as reported, do not identify which items were randomly selected or selected based on risk factors; therefore, it would not be appropriate to project the test results to the populations. See the report chapters for information about the sample sizes, including the populations used and the risk factors considered to select samples.

### **Data Reliability and Completeness**

For financial data and payroll data collected from providers, we assessed the reliability of the data collected by reconciling (1) financial data to the trial balance reports and (2) payroll data to the financial data.

For foster parent payments and foster home records tested, we assessed the reliability of the data that the Department provided from IMPACT, which it uses to record case information, by reviewing the query language of the data set and reconciling the data to active foster family provider records.



All datasets were determined to be sufficiently reliable for the purposes of the audit.

### Report Ratings

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

# Appendix 2

## Related State Auditor’s Office Reports

Figure 2

Report Number	Report Name	Release Date
<a href="#">25-005</a>	<i>An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors</i>	October 2024
<a href="#">24-004</a>	<i>An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors</i>	October 2023
<a href="#">23-006</a>	<i>An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors</i>	October 2022
<a href="#">22-006</a>	<i>An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors</i>	October 2021
<a href="#">20-007</a>	<i>An Audit Report on On-site Financial Audits of Selected Residential Foster Care Contractors</i>	October 2019



Copies of this report have been distributed to the following:

## **Legislative Audit Committee**

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dustin Burrows, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

## **Office of the Governor**

The Honorable Greg Abbott, Governor

## **Health and Human Services Commission**

Ms. Cecile Erwin Young, Executive Commissioner

## **Department of Family and Protective Services**

Ms. Audrey O'Neill, Commissioner

## **Board Members and Executive Directors of the Following Providers Audited**

Bluebonnet Haven LLC

Covenant Kids Inc.



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our website: <https://sao.texas.gov>.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), or 1-800-RELAY-TX (TDD); or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government, visit <https://sao.fraud.texas.gov>.