

Special Investigations Unit
Report Regarding The Cottage

September 13, 1999

Members of the Legislative Audit Committee:

A call to the Texas State Auditor's Office (State Auditor) hotline led to an investigation of allegations that a husband and wife stole more than \$20,000 in checks from the State of Texas and a substance abuse facility known as The Cottage. The Travis County Grand Jury indicted Kelly Denise Herrell and Robert Wayne Herrell of Wichita Falls for theft and forgery. Kelly Herrell was The Cottage's director and Robert Herrell was the assistant director.

The grand jury indicted Kelly Herrell on seven counts of forgery and two counts of aggregated theft. For each count, she faces up to two years in a state jail and a \$10,000 fine.

Robert Herrell was indicted on three counts of forgery and two counts of theft—one count is a state-jail felony and the other a Class A misdemeanor. For the misdemeanor, he faces up to one year in jail and a \$4,000 fine, for the other counts, up to two years in jail and a \$10,000 fine.

Between February 1 and November 17, 1997, the Herrells allegedly committed these illegal activities:

- Cashed and misappropriated state-issued checks (treasury warrants) intended for The Cottage's operations as a community rehabilitation program
- Deposited treasury warrants payable to The Cottage into a personal account
- Forged checks from The Cottage's bank account and cashed them at a liquor store
- Cashed checks from The Cottage's bank account without authorization and used the money for personal expenses (52-inch-screen television, bedroom furniture, and washing machine).

What is The Cottage?

- The Cottage is a community rehabilitation program (CRP) in Wichita Falls, Texas.
- The Cottage provides room, board, and supervised living for clients of the Texas Rehabilitation Commission (Commission).
- Between February 1 and November 17, 1997, The Cottage received a total of \$83,688 on a fee-for-service basis from the Texas Rehabilitation Commission (Commission).
- To receive funds from the Commission, The Cottage (and other CRPs) must be licensed by the appropriate state agency.
- The Texas Commission on Alcohol and Drug Abuse licensed The Cottage; the Texas Department of Human Services and the Texas Department of Health also license CRPs.

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As a result of the \$20,669 loss:

- Food for client meals was in short supply
- Water, electricity, and telephone bills were unpaid
- Employees had difficulties cashing paychecks because The Cottage's account was overdrawn
- Taxes were delinquent

A joint investigation by the State Auditor's Special Investigations Unit (Unit) and the Texas Rehabilitation Commission (Commission) led to the indictments. According to The Cottage's board, the Herrells were not authorized to cash or deposit treasury warrants into accounts other than those held by The Cottage. Additionally, they did not have authority to cash checks against the Cottage's account for personal use. When interviewed by investigators from the Unit and Commission, the Herrells admitted to the illegal activities.

If you have questions, contact either Pamela Munn or John Weber, Special Investigations Unit, at 479-4700.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

khm/ggh/dkt

cc: Mr. Vernon M. Arrell, Commissioner, Texas Rehabilitation Commission
Ms. Terry Faye Bleir, Executive Director, Texas Commission on
Alcohol and Drug Abuse
The Honorable Ronnie Earle, Travis County District Attorney

Special Investigations Unit

The State Auditor's Special Investigations Unit (Unit) investigates reports of fraud, abuse, and other malfeasance involving state agencies or universities. The Unit refers the results of investigations to prosecuting authorities.

The public can report suspected illegal activity through the Unit's hotline (1-800-TX-AUDIT or 892-8348), the State Auditor's website (www.sao.state.tx.us), or by mailing information to the address below.

State Auditor's Office
Attn: SIU
P.O. Box 12067
Austin, TX 78711