

**Baker Tilly**  
Forensic, Litigation &  
Valuation Services

## Forensic Review

Prepared for Howard County Public School System  
("HCPSS")

# Overview of Baker Tilly

- Baker Tilly is a full-service accounting and advisory firm offering industry-specialized audit, tax, and consulting services.
- Baker Tilly has over 3,150 employees nationally and is an independent member of Baker Tilly International Limited (“Baker Tilly International”), one of the world’s leading networks of independently owned and managed accounting and business advisory firms. Baker Tilly International employs 33,000 people in 147 locations globally.
- The Forensic, Litigation & Valuation Services (“FLVS”) practice provides multiple consulting and support services, including fraud and forensic investigations, complex commercial litigation, valuation in disputes, restructuring and bankruptcy disputes, structured finance and capital markets consulting, monitorships, and regulatory compliance.
- FLVS professionals hold several designations and accreditations, including, but not limited to:
  - Certified in Financial Forensics (“CFF”)
  - Certified Fraud Examiner (“CFE”)
  - Certified Inspector General (“CIG”)
  - Certified Public Accountant (“CPA”)
  - Master of Forensic Science (“MFS”)
- The FLVS practice is national with offices in Atlanta, Chicago, New York, Oklahoma City, Philadelphia, Pittsburgh, and Washington D.C.

## Engagement Scope

- Retained on December 19, 2017
- Conduct two (2) forensic reviews for HCPSS Board of Education
  - Health Fund
  - Grant Fund
- Period of fiscal year (“FY”) 2013 through FY 2017 (“Relevant Period”)

# Methodology

- Interviews
  - March 16, 2018 with five (5) HCPSS representatives
- Document Review and Analyses
  - Preliminary Review and Analyses
    - Financial Statements Analysis
    - Grant Activity Review
    - Preliminary Sample from Financial Data
    - Actuarial Report Review
    - Transactional Data from Accounting Systems
  - Sample Selection - Health Fund and Grant Fund transactions
- Forensic Review
  - Transaction Testing (including onsite visit in October 2018) – Health Fund only
- Reporting

# Observations

## Health Fund

- Sample selection for testing population
  - Data analytic tests on HCPSS general ledger detail for the Health Fund
  - Selected a statistical sample population of 402 transactions
    - 281 occurred during FY 2013 through FY 2016
    - 121 transactions occurred during FY 2017
- Transaction support documentation
  - Received support for 305 out of 402 transactions in total, or 76% of the population
    - Support for 237 out of 402 transactions received via web-based portal
    - Baker Tilly onsite visit (October 2018)
      - Located support for 68 of the 165 outstanding transactions within records maintained by the Division of Business and Technology
      - Support for the remaining 97 transactions (classified as “Claim” or Group Retirement Savings “GRS”) are handled and controlled by the Payroll and Benefits Office due to confidential nature of the documentation
- Forensic Review
  - Tested 305 out of 402 transactions (76% of the population)

## Observations

### Grant Fund

- Sample selection for testing population
  - Data analytic tests on HCPSS general ledger detail for the Grant Fund
  - Selected a statistical sample population of 384 transactions
    - 255 occurred during FY 2013 through FY 2016
    - 129 transactions occurred during FY 2017
- Transaction support documentation
  - Requested support on October 18, 2018, but not yet received
- Forensic Review
  - No testing performed to date because no support documentation received

## Findings: Interviews and Forensic Review

- Lack of internal controls over transaction approval, which could allow for potential waste and abuse of the funds
- Transactions approved by grant managers, but overrides possible and recorded as journal entries to bypass warnings that an account was/will be over budget
- Inconsistent understanding and method for record keeping by employees; this coupled with frequent turnover and an understaffed department leads to lack of consistency and efficiency

## Findings: Preliminary Review and Analysis

- Health Fund's financial position decreased from a net position of \$12.5M to a deficit of (\$22.2M) over the Relevant Period (*Note: the deficit was (\$37M) at the end of FY18*)
- Grant activity increased by 23% from FY13 to FY16; but decreased by 6% from FY16 to FY17
- Actuarial information reviewed showed anticipated increases in costs and claims year over year
- Data provided by HCPSS reconciled at macro level; Baker Tilly relied on data received for testing



## Findings: Health Fund

- Support documentation for claims, GRS or Electronic Fund Transfers (“EFT”) was not provided (leaving 14% of the sample untested)
- Purchases for technology items out of Health Fund versus Technology and Printing Fund
- Transactions processed with warning messages shown in batch proofs
- Inconsistent support documentation among transactions
- Lack of consistency in transaction approvals
- No indicators of fraud or misconduct present in Health Fund sample population

## Conclusion

- Baker Tilly did not identify any indication of fraud or misconduct in the Health Fund, but recommends that HCPSS conduct a fraud risk assessment and implement procedures and internal controls that are properly designed to allow for better management and oversight of the risks associated with the Health Fund. Properly designed controls will help ensure HCPSS stays within budget.

## Recommendations

- Further review into approved claim and GRS amounts through third party contracts
  - Monitor amounts to stay within budget for the fiscal year
- Further review into transactions to purchase technology from the Health Fund rather than Technology and Printing Fund
- Warning messages process
  - Management review and approval to override a warning message before the transaction is finalized and approved
- Improved process for required transaction support and proper evidence of approval
- Implement improved and tighter internal controls over management of the Health Fund budget

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# Questions?