Report of Forensic Review

Prepared For The

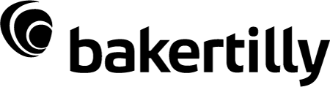
**Howard County Public School System**

March 14, 2019

Prepared by:

**Baker Tilly Virchow Krause, LLP**

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# Overview

## Retention and Scope

The Howard County Public School System (“HCPSS”) retained Baker Tilly Virchow Krause, LLP (“Baker Tilly”) on December 19, 2017 to conduct two (2) forensic reviews for the Board of Education of Howard County for the fiscal year (“FY”) 2013 through FY 2017 (“Relevant Period”). The first forensic review involves the Health and Dental Fund, and the second involves the Grant Fund. This Report of Forensic Review (“Report”) documents the procedures performed, findings, observations, and recommendations.

## Qualifications

### Brian Sanvidge Qualifications

I am a Principal at Baker Tilly, an accounting and advisory firm, in the Forensic, Litigation & Valuation Services (the “FLVS”) practice. I have over 33 years of experience working with public and private sector entities, leading investigations into fraud, waste, and abuse, compliance with regulations, consent orders and contracts, labor practices, disaster recovery services, and business continuity.

I have been a Principal with Baker Tilly for five (5) years, specializing in fraud and forensic investigations, data analysis and computer forensics, and monitorship services within the public sector. My industry specialization, in addition to public sector work, includes construction, hospitality, and healthcare/pharmaceuticals.

I have 25 years of government experience. I was an Inspector General for 12 years, 10 of which were for the New York State Department of Labor (the “DOL”). I oversaw 5,000 civil and criminal investigations conducted by the DOL that resulted in criminal convictions and civil restitution of approximately $250 million.

I have been qualified as an expert witness in financial crimes in state and federal court systems as well as in American Arbitration Association (“AAA”) arbitrations. I am a Certified Inspector General and a Certified Fraud Examiner. I am also a Certified Financial Records Expert Witness, certified by the National White Collar Crime Center.

I have lectured nationally on labor law, business fraud, white-collar crime, and tax fraud, as well as regulatory compliance and government investigations. My speaking engagements have included several judicial and bar associations.

I belong to the Association of Inspectors General, the Association of Certified Fraud Examiners, the National Association of Criminal Defense Lawyers, the American Bar Association, the International Association of Independent Private Sector Inspectors General, and the American Society for Industrial Security. I am a Trustee of the Citizen's Budget Commission and a secure member of the New York Metro InfraGard Alliance.

I hold a Bachelor of Arts in Political Science from the State University of New York at Albany.

### Baker Tilly Qualifications

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 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. Professionals within the FLVS practice have decades of experience assisting clients during stressful and difficult times. FLVS professionals hold the following designations and accreditations, among others:

* Certified in Distressed Business Valuation (“CDBV”)
* Certified in Financial Forensics (“CFF”)
* Certified Fraud Examiner (“CFE”)
* Chartered Global Management Accountant (“CGMA”)
* Certified Inspector General (“CIG”)
* Certified Insolvency & Restructuring Advisor (“CIRA”)
* Certified Public Accountant (“CPA”)
* Certified Treasury Professional (“CTP”)
* Juris Doctor (“JD”)
* Master of Forensic Science (“MFS”)

FLVS professionals have extensive experience conducting forensic investigations for a variety of matters including, but not limited to, bankruptcy disputes, computer forensics, corporate securities disputes, data mining and analyses, internal investigations, False Claims Act and government contract investigations, labor investigations, monitorships, post-acquisition disputes, and shareholder and partnership disputes. The FLVS practice is national with offices in Atlanta, Chicago, New York, Oklahoma City, Philadelphia, Pittsburgh, and Washington D.C.

## Engagement Oversight

All work related to this engagement was performed by Brian Sanvidge or by Baker Tilly professionals under his direction and oversight. For purposes of this Report, Mr. Sanvidge and other professionals are referred to as “Baker Tilly” or “we.”

## Limitations

Baker Tilly was engaged to perform a forensic review on behalf of HCPSS. The services provided as described in this Report are not intended to be, nor should they be considered an audit, review, or compilation in accordance with generally accepted auditing standards. Baker Tilly followed the Association of Inspectors General Principles and Standards for Offices of Inspector General in execution of this forensic review.[[1]](#footnote-1)

The American Institute of Certified Public Accountants (“AICPA”) defines the “objective of the ordinary audit of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present, in all material respects, the financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles.”[[2]](#footnote-2) This Report does not contain an expression of opinion as to the fairness of the financial statements of HCPSS or any of its related entities. However, the AICPA states “the purpose of the investigation is to determine whether there are fact patterns that indicate there may have been wrong-doing in the area(s) suspected, determine the possible method(s) employed, and attempt to quantify the questionable amounts involved.”[[3]](#footnote-3) Baker Tilly’s forensic review aligns with the objective of a forensic investigation as described by the AICPA: “to gather sufficient relevant data to help the client or trier of fact reach a conclusion on the merits of the suspected or alleged fraud.”[[4]](#footnote-4) Additionally, the ACFE Code of Professional Standards states, “no opinion shall be expressed regarding the guilt or innocence of any person or party.”[[5]](#footnote-5)

Baker Tilly assumed all information received during this forensic review is complete and accurate, and as such, relied on it to reach our conclusions. In some instances, the availability of more complete information may have resulted in different findings. Should HCPSS identify additional information after the date of this Report, the conclusions reached by Baker Tilly could change.

# Background

## HCPSS’s Operations

HCPSS, located in Elliott City, Maryland, has over 70 elementary, middle, and high schools throughout Howard County.[[6]](#footnote-6) HCPSS educates roughly 53,000 students as of the 2015 – 2016 school year with a graduation rate of 93.5% for the Class of 2015.[[7]](#footnote-7)

To fund school operations, HCPSS utilizes governmental, proprietary, and fiduciary funds. The Health and Dental Fund is intended for “health insurance, life insurance, and voluntary benefits for employees and retirees”.[[8]](#footnote-8) The Health and Dental Fund not only covers insurance benefits to employees and retirees, but also offers wellness related educational programs and sponsors the Health and Wellness Expo.[[9]](#footnote-9) Revenue is recognized from a multitude of other funds that make payments into the Health and Dental Fund, along with contributions from employees, retirees, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

The Grant Fund is part of HCPSS’s General Fund and is also known as their Restricted Fund.[[10]](#footnote-10) Funding for the Grant Fund comes from the state and federal government.[[11]](#footnote-11) The Grant Fund supports day-to-day operations of the school, including teacher salaries and school maintenance.[[12]](#footnote-12) Both the Health and Dental Fund and Grant Fund have been designated to be usedfor specific purposes.[[13]](#footnote-13)

## Cause of Forensic Review

Baker Tilly was engaged by the Board of Education for Howard County to perform a forensic review of the Health and Dental Fund and Grant Fund for the Relevant Period.[[14]](#footnote-14) The Board of Education indicated that there was a large, accumulating deficit in both the Health and Dental Fund and Grant Fund, for which an explanation was unable to be determined. As stated in the FY 2017 Approved Operating Budget, there was a reduction of fixed charges, which in turn “reduced the General Fund contribution to the Health and Dental Fund by $39.1 million”.[[15]](#footnote-15)

# Methodology

Baker Tilly performed the following procedures to complete its forensic review of the two funds:

## Interviews

Prior to starting our forensic analysis, Baker Tilly formally interviewed five representatives from Howard County on March 16, 2018. Those interviewed, and their title at the time of the interview, include:

1. David Clark (“Mr. Clark”), Internal Auditor for HCPSS
2. William Barnes (“Mr. Barnes”), Chief Academic Officer
3. Caroline Walker (“Ms. Walker”), Director of Alternative Educational Pathways and Innovative Thinking
4. Greg Bara (“Mr. Bara”), Accounting Manager
5. Jeeni Griffin (“Ms. Griffin”), Benefits Manager

Interviews were conducted on site at the Howard County Board of Education building. We asked each interviewee selective questions and asked for their replies to be based on first-hand knowledge and not on hearsay, logical inference, or speculation relating to the cause of the investigation. Our questioning focused on the Health and Dental Fund and Grant Fund along with the processes in place for approval of transactions.

## Document Review and Analysis

Baker Tilly conducted document review and analysis on various financial aspects of HCPSS operations. These include financial statements, grant activity, preliminary sample review, certain actuarial information, and Health and Dental Fund and Grant Fund transactional data. Set forth is our methodology for each area of review and analysis.

### Preliminary Review and Analyses

#### Analysis of the Financial Statements

Baker Tilly performed a review of the financial statements for HCPSS to obtain an understanding of relevant information related to the Health and Dental Fund and Grant Fund. The financial statements analyzed covered the Relevant Period.

#### Summary of Grant Activity

Baker Tilly performed a review of the grant population across all funds (not limited to just the Health and Dental Fund or Grant Fund) during the Relevant Period. This review was to obtain an understanding of the total population of grants that were active.

#### Preliminary Sample Review

Baker Tilly conducted a preliminary sample review of HCPSS financial data to understand the types of supporting documentation available to substantiate the transactions that would be selected in the sample for a forensic review of both the Health and Dental Fund and the Grant Fund.

#### Review of Actuarial Reports

To gain an understanding of the changes in the actuarial information year over year, Baker Tilly conducted a review of the actuarial projections in comparison to the Health and Dental Fund budget.[[16]](#footnote-16) This review also included a comparison of the projections to the actual claims and administrative fees incurred, and changes in the costs, rates, and benefits at HCPSS.

#### Examination of Data Provided

Baker Tilly reviewed the transactional data generated by HCPSS for the Health and Dental Fund and the Grant Fund. The objective of the examination was to determine if the data was complete and accurate. Baker Tilly determined that some data needed to be structured because of differing formats, resulting from the use of two different accounting systems during the Relevant Period.

### Health and Dental Fund and Grant Fund

Baker Tilly performed an initial review and analysis of HCPSS Health and Dental Fund and Grant Fund transactions.

#### Sample Selection

Baker Tilly reviewed the general ledger detail provided by HCPSS for the Health and Dental Fund, and the Grant Fund, to identify a sample population. The review included round dollar testing, journal entries posted on weekends, journal entries without descriptions, entries that were post-dated, debit postings, credit postings, keyword searches, duplicates, and random samples of average value. The results were used to create a sample population.

Baker Tilly began its forensic review with a starting population of 5,219 transactions in the Health and Dental Fund for the Relevant Period. Using the review methodology mentioned above, the population size was reduced to 2,915 transactions, and then further reduced to 402 transactions by removing duplicate entries. Baker Tilly used statistical sampling to attain a minimum 95% confidence level with a 5% margin of error for a 358 suggested sample size. Because the reduced sample size of (402) was close to the suggested statistical sample size of (358), Baker Tilly made the determination to include all 402 transactions in our testing.

The starting population of Grant Fund transactions for the Relevant Period was 132,832. Using the same review methodology described above, the population size was reduced to 43,146 transactions, which was further reduced to 10,427 using additional testing. Applying statistical sampling to the reduced population, to attain a minimum 95% confidence level with a margin of error rate of 5%, a testing population of 384 is required.

#### Population Request

Baker Tilly requested supporting documentation from Howard County for the Health and Dental Fund (402) and the Grant Fund (384) for each of the individual transactions in their respective sample populations. Once the information was received, the forensic review was to be conducted. The types of support expected to be received were, but not limited to, the following: invoices, contracts, agreements, batch proofs, payment requests, and approval sheets. As of the date of this Report, supporting documentation has only been received for the Health and Dental Fund.

## Forensic Review

Baker Tilly was to conduct a forensic review of the supporting documentation received from HCPSS for the transactions in the selected populations in both the Health and Dental Fund and the Grant Fund; however, as of the date of this Report, only Health and Dental Fund transactions have been reviewed because requested support has not been received for the Grant Fund transactions. Each individual transaction in the sample populations in both of the Funds were to be examined through the same procedures. Baker Tilly tested the following data for the Health and Dental Fund: type of journal entry source data, the memo of the transaction, the accounting date, supplier, spend categories and groups, transaction amount, work tags, ledger account, cost center, program, fund, presence of keywords, transaction approvals, and the signatures on supporting documentation compared to approval in the computer system. Baker Tilly received support for 116 FY 2013 through FY 2016 transactions and 121 transactions for FY 2017, totaling 237. There were 165 transactions outstanding that required Baker Tilly to go onsite and search for documentation to test.

## Onsite Visit

Baker Tilly conducted an onsite visit to Howard County’s Board of Education building from October 29, 2018 to October 31, 2018. During this time, the Baker Tilly pulled the outstanding transaction support for the remaining 68 of 165 transactions in our testing sample related to the Health and Dental Fund. The documents were provided to the Baker Tilly team in banker boxes that were extracted from their off-site storage center with Iron Mountain or in the filing room in the Finance Department, for more current transactions. The remaining 97 transactions from the outstanding population were understood to be related to health and dental claims and the corresponding support documentation was maintained by the Benefits Department.

Despite initial challenges to locate the outstanding files due to moved or displaced documents, the support for 68 of the 165 outstanding transactions was eventually located, electronically scanned, and transferred through a secured online document sharing system that Baker Tilly uses, and were tested in the forensic review. The support for the other 97 transactions relate to claims or GRS [[17]](#footnote-17). It is our understanding the support for these types of transactions is controlled by the Benefits Department rather than the Finance Department due to the support being confidential and private. The support for these transactions were not provided or tested by Baker Tilly. In total, Baker Tilly was provided support for, and tested, 305 out of the 402 transactions in our testing population, or 76% of the transactions.

Discussions were held while onsite collecting supporting documentation for the selected sample population. Through these general discussions with HCPSS employees, more information about the processes and procedures were learned and discussed.

# Observations and Findings

## Interviews

Baker Tilly noted the following observations and findings related to the interview portion of the forensic review:

1. There was a lack of internal controls over transaction approval, which could allow for potential waste and abuse of the funds.
2. Transactions needed approval by grant managers; however, overrides were possible in the old accounting system, Integrated Financial Accounting System (“IFAS”) and these were visible as journal entries, which was used to bypass warnings that approving a certain transaction would put the account over budget.
3. Employees have an inconsistent understanding and method for record keeping. This coupled with frequent turnover and an understaffed department creates a lack of consistency.

## Document Review And Analysis

Baker Tilly noted the following observations and findings related to the documents received and reviewed during the forensic review:

### Preliminary Review and Analyses

#### Analysis of the Financial Statements

Baker Tilly conducted an analysis of the financial statements, which provided an overview of the financial position of HCPSS during the Relevant Period. Baker Tilly reviewed each FY balance sheet and profit and loss statements for the Relevant Period for HCPSS. Additionally, analyses performed varied per statement; however, the percentage change year over year helped Baker Tilly analyze HCPSS’s financial position in regards to the Health and Dental and Grant Fund. The Health and Dental Fund’s financial position decreased from a net position of $12.5 million in end of year FY 2013 to a deficit of ($22.2) million in FY 2017. This appears largely in part due to the Current Assets – Investments decreasing and Accounts Payable increasing. The Grant Fund over FY 2013 through FY 2017 carried a zero-dollar fund balance at the end of each year.

#### Summary of Grant Activity

A review of the total population of grants during the Relevant Period, revealed an increase in grants received. HCPSS received 41 total grants in FY 2013, grants increased in FY14 to 44 and remained at that amount through FY 2015, but during FY 2016 there was another increase to 54 grants. During FY 2017, a decline to 51 grants was noted. This procedure allowed Baker Tilly to gain knowledge on which grants were active during the Relevant Period and who the program manager was during each FY.

1. Summary of Grant Activity during FY 2013 through FY 2017

|  |  |  |
| --- | --- | --- |
|  | **# of Grants** | **Percent Change over FY** |
| FY 2013 | 41 | N/A |
| FY 2014 | 44 | 7% |
| FY 2015 | 44 | 0% |
| FY 2016 | 54 | 23% |
| FY 2017 | 51 | -6% |

#### Preliminary Sample Review

Baker Tilly conducted a preliminary sample review based on data received from HCPSS. Through analyzing the data, Baker Tilly selected approximately two random batches per year based on a random sample for Batch ID. This process was done for both the Health and Dental Fund and the Grant Fund. Preliminary sample review for the Health and Dental Fund consisted of seven (7) batches, which contained 27 transactions total. The Grant Fund preliminary sample review consisted of seven (7) batches, which contained 84 transactions total. After the populations were selected, the support documentation was requested, provided by HCPSS, and was then reviewed by Baker Tilly and determined that it was sufficient for testing.

#### Review of Actuarial Reports

Baker Tilly reviewed actuarial reports provided by HCPSS for information on general assumptions and projections as it related to health and dental claims for purposes of comparing to HCPSS’s budget for the Health and Dental Fund. The general assumptions discussed benefit changes, assumed healthcare trends, changes in fixed costs, rate changes among the benefit plan providers, summaries of HCPSS costs per FY and increases or decreases in Incurred But Not Reported (“IBNR”) claim reserve or the large claim reserve categories. Projections were also mentioned and identified the base period for that FY as well as determinations of adjustments being made. This analysis provided Baker Tilly with a better understanding of the trends and changes that were being reported for HCPSS. Overall, the total costs for claims increased year over year with the total percentage change ranging from 21% to 79%, which the actuarial reports did assume an annual increase.

#### Analysis of Data

Baker Tilly conducted a review of the data provided by HCPSS for the Health and Dental Fund and the Grant Fund. The review was to ensure that the data was accurate and it was complete for further analysis. The review contained a reconciliation of the general ledger detail to the balance sheet and profit and loss statements. Baker Tilly was able to reconcile the data from a macro level; however, we were unable to reconcile the individual expense categories on the profit and loss statements. Because it reconciled at the macro level, Baker Tilly did rely on the data for testing. The data received from HCPSS also had to be structured and then consolidated due to the accounting software changing from FY 2013 - FY 2016 from IFAS to Workday during FY 2017. During the consolidation process, Baker Tilly had to convert the data to one format using a Caseware analytics tool called IDEA. Once the data for the Health and Dental Fund and the Grant Fund was converted, the FY 2013 - FY 2016 data was merged with FY 2017 data, which was already received in Microsoft Excel format, and the examination of the data began.

### Health and Dental Fund and Grant Fund

#### Health and Dental Fund

##### Sample Selection

Baker Tilly performed a series of data analytics tests on the HCPSS general ledger detail for the Health and Dental Fund to identify a sample population of 402 transactions for detailed testing and analysis. Out of the 402 transactions, 281 occurred during FY 2013 through FY 2016. The remaining 121 transactions occurred during FY 2017.

##### Population Request

Baker Tilly sent the initial request for support documentation to HCPSS on May 23, 2018 for the 402 sample transactions in the Health and Dental Fund. On May 31, 2018, Baker Tilly requested follow up from HCPSS on the outstanding transactions and HCPSS provided Baker Tilly on June 1, 2018 support documentation for 110 transactions. As of June 11, 2018 there were 296 sample transactions still not received. HCPSS uploaded additional support documentation for 43 transactions on June 18, 2018, after a follow up request sent by Baker Tilly on June 17, 2018. On June 28, 2018, Baker Tilly requested another status update on receiving the outstanding Health and Dental Fund sample transaction documentation. HCPSS uploaded an additional 51 supporting documents for outstanding transactions and responded to Baker Tilly on July 2, 2018. On July 18, 2018, HCPSS responded to a status update email regarding outstanding items sent by Baker Tilly on that same day informing us that 65 boxes of historical files were received from the storage center and they intended to begin working through them. On August 2, 2018, Baker Tilly followed up with HCPSS on the status of the outstanding support documentation, and HCPSS responded that they were still processing the documents from the boxes and scanning the support. On August 9, 2018, HCPSS uploaded approximately 33 transactions support files for the Health and Dental Fund. As of this point in time, Baker Tilly received support for 237 transactions out of the 402 Health and Dental Fund sample population. During the month of September, the main contact at HCPSS for the forensic review was out of the office, and so Baker Tilly was unable to move forward until that individual returned. Baker Tilly reached out to HCPSS on September 27, 2018 requesting a follow up of the status of the outstanding support documentation, and HCPSS invited Baker Tilly to come onsite to go through the boxes they had received because they “did not have any further luck” finding the outstanding support for the 165 transactions. Additionally in the days after the last correspondence, Baker Tilly and HCPSS decided on a team going onsite October 29 – 30, 2018 to search for the supporting documentation for the outstanding 165 transactions.[[18]](#footnote-18) Before the site visit, Baker Tilly sent the outstanding testing population sample on October 18, 2018 to HCPSS. While on site, Baker Tilly was able to identify support for the outstanding transactions or gain an understanding for the transactions that no support would be able to be provided for forensic review.[[19]](#footnote-19)

Baker Tilly requested supporting documentation for all 402 transactions; however, out of that total Baker Tilly received from HCPSS and/or located during an onsite visit, some type of supporting documentation for 305 of the 402 transactions. Baker Tilly did not receive or identify support for 97 transactions and it is Baker Tilly’s understanding that one (1) transaction relates to Technology ISF Services and 96 relate to benefits or claim supporting documentation during FY 2013 through FY 2016, which is maintained by the Benefits Department. The type of supporting documentation received varied by transaction and included, but was not limited to, general ledger detail, approval forms, invoices, and transaction batch proofs.

#### Grant Fund

##### Sample Selection

Baker Tilly performed a series of data analytics tests on the HCPSS general ledger detail for the Grant Fund to identify a sample population of 384 transactions for detailed testing and analysis. Out of the 384 transactions, 255 occurred during FY 2013 through FY 2016. The remaining 129 transactions occurred during FY 2017.

##### Population Request

Baker Tilly requested supporting documentation for the sample population for all 384 transactions on October 18, 2018. As of the date of this Report, Baker Tilly has received no supporting documentation from HCPSS.

## Forensic Review

### Health and Dental Fund

Baker Tilly identified that supporting documentation could not be located and/or provided for historical transactions (*i.e.,* occurring during FY 2013 through FY 2016) that were related to claims, GRS or electronic Fund transfers (“EFT”). Baker Tilly understands that the transaction support pertaining to claims may be stored in a different location than the accounts payable boxes archived at Iron Mountain[[20]](#footnote-20).

HCPSS explained to Baker Tilly, based on the FY budget, the Health and Dental Fund makes a reoccurring monthly payment to other Funds (*e.g.,* Technology Fund and Printing Fund). Baker Tilly’s understanding is that the money transferred to the Technology and the Printing Fund are to be used to cover purchases of technology and printing items for the Health and Dental Fund. Through testing procedures, we identified transactions relating to purchases of technology items that were paid directly from the Health and Dental Fund rather than the Technology Fund.

Baker Tilly observed “warning” messages on transactions appear in the batch proofs. This warning message indicates that when processing a transaction, the “working budget” would be exceeded for the fiscal year and it is able to identify the amount surpassed. It appears that transactions can still be processed even after a warning message has been issued.

Baker Tilly observed that consistent supporting documentation was not always available. While some transactions were similar in nature, the support received was not always the same between the transactions. Additionally, there were instances where support was not able to be located and a batch proof or general ledger report was the only source to review as supporting documentation for a transaction.

Baker Tilly also recognized a lack of consistency in transaction approvals. The following are a few examples of what was identified:

* There are instances of approvals by the same employee for two separate titles (i.e. requestor and accounting manager are signed by the same employee);
* Employees using their signature of approval for a position that does not relate to their designated title (i.e. higher level employees signing for the account manager level whereas the correct account manager is signing for accounting office);
* Employees not receiving required higher levels of approval by upper management on a transaction (i.e. requestor and account manager approved the transaction but the accounting office did not have an approval signature, or requestor signed but the account manager’s and accounting office’s signatures are blank); and
* Employees signing off where another is listed (i.e. an accounting officer’s name was crossed out and then signed by another employee for that level’s approval).

#### Onsite Visit

Members of the Baker Tilly team were on site at HCPSS reviewing transaction documentation to identify any potential additional support for the outstanding transactions in the sample population for the Health and Dental Fund. There was an identified population of 165 transactions from the sample population in FY 2013 - FY 2016 that HCPSS employees were unable to locate. While on site, discussions with HCPSS employees provided additional insight about processes in the accounting, benefits and finance departments at HCPSS. The following information was learned through this visit:

* Recording claims is the same through the various vendors and is understood as follows:
  + HCPSS receives a remittance slip from the vendors;
  + The claim is processed through the benefits department;
  + The finance department confirms the ACH for each specific vendor to the support received from the benefits department;
  + The amounts are reconciled and deemed appropriate or not;
  + Vendor sends an email to HCPSS regarding receipt of payment from their account; and
  + HCPSS will debit the expense in the finance department and credit cash.
* A transaction that is a GRS primarily falls under the categories temporary help, salary – professional, employee non-election payments and is believed to stand for Group Retirement Services.
* ISF - Printing Fund and ISF – Technology Fund are believed to stand for Internal Service Funds. These transactions are monthly reoccurring payments from the Health and Dental Fund to the Printing Fund and Technology Funds. There is an approved budgeted amount out of the Health and Dental Fund that is to be used to fund the Technology and the Printing Funds. All other Funds pay into the Technology and Printing Funds. Monthly payments made by all Funds are for the purpose for the Technology and Printing Funds to purchase items and services for all HCPSS locations. The Technology and Printing Funds are also known as “blanket funds”. These types of transactions are referred to as “charge backs” to the Technology and Printing Funds. All the other Funds take the expense side, where the Technology and Printing Funds take the Revenue side. The payments are currently are not automated and that there is a budgeted amount per year and the transactions are split evenly for each month to take the entire budgeted amount into this fund.
* Claims data would not be located in accounts payable boxes. Due to the nature of the transaction, it contains confidential information and employee data, which requires them to be handled through the Benefits Department. Transactions that relate to legal matters are also stored in another location do to confidential information.
* Credit receipt and journal entry transactions are also not stored in the accounts payable boxes. They are stored at Iron Mountain in their own boxes due to the category of transaction. The FY 2017 to present are currently contained in HCPSS accounting software, Workday.
* There are specific vendors for HCPSS where a blank spreadsheet is sent to the vendor to fill out details and criteria for import to their IFAS system which is done on a monthly basis. These spreadsheets contain all the expenditures for the month for that specific vendor.

After learning the new additional details from discussions with HCPSS employees, Baker Tilly was able to decrease the outstanding Health and Dental Fund sample population to approximately 68. This decrease was due to 97 transactions being classified as claims or GRS. Baker Tilly understands that the transaction support for claims or GRS are not kept in same location as the other transaction support due to being confidential in nature and being handled by the benefits department. These two things affect the availability of the support and the ability for Baker Tilly to review those transactions in the sample population.

In addition to identifying 97 transactions in the outstanding sample population for the Health and Dental Fund as claims or GRS, Baker Tilly was able to locate supporting documentation for approximately 68 additional transactions. Prior to Baker Tilly being on site at HCPSS, these transactions were categorized by HCPSS as supporting documentation was not able to be located.

Through conducting the forensic review on all of the transaction support provided for the Health and Dental Fund sample population, Baker Tilly did not see any indicators of potential fraud or misconduct. Baker Tilly identified inconsistent processes and procedures and areas of opportunity to improve overall management and oversight of the Health and Dental Fund by improving internal controls.

### Grant Fund

A forensic review of the supporting documentation for the Grant Fund population could not be conducted. As of the date of this Report, Baker Tilly has not received any transaction support and the forensic review of these transactions is on hold.

# Conclusion and Recommendations

Through Baker Tilly’s testing procedures, on-site visits, and discussions with HCPSS personnel, the following are the areas of recommendation to ensure funds are being used properly for the Health and Dental Fund:

1. A further review into the approved claim and GRS amounts through third party contracts. Monitoring procedures should be initiated to ensure the amounts stay within the allotted budget for the fiscal year;
2. A further review should be conducted into the transactions tied to purchases of technology items out of the Health and Dental Fund. This review will allow for determination whether the transaction should take place under the Technology Fund instead of through the Health and Dental Fund;
3. Implement a process when warning messages are received in “real time” while a transaction is being processed. The warning should be brought to management’s attention before the transaction is finalized and approved to eliminate the possibility of exceeding budgeted amounts for an account during the fiscal year;
4. Implement a defined process for documenting transactions that take place in the finance and accounting departments. The procedure would have the required documentation to properly validate transactions thoroughly during and after processing a payment; and
5. Implement a transaction approval process and procedure, which outlines the requirements for support documentation, approval thresholds, and proper evidence of approval (*e.g.,* signature of named approver(s) only).

As stated above, as of the date of this Report, Baker Tilly has not received any transaction support for the Grant Fund and thus the forensic review of these transactions is on hold, which is why there are no conclusion or recommendations.

Baker Tilly did not identify any indication of potential fraud or misconduct, 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 and Dental Fund. Properly designed controls will help ensure HCPSS stays within budget.

Respectfully submitted,

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1. Association of Inspectors General Principles and Standards for Offices of Inspector General dated May 2014, http://inspectorsgeneral.org/files/2014/AIG-Principles-and-Standards-May-2014-Revision-2.pdf [↑](#footnote-ref-1)
2. American Institute of Certified Public Accountants AU-00110 Responsibilities and Functions of the Independent Auditor dated Nov. 1972, https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00110.pdf, at 1. [↑](#footnote-ref-2)
3. *See* Exhibit 2. American Institute of Certified Public Accountants Forensic & Valuation Services Practice Aid: Forensic Accounting – Fraud Investigations dated 2014, at 17. [↑](#footnote-ref-3)
4. See Exhibit 2. American Institute of Certified Public Accountants Forensic & Valuation Services Practice Aid: Forensic Accounting – Fraud Investigations dated 2014, at 28. [↑](#footnote-ref-4)
5. ACFE Code of Professional Standards, as of Dec. 17, 2018, https://www.acfe.com/standards.aspx, at 4. [↑](#footnote-ref-5)
6. HCPSS – Schools, https://www.hcpss.org/schools/#direct.html last visited Mar. 7, 2019. [↑](#footnote-ref-6)
7. HCPSS 2017 Approved Operating Budget dated Jun. 2016, at 8. [↑](#footnote-ref-7)
8. *Id.* at 19. [↑](#footnote-ref-8)
9. *Id.* at 511. [↑](#footnote-ref-9)
10. *Id.* at 19. [↑](#footnote-ref-10)
11. *Id.* at 19. [↑](#footnote-ref-11)
12. *Id* at 598. [↑](#footnote-ref-12)
13. *Id.* at 601. [↑](#footnote-ref-13)
14. Agreement between the Board of Education of Howard County and Baker Tilly dated Dec. 19, 2017, at 1. [↑](#footnote-ref-14)
15. HCPSS 2017 Approved Operating Budget dated Jun. 2016, at 512. [↑](#footnote-ref-15)
16. Baker Tilly did not conduct a detailed review or analysis of the actuarial calculations, projections, or assumptions. The review was for informative and comparative purposes only of budget to actual numbers. [↑](#footnote-ref-16)
17. GRS is understood to relate to the benefits department and is believed to stand for Group Retirement Savings. [↑](#footnote-ref-17)
18. Site visit extended to include being on site at HCPSS through October 31, 2018 due to additional reviews needing to be completed. [↑](#footnote-ref-18)
19. For details regarding the support identified during the onsite visit, please see section IV.D. of this Report. [↑](#footnote-ref-19)
20. Iron Mountain is the company hired by HCPSS’s that provides storage for historical documents. [↑](#footnote-ref-20)