



September 25, 2019

Christopher B. Burch, Attorney
Lane Alton
Two Miranova Place, Suite 220
Columbus, Ohio 43215

Re: City of Hilliard Forensic Accounting and Consulting Investigation Services

Dear Counsel:

In accordance with our engagement letter dated September 12, 2018 incorporated into Lane Alton's engagement letter with the City of Hilliard ("City," "COH," or "Hilliard") dated September 13, 2013, Schneider Downs & Co., Inc. ("Schneider Downs," or "We") was retained by Lane Alton to perform investigatory accounting services and assist with the preparation of any proof of loss with respect to activities of the City's Recreation and Parks Department. Specifically, we performed a forensic accounting and consulting investigation and analysis of certain financial accounts and activities of the City's Recreation and Park Department at your request, and have prepared this report to summarize our analyses and investigation to date in order to assist you and your firm in your representation of Hilliard.

I. BACKGROUND

Lane Alton retained Schneider Downs to perform a forensic accounting and consulting investigation of the Recreation and Parks Department and Heather Ernst, former Deputy Director of the Department. Heather Ernst was previously found by law enforcement to have embezzled City funds and has been incarcerated following her conviction.

II. SCOPE OF THE REPORT

The services we provided were performed in accordance with the Standards for Consulting Services of the American Institute of Certified Public Accountants. The sufficiency of our services is solely your responsibility. Our services were limited to those that were determined to best meet your and the City's informational needs and may not have necessarily disclosed all significant errors, fraud, or illegal acts that may exist.

Attorney Work Product - Privileged and Confidential Communication

The scope of our work included a review and analysis of available financial information and data; various transactions and their underlying support; correspondences and documents; meetings with you and representatives of the City; and an evaluation of potential issues surrounding the theft of funds by Heather H. Ernst. Our work attempted to quantify the potential amount of missing funds through an analysis of Recreation and Parks Department revenue sources, expenditures and other means available to potentially misdirect funds or other assets. In the course of the engagement, we identified and analyzed other issues of concern and activities that could potentially be associated with illegal activities. For any of the time periods included in our analyses, we express no audit opinion nor any other form of assurance on that information.

We reserve the right to amend or supplement this report, if necessary, should additional information become available or if we are asked to perform additional analyses. We express no legal opinion regarding any of the transactions or information analyzed or the individuals involved.

III. PRIMARY SOURCES OF INFORMATION RELIED UPON

In formulating the analyses and conclusions contained in this report, we have reviewed documents and financial information provided to us by the City. The resulting analyses are contained in Exhibits A through T, which are listed below and attached in separate files for your review.

Exhibit A - COH Forensic Report Rev_Gate Admissions - MASTER

Exhibit B - COH Forensic Report Rev_Concessions - MASTER

Exhibit C - COH Forensic Report Rev_Memberships - MASTER

Exhibit D - COH Forensic Report Rev_Programs - MASTER

Exhibit E - COH Forensic Report Rev_Rentals - MASTER

Exhibit F - COH Forensic Report Rev_Other-Misc - MASTER

Exhibit G - COH Forensic Report Disb_Supplies and Materials – MASTER

Exhibit H - COH Forensic Report Disb_Patterson Analysis - MASTER

Exhibit I - COH Forensic Report Disb_Capital - MASTER

Exhibit J - COH Forensic Report Disb_Contractual Services - MASTER

Exhibit K - COH Forensic Report Disb_Debt Services - MASTER

Exhibit L - COH Forensic Report Disb_Other-Misc - MASTER

Exhibit M - COH Forensic Report Disb_Personnel - MASTER

Exhibit N - COH Forensic Report Disb_Purchase Orders - MASTER

Exhibit O - COH Forensic Report Disb_Travel - MASTER

Exhibit P - COH Forensic Report Disb_Uilities - MASTER

Exhibit Q - COH Forensic Report Disb_Vendors Master File - MASTER

Exhibit R - COH Control Observations

Attorney Work Product - Privileged and Confidential Communication

In addition to our review of various financial information and supporting documents, we met with the following individuals in the conduct of the engagement:

City of Hilliard Personnel

- David Delande, Finance Director
- Greg Tantari, Deputy Finance Director
- Doug Francis, Director of IT
- Tracy Bradford, former Law Director
- Karrie Martin, Fiscal Officer
- Jennifer McCafferty, Finance Assistant
- Julia Baxter, HR Director
- Tracey Rayburn, Payroll Specialist
- Megan Goudy, Recreation Program Manager
- Geoff Dew, Recreation Supervisor
- Kristan Turner, Recreation Supervisor

City Council

- Kelly McGivern, President
- Pete Marsh, Vice President
- Andy Teater
- Les Carrier
- Nathan Painter
- Albert Iosue (former council member and president)
- Tom Baker
- Lynne Fasone, Clerk of Council

IV. ANALYSIS AND INVESTIGATION OF ACCOUNTING RECORDS

Our discussions with you and the City identified the primary area of concern as being the potential total cash misappropriated by Heather Ernst related to the Recreation & Parks Department and the ability to misappropriate funds and assets through other means available in the department (e.g., illegal use of funds, unauthorized disbursements and purchases, misuse or theft of assets). As discussed later in this report and in the exhibits, our investigation of these areas led to the identification of additional areas of concern that were analyzed.

V. OVERALL FINDINGS

Reaching any specific conclusions as a result of this investigation was problematic due to the City's lack of detailed supporting documentation, and the lack of controls and monitoring practices by the City that could have aided in substantiating the specific causes for unexpected adverse trends within both revenue and expenditure accounts of the Recreation and Parks Department. In conducting the analysis, it was evident that revenues in both pool gate admissions and pool concessions disclosed unexpected adverse trends in the revenue streams during a time when the population of Hilliard increased and the amenities being offered at the pools were significantly expanded. However, without further detailed analysis of activities associated with the pool and concessions revenue accounts, and several other accounts as reflected in Exhibits A through Q, we cannot isolate the root causes, including the activities of Heather Ernst.

Key observations of our investigation and analysis included the following:

- Gate admission revenues at the pools did not increase in relationship to the changing population and the significant expansions and added amenities at the pools. When using 1996 and 2018 gate admission revenues as the beginning and end points of the revenue trajectory, the deviation (potential shortfall) in anticipated revenues is an estimated \$2.2 million. Alternatively, applying the gate admission for 1996 then 2018 as base years, respectively, and projecting revenue based on changes in population, the estimated potential shortfall in revenues is between \$1.2 and \$2.7 million. Refer to Exhibit A.
- Concession revenues were analyzed for the period 1996 through 2007; concessions were outsourced to a third-party operator beginning in 2008. Applying 1996 as the base year and projecting future anticipated revenue based on population growth, total anticipated revenue from concessions reflects a potential shortfall of \$277 thousand. Refer to Exhibit B.
- In analyzing revenues from memberships (Exhibit C), programs (Exhibit D) and rentals (Exhibit E), due to the changes that occur in activities that support these revenue streams and the year-to-year pricing changes, no conclusion as to expected revenues in these account classes could be made. Refer to Exhibits C (memberships), D (programs) and E (rentals).
- Other-Misc. revenue accounts experienced significant decreases in overall revenue starting in 2004 and continuing through 2014. As this category encompasses several accounts with varying revenue streams, significant additional investigation is required to determine the cause for the decline. Refer to Exhibit F.
- In attempting to analyze the disbursement trends in both overall pool supplies and materials and pool contracts, including separate analyses isolating disbursement specific to Patterson (pool vendor), two distinct timelines were analyzed. For overall disbursements, 1996 through 2018 trends were captured. For Patterson, the analysis was from 2012 forward as that was the period in which Heather Ernst was responsible for contracting with vendors on behalf of the Recreation and Parks Department. The disbursement trends did not reflect unusual fluctuations for either overall pool supplies and materials for Patterson. Refer to Exhibits G (supplies and materials) and H (Patterson).

Attorney Work Product - Privileged and Confidential Communication

- In analyzing the level of capital expenditures, significant spikes in spending were identified in years 2007, 2010, 2014 and 2017. As outlays of capital are to be budgeted for and reviewed and approved by both the Finance Director and Council, determination as to cause of the spikes through review of underlying support and approval was left to Council's discretion. It was represented that two the spikes were likely tied to the pool expansions and the establishment of a first responders memorial park. Refer to Exhibit I.
- For contractual services, debt services and other miscellaneous disbursements, no discernable patterns of concern were disclosed, as these accounts would not be expected to trend consistently year-over-year. Specific to debt services, the recording of debt service within the Recreations and Park Department accounts was discontinued in 2001. Refer to Exhibits J (contractual services), K (debt services) and L (other miscellaneous).
- In analyzing personnel salaries, and specifically those of the position of Deputy Director, spikes in the base salaries from 2000-2007 were the result of having two concurrent deputy directors in the Department, and increases from 2008 through 2017 (final year of Heather Ernst's employment) were approved by Hilliard's Mayor and Council. Refer to Exhibit M.
- The number of purchase orders issued the year prior (2011) to Heather Ernst's assuming the position of Deputy Director was 180. In the years following, the number of purchase orders issued annually under Heather Ernst (from 2012-2017) increased significantly, as did the amounts tied to the purchase orders. Purchase order total amounts issued increase from \$472,000 in 2011 to \$1.52 million in 2017. The concern is that once a purchase order is established in the system, invoices associated with an approved purchase order are processed with little scrutiny. Refer to Exhibit N.
- For travel expenditures, no discernable pattern of concern was disclosed, as the account would not be expected to trend consistently year-over-year. Refer to Exhibits O.
- Analysis of utilities reflected there to be a significant decrease in the overall expenses in the year following Heather Ernst's departure (2018), which may warrant further analysis. Furthermore, the increases from 2013-2017, in a period of stable if not decreasing utility cost, may be cause for further analysis as to the transactions posted to the accounts. Refer to Exhibit P.
- An overall examination of the vendor master files disclosed a number of possible anomalies (e.g., duplicate vendors, P.O. addresses, employees, stale vendors) that require further investigation. Refer to Exhibit Q.

VI. AUDITOR REQUIREMENTS RELATING TO INTERNAL CONTROL MATTERS

Per your request, we have provided the following requirements, which outline the auditor's responsibilities for communication and reporting internal control matters to those charged with governance.

- Auditor's requirements under Generally Accepted Auditing Standards (GAAS). AU-C 265 is the authoritative section of GAAS that addresses the auditor's responsibility for evaluating and communicating internal control related matters.
- Auditor's requirements under Generally Accepted Auditing Standards (GAAS). AU-C 240 is the relevant authoritative section that provides the auditor's requirements under GAAS for considerations of fraud in an audit.
- AIPCA Audit and Accounting Guide (AAG) for governmental audits. AAG Chapter 4 states that any audit under Government Audit Standards (GAS) would need to comply with GAAS (see #1 and #2 above). Audits under GAS have additional testing and reporting requirements however around internal control above and beyond what GAAS requires.

VII. PROCESS IMPROVEMENT RECOMMENDATIONS

Prior to this engagement, Schneider Downs performed an assessment of the control environment of the City of Hilliard and issued a consulting report containing numerous recommendations to strengthen the controls throughout City government in order to better safeguard City assets. The report is public record. Based on the work performed in this engagement, additional opportunities to enhance controls were identified and captured in a separate observations document for the City's consideration. Refer to Exhibit R titled COH Control Observations.

This report summarizes the results of our analysis to date. We reserve the right to amend or supplement this report, if necessary, should additional information become available. All of the opinions and conclusions set forth in this report are rendered with a reasonable degree of professional certainty.

Very truly yours,

Schneider Downs & Co., Inc.

Certified Public Accountants

JBW/am
Ref: 44728 DM 2242769
Enclosures