

**REPORT OF FORENSIC INVESTIGATION OF
TRANSACTIONS RELATED TO THE
MONTGOMERY COUNTY
DEPARTMENT OF ECONOMIC DEVELOPMENT**

Prepared For:
THE OFFICE OF THE COUNTY ATTORNEY
MONTGOMERY COUNTY, MARYLAND

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Prepared By:
BAKER TILLY VIRCHOW KRAUSE, LLP

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I. PREFACE

Baker Tilly Virchow Krause, LLP (“Baker Tilly”) was retained by the Office of the County Attorney (the “OCA”) for Montgomery County, Maryland (“Montgomery County” or the “County”) to investigate transactions related to the Department of Economic Development (the “DED”), to be known as the “Scope 1 Forensic Investigation.” In the execution of the Scope 1 Forensic Investigation, Baker Tilly followed the Association of Inspectors General *Principles and Standards for Offices of Inspector General, May 2014*.

The Scope 1 Forensic Investigation, as reported in this *Report of Forensic Investigation of Transactions Related to the Montgomery County Department of Economic Development to Montgomery County, Maryland* dated November 16, 2018 (the “Scope 1 Report”), is not intended to be, nor should it be, considered an audit, review, or compilation in accordance with generally accepted government auditing standards (“GAGAS”) or generally accepted auditing standards (“GAAS”).

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.”¹ This Scope 1 Report does not contain an expression of opinion as to the fairness of the financial statements of Montgomery County or any other party referenced herein.

Unlike an accounting audit done in conformity with generally accepted accounting principles (“GAAP”), GAAS, or GAGAS, this examination was conducted to look specifically for indicia of fraud based on analysis of available records and interviews of internal and external stakeholders. The AICPA states in its *Forensic & Valuation Services Practice Aid: Forensic Accounting – Fraud Investigations* that the objective of a forensic investigation “is 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.”² Additionally, the Association of Certified Fraud Examiners *CFE Code of Professional Standards* states, “no opinion shall be expressed regarding the guilt or innocence of any person or party.”³ Baker Tilly does not make any determinations of fraud regarding any particular transaction or the legal guilt or innocence of any person; those determinations are the sole province of the judicial system.

As part of the Scope 1 Forensic Investigation described in this Scope 1 Report, it was necessary for Montgomery County and Baker Tilly to identify certain persons and entities related to the transactions determined to be of interest to the County and the OCA. Due to the nature of this investigation, those people and entities are referenced in this Scope 1 Report by name. Such

¹ American Institute of Certified Public Accountants AU-00110 Responsibilities and Functions of the Independent Auditor, revised March 2006, at 1. **Exhibit BT_052**.

² American Institute of Certified Public Accountants Forensic & Valuation Services Practice Aid: Forensic Accounting - Fraud Investigations, dated 2014, at 5. **Exhibit BT_051**.

³ CFE Code of Professional Standards, as of September 20, 2018, <http://www.acfe.com/standards/>, at 4. **Exhibit BT_075**.

references in no way should be construed as an indication of guilt of any crime or wrongdoing. However, some of the persons and entities named may be subject to additional investigation to determine if they were, in fact, engaged in criminal activity or other wrongdoing, which would ultimately be decided through the judicial process.

Baker Tilly has relied upon the completeness, accuracy and fair presentation of all information received during this investigation. Our analysis is conditional upon the completeness, accuracy, and fair presentation of such information. Baker Tilly has not audited or otherwise independently verified the completeness, accuracy, or fair presentation of such information. In some instances, the availability of more complete information may have resulted in different findings. Should the County or any of the entities involved identify additional information after the date of this Scope 1 Report, the conclusions reached by Baker Tilly could be different and we reserve the right, but will not be under any obligation, to review this information and revise our analysis or this Scope 1 Report. Baker Tilly's work also was not an audit of any of the County's or the DED's programs, including economic development, business innovation center or incubator, loan programs, grant programs, or individual loans or grants as to their appropriateness or results achieved.

Baker Tilly will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses suffered by the County or any third party as a result of circulation, publication, reproduction, use of or reliance upon the Scope 1 Report by any party other than the County. Baker Tilly will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses incurred by any third party as a result of circulation, publication, reproduction, use of or reliance upon this Scope 1 Report. The Scope 1 Report is not intended, nor should it be interpreted as, legal advice or opinion.

I. EXECUTIVE SUMMARY

This Executive Summary is a synopsis of the methodology, observations and findings, and recommendations contained in the report of forensic investigation of transactions related to the Department of Economic Development for Montgomery County, Maryland by Baker Tilly Virchow Krause, LLP (“Baker Tilly”), dated November 16, 2018 (the “Scope 1 Report”). While this Executive Summary is intended to give the reader a complete overview of the investigation performed by Baker Tilly for Montgomery County, Maryland into transactions related to the Department of Economic Development covering the time period July 1, 1996 through June 12, 2017 (the “Scope 1 Forensic Investigation”), we refer the reader to the entire Scope 1 Report for the detailed discussion, the Appendices and the Exhibits.

A. FORENSIC INVESTIGATION

On April 6, 2017, the Montgomery County Office of the County Attorney (the “OCA”) received a summons from the Internal Revenue Service (the “IRS”). The summons requested all records in possession of Montgomery County, Maryland (“Montgomery County” or the “County”) related to its business with, among other parties and entities, the following:

- Mr. Byung Il “Peter” Bang (“Mr. Bang”), the former Chief Operating Officer of the Montgomery County Department of Economic Development (the “DED”);
- Chungbuk Incubator Fund LLC (“CBIF”), which received payments from the DED;
- Chungcheongbuk-Do Province (“Chungbuk Province” or the “Province”), a Province of the Republic of Korea (South Korea) with which Montgomery County had a relationship for mutually beneficial economic development; and
- Seung Uk Hong, a member of Chungbuk’s Exchange Staff and sole member of CBIF at inception.

Upon receipt of the summons, the County began its own review of transactions related to these parties. The County identified:

- Two payments totaling \$2,010,197.85 to the vendor name “Governor of Chungbuk Province Korea” in 2014; and
- Thirteen payments totaling \$5,529,464.63 to the vendor name “Chungbuk Incubator Fund LLC” from 2010 through 2016.

The OCA retained Baker Tilly to perform a forensic investigation of financial transactions and activity of the DED on November 28, 2017. Baker Tilly’s scope was to identify and investigate all inappropriate transactions, including those related to Chungbuk Province, South Korea, Chungbuk Incubator Fund, LLC, and Mr. Bang. This Scope 1 Report contains Baker Tilly’s methodologies, observations and findings, and recommendations based on the Scope 1 Forensic Investigation.

Baker Tilly’s engagement also included a forensic investigation of the County’s relationship and transactions with certain vendors related to the Business Innovation Network program (the “BIN Program,” the “Incubator Program,” or individually, an “Incubator”), namely the Maryland Economic Development Corporation (“MEDCO”), Scheer Partners, Inc. (“Scheer”), and BioHealth Innovation, Inc. (“BHI”) covering the time period Fiscal Year (“FY”) 2007 through FY 2018,⁴ and a financial analysis of the sustainability of the BIN Program (the “Scope 2 Forensic Investigation”). The methodologies, observations and findings, and recommendations related to Scope 2 are included in a separate report, the report of forensic investigation into the County’s relationship and transactions with MEDCO, Scheer, and BHI covering the time period FY 2007 through FY 2018, and a financial sustainability analysis, as it pertains to the BIN Program for Montgomery County, Maryland by Baker Tilly, dated November 16, 2018 (the “Scope 2 Report”).

B. BACKGROUND OF RELATIONSHIP WITH CHUNGBUK PROVINCE

The DED’s stated mission was “to make Montgomery County a globally competitive and highly diversified knowledge-based economy.”⁵ The DED sought new opportunities to attract companies and technology, and to create and retain jobs. One such program was the County’s Incubator Program, providing space and other services to assist start-up companies in the County.

The County and the DED also looked internationally for opportunities to fulfill the mission. The DED fostered relationships with, for example, China, India, and Israel, in addition to its relationship with the Province. The County and the Province agreed to the Contribution/Donation Instrument County-Chungbuk executed March 23, 2010, (the “Contribution Instrument”) which outlined the terms and conditions under which the Province would invest \$2.0 million in the County to encourage mutual economic development.

The Province was interested in the development of an Incubator focused on life sciences that would attract companies from Chungbuk Province interested in establishing a presence in the United States. The funds were to develop the East County Center for Science and Technology (the “ECCST” or the “East County Incubator”), an Incubator for life sciences, located in White Oak, Maryland. Until that project was ready to begin, the funds were to be used to invest in the County’s Small Business Revolving Loan Program (the “SBRLP”). The County received \$2,150,000 in total (including \$150,000 purportedly earmarked for expenses) from the Province on August 31, 2010.

⁴ The County’s fiscal year beginning July 1 and ending June 30. The County’s annual operating and capital budgets and their appropriations are based on the Fiscal Year. Montgomery County Maryland Operating Budget, Glossary, as of September 17, 2018,

<https://apps.montgomerycountymd.gov/BASISOPERATING/Common/Chapter.aspx?ID=GLOS>, at 4. **Exhibit BT_071.**

⁵ Memorandum regarding Work session: FY12 Operating Budget Department of Economic Development (DED), dated May 12, 2011. http://montgomerycountymd.granicus.com/MetaViewer.php?view_id=6&clip_id=1338&meta_id=21177. **Exhibit_010_21.**

In April 2014, the County was still “not ready to move on with the East County project.”⁶ After the Province’s investment, the SBRLP had very little activity. For these two reasons, the County decided to terminate the relationship with the Province and return the Province’s investment. On July 22, 2014, the County returned the original investment, plus the Province’s share of the interest for a total of \$2,003,480.

C. FINANCIAL ACTIVITY OF THE PROVINCE AND CBIF

CBIF was organized in July 2010, seemingly for the sole purpose of posing as a vendor and submitting false invoices for goods or services never provided, a scheme known as a “Fictitious Vendor Scheme”. The County and Baker Tilly identified 13 payments totaling \$5,529,464.63 to CBIF from 2010 through 2016 that appear to have indications of potential fraud. Invoices were submitted to the County for seemingly valid expenses for the Incubators, such as rent, operating expenses, or payment of annual grants. However, the County had not contracted with CBIF to provide any goods or services to the Incubators, or any other County program. In fact, there were other vendors in place to manage the Incubators. There is no evidence to support that the payments were used in any way for the purposes described in the invoices. Based on various communications between Mr. Bang, Province officials, and the DED, it appears that the County was led to believe that CBIF was an arm of the Province, while the Province was led to believe it was an arm of the County.

It appears that the undated Investment and Incubator Space License Agreement between the Montgomery County Department of Economic Development and Chungcheongbuk-Do Province (the “License Agreement”) was not properly authorized by the County. The License Agreement called for a \$2.5 million investment: the \$2.0 million investment in the County under the Contribution Instrument and \$500,000 to an unknown recipient and a County designee. This additional \$500,000 was to be used under the purported License Agreement to pay the rent for companies from the Province that became tenants of the Incubators. Through email communications, Mr. Bang directed the Province to send the designee portion of the \$500,000 to CBIF.

Upon termination of the relationship with the County in 2014, the Province asked for the return of this portion of its investment as well. Based on email communications between Mr. Bang and officials of the Province, it appears that Mr. Bang arranged for the return of \$505,415.98, from an unknown source or sources.⁷ These sources do not appear to include payments from the County. Mr. Bang’s email communications implied that the funds were being returned by CBIF.

⁶ Memorandum regarding FY15 Operating Budget; NDAs - Working Families Income Supplement; State Property Tax Services; Restricted Donations; Grants to Municipalities in Lieu of Shares Tax; Future Federal/State Grants; Takoma Park Police Rebate; Municipal Tax Duplication; Leases dated April 17, 2014, http://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2014/140421/20140421_GO6.pdf.

Exhibit BT_003_4.

⁷ The amount \$505,415.98 is, at times, referenced as \$505,415.95 due to rounding differences.

D. SUBJECT TRANSACTIONS OCCURRED OUTSIDE THE OFFICE OF PROCUREMENT

The transactions in this Scope 1 Report identified as potentially fraudulent or at high-risk for potential fraud, waste, or abuse were handled as non-procurement transactions and occurred outside of the Office of Procurement. In fact, the individuals named in this Scope 1 Report appear to have intentionally avoided going through the Office of Procurement for the transactions in question.

E. PURCHASES

Broadly, County purchases may be classified as procurement or non-procurement. Procurement purchases are those that fall under the purview of *Chapter 11B: Contracts and Procurement*, of the *Code of Montgomery County Regulations* (the “Procurement Regulations”). The County has promulgated regulations that govern procurement purchases. Procurement purchases include “Direct Purchases,” which are an informal procurement of goods, services, or construction that does not exceed \$10,000 and are subject to a simplified process. Direct Purchases are made by the department purchasing such goods or services (the “Using Department”), not through the Office of Procurement. Purchases \$10,000 or greater are processed through the Office of Procurement and require a written contract, requisition and a Purchase Order (“PO”) issued by the Office of Procurement.

Non-procurement purchases are those where the nature of the purchase itself is not subject to procurement or those which are specifically exempted from the Procurement Regulations via statute (“Exempt Transactions”). Non-procurement purchases are handled directly by the Using Department. While POs are not issued for non-procurement purchases, the Using Department may, but is not required to, issue a Direct Purchase Order (“DPO”), which, like a PO, allows for funds to be encumbered prior to a purchase.⁸ If the Using Department does not issue a DPO, it will simply acquire the good or service.

It should be noted that the transactions at issue were handled as non-procurement transactions.

F. PAYMENTS

The County pays for purchases in one of two ways. Payments under \$10,000 may be processed directly by authorized personnel in the Using Department. Payments \$10,000 or greater are processed by authorized personnel in the Using Department and then the County’s Department of Finance, Accounts Payable Section.

After a purchase of \$10,000 or greater has been made, regardless of whether it was a procurement purchase or a non-procurement purchase, the vendor submits an invoice to the Using Department. The Using Department then verifies the invoice and receipt of goods or services, and authorizes payment. The invoice and supporting documentation are sent to the Department of Finance by the

⁸ “Encumbering” funds earmarks and reserves such funds through a PO or DPO for a particular purpose. This ensures that the funds will be available when payment is due.

Using Department. That invoice is then recorded as an account payable. Subsequently, the County processes the invoice and pays the vendor by check or other payment method.

In general accounting usage, “Accounts Payable” or “AP” are terms used to mean the amounts owed to vendors. As used in this Scope 1 Report, the use of the term “AP” includes the amount paid to the vendor.⁹

G. METHODOLOGY

1. Transaction Examination

Baker Tilly received purchase (procurement and non-procurement) and payment data from the County representing approximately 12,000 transactions. Baker Tilly developed and performed various forensic tests on this data and identified nearly 2,000 purchase and payment transactions with characteristics indicating varying degrees of risk for potential fraud, waste, or abuse requiring further analysis. The types of transactions included, but were not limited to: trade vendors for goods and services used in the ordinary course of business; not-for-profit community organizations receiving grants from the DED; large-scale economic development projects, such as the AFI Silver Theater and Cultural Center; consultants and attorneys for professional services; employees for out-of-pocket expenses; payments related to the programs in which CBIF and the Province were involved; payments to Mr. Bang; and payments to other individuals associated with CBIF or Mr. Bang.

Baker Tilly examined all relevant and available documents related to each of the identified purchases and payments. Baker Tilly also reviewed Montgomery County’s policies and procedures.

Additionally, Baker Tilly examined three hard drives: those of two former DED employees and the former DED network drive. These three hard drives contained approximately 240 GB of electronic data. In total, approximately 14,000 electronic files, including recovered deleted files and files written in Korean, were flagged for further analysis, including keyword searches.

2. Categorization of Transactions

After examination of all relevant and available documents related to each of the identified purchases (procurement and non-procurement) and payments, Baker Tilly categorized each transaction. The categories are defined by two criteria: (1) the presence or absence of indicators of potential fraud, waste, or abuse as defined by the United States Government Accountability Office; and (2) the sufficiency of supporting documentation for the transaction. Support documentation analyzed for each purchase transaction and each payment transaction selected for testing was determined to fall into one of the four categories described below:

⁹ Some of the AP transactions were canceled transactions, and, thus, no payment was made on that particular invoice.

Category 1: Transactions that contain indications of potential fraud, waste, or abuse and are sufficiently supported to make that determination. Category 1 is sub-categorized into 1a (potential fraud) and 1b (potential waste or abuse).

- **Category 1a:** Transactions that contain indications of potential fraud, defined as “obtaining something of value through willful misrepresentation.”¹⁰ Baker Tilly cannot make a determination of fraud regarding a particular transaction. A determination of fraud can be made only by the judicial system.
- **Category 1b:** Transactions that contain indications of potential waste or abuse.
 - Waste is defined as “the act of using or expending resources carelessly, extravagantly, or to no purpose.”¹¹
 - Abuse is defined as “behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice given the facts and circumstances. This includes the misuse of authority or position for personal gain or for the benefit of another.”¹²

Category 2: Transactions in which indications of potential fraud, waste, or abuse are not observed; however, Baker Tilly is unable to make a final determination of category due to a lack of sufficient documentation. Category 2 is sub-categorized into 2a and 2b:

- **Category 2a:** Transactions that are at higher risk for potential fraud, waste, or abuse, and sufficient documentation needed to categorize the transaction was not available. Baker Tilly made an additional documentation request for each of these transactions. The additional documentation was not received as of the date of this Scope 1 Report because the County could not locate it or the documentation does not exist to the best of the County’s knowledge. If additional information or supporting documentation is identified by the County at a later date for these Category 2a transactions, Baker Tilly recommends they be reviewed again to ascertain whether enough information exists to make a final category determination.
- **Category 2b:** Transactions that are at lower risk for potential fraud, waste, or abuse, and the documentation provided was insufficient to categorize the transaction. Given the low risk and unlikely outcome that these transactions would ultimately be categorized as 1a or 1b, it would not have been a prudent use of County resources to attempt to identify and/or retrieve additional support. Thus, Baker Tilly did not request additional documentation.

Category 3: Transactions that did not contain indications of potential fraud, waste, or abuse, and are sufficiently supported to make that determination.

¹⁰ United States Government Accountability Office, Standards for Internal Control in the Federal Government (“Green Book”), dated September 2014, <https://www.gao.gov/assets/670/665712.pdf>, at 3-4. **Exhibit BT_017.**

¹¹ *Id.* at 3.

¹² *Id.* at 3.

Category 4: Transactions that were not tested for one or more of the following reasons:

- The transactions totaled below \$5,000 for a vendor;
- It was unlikely to contain any indications of potential fraud, waste, or abuse based on the previous testing of a sufficient number of payments for the same vendor;
- No supporting documents were available, pursuant to the County’s retention policies;
- It was determined that the payment was for a purpose unrelated to the scope of this investigation; or
- The transaction occurred after June 12, 2017, Mr. Bang’s last day of employment with the County.

H. SUMMARY OBSERVATIONS AND FINDINGS, AND RECOMMENDATIONS

1. Summary Transaction Observations and Findings

Baker Tilly identified a pool of 1,592 invoices across 314 vendors totaling \$82.6 million that were at risk for potential fraud, waste, or abuse. Payments were made to various types of entities for various purposes, such as trade vendors for goods and services used in the ordinary course of business, not-for-profit community organizations receiving grants from the DED, companies for large-scale economic development projects, consultants and attorneys for professional services, and employees for out-of-pocket expenses.

After its examination of the relevant and available documentation, Baker Tilly categorized these payment transactions as follows:

Category 1	
Category 1a	<ul style="list-style-type: none"> • 17 invoices totaling \$5,599,665. <ul style="list-style-type: none"> ○ CBIF – 13 invoices totaling \$5.53 million. ○ Hanul Kim – one invoice totaling \$500. ○ Sohn Jung Mee – three invoices totaling \$69,700.
Category 1b	<ul style="list-style-type: none"> • None.

Category 2	
Category 2a	<ul style="list-style-type: none"> • Two payments to the Province totaling \$2 million. • Baker Tilly’s assessment is that these payments should be categorized as at potential risk for fraud, waste, or abuse given the Province’s central position in this situation, and the uncertainty surrounding the return of \$505,415.98 by another entity or entities. However, Baker Tilly has found no specific indications of fraud in these particular payments.
Category 2b	<ul style="list-style-type: none"> • 96 invoices totaling \$2.2 million. • Payees include grant recipients, trade vendors and service providers.
Category 3	
<ul style="list-style-type: none"> • 915 invoices totaling \$51.1 million. • Five payees with 11 transactions were large-scale development projects, such as the AFI Silver Theater and Cultural Center, totaling \$10.8 million. • Payees include grant recipients, trade vendors, and service providers. • Payments to certain vendors related to the BIN Program, namely MEDCO, Scheer, and BHI make up \$24.3 million of the \$51.2 million in payment transactions in this category. The County’s relationship and transactions with these vendors are the subject of the Scope 2 Forensic Investigation and the reader is referred to the Scope 2 Report for a discussion of the methodology, observations and findings, and recommendations related to that scope of the engagement. 	
Category 4	
<ul style="list-style-type: none"> • 562 invoices totaling \$21.7 million. • Of the 142 vendors in this category, 125 vendors’ total transactions were under \$10,000. • Payees include grant recipients, trade vendors, and service providers. • Payments to certain vendors related to the BIN Program, namely MEDCO and Scheer (no payments to BHI were placed in this category) make up \$8 million of the \$21.7 million in payment transactions in this category. The reader is referred to the Scope 2 Report for a discussion of the methodology, observations and findings, and recommendations related to that scope of the engagement. 	

Baker Tilly also examined 328 purchase transactions across 129 vendors, totaling \$47.1 million, using the same methodology and categorization –223 POs (*i.e.*, procurement transactions) and 105 DPOs (*i.e.*, non-procurement transactions). We found the results of this examination to be consistent with the findings regarding the payment transactions. To the extent that the purchase transactions do not result in actual payments, Baker Tilly finds that, as a whole, these purchases represent low risk transactions. The only exception being three DPOs relating to CBIF payments, where the DPOs only reflect the encumbrance of funds and do not represent additional funds paid to CBIF.

2. Findings Regarding Specific Vendor Payments

a. CBIF

There are strong indications that the \$5.53 million paid to CBIF was disguised as legitimate payments related to the Incubators, but was, in fact, a means to divert County funds.

b. The Governor of Chungbuk Province

The receipt of \$2 million and the return of those funds by the County appear to have been legitimate. Baker Tilly's assessment is that these payments should be categorized as potentially high-risk for fraud, given the Province's central position in this matter. However, Baker Tilly has found no specific indications of fraud in these particular payments.

Baker Tilly could not confirm the ownership of the Korean account from which the funds were sent, and to which the funds were returned. Therefore, Baker Tilly cannot rule out the possibility that the owner of the Korean account may not have been Chungbuk Province. In addition, Baker Tilly could not determine the source of the additional \$505,415.98 purportedly returned to the Province, although Baker Tilly has determined that the County did not send the funds.

The receipt of \$2 million from the Province nets against the return of those funds and the County did not sustain any loss as a result of these transactions.

c. Other Vendors

Baker Tilly observed that certain vendors had connections to or commonalities with, Mr. Bang, CBIF, and/or the Province, including: (i) Hanul Kim, a possible relative of Mr. Bang, whose invoice payment address was the same as Mr. Bang's; and (ii) Sohn Jung Mee, the first exchange staff member from the Province. Baker Tilly determined that there were no other indications of potential fraud, waste, or abuse with any other such vendors.

3. Internal Controls Observations

Baker Tilly performed a comprehensive review of the County's policies and procedures, workflow documentation, and audit reports to gain an understanding of the "Procure-to-Pay" process and the overall roles and responsibilities of key personnel. Baker Tilly observed that the internal control environment during the time period of review for the Scope 1 Forensic Investigation contained a number of weaknesses and gaps within the Procure-to-Pay process and other areas (*i.e.*, information security) that could provide an employee the opportunity to abuse his or her position of authority, including:

- Discretion for determining whether a particular purchase was subject to the County's Procurement Regulations rested with the Using Department making the purchase. This decentralized environment for non-procurement purchases allows for employees to circumvent the procurement requirements, whether for convenience or other purposes. For example, an employee could code an invoice to indicate that it was exempt from the Procurement Regulations and, thus, create large invoices for which the underlying agreement (if one existed)

would not have the benefit of OCA review (unless requested by the Using Department) or central oversight of the Office of Procurement.

- Procedures to improve the probability of detecting a Fictitious Vendor Scheme or fictitious invoices were not robust.
- Delegated signing authority on contracts and other document/agreement types lacked evidence to support that the delegation was authorized.
- Certain DED employees were out of compliance with policies to safeguard access to email and documents on individual computers.
- Checks could be held for pickup and not sent directly to vendors, which would allow for a check to be diverted from its intended recipient.
- Understanding and application of the Procure-to-Pay process policies and procedures appeared inconsistent during the time period under review.
- Certain DED employees did not conform with proper procurement and payment procedures by use of a third-party conduit.
- “Soft factors” such as the “tone at the top” and other office culture issues within the DED contributed to the circumstances under which fraud might be committed.

4. Recommendations

The Scope 1 Report makes general and specific recommendations to the County addressing the observed weaknesses and gaps in internal controls. These recommendations include, broadly, the following:

- Increase the frequency of audits of departments with a high volume of Exempt Transactions to ensure compliance with policies and procedures;
- Institute controls over how a transaction may be coded as exempt from the Procurement Regulations and subsequently paid with appropriate levels of oversight;
- More frequent training sessions for County employees on specific topics concerning each person’s roles and responsibilities, and general training and emphasis on fraud prevention and detection, especially as it pertains to Exempt Transactions;
- Educate personnel on the ramifications of improper use of County systems; and
- Conduct periodic, targeted, fraud risk assessments.

Baker Tilly understands that Montgomery County has already enacted changes to the Procure-to-Pay process, software systems, internal controls, and oversight as of the date of this Scope 1 Report. Baker Tilly has reviewed the updated policies and the internal control assessment report issued in May 2018 and encourages County personnel to continue any corrective actions currently in process and consider implementation of the recommendations detailed in this Scope 1 Report.

I. CONCLUSION

In conclusion:

- The transactions in this Scope 1 Report identified as potentially fraudulent or at high-risk for potential fraud, waste, or abuse were handled as non-procurement transactions and occurred outside of the Office of Procurement.
- Baker Tilly's process to determine the population of transactions to be examined was robust. This process resulted in Baker Tilly's investigation of 1,592 vendor invoices across 314 vendors totaling \$82.6 million.
- There are strong indications that \$5.53 million, disguised as legitimate payments related to the Incubators, was paid to CBIF as a means to divert County funds. Because \$150,000 of the payments to CBIF was provided by the Province, this amount was not a net negative payment for the County.
- Baker Tilly observed various indications that Mr. Bang may have been associated with CBIF and may have benefitted financially from the payments to CBIF.
- Baker Tilly identified an additional \$70,200 in potentially fraudulent payments to two individuals with connections to Mr. Bang or the Province.
- The receipt of \$2 million from the Province and the return of those funds by the County appears to have been legitimate. The County received \$2 million, and returned \$2 million, for no net loss.
- CBIF and an unknown party appear to have received approximately \$500,000 from the Province. Mr. Bang represented to the Province that those funds would be returned in whole by CBIF. Baker Tilly could not confirm receipt or return of the funds, although we have determined that the County was not the direct source of any of those funds.
- The County has changed its policies and procedures that were in effect during the time period of review for the Scope 1 Forensic Investigation and will continue to do so to increase the probability of preventing a similar occurrence in the future.

II. INTRODUCTION

A. 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 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 \$250 million.

I have been a Principal with Baker Tilly for five 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 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.

B. 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 2,800 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, and 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:

- AccessData Certified Examiner (“ACE”)
- Certified in Distressed Business Valuation (“CDBV”)
- Certified in Financial Forensics (“CFF”)
- Certified Fraud Examiner (“CFE”)
- 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.

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 Scope 1 Report, Mr. Sanvidge and his team are referred to as “Baker Tilly” or “we.”

D. DEFINITIONS

Capitalized terms are defined below to be used throughout the Scope 1 Report consistently and succinctly:

“ABHI” shall mean America’s BioHealth Intermediary. ABHI is the predecessor to BioHealth Innovation, Inc.

“ACFE” shall mean Association of Certified Fraud Examiners.

“ACH” shall mean Automated Clearing House. ACH is an electronic network for financial transactions. ACH transactions include direct deposit, payroll, and vendor payments.

“ADPICS” shall mean Advanced Purchase Inventory Control System. ADPICS is one of the legacy accounting systems used by the County through June 30, 2010. It included purchasing and payable modules.

“AICPA” shall mean the American Institute of Certified Public Accountants.

“AIG” shall mean Association of Inspectors General.

“AP” shall mean Accounts Payable, as is used in general accounting terms. Accounts Payable are monies owed to vendors for goods or services provided and are generally recorded through invoices presented by the vendor.

“AP Section” shall mean the Accounts Payable program under the Controller Division of the Department of Finance for Montgomery County, Maryland.

“BHI” shall mean BioHealth Innovation, Inc. BHI is a not-for-profit economic development company focused on biohealth initiatives. As of the date of this Scope 1 Report, BHI is responsible for management of biohealth programs at the Germantown Innovation Center and Rockville Innovation Center.

“BIN Program,” the “Business Incubator Program,” or an “Incubator” shall mean the Business Innovation Network, Montgomery County, Maryland’s network of business incubators.

“CAM” shall mean Common Area Maintenance. CAM is a provision in a lease whereby the landlord charges each tenant for common charges such as landscaping, garbage removal, snow removal, etc. The terms vary from lease to lease and each tenant is usually allocated expenses according to its relative percentage of square footage.

“Category 1” shall be as described in Section VI.F.

“Category 1a” shall be as described in Section VI.F.

“Category 2” shall be as described in Section VI.F.

“Category 2a” shall be as described in Section VI.F.

“Category 3” shall be as described in Section VI.F.

“Category 4” shall be as described in Section VI.F.

“CBIF” shall mean Chungbuk Incubator Fund LLC.

“Contribution Instrument” shall mean the document titled *Contribution/Donation Instrument County-Chungbuk* executed March 23, 2010.

“DED” shall mean the Department of Economic Development for Montgomery County, Maryland.

“DGS” shall mean the Department of General Services for Montgomery County, Maryland.

“DOA” shall mean Delegation of Authority.

“Direct Payment” shall mean the payment method previously used by the County for payment of any transaction exempt from the Procurement Regulations and not encumbered through a Direct Purchase Order or Purchase Order. As of April 1, 2018, the Direct Payment method is not allowed unless the transaction type is a permitted exception to the payment policy.

“Direct Purchase” shall mean any informal procurement of construction, goods, or services, with a total value of no more than \$10,000, made directly by the Using Department, as defined in the *Code of Montgomery County Regulations, Chapter 11.B, Section 4.1.9.1*.

“DPO” shall mean Direct Purchase Order, which is a Using Department-issued purchase order used for purchases, or for making payments, that are not subject to the County’s procurement law and regulations. DPOs can be issued in any dollar amount. By creating a DPO, the Using Department is able to encumber funds for a specific purpose in advance of the purchase, in a manner similar to the purchase order process followed by the Office of Procurement for purchases that are subject to the County’s Procurement Regulations.

“ECCST” or the “East County Incubator” shall mean the East County Center for Science and Technology.

“EDF” shall mean the Economic Development Fund of the County. The EDF assists private employers who are located, plan to locate, or plan to substantially expand operations in the County. Each program under the EDF is administered by the Department of Finance. Prospective applicants are identified by MCEDC, a not-for-profit economic development organization created by the County in 2015.¹³

“Encumbered Transaction” shall mean a transaction where funds are earmarked through a PO or DPO, and reserved for a particular purpose. This ensures that the funds will be available when payment is due.

“Enterprise Resource Planning” software or “ERP” such as the program used by the County, Oracle Business Intelligence Enterprise Edition, is an integrated suite of software modules that support the management of the County's financial, procurement, human resources, and budgeting systems, and which streamlines business operations by using recognized best practices in each of those areas.¹⁴

“Exempt Transaction” shall mean a transaction that is not subject to the County’s Procurement Regulations, either via specific statutory carve-out or due to the nature of the transaction.

¹³ Montgomery County Maryland Operating Budget, Economic Development Fund, as of September 17, 2018, <https://apps.montgomerycountymd.gov/BASISOPERATING/Common/Department.aspx?ID=EDF>, at 1. **Exhibit BT_070.**

¹⁴ Montgomery County Maryland Operating Budget, Glossary, as of September 17, 2018, <https://apps.montgomerycountymd.gov/BASISOPERATING/Common/Chapter.aspx?ID=GLOS>, at 3. **Exhibit BT_071.**

“Expanded Testing Population” shall mean those transactions identified while Scope 1B was in progress and tested after the Initial Testing Population was analyzed. This population consisted of 167 transactions in Oracle AP and 221 transactions in Legacy AP, for a total of 388 transactions in the Expanded Testing Population.

“FAMIS” shall mean Financial Accounting and Management Information System. FAMIS is one of the legacy accounting systems used by the County through June 30, 2010. FAMIS was used for payment processing and general ledger accounting.

“Fictitious Vendor Scheme” shall mean an entity posing as a vendor who submits false invoices for goods or services never provided.

“Fiscal Year” or “FY” shall mean the County’s fiscal year beginning July 1 and ending June 30. The County’s annual operating and capital budgets and their appropriations are based on the Fiscal Year.¹⁵

“GIC” or the “Germantown Incubator” shall mean the Germantown Innovation Center located adjacent to Montgomery College’s Germantown campus, which is focused on the life sciences industry.

“Initial Testing Population” shall mean transactions that were identified in Scope 1A for testing in Scope 1B, consisting of 1,188 transactions in Oracle AP, 328 transactions in Oracle PO/DPO, and 16 transactions in Legacy AP, for a total of 1,532 transactions in the Initial Testing Population.

“IRS” shall mean the Internal Revenue Service.

“IWW” shall mean the Incubator Without Walls, which is the former Wheaton Business Innovation Center that was located at the Westfield Mall.

“Legacy Data” shall mean data provided by the County, derived from either the ADPICS or FAMIS legacy accounting systems in use through June 30, 2010.

“Legacy Systems” shall refer to the ADPICS and FAMIS systems, collectively.

“Legacy Testing Period” shall mean July 1, 1996 (the beginning of Fiscal Year 1997) through June 30, 2010 (the end of Fiscal Year 2010).

“License Agreement” shall mean the document titled *Investment and Incubator Space License Agreement* allegedly executed between the Montgomery County Department of Economic Development and Chungcheongbuk-Do Province.

“MCEDC” shall mean the Montgomery County Economic Development Corporation, a not-for-profit public-private corporation designated by Montgomery County, Maryland, effective July 1, 2016, to implement the County’s economic development programs and activities.

¹⁵ *Id.* at 4.

“MCIA” shall mean Montgomery County Office of Internal Audit.

“MEDCO” shall mean Maryland Economic Development Corporation, an instrumentality of the State of Maryland. It is a vendor of the County related to the BIN Program, responsible for managing the revenue and expenses of the Incubators.

“Montgomery County” or the “County” shall mean the Government of Montgomery County, Maryland.

“MOU” shall mean Memorandum of Understanding.

“Mutual Release” shall mean the document titled *Mutual Release County-Chungbuk* executed July 7, 2014, whereby the Province and the County agreed to terminate the Contribution Instrument. As a result, the County returned the Province’s investment.

“NCCoE” shall mean the National Cybersecurity Center of Excellence. The NCCoE is the former Shady Grove Innovation Center.

“NDA” or “Non-Departmental Account” shall mean a budget category used to account for resources used for County-funded activities that do not fall within the functional assignment of any department, or for expenditures related to more than one department.¹⁶ One example of an NDA is the Incubator Programs – Economic Development Partnership.

“Non-Exempt Transaction” shall mean a transaction that is subject to the Procurement Regulations.

“OBIEE” shall mean Oracle Business Intelligence Enterprise Edition, the County’s enterprise reporting software.

“OCA” shall mean the Office of the County Attorney for Montgomery County, Maryland.

“OCR” shall mean Optical Character Recognition.

“OIG” shall mean the Office of the Inspector General for Montgomery County, Maryland.

“Oracle AP” shall mean the payables modules of Oracle.

“Oracle Data” shall mean data provided by the County, derived from the purchasing and payables modules of the Oracle.

“Oracle PO/DPO” shall mean the purchasing module of Oracle.

“Oracle REQ” shall mean the requisition functionality within the purchasing module of the Oracle.

¹⁶ *Id.* at 6.

“Oracle Testing Period” shall mean July 1, 2010 (the beginning of Fiscal Year 2011) through June 30, 2017 (the end of Fiscal Year 2017).

“Oracle Systems” shall mean the Oracle E-Business Suite, which is the County’s enterprise software, and shall refer collectively to the Oracle AP and Oracle PO/DPO modules, and Oracle REQ functionality.

“P2P” or the “Procure-to-Pay” process shall mean the full cycle, from initial requisition or purchase to final payment, including necessary authorizations, acceptance of goods or services, processing of invoices and payments, and separation of duties. This is a commonly used phrase in the finance and accounting industry to cover both the purchase and payment side of a transaction and for purposes of this report covers procurement purchases, non-procurement purchases, and payments.

“P-Card” shall mean the Purchasing Card provided to authorized Montgomery County employees as a means for paying for goods or services.

“PFER” shall mean Procurement Freeze Exemption Request, a process whereby an exemption from a County procurement freeze is justified and recommended.

“Procurement Regulations” shall mean *Chapter 11B: Contracts and Procurement*, as found in the *Code of Montgomery County Regulations*.

“PO” shall mean Purchase Order, which is used by the Office of Procurement to encumber funds for purchases made pursuant to the County’s procurement law and regulations. Following approval of a Purchase Requisition and execution of a contract in accordance with the procurement law and regulations, a Purchase Order must be issued by the Office of Procurement prior to performance under a contract.

“Province” shall mean Chungcheongbuk-Do Province, also known as Chungbuk Province or Chungbuk in South Korea.

“RCM” shall mean Risk and Control Matrix.

“REDI” shall mean Rockville Economic Development Inc., a public-private partnership formed to assist the City of Rockville, Maryland with economic development. Certain of REDI’s programs receive or did receive funding from the County.

“REQ” shall mean Purchase Requisition, which is part of the procurement policy and process of the County for purchases \$10,000 or greater that are subject to the Procurement Regulations.

“RFP” shall mean Request for Proposal.

“RIC” or the “Rockville Incubator” shall mean the Rockville Innovation Center, which focuses on medical technology and is located at Rockville Town Square.

“SBRLP” shall mean Small Business Revolving Loan Program, a County program administered by the EDF to lend funds to small businesses that lack access to traditional funding sources.

“Scheer” shall mean Scheer Partners, Inc., a commercial real estate firm that is the facilities manager and bookkeeper for certain County Incubators. Scheer is a vendor of the County and a current subcontractor of MEDCO.

“Scope 1 Forensic Investigation” shall mean the investigation performed by Baker Tilly for Montgomery County into transactions related to the DED covering the time period July 1, 1996 through June 12, 2017.

“Scope 1 Report” shall mean the report of forensic investigation into transactions related to the DED for Montgomery County, Maryland by Baker Tilly, dated November 16, 2018.

“Scope 1A” shall be as described in Section IV.C.1.

“Scope 1B” shall be as described in Section IV.C.2.

“Scope 1C” shall be as described in Section IV.C.3.

“Scope 2 Forensic Investigation” shall mean the forensic investigation into the County’s relationship and transactions with certain vendors related to the BIN Program, namely MEDCO, Scheer, and BHI covering the time period FY 2007 through FY 2018, and a financial sustainability analysis of the BIN Program.

“Scope 2 Report” shall mean the report of forensic investigation into the County’s relationship and transactions with certain vendors related to the BIN Program, namely MEDCO, Scheer, and BHI covering the time period FY 2007 through FY 2018, and a financial sustainability analysis of the BIN Program to Montgomery County, Maryland by Baker Tilly, dated November 16, 2018.

“SDAT” shall mean the Maryland State Department of Assessments and Taxation.

“SGIC” or the “Shady Grove Incubator” shall mean the Shady Grove Innovation Center also known as the William E. Hanna Innovation Center at Shady Grove or “WHIC”, which was closed in June 2014 and converted into the NCCoE.

“SSIC” or the “Silver Spring Incubator” shall mean the Silver Spring Innovation Center.

“SOD” shall mean Segregation of Duties.

“Special Revenue Fund” shall mean a governmental fund used to record the receipt and use of resources, which, by law, generally accepted accounting principles, or County policy, must be kept distinct from the general revenues of the County.¹⁷ The \$2 million investment by the Province was recorded as a Special Revenue Fund.

¹⁷ *Id.* at 8.

“TEDCO” shall mean Maryland Technology Development Corporation.

“Transaction Code” shall mean the code assigned to each purchase/payment transaction type made by the County. Exempt Transaction Codes begin with “999.”

“Unencumbered Transaction” shall mean a transaction that does not have funds set aside to complete payment through a PO or DPO. Payment is made out of the Using Department’s general funds available when payment is due.

“Unique ID” shall mean a unique system-generated identification number for invoices entered into Oracle AP and purchase orders entered into Oracle PO/DPO. The archived Legacy Data from the OBIEE systems does not have a common unique identification number field that can be used to link tables across different subject areas and therefore for the purposes of this Scope 1 Report, a Unique ID for Legacy Data was created using a combination of the invoice number and vendor name fields.

“Using Department” shall mean any department, office, or agency, which utilizes any goods, services, or construction.

E. KOREAN NAMES

Mr. Bang and several other people discussed in this Scope 1 Report are known or believed to be of Korean descent. Korean names use the family name first and the given name last. When “westernized,” the given name will be first and the family name last. Given names are generally a hyphenated name of two names, one syllable each. In some cases, people will choose a “western” first name, for example, Mr. Bang goes by the first name “Peter.”

People referenced in this Scope 1 Report may have names “westernized” by the person him or herself, or by others. The use of Korean versus “westernized” names may be inconsistent. In addition, “westernized names” are translated phonetically, and so given and family names may have alternate spellings, which may also be used inconsistently. For example, “Park” may also be spelled “Pak” and “Lee” may be spelled “Rhee” when “westernized.”

The family names Kim, Lee (or Rhee) and Park are the most common. Caution must be used when attempting to discern relationships between people with these family names in particular. In addition, married men and women usually keep their full personal names, and children inherit the father's family name.

In this Scope 1 Report, Baker Tilly will use the most frequently used name in the documentation provided for each person. However, when referencing a specific document, Baker Tilly will use the name as referenced in that document. As a result, the same person may be referenced with a name with a different spelling, a different order of names, or a “westernized” given name.

F. ACCESS TO DATA AND COOPERATION WITH THE COUNTY

Throughout the course of its investigation, Baker Tilly made numerous requests for documents to the County. On information and belief, Baker Tilly was provided substantially all documents

responsive to these requests. The County made significant efforts to ensure that Baker Tilly had access to County personnel for interviews and to provide additional information. Further, Baker Tilly worked collaboratively with the Office of the Inspector General for Montgomery County, Maryland (the “OIG”) throughout the investigation and there was consistent, mutual sharing of information between the two entities, which furthered the collective goal of identifying all potentially relevant information pertaining to this matter.

G. OVERVIEW OF THE ENGAGEMENT

The OCA retained Baker Tilly to provide forensic services related to the County’s economic development activities on November 28, 2017. The engagement includes a forensic investigation of transactions related to the DED and a forensic investigation into the County’s relationship and transactions with certain vendors related to the BIN Program, namely MEDCO, Scheer, and BHI covering the time period FY 2007 through FY 2018. This Scope 1 Report covers only the forensic investigation of transactions related to the DED; the Scope 2 Report covers the methodologies, observations, and recommendations of the forensic investigation into the County’s relationship and transactions with MEDCO, Scheer, and BHI covering the time period FY 2007 through FY 2018, and a financial analysis of the sustainability of the BIN Program.

Baker Tilly performed an independent forensic investigation into allegations involving the former Chief Operating Officer of the DED, Byung Il “Peter” Bang. It is alleged that Mr. Bang abused his position while employed by the County to misappropriate County funds through various methods. This Scope 1 Report documents Baker Tilly’s factual findings from the investigation, including analyses and assessments based on information gathered to date. It also suggests recommendations for next steps and internal control improvements.¹⁸

Baker Tilly performed data analysis on the County’s purchase and payment data to identify a risk-based sample of transactions at high-risk for potential fraud, waste, or abuse for further review and testing. Following Baker Tilly’s data analysis, a team of Baker Tilly FLVS professionals performed an on-site forensic investigation. This investigation included meeting with County personnel, analyzing physical and electronic documentation, and gathering necessary evidence to reach our conclusions. Additionally, a computer forensic examination of three hard drives containing approximately 240 GB of data in total was performed to identify information potentially relevant to this Scope 1 Forensic Investigation.

H. CASE OVERVIEW

Mr. Bang was hired by the County within the DED on February 24, 1997. He held several titles during his tenure, and was ultimately promoted to Manager I (Chief Operating Officer) on January 31, 2010. He remained employed by the County following the dissolution of the DED,¹⁹ after which he was transferred to the Department of Finance.

¹⁸ All information provided by the County as of October 31, 2018, has been considered as part of our testing, analyses, and conclusions.

¹⁹ Montgomery County Council enacted Bill 25-15, which, among other things, included the elimination of the DED, the transfer of certain duties of the DED to other County agencies, the designation of a non-profit corporation as the

On April 6, 2017, the OCA received a summons from the IRS regarding Mr. Bang and CBIF. The IRS requested all records in possession of the County related to its business with the government of the Province; CBIF, Chungbuk USA, Inc.; Mr. Bang; J and Y Remnant, LLC; Woodfield Diner; and Seung Uk Hong.²⁰

Upon receipt of the summons, the County began its own review of transactions related to Mr. Bang, CBIF, and the Province. The County identified two payments totaling \$2,010,197.85 to the vendor name “GOVERNOR OF CHUNGBUK PROVINCE KOREA” in 2014, and 13 payments totaling \$5,529,464.63 to the vendor name “CHUNGBUK INCUBATOR FUND LLC” from 2010 through 2016.

Following the internal review, the County delivered a statement of disciplinary charges to Mr. Bang and placed him on administrative leave effective May 16, 2017.²¹ Mr. Bang’s employment with the County was officially terminated on June 12, 2017.

I. COUNTY RELATIONSHIP WITH THE PROVINCE

The purpose of the DED was “to ensure Montgomery County remains a globally competitive and highly diversified knowledge-based economy.”²² Goals included to: retain and grow existing businesses; attract new business; enhance entrepreneurial opportunities; foster partnerships with academia, the federal research community, private sector, and various levels of government to pursue innovative projects; and to establish global partnerships to facilitate business opportunities

Montgomery County Economic Development Corporation, and assigned certain duties to that entity. Montgomery County, Maryland, Bill 25-15 concerning Economic Development - Reorganization - Montgomery County Economic Development Corporation, enacted June 30, 2015,

https://www.montgomerycountymd.gov/COUNCIL/Resources/Files/bill/2015/20150630_25-15.pdf. **Exhibit BT_011.**

²⁰ Records requested included, but were not limited to, the following: (1) agreements or MOUs between the County and parties identified in the summons, (2) records documenting termination of agreements or MOUs between the county and parties identified in the summons, (3) records of any investments made by CSK [the IRS summons refers to the Province as “CSK,” Chungbuk, South Korea] into the County or any County operated programs, (4) records of official travel made by County employees to CSK, (5) records of any official visits by officials from CSK to the County, (6) records of any payments or disbursements made by the County to any of the parties identified in the summons, (7) records of any money received by any of the parties identified in the summons, (8) records of any invoices or requests for disbursement of money by the parties identified in the summons to the County, (9) records of any audits or verifications performed by the County, or performed on its behalf, to verify the use of the funds dispersed to any parties identified in the summons, (10) any records of communication between the County and any officials of CSK, (11) all of Mr. Bang’s communication records, (12) Mr. Bang’s employment records, and (13) employment records of any individual who worked directly with any of the entities identified in the summons or CSK. IRS Summons, dated April 17, 2017, at 5. **Exhibit BT_004.**

²¹ Pursuant to the County’s disciplinary process and procedure in section 33.07.01.33 of the Montgomery County Personnel Regulations. Montgomery County Personnel Regulations §33 Disciplinary Actions, amended as of June 30, 2015. **Exhibit BT_068.**

²² Montgomery County FY15 Economic Development, undated, <https://www.montgomerycountymd.gov/OMB/Resources/Files/omb/pdfs/FY15/psprec/ded.pdf>, at 1. **Exhibit BT_073.**

abroad, attract international investment to the County, and foster trade and joint ventures between Montgomery County based businesses and the international business community.²³

The DED sought new opportunities to attract companies and technology and to create and retain jobs. One such opportunity was the County's BIN Program, which started in 1993 with one Incubator. The County and the DED also looked internationally for opportunities to fulfill the mission. The DED fostered relationships with, for example, China, India, and Israel, in addition to its relationship with the Province.²⁴

The DED began its discussions with the Province in 2002. The County and the Province signed a one-page memorandum of understanding ("MOU") in May 2004, which Mr. Bang described as an expression of a partnership spirit and did not, at the time, include any tangible projects. In March 2010, the County and the Province executed the Contribution Instrument that outlined the terms and conditions surrounding the \$2.0 million investment. The funds were to be used to invest in the County's SBRLP within the Economic Development Fund of the County ("EDF") until the East County Incubator was developed.

Although the Contribution Instrument only called for \$2 million in funding, the County received \$2.15 million in August 2010 via wire.²⁵ The Province provided \$150,000 for expenses, included in the \$2.15 million, which was not a provision of the Contribution Instrument. CBIF invoiced the County DED for this amount, and received \$150,000 on November 8, 2010.²⁶

CBIF invoiced the County, and was paid, 13 times in total from 2010 through 2016 for a total of \$5.53 million.

²³ Memorandum regarding Work session: FY12 Operating Budget Department of Economic Development (DED), dated May 12, 2011, http://montgomerycountymd.granicus.com/Viewer.php?view_id=6&clip_id=1338&meta_id=21177, at 21.

Exhibit BT_010.

²⁴ Memorandum regarding 2008 Annual Report, dated March 31, 2009, https://www.montgomerycountymd.gov/exec/Resources/Files/2008_annual_report.pdf, at 9. **Exhibit BT_024.**

²⁵ Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 3. **Exhibit BT_001.** Invoice with Baker Tilly performed translation, dated July 30, 2010. **Exhibit BT_020.** Montgomery County Maryland Government PNC Bank Statement, dated July 31, 2010 - August 31, 2010, at 3. **Exhibit BT_028.** Federal Reserve Bank Fund Transfer Data Record, dated August 31, 2010. **Exhibit BT_030.**

²⁶ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 5. **Exhibit BT_008A.**

J. CHRONOLOGY OF EVENTS²⁷

Table 1. Chronology of Events

Date	Event
<i>1993</i>	County created the first Incubator - The Montgomery County Technology Enterprise Center in Rockville. ²⁸
<i>1997</i> February 24	Mr. Bang hired by the County as a Senior Planning Specialist in the DED.
<i>1999</i> January 1	Shady Grove Incubator opened. ²⁹
	December 5
	Mr. Bang's position reclassified as Business Development Specialist III in the DED.
<i>2000</i> January 30	Mr. Bang non-competitively promoted to Senior Business Development Specialist in the DED.
<i>2001</i> July 1	Mr. Bang's position reclassified as Manager III in the DED (working title remained Senior Business Development Specialist).
<i>2003</i> September 21	Mr. Bang promoted to Manager II in the DED (working title: Chief of the Division of Finance, Administration, and Special Projects).
<i>2004</i> May 3	MOU executed between the County and the Province.
	September 2
<i>2006</i> June 15	Silver Spring Incubator opened. ³⁰
<i>2006</i> June 15	Wheaton Incubator opened. ³¹
<i>2007</i> June 12	Rockville Incubator opened. ³²

²⁷ Unless otherwise sourced with an Exhibit, information provided either verbally and/or through email from the County.

²⁸ Memorandum regarding Status Report - Department of Economic Development (Incubator Review), dated July 19, 2012, https://www.montgomerycountymd.gov/COUNCIL/Resources/Files/agenda/cm/2012/120723/20120723_PHED2.pdf, at 2. **Exhibit BT_046**.

²⁹ *Id.* at 12.

³⁰ *Id.* at 12.

³¹ *Id.* at 12.

³² *Id.* at 12.

Date	Event	
2008	October 20	Germantown Incubator opened. ³³
2009	August 16	Mr. Bang temporarily promoted to Manager I (working title: Manager of Marketing and Business Development Division).
2010	January 31	Mr. Bang permanently promoted to Manager I (working title: Chief Operating Officer).
	March 23	Effective date of the Contribution Instrument executed by the County on March 17, 2010 and the Province on March 23, 2010. ³⁴
	July 22	CBIF filed Articles of Organization. ³⁵
	August 31	County received \$2.0 million investment from the Province and \$150,000 for expenses.
	November 8	Check issued to CBIF for expenses of \$150,000 paid by the Province to the County. ³⁶
2011	July 21	County issued checks for \$800,000 to CBIF (\$680,000 and \$120,000). ³⁷
2012	March 8	County issued check for \$138,980.63 to CBIF. ³⁸
	May 11	County issued check for \$130,000 to CBIF. ³⁹
	July 13	County issued check for \$840,000 to CBIF. ⁴⁰
2013	July 5	County issued check for \$840,000 to CBIF. ⁴¹

³³ *Id.* at 12.

³⁴ Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 12. **Exhibit BT_001.**

³⁵ Chungbuk Incubator Fund LLC Articles of Organization for a Limited Liability Company, dated July 22, 2010, at 1. **Exhibit BT_050.**

³⁶ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 5. **Exhibit BT_008A.**

³⁷ *Id.* at 14.

³⁸ *Id.* at 18.

³⁹ *Id.* at 23.

⁴⁰ *Id.* at 28.

⁴¹ *Id.* at 32.

Date	Event
2014 February 7	The County initiated payment of \$6,718.01 in interest and loan fees earned from the SBRLP in FY 2013 to the Province. ⁴²
June 26	County issued checks for \$81,500 to CBIF (\$23,000 and \$58,500). ⁴³
July 3	Effective date of the Mutual Release from Contribution Instrument executed by the County on June 17, 2014 and the Province on July 3, 2014.
July 8	County issued check for \$970,000 to CBIF. ⁴⁴
July 22	The County initiated payment to return \$2,003,479.84 to the Province, of which \$3,479.84 was interest earned from the SBRLP in FY 2014. ⁴⁵
July 29	Mr. Bang emailed the Province with a screen shot showing a wire in process of \$505,415.98, but without account name or number, or recipient name. ⁴⁶
August 25	CBIF filed Articles of Cancellation; Mr. Bang reported on his 2014 Federal tax return that his interest in CBIF had been disposed of on August 28, 2014. ⁴⁷
2015 June 23	CBIF refiled Articles of Organization. ⁴⁸

⁴² Governor of Chungbuk Province Korea Invoice #020714 Packet, dated September 2013 – February 2014, at 18. **Exhibit BT_029.**

⁴³ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 37. **Exhibit BT_008A.**

⁴⁴ *Id.* at 43.

⁴⁵ Governor of Chungbuk Province Korea Invoice #071514 Packet, dated June – July 2014, at 23. **Exhibit BT_018.**

⁴⁶ Emails between Peter Bang, Kim Sang-sook (Chungbuk Province) and Jeong Soon Lee, dated July 23-29, 2014, at 1. **Exhibit BT_033.**

⁴⁷ Chungbuk Incubator Fund LLC Articles of Cancellation, dated August 25, 2014, at 1. **Exhibit BT_047.** Chungbuk Incubator Fund LLC Schedule K-1 Partnership, dated 2014, at 4. **Exhibit BT_049.**

⁴⁸ Chungbuk Incubator Fund LLC Articles of Organization, dated July 23, 2015, at 1. **Exhibit BT_043.**

Date	Event
June 30	Montgomery County Council enacted Bill 25-15, which, among other things included the elimination of the DED, the transfer of certain duties of the DED to other County agencies, the designation of a non-profit corporation as the MCEDC and assigned certain duties to that entity. ⁴⁹
August 6	County paid \$521,484 to CBIF via ACH. ⁵⁰
October 13	County paid \$360,000 to CBIF via ACH. ⁵¹
November 23	County paid \$315,000 to CBIF via ACH. ⁵²
December 11	CBIF refiled Articles of Cancellation. ⁵³
2016 March 1	County paid \$382,500.00 to CBIF via ACH. ⁵⁴
June 30	DED was operationally dissolved; remaining DED employees were moved under the Department of Finance or other departments within the County.
2017 April 6	The IRS issued a summons to the County for records relating to Mr. Bang ⁵⁵
May 16	Mr. Bang placed on administrative leave.
June 12	Mr. Bang's employment terminated from the County.

⁴⁹ Montgomery County, Maryland, Bill 25-15 concerning Economic Development - Reorganization - Montgomery County Economic Development Corporation, enacted June 30, 2015, https://www.montgomerycountymd.gov/COUNCIL/Resources/Files/bill/2015/20150630_25-15.pdf, at 1. **Exhibit BT_011.**

⁵⁰ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 45-47. **Exhibit BT_008A.** There is no documentation of the paid amount because transaction was processed through ACH.

⁵¹ *Id.* at 49-51.

⁵² *Id.* at 53-55.

⁵³ Chungbuk Incubator Fund LLC Articles of Cancellation, dated December 11, 2015, at 1. **Exhibit BT_038.**

⁵⁴ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 57-59. **Exhibit BT_008A.** There is no documentation of the paid amount because transaction was processed through ACH.

⁵⁵ IRS Summons, dated April 17, 2017, at 1. **Exhibit BT_004.**

III. BAKER TILLY SCOPE OF ENGAGEMENT

A. OVERVIEW

Baker Tilly was originally retained to perform a forensic review of all purchase and payment data related to the DED for fiscal years 2010 through 2017 to identify all potentially fraudulent or otherwise inappropriate transactions related to Mr. Bang and/or his known associates. During the course of the investigation, new information and identification of new entities as keywords led to an expansion of the time period under review to include fiscal years 1997 through 2009, and the inclusion of AP data outside of the original DED chart of accounts (*i.e.*, transactions coded to other departments). The scope was also expanded to include a computer forensic examination of three hard drives, additional sources of potentially relevant information outside of the transaction support maintained by the Department of Finance, the Office of Procurement, or individual department records. The discovery of additional entities with known or suspected connection to Mr. Bang, CBIF, or the Province, and other sources of information warranted a further expansion of the investigative scope.

The engagement was executed in three parts. Scope 1A was a fraud risk assessment using data analytics to identify a population of transactions at high-risk for potential fraud, waste or abuse, for further review and testing. Scope 1B was an examination of the documentation supporting these transactions, including but not limited to, copies of invoices and purchase orders, where available. Scope 1C was a computer forensic examination of three hard drives used by the DED.

B. LIMITATIONS

Baker Tilly was engaged to perform a forensic investigation of transactions related to the DED for the OCA. The services provided as described in this Scope 1 Report are not intended to be, nor should they be considered an audit, review, or compilation in accordance with government auditing standards or generally accepted auditing standards. Baker Tilly followed the Association of Inspectors General Principles and Standards for Offices of Inspector General in the execution of this Forensic Investigation.⁵⁶

The 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.”⁵⁷ This Scope 1 Report does not contain an expression of opinion as to the fairness of the financial statements of the County or any other party. 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

⁵⁶ Association of Inspectors General Principles and Standards for Offices of Inspector General, dated May 2014, <http://inspectorsgeneral.org/files/2014/11/AIG-Principles-and-Standards-May-2014-Revision-2.pdf>. **Exhibit BT_067.**

⁵⁷ American Institute of Certified Public Accountants AU-00110 Responsibilities and Functions of the Independent Auditor, revised March 2006, at 1. **Exhibit BT_052.**

method(s) employed, and attempt to quantify the questionable amounts involved.”⁵⁸ Baker Tilly’s forensic investigation 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.”⁵⁹ Additionally, the ACFE Code of Professional Standards states, “no opinion shall be expressed regarding the guilt or innocence of any person or party.”⁶⁰

Baker Tilly assumed all information received during this investigation is correct and as complete as possible, 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 the County identify additional information after the date of this Scope 1 Report, the conclusions reached by Baker Tilly could change. Baker Tilly’s work was not an audit of any of the County’s or the DED’s programs, including economic development, Incubator, loan programs, grant programs, or individual loans or grants as to their appropriateness or results achieved.

C. SCOPE

1. Fraud Risk Assessment (Scope 1A)

Scope 1A was to perform a fraud risk assessment of all payment and purchase data related to the DED for Fiscal Years 2010 through 2017. The purpose was to use data analytics to identify a risk-based sample of transactions at high-risk for potential fraud, waste, or abuse for further review and testing. Section V. below details the methodology used to perform analysis on the County’s data derived from the Oracle Systems and Legacy Systems.

2. Forensic Investigation (Scope 1B)

Scope 1B was to perform a forensic investigation of the transactions identified in Scope 1A. Baker Tilly was to examine all relevant (and available) documents supporting these transactions and make a determination if indications of potential fraud, waste, or abuse were present. Scope 1B expanded during the course of the investigation to include additional transactions for testing not previously identified in Scope 1A.

3. Computer Forensic Examination (Scope 1C)

Scope 1C was to perform a computer forensic examination of three hard drives (two former DED employee hard drives and the former DED network drive) containing approximately 240 GB of data in total. This scope item was to ensure all sources of potentially relevant information were examined and considered.

⁵⁸ American Institute of Certified Public Accountants Forensic & Valuation Services Practice Aid: Forensic Accounting - Fraud Investigations, dated 2014, at 3. **Exhibit BT_051**.

⁵⁹ *Id.* at 5.

⁶⁰ CFE Code of Professional Standards, as of September 20, 2018, <http://www.acfe.com/standards/>, at 4. **Exhibit BT_075**.

IV. METHODOLOGY AND PRELIMINARY FINDINGS – FRAUD RISK ASSESSMENT (SCOPE 1A)

A. INTRODUCTION

The purpose of Scope 1A, the Fraud Risk Assessment, was to identify a population of transactions at high-risk for potential fraud, waste, or abuse for further review and testing. Baker Tilly took these steps:

1. Created data sets for analysis by combining purchase and payment data from the Oracle and Legacy Systems;⁶¹
2. Developed a series of data analytic tests, including keyword searches and forensic analyses, to perform on the data sets; and
3. Reviewed the initial output from the analyses and refined as necessary to eliminate false positives and transactions at low risk for potential fraud, waste, or abuse.⁶²

In FY 2010 and prior, the County’s purchase and payment data was housed in two, legacy systems: the Advanced Purchase Inventory Control System (“ADPICS”), and the Financial Accounting and Management Information System (“FAMIS”). Per the County’s explanation, purchasing and payable modules were a part of the ADPICS system. The posted transactions were then transferred to the FAMIS system for actual payment processing and general ledger accounting reconciliation. Transactions during July 1, 1996 (the beginning of Fiscal Year 1997) through June 30, 2010 (the end of Fiscal Year 2010) (the “Legacy Testing Period”) were derived from these two systems and are referred to as the “Legacy Data.”

Beginning in FY 2011, the County transitioned to an integrated Oracle Enterprise system in which PO and requisition (“REQ”) data are stored together in a module and AP data is stored separately. The County archived the most commonly used financial data, including the Legacy Data, into the Oracle Business Intelligence Enterprise Edition (“OBIEE”) data warehouse; therefore, only certain data fields (e.g., invoice date, invoice number, invoice amount, etc.) from the Legacy Data were retained.

B. ACCESS TO AND AVAILABILITY OF DATA

Baker Tilly initially requested and received data for every purchase and payment transaction related to the DED for the entire Oracle Testing Period and FY 2010 of the Legacy Testing Period.

⁶¹ Formatting means ensuring field types and format are consistent across the data, but does NOT change the data (e.g., text, numbers, dates) itself. For example, if one date field is formatted as MONTH, DAY, YEAR and another date field is formatted as MM/DD/YYYY then one field must be re-formatted to match the other so that they can be analyzed.

⁶² False positive means that the result of an analytic test meets the criteria and objective of the test initially; however, upon detailed review of the resulting data record, it is obvious that the result does not apply to the overall scope of the engagement. For example, a test for potential duplicate payments may identify a recurring rent or utility payment for the same amount to the same vendor that is not a potentially fraudulent or inappropriate duplicate payment, but rather a normal business transaction that reoccurs on a set frequency.

Following the receipt of this initial data, the County identified additional transactions outside of the original DED chart of accounts where it is believed transactions related to Mr. Bang and the Province could most likely be identified, and provided those to Baker Tilly as well.

C. DATA PROVIDED BY THE COUNTY

The County provided all of the DED purchase and payment transactions in a total of 40 data tables with 1,339 different fields to be combined. Each table contained fields pertaining to different stages or components of a transaction. For example, the AP_CHECKS_ALL table from the Oracle AP data included fields such as check date, amount, check number, and bank account name. The PO_LINES_ALL table from the Oracle PO/DPO data included fields such as PO line ID, creation date, line number, and amount. The LEGACY_ADPICS_INVOICE table from the Legacy AP data included fields such as invoice number, vendor name, invoice amount, and invoice date (*see* Appendix II for further detail).

D. CREATION OF DATA SETS

1. Table and Field Mapping

Baker Tilly and the County collaborated on the creation of four main data sets: Oracle AP, Oracle PO/DPO, Oracle REQ, and Legacy AP. Each data set was planned and mapped to indicate the ways that each table and field would be joined together. Relationship diagrams and detailed joining procedures were created, reviewed, and agreed to by both Baker Tilly and the County prior to combining the data.

Legacy PO, initially a planned data set, was excluded by mutual agreement between Baker Tilly and the County after examination. Not all of the necessary data fields were available to combine the data sets or to perform the analytic tests as designed. Further, historical knowledge of the Legacy Systems within the County was limited, adding to the complexity of joining the data. However, even with the limited available fields, the County was able to provide the corresponding PO to payments as needed.

2. Additional Transactions

After Baker Tilly received the initial data, the County identified two additional types of transactions of interest outside of the DED chart of accounts. Baker Tilly and the County discussed and performed a review of these additional transactions not included in the original data set:

- “Balance sheet” invoice transactions (*e.g.*, items that were accrued, such as interest and inventory purchases). The County and Baker Tilly agreed that only one transaction out of the 250,001 County-wide transactions identified needed to be included in the data set for analysis, a payment to the Governor of Chungbuk Province totaling \$6,718.01.⁶³

⁶³ This payment was for 70% of the interest and 100% of the loan origination fees earned from the SBRLP in FY 2013, in accordance with the Contribution Instrument.

- DED transactions outside of the original chart of accounts approved by Mr. Bang. After review, all 90 transactions totaling \$8,392,474.56 were included.

These 91 additional transactions were integrated into the original data requested and the County provided updated data tables.

3. Data Set Creation – Joining of Tables and Fields

The County provided the 40 Oracle and Legacy tables in separate, delimited files that could be converted into Microsoft Excel files.⁶⁴ Baker Tilly imported each of the files into third-party data analysis software to perform forensic tests.

Baker Tilly corrected field formatting where necessary, then joined the tables in accordance with the relationship diagrams and joining procedures. To join the data, a primary key (*e.g.*, invoice ID or check ID) was used to bring data fields from both tables together.⁶⁵ In some instances, secondary fields (*e.g.*, vendor name, date, amount) were added to the primary key to match records (rows) of data between two or more tables. This process continued by matching on primary keys and secondary fields as needed until all tables were joined into one large data set with all necessary fields and records.

From the 40 tables provided, 19 were used to create the Oracle data sets. The Legacy AP data set was combined by the County using five tables. Certain tables overlap data sets; however, eight tables comprised the Oracle AP data set, seven tables comprised the Oracle PO/DPO data set, and four tables comprised the Oracle REQ data set. The remaining 16 tables, which include archive tables and history tables, were excluded from the data sets to avoid duplication of records and were reviewed separately. The total record count for each data set is as follows:⁶⁶

⁶⁴ These tables were provided as “pipe delimited” text files. A pipe delimited file is similar to a “CSV” (Comma Separated Values), except that the vertical line “|” (*i.e.*, the “pipe”) is used as the delimiter.

⁶⁵ A primary key is a data field used to combine data from two or more tables that must contain a unique value for each row or record of data, to match the data.

⁶⁶ A record indicates one row in the data set; it does not necessarily indicate one invoice or purchase order. There could be multiple records relating to an invoice or purchase order.

Table 2. Record Counts

Data Set	# of Records	# of Unique IDs
Oracle AP	16,812	9,030
Oracle PO/DPO	946	823
Oracle REQ	505	473
Legacy AP	1,511	1,511
TOTAL	19,774	11,837

4. Development of Fraud Risk Assessment Tests

Baker Tilly developed a series of data analytic tests to perform on the four data sets to identify a testing population of transactions at high-risk for potential fraud, waste, or abuse that had not been previously identified or tested by the County. The tests performed include common forensic analyses and a search of keywords selected by Baker Tilly following a review of background information provided by the County at the start of the engagement. The tests performed were:

Table 3. Tests Performed

Test Number	Criteria	Qualification
Test 1	Transactions related to Chungbuk	Part of a name of a business entity (<i>i.e.</i> , CBIF) and a reference to the shortened name of a province in South Korea.
Test 2	Transactions related to Peter Bang and potential aliases	Former DED employee known as Peter Bang or Byung Il Bang.
Test 3	Transactions related to Chungcheongbuk-do Province and other spellings	Full/legal name of a South Korean province.
Test 4	Transactions related to Samuel Kim	Agent on organizational papers of CBIF; contact person on CBIF invoices.
Test 5	Transactions related to Youn Hee Jung	Spouse of Mr. Bang.

Test Number	Criteria	Qualification
Test 6	Transactions related to Chungbuk Province's banks by name and account number	Korean bank accounts where County money was sent.
Test 7	Transactions related to CBIF by taxpayer identification number	Taxpayer identification number of CBIF.
Test 8	Transactions with an address in common with known addresses of CBIF and variations thereof	If there are vendors at the same address as CBIF, it could indicate that the vendors are potentially related to CBIF or Mr. Bang.
Test 9	Transactions related to CBIF's bank account by number	Known bank account number of CBIF.
Test 10	Transactions related to CBIF during the date range that CBIF's status with the State of Maryland was reported as inactive	Prior to July 22, 2010; From August 25, 2014 to June 22, 2015; and After December 11, 2015.
Test 11	Transactions related to Scheer	Vendor related to the Incubator Program.
Test 12	Transactions related to MEDCO	Vendor related to the Incubator Program.
Test 13	Potential duplicate or split transactions	Standard forensic test: A duplicate transaction could be an attempt by a County employee or vendor to inappropriately receive, or make/generate a duplicate payment improperly for an invoice that had already been paid. A split transaction could be an attempt by a County employee to circumvent an approval threshold or authorization requirement.

Test Number	Criteria	Qualification
Test 14	Benford's Law analysis	Standard forensic test: Examines outliers in the expected frequency of numbers in the data according to the mathematical law known as "Benford's Law". These outliers could be an indication of potential fraud, waste, or abuse.
Test 15	Round dollar transactions	Standard forensic test: Round dollar transactions are not statistically typical and a large volume of them in a data set could be a potential indicator of fraud, waste, or abuse.
Test 16	Transactions paid or approved on weekends	Standard forensic test: Transactions paid or approved on a non-business day could be a potential indicator of fraud, waste, or abuse.
Test 17	Wires transactions	Some payments in this matter were wired; therefore, a search for this payment type was included.
Test 18	Negative transactions	Standard forensic test: Could indicate an improper cancellation and re-issuance of a disbursement.
Test 19	Same initiator and approver	Standard forensic test: Could indicate an attempt to circumvent system and procedural controls.
Test 20	Payment date before invoice date	Standard forensic test: Could be an indication of a manipulated payment.

Test Number	Criteria	Qualification
Test 21	Transactions related to Korea	Transactions related to Korea that also could potentially be related to the Chungbuk Province and/or CBIF.
Test 22	Transactions related to TEDCO, Orion Ventures, Montgomery College, and BHI	Vendors related to the Incubator Program.
Test 23	Transactions related to Mr. Bang's personal bank account by name and number	Bank accounts known to be controlled by Mr. Bang.
Test 24	Addresses potentially associated with Mr. Bang	A vendor using Mr. Bang's address could indicate that the vendor is related to Mr. Bang, and/or may not be a legitimate vendor.

5. Initial Testing Population

Not all tests were performed on all four data sets due to lack of relevancy to the data set. For example, Test 17 was not performed on Oracle PO/DPO or Oracle REQ because there is no transaction type field in the data set, that is, the invoice had not been received nor payment made at that point in the process. Additionally, Test 20 was not performed on Oracle PO/DPO or Oracle REQ because no payment data exists in the Oracle PO/DPO module (which also contains the Oracle REQ functionality). Based on the limited fields available for Legacy AP as a result of how the data was archived, Baker Tilly and the County mutually agreed to the tests that could reasonably be performed on that data set. For example, Test 19 could not be performed because no approver field was available. The table below shows which tests were performed on which data sets:

Table 4. Data Sets

Data Set	Tests Performed
Oracle AP	Tests 1-24
Oracle PO/DPO	Tests 1-5, 7-8, 10-16, 18-19, and 21-22
Oracle REQ	Tests 1-5, 7-8, 10-16, 18-19, and 21-22
Legacy AP	Tests 1-12 and 21-24

Baker Tilly documented the initial results by number of test hits and number of unique IDs and then reviewed the results to identify false positives or transactions at low risk for potential fraud, waste, or abuse that could potentially be excluded from the testing population. We also identified instances where a particular transaction was flagged on more than one test and documented these overlapping results. Baker Tilly presented a summary of the initial results, overlapping test hits, suggested transaction exclusions, and a refined number of results to the County for review and feedback. Baker Tilly’s preliminary results for the County included the following:

Table 5. Unique IDs

Data Set	Unique IDs
Oracle AP	8,254
Oracle PO/DPO	1,197
Oracle REQ	746
Legacy AP	20
TOTAL	10,217

The County reviewed Baker Tilly’s preliminary results and provided feedback for consideration to refine the results further. Certain test results were excluded from the final results based on overlapping search hits, canceled transactions, and institutional knowledge from the County that helped Baker Tilly assess whether transactions were at low risk and could be excluded. Baker Tilly and the County agreed to exclude the Oracle REQ data set from further review and testing because a requisition (*i.e.*, a request from a department to purchase a good or service \$10,000 or greater that must be reviewed and approved by the Office of Procurement) does not commit the County until a PO is executed. The County and Baker Tilly determined the Initial Testing Population to be:

Table 6. Initial Testing Population

Data Set	Unique IDs
Oracle AP	1,188
Oracle PO/DPO	328
Oracle REQ	-
Legacy AP	16
TOTAL	1,532

6. Expanded Testing Population

While executing Scope 1B, additional persons, entities, and addresses were identified by the County and Baker Tilly as appropriate additional keywords. Further, the County identified a potentially high-risk transaction that occurred prior to FY 2010 outside of the DED. As a result, Baker Tilly and the County agreed that the time period under review should be extended back to FY 1996. The new keywords were searched across all Oracle Data and Legacy Data from FY 1996 through FY 2017.

Table 7. Expanded Testing Population⁶⁷

	Initial Results of Expanded Search Unique IDs	Expanded Testing Population Unique IDs
Oracle AP	2,312	167
Legacy AP	1,009	221
TOTAL	3,321	388

⁶⁷ Table represents transaction count after keyword testing and therefore does not represent total transaction count of entire data population.

V. METHODOLOGY – FORENSIC INVESTIGATION (SCOPE 1B)

A. INTRODUCTION

Scope 1B was an examination of the transactions identified in Scope 1A as high-risk for potential fraud, waste, or abuse. Baker Tilly took these steps:

1. Reviewed internal policies and procedures and legal regulations, and interviewed process owners;
2. Requested supporting information for each transaction in the testing populations from the County (including follow-up requests as necessary);
3. Reviewed transactions for a number of criteria and documented such review; and
4. Determined the appropriate characterization of each transaction, based on the presence of indications of potential fraud, waste, or abuse.

B. REVIEW OF INTERNAL POLICIES AND PROCEDURES AND REGULATIONS

1. Procure-to-Pay Process

The Procure-to-Pay process is the full cycle, from the acquisition of goods or services to processing of invoices and payments. The Office of Procurement is responsible for administering the procurement of goods and services pursuant to the Procurement Regulations, while Using Departments are responsible for the acquisition of goods and services exempt from, or not subject to, the Procurement Regulations. The AP Section of the Division of the Controller in the Department of Finance is responsible for processing accurate and timely payments to suppliers.

Baker Tilly requested and reviewed process and procedure documentation from the Department of Finance, including audit reports, process workflows, internal policies, training materials, system printouts/screenshots, and roles and responsibilities listings. Baker Tilly also reviewed the Procurement Regulations, accessed online via a link through the Office of Procurement website, and the record retention policies provided by the Department of Finance. Baker Tilly met with representatives from the Office of Procurement to review the documents contained in a contract file to gain an understanding of required support for POs. Baker Tilly also met with representatives from the Department of Finance to gain an understanding of required support for DPOs, the AP workflow (*i.e.*, payment processing and approvals) and the Oracle Systems and Legacy Systems data provided.

The three areas covered by the Procure-to-Pay process in this Scope 1 Report are:

a. Procurement

The Office of Procurement is responsible for contracting for the purchase of goods and services for the County pursuant to the Procurement Regulations, subject to certain exceptions discussed herein. Procurement policies are described within the *Montgomery County Code* and the related

*Code of Montgomery County Regulations.*⁶⁸ These Procurement Regulations govern the process to procure goods, services, and construction subject to the regulations, including the following sub-processes:

- Contract Solicitation;
- Department Responsibilities;
- Contractor Qualifications;
- Contract Payments;
- Claims (for purchases made outside of the scope of a contract, including approval procedures); and
- Contract Modifications.

b. Non-Procurement

Using Departments make non-procurement purchases, meaning those purchases that are either exempted from the Procurement Regulations by law or statute, or are not subject to procurement because of the nature of the good or service being acquired. Non-procurement purchases may or may not require a written contract and are to be monitored for proper use by the Using Department making the purchase.

c. Payment

The AP Section in the Controller's Division in the Department of Finance is:

[R]esponsible for timely and accurate payments to vendors for goods and services provided to the County; for complying with County policies and procedures; and carrying out State and Federal reporting requirements. Payments to vendors are initiated and approved by individual departments. The Accounts Payable program is responsible for review and final approval of payments of \$10,000 or more, as well as most refunds and other non-expenditure disbursements. Payments under \$10,000 are individually reviewed and approved by operating departments and potentially subject to post-payment audit by Accounts Payable.⁶⁹

⁶⁸ Montgomery County: The Charter and County Code, as of October 23, 2018, <https://www.montgomerycountymd.gov/mcg/countycode.html>. **Exhibit BT_078.** Montgomery County Council – Legislative Branch, as of August 16, 2018, <https://www.montgomerycountymd.gov/COUNCIL/Workgroups/Procurement/PPR.html>. American Legal Publishing Corporation, Montgomery County Code 11B, Contracts and Procurement -Regulations, http://library.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:montgomeryco_md_mc. **Exhibit BT_012.**

⁶⁹ Department of Finance – About Us – Montgomery County Maryland, as of August 16, 2018, <https://www.montgomerycountymd.gov/finance/about.html>, at 3. **Exhibit BT_014.**

2. Documentation Review

During the period covered by the Scope 1 Forensic Investigation, there were two enterprise systems in use, Legacy Systems and Oracle Systems, and AP policies and procedures were periodically revised. Therefore, Baker Tilly's review took into account the evolution of these systems and documentation revisions to ensure applicability based on the dates systems and policies were in effect. Further, Baker Tilly reviewed record retention policies and factored that into the availability of documents and records, or lack thereof.

a. Legacy Systems and Legacy Testing Period

The documentation in existence at the time the Legacy Systems were in use (*i.e.*, prior to FY11) was not retained due to the County's record retention policy in effect at that time and because of the migration to the Oracle Systems.⁷⁰ Baker Tilly noted that the Department of Finance did maintain an AP manual – titled *Montgomery County Accounts Payable Manual* – prior to October 2014; however, this manual was not formally updated.⁷¹ Process flow and approval procedure documentation was not available for review covering the Legacy Testing Period; however, Baker Tilly engaged in discussions with the Department of Finance and reviewed system printouts as part of the Legacy Data testing to gain a general understanding of the fundamental process.

b. Oracle Systems and Oracle Testing Period

The Department of Finance provided Baker Tilly with copies of the materials presented during mandatory trainings for employees to gain access to prepare or approve transactions in the Oracle Systems. Baker Tilly also reviewed the following formalized AP policies, as well as Oracle Systems screen shots, and listings of roles and responsibilities in place during and after the Oracle Testing Period, which set forth internal controls over disbursing funds, receiving goods and services, and invoice requirements and approvals:

- Financial Governing Principles and Standards: Effective October 3, 2014;⁷²
- Financial Governing Principles and Standards: Effective September 25, 2016;⁷³
- Financial Governing Principles and Standards: Effective August 2, 2017;⁷⁴ and
- Authorized Payment Policy: Issued October 4, 2017, Effective April 1, 2018.⁷⁵

⁷⁰ The retention policy in place at the time the Legacy Systems were in use required that documentation relevant to a payment be retained for a time period of three years (*e.g.*, check registers) or five years (*e.g.*, canceled checks), or until audited, whichever was later. Therefore, it is acceptable that much of the documentation to support Legacy Systems transactions would have been destroyed per retention policy and unavailable for Baker Tilly to review.

⁷¹ Maryland County, Maryland Accounts Payable Manual, undated. **Exhibit BT_057.**

⁷² Accounts Payable Policy, last revised October 3, 2014. **Exhibit BT_060.**

⁷³ Accounts Payable Policies: Financial Governing Principles and Standards, effective September 25, 2016. **Exhibit BT_061.**

⁷⁴ Accounts Payable Policies: Financial Governing Principles and Standards, effective August 2, 2017. **Exhibit BT_063.**

⁷⁵ Accounts Payable Policies: Authorized Payment, effective April 1, 2018. **Exhibit BT_064.**

c. Record Retention

The Maryland Department of General Services is responsible for creating and distributing record retention policy for county governments. Baker Tilly received and reviewed the following record retention policies:

- Records Retention and Disposal Schedule C1236 for Montgomery County Government, Department of General Services, Office of Procurement dated January 30, 2014;⁷⁶ and
- Records Retention and Disposal Schedule C1238 for Montgomery County Government, General Schedule, and Administrative Record Series date February 12, 2014.⁷⁷

Although a procurement-specific retention policy was issued to the Office of Procurement, the general policy issued to the Administrative Record Series division encompasses all of the record retention requirements for the procurement and financial records obtained and analyzed by Baker Tilly under the period of review for this Scope 1 Forensic Investigation. Items requested and obtained by Baker Tilly had the following record retention requirements:⁷⁸

Table 8. Applicable Record Retention Requirements

Item No. ⁷⁹	Retention Policy
Departmental Contract Records (including records such as Contract Renewal Documents, Correspondence, Invoices and supporting documentation, and Purchase Orders)	Retention of five years from expiration of contract or until all audit requirements are met, whichever is later.
Request for Proposal Solicitations	Retention of five years from expiration of contract or until all audit requirements are met, whichever is later.
Non-Construction/Non-Architectural and Engineering Contracts (including records such as Amendments/Modifications, Change Orders, Correspondence, Requisitions, and Purchase Orders)	Retention in office until expiration date or until all audit requirements are met, whichever is later. Records are then transferred to the Montgomery County Records Center for five years, and then destroyed.
Financial Record Series (including records such as Vouchers, Reimbursement Requests, Canceled Checks, P-card records, Bank Statements, and Purchase Orders)	Retention of seven years or until all audit requirements are met, whichever is later.

⁷⁶ Memorandum regarding Schedule C1236, dated January 30, 2014. **Exhibit BT_006.**

⁷⁷ Memorandum regarding Schedule C1238, dated February 12, 2014. **Exhibit BT_025.**

⁷⁸ *Id.*

⁷⁹ *Id.* at 10, 16.

For payments under \$10,000, Using Departments have the sole responsibility for maintaining the relevant supporting documentation for an invoice. For payments \$10,000 or greater, both the Using Department and the AP Section are required to maintain documentation. The Using Department is also required to maintain executed POs and associated procurement contracts. As a matter of practice, the Office of Procurement generally retains executed POs and procurement contracts as well. Supporting documentation requested and received by Baker Tilly was limited to the policies set forth above.

Baker Tilly understands that during the time period under review for the Scope 1 Forensic Investigation, it was the responsibility of the Using Department to retain all support. There is the possibility that some documentation was destroyed or lost following the dissolution of the DED. While a lack of support documentation, especially those that were coded as Exempt Transactions, was not against County policy during the relevant period and was not a policy failure, it is considered an area of increased risk for potential abuse. Baker Tilly observed Exempt Transactions for which sufficient support documentation was identified and provided for analysis, thus giving evidence that even when not required, DED staff and other County personnel collected and maintained additional support.

3. Purchases and Payments under Procure-to-Pay Process

The policies and procedures related to the Procure-to-Pay process govern the channels through which goods and services are requisitioned, received, monitored, and ultimately paid for. Below is a summary of the purchase and payment types used by the County for procurement purchases or non-procurement purchases. These types of transactions create a matrix of factors that determine the treatment of a particular transaction. These factors include:

- The size of the transaction as it applies both to the purchase (procurement and non-procurement) and payment;
- The regulations that apply to the transaction, including any exemption from such regulations or exceptions from policy;
- The need to set aside, or “encumber” funds; and
- The payment method.

a. Procurement Purchases

Procurement purchases consist of Direct Purchases, which are under \$10,000 and subject to a simplified process as described below, and procurements \$10,000 or greater, which require a PO approved by the Office of Procurement before payment can be made.

i. Direct Purchases (Purchases below \$10,000)

Transactions below \$10,000 are subject to the *Code of Montgomery County Regulations, Chapter 11.B, Section 4.1.9.1* which defines a Direct Purchase as follows:

4.1.9.1 General

A direct purchase is an informal procurement of construction, goods or services with a total value of no more than \$10,000. Competition should be preserved with this method to the extent practicable. Procurements with MFD [Minority, Female and Disabled-Owned Businesses] and LSBRP [Local Small Business Reserve Program] firms are encouraged. Subject to revision by the CAO [Chief Administrative Officer], the direct purchase is handled pursuant to the direct authority of a Using Department Head who is solely responsible for making a proper purchase under these procedures. The Using Department Head must seek fair and reasonable prices for all construction, goods and services obtained under this method.

4.1.9.2 Use

Direct purchases are used to secure goods, construction, or services, when the value of the purchase is not greater than \$10,000. Direct purchase procedures may be used even if the construction, goods and services to be obtained are covered by any existing requirements contract with the County. The Using Department should consult with the Director to ascertain the existence of relevant alternative sources. Purchases, which in the aggregate would exceed the limit on this type of procurement, may not be subdivided or split to procure within the direct purchase limitations. When the need for a particular product or service occurs within a reasonable time frame and can be consolidated, the purchase must be consolidated and not subdivided

4.1.9.3 Contents

- (a) A direct purchase consists of
 - (1) a Request for Payment form directed to the Department of Finance, Division of Accounts; and
 - (2) an invoice or receipt from the vendor.
- (b) The Request for Payment form must, at a minimum, contain the name and address of the offeror to be paid, signature of the Using Department Head and a description of the construction, goods or services procured and the appropriate account code.
- (c) By signing the Request for Payment form, the Using Department Head certifies:
 - (1) The purchase is necessary.
 - (2) Funds for the purchase have been appropriated and are available.
 - (3) The purchase is not covered by any existing requirements contract with Montgomery County, unless authorized by the Director.
 - (4) The purchase is of a complete and distinct item or service, not related to another or easily combined with another, and the purchase is not of a continuing, repetitious, or periodic nature (large orders may not be

subdivided to avoid limits of this procedure). For purposes of this affirmation, substantially similar items are considered to be equal.

(5) The price is fair and reasonable.⁸⁰

Direct Purchases allow a Using Department to identify a procurement need and procure the goods or services directly without having to create a PO or execute a contract. As such, the Office of Procurement is not involved with the requisition and processing of Direct Purchases. Direct Purchases were created to streamline small purchases by the Using Department.

Direct Purchases are requested by a department-authorized employee and approved by a separate department approver. Funds for Direct Purchases can either be encumbered under the scope of a DPO, or unencumbered and paid directly from the department's available budget. If encumbered, the department-authorized employee will create a DPO and the department approver will validate a three-way system match authorizing payment for the Direct Purchase against the DPO. If unencumbered, the Direct Purchase is paid directly from the Using Department's available funds when the invoice is received and the department approver authorizes the payment.

ii. Purchase Orders (Purchases \$10,000 or greater)

A PO is prepared by the Office of Procurement following receipt of a requisition by a Using Department, in connection with an executed procurement contract. The PO contains the terms of the purchase (*e.g.*, price, payment terms, delivery date, etc.) and operates to encumber and reserve funds. POs are issued pursuant to the regulations contained in the *Code of Montgomery County Regulations, Chapter 11B*, among others. Pursuant to these regulations, a PO must accompany all procurement transactions over \$10,000 unless it is an "exempt" transaction as described in Subsection b.i. below.⁸¹ It is important to note that the PO is not the record of the actual payment for the goods or services covered by that PO.

When a need for a good or service is recognized, the Using Department (*e.g.*, the DED) consults with the Office of Procurement to determine whether a contract with the County already exists to procure the goods or services sought. The Using Department and the Office of Procurement determine the appropriate means of procuring the goods and services, engage in a competitive or non-competitive procurement process, identify the appropriate vendor, and execute a contract with that vendor. The procurement buyer then creates a PO in accordance with the contract.

b. Non-Procurement Purchases

Non-procurement purchases are those that are either not subject to the procurement regulations due to the nature of the transaction, or those that have been specifically exempted from the procurement regulations by statute or other law. Payment for non-procurement purchases is

⁸⁰ Montgomery County Code 11B, Contracts and Procurement - Regulations, Section 4.1.9, Direct Purchases, as of August 16, 2018, <https://www.montgomerycountymd.gov/mcg/countycode.html>, at 3-4. **Exhibit BT_013**.

⁸¹ It is possible to create a PO for Payment transactions below \$10,000. Under such a PO, payments would be processed and paid at the department level. After receiving the goods or services and creating an electronic receipt, the department-authorized employee would enter the transaction information into Oracle, and the department approver (a separate individual) would authorize payment after validating the three-way system match. The funds are then disbursed.

obtained via a DPO or Direct Payment. To obtain payment for an Exempt Transaction, the Using Department must input a valid Exempt Transaction Code on the payment transaction.

i. Exempt Transactions

Certain transactions are exempt from the procurement regulations as contained in the *Code of Montgomery County Regulations, Chapter 11*.⁸² The list of the types of transactions that are exempt from procurement requirements is contained in Chapter 11B-4 [emphasis added]:

(a) This Chapter, other than Article XII [*Ethics in Public Contracting*], does not apply to:

(1) a **procurement made for the employees' retirement system** under procedures approved by the Chief Administrative Officer;

(2) obtaining the services of **special legal counsel** under Sections 213, 108, or 410 of the Charter;

(3) the procurement of an **independent auditor** by the County Council under Section 315 of the Charter;

(4) obtaining the services of an **impasse neutral, mediator, or fact finder under a County collective bargaining law** under procedures approved by the Chief Administrative Officer;

(5) obtaining **copyrighted material and information** which is intended **for use by the public in or through a public library** under procedures approved by the Chief Administrative Officer;

(6) obtaining **electricity, natural gas, and compressed natural gas**, under executive regulations;

(7) purchasing goods or services for a County-sponsored **recreational activity** if the purchase is made on behalf of an identifiable group of persons who contribute funds to participate in the activity;

(8) obtaining **entertainment services**, including but not limited to contracts for **musical performers**; and

(9) obtaining the services of **experts, consultants, and investigators** by the County Attorney, whether in **anticipation of litigation** or in **preparation for trial**;

(10) obtaining **advertising services** from media sources; and

(11) any other procurement exempted from this Chapter **by another law**.⁸³

⁸² Other state, local, and Montgomery County procurement regulations exist, but this is the main body of such regulations.

⁸³ Montgomery County Council – Legislative Branch, as of August 26, 2018, <https://www.montgomerycountymd.gov/COUNCIL/Workgroups/Procurement/PPR.html>. American Legal Publishing Corporation, Montgomery County Code 11B, Contracts and Procurement -Regulations,

Additionally, there are transactions deemed exempt from or otherwise not subject to, the regulations because the County has determined that these purchases do not meet the definition of a procurement and therefore should also be classified as exempt.

Transaction Codes are digitized codes assigned to all transaction types, both exempt and non-exempt. An Exempt Transaction is assigned a code that begins with “999” to signify it is exempt from, or otherwise not subject to, the Procurement Regulations.⁸⁴

Exempt Transactions are not subject to the Procurement Regulations, did not require an executed contract during the time period under review for this Scope 1 Forensic investigation, and are not subject to oversight from the Office of Procurement; however, Exempt Transactions are reviewed and approved for payment by the Using Department. As with all payments \$10,000 or greater, Exempt Transactions are approved by authorized Using Department personnel and then routed to the AP Staff to approve payments between \$10,000 and \$24,999, and additional approval from the AP Manager/Supervisor for payments \$25,000 or greater. Part of the approval process is to check that the Transaction Code reflects an Exempt Transaction.

In addition to transactions exempt from the procurement process pursuant to law or regulation, certain transactions are considered exceptions to the *Authorized Payment Policy* and may be paid via a Direct Payment, as described in Subsection c.iii. below. These exceptions were not in place during the time period under review for the Scope 1 Forensic Investigation, but are now part of the AP process as of April 1, 2018.

ii. Direct Purchase Orders (Encumbered Transactions)

“Encumbering” a transaction means setting aside the funds for that transaction to ensure they are available when payment is due. A PO encumbers funds; however, funds for non-procurement purchases can also be encumbered with a DPO. The DPO is a tool that allows the Using Department to encumber and reserve funds ahead of time. During the time period under review for the Scope 1 Forensic Investigation, the use of DPOs was optional. To begin the creation of a DPO, the department-authorized employee identifies the purchasing need, determines that the transaction is not subject to the procurement regulations, selects a vendor, and completes the transaction.

c. **Payments**

The processing for disbursements in the Oracle Systems (*i.e.*, payments for the acquisition of goods and services against POs, DPOs, or Direct Payments) and the approval thereof include:⁸⁵

http://library.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:montgomeryco_md_mc, at 6-7. **Exhibit BT_012.**

⁸⁴ There is one code, 999-42, “for PO Conversion Only.” Baker Tilly assumes that this five digit code is not meant to be an exempt code although it begins with “999.” It is the only such five digit code. There are 85 codes in total with the description “for PO conversion only.”

⁸⁵ As of April 1, 2018, the Direct Payment method is not allowed unless the transaction type is a permitted exception to the policy.

- Approval by the Using Department; disbursement by AP for payments under \$10,000;
- Approval by the Using Department; approval of the disbursement by AP staff for disbursements between \$10,000 and \$24,999; and
- Approval by the Using Department; approval by AP staff, then additional approval of the disbursement by AP Manager or Supervisor for disbursements over \$25,000.

i. Payments against POs

When goods are delivered or the vendor completes services, the department that placed the order confirms satisfactory delivery by creating an electronic receipt. This receipt is created from supporting documentation such as bills of lading, packing slips, work orders, or vendor time sheets. When the County receives an invoice from the vendor, the appropriate approvers validate the system match of the invoice, the PO, and the electronic receipt to authorize payment.

Payment transactions \$10,000 or greater under a PO are authorized by the department approver, then routed to AP for approval and disbursement.⁸⁶ An AP Staff approves payments between \$10,000 and \$24,999, while an AP Manager or Supervisor must also approve transactions \$25,000 or greater.

ii. Payments against DPOs

When the County receives the invoice for a transaction under a DPO, the Using Department initiator prepares/inputs the invoice and a separate Using Department approver authorizes the invoice and routes it to AP. The designated AP employee validates payment via a three-way system match. For transactions above \$10,000, departmental supervisory approval is the same as for POs above \$10,000. In addition, the Transaction Code is checked to ensure that it signifies an Exempt Transaction (*i.e.*, begins with “999”).

iii. Direct Payments (Unencumbered Transactions)

Direct Payments were previously used by the County for payment of any non-procurement transaction that was not encumbered under the scope of a DPO. As of April 1, 2018, the County policy was changed, and now states that “Direct Payments refer to invoices that are processed without a three-way match and receiving in the system.... As of April 1, 2018, Direct Payments are no longer authorized for any goods or services unless an exemption is listed on Attachment A of this policy.”⁸⁷

Once confirmed that the good or service is listed on Attachment A to the *Authorized Payment Policy*, the Direct Payment process can proceed. The goods and services are received and a signed and dated copy of the most recent relevant terms of the applicable contract, Memorandum of Agreement, or MOU must be attached to the invoice in lieu of a system generated DPO. Invoices below \$10,000 are processed and approved by the department and supporting documentation is

⁸⁶ A PO may be written for less than \$10,000.

⁸⁷ Accounts Payable Policies: Authorized Payment, effective April 1, 2018, at 3. **Exhibit BT_064**. Attachment A - Direct Payment Exceptions - Authorized Payment policy. **Exhibit BT_065**.

not required to be submitted to the Department of Finance. Invoices \$10,000 or above not subject to the Procurement Regulations must have an Exempt Transaction Code. Further, support for the exempt invoice must contain sufficient evidence to indicate it meets the criteria to be exempt from the County's Procurement Regulations as well as a copy of the invoice and relevant documentation to sufficiently support the good or service purchased.

iv. Purchasing Card

The Purchasing Card or "P-Card" provided to authorized Montgomery County employees as a means for paying for goods or services is an alternative payment method that can be used in lieu of a DPO or Direct Payment, assuming the vendor accepts P-Cards as a payment method.⁸⁸

C. INFORMATION REQUESTS FOR TRANSACTION SUPPORT

Once the Initial Testing Population was identified, the County immediately began to provide invoice support for AP transactions, direct purchase order documentation for DPO transactions, and purchase order documentation for PO transactions. The County provided certain documentation electronically and others in original hard copies. Due to the volume of documents to analyze, a Baker Tilly engagement team traveled to the County offices to conduct their review and testing in person.

Baker Tilly requested 1,592 invoices, consisting of 1,188 transactions from Oracle AP, 16 from Legacy AP, and 388 from the Expanded Testing Population. Baker Tilly also requested support for 328 total fund encumbrances, consisting of 223 POs and 105 DPOs, which corresponded to the identified transactions, and all existing documentation related to each of those records. Supporting documentation included contracts and any amendments or attached exhibits, communications between the DED and the vendor, solicitations or request for proposals ("RFPs"), screenshots of internal County enterprise management systems, memoranda drafted by the County, Procurement Freeze Exemption Request ("PFER") forms, and any other available records. Baker Tilly thoroughly analyzed available documentation to determine if the transaction contained any indicators of potential fraud, waste, or abuse.

Baker Tilly maintained a request tracker for document management. Within this tracker, Baker Tilly requested vendor and transaction support, including:

- Expenditure backup;
- Contracts and other agreements;
- DPOs, POs, and requisitions;
- Copies of checks and wire information; and
- Miscellaneous, vendor specific support.

County personnel provided additional documentation electronically or in hard-copy format. Due to the record retention policy, decentralized Procure-to-Pay process, and dissolution of the DED,

⁸⁸ *Id.*

the County was unable to retrieve each request immediately. Baker Tilly designated each request with a “High”, “Medium”, or “Low” rating, giving the County an idea of which requests to prioritize.

D. REVIEW METHODOLOGY – PAYMENT TRANSACTIONS

1. Initial AP Testing Population Overview

The AP Initial Testing Population consisted of 1,204 transactions across 298 vendors totaling \$50.6 million.

Table 9. AP Initial Testing Population by Total Transaction Size Range by Vendor

Total Transaction Size Range	Number of Vendors	Number of Transactions	Total Dollar Amounts	Percentage of Total Dollar Amounts
\$1 million and over	13	164	\$ 37,295,301.54	73.64%
\$500,000 to \$999,999	8	125	4,861,347.55	9.60%
\$100,000 to \$499,999	25	297	4,881,491.39	9.64%
\$50,000 to \$99,999	23	142	1,614,323.98	3.19%
\$10,000 to \$49,999	55	192	1,364,677.93	2.69%
\$5,000 to \$9,999	64	127	451,196.29	0.89%
\$1,000 to \$4,999	65	96	155,167.29	0.31%
Under \$1,000	45	61	20,477.15	0.04%
Total	298	1,204	\$ 50,643,983.12	100.00%

These transactions included payments for, among other things:

- Economic development programs, including:
 - Management fees, rent, and other operating expenses for the Incubator program;
 - Large-scale real estate and job development projects;
 - The SBRLP, the Grant and Loan Program. and other similar programs;
 - Market studies, feasibility studies, and other consulting services;
 - Legal and lobbying fees and retainers; and
 - Support of targeted sectors, such as agriculture;
- Support of community organizations, city and town economic initiatives, and Chambers of Commerce within Montgomery County;
- General marketing programs for name recognition and goodwill such as event sponsorships;
- Funding of tax credits to encourage business and entrepreneurship; and
- Ordinary course expenses.

2. Information Provided

Transaction packets provided by the County generally included the internal accounting cover page and a one- or two-page invoice. Many of the files had other supporting documentation, provided by the County initially, or upon request after a first review of particular transactions. These support documents included:

- Internal memoranda and email correspondence requesting or granting approval;
- Purchase orders, direct purchase orders, and other internal accounting documentation, and internal correspondence regarding same;
- External written or email correspondence, including cover letters sent with invoices;
- Grant agreements;
- Loan agreements;
- Leases;
- Contracts for professional services;
- Brochures for sponsorship opportunities or events;
- Calculations supporting invoiced amounts; and
- Formal and informal work product evidencing completion of the contracted work including:
 - Market studies;
 - Feasibility studies;
 - Presentations;
 - Memos describing work performed and results, in either summary form or detailed descriptions;
 - Time keeping records, including descriptions of activity; and
 - Field notes.

3. Examination of Transactions

a. Methodology

Baker Tilly performed an in-depth examination of the information provided.⁸⁹ Transactions relating to a vendor were grouped and reviewed together. The steps Baker Tilly took in its analysis included, but were not limited to, the following:

1. Baker Tilly confirmed that the file provided properly related to the transaction.
2. Using a spreadsheet pre-populated with the Oracle AP data related to a particular vendor, Baker Tilly confirmed that certain fields in the Oracle AP data were the same as in the transaction support, including vendor name, invoice date, invoice number, invoice amount, Transaction Code and description of services provided.
3. Baker Tilly examined the documentation to determine if the use of an Exempt Transaction Code was proper.
4. Baker Tilly identified keywords and their use in the context of the documentation.⁹⁰
5. Baker Tilly noted whether payment was marked “Hold”, and, if so, if there was a name indicated for the pickup of a check.
6. Baker Tilly reviewed the approval process, including noting any PFER requested and/or granted.
7. An assessment of the reasonableness of the amount and frequency of the payments based on the stated purpose of the expenditure was performed. For example, for transactions relating to a lease, one might expect to see twelve equal payments over the course of twelve months. While one payment in isolation may appear correct, viewed as a whole, these payments, when added together, could represent more than the amount due over that time period. In that example, one or more of that series of payments could represent a diverted payment to an inappropriate vendor.
8. Other analyses and observations of information gained from publicly available sources, including internet searches to determine the existence of the vendor and the legitimacy of the subject of the payment were noted.

If the documentation was not sufficient, Baker Tilly requested further documentation and re-examined the transaction once the documentation was received. The Legacy AP transactions were reviewed in the same manner.

⁸⁹ In certain instances, files relating to payments to vendors with cumulative payments less than \$5,000 received an abbreviated review.

⁹⁰ List of Keywords. **Exhibit BT_007**.

b. Review Methodology – Expanded AP Testing Population

i. Testing Population Overview

The Expanded Testing Population consisted of data from both the Oracle AP and Legacy AP data sets previously created by Baker Tilly to identify the Initial Testing Population, and the additional Oracle AP and Legacy AP data that the County searched using Baker Tilly’s methodology as described previously in Section V.D.6.

Table 10. Oracle AP and Legacy AP Expanded Testing Population

	Number of Transactions	Total Dollar Amounts	Excluded Transactions	Transactions Past Retention	Tested Transactions
ORACLE AP_EXPANDED	167	\$15,026,760	81	-	86
LEGACY AP_EXPANDED	221	16,956,475	44	126	51
Total	388	\$31,983,235	125	126	137

ii. Information Requested and Provided

Baker Tilly and the County used a secure data site to share documentation between the parties. Because of the knowledge and efficiencies gained during the review of the Initial Testing Population, the County was able to search for, and provide, all available supporting documentation that Baker Tilly would likely expect to receive for each transaction, thus eliminating the need for Baker Tilly to make a follow-up request. After secondary review, Baker Tilly and the County reduced the testing population to 137 transactions. The eliminated 251 transactions were either past retention, canceled, or past Mr. Bang’s employment termination date, and, therefore, not within the period of review for the Scope 1 Forensic Investigation.

The County provided support documents for 137 transactions, which included 115 invoice packets, 11 contracts/agreements, and 11 other types of documentation for review. Support for the remaining 251 transactions was not provided, either because the transactions were excluded from testing (e.g., the transaction occurred past Mr. Bang’s employment termination date, the transaction was considered low risk for potential fraud, waste or abuse) or the transaction was past the retention period and support was unavailable. These 251 transactions include 125 excluded transactions (81 in Oracle AP_Expanded and 44 in Legacy AP_Expanded) and 126 transactions past retention (zero in Oracle AP_Expanded and 126 in Legacy AP_Expanded) as detailed in the above table.

iii. Examination of Transactions

Baker Tilly applied the same examination methodology to the Expanded Testing Population used to examine the Initial Testing Population with three differences: (1) the Expanded Testing Population data did not indicate whether a transaction had an associated PO or DPO; (2) the Expanded Testing Population data did not contain a field indicating whether a transaction had an exempt code; and (3) the County provided all available documentation at the beginning of the review process, eliminating the need for follow-up information requests.

E. REVIEW METHODOLOGY – PURCHASE TRANSACTIONS

1. Testing Population Overview

The Oracle PO/DPO testing population consisted of 328 purchase transactions totaling \$47.1 million: 223 POs (procurement purchases) and 105 DPOs (non-procurement purchases), related to 114 contracts with 129 vendors. The purchase transactions (POs and DPOs) Baker Tilly analyzed related to the DED represented fund encumbrances for future payments, which included, but were not limited to, the following:

- Professional services (information technology consulting, attorney support, green business consulting, and real estate appraisals);
- Education and skill-development programs to assist residents gain skills and relevant business knowledge; and
- Efforts to support businesses within the County (agricultural businesses and farms, businesses owned and operated by women, disabled, or immigrant residents) and to attract foreign investment and development within the County.

The POs Baker Tilly analyzed included encumbered funds requested by the DED related to foreign investment efforts from countries such as South Korea, India, and Israel. The DPOs Baker Tilly analyzed included encumbered funds requested by Mr. Bang for CBIF.

a. PO Testing Population

Baker Tilly selected a testing sample of 223 POs. The Office of Procurement provided the majority of the documentation related to POs – 176 of the 223 POs and their supporting documents. The Department of Finance, provided 36 POs and their supporting documents. Five of the POs and their supporting documents were provided by both the Office of Procurement and the Department of Finance. The remaining six POs were confirmed as unavailable by the Office of Procurement due to the retention policy, which resulted in the appropriate destruction of the POs along with the original contract.⁹¹

The documents provided by the Office of Procurement were hard copy, original documents, organized by individual contracts with individual vendors. Baker Tilly's analysis included testing both current active contracts and non-active contracts between the County and vendors. Non-active contracts still available per the County's archive policy were retrieved from the County's archives for Baker Tilly's review.

⁹¹ Appropriate destruction of POs per outlined and documented policy was not considered a flaw or failure under Baker Tilly's testing.

b. DPO Testing Population

Baker Tilly selected a testing sample of 105 DPOs. The Department of Finance provided support documentation for 98 of those DPOs. There were seven DPOs that were less than \$10,000 for which long-term records were not retained under normal circumstances.⁹²

2. Information Provided

POs provided by the Office of Procurement or the Department of Finance included a two to three-page purchase order cover sheet and any available supporting documentation. DPOs provided by the Department of Finance included a two to three-page direct purchase order cover sheet and any available supporting documentation. Supporting documentation included, if available and applicable, the following:

- Contracts and any amendments and attachments;
- Internal memoranda and communications documenting the need for the contract and future funding;
- PFER;⁹³
- Other POs related to the same contract, encumbering additional funds;
- Proposals from vendors, including responses to RFPs or informal solicitation requests;
- Requisition requests for purchase orders over \$10,000; and
- Contract logs documenting all activities related to the individual contracts.

3. Examination of Transactions

Baker Tilly performed an in-depth analysis of available POs, DPOs, and support documentation. Based on the results from analysis of this documentation, and considering level of risk for fraud, waste, or abuse, and time and resource restrictions, Baker Tilly determined it was not necessary to test 100% of the population.

⁹² The Department of Finance notified Baker Tilly that during the relevant period, invoices under \$10,000 and any related DPOs were not required to be provided to the AP Section within the Department of Finance and it was the responsibility of the relevant department to keep, maintain, and archive records. During the Scope 1 Forensic Investigation, transactions of less than \$10,000 that were not found electronically or through other means, were not prioritized, and, therefore, not requested and provided to Baker Tilly.

⁹³ It is Baker Tilly's understanding that during periods of budget constraint, departments were subject to a procurement freeze and their spending suspended without approval. Departments were required to obtain Office of Management and Budget approval, through submission of a PFER form and related justification, to initiate procurements related to informal solicitations, formal solicitations, delivery orders against specifically identified requirements contracts, and change orders with additional funds. Memorandum regarding FY15 Procurement Freeze, dated December 15, 2014. **Exhibit BT_021**. Memorandum regarding FY16 Procurement and Hiring Freeze, dated September 10, 2015. **Exhibit BT_005**.

a. Examination of PO Transactions

The majority of the hard copy POs were organized by contract. Therefore, Baker Tilly analyzed the PO documentation contract by contract. In performing its examination, Baker Tilly conducted a comparison of the Oracle PO/DPO data to the provided PO cover sheets and support documentation to confirm that the Oracle PO/DPO data was reasonably reliable and accurate. Baker Tilly tested the PO number, vendor name, amount, and encumbered date to verify the Oracle PO/DPO data and underlying source documentation matched. Baker Tilly's review also included determining if support documentation existed and was applicable to the tested PO, including contracts and any amendments or attached exhibits, appropriate approval, requisition request for any purchase orders over \$10,000, and if any other identified keywords were present in the support documentation.

Baker Tilly's testing population included "dummy" POs, which is a zero dollar PO processed for administrative purposes only to record an event with a vendor in Oracle. For example, a "dummy" PO would be issued and processed to record a new amendment for a contract extension. Often the PO that would encumber the new amendment funding would be processed shortly after the "dummy." Printed support documentation for "dummy" POs is not required for the County's records; however, Baker Tilly did observe that the majority of "dummy" POs in our testing population contained some type of support.

Upon completion of analysis, each PO was categorized to indicate the risk level for potential fraud, waste or abuse. In addition, Baker Tilly performed research for publicly available information regarding each tested vendor, including identifying if the vendor was a legitimate entity.

b. Examination of DPO Transactions

Baker Tilly examined DPO transactions in a similar manner to PO transactions except that the supporting documentation was not organized by contract. Baker Tilly conducted a comparison of the Oracle PO/DPO data to the provided DPO cover sheets and support documentation to verify whether the information in the Oracle PO/DPO data matched the underlying support. Upon completion of analysis, to include vendor research on publicly available information, each DPO was also categorized to indicate the level of risk for potential fraud, waste, or abuse.

F. CATEGORIZATION OF TRANSACTIONS

Baker Tilly categorized each purchase (procurement and non-procurement) transaction and payment transaction based on two criteria: (1) the presence or absence of indicators of potential fraud, waste, or abuse as defined by the United States Government Accountability Office, and (2) the sufficiency of supporting documentation for the transaction. Support documentation analyzed for each purchase transaction and each payment transaction selected for testing was determined to fall into one of the four categories described below:

Category 1: Transactions that contain indications of potential fraud, waste, or abuse and are sufficiently supported to make that determination. Category 1 is sub-categorized into 1a (potential fraud) and 1b (potential waste or abuse).

- **Category 1a:** Transactions that contain indications of potential fraud, defined as “obtaining something of value through willful misrepresentation.”⁹⁴ Baker Tilly cannot make a determination of fraud regarding a particular transaction. A determination of fraud can be made only by the judicial system.
- **Category 1b:** Transactions that contain indications of potential waste or abuse.
 - Waste is defined as “the act of using or expending resources carelessly, extravagantly, or to no purpose.”⁹⁵
 - Abuse is defined as “behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice given the facts and circumstances. This includes the misuse of authority or position for personal gain or for the benefit of another.”⁹⁶

Category 2: Transactions in which indications of potential fraud, waste, or abuse are not observed; however, Baker Tilly is unable to make a final determination of category due to a lack of sufficient documentation. Category 2 is sub-categorized into 2a and 2b:

- **Category 2a:** Transactions that are at higher risk for potential fraud, waste, or abuse, and sufficient documentation needed to categorize the transaction was not available. Baker Tilly made an additional documentation request for each of these transactions. The additional documentation was not received as of the date of this Scope 1 Report because the County could not locate it or the documentation does not exist to the best of the County’s knowledge. If additional information or supporting documentation is identified by the County at a later date for these Category 2a transactions, Baker Tilly recommends they be reviewed again to ascertain whether enough information now exists to make a final category determination.
- **Category 2b:** Transactions that are at lower risk for potential fraud, waste, or abuse, and the documentation provided was insufficient to categorize the transaction. Given the low risk and unlikely outcome that these transactions would ultimately be categorized as 1a or 1b, it would not have been a prudent use of County resources to attempt to identify and/or retrieve additional support. Thus, Baker Tilly did not request additional documentation.

Category 3: Transactions that did not contain indications of potential fraud, waste, or abuse and are sufficiently supported to make that determination.

Category 4: Transactions that were not tested for one or more of the following reasons:

- The transactions totaled below \$5,000 for a vendor;

⁹⁴ United States Government Accountability Office, Standards for Internal Control in the Federal Government (“Green Book”), dated September 2014, <https://www.gao.gov/assets/670/665712.pdf>, at 3-4. **Exhibit BT_017**.

⁹⁵ *Id.* at 3.

⁹⁶ *Id.*

- It was unlikely to contain any indications of potential fraud, waste, or abuse based on the previous testing of a sufficient number of payments for the same vendor;
- No supporting documents were available pursuant to the County's retention policies;
- It was determined that the payment was for a purpose unrelated to the scope of this investigation; or
- The transaction occurred after June 12, 2017, Mr. Bang's last day of employment with the County.

VI. REVIEW METHODOLOGY – COMPUTER FORENSICS (SCOPE 1C)

Baker Tilly examined the contents of three hard drives used by former DED employees to identify information potentially relevant to this Scope 1 Forensic Investigation. Three procedures were performed:

1. Computer forensic recovery of deleted and unallocated files from two former DED employee hard drives,⁹⁷
2. Keyword search of the two former DED employee hard drives and the former DED network drive, and
3. Identification and translation of all Korean language emails and file attachments.

A. FORENSIC RECOVERY OF DELETED AND UNALLOCATED FILES

Baker Tilly created forensic images of the two former DED employee hard drives to recover deleted and unallocated files from each drive.⁹⁸ The files were then reviewed for potentially relevant information. In total, Baker Tilly recovered and reviewed 1,584 unallocated and deleted files from the two hard drives.

B. KEYWORD SEARCH OF HARD DRIVES

Baker Tilly performed a keyword search on all files and emails stored on the three hard drives (approximately 240 GB in total size) received from the County. Baker Tilly ran searches of 129 keywords on each of the hard drives. For keywords that resulted in a large number of hits (*e.g.*, “Peter Bang”), the search was refined to limit the population. For example, the keyword “Peter Bang” was examined within 25 characters of associated keywords, such as “Chungbuk.” In total, Baker Tilly identified approximately 12,000 files and emails based on keyword hits.

Each search hit was reviewed for relevancy and indications of potential fraud, waste, or abuse. There were approximately 6,000 keyword hits in which Baker Tilly determined relevancy was more applicable to the Scope 2 Forensic Investigation and, therefore, deferred review of those hits during the Scope 1 Forensic Investigation. The reader is referred to the Scope 2 Report for any observations and findings related to the deferred review of those keyword hits.

C. KOREAN EMAIL AND FILE IDENTIFICATION AND TRANSLATION

A review of Mr. Bang’s hard drive revealed over 400 emails and file attachments written in the Korean language. Baker Tilly used an automated translation application to determine the presence of keywords or other factors. Any emails or attachments that were flagged as potentially relevant

⁹⁷ Unallocated means space on a hard drive that is free or open for new files to be saved by a computer’s operating system. Deleted files will remain in unallocated space until they are overwritten by new files and thus potentially recoverable (in whole or in part) using computer forensic software.

⁹⁸ A forensic image is a bit-for-bit copy of data from a hard drive that preserves the data in a forensically sound (*i.e.*, unaltered) manner for analysis.

were then reviewed by Baker Tilly staff with fluent Korean language skills to confirm the accuracy of the automated translation. Upon completion of the translation review, final analysis based on the confirmed translation was performed.

D. ADDITIONAL ITEMS IDENTIFIED

Baker Tilly identified emails and electronic files from Mr. Bang's hard drive that appear to be personal in nature. These may be of interest for any potential future investigations or judicial proceedings related to this matter; however, they do not directly relate to Baker Tilly's Scope 1 Forensic Investigation and therefore are not described in this Scope 1 Report.

VII. BAKER TILLY OBSERVATIONS AND FINDINGS

There are several individuals or entities with an observed connection to, or commonality with, Mr. Bang, Chungbuk Province, and/or CBIF. These connections include shared addresses, familial relationships, and/or common involvement or relationship with another entity. To the extent that these individuals or entities appear in the County's transactions or other activity (e.g., emails/electronic files), Baker Tilly has analyzed the activity and determined that, with the exception of four transactions, these transactions do not have indications of potential fraud, waste, or abuse. However, to the extent that some of these individuals or entities are also observed in relation to the forensic investigation of County transactions and relationships with MEDCO, Scheer, and BHI, Baker Tilly refers the reader to the Scope 2 Report.

A. CHUNGBUK PROVINCE OBSERVATIONS AND FINDINGS

1. Background – 2002 to 2009

The DED began discussions with the Province in 2002 to develop a mutually beneficial relationship. The Province would bring its local high-tech companies to establish a U.S. presence, as tenants of the Incubators, bringing jobs to the County. In May 2004, the Province and the County signed an MOU that Mr. Bang described as an expression of a partnership spirit and did not, at the time, include any tangible projects. In October 2008, the County Executive, certain DED staff, and 20 County business owners went on a trade mission to China and South Korea, "to strengthen existing investment and collaborating opportunities forged over the past six years with Korea."⁹⁹ During the visit, the Province made a commitment to invest \$2 million in a new Incubator. In September 2009, the Governor of the Province made a visit to Montgomery County to continue to develop the relationship.

2. The Contribution Instrument – March 2010

The agreement under which the Province was to invest \$2 million in the County, the Contribution Instrument, was executed on March 23, 2010.¹⁰⁰ The mutual objective was to create the East County Incubator.¹⁰¹ Because the development of the Incubator was delayed, the Province would invest instead in the SBRLP.¹⁰² The Province needed to expend the funds or lose the budget appropriation.¹⁰³ Terms and conditions of the Contribution Instrument included:

- The investment by the Province of \$2 million would be used for the SBRLP until the East County Incubator was ready to be developed.¹⁰⁴

⁹⁹ The Department of Economic Development: Review of Budget and Strategies Office of Legislative Oversight Report Number 2009-8, dated February 3, 2009, at 3. **Exhibit BT_034.**

¹⁰⁰ The investment was also related to the License Agreement, which will be discussed in Subsection 3. below. Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 12. **Exhibit BT_001.**

¹⁰¹ *Id.* at 1.

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 1. **Exhibit BT_001.**

- The funds were placed in the County’s Restricted Donations Special Revenue Fund, segregated from the other funds.¹⁰⁵
- The Province would receive 70% of the interest earned on the loans made through the SBRLP and 100% of the loan applications fees (1% of the loan amount).¹⁰⁶ These payments were to be made within 60 days of the end of each fiscal year.¹⁰⁷
- The County retained 100% of any interest earned on the funds prior to the funds being deployed to make loans.¹⁰⁸
- The agreement could not be terminated prior to the tenth anniversary date. After that date, it could be terminated by written demand from the Province. The then-existing balance of the Donations Fund would be returned to the Province. The balance does not include loans that are outstanding at the time of the Written Demand.¹⁰⁹

3. The License Agreement – March 2010

a. Terms of the License Agreement

The License Agreement purports to be an agreement between the Province and the County whereby the Province would rent space in the County’s Incubators for the benefit of companies from the Province. Certain terms are as follows:

- The Province would pay ₩ 3 billion (\$2.5 million),¹¹⁰ to the County,¹¹¹ and be repaid the same amount at the end of the License Agreement in 30 years.¹¹²
- The \$2 million to be paid to the County under the Contribution Instrument was part of the \$2.5 million to be paid under the License Agreement.¹¹³ The License Agreement does not specify how the remaining \$500,000 should be used.

¹⁰⁵ Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. Restricted Donations – Accounts for donations and contributions received by the County that are restricted for use in specific County programs. Montgomery County Maryland Comprehensive Annual Financial Report Fiscal Year 2011, dated July 1, 2010 - June 30, 2011, at 3. **Exhibit BT_022**. Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 2. **Exhibit BT_001**.

¹⁰⁶ Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 4. **Exhibit BT_001**.

¹⁰⁷ *Id.* at 5.

¹⁰⁸ *Id.* at 3.

¹⁰⁹ *Id.* at 6.

¹¹⁰ The License Agreement therefore assumes an exchange rate of \$1.00 = ₩ 1,200. Investment and Incubator Space License Agreement, dated March 15, 2010. **Exhibit BT_002**.

¹¹¹ License Agreement. Investment and Incubator Space License Agreement, dated March 15, 2010, at Recital 3 at 1. **Exhibit BT_002**.

¹¹² *Id.* at Recital 4 at 1.

¹¹³ *Id.* at Recital 5 at 2.

- The Province would rent 20% of the space in the Germantown and Shady Grove Incubators, 6,600 square feet,¹¹⁴ for thirty years, for the benefit of tenants from the Province. These tenants would not pay rent, but would pay common area maintenance (“CAM”) charges.¹¹⁵
- The structure of the financial agreement appears to be based on the practice unique to South Korea called “*Joense*” or “*Chonsei*.” In English, the translation would be “key money deposit.” With this arrangement, the tenant pays an up-front sum, equal to a percentage of the total amount it would cost to purchase the property. The tenant does not pay rent and the original amount is returned to the tenant at the end of the lease.¹¹⁶ The “rent” to the landlord is the interest earned on the up-front sum.
- Theoretically, the County’s share of the interest earned from the \$2 million invested in the SBRLP would be the “rent.”¹¹⁷ However, even if fully invested, the interest earned would be far less than the market value of the rent.
- Baker Tilly identified email correspondence between In-Sung Chung (jis1214@----) and Mr. Bang dated December 17, 2009, which included an attached spreadsheet regarding investments, rent, present value and return of investment.¹¹⁸ This discussion is consistent with an analysis of the appropriate amount due under a key money deposit arrangement.

b. Observations as to Legitimacy and/or Validity of the License Agreement¹¹⁹

Baker Tilly observed indications that the License Agreement may not have been legitimate and/or valid for reasons including the following:

- The County has no version of the License Agreement executed by the Province. The copy of the License Agreement identified during the course of the Scope 1 Forensic Investigation was located on Mr. Bang’s hard drive.
- The License Agreement is undated, except for the date of the purported notarization.

¹¹⁴ *Id.* at Recitals 6, 7, and 8, and Section 1.01 at 2-3. These sections describing the square footage and rent do not reconcile to each other.

¹¹⁵ *Id.* at Section 1.01(a) at 2.

¹¹⁶ Matt Phillips, It takes \$290,000 in cash to rent an apartment in Seoul, Quartz, dated March 10, 2014, <https://qz.com/183412/koreas-crazy-system-for-renting-apartments-is-driving-the-country-deeper-into-debt/>.

Exhibit BT_026. K4E Editor, Renting in Korea, Lease Options, Korea 4 Expats, updated May 9, 2016, <https://www.korea4expats.com/article-lease-options-korea.html>. **Exhibit BT_027.**

¹¹⁷ Plus the amount earned on the \$500,000 not invested in the SBRLP, if available.

¹¹⁸ Email between Peter Bang and “jis1214@----”, with attachments (excel file) and Baker Tilly performed translation, dated December 17, 2009. **Exhibit BT_048.**

¹¹⁹ All references to the License Agreement and payments made thereunder should not be considered definitive.

- The investment of \$2.0 million in the Contribution Instrument is part of the \$2.5 million called for in the License Agreement. The Contribution Instrument makes no mention of this overlap. The documents do not indicate the ways in which these two agreements interact, for example, whether the return of the “Contributed Funds” under the Contribution Instrument is the same or separate from the “Repayment of the Investment” under the License Agreement.¹²⁰
- Both agreements have clauses that state that each particular agreement is the entire agreement between the County and the Province.¹²¹
- The parties and signatories were not the same as those on the Contribution Instrument:
 - The parties to the Contribution Instrument were “Montgomery County Maryland” and “Chungcheongbuk-Do, a South Korean Province.” The purported parties to the License Agreement were “Montgomery County Department of Economic, *[sic]* Development, An Agency of Montgomery County, Maryland, a political subdivision of the State of Maryland” and “the Chungcheongbuk-Do Province, (a provincial government of the Republic of Korea).”
 - The Contribution Instrument was executed by the Governor of South Korean Province of Chungcheongbuk-Do for the Province, as opposed to the Director General, Economic and Trade Bureau.¹²²
 - The Contribution Instrument was executed by the County Executive for the County and Recommended by Director of the DED and the Director of the Department of Finance, and Approved as to Form and Legality by an Associate County Attorney by signature.
 - The License Agreement was purportedly executed only by the Director of the DED, witnessed by Mr. Bang.
 - The acknowledged signature of Mr. Silverman on the License Agreement was purportedly notarized, yet no name or address is provided and no notary seal is visible on the copy of the Agreement.

¹²⁰ Best practices would dictate that two related agreements would use the same defined terms. Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 5. **Exhibit BT_001**. Investment and Incubator Space License Agreement, dated March 15, 2010, at 1, 8. **Exhibit BT_002**.

¹²¹ Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 8. **Exhibit BT_001**. Investment and Incubator Space License Agreement, dated March 15, 2010, at 8. **Exhibit BT_002**.

¹²² Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010, at 12. **Exhibit BT_001**. Investment and Incubator Space License Agreement, dated March 15, 2010, at 10. **Exhibit BT_002**. The person whose name is in the signature block of the License Agreement, Kim Kyoung-Yong appears to be a legitimate politician in the Province (although not necessarily a legitimate signatory to the License Agreement). He is listed as Kim, Kyung Yong, “Director-General, Administration Bureau of Chungcheongbuk-do Provincial Government, the Republic of Korea”. China.org, Kyung Yong Kim, dated September 28, 2015, http://charhar.china.org.cn/2015-09/28/content_36697816.htm. **Exhibit BT_042**.

- A comprehensive report on the economic health of the BIN Program written in 2012 does not include any discussion of the License Agreement or the space that should have been reserved for companies from the Province. A large part of the focus of that report was an analysis of occupancy rates and rental income. That there was no mention of an agreement which would require a large amount of space be occupied rent-free suggests that the consultant (and in fact, the audience) was not aware of the License Agreement or that it did not exist.

However, officials from the Province and the County took action based on Mr. Bang's representation that the License Agreement was valid. The Province made payments totaling \$2.5 million, the amount required in the License Agreement, and not \$2.0 million, as required by the Contribution Instrument. Multiple emails of both County and Province personnel discussed the space provided under the License Agreement. For example, a memorandum dated February 1, 2011, from Mr. Silverman to the Executive Director of MEDCO, discussed terms of an agreement with the Province regarding payments from the Province for space in the Incubators.¹²³

4. Payments by the Province

This discussion includes an analysis of possible payments directly from the Province to CBIF and/or other entities. As such, it is outside of the scope of this phase of Baker Tilly's engagement. To the extent it informs the discussion of items within this Scope 1 Report, the information is included here.

a. Payment Instructions

Exhibit A of the License Agreement called for the \$2.5 million investment by the Province to be divided among three recipients.¹²⁴

¹²³ Memorandum regarding Advance Rent Payment for Incubator Companies from Chungbuk, Korea, dated February 1, 2011. **Exhibit BT_072.**

¹²⁴ Investment and Incubator Space License Agreement, dated March 15, 2010, at 11. **Exhibit BT_002.**

Figure 1. Exhibit A to License Agreement¹²⁵

Exhibit A

County's Disbursement Request and Fund Transfer Instructions

1. Disburse 200 Million Korean Won by a wire transfer to the following custodian account arranged to accumulate Chunguk's Repayment.
 - Name of the Bank: *[sic]*
 - Account Number: Redacted
 - Account Holder: Kim Do Saeng

2. Upon County's written request, from the remaining 2.8 Billion Korean Won in proceeds, wire \$2 million in US Dollar to the following US financial Institution.
 - Bank Name: Redacted
 - Contact: Redacted
 - Phone: Redacted
 - Wire: Redacted
 - Account Number: Redacted
 - Company Name: Montgomery County Government
 - Tax ID Number: 526000980

3. Wire the remaining proceeds in US Dollar to the following financial institution.
 - Bank Name: Redacted
 - Routing Number: Redacted
 - Account Number: Redacted
 - Credit To: Maryland Economic Development Corporation

At the exchange rate of \$1.00 = ₩ 1,200 assumed in the License Agreement, the obligations were:

Table 11. License Agreement Obligations¹²⁶

	Investment in Won	Investment in USD
Recipient 1	₩200,000,000	\$166,667.00
County	2,400,000,000	2,000,000.00
MEDCO	400,000,000	333,333.00
Total Investment	₩3,000,000,000	\$2,500,000.00

¹²⁵ Investment and Incubator Space License Agreement, dated March 15, 2010, at 11. **Exhibit BT_002.**

¹²⁶ *Id.*

b. Payment to Kim Do Saeng / Recipient 1 – March 2010

Recipient 1 is described as “custodian account arranged to accumulate Chungbuk’s Repayment.”¹²⁷ The repayment was to occur thirty years in the future. It is not clear what the reasoning would be for the Province to fund an account for its own repayment at the outset. In addition, pursuant to the practice of Joense, all of the funds should be available to the recipient to be able to earn interest prior to being returned. The Account Holder is listed as Kim Do Saeng. Baker Tilly does not have information about this person’s connection to any other party mentioned in the report.

Baker Tilly’s test for this bank account number did not produce any matches.¹²⁸ This account is not the same account used for the wire from the Province to the County,¹²⁹ or the two wires from the County to the Province.¹³⁰

Baker Tilly has not been provided any documents that show direct evidence of this payment having been sent by the Province or received by any recipient. However, three officials from the Province stated in separate emails that the funds had been sent:

- On February 17, 2010, Peter Bang, emailed KB Kookmin Bank on an inquiry regarding “account opening as a foreign government and/or as foreign national, and related wire transfer.”¹³¹
- On September 10, 2010, Jeon Kwang Ho, of the Chungbuk Provincial Office, in an email to Mr. Bang stated (Google translation confirmed by Baker Tilly’s Korean translator), “I paid 200,000,000 for the first time.”¹³²
- On March 3, 2014, Kim Jong Soo stated (Google translation confirmed by Baker Tilly’s translator), “we have provided first payment to Kim Do Saeng’s account for 200 million won.”¹³³
- Only one email references Kim Do Saeng.

¹²⁷ *Id.*

¹²⁸ The name of the bank, KB, is likely KB Financial Group/KB Kookmin Bank.

¹²⁹ Montgomery County Maryland Government PNC Bank Statement, dated July 13, 2010 - August 31, 2010, at 3. **Exhibit BT_028.** Translation of Emails between Peter Bang and Jeon Kwang Jo (Chungbuk Province), dated September 9-10, 2010. **Exhibit BT_030.**

¹³⁰ Governor of Chungbuk Province Korea Invoice #020714 Packet, dated September 2013 – February 2014. **Exhibit BT_029.** Governor of Chungbuk Province Korea Invoice #071514 Packet, dated June – July 2014. **Exhibit BT_018.**

¹³¹ Emails between Peter Bang, “oksk@----”, dated February 16-18, 2010, at 2. **Exhibit BT_054.**

¹³² Translation of Emails between Peter Bang and Jeon Kwang Ho, “jun3616@----” (Chungbuk Province), dated September 9-10, 2010, at 5, 7. **Exhibit BT_037.**

¹³³ Letter from Kim Jong Soo, dated March 3, 2014, at 2, 8. **Exhibit BT_062.**

- A table in an email from Kim Sang-Sook,¹³⁴ dated July 23, 2014,¹³⁵ references the first payment on March 23, 2010,¹³⁶ as ₩200,000,000. The table appears to be a copy of the same table in Mr. Bang’s email of June 26, 2014.

Figure 2. Table in Email from Kim Sang-Sook¹³⁷

	Chungbuk Funding	US Dollar	Korean Won	Effective Exchange Ratio (Won to \$1)	Note
1st	3/23/2010	\$ 177,462.29	₩200,000,000	1127.00	Based on most favorable rate for Chungbuk, off internet
2nd	8/31/2010	\$ 2,150,000.00	₩2,575,700,000	1198.00	Actual wired rate
3rd	9/15/2010	\$ 181,433.53	₩224,300,000	1236.27	Actual wired rate
	Total Received	\$ 2,508,895.82	₩3,000,000,000		

CBIF was not a legally formed entity until July 2010, and presumably would not have been the direct recipient of these funds.

c. Payment to the County / Recipient 2 – August 2010

The County received \$2.15 million by wire from the Province on August 31, 2010.¹³⁸ The payment was comprised of the \$2 million investment pursuant to the Contribution Instrument and an additional \$150,000 for “overhead.” Neither the Contribution Instrument nor the License Agreement makes reference to this amount. It appears to be part of the additional \$500,000 provided under the License Agreement.

d. Payment to CBIF / MEDCO / Recipient 3 - August 2010

The remaining amount under the License Agreement, ₩400 million (\$333,333),¹³⁹ was to go to MEDCO. It appears that the \$150,000 portion of the \$2.15 million payment to the County may have been intended as part of the payment to MEDCO as Recipient 3. In an email dated July 26, 2010, from Mr. Bang to Jeong Chung of the Chungbuk Provincial Government, and Yun Soon In

¹³⁴ Ms. Kim refers to her position as “in charge of business incubation center in Chungcheongbuk-do”. Emails between Peter Bang and Kim Sang-sook (Chungbuk Province) and Jeong Soon Lee, dated June 26, 2014, with attachments: Letter from Steven Silverman to Si Jong Lee (Governor of Chungbuk Province), dated February 13, 2014 (English); Letter from Peter Bang to Government Officer, dated March 26, 2014 (Korean); Letter from Kim Jong-sook, dated June 26, 2014, at 9. **Exhibit BT_032.**

¹³⁵ Emails between Peter Bang, Kim Sang-sook (Chungbuk Province) and Jeong Soon Lee, dated July 23-29, 2014, at 1-2. **Exhibit BT_033.**

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ Montgomery County Maryland Government PNC Bank Statement, dated July 13, 2010 - August 31, 2010, at 3. **Exhibit BT_028.**

¹³⁹ At the exchange rate of \$1.00 = ₩ 1,200 in the License Agreement. Investment and Incubator Space License Agreement, dated March 15, 2010. **Exhibit BT_002.**

(Google translation confirmed by Baker Tilly’s translator),¹⁴⁰ Mr. Bang requests payment to be deposited into an account under the name of Hong Sung-Wook.¹⁴¹ Mr. Bang stated that the “most efficient way to deposit is to set up a local corporation,” and that he and Mr. Hong would manage the account.¹⁴² However, it appears that those funds were, instead, sent to the County.

CBIF remitted an invoice to the County for \$150,000 dated October 1, 2010, described as “for the operational costs of Chungbuk’s programming in Montgomery County and support of arriving companies from Chungbuk.”¹⁴³ CBIF was paid \$150,000 by the County on November 8, 2010, by check.¹⁴⁴

e. Payment to CBIF / MEDCO / Recipient 3 – September 2010

In a letter to Mr. Kim Kyoung-Yong, Director-General, Economic and Trade Bureau, dated September 9, 2010, Mr. Bang requested that the final balance due from the Province to MEDCO be directed to CBIF:¹⁴⁵

I am requesting that the last disbursement be wired to the Chungbuk Incubator Fund LLC (Bank of America Account [REDACTED], SWIFT: BOFAUS3N), as opposed to being wired to MEDCO. This change is due to our accounting needs and the Chungbuk Incubator Fund LLC was established to expend Chungbuk related companies’ incubator associated expenses and to accommodate the future repayment to Chungbuk.¹⁴⁶

In the cover email sent by Mr. Bang to Mr. Jun, September 9, 2010, Mr. Bang states:

In the Agreement, the last payment is supposed to be made to MEDCO. However due to the current refinancing issues, we desire to receive the wire to another account set up for future reayment [sic] to Chungbuk.¹⁴⁷

¹⁴⁰ Email between Peter Bang and “green6254@----” and “jis1214@----”, dated July 26, 2010 with attachments: Letter from Steven Silverman to Kim Kyoung-Yong (Chungbuk Province Director General, Economic and Trade Bureau), dated July 22, 2010; Letter from Kim Kyoung-Yong to Steven Silverman, undated, at 2. **Exhibit BT_035**. Translation of Emails between Peter Bang and Jeon Kwang Ho, “jun3616@----” (Chungbuk Province), dated September 9-10, 2010. **Exhibit BT_037**.

¹⁴¹ The translation from Korean to English is unclear as to whether Mr. Bang is requesting \$2,150,000 or \$150,000 to be deposited in an account under the name of Hong Sung-Wook. Hong Sung-Wook is also known as Seung Uk Hong.

¹⁴² Email between Peter Bang and “green6254@----” and “jis1214@----”, dated July 26, 2010 with attachments: Letter from Steven Silverman to Kim Kyoung-Yong (Chungbuk Province Director General, Economic and Trade Bureau), dated July 22, 2010; Letter from Kim Kyoung-Yong to Steven Silverman, undated at 2. **Exhibit BT_035**.

¹⁴³ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 2. **Exhibit BT_008A**.

¹⁴⁴ *Id.* at 5.

¹⁴⁵ If the \$150,000 was part of the \$333,333 intended for MEDCO, then approximately \$183,333 would be remain to be paid.

¹⁴⁶ Translation of Emails between Peter Bang and Jeon Kwang Ho, “jun3616@----” (Chungbuk Province), dated September 9-10, 2010, at 1. **Exhibit BT_037**.

¹⁴⁷ *Id.* at 5.

Mr. Jun (jun3616@----) seems to be wary of this transaction and states in an email to Mr. Bang:

As I am working on this deal, how this deal is being done seems so different from how things are done in my company so I have been very hesitant to ask

What I mean is when our group provides an official statement, it's usually under the head of department's name. So, as the county and Chungbuk signed an agreement and as we are receiving the invoice, I would expect to also receive an official statement on top of the invoice to be official. We only relied on the invoice in the past transfers...This time could you provide an official statement as well?¹⁴⁸

Per the CBIF Bank of America bank account statement dated September 15, 2010, \$181,433.53 was wired into the CBIF checking account from the Province.¹⁴⁹ On September 14, 2010, a manual check (#1004) was written, payable to Byung Bang for the amount of \$120,000.¹⁵⁰

5. Small Business Revolving Loan Program

The SBRLP began in FY 2000. The initial funding for SBRLP was a combination of \$1.1 million from the County and \$1 million from the State of Maryland. The purpose of the SBRLP was to lend to small businesses in Montgomery County that could not otherwise obtain capital and, thus, create and retain jobs in Montgomery County. As the loans were repaid, those funds would then be available for new loans. The SBRLP actively made loans in its first several years with twenty-seven loans being made from FY 2001 through February 28, 2009, totaling \$1.748 million.¹⁵¹

For a year and nine months after the receipt of Chungbuk's investment, no loans were made through the SBRLP. One loan for \$100,000 was made in June 2012, and another for \$100,000 was made in August 2012. Prior to the execution of the Mutual Release in July 2014, the SBRLP made three more loans totaling \$125,000. Because loan activity decreased dramatically after the receipt of Chungbuk Province's investment, almost the entire investment was intact at the time of the termination of the Contribution Instrument.

¹⁴⁸ The time stamp on the email is September 10, 2010, 1:12am, seemingly after the letter dated September 9, 2010 was sent. The discrepancy is likely due to the time difference. Translation of Emails between Peter Bang and Jeon Kwang Ho (Chungbuk Province), dated September 9-10, 2010, at 9-13. **Exhibit BT_037**.

¹⁴⁹ Chungbuk Incubator Fund LLC Bank of America Bank Statements, dated September 1-30, 2010, at 2. **Exhibit BT_044**.

¹⁵⁰ *Id.* at 4.

¹⁵¹ The Micro-Enterprise Loan Program was merged into the SBRLP in FY 2010. Statistics may be reported by the County with or without the micro-loans included. Review of Montgomery County's Economic Development Incentive Programs, Office of Legislative Oversight, Report 2013-2, dated February 26, 2013. <https://www.montgomerycountymd.gov/olo/resources/files/oloreport2013-2.pdf>. **Exhibit BT_023**. Memorandum regarding Worksession – Executive's Recommended FY10 Operating Budget - Economic Development Fund (EDF) dated, dated April 13, 2009, https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2009/090415/20090415_PHED03.pdf. **Exhibit BT_015**.

The SBRLP appears to have been less than optimal as an investment for the Province pending the development of the East County Incubator for several reasons:

- The objective of the SBRLP did not appear to benefit the Province in any way:
 - The main objective of the program was to create and retain jobs in the County.
 - There was no technology focus.
 - There was no connection to any Korean companies.
 - By definition, the credit-worthiness of the loan recipients was generally below average, which would have resulted in default rate higher than what would be appropriate for the Province.
- The Contribution Instrument was structured such that the repayment of the loans reduced the amount available in the Contributed Fund balance and became the property of the County.
- If the loan activity had maintained the pre-2010 pace, the Contributed Funds would have been reduced significantly and thus not available to invest in the East County Incubator.
- The interest provided under the Contribution Instrument to the Province was negligible compared to the interest that would have been earned on the \$2 million prior to loans being made. That interest earned belonged to the County and the Province had no claim to it.
- The rationale for the Province to retain 70% of the loan interest to compensate for the potential loss of capital does not appear to make economic sense.¹⁵²

6. Deterioration of the Relationship – 2013 to Early 2014

In 2013 and early 2014, email correspondence shows that the relationship was starting to deteriorate. On February 27, 2013, Kim Soo Jung (nada0214@----) asked in an email to Mr. Bang about four items: (1) the annual payment of interest income; (2) the occupancy rates of the Incubators; (3) rent and CAM fees for incubator tenants; and (4) the purpose of CBIF.¹⁵³

On March 4, 2013, Mr. Bang responded to the four questions: (1) that the County will agree to abide by the original agreement which called for annual interest payments, rather than aggregate the payments and net them at the return of the funds in 30 years; (2) that the occupancy rates were below the rates required for the County to sublet the Province's space and share that revenue with

¹⁵² The borrowers did not have access to mainstream sources of capital at reasonable rates, due, at least in part, to the risk of capital loss. A portfolio made up of such loans at the prime rate (by definition, a rate provided to the most credit-worthy borrowers), would not provide a rate of return that would compensate the lender for the risk of default. A much higher interest rate would have been required in a free market for such a loan. In fact, in analyses provided at different points in time, over half of the loan portfolio was non-performing or defaulted.

¹⁵³ Emails between Peter Bang, Seong Hong, and Kim Soo Jung (“nada0214@----”) with Baker Tilly performed translation, dated February 27-March 4, 2013, at 8-10. **Exhibit BT_056.**

the Province; and (3) that the CAM information was not available. In response to the fourth question, regarding CBIF, Mr. Bang responded:

Chungbuk Incubator LLC [sic] is completely unrelated to Chungbuk and maintained by our county for convenience purposes....it was created for us to use our operational costs to the LLC to accumulate the amount. Therefore, Chungbuk does not need to pay attention to the LLC's operation methods, balance outstanding or any other activities. If you have any related documents regarding Chungbuk Incubator LLC [sic] that may cause confusion in Chungbuk, please delete the information.¹⁵⁴

From Kim Soo Jung to Mr. Bang on October 30, 2013:

This is Kim Soo Jung from Chungbuk's Biotech Department. Even though we sent an official statement in past September regarding Montgomery County Incubator center interest payment method and documents needed, I write you this email as a confirmation as the payment and related documents have not been replied to. As the provincial Governor and congressmen have a lot of concerns over the management of Montgomery County New Job Center [the Incubator Program], there will be inspections and requests for related documents and status update meeting. In this regard, there has been an order from people above me to obtain and take care of documents regarding status of the residency of the companies, status of ongoing operations of the Center, and proof of interest income.¹⁵⁵

From Kim Jong Soo to Mr. Bang on November 12, 2013:

Hello,

I am Kim Jong Soo, manager of Office of Biotechnology. I have heard that you put in a lot of effort in managing Montgomery County's New Job Incubation Center. In the last letter, you let us know you were going through research related to revitalization of the Incubation Center, and I was wondering what the results of the research was. I have heard from Lee Jung Soon that Sherry Grove's [sic] ownership is changing, and I would like to confirm the exact detail of that. If the ownership does change, what will happen to the Chungbuk's space in Sherry Grove [sic] and Germantown? If the change of ownership causes succession of Chungbuk's rights, reduction of space or closure of the space, the 2010 investment from Chungbuk of \$[sic]3,000,000,000 won must be returned to Chungbuk, and I was wondering if there will be any issues regarding the return of investment. Because we have not discussed this situation previously, we are having trouble understanding the situation exactly. Depending on the response to the questions, there are lots of companies that want to rent the space - please respond quickly. I would like a direct phone call as I have additional questions. Please let me know

¹⁵⁴ *Id.* at 22.

¹⁵⁵ Emails between Peter Bang and Kim Soo Jung with Baker Tilly performed translations, dated October 30-November 12, 2013, at 6. **Exhibit BT_058**.

when you are available, and your direct phone number. In addition, please let me know if there is anything Chungbuk can do to help revitalization of Montgomery County's New Job Incubation Center.¹⁵⁶

7. Termination of the Relationship - 2014

The Memorandum to the Government Operations and Fiscal Policy Committee, Subject: FY15 Operating Budget, dated April 17, 2014,¹⁵⁷ describes the termination of the Chungbuk Province involvement in the SBRLP:

The funds in this Account belong to the Chungbuk Province in Korea, and the Account Balance of \$2,111,031.97 will be returned to Chungbuk in July 2014. After initial contact in 2002, Chungbuk and the County developed a partnership around the possibility of building a jointly funded Life Sciences Incubator in East County Site II. In 2010, Chungbuk committed to investing \$2 million into the County. However, the County was not ready to move on with the East County project. To prevent losing [sic] Chungbuk's donation, the County persuaded Chungbuk to keep the funding in the County's a [sic] Small Business Revolving Loan Program (SBRLP) so we could help our small businesses by expanding the SBRLP. The potential for write off of non-performing loans could be offset by interest earned on performing loans until the County was ready to implement the East County project. In four years since receiving the investment, the County has made only two \$100,000 loans as the market was/is still depressed for starting/expanding small businesses. Based on the lack of utility of the Chungbuk Account in our SBRLP, and the uncertain timeline for the East County project, DED recommended terminating the agreement with Chungbuk and returning their investment so we will remain as "trustworthy" partners. The County Executive approved the termination of the agreement on 11/14/2013. The fund balance in the RDA will be wired to Chungbuk at the beginning of FY15.

It is not known who interpreted the agreements to calculate the amounts due, or how provisions of the original agreements may have been renegotiated to achieve agreement on the Mutual Release. The Mutual Release was executed by the County Executive, recommended by Mr. Silverman for the DED, recommended by the Director for the Department of Finance and "approved as to form and legality" by the Associate County Attorney, for the Office of the County Attorney.

¹⁵⁶ Letter from Kim Jong Soo, undated, at 5. **Exhibit BT_059**.

¹⁵⁷ Memorandum regarding FY15 Operating Budget; NDAs - Working Families Income Supplement; State Property Tax Services; Restricted Donations; Grants to Municipalities in Lieu of Shares Tax; Future Federal/State Grants; Takoma Park Police Rebate; Municipal Tax Duplication; Leases, dated April 17, 2014, http://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2014/140421/20140421_GO6.pdf, at 4-5. **Exhibit BT_003**.

Under the Mutual Release, executed July 3, 2014, the County and the Province agreed that the County would return the “Contributed Funds” and all “Contributed Funds Interest.”¹⁵⁸ The dollar amounts due are not stated in the Mutual Release.

8. Return of Funds to the Province – July 2014

After the termination of the relationship between the Province and the County, and the execution of the Mutual Release, the Province expected to receive the return of all funds contributed (including the Province’s share of interest due from the SBRLP loans for FY 2014).¹⁵⁹ On July 22, 2014, the County returned \$2,003,479.84 to the Province by wire consisting of the \$2.0 million of original investment and the Province’s interest for FY 2014 equaling \$3,479.84.¹⁶⁰ The remaining funds due would, therefore, be the amount sent to Recipient 1, the \$150,000 sent to the County and then disbursed to CBIF, and the amount sent directly to CBIF.

¹⁵⁸ Mutual Release County – Chungbuk, dated July 3, 2014, at 1-2. **Exhibit BT_076.**

¹⁵⁹ FY 2013 interest of \$6,718.01 had been paid previously. Governor of Chungbuk Province Korea Invoice #020714 Packet, dated September 2013 – February 2014. **Exhibit BT_029.**

¹⁶⁰ Governor of Chungbuk Province Korea Invoice #071514 Packet, dated June – July 2014. **Exhibit BT_018.**

Table 12. Funds to and from Chungbuk Province

Funds sent by the Province – 2010 – Recipient:	
Montgomery County	\$ 2,150,000.00 ¹⁶¹
Directly to CBIF	181,433.53 ¹⁶²
Kim Do Saeng (unconfirmed)	177,462.29 ¹⁶³
Total sent by the Province	\$ 2,508,895.82¹⁶⁴
FY 2014 Interest due to the Province from the County	3,479.84 ¹⁶⁵
Total to be returned to the Province	\$ 2,512,375.66
Funds Returned to the Province by the County	\$ (2,003,479.84)¹⁶⁶
Remaining balance due to the Province	\$ 508,895.82
Interest deducted in error	(3,479.84) ¹⁶⁷
Total alleged to have been returned by CBIF	\$ 505,415.98¹⁶⁸

An email from Ms. Kim on July 23, 2014, states (Google translation), “The primary investment you sent me was \$2,003,479.84. We hope that the secondary investment returns will go smoothly next week.”¹⁶⁹

Mr. Bang replied on July 29, 2014, with a screen shot showing a wire of \$505,415.98 with the status of “processing” but no account number, account holder name, or other identifying information visible.¹⁷⁰

¹⁶¹ \$150,000 was invoiced by and paid to CBIF by the County. Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 1-5. **Exhibit BT_008A.** Montgomery County Maryland Government PNC Bank Statement, dated July 13, 2010 - August 31, 2010, at 3. **Exhibit BT_028.**

¹⁶² Chungbuk Incubator Fund LLC Bank of America Bank Statements, dated September 1-30, 2010, at 2. **Exhibit BT_044.**

¹⁶³ Investment and Incubator Space License Agreement, dated March 15, 2010, at 11. **Exhibit BT_002.** Emails between Peter Bang and Kim Sang-sook (Chungbuk Province) and Jeong Soon Lee, dated June 26, 2014, with attachments: Letter from Steven Silverman to Si Jong Lee (Governor of Chungbuk Province), dated February 13, 2014 (English); Letter from Peter Bang to Government Officer, dated March 26, 2014 (Korean); Letter from Kim Jong-sook, dated June 26, 2014, at 1. **Exhibit BT_032.**

¹⁶⁴ Emails between Peter Bang and Kim Sang-sook (Chungbuk Province) and Jeong Soon Lee, dated June 26, 2014, with attachments: Letter from Steven Silverman to Si Jong Lee (Governor of Chungbuk Province), dated February 13, 2014 (English); Letter from Peter Bang to Government Officer, dated March 26, 2014 (Korean); Letter from Kim Jong-sook, dated June 26, 2014, at 1. **Exhibit BT_032.**

¹⁶⁵ Governor of Chungbuk Province Korea Invoice #071514 Packet, dated June – July 2014, at 3-4. **Exhibit BT_018.**

¹⁶⁶ *Id.*

¹⁶⁷ Emails between Peter Bang, Kim Sang-sook (Chungbuk Province) and Jeong Soon Lee, dated July 23-29, 2014, at 1. **Exhibit BT_033.**

¹⁶⁸ *Id.*

¹⁶⁹ *Id.* at 3.

¹⁷⁰ *Id.* at 1. The amount \$505,415.98 is, at times, referenced as \$505,415.95, due to rounding differences.

Figure 3. Screen Shot of July 29, 2014 Wire Transfer

Date ↓	Description	Type ▾	Status ▾	\$Amount
Amount included in Available Balance				
Processing	WIRE TRANSFER HOLD ON 07/29 FOR WIRE #00728258858	⊖	[P]	-505,415.98

Baker Tilly has not identified a copy of the CBIF bank account statement for July 2014, or any other bank statement or other document that evidences this amount being sent. There is no evidence to suggest that this payment was made by the County. On July 31, 2014, Ms. Kim responds (Google translation), “Your second investment of \$515,415.98, was well received yesterday.”¹⁷¹ Baker Tilly has no direct evidence of the receipt of this payment. Mr. Bang responded on August 1, 2014, “please send me one page official acknowledgement letter indicating the receipt of all Chungbuk investment back.”¹⁷²

B. AP TRANSACTION OBSERVATIONS AND FINDINGS

Based on Baker Tilly’s analysis of 1,592 payment transactions across 314 vendors, the below summarizes the determination of the category for each transaction:

Table 13. Baker Tilly Transaction Analysis Summary

Category	Number of Transactions	Total Dollar Amount
Category 1a	17	\$ 5,599,664.63
Category 1b	-	-
Category 2a	2	2,010,197.85
Category 2b	96	2,229,709.69
Category 3	915	51,127,995.43
Category 4	562	21,659,649.46
Total	1,592	\$ 82,627,217.06

1. Category 1 Transactions

Baker Tilly determined three vendors with 17 transactions totaling \$5.6 million to be categorized as Category 1a, having indications of potential fraud.

¹⁷¹ The amount referenced in the email, \$515,415.98, was likely a typographical error. Emails between Peter Bang and Kim Sang-sook (Chungbuk Province), dated July 31-August 1, 2014, at 3. **Exhibit BT_040**.

¹⁷² *Id.* at 1.

Table 14. Summary of Category 1a Transactions

Vendor Name	Number of Transactions	Total Dollar Amount
CHUNGBUK INCUBATOR FUND LLC	13	\$ 5,529,464.63
HANUL M KIM	1	500.00
JUNGMEER SOHN-LEE/ JUNGMEER LEE	3	69,700.00
Total	17	\$ 5,599,664.63

a. Category 1a – CBIF Observations and Findings

i. CBIF Formation – July 2010

CBIF filed Articles of Organization for a Limited Liability Company on July 22, 2010.¹⁷³ Samuel Kim was the Organizer and Resident Agent. Seung Uk Hong was the sole member at CBIF’s inception. On Mr. Bang’s 2014 Federal tax return, Form K-1, the 100% economic interest in CBIF is shown as having been acquired on July 22, 2010.¹⁷⁴

ii. Payment from Province to County – August 2010

The County received \$2.15 million by wire from the Province on August 31, 2010.¹⁷⁵ The payment was comprised of the \$2 million investment pursuant to the Contribution Instrument and an additional \$150,000 for “overhead.” Neither the Contribution Instrument nor the License Agreement makes reference to this additional amount. It appears to be part of the amount due to Recipient 3 (MEDCO) under the License Agreement.

iii. CBIF Invoices and Payments

The County identified 13 payments from 2010 through 2016, totaling \$5.53 million, to the vendor name “CHUNGBUK INCUBATOR FUND LLC.”¹⁷⁶ Baker Tilly examined those 13 payments and determined all of them fit the criteria for category 1a. Baker Tilly did not find any other payments to CBIF.

¹⁷³ Chungbuk Incubator Fund LLC Articles of Organization for a Limited Liability Company, dated July 27, 2010, at 1. **Exhibit BT_050.**

¹⁷⁴ Chungbuk Incubator Fund LLC Schedule K-1 Partnership, dated 2014, at 1-3. **Exhibit BT_049.**

¹⁷⁵ Federal Reserve Bank Fund Transfer Data Record, dated August 31, 2010. **Exhibit BT_030.**

¹⁷⁶ Chungbuk Incubator Fund LLC Invoices/Supporting Documentation Packet, dated November 2010 - February 2016. **Exhibit BT_008A.**

Table 15. Summary of CBIF Payment # 1

CBIF Payment #1 Invoice OCT12010 – CHUNGBUK,¹⁷⁷ dated October 1, 2010 for \$150,000¹⁷⁸ Oracle AP Invoice Description: Disbursement of Chungbuk Incubator Funds	
<p>Exempt Transaction Code 999009, Economic Development Partnership¹⁷⁹</p> <p>DPO¹⁸⁰</p> <p>Handwritten “Hold Check”¹⁸¹</p> <p>Paid via check dated November 8, 2010¹⁸²</p>	<ul style="list-style-type: none"> • Payment was requested for the “operational costs of Chungbuk’s programming in Montgomery County and support of arriving companies from Chungbuk.”¹⁸³ • The amount was requested from the \$2,150,000 wire from Chungbuk Province, “based on our earlier discussion.”¹⁸⁴ • The purported author of the request, Seoung Uk Hong, signed as both “Chungbuk’s Exchange Staff,” and “Manager, Chungbuk Incubator Fund, LLC.” He seemed to imply that CBIF represented or was in partnership with Chungbuk Province.¹⁸⁵ • “Seoung” is generally spelled “Seong.” For example, the name in Mr. Hong’s email address is seong.hong. Mr. Hong is also known as Hong Seong-Wook or Hong Sung-Wook. • The invoice was dated October 1, 2010, but seemingly entered into Oracle on November 2, 2010. The related DPO dated November 2, 2010, for \$150,000, appears to have been created after the receipt of the invoice and on the same day as the entry of the receipt into Oracle.¹⁸⁶ • After depositing the check on November 12, 2010, CBIF disbursed the funds by a manual check dated November 14, 2010 and marked “Transfer to MEDCO,” to Byung Il Bang for \$110,000, and transferring \$40,000 to a savings account.¹⁸⁷

¹⁷⁷ *Id.* at 1.

¹⁷⁸ *Id.* at 2.

¹⁷⁹ Exempt Transaction Codes found in Oracle Data provided by the County.

¹⁸⁰ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 3. **Exhibit BT_008A.**

¹⁸¹ *Id.* at 2.

¹⁸² *Id.* at 5.

¹⁸³ *Id.* at 2.

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ *Id.* at 1-3.

¹⁸⁷ Chungbuk Incubator Fund LLC Bank of America Bank Statements, dated November 1-30, 2010, at 2-4. **Exhibit BT_041.**

Table 16. Summary of CBIF Payment #2

CBIF Payment #2 Invoice MCDED-12-4,¹⁸⁸ dated July 11, 2011 for \$120,000¹⁸⁹ Oracle AP Invoice Description: FY12 SHADY GROVE INCUBATOR	
Exempt Transaction Code 999034, Rent/Leases ¹⁹⁰ Handwritten "Hold" ¹⁹¹ Paid via check dated July 21, 2011 ¹⁹²	<ul style="list-style-type: none"> Procurement Freeze Exemption Request included.¹⁹³ PFER states, "\$120,000 DPO Creation and Payment for the Shady Grove Innovation Center - Partial Payment on FY12 Mortgage & Operating Funds."¹⁹⁴ Partial payment for FY12, "per the loan agreement with PNC Bank."¹⁹⁵ Remaining amount of the mortgage payment "can be released towards the latter part of the fiscal year."¹⁹⁶ Shows total FY 2012 payments due as \$300,000.¹⁹⁷ Loan Agreement and mortgage invoice not provided.

¹⁸⁸ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 7. **Exhibit BT_008A.**

¹⁸⁹ *Id.* at 8.

¹⁹⁰ Exempt Transaction Codes found in Oracle Data provided by the County.

¹⁹¹ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 8. **Exhibit BT_008A.**

¹⁹² *Id.* at 14.

¹⁹³ *Id.* at 9.

¹⁹⁴ *Id.*

¹⁹⁵ *Id.*

¹⁹⁶ *Id.*

¹⁹⁷ *Id.*

Table 17. CBIF Payment #3

CBIF Payment #3 Invoice MCDED-12-3,¹⁹⁸ dated July 11, 2011 for \$680,000¹⁹⁹ Oracle AP Invoice Description: FY12 GERMANTOWN INCUBATOR	
<p>Exempt Transaction Code 999034, Rent/Leases²⁰⁰</p> <p>Handwritten “Hold”²⁰¹</p> <p>Paid via check dated July 21, 2011²⁰²</p>	<ul style="list-style-type: none"> • Procurement Freeze Exemption Request included.²⁰³ • PFER states, “\$680,000 DPO Creation and Payment for the Germantown Innovation Center - Payment on FY12 Rent and maintenance cost.”²⁰⁴ • Payment for FY 2012 “operating costs, rent, and maintenance for the Germantown Innovation Center, per the sub-lease agreement with the Montgomery College Foundation.”²⁰⁵ • References “management agreement with MEDCO”²⁰⁶ without an explanation or investigation of what MEDCO may have been paid directly. • Sub-lease or rent invoice not provided. Payments are typically made monthly, not semi-annually.

¹⁹⁸ *Id.* at 11.

¹⁹⁹ *Id.* at 12.

²⁰⁰ Exempt Transaction Codes found in Oracle Data provided by the County.

²⁰¹ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 12. **Exhibit BT_008A.**

²⁰² *Id.* at 14.

²⁰³ *Id.* at 13.

²⁰⁴ *Id.*

²⁰⁵ *Id.*

²⁰⁶ *Id.*

Table 18. CBIF Payment #4

CBIF Payment #4	
Invoice MCDED-12-8,²⁰⁷ dated March 5, 2012 for \$138,980.63²⁰⁸	
Oracle AP Invoice Description: FY12 GTOWN LEASE - 2ND AND FINAL PAYMENT	
Exempt Transaction Code 999034, Rent/Leases ²⁰⁹	<ul style="list-style-type: none">• Second and final FY 2012 lease payment for the Germantown Innovation Center.²¹²• Lease or rent invoice not provided. Payments are typically made monthly, not semi-annually.
Handwritten "Hold Check" ²¹⁰	
Paid via check dated March 8, 2012 ²¹¹	

²⁰⁷ *Id.* at 16.

²⁰⁸ *Id.* at 17.

²⁰⁹ Exempt Transaction Code found in Oracle Data provided by the County.

²¹⁰ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 17. **Exhibit BT_008A.**

²¹¹ *Id.* at 18.

²¹² *Id.* at 17.

Table 19. CBIF Payment #5

CBIF Payment #5	
Invoice MCDED-12-9,²¹³ dated May 3, 2012 for \$130,000²¹⁴	
Oracle AP Invoice Description: FY12 Shady Grove Innovation	
Exempt Transaction Code 999034, Rent/Leases ²¹⁵	<ul style="list-style-type: none">• Procurement Freeze Exemption Request included.²¹⁸• PFER states, “DPO for \$130,000 for the Shady Grove Innovation Center Final Payment on FY12 Mortgage and Operating Expense.”²¹⁹• Previous payment indicated total payments would be \$300,000; with this payment, total is \$250,000, with no explanation as to discrepancy.• Mortgage or mortgage invoice not provided. Payments are typically made monthly, not semi-annually.
Handwritten “Hold Check” ²¹⁶	
Paid via check dated May 11, 2012 ²¹⁷	

²¹³ *Id.* at 20.

²¹⁴ *Id.* at 21.

²¹⁵ Exempt Transaction Code found in Oracle Data provided by the County.

²¹⁶ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 21. **Exhibit BT_008A.**

²¹⁷ *Id.* at 23.

²¹⁸ *Id.* at 22.

²¹⁹ *Id.*

Table 20. CBIF Payment #6

CBIF Payment #6 Invoice MCDED-13-1,²²⁰ dated July 6, 2012 for \$840,000²²¹ Oracle AP Invoice Description: FY13 MONTCO GERMANTOWN INCUBATOR GRANT LEASE PAYMENT	
Exempt Transaction Code 999034, Rent/Leases ²²² Handwritten "Hold Check" ²²³ Paid via check dated July 13, 2012 ²²⁴	<ul style="list-style-type: none"> • Procurement Freeze Exemption Request included.²²⁵ • PFER states, "DPO for \$840,000 for the Germantown Innovation Center (GIC)."²²⁶ • "Annual grant subsidy for the Germantown Innovation Center per the lease agreement with the Montgomery College Foundation."²²⁷

²²⁰ *Id.* at 25.

²²¹ *Id.* at 26.

²²² Exempt Transaction Code found in Oracle Data provided by the County.

²²³ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 26. **Exhibit BT_008A.**

²²⁴ *Id.* at 28.

²²⁵ *Id.* at 27.

²²⁶ *Id.*

²²⁷ *Id.*

Table 21. CBIF Payment #7

CBIF Payment #7 Invoice MCDED-14-1,²²⁸ dated July 1, 2013 for \$840,000²²⁹ Oracle AP Invoice Description: FY14 GERMANTOWN INCUBATOR GRANT PAYMENT	
Exempt Transaction Code 999034, Rent/Leases ²³⁰ DPO ²³¹ Handwritten "Hold Check" ²³² Paid via check dated July 5, 2013 ²³³	<ul style="list-style-type: none"> Payment for the "FY 2014 Germantown Incubator Grant."²³⁴ Related to a DPO dated July 1, 2013, in the same amount.²³⁵ DPO states, "FY14 DPO to encumber funding for Chungbuk Incubator Fund LLC – Germantown Incubator."²³⁶

²²⁸ *Id.* at 30.

²²⁹ *Id.* at 31.

²³⁰ Exempt Transaction Code found in Oracle Data provided by the County.

²³¹ Direct Purchase Order #1032359, dated July 1, 2013. **Exhibit BT_066.**

²³² Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 30-31. **Exhibit BT_008A**

²³³ *Id.* at 32.

²³⁴ *Id.* at 31.

²³⁵ Direct Purchase Order #1032359, dated July 1, 2013. **Exhibit BT_066.**

²³⁶ *Id.*

Table 22. CBIF Payment #8

CBIF Payment #8 Invoice MCDED-14-02,²³⁷ dated June 23, 2014 for \$81,500²³⁸ Oracle AP Invoice Description: WHIC TENANT MOVE EXPENSES	
<p>Exempt Transaction Code 999009, Economic Development Partnership²³⁹</p> <p>Handwritten “Check Hold for pickup”²⁴⁰</p> <p>Paid via check dated June 26, 2014²⁴¹</p>	<ul style="list-style-type: none"> • \$25,000 payment for “Incidental Expenses”, described as including “moving, phone/data lines,” at the following rates: \$500 each for 10 companies that moved into Incubators and \$1,000 each for an unspecified number of companies that moved into commercial spaces.²⁴² To equal \$25,000, 20 companies must have moved into commercial space. • \$56,500 payment for “miscellaneous impact assistance.” The cost was incurred to “cover additional expenses some companies have incurred due to relocation of equipment.” The payment is broken down into three different Incubator graduates for \$40,000, \$11,500, and \$5,000.²⁴³ • There is no third-party evidence (receipts, etc.) of any of the expenses having been incurred.

²³⁷ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 34. **Exhibit BT_008A.**

²³⁸ *Id.* at 35.

²³⁹ Exempt Transaction Code found in Oracle Data provided by the County.

²⁴⁰ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 34-35. **Exhibit BT_008A.**

²⁴¹ *Id.* at 37.

²⁴² *Id.* at 35.

²⁴³ *Id.*

Table 23. CBIF Payment #9

CBIF Payment #9 Invoice MCDED-15-01,²⁴⁴ dated July 2, 2014 for \$970,000²⁴⁵ Oracle AP Invoice Description: GERMANTOWN INNOVATION CNTR	
Exempt Transaction Code 999034, Rent/Leases ²⁴⁶ DPO ²⁴⁷ Handwritten “Check Hold for pickup” ²⁴⁸ Paid via check dated July 8, 2014 ²⁴⁹	<ul style="list-style-type: none"> \$840,000.00 payment for the FY 2015 Germantown Incubator Grant. No grant information provided.²⁵⁰ \$130,000 payment for the Mentorship Program for Life Sciences. No program information provided.²⁵¹ Related to a DPO dated July 3, 2014, in the same amount.²⁵² DPO states, “FY15 DPO to encumber funding for Germantown Innovation Center.”²⁵³

²⁴⁴ *Id.* at 39.

²⁴⁵ *Id.* at 40.

²⁴⁶ Exempt Transaction Code found in Oracle Data provided by the County.

²⁴⁷ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 42. **Exhibit BT_008A.**

²⁴⁸ *Id.* at 39-40.

²⁴⁹ *Id.* at 43.

²⁵⁰ *Id.* at 40.

²⁵¹ *Id.*

²⁵² *Id.* at 42.

²⁵³ *Id.*

Table 24. CBIF Payment #10

CBIF Payment #10 Invoice MCDED-16-01,²⁵⁴ dated July 6, 2015 for \$521,484²⁵⁵ Oracle AP Invoice Description: FY16 ANNUAL LEASE GIC	
Exempt Transaction Code 999034, Rent/Leases ²⁵⁶ Paid via ACH ²⁵⁷	<ul style="list-style-type: none"> • Payment is for the “GIC (Germantown Incubator) 2015-2016 Annual Rent from Montgomery County.”²⁵⁸ • Does not indicate that it is for a partial period. • No lease or rent invoice provided. Payments are typically made monthly, not semi-annually.

Table 25. CBIF Payment #11

CBIF Payment #11 Invoice MCDED-16-03,²⁵⁹ dated October 8, 2015 for \$360,000²⁶⁰ Oracle AP Invoice Description: LEASE PAYMENT	
Exempt Transaction Code 999034, Rent/Leases ²⁶¹ Paid via ACH ²⁶²	<ul style="list-style-type: none"> • Payment is for the “Germantown Innovation Center (Germantown Incubator) 2015-2016 final rent payment.”²⁶³ No explanation of why this payment is less than payment on July 6, 2015, or why that payment was not marked as a partial payment. • No lease or rent invoice provided. Payments are typically made monthly, not semi-annually.

²⁵⁴ *Id.* at 45.

²⁵⁵ *Id.* at 46.

²⁵⁶ Exempt Transaction Code found in Oracle Data provided by the County.

²⁵⁷ No payment documentation because paid via ACH.

²⁵⁸ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 46. **Exhibit BT_008A.**

²⁵⁹ *Id.* at 49.

²⁶⁰ *Id.* at 50.

²⁶¹ Exempt Transaction Code found in Oracle Data provided by the County.

²⁶² No payment documentation because paid via ACH.

²⁶³ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 50. **Exhibit BT_008A.**

Table 26. CBIF Payment #12

CBIF Payment #12	
Invoice MCDED-16-04,²⁶⁴ dated November 18, 2015 for \$315,000²⁶⁵	
Oracle AP Invoice Description: FINAL PAYMENT OF FY16	
Exempt Transaction Code 999034, Rent/Leases ²⁶⁶	<ul style="list-style-type: none">• “FY 16 Second and final payment” of mortgage for the Shady Grove Innovation Center/NCCoE.²⁶⁸
Paid via ACH ²⁶⁷	<ul style="list-style-type: none">• Payment is broken down into \$235,000 from Montgomery County Grant Funds and \$80,000 from “R&M Reserve.”²⁶⁹ R&M Reserve stands for Repair & Maintenance Reserve.

Table 27. CBIF Payment #13

CBIF Payment #13	
Invoice MCDED-2016-3,²⁷⁰ dated February 25, 2016 for \$382,500²⁷¹	
Oracle AP Invoice Description: NCCOE 2016 FIRST MORTGAGE PAYMENT	
Exempt Transaction Code 999034, Rent/Leases ²⁷²	<ul style="list-style-type: none">• Invoice is for the “2016 first half payment” of the NCCoE mortgage. Handwritten note on the invoice indicates that this is the second payment in FY 2017.²⁷⁴
Paid via ACH ²⁷³	<ul style="list-style-type: none">• Payment is broken down into \$342,500 from Montgomery County Grant Funds and \$40,000 from “R&M Reserve.”²⁷⁵ R&M Reserve stands for Repair & Maintenance Reserve.

²⁶⁴ *Id.* at 53.

²⁶⁵ *Id.* at 54.

²⁶⁶ Exempt Transaction Code found in Oracle Data provided by the County.

²⁶⁷ No payment documentation because paid via ACH.

²⁶⁸ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 54. **Exhibit BT_008A.**

²⁶⁹ *Id.*

²⁷⁰ *Id.* at 57.

²⁷¹ *Id.* at 58.

²⁷² Exempt Transaction Code found in Oracle Data provided by the County.

²⁷³ No payment documentation because paid via ACH.

²⁷⁴ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 58. **Exhibit BT_008A.**

²⁷⁵ *Id.*

The general characteristics of these non-procurement transactions indicate:

- There were no contracts or other documentation provided for any transaction to show the financial relationship and obligations between the County and CBIF or CBIF and the Incubators. All CBIF transactions occurred outside of the Office of Procurement.
- Payments were described as, for example, rent, mortgage payments, operating expenses, and moving expenses for tenants relating to the Shady Grove/NCCoE and Germantown Incubators. However, there was no explanation of why CBIF would serve as intermediary between the County and the entities ultimately responsible for paying those expenses.
- There were no contracts that show the services provided to the County or the Incubators, or the price at which the services were provided. There is no documentation or third-party, confirming evidence of these underlying pass-through expenses, *e.g.*, no leases, receipts for expenses, or invoices for moving.
- Transactions were portrayed as related to grants to the Incubators. There is no documentation or descriptions of the purported grants.
- There is no “partnership agreement” with the Province, unless the reference is to the License Agreement, but there is no specific requirement to pay these funds contained in the License Agreement.
- There is no reconciliation of the rent or mortgage payments to a lease or time period.
- Nine of the payments were marked to hold for pickup.
- Invoices read, “Please forward the payment to Samuel Kim, CPA.”²⁷⁶
- CBIF invoices and cover letters were addressed to Peter Bang at the DED.

Some of the descriptions seemed designed to create a sense of urgency and suggest consequences of delay. For example, in response to the field “Justification for exemption and impact of non-exemption” on the PFER form, the following description is provided:

A projected rent [sic] and maintenance costs, and some operating funds must be disbursed at [the] beginning of each fiscal year to buffer the cash flow cycle of the incubator and satisfy the management agreement with MEDCO and partnership agreement with Chungbuk Korea. Non-payment will result in the cash flow shortage and violation of the agreements, and could affect occupancy rate as well.²⁷⁷

²⁷⁶ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 8, 12, 17, 21, 26, 31, 35, 40, 46, 50, 54, 58. **Exhibit BT_008A.**

²⁷⁷ The referenced management agreement is not provided.

While the County's relationship with the Province, and the investment of \$2.0 million by the Province provided an opportunity to create a Fictitious Vendor Scheme, these funds were not the funds that were likely misappropriated. The \$2 million investment by the Province did go to the SBRLP and came back out of the SBRLP. The money paid to CBIF came from DED funds for grants and other funding related to the Incubators, as approved by the County.

b. Category 1a – Other Vendors

Baker Tilly identified four other transactions with characteristics fitting the definition of category 1a.

i. Sohn Jung Mee

Sohn Jung Mee²⁷⁸ was the first Exchange Staff member for Chungbuk Province, representing the Province's interests in economic development activities in the County. She arrived in Montgomery County in or around November 2007.²⁷⁹ She returned to Korea in or around November 2009.²⁸⁰

During the Scope 2 Forensic Investigation, Baker Tilly identified a payment from MEDCO to Ms. Sohn that had indications of potential fraud, waste, or abuse. This payment of \$81,200 was requested in a memorandum dated November 4, 2009, to the Executive Director of MEDCO, from Mr. Bang, subject "Request to Draw Funds From MEDCO Held DED Special Accounts."²⁸¹ The memorandum directed MEDCO to pay Ms. Sohn for a "High-Tech Medical Complex Feasibility & Partnership."²⁸²

Baker Tilly was unable to locate any support to suggest that this study was a legitimate expense:

- No support included with the payment request;
- No support that this study was commissioned by the County;
- No support that the County agreed to pay for such a study on behalf of Chungbuk Province; and
- No reports, agreements, statements of work, invoices, or timesheets detailing work completed by Ms. Sohn or any other person.

MEDCO issued check number 1338 for \$81,200 to "Sohn Jung Mee" on November 4, 2009.

²⁷⁸ Ms. Sohn is referenced as Sohn Jung Mee, Jungmee Sohn, Jungmee Sohn Lee, Sohn Jungmee Lee, and Jongmee Sohn Lee.

²⁷⁹ Jungmee Sohn Lee invoice support, dated October 2007 - November 2009. **Exhibit BT_079_4.**

²⁸⁰ *Id.* **Exhibit BT_079_68.**

²⁸¹ Please refer to the Scope 2 Report Exhibits.

²⁸² *Id.*

In addition, during the Scope 2 Forensic Investigation, Baker Tilly noted a payment to “The Economic Report.” Payment was requested in a letter to the Executive Director of MEDCO dated September 19, 2008.²⁸³ The request was well supported with documentation, including:

- An invoice addressed to “Montgomery County Economic Development,” at the DED’s address, for \$29,700, as the total balance due, dated August 25, 2008. There is no indication that this invoice was for a partial payment.
- A contract signed by the Director of the DED on what appears to be August 6, 2008. The invoice reads that the contract was signed by the Director of the DED on August 22, 2008.
- Descriptive information about the product, which was to be a news-like video about the Incubators to be aired on television, as described in Mr. Bang’s request.

On September 22, 2008, MEDCO paid \$29,700 to The Economic Report located in Deerfield, FL, Federal Tax ID xx-xxx4814. A web search confirmed the existence of The Economic Report in 2008.²⁸⁴ The company’s services were as described in the support documents.

Baker Tilly did not see indications of fraud, waste or abuse in this transaction. However, based on the vendor name, the description of the expense, and the amount, Baker Tilly re-examined a transaction from Scope 1. Ms. Sohn submitted an invoice to the County dated August 25, 2008, for \$29,700, the same amount as the invoice from The Economic Report. The invoice description read:

[T]he partnering effort and sponsorship costs for the September 9, 2008 Osong Bio Forum to be held in Montgomery County, and for the “Economic Report” project placed as part of FY09 partnership programs under the terms of the MOU executed between Montgomery County, Maryland and Chungcheongbuk-do Province Government in May 2004.²⁸⁵

There was no support for “the Economic Report” project. The invoice also requested funds for the Osong Bio Forum. The County had confirmed that the conference did take place. The support for payment for the conference, however, did not include any receipts for the venue or any other out-of-pocket costs. The invoice also references “full market research of over 400 prospects in the region was conducted by KOTRA [Korean Trade Investment Promotion Agency].” While some of the research is included, there is no evidence that Ms. Sohn paid KOTRA for the work. The 2004 MOU (attached to the invoice) does not require payments from the County for anything related to Chungbuk Province.

²⁸³ The observed pattern for a letter or memorandum requesting payment was that it was addressed to the recipient, from Mr. Bang, “via” the Director of the DED. This was addressed to the Executive Director of MEDCO “via” the Director of the DED, without the letter being “from” anyone. Please refer to the Scope 2 Report Exhibits.

²⁸⁴ The Economic Report does not appear to be operating currently.

²⁸⁵ Jungmee Sohn Lee invoice support, dated October 2007 - November 2009. **Exhibit BT_079_10.**

In the Scope 1 Forensic Investigation, Baker Tilly identified three other transactions totaling \$40,742.95, paid to Ms. Sohn from the County under the vendor names “Jungmee Sohn” and “Jungmee Sohn-Lee.”

Ms. Sohn submitted an invoice to the County dated March 16, 2008, for \$20,000 for the “program development, including staff / official exchange, business partnering, and participation in BIO Korea 2008, under the terms of the MOU executed between Montgomery County, Maryland and Chungcheongbuk-do Province Government in May 2004.”²⁸⁶

Ms. Sohn submitted an invoice to the County dated April 30, 2009, for “an annual payment” of \$20,000 for the “program development, including staff / official exchange, business partnering, and participation in BIO Atlanta 2009, BIODKOREA 2009, Chungbuk business delegation visit in September 2009, under the terms of the MOU executed between Montgomery County, Maryland and Chungcheongbuk-do Province Government in May 2004.”²⁸⁷

There was no support provided for the items on either invoice. On November 25, 2007, the Director of the DED had written a letter to the Governor of Chungbuk Province, stating, “[a]s previously agreed, I expect Chungbuk to pay for the salary, cost of living and other incidental expenses for Ms. Sohn. We will, however, provide seed funding of \$20-\$30,000 to begin implementing partnership initiatives.”²⁸⁸ However, these invoices appear to be requesting compensation for staff. Again, the 2004 MOU does not require payments from the County for anything related to Chungbuk Province.

The County was unable to provide documentation for one transaction for \$742.95. The date of the transaction was past the County’s retention policy. Therefore, Baker Tilly could not make a determination as to the nature of that transaction.

ii. Hanul Kim

Although this transaction was only \$500, Baker Tilly determined that indications of potential fraud were present.²⁸⁹

- The payment did not go to the primary address on file in the County’s data for Hanul Kim. Instead the alternate address, Mr. Bang’s home address, was used for payment;
- Hanul Kim is a possible relative of Mr. Bang;
- The letter confirming services were provided was marked “Yes” for “Hold Check: __” and was never signed by Hanul Kim as required;
- There were no other payments to this vendor, Hanul Kim;

²⁸⁶ *Id.* **Exhibit BT_079_3.**

²⁸⁷ *Id.* **Exhibit BT_079_67.**

²⁸⁸ In common investing terms, seed money would imply a one-time payment, not an “annual” payment. Jungmee Sohn Lee invoice support, dated October 2007 - November 2009. **Exhibit BT_079_5.**

²⁸⁹ Hanul Kim Invoice #012510 Packet, dated January 2010. **Exhibit BT_008B.**

- Because of the size of the transaction, it needed only departmental approval for payment; and
- There was insufficient detail to support the invoice.

c. Category 1b Transactions

Category 1b transactions contain indications of potential waste or abuse.

- Waste is defined as “the act of using or expending resources carelessly, extravagantly, or to no purpose.”²⁹⁰
- Abuse is defined as “behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice given the facts and circumstances. This includes the misuse of authority or position for personal gain or for the benefit of another.”²⁹¹

Baker Tilly did not find any transactions that would fit the criteria of Category 1b.

2. Category 2 Transactions

Category 2 transactions are transactions that are high-risk of potential fraud, waste, or abuse are not observed; however, Baker Tilly is unable to make a final determination of category due to a lack of sufficient documentation. Baker Tilly determined one vendor with two transactions totaling \$2,010,197.85 to the Governor of Chungbuk Province Korea should be categorized as 2a:

Table 28. Summary of Category 2a Transactions

Vendor Name	Number of Transactions	Total Dollar Amount
GOVERNOR OF CHUNGBUK PROVINCE KOREA	2	\$2,010,197.85
Total	2	\$2,010,197.85

The County identified two payments totaling \$2,010,197.85 to the vendor name “GOVERNOR OF CHUNGBUK PROVINCE KOREA.” Baker Tilly did not find any payments to the Province other than those the County identified. These two payments by the County to the Province were categorized as 2a because Baker Tilly’s assessment was that they were at risk for fraud, given the Province’s central position in this situation, and the uncertainty surrounding the return of \$505,415.95 by another entity or entities. However, Baker Tilly has found no specific indications of fraud with these two payments.

a. Payment – February 2014

The first payment for \$6,718.01 was paid on February 7, 2014. Pursuant to the Contribution Instrument, Chungbuk Province was due 70% of the interest earned on the SBRLP loans and 100%

²⁹⁰ United States Government Accountability Office, Standards for Internal Control in the Federal Government (“Green Book”), dated September 2014, <https://www.gao.gov/assets/670/665712.pdf>, at 3. **Exhibit BT_017.**

²⁹¹ *Id.*

of the origination fees. This payment was due 60 days after the end of the Fiscal Year, which for Fiscal Year 2013 would have been August 31, 2013.

Baker Tilly was provided with the County's support for this payment. The interest and fees for this payment were calculated by Mr. Bang. The calculation appears to be reasonable and in compliance with the Contribution Instrument for the interest and fees due on the two loans made during FY 2013.²⁹²

On September 23, 2013, Mr. Bang provided wire instructions for the Province in an email with an attachment. The attachment purported to be from the Province.²⁹³ It was written in Korean and the only English referenced the name of the Province. The electronic copy provided to Baker Tilly was not of high resolution and could not be examined for the validity of the sender. Mr. Bang sent another email on September 26, 2013, clarifying the name of the account holder as "The Governor of Chungbuk Province (province tax)."²⁹⁴

After the above referenced email exchanges at the end of September, Mr. Bang sent an email on October 16, 2013, which appeared to be in response to a request for an update on the payment, to which he replied, "working on it...they seem to be confused as it is their first dealing on this front as a local government."²⁹⁵ On February 7, 2014, Mr. Bang was asked again for an update by email, and another employee responded that an AP voucher had not been completed.²⁹⁶ The wire was sent out that day.²⁹⁷

b. Payment – July 2014

The second payment for \$2,003,479.84 was made on July 22, 2014.²⁹⁸ As discussed above, this payment was the return of funds pursuant to the Mutual Release. The wire instructions were again provided by Mr. Bang, reiterating the instructions for the previous payment.²⁹⁹ There were two parts to the payment: the payment of 70% of the interest received on the outstanding SBRLP loans in FY 2014, and the return of the balance of the Contributed Funds.

The calculation of the interest due to the Province for FY 2014 was part of the support document package provided by the County. The calculation appears to be in compliance with the Contribution Instrument for the interest earned in FY 2014 for the two loans made in FY 2013.³⁰⁰

²⁹² The interest payment cannot be reconciled exactly without further documentation of the interest and fees received from the two borrowers. As the amount calculated appears reasonable and given the size of the interest payment due, Baker Tilly did not request further documentation. Small Business Revolving Loan Program Packet. **Exhibit BT_039**.

²⁹³ Governor of Chungbuk Province Korea Invoice #020714 Packet, dated September 2013 – February 2014, at 13-15. **Exhibit BT_029**.

²⁹⁴ *Id.* at 13.

²⁹⁵ *Id.* at 4.

²⁹⁶ *Id.*

²⁹⁷ *Id.* at 19.

²⁹⁸ Governor of Chungbuk Province Korea Invoice #071514 Packet, dated June – July 2014, at 2. **Exhibit BT_018**.

²⁹⁹ *Id.* at 4.

³⁰⁰ Again, the interest payment cannot be reconciled exactly without further documentation of the interest and fees received from the two borrowers. Small Business Revolving Loan Program Packet. **Exhibit BT_039**.

The full amount of the original investment of \$2 million was returned to the Province as part of the second payment.

c. Category 2b Transactions

Category 2b transactions are at lower risk for potential fraud, waste, or abuse, and the documentation provided was insufficient to categorize the transaction. Given the low risk and unlikely outcome that these transactions would ultimately be categorized as 1a or 1b, it would not have been a prudent use of County resources to attempt to identify additional support. Thus, Baker Tilly did not request additional documentation. Baker Tilly determined 18 vendors with 96 transactions totaling \$2,229,709.69 to be in Category 2b.

3. Category 3 Transactions

Category 3 transactions do not contain indications of potential fraud, waste, or abuse, and are sufficiently supported to make that determination. Baker Tilly determined 195 vendors with 915 transactions totaling \$51,127,995.43 to be in Category 3.

Included in Category 3 were 95 transactions totaling \$24.3 million for BHI, MEDCO, and Scheer. These payments by the County directly to these entities have been fully examined, and no indications of potential fraud, waste, or abuse were found. This Scope 1 Report covers only the forensic investigation of transactions related to the DED; the Scope 2 Report covers the methodologies, observations and findings, and recommendations of the forensic investigation into the County’s relationship and transactions with MEDCO, Scheer, and BHI, and again, Baker Tilly refers the reader to that report.

Table 29. Summary of BHI, MEDCO, and Scheer Transactions in Category 3

Vendor Name	Number of Transactions	Total Dollar Amount
BIOHEALTH INNOVATION IN	14	\$ 2,198,244.03
MARYLAND ECONOMIC DEVELOPMENT CORPORATION	68	19,732,261.46
SCHEER PARTNERS INC	13	2,405,374.22
Total	95	\$ 24,335,879.71

Of the 14 payments to BHI, four were operating grants for FY 2013 through FY 2016, and the other ten were for sponsorship of small projects. The majority of MEDCO payments represented capital and operating grants to the Incubators. Payments to Scheer were for items including amounts due under its management contracts, operating grants, and lease payments.

4. Category 4 Transactions

Category 4 transactions were not tested. Baker Tilly determined 142 vendors with 562 transactions totaling \$21,659,649.46 million to be in Category 4. There were 98 vendors with total transactions under \$10,000. These transactions were reviewed and Baker Tilly determined that these transactions did not warrant further analysis. There were eight vendors with total transactions of

approximately \$1.16 million where a large sample of transactions with those vendors had already been examined, and the remaining transactions were determined to be at low risk for fraud, waste, or abuse. Approximately \$6 million relates to transactions for which the records were beyond the retention date per the retention policy, or otherwise unavailable. Approximately \$11.3 million related to a mortgage payable to U.S. Bank for a project unrelated to this investigation. There were 4 vendors with 44 total transactions of \$2 million that matched the criteria for inclusion in the pool of transactions; however, these transactions occurred after Mr. Bang’s termination and, thus, were not examined.

Table 30. Summary of MEDCO and Scheer Transactions in Category 4

Vendor Name	Number of Transactions	Total Dollar Amount
MARYLAND ECONOMIC DEVELOPMENT CORPORATION	129	\$ 8,015,357.98
SCHEER PARTNERS INC	6	4,927.00
Total	135	\$ 8,020,284.98

Included in Category 4 were 135 transactions totaling \$8.0 million for MEDCO and Scheer. Of the 135 transactions, 104 MEDCO transactions totaling \$6.0 million, and five of the six Scheer transactions were past the date for which the County’s record retention policy required their retention. Some of the transactions dated back to 2002. Twelve MEDCO transactions totaling \$350,000 took place after Mr. Bang’s termination and were not examined. Four MEDCO transactions totaling \$1.6 million were unsupported. Six MEDCO transactions totaling \$90,000 were for a completely unrelated program. Three MEDCO transactions and one Scheer transaction were canceled transactions. There were no BHI transactions in Category 4. These 135 transactions cannot be investigated further. Again, Baker Tilly points the reader to the Scope 2 Report.

C. PO OBSERVATIONS AND FINDINGS

As discussed previously, the Initial Testing Population contained 223 POs. Baker Tilly analyzed and tested 217 of those 223 POs and the available supporting documentation for each of those records. Six POs were not available for testing for various reasons and were included in Category 4. The category definitions as defined in Section VI.F. apply to POs.

Table 31. PO Observations

Category	Count	POs	
		Unique Vendors ³⁰¹	Funds Encumbered
Category 1a	-	-	\$ -
Category 2a	-	-	-
Category 2b	-	-	-
Category 3	150	59	12,694,231.79
Category 4	73	35	9,902,440.43
Total	223	74	\$22,596,672.22

1. Category 1 POs

Baker Tilly did not identify any POs that would fit the category of 1a or 1b.

2. Category 2 POs

Baker Tilly did not identify any POs that would fit the category of 2a or 2b.

3. Category 3 POs

Baker Tilly determined that the majority of the PO transactions analyzed were Category 3 transactions – 150 POs for \$12,694,231.79 in fund encumbrances out of the 217 POs tested. These POs were conducted in the normal course of business for the County and the DED, proper policies and procedures were performed, sufficient supporting documentation was identified and provided to Baker Tilly for analysis, and no indications of potential fraud, waste, or abuse were identified. The majority of the Category 3 transactions included records provided through the Office of Procurement. The supporting documentation provided by the Office of Procurement included the contract between the vendor and the County, all purchase orders associated with that contract, any contract amendments and attachments, and records of significant communication between the vendor and the County. Additional records provided electronically by the Department of Finance included similar support that was sufficient to make a conclusion.

4. Category 4 POs

Baker Tilly determined 73 POs for \$9,902,440.43 in fund encumbrances represented Category 4 transactions, which did not require testing or were unavailable for testing for legitimate reasons. Category 4 encumbrances included records that had been provided and analyzed during Oracle AP testing, POs related to contracts that had been appropriately destroyed in compliance with the County’s record retention policy, and POs for vendors with sufficient transaction history with the County that had been previously tested and determined to be Category 3 encumbrances.

³⁰¹ There are overlapping vendors between the different categories. As a result, vendors cannot be summed.

D. DPO OBSERVATIONS AND FINDINGS

As discussed previously, the Initial Testing Population contained 105 DPOs. Baker Tilly analyzed and tested 98 DPOs and the available supporting documentation for each of those records. Seven DPOs were not available for testing for various reasons and were included in Category 4. The category definitions as defined in Section VI.F. apply to DPOs.

Table 32. DPO Observations

Category	Count	DPOs	
		Unique Vendors ³⁰²	Funds Encumbered
Category 1a	3	1	\$ 1,960,000.00
Category 2a	-	-	-
Category 2b	28	23	10,484,288.09
Category 3	70	45	12,022,638.60
Category 4	4	3	40,000.00
Total	105	67	\$24,506,926.69

1. Category 1 DPOs

Baker Tilly determined that the three DPOs related to CBIF belong in Category 1a.³⁰³ In addition to the discussion provided below, the three DPOs are considered Category 1a due to their relationship with CBIF, an entity that did not participate in legitimate business activity with the County. The three DPOs were issued in connection with three CBIF invoices totaling \$1.96 million.³⁰⁴

The encumbrances issued for CBIF lacked proper supporting documentation. The three DPOs for CBIF were issued under Exempt Transaction Codes, which, under the County’s policy regarding Exempt Transactions, were not required to have significant supporting documentation and as a result, very little exists or was able to be identified. Further, the CBIF encumbrance documents did not appear similar to other analyzed DPOs. The CBIF DPOs contained no indication that the encumbrances had been approved via an approval signature from a responsible, designated individual. Baker Tilly did not identify any POs or other DPOs related to CBIF.

2. Category 2 DPOs

Baker Tilly did not determine that any DPOs should be placed in Category 2a.

Baker Tilly determined 28 DPOs, representing \$10,484,288.09 in fund encumbrances should be placed in Category 2b. The documentation provided for these 28 DPOs was insufficient and therefore Baker Tilly was unable to make an immediate determination on category; however, these

³⁰² There are overlapping vendors between the different categories. As a result, vendors cannot be summed.

³⁰³ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 3, 42. **Exhibit BT_008A**. Direct Purchase Order #1032359, dated July 1, 2013. **Exhibit BT_066**.

³⁰⁴ *Id.* The total of \$1,960,000 is made up DPOs for \$150,000, \$970,000 and \$840,000.

DPOs were considered low risk for potential fraud, waste, or abuse because of the low dollar amount and/or the vendor was a known, legitimate third party. Because of this, Baker Tilly and the County determined that it would be an imprudent use of time and resources to request and analyze additional documentation because the probability that the DPO would be categorized as potential fraud, waste, or abuse was highly unlikely.

3. Category 3 DPOs

Baker Tilly determined that the majority of the DPO transactions analyzed should be placed in Category 3 – 70 DPOs for \$12,022,638.60 in fund encumbrances out of the 98 DPOs tested were conducted in the normal course of business for the County and DED, proper policies and procedures were performed, sufficient supporting documentation was identified and provided to Baker Tilly for analysis, and no indications of potential fraud, waste, or abuse were identified.

4. Category 4 DPOs

Baker Tilly determined four POs for \$40,000.00 in fund encumbrances represented transactions that should be placed in Category 4, which did not require testing or were unavailable for testing for legitimate reasons. Category 4 encumbrances included records that had been provided and analyzed during Oracle AP testing and DPOs for vendors with sufficient transaction history with the County that had been previously tested and determined to be Category 3 encumbrances.

E. INTERNAL CONTROLS - OBSERVATIONS AND FINDINGS

As part of its Scope 1 Forensic Investigation, Baker Tilly performed a comprehensive review of the County's policies and procedures, workflow documentation, and reports such as internal control reviews, tested a sample of purchase (procurement and non-procurement) transactions and payment transactions, and conducted interviews of current and former County employees. Baker Tilly observed that the internal control environment contained weaknesses and gaps within the Procure-to-Pay process and other areas such as delegation of authority and compliance with County information security policy, which could increase the opportunity for an employee to abuse a position of authority.

In its 2018 Report to the Nations, the ACFE estimated that internal control weaknesses were responsible for nearly half of the fraud.³⁰⁵ The ACFE identified the primary internal control weaknesses that contribute to occupational fraud.³⁰⁶

³⁰⁵ The ACFE 2018 The Scope 1 Report to the Nations contains an analysis of 2,690 cases of occupational fraud that were investigated between January 2016 and October 2017, based on information provided by the Certified Fraud Examiners who investigated those cases. Government fraud made up 16% of the cases in the study. ACFE 2018 Report to the Nations on Occupational Fraud and Abuse. ACFE 2018 Report to the Nations on Occupational Fraud and Abuse, as of 2018, <http://www.acfe.com/report-to-the-nations/2018/>, at 4. **Exhibit BT_019**.

³⁰⁶ *Id.*

Table 33. ACFE Estimate of Primary Internal Control Weaknesses Contributing to Fraud

Primary Internal Control Weaknesses Contributing to Fraud	Percentage
Lack of Internal Controls	30%
Override of Existing Controls	19%
Lack of Management Review	18%
Poor Tone at the Top	10%
Lack of Competent Personnel in Oversight Roles	8%
Lack of Independent Checks/Audit	4%
Lack of Employee Fraud Education	2%
Lack of Clear Lines of Authority	2%
Lack of Reporting Mechanism	1%
Other	6%
Total	100%

1. Decentralized Environment

Baker Tilly observed that the process for non-procurement transactions operated in a decentralized environment with a lack of oversight into the transactions of Using Departments, such as the DED. During interviews with a current County employee and a former County employee, a consistent message was conveyed that employees would avoid going through the Office of Procurement to purchase goods or services when possible.

While the intent cannot be known in all circumstances, the common theme heard through interviews conducted by Baker Tilly with current and former County employees was that avoiding the procurement process was a way to expedite the purchase – meaning a workaround in the spirit of getting something done more quickly, rather than to perpetrate fraud, waste, or abuse against the County. However, Baker Tilly notes that the decentralized environment and the ability to circumvent the Office of Procurement through the use of exempt, non-procurement transactions, may have been used by Mr. Bang as part of a scheme to commit fraud against the County. Section E.2. below describes Baker Tilly’s observations pertaining to exempt transactions in more detail.

2. Exempt Transactions

Baker Tilly observed that the Exempt Transaction type refers to one of two scenarios: (1) transactions that are exempt from the Procurement Regulations pursuant to County Code, regulation, or state or local law; and (2) transactions that are exempt from, or not subject to, the Procurement Regulations because the purchase does not meet the definition of a procurement. Responsibility for applying an exempt code to a transaction for payment rested with the Using Department. The improper designation of transactions as exempt may allow an employee or Using Department to circumvent the procurement process; Exempt Transactions, regardless of dollar value, are not subject to the Procurement Regulations and are handled by the Using Department.

Exempt Transactions are reviewed and approved for payment by the Using Department only, if the amount is less than \$10,000. If the transaction is over \$10,000, the invoice and supporting

documentation must also be reviewed and approved by the AP Section. However, it is Baker Tilly's understanding that the AP approver(s) were only responsible for: (1) ensuring the payment transaction was assigned a valid Exempt Transaction Code ("999"); (2) that the goods or services purchased based on the invoice description and related support seemed to align with assigned Transaction Code; and (3) the payment transaction had proper department-level approval.

Any agreements related to Exempt Transactions did not require OCA review during the time period under review for the Scope 1 Forensic Investigation. OCA would only review an agreement if requested by the Using Department.

All but one of the Category 1a transactions identified during testing were coded as exempt – \$5.5 million in payments to CBIF and \$69,700 in payments to Sohn Jung Mee. Each of the 13 payments to CBIF, and the three payments to Sohn Jung Mee, were over the \$10,000 and \$25,000 approval thresholds and, therefore, would have been presented to the AP Section for approval. However, because the transactions were coded as exempt and had evidence of department-level approval, the payments were approved and disbursed based on the policies and procedures at that time.

As noted above, non-procurement transactions are perhaps the largest contributing factor to an employee's opportunity to commit fraud, waste, or abuse. Factors contributing to this area of weakness during the time period of review covered by this Scope 1 Forensic Investigation include:

- Improper use of the EDF Exempt Transaction Code. Baker Tilly and the County identified at least three instances where the EDF was used to pay for services rather than its intended use, which is for economic development loans and grants.
- Lack of oversight over the use of Exempt Transaction Codes to ensure appropriate use by Using Departments.
- Lack of a formal policy and procedure for the creation and periodic review of Exempt Transaction Codes, as well as a lack of formal policies and procedures to guide employees on proper use of Exempt Transaction Codes.³⁰⁷

In May 2017, the Montgomery County Office of Internal Audit (the "MCIA") conducted an internal process and control review of the County's Procure-to-Pay function focused on specifically-identified aspects of the County's Incubator Program. The review identified several control deficiencies related to the oversight of County funds disbursed through County programs managed by third-party organizations, such as MEDCO; specifically:

- Lack of visibility into the ultimate disposition of funds by vendors responsible for operating a County program where funds are received in advance from the County (an "externally-managed" program);

³⁰⁷ MCIA conducted an internal control review of the Procure-to-Pay function and corrective action related to Exempt Transaction Codes and certain departments have already taken corrective action or are in process of taking such action as of the date of this Scope 1 Report. See Section IX. Baker Tilly Recommendations.

- Insufficient County oversight of department activity related to externally-managed programs; and
- Lack of effective management and control over the population of commodity/payment codes that are used as the basis to identify purchases deemed to be exempt, otherwise not subject to, the County's procurement regulations.³⁰⁸

MCIA's findings are consistent with Baker Tilly's overall understanding and observations related to Exempt Transactions and externally-managed programs specific to economic development. The Department of Finance, Office of Procurement, OCA, and the Chief Administrative Officer have already taken corrective action in response to MCIA's recommendations. *See* Section IX. for Baker Tilly's recommendations and a synopsis of MCIA's recommendations and department responses and actions.

3. Fictitious Vendor Scheme

Baker Tilly observed certain circumstances and activity within the DED that created the opportunity for the potentially fraudulent transactions with CBIF:

- The name "Chungbuk Incubator Fund LLC" appears to have been chosen to seem familiar and legitimate, a hallmark of a Fictitious Vendor Scheme. The name referenced both Chungbuk Province (the commonly referred shortened name for the Korean province Chungcheongbuk-Do), with which the County had a relationship, and Incubators, a legitimate County economic development program.
- The signatory on the first CBIF invoice to the County was Seoung Uk Hong.³⁰⁹ Mr. Hong signed as "Chungbuk's Exchange Staff, Manager, Chungbuk Incubator Fund, LLC." Because Mr. Hong was the Chungbuk Exchange Staff Member, his signing as Manager, Chungbuk Incubator Fund, LLC appeared to be designed to legitimize CBIF as also related to Chungbuk Province.
- CBIF had a Federal tax identification number and was a registered LLC with the State of Maryland.³¹⁰ Mr. Samuel Kim was the Registered Agent and Organizer.
- Seung Uk Hong was the sole member listed on the Articles of Organization at CBIF's inception.³¹¹

³⁰⁸ Montgomery County, Maryland Office of the County Executive Office of Internal Audit - Internal Control Review Procure to Pay - Specific Functions Report, dated May 9, 2018, https://www.montgomerycountymd.gov/exec/Resources/Files/Internal_Control_Review_of_Procure_to_Pay_5-9-2018.pdf, at 2. **Exhibit BT_074.**

³⁰⁹ The more frequent spelling is Seong Uk Hong.

³¹⁰ Chungbuk Incubator Fund LLC Articles of Organization for a Limited Liability Company, dated July 22, 2010. **Exhibit BT_050.**

³¹¹ *Id.* at 4.

- Baker Tilly did not observe any indications that the validity of CBIF as a vendor had been questioned.³¹²
- Mr. Bang had a 100% partnership stake in CBIF.³¹³
- Mr. Bang appeared to have control over CBIF's bank account. Copies of CBIF bank statements show Mr. Bang's home address.³¹⁴
- CBIF invoices and cover letters were addressed to Mr. Bang at the DED.
- There was no agreement in place between the County and CBIF and a referenced management agreement was never identified. No other documentation existed to demonstrate the financial obligation between the County and CBIF or an explanation of the services CBIF was to provide.
- Because no agreement existed, there was no opportunity for OCA involvement, which would have increased the likelihood that CBIF would have been questioned as to its legitimacy.

4. Signing Authority³¹⁵

The purchase and payment information provided by the County included related contracts and MOUs between itself and outside vendors. Analysis of the contracts and MOUs was a significant portion of Baker Tilly's Scope 1 Forensic Investigation. Analyzed contracts and MOUs included signatures between the parties to signify the acceptance of the terms between the relevant County department and the vendor.

A contract or MOU was typically signed by one individual from the vendor, usually the person designated as the point of contact within the contract, and at least two individuals from the County; the current Director of the DED and an associate or paralegal from the OCA. If, and, as applicable, the signatories could include another County representative such as the Chief Administrative Officer or a representative from another department.³¹⁶ Upon analysis, Baker Tilly observed a high frequency of instances in which Mr. Bang signed contracts, MOUs, or amendments on behalf of the County instead of the designated individual, the current Director of the DED.³¹⁷ The County explained to Baker Tilly that policy allows the department Director to delegate signature authority to a subordinate manager (*e.g.*, Chief Operating Officer, Division Chief, etc.) or to appoint the

³¹² However, a Province official did question the nature of, and reason for, CBIF. Emails between Peter Bang, Seong Hong, and "nada0214@----" with Baker Tilly performed translation, dated February 27-March 4, 2013, at 13. **Exhibit BT_056.**

³¹³ Chungbuk Incubator Fund LLC Schedule K-1 Partnership, dated 2014, at 1. **Exhibit BT_049.**

³¹⁴ Chungbuk Incubator Fund LLC Bank of America Bank Statements, dated September 1-30, 2010. **Exhibit BT_044.**

³¹⁵ Baker Tilly is not making a determination as to authenticity of these signatures.

³¹⁶ Baker Tilly observed signatures from the following County departments; Department of General Services, Department of Finance, Office of Procurement, and Department of Economic Development.

³¹⁷ Baker Tilly identified David W. Edgerley, Pradeep Ganguly, Ph.D., Steven A. Silverman, and Sally Sternbach as Directors or Acting Directors of the DED during the relevant time frame.

subordinate as Acting Director and signatory during his or her absence.³¹⁸ This designation of authority would typically be communicated via email or other means, but evidence of the designation would not be attached to each document (e.g., contract, MOU) signed by the designee.

Baker Tilly's analysis of contracts and MOUs focused on those that the County issued with vendors under the DED. Consistent with the County's explanation to Baker Tilly regarding lack of evidence of delegation authority, no communication or other documentation was attached to the signed contract or MOU demonstrating that Mr. Bang had been given such authority or the above individuals had thoroughly reviewed and approved entering the DED and the County into the contract, MOU, or amendments. According to the contract, MOU, or amendment themselves, Mr. Bang was not named as the expected signatory for the DED and therefore gave the appearance that the contract, MOU, or amendment was not properly authorized.

Mr. Bang's signature was identified on a number of contracts and amendments that represented extensions to existing contracts and provided additional funding. Following Mr. Bang's signature, he would often write "for S.S.", which during the period of the Scope 1 Forensic Investigation could refer to either Mr. Silverman or Ms. Sternbach, depending on who the Director or Acting Director of DED was at that time. Below are examples of Mr. Bang signing on behalf of the County instead of the Director of DED.

Figure 4. Mr. Bang Signing for Steve Silverman

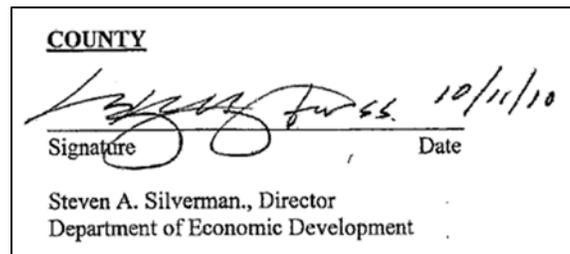


Figure 5. Mr. Bang Signing for Steve Silverman

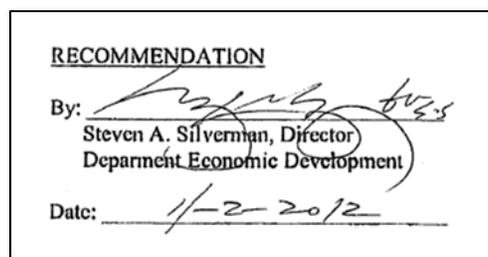


Figure 6. Mr. Bang Signing for Steve Silverman

Recommended:
By: [Signature] for S.S. 5/2/14.
Steven A. Silverman, Director
Department of Economic Development

Figure 7. Mr. Bang Signing for Sally Sternbach

RECOMMENDED:
By: _____
Signature
Sally Sternbach, Acting Director
DEPARTMENT OF ECONOMIC
DEVELOPMENT
Date: [Signature] for S.S.

Figure 8. Mr. Bang Signing for Pradeep Ganguly

RECOMMENDED BY:
[Signature]
Pradeep Ganguly, Ph.D., Director
Department of Economic Development
Date: 9/26/2007

Baker Tilly also observed Mr. Bang’s signature on PFER forms. These forms were used during periods of controlled spending and were sent to the Office of Management and Budget to gain approval to release specific amounts of funding for specified purposes. A request required approval from the Office of Management and Budget and the OCA to proceed. Prior to submission, the PFER must be signed and dated by the head of the department submitting the request. Baker Tilly observed multiple instances in which Mr. Bang signed the forms as the department head and, similar to the contracts discussed above, wrote “for S.S.” following his signature. Again, Baker Tilly was not provided any documentation that supported Mr. Bang being able to sign on behalf of the department head or that the appropriate individual reviewed the PFER

forms prior to their submission to the Office of Management and Budget. Below is an example of a PFER signed by Mr. Bang.

Figure 9. Procurement Freeze Exemption Request Signed by Peter Bang

Dept. Head Signature	<i>[Handwritten Signature]</i> for ss	Date	9/28/10
OMB Log No.	1089	Date Received	9/30/10

In addition to contracts and PFER forms, Baker Tilly also observed instances in which Mr. Bang signed other documentation that represented approval for a DED Director. For example, following receipt of a proposal letter from a vendor, Mr. Bang signed the letter and included the following notes: “project proposal accepted,” “for S.S.,” and “encumber funds!”³¹⁹ The lack of support demonstrating that Mr. Silverman was, in fact, aware and in agreement with acceptance of the proposal by Mr. Bang makes it difficult to determine whether County policy was followed permitting designation of authority in this example.

5. Improper Access to County Systems

On August 23, 2018, Baker Tilly interviewed former DED Director, Steve Silverman, to gather information on Mr. Silverman’s roles and responsibilities while employed with the County and to ask specific questions related to individuals, entities, and transactions reviewed under the Scope 1 Forensic Investigation and the Scope 2 Forensic Investigation. Mr. Silverman explained that he had given his system login credentials (*i.e.*, username and password) to three former DED employees, one of whom was Mr. Bang, so that they could access County systems under his account. This is a direct violation of County policy, which states:

The following are required to protect the identification and authentication of users of a County Information Resource:

- A. Employees must, at a minimum, use identification controls and individual access accounts with passwords, to gain access to a County Information Resource.
- B. Employees must not share identification controls.
- C. Employees must limit privileged account use to specific functions, e.g. loading software, and may not be used on a continual basis apart from the intended function.³²⁰

³¹⁹ Letter to Steve Silverman from Hope Gleicher, dated November 5, 2012, at 3. **Exhibit BT_016.**

³²⁰ Memorandum regarding Administrative Procedures 6-7, Information Resources Security, dated May 4, 2005, at 5. **Exhibit BT_069.**

Another County policy also states that [emphasis added]:

Connection and access to computing resources is controlled through unique user identification (user-ids) and authentication (passwords). Each individual granted this privilege is **responsible** and **accountable** for **work done under their unique identifier**. Passwords will be individually maintained to ensure confidentiality and individual accountability. Passwords **will not be shared** with others. If multiple people **must share** a user-id and password for a **sound business reason**, refer to the exceptions procedures in section 8 of this document.³²¹

Both policies note that any violation of the procedures and guidelines is subject to disciplinary action, including dismissal or other legal courses of action.

Providing Mr. Bang (and the others) with this type of access further exacerbated the environment for committing fraud against the County. This admission by Mr. Silverman now raises the question of whether Mr. Bang or any of the other two former DED employees used Mr. Silverman's account to give the appearance that it was Mr. Silverman approving a payment or giving authoritative direction, for example, when in reality it could have been Mr. Bang or the others posing as the former DED Director.

6. Checks Not Sent Directly to Vendors

There were multiple instances of invoice documentation signed by Mr. Bang that contained the language "hold check" or its equivalent. For example, the CBIF invoices were marked for hold, and in one instance, a known associate of Mr. Bang's was indicated as the person who would pick up the check. However, the County confirmed that checks could be held for legitimate purposes. For example, a check may be presented to a grant recipient at a press event.

7. Oracle AP Reporting

Baker Tilly noted two reporting gaps in the Oracle AP data received for the Oracle Testing Period.

a. Backup Approvers

The design of the Oracle AP workflow was most effective to process payments under a one-to-one relationship (*i.e.*, one requestor to one approver). However, due to the decentralized nature of processing department payments, the County needed a flexible workflow in which multiple AP approvers could process payments from multiple departments.

To allow for this, AP employees were designated as "backup" approvers for others with the same delegation limits within the system. When a payment was routed to a certain individual within Oracle and the person was unable to process the payment, his or her "backup" had access to the

³²¹ Montgomery County Department of Technology Services Computer Security Guideline, dated March 23, 2009, at 3, 7. **Exhibit BT_055**.

primary individual's worklist and could approve the payment. Baker Tilly noticed that certain reporting functionality was overlooked when implementing this workflow.

In some instances where an AP employee approved for another AP employee, the name of the person approving in Oracle appeared blank in the system report from Oracle AP. This gave the appearance that a payment was lacking AP approval; however, in reality, the payment had in fact been approved. Evidence of this approval was found only on the hard copy invoice packet supporting the payment.

The County identified and corrected this reporting gap prior to commencing the Scope 1 Forensic Investigation with Baker Tilly. However, historical data covering the Oracle Testing Period could not be updated. Therefore, it appeared as though a payment transaction was lacking electronic approval. Baker Tilly confirmed that evidence of AP approval existed for payment transactions in its sample affected by this reporting gap by verifying handwritten approval existed on the hard copy invoice packet.

b. Manual Approvals

When a department procures goods or services, the most knowledgeable individual of that purchase is responsible for approving the corresponding payment after the good or services are received. However, that individual does not necessarily have, or need, access to approve that payment within Oracle AP. Payments may be approved manually (*i.e.*, hand-written approval on the hard-copy invoice packet), and then a designated approver in Oracle AP will approve the payment in the system.

As a result, Baker Tilly observed instances where the department-approver name in the Oracle AP data provided did not match the hand-written approval name on the hard-copy invoice packet. The Department of Finance was aware of the issue. The procedure is that the Using Department Director will preauthorize employees at the department level to approve payment transactions in Oracle AP on behalf of those individuals without system access. The Department Director also certifies annually that these employees are most appropriate for continued payment approval authority in Oracle AP.

8. Knowledge and Understanding of Procure-to-Pay Process

Baker Tilly observed during review of available documentation, testing of transactions, and through multiple discussions with County employees, that there may have been inconsistent understanding and lack of clarity over the purchase and payment functions in place during the period covering the Scope 1 Forensic Investigation. Process owners could not consistently explain and articulate to Baker Tilly the various purchase and payment types within the Procure-to-Pay process, especially as it pertained to non-procurement purchases. Further, payment policies and procedures historically were not consistently updated. The inconsistencies in understanding of the processes and the inconsistent updates to payment policies may have led to uncertainty by County employees regarding which purchase type and/or payment method to use based on the good or service being acquired.

9. Procure-to-Pay Conduit

Baker Tilly observed two payments to Rockville Economic Development Inc. (“REDI”) relating to BHI and Richard Bendis, BHI’s President and Chief Executive Officer, which appeared not to conform to proper procurement and/or payment processes.³²²

a. Payment of \$250,000 on February 17, 2012

The County Council for Montgomery County, Maryland approved Resolution No. 17-331, effective January 31, 2012 (the “Resolution”), which provided a \$250,000 grant to BHI through the award of a non-competitive contract (the “BHI Grant”) through a supplemental appropriation to the DED’s FY 2012 Operating Budget. In the appropriation, the DED was instructed to “develop a new contract with BioHealth Innovation Inc. for provision of services.”³²³ There was no mention of REDI in the Council resolution.

Baker Tilly saw no evidence that a contract with BHI had been executed as per the Resolution. Rather, it appeared that the payment was made under a pre-existing consulting contract between REDI and Mr. Bendis individually, *i.e.*, not BHI, to which the County was not a party; however, then-Director of the DED, Steve Silverman was named REDI’s Contract Administrator and his role was described as REDI’s “representative to authorize work under this Contract.”³²⁴ While a copy of the contract between REDI and Mr. Bendis was identified, this version was not fully executed. It was signed only by then-Executive Director of REDI, Sally Sternbach.³²⁵ Attempts by Baker Tilly to locate the fully executed copy via requests of REDI and Mr. Bendis were unsuccessful.

The invoice for the BHI Grant was remitted by REDI. Although the invoice indicated that payment should be made to BHI, the County processed the invoice with REDI as the vendor and payment was made to REDI. Baker Tilly made a request of REDI to provide supporting documentation that the \$250,000 was remitted to BHI; however, support was unavailable because REDI no longer held the account with the financial institution that was used to pay BHI, and REDI’s accounting system had also changed and records from 2012 are no longer available.

b. Payment of \$20,000 with an Invoice Date of September 27, 2011

Previously, the County reimbursed REDI \$20,000 for two months’ fees for the same contract between REDI and Mr. Bendis. The purpose stated on the invoice from REDI to the County states “Bendis Investment Group July and August 2011 monthly fees.”³²⁶ These funds were reimbursed to the County by BHI via check dated April 18, 2012.³²⁷

³²² Rockville Economic Development Inc. Invoices Packet, dated September 2011 - February 2012. https://www.montgomerycountymd.gov/council/resources/files/res/2012/20120131_17-331.pdf. **Exhibit BT_009**.

³²³ *Id.* at 22.

³²⁴ *Id.* at 11.

³²⁵ *Id.* at 21.

³²⁶ *Id.* at 2.

³²⁷ *Id.* at 3.

There are legitimate circumstances under which an agency would be paid as a conduit for another agency or program. For example, REDI was the sponsor of the Women’s Business Center. In that case, the grant for the Women’s Business Center clearly stated that the payee would be REDI, the contract was between the County and REDI, the purchase order was written to REDI, and the County paid REDI. This type of legitimate circumstance was not evident in the case of REDI and BHI or Mr. Bendis.

The two payments described above otherwise did not contain indications of potential fraud, waste, or abuse and were categorized as Category 3 transactions. However, as noted previously, BHI is one of three vendors related to the BIN Program that are the subject of the Scope 2 Forensic Investigation and the reader is referred to the Scope 2 Report.

10. Combination of Contributing “Soft” Factors

While each of the nine factors described above in Section VIII.E.1 – 9, contributed to an environment that increased the likelihood of fraud, waste, or abuse, the simultaneous existence of several “soft” factors, were part of the confluence of events that may have created a greater opportunity for fraud, waste, or abuse to occur. These contributory factors are difficult to measure, but important nonetheless.

a. Tone at the Top within the DED

The “soft” factors related to upper management style and organization culture are known as “Tone at the Top.” In Table 25 above, “Poor Tone at the Top” was cited as the fourth most prevalent **primary** reason that occupational fraud was able to be committed. The ACFE, in its Fraud Prevention Check-up, asserts (emphasis added):

Major frauds usually involve **senior members of management who are able to override process-level controls** through their **high level of authority**. Preventing major frauds therefore requires a **strong emphasis on creating a workplace environment** that promotes ethical behavior, deters wrongdoing and encourages all employees to communicate any known or suspected wrongdoing to the appropriate person. Senior managers may be unable to perpetrate certain fraud schemes if employees decline to aid and abet them in committing a crime. **Although “soft” controls to promote appropriate workplace behavior are more difficult to implement and evaluate than traditional “hard” controls, they appear to be the best defense against fraud involving senior management.**³²⁸

The ACFE, in its professional education materials, states “[m]anagement must “exude” ethics.”³²⁹ It appears that the DED Director during 2009 through 2015, Mr. Silverman, and Mr. Bang, the Chief Operating Officer from 2010 through 2016, each filled his respective role as is commonly practiced – the Director is the outside face of the organization, and the Chief Operating Officer, as the title would imply, manages operations and the day-to-day tasks of the department.

³²⁸ ACFE Fraud Prevention Check-Up, dated 2016, at 3. **Exhibit BT_036**.

³²⁹ Fraud Prevention and Deterrence: Fraud Prevention Programs, dated 2016, at 3. **Exhibit BT_077**.

It was apparent during an interview with Mr. Silverman that he was a “hands off” Director within the DED, not involved with the details of running the department, delegating management of the operations, seemingly appropriately, to his Chief Operating Officer. Baker Tilly also learned that Mr. Bang was a top performer and there was no apparent reason not to trust him with the roles and responsibilities assigned to him. The “tone at the top” was therefore not likely to create an environment of discipline and attention to detail. The Director must lead by example and “walk the talk.”

A byproduct of poor “tone at the top” is the perception that fraudulent or otherwise inappropriate activity will go undetected. To serve as an effective deterrent, employees must believe that the risk of detection, should he or she commit fraud, is high. Because the DED has been dissolved, Baker Tilly was not able to observe employees’ actual perception of the risk of detection; however, the combination of a “hands off” Director and the false sense of trust placed with Mr. Bang provided for an environment where the perception of detection was low or potentially non-existent.

Because the focus of the Scope 1 Forensic Investigation was the DED, this observation is limited to that particular department only. It is unknown, and not within Baker Tilly’s engagement scope, to determine whether similar “tone at the top” issues exist elsewhere within the County.

b. Apparent Lack of Skepticism

The DED has since dissolved and the employees of that department were moved to different County departments or are no longer County employees. It appears there may have been a lack of healthy skepticism by those who were part of the process to approve and pay the CBIF invoices:³³⁰

- The investment by the Province of \$2 million into the County’s SBRLP was neither the source of the funding of the County’s payments to CBIF, nor was it the source of legitimate payments to the Incubators and their vendors. However, the Province’s involvement seemed to create the perception that CBIF was to be the conduit to channel funds to the Incubators, even though the Province was not investing in the Incubators at all.
- It does not appear that anyone questioned why an intermediary like CBIF would be needed as a conduit for payments to the Incubators. MEDCO and Scheer acted as the BIN Program managers and would have been expected to receive those funds and pay the same expenses as were requested by CBIF.
- It does not appear that a contract between CBIF and the County ever existed; evidence of the specific financial relationship between CBIF and the Province, or a reference to an approved grant.
- Several of the invoices from CBIF contained a PFER. The description of why the exemption was needed appeared to be designed to generate urgency by warning of dire consequences if the invoice was not paid quickly, which could cause the reviewer or approver to act with haste at the expense of following

³³⁰ Although the DED in general may not have discouraged such skepticism, Mr. Bang may have, in his own self-interest.

complete and proper procedure. For example, descriptions read, “Non-payment will result in the cash flow shortage and delinquencies in the loan servicing, possibly lending [sic] to a loan default,”³³¹ which seemed to be a remote conclusion.

c. Control of the Relationship with the Province

Mr. Bang appeared to have controlled the communications with the officers of the Province, and hence the relationship with the Province. Mr. Bang was given access to Mr. Silverman’s email account, furthering Mr. Bang’s ability to control the communications with officials of the Province. For example, the Province acted on his direction, and his direction alone. Certain payments under the License Agreement, as more fully described in Section VIII.A.4.b., were to have been sent to MEDCO. Based apparently on Mr. Bang’s direction only, and without a written amendment to the License Agreement, the Province changed the recipient of funds. For the first part of that payment, Mr. Bang instructed the Province to send those funds to CBIF instead. The Province sent \$150,000 to the County. CBIF invoiced the County, and received these funds. The second payment of \$81,433 was redirected from MEDCO to CBIF, and CBIF received the funds.

In other instances showing Mr. Bang’s apparent control of the communications, Province officials raised concerns:

From Jeon Kwang Ho (jun3616@----) to Peter Bang on September 10, 2010:

As I am working on this deal, how this deal is being done seems so different from how things are done in my company so I have been very hesitant to ask. What I mean is when our group provides an official statement, it’s usually under the head of department’s name. So as the county and Chungbuk signed an agreement and as we are receiving the invoice, I would expect to also receive an official statement on top of the invoice to be official. We only relied on the invoice in the past transfers. This time could you provide an official statement as well?³³²

From Kim Soo Jung (nada0214@----) to Peter Bang, February 27, 2013, 9:30pm

“I am curious about this Chungbuk Incubator LLC [sic]. The role of the Chungbuk Incubator Fund, the subject of management, the purpose of use, the current situation, etc. Please give me the data.”³³³

³³¹ Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016, at 22. **Exhibit BT_008A.**

³³² The “past transfers” are likely a reference to transfers under the License Agreement on March 23, 2010 to Kim Do Saeng and on August 31, 2010 to the County. “This time” is likely a reference to the upcoming transfer on September 15, 2010. Translation of Emails between Peter Bang and Jeon Kwang Ho, “jun3616@----” (Chungbuk Province), dated September 9-10, 2010, at 9-13. **Exhibit BT_037.**

³³³ Emails between Peter Bang, Seong Hong, and Kim Soo Jung (“nada0214@----”) with Baker Tilly performed translation, dated February 27-March 4, 2013, at 10. **Exhibit BT_056.**

However, Mr. Bang was the only contact, and responded to Kim Su-jung (nada0214@----), through Seong Hong, March 4, 2013, 11:43 am:

I know that this has been a cause of misunderstanding by Chungbuk to a point where Hong Sung Wook,³³⁴ who is typing my response right now must feel very uncomfortable. Chungbuk Incubator LLC is completely unrelated to Chungbuk and maintained by our county for convenience purposes. The reason for the establishment of the entity is because, as mentioned in the first point, Chungbuk cannot pay the interest income annually and when we pay back the 3 billion won in 30 years, 2.4 billion won would be paid by the \$2 million contribution that went directly, and as the rest of the amount was already gone into the incubator operation costs, it was created for us to use our operational costs to the LLC to accumulate the amount. Therefore, Chungbuk does not need to pay attention to the LLC's operation methods, balance outstanding and any other activities. If you have any related documents regarding Chungbuk Incubator LLC that may cause confusion in Chungbuk, please delete the information.

Per section 2 of the agreement in your possession, the repayment by the Montgomery County to Chungbuk of the 3 billion won was agreed upon, and there is no need for any additional information.³³⁵

At the same time, the first invoice from CBIF to the County implied, through Seong Uk Hong's use of his title as Exchange Staff and also a title of authority with CBIF, that the Province and CBIF were related. It does not appear that anyone at the County who believed that CBIF was related to the Province and, vice versa, any Province official who believed that CBIF was related to the County were able to communicate directly and compare notes.

11. Other Observations

Baker Tilly noted the following items, which may have been isolated occurrences:

- Baker Tilly observed one non-exempt coded DPO transaction that was greater than \$10,000, which appeared subject to procurement and should have been procured and paid under a PO, not a DPO. The Department of Finance researched this transaction and identified that it was one of four annual payments to the same vendor for a sponsorship and this particular transaction was accidentally miscoded as non-exempt, when it should have been exempt (same as the other three transactions). This appears to be an isolated example of using an incorrect Transaction Code.

³³⁴ Hong Song Wook is more commonly referred to as Seung Uk Hong, the County Exchange Staff.

³³⁵ Emails between Peter Bang, Seong Hong, and Kim Soo Jung ("nada0214@----") with Baker Tilly performed translation, dated February 27-March 4, 2013, at 22. **Exhibit BT_056.**

- Baker Tilly observed nine POs coded as Exempt Transactions. The County explained that it is highly unusual for a PO to be coded as exempt and this appears to be an oversight and miscoding of these transactions by the DED.
- Transactions totaling \$9,999 and \$99,999 were noted, which may indicate they were set just below approval thresholds to circumvent certain controls. However, upon testing these transactions, no indications of fraud, waste, or abuse were observed.
- Two transactions had duplicate checks issued, which the Department of Finance had discovered prior to commencement of this Scope 1 Forensic Investigation and provided Baker Tilly with evidence that the duplicate checks were canceled.
- While the scope of Baker Tilly's engagement did not include an audit of the DED's grant programs that are subject to external grant audits, Baker Tilly did note minor discrepancies between the terms of the grants and activities as evidenced in the support documentation for certain vendors in the testing populations.

VIII. BAKER TILLY RECOMMENDATIONS FOR INTERNAL PROCESSES AND CONTROLS

As discussed in Sections VIII.D. and E., Baker Tilly observed that the internal control environment contained a number of gaps within the Procure-to-Pay process and identified non-compliance in other areas (*e.g.*, information security policy) that augmented the opportunity for Mr. Bang to abuse his position of authority. Below are recommendations based on those observations for the County's consideration and an overview of corrective actions already taken or currently in process by certain departments.

A. RECOMMENDATIONS

1. Decentralized Environment

The Procure-to-Pay process for non-procurement purchases operates in a decentralized environment where there is a lack of centralized oversight into department transactions. Such a decentralized environment increases the need for the County to have compensating controls in place to ensure adequate review of transactions initiated by Using Departments. While it is not practical to create a completely centralized Procure-to-Pay process, the Department of Finance should consider identifying those departments that use a significant volume of Exempt Transactions (either by total number of transactions or total spend) in a given time period (*e.g.*, quarterly, annually), and consider performing more frequent audits to ensure compliance with Exempt Transaction Code purchase and payment requirements.³³⁶ By identifying and more frequently auditing those departments that are heavy users of Exempt Transaction Codes, additional oversight is placed on the transaction type at highest risk for non-compliance in a decentralized environment.

2. Exempt Transactions

Exempt transactions, regardless of reason for such exemption, are the highest risk transaction type. Purchases that should be subject to procurement requirements, but are improperly coded as exempt by the Using Department (whether intentionally or not), allow for circumvention of the procurement process. Baker Tilly recognizes that the Department of Finance, Office of Procurement, Office of County Attorney, and the Office of the County Executive, Chief Administrative Officer have taken corrective action with respect to Exempt Transactions. See Section IX.B. below.

In addition to these corrective actions, Baker Tilly offers the following recommendation for consideration of the County to ensure proper use of the Exempt Transaction Codes in accordance

³³⁶ AP Policy, Financial Governing Principles and Standards, effective August 2, 2017 states that the Department of Finance regularly audits department operations to ensure departments understand and follow correct procurement and payment procedures. This recommendation suggests an increase in the frequency of those audits only on departments that are heavy users of the Exempt Transaction type. Accounts Payable Policies: Financial Governing Principles and Standards, effective August 2, 2017, at 3. **Exhibit BT_063**.

with their intended purpose and compliance with the relevant laws and regulations, as well as County policies and procedures:

- Conduct further research into payment transactions and any associated agreements coded to EDF during the Scope 1 Forensic Investigation time period under review to ensure proper use in accordance with its intended purpose to determine whether there is a gap in understanding by the Using Department on how and when the code should be used and/or an intentional misuse of the code to circumvent procurement.
- Train employees with procurement, contract administration, and payment roles and responsibilities on the proper use of Exempt Transactions (including Exempt Transactions not otherwise subject to procurement) to ensure proper understanding and consistent application of criteria to determine exemption. Include a discussion of the legal ramifications of improper use. Consider offering refresher training and ready access to training materials to ensure employee knowledge is current and applicable.

While Baker Tilly recognizes that the Office of Procurement and the Department of Finance provide training on procurement transactions and topics as described in Section IX.A.8. below; however, the objective of this recommendation is to develop and offer Exempt Transaction specific training to ensure those County employees that have any role or responsibility as it pertains to Exempt Transactions have a thorough understanding on the proper use and application of an Exempt Transaction code.

3. Fictitious Vendor Schemes

Baker Tilly suggests that the County put into place procedures to help detect attempts at fraud, waste, or abuse such as a Fictitious Vendor Scheme, both for prospective vendors and established vendors. Due diligence activities such as external and internal research into a prospective vendor, and periodic data analytic testing against the vendor master and employee master files, would be an important line of defense against this type of fraudulent scheme. The County should consider potential resource needs (*e.g.*, people, software, etc.) in its assessment of cost/benefit for implementing any or all of the recommendations below.

a. Prospective Vendor Due Diligence

When a prospective vendor registers as a supplier of the County, the Department of Finance should perform external and internal checks of the information submitted by the vendor prior to uploading the vendor information into Oracle, in addition to the Employer Identification Number verification/matching and vendor name (*i.e.*, legal business/entity name) check that the Department of Finance already performs.³³⁷ For example:

- New information should be crosschecked against information already in the County's records. Vendor contact information such as addresses, phone

³³⁷ Sole proprietorships will have the proprietor's Social Security Number instead of an EIN.

numbers, email addresses, and individual contact names should be compared to both the vendor and employee master files.

- Prospective vendor information with information in common with an existing vendor or employee record (*e.g.*, same contact name, address, phone number, email address) could be a potential red flag for a Fictitious Vendor Scheme or potential ethics violation.
- If possible, screen addresses against a database of confirmed/legitimate addresses such as that of the United States Postal System or County property records to detect fake addresses.

b. Continuous Monitoring of Vendors

On a periodic basis (*e.g.*, quarterly, monthly), the Department of Finance should consider performing data analytic tests to continuously monitor for a Fictitious Vendor Scheme. Possible tests to perform include, but are not limited to:

- Incomplete vendor master record (*e.g.*, missing key contact information); and
- Similar vendor name search to identify slight nuances that would indicate one legitimate vendor and one potentially fictitious vendor made to appear legitimate, for example, Walmart vs. Wal-mart.

Baker Tilly understands that the Department of Finance already performs a vendor/employee address match and a vendor/employee bank account match on a monthly basis, which began around January of 2018. Further, the Department of Finance also performs daily forensic analytic procedures that began around February of 2017. Baker Tilly would encourage the County to continue the address match, bank account match, and Employer Identification Number verification, as well as its daily forensic analytic tests, and consider performing some or all of the other data analytic procedures above (if not already included in the daily forensic analytic procedures) to help mitigate its risk for potential fraud, waste, or abuse in this area. It is possible an address match test would have caught the \$500 payment to Hanul Kim (Category 1a transaction) because the payment address in the Legacy Systems was listed as Mr. Bang's home address despite there also being a separate primary address in the Legacy Systems for Hanul Kim. Baker Tilly would also encourage the Department of Finance to continue performing its periodic clean-up of vendor data to ensure the County has complete and accurate vendor information.

In addition to the analytics performed by the Department of Finance as described above, Baker Tilly also acknowledges that Using Departments are responsible for performing due diligence on vendors that it wishes to acquire goods and services from. For procurement transactions, a responsibility check is performed by the Using Departments in accordance with the Procurement Regulations before a recommendation for award is provided to the Office of Procurement.

For non-procurement transactions, the Using Department also has a responsibility to perform their own due diligence to ensure a vendor is suitable to provide the goods or services sought by the department. Due diligence activities on non-procurement transactions historically had very little oversight or verification, especially related to Exempt Transactions, unless OCA involvement was

necessary to approve non-competitive agreements (outside of those tied to a community grant).³³⁸ Baker Tilly recommends that Using Departments perform vendor due diligence and retain support evidencing the checks performed for all non-procurement Exempt Transactions, regardless of whether OCA requires an agreement. Such due diligence may include, but is not limited to:

- Perform searches for the vendor against the Maryland State Department of Assessments and Taxation (“SDAT”);
- Execute a Google search for online presence such as a website, social media accounts, and other online activity (*e.g.*, news articles, press releases, etc.); and
- Background checks.

Should a question arise on the legitimacy or suitability of a particular vendor, the retention of support by the Using Department evidencing the due diligence check will be readily available for review and validation.

4. Signing Authority

Baker Tilly observed instances where Mr. Bang signed contracts or contract amendments on behalf of the County instead of the then-current Director of the DED. It is Baker Tilly’s understanding that it is not unusual for signing authority to be delegated by the Department Director; however, documented evidence to support this delegation is not maintained or if it is documented (for example, by email communication), it is typically not attached as a supporting document to a contract or amendment.

The County should consider developing and implementing a delegation of authority (“DOA”) matrix and corresponding DOA letter to the file for the purpose of retaining documented proof of authorized delegations for review and audit as needed. The DOA matrix is intended to be a living document and a point of reference under which authorities are to be delegated in the absence of the primary authority (*i.e.*, Department Director is on leave or he/she wishes to sub-delegate tasks regularly to free himself/herself up to focus on other priorities). The County could consider creating one DOA matrix that is applicable to all departments as it relates to certain procurement and payment activities (*e.g.*, signing contracts, amendments, or other legal agreements and approving invoices for payment) assuming the delegations would be consistent and specific by position/title. Meaning, if each County department has a Department Director and Deputy Director, and the authority to delegate contract signing authority would always be to the Deputy Director in the Department Director’s absence, then only one DOA matrix would be necessary that is applicable to every County department. The DOA matrix would be owned and updated as necessary by the Chief Administrative Officer.

The purpose of the DOA letter is to supplement the matrix and serve as documented evidence of the specific employee(s) (by name and position/title) who delegated or received delegated authority during a certain time period. A letter template would be completed as needed and

³³⁸ Non-competitive agreements pursuant to a community grant have additional checks and balances in place to ensure the vendor receiving the grant is suitable. For example, a vendor must submit an application to the Office of the County Executive and/or County Council with proof of registration with the Maryland SDAT.

retained by the department in its files for purposes of later review or audit, as necessary. Having this type of documented evidence (DOA matrix and/or letter) will give the County the support it needs to take appropriate disciplinary action against employees who inappropriately authorize something on behalf of a supervisor or the County as whole. The County will need to assess the level of effort required to implement and maintain a DOA matrix and/or letter with the objective of mitigating the risk of inappropriate signing of contracts without excessive burden to the County's resources.

5. Improper Access to County Systems

In light of the admission by a former County employee that he gave his system login credentials to three former DED employees, the County (*i.e.*, each department responsible for communicating and enforcing information technology security policies), should consider drafting and delivering a communication to all County employees reminding them of the policy and to stress the importance of not violating policy by giving out their system login credentials immediately in response to this Scope 1 Forensic Investigation. This communication should be reissued on a periodic (*e.g.*, annual) basis thereafter, sending the message to employees that information security is taken seriously and policy violations will not be tolerated by the County. The communication should include a reminder of the repercussions or disciplinary action that will be taken against policy violators. In this specific circumstance, because Mr. Silverman and Mr. Bang are no longer County employees, disciplinary action in accordance with these policies is no longer an option. This recommendation is intended to supplement the mandatory information security training and testing that the County previously required every three years and will now require annually going forward.

6. Checks Not Sent Directly to Vendors

Baker Tilly observed multiple instances where invoice packet documentation contained the language "hold check" or a similar equivalent believed to be in the handwriting of Mr. Bang.³³⁹ The risk for fraud, waste, or abuse is higher when County employees are permitted to pick-up checks on a vendor's behalf. Current AP policy states that:

In general, Accounts Payable does not allow checks to be held and then picked up by departments for suppliers. If a supplier address changes, the supplier should be directed to update their record on the Central Vendor Registration Service [at] www.mcipcc.net.

There are few exceptions requiring a check to be held for pick-up for special handling such as payments that must be sent along with backup, attachments, or enclosures, or payments that are required to be done in person.

If you would like to request an exception to this policy, send an email to the ActPayable.Finance@---- mailbox along with a signed and dated "Held Check Request form" request form. This form must be signed by the

³³⁹ Baker Tilly is not making a determination as to authenticity of these signatures.

Department Director or designee. In no case can a designee be the same person who has approved the transactions. The requesting department must provide a valid business reason. The Accounts Payable manager/supervisor will review your request and if approved, will hold that payment for pick-up.³⁴⁰

Prior versions (2014 and 2016 respectively) also noted that checks could not be held or mailed to alternative addresses. Enforcement of the current policy should mitigate the potential risk of fraud, waste, or abuse as was observed historically with the CBIF payments (*i.e.*, all CBIF invoices marked held for pick-up) and the payment to Hanul Kim where an alternate address was used for payment (Mr. Bang's home address) and the support letter was also marked "yes" to hold the check. Baker Tilly notes that previously the Department of Finance could not easily enforce the policy because Using Departments could select this option on the invoice entry field in Oracle. That option has been removed and now only the AP Section can designate that a check be held for pickup.

7. Oracle AP Reporting

Baker Tilly noted two reporting gaps in the Oracle AP data received for the Oracle Testing Period:

- The appearance of a "blank" approver in the Oracle AP data (*i.e.*, no name in the approver field of the data); and
- Oracle AP data did not capture the "true" approver (*i.e.*, approver name who manually signed and approved the invoice differed from the name in the approver field of the data).

As previously noted in Section VIII.E., the Department of Finance identified and corrected the first reporting gap well before Baker Tilly was engaged by the County and commenced its Scope 1 Forensic Investigation. The approver field in Oracle AP reports no longer appear blank when there is system approval to be reflected. The second reporting gap was addressed during follow-up discussions with the Department of Finance. Baker Tilly understands that there are valid reasons why a department approver would not require access to the Oracle Systems and evidence of his or her approval handwritten on the invoice documentation is sufficient. So long as the handwritten approval is valid, the assigned department approver(s) in Oracle AP may rely upon that evidence and approve the payment in the system on that person's behalf.

Further, the County is currently planning for an Oracle Systems upgrade in early 2019; however, all capabilities have not yet been analyzed and the County will continue evaluating for opportunities for improvement.

8. Knowledge and Understanding of Procure-to-Pay Process

Baker Tilly observed during its review of available documentation, testing of transactions, and through multiple discussions with County employees that there may have been inconsistent

³⁴⁰ Accounts Payable Policies: Financial Governing Principles and Standards, effective August 2, 2017, at 5-6. **Exhibit BT_063.**

understanding and lack of clarity over the purchase and payment functions in place during the period covering the Scope 1 Forensic Investigation. The various combinations of processing pathways resulting from the mix of procurement and non-procurement types, transaction size, exemptions, and payment types, may have resulted in either an intentional or unintentional circumvention of policies and procedures.

Baker Tilly acknowledges that the County, specifically the Department of Finance, the Office of Procurement, the OCA, and the Chief Administrative Officer have already implemented or are in process of implementing corrective actions to clarify policies and procedures related to the Procure-to-Pay process. *See* Section IX.B. below for an overview of those corrective actions.

In addition to the corrective actions already taken or in process, Baker Tilly also recommends that the County consider developing and implementing the following:

- The Office of Procurement, the Department of Finance, and the OCA should collaborate to document in a concise, easy to follow visual diagram/decision tree the various Procure-to-Pay processing pathways so that it is clear to the Using Departments and specifically those employees who have roles and responsibilities related to purchasing, payments, and/or contract administration, which Procure-to-Pay pathway to follow based on the type of purchase (procurement or non-procurement) and payment the transaction best aligns with.
- MCIA should conduct a fraud risk assessment specific to the Procure-to-Pay function to ensure that all potential risks are identified and addressed with proper internal controls. The assessment should be captured in a risk and control matrix (“RCM”) in which all potential fraud schemes/scenarios related to Procure-to-Pay (*e.g.*, fictitious vendors, split transactions, etc.) are listed and then all risk areas are identified for each scenario using activities such as brainstorming discussions with process owners, data analytics, and/or anonymous surveys to identify these risk areas. From there, any corresponding internal control(s) for each risk area should be identified and documented and as a result, any internal control gaps or weaknesses can be easily recognized. Last but not least, each risk should be categorized/prioritized as “high”, “medium”, or “low” depending on its potential impact on the County and the likelihood of occurrence.³⁴¹ The County could then focus its efforts on ensuring that any internal control gaps or weaknesses are addressed for high-risk areas and consider testing of these areas on a frequent basis (*e.g.*, monthly, quarterly) to ensure internal controls are working effectively to prevent and detect potential fraud, waste, or abuse.

³⁴¹ Impact means the quantitative and qualitative factors considered when assessing how a risk will affect the County. For example, a risk could be immaterial and therefore the quantitative significance would be low; however, the risk could lead to a negative effect on the overall reputation of the County in the public eye and so may be assessed as high impact overall. Likelihood means how likely or reasonably possible is it that the risk will occur. Those that seem likely to happen are assessed as having a high likelihood of occurrence. A combination of a high impact and high likelihood would determine that the overall risk would be “high”.

- The Procure-to-Pay fraud RCM is intended to be a living document that should be updated periodically – Baker Tilly recommends annually based on its experience working with government entities comparable to the County and to ensure the fraud scenarios and risks are still applicable and that internal controls are working effectively year over year. Once the initial fraud RCM is complete, it would not be necessary to re-perform the assessment in its entirety or create a new RCM from scratch, but rather focus on areas where there have been changes (e.g., new County administration, significant changes to systems, processes, or procedures, an audit or investigation identifies new high-risk areas or previously unknown control gaps or weaknesses, etc.)
- The Department of Finance, the OCA, and the Chief Administrative Officer should work collaboratively to develop and deliver refresher trainings – both on a periodic basis (e.g., annually) and on-demand – for those County employees with non-procurement purchase, payment, and/or contract administration roles and responsibilities. This will ensure there is consistent knowledge sharing and communication of expectations from those who set the Exempt Transaction related policies and procedures to those who must follow them. Baker Tilly acknowledges that the Office of Procurement already conducts periodic trainings with contract administrators and those that may assist them, as well as Management Leadership Service employees, on procurement related topics and processes three to four times per year and as-needed to cover specific issues/updates as they arise. Communications covering these training topics and updates are also sent to Department Directors. The Department of Finance teaches a part of the module(s) that the Office of Procurement delivers three to four times per year.
- As it pertains to the Procure-to-Pay process, it is Baker Tilly’s understanding that the Office of Procurement already performs periodic reviews of its policies and procedures, tracks revision history to include date, who made the revision, and an explanation of the change, and communicates the updates to contract administrators. It is also Baker Tilly’s understanding that the Department of Finance performs a periodic review of its policies and procedures and tracks revision history to include date, who made the revision, and describes whether it was an “original issue,” “initial,” or “change” of policy. However, the Department of Finance may also wish to consider including in its description what specifically changed so that the reader of the policy or procedure will have clear understanding of changes without having to perform a comparison to the previous, superseded version.

9. Procure-to-Pay Conduit

Baker Tilly observed two payments to REDI relating to BHI and Mr. Bendis that appeared not to conform to proper procurement and/or payment processes because no contract was executed between the County and BHI as was required by the Resolution and the payments were made by the County to REDI, not BHI or Mr. Bendis directly. In these examples, REDI served as the conduit for County monies to be paid to BHI and Mr. Bendis. While there are legitimate

circumstances under which an agency would serve as a conduit for another agency or program, care must be taken to ensure that proper approvals and documentation are in place and all directives are followed prior to payment. If the use of a legitimate conduit is common practice for the County, Baker Tilly recommends that the Department of Finance, OCA, and the Office of Procurement, consider collaborating to develop and implement a policy and procedure for such a circumstance, or alternately, modify existing policies and procedures to document the requirements and proper protocol for using a conduit. If the use of a legitimate conduit is not common practice for the County, then proper review and oversight is necessary to ensure that policies and procedures are adhered to, in this case, that a contract is executed between the County and the entity receiving the funding in accordance with a council appropriation and that payments are issued only to the entity named to receive the funds.

10. Combination of Contributing Factors

The underlying themes of the observations detailed in Section VIII.E.10., are culture and awareness. “Tone at the top” is an important pillar of fraud prevention and detection that appeared to be lacking in the DED. By consistently communicating the importance of ethical conduct and demonstrating consistent ethical behavior, leadership can effect a strong anti-fraud culture to ensure that poor “tone at the top” and potential fraud, waste, or abuse do not occur in other County departments as well. While “tone at the top” is difficult to change and will likely take time to permeate a government entity as large as the County there are general steps that can be taken:

- **Promote OIG Hotline:** Tips are the most common fraud detection method, accounting for 40% of frauds detected, and more than twice the next most prevalent means of fraud detection, Internal Audit, at 15%.³⁴² Slightly more than half of all tips were provided by employees of the victim organizations.³⁴³ Whistleblowers often have a fear of being identified or the target of retaliation. It is therefore important that employees are able to make reports anonymously.³⁴⁴ A tipster is able to make a report anonymously on the OIG hotline. The website lists three methods by which to make a report: phone, email or through a form on the website.³⁴⁵ If not done currently, the County should consider periodic communications through email, newsletters, or posters reminding employees of the existence of the OIG hotline and the importance of using it if he or she becomes aware of potential fraud, waste, or abuse.
- **Fraud Awareness:** Increasing fraud awareness through the use of training, communications such as posters and newsletters, and publicizing certain of the County’s fraud detection methods (*e.g.*, forensic data analytics) are all means of enhancing employees’ understanding of what fraud is and how to report it, and to deter would-be fraudsters by increasing the perception of the risk of detection.

³⁴² ACFE 2018 Report to the Nations on Occupational Fraud and Abuse, as of 2018, at 3. **Exhibit BT_019.**

³⁴³ *Id.*

³⁴⁴ Where such practice is legally permissible.

³⁴⁵ Montgomery County, Office of Inspector General Hotline website, as of September 14, 2018, <https://www.montgomerycountymd.gov/oig/hotline.html>. **Exhibit BT_053.**

- **Consistent Enforcement of Policies:** Increasing the level of perception that would-be-fraudsters will be caught and disciplinary action will be taken, demonstrates to the employees that management is paying attention, policies and procedures are enforceable, and consequences for an employees' actions (or inactions) as it relates to proper procedure will occur. To be effective as a deterrent to fraud, waste, and abuse, policy enforcement needs to happen consistently (*i.e.*, not selectively choosing when to enforce or apply a policy).

Baker Tilly also recommends that the County prepare specific communications to employees regarding the topic of this Scope 1 Report, stressing the County's commitment to fraud prevention and detection.

11. Additional Recommendations

Baker Tilly observed and noted the following items during the course of the Scope 1 Forensic Investigation and offers additional recommendations to address them:

- Baker Tilly observed one instance where an incorrect Transaction Code was used, specifically payment of a non-exempt transaction greater than \$10,000 against a DPO rather than a PO. Upon further research, the Department of Finance confirmed that it was an inadvertent misclassification whereby the transaction should have been coded as exempt instead of non-exempt. While this appears to be an isolated example in Baker Tilly's testing population, it is recommended that the Department of Finance test a random sample of the Oracle AP data provided to Baker Tilly (but not selected and tested as part of Baker Tilly's testing population) to identify whether this is truly an isolated event or an indication of other potential misclassifications of exempt vs. non-exempt (whether intentional or by mistake). Testing for this scenario would help to identify any other possible risk or control gaps not already observed in this Scope 1 Forensic Investigation that could apprise the County of additional corrective actions to consider as it pertains to Exempt Transactions and the possible circumvention of procurement.
- Baker Tilly observed nine POs that were coded by the DED as exempt. Upon further research by the Department of Finance and OCA, this appears to have been done in error and was unintentional. While it is not impermissible to code a procurement transaction as exempt, it is highly unusual. Baker Tilly does not believe an additional recommendation needs to be made related to the miscoded POs since the recommendation immediately preceding this one covers further testing for the purpose of identifying other instances of exempt vs. non-exempt code misclassifications.
- Baker Tilly observed transactions totaling \$9,999 and \$99,999, which appeared upon initial review to be amounts set just below approval thresholds (\$10,000 and \$100,000, respectively) for the potential purpose of circumventing controls. While no indications of fraud, waste, or abuse were identified related to these two transactions, Baker Tilly recommends that the Department of Finance

perform periodic testing/monitoring of their Oracle AP data to ensure that there are no potential split transactions where one would see a payment just below the approval threshold (like the two examples here), but then also a second “half” of the original invoice in a subsequent payment.

- Baker Tilly observed two potential duplicate checks in its testing population sample that were issued by the County during the period of the Scope 1 Forensic Investigation. The Department of Finance confirmed that the duplicates were canceled and never paid and Baker Tilly acknowledges that the Department of Finance now performs daily forensic reviews of check runs before payment is released to ensure no potential duplicate payments occur
- While the scope of Baker Tilly’s engagement did not include an audit of the DED’s grant programs that are subject to external grant audits, Baker Tilly did note minor discrepancies between the terms of the grants and activities as evidenced in the support documentation for certain vendors in the testing of payment transactions. As a result, Baker Tilly would recommend that the County consider performing a compliance review to ensure that terms and conditions set forth in agreements such as grants, leases, contracts, etc. are being complied with both as to expected deliverables from the vendor and fees the County is paying. The County should consider potential resource needs (e.g., people, software, etc.) in its assessment of cost/benefit for implementing this recommendation.

Finally, as an overarching recommendation, the Chief Administrative Officer should consider creating and disseminating a financial code of conduct that would define the expectations of every County employee as it pertains to proper stewardship and management of taxpayer dollars. This financial code of conduct is intended to be something above and beyond (but still builds upon) the County’s Ethics Law. A financial code of conduct sets the “tone at the top” that all employees (regardless of position, title, or level within the government) are expected to act appropriately in the use of County funds, however that may apply to his or her specific role or responsibility. It also defines the expectation that if an employee identifies potential fraud, waste, or abuse of taxpayer dollars, it is their duty and responsibility to say something. The expectation is that annually, every employee would sign this financial code of conduct to affirm their understanding of and commitment to comply with it.

B. COUNTY REMEDIATION

As previously noted throughout this Scope 1 Report, MCIA conducted an internal process and control review of the County’s Procure-to-Pay function in May of 2017.³⁴⁶ The review was focused on specifically identified aspects of the County’s economic incubator program and identified several control deficiencies related to the oversight of County funds disbursed through

³⁴⁶ Montgomery County, Maryland Office of the County Executive Office of Internal Audit - Internal Control Review Procure to Pay - Specific Functions Report, dated May 9, 2018, https://www.montgomerycountymd.gov/exec/Resources/Files/Internal_Control_Review_of_Procure_to_Pay_5-9-2018.pdf. **Exhibit BT_074.**

County programs managed by third-party organizations such as MEDCO. As of the date of this Scope 1 Report, the following actions have been taken:³⁴⁷

1. Department of Finance

The Department of Finance issued its formal response to MCIA's report, specifically related to the recommendation that pertains to AP:

In August of 2017, the Department of Finance updated and expanded its AP Policy, the *Financial Governing Principles and Standards* to include key Procure-to-Pay internal control steps and best practices. This includes, but is not limited to, invoice requirements and approvals for transactions exempt from, or otherwise not subject to, procurement regulations. The Department of Finance also issued the *Authorized Payment Policy*, effective April 1, 2018, which clearly defines acceptable payment methods and most notably guidance on the processing and payment of Exempt Transactions. This policy now requires departments to utilize the P-Card or the DPO process for paying invoices that are exempt from, or otherwise not subject to, procurement regulations to better reflect a Using Department's authorization for the purchase.

Also, prior to the MCIA's review, a Department of Finance audit in August of 2015 resulted in the requirement that the DED develop an Approver Checklist and review invoice numbers entered in Oracle to ensure they match the number on the invoice itself for payments under \$10,000.

2. Office of Procurement

The Office of Procurement completed these actions following issuance of MCIA's report:

- Reviewed each item on the current exemption list with OCA and the Department of Finance to determine payment use, relevance, and applicability of the exemption. An updated exemption list known as *PMMD-148 Exemptions List* has been posted on the Office of Procurement's intranet site. The exemptions on this list were reviewed for legal sufficiency by the OCA and are approved by the Department of Finance to be paid by DPO. The Department of Finance is responsible for centrally monitoring the use of any Exempt Transaction Code and the resulting payments. Further, any exemptions to be paid by Direct Payment are now reflected on the Direct Payment exemptions list known as the *Finance DP Exemptions List*, which is posted on the Department of Finance's intranet site. A *Consolidated Exemptions List* that includes the *PMMD-148 Exemptions List* (for DPOs) and the *Finance DP Exemptions List* was created as a convenience to the Using Departments and is posted on the Office of Procurement and the Department

³⁴⁷ Please note that some of the actions taken occurred as of the date of MCIA's report and department responses were included as an attachment to that report; the remaining actions took place after the date of MCIA's report, with the exception of one action that occurred prior to MCIA's review.

of Finance intranet sites. The requirements regarding the use of these lists has been communicated all departments.

- Reviewed items that lack a clear documented history to understand how supporting documentation for exemptions was maintained previously and used this as an opportunity to improve the process. The roles and responsibilities related to use, oversight, and maintenance of exempt code documentation has been discussed by the departments involved in this process.

3. Office of the County Executive – Assistant Chief Administrative Officer

An Assistant Chief Administrative Officer issued a formal response as well to the MCIA report and is currently taking the following corrective action:

- Representatives from the OCA, the Department of Finance, the Office of Procurement, and the Office of Management and Budget collaborated in the development of an Administrative Procedure governing the review and approval of all agreements deemed exempt from the procurement regulations. On September 11, 2018, the ACAO issued the interim Administrative Procedure 2-4, *Agreements between Montgomery County Government and Other Organizations*. Effective immediately for 120 days (while the required notice and department review process takes place), this interim AP establishes policies and procedures for the preparation, review, clearance, approval and monitoring of Agreements between Montgomery County Government and other organizations.

In addition to the corrective actions taken because of MCIA's review, Baker Tilly noted other corrective actions the County implemented prior to the start of this Scope 1 Forensic Investigation and were described with the corresponding recommendations above (e.g., Oracle AP reporting changes, testing vendor and employee master files for address matches).

IX. CONCLUSION

A. SUMMARY OF FORENSIC EXAMINATION OF TRANSACTIONS

1. Summary Findings of Total Payment Transaction Testing

Baker Tilly reviewed, analyzed, and categorized over 1,500 payment transactions at risk for potential fraud, waste, or abuse. We determined that 17 transactions had indications of potential fraud, waste, or abuse. However, the majority of the transactions analyzed had no such indications.

Table 34. Total Transactions by Category

Category	Number of Vendors ³⁴⁸	Number of Transactions	% of Total	Total Dollar Amount	% of Total
1a	3	17	1%	\$ 5,599,664.63	7%
1b	-	-	-	-	-
2a	1	2	-	2,010,197.85	2%
2b	18	96	6%	2,229,709.69	3%
3	195	918	58%	51,127,995.43	62%
4	142	562	35%	21,659,649.46	26%
Total	360	1,592	100%	\$ 82,627,217.06	100%

2. Findings Regarding Specific Vendor Payments

a. CBIF

There are strong indications that the \$5.53 million paid to CBIF was disguised as legitimate payments related to the Incubators, but was, in fact, a means to divert County funds.

b. The Governor of Chungbuk Province

The receipt of \$2 million and the return of those funds by the County appear to have been legitimate. Baker Tilly's assessment is that these payments should be categorized as at potentially high-risk for fraud, given the Province's central position in this matter. However, Baker Tilly has found no specific indications of fraud in these particular payments.

Baker Tilly could not confirm the ownership of the Korean account from which the funds were sent, and to which the funds were returned. Therefore, Baker Tilly cannot rule out the possibility that the owner of the Korean account may not have been Chungbuk Province. In addition, Baker Tilly could not determine the source of the additional \$505,415.98 purportedly returned to the Province, although Baker Tilly has determined that the County did not send the funds.

The receipt of \$2 million from the Province nets against the return of those funds and the County did not sustain any loss as a result of these transactions.

³⁴⁸ There are overlapping vendors between the different categories. As a result, vendors cannot be summed.

c. Other vendors

Baker Tilly observed that certain vendors had connections to or commonalities with, Mr. Bang, CBIF, and/or the Province, including: (i) Hanul Kim, a possible relative of Mr. Bang, whose invoice payment address was the same as Mr. Bang's; and (ii) Sohn Jung Mee, the first exchange staff member from the Province. Baker Tilly determined that there were no other indications of potential fraud, waste, or abuse with any other such vendors.

3. Internal Control Observations

Baker Tilly performed a comprehensive review of the County's policies and procedures, workflow documentation, and audit reports to gain an understanding of the Procure-to-Pay process and the overall roles and responsibilities of key personnel. Baker Tilly observed that the internal control environment during the time period of review for the Scope 1 Forensic Investigation contained a number of weaknesses and gaps within the Procure-to-Pay process and other areas (*i.e.*, information security) that could provide an employee the opportunity to abuse his or her position of authority, including:

- Discretion for determining whether a particular purchase was subject to the County's Procurement Regulations rested with the Using Department making the purchase. The decentralized environment for non-procurement purchases allowed employees to circumvent the procurement requirements, whether for convenience or other purposes. For example, an employee could code an invoice to indicate that it was exempt from the Procurement Regulations and thus create large invoices, for which the underlying agreement (if one existed) would not have the benefit of the OCA review (unless requested by the Using Department) or central oversight of the Office of Procurement.
- Procedures to improve the probability of detecting a Fictitious Vendor Scheme or fictitious invoices were not robust.
- Delegated signing authority on contracts and other document/agreement types lacked evidence to support that the delegation was authorized.
- Certain DED employees were out of compliance with policies to safeguard access to email and documents on individual computers.
- Checks could be held for pickup and not sent directly to vendors, which would allow for a check to be diverted from its intended recipient.
- Understanding and application of the Procure-to-Pay process policies and procedures appeared inconsistent during the time period under review.
- Certain DED employees did not conform with proper purchasing and payment procedures by use of a third-party conduit.
- "Soft factors" such as the "tone at the top" and other office culture issues within the DED contributed to the circumstances under which fraud might be committed.

4. Recommendations

The Scope 1 Report makes general and specific recommendations to the County addressing the observed weaknesses and gaps in internal controls. These recommendations include, broadly, the following:

- Increase the frequency of audits of departments with a high volume of Exempt Transactions to ensure compliance with policies and procedures;
- Institute controls over how a transaction may be coded as exempt from the Procurement Regulations and subsequently paid with appropriate levels of oversight;
- More frequent training sessions for County employees on specific topics concerning each person's roles and responsibilities, and general training and emphasis on fraud prevention and detection, especially as it pertains to Exempt Transactions;
- Educate personnel on the ramifications of improper use of County systems; and
- Conduct periodic, targeted fraud risk assessments.

Baker Tilly understands that Montgomery County has already enacted changes to the Procure-to-Pay process, software systems, internal controls, and oversight as of the date of this Scope 1 Report. Baker Tilly has reviewed the updated policies and the internal control assessment report issued in May 2018 and encourages County personnel to continue any corrective actions currently in process and consider implementation of the recommendations detailed in this Scope 1 Report.

B. CONCLUSION

In conclusion:

- The transactions in this Scope 1 Report identified as potentially fraudulent or at high-risk for potential fraud, waste, or abuse were handled as non-procurement transactions and occurred outside of the Office of Procurement.
- Baker Tilly's process to determine the population of transactions to be examined was robust. This process resulted in Baker Tilly's investigation of 1,592 vendor invoices across 314 vendors totaling \$82.6 million.
- There are strong indications that \$5.5 million was diverted from the payment of legitimate expenses for the Incubators to CBIF without legitimate purpose for the County. As \$150,000 of the payments to CBIF was provided by the Province, this amount was not a net negative payment for the County.
- Baker Tilly observed various indications that Mr. Bang may have been associated with CBIF and may have benefitted financially from the payments to CBIF.

- The receipt of \$2 million from the Province and the return of those funds by the County appears to have been legitimate. The County received \$2 million, and returned \$2 million, for no net loss.
- Baker Tilly identified an additional \$70,200 in potentially fraudulent payments to two individuals with connections to Mr. Bang or the Province.
- CBIF and an unknown party appear to have received approximately \$500,000 from the Province. Mr. Bang represented to the Province that those funds would be returned in whole by CBIF. Baker Tilly could not confirm receipt or return of the funds, although we have determined that the County was not the direct source of any of those funds.
- The County has changed its policies and procedures that were in effect during the time period of review for the Scope 1 Forensic Investigation and will continue to do so to increase the probability of preventing a similar occurrence in the future.

* * * * *

The procedures performed were limited to those described herein based on the documents provided to date and other information obtained. Information obtained subsequent to the date of this report may affect our analysis and this effect may be material. If requested, we will update our analysis.

Our procedures were performed solely with respect to the above referenced engagement. Any findings included herein are dependent upon the facts and circumstances in the present matter and cannot be applied to other situations or disputes.

Respectfully submitted,

Brian P. Sanvidge, CIG, CFE

X. APPENDICES

- A. Brian P. Sanvidge Curriculum Vitae
- B. Individuals Named in the Scope 1 Report
- C. Data Analytics
- D. Documents Relied Upon [Exhibits]
- E. Documents Considered [Excludes Exhibits]

A. BRIAN P. SANVIDGE CURRICULUM VITAE



Brian P. Sanvidge, CIG, CFE

Principal

212 792 4836

brian.sanvidge@bakertilly.com

Brian P. Sanvidge is a member of Baker Tilly’s Forensic, Litigation & Valuation Services group and leads the fraud and investigations practice. He works closely with businesses and in-house and outside counsel on forensic investigations, fraud investigations, labor investigations, disaster recovery, and business continuity matters. He also advises on statutory and regulatory compliance issues.

Drawing from over 25 years of experience in state and local government, he provides litigation and investigation support and independent monitor services to public and private sector clients across a variety of highly regulated industries, including specialty pharmaceuticals, construction, transportation, infrastructure, retail, and hospitality. His work has included leading the investigation into a Fortune Global 50 company’s \$7 million in questionable costs and advising multiple minority- and women-owned businesses on compliance issues. Brian has also supported large-scale government monitorship cases, some valued at over \$1 billion.

Prior to his consulting career, Brian spent 12 years as an inspector general for New York—including 10 years with the state’s Department of Labor. There he oversaw more than 5,000 civil and criminal investigations resulting in criminal convictions and civil restitutions in excess of \$250 million.

Brian is a certified inspector general and certified fraud examiner based in New York. He is frequently quoted in the media and lectures nationally on business fraud, labor law, tax fraud, and white-collar crime, as well as on regulatory compliance and government investigations for various organizations, including the Government Finance Officers Association, the Financial Management Association, and New York State Surrogate Bench, as well as several bar associations. Long Island Business News named him to their Who’s Who of Forensic Accountants in December 2013.

Brian P. Sanvidge, *continued*

Specific experience

- Provides expert witness testimony in financial crimes cases, often on behalf of the governmental entities, before state and federal courts and in American Arbitrations Association dispute resolution cases
- Oversees forensic accounting activities, including data analysis and computer forensic techniques to uncover defensible information
- Assists in fraud cases related to labor, construction, healthcare, and not-for-profit
- Advises on labor-related matters, such as employee classifications, public work, and wage and hour disputes

Industry involvement

- American Bar Association
- American Society for Industrial Security
- Association of Certified Fraud Examiners
- Association of Inspectors General
- Citizen's Budget Commission – Trustee
- International Association of Independent Private Sector Inspectors General
- National Association of Criminal Defense Lawyers (NACD)
- National White Collar Crime Center – Certified Financial Records Expert Witness
- New York Metro InfraGard Alliance – Secure Member

Education

University at Albany, SUNY – Albany, New York
Bachelor of Arts in Political Science

B. INDIVIDUALS NAMED IN THE SCOPE 1 REPORT

The listing below includes the names of persons included in this Scope 1 Report, many of which are also included in publicly available documents. Inclusion on this list or in this Scope 1 Report, in and of itself, does not indicate any wrongdoing.

#	INDIVIDUALS	DESCRIPTION
1	Brian Bouey	Vice President and Chief Operations Officer of Scheer Partners
2	Byung Il Bang / Byung Bang / Peter Bang	Peter Bang's alias
3	David W. Edgerley	Former DED Director
4	Hanul Kim	Potential relative of Peter Bang
5	In-Sung Chung / Jeong Chung / Jung In Sung	From Chungbuk Provincial Government and recipient of letter from Peter Bang
6	Isiah Leggett	Current County Executive of Montgomery County
7	Jeon Kwang Ho/Mr. Jun	Identifies himself as from Chungbuk Provincial Government and recipient of letter from Peter Bang
8	Jeong Soon Lee	Cc'd on email re: wire transfer of \$505,415.98; Director of Chungbuk USA, signed Articles of Dissolution for Chungbuk USA that were filed in October 2014; Korean exchange staff
9	Jungmee Sohn / Sohn Jung Mee / Jungmee Sohn Lee	Korean exchange staff
10	Kim Do Saeng	Recipient of 200 million Korean Won and KB bank account holder
11	Kim Jong Soo / Kim Soo Jung / Kim Su-Jung / Su-jung Kim	Identifies himself as Chief of Bio-Cultivation Department of Bio-Environment Bureau of Chungcheongbuk-do
12	Kim Kyoung-Yong	Director-General, Administration Bureau of Chungcheongbuk-do Provincial Government, the Republic of Korea
13	Kim Sang-Sook / Kim Jong Sook	Identifies herself as in charge of business incubator center in Chungcheongbuk-do

#	INDIVIDUALS	DESCRIPTION
14	Matt Phillips	Author of online article on South Korean practice of "Joense" or "Chonsej"
15	Pradeep Ganguly	Former DED Director
16	Richard Bendis	BHI's President and Chief Executive Officer
17	Sally Sternbach	Former Executive Director of REDI and a former Acting DED Director for the County
18	Samuel Kim	Agent on CBIF organizational papers and contact person on CBIF invoices
19	Seung Uk Hong (Seung/Sung, Uk/Wook)	Per letter from Kim Kyoung-Yong, Korean exchange staff. Name is included on IRS summons, signed first CBIF invoice, and sole member of CBIF on organizational papers.
20	Si Jong Lee	Governor of Chungcheongbuk-do
21	Steve Silverman	Former DED Director
22	Youn Hee Jung	Spouse of Peter Bang
23	Yun Soon In	From Chungbuk Provincial Government and recipient of letter from Peter Bang
24	Karin Lott	Memo of approval for Schedule C1238 for Montgomery County Government, Administrative Record Series by the Maryland State Archivist
25	Ms. [first name unknown/not given] Kim	Email from Peter Bang to Ms. Kim regarding account opening as a foreign government
26	Hope Gleicher	Director, Nonprofit Roundtable of Greater Washington
27	Audrey Alvarado	Vice President, Nonprofit Roundtable of Greater Washington
28	Joseph Beach	Former Director, Department of Finance
29	Alexandre A. Espinosa	Current Director, Department of Finance

#	INDIVIDUALS	DESCRIPTION
30	Timothy L. Firestine	Current Chief Administrative Officer
31	Carol Ann Brideau	Consulting Team in Orion Ventures Report
32	Joyce Fuhrmann	Consulting Team in Orion Ventures Report
33	Kyle Friis	Consulting Team in Orion Ventures Report
34	Se-Ung Ko	Director General, Bureau of Bio Technology & Environment
35	Scott Reilly	Former Assistant Chief Administrative Officer
36	Douglas M. Duncan	Former County Executive
37	Bruce Romer	Former Chief Administrative Officer
38	Lily Qi	Current Assistant Chief Administrative Officer
39	Thomas Street	Former Assistant Chief Administrative Officer
40	Robert Brennan	Executive Director of MEDCO
41	Jim Miller	Controller at MEDCO
42	Woo-Taik Chung	Former governor of Chungcheongbuk-do

C. DATA ANALYTICS

Baker Tilly requested all purchase and payment detail for the time period FY 2010 through FY 2017. The County provided all of the DED purchase and payment transactions in a total of 40 data tables with 1,339 different fields to be combined. Each table contained fields pertaining to different stages or components of a transaction. The following tables were provided:

Oracle AP:

TABLE NAME	# OF FIELDS	DESCRIPTION
AP_CHECKS_ALL	33	Includes FY11-FY17 DED checks submitted
AP_HOLDS_ALL	12	Includes FY11-FY17 DED invoices on hold due to system validation errors
AP_INV_APRVL_HIST_ALL	13	Includes FY11-FY17 DED invoice, approver and creation history for invoices initiated for approval through workflow
AP_INVOICE_DISTRIBUTIONS_ALL	33	Includes FY11-FY17 DED invoice detail, distribution numbers, accounting chart of account codes, and accounting date
AP_INVOICE_LINES_ALL	31	Includes FY11-FY17 DED invoice detail, PO numbers, Transaction Codes and line numbers
AP_INVOICE_PAYMENTS_ALL	15	Includes FY11-FY17 DED invoice, check IDs, and discounts taken
AP_INVOICES_ALL	32	Includes FY11-FY17 DED invoice header information including vendor, invoice type, and date
AP_PAYMENT_HIST_DIST	17	Includes FY11-FY17 DED invoice detail and payment history distribution
AP_PAYMENT_HISTORY_ALL	15	Includes FY11-FY17 DED payment history header information
AP_PAYMENT_SCHEDULES_ALL	13	Includes FY11-FY17 DED invoice schedule of payments and due dates
AP_SUPPLIER_SITES_ALL	21	Includes FY11-FY17 DED invoice supplier site information
AP_SUPPLIERS	17	Includes FY11-FY17 DED invoice supplier header information
XXMCG_AP_INV_APRVL_HIST_ALL	109	Includes flattened and denormalized table of invoice approval history
XXMCG_USER_LOOKUP	4	User ID reference

Oracle PO/DPO:

TABLE NAME	# OF FIELDS	DESCRIPTION
PO_AGENTS	9	Includes FY11-FY17 DED PO/DPO agent information
PO_APPROVAL_LIST_HEADERS	11	Includes FY11-FY17 DED PO/DPO approver information of RQ
PO_APPROVAL_LIST_LINES	11	Includes FY11-FY17 DED PO/DPO approver information of RQ
PO_CHANGE_REQUESTS	12	Includes FY11-FY17 DED PO/DPO change requests information
PO_DISTRIBUTIONS_ALL	42	Includes FY11-FY17 DED PO/DPO and distribution detail
PO_DISTRIBUTIONS_ARCHIVE_ALL	38	Includes FY11-FY17 archived DED PO/DPO and distribution detail
PO_HEADERS_ALL	24	Includes FY11-FY17 DED PO/DPO and header detail
PO_HEADERS_ARCHIVE_ALL	23	Includes FY11-FY17 archived DED PO/DPO and header detail
PO_LINE_LOCATIONS_ALL	46	Includes FY11-FY17 DED PO/DPO detail and location information
PO_LINE_LOCATIONS_ARCHIVE_ALL	43	Includes FY11-FY17 archived DED PO/DPO detail and location information
PO_LINES_ALL	27	Includes FY11-FY17 DED PO/DPO detail
PO_LINES_ARCHIVE_ALL	20	Includes FY11-FY17 archived DED PO/DPO detail
PO_REQ_DISTRIBUTIONS_ALL	30	Includes FY11-FY17 DED requisition and distribution detail
PO_REQUISITION_HEADERS_ALL	15	Includes FY11-FY17 DED requisition and header detail
PO_REQUISITION_LINES_ALL	25	Includes FY11-FY17 DED requisition detail
XXMCG_PO_ACTION_HISTORY	92	Includes combined FY11-FY17 DED PO/DPO action history
XXMCG_PO_APPROVAL_HISTORY	81	Includes combined FY11-FY17 DED PO/DPO approval history

TABLE NAME	# OF FIELDS	DESCRIPTION
XXMCG_PO_RQ_LINK	6	Includes combined FY11-FY17 DED PO and RQ linkage

Legacy AP:

The County provided a combined Legacy AP file containing data from all of the tables listed below to Baker Tilly named "XXMCG_LEGACY_AP_COMBINED_UPDATE."

TABLE NAME	# OF FIELDS	DESCRIPTION
LEGACY_ADPICS_BUYER	10	Includes FY09-FY10 DED buyer information
LEGACY_ADPICS_INVOICE	71	Includes FY09-FY10 DED invoice header information including vendor, invoice type, and date
LEGACY_ADPICS_PO	69	Includes FY09-FY10 DED PO information
LEGACY_ADPICS_REQ	89	Includes FY09-FY10 DED RQ information
LEGACY_ADPICS_VOUCHER	55	Includes FY09-FY10 DED voucher information
LEGACY_ADPICS_VENDOR	28	Includes FY09-FY10 DED vendor information
LEGACY_FAMIS_INV_PAYMENT	71	Includes FY09-FY10 DED invoice payment information
LEGACY_FAMIS_VENDOR	26	Includes FY09-FY10 DED vendor information

Objective and Procedure of Forensic Investigation Tests

The items below outline the testing and procedures performed during our forensic investigation.

TEST NAME	DESCRIPTION
TEST 1: Transactions related to “Chungbuk”	<ul style="list-style-type: none"> • The objective was to identify all transactions potentially related to the name “Chungbuk” not previously discovered and/or tested by the County. • The procedure included a text search for “Chungbuk” on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets.
TEST 2: Transactions related to “Peter Bang” and potential aliases	<ul style="list-style-type: none"> • The objective was to identify all transactions potentially related to the name “Peter Bang” and potential aliases not previously discovered and/or tested by the County. • The procedure included a text search of the following on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets: <ul style="list-style-type: none"> ○ “Bang” ○ “Byung” ○ “Beang” ○ “Young B”
TEST 3: Transactions related to “Chungcheongbuk-do Province”	<ul style="list-style-type: none"> • The objective was to identify all transactions potentially related to the name “Chungcheongbuk-do Province” not previously discovered and/or tested by the County. • The procedure included a text search for “Chungcheongbuk-do Province” (with and without hyphen) on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets.
TEST 4: Transactions related to Samuel Kim	<ul style="list-style-type: none"> • The objective was to identify all transactions potentially related to Samuel Kim not previously discovered and/or tested by the County. • The procedure included a text search for the person on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets.
TEST 5: Transactions related to Youn Hee Jung	<ul style="list-style-type: none"> • The objective was to identify all transactions potentially related to Youn Hee Jung not previously discovered and/or tested by the County. • The procedure included a text search for the person on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets.

TEST NAME	DESCRIPTION
TEST 6: Transactions related to Chungbuk Province banks by name and account number	<ul style="list-style-type: none"> The objective was to identify all transactions potentially related to two bank account names and numbers not previously discovered and/or tested by the County. The procedure included a text search for the following on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets for the two bank names and two bank account numbers.
TEST 7: Transactions related to Chungbuk Incubator Fund (CBIF) by taxpayer ID number (TIN)	<ul style="list-style-type: none"> The objective was to identify all invoices potentially related to CBIF by searching the TIN not previously discovered and/or tested by the County. The procedure included a text search for the TIN (with and without dashes) on all available fields in the AP/ Legacy AP data sets.
TEST 8: Transactions related to Chungbuk Incubator Fund (CBIF) by address	<ul style="list-style-type: none"> The objective was to identify all transactions potentially related to CBIF by searching exact addresses or similar iterations of the addresses not previously discovered and/or tested by the County. The procedure included a text search for five variations of an address on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets.
TEST 9: Transactions related to CBIF's bank account by number	<ul style="list-style-type: none"> The objective was to identify all invoices potentially related to CBIF by searching its bank account numbers not previously discovered and/or tested by the County. The procedure included a text search (with and without spaces) for the two bank account numbers on all available fields in the AP/Legacy AP data sets.
TEST 10: Transactions related to CBIF on dates of dissolution	<ul style="list-style-type: none"> The objective was to identify all transactions potentially related to CBIF by searching for transactions outside of the dates that CBIF was active, not previously discovered and/or tested by the County. The procedure was to search invoice/purchase order/requisition activity where we found "Chungbuk Incubator Fund LLC" in test 1 on dates between (prior 7/22/10, 8/25/14 - 06/22/15, 12/11/15 - most recent activity captured) on all date fields in the AP/PO/DPO/REQ/Legacy AP data sets.
TEST 11: Transactions related to Scheer Partners	<ul style="list-style-type: none"> The objective was to identify all transactions potentially related to Scheer Partners not previously discovered and/or tested by the County. The procedure included a text search of the entity's name on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets.

TEST NAME	DESCRIPTION
TEST 12: Transactions related to MEDCO:	<ul style="list-style-type: none"> • The objective was to identify all transactions potentially related to Maryland Economic Development Corporation not previously discovered and/or tested by the County. • The procedure included a text search for variations of the entity’s name on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets.
TEST13a: Duplicate transactions	<ul style="list-style-type: none"> • The objective was to identify all potential duplicate transactions not previously discovered and/or tested by the County. • The procedure included a search for duplicate transactions by looking for transactions with the same field criteria in the AP/PO/DPO/REQ data sets.
TEST 13b: Split transactions	<ul style="list-style-type: none"> • The objective was to identify all split transactions not previously discovered and/or tested by the County. • The procedure included a search for split transactions by looking for transactions with the same field criteria in the AP/PO/DPO/REQ data sets.
TEST 14: Perform Benford’s Law analysis	<ul style="list-style-type: none"> • The objective was to identify outliers in the expected frequency of numbers in the data according to the mathematical law, which could be indicative of potential fraud in transactions not previously discovered and/or tested by the County. • The procedure included performing a Benford’s Law analysis on the amount fields for the first two digits and last two digits to identify highly suspicious transactions in the AP/PO/DPO/REQ data sets.
TEST 15: Round dollar transactions	<ul style="list-style-type: none"> • The objective was to identify transactions that may be at higher risk for potential fraud not previously discovered and/or tested by the County. • The procedure included searching for round dollar transactions by looking for transactions ending in “00” on all available amount fields in the AP/PO/DPO/REQ data sets.
TEST 16: Transactions paid or approved on weekends	<ul style="list-style-type: none"> • The objective was to identify transactions that were paid or approved on weekends not previously discovered and/or tested by the County. • The procedure included searching for transactions paid or approved/manually approved on all available fields in the AP/PO/DPO/REQ data sets.

TEST NAME	DESCRIPTION
TEST 17: Wire transactions	<ul style="list-style-type: none"> The objective was to identify wires that may be at higher risk for potential fraud in invoices not previously discovered and/or tested by the County. The procedure included searching for invoices that were flagged as wires in the AP data sets.
TEST 18: Negative invoices	<ul style="list-style-type: none"> The objective was to identify negative transactions that may be at higher risk for potential fraud not previously discovered and/or tested by the County. The procedure included searching for negative transactions on the amount fields in the AP/PO/DPO/REQ data sets.
TEST 19: Same initiator and approver	<ul style="list-style-type: none"> The objective was to identify any transactions that had the same initiator and approver not previously discovered and/or tested by the County. The procedure included searching transactions where the initiator name is also the approver name in the AP/PO/DPO/REQ data sets.
TEST 20: Payment date before invoice date	<ul style="list-style-type: none"> The objective was to identify any invoices where the payment date was before the invoice date not previously discovered and/or tested by the County. The procedure included searching for where the payment date was before the invoice date in the AP data sets.
TEST 21: Transactions related to Korea	<ul style="list-style-type: none"> The objective was to identify all transactions potentially related to Korea not previously discovered and/or identified by the County. The procedure included a text search of the place on all available fields in the AP/PO/DPO/REQ/Legacy AP data sets.
TEST 22: Transactions related to external entities including TEDCO, Orion Ventures, Montgomery College, and BHI	<ul style="list-style-type: none"> The objective was to identify all transactions potentially related to these external entities not previously discovered and/or tested by the County. The procedure included a text search for the external entity names on all available fields in the AP/PO/DPO/Legacy AP data sets.
TEST 23: Transactions related to Mr. Bang's personal bank account by name and number.	<ul style="list-style-type: none"> The objective was to identify all invoices potentially related to Mr. Bang's personal bank account by name and number The procedure included a text search for the bank name and number on all available fields in the AP/Legacy AP data set.
TEST 24: Addresses potentially associated with Mr. Bang	<ul style="list-style-type: none"> The objective was to identify all invoices potentially related to Mr. Bang not previously discovered and/or tested by the County The procedure included a text search for three addresses on all available fields in the AP/Legacy AP data set.

D. DOCUMENTS RELIED UPON [EXHIBITS]

The documents listed below were relied upon as part of the Scope 1 Forensic Investigation methodology, observations and findings, and recommendations. They are included as exhibits to this Scope 1 Report.

EXHIBIT NUMBER	DOCUMENT
Exhibit BT_001	Contribution/Donation Instrument County-Chungbuk Agreement, dated March 23, 2010.
Exhibit BT_002	Investment and Incubator Space License Agreement, dated March 15, 2010.
Exhibit BT_003	Memorandum regarding FY15 Operating Budget; NDAs - Working Families Income Supplement; State Property Tax Services; Restricted Donations; Grants to Municipalities in Lieu of Shares Tax; Future Federal/State Grants; Takoma Park Police Rebate; Municipal Tax Duplication; Leases, dated April 17, 2014, http://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2014/140421/20140421_GO6.pdf .
Exhibit BT_004	IRS Summons, dated April 17, 2017.
Exhibit BT_005	Memorandum regarding FY 16 Procurement and Hiring Freeze, dated September 10, 2015.
Exhibit BT_006	Memorandum regarding Schedule C1236, dated January 30, 2014.
Exhibit BT_007	List of Keywords for Persons and Entities of Interest.
Exhibit BT_008A	Invoice/checks sent to Chungbuk Incubator Fund LLC from the County, dated November 2010 - February 2016.
Exhibit BT_008B	Hanul Kim Invoice #012510 Packet, dated January 2010.
Exhibit BT_009	Rockville Economic Development Inc. Invoices Packet, dated September 2011 - February 2012, https://www.montgomerycountymd.gov/council/resources/files/res/2012/2012_0131_17-331.pdf .
Exhibit BT_010	Memorandum regarding Work session: FY12 Operating Budget Department of Economic Development (DED), dated May 12, 2011. http://montgomerycountymd.granicus.com/Viewer.php?view_id=6&clip_id=1338&meta_id=21177 .
Exhibit BT_011	Montgomery County, Maryland, Bill 25-15 concerning Economic Development - Reorganization - Montgomery County Economic Development Corporation, enacted June 30, 2015, https://www.montgomerycountymd.gov/COUNCIL/Resources/Files/bill/2015/20150630_25-15.pdf .
Exhibit BT_012	Montgomery County Council – Legislative Branch, as of August 26, 2018, https://www.montgomerycountymd.gov/COUNCIL/Workgroups/Procurement/PPR.html . American Legal Publishing Corporation, Montgomery County Code 11B, Contracts and Procurement -Regulations, http://library.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:montgomeryco_md_mc .

EXHIBIT NUMBER	DOCUMENT
Exhibit BT_013	American Legal Publishing Corporation, Montgomery County Code 11B, Contracts and Procurement - Regulations, Section 4.1.9, Direct Purchases, as of August 16, 2018, http://library.amlegal.com/nxt/gateway.dll/Maryland/montgom/partiilocallawsordinancesresolutionsetc/chapter11bcontractsandprocurementnote?f=templates\$fn=default.htm\$3.0\$vid=amlegal:montgomeryco_md_mc\$anc=JD_11B-4 .
Exhibit BT_014	Department of Finance - About Us - Montgomery County Maryland, as of August 16, 2018, https://www.montgomerycountymd.gov/finance/about.html .
Exhibit BT_015	Memorandum on Worksession - Executive's Recommend FY10 Operating Budget - Economic Development Fund (EDF), dated April 13, 2009. https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2009/090415/20090415_PHEd03.pdf .
Exhibit BT_016	Letter to Steve Silverman from Hope Gleicher, dated November 5, 2012.
Exhibit BT_017	United States Government Accountability Office, Standards for Internal Control in the Federal Government (“Green Book”), dated September 2014, https://www.gao.gov/assets/670/665712.pdf .
Exhibit BT_018	Governor of Chungbuk Province Korea Invoice #071514 Packet, dated June – July 2014.
Exhibit BT_019	ACFE 2018 Report to the Nations on Occupational Fraud and Abuse, as of 2018, http://www.acfe.com/report-to-the-nations/2018/ .
Exhibit BT_020	Invoice with Baker Tilly performed translation, dated July 30, 2010.
Exhibit BT_021	Memorandum regarding FY15 Procurement Freeze, dated December 15, 2014.
Exhibit BT_022	Montgomery County Maryland Comprehensive Annual Financial Report Fiscal Year 2011, dated July 1, 2010 - June 30, 2011.
Exhibit BT_023	Review of Montgomery County’s Economic Development Incentive Programs, Office of Legislative Oversight, Report 2013-2, dated February 26, 2013. https://www.montgomerycountymd.gov/olo/resources/files/oloreport2013-2.pdf .
Exhibit BT_024	Memorandum regarding 2008 Annual Report, dated March 31, 2009. https://www.montgomerycountymd.gov/exec/Resources/Files/2008_annual_report.pdf .
Exhibit BT_025	Memorandum regarding Schedule C1238, dated February 12, 2014.
Exhibit BT_026	Matt Phillips, It takes \$290.000 in cash to rent an apartment in Seoul, Quartz, dated March 10, 2014, https://qz.com/183412/koreas-crazy-system-for-renting-apartments-is-driving-the-country-deeper-into-debt/ .
Exhibit BT_027	K4E Editor, Renting in Korea, Lease Options, Korea 4 Expats, updated May 9, 2016, https://www.korea4expats.com/article-lease-options-korea.html .
Exhibit BT_028	Montgomery County Maryland Government PNC Bank Statement, dated July 13, 2010 - August 31, 2010.
Exhibit BT_029	Governor of Chungbuk Province Korea Invoice #020714 Packet, dated September 2013 – February 2014.
Exhibit BT_030	Federal Reserve Bank Fund Transfer Data Record, dated August 31, 2010.

EXHIBIT NUMBER	DOCUMENT
Exhibit BT_031	Department of Finance - Accounts Payable Section - Oracle Supplier Table Maintenance Form: Chungbuk Incubator Fund LLC.
Exhibit BT_032	Emails between Peter Bang and Kim Sang-sook (Chungbuk Province) and Jeong Soon Lee, dated June 26, 2014, with attachments: Letter from Steven Silverman to Si Jong Lee (Governor of Chungbuk Province), dated February 13, 2014 (English); Letter from Peter Bang to Government Officer, dated March 26, 2014 (Korean); Letter from Kim Jong-sook, dated June 26, 2014.
Exhibit BT_033	Emails between Peter Bang, Kim Sang-sook (Chungbuk Province) and Jeong Soon Lee, dated July 23-29, 2014.
Exhibit BT_034	The Department of Economic Development: Review of Budget and Strategies Office of Legislative Oversight Report Number 2009-8, dated February 3, 2009.
Exhibit BT_035	Email between Peter Bang and "green6254@----" and "jis1214@----", dated July 26, 2010 with attachments: Letter from Steven Silverman to Kim Kyoung-Yong (Chungbuk Province Director General, Economic and Trade Bureau), dated July 22, 2010; Letter from Kim Kyoung-Yong to Steven Silverman, undated.
Exhibit BT_036	ACFE Fraud Prevention Check-Up, dated 2016.
Exhibit BT_037	Translation of Emails between Peter Bang and Jeon Kwang Ho, "jun3616@----" (Chungbuk Province), dated September 9-10, 2010.
Exhibit BT_038	Chungbuk Incubator Fund LLC Articles of Cancellation, dated December 11, 2015.
Exhibit BT_039	Small Business Revolving Loan Program Packet.
Exhibit BT_040	Emails between Peter Bang and Kim Sang-sook (Chungbuk Province), dated July 31-August 1, 2014.
Exhibit BT_041	Chungbuk Incubator Fund LLC Bank of America Bank Statements, dated November 1-30, 2010.
Exhibit BT_042	China.org, Kyung Yong Kim, dated September 28, 2015, http://charhar.china.org.cn/2015-09/28/content_36697816.htm .
Exhibit BT_043	Chungbuk Incubator Fund LLC Articles of Organization, dated July 23, 2015.
Exhibit BT_044	Chungbuk Incubator Fund LLC Bank of America Bank Statements, dated September 1-30, 2010.
Exhibit BT_045	Emails between Peter Bang, Steven Silverman, and a Scheer employee, dated July 22, 2014 and attachment: Check #2421.
Exhibit BT_046	Memorandum regarding Status Report - Department of Economic Development (Incubator Review), dated July 19, 2012. https://www.montgomerycountymd.gov/COUNCIL/Resources/Files/agenda/cm/2012/120723/20120723_PHEd2.pdf .
Exhibit BT_047	Chungbuk Incubator Fund LLC Articles of Cancellation, dated August 25, 2014.
Exhibit BT_048	Email between Peter Bang and "jis1214@----", with attachments (excel file) and Baker Tilly performed translation, dated December 17, 2009.
Exhibit BT_049	Chungbuk Incubator Fund LLC Schedule K-1 Partnership, dated 2014.

EXHIBIT NUMBER	DOCUMENT
Exhibit BT_050	Chungbuk Incubator Fund LLC Articles of Organization for a Limited Liability Company, dated July 22, 2010.
Exhibit BT_051	American Institute of Certified Public Accountants Forensic & Valuation Services Practice Aid: Forensic Accounting - Fraud Investigations, dated 2014.
Exhibit BT_052	American Institute of Certified Public Accountants AU-00110 Responsibilities and Functions of the Independent Auditor, revised March 2006.
Exhibit BT_053	Montgomery County, Office of Inspector General Hotline website, as of September 14, 2018.
Exhibit BT_054	Emails between Peter Bang, "oksk@----", dated February 16-18, 2010.
Exhibit BT_055	Montgomery County Department of Technology Services Computer Security Guideline, dated March 23, 2009.
Exhibit BT_056	Emails between Peter Bang, Seong Hong, and Kim Soo Jung ("nada0214@----") with Baker Tilly performed translation, dated February 27-March 4, 2013.
Exhibit BT_057	Maryland County, Maryland Accounts Payable Manual, undated.
Exhibit BT_058	Emails between Peter Bang and Kim Soo Jung with Baker Tilly performed translations, dated October 30-November 12, 2013.
Exhibit BT_059	Letter from Kim Jong Soo, undated.
Exhibit BT_060	Accounts Payable Policy, last revised October 3, 2014.
Exhibit BT_061	Accounts Payable Policies: Financial Governing Principles and Standards, effective September 25, 2016.
Exhibit BT_062	Letter from Kim Jong Soo, dated March 3, 2014.
Exhibit BT_063	Accounts Payable Policies: Financial Governing Principles and Standards, effective August 2, 2017.
Exhibit BT_064	Accounts Payable Policies: Authorized Payment, effective April 1, 2018.
Exhibit BT_065	Attachment A - Direct Payment Exceptions - Authorized Payment policy.
Exhibit BT_066	Direct Purchase Order #1032359, dated July 1, 2013.
Exhibit BT_067	Association of Inspectors General Principles and Standards for Offices of Inspector General, dated May 2014. http://inspectorsgeneral.org/files/2014/11/AIG-Principles-and-Standards-May-2014-Revision-2.pdf .
Exhibit BT_068	Montgomery County Personnel Regulations §33 Disciplinary Actions, amended as of June 30, 2015.
Exhibit BT_069	Memorandum regarding Administrative Procedures 6-7, Information Resources Security, dated May 4, 2005.
Exhibit BT_070	Montgomery County Maryland Operating Budget, Economic Development Fund, as of September 17, 2018.
Exhibit BT_071	Montgomery County Maryland Operating Budget, Glossary, as of September 17, 2018.
	Montgomery County Maryland Operating Budget, Glossary, as of September 17, 2018.
Exhibit BT_072	Memorandum regarding Advance Rent Payment for Incubator Companies from Chungbuk, Korea, dated February 1, 2011.

EXHIBIT NUMBER	DOCUMENT
Exhibit BT_073	Montgomery County FY15 Economic Development, undated, https://www.montgomerycountymd.gov/OMB/Resources/Files/omb/pdfs/FY15/psprec/ded.pdf .
Exhibit BT_074	Montgomery County, Maryland Office of the County Executive Office of Internal Audit - Internal Control Review Procure to Pay - Specific Functions Report, dated May 9, 2018, https://www.montgomerycountymd.gov/exec/Resources/Files/Internal_Control_Review_of_Procure_to_Pay_5-9-2018.pdf .
Exhibit BT_075	CFE Code of Professional Standards, as of September 20, 2018. http://www.acfe.com/standards/ .
Exhibit BT_076	Mutual Release County – Chungbuk, dated July 3, 2014
Exhibit BT_077	Fraud Prevention and Deterrence: Fraud Prevention Programs, dated 2016
Exhibit BT_078	Montgomery County: The Charter and County Code, as of October 23, 2018, https://www.montgomerycountymd.gov/mcg/countycode.html .
Exhibit BT_079	Jungmee Sohn Lee invoice support, dated October 2007 - November 2009.

E. DOCUMENTS CONSIDERED [EXCLUDES EXHIBITS]

The documents listed below were considered as part of the Scope 1 Forensic Investigation methodology, observations and findings, and recommendations; however, they are not included as exhibits to this Scope 1 Report.

#	DOCUMENT
1	Montgomery County Purchasing Hierarchy, dated July 9, 2013.
2	Montgomery County Purchasing Hierarchy, dated July 18, 2016.
3	Montgomery County Purchasing Hierarchy, dated January 30, 2018.
4	Montgomery County Purchasing Hierarchy, undated.
5	Binder of supporting documentation from the Office of County Attorney to the extent not included in the Exhibits.
6	AP Workflow Process undated.
7	Memorandum regarding Audit of Accounts Payable Invoices Under \$10,000, dated August 24, 2015.
8	Reorganization Planning Document: Department of Economic Development, dated October 14, 2015.
9	Risk Identification & Significant Controls (RISC) Part II CLA General Disbursements AP undated.
10	Oracle Data and Legacy Data provided by the County during the Fraud Risk Assessment (Scope 1A).
11	Agreements, contracts, invoices, coversheets, purchase orders, direct purchase orders, emails and additional supporting documentation for transactions tested during the Forensic Investigation (Scope 1B).
12	Three hard drives provided by the County for the Computer Forensic Examination (Scope 1C).
13	Agreements, contracts, invoices, coversheets, purchase orders, direct purchase orders, emails and additional supporting documentation discovered during the Computer Forensic Examination (Scope 1C).
14	Memorandum regarding Administrative Procedure 6-6, Information Technology Policies and Procedures Manual, dated October 20, 2003.
15	Memorandum regarding Administrative Procedure 6-1, Use of County-Provided Internet, Intranet, and Electronic Mail services, dated September 2, 2010.
16	Montgomery County, Maryland County-Wide Risk Assessment and Multi-Year Audit Plan for Executive Branch Departments, dated May 12, 2010.
17	Data Access Policies Approved by IPAC, dated December 14, 2009.
18	Department of Economic Development HR information as of July 1, 2015.
19	Montgomery County, Maryland County-Wide Risk Assessment and Multi-Year Audit Plan for Executive Branch Departments, dated May 2, 2016.
20	Listing of employee roles and responsibilities, dated June 2010 - December 2017.
21	Department of Economic Development AUG (P-Card) Cardholder, undated.

#	DOCUMENT
22	Accounts Payables Fundamentals, undated.
23	Invoice Data Requirements from suppliers effective FY11.
24	MCG Financials Trainings: Payables Refresher, undated.
25	Memorandum regarding DED Administrative Procedure 14-1 Department's Contract Monitor and Invoice Approval Process, dated March 25, 2014.
26	Accounts Payables Invoice Approval Workflow, undated.
27	Class Specification: Management Leadership Service Management I, revised March 2017.
28	Class Specification: Management Leadership Service Management II, revised March 2017.
29	Memorandum regarding FY18 Procurements, Year-End Closing Procedures, Due Dates, and Information and FY19 New Contracts, Renewals, Actions and Contract Funding in July, dated January 12, 2018.
30	Finance Request for Record Retention schedule C209, dated September 19, 1961.
31	Montgomery County Finance Department (MCFIN) Draft Schedule Record Series undated.
32	Screenshots of DED employee signatures.
33	Supporting documentation for incubator opening dates and locations.
34	Mutual Release to Terminate the Donation/Investment Instrument with Chungbuk, Korea, dated June 9, 2014.
35	Consolidated Exemption List (DPO Exemption List and Finance DP list), dated September 18, 2018.
36	Finance DP Exemption List, undated.
37	PMMD-148 Exemptions List, dated September 18, 2018.
38	PMMD-148 Exemptions List, dated August 2008.
39	PMMD-148 Exemptions List, dated March 21, 2014.

XI. EXHIBITS

See separate volume titled *Exhibits to Report of Forensic Investigation Related to the Montgomery County Department of Economic Development*.