

**Nassau County
Office of the Comptroller**



**Limited Review of
One Hundred Black Men of Long Island
Development Group, Inc.**

**HOWARD S. WEITZMAN
Comptroller**

February 5, 2009

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

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Executive Summary

Background

At the joint request of the Village of Hempstead Mayor Wayne Hall and the Village of Hempstead Community Development Agency Commissioner Claude Gooding, the Comptroller's Office performed an audit of the financial records of 100 Black Men of Long Island Development Group, Inc. (OBMLIDG) in connection with its ownership of the building at 100 Main Street in Hempstead. OBMLIDG is a Section 501 (c) (2) subsidiary organization of the 100 Black Men of Long Island, Inc. (OBMLI).¹

OBMLIDG took title to 100 Main Street in October 2001 with the assistance of a \$10 million mortgage from the Village of Hempstead Community Development Agency (VHCDA). The source of the funds was a loan to Nassau County from the United States Department of Housing and Urban Development (HUD) through Section 108 of the Housing and Community Development Act of 1974, part of HUD's Community Development Block Grant (CDBG) program. The County loaned the funds to the VHCDA. The Nassau County Department of Housing and Intergovernmental Affairs (OHIA) is the lead agency for the County Consortium (Consortium) of CDBG recipients. The mortgage is guaranteed by the VHCDA.

The mortgage provided for payment of interest semiannually commencing in February of 2002. The interest payments were projected to be approximately \$600,000 annually for the first four years; the first annual principal payment of \$588,000 was due August 2005. In March 2004, representatives of OBMLIDG commenced discussions with OHIA about refinancing the loan but OHIA determined that HUD regulations prevented a refinancing of the mortgage.

OBMLIDG failed to make any interest payments in 2007 or any principal payments at all. The portion of the \$10,000,000 principal amount of the mortgage overdue through August 1, 2008 is \$2,352,000.

OBMLIDG did not pay its real estate taxes, approximately \$500,000 annually, since 2003 and, as of June 30, 2008, owed \$4.2 million in delinquent real estate taxes.

Two of the principal payments (\$1,176,000) have been paid from the VHCDA's CDBG allotment, thus reducing the funds available to the VHCDA for other community development programs. The interest payments from 2007 to date and the remaining two principal payments have been paid from the County's CDBG reserve account, thus reducing the amount available to the Consortium for other community development programs.

On December 12, 2006, the County initiated a mortgage foreclosure proceeding in State Supreme Court. A receiver was appointed on December 21, 2007 and a judgment of foreclosure and sale was entered on April 21, 2008. The building has not been sold as of the date of this audit. The Department of Assessment's recently issued tentative valuation of the property is a fair market value of \$5,600,175² or 56% of the \$10,000,000 principal amount of the mortgage.

OBMLIDG's primary source of income was from rent for the premises. Rental income generally included the base rent, common area maintenance fees, separate maintenance fees for repairs not included as common area maintenance, security deposit adjustments, and late fees. Some tenants

¹ See Appendix I for letter requesting the audit.

² Nassau County Department of Assessment <http://www.nassaucountyny.gov/mynassauproperty/main.jsp>.

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remitted real estate taxes as part of their rent; it should be noted that those taxes were never forwarded to the taxing authority.

In October 2007, we visited the premises and determined that 27 of the 54 units were rented resulting in a monthly rent roll value of \$91,472 or \$1,097,662 annually. According to the records maintained by Sutton & Edwards (S&E), the managing agent for the landlord, actual rental receipts in 2007 totaled \$1,182,186.³ After deducting the portions of the receipts related to real estate taxes, \$3,043, and security deposit adjustments of \$17,752, rent receipts available for operations were \$1,161,390. OBMLIDG also recorded government grants as income; the grants were to be used to build out space on the second floor in anticipation of a lease with the Nassau Board of Cooperative Education Services (BOCES). Although a signed lease is on file at S&E, BOCES never took occupancy of the space due to the failure of OBMLIDG to obtain the certificate of occupancy required by the New York State Department of Education. Operating expenses paid through the managing agent in 2007 totaled \$990,153.⁴ The net operating income after expenses reported by the managing agent was \$171,238.

We found that the rent in arrears as of December 31, 2007 totaled \$183,312 of which \$133,508 was over 90 days old. Of the total amount of rent in arrears, \$84,532 related to one former tenant, Hempstead Hair Depot,⁵ which had been in partial arrears since February, 2007 and left the building after a fire in its space during the summer of 2007.

The building was managed by S&E. The management contract required S&E to "...draw checks for payment for all maintenance and service costs...as the landlord shall direct from the Landlord's special account..."⁶ In addition, S&E was to maintain all records of rents, receipts and disbursements and prepare cash flow statements.⁷ Most of the revenue and operating expenses flowed through the landlord's operating account at the Bank of America (BOA) under the administration of S&E, but only after direct authorization by the Executive Director. OBMLIDG had two additional accounts with City National Bank of New Jersey, "CNB 1" and "CNB 2." S&E had no involvement with the operation of either CNB bank account but did receive the bank records for CNB 1 for the purpose of performing reconciliations for that account.

OBMLIDG's by-laws require that the President and Treasurer sign all checks. When OBMLIDG became owner of the building in October 2001, Clarence Little was its President, Lawrence Bell was the Treasurer and Roland Davis was the Secretary. In March 2004, Mr. Little and Mr. Davis⁸ resigned to assume the positions of Executive Director (Executive Director) and Assistant Director (Assistant Director), respectively. Virtually all of the checks reviewed during the course of the audit were signed by both the Executive Director and, until his illness, the Assistant Director. We

³ Actual rent receipts include payments from tenants who had vacated the premises prior to October 2007, which are not included in our statement of the annualized rent roll as of October 2007.

⁴ The expenses paid in 2007 did not include any payments for 2007 real estate taxes due on the building. A series of payments totaling \$110,000 classified as real estate taxes in the Sutton & Edwards General Ledger was paid to a property tax lien holder. In addition the managing agent's ledger did not record accruals for payables such as the real estate taxes, principal and interest on the mortgage and other liabilities accrued but unpaid.

⁵ Hempstead Hair Depot sub-leased their space to the 99 Cent Plus Mart, Inc in February 2006. S&E was still recording the arrears as due from Hempstead Hair Depot.

⁶ Management Agreement between Sutton and Edwards and OBMLIDG, Article III (B), signed by Clarence Little as President dated October 23, 2001.

⁷ *Ibid*, Article III(D).

⁸ Mr. Davis passed away during the course of this audit in May 2007.

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found no evidence in the Board's minutes that Mr. Little in his capacity as Executive Director or the Assistant Director had authority to sign checks on behalf of OBMLIDG.

From the time of the original purchase of the building in October 2001, the Executive Director incurred expenses for the building, selected the vendors that OBMLIDG did business with, received vendor invoices, approved cash disbursements, instructed S&E to prepare BOA disbursement checks and signed checks. The Executive Director had possession of checkbooks for both the BOA and CNB 1 accounts, as well as a BOA debit card, which was used to make purchases.

All three bank account statements were first received and reviewed by the Executive Director, who then forwarded S&E the statements for only the BOA and CNB 1 accounts⁹. S&E informed us that the Executive Director did not include all of the cancelled checks with the bank statements that were forwarded to S&E.

OBMLIDG limited S&E's role to managing disbursements. S&E kept a cash basis ledger of receipts and disbursements but had to rely on descriptions provided by the Executive Director to record transactions. OBMLIDG managed all lease transactions and did not use S&E as a leasing agent.

Audit Scope, Objective, and Methodology

The scope of our audit was to review all revenue and disbursements for the entire period of OBMLIDG's ownership of the property from November 2001 through December 2007, in order to determine that all revenues and expenditures were recorded in accordance with the requirements of the County-guaranteed mortgage. Our intent was to review the records on file with S&E, as well as the books and records of OBMLIDG itself, including, but not limited to, minutes of all Board of Directors meetings, books of original entry, banking records and supporting records for the annual financial statements.

Our audit scope was limited due to OBMLIDG's failure to provide us with documentation requested at the commencement of our audit, including, an enterprise-wide general ledger, 2004 bank statements for one of two bank accounts at City National Bank of New Jersey account (CNB 1), documents for the second account at City National Bank of New Jersey (CNB 2), policies and procedures, a complete set of Board minutes¹⁰, professional service agreements and a response to our internal control questionnaire. The only financial records that were provided to us were those maintained on the landlord's behalf by S&E.

S&E provided a cash basis general ledger, check register and other related reports for the entire audit period. S&E's ledger did not include balance sheet accounts, such as, accounts receivable for unpaid rents, accounts payable and accrued liabilities for unpaid real estate taxes on the property, past due principal on the mortgage or other liabilities. Therefore, we were unable to determine the total amount of undisclosed liabilities. The organization's external auditor commented in the management letter that accompanied the 2003-2004 audit report, that not all balance sheet

⁹ The BOA bank statements include imaged copies of the front and back of the checks while the CNB statement only included an image of the front of the checks.

¹⁰ We were provided with Board Minutes from January 2002 through June 2005, however there was a gap in minutes from June 2005 through May 2006. The Executive Director stated that he was unsure if additional minutes existed due to the illness of the Secretary of the Board (Assistant Director).

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accounts were recorded on the general ledger. This condition was uncorrected from 2002. In addition, as of the date of this report, we have not received audited financial statements for 2006 and 2007¹¹.

It should be noted that during the course of our review we asked the Executive Director for documents and raised questions concerning the nature of certain transactions. Our inquiries and requests for access to documents were not always responded to in a reasonable amount of time and, in some cases, went unanswered. We found that records were difficult to find and, in some instances, could not be located at all.

Summary of Significant Audit Findings

Unauthorized Payment to Executive Director

In December 2007, the Executive Director wrote a check payable to himself for \$400,000. There was no indication on the documentation provided in support of this payment that it was authorized by the Board. The signature of the second party on the check was illegible. Although there had been discussions at the Board level of compensation due to the Executive Director and Assistant Director, there is no indication that compensation agreements were ever finalized. In addition, OBMLIDG's tax returns (IRS Tax Return Form 990: *Return of Organization Exempt from Income Tax*), did not indicate that there was any current or deferred compensation due to the Executive Director and the tax returns also reported that he had worked zero hours in his capacity as Executive Director. Further, we requested copies of any W-2¹² or 1099¹³ forms issued by OBMLIDG, but were not provided with any of this documentation.

Lack of Board Oversight

The OBMLIDG Board did not adequately perform its fiduciary responsibilities, particularly with respect to the actions of the Executive Director. We found that resolutions of the Board and Board approvals were not consistently documented in the Board minutes. There was no indication that the Board was involved in the development, approval or management of a budget on an on-going basis, or had a business plan. Board minutes did not make mention that Board discussions about daily operations ever took place nor did they reflect any approval of the disbursements being made from OBMLIDG's bank accounts. We found no evidence that the Board requested or reviewed periodic financial reports such as a treasurer's report; instead, we only found that mention was made of the bank balance as of the date of the Board meeting.

Lack of Disbursement Controls and Support for Expenditures

Our review found a general lack of internal controls over disbursements and support for expenditures. Disbursement requests were generally made to S&E by the Executive Director without adequate supporting documentation. In addition, checks were frequently written by the Executive Director, which circumvented S&E's disbursement control process. Further, Section 5 of OBMLIDG's by-laws states that "...the Treasurer shall sign all checks, which shall be authorized by the Board of Directors and countersigned by the President." We found no evidence

¹¹ We have received a copy of the draft financial statements for 2006 in November 2008, but we were advised that the financials have not yet been finalized or approved by the Board.

¹² Internal Revenue Service Form W-2, *Wage and Tax Statement*.

¹³ Internal Revenue Service Form 1099-MISC, *Miscellaneous Income*.

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that the Board of OBMLIDG provided controls over check-writing and signature authority. There was no indication that the individual designated as Treasurer had a role in approving expenditures, and virtually all checks examined during the audit were signed by the Executive Director and Assistant Director, not the Treasurer. There was no evidence that the Board approved signatory policies on bank accounts or established threshold amounts at which various individuals were permitted to sign checks.

There were other findings noted in the report including:

- Undocumented payments made to vendors;
- Failure to segregate security deposits collected; and
- Lack of tenant insurance.

On August 18, 2008, our Office submitted this report in draft to OBMLIDG for comment. A response from OBMLIDG was received on November 3, 2008. The matters covered in this report were discussed at an exit conference with a representative of OBMLIDG's Board on January 6, 2009 (see Appendix II). Subsequent to the exit conference, we submitted revisions to the draft report to OBMLIDG's Board representative on January 6, 2009 and again on January 23, 2009. OBMLIDG's comments and our responses to those comments are included as Appendix III and Exhibit A to this report.

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Audit Findings and Recommendations

Audit Finding (1)

Payment to the Executive Director

On December 7, 2007, the Executive Director wrote a check – payable to himself – for \$400,000 against the CNB 1 account. The check was signed by the Executive Director and one other individual. The second signature was illegible and S&E could not identify the signature. We did not have the opportunity to review a copy of the bank signature card to potentially identify the second signature.

The documentation submitted to S&E to support this payment was a handwritten note indicating that monies were due to the Executive Director and the Assistant Director totaling \$835,422 and \$218,388 respectively. The note also included a calculation for prorating the \$400,000 to process a proportionate payment amount to each. Thus, the amount attributed to the Executive Director was \$317,120 and the amount attributed to the Assistant Director was \$82,880. However, despite the note's contents, the Executive Director made the check payable to himself for the entire \$400,000. There was no notation of an hourly rate or an attestation of hours worked. In addition, there was no signature on the note or notation indicating that this payment had been authorized by the Board. We did not have access to Board Minutes after February 2007 to determine if this payment was authorized by the Board.

The source of the funds for this payment appeared to be four Certificates of Deposit (CDs) originally purchased from April 2007 through October 2007. They were purchased by the Executive Director from funds available in the BOA operating account. As stated above, we were not provided with Board Minutes after February 2007 and thus we could not determine if the Board authorized the purchase of the four CDs.

The Executive Director took the following steps to redeem the CDs and make the check payable to himself:

- On November 7, 2007, the Executive Director redeemed the four CDs, including principal and interest. The amount redeemed was only reflected in the BOA operating account balance, as per the bank statements, and was not recorded in S&E's ledger at the time.¹⁴ On the same day, the Executive Director withdrew the CD proceeds of \$404,714 from the BOA operating account, resulting in a net effect of \$0 for the day. The withdrawal was also not recorded in the ledger.
- On the following day, November 8, 2007, the Executive Director deposited the entire \$404,714 into CNB 2. We were able to confirm this deposit due to S&E's one time request for the November 2007 CNB 2 bank account statement. The November 2007 statement was the only one S&E ever requested.
- On December 5, 2007, the Executive Director deposited \$400,000 in CNB 1. We have assumed the source of this deposit was a withdrawal from CNB 2 but could not confirm this because the Executive Director did not provide us (or S&E) with CNB 2 bank statements.

¹⁴ S&E did not record the redemption of the CDs and simultaneous withdrawal until March 2008.

Audit Findings and Recommendations

- Two days later, December 7, 2007, the Executive Director wrote a check – payable to himself – for \$400,000 from the CNB 1 account, which cleared the CNB 1 account on December 13, 2007. Due to the fact that CNB only provides an image of the front of the check, we were unable to examine the endorsement on the check to determine where the funds were deposited.

As part of our 2008 fieldwork, and through follow-up e-mail correspondence with S&E, we determined that the \$400,000 had not since been deposited in OBMLIDG's BOA or CNB 1 accounts. We were advised by S&E that the Executive Director has not forwarded bank statements, including those for the BOA operating account, after February 2008.

Compensation for Executive Director

The Board minutes reflect discussion of potentially compensating managers/consultants. At a June 24, 2003 Board meeting, the minutes reflected that “a budget line be established in the amount of \$125,000 as a line item in the budget of this corporation to pay reasonable compensation to those managers/consultants who have been and are responsible for the day to day operation of the business and affairs of this corporation retroactive to October 23, 2001 and that the rate of compensation be set at \$100 per hour for the principal manager and \$50 per hour for his assistant.” The minutes further indicate that this “motion was passed with the understanding that compensation was to be accrued but paid when feasible based on submission of documentation of hours of work performed.” At the Board meeting of October 21, 2003, President Little stated that the external accountant and Counsel had advised that members of the Board could not be compensated. Both the President and the Secretary resigned from the Board as per the minutes on March 23, 2004. On that date they became the Executive Director and Assistant Director respectively.

There were numerous references in the Board minutes after June 2003 regarding discussions about compensation agreements in draft form, but we did not find any evidence that the Board ever approved compensation agreements for anyone including the Executive Director and Assistant Director, or that a process for review and approval of hours worked was implemented. The Board minutes that were made available to us show that the Board heard reports from the President/Executive Director and Secretary/Assistant Director concerning the number of hours they worked.

At our Entrance Conference in March 2007, we requested copies of any W2 or 1099 forms issued by OBMLIDG. We were not provided with any of this documentation. At the Entrance Conference, the Executive Director stated that although the Board had voted on compensation for his services he advised that, at that time, he was serving as a volunteer. In addition, Form 990, OBMLIDG's tax returns, do not indicate that there was any current or deferred compensation due to either the Executive Director or Assistant Director and the forms also indicated that both had zero hours worked.¹⁵

¹⁵ We were provided with the organization's Federal Tax Return: *Return of Organization Exempt from Income Tax* (Form 990) for the years 2002, 2004, and 2005. We did not receive the tax return for 2003, 2006, or 2007.

Audit Findings and Recommendations

In June 2008, we became aware of a lien in the amount of \$530,130 filed by the Executive Director against OBMLIDG and filed with the Nassau County Clerk. The lien was dated January 31, 2008 and was sent via certified mail to the OBMLIDG office in Hempstead. The Executive Director signed the return receipt. We did not find any records to support an OBMLIDG liability due to the Executive Director.

Audit Finding (2)

Lack of Board Oversight

The New York State Attorney General's Charities Bureau publishes documentation that offers guidance to Boards, Directors and Officers of not-for-profit entities. One publication, *Right From the Start: Responsibilities of Directors and Officers of Not-for-Profit Corporations*, available on the Attorney General's website,¹⁶ outlines the responsibilities and duties of Board members of not-for-profits. Another publication, *Internal Controls and Financial Accountability for Not-for-Profit Boards*,¹⁷ recommends that not-for-profits establish an audit committee with at least one member who has expertise in accounting. The OBMLIDG Board did not adequately perform its fiduciary responsibilities as described by the Attorney General Office's publications, particularly with respect to the actions of the Executive Director.

Our review of the Board minutes¹⁸ provided by the Executive Director revealed that they:

- did not consistently memorialize resolutions of the Board or Board approvals;
- did not include any evidence that the Board was involved in the development, approval or management of a budget on an on-going basis or had a business plan;
- did not include Board discussions about daily operations or reflect any approval of the disbursements being made from OBMLIDG's bank accounts;
- made no mention that the Board requested or reviewed periodic financial reports such as a treasurer's report; instead, we only found that mention was made of the bank balance as of the date of the meeting;
- were unclear if all decisions to forgo payment of the principal and interest on the mortgage and the related real estate taxes were fully discussed and approved by the Board.

We also found that the Board did not establish controls over check writing and signature authority. Section 5 of OBMLIDG's by-laws states that "...the Treasurer shall sign all checks, which shall be authorized by the Board of Directors and countersigned by the President." We found no evidence that the individual designated as Treasurer had a role in approving expenditures, and virtually all checks examined during the audit were signed by the Executive Director and Assistant Director, not the Treasurer. There was no evidence that the Board approved signatory policies on

¹⁶ New York State Attorney General, revised-January 2005, http://www.oag.state.ny.us/charities/not_for_profit_booklet.pdf.

¹⁷ New York State Attorney General, January 2005, http://www.oag.state.ny.us/charities/internal_controls.pdf.

¹⁸ Board minutes provided covered the general period 10/22/2002 – 6/14/2005 and 5/30/2006 – 1/11/2007. Not all months were represented and there was a gap in the minutes from June 2005 to May 2006, which the Executive Director indicated may not be available due to the illness of the Assistant Director. Board minutes from 2006-2007 are marked as recorded by the Executive Director.

Audit Findings and Recommendations

bank accounts or established threshold amounts at which various individuals were permitted to sign checks.

Audit Finding (3)

No General Ledger and Failure to Meet Reporting Requirements

Our review disclosed that OBMLIDG did not maintain adequate financial records in accordance with Generally Accepted Accounting Principles (GAAP) as required by the mortgage agreement with the VHCDA.¹⁹

Our review of the ledger, check registers, and other related reports provided by S&E disclosed that the records were maintained on a cash basis and did not constitute a complete set of self-balancing books. S&E's ledger only included transactions that passed through them as directed by the Executive Director. It did not include accounts for non-cash transactions typically found in a complete general ledger: receivables, fixed assets, depreciation or accrued liabilities, including those that have gone unpaid such as the real estate taxes on the property and the past due principal on the mortgage. The recordkeeping for all such transactions was the responsibility of OBMLIDG.

OBMLIDG's external auditor commented in both its 2002 and 2003-2004 management letters that not all balance sheet accounts are recorded on the general ledger. We were not provided with the management letter for 2005 through 2007 and found this condition still existed as of December 31, 2007.

The external auditor advised us that in the past, including 2005, he had prepared journal entries for OBMLIDG; however given the change in auditing standards²⁰ for the accounting profession he was no longer willing to perform this service. The external auditor also advised that a representative of his firm had worked with OBMLIDG to establish using *QuickBooks* as their accounting system. However, the external auditor was unable to confirm if *QuickBooks* was implemented or if OBMLIDG had any accounting records other than those maintained by S&E.

OBMLIDG failed to file audited financial statements for 2006 and 2007 with the VHCDA as required by the terms of its mortgage agreement. The audited financial statements for 2005 were not provided to our audit team until January 2008. Our review of the 2005 audited financial statements revealed that the missed mortgage installment due August 2005 was not adequately disclosed.

¹⁹ Section 1.11b of the Mortgage and Security Agreement between OBMLIDG and the Village of Hempstead CDA requires that OBMLIDG file audited financial statements with the CDA within 120 days of the close of the fiscal year. It further states that all financial statements are to be prepared by a Certified Public Accountant in accordance with Generally Accepted Accounting Principles (GAAP).

²⁰ Section 3.29 a., page 46, Government Auditing Standards, U.S. Government Accountability Office.

Audit Finding (4)

Poor Controls Over Expenditures

Our review found a general lack of internal controls and support for expenditures. Disbursement requests were generally made to S&E by the Executive Director without adequate supporting documentation. We also found that checks, frequently written by the Executive Director, circumvented S&E's disbursement control process.

S&E stated that they would first become aware of a check disbursement issued by the Executive Director when they performed the bank reconciliation for the BOA account, at which time they would request that the Executive Director provide the supporting documentation. S&E did not record these transactions in their ledger until the Executive Director provided the supporting documentation. Instead, the disbursement only appeared as an un-posted item in the bank reconciliation.

A common internal control practice is to create a control account as a means to monitor un-posted items; however this practice was not used by S&E to properly reflect the disbursements in their ledger. As such it is difficult to track the actual cash flow of revenue and expenditures which leads to a lack of transparency regarding the operations of OBMLIDG.

We found the following disbursement weaknesses:

- Checks were not always recorded in S&E's ledger in a timely manner – sometimes the delay in posting these transactions was as long as eight months.
- Transfers made from the operating account were not communicated to S&E in a timely manner and as a result were not posted in a timely manner to an appropriate ledger account.
- Withdrawals and deposits appearing on bank statements were not posted in S&E's ledger in a timely manner.
- Interest earnings and deposits returned for insufficient funds were not always posted in S&E's ledger in a timely manner.
- Debit card purchases and bank charges were not always posted in S&E's ledger in a timely manner.
- Checks sometimes had only one signature – in one instance there was no signature.
- Sufficient funds did not always exist at the time checks were written; a process did not exist to research outstanding checks and check endorsements were not examined.

We found numerous exceptions through our review of the bank statements:

- Outstanding checks did not clear in a timely manner. Checks were sent to the Executive Director for signature and often held for pick up by the vendor. We could not determine if the checks were being held until sufficient funds were available.
- OBMLIDG did not have a process for tracking stale dated checks or for Board approval to write them off.

Audit Findings and Recommendations

- BOA checks were not properly endorsed.
- Bank statements were not always sent to S&E in a timely manner and all cancelled checks did not always accompany the related bank statements. We were only able to identify the name of the payees by referring to S&E's ledger and were unable to verify the payees' name to the endorsement on these checks.
- Although S&E performed bank reconciliations for the CNB 1 account for 2004, the bank statements for that period were missing and S&E could not explain what happened to them. As a result we were unable to corroborate 29 transactions totaling \$65,681.
- Bank reconciliations were not performed by S&E for CNB 2 because those bank statements were never provided to them.
- Bank statements were not always stored at the appropriate location or maintained in a logical order, such as month to month.

Other Disbursements to the Executive Director

In addition to the \$400,00 payment to the Executive Director (cited in Audit Finding #1) we found thirteen other disbursements, totaling \$16,314, made payable to the Executive Director from 2001 to 2007. These disbursements were made in the form of checks signed by the Executive Director. We were informed by S&E that checks written to the Executive Director were based solely on the Executive Director's instruction and approval.

Our review of the checks written to the Executive Director revealed that 8 of the 13 disbursements, totaling \$9,070, were made without adequate supporting documentation as follows:

- Four disbursements, totaling \$5,139, were classified as utilities (oil delivery charges) in S&E's ledger without any supporting receipts indicating that the delivery was made to the building.
- One disbursement, totaling \$1,569, was paid to the Executive Director on behalf of several associates in connection with a trip to Washington D.C. Only a handwritten memo justified the payment and there were no receipts for these expenses.
- One disbursement for \$1,111 was for out of pocket expenses that were not defined.
- One disbursement for \$220 was for Christmas gratuities.
- One cash withdrawal of \$1,031 was for expenses incurred and no receipts were submitted to S&E to support this charge. Part of this reimbursement was itemized in S&E's ledger as \$390 for oil at 9 Centre Street, headquarters of OBMLI, which should not have been reimbursed out of the 100 Main Street account.

Of the five remaining disbursements, totaling \$7,244, we found one for \$2,307 where the receipt indicated it was payment for an oil delivery of only \$2,068. The additional difference of \$239 was handwritten on the bill with no explanation.

Audit Findings and Recommendations

Debit/ATM Card Use by the Executive Director

- 25 debit card purchases, totaling \$1,692, were made from the BOA account and were classified under various categories in S&E's ledger without any supporting receipts. The only notation made in their ledger was the name of the vendor.
- An additional cash withdrawal of \$500, not included in the above amount, was made against OBMLIDG's bank account in January 2007. The notation in S&E's ledger states that this was for oil delivered to 9 Centre Street, headquarters of the OBMLI, which should not have been reimbursed out of the 100 Main Street account. This payment is classified as an Owner's Distribution in S&E's ledger, not as an expense.

Disbursements to the Assistant Director

We found seven disbursements totaling \$9,228 to the Assistant Director of OBMLIDG between 2001 and 2007.

- Two of the seven disbursements totaling \$5,945 did not have adequate support. The Executive Director instructed S&E to record both disbursements as oil expenses.
- Five of the seven disbursements totaling \$3,283 were accompanied by supporting documentation. One of the five disbursements, in the amount of \$1,667, was a reimbursement for tenant improvements paid for by the Assistant Director with his personal credit card. Our review of the cancelled check revealed it was unsigned, endorsed by the payee and deposited into a non-OBMLIDG bank account at CNB. Another of the five disbursements related to a trip to Washington, D.C. for \$176 and it was improperly classified in S&E's ledger as "Fees and Permits."

Transfers between Bank Accounts

We examined a total of 12 checks totaling \$39,960 that represented transfers from the BOA account to the CNB 1 and/or CNB 2 account between 2001 and February 2008. All checks were written solely upon the request of the Executive Director or Assistant Director and were recorded as expenditures on S&E's ledger. We found no support that would justify classifying these transfers as expenditures, as follows:

- One disbursement for \$20,000 was recorded as insurance. The endorsement indicated the check was deposited into the CNB 1 account, and subsequently a check was issued for an insurance payment.
- Seven disbursements, totaling \$14,336, were classified as utilities and described as oil payments in S&E's ledger. We could not determine if these disbursements were actually used to purchase oil. One of these disbursements for \$2,000 was for "oil reserve" and was not actually a payment. The endorsement on this check indicated it was deposited in the CNB 2 bank account.
- One disbursement for \$1,300 was classified as maintenance and deposited in the CNB 1 account; subsequently a \$1,300 check was issued to a vendor.

Audit Findings and Recommendations

- One disbursement for \$1,000 was classified as a miscellaneous expense. The endorsement revealed this check was deposited in the CNB 2 bank account.
- One disbursement, totaling \$2,003, had an illegible invoice.
- One disbursement for \$1,321 was classified as a utilities expense, but was actually a transfer to reimburse CNB 2 for an oil delivery. We were not able to verify that a payment was actually made for oil because we did not have access to the CNB 2 bank statements.

Disbursements to OBMLI (Parent Organization)

We examined seven disbursements payable to OBMLI totaling \$6,781. These disbursements represented all checks payable for expenses to OBMLI during the 2001-2007 audit period. Our review disclosed that these payments were authorized solely by the Executive Director.

- Three disbursements totaling \$5,100 lacked supporting documentation as follows:
 - \$3,500 was recorded as rent expense on February 20, 2007 for the use of space at 9 Centre Street. There was no invoice from OBMLI in support of this expense (or for the period to which it applied) and the cancelled check for this disbursement was missing. S&E confirmed that this was the first and only such rent payment between 2002 and 2007. We were not provided with a reason why OBMLI was due any rental income from OBMLIDG.
 - \$1,500 was recorded as Christmas party expenses in December 2002.
 - \$100 was recorded as postage.
- Our review of the supporting documentation for the other four disbursements, totaling \$1,681, revealed a payment for \$300 for a journal ad for an annual dinner dance.

Payments for Professional Services

We determined that OBMLIDG paid a total of \$330,175 for professional services between October 2001 and December 2007; however, OBMLIDG recorded only \$265,120 in the professional services and consulting accounts in the S&E ledger. The amount of the difference between the two, \$65,055, was recorded as building improvements (\$50,000), maintenance and repairs (\$11,973) and interest expense (\$3,082). There were no retainer agreements or other supporting documentation on file with S&E and our requests for such went unanswered by the Executive Director. Our review of professional services payments disclosed the following:

- Attorneys
 - Of the total paid for professional services, \$108,431 represented payments to OBMLIDG's attorney, Cooke & Clarke, for the audit period. OBMLIDG was being billed at the rate of \$1,000 per month for legal services and additional services (at various hourly rates) that were not defined. Based on a letter submitted by Cooke & Clarke, included in the \$108,431 was an additional \$10,000 retainer for litigation with Nassau County, as well as other lump sum payments for various services rendered. We were not provided with actual retainer agreements to understand the nature and scope of services to be provided under either the \$1,000 monthly fee or the other payments.

Audit Findings and Recommendations

- Payment for settlement of litigation totaling \$12,000 to Penn, Proefriedt were based solely on the authorization of the Executive Director without any indication of an invoice or bill detailing the hours worked. The only documentation attached for this fee was a letter from Cooke & Clarke indicating that this was for settlement of a case involving Brown Harris Stevens, OBMLIDG's former leasing agent. We were unable to verify the appropriateness of the amounts paid.
- Additional legal fees totaling \$55,216 were paid to Emery, Celli and Brinkerhoff in 2007. There was no documentation supporting these payments, which were authorized per the Executive Director's instruction to S&E.
- A payment of \$11,973 to an attorney, was classified as a *Maintenance and Repairs* expense in S&E's ledger. There was no formal invoice attached to the check and only handwritten entries on a piece of paper indicated the amount to be disbursed. The expense appeared to be the settlement of a claim from an air-conditioning vendor. An additional \$3,082 was paid to this same attorney and classified as *Interest*.
- Accountant
 - A total of \$49,310 was paid to OBMLIDG's accountant, Deans Archer, from 2001-2007. This included \$9,950 in 2006 for preparation of the 2003-2004 audited financial statements and \$9,000 in November 2007. S&E did not have a copy of the engagement letter from the accountant.
- Consultant
 - OBMLIDG paid \$2,500 in fees to the Garner Group, in March, 2006, based solely on the direction of the Executive Director. There was no supporting documentation indicating the nature and business purpose of this expense.
- Architect
 - The Executive Director authorized the payment of \$17,500 during the period 2006-2007 to the architect, Edward Dickman, without any documentation of the services to support these payments.
 - Another payment to the architect, in the amount of \$7,000, was classified as *Consulting Fees* for the Fire Alarm System.
 - The architect also received \$50,000 in payments that were classified as *Building Improvements* that were not supported by adequate documentation.

Audit Findings and Recommendations

Disbursements to Other Vendors

Due to the general lack of controls over disbursements we examined 190 disbursements to vendors that were classified as expenses in the S&E ledger between 2001 and 2007, totaling \$2,315,577. These expenditures represented 41 % of the total disbursements of \$5,690,678 made through S&E during the audit period. Our review noted the following weaknesses:

- Missing cancelled checks (22 disbursements totaling \$72,350 where cancelled checks could not be located.)
- Lack of invoice approval (16 disbursements, totaling \$56,776, in which there was no evidence that the invoices were approved before the payments were made.)
- Incorrect posting to S&E Ledger (7 disbursements, totaling \$24,345, which were posted to the wrong S&E ledger account. All seven had late fees totaling \$704 that were incorrectly posted in S&E's ledger as interest.)
- Third party endorsements (6 disbursements, totaling \$8,575, where the cancelled checks were not endorsed by the payee.)
- Questionable business purpose:
 - Two disbursements totaling \$12,250 were classified as deferred mortgage payments (\$9,750 for refinancing and \$2,500 for a mortgage-processing fee). We found no discernable reason for these disbursements since the mortgage on the property was held by HUD and could not be refinanced according to OHIA.
 - \$3,000 fire violation fine
 - \$750 fine to the Hempstead Justice Court to settle an unknown legal matter
 - \$400 paid to the Long Beach Republican City Committee for tickets honoring then Mayor Garner of Hempstead
 - \$250 in unspecified gratuities
 - \$200 to an employee of the organization's cleaning service for no specified reason
 - \$100 for a funeral spray
 - \$50 to the administrative assistant for no specified reason
 - \$46 for the reimbursement of travel expenses to a consultant without any supporting documentation

Audit Finding (5)

Payments to RP Investigations

Due to the large number of checks written by the Executive Director to the security vendor, RP Investigations, Inc. (RP), we expanded our review to include all 69 transactions available to us through the end of our fieldwork in January 2008.

RP provided security services in the building 24 hours on a daily basis. S&E indicated that they were not involved in the selection of this vendor. OBMLIDG paid RP \$313,412 for services between June 2005 and September 2007.

In general, the invoices submitted by RP were not adequately detailed. We found no indication of the names of RP personnel who worked, the hours worked or the start and end times of RP personnel. The invoice only provided a total number of work hours claimed multiplied by an

Audit Findings and Recommendations

hourly rate. The invoices were handwritten and were not pre-numbered or signed by a representative of the vendor attesting that the services had actually been provided.

Our review disclosed numerous irregularities in the bi-weekly payments made to this vendor as follows:

- 22 payments, totaling \$102,489, in which the Executive Director requested that a check be issued without the submission of an invoice by RP and before the date of security service was completed. Three of the 22 checks, totaling \$13,558, were issued on July 27, 2007 for biweekly service dates ending on 7/29/07, 8/12/07 and 8/26/07.
- Six payments, totaling \$27,667, in which checks were written by the Executive Director after S&E had already issued checks to RP for the same period. S&E's checks were then used to pay for the following period. There was no discernable business reason for this practice.
- Two payments, totaling \$8,877, in which RP was overpaid. Included in this amount was a disbursement for \$4,358 where the RP invoice was for 26 days but they were paid for 27 days; this resulted in an overpayment of \$323. The invoice for the other disbursement for \$4,519 indicated the dates of services as being January 23, 2006 through January 29, 2006, representing seven working days. OBMLIDG, however, paid for a total of 14 days, resulting in an overpayment of \$2,260.
- There were two disbursements totaling \$9,038 in which the cancelled checks could not be located.

We questioned S&E regarding these irregularities and were advised that they did not get involved in these issues once a disbursement was authorized by the Executive Director.

Audit Finding (6)

Failure to Segregate Tenant Security Deposits

We examined the flow of monies through the OBMLIDG's bank accounts and found that there was no separate escrow account maintained for tenant security deposits as required by New York State Law. This condition was the subject of a management comment by OBMLIDG's external auditor in the 2004 financial statements and we determined this has continued in 2005, 2006 and 2007. The outstanding liability for security deposits, according to the December 31, 2007 S&E generated balance sheet is \$201,816. As of December 31, 2007, the BOA bank balance, after reconciliation, was \$52,251.

Audit Findings and Recommendations

Audit Finding (7)

Transactions with Certain Vendors

Existence of Contractors

We were unable to determine the existence of the following contractors:

- Victor Villaba was paid a total of \$8,315; two checks paid to him, totaling \$1,270, were issued to replace checks originally paid to Victors Home Improvements that were subsequently voided.
- \$6,800 was paid to Sandros Construction.
- \$2,963 was paid to Livingston Home Improvement.

In addition, we found that payments made to two different companies were endorsed by the same individual, Jason McKay, as follows: \$11,885 to Hosanna Construction, \$550 to M&S Design. Jason McKay was also paid \$1,300 on a separate check.

Building and Maintenance

OBMLIDG paid \$248,206 to Top of the Line Cleaning for building maintenance, snow removal and janitorial services between 2003 and 2007. The existence of this vendor could not be verified. Our review disclosed that the address listed on this vendor's invoice is associated with a residential property, the phone number is a wireless number and the mailing address is a post office box. Further review revealed that the Executive Director held the checks for pick up. The endorsement on the checks was illegible.

Audit Finding (8)

Lack of Maintenance and Security – Unauthorized Access to Vacant Areas

As part of the services provided to OBMLIDG, S&E prepares a Monthly Management Report (Report). The October 2007 Report stated the conditions in the building had deteriorated as compared to its condition in December 2006, when the building was generally found to be clean.

We performed a site visit of the premises on October 5, 2007 to determine if the landlord was exercising due care in maintaining and securing the premises and, where possible, took photographs to support our observations. We observed the following:

- Two boarded up first floor storefronts as well as second floor windows resulting from fire damage that occurred in the summer of 2007.
- Common areas of the building were dirty, including stairs to the basement from the main lobby that appeared to have urine stains on the floor and walls.
- Vacant units were cluttered with debris and did not appear to be in rentable condition.
- A basement door fronting Main Street was open exposing debris immediately inside; this condition poses a hazard to the public who can access the premises and are at risk of

Audit Findings and Recommendations

falling down the stairs. There was no delivery or other activity taking place that would have warranted that this building access point was left unsecured.

- A door to an unfinished space on the second floor was unlocked and the space contained a large amount of construction debris. This space also had an opening to the main floor atrium covered with plastic that someone could easily fall through. This door is a short distance from the entrance to the Nassau Health Care Corporation (NHCC) Health Clinic, which is located on the second floor, and poses a hazard for any individual who may enter by mistake.
- There was no on-site management of the building. One individual who identified himself as the person “running the building” was not an employee of S&E but rather was an employee of Top of the Line Cleaning (See Finding 7).
- There was one individual who approached us in the “uniform” of a security guard, but there was no nameplate or sleeve patch identifying the security company. This individual was the only guard on duty for the entire 100,000 square foot building.
- We were denied access to the basement. The stairs were blocked by a construction sawhorse that could easily be moved. S&E’s Report stated that there was flooding in the basement when it rained and that the building foundation needed repair.

The lack of proper maintenance discourages potential tenants. The lack of security and access to unauthorized areas present the risk of harm to the public as well as damage and vandalism to the building from unauthorized persons accessing these areas.

We discussed these issues with S&E and were informed that the need for repairs had been reviewed with the Executive Director of OBMLIDG; however approval to make the repairs was never provided. S&E also indicated that the issue of unauthorized access to vacant areas is OBMLIDG’s responsibility as they hired the security company directly.

Audit Finding (9)

Lack of Tenant Insurance

The October 2007 management report indicated that nine tenants, including the NHCC Health Clinic, had expired certificates of insurance naming the landlord as additional insured. Six of the nine do not have any certificates on file at all, including Hempstead Hair Depot, the tenant who occupied the space where the summer 2007 fire occurred. We found no evidence to support the fact that the certificates actually expired and thus it may be possible that they never existed.

Audit Recommendations:

We recommend that the Board take the necessary steps to safeguard the organization’s assets and:

- Consult with the Village of Hempstead and VHCDA, OHIA and the County Attorney to determine the amounts due the Village of Hempstead, the VHCDA and Nassau County, including real estate taxes, as a result of the organization’s default on the mortgage and the court’s appointment of a receiver.
- Determine the appropriateness of the \$400,000 payment made by the Executive Director to himself.

Audit Findings and Recommendations

- Ensure that a proper general ledger is compiled with all relevant accounts shown on the balance sheet, including all liabilities.
- Reconcile all OBMLIDG bank accounts to the S&E cash basis ledger for present and prior periods to ensure all bank account transactions are accurately reflected in the financials in the proper accounting period.
- Prepare and file audited financial statements for 2006 and 2007.
- Determine whether any of the vendor payments were not for actual services and can be recovered.

Appendix I

Wayne J. Hall Sr., Mayor

TANYA L. FORD, Village Clerk
JILLIAN A. GUTHMAN, Corporation Counsel
RAYMOND J. CALAME, Treasurer



HENRY CONYERS, Trustee

PERRY M. PETTUS, Trustee
LENORA W. LONG, Trustee
DON RYAN, Trustee

January 29, 2007

Via First Class Mail

Mr. Howard S. Weitzman
County Comptroller
Office of the County Comptroller
240 Old Country Road
Mincola, New York 11501

Re: 100 Black Men of Long Island Development Group, Inc. re:
property located at 100 Main Street, Hempstead, NY

Dear Mr. Weitzman:

As you may be aware, 100 Black Men of Long Island Development Group, Inc. has defaulted on its obligations under a 10 Million federal loan, and has failed to pay real estate taxes on the property located at 100 Main Street, Hempstead, New York (the "Property"). The defaults have been taking place while 100 Black Men has been collecting rent at the Property.

As background, 100 Black Men of Long Island Development Group, Inc. acquired the Property in October, 2001. The County of Nassau had applied for and received through a Federal, Section 108 loan program, funds in the aggregate amount of Ten Million Dollars. The loan to 100 Black Men of Long Island Development Group, Inc. is collateralized by a mortgage on the Property, with the Village of Hempstead Community Development Agency ("CDA") having guaranteed the obligations of 100 Black Men of Long Island Development Group, Inc.

Consequently, the failure of 100 Black Men of Long Island Development Group, Inc. to meet its obligations will cause the CDA, the Village and its constituents significant and material harm. The Village stands to lose more than half of its annual 1.2 Million grant from the federal government due to the default of one property owner, to the detriment of all of those who live in the Village, and especially those who utilize the

Appendix I

Mr. Howard S. Weitzman
Office of the County Comptroller

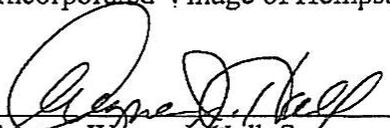
page 2

January 29, 2007

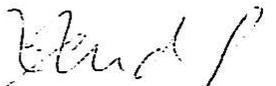
services of our not-for-profits. Funding cuts will force us to cut funds to our not-for-profits, services that our people desperately need. The loss of CDA grant money will have dire consequences for the not-for-profits, and for the people of the Village who rely on those services. Continued default will result in further cutbacks of grant money, and further loss of service, with no end in sight.

We are asking that the Office of the County Comptroller conduct a full audit and accounting of 100 Black Men of Long Island Development Group, Inc, reviewing both cash receipts and expenditures. We have no idea where the money collected is going; certainly the money is not going toward payment of the obligations of 100 Black Men of Long Island Development Group, Inc., with severe and lasting consequences to the people of our Village.

Very truly yours,
Incorporated Village of Hempstead



Mayor Wayne D. Hall, Sr.



Commissioner Claude Gooding

cc: County Executive Thomas R. Suozzi
Deputy County Executive Patrick G. Duggan
Congress Woman Carolyn McCarthy
Senator Kemp Hannon
Legislator Kevan Abrahams
Legislator Roger Corbin
Assembly Woman Earlene Hooper
Council Woman Dorothy L. Goosby

Appendix II

**One Hundred Black Men of Long Island,
Development Group, Inc.
NINE CENTRE STREET, HEMPSTEAD, NY 11550**

(516) 515-9847

OFFICERS/DIRECTORS

President
ISAAC EPHRAIM

Secretary
.

Treasurer

FLOYD ARTHUR
ALFRED COVINGTON
JEFFERY DANIELS
MAURICE N. PERKINS

Executive Director
.

December 2, 2008

Ellen H. Misita
Field Audit Supervisor
Nassau County Comptroller
240 Old Country Road
Mineola, NY 11501

Dear Ms. Misita:

The Board of Directors of the 100 Black Men of Long Island Development Group, Inc. is made up of the following individuals:

Isaac Ephraim – President	Jeffery Daniels – Board Member
Floyd Arthur – Board Member	Maurice Perkins – Board Member
Alfred Covington – Board Member	

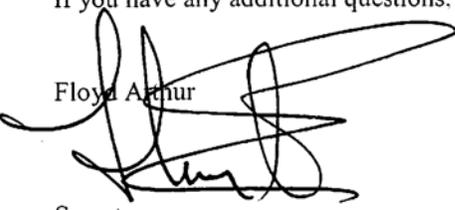
Please be advised that Clarence Little is no longer the Executive Director of the 100 Black Men of Long Island Development Group, Inc. Henry Holley and Lawrence Bell no longer serve as members of the board.

Jeffery Daniels has been authorized by the Board of Directors to act on behalf of the corporation effective November 3, 2008.

If you have any additional questions, please feel free to contact me.

Floyd Arthur

Secretary



**100 Black Men of LI Development Group, Inc
9 Centre Street, Hempstead, NY 11550
(516) 515-9847**

November 3, 2008

Ms. Aline Khatchadourian
Deputy Comptroller for Audits and Special Projects
Office of the Comptroller
Nassau County
240 Old Country Road
Mineola, New York 11501

RE: Draft Audit of 100 Black Men of LI Development Group, Inc.

Dear Ms. Khatchadourian:

Pursuant to our conversation on October 28, 2008, please allow this letter to represent our draft response to the draft audit findings dated August 18, 2008. The Board of 100 Black Men of LI Development Group (“the Board”) takes your audit findings very serious. The Board is focused on restructuring its current mortgage with the Village of Hempstead CDA and recapitalizing the 100 Main Street asset. It is very important for the Board to maintain its good standing within our local community.

The Board is currently working with its attorney, various vendors, Sutton and Edwards Management, LLC and Deans and Archer to address the audit findings. Several of the audit findings relate to the tenure of the former Executive Director of the 100 Black Men of LI Development Group, Clarence Little. Clarence is no longer with the organization but has expressed his willingness to work with the Board to address the various audit findings. The Board is cautiously weighing this option.

As you are probably aware, Nassau County has begun foreclosure proceedings due to alleged defaults under the VHCDA loan. John Ryan has been appointed by the court to act as receiver for 100 Main Street and controls the decision making process based on recommendations from Sutton & Edwards and Nassau County Office of Housing and Intergovernmental Affairs (OHIA).

While the Board may disagree with many of the audit findings it is disappointed but not surprised that there has been no change in the property’s operation despite being controlled by the receiver and Nassau County. In fact, many of the conditions, internal controls and vendors noted in the audit findings still remain in place today. One could surmise that Nassau County is guilty of many of the same audit findings being used to vilify the Board.

Furthermore, the Board questions the materiality of several of the audit findings. For example, Audit Finding number four, Disbursements to Other Vendors, alleges that of the 41% or \$2,315,577 of expenditures tested, material weaknesses were present in a total of 7.7% or approximately \$179,000.

Appendix III

Upon further review, 7% or approximately \$162,000 of the amount tested related to problems with the books and records of Sutton & Edwards. The reality of Audit Finding four is that of the \$2,315,577 of expenses tested three quarters of one percent (0.74%) or \$17,000 relates to expenditures made by the 100 Black Men of LI Development Group (this is discussed further in Exhibit A attached). The Board is surprised that you view that amount as material.

The Board views criticism as a mechanism of improvement. It believes that an improved Board ultimately improves the communities in which its members voluntarily serve and your constituency governs. Over the past 60 days the Board has been in communication with Nassau County OHIA, the Village of Hempstead CDA and the receiver as it works to restore control of the property, recapitalize the asset and move the asset towards its stated goal of empowering the local community and setting a foundation for economic development within the Village of Hempstead.

The Board would like to reschedule the exit conference to coincide with our November update to the Nassau County OHIA. We hope to schedule that meeting in the coming week. In the meantime the Board will begin forwarding the missing information noted in the various audit findings.

Please feel free to contact me directly with any questions or concerns.

Best regards,

Jeffery Daniels
Board Member
One Hundred Black Men of LI Dev. Group

Audit Finding (1) - Payment to the Executive Director

This matter is the subject of potential litigation and is currently under investigation by Nassau County and as such the Board of OBMLIDG will limit its response to the following:

It has come to the attention of the Current Board of OBMLIDG that the former Executive Director of OBMLIDG, absent approval by the Current Board of OBMLIDG, received approximately \$400,000 as payment for what he deemed partial compensation for his tenure as Executive Director. Additionally, the former Executive Director has placed a Mechanic's Lien totaling \$530,130 on the 100 Main Street property for compensation for the period beginning October 23, 2001 and ending December 31, 2007. The Board of OBMLIDG has demanded the return of the monies until a full reconciliation of this matter is adequately resolved.

Auditor's Follow-up Response:

We concur with the action taken by the Board.

Audit Finding (2) - Lack of Board Oversight

The Board of OBMLIDG understands the importance of strong internal controls and corporate governance over the activities of its Board and those individuals in which it employs. The Board has distributed the information referenced in the audit finding and contained on the NY Attorney General's website to its members. The Board of OBMLIDG is also in the process of adopting the following resolution:

- Interview various professional service firms (including legal and accounting) which specialize in servicing not-for-profit entities.

Auditor's Follow-up Response:

We concur with the Board's intent to strengthen its oversight responsibilities in the manner recommended by the New York State Attorney General's Charities Bureau. However, we reiterate our recommendation that the Board exercise its fiduciary responsibility to protect the assets of the OBMLIDG by establishing adequate controls over the bank accounts.

Audit Finding (3) - No General Ledger and Failure to Meet Reporting Requirements

The VHCDA mortgage agreement does not mandate OBMLIDG to utilize GAAP accounting for its books and records. Reference is made to Section 1.11(a) of the Mortgage and Security Agreement between VHCDA and OHMLIDG which requires OHMLIDG to "keep adequate records and books of account in accordance with the then adopted method of accounting reporting of Mortgagor, provided such method accurately reflects its respective financial position and results of operation".

Reference is made to Article III (B) and (C) of the S&E Management Agreement dated October 23, 2001 which defines S&E's reporting requirements. The S&E Agreement was executed at closing and a

Exhibit A

copy was attached to the Mortgage for the benefit of the Mortgagee. The Mortgagee was aware of S&E's responsibilities since the origination of the mortgage. It is not unusual for the management agent to account for commercial property on a cash basis given the fact that GAAP/accrual based entries (such as depreciation, amortization and expense accruals) are infrequent and can be recorded at year end.

On October 31, 2008 the Board of OHMLIDG received a draft copy of the 2006 audited financial statements from its external auditor, Deans and Archer. We are currently reviewing the financial statements and hope to approve the statements within the next 10 business days. Deans and Archer has been engaged to audit the 2007 financial statements. A copy of the DRAFT 2006 financial statements and the executed engagement letter are attached.

The Board of OBMLIDG is would like to expand S&E's reporting requirements to include the monthly production of a balance sheet, income statement, Statement of cash flows on a GAAP and cash basis. The goal is to complete the 2008 audit and submit GAAP basis financial statements to VHCDA within 120 days after the calendar year.

Auditor's Follow-up Response:

The language of Section 1.11 (a) of the Mortgage Agreement cited in the OBMLIDG's response states:
"Mortgagor will keep adequate records and books of account in accordance with then adopted method of accounting reporting of Mortgagor, provided such method accurately reflects its respective financial position and results of operation, and if not, then in accordance with generally accepted accounting principles." [emphasis added]

We reiterate our recommendation that OBMLIDG take the necessary steps to ensure that a proper general ledger is compiled with all relevant accounts shown on the balance sheet, including all liabilities and that audited financial statements are prepared and issued for 2006 and 2007.

Audit Finding (4) - Poor Controls Over Expenditures

The Board of OBMLIDG believes it would be improper for us to comment on the internal control policies and procedures of S&E. However, it is common for owners of commercial property to have access to the operating accounts of the asset. True to its mission, the Board of OBMLIDG has always tried to utilize small, local MWBE vendors to service the property. These organizations are typically under-capitalized and cannot wait 60 to 90 days for payment of services. The Board of OBMLIDG does acknowledge the necessity of sound internal control policies and procedures and is working with its external auditor to create polices and procedures that will help enable S&E to record expenditures.

Exhibit A

Other Disbursements to the Executive Director

The Board of OBMLIDG is investigating the payments described in this section. The former Executive Director has stated he will provide the necessary explanation(s); however with or without his assistance we acknowledge the issue and will get to the bottom of this matter. The results of our inquiry / investigation of this matter will be shared with your office.

Payments for Professional Services

Attorney Payments

- The Board of OBMLIDG is unaware of any correspondence between Cooke & Clark and the Nassau County Comptroller's office. However, we have requested detailed billings from Cooke & Clarke for the audit period and will forward that documentation (if deemed appropriate) to the Nassau County Comptroller's Office
- The Board of OBMLLDG has requested the invoice(s) supporting the payment \$12,000 to Penn Profreidt and will forward that documentation (if deemed appropriate) to the Nassau County Comptroller's office.
- The Board of OBMLIDG has requested the invoice(s) supporting the payment of \$55,216 to Emery, Celli and Brinkerhoff and will forward that documentation (if deemed appropriate) to the Nassau County Comptroller's office.

Accountant

- The Board of OBMLIDG has requested the engagement letters for the audit period from Deans & Archer.

Consultant

- The Board of OBMLIDG has requested invoices to support the \$2,500 payment to the Garner Group for March 2006.

Architect

- The Board of OBMLIDG has requested invoices to support the \$74,500 payments to the Edward Dickman.

Disbursements to Other Vendors

The Board of OBMLIDG believes it would be inappropriate for us to comment on the internal control policies and procedures of S&E. The Board of OBMLIDG disagrees with the categorization of refinancing fees and fines as "Questionable Business Purpose". Non-payment of fines would have resulted in liens on the property which constitutes default under the Mortgage Agreement with VHCDA. Furthermore we disagree with OHIA contention that the mortgage cannot be refinanced. The mortgage can be prepaid if properly defeased.

Auditor's Follow-Up Response:

Although we concur with the OBMLIDG's intention to establish sound internal control policies, it is important to stress that the report addresses the internal control policies and procedures of OBMLIDG and that S&E made payments only upon the instruction of the former Executive Director of OBMLIDG.

Exhibit A

The response states that OBMLIDG is unaware of any correspondence between Cooke & Clark and the Nassau County Comptroller's office. We want to clarify that the report commented on an additional \$10,000 retainer for litigation with Nassau County and not correspondence with the Nassau County Comptroller's Office.

We acknowledge recent receipt (on November 11, 2008) of the February 2002 retainer agreement with Cooke & Clarke, which explains the nature and scope of services to be provided under the \$1,000 monthly fee and provides for an hourly-based fee for other services. However, the February 2002 retainer agreement does not explain or support the nature of the work performed, or the number of hours worked in connection with the \$10,000 retainer for litigation with Nassau County.

We also acknowledge recent receipt of the retainer agreement with the Garner Group (on November 11, 2008), as well as a letter supporting the \$12,000 payment to Penn Proefriedt (received 12/2/2008).

Subsequent to the Exit Conference we were provided with copies of various invoices in support of some of the architectural fees. We were also advised of two mechanics liens filed by the architect against OBMLIDG. However, we were unable to reconcile all of the invoices received to the total payments made and could not determine the total liability still outstanding to the architect or the amounts and accuracy of the liens.

We agree that the payment of fines, once incurred, was necessary. We categorized the refinancing fees as being of "Questionable Business Purpose" because if the mortgage could not be refinanced, the payments of refinancing fees should have been avoided. The fines related to the conditions in the building could have been avoided if the building had been properly maintained.

The response did not address the other questionable payments.

Audit Finding (5) - Payments to RP Investigation

The Board of OBMLIDG has always tried to utilize small, local MWBE vendors to service the property. However, it is important that all vendors meet the necessary criteria including licensing. The Board will investigate the criteria of RP Investigation but are not in a position to make any changes to any vendor currently servicing the property. It is also important to note that for the past few years the building has been required to maintain 24 hour security due to the lack of a fire alarm system.

The Board of OBMLIDG has requested invoices to support the payments noted in the audit.

Auditor's Follow-Up Response:

We concur with the Board's follow-up actions.

Audit finding (6) - Failure to Separate Tenant Security Deposits

The Board of Directors is currently working with S&E to reconcile the security deposit account. The Board will report its findings to the Nassau County Comptroller's Office of Special Audits and the court appointed receiver.

Auditor's Follow-Up Response:

We concur with the Board's stated intent to take corrective action.

Audit Finding (7) - Transactions with Certain Vendors

Building and Maintenance

The Board of OBMLIDG has requested a letter from Top of the Line Cleaning confirming their current address and other relevant information. Top of the Line Cleaning continues to service the building.

Auditor's Follow-up Response:

We concur with the corrective action being taken by the Board.

Audit Finding (8) - Lack of Maintenance and Security - Unauthorized Access to Vacant Areas

The Board currently elects not to respond to these findings but will note that there has not been a change in any of these findings since the receiver and Nassau County OHIA have controlled the property.

Auditor's Follow-up Response:

We reiterate our concerns about the building's physical condition and maintenance.

Audit Finding (9) - Lack of Tenant Insurance

It is customary for the property manager to keep a log of all tenant insurance certificates. Pursuant to Article 11(E) of the S&E Management Agreement, S&E is to conduct all tenant relations. The Board of OBMLIDG has requested an update from S&E and will communicate our findings back to the Nassau County Comptroller's Office of Special Audits.

Auditor's Follow-Up Response:

We concur with the corrective action being taken by the Board. However, we note that this condition had been communicated by the managing agent in its monthly management summaries sent to the former Executive Director.