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DOI FINDS SUBSTANTIAL WRONGDOING AND IMPROPRIETY AT NOT FOR PROFIT

-- Using government funds, executives improperly paid themselves more than \$290,000; lent \$875,000 to one executive's company; and falsified medical records of pre-school children --

ROSE GILL HEARN, Commissioner of the New York City Department of Investigation (DOI), announced today DOI's findings from a two-year-long investigation into allegations of wrongdoing and impropriety at the formerly City-funded not-for-profit Gloria Wise Boys and Girls Club in the Bronx. The investigation found that Gloria Wise executives misappropriated and improperly obtained from Gloria Wise a total of \$1.2 million. The executives improperly obtained more than \$290,000 in income that was untaxed, on-top of already generous salaries, and much of it stolen from government agencies; transferred \$875,000 of Gloria Wise's money to a start-up commercial radio station, now called Air America, in which a Gloria Wise executive had a financial stake; and routinely falsified records to deceive government agencies about a number of matters, including how government funds had been spent to whether or not children attending a nursery school had received the required vaccinations.

The report was released today in conjunction with the arrests of CHARLES ROSEN, Gloria Wise's former Executive Director, and JEFFREY AULENBACH, the former Deputy Executive Director of Gloria Wise. ROSEN, 63, of the Bronx, and AULENBACH, 46, of Brooklyn, have been arrested on charges of Grand Larceny in the Third Degree and Obstructing Governmental Administration in the Second Degree. In addition, ROSEN has been arrested on charges of Forgery in the Second Degree. Their prosecutions are being handled by the New York State Attorney General's Office.

DOI Commissioner Rose Gill Hearn said, "DOI's investigation uncovered unscrupulous criminal activity and gross mismanagement at Gloria Wise, a not-for-profit that once received City, State, and Federal funding. The executives at Gloria Wise shamefully pilfered public funds to pay for their personal expenses, including cars, home renovations and more, while claiming to City agencies that the funds were earmarked for programs to benefit children and the elderly. Even more alarming, executives at Gloria Wise's nursery school falsified medical records, and thereby allowed children without the proper vaccinations to attend nursery school and potentially risk the health of other children. DOI will continue to be vigilant in ensuring that not-for-profits who receive City funding properly allocate that funding for the people and services for which it was intended. Lastly, I thank the Attorney General for prosecuting this case."

DOI's investigation began with an anonymous letter that alleged generally various improprieties but provided few specifics. From DOI's investigation of that letter came these findings and consequences, including prosecutions of executives and the loss of multiple contracts by what was once a reputable not-for-profit. At the time the anonymous letter was sent to DOI, Gloria Wise and its affiliate, Goose Bay Nursery and Kindergarten, held contracts valued at about \$9 million per year with three New York City agencies, the Departments for Youth & Community Development (DYCD) and the Aging (DFTA), and the Department of Education (DOE).

In June 2005, DOI shared its preliminary findings with DYCD, DOE, DFTA, and the New York City Housing Authority (NYCHA), and those City agencies terminated their funding to Gloria Wise, which by then included another Bronx-based not-for-profit Pathways for Youth, and declined to award them any new contracts or grants. Until that point, nearly 80% of Gloria Wise/Pathways funding came from the City.

According to DOI's report, Gloria Wise's executives fraudulently used Gloria Wise's money to pay their personal expenses for home-renovations and furnishings, new cars, parking, insurance and other purchases, and disguised them as Gloria Wise's expenses. And ROSEN paid himself and the executives unreported, five-figure "bonuses" from off-record bank accounts with money stolen from public agencies under the false pretense that it had been spent on track, wrestling, tennis and basketball programs for youngsters. In total, ROSEN collected an extra \$69,000; AULENBACH \$87,000; Deputy Executive Director of Programs Lorraine

Corva nearly \$61,000; Director of Development Evan Montvel Cohen \$46,000; Fiscal Director Sinohe Terrero, \$13,000; and Budget Director Ibis Ozoria nearly \$14,000.

Moreover, Gloria Wise's executives deliberately obstructed DOI's investigation by falsifying, fabricating, and backdating documents, and being untruthful in interviews. DOI uncovered the subterfuge with a forensic examination of the falsified records. After one interview with DOI, in which he provided information that was untrue, ROSEN refused to participate in any further interviews based on his Fifth Amendment right against self-incrimination. Evan Montvel Cohen, a former principal director of the company that once owned Air America, also refused to answer questions under his Fifth Amendment right not to incriminate himself.

The report offered a variety of recommendations for City agencies that have or will sign contracts with not-for-profits so that they may better protect the City's taxpayers and the public from financial and programmatic misconduct at not-for-profits.

This report was based on DOI's interviews of witnesses and its review of various documents, including bank and other financial records and City agencies' contract files. DOI has shared its findings with the New York State Attorney General's Office, the State Education Department, which licenses nursery schools, the State Office of Children and Family Services and the City's DYCD, DOE, DFTA, and NYCHA. DOI is sharing its findings with the U.S. Department of Housing and Urban Development and the Internal Revenue Service.

After DOI discovered that Gloria Wise had improperly transferred \$875,000 to Air America, in September 2005, DOI requested that Air America deposit \$875,000 into an escrow account to be disbursed with DOI's authorization. In September 2006, DOI, on behalf of DYCD, DFTA, and DOE, recovered through a negotiated settlement with Gloria Wise's current management \$625,000 in City funds, much of which had been stolen and misspent by Gloria Wise's executives. Using the funds in the escrow account, Air America transferred the remaining balance to Gloria Wise for its operating expenses.

This investigation was conducted by DOI Deputy Commissioner of Investigations Daniel Brownell, Assistant Commissioner Benjamin Defibaugh, Deputy Assistant Commissioner Keith Schwam, First Deputy Inspector General Valentine Douglas, and Investigative Auditor Boris Galchenko. DOI thanks the New York State Attorney General's Office for its work on this matter.

DOI is one of the oldest law-enforcement agencies in the country. The agency investigates and refers for prosecution City employees and contractors engaged in corrupt or fraudulent activities or unethical conduct. Investigations may involve any agency, officer, elected official or employee of the City, as well as those who do business with or receive benefits from the City.

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The New York City Department of Investigation's Findings
Regarding Fraud and Financial Mismanagement at
The Gloria Wise Boys and Girls Club

Rose Gill Hearn, Commissioner

September 2006

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I. INTRODUCTION AND SUMMARY OF FINDINGS

The New York City Department of Investigation (DOI) began this investigation in 2004, after receiving an anonymous written complaint from a self-described employee of the Gloria Wise Boys and Girls Club in the Bronx (Gloria Wise). Among the allegations were theft, “no-show” employees, and executives’ receiving “outrageous” salaries, concealed through the use of separate accounts. There were few other specifics.

At that time, Gloria Wise and its affiliate, Goose Bay Nursery and Kindergarten (Goose Bay) held contracts valued at about \$9 million per year with three New York City agencies, the Departments for Youth & Community Development (DYCD) and the Aging (DFTA), and the Department of Education (DOE).

By June 2005, DOI’s ongoing investigation had established, among other facts, that Gloria Wise’s officials had approved significant inappropriate transactions and falsified documents submitted to various City agencies. Accordingly, the City’s agencies and the New York City Housing Authority (NYCHA) terminated their contracts and grant agreements with Gloria Wise and its affiliates, which by then included another Bronx-based youth organization - the Pathways for Youth Boys & Girls Club (Pathways).

DOI has determined that, between 2000 and 2004, Gloria Wise’s executives, led by then-Executive Director Charles Rosen, (1) improperly obtained from Gloria Wise more than \$290,000 for their personal use, all untaxed and much of it stolen from the public, on top of their generous salaries, (2) lent \$875,000 of Gloria Wise’s money, most of it without informing their Board of Directors, to a start-up commercial radio station, then called Radio Free America (RFA), where a Gloria Wise executive had a financial stake, and (3) routinely falsified records to deceive public agencies about a host of matters, from how public funds were spent to whether children attending Goose Bay had received required vaccinations.

Gloria Wise’s executives fraudulently used Gloria Wise’s money to pay their personal expenses for home-renovations and furnishings, new cars, parking, insurance, and other purchases, disguising them as Gloria Wise’s expenses. And Rosen paid them and himself unreported, five-figure “bonuses” from off-record bank accounts with money stolen from public agencies under the false pretense that it was spent on programs in track, wrestling, tennis, and basketball for youngsters. Moreover, Gloria Wise’s executives deliberately obstructed DOI’s investigation by falsifying documents and lying to investigators.

In September 2005, at DOI’s request, Air America Radio, RFA’s successor, deposited \$875,000 - the sum that Gloria Wise had improperly lent to RFA - into its attorney’s fiduciary account to be retained until DOI authorized its disbursement. And in September 2006, DOI, on behalf of DYCD, DFTA, and DOE, recovered through a negotiated settlement with Gloria Wise’s current management \$625,000 in City funds, much of which had been stolen and misspent by Gloria Wise’s executives.

This report is based on DOI’s interviews of witnesses and its review of various documents, including bank and other financial records and City agencies’ contract files. DOI has shared its findings with the Office of the New York State Attorney General.

II. BACKGROUND – GLORIA WISE

The Gloria Wise Boys and Girls Club’s roots date back to 1977. That year, Rosen, a resident of Co-op City¹ and then-Chairman of the Riverbay Corporation, its management entity, recruited Gloria Brown Wise to form and lead an after-school program for children living in Co-op City, which became known as the Youth Activities Committee (YAC). In February 1985, YAC was incorporated as a not-for-profit corporation, and Ms. Wise served as its chairperson and, later, its unpaid Executive Director. Also in 1985, YAC became an affiliate of the Boys and Girls Clubs of America, a national organization whose goals are to “enhance the development of boys and girls by instilling a sense of competence, usefulness, belonging and influence.”²

In October 1992, Ms. Wise, then terminally ill, handed-over the leadership of YAC to Rosen, who served as the Acting Executive Director until June 1993, when he became the Executive Director. Rosen said that in 1994 he began to draw a salary. That year, YAC became a member of the Boys and Girls Clubs of America, which enabled YAC to receive additional funding and offer services to the youth of Co-op City’s neighboring communities, including Williamsbridge, Edenwald and Baychester. YAC simultaneously expanded its array of services, adding employment-readiness counseling, social service case management, and family support programs.

In 1995, YAC formed an alliance with Goose Bay, a provider of early-childhood education in Co-op City that integrated children requiring special education with those in general education. After aligning itself with YAC, Goose Bay expanded from one center with four classrooms to four centers with 17 classrooms.

In 1996, YAC was re-named the Gloria Wise Boys and Girls Club, Inc. in honor of its founder. At all times pertinent to DOI’s investigation, Gloria Wise and Goose Bay shared one board of directors, were managed by the same executive staff, but remained separate legal entities filing separate tax returns. Goose Bay is a charter school, and Gloria Wise is a not-for-profit corporation.

In 2000, Gloria Wise took over two senior centers that had been operating within Co-op City and established the Gloria Wise Senior Citizen’s Program, which provided senior citizens with meals and special programs, including music, art, dance, and trips to attractions and special events.

In February 2004, Gloria Wise entered into a management agreement to provide financial and programmatic oversight to Pathways, another Bronx community-based organization that offered similar services. All but one of the members of Pathways’ Board of Directors were replaced by Gloria Wise’s Board members. By spring 2004, Gloria Wise executive staff had begun managing Pathways. The combined entities had over 700 employees and annual budgets totaling approximately \$20 million. Until the City canceled their contracts in 2005, Gloria Wise and Pathways received nearly 80% of their funding from the City.

¹ Co-op City is a 15,372-unit housing cooperative in the Bronx.

² From the Boys and Girls Clubs of America website: www.bgca.org.

III. KEY PERSONNEL

Charles Rosen was the full-time Executive Director of Gloria Wise from June 1993 until June 2005. Rosen was a signatory on Gloria Wise's bank accounts and was in charge of its overall operations. Rosen was also the Recording Secretary of the Board of Directors.

Jeffrey Aulenbach was hired by Rosen as Gloria Wise's Deputy Executive Director of Operations in March 1999 and left in August 2005. Aulenbach oversaw Gloria Wise's and its affiliates' financial operations, including grant proposals, budget, and project development.

Lorraine Corva became a Gloria Wise employee through its acquisition of Goose Bay in 1995. She had been intricately involved with Goose Bay since its inception in the 1970's. In 2000, Corva became Gloria Wise's Deputy Executive Director of Programs, responsible for overseeing all its service programs. In June 2005, Corva briefly succeeded Rosen as Gloria Wise's Executive Director; Corva resigned from Gloria Wise in September 2005.

Sinohe Terrero started at Gloria Wise in 2000. Initially he worked on grants and payrolls. By 2001, Terrero was Gloria Wise's Fiscal Director, in charge of all its financial operations and reporting to Aulenbach. In late 2003, Terrero left Gloria Wise and became the Vice-President of Finance at Radio Free America (now Air America Radio).

John Mullen was hired in February 2004 as Gloria Wise's Chief Fiscal Officer, replacing Terrero and reporting to Aulenbach. Mullen's responsibilities included overseeing Gloria Wise's accounting and financial operations. Mullen resigned from Gloria Wise in early 2006.

Evan Montvel-Cohen was hired in May 2002 as Gloria Wise's Director of Development, primarily responsible for fundraising. He was also one of the principal directors of a for-profit venture called "Radio Free America" whose aim was to establish talk radio stations nationwide. By the end of 2003, Montvel-Cohen was performing few functions at Gloria Wise and apparently was rarely present, although he continued to be paid as a full-time employee. After the first few months of 2004 Montvel-Cohen stopped working at Gloria Wise altogether. His employment was formally terminated in May 2004. Though Montvel-Cohen initially told investigators that he wanted to come in and answer questions, he informed DOI by letter dated March 6, 2006, that if subpoenaed he would refuse to answer questions under his Fifth Amendment right not to incriminate himself.

Ibis Ozoria started at Gloria Wise as a contract manager in 2001, overseeing most of its DFTA and Goose Bay contracts. Sometime in 2004, he became budget director at Gloria Wise. He essentially held the number two fiscal position at Gloria Wise, first under Terrero, then Mullen. Ozoria left Gloria Wise in the fall of 2005.

Jeanette Graves was a Board member since 1999 and President from January 2003 through the spring of 2006. As President, Graves was responsible for signing checks and presiding over Board meetings, among other things. Graves replaced Hillel Valentine as President.

Hillel Valentine was a Board member from the inception of Gloria Wise until the spring of 2006. He was President for many years until January 2003, when he became Secretary. Valentine was a signatory on the Gloria Wise bank accounts, including “secret” bank accounts he opened at Chase with Rosen in 2000.

Octavio Cruz was the Treasurer of the Gloria Wise Board for approximately 11 years and a board member for approximately 18 before he left in the spring of 2006. Cruz’s responsibilities included among other things signing Gloria Wise’s checks and reviewing its financial reports. Before he left Gloria Wise, Cruz was also President of the Pathways Board and that agency’s acting executive director.

IV. DOI’S INVESTIGATION AND FINDINGS

DOI examined Gloria Wise’s books and records, including its general ledger, bank records, check-payment requests, contracts, vouchers and invoices, and other documents that Gloria Wise submitted to City and other public agencies to obtain funds. DOI also interviewed Gloria Wise executive staff, Board members, employees, consultants, and other witnesses. Following is a summary of DOI’s findings, by topic.

A. Improper Payments to Evan Montvel-Cohen and Radio Free America

Evan Montvel-Cohen improperly received \$46,000 of Gloria Wise’s funds through payments of \$10,000 and \$35,000, described below, and \$1,000 from the “Sports Accounts,” described in a later section of this report. Rosen also improperly lent \$875,000 of Gloria Wise’s money to RFA, a commercial radio station in which Montvel-Cohen had a financial interest, as described in Section 3, below.

1. Unexplained \$10,000 Payment to Evan Montvel-Cohen for “Consulting Services”

In July 2003, Rosen issued a \$10,000 Gloria Wise check to Montvel-Cohen and, several months later, when DOI asked for supporting documentation, fabricated a purported “consulting agreement.” Rosen signed the check, dated July 25, 2003, which also bears Graves’s stamped signature (see Ex. 1). On April 27, 2004, DOI investigators requested supporting documentation for the check and three days later received a purported consulting contract on a DYCD form, dated July 17, 2003, signed by Rosen and bearing Montvel-Cohen’s purported signature. According to the contract, Montvel-Cohen, a consultant not employed by Gloria Wise, would receive \$10,000 to help raise \$4 million for a new Gloria Wise Community Center (see Ex. 2). In July 2003, contrary to the consulting agreement, Montvel-Cohen was employed as Gloria Wise’s Director of Development with an annual salary of \$91,000, and fundraising was his primary responsibility.

On June 10, 2005, Rosen, the first Gloria Wise employee whom DOI interviewed, told investigators that he did not remember the \$10,000 check or the contract, “which [he] did not put together,” but acknowledged that he had signed both (T, 6/10/05, 198-199).³ Rosen, “assumed” that it was Montvel-Cohen’s “bonus,” he said. But after acknowledging that Montvel-Cohen had not actually raised any money and that fundraising was his salaried job, Rosen ultimately could not say “why [the check] was

³ “T” refers to the transcript of the witness’s interview on the date stated; the page number follows the date.

given.” (T, 6/10/05, 200) Rosen said he did not inform the Board of the payment because it was unnecessary to inform the Board of his subordinates’ salaries.

Aulenbach later told DOI that he had fabricated and backdated the “July 17, 2003” consulting agreement at Rosen’s direction in April 2004, after DOI investigators asked for supporting documentation for the \$10,000 check. Rosen signed the fabricated contract, and Aulenbach cut-and-pasted Montvel-Cohen’s signature from another document onto it (T, 6/15/05, 131). Mullen confirmed that he was present when Rosen asked Aulenbach to create and backdate the contract. Mullen also confirmed that Montvel-Cohen received a salary for fundraising duties identical to those in the contract and that normally Gloria Wise did not pay its employees as consultants (T, 6/17/05, 140-146).

When DOI requested a second interview with Rosen to discuss this and other issues, Rosen’s attorney responded that Rosen would assert his Fifth Amendment right not to answer DOI’s questions because of possible self-incrimination.

2. Uncollected “Personal Loan” to Montvel-Cohen for \$35,000 “Written-off”

On September 16, 2003, Rosen signed two Gloria Wise checks, for \$25,000 and \$10,000, to Montvel-Cohen, recorded in the general ledger as one loan of \$35,000 (see Ex. 3). Seven months later, in April 2004, after investigators requested documentation, Rosen fabricated and gave DOI an “agreement letter,” dated September 16, 2003, bearing Montvel-Cohen’s forged signature, which states that he would begin repaying the \$35,000 loan on July 1, 2004 (see Ex. 4). By that date, Montvel-Cohen’s employment had been terminated, and Mullen “wrote off” the loan as uncollectible (T, 6/17/05, 163). Gloria Wise’s external auditor, Mark Beller was never informed of the matter, he and Mullen told DOI.

Graves, then Board President, whose signature stamp was routinely placed on corporate checks, later told DOI that neither she nor the Board was informed of the loan and should have been.

When asked, Rosen could not remember why the single loan for \$35,000 was divided into two checks (T, 6/10/05, 224-225). When shown the “agreement letter,” Rosen said that Montvel-Cohen had “drafted it up” at Rosen’s request. And Rosen was “delighted to see that we actually have a piece of paper.” (T, 6/10/05, 229)

Mullen later told DOI that Rosen fabricated and backdated the September 16, 2003 “agreement letter” and other documents, in April 2004, after DOI investigators asked for documentation (T, 6/17/05, 166-169).

Terrero, as Gloria Wise’s Fiscal Director, prepared and initialed both checks and in a later interview with DOI partially explained why the single loan was issued in two checks: one check went into his bank account. According to Terrero, he needed a \$25,000 loan and told Montvel-Cohen, who went to Rosen and received his permission to borrow \$35,000 from Gloria Wise. Terrero issued two checks, for \$25,000 and \$10,000, payable to Montvel-Cohen, who “signed over” the \$25,000 check to Terrero and kept the \$10,000 check (confirmed by bank records). Even though the \$25,000 Gloria Wise check Terrero received was ostensibly a loan from Montvel-Cohen, who was “liable” to Gloria Wise for it, Terrero never repaid Montvel-Cohen (or Gloria Wise). Instead, Montvel-Cohen

forgave Terrero's supposed debt to him as payment for work that Terrero performed for Radio Free America (T 07/15/05, 55-69).⁴

What Terrero neglected to tell DOI is that on the same day he created the \$25,000 Gloria Wise check that Montvel-Cohen immediately "signed over" to him, Terrero's bank debited his account for \$25,000 because a personal check from Montvel-Cohen, which Terrero had deposited four days earlier, was returned for insufficient funds.

3. \$875,000 in Loans to Montvel-Cohen for Radio Free America

Between October 2003 and March 2004, Rosen made four loans of Gloria Wise's funds totaling \$875,000 to Montvel-Cohen for Radio Free America (RFA), a commercial radio station in which Montvel-Cohen had a financial interest. DOI was provided with agreement letters for each loan and later learned that Rosen had fabricated two of them after DOI asked for the loan documents. None of the four loans was repaid to Gloria Wise until DOI intervened with Air America, RFA's successor.

a. First Loan - \$80,000

On October 1, 2003, Gloria Wise issued a check for \$80,000 to SCG, Inc. (SCG), a for-profit enterprise owned and controlled by Montvel-Cohen and two partners, which owned RFA (see Ex. 5).⁵ Rosen told DOI that Montvel-Cohen, while employed at Gloria Wise, explained his role in RFA, asked Rosen for an \$80,000 loan for its start-up expenses, and held out the prospect of the radio station's raising funds for Gloria Wise (T, 6/10/05, 241-243).

The \$80,000 check to SCG, signed by Rosen and Graves, was recorded in the Gloria Wise general ledger as a "loan." The minutes of the Gloria Wise Board meeting of October 14, 2003 state that (1) Graves told the Board that she and Rosen had authorized the \$80,000 loan and (2) the Board unanimously approved it after-the-fact (see Ex. 6). Graves confirmed to DOI that she had personally signed the check and that Rosen had informed her of this loan.

Gloria Wise gave DOI SCG's promissory note and letter to Rosen, both dated September 30, 2003, stating that SCG would repay the \$80,000 loan by September 30, 2004 (see Ex. 7). The letter states that SCG would issue a 4% interest-bearing note for the loan. But, contradicting the letter, the note itself states that no interest would be paid.

b. Second Loan - \$87,000

On November 26, 2003, Gloria Wise issued a second check to SCG, for \$87,000. That check, signed by Rosen and stamped with Graves's signature (see Ex. 8), was recorded as a "loan" in the Gloria Wise general ledger. An "agreement letter," dated November 26, 2003, states that repayment of the loan is subject to the terms of the prior loan and that Montvel-Cohen would provide as collateral \$87,000 worth of his shares of

⁴ By December of 2003 Terrero left Gloria Wise to work full time at Radio Free America as its vice-president of finance.

⁵ David Goodfriend, former director of Progress Media, Inc. (PMI), in a civil deposition on May 16, 2005, testified that PMI owned 95 percent of RFA and that SCG "was the original name of Progress Media, Inc., same entity just different name."

Progress Media, Inc. (see footnote 5) and a life insurance policy to cover the unpaid balance of both loans (see Ex. 9).

Rosen admitted that, contrary to the November 26, 2003 “agreement letter,” Gloria Wise received no collateral (T, 6/10/05, 280-282). The Gloria Wise Board meeting minutes do not mention the \$87,000 loan. Graves said that Rosen informed her of that loan, but because she missed the next Board meeting she didn’t know whether the full Board was informed. Valentine said that he was not informed of the second loan until June 2004 - six months later.

Accountant Mark Beller told DOI that during the year-end audit for fiscal 2003 he reviewed the records of both above-mentioned loans, which he considered extraordinary transactions because Gloria Wise did not normally lend money. Beller said that Rosen asked him to report the loans as “investments,” contrary to the records, and despite his disagreement, Beller eventually complied.

Mullen told DOI that in March 2004, shortly after Mullen began working at Gloria Wise, Rosen also pressed him to label the payments as “investments,” rather than “loans” and that he also acquiesced.

c. Third Loan - \$218,000

On March 5, 2004, Gloria Wise issued to RFA a \$218,000 check, signed by Rosen and stamped with Graves’s signature (see Ex. 10). The general ledger and the check stub record the payment as a “loan.” Gloria Wise gave DOI (1) a check requisition approved by Rosen and Aulenbach (see Ex. 11), (2) an “agreement letter” dated March 5, 2004 bearing Montvel-Cohen’s purported signature, and (3) a \$225,000 SCG check payable to Gloria Wise, signed by Montvel-Cohen and dated April 3, 2004 (collectively, Ex. 12).

The requisition identifies the \$218,000 payment as a “loan” to be repaid April 3, 2004. The March 5, 2004 “agreement letter” states that Montvel-Cohen will pay \$7,000 interest and provide Progress Media shares worth \$218,000 as collateral. But unlike the requisition, the check stub, and all previous records, the “agreement letter” refers to all three Gloria Wise checks, for \$80,000, \$87,000, and \$218,000, as “investments.”

Rosen told DOI that when he issued the \$218,000 check, Montvel-Cohen simultaneously gave him two SCG checks payable to Gloria Wise - the post-dated check for \$225,000, purportedly repayment of the loan plus \$7,000 interest, and an undated \$500,000 check, purportedly a “donation.” Montvel Cohen told Rosen to wait a few days after RFA went on the air - projected for early April - before depositing the checks. (T, 6/10/05, 295-314).

When asked whether he had sought Board approval for the \$218,000 loan or discussed it in advance with Graves, Rosen said that he first told Graves and Valentine about that loan and a subsequent loan for \$490,000 more than three weeks later, on March 31, 2004, when they were driving together to the RFA “kickoff” dinner (T, 6/10/05, 317). Graves confirmed that statement. Valentine’s recollection was that he was first informed of the latter two loans in June 2004, i.e., three months after they were issued.

Mullen recalled that soon after he began working at Gloria Wise, Rosen produced a signed requisition and SCG's \$225,000 post-dated check and said that he needed a \$218,000 check "now" for a short-term loan to RFA. Mullen said that Rosen told him that the Board knew about the loan. At Mullen's request, Aulenbach countersigned the requisition, which was the only documentation that Mullen saw; he saw no "agreement letter" when the loan was made (T, 6/17/05, 53-54).

d. Fourth Loan - \$490,000

On March 15, 2004, just ten days after signing a \$218,000 check to RFA, Rosen transferred an additional \$490,000 from Gloria Wise to RFA (see Ex. 13). Gloria Wise gave DOI a copy of an "agreement letter" dated March 15, 2004 purportedly signed by Montvel-Cohen, referring to the \$490,000 payment as an "investment" and stating that Montvel Cohen will provide as "collateral" \$490,000 worth of his shares in Progress Media and a life insurance policy (see Ex. 14).

In his interview, Rosen told DOI that on March 15, 2004 Montvel-Cohen told him, by telephone, that RFA needed \$490,000 wired to its account immediately and later that day at Gloria Wise's office gave Rosen the above-mentioned "agreement letter" and two undated RFA checks, for \$632,000 and \$250,000, payable to Gloria Wise, as purported repayment of all four loans with interest (see Ex. 15). Montvel-Cohen told him to hold the checks for about ten days, Rosen said, so Rosen understood that there were insufficient funds to cover them when he received them. Rosen never received or confirmed the existence of the purported collateral (T, 6/10/05, 323-335).

Mullen told DOI that at Rosen's direction Mullen or his subordinate, Ozoria, used an online banking program and Rosen's name and password to transfer \$490,000 to RFA. Mullen said that his discussion with Rosen was "pretty much the same" as for the \$218,000 check: Rosen said that the Board knew about the loan and gave Mullen RFA's checks to Gloria Wise, including a post-dated "donation" check for \$500,000 (see Ex. 16), as assurance that "our money would be returned in short order." Mullen said that Aulenbach told him to transfer the money, if that's what Rosen wanted. Mullen did not consider discussing the matter with the Board, because he believed Rosen had already done so (T, 6/17/05, 72-73).

Graves, Valentine and Octavio Cruz said that the \$490,000 transfer was not brought to the Board's attention until weeks after the funds-transfer. Cruz, who had been Treasurer for approximately ten years, told DOI in substance that he had no particular responsibilities in that position; "we need a title for whatever and that's what I was named. I'm an accountant, so they named me as the Treasurer." (T, 6/20/05, 4) He added that at the time he did not review financial records or the annual reports prepared by Gloria Wise's outside accountant and auditor (T, 6/20/05, 57-58) and, except for voting to approve the \$80,000 loan, after-the-fact, at the October 14, 2003 Board meeting, he was unaware of the loans to RFA until the Board was informed, in June 2004, that RFA's repayment checks would not be honored (T, 6/20/05, 45).

e. Fabricated, Backdated Loan Agreements

After interviewing Rosen, DOI learned from other witnesses that after DOI began its investigation, the “agreement letters” for the \$218,000 and \$490,000 “investments” were fabricated and given to DOI at Rosen’s direction.

Rosen’s assistant, Claudia Bayuelo, said that after DOI’s initial visit in April 2004, she, at Rosen’s direction, used an “agreement letter” for either the \$80,000 loan or the \$87,000 loan to create and backdate similar letters for the \$218,000 and the \$490,000 payments, calling them “investments.” Bayuelo copied Montvel-Cohen’s signature from another document. When shown the “agreement letters” DOI had received from Gloria Wise for the \$218,000 and the \$490,000 checks, Bayuelo confirmed that they were the documents that she had created.

Mullen confirmed that in his presence Rosen directed Bayuelo to create and backdate the two purported “agreement letters” for DOI and added that Rosen claimed that he had spoken to Montvel-Cohen, who had agreed that Rosen could put his name on the two agreements. Mullen said that Rosen directed him to give the documents to DOI (T, 6/17/05, 116-121).

f. Gloria Wise’s Loans to RFA Remained Unpaid until DOI Intervened

Mullen told DOI that in April 2004, RFA’s bank told Gloria Wise’s bank that RFA’s account had insufficient funds to cover any of the previously-mentioned checks given to Gloria Wise in connection with the four loans. RFA’s and SCG’s bank accounts were closed in July 2004, and more than a year later, Gloria Wise still had not received repayment of any of the four loans.

Then, in September 2005, after DOI advised Air America Radio, RFA’s successor, to deposit the full amount received from Gloria Wise into an account controlled by DOI, Piquant, LLC, owner and operator of Air America, deposited \$875,000 into its attorney’s fiduciary account to be retained until DOI authorized its disbursement (see Ex. 17). In September 2006, Gloria Wise’s current chief executive and counsel were presented with an outline of DOI’s investigative findings, including, as described below, the theft of City funds by Gloria Wise’s then-executives. As described in Section VI of this report, settlement was reached regarding the \$875,000 in the attorney’s fiduciary account: Gloria Wise received \$250,000; and \$625,000 was paid to the City.

B. Improper Payments to Selected Gloria Wise Executives for Personal Purposes

By interviewing witnesses and reviewing records, DOI discovered that five Gloria Wise executives - Rosen, Aulenbach, Corva, Terrero, and Ozoria - stole or improperly obtained more than \$244,000, unreported and untaxed, from Gloria Wise and the City agencies and other public agencies that funded it. That sum is in addition to improper payments totaling \$46,000 to Montvel-Cohen individually and to the above-named executives’ salaries.

DOI found that through three fraudulent schemes, described below, the following five individual executives stole or improperly obtained the sums shown:

- Rosen	\$69,216.32
- Aulenbach	\$87,370.77
- Corva	\$60,801.95
- Terrero	\$13,406.94
- Ozoria	<u>\$13,820.00</u>
Total	\$244,615.98

Scheme One: Between 2000 and 2004, Gloria Wise paid about \$142,000 toward Rosen’s, Aulenbach’s, Corva’s, and Terrero’s personal expenses for home improvements and furnishings, cars, and other purchases, disguising them as Gloria Wise’s expenses.

Scheme Two: In 2002 and 2004, Rosen, Aulenbach, Corva, and Terrero, obtained about \$89,000 (and Montvel-Cohen obtained \$1,000), much of it stolen from public agencies, through four off-the-books bank accounts, called the “Sports Accounts” in this report, under the false pretense that Gloria Wise was paying that money to nonprofit athletic clubs running youth-sports programs.

Scheme Three: In 2003 and 2004, through records that Aulenbach and Ozoria falsified, Gloria Wise executives stole about \$14,000 from City and federal agencies and paid it to Ozoria, unreported and untaxed, through a phony youth-training contract with “Vincent Millays, Inc.,” a private business that he operated.

Aulenbach, Corva, and Ozoria, who benefited from the above-described schemes, asserted that Gloria Wise reduced their salaries and that the above-described payments merely compensated them for those reductions. Even if true, such assertions could not justify the executives’ benefiting from the frauds upon public agencies. But, as explained in greater detail later, Gloria Wise’s payroll records and tax filings contradict those assertions. The records show that, with the exception of small, temporary reductions in Aulenbach’s and Ozoria’s wages, which were immediately followed by substantial wage increases, the executives’ reported wages increased every year.

1. Scheme One: Gloria Wise’s Payment of Executives’ Personal Expenses

a. Rosen

i. Overview

By interviewing witnesses and examining documents, DOI found that from 2001 through 2004, Rosen, while employed as Gloria Wise’s Executive Director and without Board approval, fraudulently arranged for Gloria Wise to pay him more than \$69,000, unreported and untaxed, for personal expenditures: (1) more than \$35,000 toward home furnishings, renovation of his beach apartment and a new car; and (2) about \$34,000 from the “Sports Accounts,” described in a later section of this report.

ii. Rosen’s Home Furnishings and Renovations

Records show that in 2001 and 2002 Gloria Wise paid more than \$21,000 for Rosen’s purchases of home furnishings and a contractor’s renovation of his beachfront

apartment in Rockaway. Rosen disguised the payments as Gloria Wise's expenses and stole \$3,200 of that amount directly from DYCD by falsely claiming that the contractor was conducting a "gang prevention workshop."

Initially, in June 2005, Aulenbach and Corva told DOI that Gloria Wise paid for Rosen's personal expenses, including renovations (Aulenbach, T2, 6/21/05, 161-162; Corva T2, 6/30/05, 68).

By examining records and interviewing witnesses, DOI identified payments by Gloria Wise totaling \$21,366 for Rosen's home furnishings and renovations. Separately, in October 2005, Gloria Wise produced its own summary (Ex. 18) and list (Ex. 19) of its payments for Rosen's home furnishings and renovations, totaling \$18,121.

Each list – DOI's and Gloria Wise's – includes some charges omitted from the other. DOI identified two items absent from Gloria Wise's list: (1) an October 1, 2001 Gloria Wise check for \$6,178 to Home Depot, signed by Rosen, for bathroom fixtures delivered to Gino Boccia, the contractor who renovated Rosen's apartment; and (2) \$1,248 in direct payments to Boccia. Conversely, Gloria Wise identified other payments totaling \$4,183 – for purchases from U-Haul, ABC Carpet, Home Depot, a floor stripping service, and a wall unit vendor - that DOI did not independently verify or include in its total. The net difference between the two lists is that DOI's total exceeds Gloria Wise's total by \$3,245.

In November 2005, DOI interviewed Boccia, who said that for 17 years he had worked for Riverbay, performing repairs in Co-op City. Since the late 1980s Boccia had also performed "custom" renovations through his own company, "Gino Designs," and had performed renovations and repairs for Gloria Wise and Rosen in both capacities.

Boccia told DOI that in 2002, as an independent contractor, he renovated Rosen's one-bedroom apartment on the fifth or sixth floor of an oceanfront building in Rockaway. Boccia verified his endorsement signature on the back of a December 16, 2002 Gloria Wise check to him for \$6,670.47 (see Ex. 20), which he said was for his work on that apartment. When shown Gloria Wise's supporting documentation for the check, Boccia identified items totaling \$1,260 as charges for his work at the Yellow School House, a Gloria Wise site, and the remaining items – totaling \$5,410.47 – as his charges for work at Rosen's Rockaway apartment, and DOI included that portion of the check in its calculation of Gloria Wise's payments for Rosen's renovations.

Gloria Wise's payments for Rosen's renovations also include a \$3,200 check to Boccia dated June 28, 2002. That payment was charged to DYCD, supported by a phony "consulting agreement," signed by Rosen and bearing Boccia's purported signature, stating that Boccia was conducting a "gang prevention workshop." (See Ex. 21.) When shown the "consulting agreement" and a related "Consultant/Stipend Recipient Sign-In" form, Boccia said that he had not previously seen or signed either one and had not conducted a "gang prevention workshop" or any similar program.

DOI was unable to ask Rosen about the above-described transactions, because DOI learned of them after interviewing Rosen, who thereafter invoked his Fifth Amendment right against self-incrimination and refused to answer any further questions.

When he was interviewed, Rosen said nothing to suggest that Gloria Wise had paid or reimbursed any of his personal expenses.

iii. Rosen's Car Purchase

Investigators learned from Terrero, Valentine, and various records that in August 2002 Rosen purchased a Volvo convertible for himself with a Gloria Wise check for \$34,500. As described more fully below, Rosen later repaid a small portion of the purchase price through payroll deductions and kept the car after he resigned from Gloria Wise in June 2005. Therefore, even if Rosen's assertion that part of the cost of the car was covered by an approved "car allowance" is correct, Gloria Wise still ended up paying an additional "unapproved" \$14,427 for Rosen's personal car.

Specifically, in an August 1, 2002 memo to Valentine, Rosen proposed that Gloria Wise pay approximately \$35,000 for a new car for his use and amortize it over the next five years, at an interest rate of 7% (1) by applying a \$400 monthly car allowance that, Rosen asserted, Gloria Wise had budgeted for him, and (2) through Rosen's paying Gloria Wise \$353 per month, which according to Rosen represented the difference between the budgeted car allowance and the cost of the car.

Gloria Wise payroll records indicate that, from August 2002 through June 2004, a 20-month period, Rosen partially repaid Gloria Wise for the car purchase through biweekly payroll deductions averaging \$467 per month. A total of \$10,752 was deducted from Rosen's wages during that time, of which \$4,678 was applied to interest and \$6,073 was allocated to repaying the principal.

DOI has not identified records that clearly establish whether, as of August 2002, Gloria Wise in fact had budgeted a \$400 monthly car allowance for Rosen and, if so, whether Rosen thereafter received no cash reimbursements for automotive expenses, such as gas and oil purchases.

But giving Rosen the benefit of the doubt on both questions and applying \$400 per month for the 35 months he remained as Gloria Wise's Executive Director, a total of \$14,000, plus the previously-mentioned \$6,073 of payroll deductions allocated to the principal, Rosen is credited with repaying Gloria Wise a total of \$20,073 of the \$34,500 that Gloria Wise paid for his car.

Moreover, the transaction that Rosen actually implemented differed materially – to Gloria Wise's detriment - from the terms that Rosen proposed in his memo to Valentine. Significantly, Rosen's memo requests Valentine's and the Board's approval to "purchase the car in the name of the agency," but Rosen, instead, put title to the car in his own name. And contrary to Rosen's statement - that if he left Gloria Wise's employ within five years of the purchase, he would "purchase the car from the agency for \$1 and be responsible for paying the full amount outstanding or relinquish the car to the Club to dispose of as it sees fit," - what he did instead was to resign from Gloria Wise less than three years after the car was purchased and keep the car for himself without paying the outstanding balance of \$14,427, plus interest, owed to Gloria Wise.

b. Aulenbach

i. Overview

By interviewing witnesses and examining documents, DOI found that from 2000 through 2004, Aulenbach, while employed as Gloria Wise's Deputy Executive Director of Operations and without Board approval, fraudulently arranged for Gloria Wise to give him \$87,370, unreported and untaxed, for personal expenditures: (1) more than \$62,470 toward home renovations, car payments, and other personal items, and (2) \$24,900 from the "Sports Accounts," described in a later section of this report.

ii. Aulenbach's Home Renovation

In 2001 and 2003, Aulenbach obtained \$24,817 from Gloria Wise for the renovation of his apartment in Jackson Heights, Queens.

Aulenbach said and Gloria Wise records confirm that the renovation expenses were "masked" to appear as though they were for Gloria Wise (T2, 160).⁶ For example, Aulenbach said, he purchased materials from Home Depot and submitted requisitions for the purchase amounts to Gloria Wise for reimbursement, as though the materials had been purchased for the agency. Records indicate that in 2001, Aulenbach received \$15,317 from Gloria Wise for such purchases (see Ex. 22).

Gloria Wise also paid for the labor for the apartment-renovation. Matthew Tanaka, a handyman, told DOI that, starting in the fall of 2001, as the work progressed, Aulenbach paid Tanaka with nine Gloria Wise checks totaling \$9,500 (see Ex. 23) for work on Aulenbach's apartment, including plastering, painting, electrical work, bathroom plumbing, and the installation of ceiling fans, brass door hinges and locks, bathroom tiles, and a wall heater. Most of the check stubs are annotated "renovations," "site renovation," or "GB renovation," presumably referring to Goose Bay. Aulenbach never gave Tanaka a personal check and "might have" given him one cash payment, Tanaka said.

Gloria Wise's check requisitions for the above-mentioned checks, pre-printed forms with hand-written notations "renovations" and "renovations @ site," were initialed by Aulenbach and Rosen (see Ex. 24).

iii. Aulenbach's Car Payments and Related Expenses

Records revealed that from 2000 through 2004 Gloria Wise paid \$36,187 for Aulenbach's personal car, insurance, and residential parking. Specifically, Gloria Wise paid, (1) from November 2000 through June 2004, approximately \$585 per month, a total of \$24,988, for a new 2001 Subaru Forester registered and titled to Aulenbach, (2) between July 2001 and June 2004, Aulenbach's car insurance premiums totaling \$4,949, and (3) between July 2001 and November 2003, his monthly parking charges at a garage near his Queens apartment, which totaled \$6,250. Gloria Wise also provided Aulenbach with an E-Z pass, and from July 2001 through November 2004 paid his E-Z Pass charges totaling \$3,983 (not included in the above-reported sums Aulenbach obtained for car-related expenses and other personal expenditures). Gloria Wise reported none of the above-mentioned payments as taxable income to Aulenbach.

⁶ The number "2" following "T" means that the interview was the witness's second transcribed interview.

During a June 2005 interview, Aulenbach said only that Gloria Wise, with Board approval, was “reimbursing” him for his car, which he frequently used for business (T2, 6/21/05, 192). Contrary to Aulenbach’s assertion, Valentine told DOI that the Board knew only that Rosen received a car allowance as a “perk” and was not informed that Gloria Wise was paying for any other employees’ cars, including Aulenbach’s.

iv. Aulenbach’s Miscellaneous Expenses

Records reveal that in 2001 – 2003, Gloria Wise paid Aulenbach’s personal tennis expenses totaling \$1,465. Separate from DOI’s findings, in October 2005, in response to a DOI subpoena, Gloria Wise produced a list of its payments of Aulenbach’s personal expenses between January 2001 and November 2003 totaling more than \$30,000. It includes most of the above-mentioned apartment-renovation expenses, omits the car payments and related expenses, and lists other payments totaling about \$5,000 for tennis, tennis supplies, miscellaneous purchases, and school payments.

v. Aulenbach’s Purported Repayment to Gloria Wise

Aulenbach claimed that in 2004, over Rosen’s objection, Aulenbach attempted to repay Gloria Wise for some of its improper reimbursements of his personal expenses. As purported proof, Aulenbach, through his attorney, gave DOI two of his canceled personal checks paid to Gloria Wise. But as detailed below, Aulenbach’s checks were unrelated to Gloria Wise’s previous payments of his personal expenses, and Gloria Wise returned the check amounts to Aulenbach. In other words, ultimately, Aulenbach repaid nothing.

Aulenbach’s first check, dated May 24, 2004, for \$15,000 (Ex. 25), was deposited into Gloria Wise’s account on June 4, 2004 with a deposit slip that states “Jeff’s return loan & exchange.” Mullen explained that Aulenbach gave Gloria Wise that check because he said he was resigning and therefore refunding part of a \$28,000 “advance bonus” he had received from Gloria Wise in January 2004 (see Ex. 26). But because Aulenbach did not resign, on August 4, 2004, Gloria Wise gave him a new check for \$15,000 (Ex. 27), which Aulenbach deposited into his bank account. Thus, the records indicate that Aulenbach’s \$15,000 check was unrelated to Gloria Wise’s payment of Aulenbach’s personal expenses and that Gloria Wise returned the \$15,000 to Aulenbach within about two months.

Aulenbach’s second check, dated June 8, 2004, for \$25,850 (Ex. 28) was payable to the “Co-op City Tennis Club Program.” The memo on Aulenbach’s check states “repayment,” and on June 9, 2004 the check was deposited into the “Tennis Club account,” one of the previously-mentioned “Sports Accounts.” In 2002, as he later admitted, Aulenbach had received approximately \$25,000 from those accounts, separately from and in addition to Gloria Wise’s above-described payments for his personal expenses (T2, 6/21/05, 142-149). That scheme is discussed later in this report. Accordingly, Aulenbach’s second check appears to have been unrelated to Gloria Wise’s payment of his personal expenses. In any case, bank records show that on August 4, 2004, Aulenbach received another check for \$25,850 from the “Co-op City Tennis Club Program,” which he endorsed and deposited into his personal bank account a few days later (see Ex. 29).

Thus, the records show that, ultimately, the proceeds of the two checks that Aulenbach produced as evidence of his attempts to repay Gloria Wise were returned to him, and he repaid nothing.

c. Corva

By interviewing witnesses and examining documents, DOI found that from 2000 through 2004, Corva, while employed as Gloria Wise's Deputy Executive Director of Programs and without Board approval, improperly received \$60,801, unreported and untaxed, for personal use: (1) more than \$37,000 in car payments; and (2) \$23,570 from the "Sports Accounts," described in a later section of this report.

Corva's Car Payments

Corva admitted that for more than three years Gloria Wise made the monthly payments for her two BMWs. Based on Corva's statements and Gloria Wise's bank and financial records, DOI found that Gloria Wise's monthly payments for Corva's cars from August 2000 through May 2004 totaled more than \$37,000.

Corva told DOI that, first, for approximately three years, Gloria Wise paid about \$1,000 per month for her leased BMW automobile. Gloria Wise's records show that Gloria Wise's lease payments for that car, from May 2000 through July 2003 totaled \$23,079. Then, in August 2003, Corva purchased a new BMW for \$35,000, financed through the dealership with no down payment, and, she said, Gloria Wise made all of her monthly payments for that car until Mullen stopped them during 2004 (T, 6/30/05, 84-89). Records establish that between August 20, 2003 and May 25, 2004 Gloria Wise paid \$1,415 per month, or \$14,152, for Corva's second BMW.

Corva characterized Gloria Wise's payments for her cars as compensation in lieu of salary, because, she asserted, her salary was reduced by the same amount (T, 6/30/05, 88). However, as discussed in more detail in a later section of this report, Gloria Wise's payroll records indicate that, contrary to Corva's assertion, her salary was never reduced at any time during her employment at Gloria Wise. In fact, Corva received salary increases annually. Between 2001 and 2004, Corva's wages, excluding off-record "bonuses" and car payments, rose each year, from \$72,000 in 2000 to \$189,783 in 2004.

d. Terrero

By interviewing witnesses and examining documents, DOI found that in 2002 and 2004, Terrero, while employed as a Gloria Wise executive and without Board approval, improperly received \$13,406, unreported and untaxed, for personal use: (1) more than \$7,000 in payments for personal items; and (2) \$6,400 from the "Sports Accounts," described in the next section of this report.

Terrero told DOI that Gloria Wise began to pay for his car when he became an Associate Executive Director and that Gloria Wise's by-laws authorize such payments to employees holding that title or above. DOI found no such authorization in the Gloria Wise by-laws. Terrero said that he received approximately \$5,000 from Gloria Wise for his car payments. In addition, Gloria Wise, in response to a DOI subpoena, reported having paid \$7,000 to two businesses, "Microwarehouse," and "CDW Direct," for Terrero's personal expenses (see Ex. 30).

2. Scheme Two: Off-the-Books Payments from Secret Bank Accounts – the “Sports Accounts”

a. Overview

Rosen, Aulenbach, Corva, Terrero, and Montvel-Cohen, combined, obtained about \$90,000 in unreported and untaxed income, much of it stolen from City, State, and federal agencies, through a fraudulent scheme that Rosen and the other executives implemented through the following actions:

- (1) opening six off-the-books bank accounts, controlled by Rosen, under assumed and fictitious names of different athletic clubs (in this report, “Sports Accounts”), at a bank other than that where Gloria Wise maintained its accounts of record;
- (2) fabricating documents, such as purported “consulting agreements” between Gloria Wise and the fictional athletic clubs, stating falsely that the clubs were subcontractors paid by Gloria Wise to run sports programs for youngsters;
- (3) issuing Gloria Wise checks payable to the fictional athletic clubs, ostensibly paying them for the youth-sports programs they purportedly ran, and depositing those checks into the Sports Accounts;
- (4) submitting false “reimbursement” claims to DYCD for some of the Gloria Wise checks written to the fictional athletic clubs; and
- (5) issuing checks from four of the Sports Accounts to Gloria Wise’s executives.

In sum, the Sports Accounts collectively were a fraudulent device that Rosen and other Gloria Wise executives used to steal public money under the false pretense that Gloria Wise was spending that money on sports programs operated by independent subcontractors.

Chase Bank records revealed that in two years, from May 2000 through June 2002, Gloria Wise deposited \$115,222 into the Sports Accounts. Of that total, \$45,125 was obtained from the City’s DYCD, by Gloria Wise’s submitting fraudulent claims for reimbursement. Gloria Wise’s records reveal that an additional \$33,966 deposited in the Sports Accounts was charged to four publicly-funded programs: the federal Bureau of Justice Assistance, the State Office of Children and Family Services, the State Education Department, and the After-School Corporation.

Chase Bank records show that in three and one-half years, from May 2000 through January 2004, Rosen wrote and signed checks for more than \$98,600 from the Sports Accounts, of which more than \$89,700 (91%) was paid directly to five Gloria Wise executives, as follows:

- in 2002, Rosen received \$33,850;
- in 2002, Aulenbach received \$24,900;
- in 2002 and 2004, Corva received \$23,570;⁷
- in 2002, Terrero received \$6,400; and

⁷ This amount (\$23,570) excludes \$10,900, which Corva received in May 2002, which she returned in August 2002, and which Gloria Wise then returned to her with its own check.

- in 2002, Montvel-Cohen received \$1,000.

(See Ex. 31.)

Witnesses said and Gloria Wise's records show that for tax purposes the payments the executives received in 2002 were not reported as 2002 income. Later, after DOI began this investigation, Gloria Wise added those amounts to each executive's reported income for 2004.

Rosen signed all the Sports Accounts checks, including a \$31,850 check he wrote to himself dated May 15, 2002. A fictitious post office box number appears on Gloria Wise's checks to the Sports Accounts – "P.O. Box 1812, Bronx New York, 10475" - apparently to foster the false impression that the checks went to independent entities rather than into bank accounts that Rosen controlled. The United States Postal Inspection Service reports that no such post office box existed.

b. Sports Accounts Created

Bank records show that on May 8, 2000 Rosen and Valentine, then president of Gloria Wise's Board, opened six accounts at Chase Bank. (Gloria Wise maintained its accounts at Citibank.) Each Chase account was opened in the name of a different athletic club or program, "in care of Gloria Wise." For example, one account was opened in the name "Mustang Wrestling Program c/o Gloria Wise, 950 Baychester Avenue, Bronx, New York" (Gloria Wise's address). That account name resembled that of a separate organization, the "Mustang Wrestling Club," but, as explained later, the account was opened without the club's knowledge or permission.

The other names used for the Sports Accounts were the Co-op City Tennis Club Program, the Bronx International Express Track Program, the Bronx Queens Basketball Program, the Bronx Youth Soccer Program, and the Bronx Tigers Cheerleading Program, all "c/o Gloria Wise."

On August 12, 2005, when interviewed by investigators and shown Chase Bank account documents he had signed, Valentine said in substance that Rosen and he signed applications to open Chase Bank accounts in the names of the "Co-op City Tennis Club," "Bronx International Express Track," and the "Mustang Wrestling Club." Valentine knew those organizations but not why he and Rosen were opening bank accounts in their names. Valentine trusted Rosen and signed the account applications at his request. After the accounts were opened, Valentine never knew what activity, if any, occurred within them. He had not known and Rosen had not told him, or the Board to his knowledge, that Rosen, Corva, Aulenbach and Terrero received checks from the accounts.

c. Aulenbach's Statements regarding the Sports Accounts

Aulenbach said in substance that at Rosen's prompting, Terrero submitted claims for "reimbursement" to government funding agencies under the pretense that athletic clubs were running programs for Gloria Wise, in track and field, wrestling, tennis, basketball, and cheerleading, and "money came into the agency for services that largely were not rendered...and those accounts built up some sum of money used for administration expenses." (T2, 6/21/05, 143-145)

After DOI began its investigation, Rosen became “paranoid” about the Sports Accounts. For example, Rosen gave Aulenbach a box containing the Sports Accounts records and told him to “get rid of this.” Rosen later asked Aulenbach whether he had destroyed the records. When Aulenbach said he had not, Rosen told Aulenbach to return them to him. Aulenbach photocopied the records, returned the originals to Rosen, and later provided copies to DOI (T2, 6/21/05, 144-146). Aulenbach added that as DOI was investigating Gloria Wise’s financial activities, Rosen “was pushing hard” to “empty those accounts...Just empty them and close them....He asked me to meet with the...Co-op City Tennis Club...and to negotiate something...and draw down the money from that account for that team.” (T2, 6/21/05, 148-150)

d. Terrero’s Statements regarding the Sports Accounts

Corroborating Aulenbach’s statements, Terrero told investigators that the Chase Bank accounts were just a “gimmick” created for Gloria Wise to bill DYCD for services that had not been provided. Terrero also said that when he began working at Gloria Wise in or around July 2000, he posted entries regarding the Sports Accounts in Gloria Wise’s general ledger but was instructed by Aulenbach or Rosen to remove them. Terrero said that the Sports Accounts “were off the books, basically.” (T, 7/15/05, 90) He added that Rosen was “the sole signatory on the accounts.” (T, 7/15/05, 91)

Terrero said that when he worked there, Gloria Wise neither withheld taxes from payments its executives received from the Sports Accounts nor reported them to the IRS and State tax authorities. He claimed that, discomfited by the situation, he discussed it with Beller, Gloria Wise’s external auditor. Terrero did not recall Beller’s exact response but said that Beller just “brushed it off.”

e. Corva’s Statements regarding the Sports Accounts

Bank records show, and Corva’s testimony confirms, that in 2002 and 2004 Corva received three payments totaling \$34,470 from the Sports Accounts. Of that amount, Corva returned \$10,900 in August 2002 and within two weeks accepted a replacement check from Gloria Wise for the same sum.

Corva acknowledged receiving two 2002 checks payable to her: (1) check no. 1001, dated May 15, 2002, drawn on the “Mustang Wrestling Program” account, for \$10,900.00; and (2) check no. 1009, also dated May 15, 2002, drawn on the “Co-op City Tennis Club Program” account, for \$13,000 (T2, 6/30/05, 69-70). She also acknowledged receiving, at a later date, a third check, dated January 15, 2004, drawn on the “Co-op City Tennis Club Program” account, for \$9,570, annotated, “Congratulations, Michael Corva’s Scholarship.” (T2, 6/30/05, 63-65) Michael, then a college student, is Corva’s son.

Corva did not recall Rosen’s ever saying why she received the above-mentioned payments from the Sports Accounts, but said that Terrero, then Gloria Wise’s Fiscal Director, told Corva that she would be getting a “bonus” or a “raise,” and “then I went into the office and I was handed these checks.” (T2, 6/30/05, 65)

As Gloria Wise’s Director of Programs Corva knew which outside organizations’ programs were funded by Gloria Wise and that the organizations named on the checks she received were not then operating programs for Gloria Wise. Corva understood, based on a later conversation with Mullen at which Rosen and Aulenbach were present, that

Rosen, Aulenbach, and Terrero also received payments from the Sports Accounts, and she believed that the amounts of the “bonuses” that she, Aulenbach, and Terrero received were based on a percentage of Rosen’s raises or bonuses (T2, 6/30/05, 62-65).

f. Individual Sports Accounts

i. Bronx International Express Track Program

Phyllis and Anthony Francis told DOI that they have managed the “Bronx Express Track Club” (Bronx Express) since 1997. Bronx Express’s address is and at all relevant times was 1615 Unionport Road. The Francises were unaware of PO Box 1812, Bronx, NY 10473 (the address printed on Gloria Wise’s checks to the “Bronx International Express Track Program”). The Francises said that since the mid-1990s Bronx Express has maintained a single savings and checking account at Chase, unrelated to the “Bronx International Express Track Program” account that Rosen and Valentine opened at Chase in May 2000.

Bronx Express operated programs with Gloria Wise from 1998 until January 2001, and, based on its records, received a total of \$44,340.43 from Gloria Wise for doing so. In early 2001 Rosen attempted to make Bronx Express part of Gloria Wise. When Bronx Express refused, Rosen severed all relations with the club. Bronx Express conducted no programs for and received no money from Gloria Wise after January 2001.

The Francises said that they never signed any agreement with Gloria Wise for any purpose. Before DOI investigators showed them a purported “consulting agreement” dated October 1, 2001, signed by Aulenbach and bearing Phyllis Francis’s purported signature (Ex. 32), the Francises had never seen it, and Ms. Francis had not signed it. Her signature in Bronx Express’s bank records, which she produced for investigators, appears quite different. When shown a series of Gloria Wise’s checks, totaling over \$40,000, which had been deposited in the Rosen-controlled Bronx International Express Track Program account, the Francises said that they had never seen them or received any of the proceeds. Phyllis Francis produced for DOI all the checks deposited into the Bronx Express account from 1997 to the present.

ii. Mustang Wrestling Club

Rosen stole more than \$14,000 in City funds by submitting fraudulent reimbursement claims to DYCD for the Mustang Wrestling Club (Mustang), depositing the money in the Chase account falsely named for that club, and disbursing the money from that account to Gloria Wise executives.

Michael Ondich, former Mustang coach, told investigators that Mustang operated out of Truman High School, Bronx, near Co-op City, until the fall of 2001, when Ondich moved to New Jersey, and began teaching at a high school there. Ondich conducted wrestling programs at Gloria Wise periodically between 1995 and 2001, and Rosen was his contact.

According to Ondich, Gloria Wise gave Mustang equipment, such as practice “dummies,” and, once, Gloria Wise paid for a bus to transport Mustang to a meet. Ondich completed paperwork for Rosen for some of the above-mentioned items. Throughout the six years when Mustang periodically conducted wrestling program for Gloria Wise, the

cost of the equipment and bus transportation that Mustang received from Gloria Wise totaled less than \$6,000, Ondich said.

Ondich said that in the spring of either 1999 or 2000 Rosen wanted to pay Mustang a stipend of approximately \$300 per month for conducting its program at Gloria Wise. The monthly payments never materialized, but Mustang received two checks from Gloria Wise, one on October 11, 2000 for \$710, and one on January 23, 2001 for \$212, for meet-entry fees and services.

Ondich had never heard of the “Mustang Wrestling Program c/o Gloria Wise” bank account at Chase. Before investigators showed Ondich 22 canceled Gloria Wise checks totaling \$14,550 deposited into that account between May 2000 and February 2002, he had never seen them or any of the supposed supporting documents, and Mustang had received none of the proceeds.

iii. Co-op City Tennis Club

Interviews and records established that Rosen transferred more than \$55,000 from Gloria Wise to the Rosen-controlled “Co-op City Tennis Club Program” account. That amount includes \$32,260 that Rosen and Aulenbach stole from the City through fraudulent claims to DYCD.

DOI investigators interviewed Milton Alexander, who said that he and his wife, Lorraine Rohlsen, have operated the Co-op City Tennis Club since 1983. In 1997 or 1998, Rosen invited the tennis club and several other athletic clubs at Co-op City to form a sports federation. That federation soon disintegrated, Alexander said, because the athletic clubs wanted to remain independent while Rosen wanted them to become part of Gloria Wise under his control.

Alexander said that until 2004, the tennis club received no money from Gloria Wise but occasionally used its facilities and office equipment, such as the photocopier. In August 2001, Gloria Wise spent \$1,100 for tennis shirts and caps. In 2004, Aulenbach asked Alexander if the club could provide tennis lessons at Gloria Wise’s summer camp. Gloria Wise and Alexander signed an agreement (Alexander produced it during the interview), lessons were provided, and the tennis club was paid \$4,485, by Gloria Wise checks, which were deposited into the tennis club’s account at HSBC. Alexander said that that was the only agreement he ever entered into with Gloria Wise.

Alexander was shown a purported “consulting agreement” produced by Gloria Wise, dated October 1, 2001, bearing Aulenbach’s signature and Alexander’s purported signature, which states that for \$2,500 the tennis club would operate a tennis program at Gloria Wise between November 2001 and April 2002 (see Ex. 33). Alexander said that he had not signed or previously seen the supposed “consulting agreement” and that the tennis club had operated no program and received no money from Gloria Wise during the time specified in it.

Alexander told DOI that he had never heard of or authorized anyone to open the Chase Bank account titled “Co-op City Tennis Club c/o Gloria Wise.” When shown 56 cancelled Gloria Wise checks, totaling \$55,266, deposited in that account between May 8, 2000 and June 28, 2002, Alexander said that he had not previously seen any of them and that neither he nor the tennis club had received any of the proceeds. Further,

Alexander said, he had never seen the “Consultant/Stipend/Recipient Sign-in sheets” bearing his name and address, which, in Gloria Wise’s records, were attached to many of the 56 checks as purported documentation. Finally, Alexander said that he had not previously seen or known about two checks totaling \$36,900 paid from the account to Aulenbach and Corva (see Ex. 34) and that neither of them had ever performed any services for the tennis club.

3. Scheme Three: Improper Payments to Ozoria Charged to DYCD and HUD

From December 2003 through June 2004, Ozoria, Gloria Wise’s Budget Director, fraudulently obtained nearly \$14,000, untaxed, in City and federal funds through a scheme in which he and Aulenbach falsified business records – including a contract, invoices, and payment requests to DYCD - to state falsely that a retail clothing store called “Vincent Millays, Inc.” (Millays), which Ozoria operated, was providing “workshops for youth” in “retail management” and “fashion and design” under a DYCD-funded contract with Gloria Wise. Neither Millays nor Ozoria provided any such services, and none of the money they received for doing so was returned to the public agencies that paid for them, until September 2006, when DOI recovered \$625,000 from Gloria Wise, as described later in Section VI of this report. The information in this section is based upon Gloria Wise’s records, bank records, DYCD records, and interviews with witnesses.

Ozoria and Aulenbach, separately, told DOI in substance that in late 2003 Ozoria told Aulenbach that he had financial problems and was unable to pay his bills. Although Ozoria and Aulenbach differed about who suggested it (each said the other did), both told DOI that they created and signed a purported consulting contract between Gloria Wise and Millays for the purpose of paying Ozoria \$10,000, untaxed, in DYCD funds (Ozoria, T, 6/22/05, 90-93; Aulenbach, T2, 6/21/05, 114-118). Aulenbach said that Rosen approved the idea (T2, 6/21/05, 115). Earlier, Rosen, when shown the contract, said he knew nothing about it or Millays (T, 6/10/05, 393).

The December 11, 2003 contract, on a standard DYCD form, states that Gloria Wise and Millays agree that for \$50 per hour in DYCD funds not exceeding \$10,000 Millays will provide to the “citizens of...the Bronx...workshops including...retail management and fashion and design.” (See Ex. 35.)

Ozoria and Aulenbach both admitted that between December 2003 and June 2004 Gloria Wise submitted to DYCD for reimbursement seven Millays invoices prepared by Ozoria, processed by Gloria Wise’s fiscal staff, and, as part of Gloria Wise’s monthly payment requests, approved by Rosen, in amounts totaling \$13,820. Each invoice states falsely that Millays was providing, each month, “retail management” and “fashion design” “workshops for youth” and that the payments are “tax exempt.” (See Ex. 36.)⁸

In the same period, Gloria Wise issued to Millays seven checks also totaling \$13,820. Ozoria said that he received the money from Gloria Wise’s checks (T, 6/22/05, 187). After Gloria Wise exhausted the \$10,000 available under the DYCD contract, it funded the remaining payments through its preexisting contract with the U.S. Department of Housing and Urban Development (HUD) (Ozoria, T, 6/22/05, 176).

⁸ Two invoices were submitted for April 2004 workshops; none was submitted for March 2004.

Ozoria and Aulenbach also told DOI that Ozoria provided no “workshops for youth” or any similar services (Ozoria T, 6/22/05, 106; Aulenbach, T2, 6/21/05, 123). Ozoria attributed his failure to provide those services to his being “overwhelmed” with other work for Gloria Wise (T, 6/22/05, 99). Aulenbach, though, said that “it was presumed...that the services weren’t going to be provided, that this was a way of changing his (Ozoria’s) compensation.” (T2, 6/21/05, 124)

Ozoria and Aulenbach both claimed that the money that Ozoria received through the Millays contract was repaid by a reduction of his salary, even though Ozoria claimed that the reason for his getting this money in the first place was because he was experiencing financial problems. In fact, though, Ozoria’s yearly salary was not reduced in either 2003 or 2004 - the years when he received the Millays payments. To the contrary, while there was a temporary reduction, his salary increased substantially, as noted below.

Gloria Wise’s payroll records show a temporary reduction – totaling \$6,538 through seven months, from November 2003 through June 2004 – in Ozoria’s gross pay, less than half the amount he received through the phony Millays contract. However, when that temporary decrease ended, in July 2004, Ozoria’s salary was immediately increased from its original pre-reduction level of \$55,000 to \$75,000 - more than 36%. Furthermore, in October 2004, Ozoria received a one-time additional payment of \$3,846. Gloria Wise’s tax filings also show that Ozoria’s actual wages rose every year - from \$49,738 in 2002 to \$52,312 in 2003 and \$70,077 in 2004.

Mullen said that soon after he began working at Gloria Wise, he was asked to approve one of the phony payments to Millays. When Mullen asked what the payment was for, Aulenbach lied, telling him that it was to pay Ozoria under a “consulting contract” for training young people. Similarly, when Mullen then asked Ozoria about Millays, Ozoria also lied, describing it as a clothing business through which he was training the “the youth that we serve.” (T, 6/17/05, 195)

Ozoria said that Aulenbach was displeased that Ozoria had discussed Millays with Mullen. According to Ozoria, Aulenbach asked “Why would you even tell him that - we don’t know if he’s one of us yet?” (T, 6/22/05, 100) Ozoria understood Aulenbach to be “pretty much saying we don’t know if [Mullen is] gonna turn around and tell somebody that this is going on.” (T, 6/22/05, 101) Ozoria said that in May or June 2004 Mullen ended the payments to Millays (T, 6/22/05, 102).

In May 2004, the month before he received his last “consulting” payment through Millays, Ozoria received a personal loan of \$16,400 from Gloria Wise. Mullen told DOI that Rosen approved the loan and signed the check to Ozoria, and that Ozoria signed a loan agreement and a promissory note agreeing to repay the loan through wage deductions. Although Mullen knew about Gloria Wise’s payments to Millays, “it did not cross [Mullen’s] mind” to tell Rosen in connection with the loan that Gloria Wise had also been paying Ozoria through a consulting contract with Millays (T, 6/17/05, 215-223).

C. Gloria Wise's False Rationale for its Improper Payments to its Executives

In June 2005, Aulenbach told DOI that, starting in 2001, Gloria Wise, perennially short of funds, reduced its executives' salaries and, to compensate for those reductions, paid their personal expenses (T2, 6/21/05, 131-134). However, Gloria Wise's records flatly contradict the assertion that Aulenbach's and other Gloria Wise executives' salaries were reduced proportionately to the amounts of the improper payments they received.

Using Gloria Wise's available State and federal filings for 2000 to 2005 and other records, DOI tabulated the reported wages and the unreported personal income that five executives - Rosen, Aulenbach, Corva, Terrero, and Ozoria - received from Gloria Wise. The following table shows that, except for Aulenbach's \$478 decrease in 2001, every executive's reported wages increased from year to year. And Aulenbach's unreported income - of \$31,780 in 2001 and \$87,370 through 2004 - far outweighed that single \$478 decrease.

Because Gloria Wise's payroll records reflect anomalies in Aulenbach's biweekly base pay from October 2000 through October 2001 - one missed pay date in each calendar year and fluctuating gross pay amounts - DOI cannot extrapolate from them a reliable reckoning of what Aulenbach's annual salary was supposed to have been during that period, if one was established, and whether he forswore some portion of it.

What is known is that in 2000 Aulenbach received reported gross wages of \$78,766 and off-the-books income of \$1,002 in car payments, raising his total income to \$79,768. The records further show that the next year Aulenbach's reported wages declined slightly, as noted above, to \$78,288 while his off-the-books income increased substantially - to \$31,780, boosting his total income that year to more than \$110,000, a 40% increase.

And Aulenbach's reported wages, or "salary," in the next three years - 2002 through 2004 - increased dramatically, as shown in the following table. For example, in 2002, a year in which Aulenbach received off-the-books income of \$37,858, his reported wages exceeded \$117,000, an increase of 50% above his reported wages in 2001, and his total compensation exceeded \$155,065, an increase of 41% above that of 2001. Thereafter, his gross reported wages and total compensation continued to rise for each full year in which he remained employed by Gloria Wise.

As mentioned in the preceding section, Gloria Wise's payroll records show a small, temporary reduction between November 2003 and June 2004 in Ozoria's biweekly gross pay, followed immediately by a substantial increase above its original, pre-reduction level. Furthermore, Gloria Wise's tax filings show that Ozoria's reported wages and total compensation rose every year.

Moreover, Gloria Wise's records contradict Aulenbach's suggestion that fiscal austerity prevented Gloria Wise from paying its executives reasonable salaries. By 2004, Rosen's total compensation exceeded \$250,000; Corva's exceeded \$206,000; and Aulenbach's exceeded \$189,000. That year, those three executives, combined, received more than \$650,000 in taxed and untaxed income from Gloria Wise.

Compensation of Selected Gloria Wise Executives, 2000 - 2005

Name	Year	Wages and Bonuses Reported on W-2*	Sports Accounts (unreported)	Personal Expenses (unreported)	Car Payments (unreported)	Total Compensation
Rosen	2000	\$109,477.01	0	0	0	\$109,477.01
	2001	\$156,440.86	0	\$ 6,178.92	0	\$162,619.78
	2002	\$178,274.86	\$33,850.00	\$15,187.40	\$2,000	\$229,312.26
	2003	\$225,395.50	0	0	\$4,800	\$230,195.50
	2004	\$249,610.96	0	0	\$4,800	\$254,410.96
	2005	**\$142,452.50	0	0	\$2,400	\$144,852.50
Subtotal Rosen		\$1,061,651.69	\$33,850.00	\$21,366.32	\$14,000.00	\$1,130,868.01
Aulenbach	2000	\$78,766.35	0		\$1,002.27	\$79,768.62
	2001	\$78,288.50	0	\$25,930.44	\$5,850.30	\$110,069.24
	2002	\$117,206.48	\$24,900.00	\$5,353.57	\$7,605.39	\$155,065.44
	2003	\$160,716.74	0	\$5,327.08	\$7,020.36	\$173,064.18
	2004	\$185,217.86	0	\$871.18	\$3,510.18	\$189,599.22
	2005	**\$104,832.33	0	0	0	\$104,832.33
Subtotal Aulenbach		\$725,028.26	\$24,900.00	\$37,482.27	\$24,988.50	\$812,399.03
Corva	2000	\$72,000.08	0	0	0	\$72,000.08
	2001	\$83,419.96	0	0	\$11,209.97	\$94,629.93
	2002	\$139,659.87	\$14,000.00	0	\$7,253.51	\$160,913.38
	2003	\$165,495.57	0	0	\$11,692.17	\$177,187.74
	2004	\$189,783.40	\$9,570.00	0	\$7,076.30	\$206,429.70
	2005	**\$126,924.57	0	0	0	\$126,924.57
Subtotal Corva		\$777,283.45	\$23,570.00	0	\$37,231.95	\$838,085.40
Terrero	2000	**\$16,876.90	0	0	0	\$16,876.90
	2001	\$52,553.84	0	0	0	\$52,553.84
	2002	\$56,821.15	\$6,400.00	0	0	\$63,221.15
	2003	\$66,534.22	0	0	0	\$66,534.22
	2004	**\$13,448.14	0	\$7,006.94	0	\$20,455.08
Subtotal Terrero		\$206,234.25	\$6,400.00	\$7,006.94	0	\$219,641.19
Ozoria	2001	**\$9,346.16	0	0	0	\$9,346.16
	2002	\$49,738.42	0	0	0	\$49,738.42
	2003	\$52,312.80	0	†\$2,833.00	0	\$55,145.80
	2004	\$70,077.84	0	†\$10,987.00	0	\$81,064.84
	2005	**\$66,618.79	0	0	0	\$66,618.79
Subtotal Ozoria		\$248,094.01	0	\$13,820.00	0	\$261,914.01
Total		\$3,018,291.66	\$88,720.00	\$79,675.53	\$76,220.45	\$3,262,907.64

* Excludes fringe benefits

** Employed for part of the year

† Payment through Millays

D. Gloria Wise's Executives Have Retained their Fraudulently-Obtained Gains

Excluding \$46,000 in improper payments to Montvel-Cohen, DOI has identified improper payments totaling \$244,615 to five Gloria Wise executives: Rosen, Aulenbach, Corva, Terrero, and Ozoria, much of it stolen from the City.

In 2004, after DOI initiated this investigation, Gloria Wise took what its then-executives later held out as “corrective” action, which in substance involved: (1) discontinuing some of its improper “compensation” practices, for example, halting monthly payments for Aulenbach’s and Corva’s personal cars, and (2) belatedly and inaccurately reporting as 2004 income approximately \$132,521 – about 57% - of the improper, untaxed income that four of the above-named executives – all but Ozoria - received from 2001 through that year (see Ex. 37).⁹

But Gloria Wise’s executives returned none of the money they had collected improperly. And Gloria Wise returned no stolen and misspent money to the City – until September 2006, when DOI recovered \$625,000, as described later in Section VI of this report.

Aulenbach and Corva told DOI in substance that, in 2004, after Mullen questioned some of Gloria Wise’s fraudulent practices, the executives tallied up the untaxed personal-expense payments and “bonuses” they had received since 2001, which Mullen then reported as taxable 2004 income. Aulenbach said, “And so much like it just began, it also ended. And in the summer of 2004, John (Mullen) collected all of the amounts that have been submitted for personal reimbursement and totaled them up and issued corrective W-2s. And at least in my own case, all federal, state and city taxes have been paid on compensation received.” (T2, 6/21/05, 136)

Corva’s recollection was that the records were corrected after an April 2004 visit by DOI investigators: “That one was after the DOI investigation started, and then we met with John Mullen and—who said we need to clear up all that stuff. Then everything was rectified and everything was picked up, all the taxes were paid, everything was corrected.” (T2, 6/30/05, 60)

Gloria Wise’s records reveal that on December 9, 2004, adjusting entries totaling \$132,521 were made to that year’s reported income of four executives: Aulenbach, Corva, Rosen, and Terrero, as though they had received all that income in 2004.

DOI interviewed Mullen on June 17, 2005, six months after the above-mentioned adjusting entries were made, but several days before DOI learned of them and most of the improper payments to Gloria Wise’s executives. Because of that chronology, Mullen was not asked directly and specifically about the December 2004 adjusting entries or the four executives’ prior receipt of unreported income, and he said nothing about either topic.

When asked whether Gloria Wise had been paying for Corva’s and Aulenbach’s cars, Mullen said that he had stopped those payments about a year earlier (T, 6/17/05,

⁹ Gloria Wise’s 2004 adjustments totaling \$132,521 fail to account for Gloria Wise’s payments for, among other things, Corva’s and Aulenbach’s personal cars, the unpaid balance of its payment for the purchase of Rosen’s personal car, its payments for Aulenbach’s residential parking and car insurance, and the money paid to Ozoria through Vincent Millays.

243). And Mullen denied knowing of any Gloria Wise employees' or consultants' receiving publicly-funded money that was supposed to have been used for a different purpose, specifically, a program (T, 6/17/05, 221).

From Gloria Wise's and its executives' records, DOI totaled the improper, unreported payments that each of the five above-named executives received from 2000 through 2004, consisting of (1) payments for personal expenses, (2) checks from the Sports Accounts, and (3) car payments. Those totals are shown below, alongside Gloria Wise's (Mullen's) adjustment to each executive's reported income for 2004, followed by the difference, which remains unreported after Gloria Wise's adjustment:

<u>Executive</u>	<u>Total per DOI's Calculation</u>	<u>Gloria Wise's (Mullen's) 2004 Adjustment</u>	<u>Difference (unreported)</u>
Rosen	\$69,216.32	\$51,971.00	\$17,305.32
Aulenbach	87,370.77	55,243.58	32,127.19
Corva	60,801.95	11,900.00	48,901.95
Terrero	13,406.94	13,406.94	0.00
Ozoria	<u>13,820.00</u>	<u>0.00</u>	<u>13,820.00</u>
Total	\$244,615.98	\$132,521.52	\$112,154.46

As shown above, even Gloria Wise's belated adjustment of its payroll records omits more than \$112,154 of five executives' untaxed income.

In sum, Gloria Wise's purported corrective action – halting car payments and reporting as 2004 income a portion of four executives' pre-2004 unreported income - should not be confused with a comprehensive remedy for (a) its and its executives' frauds upon and thefts from the City and other sources, (b) its executives' improper receipt of stolen money and other unauthorized benefits, and (c) its and its executives' failures to report the executives' income.

E. City and Federal Funds Stolen to Pay Development Consultant

Between May 2003 and January 2004, Rosen and Aulenbach stole \$10,000 from DYCD and \$4,500 from HUD by fabricating two contracts and submitting three altered invoices, all of which state falsely that Gloria Wise was paying Constructive Strategies, Inc., to train young people in "job readiness" and "interior design." In fact, Constructive Strategies, a consulting business owned and operated by Thomas Montvel-Cohen, Evan's brother, was paid by Gloria Wise to help secure government approval for a new community center, a service that Gloria Wise could not properly charge to DYCD. DOI found no evidence that Thomas Montvel-Cohen participated in or knew about the submission of the false documents to the City and HUD.

The following account is based on interviews with Aulenbach and Thomas Montvel-Cohen and an examination of Gloria Wise's and DYCD's records.

For several years, Gloria Wise contemplated developing a new community center on a two-acre, City-owned site, which required a formal proposal to the City's Economic

Development Corporation (EDC). In 2002, Rosen and Aulenbach, on Evan Montvel-Cohen's recommendation, retained Constructive Strategies, i.e., Thomas Montvel-Cohen, who had relevant experience, to prepare the proposal. Thomas Montvel-Cohen worked on the project from late 2002 until mid-2004 and produced a draft proposal, for which Constructive Strategies was paid \$31,100.

To obtain DYCD funds for part of Constructive Strategies' fee, Rosen and Aulenbach created, on DYCD forms, two phony consulting contracts, dated May 1, 2003, each stating that for \$50 per hour, up to a maximum of \$5,000, Constructive Strategies would provide training for youth in, respectively, "job readiness" and "interior design workshops." The four signatures on the two phony contracts, for both Gloria Wise and Constructive Strategies appear to have been written by the same person – Rosen - which Aulenbach confirmed (see Ex. 38). In June 2003, Aulenbach altered and submitted to DYCD two Constructive Strategies invoices, each for \$5,000, by inserting "youth job readiness training" in one and "interior design youth workshop" in the other (see Ex. 39). On or about January 15, 2004, Gloria Wise submitted a similarly-altered Constructive Strategies invoice for \$4,500 to HUD purportedly for "youth job readiness training." (See Ex. 40.) Thomas Montvel-Cohen produced his original invoices (Ex. 41) and when shown copies of the altered invoices said that he had never seen them before and had not known that he was being paid under them.

Aulenbach told DOI that he believed that Thomas Montvel-Cohen neither saw the false contracts and invoices nor knew that his fees were being paid with funds that Gloria Wise was obtaining fraudulently.

F. City Funds Stolen to Pay for Site Renovations

DOI determined that, through fraudulent payment requests submitted to DYCD, Gloria Wise improperly obtained more than \$20,000 from the City to fund renovations of Gloria Wise's sites.

Gloria Wise's records show payments totaling almost \$100,000 to Ahmet Nakishbendi, reportedly Rosen's personal friend, for architectural plans and renovation of Gloria Wise sites during several years ending in 2003. Of the total it paid to Nakishbendi, Gloria Wise obtained \$35,230 from DFTA and \$20,138 from DYCD. Unlike DFTA, which pays for renovations at sites where senior citizens attend programs, DYCD does not fund site renovations. Therefore, to charge DYCD for Nakishbendi's work, Gloria Wise used a fraudulent scheme similar to that used to pay Constructive Strategies: Gloria Wise submitted fraudulent payment-claims to DYCD falsely stating that Nakishbendi was providing training programs for youth, when in reality he was only performing renovations. Based on Gloria Wise's false claims, DYCD paid \$10,350 for a "job development workshop" in May 2001, \$6,588 for a "kitchen planner workshop" in May and June 2001, and \$3,200 for a "diversity workshop" in June 2002, all fictitious (see Ex. 42).

Investigators called Nakishbendi in Pennsylvania, where he resides. Nakishbendi said that the payments he received from Gloria Wise were for renovating a kitchen and purchasing furniture. He could not recall conducting any youth programs for Gloria Wise, and when asked what kinds of youth programs an architect and contractor would conduct, Nakishbendi essentially admitted that he had conducted none. Nakishbendi abruptly

ended the telephone conversation and did not respond to later telephone messages and faxed inquiries concerning contract documents bearing his purported signature.

Investigators compared the endorsements on the cancelled checks deposited into Nakishbendi's bank account with a Gloria Wise contract that he purportedly signed; the signatures are clearly different. Whether Nakishbendi knew of or participated in the submission of fraudulent claims to DYCD by which he was paid over \$20,000 is unknown.

V. FALSIFICATION OF RECORDS AT GOOSE BAY

A. Medical Records and a Teacher's Credentials Falsified before Health Audits

DOI's investigation also revealed that Goose Bay administrators and teachers falsified students' medical records at the Gloria Wise Goose Bay Nursery and Kindergarten before annual audits by the New York City Department of Health and Mental Hygiene (DOHMH). That revelation was one reason for City agencies' terminating their contracts with Goose Bay and Gloria Wise in June 2005.

According to Corva, in the mid- and late-1990s, when she was a Goose Bay "site director," she and two teachers, Sheila Borrero and Rosemary Santiago, who both later became site directors, "doctored" students' medical records by falsely writing in them that the children had received required medical examinations and vaccinations for diseases such as measles, mumps, rubella, diphtheria and tuberculosis. Corva said that she believed that the practice continued at Goose Bay until approximately March 2004, when Borrero left (T, 6/16/05, 98, et. seq.; T2, 6/30/05, 13 et. seq.). Borrero and Santiago confirmed that they had helped Corva falsify the vaccination records and later, as site directors, had continued to falsify such records.

Corva explained that some parents failed to submit the required form, signed by a doctor or nurse-practitioner, stating that a child had been examined and vaccinated. Rather than requiring the parents to provide the completed forms before admitting their children, Corva created false records purporting to show that those children had been vaccinated. When asked, Corva said that she took no steps to ensure that the children whose forms she altered were in fact vaccinated. Corva also acknowledged that occasionally she "might have," fabricated an entire form, including the signature of a physician or nurse practitioner, by photocopying one student's completed form onto a blank form for another student (T 2, 6/30/05, 33-34).

Corva said that as Goose Bay's Director, she reported to Rosen and spoke with him about DOHMH audits and parents' failures to submit completed medical forms on time. She said that Rosen instructed her to "make sure you fly through the audit." Corva said that she never directly told Rosen that she was falsifying medical records, but she believed that he knew, because he knew that parents often failed to submit the required forms and that Goose Bay would not pass the audit without them. She added that during various audits and investigations, including DOI's, Rosen displayed a "total disregard for authority" and encouraged the staff to do what they needed to do, including not telling the truth (T2, 6/30/05, 20).

Additionally, Corva told investigators that before one DOHMH audit she and Rosen fabricated a high school diploma to create the false appearance that a Goose Bay assistant teacher had that required credential (T, 6/16/05, 104).

Corva told DOI that in or about March 2004, Corva hired a business manager for Goose Bay whose job included ensuring that Goose Bay received properly completed medical forms for all children in its programs (T2, 6/30/05, 20-21).

Santiago, who worked at Goose Bay from 1995 until August 2005, first as a teacher and ultimately as a site director, admitted to DOI that she, Borrero, and Corva forged children's medical records to pass annual health inspections. Santiago generally reiterated Corva's description of why and how they falsified the forms and confirmed that no steps were taken to ensure that the children whose forms were falsified actually received the required vaccinations. Santiago said that she believed that medical forms were falsified at all of Goose Bay's sites, although she claimed to have no specific knowledge of others' doing so.

Borrero, employed at Goose Bay from 1998 until 2004, initially as a teacher and later as a site director and Educational Director, confirmed that, with Corva and Santiago, she altered and fabricated children's medical records, checking-off required treatments and examinations to make the forms appear complete. When a child's medical record was missing, they copied and altered another child's form. Borrero said that Goose Bay eventually received actual medical records from parents and substituted them for the fabricated ones.

Borrero estimated that as a site director she fabricated approximately six to eight records per inspection, and because Goose Bay had an unwritten "must pass" policy concerning health inspections, Borrero believed that the other site directors also fabricated medical records.

Investigators also interviewed Brenda Taylor, DOHMH's former Bronx borough manager for day care programs, who visited Goose Bay regularly during the period when medical forms were being altered. She said that she never suspected that records were altered or forged for the inspections, and none of her staff reported such suspicions to her.

B. Records of "Related Services" Classes Falsified and State Overbilled

Corva also informed DOI that on occasion State Department of Education (SED) filings were altered at Goose Bay so that the school received additional money from the State.

SED funded classes called "related services," such as speech therapy, that Goose Bay conducted. To receive SED funds for "related services," Goose Bay had to file an "RS-1" form, which describes the services provided, the number of times children received them, and the number of children in each session. Corva said that SED requires that some "related services" be conducted "one-on-one," that is, one child per session with one instructor, rather than several children in a group session. Corva said that some of Goose Bay's RS-1 forms falsely stated that two or three children each attended separate "one-on-one" related service sessions, when in reality they attended a single group session with one instructor. The falsification made it appear that Goose Bay complied with the "one-on-one" requirement and enabled Goose Bay to bill SED for

more sessions than Goose Bay was providing: Rather than billing SED for one speech therapy class attended by three children, Goose Bay billed SED for three sessions by falsely claiming that a separate session had been conducted for each child.

VI. DOI RECOVERS \$625,000 OF CITY FUNDS FROM GLORIA WISE

DOI has recovered \$625,000 that Gloria Wise owed to the City.

In September 2005, at DOI's request, Piquant, LLC, owner and operator of Air America Radio, deposited \$875,000 into its attorney's fiduciary account, to be retained until DOI authorized its disbursement (see Ex. 17). That sum equaled the total that Gloria Wise's executives had improperly withdrawn from Gloria Wise's accounts, most of which came from the City, and lent to SCG, Inc. and RFA, Air America's former owners, as detailed previously in this report.

In September 2006, Gloria Wise's current chief executive and counsel were presented with an outline of DOI's investigative findings, including the frauds and thefts from City agencies described previously in this report. On behalf of the City's DOE, DYCD, and DFTA, DOI requested repayment of funds that Gloria Wise owed to them. On September 26, 2006, Gloria Wise agreed to a settlement by which \$625,000 that had been preserved in the fiduciary account was repaid to the City. That payment compensates the City for \$250,000 in improper expenditures by Gloria Wise from City funds paid by DYCD and DFTA between 2000 and 2004 and \$375,000 in overpayments by DOE to Goose Bay between 1997 and 2006.

VII. CONCLUSION

DOI found that, between 2000 and 2004, Rosen and other Gloria Wise executives (1) fraudulently siphoned from Gloria Wise more than \$290,000, much of it stolen from the public, for their personal benefit, (2) lent \$875,000, unsecured, most without informing their Board, to one executive's private business venture, and (3) routinely falsified records about a host of matters - from how public funds were spent to whether children attending Goose Bay had received required vaccinations. Rosen and other executives also attempted to conceal their misconduct and obstruct DOI's investigation by fabricating documents and misrepresenting the facts when questioned under oath.

Rosen was particularly untruthful. When DOI investigators first visited Gloria Wise and asked for backup documents for several hundred thousand dollars' payments to RFA and Montvel-Cohen, Rosen, rather than responding truthfully - that none existed - told his subordinates to fabricate them. Later, as the first executive to testify, he compounded that obstruction by falsely claiming that the fabricated documents were authentic. Then, after other witnesses revealed some of the frauds in which they and Rosen had participated, including those fabrications, Rosen invoked his right against self-incrimination and declined to speak with investigators.

Even the executives who revealed the frauds at Gloria Wise - Aulenbach, Mullen, Corva, Terrero, and Ozoria - rationalized them and exaggerated Gloria Wise's purported remedial action. Gloria Wise's executives returned none of the \$290,000 they improperly collected from Gloria Wise and the taxpayers. Only through DOI's intervention - its investigation, its briefing of the City's agencies who funded and dealt with Gloria Wise, its advice to Air America Radio to place all money received from Gloria Wise into a

fiduciary account subject to DOI's control, and its pursuit of the previously-described settlement with Gloria Wise - has any of the misappropriated money been recovered.

Under Rosen, Aulenbach, Corva, and Ozoria, Gloria Wise's business records – letters, contracts, invoices, check requisitions, notations on corporate checks, ledgers, certifications filed with government agencies, and children's medical records – rather than reflecting actual events, were made to say whatever suited the executives' purposes, without regard to accuracy or authenticity.

So at Gloria Wise, fabricating a contract and telling a City agency that the contractor renovating Rosen's apartment was conducting a "gang-prevention workshop" was a valid way of funding Rosen's compensation, and telling the agency that the consultant planning a new Gloria Wise building was training young people in "interior design" and "job-readiness" was a valid way of funding the consultant's fee. Opening secret bank accounts in the names of athletic clubs and fabricating youth-activities contracts was a valid way of funding \$90,000 in untaxed "bonuses" for selected executives. And Goose Bay Nursery's "flying through" a health audit – and preserving its funding - was what mattered, not whether deceiving the auditors by "doctoring" students' medical records - and ignoring vaccination requirements - jeopardized the students' health. At Gloria Wise under Rosen, fraud, whenever expedient, was an accepted way of doing business.

Gloria Wise's Board, apparently oblivious to the reality of how Gloria Wise was being managed and unmindful of its fiduciary responsibility, left the organization completely exposed to Rosen's unethical and irresponsible actions. Led by President Graves, Vice President Valentine, and Treasurer Cruz, the Board met monthly but generally deferred to Rosen, accepted his statements uncritically, and took no independent action to monitor Gloria Wise's financial condition. Cruz, after ten years as Treasurer, testified that he had no particular responsibilities, understood "Treasurer" to be an all but meaningless title, and so took no particular interest in Gloria Wise's financial records and annual financial reports. It was evident that the Board's three officers – volunteers and community residents - were unprepared to govern an organization of Gloria Wise's size and complexity or to ensure that its dominant Executive Director – their long-time neighbor and friend - was managing it responsibly. DOI has been informed that Graves, Valentine, and Cruz recently resigned.

DOI has shared its findings with the New York State Attorney General's Office, and has briefed several public agencies, including DOE, SED, which licenses nursery schools, DYCD, DFTA, NYCHA, the Mayor's Office of Contract Services, and the State Office of Children and Family Services. DOI intends to provide copies of this report to other public agencies, including HUD and the Internal Revenue Service.

DOI has been informed that Gloria Wise is seeking to reconstitute itself and adopt policies and procedures to prevent a reoccurrence of the kinds of misconduct revealed by the investigation. The New York State Attorney General's Office, through its Charities Bureau, is reviewing those recent developments, along with DOI's findings.

VIII. RECOMMENDATIONS

At any given time, DOI is investigating allegations of theft, fraud, waste, abuse, and mismanagement within various not-for-profit organizations under contract with the City. In such cases, investigators have repeatedly found similar patterns of theft, fraud, abuse of position, mismanagement, and governance-failures.

The following are some of the more common frauds and abuses: (1) interest-free loans to executives that end up uncollected, written-off, and unreported; (2) executives' abuse of organizational bank accounts and credit, debit, and ATM cards for personal purchases and cash withdrawals; (3) double-payment of salaried employees as consultants; and (4) vendors' "kicking back" money to a not-for-profit customer's executives. DOI has also seen that, increasingly, not-for-profit executives have been collecting salaries and perks that appear excessive and disproportionate to their organizations' budgets.

DOI has found that long-running frauds and abuses by not-for-profit insiders are often associated with the absence of oversight: passive boards of directors and superficial annual financial reviews by external accountants. The scope and depth of the annual financial reviews are often constrained by the funds that the not-for-profits allocate for them and possibly by the accountants' reluctance to alienate the not-for-profit executives who hire them and with whom they become familiar over time.

City agencies that fund not-for-profits are ill-equipped to stand-in for their ineffective boards and external accountants. City contract agencies are usually concerned with narrow issues – whether the funds allocated to a not-for-profit's contract are sufficient to pay its charges and whether those charges appear to be for contractually-authorized purposes, based on the not-for-profit's written description. Contract agencies rarely verify the accuracy of those descriptions by, for example, interviewing purported subcontractors and payees. At best, some City agencies audit specific programs to verify that the funded services are provided. Such audits are not designed to reveal the not-for-profit's financial condition or the integrity of its fiscal and management practices, and they rarely do.

When the City doesn't know whether a not-for-profit it deals with is fundamentally a responsible, trustworthy organization whose records and written representations are reliable, it lacks assurance that the public's money is being used for its intended purpose. As the Gloria Wise case shows, experienced but unethical not-for-profit executives become adept at stealing public money by falsifying the documents on which the agencies rely in authorizing payments. Therefore, DOI recommends that when significant amounts of public money are involved, the City deal with only those not-for-profits that meet minimum standards of corporate governance and fiscal responsibility.

A) Recommendations Concerning Boards of Directors

When the City's prospective contracts with a not-for-profit entity, in total, will involve the expenditure of significant public funds, for example, more than \$1 million in a given year, it should first review the entity's management and governance practices, starting with its board of directors, and decide whether they provide a sufficient level of assurance that the not-for-profit is being managed responsibly, that its financial records

accurately reflect its activities, and that its written and oral representations generally are reliable. If the not-for-profit meets those standards and is deemed a responsible prospective contractor, the City's contracts should require that the entity maintain the necessary level of integrity as a condition of continuing contractual relations. Following are criteria and specific steps that, although not guaranteeing a board's integrity and effectiveness, at least indicate its awareness of applicable standards:

1) Participation in training, such as that offered by the Volunteer Consulting Group, a New York City organization with more than 35 years' experience in assisting the boards of not-for-profit organizations in developing oversight and governance capabilities. Boards should also be encouraged to avail themselves of the information and assistance available to not-for-profits from the New York State Attorney General's Charities Bureau at www.oag.state.ny.us/charities.

2) The availability of detailed minutes of regular board meetings, which the City should review before entering into or renewing a contract with a not-for-profit. The minutes should reflect the extent and depth of the board's awareness of the entity's mission, operations, and financial condition, its oversight of the chief executive, and its actions in response to issues and problems. The continuing availability or provision to the City of board minutes should be a contractual obligation of the not-for-profit. The chairman and another board officer should personally certify the authenticity and accuracy of the minutes in a signed, notarized writing submitted to the City with the minutes.

3) The existence of a functioning finance committee of the board, responsible for ensuring that sound, written fiscal procedures are established and followed at all levels of the organization, with particular emphasis on compliance and enforcement by the chief executive, fiscal executive, and their staffs. To monitor the organization's compliance, the finance committee should be responsible to obtain, review, and report to the board concerning quarterly reports on the overall financial condition of the organization. The reports, at a minimum, should include the opening and closing balances of all bank accounts, cash-flow, major expenditures and liabilities incurred during the quarter, payables and receivables, a list of all that quarter's consulting payments with brief justifications, any emergency payroll advances, compensation and perks to executive staff, other than specifically approved by the board, if any, during the quarter, and the finance committee's observations concerning the organization's compliance with the "two-signature rule" and procedures for executive compensation, discussed below. The finance committee's report should be incorporated in the minutes of the board meeting at which it is presented, and the minutes should reflect any relevant board action concerning the matters contained in the report.

4) The existence and enforcement by the board of a meaningful "two-signature rule," with one signer to be a designated board officer, for all organizational checks above a certain amount, appropriate to that organization, except for regular paychecks issued by an independent payroll service. Gloria Wise, like other not-for-profits DOI has investigated, had a two-signature rule that was rendered meaningless by the staff's routine use of a board officer's signature stamp. At Gloria Wise, the Board President's signature stamp was used without her specific knowledge on checks of \$35,000 and \$218,000 to an executive and his private business; therefore, she had no opportunity to

question those or other questionable disbursements. One simple step through which the board can maintain accountability and prevent the abuse of organizational funds is to require the original signature of a designated board officer, in addition to the original signature of an authorized staff member, on all significant checks. Compliance with the policy should be monitored and reported to the full board by the finance committee, whose members, therefore, should not sign organizational checks, or by an active, functioning audit committee with the same quarterly reporting responsibilities.

5) The board's annual written evaluation of the chief executive's performance and its setting of the executive's compensation. In the absence of specific advance approval by a majority of the board members at a duly scheduled meeting of the full board reported in the minutes, no additional compensation or perks for the executive should be permitted. Compensation decisions should be based on the executive's performance, reflected in the annual evaluation, the organization's financial condition, and ethical business practices. Compensation of other executive staff should require the board's approval, upon the chief executive's recommendation.

6) Loans should be prohibited with one limited exception. The board might, if it wishes, authorize the chief executive to approve an emergency payroll advance to an employee other than himself or herself, never exceeding the net amount of the employee's next regular paycheck, with no further emergency advance permitted until that employee has repaid the previous advance, and all such advances should be recouped within sixty days. The chief executive should be required to report every emergency payroll advance to the board's finance committee within a specific time established by the board, not longer than the date of finance committee's next quarterly report, and all such advances should be included in that report.

7) The board and its finance committee should be aware of and require the chief executive to comply with material terms of the not-for-profit's contracts with the City, including the requirements for a separate bank account for all payments by the City and for the disclosure of information regarding subcontracting and consultants, discussed below. Because commingling of funds and the inappropriate use of subcontracts and consultants have frequently been associated with theft, fraud, and abuse, these practices merit board scrutiny.

B) Recommendation Concerning Separate Bank Account for City Payments

City contracts already require that not-for-profit contractors establish and maintain at least one separate bank account into which all funds obtained through City contracts are deposited. No other funds should be deposited in those accounts or commingled with the funds obtained through City contracts.¹⁰ City agencies should rigorously enforce that requirement, and no contract with a not-for-profit should be awarded unless and until the separate bank account for funds obtained through the City is established and the not-for-profit acknowledges in writing that continuous compliance with the requirement is a material term of the contract. Before approving a payment, the contracting agency should ascertain whether the previous payment was deposited in the proper account.

¹⁰ See DYCD General Contract Provisions, Part II, Article III – Fiscal Procedures, Section B (1).

C) Recommendation Relating to Subcontracting and Consultants

Gloria Wise used phony consulting agreements, a kind of subcontract, to misappropriate significant sums from City agencies for various unauthorized uses, including paying its executives and independent contractors for reasons unrelated to Gloria Wise's contract with the City agency charged for the supposed service. City agencies should actively enforce the standard "subcontracting" clause in their contracts, which, in part, requires the City agency's prior written approval before a contractor, including a not-for-profit contractor, enters into any subcontract for the performance of its contractual obligations.¹¹ The City agency should approve only those subcontracts that clearly describe, in a signed, notarized writing, the specific services to be provided, with details such as dates, times, locations, and number of persons participating. Before approving a subcontract, the City agency should require the contractor to identify the subcontractor's officers, directors, and key staff and to disclose any additional relationship between the proposed subcontractor and the not-for-profit, such as an employment or separate contracting relationship or a financial, family, or other personal relationship among the organizations and individuals concerned. The agency should withhold approval unless it is satisfied that the subcontract appears to be an arms-length transaction for a legitimate business purpose within the scope of the contract.

D) Recommendations Regarding Compensation

1) City agencies should actively enforce the "compensation" clause of City contracts, which requires a not-for-profit's key employees to report annually "all sources of their compensation, whether from this contract or another City, State, federal or private source, and the dollar amount of compensation from each such source."¹² City agencies should apply that reporting requirement also to any compensation a not-for-profit's key employees receive from any of the not-for-profit's affiliates.

2) City agencies should actively enforce the terms of its contracts concerning limitations on the use of the funds received under the contracts and review the reports submitted by the not-for-profits to ensure that funds are only being used for permissible purposes.

Note

I would like to thank the members of DOI who worked on this investigation: Assistant Commissioner Benjamin Defibaugh, First Deputy Inspector General Valentine Douglas, Investigative Auditor Boris Galchenko, Deputy Assistant Commissioner Keith Schwam, and Deputy Commissioner Daniel D. Brownell. I would also like to thank the members of the Charities Bureau and the Public Integrity Unit of the New York State Attorney General's Office for their work on this case.

¹¹ See DYCD's General Contract Provisions, Part II, Section 2, Subcontracting.

¹² See DYCD General Contract Provisions, Part II, Article VII (B) Compensation of Key Employees.