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DOI INVESTIGATION LEADS TO ARREST OF CITY-FUNDED NONPROFIT EXECUTIVE AND SPOUSE ON THEFT CHARGES AND FINDS CONCERNS WITH NYC AGING DEPARTMENT'S AUDITING PRACTICES AND OVERSIGHT OF CONTRACTORS

Mark G. Peters, Commissioner of the New York City Department of Investigation ("DOI") and Preet Bharara, United States Attorney for the Southern District of New York, today announced the arrest of two defendants charged with nearly \$1 million in fraud from a City-funded not-for-profit that serves senior citizens in Upper Manhattan. In conjunction with the arrests, DOI also released a report documenting vulnerabilities in the City Department for the Aging's ("DFTA") oversight of fiscal practices at not-for-profit organizations to which it provides taxpayer funds. Those vulnerabilities, which DOI is working with DFTA to correct, came to light during an investigation of the United Block Association ("UBA") and the theft of almost \$1 million intended to provide services, including meals, to senior citizens. Those funds were instead used, among other things, to pay for the defendants' personal expenses, including a mortgage on a four-bedroom home on Long Island, utility bills and part of the purchase of a late-model luxury sedan. A portion of the proceeds from the criminal scheme were laundered through a shell corporation established by the defendants, according to the criminal complaint.

DOI's review of DFTA's oversight program highlights breakdowns in the agency's auditing practices and recommends specific ways to improve fraud detection and limit future fraud. A copy of DOI's Report follows this release and can be found at the following link: <http://www.nyc.gov/html/doi/html/doireports/public.shtml>.

Commissioner Mark G. Peters said, "The defendants stole food from the mouths of New York's seniors, diverting almost a million dollars from programs designed to provide meals and services to the elderly, according to the criminal complaint. Our investigation revealed systemic vulnerabilities in the Department for the Aging's practices that we are now working with the agency to correct so that City services get to New Yorkers in need – not to crooks who prey on them. I thank the U.S. Attorney for his continued partnership in these investigations."

U.S. Attorney Preet Bharara said, "As alleged, an executive director of a non-profit organization, with the assistance of his wife, abused his position of trust as a provider of public services to enrich himself and his family. Kwame Insaadoo and Roxanna Pearson allegedly diverted close to a million dollars in public funds designed to assist our City's elderly and spent it on themselves. I thank our partners in this investigation for their work in rooting out public corruption."

Today, UBA executive director KWAME INSAIDOO, 59, of Bay Shore, NY, and ROXANNA PEARSON (a.k.a. ROXANNA INSAIDOO), 62, of Bay Shore, NY, were each arrested and charged with conspiracy to commit wire fraud, wire fraud, embezzlement of government funds, and money laundering conspiracy, federal offenses that upon conviction are each punishable by up to 20 years in prison; and conspiracy to embezzle government funds, a federal offense that upon conviction is punishable by up to five years in prison.

According to the criminal complaint, UBA is a nonprofit that receives public funds through DFTA. KWAME INSAIDOO has been UBA's executive director since 1993 and was responsible for reporting to DFTA on UBA's compliance with the City's fiscal requirements. INSAIDOO's wife, ROXANNA PEARSON, is a registered nurse and was purportedly a consultant with UBA until her resignation in August 2012. The investigation found PEARSON continued to

receive unauthorized funds from UBA after her resignation for violating City requirements that prohibit a manager having authority over an immediate family member without written consent from DFTA. DOI's investigation found bank accounts into which INSAIDOO transferred City funds but never disclosed to the City, as he should have done by City contractual requirements, and that UBA over-billed the City for purchases at the same time he was authorizing transfers of thousands of dollars from UBA's accounts to himself, his wife, and a shell corporation named Allied Home Care ("AHC"), which reportedly operated out of the couple's home. UBA issued more than \$190,000 in checks to AHC that were deposited into bank accounts in which INSAIDOO signed as AHC's president and PEARSON signed as AHC's Vice President. These funds were used to pay for personal items for INSAIDOO and his wife, including a mortgage for a Long Island home, clothes, utilities and insurance. AHC was incorporated in 1996 and received funds from UBA since at least 2008; it first submitted a required filing to the New York State Charities Bureau in June 2015 after the City sent UBA a letter regarding a follow up it was doing on an audit.

As outlined in the Report issued today, DOI's investigation into these facts raised concerns about vulnerabilities in DFTA's monitoring of its City-funded nonprofits, specifically finding that DFTA's process of conducting so-called "flash" audits of DFTA-funded organizations, in lieu of more complete reviews, should be strengthened. Just two staff members are responsible for conducting all of DFTA's audits of non-profits with which it contracts, with each auditor carrying a caseload of more than 100 organizations. This structure leaves auditors with insufficient time to conduct tests to determine if rules are being followed or to evaluate the integrity of the not-for-profits. In the UBA case specifically, DOI determined that auditors had received records showing suspicious money transfers from UBA to unidentified accounts, but did not obtain further information about how the money was spent or address the transfers in their audit reports.

DOI's investigation also revealed that invoices meant to categorize an organization's monthly expenses on an item-by-item basis contain few details, and that DFTA collects only a limited number of supporting invoices to substantiate the claims. By exploiting this vulnerability, UBA was able to overbill DFTA for expenses, in one instance, apparently over-reporting its total expenses for four senior centers it operates by more than 500%.

DOI's recommendations – which DFTA has said it will implement – include:

- DFTA should ensure that auditors have the time and resources to do their job effectively and be instructed to spend additional time at a site when they identify significant concerns with an organization.
- DFTA should collect some quantity of third-party vendor invoices and other appropriate backup documents to substantiate a contractor's claims for reimbursement, at least on a random basis.
- DFTA should ensure that not-for-profit contractors complete Corrective Action Plans when issues are identified, and develop a system for enforcing the terms of these plans and appropriate consequences for organizations that do not comply with DFTA's fiscal practices.

DOI Commissioner Peters thanked U.S. Attorney for the Southern District of New York Preet Bharara and DFTA Commissioner Donna M. Corrado, and their staffs, for their cooperation and assistance in this investigation.

The investigation was conducted by DOI's Office of the Inspector General for City-funded nonprofits, specifically Investigative Auditor Elizabeth Mack, under the supervision of Deputy Inspector General/Chief Forensic Auditor Ivette Morales, Inspector General Andrew Sein, Associate Commissioner Susan Lambiase, Deputy Commissioner/Chief of Investigations Michael Carroll and First Deputy Commissioner Lesley Brovner.

Assistant United State Attorney Eli J. Mark from the U.S. Attorney's Office for the Southern District of New York is prosecuting the criminal case.

A criminal complaint is an accusation. Defendants are presumed innocent until proven guilty.

DOI is one of the oldest law-enforcement agencies in the country and New York City's corruption watchdog. 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. DOI's strategy attacks corruption comprehensively through systemic investigations that lead to high-impact arrests, preventive internal controls and operational reforms that improve the way the City runs.

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