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**Finance Committee Report  
Prepared for the February 15, 2006 meeting of  
The Radburn Citizens' Association**

I am sorry that I cannot be with you (due to a scheduling conflict). The following is this month's finance committee report.

Radburn Association Audit

On January 3, 2006, my open letter was sent to the Trustees. I reported on that letter to you at last month's (January 18<sup>th</sup>) meeting. That letter discussed material weakness in the Radburn Association's internal controls and fraud risk factors. In that letter, I offered to meet with the Trustees (at no cost to the Radburn Association), to discuss the situation and my recommendations. I have yet to hear from any of the Trustees.

In addition to that letter being sent to all the Radburn Association Trustees, a copy of that letter was mailed to the Radburn Association's accountant, Carl Roth. Mr. Roth has yet to show the courtesy of acknowledging my letter.

When I reported to you at last month's Citizen's Association meeting, Radburn Association President Morris and Radburn Association Trustee Weiss were present. June Meyerson announced that the Trustees agreed to an audit at their January meeting. I asked June if auditors have been selected, if there was a start date set for the audit, or an anticipated audit completion date. I was told none of these items had been discussed.

I offered to use my extensive contacts in the New Jersey Society of Certified Public Accountants to assist the Trustees in finding independent auditors who are well qualified to perform an audit of the Radburn Association, and who could perform the audit during tax season. Neither Morris nor Weiss acknowledged the offer, nor has the Board of Trustees contacted me for assistance.

I have yet to hear from any Trustee regarding my recommendation that a study of the Radburn Association's internal controls be performed as part of the audit.

To summarize, it is approximately a month and a half since:

- the Radburn Association's fiscal year ended,
- I wrote the Trustees and recommended an audit,
- I notified them of the fraud risk factors present in the Radburn Association's operations,
- I notified them of material weakness in the Radburn Association's internal controls,

and the Trustees have done nothing!

## Radburn Association Finances

During last month's report, Trustee Weiss questioned me if legal fees were the cause of the deficits that the Radburn Association reported on their 2003 and 2004 tax returns and projected for 2005 as reported in the *Radburn Bulletin*. To make sure there is no question as to the accuracy of the answer I gave last month, I analyzed the returns to insure the accuracy of my answer. In fact, the situation is worse than I said it was when I gave my answer.

In each of the years, 2003, 2004, and 2005, legal fees were over budget by more than the amount of the deficit. This means, each year the cause of the deficit was a direct result of over budget spending on legal fees.

When the period 2003 - 2005 is looked at in total, the consequences of the excessive spending on legal fees becomes very apparent.

For the period 2003-2005:  
Total legal and professional (excluding accounting): \$664,217  
Legal and professional in excess of budget: \$419,217  
Total Deficit: \$183,844

It is important to note that in 2004 the Radburn Association received \$125,000 from the pending sale of Daly Field (in the form of a non-refundable deposit, per the 2004 tax return). The pending sale of Daly Field masks the size of the deficit spending. If Daly Field had not been sold in 2004, the total deficit for the period 2003 - 2005 would have \$308,844, \$125,000 more than the \$183,844 computed above.

The deficits, the amount received from the pending sale of Daly Field, the spending on legal and professional fees that exceeded budgeted amounts by more than \$419,000, all taken together give the appearance that Daly Field was sold to pay for the Radburn Association's massive spending on legal and professional fees.

Additionally, if the Radburn Association continues to run \$100,000 plus deficits as they are projected to have done in 2005, and would have done in 2004 if not for the sale of Daly Field, the Radburn Association will be out of cash within three years.

Furthermore, the \$664,000 spent on legal fees, during 2003 - 2005, could have been spent on addressing residents' concerns about R Park, providing additional recreation services to residents, and simultaneously cutting Radburn Association dues and assessments.

An example of how residents are short changed is that the Radburn Association's 2006 budget is approximately \$1 million and the Citizens' Association had to buy the residents of Radburn a ping-pong table. Think about this, the Radburn Association spends approximately \$1 million a year and does not have \$400 for a ping-pong table.

Trustee Weiss made repeated statements during last month's meeting about how the Trustees monitor the finances of the Radburn Association and receive financial reports every month. I believe the results of the Trustees' monitoring speaks for itself.

## Radburn Association Corporate Governance

Several years ago, a wave of scandals involving corporate fraud engulfed numerous publicly held corporations. Every single corporation involved in that scandal; Enron, Tyco, MCI WorldCom, Global Crossing, et. al. had several things in common:

- A weak control environment,
- Material weakness in internal controls,
- Fraud risk factors.

These common elements resulted in poor corporate governance and ultimately scandal.

Last month, I reported that the Radburn Association has:

- A weak control environment,
- Material weakness in internal controls,
- Fraud risk factors.

Tonight, I reported that despite being told about the presence of these conditions, conditions that leave the Radburn Association vulnerable to mismanagement and fraud, the Trustees have failed to take any action.

The Radburn Association, Enron, Tyco, MCI WorldCom, Global Crossing, et. al. all seem to have something in common, poor corporate governance.

Citizens, whose sole motivation is concern for the residents of Radburn, approached the Fair Lawn Borough Council. The Fair Lawn Borough Council discussed and decided against proposed legislation that would have addressed the issue of Radburn's corporate governance. That is unfortunate.

I see no issue affecting the citizens of Radburn that is more important than the issue of corporate governance. Our high Radburn Association dues, our massive spending (approximating one in four dollars) on legal and professional fees, the Radburn Association's failure to follow good business practices, the Radburn Association's failure to have an annual audit, our trustees not exercising their oversight responsibilities (as demonstrated during the Radburn Association Budget Hearing in December) are all clear indications of poor corporate governance.

The Radburn Association is not a penny ante operation. It is a corporation that serves hundreds of families. It is a corporation that spends approximately \$1 million a year. The residents of Radburn deserve better corporate governance than we have. The residents of Radburn deserve a corporation that follows good business practices. Radburn should not be mentioned in the same breath as corporate criminals and scandals. I am disappointed that our Trustees fail to demonstrate an understanding of this. I am disappointed the Borough Council failed to understand this.

Respectfully Submitted,

Gary Konecky, CPA