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September 23, 2014

Via Email and Regular Mail

Mary A. Beckman
Assistant Attorney General
Division Chief
Non-profit Organizations/Public Charities Division
Office of Attorney General Martha Coakley
One Ashburton Place
Boston MA 02108

Re: GeneSys Research Institute, Inc.

Dear Attorney Beckman:

Thank you for meeting with Lynn Hlatky, PhD. ("Dr. Hlatky") and me last month to discuss our continued concern about the conduct of the members of GeneSys Research Institute, Inc. ("GRI"). I write now to provide you with additional information.

As you will recall, at our meeting last month you suggested that Dr. Hlatky had not provided the Attorney General's Office with specific details pertaining to the members' misuse of awarded grant funds. We now have that information.¹ Specifically, GRI's Bank of America accounts contained grant funds from NASA, WIC, and MOVA VOCA, and its TD Bank Account contained funds from NIH, DOE, NASA, WIC and MOVA VOCA. These are both state and federal grant funds. As a non-profit, GRI is obligated to comply with Title 2 of the Code of Federal Regulations, Section 230 (2 CFR § 230) for both state (because they are derived, in part, from federal funds) and federal grant funds. As demonstrated below, GRI has violated these regulations repeatedly.

A. 2 CFR §230 (App. B, 31)

Specifically, 2 CFR §230 (App. B, 31) states as follows:

¹ The confidentiality order entered in the litigation action precludes us from sharing with you *all* the information we discovered about the misuse of grant funds. However, we have received information from independent sources - as well as the deposition of David Horowitz that your office attended - that falls outside the order and, thus, allows us to present that information to you here. Should you wish to inspect all of the information, we suggest that you ask GRI to authorize us to share it with you.

31. Expenditures, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization, in connection with establishment or reorganization of an organization, are *unallowable* except with prior approval of the awarding agency.

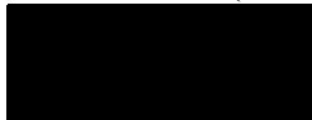
[REDACTED] Horowitz claims that the purpose of his role at GRI is to "reorganize the institute, to do negotiations for disaffiliation from Steward [Health Care LLC]..." In doing so, Horowitz has engaged a myriad of outside accountants, consultants and attorneys to assist him in reorganizing the Organization and disaffiliating with Steward. Among these are (with actual payments listed where it does not violate the confidentiality order):

- i) Lynch Brewer Hoffman and Fink (attorneys)
[REDACTED]
- ii) Best & Flanagan (attorneys)
- iii) Boris Epshteyn (GRI Member and Director, attorney fees for reorganization [REDACTED])
[REDACTED]
- iv) Hoffman Alvary & Co., LLC (patent consultants)
- v) Franciosa and Associates (accountants)
[REDACTED]
- vi) Floyd Advisory (financial advisors: reorganization and removal of Dr. Hlatky and her team)
[REDACTED]
- vii) Integra Realty Resources (real estate valuation and consulting)
[REDACTED]
- viii) Marcum, LLP (accountants: separation of co-mingled accounts)
[REDACTED]
- ix) Mark D. Alpert, CPA (accountants: separation of co-mingled accounts)
[REDACTED]

- x) RACS LLC (Charlie Tardivo, consultant)



- xi) David Horowitz (GRI Member, consultant for re-organization of GRI)





As a result, in one year, GRI has violated this section of the federal code dozens of times, and unlawfully spent hundreds of thousands of dollars in federal and state grant funds.

B. 2 CFR §230 (App. B, 37)

Specifically, 2 CFR §230 (App. B, 37) states as follows:


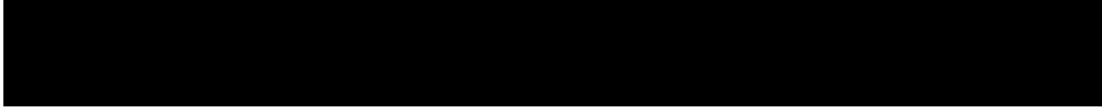
37a. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who *are not officers or employees of the non-profit organization* [emphasis added], are allowable ...

GRI violated this section by paying the following consultants:

- i) David Horowitz: President and Chief Executive Officer of GRI as documented by records filed with the Secretary of State's Office and is a consultant pursuant to his written contract with GRI.  This amounts to \$208,000.
- ii) Sandra Charton: Treasurer and Secretary as indicated by records filed with the Secretary of State's Office.  This amounts to \$90,000.

As a result, GRI has unlawfully paid nearly \$300,000 to consultants over the past 20 months.

C. 2 CFR §230 (App. B, 15)

Specifically, 2 CFR §230 (App. B, 15) states: "Equipment and other capital expenditures are unallowable as indirect costs." Despite that, GRI used these funds to purchase equipment, including 


D. 2 CFR §230 (App. B, 34) and (App. B, 45)

Specifically, 2 CFR §230 (App. B, 34) states as follows:

The following costs related to patent and copyright matter are unallowable:
(1) Cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures not required by the award.

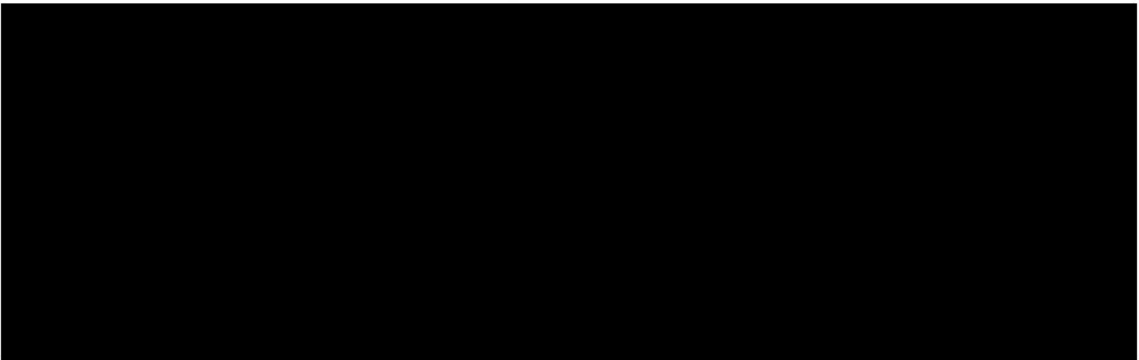
(App. B, 45) states: "Selling and marketing. Costs of selling and marketing any products or services of the non-profit organization are unallowable."

Here, GRI entered into an agreement with Hoffman Alvary & Co. LLC to conduct valuation of GRI-held patents for the ultimate purpose of marketing for sale to St. Elizabeth's Medical Center. GRI misused these funds too.

E. 2 CFR §230 (App. B, 12)

Specifically, 2 CFR §230 (App. B, 12) states as follows:

Contributions or donations rendered. Contributions or donations, including cash, property, and services, made by the organization, regardless of the recipient, are unallowable.



Effects of Misconduct

GRI has now unlawfully spent millions of dollars of grant funds fighting with its own employees and Steward, rather than the cancer research for which these funds were designated.² And, now they are seeking to terminate Dr. Hlatky and her team of approximately 15 cancer researchers - the only group that has brought revenues to GRI - because they complained to the Attorney General's Office ten months ago what we now know is true: GRI has unlawfully used grant funds. With this termination, the grant funds will end, the cancer research will be discontinued, and approximately 15 people will be unemployed. I cannot fathom circumstances more compelling than this for the Attorney General's Office's to put a stop to this misconduct.

I will follow up with you directly later this week to speak.

Thank you in advance for your consideration of this issue.

Sincerely,



Charles M. Waters

² I note that the first two GRI employees fired after the CCSB team members reported the financial misconduct to the Attorney General's Office were Winifred Nwangwu and Maria Bello – GRI's Director of Research Administration and senior research accountant. In other words, the two people who knew what happened.