

Our findings and responses are as follows:

1. Contract Non-Compliance
I. Loss of Tax-Exempt Status

RBTC filed, March 2013, form 1023 requesting reinstatement of the non-exempt status. At this time the application is pending. All delinquent tax returns have been filed. Once reinstatement is granted, it will be retroactive to the date of revocation. RBTC has placed measures to ensure all future 990 filings/returns shall be presented to the Board no later than 30 days prior to the filing submission deadline (May 15th of the filing year). (Evidence of submission attached)

II. Insufficient Documentation to Support Disbursements

RBTC has implemented and will comply with the following mandate: All records will be maintained for a period of 5 years (or longer as deemed necessary) as a quarterly review is performed of the Financial Records and submitted to the Board for approval and corrective action. Once the review is performed, said records will have the proper approval and notations to comply with the contractual obligations outlined for operation.

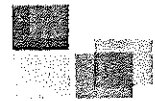
All payments made to individuals or entities must be approved by the Executive Director, Facilities Services Manager, and Treasurer for disbursements. All supporting documents will be presented at the monthly Board Meeting for evaluation to identify and address any conflict of interest issues that may exist. All documents will have the proper signage by each position previously named for compliance.

Any currency withdrawn from RBTC account shall be accompanied by supporting documents and shall be approved by the Executive Director, Facilities Services Manager and Treasurer.

III. Insufficient Governance of Related Party Transactions

Any transaction presented to the RBTC for payment, will require proper signage of by the Executive Director, Facilities Services Manager, and Treasurer. At the monthly Board Meeting, all transactions will be presented along with the Financial Statement for review. All supporting documentation must and will accompany the original transaction. If documentation is not presented at the time of the Board Meeting (for any transaction in process that has posted to the Financial Statement but has not been confirmed as paid or approved), proper notations need to be submitted no later than two weeks after the monthly Board Meeting.

In Response to the largest financial transactions of \$290,000:



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When RBTC entered the agreement with the Capital Area Workforce Development Board and USHHS (St. Augustine's University served as fiduciary agent) to provide employment for 18-24 year olds, Bob set-up separate bank accounts to operate each stream of funding as to not interfere with the RBTC operating account (5580). HHS (account 4655) and CAWDB (account 7081).

This is the explanation of the \$290K as reference in the auditor's report. The USHHS grant required us to place 40 individuals in fulltime employment for six months during a 3 year period. The grant was originally established that the Employee Trainees (ETs) as we referred to them would gain work experience with the renovation of 150 homes to be provided by the City of Raleigh Weatherization Project. When that project fell through during mid-2010, Mr. Robinson took it upon himself to seek out other Employer Partners to work with in order for us to meet the requirements of the USHHS grant. We did find some employers who had work, but did not have the revenue to pay the ETs; therefore, RBTC paid the salaries during 3rd and 4th quarters of 2010 and 1st and 2nd quarters of 2011 for these organizations.

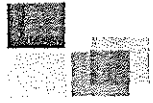
As a lesson learned, RBTC incurred additional tax liabilities. The cost was very substantial for RBTC and has aided in loss dollars for operating the facility to its fullest. As a result of this finding, RBTC decided it would not fund any employee costs in support of the USHHS grant.

At the end of 2010, beginning 2011, RBTC noticed that the referrals that CAWDB was sending for placement in employment lacked sufficient life skills and education to meet the needs of the employers and required additional training prior to employment. As a result, RBTC implemented a training requirement that each ET fulfill before receiving placement with any of its Employer Partners.

In early 2011, Bob developed an Employer Partnership with Strata Solar to ensure compliance with USHHS of employment for 18-24 year olds. The change in direction of the type of employment that would be used to meet USHHS requirements received verbal approval from our point of contact at USHHS, and required that we document this change in our semi-annual report. This action was performed as directed and noted in the report. The relationship with Strata Solar did not commence until mid-2011, after CAWDB had no other qualified individuals who could meet the requirements established by the now new partnership. Strata required that RBTC provide the individuals who could work in the building of solar farms (the installation of solar panels) for contracts they had with several power companies. In turn, Strata would be invoiced for the wages of the employed persons. Remember, RBTC was not in the employment business, so they outsourced this portion of the relationship to National Youth Chamber of Commerce (NYCC). NYCC had the responsibility of paying employees, and all tax liabilities associated with these employees.

Jamie,

Please prepare a response to Shirley for The 2011 and 2012 payments to the Youth Chamber of Commerce from the RBTC's check registers, provided from your accounting system, total \$290,000, \$6,736.78 in 2012 and \$ 283,165.33 in 2011. The checks that were written from



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CAWDB account 7081, was the bank account that was set-up to capture dollars paid by Capital Area Workforce Development and Strata Solar to RBTC for the work experience provided to the Employee Trainee's (ETs) from the Weatherization project. RBTC set-up a separate accounts to deposit the monies and would then write a check to NYCC to pay the (ETs) since we were not in the employment business.

Note: A lesson learned from previous year to not carry the ETs as employees of RBTC, creating an additional tax burden.

Check # 1121 (\$4,736.78), written on 3/1/212 from the HHS account 4655 paid for training provided by YCC to Employee Trainees for the solar project.

Check # 8132 (\$2,000), written on 2/13/12 and check # 8032 (\$5,000), written on 11/17/11 from RBTC 5580 operating account was a repayment of a loans to cover the cost of fan blade inventory payments.

Check # 8067 (\$907.29), dated 12/14/2011 paid by Strata Solar to RBTC, for the work experience provided to the Employee Trainee's (ETs) from the Weatherization project. (Payment under review for accuracy of payer).

IV. Audited Financial Statements Submitted Late

RBTC will ensure that all financial statements audited by a CPA shall be received by the City within 120 days of the close of the Agency's Fiscal Year. This Financial Audit shall be presented to the Board of Directors 30 days prior to the above submission for review.

V. Bank Reconciliations not performed

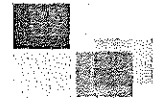
All bank reconciliations will be performed monthly. The results of each reconciliation will be presented to the Board at the Monthly Meeting. Consistent monitoring of all transactions will be performed by an identified entity to prevent excessive bank charges. This entity will report any inaccuracies discovered during the reconciliation process will be presented to the Executive Director, Facilities Services Manager, and Treasurer 7 days prior to the Monthly Board Meeting.

2. Financial Management Weaknesses

I. Delinquent Payroll Taxes

RBTC is currently in compliance with all Employee Payroll Tax Filings and deposits in meeting all Federal and State Law requirements.

As for previous years in question, RBTC has requested a Federal Payroll Tax Transcript from the Internal Revenue Service for review. If any outstanding balances are discovered,



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payment arrangements will be executed to bring the organization into compliance. As for the North Carolina Departments of Revenue and Commerce, no outstanding issues exist.

The stated amount of \$57,500 is inaccurate due to inconsistencies within the previous accounting report provided, as well as inconsistent entries made within the Financial Statements. A current review is in place to identify and address any outstanding liabilities as previously stated.

II. Excessive Program Expenses coded to the Pacesetter Program

The Raleigh Business & Technology Center raised \$40,845 from the private sector to operate the event. These funds were managed from the Banquet an operating accounts.

III. Financial Viability of RBTC

RBTC current revenue stream/cash flow is in excess of it's operating cost. RBTC solely relies on funds received through office rentals, contracts, grants, and privately raised funds to maintain its operational costs. As part of RBTC's continuous review process, any short falls will be identified sooner and will be presented to the Board to show evidence of financial strength, so that any outside funds received shall be approved by the Board prior to acceptance on a monthly basis.

Program Management Issues

1. Ownership of the Pacesetter Program

2. Business Incubator Program Practices

I. Targeting of Pacesetter Candidates in Different to the Business Plan

The eligibility criteria used to select the Pacesetters was expanded beyond the Southeast Raleigh residents. The changes were made to the business plan to satisfy leadership from other districts who made candidate referrals into the program.

II. Applicant Selection Criteria are Missing

The online application is made available to those interested or identified to participate in the program and are used for the interview process.

III. Participant Needs Assessment not Performed

A business assessment was co-developed and used by RBTC's Business and Finance Manager for Pacesetters and tenants. The assessment tool was used on a case by case basis leading



to their business plan. Pacesetter business plans were used as final criteria set by the Pacesetter facilitator to clarify readiness at the end of the training class.

IV. Limited Information Collected to Assess Program Effectiveness

The information collected by the RBTC according to the prescribed format was recommended by our Contract Manager from the City.

V. Absence of Tenant Policies – Terms of Lease Agreement

All current and future agreements will be reviewed and executed as outlined in the respective agreement. Future agreements will be presented to the Board for review and modified as needed. All terms shall be executed as outlined in the contract and presented to the Board for review and approval.

VI. Absence of Tenant Policies- Rental Payments

RBTC is currently drafting a document, to be included in the Lease Agreement, which will clearly outline the process of rental payments. This process will address penalties and instances of failure to comply. The policy will be presented to the Board for review and approval, and once attained, will be put in to practice immediately.

VII. Inconsistent Marketing

RBTC promoted the program through the Greater Raleigh Chamber of Commerce as well as Wake County Public School System. The current marketing plan will be reviewed by the Board and changes made as needed.

VIII. Absence of Monthly Budgeting

A monthly budget is provided to the Administrative committee on a monthly basis. Going forward, the report will be made available to the Board.