

NEW YORK STATE DEPARTMENT OF LAW
CHARITIES BUREAU
120 Broadway- 2nd Floor New York, NY 10271

SUE VERES ROYAL

[REDACTED]

COMPLAINANT

HAPPY HEARTS FUND INC.
PETRA NEMCOVA

[REDACTED]

SUBJECTS OF COMPLAINT

Questionnaire from New York State Department of Law Charities Bureau Complaint/Inquiry Form

Submitted copy of complaint to organization? NO

Submitted to other government agency? NO

Is a court action pending? NO

Do you have any objection to the contents of this complaint or inquiry being forwarded to or discussed with another government agency? NO

Do you have any objection to your name and/or address being forwarded to or discussed with the organization or person who is the subject of this complaint or inquiry? NO

List the names addresses and telephone numbers who may have knowledge of this complaint and inquiry:

a.

[REDACTED]

[REDACTED]

[REDACTED]

PARTIES

1. Sue Veres Royal, is the former Executive Director of Happy Hearts Fund Inc. from April 30, 2013 to July 11, 2014 and is a US citizen. Her address [REDACTED]
2. Happy Hearts Fund Inc., is a nonprofit corporation incorporated in Delaware 2006, and whose principal place of business is the state of New York at 131 Varick Street Suite 924 New York, NY 10013
3. Petra Nemcova is the founder of Happy Hearts Fund and served as Chair of the Board of Directors from 2006 until at least December 2014. Her current status as Chair is unknown. Ms. Nemcova is a Czech National who has also been a permanent resident (Green Card holder) of the United States from at least 2009 to present. However Ms. Nemcova's principal place of continuous residence has been the country of Haiti from at least 2012 to January 2015. Ms. Nemcova has no known permanent address in the United States and resides to the best of my knowledge with Board member Kathleen Kelly listed below.
4. Olga Nemcova aka Olga Nemcova Ruggiero, is the sister of Petra Nemcova and is the current Executive Director of Happy Hearts Fund from May 2015 to present and Acting Executive Director from July 2014 to May 2015. From 2006 to 2014, Ms. Nemcova has held the position of various upper management and directorial positions. Ms. Nemcova is a Czech national who has resided in the United States since at least 2006 but who obtained permanent resident status (Green Card) in 2013.
5. David Hyrck has been on the Board of Directors of Happy Hearts Fund since about 2006 and serves as legal counsel for Petra Nemcova personally over the years and for Happy Hearts Fund through his firm Reed Smith LLP where he is a partner, which has an office in the state of New York at 599 Lexington Ave. 26th floor, New York, NY 10022.
6. Kathleen Kelley has been on the Board of Directors of Happy Hearts Fund since about 2006 and is the founder and CIO at Queen Anne's Gate Capitol, a hedge fund incorporated in 2012, located in the state of New York at 515 Madison Ave. Suite 22A New York, NY 10022

JURISDICTION

The Charities Bureau has jurisdiction to investigate complaints that involve 1) wrongdoing by charitable corporations, trusts or other nonprofit organizations; 2) fraudulent or misleading solicitation and improper expenditure of money for charitable purposes; and 3) improper activities of executors, administrators, trustees and personal representatives responsible for honoring pledges or bequests to a charity.

Sue Veres Royal incorporates by reference the allegations set forth in the New York Times article of May 29, 2015 entitled "An Award for Bill Clinton Came With \$500,000 for His Foundation" by Deborah Sontag.

**SELF -DEALING and other CONFLICTS OF INTEREST by
PETRA NEMCOVA, The BOARD and OLGA NEMCOVA RUGGIERO**

The Nemcova's Familial Relationship Background

Petra Nemcova is the founder of Happy Hearts Fund and since its inception has served as the chair of the board while simultaneously acting as an Independent Director as witnessed by Veres Royal's direct day-to-day dealings during her employ as Executive Director.

Nemcova's sister, Olga Nemcova Ruggiero is the current HHF Executive Director. Prior to this appointment Nemcova Ruggario served as Acting Executive Director (July 2014 – May 2015) and Director of Operations; Nemcova Ruggario has been employed by Happy Hearts Fund since its inception and possesses not even the most basic of skills to hold any of these positions, or any lower level positions in the organization, as witnessed by Veres Royal during her employ and other employees. It was and remains quite obvious to employees, that Nemcova Ruggiero is merely on the “payroll”.as her work and responsibilities must be delegated.

Self-Dealing: Petra Nemcova's Personal Contracts

Petra Nemcova has personal interests in the Happy Hearts Fund corporate sponsorships by Estee Lauder subsidiary Clinique and Chopard, a Swiss-based luxury jewelry company. Nemcova, long-time chair and board member, has personal contracts with both companies accruing more than \$50,000 each annually – doubling the standard set forth in the NY State Nonprofit Revitalization Act of 2013 that prohibits an Independent Director from having a “substantial financial” interest in an affiliate of a nonprofit corporation. Both of these contracts were cultivated as a result of Nemcova's marketing of Happy Hearts Fund. Veres Royal witnessed that Nemcova did not disclose or present her personal contract with Chopard, which even made her its Brand Ambassador, at any time prior to her entering into the contract, to the Happy Hearts Fund Board of Directors. Additionally, Nemcova used one Jonathan Sanders to negotiate both the corporate sponsorship of Happy Hearts Fund and her personal contract with Chopard.

Veres Royal was instructed by Nemcova not to “push too hard” to collect the outstanding pledge by Chopard because it would interfere with Nemcova's personal contract relationship; Sanders told Veres Royal that he himself had a conflict of interest and thereby was also unable to push Chopard for their outstanding pledge to Happy Hearts Fund. This conflict of Sanders came as a direct result of representing Nemcova personally. As of the end of the FY 2014, Chopard did not submit a pledge letter to HHF nor an outstanding pledge made in FY 2014, However, Chopard did in fact put bracelets up for sale and publicly represented that proceeds of sales would be given to Happy Hearts Fund.

Petra Nemcova instructed Veres Royal to negotiate a renewal of a personal contract in the amount of \$50,000 between herself and Clinique, as well as ask for back pay in the amount of \$50,000 for which Nemcova believed she was entitled. Veres Royal, was called upon to negotiate this multiple times until she finally submitted to do so. Both contracts came into effect in July 2014. As witnessed by Veres Royal, this renewal negotiation and contract, like the one with Chopard, was not disclosed or presented to the Board of Directors.

Self-Dealing: Nemcova Using the Organization's Finances for Personal Political Gain

Petra Nemcova was the Chair of Happy Hearts Fund and inserted her authority over day-to-day organizational decisions and 100% of programmatic decisions while living with a foreign head of state, the Prime Minister of Haiti, Laurent Lamothe, who at the time, had plans to run for president. Nemcova was also an Ambassador At-Large for Haiti, in which her role focuses on bringing money and business opportunities to Haiti. While this relationship and role brings an inherent conflict of interest, the board of directors gave no oversight or directives regarding this unusual circumstance into how much money would continue to be allocated to Haiti relative to other countries- to ensure that the organization was not being used to further political aspirations. Furthermore, Nemcova nor the board disclosed to Veres Royal that this relationship even existed upon her employ in May 2013 (finding out only via office gossip weeks later).

In 2013, Nemcova attempted to have the organization give \$1.2 million, nearly half of its 2013-2014 programmatic budget, to the Inter-American Development Bank (IDB) to build 10 schools in Haiti. This dollar amount was purportedly tied to a vague MOU to build 10 schools for an unspecified amount, between the two organizations signed at the Clinton Global Initiative in 2011.

Veres Royal vehemently argued that giving this amount of money would cripple the cash flow of Happy Hearts Fund particularly when the board of directors was not honoring their pledges to cover administrative costs. After repeated, sometimes heated, discussions, Nemcova agreed to allow Veres Royal to cut in half Happy Hearts Fund's commitment to the IDB project - down to \$600,000.

However, after the \$600,000 was then pledged to Haiti via IDB, Nemcova circumvented Veres Royal to direct even more funds to Haiti after Veres Royal had previously informed Nemcova that Veres Royal thought too much of the organization's money was being directed to Haiti and was particularly concerned because the money being directed to Haiti did not even have donors attached (the normal course of business is to find donors for individual schools), and regardless of the fact that it would threaten Happy Hearts Fund as a going concern.

Nemcova's insistence, it turned out, was due to a tense email exchange, undisclosed to Veres Royal, about the Haitian island "Ile a Vache", in which she made a politically controversial comment about it being a "drug island". Attempting damage control as the live-in girlfriend of the Haitian Prime Minister, Nemcova sought to have Happy Hearts Fund build a school on said island at a cost that could range from \$200,000 to \$1 million.

Nemcova willfully hid the controversial email exchange and the plans for the school from Veres Royal, going directly through a subordinate of Veres Royal, Laura Giannini. When Ms. Giannini became suspicious that Veres Royal was not in the loop regarding the Ile a Vache project, she alerted Veres Royal because they were reviewing programmatic budgets together. This all occurred, even though, as Executive Director, Veres Royal was responsible for projections and oversight of the organizational budget. When Veres Royal confronted Nemcova about the school on Ile a Vache, Veres Royal was told "Do not worry about Haiti, Haiti is mine" and Nemcova was silent on the issue of hiding the transaction from Veres Royal.

The Ile a Vache school incident evidences Nemcova's willingness to use the organization's funds for political purposes. This all without a hint of board oversight or governance.

Another Instance

Another example of Nemcova using the organization for personal and political gain, was at the 2014 gala that was the subject of the aforementioned NY Times article. Nemcova specifically instructed Veres Royal to “find a reason” to honor Haitian President Micheal Martelly who was a political ally and close friend of Nemcova's boyfriend Lamothe. The gala, which was never intended to focus on one country, suddenly became a Haitian-centered event. Having already secured President Clinton as an honoree for the 2014 gala, Nemcova subsequently pressured Veres Royal to gain the approval of President Clinton's staff that Martelly could be honored as well. Ultimately, a totally concocted award for “Leadership in Education” was presented to Martelly- while significant opinion to the contrary existed in Haiti at the time.

Another Instance

Nemcova has also, on multiple occasions, improperly used the Happy Hearts Fund database to sell products from her personal company Be the Light, LLC. At a dinner meeting to recruit a new board member, as witnessed by Veres Royal and in the presence of board members Kathleen Kelley and David Hyreck, at or around January 9, 2014 in New York City, the prospective board member asked “why am I getting emails from you about selling candles when I signed up for the Happy Hearts Fund email list” at which point Nemcova stated something to the effect of “well they are all my contacts”.

Self-Dealing Board Members and Inside Deals With Nemcova

Petra Nemcova, in her capacity as Chair of the Board and Founder of Happy Hearts Fund negotiated different agreements with different board members. All board members signed agreements stating that they would pledge (at least) \$50,000 annually to be used for administrative costs for the organization. Nemcova, herself not making said pledge, made private agreements with three (Kathleen Kelley, David Hyreck, and Phillippe Kjellgren) of seven board members in which they did not need to honor the annual pledge. The full board of directors was never made aware of these deals, as was witnessed by Veres Royal in FY 2014. Instead, Nemcova repeatedly pressured Veres Royal to collect – without acknowledging that the full board was not required to make pledges – pledges from four board members, including one board member who joined the board only weeks prior to the close of FY 2014. Publicly, it was stated that 100% of the board members contribute pledges each year. Veres Royal informed a board member Sophia Corona (who joined the board weeks prior to the close of FY 2014 and contributed her \$50,000 pledge), in good conscience, that Nemcova was privately making deals with different board members.

Bullying in the Work Place: Olga Nemcova Ruggiero

Although Olga Nemcova Ruggiero is grossly unqualified for the positions for which she held at Happy Hearts Fund, she is most adept at various forms of bullying in the work place. Nemcova Ruggiero was reported to the full board of directors by two separate employees regarding the hostile work environment she created. The reports included but were not limited to: berating employees in front of full staff, placing a hidden camera (which Veres Royal was unaware of for months) in the office to spy on employees, taking pictures of work products and texting pictures to Nemcova, throwing items on her desk, screaming at a fellow employee in front of major donors on the floor of the 2014 gala and telling all employees upon their hire – and repeatedly - that her role was that of a “policeman”. When these issues were raised by Veres Royal during her employment with Happy Hearts Fund to Petra Nemcova and David Hyreck (Nemcova's personal attorney and Happy Hearts Fund, Inc Board of Director) during a phone call at or around June 25, 2014, Veres Royal was immediately told that her role (Veres Royal's) would diminish and Nemcova Ruggiero's would increase; the employees that

complained about Nemcova Ruggiero were fired on July 11, 2014.

No Grievance or Conflict of Interest Policy Was In Place

No Grievance or Conflict of Interest Policy Was In Place

Gross Misrepresentation to the Public Regarding Fundraising and Mission Statement

From about 2006 to June 2014, Happy Hearts Fund represented that all public donations would be utilized for only programmatic expenses; stating that the board of directors covered all administrative expenditures. In the FY 2014 this claim was categorically false as witnessed by Veres Royal who was summarily fired upon drawing attention to this and refusing to state this to auditors (among other issues). According to former employees, this representation was false throughout the tenure of Happy Hearts Fund. This representation was one of the biggest “selling points” used by Happy Hearts Fund to raise funds and was stated publicly through July 2014 on the website, organizational materials and in multiple speeches and all fundraising efforts.

Furthermore, the Bill, Hillary & Chelsea Clinton Foundation was given \$500,000 as a result of the June 19, 2014 fundraising gala. According to the Clinton Foundation this money was received by them, from Happy Hearts Fund, at the end of 2014. According to the New York Times article \$250,000 of this money will be used for purposes (agricultural programs) far beyond the mission of Happy Hearts Fund and thus represents a misrepresentation to the donors of Happy Hearts Fund, who willingly gave money to the corporation to utilize for programs that fall under the mission of the organization, which is to build schools for children impacted by natural disasters.

Fiscal Reporting

In their FY 2014 Balance Sheet submitted to the IRS and Attorney General, Happy Hearts Fund did not accurately report the true financial position of the organization when failing to include an outstanding grant that was pledged in FY 2014 to the Bill, Hillary & Chelsea Clinton Foundation for \$500,000 which amounted to over 25% of the “Cash and Cash Equivalents” as of June 30, 2014 (the FY year-end date for Happy Heart Funds).

Furthermore, the personal accountant of Petra Nemcova, founder and board of director of Happy Hearts Fund has been obtained as the external accountant for Happy Hearts Fund. Petra Nemcova, chair of the board, charges on the Happy Hearts Fund credit card monthly in the hundreds to thousands of dollars thereby creating a lack of proper financial oversight.

Improper Financial Oversight

According to the 990 presented publicly of happyheartfund.org, Petra Nemcova, who was improperly acting as an “Independent Director” but who did not have legal authority to do so oversaw the audit as the signatory of the FY 2014 990.

Non Disclosure of Material Financial Dealings

Veres Royal was not informed of a financial arrangement between Happy Hearts Fund and the former Executive Director Phillip Caputo in an amount that exceeded \$65,000 even though it was Veres Royal's responsibility to project and oversee the budget and cash flow of the organization. By mere accident, due to Nemcova Ruggiero's inability to print a check and for which she needed Veres Royal's

assistance, was Veres Royal informed that such an installment payment arrangement existed- never disclosed to Veres Royal by Nemcova or the board of directors.

Caputo left no computer, no files and Nemcova Ruggiero deleted Caputo's entire email account, thus Veres Royal was left with no trail on important fiscal and programmatic matters to oversee the organization or this payment transaction. The former Director of Programs, hired by Caputo and who left with Caputo, was instructed months after her departure by Veres Royal via Nemcova Ruggario to return her computer and files. Upon return, the computer's hard drive – including operating system – was completely wiped clean. Only Caputo and said Director of Programs dealt with all programs related to Haiti through February 2013, thus the only person with knowledge of Haiti program activities was Petra Nemcova. Caputo since about January 2014 is the Senior Vice President of Strategic Partnerships and Media Relations for Sean Penn's J/P Haitian Relief Organization.

/S/ Sue Veres Royal June 4, 2015