



**NEW YORK CITY COUNCIL
JOINT HEARING BY THE COMMITTEE ON PUBLIC HOUSING,
COMMITTEE ON CONTRACTS, AND COMMITTEE ON OVERSIGHT AND INVESTIGATIONS**

**TESTIMONY OF JOCELYN E. STRAUBER
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**CONCERNING CITY COUNCIL'S EXAMINATION OF NYCHA'S RESPONSE
TO BRIBERY AND EXTORTION IN MICRO-PURCHASE CONTRACTS**

TUESDAY, FEBRUARY 27, 2024

Good morning. My name is Jocelyn Strauber and I am the Commissioner of the Department of Investigation (“DOI”). Thank you, Chair Banks and members of the Committee on Public Housing, Chair Won and members of the Committee on Contracts, and Chair Brewer and members of the Committee on Oversight and Investigations for the opportunity to speak about DOI’s recommendations to the New York City Housing Authority (“NYCHA”) as they relate to micro-purchase, no-bid contracts.

As you know, DOI oversees NYCHA through its Office of the Inspector General (“OIG”) for NYCHA and we conduct investigations that can result in criminal charges, administrative findings, or both. When an investigation identifies corruption vulnerabilities, DOI makes recommendations to reform City policies and procedures — called policy and procedure recommendations, “PPRs,” in order to address those issues.

DOI’s recommendations do three critical things: 1) alert City agencies to corruption risks and provide a means to prevent them; 2) prompt a dialogue between the agency and DOI concerning the importance of the recommendations in addressing the risks the agency faces and the challenges, if any, to implementation; and 3) create an environment of ongoing accountability not just by DOI but by other governing entities and the public, because DOI’s recommendations are publicly issued, either via our website or, on some occasions, in a public report.

In short, DOI’s recommendation process promotes transparency in government and accountability on the part of agencies that deliver vital public services and invites the participation of other governing bodies, and the public, in DOI’s anti-corruption work.

Today, I will provide you a summary of the micro-purchase, no-bid contract investigation DOI conducted with the Brooklyn District Attorney’s Office that led DOI to issue five PPRs to NYCHA in 2021 and NYCHA’s related responses. And I will summarize the 14 recommendations that DOI announced earlier this month after the arrests of 70 current and former NYCHA employees. For ease of reference, the 14 recommendations are attached to my written testimony that has been submitted for the record.

I want to make clear that I’m not able to address or provide any information about those recent arrests or the related investigation, which was handled jointly with the United States Attorney for the Southern District of New York, and our other federal partners.

Nine Contractors Charged with Bribing NYCHA Superintendents to Obtain Micro-Purchase, No-Bid Contracts

Micro-purchase, no-bid contracts are generally used at NYCHA to procure small repairs directly at the development level so they can be done quickly, without a complex bidding and procurement process. NYCHA employees who work in the housing developments— principally supervisors — handle these contracts.

In approximately 2019, DOI began looking at NYCHA’s micro-purchase contracting process due to reports from NYCHA employees that they had received bribe offers from vendors doing business at NYCHA housing developments in Brooklyn. DOI partnered with the Brooklyn District Attorney’s Office to conduct the investigation, which included the use of undercover DOI investigators who posed as Assistant Superintendents at a number of the developments. The investigation found that between 2019 and 2021, nine vendors paid bribes totaling tens of thousands of dollars, to NYCHA employees or DOI undercover investigators, to obtain lucrative no-bid micro-purchase contracts awarded at the housing development level. In 2021, DOI and the Brooklyn District Attorney announced bribery charges against nine vendors.

Ultimately, after three additional vendors were charged, 12 vendors in total pled guilty to either Rewarding Official Misconduct in the Second Degree, a class E felony, or Giving Unlawful Gratuities, a class A misdemeanor. These vendors were associated with 11 companies; the companies also pled guilty to either a felony, a misdemeanor, or a violation. DOI warned other City agencies about these vendors in light of the charged conduct by entering “Cautions” into PASSPORT. Cautions flag derogatory information about vendors for City Agency Contracting Officers who check PASSPort regularly for information on City vendors.

DOI's Five Recommendations Issued to NYCHA in 2021

The investigation and the charges that I just described made clear, in our view, that NYCHA needed tighter internal controls over the micro-purchasing process, to prevent this type of corruption. DOI issued five PPRs that focused on the vendors as well as the NYCHA supervisors. Most importantly, DOI proposed that NYCHA move contracting authority from the development-level staff to a central procurement department and that NYCHA conduct additional screening of vendors. Specifically, DOI recommended that NYCHA:

1. Move responsibility for small procurement awards from front-line Superintendents and Property Managers to NYCHA's central Procurement Department, which will receive requests for small procurement work from housing development staff and award jobs to contractors, on a rotating basis;
2. Lower the cost threshold for vendor screening review from \$250,000 to \$100,000, so that all vendors whose aggregate work for NYCHA is \$100,000 or above on an annual basis are subject to screening by DOI's Office of the Inspector General for NYCHA;
3. Conduct cursory integrity screenings at the inception of NYCHA work by small procurement contractors, even those below the existing \$250,000 aggregate contract limit. NYCHA's Procurement Department should check PASSPort, the City's contracting database, to identify contracting "Cautions" by any City agency.
4. Adopt a fixed price list for routine small procurement jobs to prevent overbilling – that is, to prevent contractors from charging close to the \$10,000 micro-purchase limit for trivial jobs.
5. Enable oversight of small procurement jobs by having housing development staff upload all signed invoices into NYCHA's centralized payment database known as ORACLE.

Prior to and after issuing these recommendations, DOI maintained a robust dialogue with NYCHA about the significance of the proposals in light of the investigation's findings. NYCHA ultimately implemented only the third recommendation concerning cursory integrity screenings and rejected the rest, although NYCHA did take some other steps intended to improve controls around the procurement process, which included training of development staff involved in awarding contracts about ethical procurement and the consequences of corruption; checking Dun & Bradstreet, a risk management tool, for potential red flags about vendors prior to solicitation of contracts; and developing templates that itemized labor and material costs involved with each quote and which were provided to development staff. .

Problems within the micro-purchase process persisted despite the changes that NYCHA implemented, in particular because front-line supervisors at the housing development level continued to have primary authority over small procurement purchases despite DOI's recommendation against this practice. DOI worked with the U.S. Attorney for the Southern District of New York on two other separate matters that in 2022 led to the arrests of two former NYCHA supervisors on charges of accepting thousands of dollars in bribes to dole out no-bid contracts. Last year, both of these former NYCHA employees were convicted and sentenced to federal prison terms for their criminal conduct.

DOI's 14 Recommendations to NYCHA in 2024

The 14 recommendations that DOI issued as a result of its most recent investigation are attached to my testimony. They focus on strengthening oversight and controls around the micro-purchase process, so that it is less vulnerable to abuse by both NYCHA employees and vendors, while still maintaining efficient service for NYCHA residents. These recommendations also call for additional education of NYCHA employees on topics including how to identify corruption and fraud and their duty as City employees to report corruption and illegal bribery and gratuities to DOI.

Three of the recommendations DOI recently made are similar to those made in 2021 that were not implemented. DOI continues to believe that these policy changes are essential to remedying the vulnerabilities that we have now seen in a number of separate investigations. Specifically, these recommendations are that NYCHA should:

- Remove responsibility for micro-purchases from staff within the housing developments and place that responsibility with specialized central staff outside of those developments with the necessary expertise;
- Establish a schedule of cost estimates for the top 15 types of services and goods most often obtained by developments through the micro-purchase method, and when a vendor's cost proposal exceeds the cost estimate, require the vendor to provide a written explanation for the additional cost; and
- Review all micro-purchases, whether or not in excess of the cost estimate schedule, prior to processing payment to a vendor. These reviews should be conducted by NYCHA staff outside the development commissioning the work and should include a review of relevant documentation such as Statement of Services, before and after photos, and the vendor's invoice.

CEO Lisa Bova-Hiatt's response to these 14 recommendations was unequivocal: NYCHA fully supports these recommendations and is working with DOI's OIG for NYCHA to implement them. Our Inspector General overseeing NYCHA has been actively working with the agency on this effort. Some of the recommendations will take time to implement as they require a restructuring of the micro-purchase process, but I understand that NYCHA aims to implement the majority of the 14 recommendations within the next year. NYCHA can provide more detail on the exact time frames.

The micro-purchase process is critical to NYCHA's ability to efficiently obtain the goods and services necessary to maintain the housing developments and be responsive to residents' needs. It is equally critical that the process be subject to thoughtful oversight and controls, so that NYCHA's resources are used for the benefit of NYCHA residents, and not to line the pockets of corrupt vendors and staff. I believe these recommendations offer a path forward that seeks to ensure integrity in this process while maintaining the necessary efficiency.

Thank you for your time and I am happy to take any questions you may have.