



**NEW YORK CITY COUNCIL
COMMITTEE ON OVERSIGHT AND INVESTIGATIONS**

**TESTIMONY OF MARK G. PETERS
COMMISSIONER, NEW YORK CITY DEPARTMENT OF INVESTIGATION**

**CONCERNING THE FISCAL YEAR 2015 PRELIMINARY BUDGET,
MAYOR'S FISCAL YEAR 2014 PRELIMINARY MANAGEMENT REPORT
AND AGENCY OVERSIGHT HEARINGS**

MARCH 13, 2014

Good afternoon Chairperson Gentile and members of the Committee on Oversight and Investigations. Thank you for the opportunity to address the Committee concerning three topics:

First: the Department of Investigation's Preliminary Budget for Fiscal Year 2015,

Second: the significant impact this agency has had over the past year, and

Third: the innovative plans my staff and I have to advance the agency and further safeguard this City against corruption, fraud, waste and abuse.

I firmly believe that government is a powerful vehicle to improve New Yorkers' lives. But first, government must operate in an honest and efficient manner.

DOI plays a key part in achieving that goal.

We get the facts to expose and stop corruption, fraud, waste and abuse. We drill into City processes to identify and fix systems that underperform or fail to serve New Yorkers. We educate the City and the public on why anti-corruption measures are essential to a strong municipal government.

The breadth of the agency's work and spectrum of its investigations reflect DOI's dynamic and unique role. I have seen this firsthand. Since taking office on February 18th, our hard-hitting investigations have already led to further positive results. In just the last 24 days alone, DOI investigations have:

- underscored the urgent need for the City Board of Elections to change the way it does business, which DOI spoke about before this very Committee just two weeks ago;
- resulted in a significant prison sentence for a former bookkeeper at the Kings County Public Administrator's Office, for his involvement in a \$2.6 million embezzlement scheme involving the estates of decedents;

- recovered stolen wages for iron workers after exposing a City schools contractor that had submitted false payrolls to hide the theft; and
- led to the arrest of four City Correction Officers charged in an assault-and-false report scheme involving an inmate. Conduct that undermines the safety of our City's jails.

This work shows you the array of issues DOI manages on a daily basis. Our cases illuminate all too well that when those of us in government fail to adequately protect taxpayer funds and establish internal controls, New York City is the victim.

To be an effective watchdog, DOI has developed a comprehensive strategy, one that goes beyond the arrest and includes looking at the big picture, analyzing City procedures to see if they are effective, and sharing lessons learned so corruption does not metastasize.

Identifying issues before they become problems is a vital part of DOI's successful role within government.

That strategy is so important, that, where we can, we are integrating a more proactive approach to identify and address concerns before they become crimes. As I outlined to the City Council during my confirmation hearing, DOI will continue in its aggressive corruption investigations. We will also broaden our pre-emptive approach by actively reviewing City procedures and internal controls to identify and fix flaws that create opportunities for corruption.

On this effort, we have already begun:

- DOI saved significant funds with its monitoring efforts in connection with the Rapid Repair Program, the monumental Citywide initiative after Hurricane Sandy to repair damaged homes. DOI worked with integrity

monitors to double-check whether the various vendors were appropriately billing the City and doing the work they were contracted to do. We are continuing similar monitoring efforts as the next phase proceeds.

- DOI is monitoring a \$500 million capital improvement project at NYCHA to detect issues with contractors, conduct a risk assessment, and tighten up on compliance, including reviewing documents related to prevailing wages. These efforts will help NYCHA realize the maximum value of its plans to improve its buildings and enhance living conditions for residents.
- DOI is already in conversations with various agencies and City officials to identify the programs and policies that are ripe for our review. I look forward to working with those officials and with this Council to make sure that the City's new agenda moves forward in the most efficient and honest way possible.

Our work on these projects, and others, demonstrates that preventive services both strengthen accountability and pay for themselves -- in dollars saved, and in reinforcing the confidence New Yorkers have in their municipal government.

The establishment of the independent Inspector General for the Police Department is part of this effort. This new unit, under DOI's jurisdiction, will take a systemic look at the NYPD's policies and how to strengthen the police department's relationships with New Yorkers. In fact, creating a robust and knowledgeable NYPD IG unit has been a significant focus of my attention since becoming Commissioner. I am pleased to report that we are moving forward. I have been meeting with a wide array of individuals and groups, including members of the City Council, to gather input. I will be

reporting back to the City Council by April 1 on the unit's budget, how it will be structured, and whom I have chosen to be the Inspector General.

Our numbers for this fiscal year, through the end of January, give you a statistical glimpse into DOI's workflow. For instance, in the first seven months of FY 2014, the number of complaints streaming into DOI, when compared with the previous year, increased by 7%. Likewise, since last Fiscal Year, our outreach through corruption prevention lectures also increased by more than half, and the agency significantly reduced the amount of time it takes to complete an average investigation, which means investigative resources can be refocused on the steady flow of incoming complaints.

In Calendar Year 2013, DOI made more than 800 corruption-related arrests, closed 1,200 investigations, and presented a record high of more than 700 corruption prevention lectures.

I want to emphasize, however, that we should not attach too much importance to these types of statistics. Some of these numbers will likely diminish as we focus on cases that have broader impacts and undertake detailed reviews of internal controls that lead to enhanced procedures.

To that end, and to bring context to those numbers, let me give you some background on the agency.

DOI has oversight of about 300,000 City employees in 45 City agencies; dozens of Boards and Commissions; the Office of the Special Commissioner of Investigation for the New York City School District, which monitors the Department of Education's 135,000 employees; the Office of the Inspector General for the New York City Housing Authority; the Office of the Inspector General for the New York City School Construction

Authority; and, as of this year, the independent Office of the Inspector General for the New York City Police Department.

We have a broad mandate. DOI can investigate any agency, officer, elected official or employee of the City, and those doing business with the City. We can also investigate any entity or individual that receives benefits from the City.

Our staff is a network of investigators, auditors, attorneys, digital forensic specialists, analysts, and administrative personnel. And we have a Squad of NYPD Detectives assigned to us.

With the passage of Local Law 70 last year, the DOI Commissioner is solely empowered to select and oversee the independent NYPD IG, including the scope and direction of that unit's investigations.

DOI is empowered to issue subpoenas, take testimony under oath, and issue reports of our investigative findings. We also forward our findings to federal and state prosecutors, which can result in arrests. We refer findings to the City's Conflicts of Interest Board, and other agencies who make disciplinary or other administrative decisions. And under the City Charter, we serve as the investigative arm of the City's Conflicts of Interest Board.

DOI also serves critical functions within the City, including conducting checks on companies and their principals that do business with the City to help agencies determine if they are companies that can be awarded City contracts. In Calendar Year 2013, DOI conducted nearly 41,000 of these vendor checks.

DOI also conducts background investigations of individuals selected to work for the City in decision-making or sensitive positions. Last year, we conducted approximately 2,000 background investigations. In addition, the agency fingerprinted

more than 9,800 individuals who work with children, seniors and at shelters, as required by law.

In Fiscal Year 2014, so far, our investigations have led to more than \$30 million in restitution, fines, forfeiture, and other financial recoveries to the City. That is more than DOI's total budget. On criminal corruption cases where DOI finds that City funds have been stolen, we work with prosecutors so the City can be made whole. The half-billion dollar recovery from the CityTime investigation is the best example of this effort and ultimately helped plug the City's budget gap.

Allow me to give you another example of the ongoing importance of this effort. A 2002 major corruption investigation uncovered City tax assessors lowering assessed values in return for bribes, costing the City millions in lost tax revenue. This investigation resulted in criminal convictions and significant restitution to the City that has continued to this day. This case alone has generated approximately \$19 million to the City, including nearly \$400,000 received this current Fiscal Year.

All of these statistics are remarkable given DOI's budget, staffing levels, and resources. At this time and given our present resources, every Inspector General must oversee multiple agencies. For example, the same Inspector General team now oversees the Department of Correction, the Fire Department, the Taxi & Limousine Commissioner, Department of Sanitation, as well as two other agencies. Similarly, the same team that oversees the Human Resources Administration, also has charge of the Administration for Children's Services, the Department of Homeless Services and its shelter system, as well as five other agencies. Each team must therefore balance a rapid-fire pace of incoming daily complaints, long-term issues, and complex problems.

Inspectors General have had to make tough decisions to prioritize issues of concern and triage what gets looked at when.

Given that demanding caseload, enhancing our proactive efforts can only be achieved with additional professional staff, so DOI can conduct deep dives, reviewing internal controls, policies and procedures so corruption does not find fertile ground.

Our investigative cases demonstrate the meaningful impact DOI has on the City. Integrating more proactive measures will take resources to do the job right. And doing the job right benefits the City, in the savings and efficiencies we uncover through our proactive reviews, and in the confidence all New Yorkers have in government and government programs.

I firmly believe that given the resources, such front-end investigating will amply pay for itself. Actually, it is not just a belief. DOI has already demonstrated this benefit.

Data-matching was identified early on by the NYCHA IG as a way to catch potential fraud by individuals attempting to illegally reside in public housing. After conducting an investigation that matched death records with records of NYCHA tenants, we identified individuals who were posing as deceased NYCHA tenants in order to reside in NYCHA apartments. We worked with the City's Housing Authority to implement a review at the front-end that would identify deceased tenants and ensure that others were not illegally occupying their apartments. NYCHA has now integrated this check into the agency's recertification process and DOI continues to monitor it.

To quantify the result for you, in Calendar Year 2013, as a result of this effort, 700 Section 8 vouchers were recaptured by NYCHA and more than \$1.1 million was recouped. So far this year, more than 200 vouchers have been recaptured. As you can see, there is both a monetary and human benefit. Funds were recovered. And at a time

when affordable housing is such a scarce commodity, individuals came off a waiting list and obtained housing because of this pro-active measure.

Similar data-matching checks have been integrated as a result of DOI working with other agencies to spot unemployment fraud.

These are powerful examples of why controls on the front-end are important.

DOI's preliminary expense budget for Fiscal Year 2015 is \$25.1 million consisting of \$19.3 million that supports approximately 256 full-time staff positions, and \$5.8 million for Other Than Personal Services, such as supplies, equipment and space. Included in the \$19.3 million for Personal Services is \$4.1 million in other City funding, such as the funding for Memoranda of Understanding with six City agencies that support 66 positions. There are about 180 other staff members who work for us through various arrangements with other City agencies, including at the Office of the Special Commissioner of Investigations for Schools and the Office of the Inspector General for NYCHA. Many of these City agencies have experienced particular corruption issues over the years and have given DOI funding for staff positions to assist in our integrity efforts. We are grateful for this essential support. The wide-ranging work that DOI does, and that I have reported to you today, could not be accomplished without this assistance.

Let me also explain how forfeiture funds play a role in what DOI is able to do. DOI works with prosecutors to ensure that stolen City funds are returned to the City. Federal criminal law also allows the proceeds of criminal activity to be forfeited to the federal government and shared with investigating agencies to support law enforcement activities. DOI is a beneficiary of some of those federally-regulated funds and has shared some of them with other City agencies. In FY 2014, DOI awarded \$2 million to

the NYPD for the purchase of investigative equipment. DOI is also using some of these funds to work with the Department of Citywide Administrative Services to establish an online corruption prevention training program that will be accessible to City employees.

These forfeiture funds, however, are temporary and finite and can only be used for certain law enforcement-related purposes. They are strictly governed by federal guidelines and cannot be used to fund salaries for permanent staff positions. These funds have been instrumental in helping DOI improve a number of essential functions not provided for in its budget, specifically updating its digital infrastructure, investigative resources, providing training for DOI investigators and training for lawyers at DOI and other City agencies, and supporting DOI's public outreach efforts to educate City employees and the public about its anti-corruption mission.

The Fiscal Year 2015 preliminary budget represents a \$3 million increase from the previous year's adopted budget. This increase is solely a placeholder for the new NYPD IG Unit, which is currently under development.

Let me also update this Committee on the Office of the Special Commissioner of Investigation for the New York City School District ("SCI"). The unit was created in June of 1990 with a mandate to investigate criminal activity and other wrongdoing occurring within the City school system. The Special Commissioner is a Deputy to the DOI Commissioner. Independent of the City Department of Education ("DOE") and the Chancellor, SCI is authorized to investigate and make recommendations concerning any issue which impacts the integrity of the City's schools. Richard J. Condon, a former New York City Police Commissioner and former Criminal Justice Coordinator, has held the position of Special Commissioner of Investigation since July 2002, and I am grateful for his continuing work going forward.

In 2013, SCI received a record high number of complaints -- more than 4,300 -- and opened 791 investigations, including 233 involving an allegation of sexual misconduct. Since January 2013, SCI publicly released ten reports detailing SCI's investigations, including one documenting a no-show principal at PS 106 in Queens who received an annual salary of \$128,200 yet was frequently absent or late to work. In another significant investigation in 2013, SCI joined with the office of the United States Attorney for the Southern District of New York and the office of the New York State Comptroller to uncover a fraudulent scheme involving a vendor with the City schools who was arrested and pleaded guilty. As part of the plea agreement, the vendor will pay more than \$2.1 million back to the Department of Education.

I hope that my testimony today demonstrates the wide-ranging impact our work has on this City. We follow the facts to stop the fraud. We pull back stolen tax dollars. We analyze City operations to find out whether controls are adequate and where corruption can penetrate.

Tax dollars lost to corruption, fraud, waste or abuse cannot be spent on essential needs, such as classrooms for children or the hiring of additional City police officers, firefighters, or inspectors. These are the tangible consequences of not taking preventive steps against corruption and waste.

At this time, I would be happy to take your questions.