

**Testimony from NYCHA's Chief Executive Officer Lisa Bova-Hiatt
Examining NYCHA's Response to Bribery and Extortion in Micro-Purchase
Contracts**

**Committee on Public Housing with the Committee on Contracts and Committee on
Oversight and Investigations**

**Tuesday, February 27, 2024 – 1 p.m.
New York City Hall Council Chambers**

Chairs Chris Banks, Julie Won, and Gale Brewer; members of the committees on Public Housing, Contracts, and Oversight and Investigations; other distinguished members of the City Council; NYCHA residents; community advocates; and members of the public: good afternoon. I am Lisa Bova-Hiatt, NYCHA's Chief Executive Officer. I am pleased to be joined by Executive Vice President of Property Management Operations Daniel Greene, Chief Procurement Officer Sergio Paneque, Chief Compliance Officer Brad Greenburg, and other members of NYCHA's leadership team. Chair Banks, congratulations on your new appointment – my colleagues and I look forward to working closely with you.

Thank you for this opportunity to discuss the very serious, and very disturbing, charges of bribery against 70 current and former NYCHA employees in connection with micro-purchase contracts. We learn from issues like this as we continue the intensive efforts to transform NYCHA as an organization – a mission that is fundamentally about better serving residents and improving their quality of life.

Combatting Malfeasance

First, I must emphasize that there is zero tolerance for wrongful and illegal activity at NYCHA. The individuals allegedly involved in these terrible acts put their greed first and violated the trust of our residents, their fellow NYCHA colleagues, and all New Yorkers. All of the implicated employees have been suspended. These alleged actions are counter to everything we stand for as public servants and will not be tolerated in any form.

Over the past five years, NYCHA has achieved many significant milestones, while remaining vigilant to ensure integrity in every area of our work. Today I will discuss some of the transformative changes that we have already made to our business practices, and those that are underway. We are committed to continue making the changes necessary as part of our holistic efforts to improve NYCHA and our service to residents.

NYCHA's success depends on partnership, and we will continue to work with all of our law enforcement partners to rid the Authority of any and all malfeasance. I would like to thank NYCHA's Inspector General Ralph Iannuzzi, NYC Department of Investigation (DOI) Commissioner Jocelyn Strauber, U.S. Attorney for the Southern District of New York Damian Williams, and their teams for their diligence in this investigation, their collaboration with NYCHA leadership, as well as their recommendations for improvement. All of us sitting here at this table, as well as our broader Compliance and Quality Assurance teams, work closely with DOI and NYCHA's Inspector General, and for that we are very grateful. Our teams identified suspicious activity, as well as a lack of controls in this area, and proactively sent information to DOI for review. We will of course continue collaborating with all of our partners as we put in the necessary work to continue NYCHA's transformation.

Prior Reforms to the Micro-Purchase Program

I would like to take a moment to discuss some of the work we have done over the past few years to improve the micro-purchasing process at NYCHA. Following a prior investigation, in September 2021 DOI made five recommendations regarding micro-purchases. While NYCHA did not implement DOI's exact recommendations, DOI's findings provided the Authority with the direction to undertake considerable, incremental changes and improved internal controls to attempt to mitigate risk, while ensuring developments could provide efficient service to residents, especially when emergencies arise.

To reduce reliance on micro-purchases at the developments, NYCHA implemented substantial reforms to our procurement processes which reduced spending on micro-purchases for services by nearly half. Our collaboration with DOI on this effort has been a productive one; it involved implementing a set of procedural, training, and oversight changes to bring about this reduction in micro-purchase spending for services at the developments. Some of our specific actions since September 2021 included:

- Contracting with Dun and Bradstreet for integrity screening services for all vendors (Dun and Bradstreet has provided organizations with valuable procurement process insights for nearly a century);
- Training our property management staff on micro-purchases and ethics in late 2022 and early 2023;
- Rolling out a procurement ethics policy which all staff must acknowledge;
- Increased on-site monitoring visits and reviews of micro-purchases by our Compliance and Quality Assurance teams, which resulted in referrals to DOI;

- Entering into new large contracts that encompassed services previously obtained via micro-purchases to provide staff with alternatives to the micro-purchase program;
- Issuance of pre-qualified vendor lists that could be used to select vendors in place of development staff selecting micro-purchase vendors;
- Updating the micro-purchase process with enhanced forms that require vendors to itemize costs; and
- Enhancing the micro-purchase reporting requirements to increase transparency and accountability.

Additional Structural and Operational Improvements

Fundamentally, we believe that, in order to best serve residents, developments need an appropriate level of flexibility to be able to secure the fastest possible service for residents, particularly during emergencies – and government entities, including public housing authorities across the nation as well as other City agencies, commonly use micro-purchases to obtain critical services quickly. In addition to enabling developments to get smaller and lower-cost repairs done expeditiously without undergoing a lengthy and complex procurement process, micro-purchases support our M/WBE and local hiring goals. DOI also recognized that we must “focus on reform of the micro-purchase process to protect it from abuse, while maintaining efficient service for NYCHA residents.” However, after this clear violation of trust and misuse of authority, and as part of NYCHA’s ongoing and collaborative efforts alongside DOI to reduce fraud and abuse of micro-purchases, we are in the process of implementing DOI’s full suite of 14 recommendations.

All of DOI’s recommendations have either already been implemented or are underway; we expect to fully implement all 14 recommendations within a year. For instance, we are currently analyzing how our systems can be adapted to allow staff to upload additional documentation regarding micro-purchases before payment is issued. We are creating additional pre-qualified lists of goods and service providers for use in lieu of micro-purchase vendors; these pre-qualified vendors are required to undergo a vendor integrity review developed by NYCHA and DOI. We are augmenting training for staff and for micro-purchase vendors. Micro-purchases will continue to be reviewed by property management leadership and the Compliance and Quality Assurance departments, and any irregularities will continue to be reported to DOI. The Compliance and Quality Assurance departments will conduct semiannual audits of micro-purchase data and recordkeeping – and will provide greater transparency and accountability into the Authority’s use of micro-purchasing by posting the results of these audits on our

website. We are also displaying signs in prominent locations at developments and property management offices highlighting the prohibition of bribes and other criminal offenses and are requiring staff and vendors to acknowledge the same in both paper and digital forms. And most critically, we are planning to implement an alternative staffing model for the micro-purchase program – it will essentially separate the micro-purchase request and approval process from developments, instead placing the review and approval responsibility with specialized staff with the necessary expertise. At the same time, we are examining ways we can ensure the prompt selection of vendors to do essential work quickly with less potential for abuse.

While we work to enact these important structural changes as part of our larger organizational transformation efforts, there will be increased oversight of the micro-purchase program. We believe that with the additional oversight and the implementation of DOI's latest recommendations, we can continue to tackle this issue and make progress, all in service to residents.

Transformation Efforts

Transformation at NYCHA is a sweeping endeavor that impacts every area of our organization, including operations and the management of our property portfolios, and it is guided by our Transformation Plan. One of the key advancements of the past few years was the creation of NYCHA's first-ever Compliance, Environmental Health and Safety, and Quality Assurance departments. As you have heard, the Compliance and Quality Assurance teams are an essential part of our efforts to ensure that residents are benefiting from quality work performed in an ethical manner. These teams not only work closely with DOI, but they also include former DOI employees among their ranks: a Compliance Department unit that is dedicated to reviewing micro-purchases employs a former DOI fraud investigator, and the Vice President of the Quality Assurance Department is a former Associate Commissioner at DOI; his staff includes two former DOI employees who help conduct investigations. Additionally, in 2022, NYCHA's Procurement Department hired a former DOI Senior Inspector General (who was also previously an Assistant District Attorney) to oversee the Procurement Ethics and Vendor Responsibility Department and strengthen the Authority's vendor responsibility and integrity review process. The Procurement Department has also restructured the purchasing process to bring procurement closer to NYCHA "Neighborhoods," and is strengthening its analytical capabilities to improve transparency into the micro-purchase process.

Better Serving Residents

Better serving residents and improving their quality of life is at the heart of our endeavors. While we are dismayed by – and will not tolerate – the actions of any bad actors, we know that the vast majority of NYCHA employees show up every day to work hard and do right for our residents and our city.

It must also be stated that the issues we are discussing today reiterate the need for large-scale improvements driven by crucial housing preservation programs like the Trust and PACT, so we can reduce the need for constant band-aid fixes across our portfolio. These vital programs generate billions of dollars of funding to comprehensively renovate residents' homes while preserving their rights and protections, including permanently affordable rent.

Change is also at the heart of our mission, especially given the decades of federal disinvestment besetting the Authority. This change takes time, but it is happening, thanks in part to the support of partners like the Council and DOI.

Thank you. We are happy to answer any questions you may have.