



**TESTIMONY OF ROSE GILL HEARN**

**COMMISSIONER**

**THE CITY OF NEW YORK DEPARTMENT OF INVESTIGATION**

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

**CITY HALL COUNCIL CHAMBERS NEW YORK, NEW YORK**

**CONCERNING THE EXECUTIVE BUDGET  
FOR FISCAL YEAR 2010**

**MAY 12, 2009**

Good morning Chairperson Gioia and members of the Committee on Oversight and Investigations. Thank you for the opportunity to address the Committee concerning the Department of Investigation's ("DOI") Executive Budget for Fiscal Year 2010 and to share with you the agency's ongoing substantial accomplishments.

In the two months since I last testified before this Committee, DOI's commitment to uncovering wrongdoing and fraud has not wavered. So far in Fiscal Year 09, the agency has received more than **12,600 complaints, conducted 475 corruption prevention lectures, arrested 616 individuals on a variety of corruption-related crimes, and provided City agencies with 355 policy and procedure recommendations to correct vulnerabilities flowing from the cases we conducted.**

These numbers reflect DOI's continued commitment to investigate and diligently stop wrongdoing before it becomes entrenched conduct. The agency has acted on tips and exposed corruption, working with City agencies to remedy the vulnerabilities investigators find. DOI investigations have resulted in several significant guilty pleas involving long-term investigations and non-profit-vendor fraud. We have used available resources to achieve the highest impact both through investigations and educational outreach.

The following are highlights of DOI's most significant cases since March 2009:

#### **MISSING/STOLEN BLANK BIRTH CERTIFICATES AND CREDIT CARD SCAM**

In March, the City Department of Health and Mental Hygiene ("DOHMH") notified DOI about the disappearance of approximately 49 blank birth certificates from its Bureau of Vital Records, and the theft of credit card information from the same unit, where members of the public purchase birth certificates.

DOI immediately began an investigation about these stunning developments. Investigators, myself included, conducted site visits, interviewed Health Department employees, and examined the records of the Bureau. DOI discovered that there were actually more than 100 blank birth certificates missing from the Records Bureau, and in less than a month had identified an insider who had stolen the credit card information.

DOI's investigation resulted in charges being brought against three individuals, including an individual who works in the Bureau of Vital Records, for illegally obtaining and using credit card information of customers who faxed birth certificate requests to the Health Department. DOI worked with federal prosecutors in the Southern District to quickly shut down the scheme in which the defendants attempted to charge thousands of dollars on the victims' credit cards, according to the criminal complaint. These charges are a testament to the round-the-clock tracing of this fraudulent scheme by DOI investigators, which got results. DOI is working with DOH to strengthen security measures within the Bureau of Vital Records.

### **ABUSING CITY FUNDS**

DOI's investigation into fraud allegations at the City-run television station, NYC-TV, uncovered a conspiracy scheme to defraud the City of tens-of-thousands of dollars. The investigation resulted in the arrest of the station's now-former Chief Operating Officer, Trevor Scotland, and Vincent Taylor, the owner of VRT Multimedia, Inc., a private company. They were charged with diverting to VRT more than \$60,000 in payments from advertisers that should have gone to NYC-TV for production work. DOI investigators found that between March 2007 and April 2008, Scotland and Taylor split the diverted funds, with Scotland receiving approximately 80 percent and Taylor receiving approximately 20 percent of such funds, according to the charges.

DOI worked with prosecutors to hold these individuals accountable and we are also working with the Department of Information Technology and Telecommunications ("DOITT") to improve internal controls at the television station to ensure this kind of corruption is not repeated.

### **BRIBERY AND FALSE FILINGS**

DOI has continued to root out and stop individuals who bribe City officials in the hope of evading safety violations or illegally gaining access to City information. Thanks in large part to honest employees who report bribe offers to DOI as they are required to do, DOI has been successful in this arena.

In April for instance, DOI arrested a co-owner of a Bronx plumbing company on a charge of offering a bribe to a DOI investigator posing as an employee of the City Department of Environmental Protection ("DEP"). The plumbing company co-owner offered a pay-off for the addresses of locations where broken water pipes required emergency repairs, which he would have used to solicit business. DEP promptly reported this misconduct to DOI allowing our investigators to investigate and stop the illegal conduct.

This month DOI completed an undercover operation after a Department of Buildings ("DOB") Inspector notified us about a bribe offer. That covert operation ended in the arrest of an employee of a Brooklyn-based contracting company on charges of paying a \$1,000 bribe to a DOI undercover investigator posing as a DOB Inspector to avoid violations at a Manhattan job site. DOI has made 17 arrests since January 2008 charging individuals with offering pay-offs to DOB inspectors to overlook unsafe conditions.

DOI's efforts in this area also include finding and investigating individuals, including industry professionals, who falsify City documents and file fake documents with the DOB, conduct that is not only criminal but creates a fake, unreliable record at job sites that can jeopardize and undermine safety. In April, DOI arrested the President of an expediting company on charges of faxing a phony document to her client - an architect - to make it appear that DOB had approved the architect's construction job, when it had not. These investigations and arrests underscore the message that this type of illegal behavior will not be tolerated by the City and individuals who engage in it will face arrest and prosecution.

DOI has continued to focus on ensuring that safety remains a priority for construction in the City. In an effort to raise awareness about safe construction practices, DOI, along with the DOB and a variety of other agencies, participated last month in the City's recent Fifth Annual Construction Safety Week. Ironically during the Safety Week, DOI initiated an undercover operation after a DOB Inspector notified us about a bribe offer.

## **ADDITIONAL ENFORCEMENT EFFORTS REGARDING SAFETY – FIRE CODE VIOLATORS**

This week, DOI is continuing its joint enforcement effort with the New York City Fire Department ("FDNY") to target commercial and other property owners who have not addressed open fire code violations, a significant safety concern. So far this Fiscal Year, DOI has arrested 194 individuals for failure to appear on fire code violations and brought them to court to answer the citations and remediate the violation. Since this effort began in July 2007, it has resulted in hundreds of fire code violations in mainly commercial establishments now being addressed and more than \$120,000 in fines ordered to be paid to the City.

## **HOUSING FRAUD AND ABUSE**

DOI's efforts also go toward protecting the precious City and public funds set aside to provide needy New Yorkers with a fundamental necessity: housing. DOI investigators vigilantly watch this area to detect, including City employees, who have falsified or concealed information to secure housing benefits, thereby taking precious funds from those who are legitimately eligible. So far in 2009, DOI has arrested 20 individuals for fraudulently obtaining housing benefits, including approximately \$385,000 in government housing funds.

## **FRAUDULENT NOTICE OF EVICTION**

Earlier this year a concerned tenant went to court questioning a Notice of Eviction he received. An alert clerk in Bronx Supreme Court notified DOI when he discovered the Notice of Eviction had the name and badge number of a *former* City marshal and an index number that could not be matched to any case in the Court. DOI investigated and arrested the landlord on charges that he fraudulently issued a Notice of Eviction in the name of a retired City marshal and served it together with a forged court document on a tenant in his Seward Avenue apartment house in the Bronx. The investigation found that during an ongoing dispute regarding unpaid rent the landlord had the documents altered and given to the tenant in an effort to get the tenant out without pursuing the lawful process through the courts.

## **GETTING RESULTS: PETROCELLI ELECTRIC**

DOI brought its unequalled expertise in City operations to an intensive and far-reaching joint investigation with federal prosecutors from the Southern District of New York that resulted in the indictment of Santo Petrocelli, Sr., of Petrocelli Electric Company, who was charged with giving cash and a leased car to a union representative. Prior to this investigation, Petrocelli Electric had been a major vendor of the City's street light contracts. DOI's participation in this investigation ensured that the City's interest in integrity and safety was protected. In order to guard against any disruption of the City's street and traffic light maintenance and construction, in 2006, DOI placed the appropriate cautionary notices in VENDEX and worked with the City Department of Transportation ("DOT") to place Petrocelli Electric Co. under the scrutiny of an independent monitor who reported to DOI. Petrocelli's contracts have since been completed and the company has no current contracts with the City.

## **FORMER STATE SENATOR EFRAIN GONZALEZ Jr.**

The prosecution of former State Senator Efrain Gonzalez Jr. and his three co-defendants began with a painstaking DOI forensic investigation and accumulation of the evidence from various non-profit organizations. This investigation originated from a referral to DOI from another City agency regarding financial impropriety at a City-funded Bronx nonprofit, which DOI auditors and investigators meticulously examined, exposing the trail and extent of the fraud that involved Gonzalez, three of his associates and ultimately four Bronx nonprofits. DOI investigators did what they do best, they followed the money, uncovering hundreds-of-thousands of dollars in public funds to pay for personal luxuries, such as Gonzalez's membership in a vacation club, a luxury villa in the Dominican Republic and even costs related to Gonzalez's private cigar manufacturing and distribution company. DOI worked with federal authorities to stop the corruption, and ultimately each of the four co-defendants was held accountable.

We are very satisfied to report that as a result of DOI's hard work former Senator Gonzalez pleaded guilty last Friday in the Southern District to diverting public funds from one Bronx nonprofit to another nonprofit, whose main service to the public was to pay for his expenses and those of his co-defendants. And, just yesterday, the last of the co-defendants pleaded guilty, bringing a successful end to DOI's investigation on this case.

## **OTHER NON-PROFIT VENDOR FRAUD CASES**

A notable fact is that the Gonzalez case was one of the significant cases that brought about DOI's focus on individuals who defraud non-profit organizations funded with public money. As you know, DOI's response to the issue of who is watching the enormous amount of public money given to non-profits who are funded to provide services to the City, was to establish a special nonprofit-vendor unit within DOI to more closely scrutinize the hundreds of millions of dollars in taxpayer funds that are at stake.

In that unit of DOI, cases have resulted in charges against several individuals, including the February 2009 indictment of O'Dell Holland, the former program director of Tremont Community Council Home Attendant Program, Inc., a Bronx nonprofit that contracted with the City Human Resources Administration to provide services to the elderly and disabled. DOI's investigation found that hundreds-of-thousands in funds were diverted from the nonprofit and into a personal account in Holland's name. In April 2009, another arrest from a DOI investigation culminated in the guilty plea by Hugh Blackburn, the former deputy director at two nonprofits in the Bronx and Queens - La Peninsula Community Organization, Inc. and St. Albans, Inc. - which received contracts from ACS to serve low-income children and families. Blackburn pleaded guilty to the embezzlement of more than \$400,000 in public funds.

In the last three fiscal years, DOI has conducted Vendor Name Checks on an average of 7,236 companies. When you factor in the number of principals and affiliates for each company, we have conducted more than 50,000 checks as part of the vendor responsibility determination. In addition, DOI conducted more than 4,000 Vendor Name Checks ("VNCs") for the New York City Housing Authority ("NYCHA") as well as the Housing Development Corporation ("HDC") and Housing Preservation and Development ("HPD") for publicly-funded developments. Performing these Vendor Name Checks, a labor intensive process, is a vital function to ensuring that the City contracts with vendors of integrity. Coming into FY10, DOI hopes to charge each company undergoing a VNC check a \$100 fee. Based upon the number of VNCs that DOI was called upon to perform over the last three fiscal years, we project this fee will generate revenue over \$600,000 annually for the City. This eminently reasonable fee, that covers part of our cost, is for each corporate entity checked, not the numerous principal and affiliate checks for each company that we are called upon to do.

## **FY 2010**

The executive expense baseline budget for the Department of Investigation for Fiscal Year 2010 is \$19.6 million: \$14.5 million for personal services and \$5.1 million for other than personal services. Additionally, we receive close to \$700,000 from two other City agencies via Intra-City agreements, which also includes seven positions that are not part of the baseline budget. These funds are placed in DOI's expense budget through budget modifications, and are reflected as an increase to the modified budget after Fiscal Year '10 begins. Included in the total baseline PS budget is approximately \$3.2 million in funding, representing 61 positions, resulting from memoranda of understanding ("MOUs") that DOI has with several agencies. That brings the total number of individuals under DOI's baseline budget beginning in FY10 to 237. The total budgeted headcount increases to 244 after the additional seven positions are added through budget modifications.

Under the most recent series of budget reductions, DOI will have to reduce staffing to 176 employees by the end of FY10. This is a reduction of 130 people since 2002. My staff and I are working on new and innovative ways of maintaining, and in many instances improving, productivity despite staff reductions. I am more than confident of our continued success. At this time, I would be pleased to answer any questions the Committee may have.