



NEWS RELEASE

From New York State Inspector General
Catherine Leahy Scott

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INSPECTOR GENERAL'S INVESTIGATION INTO ALLEGATIONS OF ETHICAL LAPSES AT NEW YORK POWER AUTHORITY RESULTS IN STRENGTHENED ETHICS STANDARDS AND FINANCIAL CONTROLS

New York State Inspector General Catherine Leahy Scott has released a [report](#) outlining an in-depth investigation of ethical misconduct, procurement irregularities and financial mismanagement at the New York Power Authority (NYPA) in 2009 and 2010, which has led the current NYPA administration to strengthen its ethics policies and engage in a comprehensive audit of its operations.

“Public officials have a responsibility to conduct themselves in an ethical manner consistent with New York State Public Officers Law, and each of our agencies and authorities has a responsibility to the taxpayer to ensure it conducts business in an effective, ethical, and lawful manner,” said Inspector General Scott. “My investigation revealed serious misconduct and ethical lapses, and in response, NYPA has taken substantial and meaningful steps to address these findings and improve its operations.”

The Inspector General’s investigation found that between 2009 and 2010 former President and Chief Executive Officer Richard Kessel had apparent conflicts of interest that he failed to reveal, as required both by New York State Public Officers Law and NYPA’s Code of Conduct. The Inspector General found that Kessel recommended NYPA consider a firm for a substantial contract for legal services, failing to disclose his own ongoing personal legal relationship with the same firm.

Additionally during this time period, the Inspector General’s investigation found that an RFP process NYPA conducted under former CEO Kessel’s tenure to hire law firms to handle legal matters deemed beyond the expertise of NYPA’s legal department was deficient. Specifically, the Inspector General’s investigation determined that the law firms were chosen through a poorly managed procurement process that involved inadequate record keeping and failed to provide sufficient guidance to staff reviewing the proposals.

In addition, the Inspector General separately uncovered a \$15,000 loan in 2009 that Kessel solicited and accepted from a subordinate, which neither individual reported as required in their annual financial disclosure statements.

The Inspector General also found that a former NYPA trustee inappropriately solicited employment by NYPA while serving as a voting member of NYPA’s Board of Trustees in 2010. Specifically, this individual had discussions with NYPA executives regarding a newly created position in Western New York while at the same time voting on issues relevant to Western New York and on matters presented to the Board by Kessel, who, upon her hiring, would become her direct supervisor.

Additionally, the Inspector General investigated whether NYPA, under former CEO Kessel, made charitable contributions that were unrelated to NYPA’s powers, duties or purpose between 2009 and

2010. The Inspector General found that NYPA's charitable contributions had been properly vetted and that NYPA has effective policies and procedures to monitor its charitable contributions. However, the Inspector General determined that, unlike NYPA's charitable contributions review process, no formal review and approval process existed at NYPA to monitor what NYPA calls "business expenses" but which are contributory in nature. Rather, NYPA had a deficient policy which lacked provisions for identifying, monitoring, and justifying these purported business-related contributions. Under Kessel's tenure, charitable contributions and business-related contributions increased, both statewide and specifically related to the Long Island area where Kessel lived.

As a result of her investigation, Inspector General Scott recommended that NYPA implement these actions:

- Conduct a management audit of its procurement policies, practices, procedures, and organizational structure;
- Develop more exacting procurement standards and mandate full documentation and record retention;
- Require the disclosure of actual, potential, or perceived conflicts of interest when issuing and reviewing procurement requests for proposals and train officials and employees on disclosure requirements;
- Engage in training regarding the prohibition of seeking a loan from a subordinate and loaning money to a superior;
- Formulate a policy prohibiting active board members from seeking NYPA employment;
- Establish a policy for business-related contributions which includes documentation and justification of each expenditure, as well as disclosure of any ties between a NYPA employee and the funding recipient; and
- Prepare monthly reports delineating contributions, sponsorships, and business-related contributions for presentation to the NYPA board.

NYPA is implementing the Inspector General's recommendations.

Inspector General Scott has referred her findings to the New York State Joint Commission on Public Ethics (JCOPE) for review.

A copy of the Inspector General's Report can be found [here](#).

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