

**Moreland Commission Public Hearing
September 17, 2013**

**Testimony of Loretta E. Lynch
U.S. Attorney Eastern District of New York**

Good evening. Thank you for the opportunity to appear before the Moreland Act Commission as you begin the important work of reviewing our state's public corruption enforcement structure. Your mandate is broad – to probe systemic corruption and the appearance of such corruption in state government, political campaigns and elections in New York State.

We are all hopeful that the Commission's efforts will lead to greater understanding on the part of both the public and the policy makers regarding the nature and scope of the problem of public corruption. I would also add that, just as important a role for the Commission will be to serve as a mechanism to engage the public as participants in the efforts to stop corruption before it begins.

As the United States Attorney for the Eastern District of New York, I am honored to lead an office with a long tradition of fighting public corruption, an office that has brought many of the leading cases of our times.

From ABSCAM – one of the first public corruption cases to utilize undercover agents and secret tapes – and the prosecutions of Congressman Mario Biaggi, Party Leader Meade Esposito, and Nassau County Political Boss Joe Margiotta in the '80's, to the bribery prosecutions of New York City building inspectors and the Town of Brookhaven corruption cases of the '90's, to the more recent prosecutions of City Councilman Angel Rodriguez, Nassau County Legislator Roger Corbin and scores of city inspectors for taking bribes, to the current

cases involving bribery and extortion at all levels of state and city government--our cases have highlighted the many and varied ways public officials have sold their offices and their honor for pocketfuls of cash.

Our current cases continue our rich tradition of protecting the public fisc and attempting to safeguard the public's faith in the political system. That faith, however, cannot help but be shaken by the recent history of self-interest and double-dealing our office and others have uncovered.

In recent months, in the Eastern District of New York, we have convicted the former majority leader of the New York State Senate and charged the former State Senate Minority Leader. We are prosecuting a State Assemblyman whose family has served in the State Legislature since the 1970s. We have convicted nine officials and contractors of the New York City Department of Housing Preservation and Development, including the Assistant Commissioner who oversaw HPD's construction programs.

These cases, present and former, show more than that corruption has seeped into the corner offices of the State Capitol and City Hall. They highlight weaknesses in oversight and accountability that allow corruption and provide guidance and insight on principles that can be effective counter measures.

Based on our experience, we have identified certain core principles that can act as effective counter measures to a culture of corruption.

First – rules that hold politicians accountable for the fiscal decisions they make with taxpayer monies and require their acknowledgment of their responsibilities to certify appropriate use.

Second – truly transparent financial disclosure on the part of politicians and the beneficiaries of their largesse.

Third – a strong legal framework to allow the investigation and prosecution of corruption matters.

Fourth – a clear sentencing structure to enhance the deterrent effect.

Fifth – a commitment from all stakeholders – including but not limited to - law enforcement, the public, the media, and other public officials to report wrongdoing when they see it.

Working in conjunction with our valued law enforcement partners such as the Federal Bureau of Investigation, Internal Revenue Service, United States Department of Labor, New York City Department of Investigation, New York State Attorney General and the New York State Comptroller, the Eastern District of New York has brought several cases recently that highlight the pervasive problem of corruption by elected and appointed officials. I am, of course, extremely proud of the work done by our teams. But I cannot help but be saddened by the facts of the cases we've brought over the past few years. I am saddened not so much by the fall of individuals who could have done so much good – they brought this on themselves. I am most saddened for their constituents, many of whom are from historically underrepresented communities, who place their faith in their elected officials, who believe in the slogans of 'a new day' and 'a better tomorrow' because their present day circumstances are challenged and their future is shadowed.

Just last year former State Senate Majority Leader Pedro Espada was convicted of stealing funds from Soundview Health Clinic, a federally funded clinic he operated in the Bronx. As is common in all these cases, it was so much more than double dealing and theft; it was a

betrayal of the trust of the people of the Soundview neighborhood and all of his district, an economically challenged area of the Bronx desperately in need of both quality healthcare and someone to represent their interests in Albany. The tragedy of this case is that, in Pedro Espada, they had neither.

The citizens of the Bronx trusted Pedro Espada with their vote and with their health. The federal government trusted him with over \$1 million in funding to take care of some of the neediest among us. But instead of using that money to make sure that personnel were paid and that medicines, syringes, a sonogram machine or an MRI machine were provided, Espada created a scheme to divert those funds for his own personal use. The eight-week trial exposed his lavish lifestyle. Instead of medicine, the money went for luxury cars, extravagant dinners, vacations, parties and spa treatments, to name just a few items. Espada was sentenced to five years' incarceration this past June for both his theft conviction as well as federal tax crimes.

There were extraordinary challenges in building a case against Espada, which no doubt played a role in his ability to avoid prosecution over the years. He controlled Soundview throughout the government's investigation, and Soundview employees, who relied on Espada for their livelihoods, refused to cooperate with, and in some cases obstructed, the investigation. Soundview's board of directors, packed with friends, relatives and others whose only qualification appeared to be loyalty to Espada, also worked to impede the investigation and provide cover for Espada's criminal schemes. Further, many of those schemes were complex and hidden behind layers of rubber-stamp approvals by Soundview's board and the shifting ownership arrangements of shell corporations. Our team spent more than a year sifting through tens of thousands of documents and nearly one terabyte of data, and interviewed hundreds of witnesses, to uncover Espada's criminal schemes.

Also earlier this year, former State Senator Shirley Huntley was sent to prison for her role in stealing funds from a non-profit organization she established. Huntley founded a group called Parents Information Network (or “PIN”), ostensibly to help educate and assist parents of New York City public schoolchildren in her neighborhood in Southeast Queens. Anyone who has tried to navigate the waters of the New York City public school system, from special needs challenges to school safety issues, knows that such assistance is vital.

Huntley was able to steer New York State funds to her non-profit through the “member item” process. But instead of providing much needed assistance for parents, the organization was used as a vehicle for Huntley to funnel the money, over \$80,000, to herself and her family.

This was not the only educational nonprofit that Huntley abused. Two other women, an aide and a niece of Huntley, operated a nonprofit called Parent Workshop. Like PIN, its stated purpose was to assist parents in Southeast Queens in securing quality education for their children. Instead, it also served as just another means for Huntley to funnel New York State money – taxpayer money – through the organization to her aide and her niece. When Parent Workshop came under investigation, Huntley assisted in falsifying and backdating documents to obstruct that investigation, and ultimately pled guilty to obstruction in the case brought by the New York State Attorney General.

Hardly the finest hours for Espada, Huntley, and the New York State Legislature. Yet both cases illustrate certain weaknesses in both the oversight of non-profit agencies as well as the New York State member item process.

In both cases, the boards of the non-profits were packed with cronies of the corrupt politician, and had neither the expertise to run the organizations nor the will to override their political patron. The audit function was so lacking as to be virtually nonexistent. And the

member item funds were distributed with no requirement that the sponsoring member certify that those funds were in fact used for their intended purpose.

We see similar themes in the public information regarding our pending cases against Assemblyman William Boyland and State Senator John Sampson as well.

Boyland is charged with soliciting over a quarter of a million dollars in bribes to support certain real estate development projects, and was captured on undercover recordings. He has also been charged with submitting over \$65,000 worth of fraudulent per diem and travel vouchers, claiming to be in Albany on official business on days when he was not, including when he was actually meeting with the undercover agents soliciting bribes.

Boyland also allegedly used a nonprofit organization, this one charged with serving the needs of senior citizens, and stands charged with funneling over a quarter of a million dollars in member items through this nonprofit to cover his own political expenses.

State Senator John Sampson, an attorney and the former chair of the NY State Senate Ethics Committee, stands charged with embezzlement of funds entrusted to him as a court-appointed referee of foreclosed properties and with obstruction of justice in connection with funds received from a real estate broker but not reported on his financial disclosure forms until he learned of our investigation. These allegations highlight the corruption that can be easily concealed within a legislator's outside income. We welcome the greater transparency that should flow from the recent requirements for reporting in this area.

The tragedy of these cases and these charges goes far beyond those just under indictment.

Constituents who depend on the organizations that have been corrupted do not receive vital services – in the case of Soundview this was literally life threatening.

These cases increase the level of cynicism and distrust of our elected officials – weakening our faith in the political system.

Those officials who are truly trying to do good are cast in the same light as those who have engaged in wrongdoing, rendering them less effective.

We are committed to vigorously investigating and prosecuting public corruption using all the investigative tools at our disposal. We have a long history of using undercover agents, cooperating witnesses, wiretaps, and other audio and video recordings. We undertake extensive review of documents that may shed light on corrupt activities. We will continue to use these tools to root out bad actors and bring their crimes to light.

But we are not alone in this fight, not can we prosecute our way out of this problem. It is not just for prosecutors and law enforcement agents to ferret out wrongdoing. We all have a role to play in promoting transparency and accountability on the part of our public officials.

The public must demand more accountability and honest services.

The media must remain vigilant in its scrutiny.

Public officials who see wrongdoing must not turn a blind eye and let corruption continue.

And it is to be hoped that this body can recommend substantive changes that will work to prevent the next major public corruption case.

We know that this Commission will focus on the specifics of proposed changes that will seek to do just that.

We note for your consideration certain areas of vulnerability that have been highlighted by the cases we have investigated.

We have seen circumstances where outside auditors are unfamiliar with the nonprofit structure, or even manipulated or deceived by corrupt boards or politicians. Similarly, we have seen circumstances where nonprofit boards are ill equipped to resist a corrupt member or politician.

The truly independent audit of nonprofit agencies by qualified auditors could yield both evidence of corruption as well as serve as a deterrent to those that would seek to manipulate their funding stream for corrupt purposes.

A review of both audit and board membership requirements could be a useful step.

We have also seen circumstances where a review of vendors used by organizations that receive member item funds, as well as the employees of such organizations, have revealed evidence of corruption. We note that greater oversight and transparency in these areas could yield both evidence of corruption as well as serve a deterrent effect.

Members of the Commission, I am often asked to describe the greatest difference I see in law enforcement priorities between my current term as United States Attorney and my earlier appointment. Without a doubt, it is the expansion of the Department's national security practice to encompass the goals of not just prosecuting terrorist incidents, but preventing them.

Although we have not had the same fatal catalyst, we must similarly expand our focus in the public corruption arena to prevent corruption before it occurs. My office remains committed to the important work of rooting out corrupt public officials. We support this Commission as it seeks to fashion rules and remedies that will not only enhance prosecutions but also provide earlier detection of corruption and ultimately better deterrence.

Public officials who have engaged in corruption have not only broken the law, they have broken faith with the public. Their actions siphon off taxpayer dollars, deprive citizens of vital

services and destroy public trust in our political system. I commend you for undertaking this task, and greatly appreciate the opportunity to provide information to the Moreland Act Commission in your efforts to focus on real solutions to this intractable problem and restore the public trust.

Thank you.