



NEW YORK CITY DEPARTMENT OF INVESTIGATION

CORRUPTION VULNERABILITIES AT
THE BROOKLYN UNION GAS COMPANY D/B/A NATIONAL GRID NY

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JANUARY 2017

The New York City Department of Investigation and the Kings County District Attorney's Office have completed a 15-month long investigation centering on the Brooklyn Union Gas Company d/b/a National Grid NY ("Brooklyn Union"). This investigation has resulted in the arrest of 36 individuals,¹ including an interconnected web of eight former Brooklyn Union employees² on numerous felony charges ranging from Enterprise Corruption to the Falsification of Business Records for their role in accepting bribes from property owners, managers and their representatives in exchange for the unlawful delivery of natural gas. This report not only provides a brief description of the criminal conduct, but more importantly, numerous corruption vulnerabilities at Brooklyn Union and recommended reforms to eliminate these corruption hazards that effectively enabled these Brooklyn Union Employees to operate as an unregulated, underground, shadow utility within Brooklyn Union itself.

The report is divided into three parts. *First*, this report provides background on the proper method of obtaining natural gas in the City of New York. *Second*, it describes the operation of this unregulated, underground, shadow utility. *Third*, this report identifies these corruption vulnerabilities within Brooklyn Union's own policies and concludes with recommendations for reform to foster and promote safety in the delivery of natural gas for all New Yorkers serviced by Brooklyn Union.

I. The Regulation and Delivery of Natural Gas within New York City

In addition to the New York State Public Service Commission, the delivery of natural gas is regulated by the New York City Department of Buildings ("DOB") and then supplied by the utility.³ Specifically, DOB regulates the gas systems from the gas meter⁴ to the building, while the utility is responsible for the gas systems from the main⁵ carrying the natural gas to the gas meter.

Generally, there is a six-step process to obtaining natural gas in the City of New York.

- *First*, the property owner retains a licensed master plumber ("LMP"), a construction professional licensed by DOB who is the only person

¹ One charged individual remains at large as of the date of the release of this report.

² Seven of these employees were actively employed by Brooklyn Union during the course of this investigation. All of these employees have since been terminated. The remaining Brooklyn Union employee was terminated years before this investigation. Although the official grounds for his termination centered around concerns related to time and leave, an internal Brooklyn Union investigation revealed parallel concerns with this particular employee's involvement in misappropriating gas meters from Brooklyn Union and subsequently installing those gas meters without the proper authorization from Brooklyn Union.

For purposes of simplicity, these eight individuals are referred to as the "Brooklyn Union Employees."

³ In New York City, natural gas is supplied by Con Edison and Brooklyn Union. Con Edison serves Manhattan, the Bronx and parts of Northern Queens. Brooklyn Union serves the remaining sections of New York City.

⁴ The gas meter is a device that measures the flow of gas, which is utilized as a billing mechanism.

⁵ Gas mains are pipelines that carry natural gas under the streets of New York.

- authorized to perform such gas related plumbing work in New York City.
- **Second**, the LMP files an application with the DOB for a permit to engage in gas-related plumbing work.
- **Third**, once approved, DOB issues the LMP the construction permit, whereupon the LMP (or a person under his or her direct supervision) can commence construction.
- **Fourth**, upon completion of the work, a series of tests are performed on the newly constructed plumbing systems by the LMP, who either self-certifies the results of these tests, or has an inspection conducted by the DOB.⁶
- **Fifth**, the successful passage of these tests culminates in DOB's issuance of a certificate of approval of gas installation, commonly referred to as a "gas authorization." The issuance of this gas authorization is reflected in DOB's publicly available database.
- **Sixth**, with the issuance of the DOB gas authorization, the customer of record (or his agent) then applies to the utility for the delivery of natural gas.⁷

Under the New York City Administrative Code, it is "unlawful for any utility company to supply gas . . . until a certificate of approval of gas installation from the department of buildings is filed."⁸

II. The Investigation

This investigation uncovered the existence of an unregulated, underground, shadow utility formed by the Brooklyn Union Employees that operated as a cell within Brooklyn Union itself. Among other things, this investigation revealed that this shadow utility:

- falsified internal Brooklyn Union records to make it appear properties had gas authorizations when they did not;
- manipulated internal Brooklyn Union records to specifically assign Brooklyn Union Employees involved in this criminal scheme to install these illegal gas meters;
- circumvented Brooklyn Union's internal controls over accounts for properties whose gas service was suspended by unlocking these previously frozen accounts, thereby allowing for the continued flow of natural gas to these properties; and
- stole Brooklyn Union equipment to perform unpermitted construction work on gas mains on at least two properties.

⁶ The purpose of these tests is to ensure that there are no leaks in the newly constructed natural gas piping systems. The public safety concerns underlying these tests are paramount.

⁷ DOB's role in the delivery of natural gas effectively terminates with the issuance of the gas authorization. In contrast, the utility's role in the delivery of natural gas commences with the issuance of this gas authorization.

⁸ N.Y.C. ADMIN CODE § 27-904. *See also* N.Y.C. FUEL GAS CODE § 406.6.

These criminal acts, which created dangerous conditions with potentially catastrophic consequences, were made possible in part by a vast array of corruption vulnerabilities and the lack of any meaningful internal controls within Brooklyn Union.

III. Corruption Vulnerabilities and Recommendations for Reform

A. Falsification of Brooklyn Union Records re. the DOB Gas Authorization

This shadow utility falsified internal Brooklyn Union records to make it appear that certain properties had DOB gas authorizations when they did not. On one to two occasions, this was performed by entering a gas authorization for a completely different property than the subject property at issue. A simple double-check by Brooklyn Union in DOB's publicly accessible database that confirms the existence (or non-existence) of a property's gas authorization would have revealed an issue with this entry. There was no evidence Brooklyn Union had a policy or procedure to conduct such double-checks.

In a majority of circumstances, rather than entering a bogus gas authorization, this shadow utility member simply ignored the provisions of the New York City Administrative Code requiring a DOB gas authorization before supplying gas. This charged defendant simply left blank that section of Brooklyn Union's gas installation record requiring the entry of a gas authorization. Nothing in Brooklyn Union's systems prevented this from occurring.

As a result, Brooklyn Union should agree to implement the following reforms which this Office has recommended previously:

- Establishing additional internal controls to prohibit the installation of gas meters without the entry of a gas authorization, where such authorizations are required.
- Implementing a policy and procedure to ensure the authenticity of any gas authorization entered in its systems.
- Engaging in a series of periodic and random internal reviews conducted by Brooklyn Union or its designee to ensure that gas service is being provided only to customers in New York City who have the appropriate DOB gas authorization.

B. Manipulation of Brooklyn Union Records to Route Specific Meter Installers

Having entered a gas authorization for an unrelated property, or even omitting its entry, this investigation revealed instances where a charged defendant was then able to effectively route a specific Brooklyn Union employee to install that gas meter that should never have been installed.⁹ Nothing in Brooklyn Union's systems prevented the dispatch of a specific gas meter installer for a particular installation assignment and the subsequent "cherry-picking" by that gas meter installer

⁹ Under this scheme, a charged defendant entered the employee identification of a specific Brooklyn Union employee in Brooklyn Union's computer systems. In turn, once entered, that specifically identified Brooklyn Union employee would request and obtain that particular meter installation assignment.

of that particular meter installation assignment; a seemingly glaring vulnerability ripe for a corrupt endeavor.

As a result, Brooklyn Union should agree to implement the following reforms which this Office has recommended previously:

- Prohibiting call center employees from directly assigning jobs to specific employees of Brooklyn Union to install gas meters, without prior approval.
- Prohibiting Brooklyn Union employees from requesting specific gas meter installation assignments without approval.
- Requiring gas meter installers to execute daily route sheets indicating the location and type of assignments conducted, which must be submitted for approval by their respective supervisor, or other form of documentation to provide an additional level of oversight, control, and accountability of the work of its field personnel.

C. Circumvention of Brooklyn Union Internal Controls of Locked Meters

Brooklyn Union had in place an internal control to prevent the flow of gas to customers in arrears, whose accounts were simply closed or whose gas flowed through piping systems deemed unsafe: a lock. Specifically, Brooklyn Union placed locks on these meters, valves and other piping systems to prevent the flow of gas.

It is self-evident that the relative security of a lock is inversely related to the accessibility of that lock's key. With such access, this shadow utility was able to unlock such meters.¹⁰

As a result, Brooklyn Union should agree to implement the following reforms which this Office has recommended previously:

- Ensuring the security of all keys and other devices used to unlock the locks placed on gas meters and their gas delivery systems.
- To the extent not already accomplished, creating a notification mechanism of gas usage for gas meters classified as "locked" in Brooklyn Union's records.

D. Theft of Equipment to Ensure the Delivery of Natural Gas

The investigation revealed at least two instances of the shadow utility operating in plain view by performing work on gas mains. This work, which involved the unpermitted excavation of the streets of the City to gain access to underground gas lines, was apparently performed with all of the necessary resources from Brooklyn Union, to include machines, vehicles and other materials.

¹⁰ On at least one occasion, this investigation revealed an instance whereby the property, which had a meter improperly unlocked by the shadow utility, also had a flexible hose connector used to power a hot water heater / boiler. This was a dangerous condition that had the potential to create catastrophic consequences.

Because of a lack of any meaningful internal controls on the work performed by its employees, this work, like the other actions of this shadow utility, went undetected by Brooklyn Union.

As a result, Brooklyn Union should agree to implement the following reforms which this Office has recommended previously:

- Where possible, implementing a more effective system of internal controls to account properly for employee time and the usage of inventory and other materials, which should be subject to periodic and random internal reviews conducted by Brooklyn Union or its designee.
- Installing/utilizing GPS devices in all Brooklyn Union vehicles to the extent feasible and appropriate to prevent and deter their unauthorized use. Furthermore, a notification should be made to Brooklyn Union supervisors when such GPS monitoring indicates the unauthorized use of such equipment.

IV. Conclusion

Natural gas provides a vital source of clean energy that powers the daily needs of all New Yorkers. The dangers of natural gas, however, are plenty as evidenced by recent events, including the powerful explosion on the Lower East Side of Manhattan in the spring of 2015.

Nevertheless, these dangers of natural gas are manageable and can be mitigated through, among other things, the implementation of these reforms as identified in this report. This will not only help ensure that the formation of a shadow utility within Brooklyn Union, as demonstrated in this report, will not again occur; it will help promote Brooklyn Union's commitment to business integrity, the safe distribution of natural gas within New York City and improved policies, procedures, and internal controls.

But most important, this will help ensure that natural gas will continue to remain a clean, reliable and safe source of energy for all New Yorkers.

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