



NEW YORK STATE SENATOR

Craig M. Johnson

Senate Investigations Committee: 'Flawed Judgment' Found in Purchase of Governor's Island Ferry

CRAIG M. JOHNSON August 15, 2009

| ISSUE: **INVESTIGATIONS**

| COMMITTEE: **INVESTIGATIONS AND GOVERNMENT OPERATIONS**

\$900K in Taxpayer Funds Wasted

The Governor's Island Preservation and Education Corporation showed “flawed judgment” and ignored available information when it purchased an unusable ferry-- resulting “in a significant waste of taxpayer dollars,” according to a report released today by the Senate Committee on Investigations and Government Operations.

The report also stated that GIPEC relied on a marine consultant with a potential conflict of interest and that its Board “maintained a troublingly detached role” during the purchase of the vessel in the Summer of 2007.

The boat, the M/V Islander, cost the state a total of \$922,645. Less than 18 months later it was sold on eBay for \$23,600 after it was determined that the 59-year-old ferry would be too expensive to make sea worthy.

“This process was rife with carelessness and taxpayers took a nearly \$900,000 hit because of it,” said Senator Craig M. Johnson (D-Nassau), Chairman of the Senate Committee on Investigations and Government Operations. “This boondoggle clearly could have been avoided if some very basic steps were taken to insure that this was a prudent purchase.”

The report was completed upon the review of 300 pages of documents, interviews, and testimony from a May 7, 2009 hearing held by the Investigations and Government Operations Committee.

Among the report's conclusions:

- **The GIPEC Board took a passive role in this major purchase and delegated to employees to a “shocking” degree.** The GIPEC Board committed to a half-million dollar expenditure (plus \$422,645 in soft costs that accompanied it) without conducting a Board meeting to evaluate the purchase. The sales contract to buy the ferry was signed on July 17, 2007, but the Board did not ratify it until Oct. 17, 2007. Even at this time, board members made this decision with minimal information on the vessel. According to testimony by GIPEC President Leslie Koch, staff did not view briefing the Board by producing consultants and circulating their reports as a “customary practice.”
- **GIPEC erred in relying on a structural integrity report from Marine Safety Consultants.** This was the same company that four months earlier was hired to conduct a similar report by the Islander's seller. The earlier report found the vessel in “good and serviceable condition.” According to the Senate report: “We dispute the existence of any credible factual basis to support this opinion, and consider it unlikely that Marine Safety consultants would submit a report to a prospective purchaser undermining its prior findings on behalf of the very client seller.” **A post-purchase assessment showed that the**

Islander was in “very poor condition” and would require \$6 million to \$7 million in repairs to make it sea worthy.

- **GIPEC ignored available information, and failed to appropriately evaluate the potential impact of serious informational gaps.** The only documents that GIPEC employees distributed to board members were the Marine report, and a two-page PowerPoint presentation by another firm, JMS, that “provided inadequate information for GIPEC to assess the boat.” Yet, an assessment from another company “voicing strong reservations about the Islander” was ignored and not distributed to board members.

The committee report does not recommend a legislative remedy for the identified issues.

Instead, it recommends that:

- The GIPEC Board, which has no established meeting time, meet regularly, and insist that staff provide it with consulting reports and relevant original documents upon which significant Board action is to be taken prior to scheduled meetings.
- The Chair of the Empire State Development Corporation (of which, GIPEC is a subsidiary) should review this report, and take appropriate disciplinary action against GIPEC employees for wasting corporation assets.
- The Empire State Development Corporation Counsel should revisit whether GIPEC has a valid basis to initiate litigation, and file such claims against its consultants.

- GIPEC hire a Marine Superintendent with a marine management background to advise staff and board members on the maintenance and upkeep of Governor's Island, as well as further diversify its consulting contracts.

Video of the full May 7 hearing can be viewed here:

<http://www.nysenate.gov/senator/craig-m-johnson/video>

-30-