



The City of New York
Department of Investigation
ROSE GILL HEARN
COMMISSIONER

80 MAIDEN LANE
NEW YORK, NY 10038
212-825-5900

Release #40-2011
nyc.gov/html/doi

FOR IMMEDIATE RELEASE
MONDAY, JUNE 20, 2011

CONTACT: DIANE STRUZZI
(212) 825-5931

REMARKS OF DOI COMMISSIONER ROSE GILL HEARN

I am pleased to be here with U.S. Attorney Preet Bharara and the team of investigators and prosecutors whose hard work and professional dedication resulted in the indictment unsealed today. The charges announced in this case by our offices last December were certainly significant - and yet they were only a partial view of the iceberg. More of the iceberg is now revealed.

With the evidence of fraud mounting, and two guilty pleas, this case has expanded further still. Indeed, this has become an unprecedented case. Collectively charged to date are 11 individuals and 1 company - including employees from the prime vendor, among them the Project Manager, the subvendor, the two principals of the subvendor, principals from two subs to the subvendor, and contractors hired to perform quality assurance for the project.

These charges represent a major step forward in the investigation: connecting the dots among the defendants and laying bare an elaborate subterfuge of shell companies and international financial transactions, constructed to conceal millions in illegal payments. Following the money in this charged criminal scheme was like tracking a ricocheting pinball, from contractor to subcontractor, to shell companies and foreign bank accounts, and into the defendants' pockets.

Fortunately, the experienced investigators and prosecutors standing here are an intrepid group of professionals who kept their eye on the ball and exposed the intricate scheme the defendants arranged. We are vigorously pursuing every dollar owed to the City taxpayers. The individuals charged today understood, exploited, and preyed upon the City's desire to modernize its timekeeping and payroll operations for more than 160,000 employees. Their staggering theft is matched only by the extraordinary results of the investigation.

The fact that the City is gratified that it was able to continue with the project's implementation, notwithstanding the impediment of multiple sets of criminal charges, does not detract from the City's condemnation of the fraud.

You could say that the CityTime project was on two tracks: the development and implementation of this IT system; and the overbilling and fraud perpetrated against the City along the way. You could also say that the City is now on two tracks: on the operational side getting the system fully up and running, making sure that the fraud we uncovered did not torpedo this project in which the City had already invested so much; and as it relates to the work of my Department, investigating the fraud, tracing the proceeds of the charged scheme and holding those involved accountable.

Tracing the money and gathering other evidence has taken us far in 18 months. Using subpoena power and forensic auditing acumen, investigators stripped away the layers of misrepresentations and deceit and unearthed the facts, exposing this multi-million-dollar kickback and money laundering scheme. As the City's Inspector General, DOI played a unique dual role: first, as the independent investigative agency that discovered what became the schemes charged by our partners in the U.S. Attorney's Office; and, second, by sharing with the City what we have learned about the corruption vulnerabilities in large IT contracts uncovered by this investigation.

By virtue of this investigation City officials have made a variety of changes and are studying others, such as:

more

- Taking big contracts like CityTime and breaking them into smaller components, with more vendors doing discrete pieces managed aggressively by the City. That will give more direct accountability, increase competition, and reduce huge, sprawling contracts dependent on one vendor.
- Expand DOITT's internal Program Management office. That would include hiring qualified professionals accountable directly and solely to the City and assigning them to these projects. This will reduce consultants and vendors monitoring consultants and vendors.
- Have a higher percentage of work done inside city government.
- Fewer layers of contractors (i.e. fewer subcontractors) and more visibility into subs when they do exist. Tighter subcontractor tracking, overhead rate control and monitoring.
- Moving toward contracts that tie payment to the completion and delivery of a specified product or service with milestones so the City can better gauge completion and whether it is getting what it paid for before it moves on to next phases and payments; reducing time and material contracts.
- Investment in fuller and tighter scoping at the outset of a project to reduce decisions about what is needed while the contract is underway by parties who may have a vested interest in those decisions.

DOI will continue to work hand-in-hand with our partners at the U.S. Attorney's Office to expose the full extent of the wrongdoing, and recover the money that was wrongfully taken from the City's taxpayers. I am very pleased with the investigative auditors and prosecutors who have been able to drill down to trace and seize over \$38 million dollars and 16 properties – all potential restitution for the City. I would like to recognize the members of my staff who have worked tirelessly on this case: First Assistant Commissioner John Kantor, Chief Auditor Yuval Hibshoosh, Laila Yu, Cory Pihl, and Maggie Xu.

I also cannot express enough gratitude to the U.S. Attorney Preet Bharara, the Deputy U.S. Attorney Boyd Johnson, and the Chief of the Criminal Division Rich Zabel, who while running an office that is busy in many arenas have always kept public corruption a priority and focus.

I also want to recognize the formidable partnership DOI has with the Southern District's Public Corruption Unit headed by Brendan McGuire and Michael Bosworth, and I thank the Assistant U.S. Attorneys on this case, Howard Master and Andrew Goldstein.

An indictment is an accusation. Defendants are presumed innocent until proven guilty.

DOI is one of the oldest law-enforcement agencies in the country. The agency investigates and refers for prosecution City employees and contractors engaged in corrupt or fraudulent activities or unethical conduct. Investigations may involve any agency, officer, elected official or employee of the City, as well as those who do business with or receive benefits from the City.

**DOI's press releases can also be found at twitter.com/doinews
Get the worms out of the Big Apple. To report someone ripping off the City, call DOI at (212) 825-5959.**