The Society of Corporate Compliance and Ethics (**SCCE**) tipped us to a story **reported** by the New York Times on fraud in the New York construction market. Let's get things started with a quote from the NYT story—

The district attorney's office and industry experts say that corruption generally adds 10 percent to the already-high cost of construction in New York, making the city less hospitable to business than other places.

Corruption is so endemic to the construction industry, said John E. Osborn, who specializes in construction law and represents property owners, "that it's part of regular business practices."

Yes, you read that correctly. One plaintiff's attorney asserted that fraud and corruption is "part of the regular business practices" of the New York construction industry. It's business as usual. It's expected.

But it's not always tolerated.

The NYT article reported that, on May 4, 2011, four executives of the Lehr Construction Corporation were arraigned "on charges that they systemically stole tens of millions of dollars from investment firms, insurance companies and law firms as they built corporate offices in buildings across Manhattan." Allegedly, they "routinely inflated mechanical, electrical and other subcontractors' costs by 10 percent to 13 percent on office projects they supervised." Prosecutors asserted that the wrongdoing cost the company's customers about $30 million over the past 12 years—which is good money even by Manhattan standards.

In support of the earlier assertion that fraud and corruption may be endemic to the New York construction marketplace, the NYT reported that—

It is the second time in 13 years that executives at Lehr, which at its peak had roughly $500 million a year in billings, have been charged with fleecing their corporate customers, and the third corruption case involving a member of the Lazar family, which founded Lehr.

How did the scheme work? According to the NYT article—

According to the district attorney, on jobs in which Lehr served as construction manager, the men created a document known as the 'bid package,' and required subcontractors to inflate their bids by 10 percent or more.

After the subcontractor was selected by Lehr and the client, it would then secretly negotiate with Lehr executives about the real price for the work, with the inflated bills submitted to the client …

Prosecutors said Lehr would reap the illicit profit by underpaying the contractors by the same amount on other jobs, so the illegal sums would not show up in an audit. …

Prosecutors said that Mr. Lazar's son Jeffrey, who oversaw the sales, estimating and purchasing departments, and Mr. Phillips, who shared responsibility for day-to-day operations, met weekly at their Broadway offices with Mr. Halper and Mr. Wasserman to work out the details of their scheme. All the men, and the company, were charged with enterprise corruption, scheming to defraud and grand larceny; Mr. Halper and the company also were charged with money laundering.

We like that part about the owner's son who "oversaw the sales, estimating and purchasing departments." Yeah, no segregation of duty issues there, for a firm that at one point had $500 million in annual sales.

In what was perhaps an unsurprising conclusion to its story, the NYT reported that the Lehr Construction Corporation filed for bankruptcy protection last year.