SAIC in Deep Curry with New York City's "CityTime" Payroll Project

Written by Nick Sanders
Thursday, 30 June 2011 00:00

New York City's "CityTime" payroll project is reportedly over-budget and behind schedule. And really, should we be surprised? When's the last time you read about a city or county or state IT project that actually came in under budget or on time or even with the originally planned functionality? Answer: it's been awhile.

But what sets NYC's project apart is the series of alleged ethical "lapses" that have plagued its prime contractor, Science Applications International Corporation (SAIC). SAIC, as many readers will recognize, is a major Federal contractor performing billions of dollars worth of projects each year. (SAIC's total FY2011 revenue was $11 billion.) So we were taken aback to read about the alleged problems SAIC had with managing the CityTime project, a project on which it had reportedly received $650 in billings (against an original budget of $68 million).

According to a report by the **Wall Street Journal** , "Last year, following a probe by the city's Department of Investigation, federal prosecutors charged six people with stealing $80 million from CityTime. Prosecutors have since added one more defendant; one defendant has died, and one has pleaded guilty and agreed to help prosecutors with the case."

One allegation concerns SAIC's principal subcontractor, TechnoDyne, who reportedly received $450 million from SAIC—allegedly because it agreed to pay kick-backs to SAIC employees. According to **this article** , on June 20, US Attorney Preet Bharara announced that TechnoDyne's and its two co-founders (Padma and Randy Allen) had been indicted on fraud charges. One blog site stated—

Carl Bell, a former SAIC employee and CityTime systems engineer, has pled guilty to multiple charges and claims he received at least $5 million in kickbacks from TechnoDyne and the Allens 'to ensure the continued success of the fraudulent scheme.' Gerard Denault, another former SAIC employee, who was recently arrested in connection with the alleged scheme, allegedly took more than $9 million in kickbacks.

The Allens have reportedly fled to India and the company has closed its doors, leaving about 200 employees jobless. The article reported—

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One defendant, Mark Mazer, a principal agent and representative of the New York City Office of Payroll Administration, oversaw the project. He allegedly approved time sheets for consultants who were on leave, who had been fired, and who were working less time than was reported. The payroll office awarded more than $600 million to SAIC, which paid about $450 million to TechnoDyne.

According to the 43-page indictment, TechnoDyne gave $75 million to companies D.A. Solutions and Prime View and their executives, Dimitry Aronshtein and Victor Natanzon, and allegedly channeled $25 million to Mazer. Natanzon pleaded guilty to his role in the CityTime fraud in February 2010.

The article continued—

Prosecutors have seized over $38 million in 120 bank accounts involving shell companies in three continents used to hide transactions in the CityTime probe.

Employees at TechnoDyne learned by e-mail May 31 that their company had closed its doors effective that day. When they tried to retrieve paychecks the next day, they were shocked to find out the Allens had removed them from the payroll in mid-May. In other words, they had worked two weeks not knowing they had no jobs.

This was a sad end for a company that had, in 2010, been honored by Ernst & Young LLP as New Jersey's Entrepreneur of the Year. But there's more to the SAIC story than the sad end of TechnoDyne.

Reports have surfaced of alleged timekeeping irregularities by SAIC's staff, namely one Gerard Denault, SAIC's CityTime Project Manager. (He was also one of those who allegedly received kick-backs from TechnoDyne.) We saw one Wall Street Journal article from May 25, 2011 that asserted that SAIC had fired Mr. Denault "for allegedly violating company policy when reporting his own timekeeping." The article continued—

According to a 'confidential' letter that SAIC sent to the city this week, Mr. Denault 'routinely recorded set hours each day rather than the actual hours that he worked as we require.'

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'Mr. Denault performed extensive work on CityTime, but because he did not precisely record the hours he worked as SAIC policy requires, SAIC cannot accurately calculate the amount that should have been billed to the city,' the letter said.

SAIC has agreed to reimburse the city for all of Mr. Denault's billed services. The reimbursement will be $2,470,522.

Quite obviously, we don't know all the facts and the real story of this problematic project. But we wonder whether the real problem here might be that SAIC didn't view its state and local projects as being as risky as its Federal projects. We wonder if SAIC didn't focus its compliance efforts on its Federal contracts which, after all, would be subject to Federal False Claims Act suits if it misbilled the Federal government. We also wonder whether the notoriously decentralized and entrepreneurial company might have taken a "hands-off" approach to local project management.

Regardless of the facts, we would urge readers to review their portfolio of projects, and ask themselves whether all projects are being treated equally. Are all projects subject to the same internal control systems and compliance reviews? Or, as we suspect is the case, have some projects slipped below your compliance radar screen because they are incorrectly perceived as being "low risk"?

We bet SAIC is asking themselves those questions right now.