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Release #13-2014
nyc.gov/html/doi

**FOR IMMEDIATE RELEASE
FRIDAY, JULY 25, 2014**

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**DOI ISSUES REPORT FROM ITS CITYTIME INVESTIGATION ON LESSONS LEARNED AND RECOMMENDATIONS
TO IMPROVE MANAGEMENT OF LARGE INFORMATION TECHNOLOGY CONTRACTS**

MARK G. PETERS, Commissioner of the New York City Department of Investigation ("DOI"), issued a Report today on the lessons learned from DOI's criminal investigation that exposed a wide-ranging fraud scheme involving the implementation of the CityTime program. The criminal investigation resulted in eight convictions and the return of a half-billion dollars to the City. DOI's Report, which is attached to this release, documents the administrative and oversight failures the investigation uncovered and which allowed the intricate theft scheme to continue unrestrained for years. The Report memorializes the lessons that can be used by the City when it implements other large-scale technology projects so it can best protect against waste, fraud, and abuse.

DOI Commissioner Mark G. Peters said, "The recommendations outlined in this Report are integral to strengthening the City's oversight and control of large-scale technology projects. The good news: the lessons learned from CityTime are significant and will help the City safeguard against fraud, waste and abuse in the future."

Specifically, the Report found the City did not implement proper internal controls and other management safeguards to prevent substantial cost overruns and delays in connection with CityTime, and failed to detect the enormous fraud against the City and its taxpayers. The deficiencies exposed include:

- inadequate executive oversight of the project by City officials;
- failure to appoint an integrity monitor;
- failure to control the expansion of the scope and cost of the project
- failure to hold contractors accountable for their inability to provide deliverables on schedule, and within budget;
- failure to properly vet contractors and subcontractors for conflicts of interest and potential fraud; and
- failure to plan for future City control over management and maintenance of the completed projects.

DOI issued six recommendations to the City:

- The City must establish an effective executive governance structure for the management of large-scale technology projects that should include the creation of an interagency working group to oversee the project and the assignment of an on-site City project manager with the requisite technical expertise.

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- The City should assign to all large-scale information technology projects an integrity monitor selected by DOI. The assigned integrity monitor should perform regular audits of the time worked by consultants on a project and analyze the hiring of consultants based on project needs.
- The City should create a more robust due diligence and approval process regarding large-scale technology contracts, amendments, and change orders.
- The City should hold contractors accountable for failures to provide deliverables on time and on budget by explicitly stating penalties in all contracts and enforcing those penalties where appropriate.
- Consultants on large-scale technology projects should be required to undergo a conflicts of interest background check and the City should require that contractors disclose any subcontractors that receive \$100,000 or more and the City should vet and approve those subcontractors.
- The City should develop a plan on all large-scale technology projects to transition maintenance and control to the City at the conclusion of a project.

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.

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**New York City Department of Investigation
CityTime Investigation:
Lessons Learned & Recommendations to Improve New York City's
Management of Large Information Technology Contracts**

**MARK G. PETERS
COMMISSIONER**

July 2014



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**THE DEPARTMENT OF INVESTIGATION'S CITYTIME INVESTIGATION:
LESSONS LEARNED & RECOMMENDATIONS TO IMPROVE NEW YORK
CITY'S MANAGEMENT OF LARGE INFORMATION TECHNOLOGY
CONTRACTS**

I. Executive Summary

The CityTime project was an Information Technology (IT) initiative designed to provide an automated system of timekeeping and payroll for municipal employees. CityTime was originally budgeted at approximately \$63 million, but the costs ultimately rose to approximately \$700 million. The Department of Investigation's ("DOI") investigation of CityTime uncovered a massive fraud, kickback and money laundering scheme involving New York City funds allocated for the project. However, beyond criminality, DOI's investigation further exposed that CityTime was flawed from the outset because of the City's failure to implement proper internal controls and other management safeguards to prevent substantial cost overruns and delays and to detect the enormous fraud against the City and its taxpayers. The deficiencies exposed by DOI's investigation include: (1) inadequate executive oversight of the project by City officials along with the failure to appoint an independent integrity monitor (Findings Nos. 1, 2 & 6); (2) the failure

of the City to control the expansion of the scope and cost of the project and to hold contractors accountable for their inability to provide deliverables on schedule and within budget (Findings Nos. 3 & 4); and (3) the failure to properly vet contractors and subcontractors for conflicts of interest and potential fraud (Finding No. 5). The paucity of sufficient internal controls on CityTime contributed to the extraordinary expansion in the total cost of the project and directly permitted corrupt contractors to carry out their fraud by siphoning City funds away from the project over a period of several years without detection.

1. Brief Overview of the CityTime Criminal Conspiracy

DOI's investigation uncovered that a group of consultants hired by the City to manage CityTime coopted and corrupted the project for their personal gain and used the project as a vehicle to steal hundreds of millions of dollars over the course of several years. The leader of the conspiracy was Mark Mazer, the senior quality assurance contractor on the project. As part of his duties, Mazer recommended multiple amendments to the contract with Science Applications International Corporation ("SAIC"), the lead software developer hired by the City to design and implement the CityTime system. As a result of the approval of these contract amendments, hundreds of new consultants were hired to perform work on the project which contributed to the dramatic increase in cost.

Mazer used his authority and influence over the management of the project, including his personal and professional relationship with the Executive Director of the City's Office of Payroll Administration ("OPA"), the contracting agency, to cause many consultants to be hired by Technodyne, a "single-source" subcontractor to SAIC that provided IT consultants for CityTime. These consultants were hired through two staffing companies controlled by Mazer's relatives and associates. Mazer then solicited millions

in dollars of kickbacks from the owners of staffing companies which totaled approximately 80% of the revenue generated by these new consultants. Mazer further used his authority over the project to approve payment for fraudulent hours purportedly worked on the project by consultants. These payments increased the revenue generated by the subcontractors, and consequently the size of the kickbacks received by Mazer. In order to conceal the kickbacks, Mazer used a group of “shell” companies controlled by his family and friends to engage in hundreds of financial transactions to distribute the proceeds of the fraud.

Gerard Denault, SAIC’s Program Manager for CityTime, was also a lead co-conspirator in the criminal scheme. Denault recommended that SAIC hire Technodyne, which contributed to the vast expansion of the number of IT consultants who worked on the project. Throughout virtually the entire time that Denault served as the CityTime Project Manager, he received illegal kickback payments totaling millions of dollars from the owners of Technodyne. The kickbacks were transferred to Denault by Technodyne via a series of international wire transfers intended to conceal the true nature of the payments: first, Technodyne transferred funds to its corporate affiliates in India; second, Technodyne’s Indian affiliates transferred funds to a shell company wholly owned and controlled by Denault. At the time that Denault was receiving the millions of dollars in kickbacks, he knowingly approved requests to the City for payments to SAIC, Technodyne and other entities that exceeded the value of the actual work performed on the CityTime project.

In November 2013, after a six-week jury trial, Mazer, Denault and Dimitry Aronshtein, who managed a consultant staffing subcontractor on the project who paid kickbacks to Mazer, were convicted on federal fraud and money laundering charges. In April 2014, Mazer, Denault and Aronshtein were each sentenced to 20 years in prison. The

defendants were further ordered to forfeit over \$40 million in cash and property tied to their crimes. These sentences followed a number of other convictions and legal actions relating to the conspiracy, including SAIC's entry into a Deferred Prosecution Agreement with federal prosecutors under which SAIC agreed to pay restitution to the City of over \$466 million, which, along with the cancellation of \$40 million in payments owed to SAIC by the City, brought the total amount recovered for the City's taxpayers as a result of DOI's investigation to over \$500 million. In addition, the owners of Technodyne, who are presently fugitives in India, forfeited in absentia over \$10 million in cash and property.

2. Lack of Sufficient Internal Controls on the CityTime Project

While this criminal conduct was a clear primary cause for the delays and cost overruns to CityTime, a secondary cause also existed: the City lacked proper internal controls and other management safeguards to detect and prevent either the fraud which occurred or the delays and cost overruns that were its inevitable result.

As a consequence of the breakdown in satisfactory internal controls over CityTime, the City failed to exercise effective day-to-day project management. The City failed to have a competent, conscientious and professional City executive manager representing its interests on the project. Instead, during the course of CityTime, the City abdicated primary responsibility for managing the project to the prime contractors who were virtually unaccountable to the City and who further had an incentive to increase the project's scope and cost. As CityTime progressed, the senior consultants, including Mazer and Denault, gained increasing influence over all aspects of the project. These individuals took advantage of the City's lack of oversight to perpetrate a massive fraud against the City. For example, Mazer accumulated the authority to identify additional work that needed to be performed in order to complete the project, approve work orders, and certify the

accuracy of timesheets submitted by consultants for payment by the City. Mazer's efforts resulted in higher staffing levels and increased project costs. Under Mazer's direction, the number of consultants working on the project more than doubled.

The City also failed to assign an independent integrity monitor tasked with identifying potential risks of fraud, corruption, waste, and mismanagement in connection with the project. It therefore failed to adequately scrutinize the invoices of subcontractors for excessive billing and inappropriate mark-up of consultant labor costs. The City's failure to adequately implement audit procedures to validate all of the hours billed by consultants for work performed on the project further enabled the fraud and kick-back scheme.

The City further failed to effectively estimate, budget for and control the costs of CityTime so that the project could be completed within the approved time-frame and budget. During the course of the project, a pattern of numerous and significant contract changes effected via contract amendments fundamentally altered the character of the original contract. The frequency with which price increases occurred, as well as the size of the increases in the scope and cost of the project, evinced poor management. Many of these changes were ultimately advantageous to the contractors, and not to the City. The contract amendments vastly increased the availability of funds which could be drawn down by the contractors for broad categories of activities under the expanded scope of the contract, with little oversight by the City.

The contract amendments included not only changes to the cost, schedule and scope of the project, but further included many substantive procedural changes to the terms of the contract. These changes were tantamount to the creation of a new contract while the work on the project was being performed. The City failed to adequately negotiate and vet

the evolving contract terms which had the net effect of sharply increasing the contract price, increasing the scope of the project significantly and shifting the project risk over time from the contractors to the City. Further, material changes to the contract reduced transparency and made it easier for subsequent additional changes in scope and price to later take place.

Another glaring example of the City's failure to adequately manage CityTime is the City's lack of any meaningful role in selecting or screening third-party subcontractors and vendors used by the prime contractors to provide labor for the design and implementation of the CityTime system. Central to the fraud scheme was the failure of the City to adequately vet these subcontractors, resulting in the inability of the City to detect potential conflicts of interest between contractors and subcontractors. Taking advantage of the lack of oversight by the City, the co-conspirators created a number of shell companies to serve as "third-tier" subcontractors on the project, devised arrangements for kickbacks, engaged in wire transfers that helped disguise their activities, and deposited relatively small amounts of money from their CityTime "profits" in many banks, thus eluding bank regulations that might have led to discovery. Several of the shell companies that were third-tier subcontractors on the project were directly associated with Mazer's relatives, including his mother, wife and uncle, but because no vetting of subcontractors occurred there was no mechanism for detecting this.

3. Findings & Recommendations

Now that the criminal proceedings have been completed, DOI has conducted a post-conviction review of the CityTime project and has determined that the following internal control weaknesses existed:

1. Failure to properly supervise CityTime due to the City's inadequate executive oversight and lack of expertise in management of a large-scale technology project.

2. Failure to assign an integrity monitor supervised by an independent agency such as DOI to provide oversight for fraud and waste.
3. Failure to properly evaluate the expanded scope of the CityTime Project or contract amendments that increased the costs of the project.
4. Failure to hold contractors accountable for their inability to provide deliverables on schedule and within budget.
5. Failure to conduct sufficient background investigations on contractors and subcontractors that performed a significant portion of work on the project.
6. Failure to plan for future City control over management and maintenance of the completed project.

In order to prevent repeated corruption due to the above weaknesses, the following internal control recommendations should be implemented:

1. Establishing an effective executive governance structure for the supervision and management of large-scale IT projects from inception to completion. This governance structure should include the creation of an interagency working group to oversee such projects and the standardized assignment of an on-site City project manager with sufficient technical expertise.
2. Assigning an integrity monitor selected and managed by DOI to all large-scale technology projects. The assigned integrity monitor should perform random audits of the time worked by consultants on a project and analyze the hiring of consultants based on project needs.
3. Creating a more robust due diligence and approval process regarding large-scale IT contracts, amendments, and change orders.
4. Holding contractors accountable for failures to provide deliverables on time and within budget by explicitly stating penalties in all contracts and enforcing those penalties where appropriate.
5. A) Compelling consultants who are hired to work on large-scale IT projects to undergo a conflict of interest background check, similar to the requirement for City employees.

B) Requiring disclosure by all contractors of any subcontractors which receive \$100,000 or more of the contractor's total contract amount, and subsequent City approval of such subcontractors.
6. Developing a plan on all large-scale IT projects to transition maintenance and control to the City at the conclusion of a project.

Each of these findings and recommendations is discussed in Point III, below.

II. Factual Background: History of CityTime and Lack of Internal Controls

In 1998, New York City embarked on the implementation of an automated timekeeping system that would enable a more accurate, efficient and secure payroll for City employees. The City designated OPA as the agency to handle the project.¹ OPA issued a Request for Proposals (“RFP”) for interested contractors to submit proposals for the design and implementation of the CityTime system. The New York City Procurement Policy Board (“PPB”) Rules govern the procurement of goods, services and construction by the City and more specifically, the RFP process.² Upon review of the submitted proposals for the timekeeping system, OPA selected MCI Systemhouse, Corp. (“MCIS”) for the project.

On April 6, 1998, the City contracted with MCIS. However, on November 6, 1998, prior to beginning any work on the system, MCIS assigned the contract to Paradigm 4, Inc.

¹ OPA manages payroll operations for more than 350,000 City employees. Although the agency oversees payroll for a large number of employees, OPA has only 150 employees to execute its operations.

² The PPB rules are intended to “safeguard the integrity of the procurement system and protect against corruption, waste, fraud and abuse.” *See*: PPB Rules Introduction. The PPB Rules are a uniform procedure followed by City agencies engaging in procurement matters. The Agency Chief Contracting Officer (“ACCO”) at each agency directs the contract award and administration process and works closely with the vendor both during and after the contracting process. In most circumstances, if an initial vendor is no longer capable of performing the work to which it contracted as a result of the RFP, the City reviews the other proposals submitted to find a suitable vendor to complete the project. However, if the remaining candidates are not deemed responsible or fit for the project, there are other options available: (i) issue a new RFP; or (ii) allow the contract to be reassigned to another party, if permissible under the agreement. The PPB Rules provide that contracts are to be awarded only to responsible contractors. A contract award is made “to the responsible proposer whose proposal represents the best value to the City by optimizing quality, cost and efficiency and therefore is determined to be the most advantageous to the City, taking into consideration the price and such other factors or criteria that are set forth in the RFP.” *Id.* 3-03(g). A copy of the PPB rules is available at <http://www.nyc.gov/html/mocs/ppb/downloads/pdf/PPBFinalupdated.pdf>

(“Paradigm 4”), with the approval of OPA and the Law Department.³ Then, in 2000, after significant changes in the project’s scope, Paradigm 4 assigned its interest in the agreement to SAIC.⁴ In 2002, the City named SAIC as the contractor to provide the timekeeping system at an initial contract amount of \$73 million.⁵ Significantly, neither SAIC nor Paradigm had submitted a proposal in response to the original RFP for the CityTime project. However, the City determined that SAIC and Paradigm 4 were responsible vendors.⁶

In 2001, due to the complexity of the project, OPA also contracted with a consulting firm, Spherion, to provide quality assurance (“QA”) services at an initial amount of \$3.4 million, with one-year renewals, at OPA’s approval. Under the contract, Spherion was tasked with the following QA tasks:

- Validate SAIC’s recommended infrastructure, methods and procedures.
- Certify SAIC’s deliverables and project phases.
- Assess risks and recommended mitigation strategies.
- Track the project.

³ The original CityTime contract included a clause that permitted the contractor to assign the rights, obligations and duties of the agreement to another party, with the written consent of the City. The assignment of the contract to Paradigm 4 was the first of 11 amendments to the contract.

⁴ The City decided that a web-enabled design was more preferable than the off-the-shelf product which the City initially approved. After discussions with agencies that would implement the system, the City determined that a web-enabled design would meet the individual needs of various agencies.

⁵ Though Paradigm 4 assigned its contractual rights with the City to SAIC in 2000, the assignment was not effective until the Comptroller registered the contract in 2002.

⁶ Paradigm 4 submitted a Vendex questionnaire to the Mayor’s Office of Contract Services (“MOCS”) in 1997, prior to the contract amendment that assigned the rights of the original agreement to Paradigm 4. The questionnaire is used to determine a vendor’s responsibility in doing business with the City. However, SAIC did not submit its Vendex questionnaire until October 2003, more than one year after SAIC started working on CityTime.

- Review past and future products and change orders.

Spherion's role on the project as the QA contractor was to ensure that SAIC delivered the CityTime system in accordance with the requirements of the contract. While OPA arranged to have Spherion provide QA services, it did not assign an independent integrity monitor for the project. Integrity monitors seek to identify potential risks of fraud, corruption, waste, and mismanagement that occur during the project, which is a distinct role from QA services. QA, by contrast, seeks to evaluate whether the product being developed meets specified requirements. Moreover, Spherion did not report to DOI or any other independent agency with expertise in investigations, auditing, and fraud prevention.

CityTime was expected to be fully operational, serving 180,000 employees across 81 mayoral City agencies, boards, and commissions, by June 2010.⁷ The project was expected to save money by deterring fraud through the use of biometric hand scanners and other devices that would record time spent at work. However, the project was plagued by cost overruns and delays. By 2009, the cost of CityTime had skyrocketed from the \$63 million initially awarded to MCIS to \$628 million. A series of contractual amendments and change orders drove the substantial increase in costs to the City. All contract amendments and change orders were approved by OPA, as well as a separate board that consisted of the OPA Executive Director and a representative from OMB and the Comptroller's Office. Despite two levels of review, the process was not effective in preventing delays, cost overruns and fraud.

Most significantly, in 2006, following advocacy by SAIC, the City approved Amendment 6 to SAIC's contract which changed the contract terms from fixed price to

⁷ At the outset of the project, the City did not expect CityTime to service the entire population of City employees.

fixed price level of effort (“FPLOE”). Whereas a fixed price contract involves payment upon the completion of specified project deliverables, an FPLOE contract designates the hours worked as the deliverable. Specifically, the City and SAIC agreed to implement CityTime through a series of deployment releases, rather than the previously agreed method of delivering a finished product by a set deadline, and SAIC was paid once consultants working on the project had reached a specified number of hours. Amendment 6 immediately shifted the burden to the City for any future cost overruns, and as a result consultant staffing on the project sharply increased. Significantly, at the end of 2005, SAIC had fewer than 150 consultants working on CityTime. However, by the end of 2007, more than 300 consultants were formally listed as working on the project – most of them through SAIC’s subcontract with Technodyne. During that same period, the OPA Board permitted the Spherion contract to be amended eleven times, increasing total payments to Spherion from the initial \$3.4 million to more than \$49 million.⁸

Mazer was hired as Spherion’s lead QA consultant by OPA’s Executive Director with whom Mazer had a prior professional and personal relationship. Mazer had previously worked at the City’s Administration for Children’s Services (“ACS”) with OPA’s Executive Director. Mazer and the former OPA Executive Director also worked together at Spherion prior to CityTime. Mazer did not formally disclose this relationship to the City prior to the start of his role on the project. On CityTime, Mazer was expected to track the performance of SAIC and to ensure that the ultimate product would meet the

⁸ Additional change requests and changes in project scope also contributed to the dramatic rise in costs. For example, some agencies requested system functions that were specific to issues in their agencies and not part of the original scope. As agencies were given the opportunity to make specific requests for system customizations, the scope of the project quickly expanded and the costs increased. For example, one agency requested the ability for managers to donate excess leave to a citywide bank. This function led to an increased cost of \$173,414.

City's needs. Among his other responsibilities, Mazer: (i) identified additional work that needed to be performed; and (ii) certified the accuracy of timesheets submitted by consultants for payment by the City. Though Mazer was not a City employee, OPA employees on the project reported directly to him, rather than an on-site City employee. Mazer functioned as a decision-maker with power to represent the City.⁹

During the investigation, DOI learned from a former consultant that the consultant had not been paid by SAIC but instead by DA Solutions, Inc. ("DAS"), which was owned by Dimitry Aronshtein. DOI soon determined that DAS as well as another consulting firm called Prime View had not been approved as subcontractors of SAIC. Rather, because DAS and Prime View were second-tier subcontractors that supplied consultants to Technodyne, the primary subcontractor of SAIC, no such approval and vetting for conflicts was required. Aronshtein, Mazer's uncle, was the principal of DAS, a fact that the contractor vetting process, if required, would have disclosed. DOI's investigation established that DAS arranged to kick back at least \$25 million of City funds to Mazer and his family through a series of "shell" companies controlled by Mazer and his relatives.

DOI's investigation also established that Technodyne provided kickbacks to employees of SAIC. In 2003, soon after the City engaged SAIC to implement CityTime, the company appointed Denault as the program manager, with responsibility for overall management of the implementation of the CityTime software. Denault subsequently employed Technodyne as the primary subcontractor reporting to SAIC, and, between 2003 and 2010, SAIC agreed to pay Technodyne at least \$450 million for work on CityTime. Denault relentlessly advocated for Technodyne in ways that were inconsistent with

⁹ Mazer attended high-level meetings with the Office of Management and Budget ("OMB") and other City agencies, and routinely presented himself as a representative of OPA.

business practices and made employees feel uncomfortable.¹⁰ DOI learned that Denault's support of Technodyne was due to his own interest in the company. Technodyne provided kickbacks of at least \$9 million to Denault, through a bank account he created specifically for this corrupt purpose, and \$5 million to Carl Bell, SAIC's Chief Systems Engineer, through his own shell company.¹¹

In December 2010, DOI notified federal prosecutors of the investigation, and the U.S. Attorney's Office for the Southern District of New York later charged six individuals – including Mazer and Aronshtein – with fraud, including falsified timesheets, kickbacks, and money laundering. In 2011, additional defendants, including Denault and Mazer's wife and mother were also indicted on federal criminal charges for their roles in the scheme. In November 2013, Denault, Mazer, and Aronshtein were convicted of bribery and fraud charges and subsequently sentenced to 20 years in federal prison.¹² At these defendants' sentencing, U.S. District Court Judge George B. Daniels referred to the CityTime scam as "the largest corruption scandal in decades." Judge Daniels added that criminal prosecution of fraud against the City would continue unless the City changes its internal and external controls.

III. Findings and Recommended Reforms

DOI has examined the internal control weaknesses that permitted both outright

¹⁰ An SAIC employee testified that Denault regularly asked about payments to Technodyne that were merely days late. The employee explained that, on one occasion, Denault intimidatingly looked over his shoulder as he checked his computer for an update on a Technodyne payment.

¹¹ Technodyne owners, Reddy and Padma Allen, fled to India prior to indictment. In June 2011, the Allens were charged with their role in the scheme, but they have not returned to the United States and remain fugitives.

¹² Prime View owner Victor Natanzon and Bell cooperated with the U.S. government and accepted plea agreements for accepting bribes, among other charges.

corruption as well as more general cost overruns and delays. DOI also analyzed the current processes and practices used by various City agencies, as well as the areas most vulnerable to corruption, fraud, and waste. We now make the following findings of internal control weaknesses and related recommendations to deter future criminal schemes in the City's large-scale IT projects.

Weakness #1: The City failed to properly supervise the CityTime project due to its inadequate executive oversight and lack of expertise in management of a large-scale technology project.

- The City did not establish an effective governance structure for the CityTime project. CityTime was a software installation system that should have been overseen by City employees with technical expertise. DoITT, which is responsible for providing IT services and infrastructure, did not serve as a primary resource for the project. Moreover, the Financial Information Services Agency ("FISA"), which coordinates data processing and operations for the City's payroll, became involved with the project only in 2010. Instead, the City designated OPA to oversee implementation of CityTime, a software installation project requiring technical expertise which OPA simply did not possess.¹³
- OPA did not provide the necessary project management and oversight. OPA was ill-equipped to supervise a large technology project like CityTime. During the project, OPA had only 150 employees who generally did not have the requisite technical expertise. As a result, OPA placed excessive reliance upon consultants to manage and oversee the project.

¹³ OPA was the only City agency that managed the CityTime project, but OPA regularly reported on the status of the project at status meetings where representatives from OMB and the Mayor's office also attended.

- Consultants were not subject to regular supervision by City employees. They did not report to an on-site City project manager. Though Mazer ostensibly reported to the OPA Assistant Executive Director, DOI's investigation revealed that Mazer generally bypassed the Assistant Executive Director and reported directly to the OPA Executive Director. However, the OPA Executive Director was not on-site every day to supervise Mazer and other consultants. Mazer was thus regarded as an official City representative by both City employees and the contractors and consultants who worked on the project and as the person in charge at the CityTime worksite, located at OPA. City employees and consultants relied on Mazer for decisions. Moreover, the OPA employees who worked on the Help Desk, and were responsible for assisting CityTime users, reported to a Spherion consultant, who reported to Mazer. Additionally, Mazer initiated the entry of two subcontractors to the project, DAS and Prime View, without the City's knowledge or consent. Mazer directed OPA employees to hire consultants from Aronshtein's staffing firm without seeking approval.
- There were no City employees providing meaningful oversight of the hiring of consultants, the hours they worked, and the truthfulness of consultant timesheets. Mazer controlled the hiring of consultants who worked on the Help Desk. He hired consultants who performed little or no work on the project.¹⁴ He arranged for payment of consultants after their employment on the project had been terminated. Mazer also was permitted to approve some consultant time sheets without any

¹⁴ During DOI's investigation, consultants explained that they were paid to sit around without performing any tasks associated with the project. The consultants also explained that they were often in empty rooms where there did not seem to be much work occurring.

approval from a City employee. Though she served as Mazer's supervisor, the OPA Assistant Executive Director did not sign any of Mazer's timesheets or timesheets for any of the consultants that he supervised. Due to the lack of executive oversight, the City did not have knowledge of falsified consultant timesheets, the excessive number of consultants assigned to the project, and the overbilling to the City. Had the City provided the necessary supervision, it may have detected the fraudulent conduct underlying the kickback scheme.

Recommendation #1: The City must establish an effective executive governance structure for the supervision and management of large-scale technology projects from inception to completion. This governance structure should include (1) the creation of an interagency working group to oversee such projects and (2) the assignment of an on-site City project manager with the requisite technical expertise.

The City should create an Interagency Working Group for any future large-scale technology project. The Working Group should include representatives from DoITT, MOCS, the Mayor's Office of Operations, the Office of Management and Budget ("OMB"), the Law Department and DOI in order to coordinate and leverage the resources and expertise of these agencies to oversee large-scale technology projects. The Working Group should be involved in the RFP process and collectively select the best, responsible contractor for the particular project. The Working Group also should identify circumstances requiring a project review to assess the need for any remedial action as when, among other things, contractors fail to provide specified deliverables, critical deadlines are not met, or costs substantially increase. Each agency's representative to the Working Group should be a high-level executive with knowledge of the agency's operations and functions and who has the authority to implement and oversee assigned tasks.

Additionally, for all projects, the City should assign a City employee manager to all large-scale technology projects. The City project manager should be responsible, among other things, for tracking the number of consultants on a project. Consultants would report to the City project manager. That manager must have sufficient technical expertise to evaluate reports from consultants, rather than needing to rely on such consultants to act appropriately.

Weakness #2: The City failed to assign an integrity monitor supervised by an independent agency such as DOI.

- As discussed above, the City did not assign an independent integrity monitor to CityTime, supervised by DOI or another agency. Spherion provided quality assurance on the project, but did not have the responsibility to proactively monitor the project for fraud and waste. Further, Mazer, who served as Spherion's senior representative on the project, actively organized and perpetrated the kickback scheme. Had the City assigned an integrity monitor to the project, the City may have detected the fraudulent conduct prior to DOI's full blown criminal investigation.
- In 2008, OPA conducted an audit of consultant timesheets as a result of allegations of false billing. The audit examined timesheets of 31 consultants terminated in 2007 and found that in nine of the 31 cases, timesheets were submitted covering weeks after the consultants were no longer working. In most cases, two weeks of false timesheets had been submitted by Mazer and one timesheet extended to ten weeks. Through its investigation, DOI learned that, on several occasions,

individuals were hired and then fired soon thereafter; when they were fired, they were told that they would receive severance pay only if they signed two or more blank timesheets. Those timesheets were later completed (adding many hours “worked” after former consultants had been forced out), signed by Mazer and others and subsequently submitted to OPA for payment.

- There was not an independent monitor onsite to review submitted timesheets or change orders for accuracy. Mazer, as a representative of Spherion, directly submitted timesheets for City payment, without an independent assessment for accuracy.

Recommendation #2: The City should assign an integrity monitor selected by DOI to all large-scale IT projects. The assigned integrity monitor should perform regular audits of the time worked by consultants on a project and analyze the hiring of consultants based on project needs.

DOI selects Integrity Monitors (“IMs”) based upon those IM’s unique expertise in investigations, auditing and the area of need or service. DOI often proactively assigns monitors to assist City agencies with identifying potential risks of fraud, waste and abuse at the onset of the projects. Members of the IM firms often consist of accountants, auditors, attorneys, and investigators with extensive experience in law enforcement. The duties of the IM include:

- Review payrolls and refer anomalies to the City agency or DOI.
- Report any integrity issue immediately to DOI and the City Agency.
- Review subcontractor approval documents.
- Maintain a field site presence.

The City, through DOI, should assign an integrity monitor to all large-scale IT projects. Assigned integrity monitors on future large-scale technology projects should

conduct random audits of hours worked by and payments to consultants.

Now that CityTime is operational and used by City employees, the Data Collection Devices (“DCDs”) used as part of the CityTime system to record employees’ comings and goings are the best method to authenticate the number of hours worked by consultants. To protect against time abuse, where practicable, all consultants performing City work should be required to use the DCDs every day that they are paid for work on a City contract.¹⁵ Use of DCDs by consultants decreases the potential for corruption while also allowing the City to track the amount of hours allegedly worked compared to the product received. Use of DCDs also will facilitate City record-keeping of time spent on projects by consultants for review and approval by City employees, as well as audits by an integrity monitor.

Weakness #3: The City did not properly evaluate the expanded scope of CityTime or contract amendments that increased the costs of the project.

- There were substantial cost increases and delays in CityTime as a result of changes in project scope due to agency specifications, contract amendments, and change orders. These changes were not subjected to necessary scrutiny.
- With CityTime, there was not an appropriate evaluation prior to contract issuance as to whether the project was appropriate for what the City needed. Initially, the City contracted with MCIS for an off-the-shelf timekeeping product, but soon realized that it needed a customized software product, as many agencies identified specific needs that could not be addressed by the off-the-shelf product. To reflect the changes in the expanded scope and agency needs, the City approved a series of change orders and contract amendments, which resulted in increased costs to the

¹⁵ For consultants who report to an area where DCD’s have not been installed, they must have a designated timekeeper who works on-site and is able to verify the consultants’ hours.

project. Such evaluation should have occurred prior to the contract, and if that was not possible a new contract review should have occurred.

- As discussed above, one of the most significant changes was Amendment 6 to the SAIC contract, which changed the contract from fixed price to FPLOE. Amendment 6 resulted in doubling the number of consultants working on the project and a steep rise in payments to consultants. No real oversight or analysis of this change occurred before approval.

Recommendation #3: The City should create a more robust due diligence and approval process regarding large-scale technology contracts, amendments, and change orders.

The Interagency Working Group discussed in Recommendation 1 should conduct a detailed review of the exact IT needs prior to contract and must have a written protocol for approval of subsequent change orders that may expand project scope, increase costs, and cause delays. This written protocol must include a cost scoring that considers the impact of any change.

Weakness #4: The City failed to hold contractors accountable for their inability to provide deliverables on schedule and within budget.

- There were numerous project delays and budget concerns in CityTime. For instance, though CityTime was originally scheduled to be fully operational in June 2010, it had by then been implemented in only 58 of 81 agencies with approximately 58,000 employees using the system.¹⁶
- Neither SAIC nor Spherion were penalized for their inability to meet established deadlines. Rather, the companies were paid additional money through 11 contractual amendments that continuously extended the project. Though the

¹⁶ In September 2010, the Comptroller's Office issued an audit report on OPA's oversight of the CityTime project. In that report, the Comptroller explained how there had been multiple delays on the project and the program had not been completely implemented.

contract included provisions for damages if SAIC failed to produce a deliverable, the contract also permitted OPA to extend deadlines, with approval from its board. When deadlines neared, the City issued amendments to extend those deadlines, rather than pursue penalties.

Recommendation #4: The City should hold contractors accountable for failures to provide deliverables on time and on budget by explicitly stating penalties in all contracts and enforcing those penalties where appropriate.

Contracts should have deadlines and requirements for early notification by contractors of obstacles to those deadlines. Contracts should set forth penalties for noncompliance which must be enforced. Any decision to extend a deadline or forego a penalty should be made in writing, published, and have the consent of the Working Group, site manager and the IM.

Weakness #5: The City failed to conduct sufficient background investigations on contractors and subcontractors that performed a significant portion of work on the project.

- Mazer and the former OPA Executive Director who served during the CityTime project had previously worked together for the City at ACS, in addition to Spherion, the company that provided QA for the work performed by SAIC.¹⁷ Mazer's relationship with the former OPA Executive Director permitted Mazer to have unfettered access to the highest level of City decision-makers. For example, Mazer frequently attended meetings with the OMB Executive Director who oversaw spending in the City, including specifically on the CityTime project.
- As discussed above, SAIC employed Technodyne as a subcontractor. Technodyne enlisted the work of its own subcontractors, DAS and Prime View, without

¹⁷ It is unknown whether Mazer or the former OPA Executive Director disclosed their prior employment relationship to the City, but there was no formal process by which disclosure to MOCS or other investigative entities was required.

disclosure or vetting by the City. There is not currently a requirement that a contractor disclose to the City information about its second-tier subcontractors.

Recommendation #5A: Consultants who are hired to work on large-scale technology projects should be required to undergo a conflicts of interest background, similar to the requirement for City employees.¹⁸

On the City's conflict of interest forms, City employees must disclose whether they have any family members who work for the City. The questionnaire that consultants are required to complete as part of the City's Vendex/vendor integrity review process should similarly be broadened to include whether the consultants have worked with City employees who are currently in the agency for which they are hired to work as consultants.

Recommendation #5B: Require (1) disclosure by all contractors of any subcontractors that receive \$100,000 or more of the contractor's total contract amount, and (2) subsequent City approval of such subcontractors.

The City should implement a policy requiring contractors to disclose all subcontractors on IT projects, including second-tier subcontractors that are awarded a minimum of \$100,000. This policy is consistent with the PPB Rules which currently require disclosure and vetting of all subcontractors who are awarded a minimum of \$100,000. Upon disclosure, MOCS, with considerable assistance from the affected agency, should vet and approve all subcontractors within a reasonable time.¹⁹

Weakness #6: The City failed to plan for future City control over management and maintenance of the completed project.

- Mazer claimed to OPA employees that he would continue to receive payments for his role in the maintenance of the system. If the fraud had not been detected, the

¹⁸Clearly, not all information on the individual conflicts' check is relevant and whatever background process is developed should be carefully crafted to avoid creating undue delays and costs to the process.

¹⁹For example, MOCS and the contracting agency should review prior contracts that the vendor has had with the City, if applicable, and investigate the truthfulness of the information provided on the Vendex questionnaire.

City would have continued to rely upon a QA consultant to ensure that SAIC maintained the system in a manner consistent with the City's needs.

Recommendation #6: The City should develop a plan on all large-scale technology projects to transition maintenance and control to the City at the conclusion of a project.

At an early stage of any IT project, the City should put in writing a transition plan that designates a point when the project will transition solely to the management of the City. The transition plan should include an exit strategy for consultants on projects and complete handover to City employees to operate and maintain the system.

During the implementation of a large-scale project, City representatives or employees should develop a level of knowledge that assists with maintenance of the program. While, in some cases, City employees may not be able to wholly maintain a system without the help of consultants, preparations should be made for City control and periodic support from consultants. At no time should a vendor have sole control of maintaining a system for an unspecified amount of time.

Conclusion

Lessons learned from CityTime are pertinent today. As the City continues to engage in multi-million-dollar, complex projects, it needs to understand how to best protect against waste, fraud, and abuse.