

SAIC Will Pay \$500M To End CityTime Kickbacks Case

By **Richard Vanderford**

Law360, New York (March 14, 2012, 11:57 AM ET) -- Science Applications International Corp. will shell out \$500 million — the most a state or city contractor has ever paid in a fraud case — to end federal prosecution over alleged kickbacks that inflated the cost of New York City's CityTime project, prosecutors said Wednesday.

SAIC, an scientific and engineering company that is a major federal and state contractor, entered into a three-year deferred prosecution agreement with the U.S. Attorney's office in Manhattan, prosecutors said at a court hearing.

The company, lead contractor on the CityTime payroll reform project, was accused of failing to investigate reports that kickbacks were being paid to its employees by an overbilling subcontractor.

Though SAIC formally pled not guilty, it admitted that it failed to control a lead employee, Gerard Denault, who allegedly took kickbacks from subcontractor Technodyne LLC and allowed it to gouge the city for work on CityTime.

The CityTime project, a bid to overhaul New York City's municipal payroll system, saw its budget jump from an estimated \$73 million in 2000 to about \$620 million by 2011.

"Today, the people of New York City have more than a half billion reasons to celebrate, and corporations that deal with the city have more than a half billion reasons to do so honestly," U.S. Attorney for the Southern District of New York Preet Bharara said.

His office called the recovery the largest in a state or municipal contract fraud case.

Under its deal with prosecutors, SAIC will pay \$370.4 million in restitution to New York City and a \$130 million penalty to the U.S., and will forgive \$40 million in bills that were invoiced to the city but not yet paid.

SAIC has also agreed to implement a permanent compliance program and not to commit any crimes for three years.

"SAIC failed to take actions that might have detected, disrupted or curtailed the charged conspiracies, allowing the city to be victimized repeatedly and systematically for seven years," the company said in a statement of responsibility submitted to prosecutors.

It remains to be seen how the company's admissions will play out in shareholders' legal action against the company. A group of shareholders in February launched a class action blaming directors for losses the company has incurred because of the scandal.

CityTime was intended to modernize New York City's payroll and timekeeping systems. SAIC won the contract in 2000, and in 2003 appointed Denault to serve as program manager, according to the company's statement.

Shortly after, the company hired Technodyne as its single source subcontractor, and in 2006 renegotiated its contract so that the city would be responsible for cost overruns. Afterward, the project's costs exploded, from \$115 million in 2005 — its first five years under SAIC's control — to \$620 million by 2011, SAIC said.

Denault allegedly allowed consultants to be hired at inflated rates and approved work orders for unnecessary staff increases, among other things. Prosecutors claimed his kickbacks were directly linked to the number of hours consultants worked on the project.

SAIC admitted that it failed to properly investigate a 2005 whistleblower's complaint that Denault was taking kickbacks, that it ignored signs that Denault was using intimidation to stop employees from bringing up ethical concerns and that managers treated early claims of corruption with skepticism.

It also admitted it failed to detect wrongdoing by Carl Bell, a systems engineer who pled guilty to involvement in the scheme.

"SAIC's failures resulted, in part, from an overemphasis on the financial and operational success of the CityTime project ... at the expense of the company's own ethics," SAIC said in its statement.

SAIC CEO John Jumper said the settlement was an important step to help the company move forward, emphasizing that its financial position remained strong. SAIC, which employs about 41,000 people, took in a reported \$11 billion in revenue in the fiscal year that ended January 2011, the most recent period for which results are available.

The company has new leadership in place, Jumper said. Jumper himself took his job at the company only Mar. 1, and SAIC replaced its chief operating officer Mar. 5.

Still facing charges are Technodyne and that company's CEO Reddy Allen and Chief Financial Officer Padma Allen, along with Denault.

SAIC is represented by Douglas P. Lobel of Cooley LLP.

The case is U.S. v. Science Applications International Corp., case number 1:11-cr-00121, in the U.S. District Court for the Southern District of New York.

--Additional reporting by Lana Birbrair. Editing by Eydie Cubarrubia.