



UNITED STATES ATTORNEY'S OFFICE
Southern District of New York

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**SCIENCE APPLICATIONS INTERNATIONAL CORPORATION ENTERS
INTO AGREEMENT WITH MANHATTAN U.S. ATTORNEY'S OFFICE
TO FORFEIT MORE THAN \$500 MILLION IN CONNECTION WITH
CITYTIME PROJECT**

Largest Known Single Recovery in a State or Municipal Contract Fraud Case

Forfeiture Action Also Filed Against Assets of Technodyne and Its Principals, Padma and Reddy Allen

Preet Bharara, the United States Attorney for the Southern District of New York, and Rose Gill Hearn, the Commissioner of the New York City Department of Investigation ("DOI"), announced today that the Office has entered into a deferred prosecution agreement ("DPA") with Science Applications International Corporation ("SAIC"), a Fortune 500 scientific, engineering and technology applications company with approximately 41,000 employees worldwide. SAIC is publicly traded on the New York Stock Exchange and 93% of its business is generated by government contracts. The DPA resolves the Government's investigation of SAIC's conduct relating to the CityTime project, a timekeeping and payroll system modernization project undertaken by the City of New York (the "City") for which SAIC served as the lead contractor. The Government's investigation of conduct by others continues. Under the agreement, SAIC will forfeit a total of \$500,392,977 to the Department of Justice, and forgive more than \$40 million still owed by the City to SAIC in connection with the CityTime project. In a Statement of Responsibility (the "Statement") that was part of the agreement, SAIC acknowledged that it failed to properly investigate a 2005 ethics complaint filed by a whistleblower alleging, among other things, that the project's Program Manager, Gerard Denault, had to be receiving kickbacks on the project from the single source subcontractor he had hired to perform the work. SAIC also accepted responsibility for the illegal conduct alleged against Denault and admitted to by Carl Bell, who served as Chief Systems Engineer in SAIC's New York office.

Earlier today, the DPA was approved in Manhattan federal court during a proceeding before U.S. District Judge George B. Daniels. During the proceeding, SAIC, through its counsel, agreed to waive Indictment by a grand jury and consented to the filing of a one-count Information in which SAIC is charged with participating in a conspiracy to defraud the City in relation to the CityTime project.

Manhattan U.S. Attorney Preet Bharara said: “For seven years, fraudsters working on CityTime had a field day at the City’s expense. 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. This investigation revealed that SAIC managers responsible for CityTime placed profit ahead of principle, time and again. A half billion dollars is a staggering sum, but it is a sum commensurate with the staggering scale of the crimes and misconduct we uncovered, and it is an amount that makes the City whole.”

DOI Commissioner Rose Gill Hearn said: “This half-billion-dollar payment reflects a stunning fraud against the City and a powerful case that exposed it. As the prime vendor, SAIC’s responsibility was to deliver the CityTime project efficiently and honestly. But two high-level company officials, among others, were charged with lining their pockets at the City’s expense while SAIC did nothing to stop them. One official has pleaded guilty, and today we are gratified that the company admits its responsibility. The criminal investigation by DOI with the U.S. Attorney’s Office for the Southern District of New York has produced this unprecedented financial recovery for the taxpayers of New York City. It is a good day for the City and its eight million residents.”

According to the Statement, and as alleged in the Superseding Indictment in *United States v. Mark Mazer et al.*, (the “Mazer Indictment”), and other public filings in the case:

The CityTime project was a City initiative intended to modernize its timekeeping and payroll systems across City agencies. In 2000, SAIC became the lead contractor on CityTime, which, at the time, had a contract value of approximately \$73 million. In 2003, SAIC appointed Gerard Denault as Program Manager on CityTime. At Denault’s behest, SAIC hired TECHNODYNE LLC (“TECHNODYNE”) as a “single source” subcontractor on the CityTime project.

TECHNODYNE, through its principals, REDDY ALLEN and PADMA ALLEN, agreed to pay and facilitate kickbacks to Denault and others in connection with the CityTime project, and to defraud the City into overpaying for the project in exchange for obtaining over \$325 million in work on CityTime as an SAIC subcontractor. Some SAIC managers charged with supervising the CityTime project, and with ensuring that the project complied with ethics and procurement policies, either failed to perceive or ignored significant and pervasive irregularities within the SAIC-TECHNODYNE relationship. SAIC’s failures resulted, in part, from an overemphasis by those assigned to manage the project on demonstrating its financial and operational success at the expense of SAIC’s own ethics, human resources and procurement policies. In order to assure the success of CityTime, some managers supervising Denault and the CityTime project disregarded warning signs of possible corruption and tolerated Denault’s improper handling of the contract. Consequently, SAIC failed to take actions that might have detected, disrupted or curtailed the charged conduct, thereby allowing the City to be victimized repeatedly and systematically for more than seven years.

SAIC accepted responsibility for the illegal conduct of its former employees, and has cooperated fully with the Government’s investigation. The corporation voluntarily implemented institutional reforms and terminated the employment of managers who directly supervised Denault and CityTime.

Under the DPA, SAIC agreed to forfeit a total of \$500,392,977, comprising \$370,392,977 in restitution to the City as a victim of the fraud described in the Information and Statement, and \$130 million payable to the United States as a penalty for the offense. In order to assure that the City is made entirely whole, the U.S. will transfer \$96 million of the \$130 million penalty back

to the City, thus resulting in a total anticipated payment to the City of over \$466 million. In addition, SAIC canceled its remaining receivables due from the City, valued at over \$40 million, for amounts unpaid by the City for work performed on the CityTime project, making the total financial benefit of the DPA to the City over \$500 million. This resolution is believed to be the largest, by dollar amount, of any investigation alleging state or local government contract fraud.

As part of the DPA, SAIC agreed to continued cooperation with the Government and consented to the appointment of an independent monitor to ensure its compliance with both the agreement and with appropriate ethics and procurement policies. SAIC also consented to the filing of a one-count felony Information, charging it with conspiracy to commit wire fraud, in violation of Title 18, United States Code, Section 1349, and agreed that it would be subject to prosecution under the Information if it fails to satisfy the terms of the DPA at any time within the next three years. The Government agreed under the terms of the DPA to seek dismissal of the Information at the conclusion of the period set forth in the DPA if SAIC complies with its terms.

Mr. Bharara said that the decision to enter into the DPA was made after carefully weighing the factors set forth in the Department of Justice Principles of Federal Prosecutions of Business Organizations, including: (1) SAIC's full cooperation with the Government's investigation; (2) SAIC's demonstrated commitment to institutional reforms, and its agreement to be supervised by an independent monitor to ensure that the reforms are carried out; (3) its agreement to pay \$500,392,977 in restitution and penalties; (4) its lack of a prior history of similar misconduct; and (5) the negative effect that a prosecution of SAIC would have on the company's innocent employees and shareholders, and its legitimate activities.

Mr. Bharara separately announced the filing of a civil forfeiture complaint (the "Forfeiture Complaint"), whereby the Government intends to seek expedited forfeiture of more than \$10 million in cash and properties that, as alleged in the Forfeiture Complaint, were obtained by PADMA ALLEN and REDDY ALLEN, the principals of TECHNODYNE, and TECHNODYNE itself, as a result of the crimes alleged in the Mazer Indictment, or that were used to facilitate those crimes.

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Mr. Bharara praised the outstanding efforts of DOI in this investigation, which he noted is ongoing.

The allegations in the Mazer Indictment and the Forfeiture Complaint are merely accusations, and the defendants in the Mazer Indictment, including Denault, REDDY ALLEN, PADMA ALLEN, and TECHNODYNE, are presumed innocent unless and until proven guilty.

This case is being handled by the Office's Public Corruption Unit. Assistant U.S. Attorneys Howard S. Master and Andrew D. Goldstein are in charge of the investigation.