



*United States Attorney
Southern District of New York*

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CONTACT: U.S. ATTORNEY'S OFFICE
ELLEN DAVIS,
EDELI RIVERA,
JESSIE ERWIN,
PUBLIC INFORMATION OFFICE
(212) 637-2600

DOI
DIANE STRUZZI
(212) 825-5931

**MANHATTAN U.S. ATTORNEY ANNOUNCES FRAUD AND MONEY
LAUNDERING CHARGES RELATING TO \$80 MILLION SCHEME
TO DEFRAUD NEW YORK CITY**

*Massive Fraud Relating To New York City's CityTime Project
Involved Use Of Shell Corporations And False Timesheets*

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 charges against four consultants to the New York City Office of Payroll Administration ("OPA") -- MARK MAZER, DMITRY ARONSHTEIN, VICTOR NATANZON, and SCOTT BERGER -- for operating a fraudulent scheme that led to the misappropriation of more than \$80 million in New York City funds allocated for an information technology project known as "CityTime." MAZER, ARONSHTEIN, and NATANZON are also charged -- along with MARK MAZER's wife, SVETLANA MAZER, and his mother, LARISA MEDZON -- with using a network of shell corporations to launder the proceeds of the fraud. Each of the defendants was arrested this morning. They are expected to be presented in Manhattan federal court later today.

Manhattan U.S. Attorney PREET BHARARA said: "In an elaborate scheme that included shell companies, kickbacks, and international money laundering, Mark Mazer and his cohorts allegedly used the City as their own personal cash cow, making misrepresentations that led to the misappropriation of tens of millions of dollars in taxpayer funds. Mazer then allegedly used front companies controlled by his wife and mother to personally pocket more than \$25 million in City money. In an ironic twist,

funding for CityTime, a project intended to prevent payroll waste, fraud, and abuse, was itself allegedly bilked in part by fraudulent timekeeping. In these times of shrinking government budgets and fiscal austerity, the crimes charged today are particularly galling. I want to praise Commissioner Rose Gill Hearn and her DOI team for their exceptionally quick and diligent work in this matter. Working with our partners, we will continue to ferret out public corruption and prosecute those responsible to the full extent of the law. This investigation is continuing."

DOI Commissioner ROSE GILL HEARN said: "The shame is that a project to save time and money on the City payroll fell prey in part to the accused swindlers who cost the taxpayers a stunning \$80 million and counting. The supposed experts hired and paid well to protect the City's interests were exposed as the fox guarding the hen house, secretly pocketing millions and purchasing expensive homes and cars, it is charged. Ironically, when CityTime's hand scanners got in their way, they even resorted to fudging paper timesheets, according to the Complaint. DOI investigators methodically followed the money to reveal the deception and end the shell game. DOI and the U.S. Attorney's Office for the Southern District of New York continue to investigate this brazen scheme and are committed to pursuing this case to its just conclusion."

According to the Complaint unsealed today in Manhattan federal court:

The CityTime Project

CityTime is a project administered by OPA to develop an automated timekeeping system intended to permit the City's employees to get paid more accurately, more efficiently, and more securely. The initial development contract was approximately \$63 million, with the entire project estimated to cost that amount to complete. As of September 2010, however, the amount paid to the lead software developer for CityTime-related services was over \$628 million and, as of June 2010 (the expected completion date for the project), only 35 percent of the intended user population was using the CityTime system.

In 2001, OPA also contracted with a national consulting firm (the "QA Vendor") to provide quality assurance ("QA") services for the CityTime project. The intended purpose of the QA contract was for the QA Vendor to supervise the lead software developer's performance and to ensure that the ultimate product would meet the City's needs. This contract was initially for

three years, worth approximately \$3.4 million, and subject to five, one-year renewals by the City. Overall, however, since 2001 there have been 11 amendments to the contract, and payments to the QA Vendor have exceeded \$49 million.

The Fraudulent Scheme

MARK MAZER, through a consulting company he owns, was hired to perform QA services on the CityTime project, and received over \$4.4 million from the City for that work. In that capacity, MAZER had an informal position of authority at OPA, with direct access to the Executive Director of OPA and the ability to, among other things, help shape and approve contract amendments and work orders that resulted in higher staffing levels on the CityTime project.

As alleged in the Complaint, however, at the same time that MARK MAZER was approving staffing increases, he was steering the new business to consulting firms run by DMITRY ARONSHTEIN, who is believed to be his relative, and VICTOR NATANZON. These two consulting firms collectively were paid over \$76 million in City funds, and then secretly kicked back over \$24.5 million of that \$76 million to shell companies linked to MARK MAZER.

Furthermore, MAZER affirmatively concealed his interest in the funds paid out to the firms by:

- arranging for the funds paid out to him, and his family members, by ARONSHTEIN and NATANZON to be routed through a series of shell corporations controlled by his mother, LARISA MEDZON, and his wife, SVETLANA MAZER;
- submitting false VENDEX forms to the Mayor's Office of Contract Services; and
- falsely claiming to others associated with the CityTime project that he had discovered one of the firms through a casual conversation with ARONSHTEIN after meeting him on the street.

In addition, MARK MAZER, ARONSHTEIN, NATANZON, and BERGER generated and approved fraudulent timesheets for consultants at the firms run by ARONSHTEIN and NATANZON who were paid by the City. Based on a review of only a small fraction of the timesheets submitted in connection with the project, over \$200,000 in City payments linked to fraudulent timesheets have been identified to date.

Finally, as set forth in the Complaint, each of the defendants had been handsomely rewarded from the scheme. Among other things, MARK MAZER and SVETLANA MAZER have purchased two homes with over \$3 million in fraud proceeds and have paid for home renovations with more than \$200,000 in additional proceeds. They have also purchased six late-model cars in the past two years, and placed well over \$1 million in accounts held in their names, their children's names, and in the names of accounts that they control through shell corporations.

ARONSHTEIN, in turn, obtained over \$55 million in City money for his corporation, which previously had no apparent clients. From among those proceeds, he transferred over \$1 million to his personal bank account, obtained \$425,000 in cash and ATM withdrawals, and sent over \$500,000 to other corporations owned by him and/or his wife. ARONSHTEIN also purchased 2 new late-model cars in the past two years.

NATANZON obtained over \$20 million in City money for contracts for his corporation as a result of the fraudulent scheme, and personally obtained over \$400,000 in proceeds from the scheme.

Finally, BERGER received over \$1.4 million from MAZER's and ARONSHTEIN's firms for his role in the scheme, and MEDZON obtained over \$2 million in accounts in her name or that she controlled through shell corporations.

The Charges

The Complaint charges MARK MAZER, DMITRY ARONSHTEIN, VICTOR NATANZON, and SCOTT BERGER with conspiring to commit wire fraud. Each faces a maximum sentence of 20 years in prison and a maximum fine of \$250,000 or twice the gross gain or loss from the offense on that charge. In addition, MAZER, ARONSHTEIN, NATANZON, SVETLANA MAZER, and LARISA MEDZON are also charged with conspiring to launder the proceeds of the fraud conspiracy. Each faces a maximum sentence of 20 years in prison and a maximum fine of the greater of \$500,000 or twice the value of the laundered funds on that charge.

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Mr. BHARARA praised the investigative work of the New York City Department of Investigation. He also thanked the United States Marshal for the Southern District of New York for his assistance with this morning's arrests.

The prosecution is being handled by the Office's Public Corruption Unit. Assistant U.S. Attorneys HOWARD S. MASTER and ANDREW GOLDSTEIN are in charge of the prosecution.

The charges contained in the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

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