

DOE Goes Doh! Again As Contractor Charged In \$3.6M Tech Ripoff

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A Department of Education contractor stole \$3.6 million from the city over six years while overseeing large-scale Internet projects in city schools, Special Commissioner for Investigation Richard J. Condon charged April 28.

William Lanham, who was arraigned in Federal court on the same day that Mr. Condon's report was released, collected kickbacks from subcontractors that he had Verizon and IBM hire, without the proper DOE authorization, according to the charges.

Oversight? Not Quite

The report also found that Verizon had agreed to Mr. Lanham's demands to use one of his subcontractor companies, at a higher cost to DOE, in order to secure the multi-million-dollar city contract.

"It is difficult to understand how the DOE could allow so much power to reside in a consultant, even an honest one," Mr. Condon wrote in his letter to Schools Chancellor Dennis Walcott. "Project Connect was a billion-dollar undertaking, yet no one exercised any oversight of Lanham."

The school system, which has been criticized for significantly increasing its contract budget even as it prepares to lay off thousands of Teachers, last June was found to have been snookered out of more than \$1 million by an electrical contractor.

This investigation began in 2006, after two anonymous complaints about kickbacks; a further complaint in 2008, the last year Mr. Lanham worked for the DOE, led to the allegation that three consultants on the "Project Connect" job had been hired by Verizon at Mr. Lanham's request to facilitate his kickback scheme.

Mr. Lanham worked for Silvermine Consulting Group, which was hired to oversee three parts of Project Connect, a large-scale Internet deployment plan. He received \$200,000 a year from the company and \$1.7 million from DOE from 2000 through 2008.

Lanham Enterprises Indeed

Investigators interviewed two IBM subcontractors on the project who said that Mr. Lanham had asked them to hire consultants, pay them directly, and then bill his company, Lanham Enterprises, for their services. Two subcontractors hired as Custom Computer Specialists were paid \$70 an hour and \$30 an hour respectively, but Mr. Lanham was allegedly billed for \$75 an hour and \$35 an hour as part of a "pass-through" scheme.

The same two workers also served as consultants for another subcontractor, Custom Design Communications, at \$168.75 an hour and \$112.50 an hour respectively. Mr. Lanham's company was allegedly directly paid in these instances, with CDC then billing IBM for 10-percent-higher rates.

Anonymous interviewees at IBM charged that Mr. Lanham, the company's liaison with the DOE, had engineered the scheme by asking for consultants from the subcontractors, requests he disguised as coming from the DOE. The consultants eventually moved to another subcontractor, Island Computer Products, which billed IBM for the same amounts CDC had.

Pressured Into Complying

Mr. Lanham continued the scheme with three more consults through a similar "pass-through" mechanism, this time with Verizon and CDC. A business account manager at Verizon revealed to SCI that Mr. Lanham had told him that he would leave for IBM if they did not use his preferred subcontractors. As the deal was worth at least \$20 million, Verizon agreed.

The anonymous interviewee told SCI that in the summer of 2008, he asked one of the consultants what she was paid, and she told him she

got \$60 an hour from Mr. Lanham, a far cry from the \$247 an hour Verizon was being billed. He then went to the company's ethics committee with the information; in November, the company contacted DOE, but the SCI investigation was already ongoing.

Retired DOE Senior Director for the Office of Networking Services Joseph Eaione told the SCI that he had heard rumors that Mr. Lanham was funneling money through another company when he worked for the city, but had not believed them because "he knew Lanham to be hard-working and honest."

Mr. Condon concluded that Mr. Lanham had cost the city \$3.6 million with his schemes by setting himself up as the "single point of contact" for Project Connect. His office also found that IBM had made \$400,000 from the consultants, and Verizon \$800,000.

A Six-Year Head Start

The SCI found that DOE had taken six years to even look at documents and ask questions about Mr. Lanham, mostly due to retirements in its Division of Instructional and Information Technology and lax oversight.

Mr. Condon recommended DOE recover all money paid to IBM and Verizon for the consultants, and bring in outside auditors to determine if the work performed by the companies could have been done cheaper.

He also recommended that "if DOE continues to use the contractors or subcontractors cited in this report, adequate safeguards must be put in place to prevent a recurrence of this kind of scheme."

Mr. Walcott said in a statement, "We are entrusted with the public's money, and should have been more vigilant in our oversight of this project. Since we severed ties with this contractor and reported his criminal activity in 2008, the DOE has established new safeguards to ensure that no contractor has oversight over his own projects."

United Federation of Teachers President Michael Mulgrew said in a phone interview, "I think it's a horrendous oversight; they're not monitoring what they should be monitoring...A lot of this work would have been cheaper to do from inside. They seem to relish the fact that they're out-sourcing the work and paying more for it."

He added, "The DOE has very few educators over there anymore. They have lawyers who are supposed to be watching all of these contracts... It's a shame, and we're outraged by the fact that every other word out of this department is accountability, so I want to know who's being held accountable."