

## Testimony of Chris Shelton, Vice President, CWA District 1

### to the New York City Council's Contracting and Technology Committee's Joint Hearing on NYC Contracting

My name is Chris Shelton and I am the Vice President for the Communications Workers of America – District 1. District 1 includes 150,000 union members in New York, New Jersey and New England.

Thank you for this opportunity to testify.

This past August 17<sup>th</sup>, the Panel for Educational Policy (PEP) rubber-stamped a \$120 million two year contract for Verizon Communications. They handed Verizon the contract even though Verizon was a participant in a fraud scheme that cost the city \$3.6 million.

Let me take you through the specifics.

The Department of Education – like many City Agencies under Mayor Bloomberg – is in love with consultants. DOE fell in love with a guy named Ross Lanham.

The subject of their romance was an IT project called “Project Connect”. “Project Connect” was meant to increase internet services for the schools. Ross Lanham’s firm was the prime contractor.

Before I go any further, I should tell you that our source for most of this story is the Special Schools Investigator’s report on the fraud<sup>1</sup>.

Lanham organized a fraud that took \$3.6 million from the schools. Lanham made the money through fake billing for non-existent services, or through over-billing. Verizon was part of “Project Connect”.

Verizon worked with Lanham to create bills on its part of the project. Verizon knew they were inflating the bills or billing for non-existent services. Verizon took at least \$800,000 of the overbilling for its piece of the pie.

The Investigator’s report alleges that Verizon “facilitated” the overall fraud (on page 26 of the report). In 28 pages of detail, the Investigator’s report alleges that Verizon’s managers on this project looked the other way and did not blow the whistle on the fraud. Verizon did not alert the DOE or anyone in City government of the fraud or overbilling until *after* the DOE contacted Verizon about the situation. At best, the

---

<sup>1</sup> <http://gothamschools.org/2011/04/29/report-on-thieving-doe-consultant-damning-for-ibm-and-verizon/>

company looked the other way. At worst, senior executives – and not just middle managers – knew they were stealing from the schools.

Over the past four years, Verizon made \$22.5 billion in profits and its top five executives took home \$258 million. A little slice of that money came out of the city's schools.

But back to the timeline: the School investigator's report was released on April 28<sup>th</sup>. The Feds, meanwhile, arrested Lanham on the same day, charging him with fraud and theft. As far as we can tell, nothing changed at the DOE since then.

In public, Verizon has said over and over again that it will return any of its ill-gotten gains. They said so most recently to both media and to the Manhattan Borough President in early September. Here is a copy of their letter to the Borough President. They say they are "working" on returning the funds.

But they have not paid any money back.

Meanwhile, back in August, the PEP handed away their leverage to get restitution from the company. Instead of holding up a big contract with a company accused of facilitating a fraud, the DOE rewarded Verizon with a big \$120 million two-year contract. They did that while 45,000 Verizon workers were on strike.

The DOE insinuates that they had no choice: that Verizon would have shut off telephone and internet services to the schools. We do not believe that claim. There is no way that if DOE had demanded that Verizon give its ill-gotten gains back before any new contracts were approved that the company would not have agreed to do so. This company cares about its image. It would not have turned off the schools' services had the DOE insisted on being made whole. That would have been a PR nightmare.

Here's the essence of the problem: DOE wasn't willing to delay approval of the \$120 million contract by even a few weeks to gain leverage against Verizon even as 45,000 Verizon workers were out on strike. And those are the people who maintain the network!

DOE's deal with Verizon is a good example, like CityTime, of the City's failure to exercise its authority responsibly. DOE wasn't willing to badger Verizon or make Verizon pay back any ill-gotten gains. Instead, they rewarded them.

What kind of a message does that send? We think it tells every contractor that it's open season on the taxpayers. Participate in a fraud, or fail to tell the City when you see one being committed, and there won't be any consequences.

We think this is pretty simple: Verizon should give back the money. The Investigator's report alleges that Verizon made at least \$800,000 in the scheme. That's a good start.

The main victims in the Lanham/Verizon fraud were the City's kids. Meanwhile, Verizon is still demanding that their workers give up their pensions, pay thousands of dollars more in health care costs, and lose all of their job security, among other demands.

It's time to send a message to Verizon and all of the city's contractors that fraud and arrogance won't be tolerated. The City should tell Verizon to give the money back.

With respect to the overall problem of contracting, we strongly believe that the City should rein in the use of outside contractors. The City should work in-house to save money and promote accountability. City workers get the job done – and thankfully, fraud is very rare among city workers.

Finally, we urge you to hold a separate hearing to examine this case study in more depth. A hearing could also make DOE re-consider its negotiating posture with its contractors and give Verizon some motivation to pay back any ill-gotten gains. Our city's schools need the help now more than ever.

Thank you for this opportunity to testify.