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FOR IMMEDIATE RELEASE

Metro Rail Subcontractor Ordered to Pay Metro \$5.2 Million for Abusing Minority Contracting Rules, Making False Claims

(Los Angeles) – A Los Angeles Superior Court judge has ordered a Metro Rail construction subcontractor and its principals to pay Metro \$5.2 million in damages and penalties for violating federal Disadvantaged Business Enterprise (DBE) regulations and submitting false claims during construction of the Metro Red Line subway.

The order by Judge Wendell Mortimer, Jr. follows his finding in March 2004 that Oved & Associates Construction Services Inc., Pinhas Oved and Mary Harel (Oved & Associates President) had engaged in a series of litigation abuses, including alteration of essential electronic evidence in violation of court orders. Judge Mortimer also terminated Oved's claims against Metro and established Metro's claims against Oved as true.

"Metro is a strong supporter of the contracting community and we are committed to honoring our obligations under federal and minority contracting rules," said Zev Yaroslavsky, Los Angeles County Supervisor and Metro Board Chair. "Unfortunately there are a few unscrupulous contractors who will try to take advantage of the challenges that come with overseeing large public work projects, however, the court's judgment should serve notice to contractors that where the public has been defrauded, we will take the necessary action. Rulings like these provide the deterrent effect of preventing future fraud against Metro and other public entities."

The order granting Metro's request for \$5.2 million dollars in damages and penalties was rendered after Metro submitted proof of over \$400,000 in actual damages, which were tripled pursuant to the California False Claims Act. The court also found that Oved submitted a minimum of 135 separate false claims during the course of the construction. Each of these claims subjected the Oved parties to a \$10,000 fine.

The ruling stems from a series of legal actions. In a lawsuit against Kajima-Ray/Wilson, a general contractor on the Metro Rail project, Oved alleged claims totaling nearly \$4 million. Instead of defending against Oved's claims, Kajima-Ray/Wilson entered into an agreement to waive any defenses to Oved's claims and "pass through" the claims to Metro.

In defending against the lawsuit, County Counsel's Office examined the conduct of Oved and its relationship with a DBE known as Star Iron Works. The examination uncovered evidence of a sophisticated scheme that utilized separate, but commonly controlled, corporations to inflate claims, which Oved submitted to Metro. Based upon this discovery, Metro filed a claim against Oved under the California False Claims Act seeking damages for the cost of investigating Oved's claims and penalties for the submission of false claims.

During court-ordered discovery, County Counsel's Office obtained evidence that a representative of Oved had made misrepresentations regarding its eligibility for DBE certification and obtained lucrative subcontracts intended for DBEs. Metro also learned that Oved had taken over a legitimate minority contractor, Star Iron Works, and used it as a front to pass through inflated claims. Oved then siphoned off funds from Star Iron Works and left it in a state of financial ruin.

Much like Metro's case against the inflated demands of another Metro Red Line contractor, Tutor-Saliba-Perini, Oved's claims against Metro were terminated after the court found Oved's litigation conduct had been purposefully abusive and had prejudiced the ability of Metro to properly present its case. The court found Oved had unreasonably resisted court orders to turn over financial information, "stonewalled" Metro's investigation and altered electronic evidence after the court had ordered the evidence preserved.

According to court documents the Oved parties were fined for violating minority contracting rules imposed on Metro by the Federal Government; fined for violating the "Buy America" regulations which prohibit the purchase and installation of foreign steel and fined for presenting claims for work either not performed or for exaggerated amounts.

In addition to the judgment, Metro has initiated administrative proceedings seeking an order barring Oved, its officers and affiliates from bidding on any Metro construction projects for five years.

"This debarment order will not only prevent Oved from bidding on Metro work but the company also must disclose the order in any bid on a public works project undertaken by other public entities," said Roger Snoble, Metro chief executive officer. "The debarment procedure is intended to protect the public from untrustworthy contractors. Obviously, any contractor who engages in this type of conduct should not be working on taxpayer financed construction."

In a similar case, Tutor-Saliba/Perini, J.V., which had performed construction work on the Metro Red Line, was ordered in 2001 to pay damages and fees totaling \$63 million. The judgment came as the result of allegations by Metro that the company had submitted false claims for payment, violated minority subcontracting regulations and committed more than 1,000 acts of other unfair business practices. A state court is expected to rule on an appeal by Tutor-Saliba/Perini later this year.

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