



Northeast Ohio Regional Sewer District says it's owed more money by Mill Creek contractor

By Joan Mazzolini, The Plain Dealer

May 07, 2010, 9:00AM



[View full size](#)

Tim Harrison / Special to The Plain Dealer

William Schatz, former general manager to the Northeast Ohio Regional Sewer District, was charged last month in U.S. District Court with of bribery, embezzlement and tax evasion.

CLEVELAND, Ohio -- Northeast Ohio Regional Sewer District officials say their losses to a massive bribery scheme orchestrated by their former general counsel are \$7.5 million more than previously estimated, for a total of \$32.5 million.

The sewer board already had sued contractor KMM&K to recover \$25 million it contends it overpaid in the latest section of its Mill Creek project, a subway-sized tunnel designed to stop untreated sewage from overflowing.

On Thursday, the board tacked on \$7.5 million more that they say became apparent after former General Counsel William Schatz was charged last month in U.S. District Court with of bribery, embezzlement and tax evasion.

More stories on the Northeast Ohio Regional Sewer District

The district also added fraud and civil conspiracy allegations to the lawsuit which is before Common Pleas

Judge John O'Donnell. A trial is set for June.

"In light of the recent charges against former General Counsel William Schatz, it is apparent that KMM&K acted, in our opinion, fraudulently in its contractual dealings with the sewer district and its customers," said Julius Ciaccia, executive director. "In the end, our customers footed the bill.

"That's unacceptable and the sewer district and its staff are doing everything possible to assure a wrong is made right," he said at Thursday's meeting of the Northeast Ohio Regional Sewer District board.

KMM&K, the general contractors on the \$200 million Mill Creek project, initially sued the district in late 2007 for breach of contract after the district stopped paying, saying it overpaid the company for work on the project. The district counter sued.

The federal charges indicate that a representative of one of the four companies that make up KMM&K paid bribes to Schatz. No one from the companies have been charged.

KMM&K's attorney Andrew Natale said he hadn't seen the additional claims and couldn't comment.

Ciaccia also told board members that he was talking with a local law firm about reviewing settlements approved under Schatz' tenure, as well as all the jobs that cost more than 10 percent of the amount of a contract.

Schatz had unilateral authority to settle disagreements about cost overruns on behalf of the sewer board. These were separate payments to contractors and were often left off reports to the board regarding cost overruns.

Ciaccia said a district review found that since 1980, Schatz made 40 settlements with contractors on 168 projects. In addition, on projects that cost \$1 million or more, there were 43 -- or about a quarter of them -- that went over 10 percent.

"The number of the contracts that exceeded 10 percent ... increased from the 1980s to the 1990s until 2007," Ciaccia told the board.

Schatz, who worked part time for the board with a salary of \$160,000 a year, abruptly resigned in 2007 after being questioned by Plain Dealer reporters about apparent conflicts of interest with his private legal work for a half-dozen companies that did business with the district.

Ciaccia started at the board a few months after Schatz left. The sewer district has since hired a full-time lawyer who is prohibited from doing private work. The district also has its first written ethics policy designed to guard against conflicts of interest, after a performance audit by Calfee Halter & Griswald found lax oversight.

District officials said it will investigate whether there is more money from other contractors that could be recovered. They also said they will consider review of their new procedures put in place since Schatz in the last few years.

Ciaccia noted that the FBI took 10 years of records from the board and the charges against Schatz were for the most recent big construction project, the Mill Creek tunnel project.

© 2010 cleveland.com. All rights reserved.