



U.S. Department of Transportation
Office of Inspector General



FRAUD -- ARE YOU AT RISK?

American Recovery & Reinvestment Act



Prepared for
Illinois Bituminous Paving Conference
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Overview

- OIG Organization, Process, and Priorities
- Common Fraud Schemes and “Red Flag” Indicators
- Quality Control Testing Fraud
- Fraud Detection and Prevention
- Questions





DOT/OIG Organization

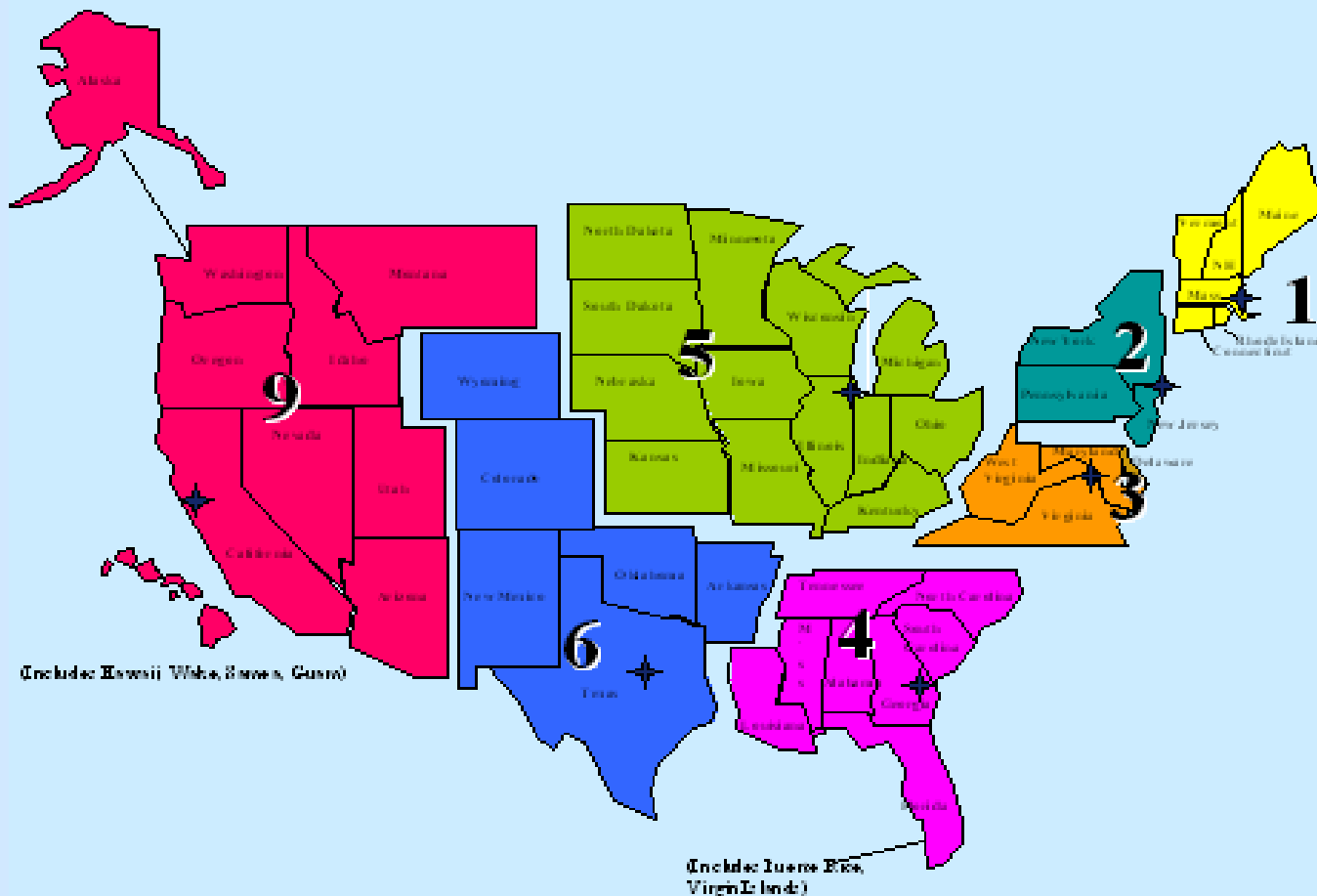
- Two Primary Components
 - ✓ Audits
 - ✓ Investigations
- Hotline Complaint Center
- Reports and Summaries of OIG Work at www.oig.dot.gov





Investigative Regions

www.oig.dot.gov



Cambridge, MA
(617) 494-2701

New York, NY
(212) 337-1250

Washington, DC
(202) 260-8580

Atlanta, GA
(404) 562-3850

Chicago, IL
(312) 353-0106

Ft. Worth, TX
(817) 978-3236

San Francisco, CA
(415) 744-3090





Investigative Authority & Process

- OIG Special Agents are authorized and trained to investigate allegations of fraud or other criminal activity relating to programs and operations of the Department of Transportation
- Investigative activity is conducted through a variety of means
 - ✓ Document analysis and witness and subject interviews
 - ✓ IG and grand jury subpoenas and search warrants
 - ✓ Special techniques such as electronic surveillance, undercover operations, and forensic/laboratory analysis
 - ✓ Coordination with other law enforcement agencies (e.g. FBI)



Investigative Outcomes

● Outcomes

- ✓ Criminal

- ✓ Civil

 - Civil False Claims

 - Qui Tam (*Latin for "He who sues for the king as well as for himself"*)

- ✓ Administrative

 - Suspension and Debarment

 - Departmental management actions





Investigative Priorities

- Contract and Grant Fraud
- Transportation Safety
- Employee Integrity





American Recovery & Reinvestment Act

- February 17, 2009, the President signed into law the American Recovery and Reinvestment Act (ARRA), which designated over \$48 billion to the USDOT.
- According to the Secretary of Transportation, ARRA represents “the largest investment in America’s roads, bridges, transit lines, and rail systems since the creation of the interstate highway system.”

Key provisions:

- ✓ preserve and create jobs
- ✓ promote economic recovery
- ✓ invest in transportation infrastructure to provide long-term economic benefits





ARRA Whistleblower Provisions

• Whistleblower Protection

- ✓ ARRA prohibits retaliation against a non-Federal employee, including state and local governments, contractors, subcontractors, and grantees who discloses information concerning:
 - gross mismanagement of an agency contract or grant;
 - gross waste;
 - substantial and specific danger to public health or safety; or
 - violations of law, rule, or regulation related to an agency contract or grant.

- ✓ OIG responsible for investigating whistleblower complaints of reprisal within 180 days of receipt





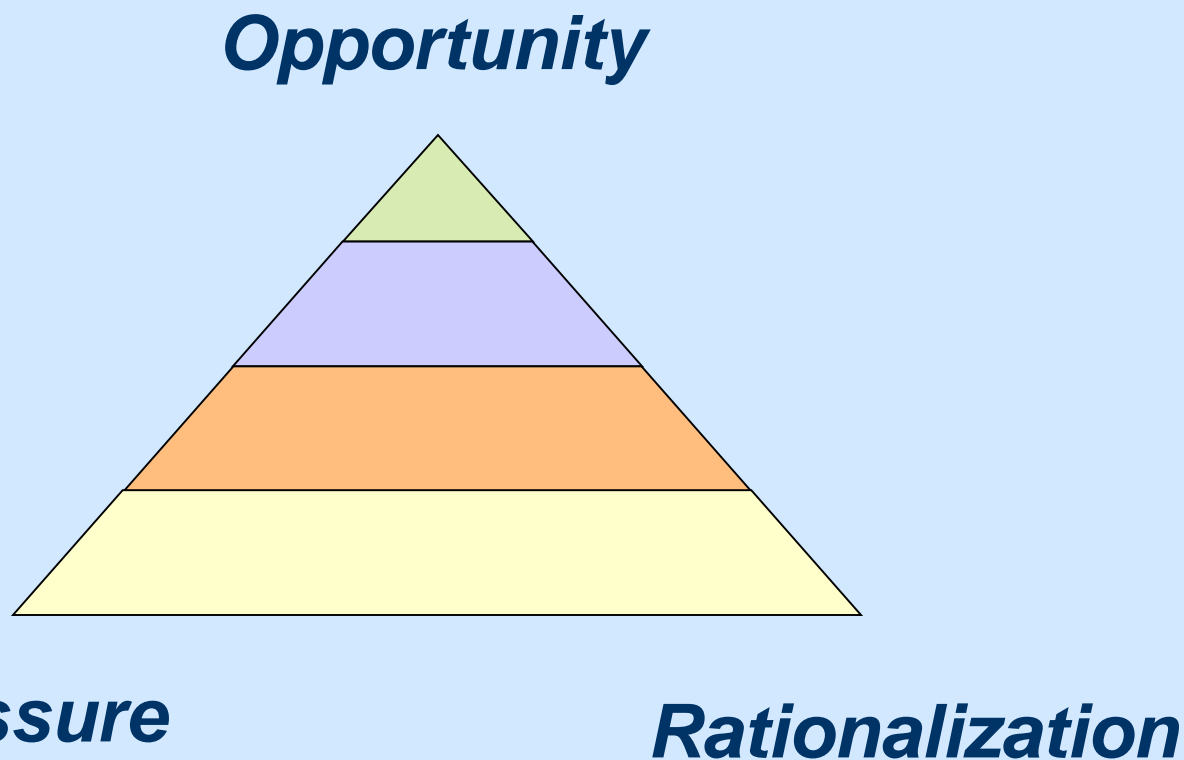
Fraud Defined

- What is fraud? Essentially it is...
 - ✓ Deliberate deception to secure an unfair gain
- Review selected:
 - ✓ Common Schemes
 - ✓ "Red Flag" Indicators
 - ✓ Case Examples





Fraud Triangle





Deceptive Practices

- ✓ *Quality or quantity of construction materials used on the job*
- ✓ *Employee hours billed or wages paid on a job*
- ✓ *Job participation by minority- or women-owned businesses*
- ✓ *Quality-control tests or material certifications*
- ✓ *Bid rigging and kickbacks instead of low-bid competition*
- ✓ *Theft or bribery wasting transportation dollars or assets*
- ✓ *Construction or maintenance shortcuts impacting safety*
- ✓ *Conflict of interest increasing job costs*





Bid Rigging & Collusion

Back room deals are never good...no matter how dark the room is...

- Contractors misrepresent that they are competing against each other when, in fact, they agree to cooperate on the winning bid to increase job profit
 - ⌘ Unusual bid patterns: too close, too high, round numbers, or identical winning margins or percentages
 - ⌘ Different contractors making identical errors in contract bids
 - ⌘ Bid prices drop when a new bidder enters the competition
 - ⌘ Rotation of winning bidders by job, type of work, or geographical area
 - ⌘ Losing bidder submits identical line item bid amounts on nonstandard items or is hired as a subcontractor
 - ⌘ Joint venture bids by firms that usually bid alone



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List of upcoming state highway projects

Contractors charged with fixing price for state road work

4 indicted in bid-rigging

Contractors charged with fixing price for state road work

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Disadvantaged Business Enterprise Fraud

Are they really meeting ALL the contract goals?

- A contractor misrepresents who performs the contract work in order to increase job profit while appearing to be in compliance with contract goals for involvement of minority-or women-owned businesses
 - ✘ DBE owner lacking background, expertise, or equipment to perform subcontract work
 - ✘ Employees shuttling back and forth between prime contractor and DBE-owned business payrolls
 - ✘ Business names on equipment and vehicles covered with paint or magnetic signs
 - ✘ Orders and payment for necessary supplies made by individuals not employed by DBE-owned business
 - ✘ Prime contractor facilitated purchase of DBE-owned business





- **Fraudulent Disadvantaged Business Enterprise**

Original payable to Non-DBE subcontractor

Altered to show payable to fraudulent DBE to deceive transit DBE officials





Materials Overcharging

Dishonest contractors think you aren't checking the bills...

- A contractor misrepresents how much construction material was actually used on the job and then is paid for excess material to increase job profit
 - ✎ Discrepancies between contractor-provided quantity documentation and observed data, including yield calculations
 - ✎ Refusal or inability to provide supporting documentation
 - ✎ Truck weight tickets or plant production records with altered or missing information
 - ✎ Unusually high volume of purchases from one vendor
 - ✎ Invoiced good cannot be located in inventory or accounted for
 - ✎ No receiving report for invoiced goods



Materials Overcharging

Select Case Example

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DATE 10-9-91 ASPHALT PLANT PRODUCTION REPORT PLANT NO. 102

ASPHALT SHIPPED TO JOBS

JOB NO.	JOB NAME	MIX TYPE	COST CODE	TOTAL TONS
0069	Golf Road	2.5R	4060050	2055.46
0069	Golf Road	2.5R	4060050	782.95
0069	Golf Road	2.5R	4060051	1387.52

Asphalt Shipped

ASPHALT SHIPPED TO CUSTOMERS

CUST NO.	CUSTOMER NAME	MIX TYPE	OFFICE USE	CASH CHECK REC'D	TOTAL TONS
04001	Two W's	5R			46.62
04850	Quincy	5R			201.22
07200	Thurman	RAN			682.03
04670	J.C. Brackley	5R			522.98

Private Jobs

TOTAL CASH REC'D 5,692.78

PLANT START 6:00 PLANT STOP 8:00 TOTAL PLANT HOURS 11

MIX FORMULA TYPE	ASPHALT CONTENT	TONS PRODUCED
2.5R	3.3	500
4.0R	2.6	110
1.5R	1.6	790
2.5R	5.8	2910

Asphalt Produced

COMMENTS: Auto Scrap
0069 Golf Sun 4/232.93 \$1200

Plant Production Report shows 1,380 tons more asphalt shipped than produced on this day





Product Substitution

Maybe it's not quite what you asked or paid for...

- A contractor misrepresents the product used in order to reduce costs for construction materials
 - ✚ Any mismarking or mislabeling of products or materials
 - ✚ Contractor restricts or avoids inspection of goods or services upon delivery
 - ✚ Refusal to provide supporting documentation regarding product or manufacturing
 - ✚ Test or quality records reflect no failures or a high failure rate but contract is on time and profitable
 - ✚ Contractor offers to select samples for testing programs
 - ✚ Irregularities in signature, dates, or quantities on delivery documents

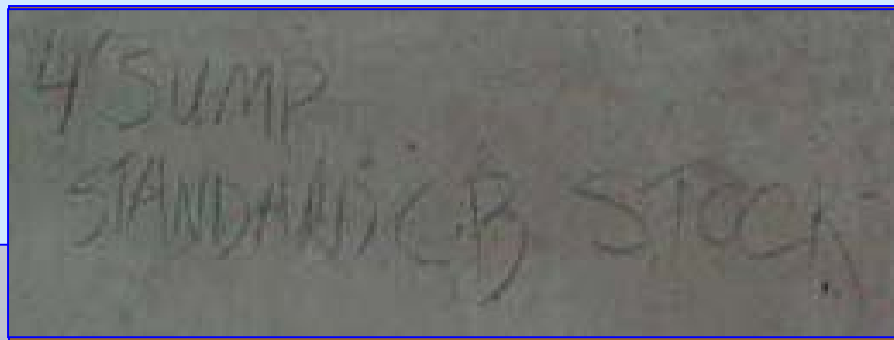




Product Substitution

Select Case Example

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Was supposed to get this...



Instead got this...
No rebar



Quality Control Testing

The tests are mostly right, nobody will know...

- A contractor misrepresents the results of quality control tests to earn contract incentives falsely or to avoid production shutdown in order to increase profits or limit costs
 - ✘ Contractor insists on transporting quality control (QC) samples from the construction site to the lab or does not maintain QC samples for later quality assurance testing
 - ✘ Photocopies of QC test results are provided when originals are expected
 - ✘ Lab test reports are identical to sample descriptions and test results, varying only in date and lot number tested
 - ✘ Test results cannot be found, are suddenly found after a delay, or have been destroyed
 - ✘ Contractor regularly takes or labels QC samples away from inspector oversight



Quality Control Testing

Select Case Example

- Fraudulent Core Samples

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DAY Wednesday DAILY LOG
CONTRACTOR Carroll JOB NAME
Work Performed Today "AIRPORT"
Jeff Naugle

Rain out

Problems - Delays
Sub-Contractor Progress

Special Assignments Said they
Send me, to airport
Shelley's Cores she marked
Extra Work would have failed Authorized By So Approx. Price
moved Her Cores!

Equipment Rented Today Rented From Rate

Material Purchased

Supervisor's Signature TJ:30 - - 2 - Show up



Fraud Detection

How is Fraud Discovered?

(2006 ACFE Report)

● Tip	34%
● Audit	32%
● Accident	25%
● Internal Controls	19%





Fraud Detection

Why Don't More People Report Fraud? (2005 Business Ethics Survey)

- Nothing will happen
- Don't know whom to contact
- Won't be confidential--risk retaliation
- No personal impact





Fraud Detection

Two Simple Questions to Detect Fraud

- Has anyone asked you to do something you thought was illegal or unethical?
- If it happens in the future, would you please let me know?



Fraud Prevention

- Certification Statements

I certify that to the best of my knowledge and belief the data above are correct and that all outlays were made in accordance with the grant conditions or other agreement and that payment is due and has not been previously requested.





Fraud Prevention

- **Tone at the Top**
 - ✓ *Ethics training and policies*
 - ✓ *Designated corporate compliance officer*
 - ✓ *"Known" reporting procedures*
 - ✓ *Employees required to report violations*
 - ✓ *Awareness and common sense*





Reporting Suspected Fraud to OIG

- Call: 1-800-424-9071 (Toll Free)
- E-mail: hotline@oig.dot.gov
- Mail: DOT Inspector General
P.O. Box 708
Fredericksburg, VA 22404
- Directly contact a special agent at an Investigative Regional Office

Other Information

- “Red Flag” Indicator Fraud Cards (FraudCards@oig.dot.gov)





QUESTIONS?

THANK YOU FOR PARTICIPATING!

Presented By
DOT/OIG Investigator Mark Peters
(312) 353-0106
mark.peters@oig.dot.gov

Recognize and Report Fraud in Federally Funded Programs, Contracts, and Grants!

