

Fraud Awareness and Prevention



Office of Inspector General

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**Secretary of
Transportation**

**Modes of
Transportation
with Most
Construction**

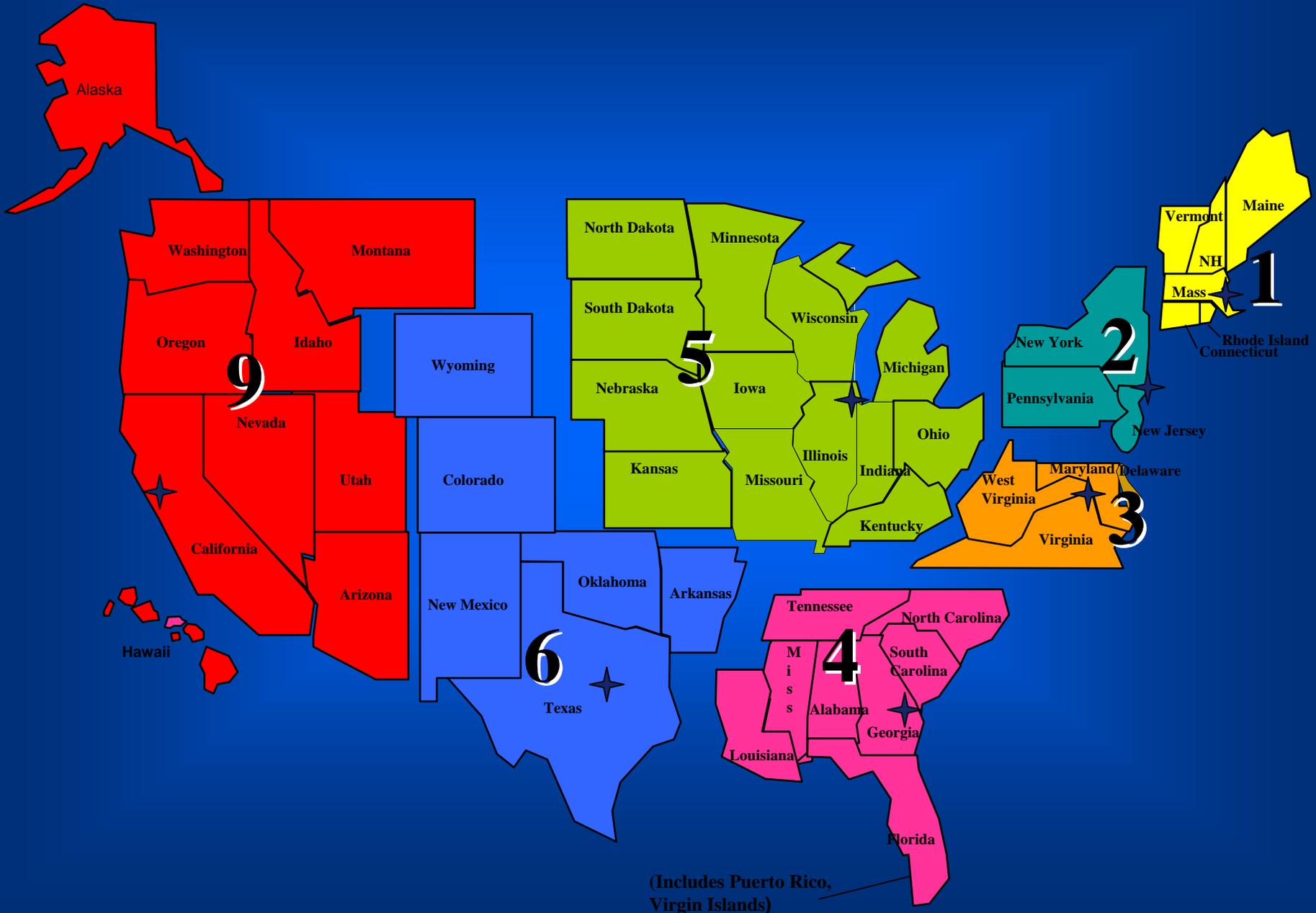
**FHWA
FTA
FAA**

**Office of
Inspector
General**

Audits

**Office of
Investigations**

DOT-OIG Criminal Investigative Regions





PURPOSE OF TRAINING

- To define fraud and to provide examples and indicators of OIG fraud cases.
- To assist government officials in detecting fraud in transportation programs.
- To encourage cooperation between government officials and OIG Special Agents.

OLG Investigations Outreach **Program**

- **Fraud Awareness and Education**
- **Promotion of Stronger Oversight by FHWA and State DOTs**
- **Partnership with Audit**
- **Liaison Efforts with DOT Operating Administrations, State and Local DOT Officials, other Law Enforcement, and Industry**
- **Identify Risks and Oversight Challenges**
- **Early Detection of Fraudulent Activities**
- **Recovery.gov- Education, Transparency, Accountability**

Types of Investigations

- **Criminal**
- **Civil**
- **Parallel Proceedings**
- **Administrative Action**



MISTAKE

OR

FRAUD ?



WHAT IS FRAUD?

- To commit fraud is to misrepresent for financial gain.
- Fraud involves an intent to deceive, often characterized by altered or concealed documents.
- An isolated mistake is not fraud, but a pattern of “mistakes” consistently favoring the contractor indicates fraud.

Common Rationalizations about FRAUD

- “Everybody Does It”
- “The Government Can Afford It”
- “It’s For a Good Purpose”
- “It’s Not That Serious”
- “I Deserve It”
- “Victimless Crime”



Who Reports Fraud?

- **Disgruntled Employee**
- **Qui Tam Relator**
- **State DOT**
- **Newspaper**
- **Self-Disclosure**



ROLES IN FRAUD INVESTIGATION

State or Local Engineers and Inspectors— Observe fraud indicators, listen to disgruntled employees, and report fraud concerns to Federal officials.

OIG Special Agents— Interview witnesses, obtain and analyze documents and other physical evidence, and present facts to Federal prosecutor.

Assistant US Attorney— Assess case facts and prosecute cases when warranted.



ROLES IN FRAUD INVESTIGATION

Both Government Engineers and Inspectors and Special Agents have the same overall objectives:

- To spend transportation dollars to improve roads and bridges, not to line the pockets of unscrupulous contractors.
- To identify and remove “bad apples” from the transportation construction industry.



COMMON TYPES OF OIG FRAUD CASES

- Bid Rigging & Collusion
- Materials Overcharging
- Time Overcharging
- Product Substitution
- Minority-Owned Business Fraud
- Quality-Control Testing Fraud
- Kickbacks
- Bribery

Types of Crimes

- **False Statements**
- **Mail and Wire Fraud**
- **Corruption/Bribery**
- **Obstruction of Justice**
- **Racketeering**

Investigative Techniques

- **Interviews**
- **Consensual Monitoring**
- **Search warrants**
- **Subpoenas**



BID RIGGING & COLLUSION

Definition

Contractors *misrepresent* that they are competing against each other when, in fact, they agree to cooperate on the winning bid to *increase job profit*.

Example

Three concrete-paving contractors agreed at the beginning of the construction season on which company would win each job. They then shared “winning bids” by telephone immediately in advance of electronic bidding, so the other two contractors could ensure their bids were higher than the winning bid.



BID RIGGING & COLLUSION

Sample Indicators

- Bids submitted by contractors are very close in dollar value.
- Different contractors make identical errors in contract bids.
- Unsuccessful bidders submit bid protests advising of collusive practices.
- Bids submitted by contractors are close to or slightly higher than government estimate—inside information.





MATERIALS OVERCHARGING

Definition

Contractor *misrepresents* how much construction material was used on the job and then charges for more material than was used to *increase job profit*.

Example

An asphalt contractor created a program to inflate weight tickets submitted. The weight tickets are used as a basis for payment.



MATERIALS OVERCHARGING

Sample Indicators

- Contractor regularly creates opportunities to load job materials into equipment away from job inspectors.
- Truck drivers state that handling characteristics indicate their trucks are under weight.
- Use of reproduced copies, rather than originals, when providing quantity documentation.
- Irregularities in color or content of weight slips or other contractor documents used to calculate pay quantities.





TIME OVERCHARGING

Definition

Consultant *misrepresents* how many hours employees work on jobs in order to charge for more work hours, or a higher overhead rate, to *increase job profit*.

Example

Engineering consultant regularly altered his employees' time cards to add hours to cost-plus jobs, and to add administrative hours to increase the company's overhead rate charged on job invoices.



TIME OVERCHARGING

Sample Indicators

- Unauthorized alterations to time cards and other source records.
- Time cards filled out by supervisors, not by employees.
- Use of reproduced copies of time cards, rather than originals.
- Inconsistencies between consultant's labor distribution records and employee time cards.

MTA, INC. - TIME CARD

NAME [REDACTED] MONTH February YEAR 1994

1st Half 2nd Half

JOB NO.	FUNCTION	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	TOTAL
		16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
✓ S032	105	2						2	2								6
✓ S132	105	2	3					4	2								11
✓ S227	105		2	2	2				2						4		12
✓ S311	105	4	3	6	6			2	2						4	6	33

Handwritten notes: S032, S032, S032



PRODUCT SUBSTITUTION

Definition

Contractor *misrepresents* what product was used in order to *reduce costs* of construction materials.

Example

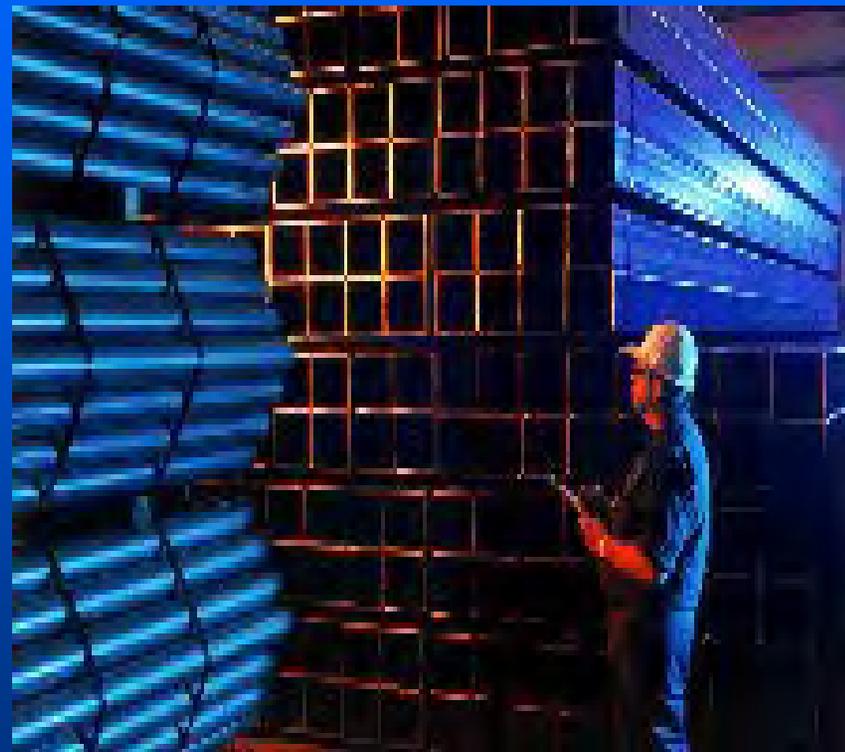
Contractor caused false statements--false stenciling on exterior of coated steel pipe and false certificates of compliance for this unapproved pipe--to conceal the use of cheaper, substitute pipe installed in highway drainage culverts.



PRODUCT SUBSTITUTION

Sample Indicators

- Contractor restricts or avoids inspection of goods or service upon delivery.
- Contractor refuses to provide supporting documentation regarding production or manufacture.
- Use of reproduced copies, rather than originals, when providing necessary certifications.
- Irregularities in signatures, dates, or quantities on delivery documents.





MINORITY-OWNED BUSINESS FRAUD

Definition

Contractor *misrepresents* who performed contract work in order to *limit costs* while appearing to be in compliance with contract goals for use of minority / women-owned businesses.

Example

Prime contractor and minority-owned subcontractor submitted false payroll records and prepared false job-cost records to indicate that a minority-owned business performed specialty painting of highway structures, when a majority-owned subcontractor actually controlled and supervised the painting work.



MINORITY-OWNED BUSINESS FRAUD

Sample Indicators

- Minority owner lacks background, expertise, or equipment to perform subcontract work.
- Employees move back and forth between prime contractor and minority-owned business payrolls.
- Business names on equipment and vehicles are painted over or covered with magnetic signs.
- Orders and payment for necessary supplies are made by individuals not employed by minority-owned business.





QUALITY-CONTROL TESTING FRAUD

Definition

Contractor *misrepresents* QC test results to falsely earn contract incentives or avoid contract disincentives, or to avoid production shutdown or required removal of deficient material in order to *limit costs* or *increase profits*.

Example

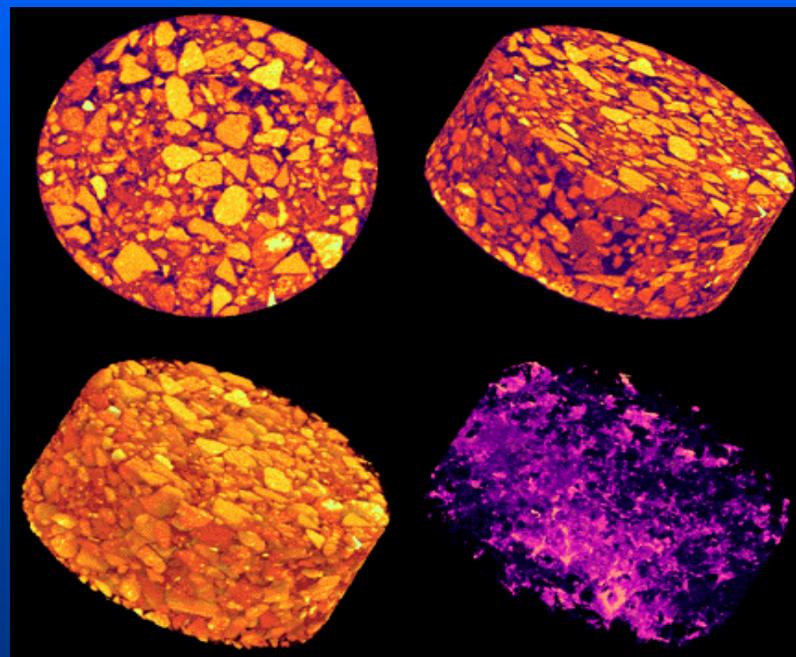
After distracting the state inspector, an asphalt-paving crew foreman discarded road cores from random QC locations designated by the inspector and replaced them with “test cores” known to qualify for density-incentive payments under the contract.



QUALITY-CONTROL TESTING FRAUD

Sample Indicators

- Contractor employees regularly contrive to take or label QC samples away from inspector oversight.
- Contractor insists on transporting QC samples from the construction site to the lab.
- Contractor does not maintain QC samples for later Quality-Assurance (QA) testing.
- Contractor challenges results, or attempts to intimidate Quality Assurance inspectors obtaining conflicting results.





KICKBACKS

Definition

Contractor or subcontractor *misrepresents* the cost of performing work, in that he secretly pays a fee for being awarded the contract and therefore *inflates the job cost to the government.*

Example

Contractor bought gifts for, and paid cash to, a contracting officer in return for tailoring contract specifications to preferentially benefit the contractor in the contract-award process.



KICKBACKS

Sample Indicators

- Unexplained or unreasonable limitations on the number of potential subcontractors contracted for bid or offer.
- Continuing awards to subcontractors with poor performance records.
- Non-award of subcontract to lowest bidder.
- “No-value-added” technical specifications which dictate contract awards to particular companies.





BRIBERY

Definition

Contractor *misrepresents* the cost of performing work, in that he compensates a government official for not enforcing the contract, or for permitting contract overcharges to *increase contractor profit*.

Example

State engineer received sports tickets and free work on his vacation home in exchange for permitting a paving contractor to submit weight tickets for non-existent loads of fill material.



BRIBERY

Sample Indicators

- Other government inspectors at the job site notice a pattern of preferential contractor treatment.
- Government official has a lifestyle inconsistent with his salary.
- Contract change orders lack sufficient justification.
- Inspectors socialize with, or have business relationships with, contractors or their families.





YOU SUSPECT FRAUD—NOW WHAT?

- Seek explanation for irregular activity if possible, but do not alert contractor to suspicions.
- Note observations and conversations.
- Copy all relevant documents.
- Contact OIG Special Agent or Hotline at 1-800-424-9071

www.oig.dot.gov



April 6, 2005

Office of Inspector General



Reading Room

[All Documents by Report Number](#)

[DOT Management Issues](#)

- [Management Challenges](#)

[Financial, Information Technology, DOT-wide](#)

- [Cost Accounting and Contracting](#)
- [Department-wide Audits](#)
- [DOT Financial Management](#)
- [Financial Statements](#)
- [Information Technology and Computer](#)

Just Released



- [Reauthorization of TEA-21 Safety Programs \(Apr 5th\)](#)
- [Global Consulting Firm Agrees to \\$6.5 Million Civil Settlement in False Claims Case \(Mar 24th\)](#)
- [Ohio Fire Safety Corporation and Owner to Pay \\$13,347 for Falsely Certifying the Integrity of Compressed Gas Cylinders \(Mar 23rd\)](#)
- [Shasta County Auto Transport Broker Convicted \(Mar 22nd\)](#)
- [Audit initiated on Security and Controls Over the National Driver Register, National Highway Traffic Safety Administration \(Mar 22nd\)](#)



**PRIVACY POLICY
(Introduction)**

Who can join?

Any government organization at the local, state, or federal level providing oversight of surface transportation infrastructure programs (e.g., audits, investigations, compliance reviews.)

How to join?

Joining the Network is simple and free. Click on 'Members' to submit your basic information to our system administrator. The administrator will respond to your e-mail address with your user name and temporary password.

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Fraud Awareness and Prevention



Office of Inspector General

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