



U.S. Department of  
Transportation  
Office of the Secretary  
of Transportation  
Office of Inspector General

# Memorandum

Subject: INFORMATION: Audit Announcement—DOT's  
Administration of its Disadvantaged Business  
Enterprise Program  
Project No. 11Z3001Z000

Date: April 13, 2011

From:   
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Reply to: JA-60  
Attn of:

To: Director, Office of Small and Disadvantaged  
Business Utilization  
Federal Highway Administrator  
Federal Transit Administrator  
Federal Aviation Administration, Director of Audit  
and Evaluation

Disadvantaged Business Enterprises (DBEs) are for-profit small business firms at least 51 percent owned and controlled by one or more individuals who are members of a socially and economically disadvantaged group. The Department of Transportation's (DOT) DBE program was created in 1983 under the Surface Transportation Assistance Act of 1982—which required the Department to ensure that authorized funds for highway and transit financial assistance programs are distributed to DBEs—and reauthorized by the Safe, Accountable, Flexible, Efficient Transportation Equity Act of 2005. The program's objectives include (1) providing a level playing field so DBEs can fairly compete for DOT-assisted projects; (2) ensuring that only eligible firms participate as DBEs; and (3) assisting in the development of DBE firms so that they can compete outside the DBE program.<sup>1</sup>

In fiscal year 2009, DOT distributed over \$4 billion in funds to DBEs.<sup>2</sup> This significant amount of funding magnifies the risks for fraud in these programs and

<sup>1</sup> DOT's DBE Program is governed by 49 CFR Part 23 - Participation of DBEs in Airport Concessions and 49 CFR Part 26 - Participation by DBEs in Department of Transportation Financial Assistance Programs.

<sup>2</sup> Fiscal year 2010 data was not available from DOT.

heightens the need for effective oversight. From October 1, 2003 through September 30, 2008, DOT Office of Inspector General's (OIG) investigations of DBE fraud allegations resulted in 49 indictments, 43 convictions, nearly \$42 million in recoveries and fines, and 419 months of jail sentences. From 2009 to 2010, the number of open OIG investigations related to DBEs increased by almost 70 percent. DBE investigations accounted for approximately 25 percent of OIG's open procurement/grant fraud caseload in 2010.

Our objective is to determine whether DOT's oversight, internal controls, and program management used to implement its DBE program are adequate to ensure DBE funds are effectively utilized to meet the program's objectives.

The scope of our audit includes DOT's Office of Small and Disadvantaged Business Utilization and its three primary Operating Administrations (OA) that participate in the DBE program—the Federal Highway Administration, the Federal Aviation Administration, and the Federal Transit Administration. Our audit will assess implementation of the program by the OAs' regional/division levels and state DOTs. In order to avoid duplication, we are coordinating our work with the U.S. Government Accountability Office's audit of the Federal Highway Administration's DBE program.

We will contact your audit liaisons to schedule an entrance conference. If you have any questions or need additional information, please contact Tony Wysocki, Program Director, at 202-493-0223, or Ann Wright, Project Manager, at 202-366-1433.

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cc: FAA, Deputy Administrator  
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