



FRAUD AWARENESS & PREVENTION

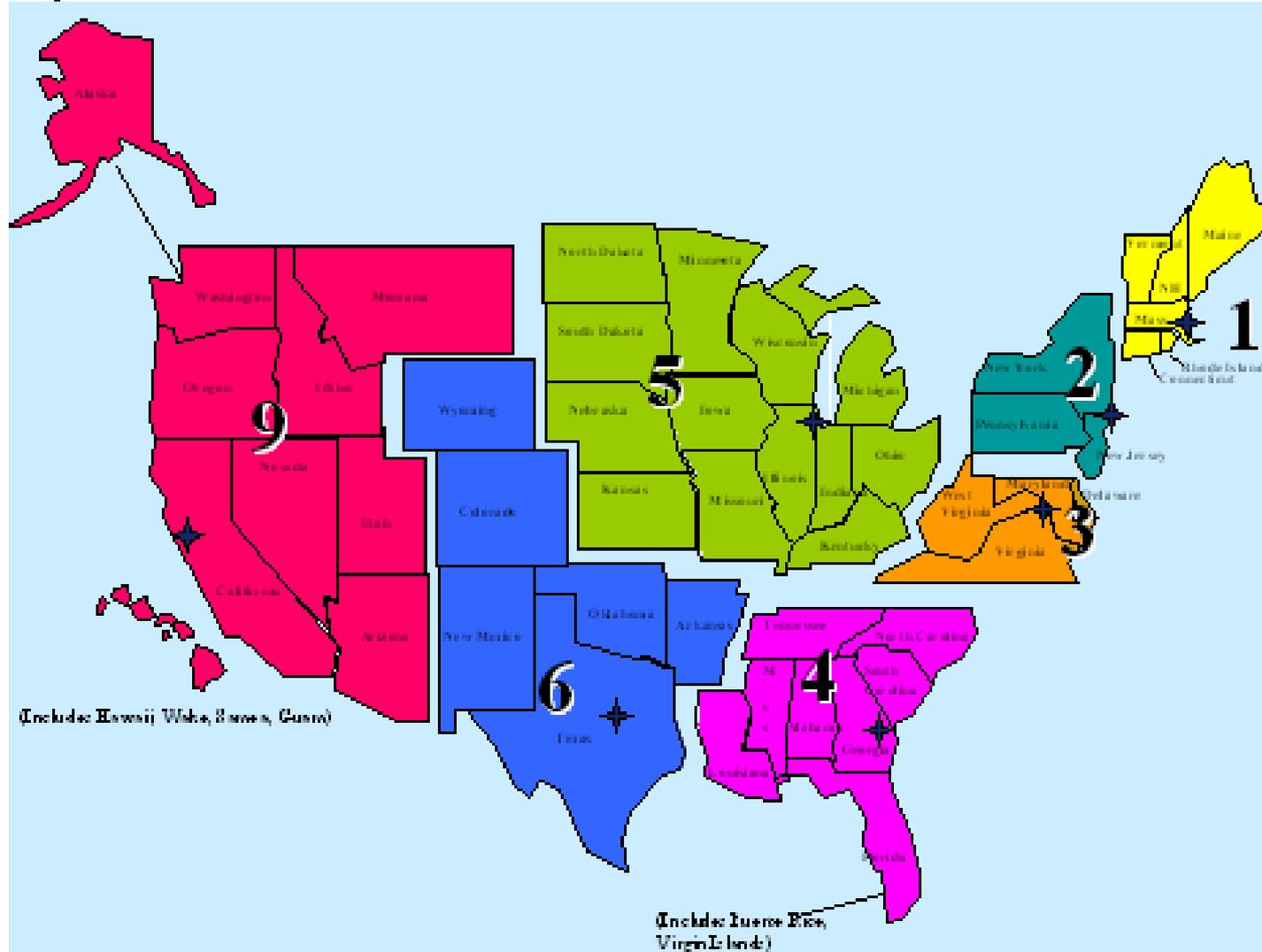




Overview

- Authority, Process, and Priorities
- ARRA Specific Oversight-Related Provisions
- Common Fraud Schemes and “Red Flags” Indicators
- If You Suspect Fraud, Waste, and Abuse

Investigative Regions



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

- **Authorized and trained to perform a variety of investigative and law enforcement activities**
- **Public Law 106-159 authorizes DOT/OIG special agents to conduct**
 - Investigations of allegations that a person or entity has engaged in fraudulent or other criminal activity relating to the programs and operations of the Department or its operating administrations
 - Related Entities – Authority extends to any person or entity subject to the laws and regulations of the Department or its operating administrations, whether or not they are recipients of funds from the Department or its operating administrations



Investigative Process: *Inputs*

- **Allegations Received**
 - About fraud, waste, abuse, and other irregularities concerning DOT programs or operations
- **Assessment**
 - Allegations are preliminarily reviewed to determine if OIG investigative attention is warranted
- **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 Process: *Outputs & Outcomes*

- **Outputs**

- Upon completing the investigation, reports and other documents are written for use by senior decision makers and other stakeholders, including Congress, U.S. Department of Justice officials, DOT management, and the public.

- **Outcomes**

- Criminal
 - Civil
 - Administrative
 - Ultimately supports DOT's strategic goals
- 
- A diagram showing two arrows pointing from the words "Criminal" and "Civil" to a rectangular box containing the text "Parallel Proceedings".



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 of ARRA are preserving and creating jobs, promoting economic recovery, and investing in transportation infrastructure that will provide long-term economic benefits.
 - ARRA directs DOT to create several new programs and establishes tight timeframes for distributing and expending funds and for reporting results (e.g., the number of jobs created).



ARRA Whistleblower Requirements

- **Whistleblower Protection**
 - ARRA prohibits retaliation against a non-Federal employee, including state and local governments, contractors, subcontractors, grantees, or professional membership organizations, who discloses information - *related to implementation or use of stimulus funds* - that the employee reasonably believes constitutes evidence of:
 - gross mismanagement of an agency contract or grant;
 - gross waste;
 - substantial and specific danger to public health or safety;
 - abuse of authority; or
 - violations of law, rule, or regulation related to an agency contract or grant.



ARRA Whistleblower Requirements

- **Whistleblower Protection** (Continued)
 - Allegations of waste, fraud, and abuse stemming from the use of stimulus funds that result in someone being retaliated against in alleged retaliation can be reported to one of several agencies, including the Office of Inspector General
 - Federal employees or job applicants with concerns regarding prohibited personnel practices, including non-ARRA whistleblower reprisals, Hatch Act violations, or other workplace improprieties, should visit the Office of Special Counsel's website at www.osc.gov.



ARRA Whistleblower Requirements

- **OIG responsible for investigating whistleblower complaints of reprisal within 180 days of receipt**
 - Investigate the complaint and issue a report of the findings to the complainant, the complainant's employer, the head of the appropriate Federal agency, and the Recovery Accountability and Transparency Board;
 - Exercise its discretion not to conduct or continue an investigation if it is determined that the complaint is:
 - frivolous (and therefore does not merit investigation),
 - unrelated to stimulus funds, or
 - Resolved by another Federal or state judicial or administrative proceeding.



Other Key ARRA Provisions

- Encourages fixed price contracts and competition
- Encourages support to small businesses, including disadvantaged business enterprises (DBEs)
- Prevailing Wage Rate Requirements
- Buy American
 - Iron, steel, and manufactured goods produced in U.S.



Fraud Defined

- **What is fraud? There are a number of different definitions, but essentially it is...**
 - Deliberate deception to secure an unfair gain
- **Review of Select:**
 - Common Schemes
 - "Red Flag" Indicators
 - Case Examples



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



Bribery

Its not just a few bucks between friends

- A contractor misrepresents the cost of performing work by compensating a Government official for permitting contractor overcharges to increase contractor profit
 - Other Government inspectors at the job site notice a pattern of preferential contractor treatment
 - Government official has a lifestyle that exceeds their salary
 - Contract change orders lack sufficient justification
 - Contracting employee declines promotion to a non-procurement position
 - Oversight officials socialize with, or have business relationships with, contractor or their families



Conflict of Interest

Do I need to let anyone know about my other interests?

- A contracting or oversight official misrepresents that he or she is impartial in business decisions when they have an undisclosed financial interest in a contractor or consultant who inflates the job cost to the Government
 - Government official disclosing confidential bid information to a contractor or assisting the contractor in preparing the bid
 - Unexplained or unusual favoritism towards a particular contractor or consultant
 - Close socialization with or acceptance of inappropriate gifts, travel, or entertainment from a contractor
 - Employee discusses employment with a current or prospective contractor or consultant
 - Vendor or consultant address is incomplete or matches employee's address



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



Kickbacks

Because they will give, doesn't mean you should take...

- A contractor or subcontractor misrepresents the cost of performing work by secretly paying a fee for being awarded the contract and therefore inflating the job cost to the Government
 - 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 subcontracts to lowest bidder
 - Lack of separation of duties between purchasing, receiving, and storing
 - Non-qualified and/or unlicensed subcontractors working on prime contracts
 - Purchasing employees maintain a standard of living exceeding their income



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 quality 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



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 of 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



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 limited 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



Time Overcharging

What's a couple of hours here or there?

- A contractor or consultant misrepresents the distribution of employee labor on jobs in order to charge for more work hours or a higher overhead rate to increase profit
 - Unauthorized alterations to timecards and other source records
 - Billed hours and dollars consistently at or near budgeted amounts
 - Timecards filled out by supervisors, not by employees
 - Frequent adjustments to journal entries with descriptions such as changed wrong "work order" or "contract number"
 - Inconsistencies between consultant's labor distribution records and employee timecards
 - Personnel files that cannot be found or is "found" after a delay



If You Suspect Fraud, Waste, and Abuse

- Be vigilant about “Red Flag” indicators
- Document the activity you suspect to be fraudulent
- Seek an explanation for irregular activity, if possible
- Make copies of all relevant documents and take photographs, if possible
- Report your concerns or suspicions to management and referral to OIG, as appropriate
- Can report directly to OIG and remain confidential



How to Report Suspected Fraud to OIG

- Complete an online complaint form at:
www.oig.dot.gov/hotlineform.jsp
- Call: 1-800-424-9071 (Toll Free)
- Fax: 1-540-373-2090
- 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



OIG Contact

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