



AASHTO Conference Subcommittee on Audit



Norfolk, Virginia

Transportation-Related Fraud Schemes & Indicators

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*U.S. Department of Transportation
Office of Inspector General*

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Overview



- **Mission and Priorities**
- **Fraud Discovery, Schemes, and Indicators**
- **Reporting Concerns**
- **Questions**



OIG Mission



- To conduct objective audits and investigations of DOT's programs and operations
- To promote economy, effectiveness, and efficiency within DOT
- To prevent and detect fraud, waste, and abuse in the Department's programs
- To review existing and proposed laws or regulations affecting the Department and make recommendations about them
- To keep the Secretary of Transportation and Congress fully informed about problems in departmental programs and operations

OIG Criminal Investigative Regions





OIG Investigative Priorities



- **Transportation Safety**
 - ✓ Aviation
 - ✓ Motor Carrier
 - ✓ Hazardous Material
- **Contract Procurement and Grant Fraud**
- **Program and Employee Integrity**

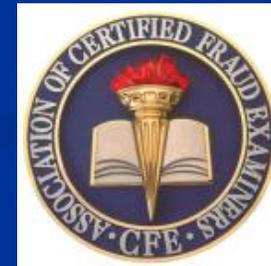


Fraud Discovery



■ ACFE 2006 Study

- | | |
|----------------------|-------|
| ✓ Tip | 34.2% |
| ✓ Accident | 25.4% |
| ✓ Internal Audit | 20.2% |
| ✓ Internal Controls | 19.2% |
| ✓ External Audit | 12.0% |
| ✓ Notified by Police | 3.8% |





Selected Fraud Schemes



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



Bid Rigging and 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 determined at the beginning of the construction season which one of their companies would win each job. They then shared “winning bids” by telephone in advance of electronic bidding so the other two contractors could ensure their bids were higher than the winning bid.



Bid Rigging and Collusion

“Red Flag” Indicators



- Contractors' bids are very close in dollar value
- Different contractors make identical errors in contract bids
- Unsuccessful bidders submit bid protests advising of collusive practices
- Contractors' bids are close to or slightly higher than government estimate



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:** Erosion-control contractor submitted grass seed tickets plus fertilizer and mulch weight slips in excess of materials applied on the job to cause the State DOT to make excessive payments for work performed.



Materials Overcharging “Red Flag” 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 photocopies, 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 charges a higher overhead rate to *increase job profit*
- **Example:** An engineering consultant regularly altered his employees' time cards to add hours to cost-plus jobs and add administrative hours to increase the company's overhead rate charged on job invoices.



Time Overcharging “Red Flag” Indicators



- Unauthorized alterations to time cards and other source documents
- Time cards filled out by supervisors, not employees
- Photocopies of time cards used, rather than originals
- Inconsistencies between consultant’s labor distribution records and employee time cards



Time Overcharging Example



- January 12, 2004 – State DOT audit
 - ✓ Timesheets unsigned or unapproved
 - ✓ Timesheet corrections not initialed
 - ✓ Hours incorrectly applied to jobs or office work
 - ✓ Employee lists did not match up with payroll summary
 - ✓ Related companies were owned by children
- Based on initial review, consultant may have received over \$1.5 million more than entitled



Time Overcharging Example



- Prior to preparing search warrant, State DOT gave detailed information on search sites
- After the search warrant was prepared
 - ✓ Simultaneous warrants were served at consultant's corporate office and owner's residence
 - ✓ Owner was interviewed at residence
 - ✓ State DOT auditors entered sites as experts to identify relevant paperwork
- Analysis and investigation took approximately 2 years
- Obtained evidence of mail fraud, money laundering, false documents/statements, witness tampering, and RICO



RECEIVED

JUL 02 2001

INVOICE

8974



SHIPPED TO



INVOICE DATE	DATE SHIPPED	OUR ORDER NO.	YOUR ORDER NO.	TERMS	F.O.B.	SALESPERSON	SHIPPED VIA
6-29-01	6-30-01	167-00 217-00		OCB		RJM	MAC
QUANTITY	DESCRIPTION					PRICE	AMOUNT
	COMBINED INVOICE FOR DIXIE HWY & INDIANA RR.						
	JOB NO. 2326					40,000	
	JOB NO. 2362					17,000	
	PREVIOUSLY PAID					51,486.55	
	BALANCE DUE						\$ 5,513.45

PAID
10/15/07

FORM 64042, RAPIDFORMS, INC.: TO REORDER CALL 800-257-8354

R1092

THANK YOU

Original



Invoice No. 8974

Dated: 6/29/01
Order No. 167-00/217-00

Office Rent
For 7 months @ \$800.00/month = \$ 5600.00
Expences = \$ 713.45

Amount due: \$ 5,513.45

Due upon receipt

Please include Invoice number with your remittance

Fake

[Redacted]

[Redacted]

[Redacted]

Please find enclosed my invoice of \$50,600.00. This amount is based on 460 hours of services rendered from 10/1/2008 to 12/31/2009 at a rate of \$110.00 per hour

Invoice: [Redacted]-099003

Professional Fees	.....	\$50,600.00
Total		<u>\$50,600.00</u>

If there are any questions with this invoice please contact me, (617) 388-6352.

Sincerely,

[Redacted]

Original



December 31, 2003



Dear [Redacted]

Please find enclosed my invoice for \$50,600.00. This amount is based on 460 hours of services rendered from 10/1/2003 to 12/31/2003 at a rate of \$110.00 per hour.

Invoice: [Redacted] 23103

Network and System Administration - 43 hours	.....	\$ 4,730.00
Website Development - 145 hours	.....	\$15,950.00
Software and Hardware Maintenance - 63 hours	.....	\$ 6,930.00
Invoicing and Receivables - 113 hours	.....	\$12,430.00
Year End Accounting - 58 hours	.....	\$ 6,380.00
Office Administration - 38 hours	.....	\$ 4,180.00

Total: \$50,600.00

If you have any question please contact me.

Sincerely,



Fake



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 a cheaper, substitute pipe installed in highway drainage culverts.



Product Substitution “Red Flag” Indicators



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



Minority-Owned Business Fraud



- **Definition:** Contractors *misrepresents* who performed contract work to *limit costs* while appearing to be in compliance with contract requirement to use 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 in fact a majority-owned subcontractor controlled and supervised the painting work.



Minority-Owned Business “Red Flag” 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



Minority-Owned Business Example



- State DOT decertified DBE company for not being independent of prime
- Referred to U.S. DOT/OIG because suspected that the prime and DBE knowingly and willfully misrepresented compliance with DBE program for purposes of obtaining contracts



Minority-Owned Business Example



- An investigation/analysis was conducted
 - ✓ Conducted interviews, issued subpoenas, and reviewed project files
 - ✓ Prime established a former employee as a DBE and controlled all aspects of DBE business operations
 - ✓ DBE contracted exclusively with prime

- As a result of the investigation/analysis
 - ✓ DBE confessed to making false statements and agreed to cooperate
 - ✓ Prime acknowledged making false statements and paid \$2.5 million fine

**Schedule B
Project Inspector's Report**

Project: _____
 District: _____
 Prime: _____
 DBE: _____

I. ITEMS OR PORTION OF ITEMS OR WORKS		DOLLAR AMOUNT COMPLETED	
61750	STRUCT. STEEL HIGH STRGTH. PLATE GIRDERS B-605	\$	889,031.95
61750	STRUCT. STEEL HIGH STRGTH. PLATE GIRDERS B-606	\$	553,724.74
61750	STRUCT. STEEL HIGH STRGTH. PLATE GIRDERS B-601	\$	1,435,406.35
61750	STRUCT. STEEL HIGH STRGTH. PLATE GIRDERS B-603	\$	484,702.57
61750	STRUCT. STEEL HIGH STRGTH. PLATE GIRDERS B-602	\$	669,664.78
61750	STRUCT. STEEL HIGH STRGTH. PLATE GIRDERS B-604	\$	787,643.77
61750	STRUCT. STEEL HIGH STRGTH. PLATE GIRDERS B-607	\$	686,004.20
61750	STRUCT. STEEL HIGH STRGTH. PLATE GIRDERS B-622	\$	0.00

If additional space is required, use an attachment. TOTAL \$ 5,506,178.36

II. SUPERVISION OF WORK COVERED IN THIS REPORT

What percentage of items or portions of items are actually supervised by the DBE? 0.0%
 If less than 100%, Discuss. Supervision on B607 was done By "PRIME"

III. MANAGING AND PERFORMING WORK COVERED IN THIS REPORT

A. Equipment:

- Did the DBE lease any equipment for the execution of work? YES NO If yes, what Percentage was leased with operator? 100 ; without operator? _____ Of the equipment leased with operator, did the operator appear on the DBE's certified payroll? YES NO.
- Was any equipment leased from the prime? YES NO. If yes, was any equipment leased with Operator? YES NO. If yes, discuss. _____
- Was any equipment used by the DBE owned and operated by the DBE? YES NO. If yes, what percentage? _____

B. Material:

- In whose names are materials shipped? "DBE"
 Who makes arrangements for delivery of materials? "PRIME"
 Who schedules delivery of materials? "PRIME"

C. Labor:

- Did the prime perform any of the DBE items or portions of the items of work? YES NO. If yes, discuss: Supervision
- Did the DBE sublet any items or portions of items of work to any non-DBE firm? YES NO. If yes, what percentage was sublet? _____ Name of the non-DBE firm: _____
- Did any of the DBE's labor force appear on the prime's certified payroll or the payroll of any other Subcontractor on the project? YES NO. If yes, discuss: _____

DBE/WBE work completed? YES NO
 Date DBE/WBE started work: 09/07/2000
 Date DBE/WBE completed work: _____

COPY



Project Inspector's Name and Signature _____

Date report completed 04/12/2002

**SCHEDULE E
DBE SUBCONTRACTOR REPORT**

PROJECT: _____
DISTRICT: _____
PRIME: _____
DBE: _____



I. ACTUAL MANAGING

- A. Does your firm have a written subcontract agreement with the prime? YES NO.
- B. Does your firm have a written subcontract agreement with an approved subcontractor on this project?
 YES NO
- C. Did your firm sublet any portion of work to another contractor? YES NO. If yes, was the firm a certified DBE?
 YES NO. Name of the firm: _____
Attach a copy of the agreement if not previously submitted.
- D. Does your firm have a signed Labor Union Agreement for this project? YES NO.
If yes, please submit a copy of the agreement if not previously submitted.
- E. Name of the person who prepares your firm's certified payrolls _____
Is this person employed by your firm? YES NO.
If no, explain * CPA Firm
- F. Did your firm **own** material price quotations from material suppliers for this project? YES NO
Attach a copy of the material supplier's price quotation to your firm
- G. Did your firm use **do prim** contractor's material price quotation in executing your firm's material agreement with the supplier
 YES NO.
- H. Name the person responsible for scheduling delivery of materials for this project: _____
Is this person an employee of your firm? YES NO. If no, explain "DBE OWNER"
*Owner
- I. How are your material invoices billed?
1. In the name of your company
2. In the name of the prime
3. In the name of your firm and the prime jointly
4. Other, explain _____
- J. How are your material invoices paid?
1. Directly by your firm.
2. Directly by your prime.
3. Joint Check Agreement
4. Other, explain _____
- K. What arrangements were made for equipment utilized on this project?
1. Lease invoices paid directly by your firm.
2. Prime deducts invoiced costs from your firm's estimated receipts.
3. Lease invoices paid with joint payee checks.
4. Other, explain _____
- L. Does your firm receive a fee for furnishing the materials on this project? YES NO*

COPY

CONTINUED

**Lump Sum price includes Labor and Equipment*

**SCHEDULE E
DBE SUBCONTRACTOR REPORT**



Page :

ACTUAL SUPERVISING

- A. Name of your supervisor on this project: **DBE OWNER**
- B. Years of construction supervisory experience on items of work being supervised on this project: **30 yrs.**
- C. Length of employment with your firm: **16 years**
- D. Was this supervisor employed by the prime prior to your work commencing on this project? YES NO
- E. Was the prime consulted or involved in the hiring of this superintendent? YES NO
- F. List below any other individual(s) who provided supervision to your firm on this project:

Name	Percentage of Time on Project
N/A	

G. What percentage of actual supervision does your firm provide? **100** %

III. ACTUAL PERFORMING

A. EQUIPMENT - List the following information and attach all equipment lease agreements executed by your firm which have not been previously submitted: *(SEE ATTACHED SUBCONTRACT AGREEMENT)*

1. Equipment used by your firm on this project (Type of equipment and number)
2. Source from which equipment was obtained (Owned, leased from leasing firm, leased from prime, or other).
3. Source from which the equipment operator was obtained (Your firm's employee, employee of prime, employee from another subcontractor, or other)

1. Description & Number	2. Source of Equipment	3. Source of Operator
Moultit	LEASED - LEASING FIRM	
Vehicle - Pickup Truck	OWNED	
Compressor	LEASED - LEASING FROM PRIME	
Hand Tools - Several	OWNED	

Total Pieces of Equipment used on this project by your firm

B. LABOR - List below all non-supervisory employees used by your firm who are employed by the prime contractor, a temporary agency or another subcontractor.

Classification & Number	Source of Employment	Length of Employment With Your Firm
N/A		

COPY



SCHEDULE D
PRIME CONTRACTOR'S REPORT

PROJECT:
DISTRICT:
PRIME:
DBE:

Check the appropriate spaces under each section. If you check "YES", attach discussion addressing your answer.

- Table with columns YES, NO, Questions. Contains sections A (Items of work for which credit is being sought), B (Supervising the work force), C (Managing the items of work), and D (Performing items of work) with various sub-questions and checkboxes.

Name and Title of Prime's Representative Vice President

Signature of Prime's Representative

March 27, 2002 Date of Signature

COPY

* The owner of the DBE Company, prior to forming his company sixteen years ago, was a supervisor for the prime.



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 “Red Flag” 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 QA inspectors obtaining conflicting results



Kickbacks



- **Definition:** Contractor or subcontractor *misrepresents* the cost of performing work, in that he or she secretly pays a fee for being awarded the contract and therefore *inflates 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 “Red Flag” 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 that 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 nonexistent loads of fill material.



Bribery

“Red Flag” Indicators



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



DOT/OIG Hotline



- **Call:** 1-800-424-9071
- **E-Mail:** Hotline@oig.dot.gov
- **Write:** U.S. DOT/OIG
P.O.Box 23178
Washington, DC 20026-0178



Questions?



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National Contract/

Grant Fraud Coordinator

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Or visit OIG's web site:

www.oig.dot.gov