



Fraud Awareness & Prevention

Santos Ramirez, Jr.
Special Agent
U. S. Department of Transportation
Office of Inspector General



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OIG – Who We Are

- The Office of Inspector General's Mission
 - Conduct independent and objective audits, investigations, and inspections,
 - prevent and detect fraud, waste, and abuse,
 - promote economy, effectiveness, and efficiency,
 - review pending legislation and regulation, and
 - keep the agency head and Congress fully and currently informed.



Investigative Priorities

- **Contract and Grant Fraud**
- **Transportation Safety**
 - Aviation
 - Motor Carrier
 - Hazardous Materials
- **Employee Integrity**



Types of Investigations

- Criminal
 - Criminal investigations under Title 18 of U.S. Code (USC)
- Civil
 - Civil false claim investigations
 - Qui-Tam investigations
- Anti-Trust
 - Sherman Act (15 USC 1)
- Administrative Actions
 - Debarments
 - Audits



Types of Crimes

- False Statements
- Corruption/Bribery
- Mail and Wire Fraud
- Racketeering
 - A person who commits crimes such as extortion, bribery, and obstruction of justice in furtherance of illegal business activities.
- DBE Fraud



Partnership: What Is Your Function?

- What do we need from our modal partner relationships and industry professionals?
 - Eyes and ears
 - Experts
 - Trust but verify, verify, verify.



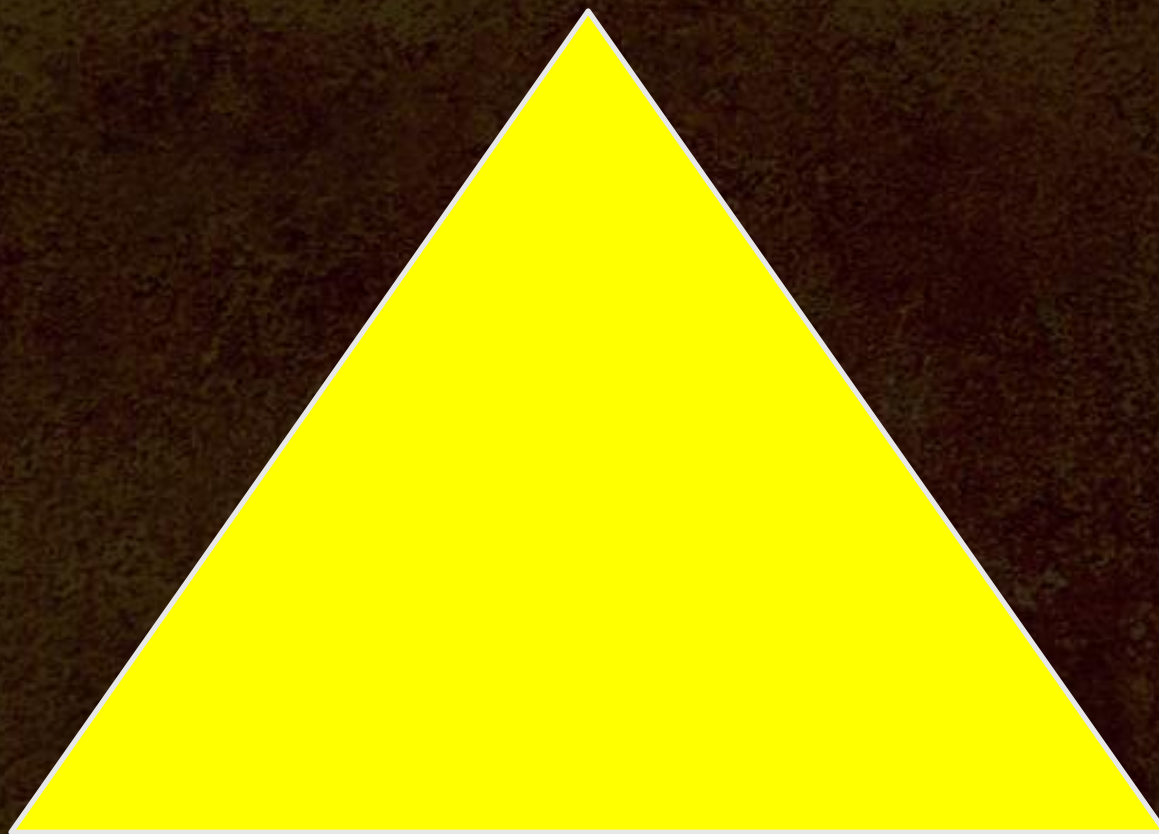
What is Fraud?

- Deliberate deception to secure an unfair gain; false statement; concealment of a material fact
 - Intent to deceive
- Fraud “Triangle”
- Fraud Common Schemes
 - “Red Flag” Indicators
 - Case Examples



Fraud "Triangle"

Opportunity

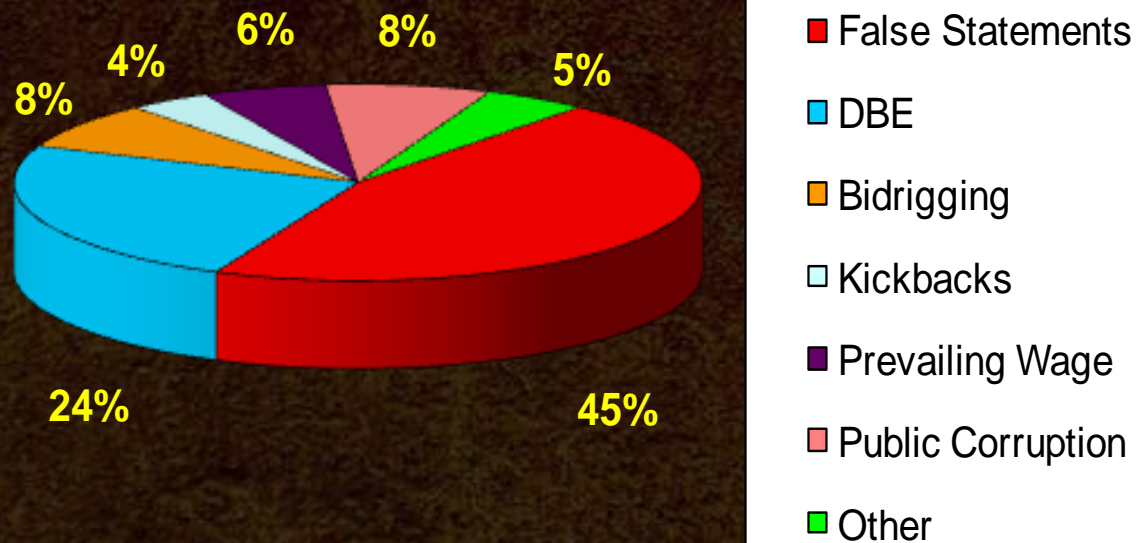


Pressure

Rationalization



Percentage of Contract Fraud by Type





Fraud in the Pre and Post Award / Performance Phase

- False DBE Application Data
- Bid Rigging
- False Test Results
- False Certifications
- Over Billing
- Inflating Costs
- Defective Products
- Product Substitution
- Change Orders/Supplemental Agreements
- False Claims
- Claims for Contractor Errors



Vulnerabilities

- Conflicts of Interest
 - Unexplained or unusual favoritism or close socialization towards a particular contractor or consultant
 - Company does not meet CUF, but falsely represented it does
 - A contracting or oversight official misrepresents that he or she is impartial in business decisions when they have an undisclosed financial interest with a contractor
 - Government official disclosing confidential bid information to a contractor or assisting the contractor in preparing the bid
 - Acceptance of inappropriate gifts, travel or entertainment from a contractor
 - Employee seeks employment with a current or prospective contractor or consultant



Vulnerabilities (Continued)

- Life's circumstances and realities
 - Financial issues
 - Personal conflicts
 - Professional conflicts



False Statements

- A criminal act in accordance with two Federal criminal statutes:
 - Title 18 of the U.S. Code (18 USC) § 1001 (Statements or Entries Generally):
 - “...knowingly and willfully—(1) falsifies, conceals, or covers up by any trick, scheme, or device a material fact;(2) makes any materially false, fictitious, or fraudulent statement or representation; or(3) makes or uses any false writing or document knowing the same to contain any materially false, fictitious, or fraudulent statement or entry...”



False Statements (Continued)

- 18 USC § 1020 (Highway Projects):
 - “...knowingly makes any false statement, false representation, or false report as to the character, quality, quantity, or cost of the material used or to be used, or the quantity or quality of the work performed or to be performed, or the costs thereof in connection with the submission of plans, maps, specifications, contracts, or costs of construction of any highway or related project submitted for approval to the Secretary of Transportation; or Whoever knowingly makes any false statement, false representation, false report, or false claim with respect to the character, quality, quantity, or cost of any work performed or to be performed, or materials furnished or to be furnished, in connection with the construction of any highway or related project approved by the Secretary of Transportation; or Whoever knowingly makes any false statement or false representation as to a material fact in any statement, certificate, or report submitted pursuant to the provisions of the Federal-Aid Road Act ...”



False Statements (Continued)

- Penalties under both statutes include fines and/or imprisonment for no more than five years
- This provision is applicable to all Federal-aid construction contracts and to all related subcontracts.
- “To prevent any misunderstanding regarding the seriousness of these and similar acts, Form FHWA-1022 shall be posted on each Federal-aid highway project (23 CFR 635) in one or more places where it is readily available to all persons concerned with the project”



Fraud Scheme: Bribery

- 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
 - Oversight officials have business relationships with contractor or their families



Fraud Scheme: Bid Rigging & Collusion

- 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



Fraud Scheme: Disadvantaged Business Enterprise Fraud

- 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



Fraud Scheme: Materials Overcharging

- A contractor misrepresents how much construction material was actually used on the job and is paid for excess material
 - Discrepancies between contractor-provided documentation and observed data
 - Refusal or inability to provide supporting documentation
 - Truck weight tickets or plant production records with altered or missing information
 - Files claims not supported by documentation



Fraud Scheme: Product Substitution

- 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



Fraud Scheme: Quality Control Testing

- 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