PROTECTING PEOPLE
PROTECTING RESOURCES

2018 TEAM
Conference – US DOT
OIG Fraud Awareness

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Agenda

- OIG Investigations – Overview
- Fraud – What is it?
- Types and Indicators of Fraud in the Highway Industry
- Pitfalls, Remedies, and Detection
- What are your responsibilities?
  - Questions
We are the Criminal Investigators for the Department

OIG Special Agents have full Federal Law Enforcement Authority and may use the following tools and techniques for conducting investigations:

- Execution of search and arrest warrants
- Inspector General or Grand Jury Subpoenas
- Grand jury testimony/investigations
- Physical & electronic surveillance
- Undercover Operations
- Document analysis
- Coordinating laboratory/forensic analysis
Chicago Regional Investigations:

Chicago / Columbus, OH

1 – SAC
2 – ASACs
13 – Special Agents
What is Fraud?

Fraud – Defined by Webster

Fraud involves an intent to deceive, often characterized by altered, false or concealed documents.

The crime of using dishonest methods to get something of value.

A copy of something that is meant to look like the real thing in order to trick people.

Pattern of mistakes may “suggest” nefarious activities

MISTAKE OR FRAUD?
When is it Fraud or ......?

- False information or representation
- Material fact
- With intent to deceive
- Obtain something of value
Types of Fraud
“RED FLAGS”
Fraud Schemes

Disadvantaged-Business (DBE) Fraud
Product Substitution
Quality-Control Testing Fraud
Bribery & Kickbacks
Bid-Rigging & Collusion
Materials Overcharging
Conflict of Interest
Indicators of Fraud

• Missing documents
• Altered or photocopied records
• Inspection of materials or work is avoided
• Contractor controls test samples, not inspector
• Losing bidder becomes subcontractor
• Workers shift back and forth between company payrolls
• Awards to contractor or sub with poor performance history
• Unjustified / excessive sole-source or change-orders
• Favoritism toward a contractor, sub or vendor
• Gov’t official has social or business relationships with contractor
• Person uncooperative, stalls, or gets angry when questioned

_Internal Controls – Verify, Request, Observe, Talk, Obtain, Request_

**Be Thorough and Be Vigilant**
Red Flag “Indicators”
Compliance v. Portraying Compliance
Front v. Pass Through
Performance v. Certification

1. DBE owner lacks background, experience, or equipment ...
2. Employees are shuttled back and forth between Prime and DBE – Payrolls.
3. Business signs on vehicles – Magnets, Removable, etc...
4. Supply orders not completed by DBE and/or directed by the Prime.
5. DBE not present at the job.
6. Exclusivity. (regional)
7. Interesting financial arrangements between the Prime and DBE ??
8. Joint bank accounts / Operating out of the same office.
Product Substitution

Misrepresents materials  Increased Profits

1. Contractor refuses to provide supporting documents regarding Products.
2. Contractor restricts or avoids inspections of goods / services at delivery.
3. Mismarking or mislabeling of products and materials.
4. Photocopies instead of required or requested originals.
5. Irregularities in signatures, dates, or quantities on delivery documents.
6. High rates of rejections, returns or failures.
7. Unsigned certifications – No one wants to sign!
8. Contractor offers to select samples for testing purposes – Cores.
Quality Control Testing

1. Contractor does not maintain QC samples for later QA testing.
2. Photocopies of QC test results instead of originals.
3. Alterations or missing signatures on QC test results.
4. Contractor employees labeling or taking samples away from inspector oversight.
5. Test results cannot be found or are destroyed.
6. Test results are “lost” then “found” ...
7. Duplicative test results from samples – Only differing by date and time.
8. Contractors insisting on transporting QC samples from the construction site to the lab.
Kickbacks

Contractor/Sub-Contractor → Misrepresents Cost

Paying secret fee/kickback → Increased costs to the public
Bribery

Government official (GO) takes something of value to help contractor - to steer a contract, provide confidential information, or to overlook overbilling, substandard materials, or poor performance, etc.

Permitting contract overcharges to increase Contractor profits

2. GO has a lifestyle that exceeds his/her salary.
3. Oversight officials have questionable relationships with contractors and families.
4. Involvement of an unnecessary or questionable “middle man”.
5. Contracting employee insists contractors use a certain “guy”.
6. Contracting change orders lack sufficient justification.
Bid Rigging and Collusion

1. Unusual bid patterns: Too similar, too high, identical ...
2. Different contractors with identical errors in contract bids.
3. Losing bidders with identical line-item bids on nonstandard items.
4. Rotation of winning bidders by job, type of work, or geography.
5. Losing bidders hired as subcontractors.
7. Joint venture bids by firms that typically bid alone.
Contractor “A” misrepresents how much material was *actually* used on a job.

2. Truck weight tickets or plant production records with missing/altered information.
3. Photocopies of quantity documentation where originals are expected.
4. Unusually high volume of purchases from one vendor. (regional)
5. Invoiced goods can’t be located in the inventory.
6. Refusal or inability to provide requested supporting documentation.
7. Discrepancies between contractor-provided quantity documentation v. Observations and/or yield data calculations.
8. False or inflated invoices.
Conflict of Interest

Are you really impartial in your business decisions?

Family Interest - Financial Interest?

1. Favoritism - Unexplained, Unusual, or Unnatural show to a contractor/consultant.
2. Close socialization with and acceptance of inappropriate/questionable gifts, travel or entertainment from a contractor.
3. Employees having discussions or negotiations about employment with a current or prospective contractor or consultant.

Questionable Relationships...
“In human experience, the pressure of imminent incarceration tends to snap the bonds of loyalty.”

US v. Rosner – 1973
US Court of Appeals – 2nd District
Margins

Costs v. Profits
Our ethical character is formed by each and every choice we make – For better or for worse.
Questions
If You Suspect Fraud …

The #1 fraud indicator is your intuition

If possible:

• Document suspected fraudulent activity
• Seek an explanation for irregular activity
• Copy documents and take photographs
• Report your concerns or suspicions to management

To report fraud, waste, and abuse at DOT, please contact the OIG Hotline

1-800-424-9071
www.oig.dot.gov
www.oig.dot.gov/hotline
Contact & DOT OIG Hotline

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