

Accountability Challenges in Challenging Times: Fraud Risks for Federal Stimulus Projects

Fraud Scheme	Description	Indicators
Bid Rigging and Collusion	Contractors misrepresent the competition against each other when, in fact, they agree to cooperate on the winning bid to increase job profit.	<ul style="list-style-type: none"> ▪ Unusual bid patterns: too close, too high, rounded numbers, or identical winning margins or percentages. ▪ Different contractors making identical errors in contract bids. ▪ Rotation of winning bidders by job, type of work, or geographic area. ▪ Bid prices dropping when a new bidder enters the competition. ▪ Losing bidders hired as subcontractors ▪ Apparent connections between bidders: common addresses, personnel, or phone numbers. ▪ Losing bidders submitting identical line item bid amounts on nonstandard items
False claims for labor	A contractor charges more employee work hours or uses a higher overhead rate to increase profit.	<ul style="list-style-type: none"> ▪ Unauthorized alterations to time cards and other source records ▪ Billed hours and dollar amounts consistently at or near budgeted amounts. ▪ Time cards filled out by supervisors, not by employees. ▪ Photocopies of timecards where originals are expected. ▪ Inconsistencies between a consultant's labor distribution records and employees timecards
False claims for materials	A contractor overcharges construction material, gets paid for excess material to increase profit.	<ul style="list-style-type: none"> ▪ Discrepancies between contractor-provided material quantity documentation and observed data to include yield calculations. ▪ Refusal or inability to provide supporting documentation. ▪ Contractor consistently loading job materials into equipment away from inspector oversight. ▪ Truck weight tickets or plant production records with altered or missing information. ▪ Photocopies of quantity

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		<p>documentation where originals are expected.</p> <ul style="list-style-type: none"> ▪ Irregularities in color or content of weight slips or other contractor document used to calculate pay quantities.
Bribes related to contracts materials or labor	A contractor compensates a government official in order to obtain contracts or permit overcharges.	<ul style="list-style-type: none"> ▪ Other government inspectors at the job site noticing a pattern of preferential contractor treatment. ▪ Government official's lifestyle exceeding his/her salary. ▪ Contract change orders lacking sufficient justification. ▪ Oversight officials socializing with or having business relationships with contractors or their families.
Kickbacks	A contractor or subcontractor inflates the cost of performing work to the government and uses the extra costs to secretly pay a fee to the awarding officer or staff.	<ul style="list-style-type: none"> ▪ 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.
Product Substitution	A contractor misrepresents the product used (by purchasing inferior products) in order to reduce costs for construction materials and increase profits.	<ul style="list-style-type: none"> ▪ Mismatching or mislabeling of products and materials. ▪ Contractor restricting or avoiding inspection of goods or services upon delivery ▪ Contractor refusing to provide supporting documentation pertaining to production or manufacturing. ▪ Photocopies of necessary certification, delivery, and production records where originals are expected. ▪ Irregularities in signatures, dates, or quantities on delivery documents.

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		<ul style="list-style-type: none"> ▪ High rate of rejections, returns, or failures. ▪ Test records reflect no failures or a high failure rate but contract is on time and profitable. ▪ Unsigned certifications.
<p>Disadvantaged Business Enterprises Fraud</p>	<p>A contractor misrepresents who performed the work in order to appear to be in compliance with contract goals for involvement of veteran/minority/women-owned businesses.</p>	<ul style="list-style-type: none"> ▪ Minority owner lacking background, expertise, or equipment to perform subcontract work. ▪ Employees shuttling back and forth between prime contractor and minority-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 minority-owned business. ▪ Prime contractor facilitated purchase of minority –owned business. ▪ Minority-owned business owner never present at job site. ▪ Prime contractor always uses the same minority-owned business.
<p>Conflict of Interest</p>	<p>A contracting or oversight official has an undisclosed financial interest in a contractor or consultant, resulting in improper contract award or inflated costs</p>	<ul style="list-style-type: none"> ▪ Unexplained or unusual favoritism shown to a particular contractor or consultant. ▪ Government official disclosing confidential bid information to a contractor or assisting the contractor in preparing the bid. ▪ Government employee having discussion about employment with a current or prospective contractor or consultant. ▪ Close socialization with and/or acceptance of inappropriate gifts, travel, or entertainment from a contractor. ▪ Vendor or Consultant address is incomplete or matches

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		<p>government employee's address.</p> <ul style="list-style-type: none"> ▪ Government official leases or rents equipment to a contractor for performing government contract work.
<p>Quality-Control Testing Fraud</p>	<p>A contractor misrepresents the results of quality control (QC) tests to falsely earn contract incentives or to avoid production shutdown in order to increase profits or limit costs</p>	<ul style="list-style-type: none"> ▪ Contractor employees regularly taking or labeling QC samples away from inspector oversight. ▪ Contractor insisting on transporting QC samples from the construction site to the lab. ▪ Contractor not maintaining QC samples for later quality assurance (QA) testing. ▪ Contractor challenging results, or attempting to intimidate QA inspectors who obtain conflicting results. ▪ Photocopies of QC test results where originals are expected. ▪ Alterations or missing signatures on QC test results.

**Adapted mostly (in full or part) from USDOT OIG March 31, 2009 Report.
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