

Check out
the video

Federal-aid Program Overview

Avoiding Waste and Abuse, and Detecting Fraud

www.fhwa.dot.gov/federal-aidessentials

Using internal controls to effectively manage Federal-aid programs and projects



Taxpayers expect transportation agencies to maintain high ethical practices throughout their organizations from design and construction to planning and operations. To meet these expectations and fulfill their duties, transportation agencies implement policies, procedures, and other controls to help eliminate waste, abuse, and fraud.



The controls used to administer local or State funds can also apply to the administration of Federal-aid. For example, effective controls can ensure that employees and contractors avoid waste and abuse by using Federal funds only when they are needed and for authorized activities. Controls can also help prevent fraud that induces payment through misrepresentation of activities on Federal-aid projects.



Let's look at how agency personnel might apply the rule of SEVEN to strengthen existing controls, avoid waste and abuse, and detect fraud.



The rule of SEVEN consists of:

- Surprise inspections
- Examination of documents
- Verification of materials
- Evaluation of irregularities
- Notification of authorities

As we walk through each element, think about how it fits within your own organization's current practices.



Are the inspections conducted at the same time each day, and do they focus on the same items? By adding a surprise inspection at different times and of different items to the routine, regular inspections, inspectors make it harder for employees and contractors to conceal substandard or out-of-specification materials and practices.



Is your agency routinely examining all types of documents – both electronic and hard copy? For example, does it examine each bill of lading to match what was delivered to what was ordered? Does it perform and review tests to confirm acceptability of materials? Does it check certified payrolls to ensure accurate pay for work performed?



While on the jobsite, what techniques does your agency use to verify materials for acceptability? While it might be standard practice to count quantities and verify strength or grading of rock, how are your inspectors alerted to unique, Federal-aid requirements,

such as the “Buy America” requirement for steel or iron products, and “commercially useful function” requirement for Disadvantaged Business Enterprises?



How do your inspectors evaluate defects or material irregularities? How do they determine when irregularities are within sampling error or when they suggest the likelihood of fraud?



Lastly, what are your agency’s procedures for escalating concerns about fraud and notifying authorities? Are these procedures any different for Federal-aid projects?

Let’s see how one agency used the rule of SEVEN to detect fraud on a Federal-aid project.



In our example, a bridge project required a special reinforced concrete drainage assembly.

When examining documents, the engineer noticed two red flags: The first was that the assemblies were cast before the plans were

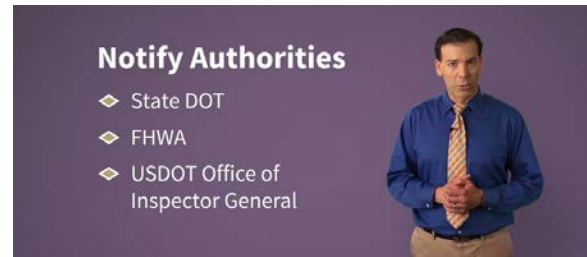
approved, and the second was that the Certification Notice for the assembly was not signed by a qualified individual.



Following the review of the documents, the inspector performed a surprise inspection of the contractor by taking apart an assembly to see if the required special reinforcement was included. It was not. So new assemblies were ordered and tested, but they too were found to be deficient.



Agency personnel then spoke directly with the contractor to further evaluate the irregularities. They were not satisfied with the explanations given by the contractor and notified the United States Department of Transportation (USDOT) Office of Inspector General of suspected fraud.



Any suspicion of fraud on a Federal-aid project requires Federal review. It is not only a local issue. As a recipient of Federal-aid, your agency is obligated to notify immediately all authorities, including the State DOT, the Federal Highway Administration, and the U.S. DOT Office of Inspector General, if fraud is suspected.



Your construction program manual provides inspection requirements that will help your agency detect and report fraud. To improve inspection practices on Federal-aid projects, become familiar with how inspectors use surprise inspections, learn the special requirements for Federal-aid projects, and educate yourself on the techniques for applying the rule of SEVEN.

Additional Resources

- Federal-aid The US DOT Office of Inspector General tip Hotline.
<https://www.oig.dot.gov/Hotline>
- Information on how to report fraud to the U.S. DOT OIG, including contact information
<http://www.fhwa.dot.gov/programadmin/contracts/fraud.cfm>
- FHWA information and guidance on suspension and debarment actions
<http://www.fhwa.dot.gov/construction/cqit/suspensi.cfm>
- False statement notice requirement for all Federal-aid projects
<https://www.law.cornell.edu/cfr/text/23/635.119>
- System for Award Management (SAM) website containing the comprehensive list of debarred or suspended parties that are not eligible for new Federal contract awards.
<https://www.sam.gov/index.html/#1>

The content of this document is not a substitute for information obtained from State departments of transportation, appropriate FHWA Division Offices, and applicable laws. Scenarios have been simplified for emphasis and do not necessarily reflect the actual range of requirements applicable to the scenario or this topic. This document was created under contract number DTFH63-11-F-00066 by the Federal Highway Administration, U.S. Department of Transportation, and is offered to the public to heighten and focus awareness of Federal-aid requirements within the local public agencies community and reinforces the importance of these necessary policies, procedures, and practices.

This Companion Resource is the script content for the video production of the same name.