



U.S. DEPARTMENT OF TRANSPORTATION  

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OFFICE OF INSPECTOR GENERAL

**Challenges Facing the  
Department of Transportation's  
COVID-19 Response Efforts**

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United States House of Representatives

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Chairman DeFazio, Ranking Member Graves, and Members of the Committee:

Thank you for inviting me here today to discuss the Department of Transportation's (DOT) response to the challenges caused by the Coronavirus Disease 2019 (COVID-19) pandemic. As you know, COVID-19 has had a major impact on the U.S. transportation industry in ways that affect the Nation's economy and the jobs, businesses, and way of life of the American people. We note the Department's commitment to the success of recovery efforts through its work to ensure the safety and efficiency of the American transportation system while also protecting the safety and well-being of DOT employees.

The Department has moved quickly to make the over \$106 billion that Congress provided<sup>1</sup> to DOT agencies available to help American workers, families, and businesses deal with the pandemic (see exhibit A). The volume of the funds and the speed with which they have been made available, however, present serious oversight challenges beyond those we have highlighted in past reports to the Secretary of Transportation and Congress. In June 2020, to help DOT promote effective stewardship of the over \$36 billion provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, we identified five potential risk areas to help the Department bolster its oversight of these funds: managing airport grants efficiently; adapting surface transportation oversight approaches when necessary; executing contracts and grants effectively; tracking and monitoring funds accurately; and preventing and detecting fraud, waste, and abuse. These risk areas, and our suggestions to mitigate them, were drawn largely from our prior work helping DOT oversee a significant influx of funds for economic and emergency relief.<sup>2</sup> Since that time, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act and American Rescue Plan (ARP) Act have added over \$70 billion to this huge investment in DOT programs. These additional appropriations make the Department's attention to spending risks and internal controls even more critical for efficient and compliant expenditures and prevention of fraud, waste, and abuse.

My testimony today will focus on the five risk areas mentioned above and how we are working to support the Department's efforts to help ensure funds achieve their vital purpose.

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<sup>1</sup> The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 (Pub. L. 16-136) provided over \$36 billion to DOT. The Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act of 2021 (Pub. L. 116-220) provided over \$27 billion and the American Rescue Plan (ARP) Act of 2021 (Pub. L. 117-2) provided over \$43 billion. See exhibit A for the breakdown by agency.

<sup>2</sup> The American Recovery and Reinvestment Act of 2009 (ARRA), Pub. L. 111-5.

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## Summary

DOT has received billions of dollars to fund its efforts to respond to and mitigate COVID-19 across all modes of transportation. For example, the Federal Aviation Administration (FAA) received over \$20 billion to support airports' continuing operations and replace lost revenue resulting from the sharp decline in passenger traffic and other airport business due to the pandemic. To mitigate the challenges associated with this huge influx of funds, we found that FAA must establish controls to ensure grantees adhere to Federal requirements and increase its own reporting transparency. The Agency is taking positive steps toward establishing a risk-based oversight approach and has categorized all COVID-related relief grants as "high risk," thus strengthening its ability to manage these grant funds. DOT's surface transportation agencies received about \$83 billion in COVID-19 relief funding and also face challenges in overseeing these funds and carrying out normal operations under COVID-19 constraints. Further, DOT agencies have started to adjust their oversight approaches to ensure that recipients meet Federal requirements and will need to continue to do so. We also highlighted that the Department must increase emphasis on how it awards and administers contracts and grants, ensure that individuals making agency or recipient awards have appropriate authority and training, improve procedures to maintain its overall low improper payment rate, and maintain the availability and integrity of its multiple financial management systems. Layered atop these challenges is the fact that the volume of COVID-19 relief funds and the speed at which they must be disbursed puts them at a higher than usual risk for fraud, waste, and abuse. For this reason, we found that it will be critical for all DOT agencies to implement data-quality procedures for tracking and monitoring and to be aware of "red flag" indicators of fraud schemes. To assist DOT in achieving that end, we are conducting outreach and education efforts to enhance understanding about how to recognize, prevent, and report fraud to the appropriate authorities.

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# Effectively Managing Grants To Support Airports

Since March 2020, FAA has received \$20 billion in COVID-relief funds<sup>3</sup> for grants-in-aid through the Airport Improvement Program (AIP)—more than the amount it received through AIP in the preceding 5 fiscal years combined. While AIP has been DOT’s main vehicle for providing grants to airports across the Nation for many years, FAA’s receipt of this unprecedented injection of funds for COVID-19 relief comes with challenges similar to those our prior work has identified. To ensure these funds are put to effective use, FAA needs to establish increased controls over grantee reimbursements and implement a risk-based approach to detect potential fraud, waste, and abuse.

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## Establish Controls To Prevent Lapses in Grantee Adherence to Federal Requirements and Increase Reporting Transparency

Our work has previously identified challenges that FAA faces in its efforts to effectively manage large allocations of funds. Audits we conducted following Hurricanes Katrina and Rita in 2005 and the economic recession of 2009, as well more recent assessments, found lapses in grantee adherence to Federal laws and regulations, including those regarding improper payments, periods of performance, and grant documentation.<sup>4</sup> Our 2021 AIP audit, for example, identified misused funds, false claims, and insufficient supporting documentation for reimbursement requests—issues with a total impact on AIP obligations of \$298.1 million. Resolving these issues is critical, in part because the CARES Act authorizes the Federal share of approved projects to be increased to 100 percent, potentially reducing the incentives for localities to rigorously control project costs. Therefore, the Agency will benefit from enforcing existing policies that require program managers to verify grant fund expenditures and cost increases.

Our prior AIP audit work has also identified concerns about FAA’s grant reporting practices. For example, FAA did not update over 75 percent of the American Recovery and Reimbursement Act (ARRA) estimated grant amounts it published online with its actual awards to recipients. In particular, 25 of the 319 project cost

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<sup>3</sup> FAA received \$10 billion through the CARES Act, \$2 billion through CRRSA, and \$8 billion through the ARP Act.

<sup>4</sup> *Oversight of Airport Improvement Program Hurricane Grants* (OIG Report Number AV-2007-014), December 13, 2006. *FAA Fulfilled Most ARRA Requirements in Awarding Airport Grants* (OIG Report Number AV-2011-053), February 17, 2011. *Gaps in FAA’s Oversight of the AIP State Block Grant Program Contribute to Adherence Issues and Increase Risks* (OIG Report No. AV2021017), February 10, 2021. OIG reports are available on our website: <https://www.oig.dot.gov/>.

estimates were off by more than 50 percent. Similarly, we identified issues with the accuracy of FAA-provided data for AIP grants during our 2021 review.

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## Use a Risk-Based Approach for Grant Oversight

In addition, FAA is following through on recommendations made in our past work to establish a risk-based oversight approach, assign the appropriate risk level to grantees, and adjust the Agency's oversight accordingly. Given FAA's need to target its resources to oversee the vast number of grants that will be supported by COVID-19 funds, we initiated an audit assessing FAA's policies and procedures for the award and oversight of CARES Act funds. While this audit is currently underway, we have found that FAA has categorized all of its COVID-related relief grants as "high risk"—generating additional oversight and review responsibilities for Agency officials. In addition, FAA has primarily centralized those oversight and review responsibilities within its Headquarters personnel; it took this action to ensure that the process is standardized and to accelerate awareness of potential implementation issues due to the unique nature of the relief funding. For example, FAA is planning to collect and review documentation for the Aviation Manufacturing Jobs Protection Program.<sup>5</sup> These steps will strengthen the Agency's mitigation strategy for identifying financial errors and inconsistencies in order to detect and prevent improper payments. Our future work will continue to focus on FAA's efforts to protect taxpayers' interests related to the oversight and management of these COVID-related grants.

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## Leveraging Stewardship and Oversight Approaches To Enhance Transparency and Mitigate Risk

DOT's surface transportation agencies received extensive COVID-19 relief funding—about \$83 billion. In particular, the Federal Transit Administration (FTA) has received about \$69 billion to help transit systems in the United States mitigate the impacts of COVID-19, including support for their operating expenses. Congress also provided \$10 billion to the Federal Highway Administration (FHWA) for highway infrastructure programs; over \$3.7 billion to the Federal Railroad Administration (FRA) to support Amtrak; approximately \$4.1 million to the Maritime Administration; and \$150,000 to the Federal Motor

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<sup>5</sup> The Aviation Manufacturing Jobs Protection Program, established by the American Rescue Plan Act of 2021, provides funding to eligible businesses, paying up to half of their compensation costs for certain categories of employees for up to 6 months.

Carrier Safety Administration. Based on our work, we have identified challenges these agencies may face in overseeing their funds in addition to carrying out normal operations under COVID-19 constraints.

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## Track and Report on Funding Progress and Accountability

Sound processes for accurate tracking and reporting on funding progress and accountability are important for transparency and mitigating the risk of misuse.<sup>6</sup> FTA and FRA, for example, received substantially more for the programs funded through COVID relief than they typically receive annually for the same programs and for recent disasters, such as Hurricane Sandy. While FTA has expeditiously allocated its COVID-relief funds, our work examining FTA's progress in using about \$10 billion in Hurricane Sandy funds shows that transit agencies receiving grant funds can take years to expend large amounts.<sup>7</sup> In addition, the amounts allocated to specific recipients and purposes can change over time. Therefore, FTA will need to pay ongoing attention to ensure that it correctly awards funds to recipients and that obligated amounts do not exceed limitations. Similarly, FRA oversees annual Federal funding for Amtrak, which in the last fiscal year amounted to \$2 billion. In June 2021, we reported on FRA's program to oversee Amtrak's use of these Federal funds.<sup>8</sup> The \$3.7 billion in supplemental funding appropriated to ameliorate the impact of COVID-19 on Amtrak makes FRA's oversight even more critical. Our work, which was also applicable to FRA's oversight of the supplemental funding, found that the Agency has taken steps to improve its Amtrak oversight program and has plans to address weaknesses in its processes and systems for monitoring expenditures and tracking and following up on issues. FRA's completion of this work will enhance its ability to oversee Amtrak's use of both annual and COVID-19 supplemental funding.

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<sup>6</sup> According to GAO's *Government Auditing Standards* (GAO-21-368G), April 2021, as reflected in applicable laws, regulations, agreements, and standards, Federal program officials and managers are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations.

<sup>7</sup> Our work supporting FTA's Hurricane Sandy funding oversight includes: *FTA Made Progress in Providing Hurricane Sandy Funds but Weaknesses in Tracking and Reporting Reduce Transparency Into Their Use* (OIG Report No. ST2021032), July 21, 2021; *FTA's Limited Oversight of Grantees' Compliance With Insurance Requirements Puts Federal Funds and Hurricane Sandy Insurance Proceeds at Risk* (OIG Report No. ST2020005), October 30, 2019; and *FTA Has Not Fully Implemented Key Internal Controls for Hurricane Sandy Oversight and Future Emergency Relief Efforts* (OIG Report No. ST2015046), June 12, 2015.

<sup>8</sup> *Fully Implementing a Grants Management Framework Will Enhance FRA's Amtrak Funding Oversight* (OIG Report No. ST2021027), June 30, 2021.

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## Adapt Oversight Processes To Address COVID-19 Impact and Program Risks

The Department also must contend with the pandemic's impact on program risks and operations, such as in-person inspections and travel. For example, while FTA was monitoring and providing guidance to grant recipients, it postponed the oversight reviews planned for fiscal year 2020 until fiscal year 2021. In April 2021, FTA reported that it has since incorporated oversight of COVID-19 relief funds into the Agency's existing oversight program and developed a new proactive approach to COVID-19 relief funding oversight that focuses on both technical assistance and supplemental oversight.<sup>9</sup> The Agency added that, starting in early summer 2021, it will begin supplemental oversight activities for COVID-19 relief funding recipients not scheduled for a Triennial or State Management Review this year. These steps by FTA to enhance oversight of COVID-relief funding are laudable and indicate progress toward addressing the potential risk areas we identified for stewardship of these funds. Such actions are also particularly important in light of the ways in which COVID-relief laws changed how recipients can use FTA funds, such as by allowing all recipients, regardless of size or urbanized area population, to charge operating expenses to FTA grants on a 100-percent Federal share basis. Other DOT agencies may face similar challenges and also may need to adjust their oversight approaches to ensure that recipients meet Federal requirements and use funds only for eligible purposes. We anticipate that future audits will examine the Department's performance in this area and also assess DOT's tracking and reporting efforts. We recently announced our audit of FTA's COVID-19 relief funding oversight.

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## Executing Contracts and Grants Effectively To Achieve Desired Outcomes

Given the large influx of COVID-19 funds the Department has received, DOT agencies will need to pay even greater attention to the ways in which they award and administer contracts and grants. As of July 6, 2021, DOT had received over \$106.3 billion in COVID-19 funding and had obligated over \$47 billion of those funds. This obligation was in addition to its annual contract and grant obligations, which totaled over \$74 billion in fiscal year 2019. Based on our previous work, unless the Department sustains focus on its award and oversight practices, it will face a number of risks to the effective use of these funds. Specifically, the Department needs to ensure that DOT agencies foster competition and receive

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<sup>9</sup> FTA, "Dear Colleague" Letter, April 20, 2021.

reasonable pricing for services and programs; contractors and grantees expend funds as intended and to achieve desired outcomes; and that adequately trained and supervised personnel manage funds in accordance with Federal requirements. Our future work will focus on whether the Department is able to effectively manage the use and expenditure of DOT grant and contract funds, including those for COVID relief.

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## Foster Competition to the Extent Practical and Ensure Reasonable Pricing

To achieve efficiency and effectiveness and realize the best value for taxpayers, DOT will need to promote competition to the extent practicable and verify fair and reasonable pricing before agency-funded contracts are awarded. These activities should include developing sound independent Government cost estimates, conducting price and/or cost analyses, and requiring adequate justification for single bids. However, our past work—which has covered oversight of FHWA’s ARRA-related spending—identified deficiencies in these areas that could put billions in Federal funds at risk. For example, our 2012 audit of ARRA-funded FHWA contracts showed that even minimal increases in the number of bids received could have a significant impact.<sup>10</sup> Prices for contracts with one or two bids averaged 11 percent higher than prices for contracts with three bids—resulting in a total projected price difference of at least \$179 million. In addition, in 2019, we assessed FAA’s competitive award practices for major acquisition program contracts and subsequently recommended that the Agency could put up to \$4.9 billion in Federal funds to better use by improving its ability to establish contract pricing that is fair, reasonable, and realistic.<sup>11</sup> Specifically, FAA put billions of dollars at risk by awarding some competitive contracts without developing required Government cost estimates or adequately justifying several noncompetitive awards.

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## Ensure That Contractors and Grantees Expend Funds as Intended

As is the case with the Department’s annual contract and grant spending, it is vital that DOT provide clear direction to contractors and grantees on Federal requirements for verifying and documenting expenditures of COVID-19 funds. However, our past work has found that DOT could do more to direct grantees to

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<sup>10</sup> *Lessons Learned From ARRA: Improved FHWA Oversight Can Enhance States’ Use of Federal-Aid Funds* (OIG Report No. ZA-2012-084), April 5, 2012.

<sup>11</sup> *FAA’s Competitive Award Practices Expose Its Major Program Contracts to Cost and Performance Risks* (OIG Report No. ZA2020020), March 9, 2020.



provide supporting documentation for their reimbursement requests and reviews to avoid improper payments. For example, in 2019, we reported that the Department did not routinely require grantees to provide support showing that the costs they submitted for reimbursement were reasonable or allowable.<sup>12</sup> In addition, our review of FTA's oversight of Hurricane Sandy funds determined that FTA did not verify that grantees were using those funds solely for eligible expenditures, including an instance where a grantee had inappropriately spent over \$17 million that had to be returned to the Federal Government.<sup>13</sup> We also recently reported that FAA did not always award and administer contracts in accordance with the domestic content laws,<sup>14</sup> which direct Federal agencies, with certain exceptions, to purchase American-made materials and goods to strengthen our economic and national security.<sup>15</sup> This lack of compliance highlights another potential risk area for the Department as it strives to maximize the extent to which COVID-relief funding fulfills the goal of supporting our Nation's economic well-being.

In the coming months, we will continue our work to assess the Department's efforts to effectively monitor the use of its COVID-19 funds. Planned audits include assessing FAA's oversight of CARES Act-funded airport development contracts and evaluating whether other DOT or grantee contracts using COVID-19 funds were awarded and expended for their intended purpose and accurately tracked for transparency.

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## Appropriately Train and Manage Personnel Who Administer Federal Funds

Our previous reviews of DOT and grantee contracting activities also identified issues with the authorization and training of staff who award funds—within the Department and at recipient organizations. Given the distinct requirements associated with the COVID-19 funds, DOT must require that individuals administering agency or recipient awards have the appropriate authority and training to ensure compliance with applicable laws and regulations and that funds are used for intended purposes, an area in which our previous work has found gaps.<sup>16</sup> In other work, we found that two DOT agencies—representing

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<sup>12</sup> *Stronger Guidance and Internal Controls Would Enhance DOT's Management of Highway and Vehicle Safety R&D Agreements* (OIG Report No. ZA-2019-051), May 1, 2019.

<sup>13</sup> *FTA Can Improve Its Oversight of Hurricane Sandy Relief Funds* (OIG Report No. ZA2016077), July 21, 2016.

<sup>14</sup> Domestic content laws include the Buy American Act (BAA), 41 U.S.C. §§ 8301–8305, and Buy American Preference (BAP), 49 U.S.C. § 50101.

<sup>15</sup> *Gaps in Guidance, Training, and Oversight Impede FAA's Ability To Comply With Buy American Laws* (OIG Report No. ZA2021026), June 2, 2021.

<sup>16</sup> *MWAA's Weak Policies and Procedures Have Led to Questionable Procurement Practices, Mismanagement, and a Lack of Overall Accountability* (OIG Report No. AV-2013-006), November 1, 2012.

69 percent of the Department’s overall COVID funding—did not ensure that oversight support staff consistently documented their reviews or that resulting recommendations were tracked and resolved at the grantee and Federal levels.<sup>17</sup>

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## Ensuring the Availability and Integrity of DOT’s Systems for Tracking and Monitoring Federal Funds

Effective stewardship of COVID relief funds depends on DOT’s ability to effectively track and monitor spending, to detect errors in grant activities, and keep errors in expenditures low. These efforts require the Department to maintain the availability and integrity of its financial management systems.

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### Maintain the Availability and Integrity of DOT’s Systems for Tracking and Monitoring Federal Funds

A major possible risk area for the Department is maintaining the confidentiality, availability, and integrity of the financial management systems<sup>18</sup> that process CARES Act grants and monitor and disburse payments. Due to an increase in cyberattacks on Federal and private sector information systems since March 2020, we are currently assessing the security of the financial systems the Department uses to track and monitor COVID relief funds. For example, our review of FTA’s ability to mitigate threats from cyberattacks found security control weaknesses, including that the Agency does not require over 4,600 external users to use multifactor authentication, such as a username and password or a personal identification verification card, to access its financial management systems. Cyberattacks are among the biggest security threats facing the Federal Government today, as evidenced by a May 2021 Executive order that requires agencies to implement multifactor authentication within 180 days.

Given the multiple financial management systems involved in tracking COVID relief grants, the Department will face security risks in tracking and monitoring these funds. For instance, an attacker could exploit vulnerabilities to take control over certain systems, cause a denial of service attack, or gain unauthorized access

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<sup>17</sup> FTA Did Not Adequately Verify PATH’s Compliance With Federal Procurement Requirements for the Salt Mitigation of Tunnels Project (OIG Report No. ZA2016057), March 28, 2016; Opportunities Exist To Improve FRA and Volpe’s Acquisition and Use of Oversight Contractors (OIG Report No. ZA2019056), July 10, 2019; FTA Has an Opportunity To Improve the Integrity Monitor Program for Hurricane Sandy Grantees (OIG Report No. ZA2019064), September 9, 2019.

<sup>18</sup> FTA uses three financial management systems—Transit Award Management System, Financial Management System and ECHO-WEB, which interfaces with the DOT-wide financial management system, Delphi.

to critical files and data. To protect the integrity, availability, and confidentiality of sensitive information and mitigate risks to its financial management systems, DOT will need to effectively select, assess, and monitor its security controls and detect and correct weaknesses. For example, consistent updating of financial management systems with software patches will be vital whenever a security flaw is uncovered. Also, to mitigate risks to data availability, DOT must maintain adequate disaster recovery plans to quickly restore systems after unexpected disruptions. We will keep this committee apprised of DOT's progress in these and other areas when we complete our current audit work.

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## Maintain Compliance With Improper Payment Reporting

During previous reviews,<sup>19</sup> we found that some errors, such as improper payments, were caused by insufficient documentation, a program design or structural issue, or an administrative or process error made by State or local agency grantees. We also reported that DOT complied with the requirements of the Improper Payments Elimination and Recovery Act of 2010 and the Payment Integrity Information Act of 2019 and had reported an overall improper payment rate below 10 percent for each reviewed program and activity.<sup>20</sup> However, the drastic increase in disbursements and volume of transactions under the COVID relief statutes could make it difficult for DOT to keep its reported improper payments below the 10-percent threshold. Sustained focus on procedures to detect improper payments could help mitigate this risk.

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## Increasing Outreach and Education to Transportation Agencies To Prevent and Detect Fraud, Waste, and Abuse

The volume of COVID-19 relief funds and the speed with which they are disbursed puts them at a higher than usual risk for fraud, waste, and abuse by recipients. Given that these funds will be spent on multiple purposes, with

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<sup>19</sup> DOT's Fiscal Year 2019 IPERA Compliance Review (OIG Report No. FS2020029), April 27, 2020; DOT's Fiscal Year 2018 IPERA Compliance Review (OIG Report No. FI2019054), June 3, 2019; DOT's Fiscal Year 2017 IPERA Compliance Review (OIG Report No. FI2018055), May 14, 2018.

<sup>20</sup> See OIG Report No. FS2020029. The Payment Integrity Information Act of 2019 (PIIA), Public Law 116-117, superseded the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Pub. Law 111-204 (July 2010); see DOT's Fiscal Year 2020 Payment Integrity Information Act Compliance Review (OIG Report No. FI2021031), July 14, 2021.

disparate requirements and restrictions, existing risk assessments may not be sufficient. Based on our prior assessments of DOT's oversight of large funding amounts—such as through ARRA and other initiatives—early detection and intervention is essential to mitigate misuse of funds. Thus, it will be critical for all DOT agencies to implement data quality procedures for tracking and monitoring. We are reviewing financial datasets—from the Department and from other Government resources—to determine whether DOT agencies are using COVID-19 funds properly.

An important way to deter fraud is for DOT staff and grantees to be aware of certain "red flag" indicators typically associated with fraud schemes. For example, any mismarking or mislabeling of products and materials might indicate product substitution fraud; see exhibit B for descriptions of other fraud indicators. The best way to make individuals aware of these indicators is to conduct systematic fraud prevention education in the field. To that end, we are working with the Department to conduct outreach and education efforts to enhance understanding about how to recognize, prevent, and report potential fraud to the appropriate authorities, including our office.

Since March 2020, our Office of Investigations has conducted over 1,200 hours of outreach focusing on education and deterrence related to the Department's COVID-relief funds. In fact, this year we have almost doubled the hours we spent on COVID-relief outreach a year ago. In addition to hosting training events for our own investigators, we have conducted 139 COVID-funding-related outreach activities with DOT officials, regional modal partners, State grant recipients, and Federal law enforcement partners across the country—38 of which included information on fraud indicators. In addition, we are greatly involved with the work of the Pandemic Response and Accountability Committee, and we continue to seek out innovative methods of analyzing data and leveraging the experiences of others working on pandemic relief efforts across the inspector general community. These added outreach efforts will likely result in an increase in reporting of suspected mismanagement and indicators of criminal activity related to DOT-disbursed COVID-19 funds.

Our experience with the rapidly dispersed ARRA stimulus funds resulted in 24 investigations, 57 indictments, and 49 convictions representing over 38 years of incarceration and \$85 million in restitution, recoveries, forfeitures and fines. For example, one investigation revealed that from 2004 to 2010, a CEO of an FTA grantee conspired and embezzled Federal ARRA funds. The CEO was sentenced to 30 months of incarceration, 36 months of supervised release, and \$1.3 million in restitution. It will also be essential for DOT, when notified of wrongdoing by grantees or contractors, to take timely action to suspend and/or debar these individuals or firms that have defrauded the Government or are otherwise known to be irresponsible. By doing so, the Department can help protect other Federal programs from fraud and other wrongdoing by the same individuals and entities.

Timely action in response to indications of fraud will better protect against misuse of public funds by fraudulent or unethical firms or individuals in the future.

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## Conclusion

COVID-19 has had a wide-reaching impact on the transportation industry and our economy. In response, DOT has taken quick action to distribute COVID relief funds and implement requirements established by the CARES, CRRSA, and ARP acts. Our office is committed to assisting the Department in its efforts to maximize the efficacy of these funds and meet its mission in these exceptional times. By maintaining focus on the most significant risk areas and establishing robust internal controls, DOT can spend COVID relief funds effectively, prevent fraud, waste, and abuse, ensure compliance with the law, and carry out its safety mission. Meeting these goals will maximize the value of taxpayer dollars during this critical time.

In fulfillment of our own responsibilities pertaining to these funds, we will announce future work related to COVID oversight as needed and continue to deter and pursue wrongdoers who target COVID spending. We look forward to continuing to work with DOT in support of our shared goal to safeguard these critical funds from fraud, waste, and abuse and sustain our ongoing economic recovery.

This concludes my prepared statement. I will be happy to answer any questions you or other Members of the Committee may have.

## Exhibit A. COVID-19 Relief Funds Provided to the Department of Transportation, as of July 6, 2021

### Coronavirus Aid, Relief, and Economic Security (CARES) Act

DOT Agency	Funds Provided
Federal Aviation Administration	\$10,025,000,000
Federal Transit Administration	\$25,000,000,000
Federal Railroad Administration	\$1,018,250,000
Office of the Secretary of Transportation	\$57,753,000
Federal Motor Carrier Safety Administration	\$150,000
Maritime Administration	\$4,134,000
Office of Inspector General	\$5,000,000
<b>Total Amount Provided by the CARES Act</b>	<b>\$36,110,287,000</b>

### Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act

DOT Agency	Funds Provided
Federal Aviation Administration	\$2,000,000,000
Federal Highway Administration	\$10,000,000,000
Federal Transit Administration	\$14,000,000,000
Federal Railroad Administration	\$1,000,000,000
Office of the Secretary of Transportation	\$23,332,000
<b>Total Amount Provided by the CRRSA Act</b>	<b>\$27,023,332,000</b>

### American Rescue Plan (ARP) Act

DOT Agency	Funds Provided
Federal Aviation Administration	\$8,009,000,000
Federal Transit Administration	\$30,461,356,000
Federal Railroad Administration	\$1,700,000,000
Office of the Secretary of Transportation	\$3,000,000,000
<b>Total Amount Provided by the ARP Act</b>	<b>\$43,170,356,000</b>

Source: DOT Office of the Chief Financial Officer

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## Exhibit B. Red Flag Indicators for Common Fraud Schemes and How To Report Suspected Fraud

The following pages include brief descriptions of selected fraud schemes commonly seen on transportation projects, along with sample “red flag” indicators for each scheme. It is important to note that the presence of one or more indicators does not prove fraud and that the indicators shown are not all-inclusive for each of the schemes described.

### Bid Rigging and Collusion

In bid rigging and collusion schemes, contractors misrepresent the competition against each other when, in fact, they agree to cooperate on the winning bid to increase job profit. Watch for:

- Unusual bid patterns: too close, too high, rounded numbers, or identical winning margins or percentages.
- Different contractors making identical errors in contract bids.
- Bid prices dropping when a new bidder enters the competition.
- Rotation of winning bidders by job, type of work, or geographic area.
- 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.

### Materials Overcharging

In materials overcharging schemes, a contractor misrepresents how much construction material was used on the job and is then paid for excess material to increase job profit. Watch for:

- Discrepancies between contractor-provided quantity documentation and observed data, including 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 documentation where originals are expected.
- Irregularities in color or content of weight slips or other contractor documents used to calculate pay quantities.

## Time Overcharging

In a time overcharging scheme, a consultant misrepresents the distribution of employee labor on jobs in order to charge for more work hours or a higher overhead rate, to increase profit. Watch for:

- Unauthorized alterations to time cards and other source records.
- Billed hours and dollars 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 employee timecards.

## Product Substitution

In product substitution schemes, a contractor misrepresents the product used in order to reduce costs for construction materials. Watch for:

- Any mismarking or mislabeling of products and materials.
- Contractor restricting or avoiding inspection of goods or service upon delivery.
- Contractor refusing to provide supporting documentation regarding production or manufacturing.
- Photocopies of necessary certification, delivery, and production records where originals are expected.
- Irregularities in signatures, dates, or quantities on delivery documents.
- 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.

## Disadvantaged Business Enterprises (DBE) Fraud

In disadvantaged business enterprises schemes, a contractor misrepresents who performed contract work in order to appear to be in compliance with contract goals for involvement of minority or women-owned businesses. Watch for:

- 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.



## Quality-Control Testing Fraud

In quality-control testing schemes, 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. Watch for:

- 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.

## Bribery

In bribery schemes, a contractor compensates a government official to obtain a contract or permit contract overcharges. Watch for:

- Other government inspectors at the job site noticing a pattern of preferential contractor treatment.
- Government official having a lifestyle exceeding his/her salary.
- Contract change orders lacking sufficient justification.
- Oversight officials socializing with or having business relationships with contractors or their families.

Source: OIG

# U.S. DOT IG Fraud & Safety Hotline

[hotline@oig.dot.gov](mailto:hotline@oig.dot.gov) | (800) 424-9071

<https://www.oig.dot.gov/hotline>

## Our Mission

OIG conducts audits and investigations on behalf of the American public to improve the performance and integrity of DOT's programs to ensure a safe, efficient, and effective national transportation system.

### OFFICE OF INSPECTOR GENERAL

U.S. Department of Transportation  
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[www.oig.dot.gov](https://www.oig.dot.gov)