



ORDER

U.S. Department of
Transportation
Office of the Secretary
of Transportation

DOT 2300.2

11-20-2024

Subject: U.S. DEPARTMENT OF TRANSPORTATION FRAUD RISK MANAGEMENT
POLICY

1. **PURPOSE:** The purpose of this policy is to establish and communicate the Department of Transportation's (DOT) approach to fraud risk management including: identifying, evaluating, preventing, detecting, monitoring, and reporting fraud risk. This policy is designed to promote active mitigation of fraud risk by requiring Operating Administrations (OAs) maintain fraud risk profiles and conduct periodic fraud risk assessments.

Proactive fraud risk management advances the integrity, transparency, and accountability of DOT's operations. It differs from Office of Inspector General (OIG) investigations of potential fraud, waste, abuse, and corruption. In all circumstances, indications of fraud, waste, abuse, and corruption must be referred to the appropriate authorities for investigation whether from internal stakeholders within DOT or committed by external parties.

2. **CANCELLATION:** This Order does not cancel a previous policy or Order.
3. **APPLICABILITY:** This policy applies to all DOT employees, OAs, and program offices.
4. **BACKGROUND:** The Payment Integrity Information Act of 2019 (PIIA) carries forward legislative requirements from the Fraud Reduction and Data Analytics Act of 2015 (FRDAA) to effectively design, implement, and operate an internal control system that addresses fraud risk. Proactive fraud risk management is meant to facilitate a program's mission and strategic goals by ensuring that taxpayer dollars and government services serve their intended purposes.
5. **REFERENCES:** The Department issues this policy in compliance with, and in support of the authority of the following laws, regulations, and guidance:
 - a. Federal Managers' Financial Integrity Act (FMFIA) of 1982, as codified in Section 3512 of Title 31 of the United States Code (U.S.C.) - Effective date: September 8, 1982.
 - b. DOT Order DOT8000.1C, *Office of Inspector General Audit and Investigation Report Findings, Recommendations, and Follow up Action* - Effective date: July 20, 1989.

- c. DOT Order DOT8000.3B, *Inspector General Awards for Disclosures of Fraud, Waste, Or Mismanagement* - Effective date: February 1, 1990.
- d. 5 CFR Part 2635, *Standards of Ethical Conduct for Employees of the Executive Branch* - Effective date: October 17, 1990.
- e. Chief Financial Officers Act of 1990 (Public Law 101-576) – Effective date: November 15, 1990.
- f. DOT Order DOT5100.4C, *Policy for Meeting Federal Managers' Financial Integrity Act Requirements* - Effective date: November 12, 1996.
- g. U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the "Green Book") - Effective date: September 10, 2014.
- h. GAO's *A Framework for Managing Fraud Risks in Federal Programs* - Effective date: July 28, 2015.
- i. Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* - Effective date: July 15, 2016.
- j. Payment Integrity Information Act (PIIA) of 2019 (Public Law 116-117) - Effective date: March 2, 2020.
- k. DOT Order DOT8000.8A, *Office of Inspector General Investigative Responsibilities* - Effective date: November 20, 2020.
- l. OMB Memorandum M-21-19, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement* - Effective date: March 5, 2021.

6. **DEFINITIONS:**

- a. **Abuse:** Behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice given the facts and circumstances. This includes the misuse of authority or position for personal gain or for the benefit of another. Abuse can occur in financial or non-financial settings.
- b. **Fraud:** The act of obtaining something of value through willful misrepresentation; determined through the judicial or other adjudicative systems. Fraud could appear in many different forms and types, such as fraudulent financial reporting, misappropriation of assets, and/or corruption.
- c. **Fraud Risk:** Exists when individuals have an opportunity to engage in fraudulent activity, have an incentive or are under pressure to commit fraud, or can rationalize committing fraud. Fraud risk can exist even if actual fraud has not yet been identified or occurred.
- d. **Mismanagement:** A substantial failure of planning, organizing, and controlling. It may involve poor decisions, inept operations, and inefficient or ineffective practices, systems, or controls. Mismanagement creates a substantial risk to an agency's ability to accomplish its mission.
- e. **Stakeholders:** Internal and external parties that interact with the Department including full-time and part-time employees, contractors, recipients, sub-recipients, beneficiaries, customers, and vendors.
- f. **Waste:** The act of using or expending resources carelessly, extravagantly, or to no purpose.

7. **POLICY: This policy applies to all Secretarial Offices and DOT OAs per DOT Order 1320.16C, “U.S. Department of Transportation Directive System.”**

DOT Assistant Secretary for Budget and Programs and the Chief Financial Officer (CFO) directs Secretarial Offices and DOT OAs to follow policy and guidance as described in the policy. Secretarial Offices and DOT OAs are responsible for adhering to DOT’s policy, and that appropriate measures are taken to support a well-managed fraud risk management program. Where applicable OAs may develop supplemental internal fraud risk management guidelines that more directly address specific business needs of the OA. The guidelines may be more restrictive but may not be more lenient. An OA-specific guideline shall not conflict with the policy outlined in this document and a copy shall be provided to the Office of Financial Management (B30).

The policy establishes fraud risk management roles and responsibilities and provides guidance for DOT program offices regarding fraud risk management activities to be performed within existing internal control and risk management processes.

DOT is committed to preventing, detecting, and responding to the risk of fraud in its programs and activities by building robust governance structures, controls, and processes to support the efficient and effective use of taxpayer resources. Proactive fraud risk management is meant to facilitate DOT’s mission and strategic goals by ensuring that taxpayer dollars and government services serve their intended purposes. DOT program managers have the primary responsibility to establish an integrity-focused culture and manage risks of fraud, to ensure that Federal programs fulfill their intended purpose, funds are spent effectively, and assets are safeguarded. All DOT stakeholders must support the culture of integrity and prevention of fraud, waste, abuse, and mismanagement.

- a. **Fraud Risk Assessment:** DOT program managers should conduct periodic fraud risk assessments for their individual programs and business processes. These assessments should be performed at least triennially with relevant stakeholders for the purpose of identifying, analyzing, and responding to key fraud risks across the Department. A change¹ to the OA programs or business processes may require DOT program managers to reassess fraud risk susceptibility before the next scheduled review. DOT OAs, in collaboration with DOT Office of Financial Management, should determine whether a change is significant enough to warrant reassessment of program or business process’ fraud risk.

DOT OAs should evaluate their individual program and business process characteristics to define and tailor the scope of its fraud risk assessments. DOT program managers are responsible for assessing internal and external² risks when

¹ Examples of events that may trigger an off-cycle risk assessment include but are not limited to, natural disasters, national emergencies, or legislative changes that introduce new or modify program structures or business processes that could affect fraud risk.

² External fraud risk may arise when an OA relies on an external party’s internal control system to administer DOT funds or perform business processes for the OA. External parties may include relevant suppliers, contractors, service organizations, federal entities, state and local government, regional authorities, grant recipients, and the public.

considering program and business process specific fraud risk factors³ and performing an analysis of exposure to fraud risk. These assessments should involve relevant stakeholders and include a review of relevant fraud prevention and detection policies and procedures, consideration of types of fraud that have occurred and may occur, the identification of any potential fraud risks, and an evaluation of the likelihood and impact of each of the identified fraud risks.

- b. **Management's Response to Fraud Risk:** DOT OAs must proactively develop and effectively maintain a fraud risk profile to document mitigation actions relevant to the key fraud risks identified during risk assessment activities. The mitigation actions should include, but are not limited to, the following actions:
- 1) Establish fraud prevention and detection controls to mitigate the identified fraud risks, as well as ensure the timely detection of fraud risk events within program operations and business processes.
 - 2) Establish ongoing fraud risk monitoring activities, including assessments of the internal controls in place to mitigate and prioritize response to identified fraud risks.
 - 3) Develop and implement cost-effective corrective action plans to address any internal control gaps or deficiencies pertaining to fraud risks.
 - 4) Communicate the results of fraud risk mitigation activities and assessments, lessons learned, and corrective actions taken to the relevant stakeholders.
- c. **Fraud Investigation and Adjudication:** Per the Standards of Ethical Conduct for Employees of the Executive Branch⁴ and the OIG's Investigation policy, DOT Order 8000.8A, DOT employees shall disclose waste, fraud, abuse, and corruption to appropriate authorities. DOT OIG has jurisdiction to conduct criminal, civil, and administrative investigations in compliance with all relevant laws and regulations related to fraud prevention and detection in DOT programs, grants, contracts, and operations, as well as allegations of criminal activity and misconduct of DOT employees. A judicial or other adjudicative system determines whether an act is in fact fraud; this determination is beyond management's professional responsibility for assessing fraud risk. If such a judicial or other adjudicative system determines any DOT employee to be guilty of fraudulent activities, this individual may become subject to disciplinary actions, including termination, legal action, and restitution.

8. **ROLES AND RESPONSIBILITIES:** While Federal program managers maintain primary responsibility for managing fraud risk within their programs, all personnel, regardless of their level, are responsible for helping to defend the Department from fraud and misconduct.

a. **DOT Assistant Secretary for Budget and Programs and Chief Financial**

³ Statement on Auditing Standards No. 99: Consideration of Fraud - The American Institute of Certified Public Accountants defines fraud risk factors as events or conditions that indicate an incentive or pressure to perpetrate fraud, provide an opportunity to commit fraud, or indicate attitudes or rationalizations to justify a fraudulent action. A program or business process's complexity, resources, maturity, and experience of personnel are examples of characteristics which could affect fraud risk.

⁴ 5 CFR 2635.101(b)(11).

Officer: Oversees all financial management activities for the Department, as outlined by the Chief Financial Officers Act of 1990, provides policies on all Department's financial management activities, and serves as the designated senior official responsible for the Department's fraud risk management program.

Office of Financial Management (B-30):

- 1) Manages the Department's fraud risk management program and ensures alignment to financial management, enterprise risk management, and internal control activities.
- 2) Develops and issues overall guidance on fraud risk management activities. This includes staying current on Federal policies and regulations, and emerging technologies.
- 3) Provides, maintains, and communicates DOT fraud risk management policy, guidance, and associated implementation plans to OAs and relevant stakeholders.
- 4) Acts as a fraud risk management liaison between DOT and external parties (such as the OIG, GAO, and OMB).
- 5) Ensures timely and accurate submission of fraud reporting in accordance with Departmental and government-wide reporting requirements.

- b. **DOT OA CFOs:** Ensures compliance with DOT Order 2300.2: U.S. Department of Transportation Fraud Risk Management and guidelines including designating the OA's Fraud Risk Program Manager.

OA Fraud Risk Program Manager:

- 1) Develops and maintains an OA-level fraud risk profile in accordance with all applicable Federal guidance, regulations, and DOT policy to document and manage fraud risks.
- 2) Coordinates program and business process-level fraud risk assessments in accordance with all applicable Federal guidance, regulations, and DOT policy to identify and evaluate fraud risks within their programs.
- 3) Monitors implementation of internal controls and corrective actions to mitigate identified fraud risks.
- 4) Ensures timely and accurate submission of OA fraud reporting in accordance with Departmental and government-wide requirements.

- c. **DOT Office of Inspector General:** Appoints an official or office to serve as liaison to B-30 with respect to fraud risk management activities. The OIG will notify B-30 of such liaison and of any subsequent change in the identity of the liaison.

Victoria Wassmer
Assistant Secretary for Budget and Programs
and Chief Financial Officer

Date