

The Real Cost of DBE Fraud

Michelle McVicker

Principal Assistant IG for Investigations, U.S. DOT OIG

Presentation Overview

- DOT OIG Office of Investigations
- DBE Program Fraud
- DBE Fraud Case Studies
- Questions

DOT OIG Office of Investigations

- Conducts criminal and civil investigations of fraud and other allegations affecting DOT Operating Administrations, programs, contractors, and grantees
- Partner with Federal, State, and local law enforcement agencies and prosecutors

DOT OIG Resources

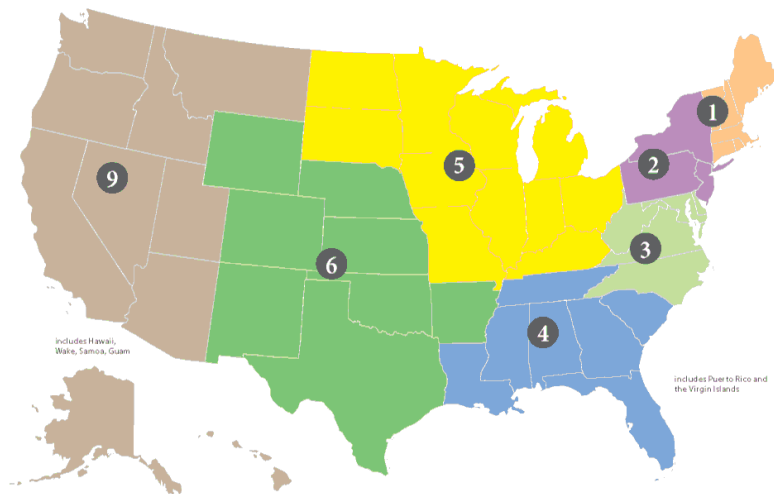
Special Agents with Federal law enforcement arrest authority

Investigative tools (subpoenas, search warrants, undercover ops)

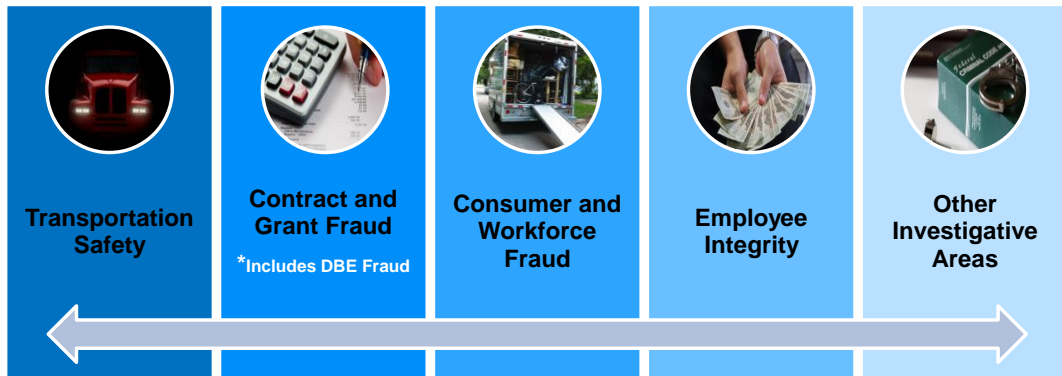
Expertise in fraud investigations and financial/forensic accounting

Computer forensics unit

DOT OIG Regional Investigative Offices



What do we investigate?

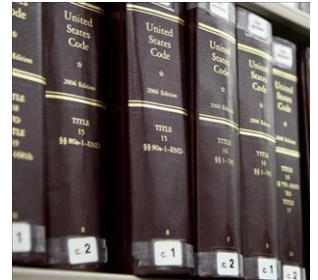


Common Fraud Schemes

Product substitution	False claims and overcharging	DBE fraud
Quality control testing fraud	Bribery and kickbacks	Racketeering
Embezzlement and theft	Bid rigging and collusion	Prevailing wage

Federal Criminal Statutes

- **Fraud involving aircraft parts** (18 USC 38)
- **Bribery of public officials** (18 USC 201)
- **False claims** (18 USC 287)
- **Conspiracy** (18 USC 371)
- **Theft from a Federal program** (18 USC 666)
- **False statements** (18 USC 1001)
- **False statements on Federal highway project** (18 USC 1020)
- **Mail fraud** (18 USC 1341)
- **Wire fraud** (18 USC 1343)
- **Obstruction of justice** (18 USC 1519)
- **Extortion** (18 USC 1951)
- **Racketeering** (18 USC 1956)
- **Money laundering** (18 USC 1957)



U.S. DOT DBE Program

- DOT spends about **\$50 billion** per year on construction programs
- About 10 percent of this amount goes to DBEs, about **\$5 billion**
- Law allows only eligible DBEs to perform work funded by DBE program
- DOT Operating Administrations that administer the DBE Program:

FHWA

FTA

FAA

DBE Fraud Schemes

FRONT COMPANY

- Company exists only on paper
- Work done by the prime or non-DBE subcontractor
- DBE is paid a small fee

PASS-THROUGH

- Company qualified to be a DBE, but performs no commercially useful function
- Some or all work done by the prime or non-DBE subcontractor
- DBE is paid a small fee

DBE fraud is often associated with other crimes such as bribery, extortion, money laundering, and tax fraud.

DBE Fraud Indicators

DBE owner lacks background, expertise, or equipment to perform subcontract work

Employees shuttle back and forth between prime contractor and DBE payrolls

Names on equipment and vehicles covered with paint or magnetic signs

Orders and payment for supplies made by individuals not employed by DBE

Prime contractor facilitates purchase of DBE-owned business

DBE owner is never present at job site

Prime contractor always uses the same DBE

Financial agreements between prime and DBE contractors

Absence of written contracts

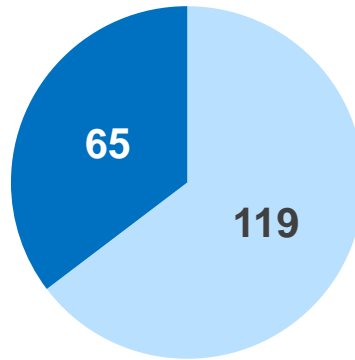
Prime contractor and DBE have joint bank accounts



DOT OIG's DBE Fraud Investigations

Active Grant and Procurement Fraud Investigations

DBE fraud investigations represent **35%** of DOT OIG's active grant and procurement fraud cases.



■ Other Grant and Procurement Fraud ■ DBE Fraud

DOT OIG's DBE Fraud Investigative Results

Since January 1, 2011, DOT OIG's DBE fraud investigations have resulted in:

- Over **\$245 million** in financial recoveries, restitution, and forfeitures
- **425 months** of incarceration
- **1,161 months** of probation and supervised release
- **1,340 hours** of community service



Impact of DBE Fraud

- Denies subcontracting opportunities to legitimate DBEs
 - Cannot grow and build their businesses
 - Cannot gain crucial experience
- Discourages potential legitimate disadvantaged businesses from entering the DBE program
- Prevents DBEs from graduating from the DBE program
- Diverts taxpayer funds to purposes other than intended by Congress



The Real Cost of DBE Fraud

13

DBE FRAUD CASE STUDIES



Marikina/Schuykill Products Inc. (2014)

- Largest DBE fraud in U.S. history: **\$136 million over 15 years**
- Schuykill Products Inc. (SPI), a concrete bridge beam manufacturer, ran **339 projects** using Marikina as a pass-through DBE
- **"We lied big time!"**
- Vice President of Marikina



The Real Cost of DBE Fraud

15

Marikina/Schuykill Products Inc. (2014)



Dennis Campbell

Vice President of SPI
2 years in prison
Debarred by FHWA (3 years)



Romeo Cruz

Co-Owner of Marikina
3 years in prison
Debarred by FHWA (5 years)



Tim Hubler

Vice President of SPI
3 years in prison
Debarred by FHWA (5 years)



Ernie Fink

Co-Owner of SPI
4 years in prison
Debarred by FHWA (3 years) and PENNDOT (12)



Joe Nagle

Co-Owner of SPI
7 years in prison
Debarred by FHWA (3 years) and PENNDOT (12)

The Real Cost of DBE Fraud

16

Marikina/Schuykill Products Inc. (2014)

- Marikina and Schuykill officials ordered to pay **\$119.4 million** in restitution
- **2 DBEs decertified**
- **9 individuals and companies debarred** from bidding on FHWA and/or PENNDOT contracts for between 3 years and 12 years



Karen Construction/Weber Steel (2016)

- **\$18.7 million** criminal DBE fraud scheme
- Weber Steel, a bridge construction contractor, ran **224 projects** using Karen Construction as a pass-through DBE
- Used **phony invoices** to mask profit transfers from Karen Construction to Weber Steel



Karen Construction/Weber Steel (2016)



Weber Steel Company

3 years corporate probation
Weber Steel, Dennis Weber, and Dale Weber jointly liable for
\$1 million in restitution to FHWA

Dennis Weber

President of Weber Steel
6 months of home confinement
5 years of probation

Dale Weber

Vice President of Weber Steel
6 months of home confinement
5 years of probation

Judy Noll

Owner of Karen Construction
3 years probation
\$336,000 in restitution to FHWA

HD Supply/ING Civil/RAMSCO (2015/16)

- Prime contractors falsely represented using a DBE (American Indian Builders & Suppliers Inc.) but obtained supplies from non-DBEs—such as HD Supply Waterworks Ltd., the **Nation's largest supplier** of water, sewer, fire protection, and storm drain products
- Settlements to resolve civil False Claim Act allegations: HD Supply agreed to pay almost **\$5 million**; ING Civil and RAMCSO agreed to pay more than **\$1 million**



One impacted project was the **Bridge Avenue Bridge** Project in Cohoes, NY

Weapons Found During Search and Arrest



Tech 9 submachine gun found during DBE search warrant operation in PA



Rifles, shotguns, AK47 found in closet during household goods extortion arrest

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

Contact the OIG Hotline

Call: 1-800-424-9071

(can be anonymous or confidential)

Email: hotline@oig.dot.gov

Mail: DOT Inspector General
1200 New Jersey Ave SE
West Bldg, 7th Floor
Washington, DC 20590

