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## DEPARTMENT OF TRANSPORTATION // *Crack Down on Fraud*

In November 2004 the Department of Transportation (DOT) Office of Inspector General (OIG) announced an audit of engineering and design firms working on state DOT contracts funded by federal-aid grants. The goal of these audits was to review the accuracy and adequacy of design firms overhead statements prepared by the design firms CPA. The OIG was to also look at executive compensation to establish that it falls within the FAR guidelines and to assess its reasonableness. Initially there were six states participating on a voluntary basis, presently there are forty states involved. Onsite visits by the OIG will include a visit to the firms CPA firm. Up to 100 design and engineering firms are to be selected and are to receive questionnaire letters requesting information and records about overhead rates and senior executive compensation.

OIG's preliminary work with nine firms suggested multiple issues with unallowable expenses being included in the overhead calculations and a pattern of unreasonable compensation allocations. As pointed out in our September 2005 GCNewsletter, just because an individuals compensation may be below the government's FAR guideline amount or the amount capped by the state does not mean that it is reasonable and therefore allowable.

Exactly one-year later on November 17, 2005, the DOT announced a major crackdown on fraudulent contractors in a meeting with the Acting Deputy Attorney General Paul McNulty. McNulty is head of the Procurement Fraud Working Group (See "As the Pendulum Swings - Ethics and Business Conduct" in the November GCNewsletter at [www.gaffeycpa.com](http://www.gaffeycpa.com)). Since June of this year the DOT has permanently debarred one company, referred twenty-two others for debarment or suspension and placed four contractors under review.

If you receive DOT grants or contracts it may be time for an assessment of your pricing and costing policies and practices to ensure compliance with the appropriate Federal Acquisition Regulation (FAR) and Transportation Acquisition Regulation (TAR) requirements.



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7918 Jones Branch Drive, Suite 750  
McLean, VA 22102

703-748-5808 • 703-226-1122 fax

[www.GaffeyCPA.com](http://www.GaffeyCPA.com)