



Lawrence F. Alwin, CPA
State Auditor

A Special Investigations Unit Report Regarding the Texas Department of Transportation

November 23, 2004

Members of the Legislative Audit Committee:

As the result of a State Auditor's Office Special Investigations Unit (SIU) investigation, the Public Integrity Unit of the Travis County District Attorney's Office obtained an indictment on September 28, 2004, that charged Orlando Teran, chief executive officer of Sunland Engineering Inc. (Sunland) with one count of securing execution of a document by deception. The indictment is charged as a third-degree felony, which carries a maximum penalty of 10 years of imprisonment and a fine not to exceed \$10,000. The SIU investigated allegations of fraud reported by the Texas Department of Transportation (TxDOT) in compliance with Texas Government Code, Section 321.022 – Coordination of Investigations.

The SIU investigation substantiated allegations reported by TxDOT as a result of its Management Directed Review dated August 13, 1999, and identified 10 additional questionable invoices submitted by Sunland. For the period of February 1998 through October 1999, the SIU identified employees whose timesheets were altered by comparing original employee timesheets maintained in the personnel files of Sunland with actual invoices and supporting documentations submitted to TxDOT for reimbursement. Voluntary statements from these former and current Sunland employees corroborated the results of the comparison, as did Sunland field survey and accounting records.

Mr. Teran, or his staff at his direction, allegedly fabricated or falsified timesheets submitted to TxDOT as supporting documentation of work performed in accordance with Sunland's state contract requirements. TxDOT relied on these false documents and approved payments to Sunland in excess of \$139,000. The aggregate loss to the State identified by SIU was \$72,646.

If you have any questions, please contact Linda Newsom, Senior Investigator, or John Weber, Manager, Special Investigations Unit, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

cc: Mr. Erik Nielsen, Assistant District Attorney, Public Integrity Unit, Travis County District Attorney's Office
Mr. Michael W. Behrens, P.E., Executive Director, Texas Department of Transportation
Mr. Owen Whitworth, CPA, CIA, Director, Audit Office, Texas Department of Transportation

The Texas Department of Transportation (TxDOT) is responsible for the safe, effective, and efficient movement of people and goods. TxDOT's 28 divisions and offices form a central resource for offices around the state. They develop and implement policy, manage statewide programs, and provide other support and services for the districts. TxDOT's 25 geographic districts are responsible for highway development. Texas's variety of climates and soil conditions place differing demands on highways, so design and maintenance, right-of-way acquisition, construction oversight, and transportation planning are primarily accomplished locally. District staff are familiar with their unique area demands and with needs of the local people.

Sunland Engineering Inc. was a contracted surveyor for the Houston District, which oversees six counties. The Houston District alone contracts with about 30 survey providers with a maximum contract limit of approximately \$400,000 per provider. Providers usually meet or exceed the maximum contract limits over each two year period.

The Special Investigations Unit investigates reports of illegal activity involving state agencies and universities.

Texas Government Code §321.022 requires state agencies and universities to report suspected fraud or unlawful conduct to the State Auditor's Office if there are facts that point to fraud or unlawful conduct.

To report suspected illegal activity, call 1-800-TX-AUDIT (1-800-892-8348), send a fax to (512) 936-9400, visit www.sao.state.tx.us, or mail information to the State Auditor's Office, Attn: SIU, P.O. Box 12067, Austin, Texas 78711.

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