U.S. Department of Transportation

BUDGET ESTIMATES

FISCAL YEAR 2008

OFFICE OF INSPECTOR GENERAL

SUBMITTED FOR THE USE OF
THE COMMITTEES ON APPROPRIATIONS

DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
FISCAL YEAR 2008 BUDGET ESTIMATES

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INSPECTOR GENERAL'S OVERVIEW
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

The Inspector General Act of 1978, as amended, established the Office of Inspector General (OIG) as an independent and objective organization within the Department of Transportation (DOT). The Inspector General (IG) is committed to fulfilling its statutory mission and assisting the Secretary, Members of Congress, and senior DOT officials in achieving a fast, safe, efficient, and convenient transportation system at the lowest cost consistent with the national objectives of general welfare, economic growth and stability, and the security of the United States.

OIG is divided into two major functional units: the Office of the Principal Assistant Inspector General for Auditing and Evaluation and the Office of the Assistant Inspector General for Investigations; and four support units: the Office of Legal, Legislative, and External Affairs; Office of Quality Assurance Reviews and Internal Affairs; Office of Financial, Administrative and Information Technology Management; and Office of Human Resources. The Assistant Inspectors General and Deputy Assistant Inspectors General are supported by Headquarters and regional staff.

A more detailed description of OIG's mission, objectives, and organizational structure is included in this submission.

FISCAL YEAR (FY) 2008 BUDGET REQUEST

OIG's FY 2008 budget request is for $73.274 million in total budgetary resources in support of 410 Full Time Equivalents (FTE). This represents a net budgetary increase of $1.557 million and a staffing decrease of 10 FTE from the FY 2007 President's Budget.

Of the $73.274 million, we request $66.4 million in direct appropriations and $6.874 million in reimbursable funding from the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), the Federal Aviation Administration (FAA), and the National Transportation Safety Board (NTSB). Reimbursable funding from FHWA and FTA supports 54 FTE.

Reimbursable funding is requested as follows:

- $4.024 million from FHWA. $3.524 million to support audit and investigative efforts relating to highway issues and $500,000 to partially fund contractual audit services to perform the audit of the Highway Trust Fund's financial statements (the remaining $1 million needed to fund this contractual audit is included in our FY 2008 direct funding request);

- $2 million from FTA to support audit and investigative efforts relating to transit issues;

- $750,000 from FAA. $500,000 to partially fund contractual audit services to perform the audit of FAA's financial statements (the remaining $1 million needed to fund this contractual audit is included in our FY 2008 direct funding request) and $250,000 to fund contractual audit services to perform a Statement on Auditing Standards (SAS) 70 audit of DOT's Delphi Financial Management System; and

- $100,000 from NTSB to acquire contractual audit services to perform the audit of NTSB's financial statements.

OIG's requested level of **$73.274 million** in total budgetary resources in support of **410 FTE** is essential to carry out our oversight mission mandated under the Inspector General Act of 1978, as amended; conduct audits and investigations requested by the Secretary, the Office of Management and Budget, and Congress; and support the Department's strategic and organizational goals. Our request is further broken out as follows:

Personnel Compensation and Benefits

OIG requires $55.395 million to support 410 FTE (a 10 FTE decrease from the FY 2007 President's Budget staffing level of 420 FTE). This represents a $2.030 million increase from the FY 2007 President's budget and includes:

- $1,647,000 for FY 2008 pay raises (3.0%);

- $342,000 for annualization of FY 2007 pay raises (2.2%);

- $960,000 for annualization of FY 2007 career-ladder promotions and with-in grade increases;

- $435,000 resulting from two additional compensable days in FY 2008 as compared to FY 2007;

- $979,000 **decrease** resulting from 10 fewer FTE; and

- $375,000 **decrease** in reimbursable funding.

Operating Costs

OIG's operating cost request is $17.879 million. This represents a $473,000 decrease from the FY 2007 President's Budget. The estimated costs for e-Government initiatives included in this request are $4,148 for FY 2007 and $4,360 for FY 2008. These initiatives lead to the development of common solutions at reduced costs and are especially beneficial to OIG in the areas of financial management, human resources management, integrated acquisition, and e-Authentication.

ACCOMPLISHMENTS

In carrying out our oversight responsibilities, our overall goal is to assist DOT in reaching its strategic goals. OIG performance is measured by the successful accomplishment of its statutory responsibilities prescribed by the Inspector General Act and the completion of specific actions to support Departmental goals.

As such, our entire budget request is placed under the Departmental organizational goal of Organizational Excellence. However, our work assists the Operating Administrations in meeting their performance targets in all Departmental strategic and organizational goals.

Below is a brief statistical overview of our accomplishments as well as a summary of our work as it relates to the strategic and organizational goals in DOT's Strategic Plan. Attached with our budget submission is OIG's current FY 2008 Performance Plan which includes historical tables for OIG performance measures.

During FY 2006, OIG audits directly resulted in the recovery of over $71 million from improper payments. In addition, OIG investigations led to over $48 million in court-ordered fines, restitutions, and recoveries. These amounts alone (over $119 million) significantly exceed the entire FY 2006 OIG actual budget authority (direct plus reimbursable) of $68.7 million. Further, during FY 2006, we recommended that the Department recover $100 million in improper payments and put $793 million to better use.

In addition, during FY 2006, OIG issued 76 audit reports; presented testimony before Congress on 11 occasions; and received 43 Congressional requests for audits or investigations. During this same period, investigations by OIG's investigative staff resulted in 171 indictments; 178 convictions; and 216 administrative actions.

SAFETY

Improving safety throughout the transportation network is the premier goal of DOT. In support of this strategic goal, OIG will continue to provide oversight of safety programs in all modes of transportation.

Highway crashes are the cause of 95 percent of all transportation-related fatalities, 99 percent of transportation injuries, and are the leading cause of death for people ages 4 through 34. Alcohol remains the single largest contributing factor in fatal crashes.

To support the Department in its goal to improve the safety of surface transportation, OIG commits a high level of investigative and audit resources to surface transportation safety issues, particularly in the areas of the Commercial Driver's License (CDL) Program; the National Highway Traffic Safety Administration's (NHTSA) seat belt use strategies and oversight of alcohol-impaired driving programs; and railroad safety issues associated with rail-highway grade crossings.

In addition, aviation safety is of vital importance to the Department. DOT is committed to safer skies at home and abroad by developing technology to improve safety levels as well as sharing safety data throughout the aviation community. OIG continues to devote substantial investigative and audit resources in the oversight of aviation safety programs, particularly in the areas of operational errors; air carriers' use of non-certified repair stations; and investigations related to aviation regulation and certification.

Following are recent examples of our work in the transportation safety area.

Aviation

Observations on FAA's Oversight of Aviation Safety

In September 2006, the Acting Inspector General testified before Congress on FAA's oversight of the U.S. aviation system. He addressed three areas that are important for strengthening FAA's oversight and enhancing aviation safety: (1) shifting FAA's oversight to risk-based systems, (2) addressing key safety

issues for an industry and an Agency in transition, and (3) reducing the risk of accidents on the ground and in the air.

He stated FAA is on the right path in developing risk-based oversight programs, but continues to face challenges in advancing these programs. FAA must ensure it is prepared to respond to the challenges of an evolving aviation environment with both its oversight systems and its inspection resources as it continues efforts to implement risk-based oversight systems. Two primary indicators of system safety are runway incursions (potential collisions on the ground) and operational errors (potential collisions in the air), and reducing these incidents are key performance goals for FAA which require heightened attention at all levels of the Agency.

FAA's Aging Airplane Safety Rule

At the request of the Ranking Member of the House Committee on Transportation and Infrastructure, we reviewed FAA's implementation of the Aging Airplane Safety Rule. Our review determined that while FAA and the industry have made important progress in implementing procedures for monitoring the aging aircraft fleets for larger air carriers, more work needs to be done to protect the safety of cargo operators and passengers flying on smaller aircraft.

Runway Incursions

There has been an increase in the number and severity of runway incursions recently at three major airports - Boston Logan, Chicago O'Hare, and Philadelphia International. During the period from FY 2005 through April 2006, Boston Logan had 18 incidents (1 severe), Chicago O'Hare had 12 incidents (3 severe), and Philadelphia had 13 incidents (1 severe involving a collision). We have initiated an audit to assess the actions taken by FAA to (1) identify and correct the causes of recent runway incursions at these airports, and (2) address those issues that could affect safety system-wide. Based on concerns expressed by Senator Boxer and a recent close call between two aircraft on the runway at Los Angeles International Airport, that airport has also been included in this audit.

Aviation Safety Investigative Work

In FY 2006, investigations in aviation safety resulted in 34 indictments, 50 convictions, and $8.2 million in fines, recoveries, and restitution. We currently have 91 ongoing investigations in the area of aviation safety. These types of investigations will remain one of OIG's investigative priorities.

Following are recent examples of our work in this area:

- The former owner/operator of United Aircraft & Electronics, Inc. (UAE), Anaheim, CA, was sentenced to 15 years and 8 months in jail and ordered to pay nearly $5.5 million in restitution on numerous felony charges, including conspiracy and aircraft parts fraud. The individual previously pled guilty to charges that, between 2000 and 2002, he falsely certified that a flight-critical part for Bell helicopters called a 'grip assembly' (which connects the helicopter tail rotor blades to the hub) sold by UAE was made of steel, rather than aluminum. He also sold used turbine blades and other critical parts for jet aircraft; the parts were falsely certified as new and airworthy. Both he and UAE have been debarred from Government contracting for 50 years.

  A UAE salesman/purchaser who also pled guilty in the false certification case, was sentenced to 6 years and 6 months in jail and ordered to pay nearly $5.5 million (jointly with the former owner/operator of UAE) and $14,794 in restitution to the Internal Revenue Service (IRS). Both individuals were also ordered never to engage in any aircraft-related business without DOT approval.

- Paul R. Brilles, Inc., doing business as PB Fasteners, Gardena, CA, paid the Government $2.5 million pursuant to a settlement agreement with the Government and two realtors under a whistleblower qui tam case involving allegedly nonconforming aircraft fasteners used on a variety of military and commercial aircraft. PB Fasteners allegedly submitted claims to the Government and other entities/customers for the sale of fasteners when PB Fasteners had failed to perform magnetic particle inspections required by contract specifications.

- The owners of M&M International Aerospace Metals, Inc. (M&M), Fort Lauderdale, FL, pled guilty to fraud involving aircraft or space vehicle parts in interstate commerce, false statements, and wire fraud. The amount of sub-standard metals they pled guilty to supplying to customers totals $854,379.

  M&M supplied raw metals to the aerospace community which included the U.S. Navy, U.S. Air Force, U.S. Department of Energy, Lockheed-Martin-LM Aeronautics, Boeing, Honeywell, Teledyne-Brown Engineering, Northrop-Grumman, NASA and its subcontractor, United Space Alliance. M&M employees routinely changed specifications for materials they received from their suppliers to match customer requirements. Thus they created false test reports that set forth false characteristics and specifications of these metals. M&M's customers then used these non-conforming and sub-standard materials in various aerospace grade aluminum and stainless steel plates, pipes, flat

stock, and bars. One such order was intended for use in the international space station.

Surface Transportation

Oversight of the Commercial Driver's License Program

We conducted an audit of actions taken by the Federal Motor Carrier Safety Administration (FMCSA) to counter CDL fraud. We specifically focused on any actions taken against individuals suspected of obtaining their commercial driver's license fraudulently.

We found FMCSA had implemented actions to mitigate CDL fraud. However, FMCSA was not tracking the status and disposition of suspect drivers or requiring the states to establish procedures to take action against suspect CDL holders. From 1998 to 2003, 27 states identified 15,032 suspect CDL holders and took appropriate actions, including removal of CDL privileges, against 8,293 (55 percent) of those. We could not determine the status of the remaining 6,739 (45 percent) suspect drivers based on information that the states provided, and FMCSA was not tracking their status.

We recommended FMCSA (1) direct the states to report on the final disposition of all suspect drivers identified by the states; (2) determine that state CDL programs are out of compliance, under Federal regulations, if the state fails to impose adequate internal controls to prevent fraud or fails to take or propose necessary corrective action; and (3) impose sanctions, under Federal regulations, against those states that fail to establish adequate fraud control measures for their CDL programs.

Motor Carrier Safety Program

We conducted an audit of FMCSA's implementation of the Motor Carrier Safety Improvement Act of 1999. In our 1999 audit, we made 14 recommendations to strengthen enforcement of the safety regulations and improve data used to regulate motor carriers.

In our 2006 audit, we found that FMCSA has made positive strides in improving motor carrier safety through its increased emphasis on enforcement, implementation of the new entrant program, and completion of numerous rulemakings.

However, to fully implement our recommendations and to further advance efforts to reduce large truck fatalities, we recommended FMCSA (1) strengthen the

repeat violator policy by enhancing controls to ensure that all violations meeting the current three strikes criteria are assessed the maximum penalty allowed by law, and developing a procedure to count toward a pattern of violations all acute and critical violations that FMCSA discovers during future compliance reviews and either documents for inclusion on the Notice of Claim or obtains the motor carrier's signed admission; (2) take firm action to increase compliance with the census data updating requirement by intensifying efforts to fine motor carriers that resist compliance or by taking other measures that can be demonstrated to be effective; (3) establish a system to track attendance for the crash data training course and visits to the crash data website, and compare the results to changes in crash data reporting by states to assess whether training efforts are successful; (4) rapidly implement the planned actions in the Crash Data Improvement Project plan and establish milestones for improving states' compliance with standardizing crash reports and data elements; (5) develop milestones for completing the required legislative recommendations for the Large Truck Crash Causation Study issued in March 2006; (6) continue monitoring state safety audit activity to ensure timely completion of all safety audits; (7) continue ongoing efforts to identify needed changes in the new entrant program to increase the enforcement component that would improve safety; and (8) expeditiously complete the driver medical certificate rulemaking.

NHTSA's Management Review Process

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) requires OIG to assess NHTSA's management review program and report on best practices. A management review assesses the efficiency and effectiveness of a state's organizational, program management, and financial management systems and practices for strengthening highway safety programs.

We have initiated an audit to evaluate NHTSA's management reviews of state highway safety grant programs and identify best practices. NHTSA administers several highway safety formula and incentive grant programs that fund state safety programs such as increasing use of seat belts and child passenger safety seats, preventing and reducing drinking and driving, and improving safety data. Total highway safety formula, incentive, and transfer grant funding for FYs 2005 and 2006 was $1.2 billion and NHTSA requested $584 million for FY 2007.

In conducting our audit, we will answer the following questions: (1) Did NHTSA develop its management review process in accordance with the General Accountability Office's April 2003 recommendations and is NHTSA following its own procedures? (2) To what extent do NHTSA's management reviews address performance measures used by the states? and (3) Are there any best practices

used by other agencies that NHTSA could adopt to improve its management review process?

Federal Railroad Administration (FRA) Safety Issues

We are currently conducting a follow-up to our November 2005 report to assess the adequacy of FRA's oversight of railroads' reporting of grade crossing collisions and FRA's analysis of data in its national accident database.

Motor Carrier Safety Investigative Work

OIG continues our investigative work in the area of motor carrier safety. We currently have 44 open investigations concerning motor carrier safety issues. These include investigations relating to commercial driver's license fraud and the falsification of hours-of-service logs, maintenance logs, and drug and alcohol testing records.

Illegal activities and fraud involving CDLs continue to be a serious concern. Criminal investigations of CDL fraud show that third-party examiners have been particularly susceptible to fraud. OIG and law enforcement agencies have identified suspected CDL criminal activity in 27 states since 1998, and we believe CDL programs in other states are vulnerable.

In FY 2006, motor carrier safety investigations resulted in 36 indictments, 39 convictions; and 2.6 million in fines, recoveries, and restitution.

Following are recent examples of our motor carrier safety investigative work:

- A former Illinois Governor was sentenced to 78 months in prison and ordered to pay $603,348 in restitution as a result of his conviction on charges of racketeering, conspiracy, mail and tax fraud and making false statements. Additionally, the governor's long-time personal associate and a businessman/lobbyist in Chicago, IL, was sentenced to 41 months in jail and ordered to pay fines and restitution totaling over $1.7 million. A federal jury convicted the two men in April 2006. The underlying joint-agency investigation 'Operation Safe Road' initially focused on bribes in exchange for commercial driver's licenses for unqualified truck drivers when the former Governor was the Secretary of State.

- A former certified third-party tester for the Michigan Secretary of State (MSOS), pled guilty to making false statements related to certificates he issued for applicants of CDL and other drivers licenses. Our investigation found that over an approximate two-year period, the individual conspired with the now

out-of-business proprietors of A&K Truck Driving School to falsely certify students as qualified on driving and skills tests. The former certified third-party tester admitted to facilitating more than 25 CDL and other license exams in exchange for payment of $100 per certificate. In some cases, he never saw the students he certified. MSOS records indicate that over 900 individuals received licenses through his certificates and has required re-testing in order to retain Michigan licenses. FMCSA has followed up on those license holders who subsequently moved to about 26 different states.

- A former driver for Montreal-based Garfield Container Transport, Inc., was sentenced on December 4, 2006 to 4 months in jail, 3 years supervised release, and a $9,200 in fines for his conviction related to a September 1999 fatal tractor trailer accident. A tractor trailer he was driving jumped a guardrail resulting in an accident that killed four occupants of a minivan, including a four year-old boy and his parents. Our investigation found that the driver falsified his FMCSA regulated logbooks on a nearly daily basis between August 2 and September 22, 1999 to conceal that he was driving more than the maximum driving hours in violation of federal highway safety regulations.

REDUCED CONGESTION

OIG will continue to provide oversight of DOT's multi-billion dollar investments in transportation infrastructure to help DOT reduce congestion and other impediments to using the Nation's transportation system.

OIG will continue to provide oversight of FAA's actions involving increasing capacity as well as modernizing the National Airspace System, carrying out cost-effective and timely acquisitions, and improving business operations by controlling costs.

Strong audit and investigative oversight remains crucial in areas relating to highway and transit infrastructure improvements. A priority for oversight and stewardship in the Department has been major projects, which are those projects with estimated costs greater than $500 million or with high Congressional or Departmental significance.

The number of FHWA and FTA major projects has grown substantially since 2000, from 16 active projects in 2000 to 47 active or approved projects in 2006. In addition, states have proposed 80 new major highway projects and FTA is considering 12 other major transit projects. The combined cost of the 2006 active and proposed major projects for both FHWA and FTA totals over $230 billion. OIG audits and investigations, based on the increasing number of allegations of

contract and procurement fraud on transit and highway infrastructure projects, will yield substantial cost savings.

In addition, we will be continuing to provide oversight in areas relating to Amtrak and the future of inter-city passenger rail.

Following are recent examples of our work in this area.

Aviation

Perspectives on the Progress and Actions Needed to Address the Next Generation Air Transportation System

Our office has testified before Congress three times since March 2006 on FAA's Joint Planning and Development Office (JPDO) and the plans for the next generation air transportation system (NGATS).

We testified there are a number of compelling reasons for moving toward the next generation air transportation system. The current air transportation system has served the nation well, but FAA reports that the current system (or business as usual) will not be sufficient to meet the anticipated demand for air travel. Last year, over 700 million passengers used the system, and this number is forecasted to grow to over 1 billion by 2015. Because of the forecasted growth in air travel, the JPDO needs to continue to work on what can be done much sooner than the 2025 timeframe.

The JPDO's mission is critical given that FAA conducts little long-term air traffic management research and the fact the most of the Agency's current $2.5 billion capital account goes toward keeping things running. However, the cost of NGATS remains uncertain and much work remains to refine costs, align diverse agency budgets, and set expectations for airspace users with respect to milestones, equipage, and anticipated benefits.

Our testimony focused on three points: (1) JPDO's critical role in leveraging resources in light of recent trends in FAA's Research, Engineering, and Development and Facilities and Equipment accounts; (2) JPDO's progress to date in aligning agency budgets and plans; and (3) actions that will help the JPDO keep moving forward in both the short- and long-term and shift from planning to implementation.

Use of Airport Revenues by the Greater Orlando Aviation Authority

We conducted an audit of airport revenues at the Greater Orlando Aviation Authority, which operates two airports in Orlando, Florida: the Orlando International Airport and the Orlando Executive Airport.

We found the City has diverted $1.7 million in Airport revenues by overcharging the Aviation Authority for police pension fund contributions and a radio communications system upgrade. In addition, we determined that the Aviation Authority could be losing as much as $144,000 per year in rental income from a lease with the U.S. Department of Agriculture for a plant inspection station. Also, we identified approximately $493,000, over a five-year period, in net parking fine proceeds that have been retained by the City instead of being used to offset the Aviation Authority's costs of issuing the tickets. We made a number of recommendations to FAA to address these issues and to collect past and future reimbursements.

FAA's Prioritization of Airport Improvement Program (AIP) Funds

We have initiated an audit of FAA's AIP. The AIP supports the airport system by providing grant funds primarily to enhance safety and security, maintain the infrastructure, increase capacity to accommodate more passenger and cargo traffic, and mitigate airport noise in surrounding communities. The AIP appropriations for FY 2005 and FY 2006 were about $3.5 billion each year. The AIP program is currently authorization through FY 2007.

FAA data shows that the number of domestic passengers increased from 628 million in FY 2004 to 685 million in FY 2005. As a result, there is a growing demand for major airport capacity projects. With FAA budgets exceeding Aviation Trust Fund revenues, FAA faces difficult decisions about which projects to fund and which projects to delay.

The objective of the audit is to evaluate the effectiveness of FAA's policies and procedures for ensuring that the highest priority airport improvement projects are funded.

FAA's Oversight of Inactive Airport Improvement Program Grant Obligations

We have initiated an audit of inactive grant obligations in FAA's AIP. FAA's national guidance calls for AIP grant close-out within four years of award. FAA policy also requires quarterly reviews of inactive grants and the de-obligation of unneeded funds.

Given the current financial challenges facing the FAA, timely close-out of inactive AIP grants and de-obligation of unneeded funds could provide important funding support. As of October 1, 2005, FAA reported that approximately $11 billion was obligated to nearly 6,200 AIP grants.

Our objectives of this audit are to (1) assess the effectiveness of FAA's policies and procedures for identifying and de-obligating unneeded AIP grant obligations, and (2) determine the extent to which AIP grant obligations are no longer needed and should be de-obligated and put to better use on other projects or returned to the Aviation Trust Fund.

FAA's Air Traffic Control Modernization Efforts

At the request of Congress, we have initiated an audit of FAA's major acquisitions. FAA spends approximately $2.5 billion annually on various capital projects, including new air traffic control systems. This audit is an update to our May 2005 report.

Our objectives are to examine (1) recent changes in the cost, schedule baselines, and expected benefits of FAA's major acquisition programs; (2) overall trends affecting FAA's $2.5 billion capital account; and (3) how existing projects are being impacted by plans for the next generation air traffic management system.

Surface Transportation

Central Artery/Tunnel Project

The NTSB reauthorization, signed into law in December 2006, included a provision that directs OIG to provide independent oversight of the activities performed by FHWA and the Commonwealth of Massachusetts for the project-wide safety review initiated as a result of the July 2006 fatal collapse of the ceiling in a section of the Central Artery/Tunnel Project (CA/T). According to this legislation, the Inspector General shall ensure that such oversight is comprehensive, complete, and carried out in a rigorous manner.

In addition, the Commonwealth is conducting a Stem to Stern safety review of the structural and life safety systems of the Boston metropolitan highway system, including the entire CA/T Project. Stem to Stern activities are occurring separately from reopening activities. The Stem to Stern effort is divided into two phases. The Phase I review was concluded on November 17, 2006 with the release of a findings report, which we are currently evaluating. The Phase II review will include safety priorities identified in Phase I. Our role has been to

assess plans, monitor the progress of the review, and evaluate reports to ensure that corrective actions or mitigation plans are developed to address identified risks.

Lower Manhattan Reconstruction

In July 2006, the Acting IG testified before Congress on the importance of vigorous oversight of major transportation projects like those underway in the reconstruction of Lower Manhattan.

Our testimony focused on the following oversight issues to consider as the reconstruction of Lower Manhattan continues and key lessons learned that could be applied to other major transportation projects: (1) DOT must ensure active oversight of Lower Manhattan projects until they are completed; (2) key lessons learned by our investigators are that Federal, state, and local law enforcement agencies must build coalitions to combat fraud in large transportation projects and take aggressive action against those who defraud the government; and (3) a key lesson learned from our auditors is that a set of sound management and oversight tools should be used by Federal, state, and local agencies to ensure that large transportation projects are completed effectively and efficiently.

In addition, we have initiated an audit to monitor the five high-priority projects that are being funded out of the $4.55 billion provided by the Federal Government to reconstruct and enhance Lower Manhattan's transportation infrastructure. The primary objectives of this effort will be to assess (1) the status of each project, including costs, funding, schedules, and management, and (2) any risks that may adversely impact their completion. Also, as part of the monitoring effort we will look at issues related to FTA's Lower Manhattan Recovery Office's oversight of these projects and the activities of the project management oversight contractors that are assigned to each project.

Amtrak and Intercity Passenger Rail

During the past fiscal year, pursuant to the requirements of the FY 2006 Appropriations Act, we transmitted four quarterly reports to the House and Senate Appropriations Committees estimating the savings Amtrak achieved from operational reforms. Our fourth FY 2006 quarterly assessment released in October 2006, reported the savings Amtrak has achieved from operational reforms and our evaluation of DOT's efforts to set and collect access fees from commuter railroads for use of Amtrak-owned infrastructure on the Northeast Corridor (NEC).

We reported Amtrak achieved $51.2 million in total savings through July 2006 from all its FY 2006 operational reforms, of which $5.1 million were from newer reforms not included in the $586 million subsidy baseline. These overall savings

from reform contribute to Amtrak's current better-than expected financial performance. Through August, Amtrak's operating loss was $122 million below the year-to-date projected loss in the $586 million subsidy baseline. As such, barring any unexpected losses, Amtrak will achieve the required savings to operate within its FY 2006 appropriation. Amtrak estimates its financial performance will continue to improve and, as a result, expects to end FY 2006 with a $209 million cash balance. Also, Amtrak expects to add to this balance another $11 million from claims settlements.

Since our July report, FRA has completed its assessment of the annual capital and maintenance costs to Amtrak associated with the use of Amtrak-owned infrastructure on the NEC by commuter authorities. By letter dated October 10, 2006 FRA notified the House and Senate Appropriations Committees and relevant Subcommittees that the Department has decided not to pursue the collection of commuter access fees that they were directed to collect by the FY 2006 Appropriations bill. This decision was based on FRA's analysis which concluded that, on the whole, the commuter authorities on the NEC paid their fully allocated share of maintenance and capital costs in FY 2006.

We anticipate an ongoing requirement to prepare reports on Amtrak's operational reforms. Final FY 2006 results will be reported in our first FY 2007 quarterly report released in January 2007. We will also establish in our January report a FY 2007 operating subsidy baseline against which Amtrak's progress will be measured.

Looking toward FY 2007 and FY 2008, Amtrak will need to maintain progress in implementing operational reforms to continue to reduce its reliance on Federal operating subsidies. It will be necessary for Amtrak to move beyond the "low-hanging fruit" and begin to implement more difficult reforms in food and beverage service, sleeper car service, route restructuring, state payments, and labor contracts. Critical to Amtrak's ability to increase its efficiency and reduce unit costs will be the development of a managerial accounting system. Amtrak is developing a system that will replace its legacy activity-based Route Profitability System with one that will support both avoidable and full-cost methodologies and provide business-line and route level activity-based analysis.

In addition, at the request of the Democratic Members of the House Transportation and Infrastructure Committee's Amtrak Working Group, we have initiated an audit of the Amtrak Board of Directors. Our audit will examine the rules, procedures, and authorities under which the Board operates, whether the Board has set long-term goals and performance objectives, and whether it has a process in place to oversee, and hold management responsible for, progress towards these

goals. In addition, we will audit the Board members' expenses from 2002 to the present.

Finally, we plan to conduct an evaluation of the potential benefits of high-speed rail on the NEC. The objectives of our evaluation are to (1) estimate the revenue and congestion relief benefits associated with different levels of high-speed rail on the NEC, and (2) determine whether high-speed rail would pay for itself through increased revenues, congestion relief, or a combination of the two.

Load Ratings and Postings on Structurally Deficient Bridges on the National Highway System

We conducted an audit of FHWA's oversight of structurally deficient bridges on the National Highway System, specifically inspections, load ratings, and maximum weight postings.

We found (1) state inspections in the three states reviewed (Massachusetts, New York, and Texas) were thorough, but postings for load ratings and maximum weight limitations were not accurate; (2) errors in load rating and weight posting in a nationwide sample; (3) FHWA's oversight and compliance reviews were limited in effectiveness; and (4) FHWA needs to develop a data-driven, risk-based approach to bridge oversight.

We recommended FHWA revise its annual compliance reviews of state bridge programs to address the most serious deficiencies found during bridge inspections and develop a risk-based, data-driven approach and metrics to focus on ensuring that states maintain up-to-date maximum weight limit records, post accurate maximum weight limit signs on bridges in a timely manner, and coordinate with other states to improve the accuracy and completeness of the Bridge Inventory and reporting of results to Congress. FHWA should also evaluate greater use of computerized bridge management systems to improve states' bridge inspection programs and enhance the accuracy of bridge load ratings.

Growth in Highway Construction and Maintenance Costs

In response to a request from the U.S. House of Representatives Committee on Transportation and Infrastructure, we are conducting an audit analyzing the recent growth in highway construction and maintenance costs.

SAFETEA-LU authorized $244.1 billion for funding highway and public transportation projects from FY 2005 through 2009. Just over a year later, dramatic cost increases have already led some state planners to cancel highway

projects due to insufficient funds. Further, it is unclear what direction highway costs will follow in the future.

The objectives of this audit are to determine: (1) the extent of recent cost increases for highway construction and maintenance projects, (2) whether the cost increases are the product of transitory factors or indicative of longer term structural changes that need to be reflected in future transportation infrastructure funding plans, and (3) the degree to which these cost increases are subject to regional variations.

Dulles Corridor Metrorail Project

OIG has initiated a major project monitoring effort on the Dulles Corridor Metrorail Project. The primary objectives of this ongoing effort will be to monitor (1) the status of the Project, including costs, funding, schedules, and management; and (2) any risks that may adversely impact its completion.

The Dulles Corridor Metrorail Project proposes to extend Metrorail service in the Washington Metropolitan area to Dulles International Airport and beyond. The Project, currently under the control of the Metropolitan Washington Airports Authority (MWAA), is segmented into two distinct phases estimated to cost approximately $2 billion each.

DOT has a vested interest in ensuring that the Dulles Corridor Metrorail Project is completed efficiently and effectively. Of particular interest is the large amount of Federal funding committed to it as well as DOT's lease agreement with MWAA to manage Dulles International Airport, Ronald Reagan Washington National Airport, and the surrounding lands.

FHWA and FAA Inactive Obligations

Over the past eight years, we have identified FHWA obligations of over $1.2 billion in grant funds that were kept idle on completed, canceled, or modified highway projects. Our audits helped make these funds available for use on active transportation projects. FHWA Division Offices completed reviews of inactive obligations in 2005 and reported $757 million of unneeded obligations had been released by the states. We have also identified $35 million of inactive FAA obligations that were not associated with valid liabilities and could also be freed-up to fund active projects. FAA agreed to deobligate the entire $35 million.

FTA's Oversight of Grants

We have initiated an audit of the Virginia Department of Rail and Public Transportation (a FTA grantee) to determine whether (1) grant drawdowns are

adequately supported and whether grantees are managing grant receipts in accordance with Federal requirements, (2) costs charged to the grants are allowable and accurate, (3) FTA's oversight mechanisms adequately identify issues associated with the grantees' financial and grant management, and (4) required financial status of grants and progress reports accurately reflect grantees' grant activity and are submitted timely.

This is the first in a series of audits focusing on FTA's oversight of grants. Currently, FTA manages 1,135 active grantees with 6,106 active projects. Total funding for these projects amounts to more than $54 billion.

Protecting Highway Trust Fund Revenues

Responding to a Senate Appropriations Committee directive, the OIG consulted with the Treasury Inspector General for Tax Administration (TIGTA) on its audit of the IRS management of Highway Trust Fund monies used to develop an excise fuel tax reporting system for enhancing motor fuel tax enforcement. TIGTA found that the IRS was not maximizing DOT's nearly $40 million investment in this system. Specifically, the IRS was not using the system to identify potential instances of fuel tax evasion and to ensure the collection of the appropriate excise tax revenues. As a result, DOT has not received any appreciable return on its investment in the system.

In November 2005, we recommended that FHWA become much more involved with the stewardship and oversight of Highway Trust Fund monies that were provided to the IRS. This would help ensure the effective use of planned future investments of about $122 million for continued system development, operations and maintenance, and other compliance activities.

Household Goods Moving Fraud

In May 2006, the Acting Inspector General testified before Congress on household goods moving fraud. He stated since 2000, we have investigated alleged household goods fraud committed against about 8,000 victims nationwide by 25 household goods carriers along with their officers and employees. These investigations resulted in 90 convictions and nearly $16 million in fines, restitution, and other monetary recoveries. The offenders were sentenced to jail terms totaling over 175 years, with some receiving prison terms exceeding 12 years.

The criminal conduct we have targeted through our investigations consists of holding a customer's household goods hostage while demanding significantly

larger sums of money than quoted. In SAFETEA-LU, there is now a specific criminal statute that makes holding household goods hostage a Federal felony.

Based on our review of the new SAFETEA-LU provisions and audit work we have carried out in other areas of FMCSA's programs and operations, the Acting Inspector General made the following three recommendations for FMCSA in the near term as it moves to better protect consumers. FMSCA should: (1) promptly complete its work to make consumer complaint information on household goods carriers available to the public in time for this year's moving season; (2) ensure state enforcement personnel use their authority when possible to place commercial vehicles out of service in cases of unregistered or suspended carriers that hold household goods hostage or commit other fraud; and (3) do more to implement the SAFETEA-LU provision which allows states to enforce Federal consumer protection provisions for individual shippers, as determined by the Secretary.

Contract and Grant Fraud Initiatives

In FY 2006, contract and grant fraud related investigations resulted in 78 indictments, 41 convictions, and $35.4 million in fines, restitution, and recoveries. We currently have 227 ongoing investigations in the area of contract and grant fraud in DOT programs and operations. Of these open cases, 171 involve contract and grant fraud on highway and transit infrastructure projects.

OIG, along with DOT, is focusing on disadvantaged business enterprise (DBE) fraud. One example of this type of fraud involves prime contractors who conspire with false front DBEs in order to obtain contracts and meet required DBE participation criteria. At times, this is little more than a laundering operation, and the false front DBE does little or no work at all. This type of crime defrauds the very integrity of the DBE program and harms legitimate DBEs. We currently have 48 alleged DBE fraud schemes in 19 states under investigation.

Following are some recent examples of our contract and grant fraud investigative work:

- FHWA's Tennessee Division was reimbursed $20 million by the Tennessee Department of Transportation (T-DOT) as a result of its earlier finding that the federally-funded project was not constructed or operated in accordance with the project's plan. As proposed, the $26.6 million parking garage project (including $20 million in FHWA funds) was supposed to include transportation offices/waiting areas and accommodate passenger transfers between city buses or trolleys and automobiles, with either free parking or monetary incentives provided for transit passengers. Our investigation and a T-DOT audit disclosed that the 1,700-space parking garage was operated for-profit by a

franchise of the NBA Grizzlies team, based on an agreement with the City of Memphis.

- The former president of SEAREX, Inc. agreed to a $5 million consent judgment for submitting false claims to the U.S. Government to obtain approximately $78 million in loan guarantees under the U.S. Maritime Administration (MARAD) Title XI loan program. The judgment stems from an OIG investigation predicated by a qui tam action. The investigation determined that in a Title XI application to MARAD, representatives of SEAREX submitted a fraudulent financial statement to MARAD, which contained a false valuation of a license to utilize a jacking system design. SEAREX attempted to produce four oil exploration lift boats to sell to the oil industry. However, the conceptual design was complex and the former president had limited experience in this area. SEAREX encountered numerous financial set backs, expending vast amounts of the money on developing the boat and shipyard rental fees. SEAREX completed one boat and was not able to complete the other three.

- Williams Brothers Construction Co., Inc., Houston, TX agreed to a $3 million federal civil recovery to resolve claims that it violated DBE program contracting requirements by using two concrete-supply DBE companies which it controlled and by claiming DBE contracting credit for equipment lease expenses incurred by the two DBE subcontractors for equipment owned by an affiliate of the companies. Williams Brothers has also entered into a separate administrative agreement with the Department of Transportation involving the hiring of a DBE compliance monitor and an agreement by Williams Brothers to voluntarily contribute assistance and other services to the Texas Department of Transportation's DBE Supportive Services Program.

- APAC Atlantic, Inc. (APAC), Greensboro, NC, agreed to pay $2.25 million settling a civil action for false asphalt testing. Our investigation revealed that six asphalt plant technicians employed by APAC had falsified tests on several federally funded highway construction projects in the Greensboro area and as a result sub-standard asphalt may have been used in several projects. APAC management conducted an internal investigation and fired the six employees. In addition to the monetary settlement, an agreement was reached with APAC so that certain highway projects carry an extended materials warranty. If stripping or deterioration of the highway occurs, the warranty ensures that APAC would replace the asphalt. APAC also agreed to an extensive quality control and compliance program requiring APAC, at their expense, to employ an independent monitor for quality control testing.

- JMG Excavating Co. (JMG), Pottstown, PA, pled guilty to mail fraud related to a DBE pass-through scheme on federally-funded transit contracts. The investigation found between August 1997 and February 2004, JMG obtained eight contracts from the Southeastern Pennsylvania Transit Authority (SEPTA) totaling about $7.8 million which required compliance with the DBE program. JMG circumvented those requirements by paying a certified DBE, Pullins Dump Truck, a 2.5% 'fee' on all DBE subcontracted work (totaling approximately $1.27 million) that was actually performed by JMG, but billed to SEPTA as DBE work. JMG was sentenced to pay over $1.27 million in restitution to SEPTA and ordered to serve five years probation. JMG was also debarred from doing business with the government for five years.

GLOBAL CONNECTIVITY

International trade in transportation goods and services plays an important role in the Nation's economic well-being. DOT's global connectivity strategies endeavor to facilitate an international transportation system that promotes economic growth and development. OIG will continue to provide oversight of DOT programs and initiatives in this area.

Following are recent examples of our work in the area of global connectivity.

Airline Customer Service Commitment Follow-up Review

At the request of the Chairman of the House Subcommittee on Aviation, we conducted a review on the performance of U.S. air carriers in implementing provisions of the Airline Customer Service Commitment since the issuance of our initial 2001 report.

This follow-up review focused on the following Commitment provisions: (1) notification of delays and cancellations, (2) accommodating passengers with disabilities and special needs, (3) frequent flyer program issues, and (4) overbooking and denied boardings. Our review also followed up a promise made by the Air Transport Association (ATA) member airlines to establish quality assurance and performance measurement systems to measure compliance with the Commitment provisions and conduct internal audits. We also reviewed how DOT has used the additional resources Congress appropriated to oversee and enforce air travel consumer protection requirements.

Overall, we found that the ATA airlines' customer service plans are still in place to carry out the provisions of the Commitment and that the Commitment provisions are still incorporated in their contracts of carriage, as we recommended in our prior review. This is important because unlike DOT regulations, which are

enforced by the Department and may result in administrative or civil penalties against an air carrier, contracts of carriage are enforceable by the customer in court actions against the air carriers.

We also found the airlines need to (1) resume efforts to self-audit their customer service plans; (2) emphasize to their customer service employees the importance of providing timely and adequate flight information; (3) focus on the training for personnel who assist passengers with disabilities; (4) provide straightforward, comprehensive reporting on frequent flyer award redemptions; and (5) improve the handling of bumped passengers.

We found DOT is using its additional resources to oversee and enforce air travel consumer protection requirements with a focus on investigations and enforcement of civil rights issues, including complaints from passengers with disabilities. However, when DOT discovers violations and assesses penalties, it almost always forgives the penalty if the air carrier agrees to mitigate the conditions for which the penalty was assessed. DOT's follow-up monitoring of compliance with these conditions was limited, and in some cases there was no follow-up monitoring by DOT.

We made a series of recommendations to the Department to strengthen its oversight and enforcement of air traveler consumer protection provisions.

Airline Industry Metrics

We issued the eighth in a series of periodic updates to our aviation industry performance report. The performance metrics were developed in 2002 as a mechanism for monitoring aviation industry trends, including domestic demand and capacity, aviation system performance, airline finances, and air service in small communities.

In our update, we listed the most significant trends that have emerged since we issued our last report in June 2005: (1) fuel costs continued to escalate, driving up operating costs; (2) despite fuel costs, major passenger carriers improved their financial condition by reducing capacity and increasing fares; (3) flights were more crowded; (4) the Midwest and Northeast lost the most air service since 2000; (5) capacity reductions were most prominent in small communities; and (6) aviation delay rates have not declined despite a reduction in flights.

Small Community Aviation Delays and Cancellations

At the request of the Senate Committee on Commerce, Science, and Transportation; Subcommittee on Aviation, OIG conducted an audit to determine

and quantify whether flights originating in small communities are delayed or cancelled at a rate that is disproportionately higher than flights from larger airports. The Committee also requested that we explain the roles of the FAA and the airlines in determining which flights are delayed or cancelled during periods of reduced airport capacity or excessive demand.

Our analysis found that delay rates were essentially the same for small and large communities. However, both the length of delays and cancellation rates were higher for flights from small communities, and this difference was statistically significant.

In addition, we found when capacity is constrained, the airlines and FAA work together to balance demand with available capacity. If constraints are severe, FAA may moderate demand by temporarily halting flights or delaying the pace of arriving flights. Under the latter case, FAA assigns delayed arrival times to flights in the order in which they are originally scheduled to arrive; the airlines then have some flexibility to manage the delay by swapping the order of delayed flights, cancelling flights and moving others up in the queue, or trading vacated slots with other airlines. While FAA can assign delays, only an airline can choose to cancel a flight.

ENVIRONMENTAL STEWARDSHIP

DOT is working to achieve a balance between environmental challenges and the need for a safe and efficient transportation network. OIG will continue to provide oversight of Federal transportation actions as they relate to this strategic objective.

Shipments of hazardous materials (HAZMAT) pose a threat to public safety if improperly handled. Because of the significant danger posed to the traveling public and to the environment from the illegal shipment of HAZMAT, we have made the investigation of illegal transportation of these items a high priority.

While pipelines are among the safest modes for transporting liquids and gases, the nature of their cargo is inherently dangerous, and pipeline failures can pose an immediate threat to people and communities. The Pipeline Safety Improvement Act of 2002 requires OIG to periodically report to Congress DOT's progress in implementing our prior safety improvement recommendations and to identify options for DOT to consider in accelerating implementation.

Following are recent examples of our work in this area.

Pipeline Safety Testimony

In March and April 2006, our office testified before Congress on the progress and remaining challenges in strengthening pipeline safety. Our testimony stated the Pipeline and Hazardous Materials Safety Administration's (PHMSA) Office of Pipeline Safety (OPS) is making good progress in implementing Congressional mandates and improving pipeline safety, but it is not an end state because operators are in the early stages of implementing integrity management programs; initiatives are underway to strengthen the safety of natural gas distribution pipeline systems; and clearer lines of authority are needed to address pipeline security and disaster response.

In September 2006, we issued our audit on Integrity Threats to Hazardous Liquid Pipelines. We reviewed PHMSA's Office of Pipeline Safety's oversight of hazardous liquid pipeline operators' processes for mitigating and repairing threats to pipeline integrity. We found that pipeline operators had repaired all 409 threats we examined, with about 98 percent of the repairs completed within established timeframes. Similarly, OPS and its state partners in overseeing operator compliance with the IMP rule had conducted one or more integrity management inspections of 86 percent (215 of 249) of hazardous liquid pipeline systems as of January 2006. Even more important, those inspected pipeline systems represent approximately 98 percent of all hazardous liquid pipeline miles in or potentially affecting high-consequence areas. We reported while we acknowledge the progress being made in identifying, repairing, and overseeing integrity threats, several challenges still remain. These include the need to improve the accuracy of operator annual reports submitted to OPS and to ensure the effective use of pipeline inspection technology, or smart pigs.

We recommend PHMSA (1) ensure that integrity management inspection teams have implemented the new guidance on verifying integrity threat data in operator annual reports, and (2) identify what actions will be taken over the next year to (a) oversee operators' pig testing and analysis activities and (b) facilitate the adoption of industry standards and funding of research and development.

HAZMAT Investigative Work

In FY 2006, investigations of illegal HAZMAT transportation resulted in 10 indictments, 35 convictions, and $1.9 million in fines, restitution, and recoveries. We currently have 53 ongoing investigations concerning allegations of illegal transportation of HAZMAT.

Following are some recent examples of our HAZMAT investigative work:

- An OIG investigation found that over 1,200 cylinders (e.g., medical oxygen tanks and firefighter air packs) serviced by Fire Safety Products Inc. (FSPI), Christiansburg, VA were falsely certified as having been retested. Testing either was not conducted or was inadequate due to improperly trained FSPI employees and/or poorly calibrated test equipment. Customers included hospitals, nursing homes, and fire departments. Failure to perform accurate periodic hydrostatic retesting of gas cylinders places the lives of users at risk of injury or death due to explosion or malfunction. FSPI was ordered to pay $62,500 in fines and restitution for violating HAZMAT regulations regarding testing and certification of compressed gas cylinders, and for mail fraud in billing customers for the false certifications. FSPI's owner/vice-president was fined $20,000 and a FSPI Manager was also fined. FSPI agreed to pay an additional $80,000 fine under a civil settlement. In addition, FSPI was required to surrender their PHMSA retest authority for a period of five years.

- The president and registered agent of H&G Import/Export of Fort Lauderdale (H&G) was ordered to forfeit two Piper aircrafts valued at a combined $150,000 and sentenced to two years in prison for illegally transporting radioactive HAZMAT and for making false representations to the Government. Our investigation disclosed that he contracted with Bahamas Oil Refining Company to transport radioactive Iridium-192 to and from the Bahamas. H&G was not licensed or certified to handle or transport radioactive HAZMAT. The individual never submitted HAZMAT manifests required by law, nor did he disclose the HAZMAT (which was shipped from the Bahamas to Fort Lauderdale and hidden in a wing compartment of the aircraft) to Customs officials.

SECURITY, PREPAREDNESS AND RESPONSE

DOT is responsible for ensuring that the national transportation system remains operable in the face of natural and man-made disasters. DOT also needs to ensure the rapid recovery of transportation in all modes from intentional harm or natural disasters. Our Nation's transportation network must not only move millions of people and tons of cargo daily, but also must remain a vital link for Department of Defense mobilization requirements.

In support of the security, preparedness and response strategic objective, OIG performs audits and investigations in a variety of areas dealing with the Nation's aviation, surface, and maritime transportation security, security of DOT's critical computer systems, including air traffic control systems and other transportation

communication networks; security at DOT facilities; and DOT preparedness and response relating to emergencies affecting the transportation sector.

Following are some recent examples of our work in these areas.

Information Security Management

We issued a report on our annual review of DOT's Information Security Program for FY 2006 as required by the Federal Information Security Management Act (FISMA). DOT maintains one of the largest portfolios of information technology systems among Federal civilian agencies; it is therefore essential that the Department protect these systems, along with their sensitive data. In FY 2006, DOT's information technology budget totaled about $2.5 billion.

We found during FY 2006, the Department made noticeable improvement in tracking, prioritizing, and correcting security weaknesses - a major concern identified last year. The Department also took aggressive action to identify systems containing personally identifiable information for proper security protection, including procuring encryption software to secure all laptop computers. In addition, the Departmental Investment Review Board provided oversight to a multibillion-dollar information technology investment project managed by FAA.

FY 2007 will be a particularly challenging year for the Department in managing its information technology security and investments. It has to recertify more than half of all its information systems, upgrade systems security to meet new Government standards, relocate its Headquarters (including more than 75 information systems), take aggressive action to strengthen air traffic control systems security protection, and develop a better methodology to validate the security configurations of commercial software products installed in DOT systems and continue enhancing oversight of information technology investments.

Of most importance is securing the nation's critical air traffic control systems infrastructure. However, FAA has not made adequate progress in implementing planned corrective actions. The FAA Deputy Administrator, the head of the Air Traffic Organization, and the FAA CIO committed to developing detailed work plans, allocating required resources, and implementing corrective actions. During FY 2007, we plan to initiate an audit of FAA's progress in reviewing operational systems security and contingency planning in accordance with the approved plans.

We made a series of recommendations to help the Department enhance critical infrastructure protection, computer systems security reviews, the security protection associated with the Headquarters move, systems contingency planning and testing, DOT network security, and investment management controls.

Security of FRA's Computer Systems Network

We conducted an audit of the security of the network infrastructure at FRA. FRA relies on this network infrastructure and the information stored in its computers to conduct its safety inspection mission and other critical functions, such as analyzing rail economics, identifying rail defense issues, and routing hazardous materials. Securing FRA's network infrastructure is critical to both DOT and FRA missions because FRA is one of DOT's five operating administrations that have direct connections to the Internet.

We found (1) the FRA network was vulnerable to unauthorized attack from both inside and outside DOT, (2) FRA's internet connections were not adequately secured, and (3) FRA's network was vulnerable to unauthorized remote access.

Given its interconnectivity with other DOT networks, FRA's lack of security also put other Departmental systems at risk. This was caused by a combination of lax management oversight, the absence of formal security policies and procedures, and the absence of a full-time security official to oversee and enforce systems security.

We provided specific recommendations to FRA to better protect computers on the network, enhance the capability of detecting security breaches, increase personnel security, and strengthen management oversight.

Physical Security of FAA Facilities and the DOT Headquarters Building

We issued a report to the FAA and the Department regarding physical security of FAA facilities and DOT's headquarters building. We examined (1) security processes and standards applied to FAA facilities; (2) access controls to FAA's staffed National Airspace System critical facilities; and (3) security at FAA staffed facilities to ensure that contract security guards meet FAA's requirements for security training, weapons qualification, and background checks.

As a result of our initial testing of the access controls at the two FAA Headquarters buildings, and the fact that the same company provides security services at FAA and DOT's headquarters buildings, the Department asked that we include DOT's headquarters building in our testing and security guard review.

We made specific recommendations to strengthen physical security over FAA facilities and DOT's headquarters building.

Internal Controls over the Emergency Disaster Relief Transportation Services Contract

We completed a report assessing the internal controls over the emergency disaster relief transportation services contract with Landstar Express America, Inc. Under the Federal Government's National Response Plan, DOT is responsible for coordinating and providing Federal and civil transportation support, as directed by the Federal Emergency Management Agency (FEMA), during times of national emergency.

We found (1) better controls are needed to independently verify receipts before invoices are certified for payment (our review of partial payments on a limited number of tasks identified overpayment to the contractor of approximately $33 million, which was promptly repaid), (2) FAA is developing a new on-line system that should significantly improve controls over receipts and payments, and (3) actions are underway to review prior expenditures.

We recommended that FAA Southern Region management, in conjunction with DOT's Office of Intelligence, Security, and Emergency Response (1) implement appropriate policies and procedures requiring contracting officers to verify contractor invoices against receiving documentation in the Regional Emergency Transportation Representative portal once the system has been integrated and is fully operational; (2) determine if the costs associated with developing and fielding the Regional Emergency Transportation Representative portal are reimbursable by FEMA as part of the Department's responsibilities under the National Response Plan and, if so, recoup those costs; and (3) follow through on its commitment to have the Defense Contract Audit Agency complete audits of incurred costs associated with the contract and inform OIG of the results of those audits.

Mississippi Department of Transportation's (MDOT) Award Of Selected Hurricane Katrina Emergency Repair Contracts

We conducted an audit on MDOT's management of the award of selected Hurricane Katrina emergency repair Federal-aid contracts. Our audit covered 13 emergency repair contracts that MDOT awarded in 2005. These contracts were either competitive or negotiated (noncompetitive) and were awarded to repair damaged bridges and highways in an effort to facilitate the transportation of vital supplies and people to and from hurricane-ravaged areas.

We found (1) six competitively bid contracts totaling $20.3 million met Federal and state procurement requirements, but Hurricane Katrina's effects inflated the costs; (2) five negotiated (sole-sourced), cost-plus contract awards totaling

$20.2 million were generally consistent with Federal and state procurement requirements, but two resulted in equipment billing rates that were significantly higher than rates based on an alternative pricing methodology used in the industry; (3) two negotiated, lump-sum contracts totaling $4.6 million were awarded without the assurance of fair and reasonable prices (one was significantly overpriced); (4) FHWA's Emergency Relief Manual and related Federal regulations need to be strengthened to better assist MDOT and other states in awarding emergency repair contracts.

We recommend FHWA (1) determine whether there is any legal recourse for recovering a potential $1.4 million in charges for specialized, high-powered storm drain cleaning equipment and limit Federal participation to the amount FHWA determines to be fair and reasonable under the emergency circumstances that existed after Hurricane Katrina, and (2) revise and strengthen FHWA's Emergency Relief Manual and related Federal regulations to better address how states should award emergency repair contracts.

ORGANIZATIONAL EXCELLENCE

OIG will continue to aid the Department in improving organizational performance and productivity and achieving the goals of the President's Management Agenda.

Following are recent examples of our work in the area of organizational excellence.

Top Management Challenges

OIG identified ten top management challenges for DOT for FY 2007. In considering the items for this list, we continue to focus on the Department's key strategic goals to improve transportation safety, capacity, and efficiency. This report was included in DOT's Performance and Accountability Report. A summary of the management challenges is included in OIG's current FY 2008 Performance Plan which is attached in this budget submission.

DOT's Consolidated Financial Statements

We concluded in our November 2006 audit that DOT's FYs 2006 and 2005 consolidated financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles, with one exception. That exception concerns the FY 2006 Construction in Progress (CIP) balance, which is a subcomponent of the Property, Plant, and Equipment line item on the Department's balance sheet.

KPMG LLP, under contract to us and under our supervision, audited FAA's financial statements and rendered a qualified opinion because deficiencies in FAA's accounting for CIP prevented FAA from providing adequate support to verify that reported CIP balances were reliable. Because FAA's property, including CIP, represents about 95 percent of the Property, Plant, and Equipment line item on the Department's consolidated balance sheet, the Department's consolidated financial statements had to be similarly qualified.

KPMG rendered an unqualified (clean) opinion for the Highway Trust Fund (HTF) financial statements - the eighth consecutive clean opinion since FY 1999.

DOT's FY 2006 financial statements show total assets of $65 billion, liabilities of almost $14 billion, program costs of nearly $62 billion, and available financial resources of more than $112 billion. In FY 2006, DOT received appropriations (revenue) of $61 billion. More than $49.5 billion (about 81 percent) of DOT's revenue sources came from two trust funds, the HTF and the Airport and Airway Trust Fund.

FAA's Conversions of Flight Service Stations to Contract Operations

Based on recommendations in our December 2001 audit of automated flight service stations, and a subsequent A-76 study conducted by the Department, FAA anticipates that by contracting out and consolidating flight service stations, the agency will save $1.7 billion over the life of the contract awarded in February 2005.

This five-year contract, with five additional option years, is to operate the Agency's 58 flight service stations in the continental United States. This represents one of the largest non-defense outsourcing efforts in the Federal government. The contractor plans to consolidate the 58 flight service stations into 20 consolidated facilities.

OIG has initiated an audit of the controls implemented by FAA over its conversion of flight service stations to contract operations. The objectives of the audit are to assess whether FAA has implemented effective plans and controls to: (1) transition flight service stations to contract operations; (2) achieve anticipated savings; and (3) ensure that the operational needs of users continue to be met.

FAA Telecommunications Infrastructure Program

We conducted an audit of FAA's Telecommunications Infrastructure (FTI) program. The purpose of the FTI program is to replace seven existing FAA

owned and leased telecommunications networks with a single network that would cost less to operate.

Our audit found that FTI is a high-risk and schedule-driven program that is unlikely to meet its December 2007 revised completion date. Only months after being rebaselined in December 2004 by the Joint Resources Council (JRC), the program began falling behind schedule again and has not recovered. Because the primary purpose of the FTI program is to lower operating costs, which is dependent on deploying the system on schedule, expected benefits are eroding. FTI is not likely to be completed on time because the JRC did not direct the Program Office to develop a detailed realistic master schedule or an effective transition plan identifying when each site and service will be accepted, when services will be cut over to FTI, and when existing services will be disconnected.

We made several recommendations to FAA to improve program management controls over the FTI transition. These recommendations included that FAA (1) develop a realistic master schedule and an effective FTI transition plan, and (2) validate the FTI schedule, cost, and benefit information to determine if the program is still cost-beneficial or whether it should be modified or terminated.

We are currently conducting a follow-up audit to (1) assess FAA's progress in developing an effective transition plan and realistic master schedule, and (2) determine if FAA is mitigating risks to air traffic control operations by coordinating activities and validating site-specific requirements before activating FTI service and disconnecting existing telecommunications service.

FAA Air Traffic Organization's Management Controls Over Credit Hours

We conducted an audit on management controls over the earning and use of credit hours within FAA's Air Traffic Organization (ATO).

Since 1998, the number of credit hours earned by ATO employees per year has more than doubled from 503,000 hours in FY 1998 to nearly 1.2 million hours in FY 2005, or the equivalent of approximately 577 full-time positions. We found that despite the large number of credit hours being earned, the ATO had no assurances that credit hours were justified, necessary, or in the best interest of the Government because the ATO's management controls over the earning and use of credit hours were insufficient.

We also found that as a result of the ATO's departure from OPM's Government-wide policies and procedures in 1998, controllers were able to accrue large balances of unused credit hours. At the end of FY 2005, the balance of unused credit hours was nearly 648,000 hours (or the equivalent of over 311 full-time

positions) with an estimated monetary value of over $36.5 million. We were concerned that the large accrued balance could become a significant liability to the Agency as 73 percent of its controller workforce (or nearly 10,000 controllers) becomes eligible to retire over the next ten years.

We recommend FAA (1) verify the specific actions taken by facility managers to resolve inefficient or unproductive recurring credit-hour agreements, orders, or policies identified in response to the requests of the Vice Presidents for En Route and Oceanic Services and Terminal Services; and (2) provide us with a list of the actions taken and a specific date for implementing Article 34 of the new contract (Article 34 addresses the potential liability of earning and accruing large balances of credit hours).

Progress in Implementing Key Elements of FAA's Controller Workforce Plan

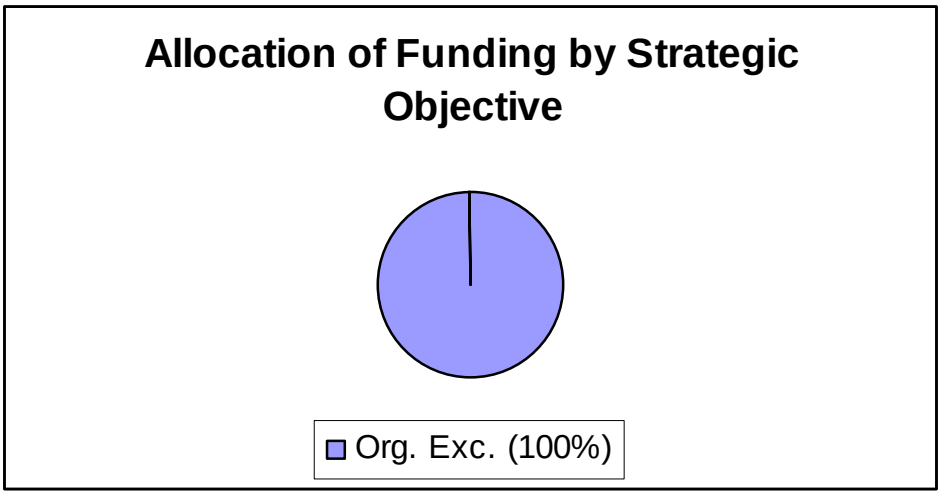
We have initiated a follow-up audit of FAA's progress in implementing the Controller Workforce Plan which is to ensure adequate staffing and increased production. Our objectives are to (1) evaluate FAA's progress in implementing key staffing and training elements of its Controller Workforce Plan, and (2) assess the effectiveness of other initiatives designed to increase controller productivity.

FAA's RESULTS National Contracting Service

At the request of Congress, we conducted an audit of the RESULTS National Contracting Service procurement program, a contracting vehicle FAA established to acquire support services. Under RESULTS, 114 contracts were awarded with a total potential contract value of about $543 million.

We found the RESULTS procurement program was not properly structured to meet FAA's needs for faster, cheaper, and better support services, FAA officials did not award contracts with sufficient competition or adequate price analysis, and deficiencies also existed in the administration of individual contracts.

Despite FAA's corrective actions, given the weaknesses in the RESULTS program structure, we recommended that FAA dissolve RESULTS. FAA agreed and is taking actions to dissolve this multiple-award program.


Allocation of Funding by Strategic Objective
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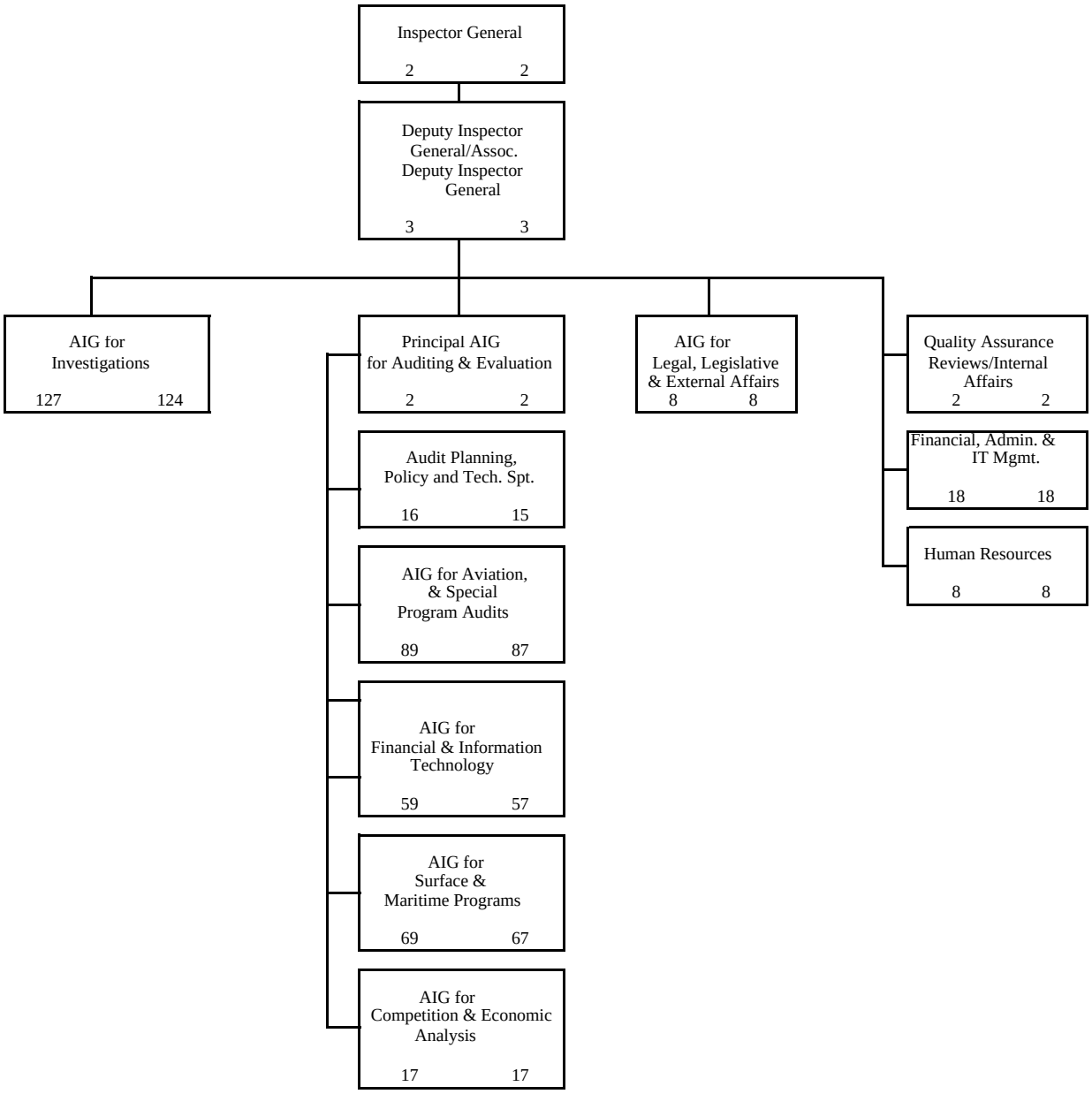
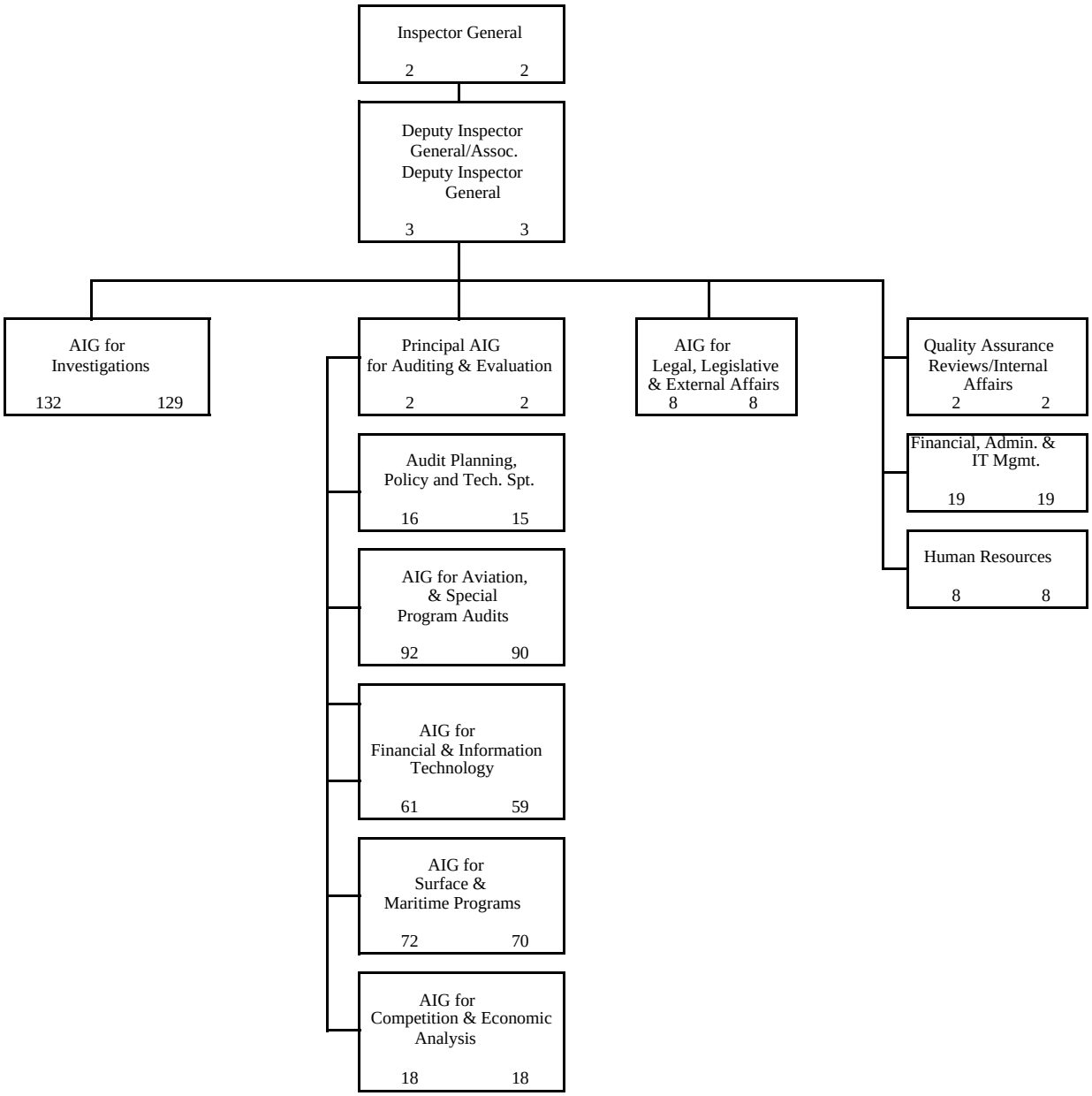
ORGANIZATION CHART
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
with Estimated FTEs for FY 2007 and FY 2008



Numbers to the left represent FY 2007 President's Budget FTE of 420, numbers to the right represent FY 2008 requested FTE o

ORGANIZATION CHART
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
with Estimated FTPs for FY 2007 and FY 2008



Numbers to the left represent FY 2007 President's Budget FTP of 435, numbers to the right represent FY 2008 requested FTP of

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EXHIBIT II-1/2

COMPARATIVE STATEMENT OF NEW BUDGET AUTHORITY/
FY 2008 BUDGET REQUEST BY APPROPRIATION ACCOUNT
DEPARTMENT OF TRANSPORTATION/OIG
Approp., Ob. Lims., and Exempt Obs.
($000)

ACCOUNT NAME	FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2007 PRES. BUDGET	FY 2008 REQUEST
Salaries & Expenses	61,874	61,874	64,143	66,400
TOTALS: Approp., Ob. Lims., & Exempt Obs.	61,874	61,874	64,143	66,400
REIMBURSABLES				
FHWA	3,714	3,924	3,924	4,024
FAA	584	1,050	1,050	750
FTA	2,011	2,000	2,000	2,000
OST	120	100	100	0
FRA	3	0	0	0
FMCSA	2	0	0	0
NHTSA	1	0	0	0
NTSB	343	500	500	100
ATSB	75	0	0	0
TOTALS: Reimbursables	6,853	7,574	7,574	6,874
TOTALS: OIG	68,727	69,448	71,717	73,274

EXHIBIT II-3

FY 2008 BUDGET REQUEST BY APPROPRIATION ACCOUNT AND STRATEGIC/ORG. GOAL

DEPARTMENT OF TRANSPORTATION

OFFICE OF INSPECTOR GENERAL

Appropriations, Obligation Limitations, and Exempt Obligations

($000)

APPROPRIATION/PROGRAM ACTIVITY/PERFORMANCE GOAL	SAFETY	REDUCED CONGEST.	GLOBAL CONN.	ENVIRON. STEWARD.	SEC., PREPARD. & RESP.	ORG. EXCELL.	TOTAL
Salaries & Expenses	0	0	0	0	0	66,400	66,400
TOTAL REQUEST	0	0	0	0	0	66,400	66,400
FTE (direct funded only)	0	0	0	0	0	356	356

EXHIBIT II-4

FY 2008 BUDGET REQUEST BY APPROPRIATION ACCOUNT
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
BUDGET AUTHORITY
($000)

ACCOUNT NAME	FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2007 PRES. BUDGET	FY 2008 REQUEST
Salaries & Expenses	61,874	61,874	64,143	66,400
TOTALS: OIG	61,874	61,874	64,143	66,400

EXHIBIT II-5 **FY 2008 BUDGET REQUEST BY APPROPRIATION ACCOUNT**
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
OUTLAYS
($000)

ACCOUNT NAME	FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2007 PRES. BUDGET	FY 2008 REQUEST
Salaries & Expenses	61,788	63,312	63,916	65,947
TOTALS: OIG	61,788	63,312	63,916	65,947

EXHIBIT II-6

SUMMARY OF REQUESTED FUNDING CHANGES FROM BASE
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
Appropriations, Obligation Limitations, and Exempt Obligations
($000)

SALARIES & EXPENSES

Baseline Changes

	FY 2007 PRES. BUDGET	REDUCTION IN FTE	FY 2008 PAY RAISES (3.0%)	FY 2007 ANNUAL. PAY RAISES (2.2%)	FY 2007 ANNUAL. PROMOS/WIGS	TWO ADD'L DAYS FY 2008	ADD'L CHANGES IN FTE COSTS	OPER. COSTS	INFLATION ADJ. (2.2%)	FY2008 REQUEST
OPERATIONS										
PERSONNEL RESOURCES:										
Total FTE	420	-10								**410**
FINANCIAL RESOURCES:										
Salaries & Benefits	47,466	-979	1,647	342	960	435				**49,871**
Travel	2,753									**2,753**
Transportation of things	3									**3**
Rental payments to GSA	4,600									**4,600**
Rental payments to others	200									**200**
Comm., utilities, & misc. charges	505									**505**
Printing and reproduction	5									**5**
Advisory and assistance svcs.	800							-415		**385**
Other services	2,993									**2,993**
WCF	2,598							267		**2,865**
Other svcs. from Gov. accts.	1,360									**1,360**
Supplies and materials	325									**325**
Equipment	425									**425**
Insurance claims and indemnities	100									**100**
Unvouchered	10									**10**
Totals: Approps., ObLims., & Exempt Obs.	64,143	-979	1,647	342	960	435	0	-148	0	**66,400**
Totals: Reimbursables *	7,574	0	0	0	0	0	-375	-325	0	**6,874**
Totals: OIG	71,717	-979	1,647	342	960	435	-375	-473	0	**73,274**

*** Total FY 2008 Reimbursables request of $6.874M includes $5.524M in PC&B.**

EXHIBIT II-7

DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
PERSONNEL RESOURCE - SUMMARY
FULL-TIME EQUIVALENTS

	FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2007 PRES. BUDGET	FY 2008 REQUEST
SALARIES & EXPENSES - DIRECT FUNDED	363	356	366	356
REIMBURSABLES	56	54	54	54
TOTAL FTE	419	410	420	410

EXHIBIT II-9

DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
PERSONNEL RESOURCE - SUMMARY
FULL-TIME PERMANENT POSITIONS

	FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2007 PRES. BUDGET	FY 2008 REQUEST
SALARIES & EXPENSES - DIRECT FUNDED	389	371	381	371
REIMBURSABLES	56	54	54	54
TOTAL FTE	445	425	435	425

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DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Office of Inspector General to carry out the provisions of the Inspector General Act of 1978, as amended, $66,400,000: Provided, That the Inspector General shall have all necessary authority, in carrying out the duties specified in the Inspector General Act, as amended (5 U.S.C. App.3), to investigate allegations of fraud, including false statements to the government (18 U.S.C. 1001), by any person or entity that is subject to regulation by the Department: Provided further, That the funds made available under this heading shall be used to investigate, pursuant to section 41712 of title 49, United States Code: (1) unfair or deceptive practices and unfair methods of competition by domestic and foreign air carriers and ticket agents; and (2) the compliance of domestic and foreign air carriers with respect to item (1) of this proviso.

Note.-A regular 2007 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 109-289, Division B, as amended). The amounts included for 2007 in this budget reflect the levels provided by the continuing resolution.

EXHIBIT III-1

SUMMARY BY PROGRAM ACTIVITY
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
Approp., Ob. Lims., and Exempt Obs.
($000)

ACCOUNTS	FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2007 PRES. BUDGET	FY 2008 REQUEST
Organizational Excellence	61,874	61,874	64,143	66,400
Total	61,874	61,874	64,143	66,400
FTE				
Direct Funded	363	356	366	356
Reimbursables	56	54	54	54

Program and Performance Statement

This appropriation finances the cost of conducting and supervising audits and investigations relating to the programs and operations of the Department to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse in such programs and operations. In addition, reimbursable funding will be received from the Federal Highway Administration, the Federal Transit Administration, the Federal Aviation Administration, and the National Transportation Safety Board.

EXHIBIT III-2

SUMMARY ANALYSIS OF CHANGE FROM FY 2007 TO FY 2008
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
Appropriations, Obligation Limitations, and Exempt Obligations
($000)

ITEM	CHANGE FROM FY 2007 PRES. BUDGET TO FY 2008	TOTAL
FY 2007 Base (Pres. Budget)		
Salaries & Expenses - Appropriations, Ob. Lims., and Exempt Obligations		**$64,143**
Adjustments to Base		
FY 2008 pay raise (3.0%)	$1,647	
Annualization of FY 2007 pay raise (2.2%)	$342	
Annualization of FY 2007 career-ladder promotions and WIGs	$960	
Two additional days in FY 2008	$435	
Change in FTE (decrease of 10)	($979)	
Operating Costs	($148)	
Inflation (2.2%)	$0	
Subtotal, Adjustments to Base		**$2,257**
New or Expanded Programs		
	$0	
Subtotal, New or Expanded Program Increases/Decreases		**$0**
Total FY 2008 Request		**$66,400**

PROGRAM AND FINANCING
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
($000)

OMB ACCOUNT ID: 021-56-0130-0		FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2008 REQUEST
	Obligations by program activity			
1.01	General Administration	61,575	61,874	66,400
9.01	Reimbursable Program	6,853	7,574	6,874
10.00	Total new obligations	68,428	69,448	73,274
	Budgetary resources available for obligation			
22.00	New budget authority (gross)	68,727	69,448	73,274
23.95	Total new obligations	(68,428)	(69,448)	(73,274)
23.98	Unobligated balance expiring or withdrawn	(299)	0	0
	New budget authority (gross), detail			
	Discretionary			
40.00	Appropriation	62,499	61,874	66,400
40.35	Appropriation permanently reduced	(625)	0	0
43.00	Appropriation (total discretionary)	61,874	61,874	66,400
	Spending authority from offsetting collections:			
58.00	Offsetting collections (cash)	6,461	7,574	6,874
58.10	Change in uncollected customer payments from Federal sources (unexpired)	392	0	0
58.90	Spending authority from offsetting collections (total discretionary)	6,853	7,574	6,874
70.00	Total new budget authority (gross)	68,727	69,448	73,274

PROGRAM AND FINANCING
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
($000)

OMB ACCOUNT ID: 021-56-0130-0		FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2008 REQUEST
	Change in obligated balances			
72.40	Obligated balance, start of year	7,904	7,626	6,187
73.10	Total new obligations	68,428	69,448	73,274
73.20	Total outlays (gross)	(69,359)	(70,886)	(72,821)
73.40	Adjustments in expired accounts (net)	(94)	0	0
74.00	Change in uncollected customer payments from Federal sources (unexpired)	(392)	0	0
74.10	Change in uncollected customer orders from Federal sources (expired)	1,139	0	0
74.40	Obligated balance, end of year	7,626	6,187	6,640
	Outlays (gross), detail			
86.90	Outlays from new discretionary authority	61,984	63,261	66,634
86.93	Outlays from discretionary balances	7,376	7,626	6,187
87.00	Total outlays (gross)	69,359	70,886	72,821
	Offsets:			
	Against gross budget authority and outlays:			
88.00	Offsetting collections (cash) from: Federal sources	7,572	7,574	6,874
	Against gross budget authority only:			
88.95	Change in uncollected customer payments from Federal sources (unexpired)	392	0	0
88.96	Portion of offsetting collections (cash) credited to expired accounts	(1,111)	0	0
	Net budget authority and outlays			
89.00	Budget authority	61,874	61,874	66,400
90.00	Outlays	61,788	63,312	65,947
95.02	Unpaid obligation, end of year	7,626		

OBJECT CLASSIFICATION
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
SALARIES AND EXPENSES
($000)

		FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2008 REQUEST
	Personnel Compensation:			
11.1	Full- time permanent.....	31,480	33,119	35,641
11.3	Other than full-time permanent.....	333	350	368
11.5	Other personnel compensation.....	1,860	2,211	2,322
11.9	Total personnel compensation.....	33,673	35,680	38,331
12.1	Civilian personnel benefits.....	9,783	10,677	11,540
21.0	Travel and transportation of persons.....	2,748	2,493	2,753
22.0	Transportation of things.....	3	3	3
23.1	Rental payments to GSA	4,293	4,600	4,600
23.2	Rental payments to others	187	200	200
23.3	Comm., utilities, and misc charges	503	505	505
24.0	Printing and reproduction.....	8	5	5
25.1	Advisory and assistance services.....	512	0	385
25.2	Other services.....	3,673	2,993	2,993
25.3	Other purchases of goods and services from Gov. accounts ……..	4,108	3,958	4,225
26.0	Supplies and materials.....	335	300	325
31.0	Equipment.....	1,585	350	425
42.0	Insurance Claims and indemnities.....	159	100	100
91.0	Unvouchered.....	5	10	10
99.0	Subtotal, direct obligations.....	61,575	61,874	66,400
99.0	Reimbursable obligations	6,853	7,574	6,874
99.9	Total obligations.....	68,428	69,448	73,274

EMPLOYMENT SUMMARY
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

		FY 2006 ACTUAL	FY 2007 CONT. RES.	FY 2008 REQUEST
	Direct:			
10.01	Civilian full-time equivalent employment	363	356	356
	Reimbursable:			
20.01	Civilian full-time equivalent employment	56	54	54

FY 1998 – FY 2007 FUNDING HISTORY
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
SALARIES AND EXPENSES

Estimates	Appropriations
1998……$40,889,000	1998……$41,941,000[1]
1999……$42,491,000	1999……$44,045,000[2]
2000……$44,840,000	2000……$44,446,000[3]
2001……$48,450,000	2001……$49,341,210[4]
2002……$50,614,000	2002……$50,374,000[5]
2002 Suppl……$1,300,000	2002 Suppl……...$1,300,000
2003……$57,421,000	2003……$54,697,764[6]
2004……$55,000,000	2004……$55,243,018[7]
2005……$59,000,000	2005……$58,132,000[8]
2006……$62,499,000	2006……$61,874,010[9]
2007……$64,143,000[10]	2007……...[10]

[1] Reflects reduction of $59,000 for TASC (sec. 320).

[2] Reflects reductions of $179,000 for TASC (sec. 320) and $71,000 from P.L. 106-51.

[3] Reflects reductions of $224,000 for TASC (sec. 319) and $170,000 from P.L. 106-113 (sec. 301).

[4] Reflects reduction of $108,790 from P.L. 106-554 (sec. 1403).

[5] Reflects reductions for TASC of $108,000 (sec. 349), $93,000 from P.L. 107-117 (sec. 1106), and $39,000 from P.L. 107-206 (sec. 1403(a)).

[6] Reflects reductions for WCF of $200,000 (G.P. 362), $373,236 from P.L. 108-7 (sec. 601, Title VI), and transfer of $2,150,000 from P.L. 107-296 (sec. 1516) to DHS/OIG.

[7] Reflects WCF reduction of $426,582 (P.L. 108-199, Div. F, Title V, sec. 517) and .59% across-the-board reduction of $330,400 (P.L. 108-199, Div. H, sec. 168 (b)).

[8] Reflects WCF reduction of $396,000 (P.L. 108-447, Div. H, Title I, sec. 197) and .8% across-the-board reduction of $472,000 (P.L. 108-447, Div. J, Title I, sec. 122 (a)).

[9] Reflects 1% across-the-board reduction of $624,990 (P.L. 109-148, Div. B, Title III, Chapter 8, sec. 3801 (a)).

[10] Estimate reflects President's Budget. A regular 2007 appropriation for this account had not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 109-289, Division B, as amended).

EXHIBIT IV-1/2

FY 2008 BUDGET REQUEST BY APPROPRIATION ACCOUNT AND STRATEGIC/ORGANIZATIONAL GOAL
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
Approps., Obligation Limitations, and Exempt Obs.

APPROPRIATION / PROGRAM ACTIVITY/PERFORMANCE GOAL	FY 2006 ACTUAL		FY 2007 CONT. RES.		FY 2007 PRES. BUDGET		FY 2008 REQUEST	
	($000)	FTEs	($000)	FTEs	($000)	FTEs	($000)	FTEs
Salaries & Expenses - Organizational Excellence	61,874	363	61,874	356	64,143	366	66,400	356
TOTAL REQUEST	61,874		61,874		64,143		66,400	
FTE (Direct Funded Only)		363		356		366		356

DETAILED JUSTIFICATION BY STRATEGIC/ORGANIZATIONAL GOAL
DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL
ORGANIZATIONAL EXCELLENCE

This funding request contributes to the DOT organizational goal of Organizational Excellence.

In carrying out our oversight responsibilities, our overall goal is to assist DOT in reaching its long-term strategic and organizational goals. OIG performance is measured by the successful accomplishment of its statutory responsibilities prescribed by the Inspector General Act and the completion of specific actions to support Departmental goals.

As such, our entire budget request is placed under the Departmental organizational goal of Organizational Excellence. However, our work assists the Operating Administrations in meeting their performance targets in each of the strategic goals of Safety; Reduced Congestion; Global Connectivity; Environmental Stewardship; and Security, Preparedness and Response.

The resources requested to achieve this goal are:

OFFICE OF INSPECTOR GENERAL
Appropriations, Obligation Limitations, and Exempt Obligations
($000)

PERFORMANCE		FY 2007	FY 2007	
GOALS/MEASURES by	FY 2006	CONT.	PRES	FY 2008
PROGRAM ACTIVITIES	ACTUAL	RES.	BUDGET	REQUEST
1. Organizational Excellence				
TOTALS: Approp., ObLim, & Exempt Obls.	61,874	61,874	64,143	66,400
FTE	363	356	366	356
TOTALS: Reimbursables	6,853	7,574	7,574	6,874
FTE	56	54	54	54
GRAND TOTALS: OIG	**68,727**	**69,448**	**71,717**	**73,274**
FTE	**419**	**410**	**420**	**410**

Office of Inspector General
U.S. Department of Transportation

FY 2008 Performance Plan

FY 2008 PERFORMANCE PLAN

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FY 2008 PERFORMANCE PLAN

I. Introduction

The Fiscal Year (FY) 2008 Performance Plan for the Office of Inspector General (OIG), Department of Transportation (DOT), describes our performance measures and future plans in support of DOT's Strategic Plan and its mission of providing fast, safe, efficient, and convenient transportation at the lowest cost consistent with the national objectives of general welfare, economic growth and stability, and the security of the United States. In developing our specific work plans, we take into account the need to support DOT's most critical programs and ensure that departmental resources are protected from fraud, waste, and abuse. In addition, many of our projects result from requests by Administration officials and congressional members.

The OIG's Performance Plan serves as an important blueprint in our ongoing efforts to promote the most effective and efficient operation of DOT. For example, we will review the controls implemented by the Federal Aviation Administration (FAA) to ensure cost savings from flight services outsourcing are achieved. We will continue to focus on DOT's oversight of expenditures for hurricane-related reconstruction projects in the Gulf Coast region.

In FY 2008, our safety oversight initiatives will include monitoring FAA's efforts to reduce the risk of aviation accidents caused by operational errors, runway incursions, and other risks. Audit teams will analyze progress made by the Federal Highway Administration (FHWA) to correct deficiencies in states' highway bridge safety programs and the use of funds to install warning devices at highway-grade crossings. We will continue to review the Federal Motor Carrier Safety Administration's (FMCSA) oversight of state commercial driver's license (CDL) programs and procedures to detect CDL fraud, along with its efforts to comply with new CDL requirements to improve transportation security, as implemented with the Department of Homeland Security (DHS).

We plan to expand our monitoring efforts of numerous programs and capacity-enhancing initiatives designed to reduce transportation congestion. For example, we will continue to track FAA modernization projects, such as new runways, airspace redesign, and the Operational Evolution Plan. We will review efforts by the Federal Railroad Administration (FRA) and FAA to address insufficient freight rail and air cargo capacity. Our plans also include monitoring Federal stewardship over multibillion-dollar highway projects considered for Public-Private Partnerships.

II. OIG Statutory Responsibilities

The Inspector General Act of 1978, as amended (Inspector General Act, P.L. 95-452), established OIG as an independent and objective organization within DOT. The Inspector General is committed to fulfilling its statutory mission and assisting the Secretary and senior Department officials in meeting the Department's strategic objectives. As prescribed by the Inspector General Act, OIG will:

- *Maintain independent and objective organizations to conduct and supervise audits and investigations relating to the programs and operations of DOT.*
- *Recommend policies for activities to promote economy, efficiency, and effectiveness in administration of Departmental programs.*
- *Take appropriate actions to prevent and detect fraud, waste, and abuse in the Department's programs and operations.*
- *Keep the Congress and Secretary fully informed about problems and deficiencies and the necessity for and progress of corrective action.*
- *Receive and, as appropriate, investigate complaints from any person or entity, including Congress.*
- *Report violations of law to the U.S. Attorney General.*
- *Notify the Congress and Secretary of serious or flagrant problems in DOT or its programs.*
- *Review existing and proposed legislation and regulations.*
- *Protect the identity of whistleblowers.*
- *Prepare and submit Semiannual Reports to the Congress and Secretary.*

OIG also has significant responsibilities under the Chief Financial Officers Act, the Government Management Reform Act, and the Federal Information Security Management Act (FISMA), as well as the Government Performance and Results Act. OIG will fulfill these responsibilities by completing required audits of DOT's financial statements and information security practices, assessing the adequacy of internal control systems, and identifying opportunities to achieve financial benefits. In addition, the House and Senate Committees often direct OIG to respond to on-going as well as emerging issues of congressional concern.

III. OIG Resources

OIG's total FY 2008 budget request is $73.274 million. This will be used to support 410 Full Time Equivalents. In addition to $66.4 million in direct appropriations, the OIG budget request includes $6.874 million in reimbursable funding: $4.024 million from FHWA to (1) support audit and investigative efforts relating to highway issues ($3.524 million) and (2) partially fund contractual audit services to perform the audit of the Highway Trust Fund's financial statements ($500,000 requested in reimbursable funding, the remaining $1 million needed to fund this contractual audit is included in OIG's FY 2008 direct funding request); $2 million from the Federal Transit Administration (FTA) to support audit and investigative efforts relating to transit issues; $750,000 from FAA to (1) partially fund contractual audit services to perform the audit of FAA's financial statements ($500,000 requested in reimbursable funding, the remaining $1 million needed to fund this contractual audit is included in OIG's FY 2008 direct funding request) and (2) fund contractual audit services to perform a Statement on Auditing Standards (SAS) 70 audit of DOT's Delphi Financial Management System ($250,000); and $100,000 from the National Transportation Safety Board (NTSB) to acquire contractual audit services to perform the audit of NTSB's financial statements.

OIG's requested level of funding is essential to carry out our oversight mission mandated under the Inspector General Act of 1978, as amended; conduct audits and investigations requested by the Secretary, the Office of Management and Budget (OMB), and Congress; and support the Department's strategic and organizational goals.

OIG is organized to concentrate the talents of our senior executives on the OIG's core statutory responsibilities, which are to perform audits and investigations. Moreover, our most senior auditors and analysts are assigned according to key subject areas.

IV. Strategic Plan Goals

To improve our service to Congress and the Department, OIG will focus a major portion of its work towards addressing the strategic and organizational goals outlined in the DOT Strategic Plan. We have built our FY 2007 plan around these goals. The following comprises a listing of DOT's strategic and organizational goals:

DOT Strategic Goals

- **Safety:** *"Enhance public health and safety by working toward the elimination of transportation-related deaths and injuries."*

- **Reduced Congestion:** *"Reduce congestion and other impediments to using the Nation's transportation system."*

- **Global Connectivity:** *"Facilitate an international transportation system that promotes economic growth and development."*

- **Environmental Stewardship:** *"Promote transportation solutions that enhance communities and protect the natural and built environment."*

- **Security, Preparedness, and Response:** *"Balance transportation security requirements with the safety, mobility, and economic needs of the Nation and be prepared to respond to emergencies that affect the viability of the transportation sector."*

DOT Organizational Goal

- **Organizational Excellence:** *"Advance the Department's ability to manage for results and achieve the goals of the President's Management Agenda."*

These six goals emphasize the importance of improving America's transportation by making it safer, less congested, better connected, environmentally friendly, and fully operational in all conditions. They also address the effective functioning of the Department and its implementation of the President's Management Agenda. OIG will work to find solutions to complex transportation issues across this strategic framework. We will also focus our audits and investigations on ensuring that tax dollars expended by DOT are well-spent and that acquisitions, contracts, and grants are well-managed and not subject to fraud.

V. Top Management Challenges

The Office of Inspector General identified 10 top management challenges for the Department of Transportation for FY 2007. In considering the items for this list, we continued to focus on the Department's key strategic goals to improve transportation safety, capacity, and efficiency.

Defining, Developing, and Implementing Strategies To Improve Congested Conditions on the Nation's Highways, Ports, Airways, and Borders. The Department is implementing new initiatives to reduce transportation congestion nationwide, and this is the first year that the OIG has reported it as an emerging issue. DOT has taken initial steps to pursue cross-modal approaches with various stakeholders and has established methods for gauging progress. DOT must overcome the following challenges to help provide short- and long-term benefits to the traveling public: (1) leading stakeholders who are not used to following when DOT neither controls the purse strings nor has the final decision making power, (2) overcoming stovepipe programs and organizational structures that inhibit intermodal tradeoffs among transportation solutions, (3) meeting demands for additional resources in circumstances of constrained Federal resources, (4) achieving acceptance of market-based solutions to better utilize existing capacity, and (5) keeping aviation capacity improvements on schedule.

FAA Reauthorization—Reaching Consensus on a Financing Mechanism To Fund FAA and Establishing Funding Requirements. The aviation excise taxes that support FAA programs and their authorization expire at the end of FY 2007. Over the next year, the congressional aviation agenda will be dominated by two separate but related issues: how to finance FAA programs and the level of funding those programs require. Reauthorization will require the Department, FAA, and Congress to reconcile divergent stakeholder positions regarding potential financing mechanisms, obtain more precise funding requirements, and ensure tighter controls over Agency costs. Challenges for FAA include (1) deciding on a financing mechanism that promotes a more efficient use of the air traffic control system and is considered equitable by all users; (2) determining the Next Generation Air Transportation System's funding requirements, quantifying expected benefits, and developing a roadmap for industry to follow; (3) continuing efforts to address the expected surge in air traffic controller attrition; and (4) using its cost accounting system to control costs and improve operations.

Responding to National Disasters and Emergencies—Assisting Citizens and Facilitating Transportation Infrastructure Reconstruction. Under the National Response Plan, DOT is the lead agency for coordinating transportation support during natural and manmade disasters, such as earthquakes and acts of terrorism, and serves as a support agency for 11 other critical functions. Since the 2005 Gulf Coast

hurricanes, DOT has undertaken a number of initiatives to enhance preparations for future disasters and has been responsive to our audit recommendations. The Department needs to ensure that it remains responsive to the changing emergency operations environment and that relief and recovery aid is spent appropriately. To better mitigate the effects of future disasters, DOT needs to focus on (1) clarifying roles and responsibilities given expanded mission requirements and (2) ensuring continued vigilance in protecting taxpayer funds spent for relief and recovery efforts.

Strengthening Efforts To Save Lives by Improving Surface Safety Programs. The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) provided significant enhancements for surface transportation safety programs. DOT must use the increased resources in ways that result in safer surface transportation and more lives saved. DOT set an ambitious target in its 2003 Strategic Plan to reduce the highway fatality rate to 1.0 by 2008; however, 2005 marked the first increase (to 1.47 fatalities from 1.45 in 2004) since 1986. DOT's Strategic Plan for 2006 through 2011 retains the target rate of 1.0 but extends the target date to 2011; this will still require an acceleration in past improvements. To their credit, NHTSA, FMCSA, and FRA have taken action to address challenges discussed in our previous reports. To further enhance DOT's highway and rail safety programs, we have identified the following key actions: (1) promoting improved performance measures and enhanced state accountability to maximize efforts to reduce fatalities caused by impaired driving, (2) building on successful efforts to better enforce motor carrier safety regulations, (3) ensuring the integrity and future modernization of the Commercial Driver's License Program, and (4) enhancing railroad safety through improved oversight of grade-crossing reporting and better identification of trends.

Aviation Safety—Performing Oversight That Effectively Utilizes Inspection Resources and Maintaining Aviation System Safety. For more than 4 years, FAA and the U.S. aviation industry have experienced one of the safest periods in history—a remarkable accomplishment given the dramatic changes occurring in the industry. However, the August 27, 2006, Comair crash served as a reminder that we must do more to make a safe system even safer. Industry changes include network air carriers' efforts to move away from high-cost structures by reducing in-house staff, renegotiating labor agreements, and increasing the use of external repair facilities. In response, FAA is working to implement and refine risk-based safety oversight systems. In recent years, FAA has made progress in reducing the overall number of runway incursions, but serious incidents continue to occur. Key challenges for FAA are (1) advancing risk-based oversight systems for air carriers and external repair facilities, (2) maintaining a sufficient inspector workforce to effectively respond to changes in the industry, and (3) continuing to emphasize and address the risks of runway incursions and operational errors.

Making the Most of the Federal Resources That Sustain Surface Transportation Infrastructure Improvements by Continuing To Emphasize Project Oversight. As transportation infrastructure needs are increasing faster than the financial resources available to fund them, stewardship of taxpayer dollars continues to be a priority for DOT. For example, during FY 2006, FHWA continued to strengthen oversight of inactive obligations by deobligating $738 million in unneeded funds for highway projects, and FTA's special New York office continues to oversee $4.4 billion in high-priority transit projects being built in response to the September 11th terrorist attacks. These actions are steps in the right direction, but more needs to be done. Specifically, (1) FHWA must ensure that initiatives to strengthen its oversight of Federal highway funds are implemented effectively so that major projects are delivered on time, within budget, and free from fraud; (2) FHWA's oversight must include actions to ensure that highway tunnels are safe for the driving public; and (3) FTA must continue to exercise vigilant oversight to ensure that large and complex transit infrastructure projects are completed on time and within budget.

Achieving Reform of Intercity Passenger Rail. Amtrak continues to incur unsustainably large operating losses, provide poor on-time performance, and require increasing levels of infrastructure and fleet investment. Amtrak projects a $1.2 billion operating loss in FY 2006, the fifth consecutive year of operating losses in excess of $1 billion. In the past year, modest progress was made on our recommendation regarding reducing Amtrak's costs. Still outstanding is our recommendation regarding mechanisms giving states a larger voice in determining service requirements and establishing adequate and stable Federal funding. Reform should focus on reducing costs while improving mobility in corridors around the country and restructuring long-distance services. DOT should use its broad authority, through the grant approval process, to secure improvements in Amtrak's operating efficiency. Amtrak and DOT efforts are needed to (1) improve cost-effectiveness, operate efficiently, and improve performance and (2) create a new model for providing passenger rail transportation that gives states more say in selecting the best mix of service for their constituents.

Improving Acquisition and Contract Management To Reduce Costs and Eliminate Improper Payments. Over the past several years, DOT has shown its ability to strengthen its grant oversight and financial management. For example, FHWA division officials worked aggressively with states this year, resulting in $738 million of idle Federal-aid funds being freed up for use on active transportation projects. DOT, which requested about $8.7 billion for acquiring goods and services in its FY 2007 budget, should apply the same degree of dedication and initiative toward strengthening its procurement and acquisition processes. While DOT agencies are cooperating on eliminating problems as they arise and improving stewardship and oversight, DOT must be more proactive. The following contracting issues require DOT's focused attention: (1) institutionalizing the use of Defense Contract Audit

Agency contract audit services, (2) strengthening financial management oversight of institutions performing research under DOT cooperative agreements and grants, (3) promoting more vigilance and enhanced oversight of FAA's acquisition and contract management practices, (4) ensuring that DOT employees maintain high ethical standards, and (5) enforcing suspensions and debarments more rigorously.

Protecting, Monitoring, and Streamlining Information Technology Resources. DOT's information technology (IT) investment portfolio is one of the largest among civilian agencies, with more than 400 computer systems supporting key mission areas at an annual cost of about $2.5 billion. Over 80 percent of these investments are in air traffic control modernization. During FY 2006, DOT made noticeable improvements in tracking, prioritizing, and correcting security weaknesses but did not make adequate progress in strengthening air traffic control systems security. DOT also needs to continue enhancing oversight of IT investments. FY 2007 will be a particularly challenging year, as DOT must implement a consolidated IT infrastructure to support 11 Operating Administrations in the new Headquarters building. In addition, more than half of DOT's systems are due for security recertification and have to meet new security standards. DOT's major challenges include (1) enhancing air traffic control systems security through resource commitment and progress measurement, (2) meeting new security standards while recertifying systems security, (3) securing the consolidated IT infrastructure and eliminating Operating Administrations' fragmented systems backup/recovery sites, and (4) working with Operating Administrations to strengthen oversight of IT investment and to streamline duplicative IT systems.

Strengthening DOT's Coordination of Research, Development, and Technology Activities and Funding. DOT's management strategy for research, development, and technology (RD&T) activities is a relatively new initiative, and this is the first year that the OIG has reported it as an emerging issue. In 2005, DOT took two significant steps to improve coordination of research efforts and to maximize DOT's RD&T investments by establishing the Research and Innovative Technology Administration (RITA) and creating the RD&T Planning Council. For 2007, DOT has requested over $1 billion for RD&T. RITA's and the Council's ability to effectively coordinate DOT's RD&T program is affected by a number of factors, including (1) a 2006 GAO report noting that RITA lacked a strategic approach sufficient to ensure that DOT is effectively managing its RD&T investment, (2) an August 2006 letter from the Transportation Research Board citing the growth in congressional RD&T earmarks and the resulting impact on DOT's ability to manage its RD&T programs in support of strategic objectives, and (3) RITA's and the Council's limited oversight authority and reliance on a consensus-based decision making process to prevent unnecessary duplication of RD&T efforts and resolve cross-modal differences.

VI. Performance Measures

To assess the outcome and effectiveness of OIG performance in terms of meeting our statutory responsibilities, we have adopted performance measures developed by the President's Council on Integrity and Efficiency (PCIE) based on the reporting requirements in the Inspector General Act of 1978, as subsequently amended. In addition to the PCIE performance measures, we expanded the Advisory Functions measure to track Freedom of Information Act requests, congressional and other requests for information, and legislations and regulations reviewed. The focus of these performance measures, which are contained in OIG budget documents as well as in the Semiannual Report to the Congress, has been on quantitative results, such as the amounts of questioned and unsupported costs; funds to be put to better use; and fines, court ordered restitutions/civil judgments, and Federal recoveries, as well as the numbers of indictments, convictions, and testimonies, ***Annex 1*** includes a list of current OIG quantitative performance measures with historical data.

Annex 2 lists a number of issue areas we anticipate addressing in FY 2008. These areas are consistent with our legislatively mandated mission, the intent and spirit of DOT's Strategic Plan, the PCIE Inspectors' General Vision Statement, the President's Management Agenda Initiatives, and the issues identified in our annual list of top management challenges.

Annex 2 does not list specific audits for FY 2008. Much of the OIG's work is tied to current issues or problem areas and requests from senior DOT officials, Congress, transportation industry, and the public. Our planning is designed to emphasize quick turnaround and focused reviews. These factors make it difficult to project the OIG's audit or investigation programs one to two years into the future - especially to the level of citing specific audits, investigations, evaluations, congressional briefings and testimonies, etc. The OIG's planning, therefore, must remain a dynamic process, focusing not only on our statutory requirements, but also on DOT's Strategic Plan, OMB and congressional interest areas, DOT's major dollar programs, and quick redirection - when and where it's needed - to be truly timely, relevant, and effective.

VII. Measurement and Evaluation

The Transportation Inspector General Reporting (TIGR) system contains substantial information on our audit and investigative efforts (past and present). This information is used to compile OIG's performance data. TIGR consists of various subsystems covering each OIG program area. For example, the audit subsystem is used for tracking such data as the number of reports, the number of recommendations issued and resolved, and the amount of questioned and unsupported costs. Similarly, the investigative subsystem is used to track the number of hotline complaints, indictments and convictions, and amount of fines and Federal recoveries. Much of these data are later incorporated into the OIG's Semiannual Report to Congress and annual budget submissions.

The OIG has also implemented a cost management system that enables the Inspector General and his senior executives to better track and manage the costs of conducting our audits and investigations.

VIII. Program Evaluations

Our Office of Quality Assurance Reviews (QAR) and Internal Affairs evaluates programs within OIG. A key responsibility of this office is to conduct periodic reviews of OIG audit and investigative offices to: (1) determine compliance with applicable laws, policies and procedures, and standards; (2) evaluate the adequacy of internal quality control systems; and (3) make recommendations for improvement, when appropriate. The QARs are designed to ensure that internal operations and functions are performed objectively and in an efficient and effective manner. OIG offices are subject to QARs within a 36-month cycle. In addition, the Office of Investigations conducts self-inspections based on PCIE peer review guidelines, and OIG participates in an external peer review program in which our organization is subjected to an independent evaluation of our work by another OIG every three years. In September 2006, EPA's OIG issued an opinion that the system of internal safeguards and management procedures for the investigative function of DOT OIG in effect for the period April 1, 2005 through March 31, 2006 is in substantial compliance with quality standards established by the PCIE and the Attorney General Guidelines. Our Audit and Evaluation Office is undergoing a peer review by DHS/OIG that is expected to be completed before the end of calendar year 2007.

Annex 1

FY 2008 Performance Measures

Audit Results (Dollars in millions)	**FY 98**	**FY99**	**FY00**	**FY01**	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**
Congressional Testimony	14	16	28	20	24	14	10	11	11
Costs Questioned/Funds to Be Put to Better Use	$1,072.30	$1,016.0	$1,510.1	$1,026.9	$1,470.2	$807.7	$984.8	$1,562.6	$893.4
Management Decisions to Seek Recoveries	$742.10	$691.2	$2,058.7	$1,031.4	$990.7	$537.5	$429.7	$2,576.4	$1,084.1
CFO Audits Adjustments	$98,084.30	$220,000.00	$36,000.00	$20,000.00	$41,000.00	$51,000.00	$29,200.00	$26,700.00	$18,600.00
Nonmonetary Program Improvements Recommendations Issued	226	225	213	219	242	292	178	230	212
Nonmonetary Program Improvements Recommendations Resolved	268	208	238	139	288	265	192	210	221
Investigative Results (Dollars in millions)	**FY 98**	**FY99**	**FY00**	**FY01**	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**
Indictments	101	206	240	210	877	524	184	324	171
Convictions	121	170	244	166	387	419	186	250	178
Fines	$7.4	$3.5	$32.7	$20.2	$22.7	$40.8	$9.6	$4.8	$2.9
Court Ordered Restitutions / Civil Judgments	$7.1	$17.8	$19.8	$13.4	$11.1	$5.0	$14.3	$29.0	$13.5
Recoveries	$9.8	$3.5	$6.9	$65.8	$13.0	$86.5	$8.4	$39.9	$32.3
Years Sentenced	121	167	147	104	107	158	195	221	123
Years Probation	236	216	412	334	352	377	282	355	275
Years Supervised Release	N/A	130	137	105	217	322	223	238	103
Hours of Community Service	N/A	3,490	4,897	10,102	3,450	9,726	1,216	3,970	1,654

Investigative Results Continued (Dollars in millions)	**FY 98**	**FY99**	**FY00**	**FY01**	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**
Debarments and Other Administrative Actions	156	155	130	274	251	162	176	199	216
Hotline Complaints Received	482	566	568	545	618	580	954	825	633
Hotline Complaints Investigated by OIG	138	103	104	119	88	120	174	93	69
Hotline Complaints Referred to Operating Administrations or Other Agencies*	344	463	464	426	530	460	780	732	564

* OIG tracks disposition of these complaints.

2. ADVISORY FUNCTIONS									
Advisory Functions	**FY 98**	**FY99**	**FY00**	**FY01**	**FY02**	**FY03**	**FY04**	**FY05**	**FY06**
Inquiries Received	446	355	380	318	243	160	70	45	43
Inquiries Completed	384	303	318	323	248	161	67	19	13
FOIA Requests Received	139	123	212	114	101	100	116	111	118
FOIA Requests Processed	200	115	121	185	141	97	109	84	73
Legislation Reviewed	61	397	407	352	514	155	300	169	207
Regulations Reviewed	67	92	66	81	110	107	102	78	76

Annex 2

FY 2008 Issue Areas

In carrying out our oversight responsibilities, our overall goal is to assist the Department of Transportation in reaching its long-term strategic and organizational goals. During FY 2008, the Office of Inspector General's performance will be measured by the successful accomplishment of its statutory responsibilities prescribed by the Inspector General Act and the completion of specific actions to support departmental goals. Although we cannot anticipate the requests that we may receive, we have provided examples of planned actions for FY 2008.

DOT Strategic Goal #1

Safety: "Enhance public health and safety by working toward the elimination of transportation-related deaths and injuries."

Transportation safety is the cornerstone of the Department's mission. Improving aviation and surface transportation safety is also a major feature of the OIG's top management challenges list. In our work on transportation safety, we will:

Aviation Safety:

- Continue monitoring FAA's oversight of domestic air carriers' use of foreign and domestic repair stations.
- Review FAA's efforts to implement risk-based oversight systems for air carriers, aircraft manufacturers, and their suppliers—both foreign and domestic.
- Continue monitoring FAA's efforts to address and reduce the risk of accidents as air traffic volume increases, including operational errors, runway incursions, pilot deviations, and near midair collisions.
- Monitor FAA's staffing and utilization of aviation safety inspectors.
- Monitor FAA's safety oversight of commuter and on-demand operators.

Surface Transportation Safety:

- Continue monitoring the use of highway and motor carrier safety grants to reduce highway deaths and injuries.
- Review FHWA's assessment of state transportation agencies' quality control and quality assurance programs to ensure that construction deficiencies are identified, monitored, and corrected before the highway system is accepted and opened to public travel.
- Review FHWA's oversight of how states use funds to install active warning devices at thousands of grade crossings nationwide.
- Monitor FRA's use of inspection and enforcement resources as part of implementing the National Inspection Plan for railroads.
- Continue monitoring FMCSA's oversight of state CDL programs and procedures to control CDL fraud and improve effectiveness of the commercial driver's license information system.

- Continue monitoring FMCSA's enforcement activities for hours of service, safety compliance reviews, and other motor carrier safety regulations.
- Continue monitoring FMCSA's use of staff and facility resources as the southern border opens and Mexican trucks and buses operate in the United States under the North American Free Trade Agreement (NAFTA).
- Continue monitoring the National Highway Traffic Safety Administration's (NHTSA) efforts to enhance the National Driver Register system operations to support the effort of keeping problem drivers off the road.

Pipeline Safety:

- Continue to monitor the Pipeline and Hazardous Materials Safety Administration's (PHMSA) oversight of integrity management programs for hazardous liquid and natural gas transmission pipelines.
- Monitor PHMSA's efforts to finalize integrity management programs for operators of natural gas distribution pipelines.

Hazardous Materials Safety:

- Continue to monitor DOT oversight of the transportation of hazardous materials by rail, trucks, and aircraft and the inspection and enforcement activities of DOT Operating Administrations.

Investigations:

- Continue to conduct criminal investigations in the following investigative priority areas: (1) HAZMAT transportation via air, highways, and on rail; (2) motor carrier safety involving fraudulent CDL and driver's logs; and (3) aviation safety.

Examples of FY 2006 congressional directives, requests, and testimony in this area include FAA's oversight of the use of non-certified repair facilities; FAA's progress in advancing risk-based oversight systems, improving operational error reporting, determining inspector staffing needs, and addressing emerging issues; and FAA' efforts to address the risks of runway incursions and operational errors. Other work focuses on progress and remaining challenges in implementing pipeline integrity management programs and in addressing pipeline security and disaster response.

DOT Strategic Goal #2

Reduced Congestion: "Reduce congestion and other impediments to using the Nation's transportation system."

To assist DOT in achieving this goal, the OIG will continue to emphasize reviewing FHWA, FTA, FAA, and FRA programs designed to reduce congestion (e.g., major highway projects nationwide, intercity passenger rail service, FTA-funded major transit projects, and projects to improve the National Airspace System and airport capacity). In doing so, the OIG will:

Aviation Congestion:

- Continue to monitor various capacity-enhancing initiatives; such as new runways, airspace redesign efforts, and satellite navigation; contained in FAA's Flight Plan 2006-2010 (the Agency's strategic plan) and the Operational Evolution Plan (the blueprint for enhancing capacity over the next decade).
- Continue to provide oversight of FAA's major acquisitions with a particular emphasis on billion-dollar, software-intensive efforts to modernize terminal and en route facilities and systems.
- Monitor efforts to define and develop the Next Generation Air Traffic Management System that is expected to allow FAA to triple the number of aircraft it handles.
- Review FAA's efforts to use better weather information to enhance air carrier capacity and reduce flight delays.
- Continue monitoring FAA's process for awarding Airport Improvement Program funds and approving Passenger Facility Charges for enhancing safety and security, maintaining the infrastructure, increasing capacity to accommodate more passenger and cargo traffic, and mitigating airport noise in surrounding communities.

Surface Congestion:

- Monitor the Central Artery/Tunnel project to ensure that safety issues are being addressed.
- Monitor the Lower Manhattan reconstruction projects overseen by FTA's Lower Manhattan Recovery Office.
- Continue to monitor the progress of the Dulles Corridor Metrorail project.
- Continue monitoring the progress of major FHWA and FTA capital projects to validate that these oversight agencies have identified critical risks related to project cost, funding, and schedule and related project management activities, including safety and quality.
- Review the implementation of the Safe, Accountable, Flexible, Efficient Transportation Equity Act provisions that require Major Project sponsors to develop Project Management Plans.
- Review the adequacy of Federal stewardship over multibillion-dollar highway projects considered for Public-Private Partnerships.
- Review FTA's controls over federally funded transit programs for on-demand paratransit services and discounted rates for riders with disabilities.

- Review efforts by FRA and FAA to address insufficient freight rail and air cargo capacity and the resulting congestion of rail lines, highways, and airport freight terminals.
- Review efforts by the Department to provide for more efficient and cost-effective intercity passenger rail service that meets the Nation's mobility and congestion needs.

Investigations:

- Continue to conduct investigations of alleged or suspected fraud involving major airport, highway, and transit infrastructure construction projects, including joint investigations with Federal and local law enforcement authorities. Continue OIG's National Contract and Grant Fraud Awareness Initiative to promote fraud detection and prevention among DOT recipients for oversight of DOT-funded infrastructure construction projects.
- Continue to conduct investigations of alleged fraud involving the Disadvantaged Business Enterprise Program.

Examples of FY 2006 congressional directives, requests, and testimony in this area include reviews of costs and schedule baselines of FAA's major acquisitions, examining progress made by FAA's Joint Planning and Development Office in addressing the Next Generation Air Transportation System and other air traffic control modernization efforts, the annual evaluation of Amtrak's financial status and budget request, quarterly reports on Amtrak's savings resulting from operational reforms, and applying key lessons learned from our work on federally funded transportation projects to the reconstruction of Lower Manhattan.

DOT Strategic Goal #3

Global Connectivity: "Facilitate an international transportation system that promotes economic growth and development."

To support the Department's efforts toward global connectivity, the OIG will review DOT efforts to identify and implement solutions for the Nation's intermodal transportation needs for the 21st century. Specifically, the OIG will look at FAA, FHWA, FMCSA, Maritime Administration (MARAD), FRA, and FTA programs aimed at advancing efficient and flexible transportation to stimulate economic growth and competitiveness to ensure that these programs are using available funds in the most efficient and effective manner. In support of this strategic goal, the OIG will:

Aviation Connectivity:

- Continue to provide oversight of FAA's major acquisitions with a particular emphasis on billion-dollar, software-intensive efforts to modernize terminal and en route facilities and systems.
- Monitor FAA's Joint Planning and Development Office's efforts to leverage research underway at the National Aeronautics and Space Administration, the Department of Defense, the Department of Commerce, and the Department of Homeland Security for the Next Generation Air Traffic Management System.
- Continue to monitor key metrics relating to aviation demand and performance.

Surface Transportation Connectivity:

- Continue to monitor FMCSA's progress towards implementing OIG recommendations on Mexican motor carriers operating in the United States and reporting annually to Congress on the status of the NAFTA Border Crossing Provisions.
- Continue to evaluate Amtrak's progress, plans, and ability to meet critical operational goals and implement reforms.
- Assess FHWA and FTA stewardship and oversight of major projects to determine the effectiveness of actions being taken or planned to identify, measure, and prioritize risks to projects being delivered approximately on time, on budget, and free from fraud.
- Continue to monitor FHWA's oversight of the Federal Lands Highway Program, with a focus on performance goals, measures, and key risks.
- Assess FHWA and FTA's oversight in cost estimating activities on major highway and transit projects to assess factors that cause cost estimates to be unreliable.
- Assess FHWA's oversight of states' processes and procedures for controlling, identifying, and tracking errors or omissions on major projects.

Research, Development, and Technology (RD&T):

- Assess the Research and Innovative Technology Administration's efforts to facilitate, coordinate, and review RD&T projects throughout the Department.
- Continue to monitor the Department's progress in strengthening oversight of RD&T funding, with special emphasis on weaknesses in grants and cooperative agreements awarded to universities and research centers.

Examples of FY 2006 congressional directives, requests, and testimony in this area include FMCSA's implementation of NAFTA's Cross-Border Trucking Provisions, FAA and industry progress in developing the Next Generation Air Traffic System and in modernizing the National Airspace System, and FAA's FY 2007 budget request and the status of the Aviation Trust Fund, focusing on FAA's major accounts, the Airport Improvement Program, and current funding mechanisms.

DOT Strategic Goal #4
Environmental Stewardship: "Promote transportation solutions that enhance communities and protect the natural and built environment."

To assist DOT in achieving this strategic goal, the OIG will provide oversight of Federal transportation actions as they relate to the protection of the natural and built environment. In doing so, OIG will:

Departmental Human and Natural Environment:

- Continue to monitor the Operating Administrations' compliance with environmental standards, laws, and regulations.

Aviation Human and Natural Environment:

- Continue to monitor FAA's actions to minimize the aviation impact on the environment, such as airport construction, air quality, and noise.

Maritime Human and Natural Environment:

- Continue to monitor MARAD's progress in disposing of obsolete vessels in the National Defense Reserve Fleet, including efforts to respond to the environmental threats posed by its inventory of decaying ships.

Pipeline and Hazardous Materials Human and Natural Environment:

- Continue to monitor PHMSA's pipeline and hazardous materials safety programs to ensure measures are in place to protect environmentally sensitive areas, drinking water intakes, and populated areas.

Investigations:

- Continue to conduct criminal investigations in its investigative priority area of illegal HAZMAT transportation by air, rail, pipeline, and highways.

DOT Strategic Goal #5
Security, Preparedness, and Response: "Balance transportation security requirements with the safety, mobility, and economic needs of the Nation and be prepared to respond to emergencies that affect the viability of the transportation sector."

DOT continues to have a supportive role in working with DHS to ensure transportation security and is also responsible for the security of its critical computer systems. DOT has also been assigned critical responsibilities to assist DHS' response to disasters. To support DOT in this area, the OIG plans to:

Transportation Security:

- Continue to monitor DOT's efforts to finalize security annexes (e.g., freight rail and pipeline security) to the Memorandum of Understanding between DOT and DHS to facilitate the development and deployment of transportation security measures that promote the safe, secure, and efficient movement of people and goods.
- Continue monitoring FAA's efforts to implement a business contingency and continuity plan in the case of long-term service disruptions.
- Continue to audit the CDL Program to ensure that FMCSA takes effective action to promote compliance with new CDL requirements, including initiatives implemented in conjunction with DHS.

Computer Security:

- Continue to review FAA's efforts to protect critical infrastructure, including the air traffic control infrastructure, as required by the Homeland Security Presidential Directive-7.
- Continue to evaluate DOT's progress in correcting security weakness in mission-critical computer systems, key computer centers, and network connections.
- Continue to review DOT's implementation of a common access security architecture (the blueprint for ensuring that linked systems are secured), such as use of electronic signatures through the Government-wide e-authentication initiative.
- Continue to review DOT's efforts to enhance contingency planning, business continuity capabilities, and security remediation plans.
- Assess DOT's implementation of the smart card technology to control employees' access, as required by Homeland Security Presidential Directive-12.

Emergency Response

- Monitor Departmental efforts to award emergency response contracts.
- Continue to review select hurricane-related transportation infrastructure reconstruction projects, grants, and contracts.
- Continue verifying that expenditures of Federal funds for the costs of transportation infrastructure reconstruction in the Gulf Coast region are appropriate, cost effective, and fully tracked by DOT Operating Administrations.
- Continue proactive methods to ensure that Operating Administrations and state transportation departments are exercising adequate oversight of Department expenditures for hurricane-related reconstruction.

Examples of FY 2006 congressional directives, requests, and testimony in this area include monitoring FMCSA's progress to implement OIG recommendations on Mexican motor carriers operating in the United States as part of the North American Free Trade Agreement's Border Crossing Provisions and the annual security assessments of DOT information technology systems required by the Federal Information Security Management Act of 2002.

DOT Organizational Goal #1
Organizational Excellence: "Advance the Department's ability to manage for results and achieve the goals of the President's Management Agenda."

To assist DOT in advancing organizational excellence and achieving the goals of the President's Management Agenda, the OIG will:

Department Financial Accountability:

- Review FMCSA's internal controls to ensure proper grant management of the Motor Carrier Safety Assistance Program.
- Continue monitoring Amtrak's financial condition and reporting on operational savings.
- Review FTA's National Transit Database to ensure proper distribution of Federal transit funding.
- Continue to assess the ability of DOT's Department-wide financial management system (Delphi) to correct long standing financial system weaknesses and provide accurate financial data in a timely manner.
- Continue to monitor audits of FAA, the Highway Trust Fund, and St. Lawrence Seaway financial statements performed by certified public accounting firms.
- Conduct an audit of the consolidated DOT financial statements, including internal controls and compliance with laws and regulations, to improve financial management in DOT.
- Continue to review DOT's efforts to implement new financial management systems and capabilities that will improve financial management information and eliminate duplicative systems.
- Continue to monitor DOT's progress in identifying the risk of improper payments and developing system and internal controls to ensure the integrity of financial transactions processing.
- Continue to review the cost accounting systems and practices at DOT Operating Administrations to determine whether the systems are being designed to accurately accumulate and report the full costs of activities and outputs and used to manage operations more efficiently.

Contracts/Procurement:

- Review FHWA internal controls to ensure that improper payments are not being made to Disadvantaged Business Enterprise firms contracted or subcontracted to perform work on highway and other projects.
- Review the use of competitive procurements throughout the Department. Determine whether use of sole sourcing is justified and determine whether fair and reasonable prices were obtained when adequate competition was not obtained.
- Monitor DOT's progress to strengthen oversight and coordination of research, development, and technology activities and funding, with special emphasis on weaknesses in grants and cooperative agreements awarded to universities.

- Continue to review DOT's follow-up efforts on contract costs questioned by the Defense Contract Audit Agency in annual incurred cost audits.
- Review FHWA internal control improvements at Turner Fairbanks to ensure effective safeguard against fraud, waste, and abuse.
- Continue to monitor the Operating Administrations' contract and procurement award functions to ensure they acquire goods and services at the best price or value.
- Continue to monitor the Operating Administrations' oversight of their contractors to ensure that goods and services are delivered in a timely manner, meet needs, and are obtained at a reasonable price.
- Continue reviews of grant administration policies and practices of DOT Operating Administrations to ensure that funds are used for the intended purpose.
- Assess FHWA's program oversight of state transportation management practices, including states' monitoring of sub-recipients of Federal funds to ensure adequate project delivery systems for approved projects.
- Continue monitoring the joint effort between FHWA and state transportation agencies to oversee overhead charges to the Federal-aid program by design and engineering firms.
- Continue to monitor FAA's oversight of airport sponsors' compliance with the terms and conditions of Airport Improvement Program grants.
- Continue efforts nationwide to identify airport revenue diversions.

Air Traffic Organization:

- Review issues relating to the reauthorization of FAA and the various financing mechanism available to fund the Agency.
- Continue to assess FAA's progress in transitioning the Air Traffic Organization into an organization that is accountable for results in terms of operations, acquisitions, and financial management.
- Continue to monitor FAA's efforts to control its operating costs.
- Continue to monitor FAA's efforts to implement its cost accounting and labor distribution systems and use these systems in decision making.
- Review FAA's efforts to maintain and upgrade air traffic control facilities in a timely and cost-effective manner.
- Continue reviewing FAA's progress in outsourcing flight services to ensure projected savings of $1.7 billion are realized.

Human Capital:

- Continue monitoring FAA's progress in addressing the expected surge in controller attrition and implementing initiatives to increase workforce productivity.

Implementing Electronic Government Initiative:

- Review the consolidated information technology infrastructure in the new DOT Headquarters building to ensure it is properly managed and adequately secured.
- Review DOT's compliance with privacy requirements in the E-Government Act and protection of sensitive personally identifiable information of employees and citizens.

- Continue to review the Department's information technology capital planning and investment control process to ensure that cost-effective investment and consolidation (at Headquarters and field operations) are also in compliance with approved Enterprise Architecture (the blueprint for ensuring that DOT systems operate together in an effective and cost-efficient manner).
- Continue to review DOT's efforts to strengthen its information resources management processes, including cost estimation and project oversight.

Fraud Awareness and Prevention:

- Conduct proactive and reactive initiatives to maximize fraud prevention activities in responding to national disasters.
- Monitor DOT's implementation of new suspension and debarment procedures.
- Continue to deliver fraud awareness and bribery awareness briefings for DOT employees.

Examples of FY 2006 congressional directives, requests, and testimony in this area include reviewing the budget and mission of the Office of the Assistant Secretary for Administration, reviewing inactive obligations at FHWA, providing an annual assessment of FAA's progress in implementing a cost-accounting system, assessing FAA's management and controls over Memoranda of Understanding, reviewing FTA's corrective actions to eliminate Anti-Deficiency Act violations, and auditing FAA's multiple-award procurement programs.