

**Before the Subcommittee on Transportation,
Senate Appropriations Committee**

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**Management Oversight
Issues**

**Statement of
The Honorable Kenneth M. Mead
Inspector General
U.S. Department of Transportation**



Mr. Chairman and Members of the Subcommittee: As we begin the Fiscal Year (FY) 2002 appropriations cycle, we appreciate the opportunity to appear today. As you know, each year we issue a report on the major management challenges facing the Department of Transportation (DOT). We have discussed our report with Secretary Mineta and are pleased to note that in his confirmation hearing, Secretary Mineta stated that he would be keeping a copy of the Top 10 Management Challenges report on his desk and would be using it as a blueprint for addressing the management challenges facing DOT.

For purposes of our statement, I would like to take this opportunity to highlight some of the most pressing issues facing Congress and DOT. These issues need to be dealt with to support safe and reliable transportation service, to prepare for necessary budget decisions related to DOT programs, and to ensure that Federal transportation infrastructure dollars are well spent. Attached to our testimony is a summary of our recommendations in each of the top 10 management challenge areas.

SUMMARY OF IMMEDIATE ISSUES FACING DOT

The most important, immediate, core thematic issues confronting the new Administration and the new Congress, can be divided into four areas:

Transportation Safety

- Reducing the record number of runway incursions (429 in the last calendar year) and controller operational errors (1, 154 in the last Fiscal Year (FY)).
- Staffing the oversight of Mexican truck safety.
- Focusing the new Federal Motor Carrier Safety Administration (FMCSA).
- Implementing the TREAD Act to prevent future “Firestones.”
- Addressing longstanding pipeline safety issues.

Stewardship of Transportation Funding

- Streamlining process requirements, while respecting environmental protection laws.
- Fighting fraud.
- Implementing new infrastructure grant oversight requirements.
- Monitoring contract expenditures.

Immediate Budget Issues

- Controlling FAA’s operating costs.
- Implementing a cost accounting system at FAA.
- Managing multi-billion dollar FAA systems acquisitions.
- Justifying and reconciling Coast Guard capital investment requirements.

- Addressing Amtrak's financial viability.

Aviation System Performance

- Making FAA accountable as a results-based organization.
- Developing a multifaceted approach to addressing capacity restraints.
- Improving aviation customer service.

Transportation Safety. Safety is central to DOT's mission. Looking

Department-wide, the most immediate safety issues are:

- *Reducing the Record Number of Runway Incursions (429 in the last calendar year) and Controller Operational Errors (1,154 in the last Fiscal Year (FY)).* To reverse the upward trend in runway incursions, FAA must follow-through on its planned initiatives at the national and local levels. FAA had three good plans to reduce runway incursions since 1991, but they all lacked follow-through. FAA must ensure that local action plans are prepared to address airport-specific problems. Emerging technologies to reduce runway incursions must be identified and evaluated and advanced quickly to high-risk airports. Reducing runway incursions demands strong and consistent leadership, however, FAA has experienced significant turnover in the management of its Runway Safety Program. With the anticipated departure of the current program director this spring, this is the fifth turnover in that position in the last 5 years. To reduce operational errors, FAA must approach reducing operational errors with a sense of urgency. Strong national oversight is needed to ensure that efforts made to reduce operational errors at facilities

with high numbers of operational errors are effective in correcting facility-specific problems.

- ***Staffing the oversight of Mexican truck safety.*** Strengthening U.S. inspection capability at the southern border crossings can have a real world impact. Recent increases in Federal border inspectors correlated with a 4 percent reduction in Mexican trucks that were placed out of service for significant safety violations after inspections when entering the United States. While it is encouraging that a total of 60 inspectors are scheduled to be on board in 2001, in 1998 we estimated that 126 additional Federal inspectors were needed during port operating hours. On February 7, 2001, Senator Ernest F. Hollings and Congressman James L. Oberstar requested us to provide a status report on existing conditions and the conditions necessary to safely open the border to Mexican trucks. Specific areas to be addressed are staffing and inspections facilities, out-of-service rates, verification of registration information, and harmonization of safety regulations.
- ***Focusing the New Federal Motor Carrier Safety Administration (FMCSA).*** DOT must fill key leadership positions in FMCSA and issue statutorily directed rulemakings. FMCSA also needs to take a multifaceted approach to enforcement such as issuing shut down orders. While education/outreach

efforts can be effective with most carriers, strong enforcement is needed for the minority of carriers that are egregious offenders.

Similarly, FMSCA must employ a very firm hand with scams involving fraudulent Commercial Driver Licenses (CDL), which are occurring in an alarming number of States. For example, in the states of Florida and Illinois, 35 individuals have been found guilty of charges related to the issuance of fraudulent CDLs. Since November 1999, investigations of fraudulent CDLs have also resulted in multiple indictments in Georgia, Iowa, Mississippi, New York, North Carolina, Pennsylvania and South Carolina. Also, criminal investigations of fraudulent CDLs are ongoing in four other states.

- ***Implementing the TREAD Act to Prevent Future “Firestones”***. The TREAD Act requires NHTSA to conduct 10 rulemakings in the areas of defect reporting by manufacturers, improving and updating tire standards, and vehicle rollover testing and evaluation. Six of the 10 rulemakings must be completed in 2001 or 2002. For example, by June 2002, NHTSA is required to complete a rulemaking establishing early warning reporting requirements for motor vehicle and equipment manufacturers. This will be important because it will include guidance for how and when manufacturers report data to NHTSA in incidents involving fatalities or serious injuries alleged or determined to be caused by a possible defect. Since we found that it takes DOT, on average, 3.8

years to complete a rule, significant management effort will be required to issue these rules in the time required by the Act.

Also, NHTSA currently relies on consumer complaints to determine whether potential defects warrant investigation and ultimately a recall. These data are too narrowly focused and are not comprehensive or reflective of the nature and extent of potential safety defects. Other NHTSA databases, such as the Fatality Analysis Reporting System (FARS) and the National Automotive Sampling System (NASS), as well as other sources of information, such as manufacturer warranty claims, and insurance claims data should be routinely analyzed.

- ***Addressing Longstanding Pipeline Safety Issues.*** Recent tragic pipeline incidents have emphasized the need for RSPA to develop and implement a comprehensive, effective plan for pipeline safety oversight. RSPA has been working on various facets of pipeline safety, but needs to proceed expeditiously on several fronts.
 - Originally due to Congress in the mid-1990s, RSPA issued two Congressionally-mandated pipeline safety rulemakings in December 2000. These two rulemakings are now being reviewed by the Bush Administration. Currently, these rulemakings are scheduled to become

effective later this Spring (60 days from their original effective dates). These rulemakings (1) define high-density population areas and areas unusually sensitive to environmental damage, and (2) specify how operators of large hazardous liquid pipelines (large meaning 500 miles of pipeline or more) will report to RSPA on their plans to assess and monitor the integrity of their pipelines in these areas.

- RSPA is currently working with the natural gas pipeline industry to develop a rulemaking for integrity management plans for natural gas pipeline operators to be issued later this year.

- Further, RSPA needs to ensure that all pipeline operators continue to voluntarily submit pipeline location data to the National Pipeline Mapping System.

- RSPA should fund pipeline research and development to improve internal inspection devices, called “smart pigs,” and develop inspection technologies for pipelines that cannot be pigged. RSPA must ensure its pipeline inspectors receive training in new inspection technologies and up-to-date information on the operators’ integrity management plans.

- Finally, RSPA utilization of state inspectors may ease the strain on limited Federal inspection resources while increasing state and community awareness of the benefits and dangers that pipelines pose, thereby increasing the safety of the pipelines, and the public.

Stewardship of Transportation Funding. Congress responded to the nationwide problems of transportation congestion and capacity by passing TEA-21 and AIR-21, which provide an unprecedented infusion of funds for highway, transit, and airport infrastructure projects. To date, highway and transit funding have increased by over 40 percent and airport funds have increased 75 percent. TEA-21 provided \$218 billion for highway and transit projects in FYs 1998 through 2003, while AIR-21 made \$12.4 billion available for airport infrastructure projects from FY 2000 through FY 2003.

- ***Streamlining Process Requirements, while Respecting Environmental Protection Laws.*** The Department also needs to address concerns over process requirements and resulting project delays associated with environmental (including noise) clearances. All of the modes face this challenge. DOT has an opportunity here to provide leadership on how to move major infrastructure projects forward more expeditiously, while respecting the letter and intent of environmental laws.

- ***Fighting Fraud.*** The last comparable funding jump was during the Eisenhower and Kennedy Administrations, when inadequate protection and monitoring of funds used to build the interstate highway system led to scandal and widespread fraud schemes involving public corruption, bid rigging, and false claims. A repeat must be avoided.

The Office of Inspector General, with the support of American Association of State Highway and Transportation Officials, the Justice Department, and the Federal Bureau of Investigation, has a major proactive fraud initiative. In FY 2000 alone, our efforts in the area of contract and grant fraud led to 54 indictments (a 54 percent increase over 1999), 36 convictions (a 24 percent increase over 1999), and over \$10 million in fines, restitution and other monetary recoveries

DOT needs to greatly improve its stewardship and oversight of transportation funding across all the modes. In the last 2 years, several events served to reinforce the important lesson that DOT agencies must take their financial oversight responsibilities more seriously:

- an alarming lapse in FHWA's oversight of the Central Artery Project, despite our warnings, left FHWA unaware of mounting cost overruns and

allowed the Department to be blindsided when the Project disclosed a \$1.4 billion increase;

- a DOT OIG investigation that led to seven guilty pleas from individuals charged with Federal racketeering and false claims violations for their role in submitting inflated and bogus claims on Federally funded highway construction projects in Illinois and \$15 million in fines and restitutions from the two companies involved;
- an extensive investigation that resulted in five criminal prosecutions and two steel product suppliers recently agreeing to pay the United States and the State of Louisiana a total of \$30 million to settle allegations that they supplied unapproved materials for Federally funded highway projects;
- a 5 year prison term for a highway construction company owner who defrauded the Disadvantaged Business Enterprise (DBE) program on federally funded road projects in West Virginia;
- a case involving two FHWA Program Managers who accepted over \$250,000 in bribes in exchange for awarding multi-million dollar intelligent transportation system research contracts: the Program Managers pled

- guilty, were ordered to make restitution, and were sentenced to 27 and 36 months' incarceration, respectively, and five contractors were prosecuted;
- a 2 year prison term and nearly \$1 million in fines and restitution against a contractor for inflating the costs of aerial photography and ground surveys on federally funded highway construction projects in Virginia; and
 - plea agreements and fines totaling over \$2 million for two companies involved in a bid rigging and price fixing scheme. As subcontractors, the companies provided specialty construction in the areas of post tensioning, cable-stayed bridges, and mechanically stabilized earth. The former head of another company was also indicted. He fled the country and remains a fugitive.
- ***Implementing new infrastructure grant oversight requirements.*** Improving financial oversight must begin with vigorous implementation of new mega-project finance plan requirements, as well as implementation of recent Task Force recommendations:
 - FHWA must enforce the new guidance on mega project finance plans that it issued on May 23, 2000, perform independent analyses of the data reported

- in mega project finance plans, and perform ongoing oversight project management.
- All DOT agencies overseeing large projects must implement the recommendations of the Task Force on Oversight of Large Transportation Infrastructure Projects, which was adopted on December 29, 2000.
 - FTA faces a special challenge in maintaining oversight of large infrastructure projects. At this time last year, FTA had 15 approved full funding grant agreements and 13 pending grant agreements. As of January 19, 2001, FTA had 28 approved and 6 pending full funding grant agreements.
 - ✓ Because FTA's oversight is funded by a fixed percentage of New Starts appropriations, doubling the number of projects had the effect of decreasing the oversight on each individual project.
 - ✓ Moreover, 9 of the 28 approved projects are not scheduled to receive appropriations in FY 2002, so FTA receives no funding for overseeing those projects. Likewise, FTA also receives no funding for oversight of pending or proposed projects (absent appropriations). Nonetheless, they

may still have oversight requirements, for such things as construction wind-up, finalizing outstanding claims, and grant close out.

- ✓ Finally, New Start transit projects require intensive oversight because many grantees are new to major capital construction projects for transit. This situation has resulted in oversight being severely stretched to cover all the approved, pending, and proposed grant agreements. Meanwhile, TEA-21 authorization levels for transit new starts have been exhausted and projects with full funding grant agreements have, over the past 4 years, not received the full funding they were supposed to receive under their grant agreements. Although FTA has made significant progress in project oversight in the last few years (so much so that it has been removed from the GAO High Risk List), to prevent slipping, back FTA must work with Congress to address anticipated shortfalls in FTA project oversight funds.

- ***Monitoring Contract Expenditures.*** During the 5 years ended April 2000, DOT (excluding FAA) closed 864 cost-reimbursable contracts valued at \$559 million. Since DOT internal agencies took over responsibility for contract audits, independent audits of DOT contracts by the Defense Contract Audit Agency have dropped from 397 in 1996 to 68 in 1999, resulting in minimal oversight over millions of dollars in contract costs. Cost-reimbursable

contracts are generally more risky for the Government because contractors have little incentive to control costs. We found that most contracts (1) were closed without independent audits, (2) were not supported with annual certified contractor incurred cost proposals, (3) were not properly adjusted during contract performance for changes in billing rates, and (4) were awarded without determining whether the contractors' accounting systems were adequate to handle cost-reimbursable contracts. In short, we saw little evidence of review of the amounts billed by contractors. We also found DOT had more than 400 cost-reimbursable contracts with obligations of \$232 million that were overdue for closure from 1 to 9 years.

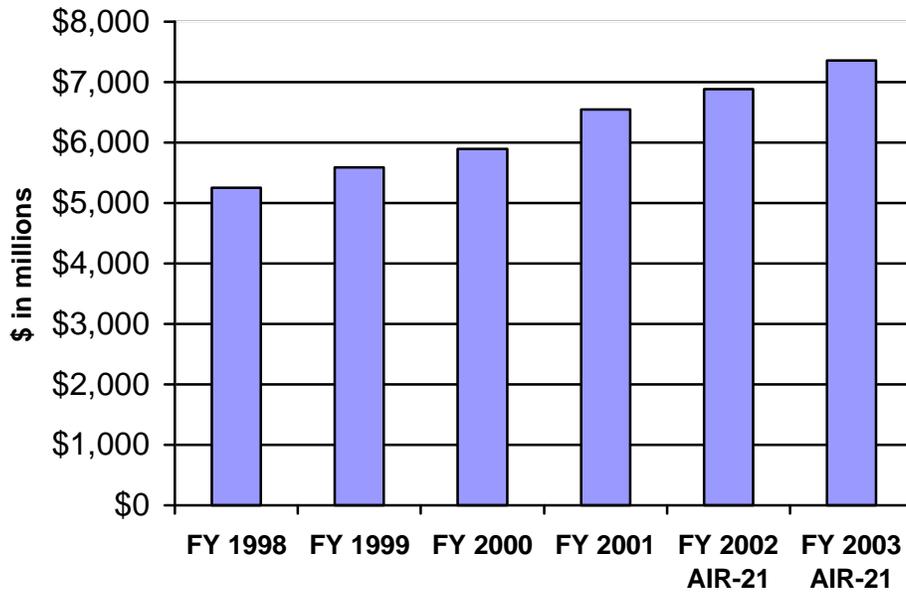
Our work on a diverse set of FAA acquisitions shows that FAA also needs to strengthen contract oversight. In some cases, we found that the contractor prepared Government cost estimates or estimates were not prepared at all. FAA needs to make greater use of earned value management techniques and cost controls (cost ceilings). In addition, FAA needs to analyze variances between agency and contractor cost estimates to ensure costs are fair and reasonable. Greater use of the Defense Contract Audit Agency for assessing costs is also needed to protect the Government's interest. FAA needs to use the procurement and personnel flexibility granted in 1996 to hold contractors and FAA staff more accountable.

Immediate Budget Issues. There are several major budget issues that will have a profound impact on DOT's budget over the next decade.

- ***Controlling FAA's Operating Costs.*** In past testimonies we have repeatedly cautioned that FAA's operations costs must be contained. AIR-21 provides a powerful incentive for this because the general framework calls for FAA's airport improvement program (AIP) and facilities and equipment (F&E) accounts to be funded at the authorized levels *before* allocating any Trust Fund revenue to FAA's Operations account. Barring a tax increase, Trust Fund receipts and interest will clearly be inadequate to fund all of FAA's operations costs.

As shown in the following chart, FAA's operations costs, which is primarily salary driven, have risen by over \$1.2 billion, or 25 percent, from FY 1998 to FY 2001, and are expected to grow to about \$7.4 billion by FY 2003.

FAA's Operations Budget FY 1998 to FY 2003



New pay systems, developed as a result of FAA's personnel reform efforts, have fueled much of the increase. For example, FAA estimates the new pay system negotiated with the National Air Traffic Controllers Association (NATCA) will require nearly \$1 billion in additional funding over the 5-year life of the agreement. Now, other FAA workforces want pay increases as well and these must be negotiated under FAA's personnel reform authority.

To offset the additional costs of the NATCA agreement and increase productivity, FAA and NATCA negotiated a series of workplace changes. The bottom-line is that workplace productivity changes are not yet in place system-

wide – FY2001 and 2002 will be watched closely to determine to what extent they are implemented and quantified. Key elements include:

- increasing the use of controllers-in-charge and reducing the number of first line supervisors while mitigating potential safety implications;
 - evaluating the controller staffing ceilings established in the collective bargaining agreement and addressing pressures from various groups to hire additional controllers over and beyond the cap; and
 - assessing the viability of closely related factors that bear on system performance and controller productivity such as facility consolidation, the future of FAA's successful contract tower program, and delivery of Oceanic air control services.
- ***Implementing a Cost Accounting System.*** Finally, to achieve meaningful cost control and give Congress and FAA management the information needed to make informed decisions on the FAA operations budget, FAA must have a cost accounting system, including a labor distribution component.

FAA also needs a cost accounting system to know what it costs to perform its various services and effectively manage its complex organization. The FAA

cost accounting system must measure the overall costs of providing specific services, including operations cost and the cost of labor. With good cost accounting information, FAA could identify areas of low productivity and high cost. Conversely, high productivity and cost efficiency also would be highlighted.

FAA originally planned to have its cost accounting system fully operational by October 1, 1998. Now September 2002 is the planned date. However, even if FAA meets the September 2002 date, it will still be 9 months from implementing its labor distribution system, which if properly developed, will provide the information necessary to properly allocate labor costs to specific services. Labor accounts for more than half of FAA's total costs, but it is the labor distribution system that part FAA plans to develop last.

- ***Managing Multi-Billion Dollar FAA Systems Acquisitions.*** Within the next 6 months, DOT will need to make “go forward, slow down, stop, or modify” decisions on major air traffic control systems acquisitions. The most important of these systems are:
 - WAAS—a \$2.9 billion project in a watershed year. Over the years, WAAS has proven more difficult to develop and field than FAA anticipated. The key cost and schedule driver now focuses on integrity—the ability of

WAAS to alert pilots when the signal should not be relied upon. Although an independent review board has concluded that WAAS is conceptually sound, a decision is needed in early 2001 on how FAA will proceed with this program – but, still unknown are how much WAAS will cost, how it will be certified as safe, and when the satellite-based system will be completed.

- STARS—a \$1.4 billion acquisition to replace controller displays and software, which has experienced cost and schedule difficulties. A major risk still remains to deploying all STAR’s systems at FAA’s 171 terminal radar approach control facilities with a combined installation of 119 Department of Defense facilities. Early this year, FAA must develop a realistic deployment schedule and identify additional funds that will be needed for deployment.

- Oceanic Air Traffic Control—Currently estimated at \$279 million, Oceanic services will have significant international ramifications for one of the worlds fastest growing aviation markets. FAA must avoid past problems with modernizing Oceanic facilities. As we testified in February 2000, if Congress should choose to make any major changes to FAA’s structure or commercialize air traffic control services, Oceanic services could provide a test for this experience. Oceanic services also provide FAA a better

opportunity for the collection of user fees as Congress has already approved the collection of over flight fees, and other countries collect user fees for Oceanic services.

- ***Justifying and Reconciling Coast Guard Capital Investments Requirements.***

Preliminary estimates indicate that capital improvement funding of \$15 billion or more will be needed over the next 20 years to modernize assets that are critical to the Coast Guard's Marine Safety, Search and Rescue, Law Enforcement, and Marine Environmental Protection programs. To meet the Coast Guard's stated requirements, its capital acquisition budget will need to more than double from \$400 million annually to at least \$850 million annually on a sustained basis. However, the Office of Management and Budget (OMB) targets for the Coast Guard's acquisition budget range from \$520 million to \$552 million annually for FY 2002 through FY 2005. Immediate issues that the Coast Guard needs to address are:

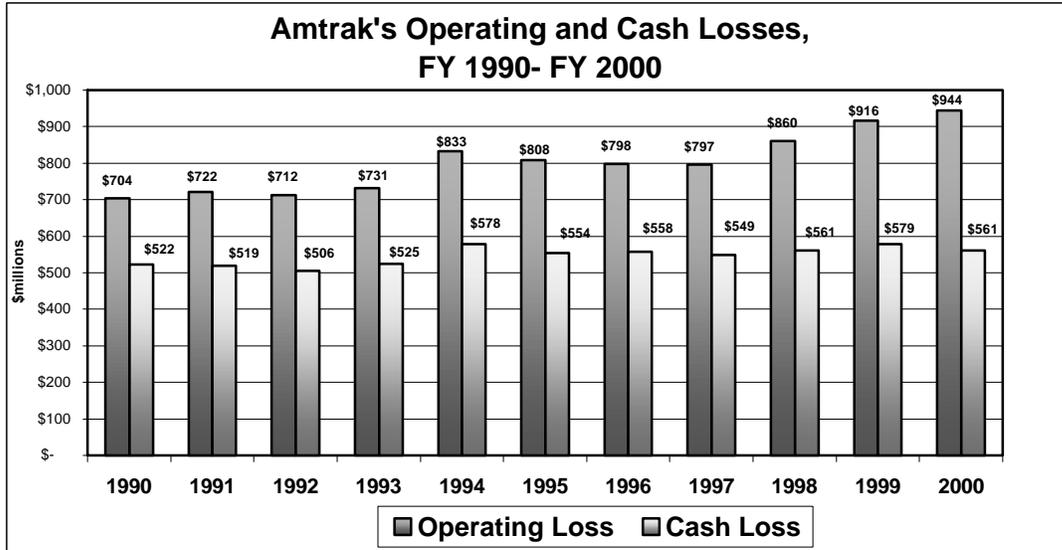
- Reconciling Capital Investment Priorities and Budget Targets. Coast Guard's capital acquisition needs exceed OMB targets by more than \$300 million per year for the foreseeable future. Coast Guard needs to establish capital investment priorities and continue working with OMB to reconcile their respective capital funding proposals and budget targets.

- Justifying the FY 2002 Budget Request for Deepwater. The planning process for Deepwater has been endorsed and praised by many organizations. However, the Coast Guard wants to proceed with a budget request for this project even though the planning process is not complete and it has not selected an acquisition strategy. Given this, Coast Guard should be prepared for questions on which Deepwater assets need to be acquired or modernized, how this will be done, what it will cost, and when funding will be needed.

- Justifying the FY 2002 Budget Request for the National Distress and Response System Modernization Project. Like Deepwater, Coast Guard plans to proceed with a procurement request for the Distress and Response System Project in FY 2002 before completing its separate planning process. The major task for Coast Guard is to present a specific system modernization plan for this important search and rescue capability that details what assets need to be acquired or modernized, how it will be done, what it will cost, and when funding will be needed.

- ***Addressing Amtrak's Financial Viability.*** Amtrak's ability to achieve operational self-sufficiency by 2003, as required by law, depends substantially on closing a \$737 million gap in projected but undefined savings and revenue gains and fully ramping up high-speed (Acela) rail service in the Northeast

Corridor. Beginning in 2001, Amtrak's cash losses must drop by an average of nearly \$100 million each year for Amtrak to reach operating self-sufficiency by 2003.



Amtrak initiated Acela Express revenue service on December 11, 2000. For the first 4 weeks of operations, Acela Express posted an overall on-time performance of 94 percent. Amtrak plans to phase in two additional Acela Express roundtrips in early March and fully implement all 20 high-speed trainsets by September 2001.

Even if Amtrak meets its operational self-sufficiency mandate, its long-term viability will still depend on continued, significant, funding for capital improvements, including recapitalization of the Northeast Corridor, life-safety needs in the tunnels approaching Penn Station, and development of new high-

speed corridors. Amtrak estimates the annual price-tag for these investments to be about \$1.5 billion, which it hopes to secure through some combination of a high-speed rail bond bill and annual appropriations from Congress.

Aviation System Performance. Aviation system performance has become a front burner issue. Last year was the worst on record, with FAA reporting a 90 percent increase in delays compared to 5 years ago. Cancellations grew at an even faster pace during this time period, increasing 104 percent. Over 1 of every 4 flights was delayed, cancelled, or diverted in 2000, affecting approximately 163 million passengers, with the average arrival delay exceeding 52 minutes. Much of the delay time is spent on the runway, with the number of flights experiencing taxi-out times of 1 hour or more increasing. Addressing the ability of the aviation system to effectively meet soaring consumer demand will require concerted efforts on the part of FAA and the airlines in several areas – transitioning FAA into a results-oriented organization, developing a multifaceted approach to addressing capacity constraints, and improving customer service.

- ***Making FAA Accountable as a Results-Based Organization.*** Proposals for FAA to operate as a results-based organization are not new. They go back to at least 1996 (when Congress exempted FAA from Federal procurement and personnel rules and directed the agency to implement a cost accounting system). In 1997, the National Civil Aviation Review Commission also

recommended that FAA establish a cost accounting system to manage its resources in a businesslike manner. These proposals were reinforced by AIR-21, which significantly increased FAA's budget and directed various "structural" reforms within the agency. There are several preconditions that FAA must first address if the agency is to make the transition into a results-based organization.

- Implementing Requirements of AIR-21. FAA is in the very early stages of implementing the various reforms directed by AIR-21, including forming the Management Advisory Council, and the Air Traffic Services Subcommittee (whose members were just named); however, a *Chief Operating Officer has not yet been selected.* While these measures have the potential to assist FAA in transitioning into a more results-oriented organization, it is much too early to tell if they will be successful.

- Developing a Cost Accounting System. A credible cost accounting system is a necessary precondition to develop needed financial and cost data and thereby serve as the foundation for any results-based organization, public or private. With good cost accounting information, FAA could identify areas of low productivity and high cost. Conversely, high productivity and cost efficiency also would be highlighted. In 1996, Congress directed FAA to develop a cost accounting system, and FAA originally planned to have the

system in place by October 1998. FAA's cost accounting system is long overdue.

- ***Developing a Multifaceted Approach to Addressing Capacity Constraints.***

Effectively addressing constraints on capacity will require a multifaceted approach. First, FAA and DOT must establish and implement a uniform system for tracking delays, cancellations, and their causes. In the final months of the prior Administration, a Task Force made recommendations to accomplish this. Those recommendations still need to be implemented.

Second, FAA must also develop capacity benchmarks for the Nation's top 30 airports. This will provide a common framework for understanding what maximum arrival and departure rate can physically be accommodated by airport, by time of day under optimum conditions. A set of capacity benchmarks is essential in understanding the impact of air carrier scheduling practices and what relief can realistically be provided by new technology, revised air traffic control procedures, new runways, and related airport infrastructure.

Finally, FAA must develop a strategic plan for addressing capacity shortfalls in the immediate, intermediate, and long term. These three points in time are important because the new runways or airports or air traffic control technology

that may be in place 2,5, or 10 years from now holds promise for the future, but offer limited or no bottom-line relief in the immediate term. Actions that are necessary in the short term may become unnecessary in the longer term with the addition of, for example, new runways. An immediate issue is scheduling, at peak travel times, flights beyond the established physical capacity of the airport and air traffic control system under optimum conditions. The dilemma an individual Airline faces is if it takes action and reduces flights, would competitors then fill those slots, resulting in no change in the overall flight scheduling at the airport.

- ***Improving Aviation Customer Service.*** Airline customer service took center stage in January 1999, when hundreds of passengers were stuck in planes on snowbound Detroit runways for up to 8½ hours. Following that incident, both the House and Senate conducted hearings on the air carriers' treatment of air travelers and considered whether to enact a "passenger bill of rights." Following hearings after the January 1999 incident, Congress, DOT, and the Air Transport Association (ATA) agreed that the air carriers should have an opportunity to improve their customer service without legislation. To demonstrate the Airlines' ongoing dedication to improving air travel, ATA and its member Airlines executed the Airline Customer Service Commitment on June 17, 1999. The Commitment covered 12 specific areas, including: offering the lowest fare available; notifying customers of known delays,

cancellations, and diversions; and being more responsive to customer complaints. Each airline agreed to prepare a Customer Service Plan (Plan) implementing the twelve provisions of the agreement.

At the request of Senator John McCain, Chairman of the Senate Committee on Commerce, Science, and Transportation, we reviewed the Plans and evaluated the extent to which each Airline met all provisions under its Plan. On June 27, 2000, we issued an Interim Report on the 6-month progress of the Airlines in implementing their Plans, and on Monday February 12, 2001, we issued our final report on Airline Customer Service.

Overall, we found the Airlines¹ were making progress toward meeting their Customer Service Commitment and that the Commitment has been a plus for air travelers on a number of important fronts. The voluntary Commitment to customer service and the circumstances under which it was entered into are noteworthy because, based on our observations, it prompted the Airlines to take the matter of improving customer service more seriously. Also, the Airlines generally were responsive to suggestions made in our Interim Report. But, the Airlines, airports, the FAA and, most important, the traveling public know the aviation system is not working well—the road ahead is long, and

¹ ATA signed the Commitment on behalf of 14 ATA member Airlines (Alaska Airlines, Aloha Airlines, American Airlines, American Trans Air, American West Airlines, Continental Airlines, Delta Air Lines,

aggressive progress will be required by the Airlines, airports, and FAA if consumer confidence is to be restored.

Notwithstanding progress by the Airlines toward meeting their Customer Service Commitment, we continue to find significant shortfalls in reliable and timely communication with passengers by the Airlines about flight delays and cancellations. Further, we find the Airlines' Commitment does not directly address the most deep-seated, underlying cause of customer dissatisfaction—flight delays and cancellations, and what the Airlines plan to do about them in the areas under their control in the immediate term. Action by the Airlines to reduce flight delays and cancellations is critical because major improvements in providing capacity to meet demand, such as new runways and the fielding of new air traffic control capacity enhancing technology, are not going to be in place for at least the next several years. Spring/summer 2001, when the next major crunch in air travel is likely to occur, is just around the corner.

Provisions for quoting lowest fare, holding nonrefundable reservations, timely responses to complaints, and higher pay-outs for lost baggage. In general, we found the areas where the provisions of the Commitment were working well and where the greatest progress was being made were not

Hawaiian Airlines, Midwest Express Airlines, Northwest Airlines, Southwest Airlines, Trans World Airlines, United Airlines, and US Airways).

directly or necessarily associated with whether a flight is delayed or canceled. These areas were: quoting the lowest fare (compliance between 88 and 100 percent of the time for a fixed itinerary); holding nonrefundable reservations without penalty (compliance between 88 and 100 percent); timely responses to complaints (compliance between 61 to 100 percent, with 13 Airlines between 93 and 100 percent compliant); and larger pay-outs for lost luggage. Over the past year, we also have seen air carriers competing on the basis of customer service through such steps as more legroom between seats, size of overhead baggage compartments, and deployment of portable passenger check-in stations to reduce long lines—measures that go beyond actions required by the Commitment.

Provisions that trigger when there is a flight delay or cancellation. The progress made this past year is often obscured when the traveling public experiences widespread delays and cancellations. We found the customer service areas most in need of improvement are for those provisions that trigger when there are delays and cancellations. One such provision is to keep customers informed of delays and cancellations, another promises to meet customers’ “essential” needs during “extended” on-aircraft delays, and another commits to making reasonable efforts to return delayed or mishandled checked baggage within 24 hours.

The evidence shows significant investment and progress by the Airlines toward meeting these commitments, and improvement is evident since our Interim Report. Still, there are persistent problems. We frequently found, among other matters, untimely, incomplete, or unreliable reports to passengers about flight status, delays and cancellations as follows.

- In 21 percent of our observations of nearly 550 flight delays nationwide, the flight information display system showed the flight as on time when, in fact, the flight had been delayed for more than 20 minutes; timely announcements about the status of the delay were made in the gate areas 66 percent of the time; when status announcements were made, the information provided about the delay or cancellation was adequate about 57 percent of the time. Performance varied by Airline and non-ATA airline, with Hubs generally performing better than non-Hub airports.
- Baggage that did not show up with the passenger was delivered within 24 hours 58 to 91 percent of the time. Again, performance among the Airlines and non-ATA airlines varied.
- All Airlines have taken steps to accommodate passengers' "essential" needs during "extended" on-aircraft delays. However, we found that the Airlines differ in what qualifies as "extended." The trigger thresholds for this

provision vary from 45 minutes to 3 hours. We think it is unlikely that a passenger's definition of an "extended" on-aircraft delay will vary depending upon which air carrier they are flying.

We also found that the provisions within the Commitment do not directly address the root causes of customer dissatisfaction: extensive flight delays, flight cancellations, and baggage not showing up with the passenger. Since air travelers in 2000 stood a greater than 1 in 4 chance of their flight being delayed, canceled, or diverted, we believe the Airlines should go further and address steps they are taking on matters within their control to reduce over-scheduling, the number of chronically late or canceled flights, and the amount of checked baggage that does not show up with the passenger upon arrival.

According to the Bureau of Transportation Statistics (BTS), chronically delayed and/or canceled flights are those regularly scheduled flights² that, at least 80 percent of the time, arrived at least 15 minutes later than scheduled and/or were canceled during a single calendar month. For example, according to BTS data, in December 2000, one Airline's flight with daily non-stop service between Chicago and Miami was delayed and/or canceled 27 of the 31 days it was scheduled to operate. In this case, the flight was delayed and/or

² A regularly scheduled flight is a flight segment representing a city-pair (e.g., Chicago to Miami).

canceled 87 percent of the time. Our analysis of BTS data found regularly scheduled flights that were at least 15 minutes late and/or canceled 80 percent of the time increased from 8,348 to 40,868 (390 percent) between 1999 and 2000.³

Using BTS data, we increased the amount of arrival delay to 30 minutes or more and identified all scheduled flights that, when grouped by individual flight number, were delayed and/or canceled at least 40 percent of the time during a single calendar month. Overall, for calendar year 2000, we identified over 240,000 regularly scheduled flights that met our criteria (representing over 10,300 individual flight numbers affecting approximately 25 million passengers). Currently, the Airlines are required to disclose on-time performance only upon request from the customer. Passengers should not have to ask when making a reservation if the flight is chronically delayed or canceled 40 percent of the time or more; the Airlines should notify the passenger of this information without being asked.

Airline mitigation measures in the above areas will not solve the delay and cancellation problem since it is caused by multiple factors, some outside the airlines' control, but the airlines should be doing their part. For both the short

³ Our intent is not to attribute the cause of the delays or cancellations associated with these flights to the Airlines, but to highlight the extent to which such flights are occurring.

and long term, the Airlines' Commitment to customer service must be combined with comprehensive action to increase system capacity to meet demand. FAA's efforts to modernize air traffic control through new technology, satellite navigation at airports, airspace redesign and, importantly, new runways will be central elements in any successful effort to add capacity and avoid gridlock.

Provisions regarding fairness and consistency in “bumping” practices, and prompt refunds for tickets. Regarding the provision for fairness and consistency in bumping practices on flights that are oversold, we found a need for improvement. Among other things, the rules about who gets bumped first varied among the Airlines, and the compensation limit for those who are involuntarily bumped is inadequate and has not been changed since 1978. In fact, we found that passengers who volunteer to be bumped stand a good chance of receiving greater compensation than passengers who are involuntarily bumped. As for the provision in the Commitment to provide prompt ticket refunds, which refers to Federal regulations in place for over 17 years, our tests at five Airlines showed excellent performance. However, four Airlines and two non-ATA airlines were clearly deficient in this area and need to improve their processing of ticket refunds.

Contract of Carriage. In our Interim Report, we noted that the Airlines' Commitment, while conveying promises of customer service, was not necessarily legally enforceable by consumers unless these protections were also incorporated into an Airline's contract of carriage, which is a binding and legally enforceable contract. In fact, one Airline explicitly said as much in its Plan. We recommended that the Airlines ensure that their contracts of carriage are changed to fully reflect the benefits afforded by their Plans and the Airlines' Commitment to customer service. Our review of the 14 Airlines' contracts of carriage showed that all of the Airlines responded to this recommendation to some degree. For example:

- Eleven of the 14 Airlines incorporated the Commitment provision to inform the customer of delays, cancellations, and diversions into their contracts of carriage and eight of the Airlines incorporated the Commitment provision to meet customers' essential needs during extended on-aircraft delays.

- Eleven of the 14 Airlines incorporated the Commitment provision for quoting the lowest fare; and 12 Airlines incorporated the provisions for holding a nonrefundable reservation for 24 hours and for returning misrouted or delayed baggage within 24 hours.

- There were differences among the Airlines in exactly what they decided to incorporate, and we found instances where the contract of carriage placed limits on what appeared to be a more expansive provision in the Plan. For example, one Airline limited the provision to quote the lowest fare to only domestic travel whereas the others did not. Another Airline limited its baggage return provision to passengers not traveling on a reduced rate ticket. The Airlines also varied in what their contracts of carriage said about accommodating “essential” needs during “extended” on-aircraft delays, including the definition of what constituted an “extended” delay.

An area of particular concern is when an Airline will provide overnight accommodations occasioned by a delay or cancellation. Most of the Plans said generally that overnight accommodations would be provided if the passenger was required to stay overnight due to a delay or cancellation caused by the Airline’s operations (as defined by the Airline). However, the contract of carriage for seven Airlines appeared to limit this to situations such as when a flight was diverted to an unscheduled destination or a flight delay exceeded 4 hours between the hours of 10:00 p.m. and 6:00 a.m. The circumstances in which overnight accommodations will be provided needs clarity so that passengers will know what to expect.

Consumer Protection by the Department of Transportation. Oversight and enforcement of consumer protection and unfair competition laws and regulations are the responsibility of the DOT. We found the resources available to the Department to carry out these responsibilities to the traveling public are seriously inadequate—so much so that they had declined at the very time consumer complaints quadrupled and increased to record levels—from roughly 6,000 in 1995 to over 23,000 in 2000. Nearly 20 staff are assigned these functions today, down from 40 in 1985. The oversight and enforcement expectations for the Office of the Assistant General Counsel for Aviation Enforcement and Proceedings significantly exceed the Office’s capacity to handle the workload in a responsive manner.

Recommendations: As directed by AIR-21, in our final report we made over 25 recommendations for improving accountability, enforcement, and the protection afforded commercial air passengers. A full list of these recommendations can be found in our report, Final Report on Airline Customer Service Commitment, OIG Report Number AV-2001-020, issued February 12, 2001. The report is available on our website: www.oig.dot.gov.

Mr. Chairman, this concludes my statement. Thank you for inviting me to testify this morning. I would be happy to answer any questions the Subcommittee may have.

TOP 10 MANAGEMENT CHALLENGES REPORT

This attachment summarizes the key recommendations in our “Top 10 Management Challenges Report, issued January 18, 2001. Taken as a whole, this year’s DOT top management challenges list encompasses programs that require continual attention to ensure ever safer transportation, programs on which there are significant economy and efficiency concerns, and programs with questionable success in achieving results.

The following table shows how we grouped the top management challenges in this year’s DOT report, as compared to last year’s report.

Items in Current Top 10 List	Items in Last Year’s Top 12 List
• Aviation Safety	• Aviation Safety
• Surface Transportation Safety	• Surface Transportation Safety
• Aviation System Capacity and Air Traffic Control Modernization	• Air Traffic Control Modernization
• Surface and Airport Infrastructure	• Surface, Marine, and Airport Infrastructure
• Coast Guard Capital Acquisition Budget	• Coast Guard Deepwater Capability Replacement Project
• Transportation Security	• Transportation Security
• Computer Security	• Computer Security
• Amtrak Financial Viability and Modernization	• Amtrak Financial Viability and Modernization
• MARAD’s Ship Disposal Program	• MARAD’s Ship Disposal Program
• Departmental Business Practices <ul style="list-style-type: none"> - <i>Financial accountability;</i> - <i>Timeliness of rulemaking;</i> - <i>Human resources management;</i> - <i>Oversight of contract costs and closeouts;</i> - <i>Government Performance and Results Act (GPRA);</i> - <i>Space requirements for a new DOT Headquarters building</i> - <i>Transportation Administrative Service Center (TASC) role in providing administrative support.</i> 	<ul style="list-style-type: none"> • Financial Accounting/Chief Financial Officers Act • FAA Financing and Reauthorization • Government Performance and Results Act

The key differences from last year's list are:

1. We expanded the Air Traffic Control Modernization area to include issues of aviation capacity – including runway and airport capacity – and the impact this is having on customer service, particularly cancellations and delays. Meeting the anticipated demand for air travel and reducing delays is an urgent issue because the National Airspace System is operating at the fringes of capacity. Over the last 2 years, DOT's Air Travel Consumer Report has ranked flight problems (delays, cancellations, and missed connections) as the number 1 complaint out of 11 complaint categories reported.
2. We created a new, comprehensive item on Departmental Business Practices by: 1) combining the Government Performance and Results Act, FAA Financing and Reauthorization, and Financial Accounting/Chief Financial Officers Act items; and 2) adding other key Department-wide concerns, including human resources management, the new DOT headquarters building, the appropriate role for TASC in providing Departmental headquarters administrative services, and the pace of Departmental rulemakings. This new combined item enables us to cover new or emerging issues. It also seemed logical to combine our previous business practice items – since FAA has been reauthorized, the Department achieved a clean opinion on its financial statements in FY 1999, and the Department's GPRA reports are consistently rated among the best in the Government.

The following describes each of the top 10 management challenges identified by the DOT OIG and describes the key recommendations the OIG makes in each area.

1. Aviation Safety

Given the continued growth in demand for air travel and the limited capacity of the National Airspace System, FAA must be more aggressive in evaluating known risks and identifying and evaluating unknown risks that may cause future accidents. The aviation industry expects continued growth in air traffic as a result of increased demand and the emergence of new technologies may result in closer spacing between aircraft due to more precise, satellite-based tracking and navigation capabilities.

Our key recommendations in this area are to:

- Reduce the number of runway incursions and operational errors; two indicators of serious aviation safety risks. Record levels of runway incursions (429) and

operational errors (1,154) are occurring amid increasing runway and airspace congestion.

- Reduce protracted delays in responding to identified safety issues. FAA's failure to sufficiently and timely repond to independent laboratory test results on fastener quality and FAA's year-long delay before informing air carriers of defective cables suggests a weaknesses in FAA's process for evaluating safety issues brought to the agency's attention.
- Train and certify the controllers-in-charge (CICs) FAA proposes to have replace non-union supervisors. Before FAA can begin a reduction in supervisors, it must provide increased training to these non-supervisory air traffic controllers on their new roles and responsibilities for ensuring safe air traffic operations. FAA is currently conducting this training.

We found, however, that in a February 2000 memorandum the Director of Air Traffic Services essentially allowed all air traffic controllers to become CICs without going through the required CIC selection process. This contravenes FAA's established requirements and assurances that the CIC Program would not become an entitlement. The OIG has recommended FAA take action to correct this problem.

- Pursue productivity gains promised by the National Air Traffic Controllers Association (NATCA) agreement with FAA. The NATCA agreement includes a new pay system for controllers that will require \$1 billion in additional funding over the 5-year life of the agreement. Between 1998 and 2001, FAA's operations costs have risen over \$1.2 billion or 25 percent. The controller pay system has contributed to the rise in these operations costs. Now other FAA workforces want pay increases as well, which must be negotiated under FAA's personnel reform authority. Productivity gains are needed to offset the additional payroll costs of the new pay systems and free up a greater portion of FAA's overall budget for important safety measures.
- Develop an air traffic controller pipeline to backfill for retirements. FAA will have to increase its efforts in recruitment and training of air traffic controllers to backfill for retirements, while adhering to the NATCA agreement's staffing ceiling (15,000 controllers in FY 1999, 15,300 in FY 2002, and 15,606 in FY 2003). FAA and NATCA should also weigh potential staffing and cost benefits of contracting out low level non-radar towers, limited consolidation of air traffic control facilities, and operating Oceanic air traffic control more like a business financed through user fees.

- Strengthen FAA’s new Air Transportation Oversight System (ATOS) for inspecting air carriers. To benefit from ATOS, the agency must evaluate and correct problems such as obtaining management and workforce acceptance of ATOS, training inspectors on how to monitor an air carrier’s operations using ATOS guides, and developing consistent, accurate safety data.
- Improve FAA procedures for reviewing air carriers’ maintenance programs. FAA needs to follow up on the results of special safety inspections made at major carriers and change its inspection procedures to ensure that carriers have continuing analysis and surveillance programs in place that will adequately monitor the quality of the carriers’ aircraft maintenance programs.
- Issue long delayed rulemakings affecting important aviation safety subjects such as pilot hours of service and rest periods, air tour safety, and repair stations and repairman certification standards. FAA also needs to resolve the concerns related to waiving inspection enforcement actions against air carriers, which are central to issuing the Flight Operations Quality Assurance (FOQA) rule and getting the air carriers to provide voluntarily the detailed safety data that would be available under FOQA. It is unlikely that FAA alone can make further progress in this area without the support of the Department of Justice and the Office of Management and Budget.

2. Surface Transportation Safety

Surface transportation – motor vehicle, large truck, railroad, and pipeline transportation – accidents in the United States continue to account for over 42,000 fatalities annually. In 1999, over 36,000 fatalities resulted from motor vehicle accidents not involving large trucks, over 5,000 resulted from crashes involving large trucks, and over 1,000 resulted from railroad, rail transit and pipeline accidents. While down from the over 46,000 fatalities a decade ago, the number of surface fatalities remains high, and the Department needs to continue its efforts on reducing fatalities.

Our key recommendations in this area include:

- Implement, as a matter of priority, the Transportation Recall Enhancement, Accountability, and Documentation (TREAD) Act. DOT must quickly implement the TREAD early warning reporting requirements and improve NHTSA’s ability to proactively identify potential safety related defects, so NHTSA can more quickly identify and work to eliminate safety risks such as the Firestone tread separations that led to several deaths across the United States before a recall was made.

- Work with the States to curb fraud, abuse and mismanagement in issuance of Commercial Drivers Licenses (CDLs). Investigations in Illinois and Florida led to 35 convictions and at least 9 deaths were attributed to drivers who illegally obtained CDLs in Illinois.
- Implement the Motor Carrier Safety Improvement Act of 1999. The Department must fill key leadership positions and expedite required rulemakings to realize the benefits of the many safety initiatives Congress provided in the Motor Carrier Safety Improvement Act. Stronger enforcement, including shut down orders, is needed for the minority of carriers that are egregious offenders and a risk to public safety.
- Review comments on the proposed hours-of-service regulation reducing the allowable driving time for commercial truck and bus drivers from 16 to 12 hours within a 24 hour period and requiring on-board electronic recorders to document hours of duty. FMCSA will need to address opposition to the regulation in the trucking and bus industries and concerns in the Congress, which has prohibited the Department from adopting a final rule in Fiscal Year 2001.
- Improve Mexican truck safety oversight in readiness for opening the southern border under the North American Free Trade Agreement. There are still shortfalls in Federal border inspection staffing and facilities. However, recent increases in the number of Federal border inspectors correlated with a reduction in the percent (down from 39 percent in FY 1999 to 35 percent in FY 2000) of Mexican trucks entering the United States that were inspected and placed out of service for significant safety violations.
- Issue overdue safety regulations and update inspector training for pipelines. RSPA needs to complete maps showing location of hazardous material pipelines; establish inspection frequencies for natural gas pipelines; train RSPA inspectors in advanced pipeline inspection technologies, and work with Congress on the pipeline program reauthorization.
- Improve cross-modal coordination on DOT's Hazardous Materials programs. DOT needs to improve deployment, training, and coordination of the Department's Hazardous Materials inspection and enforcement resources, which are dispersed in FAA, FRA, FMCSA, Coast Guard, and RSPA; and work with Congress on the Hazardous Materials program reauthorization.

- Ensure that Amtrak, the States of New York and New Jersey, and the Federal Government develop an action plan for addressing the nearly \$900 million in unfunded fire and life safety projects in the jointly-used rail tunnels approaching Penn Station-New York.

3. Aviation System Capacity and Air Traffic Control Modernization

Against a backdrop of growing demand for air travel, there has been a rapid increase in flight delays and cancellations. Between 1995 and 2000, FAA reported a 90 percent increase in flight delays. Likewise, the Bureau of Transportation Statistics reported a 104 percent increase in cancellations. For 2000, over 1 in 4 domestic flights—affecting approximately 163 million passengers—were delayed, canceled, or diverted, with the average arrival delay exceeding 52 minutes.

In early 1999, Congress considered passing a “passenger bill of rights” but instead agreed to defer legislation and allow the airlines an opportunity to improve the situation on their own. On June 17, 1999, the airlines issued their Airline Customer Service Commitment.

In January 2000, Congress passed the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, more commonly known as “AIR-21”. AIR-21 will provide FAA with nearly \$8.6 billion to modernize the air traffic control system and almost \$10 billion in airport improvement program funds from FYs 2001 through 2003.

Our recommendations for beginning to address the crisis in aviation capacity fall into four areas: developing strategies for addressing delays; establishing FAA’s air traffic control services as a results based organization; managing FAA’s efforts to use new technology to increase safety, efficiency, and capacity; and assessing FAA’s role in planning for nationwide airport infrastructure needs.

- Develop Strategies for Addressing Delays.

Develop a strategic plan for addressing aviation capacity shortfalls, delays and cancellations in the short (1-2 years), intermediate (4-5 years), and long terms (8-10 years).

Develop and implement a uniform system for tracking delays, cancellations and their causes.

Develop “*capacity benchmarks*” for the Nation’s top 30 airports describing the number of operations the airport can handle at various times of the day under

various weather conditions. Such benchmarks are critical to understanding the true impact of airline scheduling practices and what relief can be expected from new technology and airport infrastructure enhancements.

- Establish FAA's Air Traffic Control Services as a Results-Based Organization.

Implement structural reforms directed in AIR-21, including an expanded role for the Management Advisory Council, the creation of an Air Traffic Services Subcommittee (whose members were just named), and the appointment of a Chief Operating Officer.

Establish a cost accounting system. FAA originally planned to have the cost accounting system in place by October 1998 but completion dates have slipped many times - FAA now anticipates completing the system at the end of FY 2002.

- Manage FAA's efforts to use New Technology to Increase Safety, Efficiency, and Capacity.

Strengthen management oversight of multi-billion dollar software-intensive development contracts designed to modernize the air traffic control system and increase system capacity. FAA needs to use the procurement flexibilities Congress granted it in 1995 to hold contractors and FAA staff accountable for cost-effectiveness and reasonable adherence to established schedules. Key milestone decisions need to be made this year with several modernization efforts, including Wide Area Augmentation System (WAAS), Standard Terminal Automation Replacement System (STARS), and the Oceanic Replacement Program.

Define and implement plans for transitioning to satellite-based navigation and landing systems.

Provide modernized air traffic control services over the Pacific and the Atlantic Oceans to implement International Civil Aviation Organization (ICAO) delegations.

Move forward with airspace redesign efforts and linking them with plans for implementing free flight technologies.

- Assess FAA's Role in Planning for Nationwide Airport Infrastructure Needs.

Consider whether FAA should move from a passive role (distribution of grant funds) to a more active one of facilitating a strategic view of airport expansion,

leveraging grant funds to capacity-constrained locations, and helping to resolve local opposition.

Address severely capacity-constrained airports with no realistic near-term hope for meeting demand. Options that will be debated run the gamut from “do nothing and let the market straighten things out,” to peak hour or congestion pricing, authorizing airline scheduling discussions under antitrust supervision, and lotteries - another form of slot control.

4. Surface and Airport Infrastructure

The Transportation Equity Act for the 21st Century (TEA-21) and the Aviation Investment and Reform Act for the 21st Century (AIR-21) provided an unprecedented infusion of funds for highway, transit, and airport infrastructure projects. Highway and transit funding increased by over 40 percent and airport infrastructure funding by about 75 percent. TEA-21 provides \$218 billion for highway and transit projects while AIR-21 makes \$12.4 billion available for airport infrastructure projects.

The painful Boston Central Artery Project disclosures last year, several internal embezzlement/kickback cases, and the \$14 million in fines and jail terms in the Palumbo Brothers/Monarch Construction cases illustrate the need for improved stewardship and oversight. While Federal agencies must take the lead role, the states also have an obligation as front line authorizers, to ensure stewardship and oversight of Federal funds.

The most pressing issues are ensuring that available funds are used as intended by (1) exercising stewardship and oversight to prevent fraud and mismanagement; and (2) expeditiously advancing projects to improve capacity, relieve congestion, and enhance safety while respecting the letter and intent of environmental laws.

Our key recommendations in this area are:

- Follow through on commitments to enhance DOT oversight capacity and practices in order to identify problems and mitigate risks on mega-projects (such as Central Artery, Woodrow Wilson Bridge, and San Francisco Bay Area Rapid Transit (BART) Airport Extension).
- Ensure adequate oversight (including audits and investigations, where appropriate) for federal funds to prevent fraud, waste and abuse and avoid scandal in administering TEA-21 and AIR-21.

- Advance projects to improve capacity, relieve congestion, and enhance safety while respecting the letter and intent of environmental laws.
- Mitigate risks on FTA projects with full funding grant agreements. When annual Federal appropriations are less than scheduled payments in grant agreements, grantees may need to find alternate funding sources or extend the construction schedules. In both instances, project costs may increase.

5. Coast Guard Capital Acquisition Budget

To meet the Coast Guard's goals, its capital acquisition budget would need to more than double from \$400 million annually to at least \$850 million annually on a sustained basis.

Preliminary estimates indicate that capital improvement funding of \$15 billion or more will be needed over the next 20 years to modernize assets critical to the Coast Guard's Marine Safety, Search and Rescue, Law Enforcement, and Marine Environmental Protection programs. Although Coast Guard has not yet provided definitive cost estimates for all its planned acquisitions, it has reported that the Deepwater Capability Replacement Project will cost more than \$10 billion, the National Distress and Response System Modernization Project will cost from \$240 to \$300 million, and the annual capital investment in shore facilities will increase from \$61 million in FY 2001 to \$129 million in FY 2005.

Not only are there competing demands within the acquisition budget, our ongoing audit of Coast Guard's search and rescue program is identifying additional management challenges. Specifically, we are finding the search and rescue program is understaffed and many staff are not fully qualified for their positions; the small boats used in search and rescue missions are aging and consistently failing to meet Coast Guard standards; and the search and rescue program budget has declined relative to other Coast Guard programs. Despite these long-standing problems, the Coast Guard is maintaining a relatively high level of program effectiveness. Nevertheless, Coast Guard faces a challenge in remedying these problems while trying to satisfy its capital acquisition requirements.

Our key recommendations in this area are:

- Work with OMB to reconcile differences between Coast Guard's capital acquisitions proposals (i.e., \$760 million in FY 2002) and budget targets (i.e., \$520 million in FY 2002).

- Complete the planning process for the estimated \$10 to \$15 billion Deepwater project in order to justify budget requests. Coast Guard needs to be able to justify what is to be purchased, at what cost, and in what time frame.
- Establish realistic budget and schedule estimates for the National Distress System – an important search and rescue safety capability first discussed in the early 1980s – that the Coast Guard plans to deploy between 2003 and 2006.

6. Transportation Security

The terrorist attacks against the U.S.S. Cole and U.S. embassies in Kenya and Tanzania highlight the global nature of terrorism. To oppose this threat and advance the Nation's vital interest, DOT must do all it can to identify and address risks in the massive U.S. transportation system. This includes not just the Nation's aviation industry (with over 5,000 public use airports), but all forms of U.S. surface transportation (including 3.9 million miles of public roads, 2.2 million miles of oil and natural gas pipelines, 123,000 miles of major railroads, and 508 transit operators in 316 urban areas) and U.S. marine transportation (with over 24,000 miles of commercially navigable waterways and 145 major ports on the coasts and inland waterways).

Our recommendations include:

- Maximize the effectiveness and usage of explosives detection equipment at airports.
- Complete pending rulemakings on certification of screening companies, airport access requirements and accounting for active airport identification cards.
- Implement the Airport Security Improvement Act of 2000, which will strengthen background investigation requirements for airport personnel.
- Finalize the draft DOT surface transportation security research strategy, based on recommendations from the National Research Council.

7. Computer Security

E-Government is becoming an important part of Government operations. Web sites are powerful tools for the Federal Government to improve the quality of its services. However, recent denial-of-service attacks on e-commerce sites and e-mail systems serve as "wake-up" calls for enhancing Internet security. In addition

to managing unauthorized access or attacks by outsiders, agencies also need to enhance security over insiders, including employees, contractors, and grantees.

Our recommendations to DOT include:

- Complete the vulnerability assessments of infrastructure mission-critical systems.
- Evaluate the security impact of the proposed integration of National Airspace System air traffic control and FAA administrative systems.
- Complete background checks on contractor and DOT employees.
- Implement security measures against attacks on DOT computers and improve controls over passwords to prevent fraud.

8. Amtrak Financial Viability and Modernization

The 1997 Amtrak Reform and Accountability Act mandated that Amtrak develop a plan to eliminate its need for Federal operating support after FY 2002. In FY 2000, Amtrak's cash loss was \$561 million (\$120 million worse than projected), largely as a function of longer-than-projected delays in the Acela high-speed rail program. While revenues and ridership improved markedly in 2000, expense growth kept pace, preventing Amtrak from making significant progress on reducing its losses and achieving its glide path to operational self-sufficiency. Amtrak's progress along its glidepath will need to accelerate rapidly if it is to reach operational self-sufficiency by 2003. Beginning in 2001, Amtrak's cash losses will need to be reduced by nearly \$100 million each year in order to meet the congressionally mandated deadline.

Even if Amtrak becomes operationally self-sufficient by 2003, it will continue to require significant and sustained capital funding for the foreseeable future. Amtrak estimates its needs to be in the neighborhood of \$1.5 billion each year in order to bring the Northeast Corridor back to a state of good repair, invest in new corridor development, and address general capital needs across the entire system. Amtrak hopes to secure this funding through some combination of a high-speed rail bond bill and annual appropriations from Congress.

Our recommendations in this area include:

- Close the \$737 million gap in projected cost savings and revenues, which Amtrak pledged to achieve through undefined management actions.

- Deliver and generate revenues from all 20 trainsets planned for high-speed service in the Northeast Corridor.
- Explore options for securing a significant and sustained long-term capital funding source.

9. MARAD's Ship Disposal Program

MARAD currently has 116 obsolete vessels in the National Defense Reserve Fleet (NDRF) awaiting disposal. These vessels are deteriorating and pose an immediate environmental threat in Virginia, Texas, and California. They contain hazardous substances such as fuel oil, asbestos, solid and liquid polychlorinated biphenyls, lead, radium, and chromates. Immediate state and Federal action would be required, should the hazardous materials escape into the water.

The approach of selling MARAD's vessels for domestic scrapping has not worked. Since 1995, only eight obsolete vessels have been scrapped. The number of vessels awaiting disposal has grown from 66 in 1997 to 116 today and is expected to reach 155 by the end of FY 2001.

Congress has directed MARAD to work with the Navy and the Environmental Protection Agency to:

- Develop and implement an environmentally and financially responsible program to dispose of the 116 ships in the NDRF by the statutory deadline of September 30, 2006.

10. Departmental Business Practices

DOT has established corporate management strategies (departmental business practices) that cut across all organizational boundaries within DOT and are key to performing its missions efficiently and providing its customers with consistent and seamless transportation policy and services.

Our work has identified five areas of DOT business practices we think rise to the level of the agency's top management challenges. They are: ensuring financial accountability; improving the timeliness of DOT rulemakings; improving oversight of contract costs and closeouts; maintain and improve DOT's successful Government Performance and Results Act (GPRA) implementation; and administrative issues concerning space requirements for a new DOT headquarters building and the Transportation Administrative Service Center's (TASC) role in providing administrative support.

- Ensure Financial Accountability. Complete implementation of the new Department-wide financial system (Delphi), ensure the accuracy of FAA's multi-billion dollar property account, and develop a credible system for tracking FAA's property, in order to sustain a clean opinion on the financial statements covering DOT's \$58 billion budget.

Develop and implement a Department-wide cost accounting system – particularly in FAA where its proposed cost accounting system has been under development for over 4 years. FAA will not be able to operate as a results-based organization or accurately account for the cost of air traffic control operations without a credible cost accounting system.

- Improve the timeliness of DOT rulemakings. For the significant rules completed in 1999, DOT took an average of 3.8 years to issue a final rule. Several important safety related rules are overdue (e.g., railroad grade crossings) and others (e.g., the rules implementing new motor carrier program safety enhancements) may not be done by their statutory due date. Although the previous Secretary committed the Department to a course of corrective action, the key to improving the rulemaking process is effective implementation, particularly the establishment of a Department-wide tracking and monitoring system.
- Improve oversight of contract costs, particularly through use of independent contract close-out audits. Some DOT contracting officers are closing out cost-reimbursable contracts without independent audits and with minimal oversight. We found little evidence of review on the amounts being billed by contractors.
- Maintain and improve the Department's highly rated Strategic Plan and combined Performance Report/Performance Plan under GPRA. A major factor that will impact DOT's ability to achieve its goals is the effective use of human resources.
- Resolve space requirements for the new DOT headquarters building.
- Resolve TASC's role in providing administrative support services for the Department's headquarters units.