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# *Office of Inspector General*

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*Top 12 Management Issues*

*Department of Transportation*

*Report Number: CE-2000-026*  
*Date Issued: December 22, 1999*





**U.S. Department of  
Transportation**

Office of the Secretary  
Of Transportation

Office of Inspector General

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# Memorandum

Subject: INFORMATION: Top Twelve Management  
Issues; CE-2000-026

Date:

From: Kenneth M. Mead  
Inspector General

Reply to J-1  
Attn of:

To: The Secretary  
Thru: The Deputy Secretary

This document was prepared in response to a September 22, 1999, request from the Chairmen of the Senate Governmental Affairs and Budget Committees, and the Majority Leader and Chairmen of the Committees on Government Reform and Budget, U.S. House of Representatives. The Office of Inspector General (OIG) was requested to identify the top-priority management issues in the Department of Transportation (DOT). This document provides the information presented to the requesters for your information and use.

Our listing of top-priority management issues 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. Our summaries for each of these items includes a description of progress made by the Department in the last year and open issues and recommendations.

We have grouped the issues on this year's list into the following subject areas:

1. Aviation Safety
2. Surface Transportation Safety
3. Air Traffic Control Modernization
4. FAA Financing and Reauthorization
5. Surface, Marine, and Airport Infrastructure
6. Transportation Security
7. Computer Security
8. Financial Accounting/Chief Financial Officers Act

9. Amtrak Financial Viability and Modernization
10. Coast Guard Deepwater Capability Replacement Project
11. Ship Disposal Program
12. Government Performance and Results Act Implementation

Our 1998 submission listed the 10 top priority management issues facing the Department. There have been two additions (the Coast Guard Deepwater Capability Replacement Project and the Maritime Administration's Ship Disposal Program) and one deletion (Year 2000 Computer Issues) from last year's list. We deleted the Year 2000 (Y2K) Computer Issues item because all mission-critical DOT systems are now Y2K compliant and comprehensive contingency plans are in place. We also divided one item (Transportation and Computer Security) from last year's list into two separate items because we believe both are significant and warrant a high level of attention. A bibliography of relevant reports issued by our office and other sources follows the discussion of the 12 management issues.

Each of the issues in our list relates to the overall goals in the Department's strategic plan. We have apprised senior agency management of our concerns on these issues. We will also share this year's list directly with the agency management staff drafting the updated DOT strategic and performance plans. We will work with the Department to see that these issues are appropriately addressed in both the strategic and performance plans.

In addition to the 12 management issues presented, the state of service delivery in the aviation industry has developed into a major customer service policy matter. Congress considered passing legislation in the area, but deferred to allow the airlines time to improve customer service without the matter being forced by legislation.

In order to apprise the Congress and the Secretary about the progress of airline efforts, we will be engaged in the coming year in several important studies of the state of service delivery in the aviation industry. We are examining the airlines' performance under their voluntary Customer Service Commitment Plans, the extent and sources of airline delays and cancellations, airlines' disclosure of overbooking to passengers, and barriers to passenger access to price and service information from various sources such as airlines, travel agents, and the internet.

If I can answer any questions or be of further assistance, please feel free to contact me at x61959, or my Deputy, Raymond J. DeCarli, at x66767.

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## **1. AVIATION SAFETY**

Issue: The Federal Aviation Administration (FAA) must aggressively address known risks and the challenges of identifying and addressing the unknown risks that otherwise may cause future accidents. The aviation industry expects continued growth in air traffic as a result of increased demand and, with the emergence of new technologies, expects closer spacing between aircraft due to more precise, satellite-based tracking and navigation capabilities. Since January 1998, only one accident that resulted in 11 fatalities has marred an enviable safety record for U.S. commercial air carriers. However, during this same time period, there were a total of 446 fatalities on two foreign air carriers that crashed after departing from a U.S. airport. American passengers were onboard both foreign aircraft that crashed.

Safety must take priority over the impact of increased demand, new technologies and budget cuts. To proactively identify and react to risks that affect aviation safety, FAA must aggressively address safety issues such as growth in the number of international code share agreements (from 53 in 1994 to 196 in 1999), growth in the number of runway incursions and operational errors, and aging of aircraft.

In Fiscal Year (FY) 1999, FAA's Office of Regulation and Certification absorbed a \$30 million shortfall in its operations budget. The budget cut resulted in delays in the hiring of non-safety personnel including analysts for the Air Transportation Oversight System (ATOS), which is the new surveillance system being implemented by FAA for air carriers. In addition to freezing hiring for ATOS safety data analysts, which is a key component of ATOS, cuts were made in contracts, training, and travel that impacted ATOS implementation.

Suspected Unapproved Parts (SUPs), i.e., counterfeit parts and parts not repaired or manufactured in accordance with FAA-approved procedures, continue to be an area of risk to aviation.

Progress in the Last Year: Improvements have been made in several areas as follows.

- FAA implemented Safer Skies, a program to reduce the commercial and general aviation fatal accident rates, and started initiatives to reduce the most prevalent causes of crashes such as controlled flight into terrain accidents.
- Initial deployment of FAA's new inspection system, ATOS, was made at 11 air carriers. FAA is still following through with refining ATOS and planning to implement it at additional air carriers.

- FAA issued standard operating procedures for reducing the number of runway incursions and established a senior management structure to monitor implementation of runway incursion initiatives in all FAA lines of business.
- FAA issued several airworthiness directives to address the safety issue of aging aircraft non-structural systems for electrical wiring and fuel tanks.
- DOT and FAA recognized the need to address safety in the code share approval process. Recently, the Secretary announced that FAA would require U.S. air carriers to perform safety assessments of their proposed foreign air carrier code share partners.
- FAA continued to pursue the issue of SUPs. Since FY 1997, FAA, aided by the OIG, conducted SUP training for over 1,500 aviation safety inspectors, and additional classes are planned for FY 2000. In FY 1999, FAA initiated 289 SUP investigative cases. OIG obtained about 40 indictments related to the sale and use of SUPs.

Most Significant Open Recommendations and Issues: While FAA has made progress in addressing factors that affect aviation safety, the agency needs to address several important safety issues, including the following major elements:

- Now that safety will be considered a part of the code share approval process, FAA needs to follow through, and establish and implement procedures to ensure U.S. air carriers perform thorough and relevant safety assessments. For instance, FAA needs to establish guidelines for air carriers to conduct safety assessments, define which safety standards or mix of standards should be considered in performing safety assessments, establish an internal control process for reviewing air carriers' audit programs, and develop a system to review and validate audit reports for purposes of making a safety determination of foreign air carriers.
- FAA is at risk of not meeting its important safety goal of reducing runway incursions, a major safety hazard. FAA established a goal of reducing the number of runway incursions by 15 percent of the 1997 baseline level by the year 2000, for a total of 248 incursions or less. The upward trend in runway incursions continued in 1998, with 325 incursions, an 11 percent increase from 1997. Runway incursions remain at a high level with 268 incursions from January through October 1999. To meet its runway incursion reduction goal, FAA will need to pursue several initiatives such as developing and implementing new education and training programs for controllers, pilots, and vehicle operators to increase their awareness of ground safety at the airport.

Improved procedures and enhanced airport markings and lighting are also needed to foster safer airport movement by pilots and vehicles. Lastly, technology based initiatives need to be implemented to assist controllers in preventing runway accidents. One important safety technology—the Airport Movement Area Safety System—designed to prevent runway accidents on airport runways and taxiways, has been delayed by 2 years.

- The number of air traffic operational errors and deviations is a major risk factor to a safer aviation system. FAA has made the reduction of operational errors and deviations a safety performance goal in the Department of Transportation Performance Plans for FYs 1999 and 2000. FAA established a goal of reducing operational errors from a baseline of .541 per 100,000 operations to .496 in FY 1999 and .486 for FY 2000. Preliminary data for FY 1999 indicates that FAA did not meet its operational errors safety goal. The operational error rate increased in FY 1999 to .571 (940 errors), exceeding the .496 goal (818 errors) for FY 1999.

Compounding FAA's efforts to reduce operational errors and deviations is a plan to reduce by one-third the number of air traffic control supervisors and replace them with non-supervisory air traffic controllers. As we reported in November 1998, 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 has agreed to do so.

- Although the intentional misrepresentation of the condition of an aircraft part is already a Federal crime, legislation (Senate Bill 82) has been proposed to significantly stiffen the penalties for people and corporations that traffic in SUPs. The proposed bill prescribes tough new penalties for trafficking in unapproved parts, and it authorizes the Attorney General to seek civil remedies to stop offenders from re-entering the business and to direct the destruction of stockpiles and inventories of unapproved parts so they do not find their way into legitimate commerce. The bill should be enacted, since it gives law enforcement a potent weapon in the fight to protect the safety of the traveling public. The Secretary, Attorney General, National Aeronautics and Space Administration, and the Federal Bureau of Investigation all support this bill and have so informed Congress.
- FAA should effectively implement its new inspection process (ATOS) for air carriers and improve the accuracy of safety databases. To benefit from this new approach to air carrier oversight, FAA must address several issues such as developing procedures and quality checks to ensure that data gathered by FAA to monitor an air carrier's performance are accurate, training inspectors

nationwide to monitor an air carrier's operations, and training inspectors how to audit vendors that provide contract maintenance and repair service.

- FAA should move forward to implement the long awaited and delayed flight operation quality assurance (FOQA) program to advance aviation safety by obtaining better safety data from air carriers. FOQA provides a decided advantage to other safety data available to FAA because FOQA would provide objective quantitative data on what occurs during flights rather than what is subjectively reported by individuals. Aircraft equipped with state-of-the-art electronic sensors can record more than 200 parameters of data for safety analysis. To improve safety, FAA wants air carriers to share FOQA data with the agency. Without a FOQA program, this safety data would otherwise not be available to FAA. FAA will use FOQA data to identify safety trends and accident precursors. To gain the many safety benefits to be offered by the FOQA program, FAA must resolve longstanding industry concerns on how FOQA data will be protected and used. In addition, the Department of Justice expressed concerns about FAA setting the precedent of waiving enforcement actions in exchange for voluntarily provided FOQA data, which FAA plans to do in some limited circumstances. In July 1999, FAA issued a notice of proposed rulemaking addressing these concerns, and the agency is currently evaluating the comments received.
- Issuing timely rules is necessary to provide regulatory guidance to the aviation industry and to promote adoption of new safety practices. For example, the National Transportation Safety Board urged the FAA to adopt a new rule for air tour operators in 1995. Although FAA agreed, the agency has yet to publish the final rule to establish national safety standards for the air tour industry.

Key OIG Contact: David A. Dobbs, Acting Deputy Assistant Inspector General for Aviation, 202-366-0500.

## **2. SURFACE TRANSPORTATION SAFETY**

Issue: Motor vehicle, railroad, and rail transit accidents account for over 42,000 deaths annually – more than 90 percent of all transportation-related fatalities. Over 36,000 fatalities result from motor vehicle accidents not involving large trucks, over 5,000 result from crashes involving large trucks, and about 1,000 result from railroad and rail transit accidents.

In 1998, more than 15,000 hazardous materials incidents were reported to the Department, including 429 serious incidents resulting in 13 deaths and 66 injuries. Since 1990, over 150,000 people were evacuated as a result of hazardous materials incidents. Although the number of incidents is low in comparison to the 300 million annual shipments of all hazardous materials, there is the potential for catastrophic incidents such as the 1996 ValuJet crash that killed 110 passengers and airline employees.

The nation's more than 2 million miles of pipelines transport natural gas, crude oil, and refined petroleum products to industry, residences, and other users. This type of transportation is very safe when compared to other types of surface transportation; however, an average of 390 pipeline accidents are reported each year. Catastrophic incidents such as the explosion in Bellingham, Washington in June 1999 illustrate the need for improved pipeline safety. In Bellingham, 277,000 gallons of gasoline spilled into a creek and ignited, killing three people. In 2000, Congress will consider the reauthorization of the pipeline safety program to ensure the safe operation of pipelines.

Progress in the Last Year: In FY 1999, Congress and DOT continued to focus on ensuring that the American public has the safest transportation system possible. For example:

- Congress enacted and the Department supported significant legislation to establish a DOT Federal Motor Carrier Safety Administration dedicated to truck and bus safety. This legislation provides the Department with the direction and the resources to improve motor carrier safety. The new safety administration is to reduce the number and severity of crashes involving large trucks through increased inspections and compliance reviews, and stronger enforcement measures.
- The Secretary of Transportation announced an aggressive 50 percent fatality reduction goal for crashes involving large trucks over the next 10 years.
- The Department enhanced the inspection facilities at the U.S.-Mexico border, and added 27 temporary Federal inspectors.

- DOT's program goal for reducing railroad-highway grade crossing accidents and fatalities by 50 percent over a 10-year period has been successful. Halfway into the program, the number and rate of rail crossing accidents have decreased by 28 percent and 36 percent, respectively.
- Focus continues to be placed on increasing the usage of seat belts and child safety seats; as a result, 19 million more Americans buckled up in 1998.
- The Office of Pipeline Safety issued a final rule requiring natural gas and hazardous liquid pipeline operators to ensure a qualified workforce in order to reduce accidents caused by human error. Operators must develop and implement written qualification programs for all individuals performing covered tasks.

Most Significant Open Recommendations and Issues: In addition to its continued emphasis on seat belt and child safety seat usage, major areas that continue to require attention follow.

#### Motor Carriers

- The Motor Carrier Safety Improvement Act of 1999 provides the Department with the tools needed to improve motor carrier safety, but the key to success will be strong leadership, vision and effective implementation of the legislation. Implementation should include efforts to strengthen the enforcement program, improve the quality and timeliness of safety performance data, identify unsafe motor carriers, analyze crash data to determine the cause of the crash, and standardize crash data collection procedures.
- A number of Mexican motor carriers have limited experience operating within U.S. safety standards. To ensure that Mexican trucks entering the United States will comply with U.S. safety regulations, the number of inspectors should be increased further and inspection facilities improved at the U.S.-Mexico border. During FY 1998, less than 1 percent of the commercial vehicles crossing at the U.S.-Mexico border were inspected, and 41 percent of the Mexican commercial vehicles inspected at the border were placed out of service for significant safety violations.
- Mexico-domiciled motor carriers are operating improperly in the United States and violating U. S. statutes either by not obtaining the required operating authority or by operating beyond the scope of their authority. During FY 1998,

52 Mexican motor carriers were operating improperly in 20 states outside the 4 southern border States and 202 motor carriers were operating improperly beyond the commercial zones within the border States. Significant increases in penalties, suspension and revocation of operating authority, and placing vehicles immediately out of service for operating authority violations prescribed in the new legislation must be implemented.

- Research has shown that fatigue is a major factor in commercial vehicle crashes. Driver hours-of-service violations and falsified driver logs pose significant safety concerns. In FY 1995, only 11 percent of driver log violations DOT identified resulted in an enforcement case. In 1998, that fell to 8 percent. The installation and use of electronic recorders and other technologies to manage the drivers' hours-of-service requirements have significant safety value, and could be accomplished more expeditiously if they were phased in over a period of years and coupled with a revised hours-of-service rule.
- The new Act makes enhancements to the commercial driver's license program. The Department must establish workable plans for completing the rulemakings required to implement these enhancements, including: eliminating hardship licenses for commercial drivers; stopping the use of programs that permit masking, diversion, or deferral of traffic violations; and expanding the list of Federal violations that result in the loss of commercial driving privileges to include certain offenses committed in a personal vehicle.
- Federal oversight must ensure that States take timely action to disqualify commercial drivers who commit the offenses prohibited in the new Act and in previous legislation. Key to making this happen is the successful interstate transfer of data on disqualified drivers, which occurs through the Commercial Driver's License Information System. The system currently holds over 9.5 million records.

### Rail Crossings

- Further safety improvements at rail-highway grade crossings are required since serious crossing accidents continue to occur. Since FY 1994, the States have been provided with more than \$750 million to improve crossing safety. Additional improvements in grade crossing safety will become increasingly difficult to achieve because many of the most hazardous crossings have already been upgraded or closed. To help achieve DOT's accident and fatality reduction goal, DOT and the Federal Railroad Administration need to target limited resources to proven, cost-effective strategies, such as installation of median barriers; use of well-advertised photo enforcement particularly at

problematic crossings; and imposition of stricter penalties to deter drivers from ignoring signals and bypassing existing safety devices.

- Railroad trespassing accidents (when unauthorized pedestrians venture onto railroad tracks) remain a problem and account for more than 500 fatalities annually. Given the openness of the system, solutions are difficult, particularly for fatalities resulting from suicides.

### Hazardous Materials

- Over 3 billion tons of hazardous materials are shipped annually by highway, air, rail and water. Forecasted growth is estimated at 2 percent per year in volume, with larger increases expected in air and intermodal shipments. While the probability of a serious incident is low, when one occurs the consequences can be catastrophic, as evidenced by the 1996 ValuJet crash in Florida. A departmental Hazardous Materials Program Evaluation (HMPE) found that each Operating Administration runs its own hazardous materials program. Preliminary findings of the HMPE indicate there is no focal point for establishing DOT-wide goals and objectives for hazardous materials and that the Department lacks a mechanism for quickly addressing problem areas or obtaining data to make informed programmatic decisions. The HMPE is likely to recommend establishing an institutional capacity for administration and delivery of a coordinated DOT-wide hazardous materials program, with the responsibility to set policy and program objectives, establish strategies for budget and resource deployment, and obtain needed data. They will also recommend greater emphasis be placed on shippers to ensure the safe transportation of hazardous materials.

### Pipeline Safety

- As the consequences of a pipeline rupture can be catastrophic, there is a critical need to ensure that DOT continues to enforce pipeline safety laws and implements recommendations that could further strengthen pipeline safety programs. In the past, the National Transportation Safety Board and others have criticized the Department for failing to move swiftly on a number of pipeline safety issues, including outside force damage, corrosion, operator training and testing, aging pipelines, and the use of internal inspection devices. RSPA has initiated actions to address these issues. Provisions for consideration during reauthorization should include strengthening public educational programs, improving accident data collection and analysis, establishing periodic testing requirements to ensure pipeline integrity, setting operator qualifications, and expanding research and internal RSPA expertise on new technologies to detect pipeline defects.

- The Pipeline Safety Act of 1992 required that regulations be issued by 1994 to place greater emphasis on environmental protection and expand the zone of concern beyond highly populated areas. The Research and Special Programs Administration (RSPA) has not issued regulations establishing criteria to identify, map, and periodically inspect hazardous liquid pipelines located in areas unusually sensitive to environmental damage from a pipeline accident. RSPA's Office of Pipeline Safety (OPS) is collecting data through pilot programs in three States (Texas, Louisiana, and California) as a step toward defining unusually sensitive environmental areas.

Key OIG Contacts: Patricia J. Thompson, Deputy Assistant Inspector General for Highways and Highway Safety, 202-366-0687; Francis P. Mulvey, Deputy Assistant Inspector General for Rail, Transit and Special Programs, 202-366-0477; Todd Zinser, Assistant Inspector General for Investigations, 202-366-1967.

### **3. AIR TRAFFIC CONTROL MODERNIZATION**

Issue: U.S. airlines transport over 600 million passengers annually, and this number is expected to grow to over 900 million by 2010. To meet this demand for air travel and lessen the increasing number of flight delays, FAA is modernizing the Nation's air traffic control system by acquiring a network of radar, automated information processing, navigation, and communications equipment. Historically, modernization projects have experienced significant cost overruns, schedule delays, and shortfalls in performance. These problems must be avoided, and new systems must come in approximately on time and within budget to meet the requirements of a dynamic aviation system. FAA spends over \$2 billion annually and estimates the cost of modernizing the system will total about \$41 billion from 1982 through 2004. Congress has appropriated about \$30 billion through FY 2000.

Progress in the Last Year: FAA is making progress, and new systems are being deployed. FAA acknowledges past problems and is addressing them with a more incremental approach--"*build a little, test a little*"--to some acquisitions, including Free Flight Phase 1. Free Flight Phase 1 is the initial step toward a new air traffic management system that allows FAA and airspace users to share information and work together to reduce delays and utilize more fuel-efficient routes. Also, FAA completed the initial phase of the HOST Replacement program, on schedule and within budget, before the year 2000. Further, FAA is currently on schedule with the Display System Replacement program, which modernizes domestic enroute centers by replacing aging and unsupportable display equipment.

Most Significant Open Recommendations and Issues: While FAA recognizes past problems in acquiring systems and begun to address them through a more incremental approach, significant issues remain to be addressed. *Problems with FAA acquisitions are traceable to difficulties with intensive software development, human factors, and the establishment of realistic schedules.* For example, an important safety technology--the Airport Movement Area Safety System--that can help prevent accidents on airport runways and taxiways, has been delayed by 2 years. Key issues include:

- Strengthening FAA's capacity to oversee multi-billion dollar software-intensive development efforts. For more than a decade, the pace of air traffic control modernization has been impacted by large cost increases and major schedule delays with software-intensive contracts. This issue becomes increasingly important as FAA moves forward with several major software-intensive acquisitions over the next several years, such as the Standard Terminal Automation Replacement System, the Wide Area Augmentation System, later stages of the HOST Replacement program, and Free Flight

Phase 1 automated controller tools. In addition, there will be significant software development in FAA's advancement of runway incursion technologies, such as the Airport Movement Area Safety System.

- Instituting cost control mechanisms for software-intensive contracts to ensure products are delivered approximately on time and within agreed upon budget parameters. Two Free Flight Phase 1 contracts for a software-intensive controller tool are time and material contracts. These contracts are being used to buy time at a specified hourly rate, including materials at cost. With time and material contracts, there is little positive incentive for cost control or labor efficiency, and most of the risk is placed on FAA. Also, this leaves the agency with little flexibility other than terminating the contract if performance problems arise.

FAA should negotiate contracts for software development with appropriate measures (such as earned value management techniques, cost ceilings and incentives) to force contractors to share risk, as well as provisions for withholding payments if progress is not satisfactory. Earned value management, for example, is a widely recognized way to measure technical progress and identify problems with large scale, software-intensive acquisitions. This management tool forecasts how much a program will cost and when it will be delivered, rather than the previously used two-dimensional approach of merely comparing budgeted costs to actual costs.

- Identifying and resolving human factors issues early in the acquisition process to avoid cost overruns and schedule delays. The need for human factors work extends beyond the traditional computer-human interface issues for FAA systems, such as the Standard Terminal Automation Replacement System, and has important safety and workforce implications. Key emerging issues include the impacts on the selection and training of controllers as a result of new automated controller tools (Free Flight Phase 1 and Oceanic modernization initiatives), as well as the impacts on pilots from new data link communications and cockpit display technologies.
- Definitizing and baselining plans for transitioning to satellite-based systems for communications, navigation, and surveillance. FAA recognized the need for a secondary system of some type in its plans, but several issues remain in the critical path for moving forward with satellite-based navigation. For example, FAA needs to develop an executable strategy for acquiring additional communications satellites and make firm decisions regarding the composition of a secondary system. In addition, important questions exist about what combination of ground systems, avionics, and procedures will be needed to mitigate the effects of unintentional or intentional interference (jamming).

FAA needs to continue to work with the Department of Defense and the U.S. intelligence community to assess threats to satellite-based systems and obtain a better understanding of the technologies and procedures required to mitigate those threats.

Key OIG Contact: David A. Dobbs, Acting Deputy Assistant Inspector General for Aviation, 202-366-0500.

#### **4. FAA FINANCING AND REAUTHORIZATION**

Issue: FAA's budget has increased nearly 73 percent from FY 1988 to 2000. Based on FAA's estimates, by FY 2004 its budget requirements will be over \$12 billion or 20 percent greater than FY 2000. FAA's budget requirements continue to increase largely due to the rising costs in FAA's Operations account. This account represents 60 percent of FAA's FY 2000 budget and is expected to grow to nearly \$7.6 billion, or about 62 percent of FAA's budget, by FY 2004. The ways and means for financing these requirements is a major issue that the Department, the Congress, and the aviation community continue to debate.

FAA is subject to the annual appropriations process. Various proposals have recommended alternative approaches for financing FAA such as user fees, trust fund "firewalls", and guaranteed contributions from the general fund. Regardless of the financing approach Congress chooses, FAA must spend and manage whatever resources it receives more efficiently than it has in the past. Without improvements in fiscal management, productivity, and accountability for controlling costs, FAA's budget requests will continue to grow. FAA must develop the fiscal and management tools it needs to operate like a business. These include good financial data and reports, a reliable cost accounting system, and a means to control the costs of operations.

Progress in the Last Year: During FY 1999, FAA made progress in implementing its cost accounting system and began work to identify and quantify productivity measures for its controller workforce, including the following actions.

- FAA is in the process of calculating overflight fees for aircraft that fly in U.S.-controlled airspace but do not take off from or land in the United States. FAA determined that costs related to overflights were slightly over 1 percent of the \$2.5 billion cost for all En Route and Oceanic air traffic services in FY 1998. Based on our recommendation, FAA is now calculating overflight fees using more current and accurate FY 1999 financial information. Additionally, FAA is acting on our recommendation to develop more reliable standards for the maintenance labor workforce and improve methods of accounting for air traffic controller labor. FAA is developing updated standards for maintenance labor personnel and reviewing options for improving air traffic controller accountability including the use of a labor distribution or other system to more accurately measure the cost of services provided by FAA. FAA has also improved its accounting for telecommunications and utility costs to more accurately assign these costs to the appropriate operating center.
- FAA has made minimal progress in its efforts to identify and quantify productivity gains for its air traffic controller workforce. For example, FAA

eliminated the alternate work schedule at 24-hour facilities but entered into agreements allowing controllers at those facilities to earn credit hours. FAA also established a program that would allow for the reduction in the number of controller supervisors. However, Congress put the proposed program on hold because of safety concerns related to reducing the number of controller supervisors. In addition, FAA established workgroups to evaluate potential productivity gains such as collateral duties, self-directed teams, and permanent change of station moves, and formed a metrics workgroup to determine how to quantify productivity gains. However, the substantial majority of the work related to productivity gains remains to be done.

Most Significant Open Recommendations and Issues: Issues that need to be addressed include the following.

- Getting an FAA Reauthorization bill passed by Congress. Various proposals for funding FAA have been considered, including transitioning a large portion of FAA's budget to a cost-based user fee system, guaranteeing contributions from the general fund, and trust fund firewalls. For FY 2000, FAA is financed entirely from the aviation trust fund; however, this is only a short-term solution. Alternative methods or a mix of methods will be needed in FAA's Reauthorization since the trust fund alone does not take in enough revenue to meet all of FAA's requirements over a prolonged period. Congress considered these various options during FAA's Reauthorization process this year; however, final decisions have not yet been reached.
- Managing the rising costs of operations. FAA faces significant risks in meeting operations cost increases without crowding out other critical agency requirements such as modernizing the air traffic control system and improving airport infrastructure. FAA also faces significant risks in meeting its operations cost increases within the projected revenue base. In FY 1999, FAA experienced a \$284 million shortfall in its Operations budget that required reductions in planned safety inspector employment levels, delays in certification work activities, and reductions in technical training. That shortfall illustrates the potential that uncontained operations costs will have on critical agency functions and missions, regardless of the financing approach that Congress ultimately decides on.
- Funding the controller pay agreement and negotiating pay with other workforces. Operations costs will continue to increase as a result of a new pay system for air traffic controllers, which became effective October 1, 1998. FAA estimates the new pay system will require approximately \$1 billion in net additional funding over the 5-year life of the agreement. These additional costs take into account productivity gains that FAA has identified, such as

anticipated savings from reducing the number of supervisors. However, changes in work rules that should produce productivity gains have not been fully implemented. FAA is expected to negotiate pay agreements with its other workforces; these agreements will place additional pressure on funding operations requirements.

- Establishing a labor distribution system to capture costs for air traffic controller and airway facilities maintenance labor.
- Producing accurate financial information and data. FAA must produce fair and accurate financial statements as a first step to establish accountability for its assets, improve fiscal credibility for its budget requests, collect accurate data to support sound management decisions, and establish a basis for user fees. We are currently completing our audit of FAA's FY 1999 financial statements and the audit process will determine if sufficient improvements have been made to obtain an unqualified (clean) opinion for FY 1999. To sustain the progress made and ensure future financial data are accurate, FAA must implement a state-of-the-art financial system that provides more accurate and timely financial data, and maintain adequate records to substantiate the value for property, plant, and equipment. (See item 8 on page 25).

Key OIG Contacts: David A. Dobbs, Acting Deputy Assistant Inspector General for Aviation, 202-366-0500, and John L. Meche, Deputy Assistant Inspector General for Financial and Information Technology, 202-366-1496.

## **5. SURFACE, MARINE, AND AIRPORT INFRASTRUCTURE**

Issue: The replacement and new construction of transportation infrastructure is crucial to U.S. economic viability, mobility of people, and quality of life. Under the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21), a minimum of \$198 billion is guaranteed in Federal funds for surface transportation infrastructure in FYs 1998 through 2003. Moreover, for FY 2000, a historic level of transportation investment, \$50 billion, also includes marine and airport spending. Oversight of this infrastructure work has shifted from the Federal Government to the grantees performing the work. It is imperative that the available funding be used effectively and efficiently.

Progress in the Last Year: The Department has taken steps to improve its management of transportation infrastructure projects, as illustrated below.

- FAA issued policy clarifying allowable uses of airport revenues.
- Finance plans were used increasingly by Federal Transit Administration (FTA) and the Federal Highway Administration (FHWA) to strengthen financial oversight of large infrastructure projects. In addition, FTA has developed criteria to evaluate, rate and select projects based on a comprehensive review of the project's mobility improvements, environmental benefits, cost effectiveness, and operating efficiencies.
- *An Assessment of the U.S. Marine Transportation System – A Report to Congress*, was issued. This joint effort of over a dozen Federal Departments and agencies outlines the challenges that will be faced in the future to revitalize the Nation's marine transportation system and makes recommendations to address these challenges.
- DOT published a Departmentwide Policy on the Selection of Discretionary Grants. It requires all Operating Administrations to publish their criteria for selecting projects for all discretionary assistance programs, unless funding priorities are established by statute. The policy also requires that the Operating Administrations explain how the projects were selected based on the criteria and that a policy level official reviews the selections.

Most Significant Open Recommendations and Issues: Major areas that continue to require attention are listed below.

- The Department should periodically review outstanding obligations and promptly deobligate funds when they are no longer needed. Last year, our

audit identified \$672 million in unneeded obligations that were then either used for other valid projects or returned to the United States Treasury. The Department is in the process of establishing a new procedure for making annual reviews of inactive obligations.

- Since the oversight of projects has shifted to grantees, resulting in less direct Federal Government control over infrastructure projects, there is a need to identify and apply best practices to major projects and find systemic solutions to problems. DOT needs to:
  - Strengthen internal controls over project cost estimates. Underestimating costs in order to obtain project acceptance has been a problem. Congressional or agency project approval before adequate designs are complete and cost estimates are made can prove problematic.
  - Require and closely examine finance plans for all large infrastructure projects. Fully developed finance plans have been useful in identifying emerging shortfalls in cost and funding for projects. However, additional guidance is needed to ensure complete and consistent reporting of basic standardized financial data in the plans.
  - Monitor project performance and mitigate funding risks for infrastructure projects to protect the Government's financial interests as soon as problems are identified.
  - Continue to promote owner-controlled insurance programs that can reduce program costs. However, DOT needs to ensure that Federal reimbursement for these programs is limited to the amounts actually needed to purchase insurance coverage or pay incurred claims.
  - Use design-build contracting, when appropriate. The design-build contracting approach combines the responsibility for the design and construction phases of a project under one contractor. These contracts, when used effectively, can limit cost growth and accelerate project delivery by establishing a greater accountability for quality and costs, spending less time coordinating designer and builder activities, providing firmer knowledge of project costs, and reducing the burden of administering contracts.
- To prevent and detect fraud and corruption associated with TEA-21's massive infusion of funding, vigilance must be improved across the Federal, state and grantee levels. OIG investigations in the area of contract/grant fraud in the

past year resulted in 24 indictments, 22 convictions, and \$15.8 million in fines and restitution. One significant case involved the prosecution of two of largest road construction firms in Illinois. Fines, restitution, and recoveries resulting from this case exceeded \$14 million.

- As a condition for approval of an FAA grant, Federal law requires the airport sponsor to agree to comply with specific assurances, including an assurance that airport revenues will be used only for the capital or operating costs of the airport. While FAA has issued new guidance, it must follow through and exercise adequate oversight to ensure that airport revenues are reasonably established and that funds are used for eligible purposes. FAA must also ensure that airport sponsors require that annual audits conducted under the Single Audit Act include a review and opinion on airport revenue use.

While FAA is working to resolve open recommendations concerning airport revenue diversions, some significant recommendations remain unresolved. For example, revenue diversions at Hawaii, Denver, and Queen City, Pennsylvania, airports each exceed \$1 million. FAA has not reached agreement with the State or city governments or has delayed taking action to recover the revenue diversions.

Key OIG Contacts: David A. Dobbs, Acting Deputy Assistant Inspector General for Aviation, 202-366-0500; Patricia J. Thompson, Deputy Assistant Inspector General for Highways and Highway Safety, 202-366-0687; Francis P. Mulvey, Deputy Assistant Inspector General for Rail, Transit and Special Programs, 202-366-0477; Thomas J. Howard, Deputy Assistant Inspector General for Maritime and Departmental Programs, 202-366-1534; and Todd Zinser, Assistant Inspector General for Investigations, 202-366-1967.

## **6. TRANSPORTATION SECURITY**

Issue: DOT needs to advance the Nation's vital interest by ensuring that the transportation system is secure. The U.S. transportation system includes 3.9 million miles of public roads, 1.5 million miles of oil and natural gas pipelines, 123 thousand miles of major railroads, over 24 thousand miles of commercially navigable waterways, over 5 thousand public-use airports, 508 transit operators in 316 urbanized areas, and 145 major ports on the coasts and inland waterways. Over the last several years, the changing threat of terrorist and other criminal activities has heightened the need to improve domestic transportation security.

Over 450 airports and 290 air carriers are subject to Federal Aviation Regulation security requirements and have FAA-approved security programs. More than 500 FAA security field agents monitor industry's compliance with these programs. Since 1997, FAA has also deployed more than 600 machines for screening passenger checked and carry-on baggage at a cost exceeding \$250 million dollars. Airport authorities and air carriers, working with FAA, must develop comprehensive and effective means to secure aircraft and other controlled areas from unauthorized access and intrusion.

Unlike aviation, security of our subways, trains, bridges, and other surface facilities has not been a high priority. However, because of their size, importance, and vulnerabilities, surface transportation locations can become terrorist targets. For example, in March 1995 a cult released nerve agents in a Tokyo subway, over 5,500 subway travelers required medical treatment.

Progress in the Last Year: FAA has completed the following actions.

- Deployed advanced security technologies to provide the highest possible levels of protection to air travelers.
- Established new security screening requirements for air carriers.
- Instructed airport operators and air carriers to take action ensuring that only authorized persons have access to and within secure airport areas, and to strengthen existing access controls.

The Department has only recently begun assessing the surface transportation system's vulnerability to hostile attacks. The independent National Research Council has released a report entitled "Improving Surface Transportation Security: A Research and Development Strategy." This report commends the Department's initial surface transportation efforts, while noting that much remains to be done.

Most Significant Open Recommendations and Issues: Several important issues require further action.

In aviation:

- An integrated strategic security plan is needed, that includes a balanced approach covering advanced security technologies<sup>1</sup> acquisition, deployment and use. Controls have to be established for the acquisition of advanced security technologies. Without these controls, the critical functions of planning, systems integration, oversight, analysis, and management assessment are not being performed as they should be. No consistently-applied strategy exists for deploying bulk explosives detection equipment. Also, the effectiveness of advanced security technologies is being limited. Usage rates are still low and usage rates have not substantially increased on most CTX machines. To date, more than 50 percent of the deployed machines screen less than **225 bags per day**, on average, compared to a certified rate of **225 bags per hour**. Additionally, FAA will need to increase the scope and frequency of compliance testing of all layers of checked baggage security, including the use of CTX machines.
- Airport access control security systems and programs need to be strengthened to safeguard passengers, aircraft, and airport property needs. In 117 (68 percent) of 173 tests, we successfully entered secure areas by penetrating emergency exits, following airport personnel through access control points, and penetrating air cargo facilities. Once we penetrated secure areas, we boarded aircraft operated by 35 different air carriers 117 times. Airport operators and air carriers have not successfully implemented procedures for controlling access, and employees have not met their responsibilities for airport security. FAA has not successfully implemented its oversight program to ensure compliance with established airport access control requirements, and FAA policies contributed to weaknesses in access control. Also, FAA needs to complete two pending rulemakings designed to hold individuals accountable for compliance with access control requirements.
- FAA needs to develop new requirements for issuing and accounting for airport identification (ID) required to access secure airport areas. FAA's current requirements do not ensure that access to secure airport areas is limited to only

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<sup>1</sup> Advanced security technologies include bulk explosives detection equipment, such as the CTX 5500 DS (CTX), an FAA-certified explosives detection machine used for screening checked baggage; trace explosives detection devices used primarily for screening carry-on baggage; and computer-based systems used for screening passengers during check-in, and for training personnel who operate explosives detection equipment.

airport employees who can be trusted with the public's safety, and that access is denied when an individual's status changes. Preliminary audit results show that airport operators and air carriers had not successfully developed and implemented procedures for issuing airport ID, and airport operators had not successfully developed and implemented procedures to account for airport ID. For example, at the airports we visited, eight percent of the IDs issued to employees for access to secure areas remained active even though the employee's status had changed and the employee no longer required unescorted access to secure airport areas. Further, FAA's oversight program to ensure compliance with existing requirements for issuing and accounting for airport ID was not effective.

In surface transportation:

- The Department should work toward a surface transportation security strategy, as recommended by the National Research Council. The Council recommends that the Department first focus on clearly defining the surface transportation security problem and the Department's security objectives. It also recommends that the strategy be: cross-modal; identify the DOT role in security research and development; and involve transportation owners and operators.
- DOT needs to develop the ability to perform meaningful risk assessments, so the Department can identify realistic solutions and tight resources can be appropriately targeted to areas of greatest vulnerability.

Key OIG Contacts: David A. Dobbs, Acting Deputy Assistant Inspector General for Aviation, 202-366-0500; Patricia J. Thompson, Deputy Assistant Inspector General for Highways and Highway Safety, 202-366-0687; Francis P. Mulvey, Deputy Assistant Inspector General for Rail, Transit and Special Programs, 202-366-0477; and Tom Howard, Deputy Assistant Inspector General for Maritime and Departmental Programs, 202-366-1534.

## **7. COMPUTER SECURITY**

Issue: The recent experience with the Year-2000 computer problems reminded the world how much our business and personal lives depend on interconnected computer systems. A 1997 study by the President's Commission on Critical Infrastructure Protection also pointed out the widespread capability to exploit the Nation's infrastructure vulnerabilities, particularly through information networks. As a result, the President issued Presidential Decision Directive 63 (PDD-63) requiring that the Nation's critical infrastructure, both physical and cyber-based, be protected from intentional destructive acts.

PDD-63 specified two deadlines--having an initial operating capability to protect critical infrastructure by May 2000 and a full operating capability by May 2003. This is an enormous task to accomplish and the total cost to implement PDD-63 is unknown. DOT spent about \$400 million to fix its Year-2000 computer problems in 310 mission-critical systems. While 110 of DOT's systems have been classified as infrastructure-critical<sup>2</sup>, the costs associated with fixing vulnerabilities associated with these systems, if identified, could be significant and possibly exceed the Year-2000 expenditures. Fixing computer vulnerabilities may require system reprogramming or facility upgrades. For example, FHWA estimated it took 1,400 hours to enhance password controls associated with 14 systems. Considering the funding constraints that will likely be in place, DOT needs to focus its efforts on doing good risk/vulnerability assessments, and use these assessments as a basis to prioritize the work so the most significant risks are minimized first.

### Progress in the Last Year:

- DOT submitted its initial work plan to the National Coordinator for Security, Infrastructure Protection, and Counter-Terrorism at the National Security Council. This plan lists DOT's critical infrastructure requiring protection. In DOT, critical infrastructures are defined as "those DOT-owned, controlled, or operated facilities and information-based systems that are essential to the Nation's defense, economic security, or public confidence in such facilities or systems." DOT has 110 systems and assets that meet this definition.
- DOT began installing automated tools to monitor telecommunications network traffic and detect intrusions into computer systems.

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<sup>2</sup> DOT has 609 mission-critical systems used to support core business functions, of which 310 required Year-2000 fixes. However, only 110 systems have been identified as infrastructure-critical because they are "essential to the Nation's defense, economic security, or public confidence...."

- DOT examined the validity of 73,000 user accounts authorized to access DOT systems and plans to terminate about 7,000 accounts.
- DOT completed most password control enhancements associated with 14 FHWA systems.

Most Significant Open Recommendations and Issues: DOT needs to take the following actions.

- Do risk assessments of its computer systems in order to prioritize how much computer security to buy and which computer vulnerabilities to fix first.
- Complete actions on its critical infrastructure computer systems to be able to certify that these systems have security protection commensurate with the associated risks.
- Complete actions to ensure that third party networks connected to DOT systems are secured.
- Enhance password controls in the departmental accounting system to prevent unauthorized payment.

Key OIG Contact: John L. Meche, Deputy Assistant Inspector General for Financial and Information Technology, 202-366-1496.

## **8. FINANCIAL ACCOUNTING/CHIEF FINANCIAL OFFICERS ACT**

Issue: DOT's budget for FY 2000 is about \$50 billion. Since FY 1996, DOT has prepared consolidated financial statements. For FYs 1996 through 1998, the DOT OIG has been unable to express an opinion on the reasonableness of the amounts on the financial statements. DOT must produce fair and accurate financial statements as a first step to establish accountability for its assets, improve financial credibility for its budget requests, collect accurate data to support sound management decisions, and establish a basis for user fees.

The primary weakness that prevented DOT from getting an unqualified, or "clean," audit opinion related to its property and equipment accounts totaling about \$21 billion. Most of this property and equipment is owned by FAA and the U.S. Coast Guard. DOT needs to get a clean opinion in order to support the validity of proposed user fees and improve financial management systems to assist in making decisions and evaluating the Department's performance.

Progress in the Last Year: DOT has made significant progress during FY 1999 in improving its financial accounting and reporting, as discussed below.

- DOT identified \$672 million in unneeded obligations, and used the funds for other valid needs or returned them to the United States Treasury.
- FAA documented and transferred \$1.6 billion from work-in-process to appropriate property accounts.
- FAA used appropriation data, budget information, and other financial records to increase the value for personal property by about \$4 billion.
- FAA partially implemented a cost accounting system that will be used to determine costs related to aircraft overflights for use in computing overflight user fees.
- Coast Guard established a work-in-process account for the first time.
- DOT was developing its new accounting system, which is scheduled for full implementation by September 30, 2001.

Most Significant Open Recommendations and Issues: We are currently performing our audit of DOT's FY 1999 financial statements, and the audit process will determine if sufficient improvements have been made to obtain an unqualified opinion for FY 1999. Long-term system improvements are needed for the

Department to maintain its momentum. Major financial areas that continue to need top management's attention are:

- Implementing a state-of-the-art financial management system that provides more accurate and timely financial data.
- Developing cost accounting systems with which DOT and FAA can better manage resources and allocate costs among programs.
- Maintaining adequate records to substantiate the value of property, plant, and equipment.

Key OIG Contact: John L. Meche, Deputy Assistant Inspector General for Financial and Information Technology, 202-366-1496.

## **9. AMTRAK FINANCIAL VIABILITY AND MODERNIZATION**

Issue: Since Amtrak's creation in 1971, Amtrak and Congress have shared a common goal of Amtrak operating a national passenger rail system without Federal operating assistance. However, Amtrak has continued to rely on Federal funds to cover its annual operating losses and capital needs. The 1997 Amtrak Reform and Accountability Act (ARAA) mandated that Amtrak develop a plan to eliminate its need for Federal operating support after FY 2002.

Progress in the Last Year: Amtrak has developed a plan to improve its financial position and has made progress in its efforts to achieve operating self-sufficiency. However, its operating losses in 1999 of \$907 million<sup>3</sup> were the largest in Amtrak's history. Amtrak's 1999 losses reflect, in part, investments in training and operational improvements that Amtrak believes will yield substantial pay-offs in the next 3 years and beyond. They also reflect increased depreciation costs resulting from recent investment in capital equipment, such as the purchase of more than 100 Roadrailer cars to support Amtrak's Mail and Express business, and the purchase of 77 auto carriers to reflect the Auto Train route.

Significant Open Recommendations and Issues: Amtrak is entering a critical year in its path to achieving self-sufficiency, both in terms of implementation of high-speed rail and in terms of financial progress under its Strategic Business Plan.

- The current 6-month delay in the start-up of Amtrak's new high-speed rail service between Boston and Washington will affect Amtrak's financial results in 2000 and 2001. Amtrak will need to find other sources of revenue or savings to compensate for the net revenue losses, which Amtrak estimates will total \$41 million<sup>4</sup> in 2000. Revenues from high-speed rail will play a critical role in Amtrak's plans to become self-sufficient, and Amtrak should move with prudent speed to begin this service as quickly as possible. It should be mindful, however, of the potential impacts on revenue and ridership if such service is started before Amtrak is certain it can be operated with consistent reliability.
- In our assessment of Amtrak's 1999 Strategic Business Plan, we identified \$692 million in projected revenue increases and cost reductions at risk of not being achieved between 2000 and 2002. If Amtrak cannot mitigate this risk

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<sup>3</sup> Amtrak's reported operating loss for 1998 was \$930 million, \$23 million more than the 1999 loss. However, this loss included retroactive labor payments attributable to 1996 through 1998 as defined in the newly settled labor agreements. After allocating these costs to the years in which they were actually incurred, the 1998 operating loss totals \$860 million, or \$47 million less than the 1999 loss.

<sup>4</sup> Amtrak's projections of revenue losses were substantially higher (\$120 million), but it expects that cost savings resulting from the delayed start-up and income from liquidated damages received from the trainset manufacturer will offset these losses.

and begin to close this gap, there may be insufficient time between now and 2003 for Amtrak to fully realize the needed benefits.

- Over half (\$379 million) of the amount we found to be at risk in Amtrak's 1999 business plan represents placeholders for the intended benefits from several undefined, or "to be determined," management actions. Amtrak's 2000 Strategic Business Plan must translate these initiatives into concrete, measurable actions that will significantly increase revenues and reduce expenses. *Filling* and then successfully *fulfilling* the 1999 business plan placeholders will be among Amtrak's most critical challenges in 2000.
- Amtrak has substantial capital investment needs that must be addressed in the next 15 years if Amtrak is to achieve and maintain operating self-sufficiency beyond 2003. Most importantly, Amtrak must begin to address a multi-billion dollar backlog of deferred investment on the Northeast Corridor south of New Haven. Replacing the catenary and power supply systems, rebuilding switches and high-speed turnouts, replacing the clay track bed in Maryland, and other track and bridge improvements must be done soon after 2003, or the quality of high-speed service on the Northeast Corridor will start to deteriorate. If service deteriorates, the ridership and revenue that are essential for Amtrak to maintain self-sufficiency will be threatened. It is therefore critical that Amtrak complete its overdue 20-year Northeast Corridor capital plan that will identify needs, the cost to address them, the necessary timing, and likely funding sources.
- Amtrak's projected Federal funding through 2002 will fall short of its minimum capital needs during this period by \$244 million. Not only will Amtrak need additional funding to maintain its system in a steady state through 2002, it will also require long-term annual capital funding substantially greater than it receives. It is our opinion that after Amtrak has produced its capital plan, Congress, the Administration, and Amtrak should proceed to determine an appropriate level of long-term capital funding necessary to sustain a commercially viable railroad and to identify the means by which this funding will be provided.

Key OIG Contact: Mark Dayton, Director, Competition, Economic and Technical Issues, 202-366-2001.

## **10. COAST GUARD DEEPWATER CAPABILITY REPLACEMENT PROJECT – NEW ISSUE**

Issue: The Deepwater Project represents the largest capital improvement project ever undertaken by the Coast Guard. The project is intended to replace or modernize all of the vessels and aircraft used in the Coast Guard's Deepwater missions, which occur more than 50 miles offshore. These include drug interdiction, illegal immigrant interdiction, and fisheries law enforcement. Cost estimates for the project, which is expected to take 20 years to complete, range between \$9.8 and \$14 billion.

Progress in the Last Year: The Coast Guard took a number of actions, including those listed below, to address concerns raised by the General Accounting Office about the condition of existing Deepwater assets.

- Completed assessments of the condition of Deepwater aircraft and ships.
- Compiled historical costs of operating Deepwater assets.
- Prepared a baseline data report and summarizing the results of the above studies for the industry teams to use in developing concept designs for the Project.

Also, a commission appointed by the President completed a review of the Coast Guard's roles and missions, and is drafting a report. The results are not yet known. However, the Coast Guard plans to prepare a revised Mission Needs Statement for Deepwater based on the results. The revised needs statement will be incorporated in the final design stage of the Deepwater Project.

Most Significant Open Recommendations and Issues: The Department faces several critical challenges in ensuring that the Deepwater Project is justified and affordable.

- The Department, the Administration, and the Congress face challenges in proceeding with a Deepwater Project costing as much as an additional \$500 million annually for 20 years while trying to increase funding for FAA. These funding decisions and trade-offs must be made in the context of the missions and responsiveness expected of the Coast Guard.
- The Deepwater Project envisions a long-term commitment of funds to acquire and/or improve a wide variety of assets over a 20-year period. While the project employs an excellent process to identify future asset needs, the Coast

Guard, in presenting its Project justification, must address the risks in making long-range commitments to specific assets when technology is changing rapidly.

- Although the Coast Guard has taken actions to improve data on the condition of vessels and aircraft being provided to contractors, some data are still not reliable, including the following.
  - The operations and maintenance cost allocation model has not been validated or tested.
  - Cost data on Deepwater asset deferred maintenance backlog is understated..

These deficiencies could adversely impact contractor concept designs and cost estimates that the Coast Guard will use to determine its acquisition strategy.

- Specific issues that the Coast Guard must address in moving this project forward include:
  - Transitioning the “systems-of-systems” approach from concept development and planning to budgeting and acquisition.
  - Identifying and avoiding problems encountered in other major departmental acquisitions, including FAA’s major acquisitions.
  - Developing reliable cost estimates for the acquisition of assets.
  - Integrating planned procurement levels with other Coast Guard acquisition needs.
  - Developing new approaches for support systems such as training, logistics, and maintenance for new assets and technologies.

Key OIG Contact: Thomas J. Howard, Deputy Assistant Inspector General for Maritime and Departmental Programs, 202-366-5630.

## **11. SHIP DISPOSAL PROGRAM – NEW ISSUE**

Issue: The Maritime Administration (MARAD) is required, by legislative mandate, to dispose of obsolete vessels in the National Defense Reserve Fleet (NDRF) by September 30, 2001, in a manner that maximizes financial return to the United States. In FY 1999, the NDRF contained 112 vessels designated for priority disposal. These obsolete vessels are deteriorating, contain hazardous substances, and pose an immediate environmental threat. MARAD expects its inventory of obsolete vessels will increase to 169 vessels by 2001 if no additional vessels are sold by that time.

MARAD administers the scrapping program for merchant and non-combatant vessels but the program is funded by the Department of Defense (DOD). DOD administers its own program for disposing of obsolete warships. MARAD's primary method of disposal has been selling the vessels for scrapping. From 1991 to 1994, MARAD sold 98 percent (80) of its vessels to overseas scrap yards, yielding \$35 million in revenue.

In September 1998, a moratorium was placed on the export of U.S. Government vessels for scrapping due to concerns about the environment and worker health and safety. The moratorium required MARAD to rely on the domestic ship-breaking market, but capacity in the domestic market is limited. In addition, while MARAD is trying to sell its vessels in this limited market, the Navy has initiated a program that pays ship-breakers to scrap warships.

Last year, Congress passed legislation establishing a pilot project in the Navy that could lead to the eventual disposal of 66 warships. The pilot project uses cost-plus incentive-fee contracts for the disposal of four vessels. The purpose of the pilot is to quantify the costs associated with ship breaking. Based on the cost data collected, subsequent vessels will be scrapped on a fixed-price contract. Under the pilot, the Navy is paying \$13.3 million for the disposal of four vessels.

Most of MARAD's 112 priority disposal vessels are moored at three fleet sites -- the James River Reserve Fleet located in Ft. Eustis, Virginia (59 vessels); the Beaumont Reserve Fleet located in Beaumont, Texas (10 vessels); and the Suisun Bay Reserve Fleet located in Benecia, California (41 vessels). Two other vessels are located in Mobile, Alabama. As MARAD has been unable to dispose of its vessels, it has incurred additional maintenance costs. For example, MARAD has spent over \$1.3 million to keep one vessel afloat. In September 1999, the James River Reserve Fleet was hit by Hurricane Floyd causing several ships to move from their moorings, thereby incurring maintenance and repair costs of \$1.2 million for this single episode. If MARAD's obsolete fleet were to deteriorate to

such an extent that the vessels would require dry-docking, MARAD could potentially have to expend up to \$100 million.

Progress in the Last Year:

- Very little progress was made in FY 1999. Although MARAD sold 15 of the 112 priority disposal vessels for domestic scrapping, work has started on only 1 vessel. The remaining 14 vessels are still moored in MARAD's fleets, requiring continued maintenance at the U.S. Government's expense. The last three vessels sold to domestic scrappers yielded only \$10 per vessel.
- In November 1999, the Interagency Panel on Ship Scrapping released a matrix of open recommendations still not addressed since its 1998 report. The Panel stated that MARAD needs to explore creative solutions for the disposal of its obsolete vessels. While MARAD has been pursuing alternative disposal methods, it is still required by law to maximize financial returns.

Most Significant Open Recommendations and Issues: The Department, the Administration, and the Congress face a challenge in determining how to dispose of MARAD's fleet of environmentally dangerous vessels in a timely manner.

- The requirement to maximize financial returns on the disposal of obsolete ships may not work in today's marketplace. MARAD will likely need relief from this requirement, and it will need authorization and funding for a program similar to the Navy pilot. This could cost as much as \$560 million for the environmentally compliant disposal of the 169 obsolete vessels that MARAD expects to have in FY 2001, if no other vessels are sold by then. Furthermore, the limited domestic market may not support the number of Navy and MARAD vessels awaiting disposal.
- The 112 priority disposal vessels pose an immediate environmental threat to their surrounding waters. These vessels contain such hazardous substances as fuel oil, asbestos, solid and liquid polychlorinated biphenyls, lead, radium, chromates, and other hazardous materials requiring immediate State or Federal action, should the hazardous materials escape into the water. For example, an oil spill from one vessel moored in the James River Reserve Fleet highlighted the potential environmental liabilities. The Virginia Department of Environmental Quality assessed a fine against MARAD for this oil spill. The U.S. Coast Guard has mandated additional measures that will increase costs for MARAD to ensure that such an incident will not occur again.

Key OIG Contact: Thomas J. Howard, Deputy Assistant Inspector General for Maritime and Departmental Programs, 202-366-5630.

## **12. GOVERNMENT PERFORMANCE AND RESULTS ACT IMPLEMENTATION**

Issue: The Government Performance and Results Act (GPRA) requires Federal agencies to develop 5-year strategic plans (to be updated every 3 years); annual performance plans; and, starting in 2000, annual performance reports. DOT's first strategic and performance plans were rated by Congress as the best in the Federal Government. To *continue* this success, the Department needs to improve the reliability and timeliness of its performance data.

Progress in the Last Year: In 1999, DOT did a dry run of preparing a performance report for the Congress by March 31, which will be the annual statutory due date starting in 2000. DOT was the only Federal agency to conduct such a dry run.

Significant Open Recommendations and Issues: The key GPRA issues for the Department focus on measuring performance and achieving progress that can be documented in the annual performance report and highlighted in the component and Department-wide financial statements.

- For the performance report to be submitted by March 31, data applicable to the reporting period must be available by March 1 to gauge progress against each of the specific performance measures. When DOT did the 1998 dry run, it was able to report 1998 results for only 63 percent of its measures. For example, FAA could not provide 1998 data for aviation systems capacity or for aircraft noise. FHWA could not produce 1998 highway pavement condition or highway congestion data for the dry run report because it had not yet received State data for the entire year. The Department components are working to address these and other timeliness issues in order to provide 1999 data for the 2000 report.
- The ultimate GPRA test is not collecting data, but actually making progress against performance goals. The Department is challenged by having to accomplish some significant goals through third parties. For instance, FAA has a goal for the percent of runways in good or fair condition. Runway rehabilitation projects are partially funded through FAA grants, but the projects must be initiated by airport operators who pay a portion of the costs. Also, the availability of rehabilitation grants may detract from regular maintenance programs, which are usually funded entirely by airport operators.
- FAA, FHWA, and DOT as a whole need to improve the presentation of performance measurement data in their financial statements. Performance measures presented in the FY 1998 financial statements did not provide information about program cost effectiveness, and financial data could not be linked to performance.

- The Department still needs to focus on setting baselines, developing performance measures, and setting performance goals for some important initiatives. For instance, the Coast Guard should establish quantifiable baselines on environmental restoration issues, and establish performance goals and measure progress in the Abandoned Vessels Program.

Key OIG Contact: Mark Dayton, Director, Competition, Economic, and Technical Issues, 202-366-2001.

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