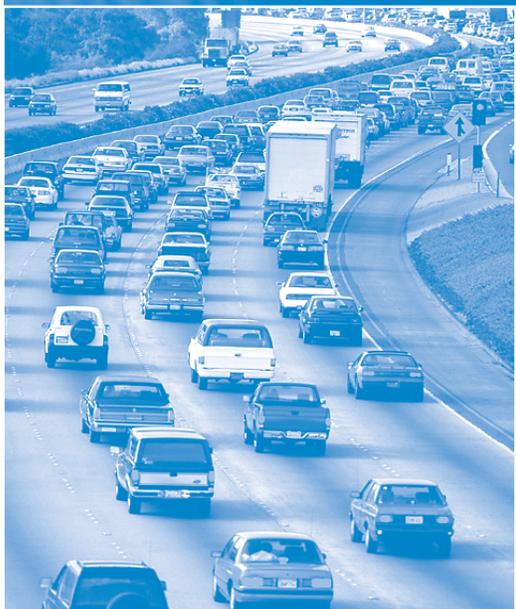


OFFICE OF INSPECTOR GENERAL  
U.S. Department of Transportation

# Semiannual Report to Congress

October 1, 2004 – March 31, 2005





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*October 1, 2004 – March 31, 2005*





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# FROM THE INSPECTOR GENERAL

**W**e are pleased to present the Department of Transportation Office of Inspector General's Semiannual Report to Congress for the six months ending March 31, 2005. We thank Secretary Mineta, Deputy Secretary Cino, our modal administrators, and members and staff of Congress for their responsiveness to our recommendations to strengthen safety, improve program delivery, and maximize efficiency.

During this period, we issued our annual report of the top management challenges facing DOT. The Department has been responsive to our management challenges report and continues to develop and carry out initiatives to address those challenges. Many of the challenges identified do not materially change from year to year but as we begin work on our FY 2006 report we have identified several new challenge areas requiring attention. These include: FAA's need to improve the cost efficiency of support services contracts, a multibillion-dollar cost item; railroad safety, especially at highway grade crossings; and the challenges facing DOT in its impending move to a new Headquarter's building.

We will continue placing a high priority on other key areas, among them: FAA's efforts to control costs, build capital projects within budget, address trust fund revenue shortfalls, and alleviate air traffic congestion and delays; Amtrak's reauthorization; large transit and highway infrastructure project oversight; and preventing and detecting fraud in DOT contracts, grants, and safety programs.

Over the last six months, we have issued 55 audit reports and 188 recommendations, and our investigations resulted in 103 convictions. Our office has had a financial impact on the Department totaling more than \$285 million in fines, restitutions, civil penalties, recoveries, and financial recommendations. A summary of highlights from audits and investigations presented during this report period can be found inside.





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# WORK PLANNED AND IN PROGRESS

**D**uring this reporting period, the Office of Inspector General will continue to focus on the Department's key strategic goals to improve safety, capacity, and efficiency. We will review the cost and schedules of major acquisitions programs in FAA; safety oversight of the changing aviation industry; and human resources issues, such as staffing in FHWA and FAA. We will ensure thorough financial reporting and accounting practices throughout the Department and review information system acquisitions and security. We will continue to monitor the progress of major highway and transit projects, assess programs to improve motor carrier safety, and evaluate activities to improve public transit and passenger rail security.

OIG has developed the following work plan for the period of April 1, 2005, through September 30, 2005.

## AVIATION AND SPECIAL PROGRAM AUDITS

### ■ **FAA Staffing and Training for Flight Standards Inspectors**

Determine whether: (1) FAA and OST have effectively implemented procedures to heighten surveillance of new entrant and low-cost air carriers during periods of rapid growth and (2) FAA's risk-based surveillance system is used effectively to target identified risk areas and to aid FAA in allocation of inspector resources.

### ■ **National Airspace Redesign**

Determine (1) if FAA has an effective process to control costs, mitigate risks, and coordinate local, regional, and Headquarters efforts and (2) whether opportunities exist for FAA to make airspace redesign efforts more cost effective.

### ■ **En Route Automation Modernization (ERAM) Program**

Evaluate FAA's ERAM program to: (1) determine whether FAA has a realistic plan to provide a new en route automation system on time and within budget, (2) identify the key program risks that could affect FAA's ability to meet cost and schedule projections, and (3) determine whether FAA has adequately addressed computer security in the ERAM system design.





### ■ **Air Carriers Use of Non-Certificated Repair Facilities**

Determine (1) how FAA identifies and oversees work performed at non-certificated repair facilities, (2) how FAA requirements for non-certificated facilities differ from those for certificated repair stations, and (3) evaluate the quantity and type of work air carriers outsource to non-certificated repair facilities.

### ■ **Advanced Technology and Oceanic Procedures II**

Compare FAA's experience in acquiring an oceanic system to the experiences of other major oceanic air traffic control service providers. Review the cost, schedule, and performance specifications and the operating environment (i.e., complexity and volume of airspace) that the system was designed to accommodate.

### ■ **Validation of the Standard Terminal Automation Replacement System (STARS) Phase I Program Costs**

Review and validate the life cycle cost studies and other relevant analyses provided to FAA's Joint Resources Council to justify and rebaseline Phase I of the STARS program.

### ■ **Safety Oversight of an Air Carrier Industry in Transition**

Determine whether: (1) action taken by FAA to monitor financially distressed air carriers is effective, (2) the Air Transportation System and the Safety Performance Analysis System have been used effectively to monitor financially distressed carriers by providing the data and tools inspectors need to conduct their work, (3) FAA has effectively implemented procedures to heighten surveillance of low-cost air carriers during periods of growth or change, and (4) FAA's risk-based surveillance system is used effectively to target identified risk areas, and to aid FAA in the allocation of inspector resources for low-cost air carriers.

### ■ **FAA's Initiatives To Address Controller Staffing**

(1) Evaluate the current process for determining staffing levels at the FAA facilities and plans to adjust the process, (2) determine FAA's progress in implementing a labor distribution system, and (3) evaluate FAA staffing plans to correct facility staffing imbalances that Congress mandated.

### ■ **FAA Major Acquisitions**

Update the costs and schedule of major acquisitions and identify key issues affecting implementation of FAA's efforts to modernize the National Airspace System.

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### ■ Oversight of Aircraft Manufacturers' Quality Assurance System for Suppliers

Evaluate FAA's oversight of aircraft manufacturers' quality assurance system for domestic and foreign suppliers.

### ■ Review of Chicago O'Hare Modernization Plan

Investigate FAA's process for reviewing and approving the city of Chicago's proposed O'Hare Modernization Plan.

### ■ Physical Security of FAA Facilities

Assess FAA's Internal Security Program and determine whether FAA is ensuring: (1) the integrity of those working and supporting the National Airspace System; and (2) the adequate protection of FAA's property, and FAA personnel, contractors, and visitors as well as operations against criminal and terrorist acts.

### ■ Implementation of Pipeline and Hazardous Materials (HAZMAT) Safety Mandates and Recommendation

As required by H.R. 5163, the Norman Y. Mineta Research and Special Programs Improvement Act, identify and report: (1) a list of statutory mandates regarding pipeline and HAZMAT safety that have not been implemented, and (2) NTSB and OIG recommendations that remain open.



### ■ Disposal and Development of Properties Acquired Under Airport Noise Compatibility Programs

Assess policies, procedures, and practices of airport sponsors for: (1) identifying land that is no longer needed for noise compatibility purposes; (2) disposing of this land through sales, leases, or other means such as exchanges; (3) ensuring the land is only used for purposes compatible with noise levels associated with airport operations; and (4) ensuring that proceeds from land dispositions are used for other noise compatibility projects or returned to the Secretary for deposit in the Airport and Airway Trust Fund.

### ■ Security of Public Transit and Passenger Rail Systems

Assess (1) DOT's roles and responsibilities with respect to security of the Nation's public transit and passenger rail systems; (2) DOT's efforts to collaborate and coordinate with the Department of Homeland Security on public transit and passenger rail security rulemaking, oversight, and enforcement; and (3) the extent and effectiveness of DOT funding for securing the public transit and passenger rail system.

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### ■ **FAA Certification Procedures for Foreign Manufactured Aircraft**

Evaluate FAA's process for reviewing and approving major systems/components of foreign manufactured aircraft.

### ■ **Air Carriers' Outsourcing of Aircraft Maintenance**

Determine (1) the type and amount of maintenance being performed by outside repair stations, (2) the effect of air carriers' downsizing of in-house personnel, and (3) how FAA ensures air carriers are effectively monitoring the work performed by repair stations.

## FINANCIAL AND INFORMATION TECHNOLOGY AUDITS

### ■ **Use of Contract Audit Services, DOT Operating Administrations**

Determine whether DOT and its Operating Administrations are obtaining contract audit services as necessary and in accordance with policies, procedures, and acquisition regulations.

### ■ **Review of Contractor Overhead and Compensation Under Grants**

Review the effectiveness and implementation of audit provisions in Section 307 of the National Highway System Designation Act addressing audits of contracts awarded by states to engineering and design firms. Procedures include testing the allowability of compensation and other high overhead cost elements billed by these firms.

### ■ **2004 Status Assessments of Cost Accounting System and Practices, FAA**

Provide our annual status assessment on FAA's progress in implementing its cost accounting system through calendar year 2004 as required by AIR-21. This is our fifth and final required annual assessment. AIR-21 requires an assessment of eight specific areas covering FAA's methods for calculating and assigning costs to specific users and whether those methods are appropriate, reasonable, and understandable.

### ■ **Security and Controls Over the Remote Maintenance Monitoring System**

Determine whether maintenance processing systems are adequately secured to ensure the integrity and availability of field equipment supporting air traffic control operations and services.

### ■ **Oversight of Contractor Performance of SAS-70 Review of DOT Delphi Financial System**

Provide oversight of the work performed by an independent contractor in conducting a SAS-70 review of the DOT Delphi Financial Management System.

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### ■ **FRA Network Infrastructure Security**

Review security over Virtual Private Network, wireless, and third-party connections to the DOT network.

### ■ **Financial Policies and Procedures at the National Crash Analysis Center**

Determine whether George Washington University's corrective actions and financial policies are adequate and sufficient enough to eliminate the overbilling to FHWA and Federal agencies, which resulted from recent instances of financial misconduct and conflicts of interest at the National Crash Analysis Center.

### ■ **FY 2005 Audit of FHWA Inactive Obligations**

Determine whether FHWA has implemented prior recommendations regarding inactive obligations. Identify funds associated with unneeded projects that can be put to use on other projects.

### ■ **Review of Cost Allocation for Midway Island Operations**

In compliance with an FY 2005 Consolidated Appropriations Act requirement to establish an equitable formula to allocate the costs of operating the Midway Island airfield, identify: (1) costs of operating the airfield, (2) an equitable method to allocate costs among users, and (3) opportunities to reduce operating costs.

### ■ **Use of Government Purchase Cards at NTSB**

Ensure that internal controls over the purchase cards are adequate to provide safeguards against fraud, waste, and abuse and that purchases using Government purchase cards are reasonable, valid, and received.

### ■ **FY 2005 Audit of NTSB Financial Statements**

Ensure that the Independent Public Accounting firm audits the NTSB FY 2005 Financial Statements in accordance with U.S. Generally Accepted Government Auditing Standards, the Government auditing standards issued by the Comptroller General of the United States, Office of Management and Budget (OMB) guidance, and the Accountability of Tax Dollars Act of 2002.

### ■ **Review of Consolidation of DOT Accounting Functions**

Determine the extent to which DOT would achieve financial and operational benefits by consolidating its accounting functions.

### ■ **FY 2005 DOT Financial Statements**

Determine whether: (1) principal DOT Consolidated Financial Statements and accompanying notes are presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles; (2) DOT has adequate internal controls over financial reporting, including safeguarding



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assets; (3) DOT has complied with laws and regulations that could have a direct and material effect on the DOT Consolidated Financial Statements or those that have been specified by OMB, including the Federal Financial Management Improvement Act of 1996; (4) financial information in the Management Discussion and Analysis is materially consistent with the information in the principal DOT Consolidated Financial Statements; (5) internal controls ensured the existence and completeness of reported data supporting performance measures; and (6) supplementary, stewardship, and other accompanying information is consistent with management representations and the DOT Consolidated Financial Statements.

■ **NTSB Federal Information Security Management Act Review 2005**

Prepare the Statement of Work for contractors' biddings and research phases and award the contract by May 31, 2005.

■ **FY 2005 Audit of Highway Trust Fund (HTF) Financial Statements**

Perform a quality control review of the work performed by the Independent Public Accounting firm selected to audit FY 2005 HTF Financial Statements to ensure the audit is performed in accordance with U.S. Generally Accepted Government Auditing Standards and OMB Bulletin 01-02, Audit Requirements for Federal Financial Statements.

■ **FY 2005 Audit of the Federal Aviation Administration's Financial Statements**

Ensure the Independent Public Accounting firm audits the FAA's FY 2005 Financial Statements in accordance with the U.S. Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and OMB guidance.

■ **Computer Security and Controls Over the National Driver Registry (NDR)**

Determine whether: (1) personal identification information stored in the NDR can be accessed for unapproved use; (2) traffic violations are timely and accurately processed for NDR reporting; (3) an adequate contingency plan exists to ensure business continuity; and (4) risks associated with NDR system operations are properly assessed, tested, and mitigated to meet minimum Government security standards.

■ **Review of Spending Priorities for the Office of the Assistant Secretary for Administration**

Determine if the resources requested are commensurate with mission responsibilities.

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### ■ **Use of Multiple Award and Task and Delivery Order Contracts, FAA**

Examine the use of contracts to determine whether the awards are made competitively and in a cost efficient manner. Also, review the effectiveness of the administration of these contracts.

### ■ **Corrective Actions To Prevent Anti-Deficiency Act Violations, FTA**

Based on an FY 2005 Appropriations Act request, examine the adequacy of FTA's corrective actions for ensuring that internal control weaknesses and accounting practices associated with incurring and covering up a material Anti-Deficiency Act violation of over \$500 million have been eliminated.

## SURFACE AND MARITIME PROGRAMS

### ■ **Federal Highway Administration's Oversight of Structurally Deficient Bridges**

Evaluate whether (1) structurally deficient bridges on the National Highway System have been inspected in accordance with National Bridge Inspection Standards and (2) the Federal Highway Administration's oversight is effective to address the deficiencies on these bridges.

### ■ **Federal Motor Carrier Safety Administration Oversight of the Commercial Drivers License (CDL) Program**

Provide FMCSA management with observations regarding the issuance of fraudulent CDLs and determine what actions FMCSA has taken to ascertain the status of the suspect drivers.

### ■ **Federal Transit Administration Bus Procurement Processes**

Determine whether FTA's oversight ensures that transit agencies using Federal funds to purchase and operate transit bus fleets: (1) follow procurement and management practices in accordance with Federal guidelines, and (2) have instituted business practices that achieve the most cost effective use of Federal dollars.

### ■ **Central Artery/Tunnel Project 2004 Finance Plan**

Determine whether the 2004 Finance Plan: (1) presents a cost estimate that is based on all known and reasonably expected costs, (2) identifies appropriate and available funding sources sufficient to meet the total estimated cost, (3) provides a project construction schedule that is based on all known and reasonably anticipated delays, and (4) discloses other issues affecting the project.



### ■ Highway-Rail Grade Crossing Inspections, Accident Reporting, and Investigations

Assess the adequacy of the Federal Railroad Administration’s oversight of highway-rail grade crossing safety inspections, accident reporting requirements, and accident investigations.

### ■ Audit of Motor Carrier Safety Program

Assess the FMCSA’s progress in: (1) implementing the OIG’s recommendations from the April 1999 audit report, (2) implementing the Motor Carrier Safety Improvement Act of 1999 (MCSIA) requirements on new entrant motor carriers, and (3) issuing rulemakings required by the MCSIA.

### ■ NHTSA’s Oversight of Alcohol-Impaired Driving Programs

Identify the defining characteristics that constitute alcohol-related crashes; compare the scope, direction, resources, and expenditures of programs and activities of those states with the highest and lowest alcohol-related fatalities, including the use of high visibility law enforcement methods; and determine Federal resources dedicated to this effort.

### ■ FHWA’s Oversight for Implementing Value Engineering (VE)

Determine whether FHWA’s oversight is adequate to ensure that: (1) VE studies are performed in accordance with established criteria and (2) VE recommendations are timely and implemented to the maximum extent possible, permitting potential savings to be achieved.

### ■ Oversight and Workforce Strategic Issues in the FHWA

Determine the extent to which FHWA’s current work activities are focused on states’ management practices and how the future workload is expected to change, and evaluate whether Federal-aid divisions have the multi-disciplinary workforce and tools needed to effectively perform program and project oversight.

### ■ FHWA’s Cost Recovery Actions

Evaluate (1) FHWA’s oversight of states’ processes and procedures for controlling, identifying, and tracking design errors and/or omissions on projects and (2) the progress made by FHWA and the states in recovering costs resulting from design errors and/or omissions.

### ■ Risk Mitigation on Lower Manhattan Recovery Effort

Evaluate FTA’s management process to identify and mitigate project risks.

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### ■ Follow-Up on the North American Free Trade Agreement

Verify that FMCSA has the staff, facilities, equipment, and procedures in place to comply with the provisions in Section 350 of the FY 2002 Transportation and Related Agencies Appropriations Act.

### ■ Major Project Cost Estimating Activities

Determine frequent factors that cause cost estimates to be unreliable, evaluate efforts to improve cost estimating guidance, and identify opportunities to improve oversight of project sponsor processes and procedures for preparing credible cost estimates.

## COMPETITION AND ECONOMIC ANALYSIS

### ■ Status Review of the Designated High-Speed Rail Corridors

Assess the status of each of the designated corridors, focusing on demand studies performed to date, expense projections, estimated capital requirements, and proposed implementation schedules.

### ■ Assessment of Amtrak's Route Structure

Evaluate potential options for restructuring some of Amtrak's long distance routes to reduce its Federal subsidy requirement.

### ■ Assessment of Amtrak's Financial Performance and Capital Requirements

Evaluate and analyze Amtrak's current financial status and the reasonableness of its 5-year strategic capital plan.

### ■ Financing the Aviation System

Examine the financing structure (i.e., taxes, fees, and prices) supporting the operation of and investment in the airway system in the United States, and assess whether a different funding model could produce more efficient operation of the system while also providing better information to direct investment in it.

### ■ Airline Metrics

Update statistics on airline industry metrics regarding air service demand and capacity, service performance, airline finances, and air service at small airports. These metrics provide decision makers with past, present, and future indicators of domestic service levels and the general state of the airline industry.





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# ACTIVITIES

## DOT Information Security Program

**October 1, 2004**

We issued our final report on the annual audit of the Department of Transportation's Information Security Program as required by the Federal Information Security Management Act. During FY 2004, DOT made a concerted effort to correct weaknesses identified during previous years. However, we found that the CIO office and Operating Administrations need to better coordinate IT budget requests in order to clearly describe the sources and uses of IT funds; the quality of security certification reviews need to be improved; and air traffic control system security must be enhanced. We made several recommendations to the DOT CIO to improve IT management controls; network and Internet (web) security; system security certification reviews; air traffic control system security, and system contingency planning.

## Former Colorado Businessman Ordered to Pay Over \$14 Million and Jailed Over Four Years in Motor Fuel Tax Evasion Case

**October 26, 2004**

Thomas W. Quintin was sentenced in U.S. District Court in Denver, Colorado to 51 months in prison and \$14,131,015 in restitution and special assessment for defrauding the federal government as well as the states of Colorado, Wyoming and Nebraska by not paying excise fuel tax. On June 3, 2004 Quintin pled guilty to 15 counts of tax evasion and 98 counts of mail fraud. From approximately 1989 through 1993 Quintin operated a motor fuel distribution system including two wholesale supply and twenty retail sales outlets. He engaged in a tax evasion scheme which involved using the wholesale companies to obtain federal and state licenses to purchase fuel from suppliers free from state and federal taxes. The fuel obtained from suppliers was then sold through the retail outlets owned by Quintin's wife, Sandra J. Westphal. Quintin underreported and underpaid the amount of taxes due to the states and federal government. The tax loss to the federal government (and the highway trust fund) was over \$7.5 million. Quintin was a fugitive from 1996 and subsequently jailed in Canada until January 2003. Westphal, who faces similar charges, is in Canada awaiting extradition. This is a joint investigation with the Internal Revenue Service (IRS) in cooperation with the Colorado and Nebraska Departments of Revenue and the Wyoming DOT.

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## Security and Controls Over Technical Center Computer Systems, FAA November 5, 2004

We issued a report to the Federal Aviation Administrator on security and controls over en route air traffic control developmental systems located in the computer laboratory at FAA's William J. Hughes Technical Center. This is the second in a series of reports concerning en route air traffic control systems security. New systems or upgrades cannot be deployed to en route centers to support high-altitude (above 18,000 feet) air traffic control without first being tested on the developmental systems in the Technical Center computer laboratory. We made specific recommendations to strengthen security protection over en route developmental systems. FAA management concurred with our findings and has taken corrective actions to secure outside entities' connections to the Technical Center network, eliminate computer vulnerabilities, improve access controls to the computer laboratory and developmental systems, and enhance contingency planning for essential operations at the Technical Center. The Department of Transportation has determined that this report contains Sensitive Security Information as defined by 49 CFR Part 1520. Accordingly, it is not available for public inspection or copying.

## Review of Law Enforcement Authority for Railroad Police November 10, 2004



At the request of the Senate Committee on Commerce, Science, and Transportation, we reviewed the authority, duties, and use of railroad police, particularly for non-law enforcement purposes. We found that: (1) law enforcement authority for railroad police derives from the states; (2) while employee-related matters comprise a very small part of the overall caseload, there still were almost 1,000 such cases in 2003; and (3) of the six specific instances brought to our attention for review, some cases did not reflect an appropriate, prudent application of police resources.

We observed that railroads, in general, can benefit from guidance governing the conduct of employee investigations; policies governing employee-related matters for which police involvement would be merited; internal affairs programs; and collection and maintenance of accurate and sufficiently comprehensive police activity data. We also recommended that the President of Amtrak request that the Inspector General review one particular case that came to our attention to determine the propriety of the railroad police actions and the adequacy of the subsequent investigation, and perform an assessment of the adequacy of the Amtrak Police employee incident policy and procedures and internal affairs program.

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# ACTIVITIES

## DOT Financial Statement Audits

The Chief Financial Officers Act (1990), as amended by the Government Management Reform Act (1994), requires all Federal agencies to issue annual financial reports to improve Federal management of financial practices and to ensure reliable and timely financial information. To meet these requirements, we conduct audits of the Department's consolidated financial statements, FAA's financial statements, and the Highway Trust Fund. In addition, we review audits of financial statements for the National Transportation Safety Board (NTSB) and the Saint Lawrence Seaway Development Corporation.

### Quality Control Review of Audited Financial Statements for FY 2004 and FY 2003, Saint Lawrence Seaway Development Corporation

**November 9, 2004**

We issued our quality control review of the audit giving an unqualified or "clean" opinion for SLSDC's FY 2004 financial statements. We found that the audit, conducted by contractor Dembo, Jones, Healy, Pennington, & Marshall, P.C. of Rockville, MD, was performed in accordance with applicable standards. The actual financial statements are available on the Saint Lawrence Seaway Development Corporation web site.

### National Transportation Safety Board FY 2004 Financial Statements

**November 10, 2004**

We issued our quality control review of the audit giving an unqualified or "clean" opinion for NTSB's FY 2004 financial statements. The report presented two material weaknesses previously reported by management and made two new recommendations. We found that the audit, conducted by contractor Leon Sned & Company of Rockville, MD, was performed in accordance with applicable standards. More information from the actual report can be found in the NTSB 2004 DOT Performance and Accountability Report.

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## Highway Trust Fund FY 2004 and FY 2003 Financial Statements

### November 12, 2004

We issued our audit report on the FY 2004 and FY 2003 financial statements of the Highway Trust Fund, in which we concurred with the unqualified or "clean" opinion of Clifton Gunderson LLP of Calverton, MD. As required under the Chief Financial Officers Act, the audit categorized significant financial management and accounting deficiencies as four material weaknesses and one reportable condition, and made 24 recommendations to correct these problems. The Department's Chief Financial Officer concurred with the weaknesses and agreed with the recommendations. More information from the actual report can be found in the 2004 DOT Performance and Accountability Report.

## Federal Aviation Administration FY 2004 and FY 2003 Financial Statements

### November 12, 2004

We issued our audit report on the FY 2004 and FY 2003 financial statements of the Federal Aviation Administration, in which we concurred with the unqualified or "clean" opinion of KPMG LLP of Washington, DC. As required under the Chief Financial Officers Act, the audit categorized financial management and accounting deficiencies as five reportable conditions and made 23 recommendations to correct these problems. The Federal Aviation Administration concurred with the reportable conditions and agreed with the recommendations.

## DOT Consolidated Financial Statements for FY's 2004 and 2003

### November 15, 2004

We issued a favorable report on DOT's consolidated financial statements for FY's 2004 and 2003. This is the fourth fiscal year in a row-2001, 2002, 2003, and 2004-that DOT has achieved an unqualified or "clean" opinion on accounts representing year-end assets of about \$68 billion, year-end liabilities (debts) of \$13 billion, costs of operations (program costs) of \$58 billion, and total budgetary resources (available financial resources) of \$105 billion. The clean audit opinion signals to users of the financial statements that they can rely on the information presented. Significantly, this year also marked the transition to a new integrated accounting system and the only one at a large cabinet department. FAA deserves credit for addressing significant challenges this year. Highway Trust Fund Agencies need to address financial management and grant oversight issues. Continued executive level attention, backed by skilled resources, will be critical to correct the remaining deficiencies. More information on the DOT financial statements can be found in the 2004 DOT Performance and Accountability Report.

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# ACTIVITIES

## DOT's Top Management Challenges

**November 15, 2004**

In accordance with OMB Circular A-136, we issued our report on the Department of Transportation's (DOT) top management challenges for FY 2005. In considering the items for this year's list, we continue to focus on the Department's key strategic goals to improve transportation safety, capacity, and efficiency.

■ **GETTING THE MOST VALUE FROM INVESTMENTS IN HIGHWAY AND TRANSIT INFRASTRUCTURE PROJECTS.** Highway Trust Fund revenues are falling short of what is needed for important transportation projects. Therefore, it is critical that the Department ensures infrastructure improvements are delivered on time and within budget, while yielding the greatest benefits for their costs. Taking these actions is imperative, as a 1-percent improvement in the efficiency with which states managed the \$700 billion investment in highway projects over the last 6 years would have yielded an additional \$7 billion for infrastructure improvements-enough to fund 9 of 18 active major projects.

■ **DELIVERING AIR TRAFFIC CONTROL SERVICES AND FIELDING NEW AIR TRAFFIC CONTROL EQUIPMENT WHILE CONTROLLING COSTS IN A FIXED BUDGET ENVIRONMENT.** The Federal Aviation Administration (FAA) faces challenges as funding requirements significantly outpace revenue from aviation taxes. In FY 2005, FAA's budget is expected to exceed Trust Fund revenues by over \$3 billion. Other challenges include addressing an expected surge in controller attrition, containing costs, and fielding existing modernization projects while effectively managing a new multi-billion dollar project.

■ **INCREASING AVIATION CAPACITY AND MITIGATING DELAYS.** In some markets, air traffic and delays are returning to the intolerable gridlock levels experienced in 2000. Delays were particularly disruptive earlier last year at several key airports; one reported a 40-percent increase in delays over the same period in 2000. The Department is challenged to keep planned technological and infrastructure projects on schedule while effectively relieving congestion and delays in the interim and exploring market-based solutions where increased physical capacity is not a viable alternative.



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■ **ENSURING SAFETY IN A CHANGING AVIATION ENVIRONMENT.** FAA and U.S. air carriers have maintained a remarkable safety record, but FAA needs to remain vigilant in adjusting its safety oversight to the industry’s emerging trends, such as the rapid growth of low-cost and regional air carriers and the record-breaking monetary losses of network air carriers — at least \$21.8 billion in the past 3 years. FAA must continue progress in reducing runway incursions and operational errors and in developing reliable procedures for reporting those errors.



■ **ENSURING THAT SURFACE SAFETY PROGRAMS LEAD TO MORE LIVES SAVED.** More than 40,000 people die each year on the Nation’s highways and at highway-rail crossings. The Department has set ambitious targets for reducing fatality rates in the future, which means it must address issues such as seatbelt laws, SUV rollover concerns, laws against alcohol-impaired driving, vehicle defects, implementation of statewide Comprehensive Highway Safety Plans, state and local processes for programming funds for roadway safety countermeasures, commercial driver’s license fraud, better safety data, and safer highway-rail grade crossings. Ensuring that these efforts bring about reductions in accidents and fatalities will require leadership by the Operating Administrations and consideration of possibly controversial solutions.

■ **STRENGTHENING FINANCIAL MANAGEMENT TO PROTECT FEDERAL FUNDS.** The Department has made progress in correcting longstanding financial management deficiencies, but challenges remain. These include freeing up millions of dollars in idle funds for use on active projects and exercising greater stewardship over the more than \$35 billion awarded annually on highway and transit projects. The Department must also consolidate or replace fragmented financial systems to help executives improve operations.

■ **HOLDING THE LINE ON PROGRAMS CONDUCTIVE TO FRAUD.** Given today’s funding demands and increasingly tight budgets, getting the most for our money by aggressively deterring fraud is of critical importance. Over the past several years, our investigations point to three key program where fraud has had a particularly insidious effect on DOT’s mission: (1) highway and transit infrastructure programs — we are investigating more than 135 of these fraud schemes in 37 states; (2) Commercial Driver’s License (CDL) programs—we have investigated and prosecuted over 75 CDL fraud schemes in 21 states; and (3) the Disadvantaged Business Enterprise (DBE) program — we are currently investigating 45 DBE fraud schemes in 19 states. The Department must remain focused on reducing fraud in these areas.

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# ACTIVITIES

■ **IMPROVING COST EFFECTIVENESS OF \$2.7 BILLION IN INFORMATION TECHNOLOGY INVESTMENTS AND CONTINUING TO ENHANCE COMPUTER SECURITY.** DOT is responsible for one of the largest information technology (IT) investment portfolios among civilian agencies, investing about \$2.7 billion annually in IT acquisitions and operations, many of which have experienced significant cost overruns and schedule delays. During FY 2004, DOT made strides in increasing its oversight of major IT investments, but still needs a consistent management review process. Continued improvements are also needed in the areas of computer security, especially for air traffic control systems security. Another area needing improvement involves IT funding and operations and the changing responsibilities of the Office of the Chief Information Officer. Specifically, DOT needs to adjust the IT budget submission practice to better align resources with responsibilities and to avoid the appearance of duplicate budget requests.

■ **RESTRUCTURING THE INTERCITY PASSENGER RAIL SYSTEM TO MATCH FISCAL CAPACITY.** Judging by the House and Senate marks for Fiscal Year (FY) 2005 for \$900 million and \$1.2 billion, respectively, and in view of the fact there is no authorization for Federal funding in 2005, it seems likely that Amtrak will receive substantially less Federal funding than its request of \$1.8 billion. DOT must continue to work with Congress to break the cycle of appropriations without authorization for Amtrak and to realign the size, operations, and governance of the system to match the levels and sources of funding available.



■ **MANAGEMENT ATTENTION NEEDED TO STRENGTHEN OVERSIGHT OF TITLE XI LOAN.** In FY 2004, the Maritime Administration's (MARAD) consolidated Title XI loan guarantee portfolio was valued at \$3.6 billion, with another \$1.4 billion in pending loan guarantee applications. MARAD has determined that over 25 percent of its portfolio is at an elevated risk of default. Strengthened management procedures are critical to reducing the portfolio risk profile and realizing the intended benefits. MARAD has worked to get satisfactory procedures in place, but follow through and implementation are essential. The Department will need to monitor MARAD's progress.



In addition to the 10 management challenges presented, there are three emerging issues which are overarching in nature and will require Secretarial direction or cross-modal coordination.

■ **ENSURING TRANSPORTATION FUNDS ARE ADEQUATE TO MEET GROWING NEEDS.** The highway and aviation trust funds, which are supported by passenger, fuel, and user taxes, are not generating sufficient revenue to cover anticipated costs of transportation systems. This is partly due to changes in the aviation sectors, such as lower average base ticket prices (\$109 in September 2004 versus \$147 in September 2000). At the same time, the costs of building, operating, and maintaining transportation systems continue to rise. Options for funding the aviation shortfalls, such as paying down trust fund or tapping the General Fund, may prove increasingly difficult in the future.

The Department's challenge in the next few years will be to evaluate whether the current funding methods are adequate and whether alternative financing methods are feasible.

■ **GROWING INTERDEPENDENCY AMONG DOT AND OTHER FEDERAL AGENCIES TO ENDURE SAFE, SECURE, AND EFFICIENT TRANSPORTATION.** Federal agencies, such as DOT and the Department of Homeland Security (DHS), are increasing collaborative efforts to protect the Nation's citizens, transportation infrastructure, and the environment. However, there is a lack of clearly defined roles among the Federal entities at the working level, which could lead to duplicative or conflicting efforts, ineffective intergovernmental relationships, depleted resources, and — most importantly — problems in responding to terrorism. DOT has identified more than 100 agreements either existing or under development with DHS, but determining which agreements are needed will be a challenge.

■ **MEETING HUMAN RESOURCE NEEDS GIVEN RETIREMENTS AND CHANGING SKILL MIX.** DOT has made progress in its human capital initiatives, but human resources management will be a concern for many years to come. In FY 2007, about 23 percent of DOT's nationwide workforce of approximately 60,000 will be eligible to retire, including large numbers of supervisory staff. FAA attrition estimates show that nearly half of its controller workforce of 15,000 could leave between FY 2005 and FY 2012. The Department is in the early stages of addressing these issues. Although it will be a challenge to hire and retain a sufficient quantity of quality staff, there is also an opportunity for agencies to revamp their organizations by hiring employees with the latest technical skills and knowledge and placing them where they are needed most.

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# ACTIVITIES

## 2003 Status Assessment of Federal Aviation Administration Cost Accounting System and Practices

**November 17, 2004**

As required by law, we audited the status of FAA's cost-accounting and labor-distribution systems as of December 31, 2003. During 2003, significant changes occurred at FAA, such as implementing the new Delphi financial management system and creating the new Air Traffic Organization. These changes should strengthen financial operations and efficiency of air traffic services, but temporarily slowed implementation of the cost accounting system. FAA needs to: (1) complete its cost accounting system, including modifying the system to reflect the new Air Traffic Organization; (2) implement a labor distribution system for controllers' that assigns labor costs to activities; (3) implement data collection process and cost assignment methods to assign substantially all costs to individual facilities and activities; (4) document the system; and (5) implement financial and performance goals and measures, using the cost accounting data to improve efficiency of operations.

## New York Construction Contractor Pleads Guilty and Agrees to Pay \$300,000

**November 17, 2004**

Srinivas Thimmappa, the former project manager of Trataros Construction Inc. (TCI), Brooklyn, New York, pled guilty in U.S. District Court in Brooklyn to charges of making false statements and agreed to pay \$300,000 in restitution. Thimmappa created a shell company in a scheme to defraud TCI and the New York Metropolitan Transportation Authority, FTA's largest grantee. The investigation found that although Thimmappa claimed to be performing part-time engineering work for Logix Constructions Services (Logix), Logix did not perform any work on the project, but submitted bills for such work to TCI. This case was investigated jointly with the FBI and the General Services Administration OIG.

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## Assessment Report on Amtrak's 2003 and 2004 Financial Performance and Requirements

**November 18, 2004**



As required by Congress, we issued our report on Amtrak's financial performance for 2003 and through the first three quarters of 2004. Amtrak has implemented a strategy of maintaining and rebuilding its existing system. However, unsustainably large operating losses, poor on-time performance, and increasing levels of deferred infrastructure and fleet investment demonstrate that this approach is no longer workable. Amtrak's management must find ways to reduce its need for operating subsidies and set better priorities for its capital dollars. In the meantime, Amtrak's Board of Directors should exert its prerogatives and compel management to reduce its reliance on operating subsidies and minimize further deferral of critical capital investment. If these actions are not successful, the Department should impose conditions for awarding Amtrak's FY 2005 operating and capital grants.

## Managing Risk in the Federal-Aid Highway Program

**November 19, 2004**

We found that the use of risk assessments by FHWA's division offices does not provide a systematic approach for assessing program risks throughout the agency. The risk assessments did not address all major programs, were not consistent in scope and approach, and differed in risk classification. Further, FHWA did not follow up to ensure division offices properly refocused oversight around identified risks or use the results to analyze program trends. We recommended that FHWA require that all division offices conduct risk assessments; issue guidance identifying major programs and program components to be evaluated and the methodology to be used for evaluating and classifying program risks; analyze the individual risk assessment results to identify program-wide issues; and follow-up with division offices to ensure oversight attention is given to high-risk areas. FHWA concurred with our recommendations.

## Report on Terminal Modernization: FAA Needs To Address Its Small, Medium, and Large Sites Based on Cost, Time, and Capability

**November 23, 2004**

We issued an audit report on our review of the Federal Aviation Administration's (FAA) Standard Terminal Automation Replacement System (STARS) program, in response to a Fiscal Year (FY) 2004 congressional direc-

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# ACTIVITIES

tive. STARS provides radar and flight data to air traffic controllers at Terminal Radar Approach Control sites and their associated towers. Faced with additional cost growth in the STARS program, FAA is rethinking its terminal modernization approach and has committed STARS deployment to just 50 out of 162 planned sites. Currently, STARS has been deployed at 25 sites. Under FAA's current approach, STARS installation and replacement of aging controller displays at large sites will begin in FY 2008, well after the originally planned 2005 timeframe. The aging displays at large sites need to be replaced well before 2008 because they are experiencing significant reliability problems. FAA must move forward expeditiously to address the needs of its terminal sites, particularly the needs at the large terminal sites.

## Former Minnesota FAA Air Traffic Controller Sentenced for Solicitation of a Minor

**November 29, 2004**

Former FAA air traffic controller Shawn Patrick Barnett was sentenced in Dakota County District Court, Hastings, Minnesota to 30 days in jail, probation, and electronic home monitoring for Internet solicitation of a minor. In addition, Barnett is to have no unsupervised contact with a minor; he must register as a sex offender and submit to a DNA sample; submit to random chemical/substance testing; and complete a sex offender treatment program. In April 2004, Barnett admitted to using his personal laptop computer during breaks at his workplace in the Farmington, Minnesota Enroute Air Traffic Control Center to solicit sex online with someone posing as a 13-year old female. Barnett's employment with the FAA was terminated in June 2004. The case was jointly investigated with the Farmington Police Department, and the 'Minnesota Internet Crimes Against Children', with assistance from FAA.

## Review of Allegations that FRA Attempted To Relax Safety Enforcement

**December 10, 2004**

At the request of Secretary Mineta, we investigated allegations by a former employee that the Federal Railroad Administration (FRA) relaxed safety enforcement against Union Pacific Railroad (Union Pacific) due to a long-standing friendship between the Deputy Administrator and a Union Pacific executive.

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Our investigation did not substantiate the allegation. However, our analysis resulted in a recommendation that FRA's inspection and enforcement efforts utilize systematic trend analysis and other data analysis tools to address those safety problems and key indicators of a railroad's safety condition that are most likely to result in accidents and injuries.

We recommended that FRA submit to the Secretary a comprehensive plan for implementing a fully functioning program that makes meaningful use of analysis of available safety, inspection, and enforcement data. We recommended the plan: (1) focus field inspection activities, (2) assess when a partnership approach is no longer effective and more traditional enforcement (i.e., fines) is warranted, and (3) determine appropriate numbers and amounts of fines by factoring in prior safety/enforcement history and trends.

### **Two Trucking Companies Fined a Total of Over \$1 Million in Connection with Falsification of Driver Logbooks**

#### **December 21, 2004**

A U.S. District Court judge in Fresno, California sentenced two West coast trucking firms on charges related to falsified driver logbooks: Ore-Cal Livestock, Inc. (Ore-Cal), Merrill, Oregon was ordered on December 21, 2004 to pay a fine of \$1.077 million, of which \$1 million is to be paid to the California Highway Patrol over a 5-year period for combating DOT hours of service violations, and \$50,000 to DOT for reimbursement of investigation costs; Beef Packers, Inc., Fresno, California was fined \$5,000 on December 3, 2004. Seven Ore-Cal drivers who were also charged with falsifying logbooks were sentenced on December 22, 2004 to pay \$1,200 each. Three other California trucking companies and 16 employees were indicted by a federal grand jury in December 2004 on similar charges which remain pending for all except one driver who was offered the option under a February 14, 2005 sentence to either remain in the United States on a 36-month supervised release term or leave the country; he elected to leave. The investigation is being conducted with assistance from FMCSA.

## Flight Cancellations and Delays Disrupt 2004 Holiday Travel Period

Air travelers across the country experienced unprecedented flight cancellations and delays during 2004's peak holiday travel season, as winter storms, computer glitches, and labor problems grounded nearly 1,000 flights between December 22 and 28. In total, nearly half of that week's 162,000 scheduled flight departures were either canceled or delayed. Compounding passenger inconvenience were tens of thousands of misdirected bags; this was largely due to severe weather in the Northeast and Midwest regions of the country and an unusually large number of "sick calls" from baggage-handlers.

While the delays, cancellations, and lost baggage occurred throughout the air system and at many airlines, two airlines experienced the most and worst operational problems — Comair and US Airways. Comair, a Delta Connection carrier based in Cincinnati, either canceled or delayed 89 percent of its scheduled 2004 holiday travel period departures. Systemwide, 53.8 percent of US Airways flights were delayed and another 5.2 percent were canceled during the same period.

At the request of Secretary Mineta, the OIG conducted a review of the two airlines' service disruptions. While both airlines experienced severe service problems, the underlying causes, effects, and recovery steps differ significantly.

### COMAIR

Comair's service disruptions resulted primarily from:

- A severe winter storm at the carrier's Cincinnati hub, which led to significant flight delays and cancellations;
- The shut down of a computer system used to track the thousands of flight crew changes caused by the air traffic disruptions. The system was programmed with a monthly transaction limit that Comair was not aware of, and when the limit was reached, the system shut down.
- The capacity of Comair's manual back-up system for flight crew changes, which could only support a limited number of flights. The system automatically canceled hundreds of additional flights, including all Comair flights on Christmas Day.

By the end of the holiday period, over 260,000 passenger itineraries had been affected by canceled or delayed flights, according to Comair. Comair also had claims for 11,000 mishandled bags, including 6,800 bags for passengers connecting through the Cincinnati Airport.



Despite Comair's effort to minimize passenger inconvenience during this period, the severity of the disruptions took a heavy toll on thousands of holiday travelers who were unable to reach their destinations. Comair has temporarily addressed its computer problems with an interim fix that doubled the system's capacity pending the installation of a new crew scheduling system due in July 2005.

### US AIRWAYS

Unlike the weather conditions and computer problems that nearly shut down Comair's operations in Cincinnati, weather was not the primary contributor to the service disruptions experienced by US Airways during the December 2004 holiday travel period. The airline's problems were largely due to staffing shortfalls in two critical functions — fleet service employees and flight attendants, primarily at its Philadelphia hub.

Managers were aware of those problems before the holidays and had made various plans to offset the shortages, such as using overtime and increasing flight attendants' required work hours. However, those plans ultimately failed to alleviate the critical labor shortages experienced in December. By the end of the holiday period, US Airways had either canceled or delayed more than 4,000 flights, affecting over 560,000 passengers. The airline also had nearly 72,000 claims for lost, pilfered, or damaged baggage but could not tell us the total number of bags those claims represented.

US Airways subsequently made an intensive effort to increase staffing at its Philadelphia baggage operations and made job offers to over 260 applicants. In addition, according to US Airways management, the most recent collective bargaining agreement with the Association of Flight Attendants allowed the airline to order an increase to the monthly flying obligation of flight attendants by 5 to 10 hours.

At the time of our review, the airline was in bankruptcy proceedings, and while flight operations and employee work hours increased, their wages decreased. We could not determine whether the airline's actions are sufficient to prevent similar problems from occurring in the future.

### IG TRAVEL HOTLINE

In response to the magnitude of the Comair and US Airways travel disruptions, the OIG set up a toll-free hotline for inconvenienced passengers to submit comments about their travel experiences. Between December 30, 2004, and early February 2005, nearly 3,000 passenger complaints were received. About 1,200 hotline complaints were related to Comair/Delta service disruptions, and 1,100 were directed at US Airways. The remaining complaints described adverse experiences on several other airlines or did not identify a specific airline. By far, the largest complaint area related to flight delays and cancellations, followed by mishandled baggage issues. A lack of compensation or refunds and poor customer service accounted for the next largest number of complaints. ■



*US Airways passengers file through lines of lost baggage hoping to locate their bags.*

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# ACTIVITIES

## Follow-Up Audit of the Implementation of the North American Free Trade Agreement's Cross-Border Trucking Provisions

**January 3, 2005**

Our audit found that FMCSA has sufficient staff, facilities, equipment, and procedures in place to substantially meet the eight Section 350 provisions in the FY 2002 Transportation and Related Agencies Appropriations Act subject to OIG review. However, until an agreement or other understandings related to on-site safety reviews are reached with Mexico, FMCSA cannot, in our view, grant long-haul operating authority to any Mexican motor carrier. Additionally, given new background requirements for U.S. drivers applying for hazardous materials endorsements, an agreement will need to be in place with Mexico before vehicles owned or leased by a Mexican motor carrier that is granted operating authority by FMCSA can be permitted to haul hazardous materials beyond the commercial zones. While the negotiations are being carried out with Mexico on these two issues, which are preconditions to opening the border, FMCSA should close remaining gaps in reaching full compliance with Section 350 requirements related to bus coverage, enforcement authority, Weigh-in-Motion Systems, and the comprehensiveness of the system for monitoring Mexican driver records in the United States.



## Bogus FAA Flight Instructor Gets Over Three Years in Jail for Transporting a Stolen Lear Jet

**January 5, 2005**

In the last of three related sentencing actions, Jose Francisco Guasch, a/k/a Jesus Manuel Rios, was sentenced in U.S. District Court in Ft. Lauderdale, Florida to 37 months in jail for transporting a stolen aircraft in foreign commerce. Guasch had transported a stolen jet from Florida to Nicaragua in 1997. In December 2004, Guasch was also sentenced in U.S. District Court in Miami, Florida to eight months in jail for possessing identification-making devices and false identification documents, including FAA licenses. The two prison sentences will be served consecutively and follow a 13-month jail term that Guasch served in accordance with a January 2004 sentence for making false statements to the FAA in furtherance of his



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employment as a flight instructor. The investigation was conducted jointly with the FBI, the Department of Homeland Security-Bureau of Immigration and Customs Enforcement (DHS-ICE), and the Defense Criminal Investigative Service (DCIS), with assistance of FAA.

## Wisconsin Concrete Construction Company and Owners Ordered to Pay \$1.1 Million and Jailed for Bid Rigging on Approximately \$100 Million in Highway Projects

**January 13, 2005**

Streu Construction Co. of Two Rivers, Wisconsin and its owners, Ernest J. Streu and John Streu, were ordered by a U.S. District Court judge in Green Bay, WI to pay a total of \$1.1 million in fines and restitution for bid rigging on approximately \$100 million in highway construction contracts from pre-1999 until January 2004; Ernest Streu was also sentenced to one year in prison and one year supervised release, and John Streu to five months of prison, five months of house arrest, and one year of supervised release. Another firm, Vinton Construction Co. of Manitowoc, WI and its owners pled guilty in September 2004 to the bid rigging charges and await sentencing. This is one of the largest DOT fraud cases in Wisconsin. The investigation was conducted jointly with the FBI, with assistance from FHWA and the Wisconsin DOT.



## Truck Driver Involved in Fatal Accident Pleads Guilty to Falsifying Driver Log Book

**January 20, 2005**

Damon D. Diffenderfer, a driver for G.W.D. Trucking Company (G.W.D.) of Mays Landing, New Jersey pled guilty in U.S. District Court in Camden, New Jersey to one count of making a false statement in his Driver's Daily Log indicating that he was sleeping during a six-hour period in which he was actually driving. In May 2004, a 17-count indictment was issued against Damon Diffenderfer as well as G.W.D. and its owners, Gerald W. and Rose Marie Diffenderfer on related charges of conspiracy and false statements or entries. Damon Diffenderfer is currently serving three years in state prison following his conviction on vehicular homicide charges stemming from a fatal vehicle crash on the New Jersey Turnpike in April 2001. This investigation was conducted jointly with the New Jersey State Police and the Middlesex County, New Jersey Prosecutor's Office, with assistance from FMCSA.

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## California Man Jailed for Two Years and Ordered to Pay \$435,000 for Falsifying Aircraft Engine Logbooks

**January 27, 2005**

Christian E. Esquino was sentenced in U.S. District Court in San Diego to two years in prison and ordered to pay \$435,000 restitution for falsifying aircraft engine logbooks. Esquino and another man, Lance Z. Ricotta, participated in a scheme in which six Cessna aircraft were imported from Mexico, the logbooks falsified, airworthiness certificates obtained from the FAA on the basis of those falsified logbooks, and the planes resold. In March 2004, Ricotta and Esquino both pled guilty to indictments charging them with fraud involving aircraft. Ricotta was sentenced on October 13, 2004 to a month in prison and \$185,000 in restitution. The investigation was conducted jointly with the FBI, with assistance from FAA.

## President of Moving Companies Sentenced to Over 12 Years in Prison for Holding Household Goods Hostage

**January 28, 2005**

Yair Malol, owner and president of Majesty Moving and Storage, Apollo Van Lines, America's Best Movers Co., and My Best Movers, Plantation, Florida was sentenced in U.S. District Court in Miami, Florida to twelve and one-half years in prison and ordered to pay \$986,665 in restitution for his role in a scheme that involved luring customers with low estimates and then holding their possessions hostage for inflated prices. Malol was also ordered to forfeit assets, including his residence and bank accounts totaling over \$115,000, and to return to his native Israel once his sentence is served. The fraud attributed to Malol's companies involved in excess of \$1.8 million in monetary losses to over 1,200 victims during a two-year period. The firms' secretary and claims processor, Jennifer Tafuri-Vakin, was also sentenced to one-half year in prison on January 28, 2005 in connection with this same scheme. Both Malol and Tafuri-Vakin were convicted in September 2004 on multiple counts of conspiracy, mail and wire fraud, and extortion. The investigation, conducted jointly with the FBI and with assistance of FMCSA, resulted in charges against a total of 16 companies and 74 individuals in the Miami area.



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## DOT Contractor Employee Pleads Guilty to Theft of \$45,000 in Washington Metropolitan Area Transit Authority (WMATA) Fare Cards

**January 31, 2005**

Michael Dixon, former employee of CTR Investments and Consulting, Inc., Fairfax Station, Virginia, a firm under contract with DOT to assist in distribution of WMATA fare cards, pled guilty in Superior Court for the District of Columbia to one felony count of first degree theft. Dixon admitted to stealing 1,500 WMATA fare cards with face values of \$30 each from October through December 2004, which he then sold for personal gain. WMATA inventories disclosed a shortfall of 2,567 fare cards (or \$77,010) during that period.

## FAA Inactive Obligations

**January 31, 2005**

We issued a final report on our audit of inactive obligations at the FAA. More aggressive corrective action is required to strengthen FAA's funds management of inactive obligations. We reviewed \$81 million of inactive obligations related to FAA contracts and procurements and identified that \$35 million, or 43 percent, were not associated with valid liabilities and were unneeded. We recommended: (1) amending procedures to require that financial managers, program officials, and contracting specialists coordinate and complete quarterly and annual reviews; (2) develop best practices for reviewing inactive obligations; (3) modifying standards to require adequate reviews; and (4) lowering the threshold to included reviews of inactive obligations below \$500,000. FAA has agreed to deobligate the entire \$35 million identified.

## Connecticut Design Engineering Company Owner Gets 33 Months Jail Time

**February 8, 2005**

Frank S. Chuang, of Wethersfield, Connecticut, President and owner of L-C Associates, Inc., Rocky Hills, Connecticut, was sentenced in U.S. District Court in New Haven, Connecticut to 33 months in jail for contract fraud and tax evasion. Chuang pled guilty in September 2003 for tax evasion and false invoice claims for bridge inspection and design engineering services on multiple federally-funded highway projects in Connecticut, New York, Massachusetts, and Rhode Island. The contract fraud schemes involved billing for work not performed and inflating overhead rates. Chuang has paid a total of \$8.76 million pursuant to both civil and criminal settlement agreements, agreed to divest ownership interest and control over L-C Associates, Inc., and be permanently debarred from performing federal contracts.

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FHWA had suspended Chuang and L-C Associates, Inc. in May 2003. We conducted this investigation with assistance from the Connecticut DOT, IRS-CID, the FBI, and FHWA.

## Report on FHWA's Need To Capture Aggregate Cost and Schedule Data To Improve Its Oversight of Federal-Aid Funds

**February 15, 2005**

We issued a final report on project data shortfalls in FHWA's Financial Management Information System (FMIS) that impact FHWA's ability to perform adequate oversight of more than \$30 billion in annual grant payments. We reported this as a material weakness in our audit of the FY 2004 Highway Trust Fund (HTF) financial statements and it will negatively affect future financial statements until corrected. Our report highlights FMIS's inability to aggregate the total cost of highway projects and provide needed schedule data for effective oversight and project delivery. We recommended that FHWA: (1) expand plans to aggregate project costs in FMIS to ensure they are aggregated for projects under \$1 billion and make that information available for preparation of the FY 2005 HTF financial statements, and (2) identify a strategy and associated costs for collecting project schedule data needed to improve oversight of Federal-aid highway program activities and measure achievement of the Department's project delivery goal by March 31, 2005.

## Owner of Illinois Trucking Company Jailed and Fined \$30,000 for Attempting to Bribe an FMCSA Safety Investigator

**February 16, 2005**

Dejan Zlatkovic, owner of KGB-ATA Trucking, was sentenced in U.S. District Court in Chicago, Illinois to nine months in prison and a \$30,000 fine for attempted bribery. In July 2002, a FMCSA safety investigator notified OIG that Zlatkovic offered him a \$10,000 bribe after he conducted a safety compliance review at KGB-ATA Trucking and identified numerous violations of FMCSA safety regulations. Zlatkovic wanted the safety investigator to alter the compliance review to reflect a conditional rating. OIG agents were able to catch Zlatkovic on undercover surveillance making the bribe and used that evidence to convict him.

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## Former Headquarters FAA Contract Employee Sentenced to Prison and to Pay Over \$280,000 for Theft of FAA Employee Identities

**February 28, 2005**

Robert W. Clark, a former Headquarters FAA contract employee, was sentenced in U.S. District Court, Greenbelt, Maryland, to 18 months in prison and ordered to pay \$280,492 restitution following his guilty plea in November 2004 to trafficking and using unauthorized counterfeit access devices. Between April 2000 and May 2001, Clark and Felicia Settles of Washington, DC, illegally obtained the personal information of at least 28 FAA employees and 4 others from FAA files. Clark and Settles used the stolen information to create false identification cards and obtained fraudulent lines of credit without the victims' knowledge. Settles was sentenced on related charges in November 2004 to one year in prison and ordered to pay \$82,000 restitution.

## Review of December 2004 Holiday Air Travel Disruptions

**February 28, 2005**



Pursuant to Secretary Mineta's request of December 27, 2004, we issued a report on our review of the travel disruptions experienced over the December holiday travel period by Comair and US Airways. In conducting this review, we worked closely with the Department's Office of Aviation and International Affairs and Office of General Counsel. We found that Comair's problems were a function of severe weather at Cincinnati and failure of the computer system it used to schedule its crews. In Cincinnati, Comair's flight cancellations and delays ultimately affected over 260,000 passenger itineraries. Comair has temporarily addressed its computer problems with an interim fix that will double capacity until a new crew scheduling system can be installed this summer. Additionally, we found that US Airways' problems centered on staffing shortfalls going into the holiday travel period in two critical functions — fleet service employees and flight attendants, particularly at its Philadelphia hub. Plans to offset the staffing shortages through overtime and increasing the required number of hours worked by flight attendants did not work. US Airways canceled 405 flights during the holiday travel period, affecting more than 46,000 passengers and delayed over 3,900 flights affecting over 518,000 passengers. US Airways has subsequently made an intensive effort to increase staffing at its Philadelphia baggage operations and is increasing the monthly flying obligations of its flight attendants by 5 to 10 hours. However, with the airline in bankruptcy, increasing their flight operations, decreasing pay, and asking flight attendants to work additional hours, it is unclear whether those actions will prevent a similar situation from occurring in the future.

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# ACTIVITIES

## Processing Petitions To Import Non-Canadian Gray Market Vehicles

**February 28, 2005**

We reported on NHTSA's processing of petitions to import vehicles (other than those manufactured for sale in Canada) that were not originally manufactured to comply with U.S. safety standards. We found that NHTSA had experienced processing delays in calendar years 2001 and 2002 but has shown marked improvement due to changes in management and processing staff. However, we also found that no mechanism existed for vehicle owners to obtain the current status of petitions under review. NHTSA took action to implement our four procedural recommendations, which will ensure that the status of pending import eligibility petitions is now available to both NHTSA management and the customers.

## Florida Freight Forwarding Company Pleads Guilty to Hazardous Materials (HAZMAT) Charges

**March 1, 2005**

Laparkan Trading Limited Company (Laparkan), Miami, Florida, a freight forwarding company, pled guilty in U.S. District Court in Miami for HAZMAT violations. Laparkan received the hazardous cargo (e.g., phosphoric acid, hydrochloric acid, and potassium hydroxide) from Seaboard Marine Ltd. (Seaboard) in 55-gallon drums and boxes for inspection, inventorying, and production of a required HAZMAT documentation. Laparkan employees discovered that cargo was leaking, but failed to notify proper authorities as required by Federal law. Instead, Laparkan contacted Seaboard to retrieve the entire load - which was later found abandoned and leaking in a Hialeah, Florida warehouse district. Although no persons were physically harmed in this case, exposure to the noxious acid fumes may cause breathing problems and some of the materials are flammable. In September 2004, Seaboard pled guilty to illegally transporting hazardous cargo, and sentencing for both Seaboard and Laparkan is pending. The investigation is being conducted jointly with the Florida Department of Environmental Protection and the Miami-Dade Police Department, with assistance from the FMCSA.



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## Ohio DOT Inspector Ordered to Pay \$234,000 in Bridge-Painting Scam

**March 3, 2005**



Elwood Clark, a former Ohio DOT (O-DOT) bridge inspector, was sentenced in U.S. District Court in Akron, Ohio to 28 months in prison and ordered to pay \$234,000 restitution for making false statements regarding the quantity and quality of bridge painting work performed on a Federal-aid project by co-defendant Argo Contracting Co. (Argo). Clark was convicted in December 2004 on two counts of providing false reports on a transportation project. He is the sixth O-DOT inspector charged in a bribery and corruption scam involving multiple bridge painting contractors. Argo has been debarred by FHWA, and four other O-DOT inspectors have been sentenced to date. The investigation is being conducted jointly with the FBI.

## Former Transit Contractor Sentenced to Jail and Ordered to Pay Over \$780,000 from an FTA Grantee

**March 3, 2005**

Pamela Sue Leichty, a senior financial specialist for the Davenport-Rock Island County Quad-City Garage Policy Group (QCGPG), a contractor managing the maintenance garage for Davenport, Iowa's 'CitiBus' and Rock Island, Illinois' 'MetroLINK' bus services, was sentenced in U.S. District Court in Peoria, Illinois to 42 months in prison and \$782,640 restitution for embezzling public funds and making a false statement. From March 2001 to November 2003, Leichty manipulated QCGPG's accounting software to print unauthorized checks payable to herself. The scheme involved printing checks to vendors for identical sums, recording these in QCGPG's books, and then destroying those vendor checks. Leichty's employment with QCGPG was terminated in December 2003. This case was investigated jointly with the FBI.

## Global Consulting Firm Agrees to \$6.5 Million Civil Settlement in False Claims Case

**March 24, 2005**

The United States Attorney, District of Massachusetts announced that Arthur D. Little, Inc. (ADL), now known in Chapter 11 bankruptcy proceedings as Dehon, Inc., entered into a \$6.5 million settlement agreement with the U.S. Attorney's Office in Boston to resolve civil claims. ADL fraudulently billed 35 federal agencies by inflating its indirect costs and overhead charges on gov-

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ernment contracts by an estimated \$14 million between 1995 and 2000. DOT contracts held with ADL were valued at about \$11 million. A federal bankruptcy judge approved the \$6.5 million settlement agreement on March 15, 2005. This investigation was conducted jointly with DCIS, the Environmental Protection Agency — Office of Inspector General, the U.S. Army — Criminal Investigative Division, and the FBI, with assistance from the Defense Contract Audit Agency.

## Review of the Office of the Chief Information Officer's Fiscal Year 2005 Budget

### March 31, 2005

In response to a request by the Senate Committee on Appropriations, we issued our final report on the Fiscal Year (FY) 2005 Office of the Chief Information Officer (OCIO) information technology (IT) budget request for enhancing security, E-Government services, and IT investment management. The OCIO is responsible for one of the largest IT investment portfolios among civilian agencies, with an annual IT budget of about \$2.7 billion. We found that the OCIO needs to improve its budget submission and oversight of contract services. We also found budget problems associated with the planned consolidation of common systems across Department agencies. We recommended that the OCIO: (1) disclose the full range of OCIO responsibilities and other sources of funding, including the departmental Working Capital Fund, in future-year budget submissions; (2) complete performance gap analyses for the proposed consolidation of common systems by June 2005 for the departmental Investment Review Board's consideration and keep the House and Senate Committees on Appropriations informed of the planned actions; (3) develop a multi-year plan for continued enhancement of IT investment management, IT security, and E-Government services, strengthen oversight of contractors work, and better coordinate with departmental offices to avoid duplicate funding requests for performing similar services; and (4) refine the cost saving estimates (18 percent to 26 percent based on the industry average) for the planned consolidation of the Headquarters IT infrastructure, work with the E-payroll executive steering committee to strengthen oversight of the planned payroll system conversion, and submit an action plan for increased oversight to the House and Senate Committees on Appropriations, as directed by the Senate committee.

## Sharpening the Focus on Contract/ Grant Fraud

The Department of Transportation (DOT) spends more than \$54 billion a year on our nation's transportation projects and programs that impact virtually every community in the nation. A core responsibility of the Inspector General (IG) is to help ensure that the materials and services purchased by DOT are delivered on-budget, on-time, and function as intended — free of mischarging, bribery, kickbacks, embezzlement, collusion, and other corruption. The imperative for controlling costs and stemming loss through fraud, waste, or abuse is even greater in the current fiscal environment of decreasing highway and aviation trust funds at the same time that DOT program demands are increasing.

In addressing this challenge, Office of Inspector General (OIG) investigations of contract and grant fraud have increased. Since 2000, investigations into contract and grant fraud have resulted in 261 indictments, 224 convictions, and over \$133 million in fines, restitution, and civil recoveries.

In a particularly egregious recent case of embezzlement, a prominent

tenured engineering professor at George Washington University (GWU), Nabih E. Bedewi, who administered Federal Highway Administration (FHWA) and National Highway Traffic Safety Administration cooperative agreement funds for the National Crash Analysis Center, embezzled nearly \$1 million over a four-year period. The professor's fraud schemes included paying himself and companies he controlled or operated by submitting bogus invoices containing fictitious and inflated expenses for labor, equipment and consulting

services for the FHWA-funded project. In addition, Bedewi made false representations to establish unauthorized stipends to graduate students and unauthorized scholarships to spouses of GWU employees. At the time of his arrest in October 2004, Bedewi had recently purchased a \$2.29 million mansion — complete with seven full baths, three fireplaces, a four-car garage and multi-terraced driveway. He also drove a Jaguar automobile, had season tickets to the Washington Redskins, and a Florida condominium. The investi-



gation also disclosed inadequate internal controls and lack of fundamental oversight on the part of both GWU and FHWA. More specifically, it found that FHWA's Agreement Officer's Technical Representative socialized with the professor while at the same time exercising poor oversight, such as not scrutinizing invoices or confirming that work had actually been performed. Bedewi subsequently pled guilty and, as part of the plea agreement, will pay nearly \$1 million in fines and restitution. He faces a probable 3 ½ years in prison when sentenced in June 2005. In a separate civil settlement effective April 15, 2005, GWU has agreed to either pay or credit the Government over \$1.8 million, with \$1,165,794 credited under an active cooperative agreement and the remaining \$659,206 paid directly to the United States Treasury. Both GWU and FHWA have taken action to institute greater internal controls and oversight.

### **Other examples of significant OIG investigations of contract and grant fraud during the current reporting period include:**

- A Wisconsin concrete construction company and owners were ordered to pay \$1.1 million for bid-rigging on highway projects.
- A former New York construction contractor program manager pled guilty and agreed to pay \$300,000 for false statements made in connection with a scheme to bilk the company (which held a contract with an FTA grantee, the New York City Transit Authority) through establishing a sham subcontractor and invoicing for work not performed.
- The owner of a Connecticut design engineering company was sentenced to almost 3 years in prison for major fraud on bridge projects in several states.
- A contractor pled guilty to embezzling over \$780,000 from an FTA grantee.



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# OTHER ACCOMPLISHMENTS

**T**his section extends beyond the legal reporting requirements of the Inspector General Act to highlight other accomplishments and contributions by Office of Inspector General (OIG) staff. These accomplishments are part of our statutory responsibilities to review existing and proposed legislation and regulations; respond to congressional and departmental requests for information; and review policies for ways to promote effectiveness and efficiency and detect and prevent fraud, waste, and abuse.

## ■ VOLPE

In October 2004, the Cambridge Investigations Office received a referral from the Volpe Information Technology Security Officer. The referral alleged that a female Volpe Center employee had received four e-mails from an anonymous source that were sexual in nature and contained veiled threats. The fourth e-mail made reference to the employee being seen at the Volpe day care center. The Volpe employee was concerned about the safety of her child and herself. The OIG's investigation traced one of the e-mails to a computer located within the Volpe day care center. Further investigation identified a male employee of the Volpe day care center as the individual responsible for sending the e-mails. When interviewed by the OIG, he admitted to sending the e-mails. The day care center employees are contractors to Volpe. The results of the OIG's investigation were provided to Volpe management and the President of the day care center's Board of Directors, who subsequently requested the employee's resignation. The employee resigned in November 2004.

## ■ CENTRAL ARTERY

On December 2, 2004, we provided a written statement to the Joint Committee on Transportation, 183rd General Court, Commonwealth of Massachusetts. Our statement, "Water Leaks Within the I-93 Tunnels of the Central Artery Project," reported that the Project's I-93 tunnel had approximately 700 leaks. We recommended the creation of a small, independent, bipartisan commission of limited duration to determine the responsible parties and ensure that they, not the taxpayers, bear the costs of the leaks. In addition, the commission could oversee or help to ensure that the Massachusetts Turnpike Authority's efforts to identify and appropriately fix the leaks proceeded with due diligence. In response to our recommendation,

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the Massachusetts Governor and Legislature proposed that an independent commission be formed to identify responsibility for the leaks in the I-93 tunnels and to oversee the associated cost recovery efforts. Another proposal was submitted for the State Attorney General to lead a cost recovery team in investigating the I-93 tunnel leaks, determining the responsible parties, and ensuring that they, not the taxpayers, bear the repair costs. Further, the Authority retained an independent auditor (Deloitte and Touche) to determine, among other things, the costs associated with the leaks, their impact on the Project's Finance Plan, and the responsible parties to ultimately pay for the leaks.

#### ■ **ASSISTED BUDGET EXAMINERS**

We provided information to the Office of Management and Budget about our major highway and transit infrastructure project monitoring effort to (1) promote a better understanding of major project risks and actions needed to mitigate them and (2) identify project management best practices. The information focused on issues relating to selected project baseline and current cost estimates, funding sources and amounts, original and revised completion dates, and other important considerations such as legal and stakeholder interests. We also discussed identifying systemic oversight issues and opportunities to strengthen Federal oversight of major projects.

#### ■ **CONTRACTOR WITHDRAWS FROM PROJECTS VALUED AT OVER \$20 MILLION**

As a part of an ongoing investigation conducted by the Department of Transportation (DOT) OIG and the other members of the Long Island Federal Construction Fraud Task Force, a Federal search warrant for financial records and books was executed in January at a road milling company based on claims of over billing. This was about a week after the City of New York awarded the company two resurfacing-preparation contracts with a total value of over \$20 million. In early February, and before work had commenced, the company withdrew from both resurfacing-preparation contracts, leaving the City free to use a different contractor.

#### ■ **STRENGTHENED INTERNAL CONTROLS AT GEORGE WASHINGTON UNIVERSITY (GWU)**

During an investigation of embezzlement that occurred on cooperative agreements awarded by FHWA to GWU, immediate corrective action was implemented based on our initial risk assessment. For example, GWU agreed to immediately add a financial manager to review transactions related to the cooperative agreements and improved controls over cash handling. GWU also agreed to have a private CPA firm review internal controls associated with our

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identified areas of risk. The parties agreed to ensure that detailed corrective actions would be in place before partially reinstating GWU to the current cooperative agreement.

#### ■ **IMPROVED FHWA GRANT FINANCIAL MANAGEMENT OVERSIGHT**

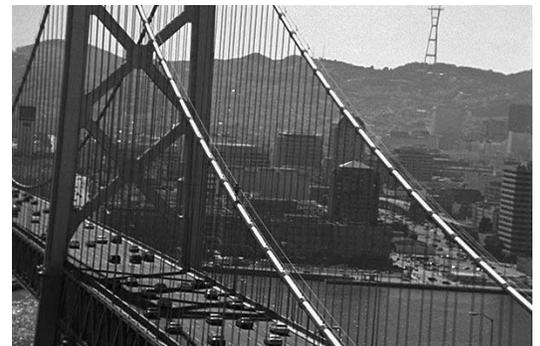
On February 28, 2005, FHWA announced the Financial Integrity Review and Evaluation (FIRE) Program as an important step towards enhancing FHWA's oversight and stewardship role. In order to ensure that all division offices completed some portion of the FIRE requirements in FY 2005, we advised the Administrator and Executive Director to implement several pilot projects, including financial management process reviews in 10 states, billing reviews in 25 states, inactive obligation reviews in 10 states, and risk assessments in 10 states. We also recommended pilot projects for assessments of 15 projects greater than \$25 million and reviews of 4 mega projects' finance plans. Based on our advice, FHWA implemented a modified FIRE program for FY 2005 to ensure that FIRE has an immediate impact in FY 2005.

#### ■ **STRONGER OVERSIGHT URGED**

Our audit of the Puerto Rico Highway and Transportation Authority's (PRHTA) management of the Tren Urbano Rail Transit Project identified project schedule, cost estimate, and outstanding construction quality problems. We recommended, and the Federal Transit Administrator agreed, to designate PRHTA as a "high-risk" grantee, under 49 CFR § 18.12. We also advised the Deputy Federal Highway Administrator to consider increasing the level of oversight provided to PRHTA, since FHWA provides Federal grants for many of PRHTA's highway programs. In response, the Deputy Administrator said he would send a team of project development specialists to Puerto Rico to supplement the efforts of division personnel in identifying specific program changes that PRHTA should make. Based on the results of this team's review, FHWA will consider whether or not to extend the "high-risk" designation to PRHTA's Federal-aid highway program.

#### ■ **HIGHWAY PROJECT FINANCE PLAN REVIEWS**

As part of our major highway and transit infrastructure monitoring effort, we noted that estimated costs had nearly doubled, from \$2.6 billion to \$5.1 billion, for the San Francisco-Oakland Bay Bridge East Span Project. Subsequently, we found that the 2003 Finance Plan Update for this project had not undergone the type of independent and rigorous review that was envisioned by FHWA guidance prior to the plan's acceptance and the obligation of Federal funds to this project. Specifically, FHWA personnel simply relied on the California Department of Transportation certification that estimated costs were valid and did not evaluate and ensure the reasonable-



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ness of reported cost projections. In response, FHWA took steps to ensure that its review and acceptance of the 2004 Finance Plan Update complies with its guidance.

#### ■ **MIDWAY ISLAND**

While reviewing the costs of operating an emergency airfield on Midway Island, we found opportunities to reduce costs which led to savings of about \$1.1 million. The Department of the Interior's Fish and Wildlife Service (FWS) is responsible for operating Midway Island, and FAA reimburses FWS for the operation of the airfield. We found that the contract amount paid to operate the island and the airfield was based on cost estimates that exceeded the contractor's actual effort. FWS agreed and renegotiated the contract with the contractor.

#### ■ **BACKGROUND INVESTIGATIONS**

On March 15, 2005, we briefed officials from the Office of the Secretary (OST) and Volpe regarding issues identified during our review. Although DOT has made significant progress towards improving its oversight and management of background investigations for its Government and contractor employees, improvements are still needed. We found that: (1) DOT lacks complete data on contractor population and associated background investigations, (2) Operating Administrations need to assume a greater role in overseeing and managing background investigations, and (3) Volpe faces continued problems in the management of background investigations. As a result of the review, OST plans to conduct a training class for personnel security coordinators and a quality control review at Volpe. Volpe also initiated a detailed examination of all in-house contractor employees to ensure that they have appropriate and complete background investigations. In doing so, Volpe identified approximately 90 contractor employees and 13 day care workers whose fingerprint checks and associated paperwork had not been submitted to OST. Moreover, the Volpe Director noted that the Center had taken steps to correct this problem and instituted systems to prevent this problem in the future.

# CHARTS & TABLES

## Summary of Performance

Office of Inspector General

*October 1, 2004 – March 31, 2005*

Reports issued	55
Recommendations issued	188
Total financial recommendations	\$ 258,736,023
— that funds be better used	\$ 234,000,000
— that questioned costs	\$ 24,736,023

## INVESTIGATIONS

### Judicial and Administrative Actions

October 1, 2004–March 31, 2005

Indictments	146
Employee	
Terminations	5
Suspensions	3
Reprimands	3
Resignations/Retirements	13
Counseling	5
Debarment/Suspension	15
Decertified	1
Federal funding terminated/reduced	2
Certificate/License Suspended/Revoked/Terminated	15
Convictions	103
Years Sentenced	147
Years Probation	119
Years Supervised Release	142
Hours of Community Service	1650

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### Financial Impact

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Fines	\$2,097,044
Restitution/Civil Judgments	\$20,577,841
Federal Recoveries	\$13,361,938
Administrative Recoveries	\$3,221,079
State Recoveries	\$411,261
<b>TOTAL</b>	<b>\$39,669,163</b>

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During the 6 month period covered by this report, 138 cases were opened and 220 were closed, leaving a pending caseload of 577. In addition, 301 individuals/companies were referred for prosecution, 210 were accepted for prosecution, and 92 were declined. As of March 31, 2005, 49 cases were pending before prosecutors.

## Profile of All Pending Investigations

*As of March 31, 2005*

	Types of Cases						
	Number of Cases	Contract/Grant Fraud	Employee Integrity	Aviation Safety	Motor Carrier Safety	Hazmat	Other
<b>Operating Administration</b>							
Bureau of Transportation Statistics	1	1	0	0	0	0	0
Federal Aviation Administration	213	33	69	98	0	6	7
Federal Highway Administration	145	132	6	0	0	0	7
Federal Railroad Administration	14	5	3	0	0	4	2
Federal Transit Administration	38	34	2	0	0	1	1
Maritime Administration	5	4	1	0	0	0	0
Federal Motor Carrier Safety Administration	99	1	5	0	64	21	8
Office of the Secretary	18	4	10	0	0	1	3
Pipeline and Hazardous Materials Safety Administration	28	0	0	0	0	28	0
Research and Special Programs Administration	3	1	2	0	0	0	0
National Transportation Safety Board	2	0	2	0	0	0	0
National Highway Traffic Safety Administration	11	4	3	0	0	0	4
<b>Totals</b>	<b>577</b>	<b>219</b>	<b>103</b>	<b>98</b>	<b>64</b>	<b>61</b>	<b>32</b>
<b>Percent of Total</b>	<b>100%</b>	<b>38%</b>	<b>18%</b>	<b>17%</b>	<b>11%</b>	<b>11%</b>	<b>6%</b>

## Investigations Recommendations

*October 1, 2004–March 31, 2005*

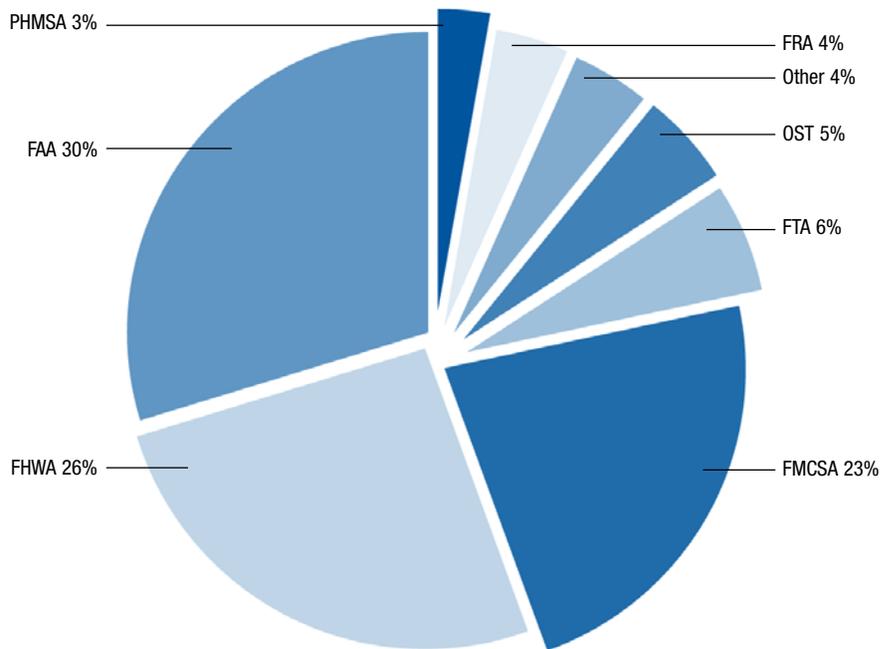
There were five recommendations during this reporting period stemming from OIG Investigations:

Associated Operating Administration	Recommendation(s)	Status
FAA	Ensure Dallas/Forth Worth (DFW) Terminal Radar Approach Control complies with national policy on operational errors; initiate close oversight and appropriate administrative actions.	Open — FAA put DFW on a 2-year no-notice review status and placed involved controllers and supervisory personnel on performance improvements plans.
FRA	Consider a requirement that ethics advice to agency heads be documented and coordinated with General Counsel.	Closed — Office of General Counsel to implement recommendation.
FRA	FRA to create an inspection program addressing safety problems based on trend/data analysis and submit a comprehensive plan to the Secretary within 90 days.	Open — Awaiting implementation information from FRA.
FAA	FAA to consider appropriate disciplinary action concerning inappropriate relationship of FAA executive and subordinate.	Closed — FAA issued a letter of reprimand to executive and removed subordinate from chain of command.
FAA	Appropriate disciplinary action by FAA in case involving violations of time and attendance regulations.	Closed — Employee retired from Federal service.

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## Application of Investigative Project Hours by Operating Administration

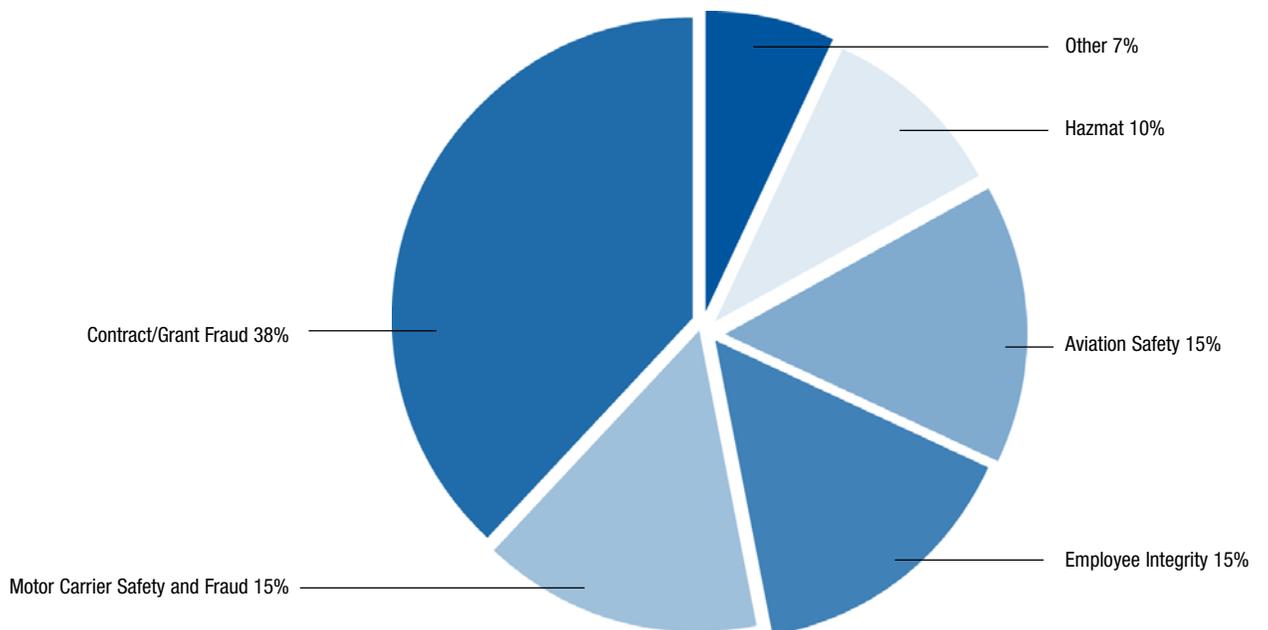
October 1, 2004–March 31, 2005



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## Application of Investigative Project Hours by Priority Area

October 1, 2004 – March 31, 2005



## AUDITS

### Completed OIG Reports

October 1, 2004 – March 31, 2005

(Dollars in Thousands) *Estimated Amounts\**

	Number of Reports	Number of Recommendations	Questioned Costs**	Funds to Be Put to Better Use
<b>Type of Review</b>				
<i>Internal Audits</i>				
— Program/Functional	14	76	0	\$234,000
— Chief Financial Officer Financial Statements	7	51	0	0
<i>Other OIG Reports***</i>	2	0	0	0
<b>Total Internal Audits and Reports</b>	<b>23</b>	<b>127</b>	<b>0</b>	<b>\$234,000</b>
<i>Grant Audits</i>				
— Audits of Grantee Under Single Audit Act	32	61	\$24,736	\$ 0
<b>Totals</b>	<b>55</b>	<b>188</b>	<b>\$24,736</b>	<b>\$234,000</b>

\* The dollars shown are the amounts reported to management. The actual amounts may change during final resolution.

\*\* There were no recommendations for unsupported costs during the reporting period.

\*\*\* These reports do not meet Government Auditing Standards.

Department of Transportation programs and operations are primarily carried out by the Department's own personnel and recipients of Federal grants. Audits by DOT's Office of Inspector General, as a result, generally fall into three categories: internal audits of Departmental programs and operations, audits of grant recipients, and other OIG reports. The table above shows OIG's results in the three categories for the 6 months covered by this report.

### OIG Reports with Recommendations That Questioned Costs

October 1, 2004 – March 31, 2005

(Dollars in thousands)

	Number of Reports	Number of Recommendations	Questioned Costs
<b>Reports</b>			
<b>A</b> For which no management decision had been made by the start of the reporting period	24	31	\$ 58,912
<b>B</b> Which were issued during the reporting period	23	31	\$ 24,736
<b>Total A+B</b>	<b>47</b>	<b>62</b>	<b>\$ 83,648</b>
<b>C</b> For which a management decision was made during the reporting period	22	27	\$ 53,947
— dollar value of disallowed costs**	17	20	\$ 49,226
— dollar value of costs not disallowed**	10	11	\$ 5,202
<b>D</b> For which no management decision had been made by the end of the reporting period	26	35	\$ 29,702

\*There were no recommendations for unsupported costs during the reporting period.

\*\*Includes reports and recommendations where costs were both allowed and disallowed.

## OIG Reports with Recommendations That Funds Be Put to Better Use

October 1, 2004 – March 31, 2005

(Dollars in thousands)

	Number of Reports	Number of Recommendations	Funds to Be Put to Better Use
<b>Reports</b>			
<b>A</b> For which no management decision had been made by the start of the reporting period	9	11	\$ 1,272,880
<b>B</b> Which were issued during the reporting period	2	3	\$ 234,000
<b>Total A+B</b>	<b>11</b>	<b>14</b>	<b>\$ 1,506,880</b>
<b>C</b> For which a management decision was made during the reporting period	6	7	\$ 537,070
(i) dollar value of recommendations that were agreed to by management*	6	7	\$ 2,242,566
(ii) dollar value of recommendations that were not agreed to by management*	1	1	\$ 5
<b>D</b> For which no management decision had been made by the end of the reporting period	5	7	\$ 969,810

\*Includes reports and recommendations where costs were both allowed and disallowed.

## OIG Reports Recommending Changes for Safety, Economy or Efficiency

October 1, 2004 – March 31, 2005

	Number of Reports	Number of Recommendations
<b>Reports</b>		
<b>A</b> For which no management decision had been made by the start of the reporting period	33	98
<b>B</b> Which were issued during the reporting period	28	154
<b>Total A+B</b>	<b>61</b>	<b>252</b>
<b>C</b> For which a management decision was made during the reporting period*	32	146
<b>D</b> For which no management decision had been made by the end of the reporting period*	32	106

\*Includes reports where management both made and did not make a decision on recommendations.

## Management Decisions Regarding OIG Recommendations

October 1, 2004 – March 31, 2005

(Dollars in thousands)

Description	Number of Reports	Number of Recommendations	Questioned Costs*	Funds to Be Put to Better Use
Unresolved as of 10/01/04	52	140	\$58,912	\$1,272,880
Audits with Findings During Current Period	46	188	\$24,736	\$234,000
<b>Total to Be Resolved</b>	<b>98</b>	<b>328</b>	<b>\$83,648</b>	<b>\$1,506,880</b>
<i>Management Decisions:</i>				
— Audits Prior Period‡	30	62	\$52,580	\$502,070
— Audits Current Period‡	22	118	\$1,367	\$35,000
<b>Total Resolved</b>	<b>52</b>	<b>180</b>	<b>\$53,947</b>	<b>\$537,070</b>
<i>Aging of Unresolved Audits:**</i>				
— Less than 6 mos. old	28	70	\$23,369	\$199,000
— 6 mos.–1 year	8	17	\$5,596	\$2,310
— 1 year–18 mos.	4	33	\$356	\$547,500
— 18 mos.–2 years	7	16	\$367	\$221,000
— Over 2 years old	4	12	\$14	\$0
<b>Unresolved as of 03/31/05</b>	<b>51</b>	<b>148</b>	<b>\$29,702</b>	<b>\$969,810</b>

\* There were no recommendations for unsupported costs during this reporting period.

‡ Includes reports and recommendations where costs were both allowed and disallowed.

\*\* Considered unresolved if management decisions have not been made on all report recommendations.

## Office of Inspector General Published Reports

October 1, 2004 – March 31, 2005

Report	Date	Title	Focus of Report/Recommendations
<b>FEDERAL AVIATION ADMINISTRATION</b>			
<i>Internal Audits: Program/Functional—5 reports</i>			
FI-2005-003	11/05/04	Security and Controls over Technical Center Computer Systems ( <i>report contains Sensitive Security Information as defined by 49 CFR Part 1520; not available for public inspection or copying</i> )	Second in a series of reports concerning en route air traffic control systems security
FI-2005-010	11/17/04	2003 Status Assessment of Cost Accounting System and Practices	Complete the cost accounting system and implement a labor distribution system
SC-2005-015	11/19/04	New Approaches Needed in Managing FAA's Hazardous Materials Program	HAZMAT program better run than former security operations; improvements still needed
AV-2005-016	11/23/04	Terminal Modernization: FAA Needs to Address its Small, Medium, and Large Sites Based on Cost, Time, and Capability	Put \$199,000,000 to better use
FI-2005-044	01/31/05	Inactive Obligations	Put \$35,000,000 to better use
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>			
QC-2005-006	11/10/04	Quality Control Review of Audited Financial Statements for Fiscal Years 2004 and 2003	Unqualified opinion on financial statements

## Office of Inspector General Published Reports *(continued)*

Report	Date	Title	Focus of Report/ Recommendations
<i>Grant Audits: Audits of Grantee Under Single Audit Act—11 reports</i>			
QC-2005-018	12/14/04	Natrona County International Airport, WY	\$12,463 questioned
QC-2005-019	12/14/04	City of Fort Worth, TX	\$1,684,845 questioned
QC-2005-026	12/20/04	Guam International Airport Authority	\$3,201,159 questioned
QC-2005-029	12/21/04	Northwest Arkansas Regional Authority, AR	\$238,427 questioned
QC-2005-033	01/04/05	Put-In-Bay Township Port Authority, OH	\$146,153 questioned
QC-2005-034	01/04/05	County of Monroe, NY	Improve grantee oversight
QC-2005-035	01/04/05	Gulfport-Biloxi Regional Airport Authority, MS	\$58,923 questioned
QC-2005-038	01/04/05	Dallas/Fort Worth International Airport, TX	\$121,712 questioned
QC-2005-043	01/14/05	Guam International Airport Authority	\$2,857,529 questioned
QC-2005-048	02/15/05	City of Guymon, OK	\$25,506 questioned
QC-2005-049	02/15/05	Texarkana Airport Authority, TX	\$10,666 questioned
<b>FEDERAL HIGHWAY ADMINISTRATION</b>			
<i>Internal Audits: Program/Functional—2 reports</i>			
MH-2005-012	11/19/04	Managing Risk in the Federal-Aid Highway Program	Assessments provide limited use in evaluating program risks
MH-2005-046	02/15/05	FHWA Needs to Capture Basic Aggregate Cost and Schedule Data to Improve its Oversight of Federal-aid Funds <i>(also listed under Office of the Secretary)</i>	Expand plans to aggregate project costs; collect schedule data needed to improve oversight
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>			
QC-2005-007	11/12/04	Quality Control Review of Audited Financial Statements for Fiscal Years 2004 and 2003, Highway Trust Fund	Unqualified opinion on financial statements
<i>Grant Audits: Audits of Grantee Under Single Audit Act—8 reports</i>			
QC-2005-011	11/18/04	State of New York	Improve grantee oversight
QC-2005-020	12/14/04	Government of the United States Virgin Islands	\$1,721,936 questioned
QC-2005-021	12/20/04	City of Baton Rouge and Parish of East Baton Rouge, LA	Improve grantee oversight
QC-2005-022	12/20/04	State of Alabama	\$96,000 questioned
QC-2005-023	12/20/04	New Mexico Department of Transportation	\$510,451 questioned
QC-2005-024	12/20/04	State of Hawaii, Department of Transportation-Highways Division	Improve grantee oversight
QC-2005-040	01/14/05	New York State Thruway Authority	\$34,958 questioned
QC-2005-047	02/15/05	Government of Guam	\$102,231 questioned
<b>FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION</b>			
<i>Internal Audits: Program/Functional—1 report</i>			
MH-2005-032	01/03/05	Follow-up Audit of the Implementation of the North American Free Trade Agreement's (NAFTA) Cross Border Trucking Provisions	On-site safety reviews by Mexico needed; further negotiations required before opening the border
<b>FEDERAL TRANSIT ADMINISTRATION</b>			
<i>Grant Audits: Audits of Grantee Under Single Audit Act—11 reports</i>			
QC-2005-002	10/19/04	City of Mobile, AL	\$362,351 questioned
QC-2005-025	12/20/04	Milford Transit District, CT	\$33,722 questioned
QC-2005-027	12/21/04	Port Authority of Allegheny County, PA	Improve grantee oversight
QC-2005-030	12/21/04	Allen County Regional Transit Authority, OH	\$71,328 questioned
QC-2005-036	01/04/05	Southeastern Pennsylvania Transportation Authority, PA	Improve grantee oversight
QC-2005-037	01/04/05	Regional Transit Authority, New Orleans, LA	Improve grantee oversight
QC-2005-039	01/04/05	Puerto Rico Highway Transportation Authority	Improve grantee oversight
QC-2005-041	01/14/05	Massachusetts Bay Transportation Authority, MA	\$410,191 questioned
QC-2005-042	01/14/05	City of Mount Vernon, Skagit County, WA	\$306,236 questioned

Report	Date	Title	Focus of Report/ Recommendations
QC-2005-053	03/15/05	Greater Cleveland Regional Transit Authority, OH	Improve grantee oversight
QC-2005-054	03/23/05	Washington Metropolitan Transit Authority, DC	\$8,068,870 questioned
<b>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION</b>			
<i>Internal Audits: Program/Functional—2 reports</i>			
FI-2005-045	01/31/05	FY 2004 Accounting for Drug Control Funds Control Policy Circular	Conforms with the Office of National Drug
MH-2005-052	02/28/05	Processing Petitions to Import Non-Canadian Gray Market Vehicles	Improvements noted due to changes in staff and processes
<i>Grant Audits: Audits of Grantee Under Single Audit Act—2 reports</i>			
QC-2005-028	12/21/04	State of New Jersey	\$1,909,112 questioned
QC-2005-050	02/15/05	Michigan Department of State Police	\$2,751,254 questioned
<b>NATIONAL RAILROAD PASSENGER CORPORATION</b>			
<i>Other Internal OIG Reports—1 report</i>			
CR-2005-013	11/18/04	Assessment of Amtrak's 2003 and 2004 Financial Performance and Requirements	Reduce the need for operating subsidies; set better priorities for capital expenditures
<b>NATIONAL TRANSPORTATION SAFETY BOARD</b>			
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>			
QC-2005-005	11/10/04	Quality Control Review of National Transportation Safety Board Fiscal Year 2004 Financial Statements	Unqualified opinion on financial statements
<b>OFFICE OF THE SECRETARY OF TRANSPORTATION</b>			
<i>Internal Audits: Program/Functional—5 reports</i>			
FI-2005-001	10/01/04	Information Security Program	Better coordination needed for IT budget requests
PT-2005-008	11/15/04	Top Management Challenges	Ten challenges and three emerging issues identified
SC-2005-031	12/21/04	Follow-up Audit of DOT's Rulemaking Process and Tracking System	Progress made in timely issuance of rulemakings
MH-2005-046	02/15/05	FHWA Needs to Capture Basic Aggregate Cost and Schedule Data to Improve its Oversight of Federal-aid Funds ( <i>also listed under Federal Highway Administration</i> )	Expand plans to aggregate project costs; collect schedule data needed to improve oversight
FI-2005-055	03/31/05	Office of the Chief Information Officer's Budget	Improve budget submission practices and contract services oversight
<i>Internal Audits: Chief Financial Officer Financial Statement—3 reports</i>			
FI-2005-009	11/15/04	Consolidated Financial Statements for Fiscal Years 2004 and 2003	Unqualified opinion on financial statements
FI-2005-014	11/18/04	Special-Purpose (Closing Package) Financial Statement and IG Agreed-Upon Procedures for Intragovernmental Activity and Balances	Financial position of DOT fairly presented and in conformity with accounting principles
FI-2005-017	12/02/04	Independent Accountant's Agreed-Upon Procedures for Intragovernmental Activity and Balances	Effective processes needed to reconcile intragovernmental activity and balances
<i>Other Internal OIG Reports—1 report</i>			
SC-2005-051	02/28/05	Review of December 2004 Holiday Air Travel Disruptions	Severe weather, computer system failure, and staffing shortfalls disrupt holiday travel
<b>SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION</b>			
<i>Internal Audits: Chief Financial Officer Financial Statement—1 report</i>			
QC-2005-004	11/09/04	Quality Control Review of Audited Financial Statements for Fiscal Years 2004 and 2003	Unqualified opinion on financial statements

## Status of Unresolved Recommendations Over Six Months Old

### *Cited in Semiannual Report for April 1, 2000–September 30, 2000*

Contract Towers: Observations on FAA's Study of the Program	AV-2000-079	04/12/00	Awaiting additional Expanding information from FAA
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### *Cited in Semiannual Report for October 1, 2001–March 31, 2002*

Downtown Waycross Development Authority, GA	QC-2002-027	10/31/01	FHWA working with Grantee to resolve open issues
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FAA's Acquisition of Aviation Weather Systems	AV-2002-084	02/28/02	Working with FAA to resolve open issues
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### *Cited in Semiannual Report for October 1, 2002–March 31, 2003*

Innovative Pavement Research Foundation	QC-2003-035	03/31/03	FHWA working with Grantee to resolve open issues
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### *Cited in Semiannual Report for April 1, 2003–September 30, 2003*

Status Report on FAA's Operational Evolution Plan	AV-2003-048	07/23/03	Working with FAA to resolve open issues
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City and County of San Francisco, CA	QC-2003-056	09/03/03	FTA working with Grantee to resolve open issues
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FAA Needs to Reevaluate STARS Costs and Consider Other Alternatives	AV-2003-058	09/09/03	Working with FAA to resolve open issues
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State of West Virginia	QC-2003-079	09/23/03	FHWA working with Grantee to resolve open issues
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State of Tennessee	QC-2003-084	09/23/03	FHWA working with Grantee to resolve open issues
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State of California	QC-2003-085	09/23/03	FHWA working with Grantee to resolve open issues
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Allegheny County Airport Authority, PA	QC-2003-091	09/30/03	FAA working with Grantee to resolve open issues
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### *Cited in Semiannual Report for October 1, 2003–March 31, 2004*

Chambersburg Transit Authority	QC-2004-019	01/20/04	FTA working with Grantee to resolve open issues
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Monitoring of Highway Trust Fund FY 2003 Financial Statements	QC-2004-029	01/23/04	Working with FHWA to resolve open issues
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Revenue Diversions at San Francisco International Airport	SC-2004-038	03/31/04	Working with FAA to resolve open issues
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Inactive Obligations, FHWA	FI-2004-039	03/31/04	Working with FHWA to resolve open issues
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Erie Municipal Airport Authority	QC-2004-045	04/08/04	FAA working with Grantee to resolve open issues
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Michigan Department of Transportation	QC-2004-051	04/08/04	FHWA working with Grantee to resolve open issues
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Indianapolis Public Transportation Corporation	QC-2004-052	04/08/04	FTA working with Grantee to resolve open issues
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Government of Guam	QC-2004-056	04/08/04	FHWA working with Grantee to resolve open issues
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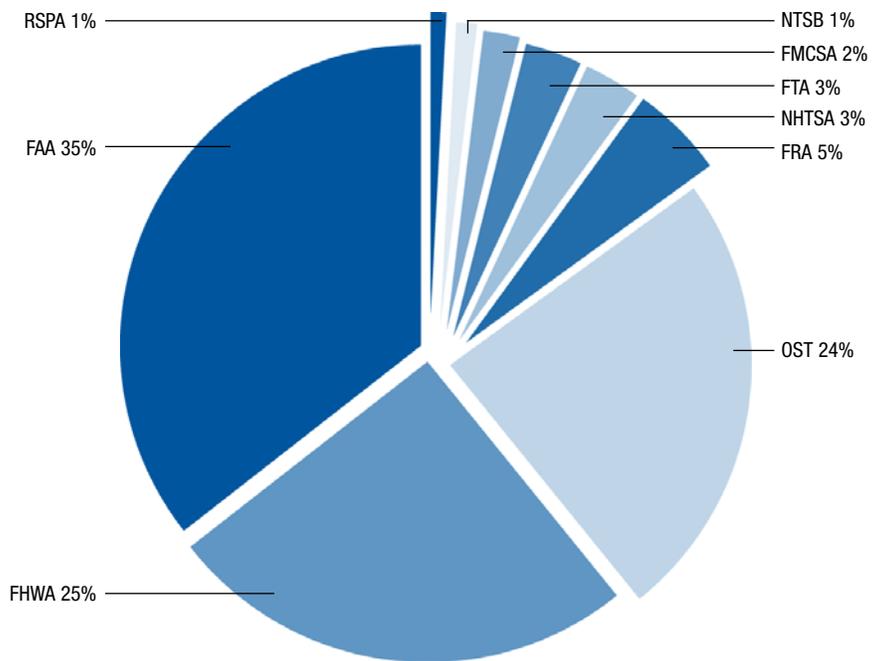
Highway-Rail Grade Crossing Safety Program	MH-2004-065	06/16/04	Working with FHWA, FRA, and FTA to resolve open issues
State of North Carolina	QC-2004-070	07/20/04	FHWA working with Grantee to resolve open issues
Monitoring Audit of Volpe Cost Accounting System	FI-2004-076	08/04/04	Working with RITA to resolve open issues
Assessment of the Volpe National Transportation Center	SC-2004-077	08/04/04	Working with RITA to resolve open issues

## Application of Audit Project Hours by Operating Administration

October 1, 2004–March 31, 2005

Note: Resources shown for OST include time spent performing audits of the DOT Consolidated Financial Statements (which includes all Operating Administrations), Security of Public Transit and Passenger Rail Systems, and Holiday Weekend Airline Disruptions.

Resources shown as "Other" were expended on the Maritime Administration, the Surface Transportation Board, and the St. Lawrence Seaway Development Corporation and totaled less than 1 percent each.



Note: May not equal 100 percent due to rounding.

### Required Statements:

The Inspector General Act requires the Semiannual Report to carry explanations, if during the reporting period, departmental management significantly revised management decisions stemming from an audit. OIG follows up on audits reported in earlier semiannual reports. During this reporting period, departmental management did not report any significant revisions to management decisions.

The Act also requires descriptions of any significant decisions that departmental management made regarding an audit with which OIG disagrees. When the reporting period closed, there were no such significant decisions with which OIG disagreed.



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# MISSION, ORGANIZATION, & CONTACTS

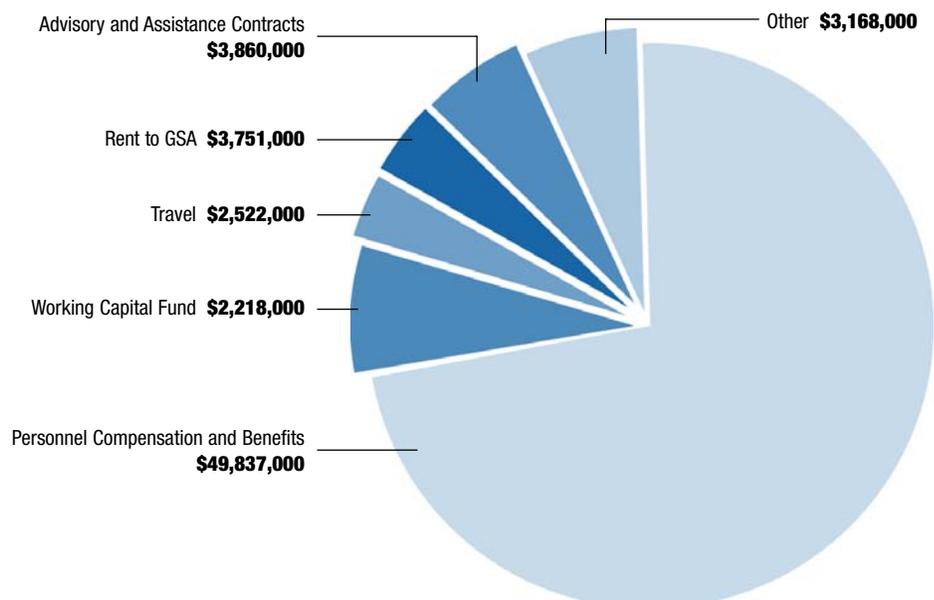
The Office of Inspector General for the Department of Transportation was created by Congress through the Inspector General Act of 1978 (Public Law 95-452). The act sets several goals for OIG:

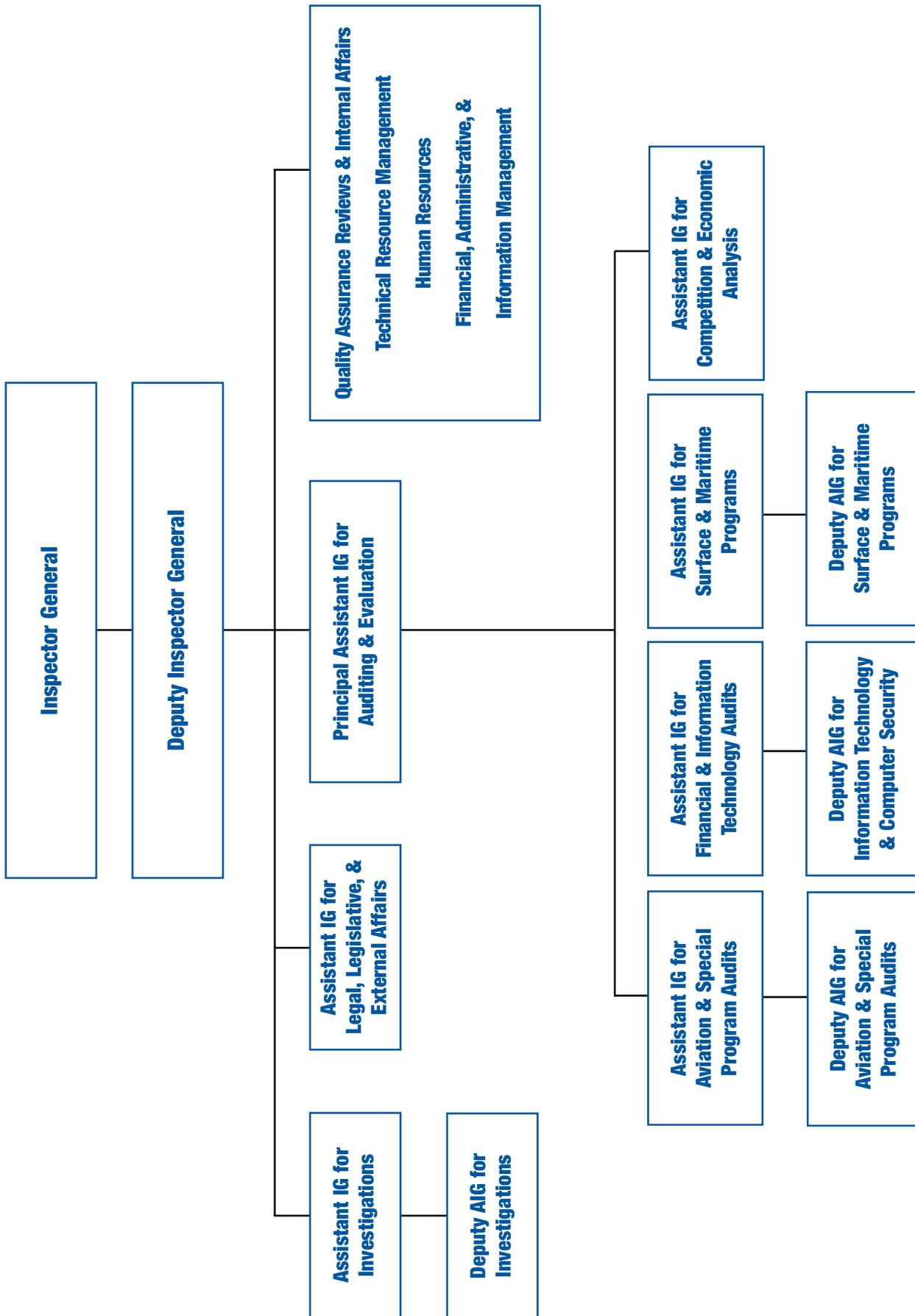
- To conduct or supervise objective audits and investigations of DOT's programs and operations;
- To promote economy, effectiveness, and efficiency within DOT;
- To prevent and detect fraud, waste, and abuse in the Department's programs;
- To review existing and proposed laws or regulations affecting the Department and make recommendations about them;
- To keep the Secretary of Transportation and Congress fully informed about problems in departmental programs and operations.

OIG is divided into two major units and five support units. The major units are the Office of the Principal Assistant Inspector General for Auditing and Evaluation and the Office of Assistant Inspector General for Investigations. Each has headquarters staff and field staff. The support units are the Office of Legal, Legislative, and External Affairs; the Office of Technical Resource Management; the Office of Human Resources; the Office of Financial, Administrative, and Information Management; and the Office of Quality Assurance Reviews/Internal Affairs.

## OIG FY 2005 Program-Level Resources

Total: \$65,356,000





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OIG website: <http://www.oig.dot.gov>

# ABBREVIATIONS

AIG	Assistant Inspector General	ICE	Immigration and Customs Enforcement
AIP	Airport Improvement Program	IG	Inspector General
AIR-21	Aviation Investment and Reform Act for the 21st Century	IRS	Internal Revenue Service
ARTEMIS	Advanced Retrieval (Tire, Equipment, Motor Vehicle) Information System	IT	Information Technology
ATC	Air Traffic Control	MARAD	Maritime Administration
ATOP	Advanced Technology and Oceanic Procedures	MCSIA	Motor Carrier Safety Improvement Act
ATOS	Air Transportation Oversight System	NAFTA	North American Free Trade Agreement
BATF	Bureau of Alcohol, Tobacco, Firearms and Explosives	NAS	National Airspace System
BTS	Bureau of Transportation Statistics	NDR	National Driver Register
CDL	Commercial Driver's License	NHTSA	National Highway Transportation Safety Administration
CFO	Chief Financial Officer	NTSB	National Transportation Safety Board
CFR	Code of Federal Regulations	OA	Operating Administration
CID	Criminal Investigations Division	OCIO	Office of Chief Information Officer
CIO	Chief Information Officer	OIG	Office of Inspector General
CPDLC	Controller-Pilot Data Link Communications	OMB	Office of Management and Budget
DAIG	Deputy Assistant Inspector General	OPS	Office of Pipeline Safety
DBE	Disadvantaged Business Enterprise	OSI	Office of Special Investigations
DCIS	Defense Criminal Investigative Services	OST	Office of the Secretary of Transportation
DHS	Department of Homeland Security	PCIE	President's Council on Integrity and Efficiency
DOT	Department of Transportation	PHMSA	Pipeline and Hazardous Material Safety Administration
ERAM	En Route Automation Modernization	RITA	Research and Innovative Technology Administration
FAA	Federal Aviation Administration	RSPA	Research and Special Programs Administration
FBI	Federal Bureau of Investigation	SAS-70	Statement on Auditing Standards Number 70
FHWA	Federal Highway Administration	SafeStat	Safety Status Measurement System
FMCSA	Federal Motor Carrier Safety Administration	SLSDC	St. Lawrence Seaway Development Corporation
FRA	Federal Railroad Administration	SPAS	Safety Performance Analysis System
FTA	Federal Transit Administration	STARS	Standard Terminal Automation Replacement System
FY	Fiscal Year	STB	Surface Transportation Board
GAO	General Accountability Office	TEA-21	Transportation Equity Act for the 21st Century
GMRA	Government Management Reform Act	TRACON	Terminal Radar Approach Control
GSA	General Services Administration	TREAD	Transportation Recall Enhancement, Accountability, and Documentation
HAZMAT	Hazardous Material	VE	Value Engineering
HTF	Highway Trust Fund		

U.S. Department of Transportation

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