# TOP MANAGEMENT CHALLENGES

*Department of Transportation*

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# Memorandum

**U.S. Department of Transportation**

Office of the Secretary
of Transportation

Office of Inspector General

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| Subject: | ACTION: DOT's Top Management Challenges PT-2003-012 | Date: | January 21, 2003 |
| From: | Kenneth M. Mead Inspector General | Reply to Attn. of: | J-1 |
| To: | The Secretary Thru: The Deputy Secretary | | |

The past year has been one of significant challenge and change for the Department of Transportation (DOT) and indeed the Nation. It is already clear that 2003 will continue that trend. DOT faces significant challenges in the missions for which it was created and in smoothly transitioning the Coast Guard and the Transportation Security Administration to the new Department of Homeland Security. Most items on our 2003 list of top management challenges directly relate to DOT's ongoing missions; the last two items are relevant to DOT during the transition and will then move to the Department of Homeland Security.

- **Accomplishing DOT's Core Missions of Safety and Mobility During and After an Effective Transition of TSA and Coast Guard (page 4)**
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***The Financial Challenges.*** Reflecting on the coming year, a few things are already clear. It is becoming increasingly important for each agency to operate effectively and efficiently to ensure we get the most benefit for each taxpayer dollar spent. Trust fund revenues are lower than expected, increasing the calls for additional financial support from General Fund resources. For example, over the next 6 years the estimated tax revenues in the Aviation Trust Fund are expected to be about 19 percent lower than was anticipated before September 11, 2001. At the same time, however, the economic forces and the demands of national security have combined to limit the General Fund's ability to supplement and sustain transportation spending. In the decision making process, the Government must take into consideration the financial effects of creating a new agency, continuing the war on terrorism, and growing defense outlays necessary to protect the Nation's interests at home and abroad.

***The Performance Challenges.*** With respect to DOT specifically, forces set in motion by the September 11, 2001 terrorist attacks necessarily turned much of the Department's attention to security issues and have now resulted in the establishment of the Department of Homeland Security—the largest reorganization of the Federal Government in over 50 years. DOT will need to effectively transfer the Transportation Security Administration and the Coast Guard to that new agency, while finding ways to work effectively with the Department of Homeland Security on DOT's continuing supportive role in transportation security and the overlapping responsibilities for transportation safety and security.

As much of the security focus moves to the new Department—and with three major reauthorizations pending (the Aviation Investment and Reform Act for the 21st Century, the Transportation Equity Act for the 21st Century, and intercity passenger rail)—the Department has an important opportunity to renew its focus on the management of its safety and mobility missions. The Department's success will be critical to the effective functioning of transportation, which is an important economic engine that comprises almost 11 percent of the economy's gross domestic product. In view of the magnitude and importance of this effort, it is the first item on our list of DOT's top management challenges.

Our list also covers the other major challenges facing DOT in 2003; these include implementing the President's Management Agenda (parts of which are woven into several of our management challenges). In addition, DOT's challenges in 2003 will include the reauthorization of the Aviation Investment and Reform Act for the 21st Century, reauthorization of the Transportation Equity Act for the 21st Century, and determination of how best to structure and fund an intercity passenger rail system.

***Changes From Last Year's List.***  With respect to the airline industry, the airline economic environment is in great upheaval, with two major carriers in bankruptcy reorganization and the other network carriers working to reorganize their operations to avoid similar fates.  We are not listing this as a top management issue because airline competition has been generally left to the discipline of market forces since airline price and service deregulation.  Nevertheless, the Department clearly does need to closely monitor developments so as to be prepared to recommend national policy changes should private market efforts fail, threatening large segments of the domestic airline industry and air service to small communities.  We note as well that the Department continues to have ongoing responsibilities for international competition and for monitoring the domestic competitive environment for evidence of anti-competitive behavior.

We are also no longer listing the Maritime Administration's (MARAD) Ship Disposal Program because, while further action is needed, sufficient progress has been made to warrant removal from the list of the Department's top management issues.  MARAD has succeeded in removing 14 vessels from its Fleets since 2000, and it obtained additional funding for disposal efforts in fiscal year 2003.  The State of Virginia and MARAD are working on the common goal to mitigate the environmental threat these vessels pose in the James River Reserve Fleet.  Also, in its Report to Congress on the Progress of the Vessel Disposal Program (June 2002), MARAD itself cited Program accomplishments, including: (1) posting of an acquisition announcement seeking innovative solutions for vessel disposal, (2) proposing legislation to promote greater use of these vessels as artificial reefs, (3) ongoing negotiations with the Environmental Protection Agency on exporting some vessels, and (4) various partnership initiatives.  Despite these accomplishments, the Department needs to continue to monitor the Program's progress and ensure adequate funding is provided for disposal efforts.

Our top management challenges for 2003 are detailed below, and the Exhibit provides a comparison of this year's list with the items from our 2002 list.  In presenting this list, we recognize that the Department will face many other significant issues in the coming year.  The absence of a particular issue from this list is not intended to suggest that it is unimportant to the Department, but rather that we do not consider it among the key challenges at this time.

# 1 Accomplishing DOT's Core Missions of Safety and Mobility During and After an Effective Transition of TSA and Coast Guard

In the aftermath of the September 11th attacks and with the creation of the Transportation Security Administration (TSA), the last 16 months have presented DOT with unprecedented challenges—including hiring nearly 62,000 screeners to check passengers and carry-on baggage at all airports and implementing explosives detection equipment at the majority of airports nationwide. At the same time, TSA significantly expanded the Federal Air Marshals program with more flights being guarded now than any time in history. Meeting these challenges was, understandably and necessarily, the top priority of the Department's senior managers.

With the March 2003 transfer of the Coast Guard and TSA to the newly created Department of Homeland Security, the coming year presents DOT with the opportunity to focus on challenges central to the Department's core missions of improving transportation safety and mobility. Further, as the Department will continue to have a supporting role in transportation security, DOT must also use the next year to establish an effective relationship with the new Department of Homeland Security. The Department should also take full advantage of this opportunity for management renewal by following through on major DOT management initiatives, including the development of effective financial and cost accounting systems that will enable the Department to better track and manage its performance and budget.

In managing its core missions, both during and after the Coast Guard and TSA transition to the Department of Homeland Security, DOT managers will need to place priority on:

   a. ***Focusing on Safety and Mobility in All Modes of Transportation.*** This time of transition presents DOT with a broader opportunity to once again focus on effective management of its core safety and mobility missions. DOT will need to work with Congress on the reauthorizations of its major programs, including the Aviation Investment and Reform Act for the 21st Century (AIR-21), the Transportation Equity Act for the 21st Century (TEA-21), and intercity passenger rail. DOT's programs are a substantial and visible part of the services the public receives from the Federal Government. The President's Budget Request for DOT in

Fiscal Year (FY) 2003[1] was $59.3 billion; $47.4 billion of that will remain with DOT once TSA and the Coast Guard have been transferred to the Department of Homeland Security. DOT's impact goes beyond that, however, as its safety and mobility missions are critical to the transportation industry—an important economic engine that comprises almost 11 percent of the gross domestic product and impacts the entire gross domestic product.

**b. *Establishing an Effective Framework for Working With the Transportation Industry and Homeland Security on Regulatory and Programmatic Security Issues.*** DOT's continuing responsibilities for transportation safety and efficiency will inevitably overlap with the Department of Homeland Security's responsibilities for transportation security, requiring close interaction between the two Departments to strike an appropriate balance in implementing, regulating, funding, and overseeing programs that benefit the traveling public. DOT will play a continuing and supportive role in transportation security, including primary responsibility over the safe transport of hazardous materials, which will require ongoing coordination with the Department of Homeland Security.

**c. *Following Through on Major DOT Management Initiatives, Including Full Implementation of the New Delphi Accounting System and Managerial Cost Accounting Standards.*** The Delphi system, which was initiated in 1997, is now operational in seven of DOT's smaller Operating Administrations and staff offices.[2] Delphi has not yet been implemented in four of DOT's largest Operating Administrations (Federal Aviation Administration, Federal Highway Administration, Federal Motor Carrier Safety Administration, and Maritime Administration), which account for more than 80 percent of DOT's FY 2003 budget (not including TSA and Coast Guard) and represent most of the volume of transactions anticipated for Delphi operations.

Bringing the four larger and more complex Operating Administrations onto Delphi has proven to be a challenge, as evidenced by the repeated schedule slippages. They were scheduled to begin using Delphi between

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[1] At the time this Top Management Challenges report was prepared, DOT's FY 2003 budget had not been finalized. FY 2003 budget figures shown in this report are based on FY 2003 Budget in Brief, Office of the Secretary of Transportation publication, dated February 4, 2002, unless otherwise noted.

[2] The seven Operating Administrations/Offices operating on Delphi are the Federal Transit Administration, Federal Railroad Administration, National Highway Traffic Safety Administration, Research and Special Programs Administration, Bureau of Transportation Statistics, Surface Transportation Board, and the Office of the Secretary (including the Office of Inspector General and the Transportation Administrative Service Center).

December 2002 and May 2003. However, that effort has again slipped to the March through October 2003 timeframe, with a total implementation cost of about $103 million.

Delphi should provide DOT with reliable automated financial data for the first time. However, to support the President's Management Agenda goal of integrated budget and performance data, DOT also needs to implement managerial cost accounting standards and labor distribution systems that interface with Delphi. The ultimate goal is to provide reliable cost and performance data that will tell decision makers what programs really cost and what they are achieving for that cost. DOT plans to implement managerial cost accounting standards in all Operating Administrations by September 2004.

The Federal Aviation Administration (FAA), which is DOT's largest Operating Administration, planned to have a fully operational cost accounting system including a labor distribution system called Cru-X to capture labor hours and costs associated with specific functions and services by September 30, 2002. However, Cru-X for FAA's air traffic controllers, with annual labor costs of about $3.1 billion, omitted important internal controls related to the controllers signing in and signing out for their work shifts and for recording time while not directing air traffic.

We brought this issue to the attention of the new FAA Administrator, and she directed that appropriate internal controls for recording of air traffic controllers' time be incorporated into the Cru-X labor distribution system. FAA needs to identify specific action plans to implement the Administrator's direction and provide milestones for starting and completing its corrective actions.

*Without a fully functioning labor distribution system, FAA will not have a credible cost accounting system, nor will it be able to credibly claim it is a performance-based organization.* To date, FAA has spent $38 million and is 5 years behind its original schedule for having a fully operational cost accounting system. The Federal Aviation Reauthorization Act of 1996 required FAA to develop a cost accounting system. FAA plans to have an operational cost accounting and labor distribution system by September 2003 unless the implementation schedule slips again.

**For further information, the following reports can be seen on the management challenges page of the Office of Inspector General (OIG) web site, at *http://www.oig.dot.gov/challenges*:**

- *FAA Financial Statements for Fiscal Years 2001 and 2000*

- *DOT Consolidated Financial Statements for Fiscal Years 2001 and 2000*

- *FAA Cost Accounting System and Practices–2001 Status Assessment*

- *FAA Air Traffic Services Planned Labor Distribution Reporting*

- *DOT Implementing a New Financial Management System*

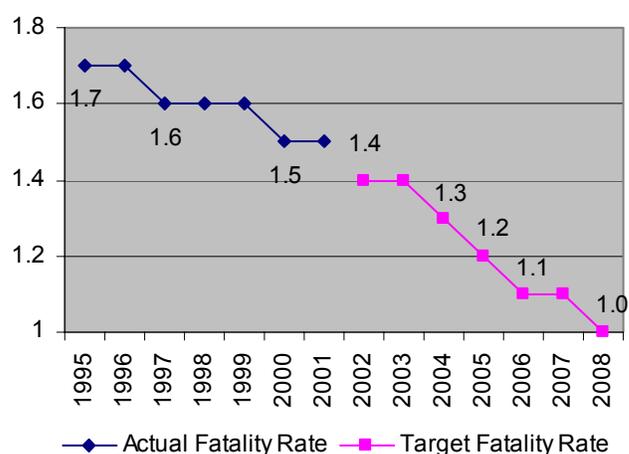# 2 Reducing Fatalities and Injuries on Our Highways, Emphasizing Seat Belt Law Enforcement

In 2001, more than 42,000 people were killed and more than 3 million injured in traffic crashes on the Nation's highways. As shown in Figure 1, DOT has established a goal of reducing traffic fatalities to 1 per 100 million vehicle miles traveled by 2008. To achieve this goal, DOT needs to pursue the following ongoing efforts to reduce deaths and injuries on the Nation's highways, in addition to continuing the fight against driving while under the influence of alcohol or drugs.

*a. **Increase Seat Belt Use.*** The National Highway Traffic Safety Administration (NHTSA) estimates that raising seat belt use to 85 percent from the present rate of 75 percent would save 4,600 lives annually. The most effective means of increasing seat belt use is enactment and enforcement of primary seat belt laws, which allow police to stop drivers and issue citations solely for not using a seat belt.

*Figure 1. Highway Fatalities Per 100 Million Vehicle Miles Traveled*



Currently, 18 states, the District of Columbia, and Puerto Rico have primary seat belt laws. We see no credible basis to forecast increases in seat belt use in excess of the recent trend of 1 percentage point per year unless additional states enact and enforce primary enforcement laws. If the trend in seat belt use of the last 9 years continues, as shown in Figure 2, NHTSA will fall short of its 2003 goal of 78 percent.

## Figure 2.  National Seat Belt Use
## 1984 to 2002
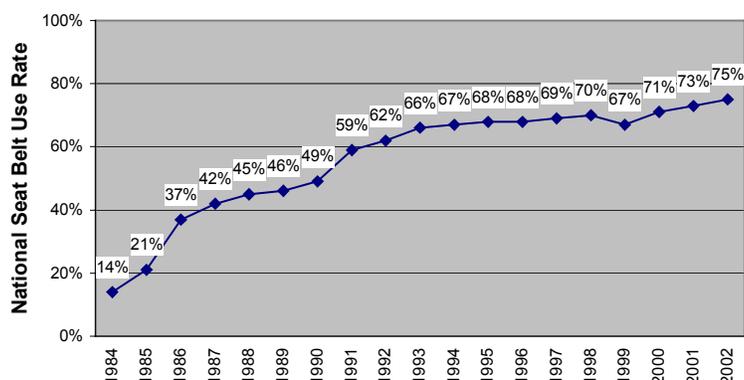


b. **Improve the Credibility and Integrity of the Commercial Driver's License (CDL) Program.**  In our May 2002 report, we stated existing Federal standards and state controls were not sufficient to defend against the alarming threat posed by individuals who seek to fraudulently obtain CDLs.  For example, we found that only 4 of 13 states that we visited had laws requiring applicants to demonstrate that they are citizens or legally present in the United States.  Since 1998, we have conducted over 70 criminal investigations in 12 states involving CDLs.  To date, these cases have resulted in 81 indictments, 63 convictions, and over $480,000 in fines, restitution and other monetary recoveries.  In addition, hundreds of truckers have had their licenses suspended or revoked, or have had to be retested in order to ensure that they were qualified to drive commercial vehicles.

As a consequence of the fraudulent testing and licensing of commercial drivers, highway safety has been compromised and states have incurred additional expense to retest thousands of commercial drivers as a result of state and Federal investigations.  DOT needs to counter fraudulent licensing by strengthening and clarifying Federal standards for issuing CDLs and by requiring the states to make use of covert procedures in the monitoring of driver examiners.

c. **Continue Implementation of the Transportation Recall Enhancement, Accountability, and Documentation (TREAD) Act.**  Over the past 2 years, NHTSA has made substantial progress in meeting the TREAD Act requirements, completing 10 of 15 final rulemakings.  Several

rules were complex and controversial, such as requiring a tire pressure warning device in new vehicles, updating existing tire standards, and establishing early warning reporting requirements for vehicle and equipment manufacturers. Of the five remaining rulemakings, the two regarding the safety of child restraints and updating existing tire standards appear to be controversial from the comments received on the proposed rules. Neither of these rules has met its statutory deadline.

The success of the TREAD Act also depends on the quality and usefulness of a new information system being developed to track vehicle defects and help identify trends. This system is currently scheduled for completion in March 2003. Manufacturers must begin reporting additional warning data for entry into this new system by August 31, 2003. The Office of Inspector General recently initiated an audit to evaluate the progress NHTSA has made in implementing recommendations from our January 2002 report.

*For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:*

- *Review of NHTSA's Progress in Implementing Strategies to Increase the Use of Seat Belts*
- *Improving the Testing and Licensing of Commercial Drivers*
- *Progress and Challenges in Implementing the TREAD Act*
- *NHTSA Office of Defects Investigation*
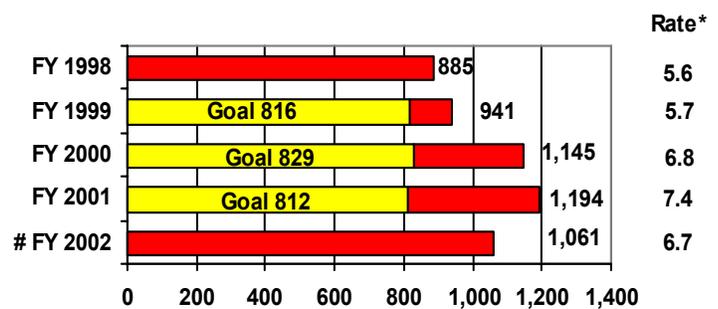- *Disqualifying Commercial Drivers*

# 3 Reducing the Risk of Aviation Accidents Due to Operational Errors and Runway Incursions

Overall, this has been a very safe year for the aviation industry. There has been only one fatal commercial aviation accident in the United States during the last 14 months, and FAA has made further progress in reducing the risk of aviation accidents due to operational errors and runway incursions. Operational errors (incidents that could result in collisions in the air) and runway incursions (incidents that could result in collisions on the ground) decreased by 11 percent and 17 percent, respectively, over FY 2001 levels. While reduced air traffic operations contributed to a reduction of these incidents, FAA initiatives to reduce operational errors and runway incursions at specific facilities were also contributing factors.

Notwithstanding these improvements, operational errors and runway incursions remain on our list of top management challenges because (1) at least three serious operational errors and one serious runway incursion occurs, on average, every 10 days (in which collisions were barely averted); and (2) FAA now projects that air traffic, measured in terms of operations, will return to its pre-September 11th growth pattern between 2005 and 2007. FAA needs to continue initiatives to further reduce the risk of aviation accidents by:

**a. *Reducing the Number of Operational Errors*.** The number of operational errors was down from an all-time high of almost 1,200 in FY 2001 to 1,061 in FY 2002, as shown in Figure 3. FAA initiatives to reduce operational errors included issuing guidance to improve regional operational error reduction plans, and establishing a system to rate the severity of operational errors so FAA can focus resources on

## Figure 3. Operational Errors FY 1998—FY 2002

| | Value | Rate* |
|---|---|---|
| FY 1998 | 885 | 5.6 |
| FY 1999 | Goal 816 / 941 | 5.7 |
| FY 2000 | Goal 829 / 1,145 | 6.8 |
| FY 2001 | Goal 812 / 1,194 | 7.4 |
| # FY 2002 | 1,061 | 6.7 |

0  200  400  600  800  1,000  1,200  1,400

\# FAA missed its FY 2002 goal of no more than 568 operational errors with less than 80 percent of required separation by 7 percent, with 607 such errors.
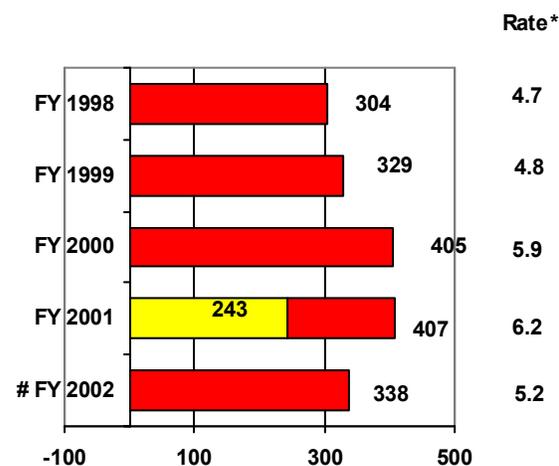
\* Rate is per 1 million air traffic operations.

reducing the most serious errors. *However, some operational errors still pose a significant safety risk, with an average of three operational errors per day and one serious error every 3 days (in which a collision was barely averted).* To reduce operational errors further, FAA needs to ensure that air

traffic controllers who make operational errors receive training. FAA also needs to reexamine its new severity rating system to ensure that it accurately reflects the safety risk of operational errors.

**b. *Reducing Runway Incursions.*** Runway incursions declined from 407 in FY 2001 to 338 in FY 2002 (see Figure 4), due in part to FAA's aggressive actions to reduce these incidents. FAA established a system to categorize runway incursions by severity risk and has reduced the number of close calls (those runway incursions in the two highest categories) from 53 in FY 2001 to 37 in FY 2002. *However, there is still an average of one runway incursion per day and an average of one close call every 10 days.* In view of the potential loss of life in a runway accident, this is still too many. For example, in October 2001, a runway accident between a commercial aircraft and a business jet killed 118 people in Milan, Italy. While this accident occurred outside the United States, the potential exists for similar accidents to occur here. To reduce runway incursions further, FAA needs to follow through on its plans to train pilots to avoid runway incursions and use technology to warn pilots and controllers of potential incidents.

### Figure 4. Runway Incursions FY 1998—FY 2002

| | | Rate* |
|---|---|---|
| FY 1998 | 304 | 4.7 |
| FY 1999 | 329 | 4.8 |
| FY 2000 | 405 | 5.9 |
| FY 2001 | 243 / 407 | 6.2 |
| # FY 2002 | 338 | 5.2 |

-100    100    300    500

\# FAA met its goal of no more than 53 serious runway incursions by 30 percent, with 37 such incursions.
\* Rate is per 1 million tower operations.

***For further information, the following reports can be seen on the management challenges page of the OIG web site, at [http://www.oig.dot.gov/challenges](http://www.oig.dot.gov/challenges):***

- *FAA's FY 2003 Budget Request*
- *Despite Significant Management Focus, Further Actions Are Needed to Reduce Runway Incursions*
- *Further Actions Are Needed to Reduce Runway Incursions*
- *Actions to Reduce Operational Errors and Deviations Have Not Been Effective*
- *FAA's Actions to Expand the Controller-in-Charge Program*

# 4 Reversing FAA's Spiraling Operating Costs, Improving Aviation System Capacity, and Reauthorizing AIR-21

FAA is facing critical issues this year involving increasing capacity in the National Airspace System, carrying out cost-effective and timely acquisitions, and improving business operations by controlling costs. In our view, FAA needs to act more like a business, in the sense that it pays much greater attention to cost-effectiveness and controlling its costs, particularly in view of the steep declines in projected Aviation Trust Fund revenues compared to pre-September 11, 2001 estimates, as shown in Figure 5.

## Figure 5. Aviation Trust Fund: Estimated Tax Revenues

($ in billions)



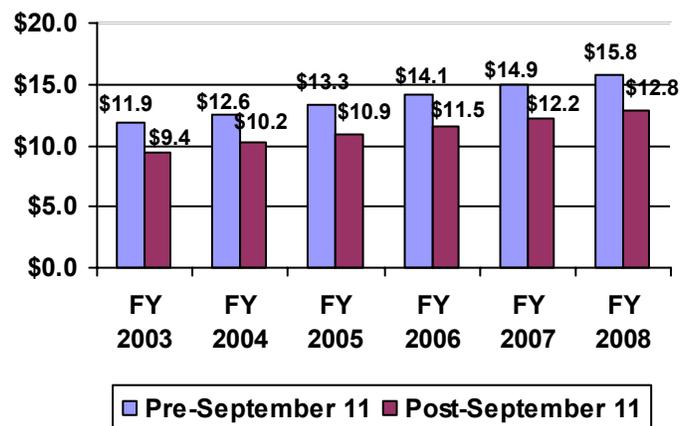| | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|---|---|
| Pre-September 11 | $11.9 | $12.6 | $13.3 | $14.1 | $14.9 | $15.8 |
| Post-September 11 | $9.4 | $10.2 | $10.9 | $11.5 | $12.2 | $12.8 |

Within this context, a combination of management and legislative actions are needed. Reauthorization of AIR-21 provides FAA with an opportunity to seek needed legislative changes. The most critical actions include:

a. **Containing Inordinate Increases in Operating Costs That Are Due to "Personnel Reform," and Tightening Accountability for Performance Agency-Wide.** FAA's budget has increased $5 billion over the past 6 years—escalating from $9.0 billion in FY 1998 to $14 billion in FY 2003. This growth has largely been driven by inordinate increases in the agency's operating costs. FAA's Operations budget, which is 73 percent payroll costs, has increased from $5.3 billion in FY 1998 to $7.5 billion in FY 2003, an increase of over 41 percent (see Figure 6).

While FAA has taken extensive advantage of the flexibilities provided by personnel reform by substantially increasing salaries, there has been little corresponding management accountability for costs. Containing the growth
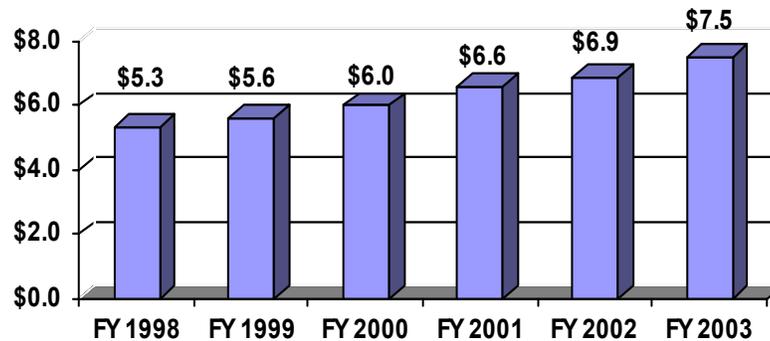
in operating costs continues to be a top management challenge that FAA must address.

### Figure 6.  FAA's Operations Budget FY 1998 through FY 2003

($ in billions)



Note:  FY 2002 figures exclude approximately $200 million in supplemental funds that were appropriated specifically for security related purposes.  FY 2003 figures include approximately $400 million in retirement and healthcare costs, which are now included directly in all Federal agencies' budgets per Office of Management and Budget instructions.

A key tool FAA needs to effectively manage its costs is an accurate cost accounting system.  As part of its cost accounting system, FAA is developing a labor distribution system, called Cru-X, which would account for and distribute its air traffic controller labor costs of about $3.1 billion annually to specific facilities and functions for FAA to better assess its workload and performance.  However, Cru-X for FAA's air traffic controllers omitted important internal controls related to controllers signing in and signing out for their work shifts and for recording time while not directing air traffic.  As a result, the Cru-X system would provide no assurance that the time worked by air traffic controllers would be accurately recorded and properly paid.

We brought the Cru-X deficiency to the attention of the new FAA Administrator and she directed that appropriate internal controls for recording of air traffic controllers' time be incorporated into the Cru-X labor distribution system.  FAA needs to identify specific action plans to implement the Administrator's direction and provide milestones for starting and completing the corrective actions.

Lastly, FAA needs to become proactive in taking actions to offset costs. For example, FAA needs to ensure that future agreements with its workforces include quantified offsetting gains in productivity, and that managers use flexibilities of personnel reform judiciously in terms of employee salaries, bonuses, and awards.

FAA also needs to take actions on existing opportunities that could help defray operating costs. For example, in our FY 2002 report on flight service stations, we reported that FAA could save at least $500 million over 7 years by consolidating automated flight service stations in conjunction with deployment of new flight service software. In FY 2000, we reported that FAA could also save over $57 million annually by contracting out low-activity visual flight rule towers that are still operated by the agency. Actions such as these offer an important opportunity to follow through on one of the President's Management Agenda goals for strategic management of human capital.

b. ***Reshaping Air Traffic Control (ATC) Into a Performance-Based Organization,*** in part by appointing a Chief Operating Officer and making meaningful use of the ATC Subcommittee, both of which were authorized by AIR-21 more than 2 years ago. The pending reauthorization of AIR-21 also affords the Congress and FAA with an opportunity to consider additional tools to enable better, more economical acquisitions and personnel systems for the ATC system. One very important tool is the development and operation of a cost accounting system, as required by the 1996 Reauthorization of FAA, and an effective labor distribution system. Without such financial systems, FAA cannot credibly claim to be, nor function as, a performance-based organization.

c. ***Re-Baselining Costs and/or Milestones for Modernization Projects That Will Cost Much More Than Anticipated or That Have Had Substantial Schedule Slips.*** FAA spends almost $3 billion annually on modernization projects designed to improve the National Airspace System. Progress has been made with some acquisitions, most notably Free Flight Phase 1, but several major efforts need senior management level attention over the next year. These projects include the Standard Terminal Automation Replacement System (STARS), Local Area Augmentation System (LAAS), and Integrated Terminal Weather System (ITWS).

- STARS has a long history of cost overruns and schedule delays. The original STARS program estimate was $940 million. In March 2002, after the full program estimate rose to $1.69 billion, FAA reduced the

approved program from 182 to 74 sites and reduced the estimated cost to $1.33 billion. Moreover, STARS is not FAA's only terminal modernization program. For example, while waiting for STARS, FAA also moved forward with a "bridge" program known as Common ARTS. Common ARTS provides the functions that STARS will eventually have after STARS development is complete. Common ARTS has now replaced aging systems at more than 140 facilities. In total, since 1996, FAA has spent more than $1 billion on terminal modernization programs.

- LAAS is a new precision approach and landing system that is expected to boost airport arrival rates under all weather conditions. FAA intended to have LAAS (Category I) operational in 2004. It is now clear that this milestone cannot be met because of additional development work, evolving requirements, and unresolved issues regarding how the new system will be certified as safe for pilots to use. Moreover, the more demanding Category II/III service (planned for 2005) is now a research and development effort with an uncertain end date.

- ITWS provides air traffic managers with enhanced weather information that does not require meteorological interpretation. FAA planned to complete deployment of the new weather system in 2004 at a cost of about $286 million. However, production costs are three times more expensive than planned, and FAA cannot execute the program as planned.

FAA needs to develop metrics to assess progress with major acquisitions, strengthen contract oversight, make greater use of Defense Contract Audit Agency audits, and institute cost control mechanisms for software-intensive contracts. With schedule slips and cost overruns in major acquisitions, it should be noted that FAA is not getting as much for its $3 billion annual investment as it originally expected.

**d. *Addressing Future Capacity Issues*** while there is still time to avoid a repeat of the gridlock conditions prevalent in the summer of 2000. FAA needs to be strategically positioned—through a combination of new runways, better air traffic management technology, and greater use of non-hub airports—for when the demand for air travel rebounds. FAA needs to continue to make major modifications to the Operational Evolution Plan (FAA's blueprint for increasing capacity over the next 10 years) to address changes in schedule and funding requirements in key programs and clarify anticipated benefits. In addition, FAA needs to address the uncertainty

regarding the airlines' ability to purchase and install new technologies (estimated at $11 billion) called for in the Plan due to the decline in airline revenue since early 2001.

It is generally accepted that new runways are the most effective way to increase capacity. In the 10 years prior to the FAA's Operational Evolution Plan, six new runways had been completed, including new runways at Dallas and Phoenix. When the Operational Evolution Plan was first published in June 2001, it included provisions to add 15 new runways, but that was before September 11th and before the effects of the economic slowdown became more pronounced. Since then, a new runway has opened in Detroit, and a runway in Cleveland has been added to the Operational Evolution Plan. However, plans for a new runway in Charlotte and a second new runway in Dallas/Fort Worth Airports have been deferred. These runways are no longer in the Operational Evolution Plan.

FAA's Operational Evolution Plan tracks 12 runways still scheduled for completion in the next 10 years. During 2003, Denver, Houston, Miami, and Orlando Airports expect to complete runway projects. However, construction on several other runway projects has been delayed from 3 months to 2 years. Given the challenges that airports are facing, it is incumbent on FAA to continue closely monitoring new runway projects.

e. ***Achieving a Balance in the Use of Airport Improvement Program (AIP) Grants and Passenger Facility Charges (PFC) for Airport Security and Capacity Projects.*** In the past, these funds have been used in large part for projects that increased airport capacity, such as construction of new runways. However, new security requirements present the possibility that AIP and PFC funds may be used increasingly for security initiatives. To ensure that airport improvement projects continue to progress so that airports will be ready to meet increased capacity demands when air travel rebounds, Congress and the Department will need to strike a balance between security and capacity in the use of these two funding sources.
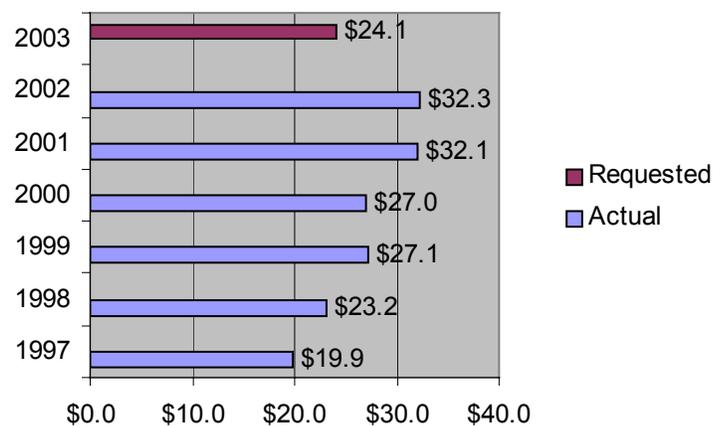
**For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:**

- *FAA's Fiscal Year 2003 Budget Request*

- *Automated Flight Service Stations: Significant Benefits Could Be Realized by Consolidating AFSS Sites in Conjunction with Deployment of OASIS*

- *FAA Air Traffic Services Planned Labor Distribution Reporting*

- *Actions to Enhance Capacity and Reduce Delays and Cancellations*

- *Compensation Issues Concerning Air Traffic Managers, Supervisors, and Specialists*

- *Actions to Improve Performance of the National Aviation System*

- *FAA's Actions to Expand the Controller-in-Charge Program*

- *Technical Support Services Contract: Better Management Oversight and Sound Business Practices Are Needed*

- *Contract Towers: Observations on FAA's Study of Expanding the Program*

- *Staffing: Supervisory Reductions Will Require Enhancements in FAA's Controller-in-Charge Program*

- *Personnel Reform: Recent Actions Represent Progress but Further Effort Is Needed to Achieve Comprehensive Change*

# 5 Clamping Down on Fraud, Obtaining Better Value in Highway and Bridge Investments, and Reauthorizing TEA-21

Investments in highway infrastructure have a significant impact on achieving transportation goals to increase mobility, improve safety, and promote economic growth. TEA-21, the legislation that authorized highway investments, is scheduled to be reauthorized this year. A great deal of attention is also being focused on determining an appropriate level of highway funding this year. Figure 7 shows historical Federal Highway Administration (FHWA) highway funding levels. Regardless of the level of funding authorized, our work reviewing 18 large highway and transit projects has identified a number of opportunities to get more from each dollar invested. Better value can be obtained by:

## Figure 7. FHWA Historical Funding Levels

($ in billions by fiscal year)

| Fiscal Year | Amount |
|---|---|
| 2003 | $24.1 (Requested) |
| 2002 | $32.3 |
| 2001 | $32.1 |
| 2000 | $27.0 |
| 1999 | $27.1 |
| 1998 | $23.2 |
| 1997 | $19.9 |

Legend: Requested, Actual

a. ***Refocusing FHWA Oversight to Ensure That Major Projects Are Delivered Approximately On-Time and On-Budget.*** Key actions in this regard include:

- freeing up FHWA oversight resources by delegating more responsibility to the states for contract-level actions, such as approving contract awards, change orders, and design modifications, and by strengthening FHWA's program-level involvement and stewardship.

- improving state management practices in areas such as preparing cost estimates, designing projects, processing contractor claims, and maintaining accountability over funds.

- using proven project management tools including project management plans, finance plans, reliable cost estimates, and integrated project schedules.

- modernizing FHWA's staffing structure to better meet oversight needs. FHWA needs to move from an engineering culture to a more multi-disciplined workforce with the management, financial, environmental, program analysis, and engineering oversight skills necessary to review modern highway projects and programs.

b. **Promoting Efforts to Prevent, Detect, and Prosecute Fraud in the Federal-Aid Highway Programs.** In the past 3 years, the OIG has seen increases in fraud case work and judicial actions involving highway and transit projects, with indictments tripling, convictions doubling, and monetary recoveries tripling from $15.8 million to $43.2 million (see Figures 8 and 9). Although our work does not suggest abuse on the scale that was experienced in the 1950's and 1960's, the recent cases have involved some of the largest fraud schemes in the history of the Federal-aid highway program.



Figure 8. Judicial Results of Infrastructure Fraud—Convictions and Indictments
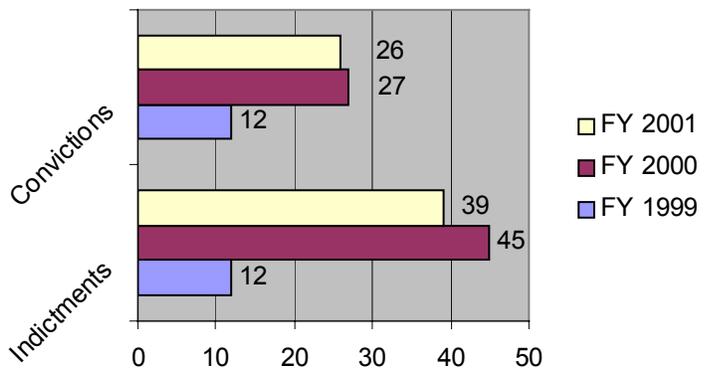
These schemes have included bid rigging, bribery and kickbacks, false claims, and product substitution. We have also seen more scandals and fraud schemes, such as "front companies and pass throughs," involving the Disadvantaged Business Enterprise program, which is intended to promote minority participation in contracting on DOT-funded transportation infrastructure projects. To strengthen DOT's ability to prevent,



Figure 9. Judicial Results of Infrastructure Fraud—Recoveries

($ in millions)
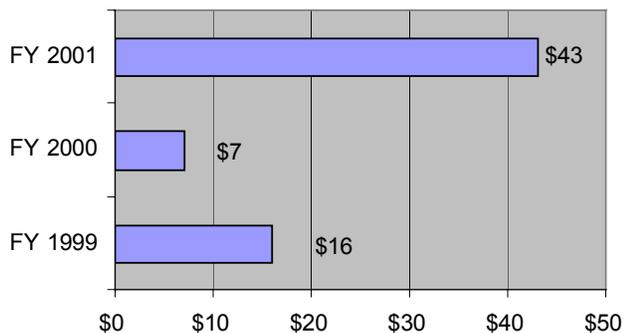
detect, and prosecute fraud, the Department should work with Congress and the states to:

- strengthen debarment and suspension sanctions by (1) debarring contractors and subcontractors convicted of civil or criminal offenses involving fraud, (2) suspending contractors and subcontractors indicted for civil or criminal offenses involving fraud from bidding on new transportation contracts, and (3) explicitly considering contractors' past performance and compliance with laws and regulations pertaining to fraud when awarding new contracts.

- increase scrutiny of cost proposals, change orders, and claims from prime contractors and subcontractors to detect and deter fraud.

- provide specialized training at the state level to enhance fraud prevention.

- allow monetary recoveries from judgments in Federal criminal and civil highway/transit fraud cases to be returned to the affected state, and require those funds to be used exclusively for fraud prevention programs.

***For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:***

- *Springfield Interchange Project*

- *Improving the Delivery of Transportation Projects*

- *FHWA Actions to Recover Excess Reserves from Central Artery Owner Controlled Insurance Program*

- *Inspector General's Remarks Before the 2nd National Conference on Highway Construction and Public Transportation Fraud*

- *Management of Large Highway and Transit Projects*

- *Report on the October 2001 Finance Plan for the Central Artery/Tunnel Project*

- *Status of Issues Related to the Woodrow Wilson Bridge Corridor Reconstruction Project*

- *October 2000 Finance Plan for the Central Artery/Tunnel Project Boston, Massachusetts*

- *Central Artery/Ted Williams Tunnel Project Highlights Need for Effective Federal Oversight (June 7, 2000)*

- *Central Artery/Ted Williams Tunnel Project Highlights Need for Effective Federal Oversight (May 3, 2000)*

- *Current Costs and Funding of the Central Artery/Ted Williams Tunnel Project*

- *Report on the Baseline Reviews of Four Highway/Transit Mega Projects*

# 6 Determining the Future of Intercity Passenger Rail

In the summer of 2002, Amtrak, the country's provider of intercity passenger rail service, lost access to the short-term credit market and threatened shutdown of its entire system. This crisis was averted when the Department arranged a loan of $100 million and Congress voted to provide an additional $205 million in supplemental appropriations. Amtrak's authorization ended in December 2002 and reauthorization will be debated in the coming months.

In the short run, Amtrak is likely to require at least $1 billion in Federal grant support in 2003[3] to preserve the current system and keep open all options for the Congress and the Administration in defining the future of passenger rail. Otherwise, we are likely to face the same threats of system shutdown and cessation of service as last year. To this point, insufficient alternative planning has been done for preserving commuter and some intercity services in such a scenario. We understand that Amtrak and the Department are working to develop such alternatives, and these efforts need to be brought to fruition at the earliest possible date.

In 1997, Congress established a deadline of December 2002 for Amtrak to eliminate its need for Federal operating subsidies (Amtrak was assumed to need

## *Figure 10.  Passenger Revenue and Ridership Growth Since 1992*



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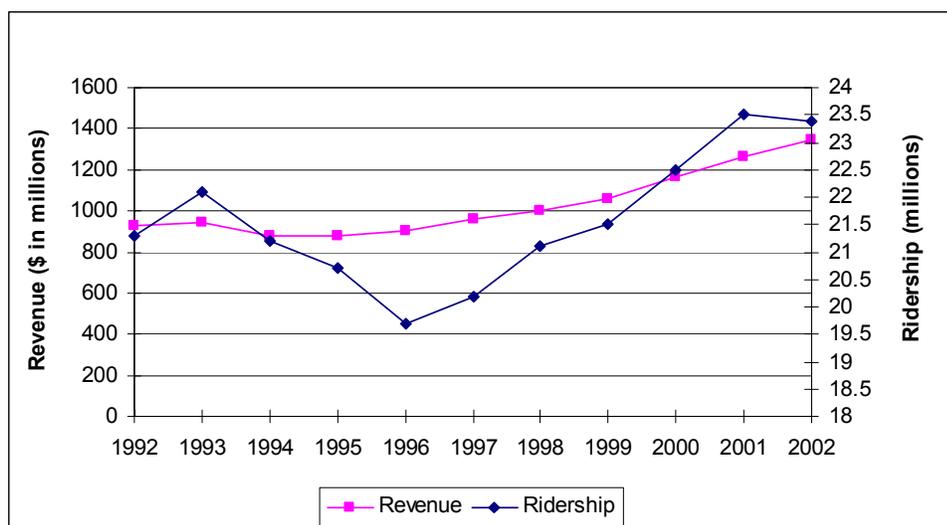
[3] Unless otherwise stated, all years are fiscal years based on Amtrak's fiscal year of October 1 to September 30, the same as the Federal fiscal year.

continuing capital subsidies) and directed the Office of Inspector General to reassess Amtrak's financial performance and needs each year. Although Amtrak has shown sustained growth in ridership and revenue over this period (see Figure 10), it has been less successful in reducing its losses. Not only has Amtrak not met its mandate for operating self-sufficiency, but it is farther from the self-sufficiency goal now than it was in 1997, as shown in Figure 11.

It is evident that the current intercity passenger rail system cannot be run without both capital and operating subsidies. Amtrak projects that, over the next 25 years, it will need to invest about $30 billion in capital projects just to sustain the system as currently structured. Amtrak also projects that it will need between $550 million and $625 million each year to cover losses sustained from operating the current system.

### Figure 11. Growth in Amtrak's Operating and Cash Losses 1992 Through 2002
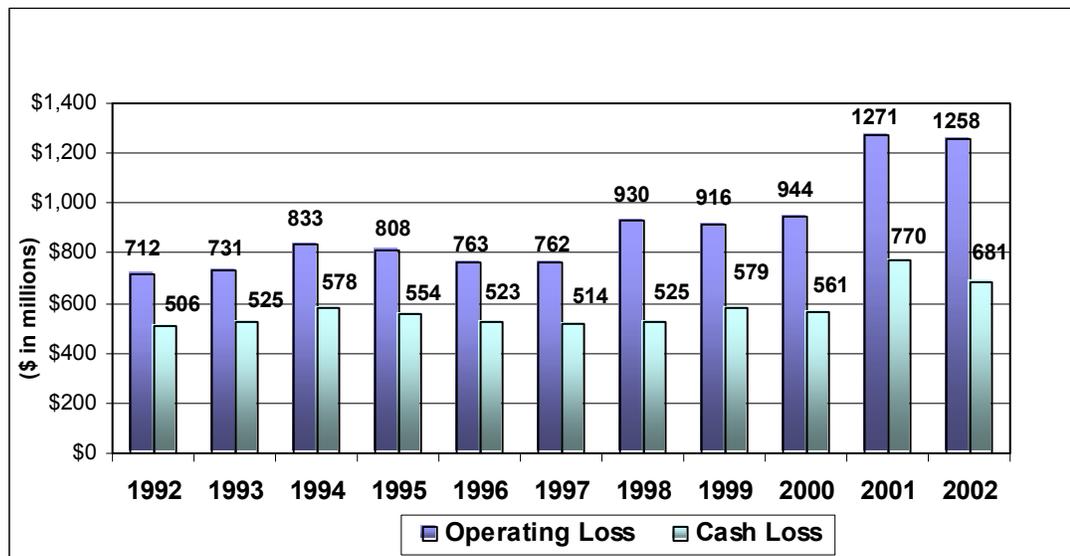


Amtrak continues to operate despite the fact that its current authorization has expired. It is now time for Congress, the Administration, Amtrak, and state and local stakeholders to decide on a sustainable intercity passenger rail system, determine Amtrak's roles and responsibilities within that system, and develop a credible funding plan that invites Federal and state government participation.

Although Amtrak has operated the Nation's intercity passenger rail service as an integrated system for the past 31 years, the discussion over its reauthorization will

undoubtedly consider other options.  Recent proposals have included alternatives such as breaking the system into separate entities for operating trains and supplying infrastructure, or introducing competition by competitively bidding train operations.   While its future is being determined, Amtrak must take more aggressive action to control expense growth (see Figure 12) and pay down long-term debt.

*Figure 12.  Growth in Amtrak's Expenses, 1992 Through 2002*
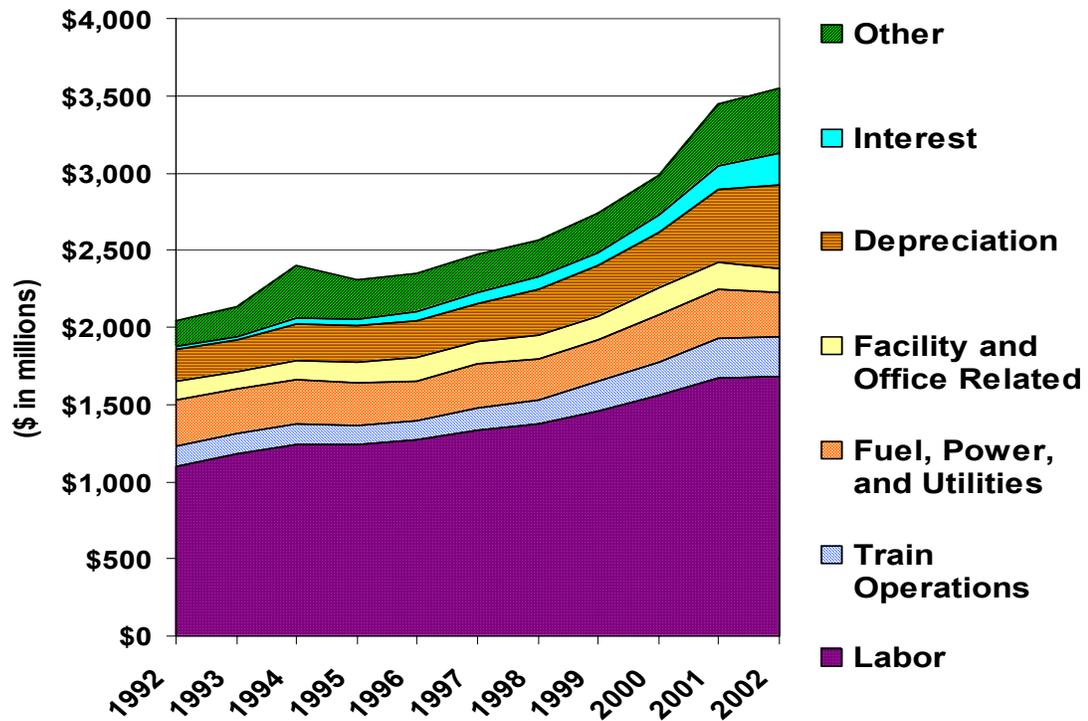


Amtrak is burdened with a heavy debt load and substantial principal and interest payments that must be satisfied in the coming years.  Between 1997 and 2002, Amtrak's total debt grew by $3.1 billion, from $1.7 billion to $4.8 billion, representing an overall increase of 178 percent (see Figure 13).  Amtrak faces formidable challenges in meeting its rapidly growing debt service.

*Figure 13. Amtrak's Short-Term and Long-Term Debt and Capital Lease Obligations*
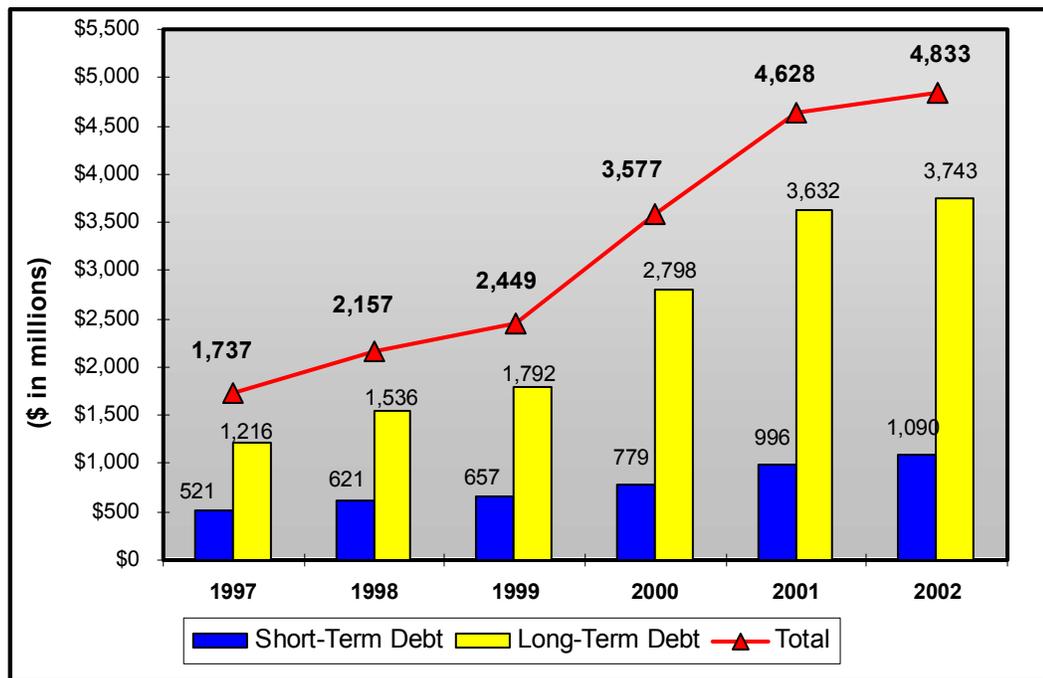


**For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:**

- *Amtrak's Financial Condition*

- *Amtrak's Performance, Budget, and Passenger Rail Service Issues*

- *2001 Assessment of Amtrak's Financial Performance and Requirements*

- *2000 Assessment of Amtrak's Financial Performance and Requirements*

# 7 Ensuring Highway Safety as the Southern Border Is Opened to Mexican Motor Carriers Under NAFTA

As Mexican trucks and buses begin to operate throughout the United States as provided in the North American Free Trade Agreement (NAFTA), the key to a successful oversight program will be effective use of safety inspection resources and implementation of procedures. This will require:

a. ***Reevaluating Overall Resource Requirements for the U.S.-Mexico Border***, including inspection staff and facility requirements, based on the amount of long-haul traffic that materializes. As of January 2, 2003, the Federal Motor Carrier Safety Administration (FMCSA) has received 162 applications from Mexican carriers requesting long-haul authority. However, no one knows how many Mexican motor carriers will ultimately apply for and be granted authority to operate long-haul vehicles. As that traffic materializes, FMCSA will need to assess the adequacy of its inspection resources, including those beyond the border States.

b. ***Monitoring the Safety Performance of Mexican Motor Carriers and Drivers.*** FMCSA needs to implement motor carrier and driver monitoring systems and ensure that all Federal and state inspectors have access to current, accurate, and timely information on drivers, vehicles, and motor carriers. Our work has found that, as the number of inspections of Mexican commercial vehicles seeking to enter the U. S. commercial zones increased, the percentage of vehicles that had to be placed out of service for safety

## Figure 14. Commercial Vehicle Out-of-Service Rates



and other violations declined (from 44 percent in FY 1997 to 34 percent in FY 2001 as shown in Figure 14). The out-of-service rate for commercial
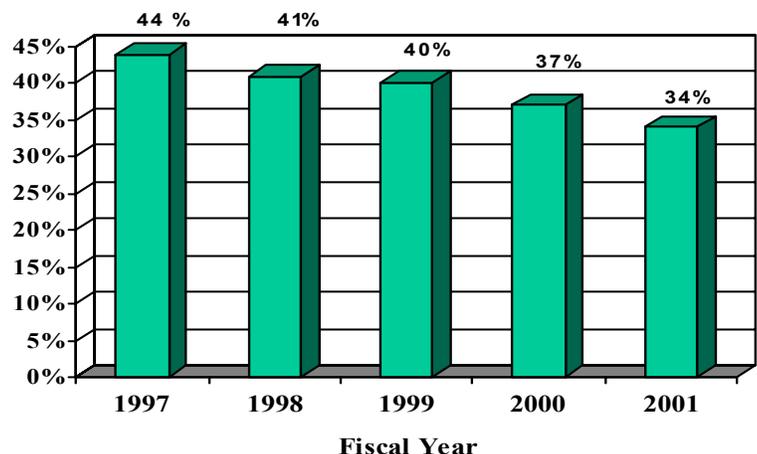
vehicles inspected nationwide in the United States has been about 24 percent since 2000.

   ***c. Placing Commercial Vehicles Out of Service in Any State Where They Operate Improperly.*** In August 2002, FMCSA issued a new rule that requires the states to place Mexican commercial vehicles out of service if they do not have U.S. operating authority. FMCSA needs to ensure that all states implement the new rule and have access to timely information to determine if Mexican commercial vehicles are operating improperly, such as whether they have been authorized to operate beyond the commercial zones. (Commercial zones at the U.S.-Mexico border generally extend from 3 to 20 miles north of U.S. border cities.)

**For further information, the following reports can be seen on the management challenges page of the OIG web site, at <u>http://www.oig.dot.gov/challenges</u>:**

- *Implementation of Commercial Motor Carrier Safety Requirements at the U.S.-Mexico Border*

- *Implementation of Commercial Vehicle Safety Requirements at the U.S.-Mexico Border*

- *Motor Carrier Safety at the U.S.-Mexico Border*

- *Status of Implementing the North American Free Trade Agreement's Cross Border Trucking Provisions*

# 8 Strengthening Computer Security and Investment Controls for DOT's Multi-Billion Dollar Information Technology Investment

In support of the President's Management Agenda to better and more fully use information technology (IT) in providing services to the public, DOT needs to strengthen computer security and IT investment controls on a Department-wide basis. This must be done with a view toward cost-effective system acquisitions and reducing system vulnerabilities to cyber attacks. DOT is responsible for one of the largest IT investment portfolios among civilian agencies. Excluding TSA and Coast Guard, DOT has an annual IT budget around $2.5 billion and invests 2 to 3 percent of its IT budget in computer security, as shown in Figure 15.

### *Figure 15. DOT Computer Security Funding as a Percentage of Total IT Investment (in millions)*
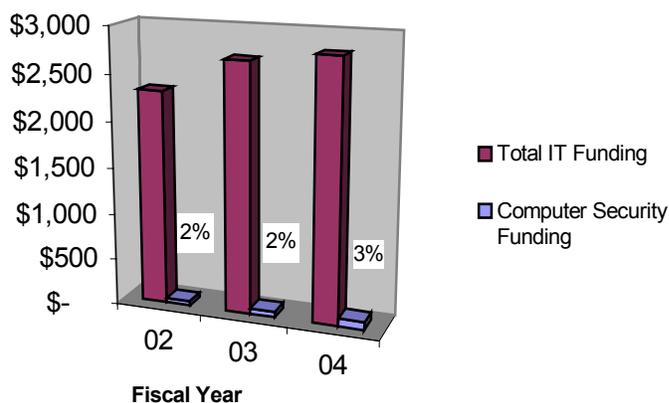


**Fiscal Year**
(Source: Exhibit 53--IT Portfolio)

DOT reported its information security program as a material internal control weakness under the Federal Managers' Financial Integrity Act last year, and the Congress recently gave DOT's computer security an "F." In the past year, there have been some noteworthy improvements such as adding intrusion detection systems and more sophisticated firewall security. Still, our work shows that further actions remain necessary, and DOT systems remain at risk. For example, hundreds of vulnerabilities were found on DOT web sites during FY 2002, as shown in Figure 16. These vulnerabilities were rated as high, medium, and low. They provided opportunities for attackers to gain unauthorized access to DOT computers. High vulnerabilities may provide an attacker with immediate access into a computer system by executing remote commands. Medium and low

vulnerabilities may provide an attacker with useful information, such as password files, to compromise DOT computers. DOT immediately took corrective actions on the vulnerabilities we found. Also, starting in FY 2003, DOT is using a commercial scanning tool to check all web sites for potential vulnerabilities.

*Figure 16. Vulnerabilities Found on DOT Web Sites in FY 2002*
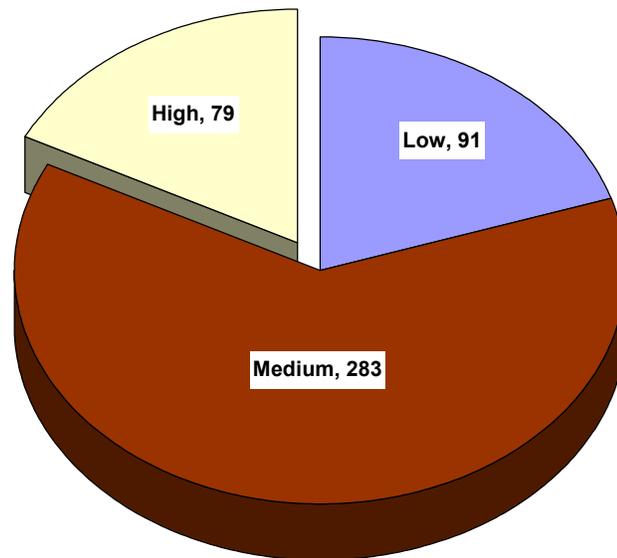


During the coming year, DOT should strengthen this important aspect of its infrastructure by:

a. ***Appointing and Empowering a Chief Information Officer (CIO).*** This position, which has been vacant for the last 2 years in spite of the Department's recruitment efforts, must be filled to provide strong leadership in this vital area. In addition, DOT needs to provide the CIO with the authority to carry out the intended mission and to hold the Operating Administrations accountable for following the CIO's guidance. In the past, the Operating Administrations have not effectively implemented the guidance and have not been held accountable for doing so.

b. ***Securing Network Entry Points and Infrastructure-Critical Assets.*** With extensive reliance on computers for critical, high-visibility functions such as controlling air traffic, DOT must properly control access to its own computer systems, and these systems must be adequately secured from intruders. A simple and effective management control is to periodically perform reviews to certify that major computer systems are adequately secured. However, DOT has made limited progress by having completed such reviews on only 112 of 528 mission-critical systems during FYs 2001 and 2002. DOT has to double the number of system certification

reviews in the upcoming years in order to meet the Department's goal of having all mission-critical systems certified for adequate security by December 2005, as shown in Figure 17.

## Figure 17.  Certification and Accreditation of Mission-Critical Systems (Excluding TSA & Coast Guard)
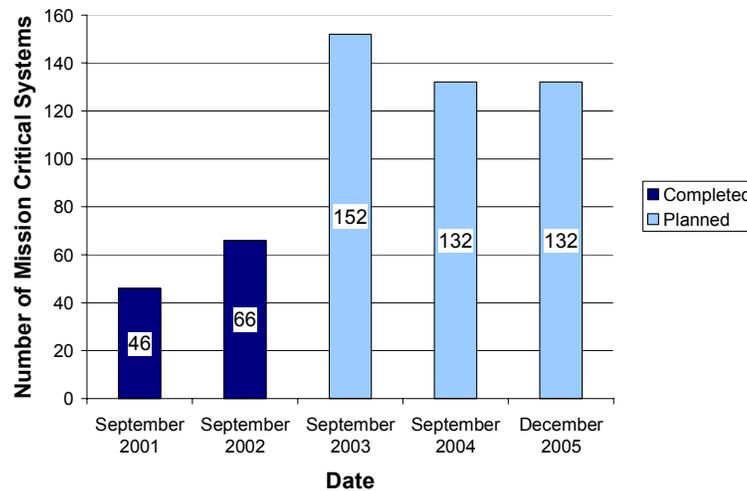


c. **Increasing Departmental Oversight of IT Investments Through the Capital Planning Process.**  While DOT is responsible for one of the largest IT investments among civilian agencies, the departmental CIO has little oversight over these investments.  Over 90 percent of IT investments are controlled by the Operating Administrations.  In 2002, DOT issued new IT capital planning guidance that established a DOT Investment Review Board chaired by the Deputy Secretary with assistance from the CIO and other departmental senior officials to review major IT investment decisions.

Establishing the Investment Review Board is a step in the right direction to implement this cultural change in DOT.  However, to ensure that the Board could influence major IT investment decisions, DOT needs to take other initiatives such as obtaining explicit senior management support from the Operating Administrations, issuing clear guidance to identify investments for review, and developing a system to implement decisions issued by the Board.

***For further information, the following reports can be seen on the management challenges page of the OIG web site, at [http://www.oig.dot.gov/challenges](http://www.oig.dot.gov/challenges):***

- *Computer Security Challenges Within the Department of Transportation*

- *DOT Web Security*

- *DOT Information Security Program*

- *Computer Security and Operational Stability of FAA Labor Distribution (Cru-X) System*

- *DOT Consolidated Financial Statements for Fiscal Years 2001 and 2000*

- *Replacement of FAA Telecommunications Systems*

- *DOT Web Privacy*

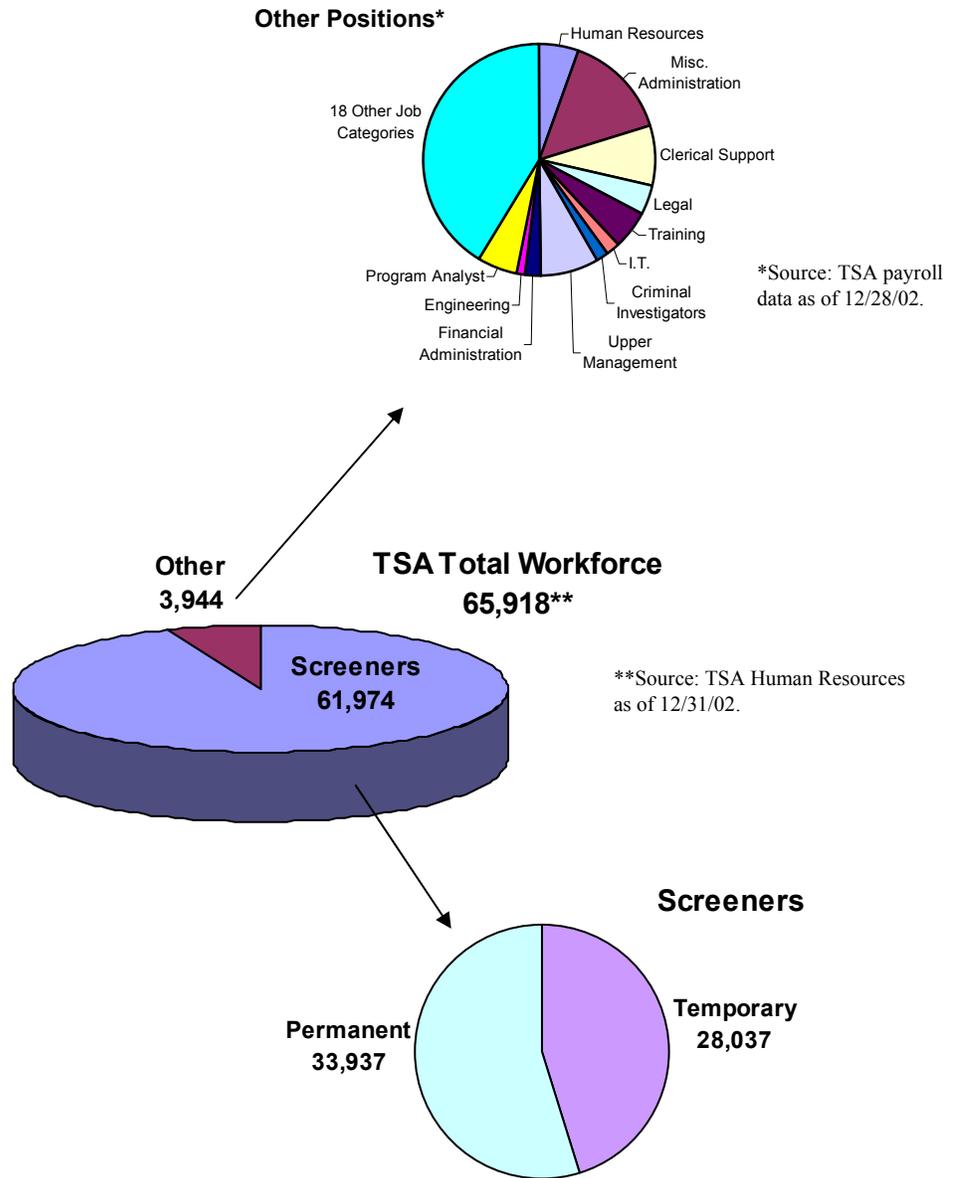# 9 Continuing to Improve Transportation Security

TSA efforts for 2002 mostly focused on addressing aviation security and meeting deadlines established in the Aviation and Transportation Security Act. TSA met the unprecedented challenge to hire and train a federalized workforce to screen all passengers and their carry-on baggage by November 19, 2002, and, for the most part, to deploy the necessary equipment and federalized workforce to meet the December 31, 2002 deadline to screen all checked baggage. At the same time, TSA significantly expanded the Federal Air Marshals program with more flights being guarded now than any time in history.

However, TSA's work is not done. Until TSA is transferred to the Department of Homeland Security in March 2003, DOT must continue to take the lead for the Government's increased aviation security responsibilities, including completing deployment of explosives detection equipment to the remaining airports where alternate screening methods are employed, and developing plans for expanding security in all modes of transportation. After that, the primary responsibility will move with TSA to the new Department of Homeland Security. To solidify progress made thus far, TSA needs to:

a. ***Train and Effectively Manage Airport Security Personnel.*** Since January 2002, TSA has hired and trained nearly 62,000 screeners responsible for screening passengers and their checked and carry-on baggage. The next challenge is ensuring that this large and in some cases inexperienced workforce retains and expands its skills and quickly becomes a world-class security force. However, before it begins expanding the screener skill set, TSA must first execute a screener performance measurement system in order to know where and how to best concentrate its training efforts.

TSA could face a significant challenge in training the screening workforce, as it balances the training needed to expand the skills of the current workforce with the training needed for new hires. Also, more than 45 percent of current TSA screeners were hired as "temporary" employees. TSA will either have to transition this staff into more permanent positions or replace them with new employees with additional training needs. In terms of overall numbers, Figure 18 depicts the composition of the TSA workforce.

## Figure 18.  TSA Workforce Composition

**Other Positions***

- Human Resources
- Misc. Administration
- Clerical Support
- Legal
- Training
- I.T.
- Criminal Investigators
- Upper Management
- Financial Administration
- Engineering
- Program Analyst
- 18 Other Job Categories

*Source: TSA payroll data as of 12/28/02.

**Other
3,944**

**TSA Total Workforce
65,918****

**Screeners
61,974**

**Source: TSA Human Resources as of 12/31/02.

**Screeners**

Permanent
33,937

Temporary
28,037

**b. Effectively Deploy Advanced Security Technologies at Airports Nationwide.** Although TSA made every effort to meet the December 31st deadline to screen all checked baggage using explosives detection equipment, deployment of the equipment was not completed at all the Nation's commercial airports. At airports not completed, TSA exercises its authority to implement alternate screening methods. However, these

alternate methods are only short-term, temporary solutions for screening checked baggage as TSA continues on with its deployment efforts.

To meet the deadline, an estimated 1,100 explosives detection systems (EDS) and 6,000 explosives trace detection machines are being deployed at airports nationwide. TSA executed a two-phase deployment approach. The initial phase is an interim solution for screening all checked baggage where some airports will use EDS, with trace machines used only for resolving alarms; others will use trace machines exclusively; and some will use a mix of EDS and trace machines to screen checked baggage.

In phase two, at a future date not yet established, TSA will move the EDS machines into baggage systems at the largest airports. It is unclear how much this will cost and who will have to pay for it. TSA needs to ensure that equipment is properly integrated into airport baggage systems, and that it can be relied on to perform as expected.

c. ***Control Costs for Security Spending.*** TSA faces significant challenges in providing effective security in a way that avoids waste of taxpayer dollars. TSA initially focused its resources on hiring and training a screening workforce and deploying sufficient EDS. This was an enormous undertaking requiring billions of dollars by an organization building from the ground up with no management infrastructure in place. TSA has made interim adjustments along the way to compensate for this lack of infrastructure, such as contracting with the Defense Contract Management Agency to administer the airport screener contracts. Now, TSA faces the challenge of building the infrastructure to monitor and control costs, especially given the large number and dollar volume of contracts it is managing, about $8.5 billion at the end of calendar year 2002 and continuing to grow. There has also been growth on individual contracts. An example of a significant cost growth is the contract with NCS Pearson for hiring of screeners and human resources support from February to December 2002. The initial contract cost of $104 million grew to an estimated $700 million.

TSA has requested $5.3 billion for FY 2003, which consists of an original budget request of $4.8 billion, plus a budget amendment request of $546 million. These requirements are against projected revenues from the security fee of $1.7 billion. Clearly, TSA will require a large infusion of cash from the General Fund at a time when the General Fund is already strained to pay for vastly increased fiscal needs throughout the Federal Government. Within this context, the need for TSA to build cost control mechanisms into its infrastructure is critical. Since TSA is expected to move to the Department of Homeland Security by March 1, 2003, controls

are important now in terms of defining the scope of its missions, establishing employee compensation, controlling salaries, overseeing contracts, and utilizing space at airports. Once TSA moves to the Department of Homeland Security, it will have the opportunity to build upon existing infrastructure from other Operating Administrations within the new Department.

Over the last few months, TSA has recognized the need for better contract administration and has implemented increased controls over some key contracts. In its 2002 Federal Managers' Financial Integrity Act report to Congress and the President, DOT reported a material weakness in TSA's administration of airport screener contracts. As we recommended, TSA hired the Defense Contract Management Agency to administer the airport screener contracts and also hired the Defense Contract Audit Agency to audit costs of the airport screener contracts, the NCS Pearson contract, and other major contracts.

**d. Strengthen Security in Transit, Rail, Motor Carrier, and Ships.** Although much of the emphasis thus far has been on aviation security, TSA is also responsible for security for the Nation's 3.9 million miles of public roads, 2.2 million miles of oil and natural gas pipelines, 120,000 miles of major railroads, 5,000 public use airports, 550 transit operators, and 350 ports on the coasts and inland waterways. To strengthen the security of the transportation system, TSA needs to develop meaningful risk assessments that recognize known as well as evolving threat scenarios and target limited resources to the areas of greatest vulnerability, as well as develop an integrated strategic plan to prioritize funding needs. DOT and TSA need to finalize Memorandums of Agreement between TSA and DOT Operating Administrations outlining their respective security roles and responsibilities.

*For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:*

- *Progress in Implementing Provisions of the Aviation and Transportation Security Act*

- *Key Challenges Facing the Transportation Security Administration*

- *Key Budget Issues Facing the Transportation Security Administration*

- *Key Issues Concerning Implementation of the Aviation and Transportation Security Act*

# 10 Meeting Coast Guard's Safety and Security Missions

In the aftermath of September 11th, homeland security was elevated to be commensurate with Coast Guard's highest operational priority, its search and rescue mission. In the coming year, the Coast Guard must decide how it can best meet its continuing missions. At the same time, the Coast Guard is also embarking on a capital acquisition—the Deepwater Capability Replacement Project—that is monumental in scope and central to accomplishing all of its missions. As this acquisition was planned prior to September 11th, the Coast Guard needs to update the requirements for this project in light of its enhanced security responsibilities, and because it could potentially impact other Coast Guard missions and other planned capital investments. In the coming year, Coast Guard needs to:

a. ***Find the Correct Balance Between the Newly Elevated Security Mission, the Search and Rescue Mission, and Its Other Traditional Core Missions.*** Immediately after the September 11th terrorist attacks, Coast Guard redeployed 58 percent of its resources to the security of the Nation's ports, waterways, and coastal areas. While the immediate redeployment demonstrated Coast Guard's flexibility and multi-mission capabilities in meeting urgent national priorities, it diverted substantial resources from other traditional core missions such as marine environmental protection, fisheries enforcement, aids to navigation, and illegal migrant interdiction. Coast Guard has since redistributed its resources to provide a better balance among its various missions and has indicated that in FY 2003 it will maintain this balance by devoting 27 percent of its resources to its security mission. The Homeland Security Act requires Coast Guard to ensure there are no substantial reductions in its missions or capability to perform them.

b. ***Stabilize Requirements for the Deepwater System Procurement and Develop a Realistic and Affordable Capital Investment Plan.*** The Coast Guard is implementing the largest acquisition project in its history—the Integrated Deepwater System Project—to replace or modernize its deepwater ships and aircraft used in homeland security, search and rescue, drug interdiction, the interception of illegal immigrants, fisheries regulation, defense operations, and other at-sea operations.

Complicating this procurement is the fact that the $17 billion Deepwater system was planned prior to September 11th. However, significant changes in Coast Guard's mission requirements since that time will require Coast Guard to reevaluate certain aspects of the Deepwater project. For example,

Coast Guard is considering arming more of its helicopters and adding more secure information handling capabilities. Despite this, no changes were made to project requirements before the contract was awarded in June 2002. Coast Guard is also exploring an acceleration of the Deepwater project in response to the Homeland Security Act that could increase annual capital funding requirements. It is unclear the extent to which the Coast Guard's enhanced security role will affect the procurement's timetable and budget requirements.

The Coast Guard needs to update and stabilize its requirements for the Deepwater project. This is especially important because the project's cost growth could consume more funding. Even at the current annual level of $500 million, Deepwater consumes the vast majority of the Coast Guard's projected capital budget. Coast Guard must also fund the modernization of the National Distress and Response System (NDS—the 911 system for mariners in distress); replacement of Coast Guard's utility boat and buoy tender fleet; preservation of Great Lakes and polar ice breaking capability; modernization of aids to navigation; and rehabilitation of aged buildings, piers, and other shore facilities (see Figure 19).

### Figure 19.  Five Year Capital Investment Plan

(millions of dollars, budget year dollars)

| Project | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|---|---|
| Deepwater | $500 | $550 | $562 | $574 | $606 |
| NDS | $90 | $134 | $137 | $74 | $0 |
| Other* | $146 | $68 | $70 | $138 | $198 |
| **Total** | **$736** | **$752** | **$769** | **$786** | **$804** |

  *  Such as rehabilitating shore facilities and replacing small boats used for search and rescue.

To preserve the overall integrity of its capital plan, the Coast Guard needs to make some tough decisions now before further proceeding with the Deepwater procurement.

***For further information, the following reports can be seen on the management challenges page of the OIG web site, at [http://www.oig.dot.gov/challenges](http://www.oig.dot.gov/challenges):***

- *U.S. Coast Guard Budget and Management Issues (March 19, 2002)*

- *U.S. Coast Guard Budget and Management Issues (February 14, 2002)*

- *Planning Process for the National Distress and Response System Modernization Program*

- *Coast Guard Small Boat Station Search and Rescue Program*

- *U.S. Coast Guard Fiscal Year 2002 Budget Request for Modernization*

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In addition to being published as an OIG report, this year's report will, by law, be incorporated into DOT's Accountability Report, which will be delivered to Congress and the Office of Management and Budget in January 2003 and is designed to provide a comprehensive overview of the Department's performance and financial status.

If you have any questions concerning this report, please call me at (202) 366-1959; Todd J. Zinser, my Deputy, at (202) 366-6767; or Alexis M. Stefani, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1992.

#

**Exhibit. Comparison of 2003 and 2002 OIG Top Management Challenges Lists**

| Items in 2003 List | Related Items in 2002 list |
|---|---|
| Accomplishing DOT's Core Missions of Safety and Mobility During and After an Effective Transition of TSA and Coast Guard | None |
| Reducing Fatalities and Injuries on Our Highways, Emphasizing Seat Belt Law Enforcement | Implementing TREAD Act Provisions to Improve Detection of Motor Vehicle Safety Defects and Identifying Strategies to Achieve Goals for Increasing Seat Belt Use |
| Reducing the Risk of Aviation Accidents Due to Operational Errors and Runway Incursions<br><br>Reversing FAA's Spiraling Operating Costs, Improving Aviation System Capacity, and Reauthorizing AIR-21 | Following Through on Aviation Safety, Capacity, and Modernization Efforts in a Post 9/11 World |
| None | Implementing the Airline Stabilization Act and Addressing Changes in the Competitive Structure of Air Services, Including Service to Small and Medium-Sized Communities |
| Clamping Down on Fraud, Obtaining Better Value in Highway and Bridge Investments, and Reauthorizing TEA-21 | Substantially Strengthening Oversight of Federal Highway and Transit Funds to Ensure Funds Are Used Effectively and Efficiently and Are Protected From Fraud, Waste, and Abuse |
| Determining the Future of Intercity Passenger Rail | Deciding the Appropriate Structure and Funding of Intercity Passenger Rail Service, Including the Future of Amtrak |
| Ensuring Highway Safety as the Southern Border Is Opened to Mexican Motor Carriers Under NAFTA | Ensuring Motor Carrier Safety at the U.S.-Mexico Border and Improving Oversight of the Commercial Drivers License Program |
| Strengthening Computer Security and Investment Controls for DOT's Multi-Billion Dollar Information Technology Investment | Addressing Department-wide Management Practices and Managing Program Performance (Presidential Management Initiatives; Computer Security; Contract Oversight; New Financial Systems; Government Performance and Results Act; and the Transportation Administrative Service Center) |
| Continuing to Improve Transportation Security | Strengthening Transportation Security and Establishing the Transportation Security Agency |
| Meeting Coast Guard's Safety and Security Missions | Stabilizing Coast Guard's Missions and Budget Requirements in Light of Post 9/11 Priorities |
| None | Improving Performance in Maritime Administration's Title XI Loan and Ship Scrapping Programs |