

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

United States Senate

For Release on Delivery
expected at
10:00 a.m. EST
Thursday
March 9, 2000
Report Number: TW-2000-064

Management Oversight Issues

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



Mr. Chairman and Members of the Subcommittee: We appreciate the opportunity to appear today to discuss the major management issues facing the Department of Transportation (DOT).

Last year, we testified before this Subcommittee on what we then saw as the top 10 management issues facing DOT. At the request of Congressional leadership, we updated our list and prepared a new report outlining the top 12 significant issues facing DOT. This report, issued in December, includes the Department's progress in the last year. Copies of the report have been provided to the Subcommittee as part of my written statement.

The 12 items on this year's list are:

- **Aviation Safety** – The Federal Aviation Administration (FAA) must proactively address aviation safety issues such as growth in the number of runway incursions and operational errors.
- **Surface Transportation Safety** – The Department must effectively implement new enforcement tools and other improvements to the commercial driver's license program resulting from the Motor Carrier Safety Improvement Act of 1999, better coordinate the hazardous materials programs of the various Operating Administrations, and target its efforts to reduce rail-highway grade crossing accidents with proven, cost-effective strategies.
- **Air Traffic Control Modernization** – Problems persist with technologically challenging systems, such as the Wide Area Augmentation System (WAAS) and Standard Terminal Automation Replacement System (STARS). These two systems alone have cumulative estimated program costs of over \$4 billion, and are experiencing cost and schedule difficulties. For example, WAAS is experiencing software and hardware problems that will have significant cost and schedule implications that have yet to be determined. Consequently, WAAS will not meet the September 2000 milestone for initial operating capability. The STARS schedule has been impacted by the software development needed to resolve computer-human interface issues and other new requirements. The last full service STARS is now planned to be deployed by September 2008, over 3 ½ years behind schedule.
- **FAA Financing** – Congress is getting closer to finalizing a new authorization bill for FAA. The proposed package includes \$40 billion over 3 years with large increases for airport improvements and air traffic modernization. While the increases represent a significant investment opportunity for aviation infrastructure, additional funding alone is not the only solution. FAA will need

to contain the growth in operations costs, provide for greater risk sharing with contractors, and expedite an accurate cost accounting system.

- **Surface, Marine, and Airport Infrastructure Needs** – It is imperative that the historic levels of expenditure on transportation infrastructure, amounting to \$50 billion in FY 2000 alone, be effectively monitored. We recently reported that trends in construction cost on the Central Artery could raise the cost of that project by up to \$942 million. Last October, both FHWA and project officials rejected our projections. Then, on February 1, 2000, FHWA accepted the project's latest Finance Plan. Later that same day, the project announced a \$1.4 billion cost increase that was not reported in the Finance Plan. If the FHWA's oversight had been effective, they would have known about cost increases as they were occurring, and certainly before they accepted the project's Finance Plan.
- **Transportation Security** – FAA must continue to improve its oversight of aviation security, particularly in areas such as airport access controls and the effective use of baggage screening equipment. In surface transportation security, DOT must begin to develop a comprehensive research strategy and the ability to perform meaningful risk assessments.
- **Computer Security** – DOT needs to perform risk/vulnerability assessments on its critical computer systems and use these assessments to prioritize its work in addressing computer system vulnerabilities.
- **Financial Accounting as Related to the CFO Act** – After 9 years of work and because of extraordinary efforts in the last 2 years, DOT was able to support all material line items in its FY 1999 Consolidated Financial Statements, thereby earning DOT its first “clean” audit opinion. These Consolidated Financial Statements show DOT and its Operating Administrations had assets of \$76 billion, liabilities of \$30 billion, operating costs of \$42 billion, and total budget authority of \$57 billion. While significant progress has been made in improving the financial records, DOT still needs to make major improvements in its financial management systems.
- **Amtrak Financial Viability/Modernization** – Amtrak still faces major challenges to its goal of operating self-sufficiency: 1999 cash losses were higher than expected, implementation of high-speed train service has been delayed; and there are significant capital investments which must be made to protect Amtrak’s future safety and potential profitability.

- **The United States Coast Guard’s (USCG’s) Deepwater Asset Replacement Project** – The Coast Guard faces a challenge in developing an acquisition and budgeting strategy for replacing its Deepwater aircraft, vessels and related equipment. These assets will reach the end of their useful lives over the next 30 years. It is expected to cost \$9.8 to \$15 billion to replace this capability. The question is not whether Deepwater assets have to be replaced or modernized, but how, when, and at what cost.
- **The Maritime Administration’s (MARAD’s) Ship Scrapping Program** – MARAD, the Administration, and Congress need to consider how MARAD can best dispose of the 110 vessels it currently has slated for disposal (many of which pose significant environmental dangers). Overseas sales have been halted, there is limited capacity in the domestic ship scrapping industry, and MARAD is required by law to dispose of these ships in a manner that brings the greatest financial return to the Federal Government. The approach of selling vessels for scrapping will not work in today’s marketplace. MARAD will need relief from the requirement to maximize financial returns and will need authorization and funding for a program similar to a Navy pilot project that is paying to have vessels scrapped.
- **DOT Implementation of GPRA** – For DOT to continue its success in implementing GPRA, it must improve the timeliness and reliability of its performance data.

In addition to the 12 management issues presented above, the state of service delivery in the aviation industry has developed into a major customer service policy matter. In order to apprise the Congress and the Secretary about the progress of airline efforts, we will be engaged this year in several important audits of the state of service delivery in the aviation industry. In my testimony today, I would also like to summarize for you the status of our work on airline flight delays and on airline pricing and customer service issues.

I. Changes From the OIG’s 1998 List of Top Priority Management Challenges

Our 1998 and 1999 lists are very similar. *We deleted only one item from the 1998 list:* Year 2000 Computer Issues. From mid-1997 to December 1999, DOT repaired, tested, implemented, and independently verified fixes to over 300 mission-critical systems. Contingency plans and command centers were

established in case of any Year 2000 problems. These were not needed, as all mission-critical DOT systems successfully transitioned to the year 2000.

We added two issues to this year's list: the United States Coast Guard's Deepwater Capability Replacement Project and the Maritime Administration's Ship Scrapping Project.

Coast Guard's Deepwater Capability Replacement Project. In its Deepwater Project, the Coast Guard proposes spending \$9.8 to \$15 billion over the next 20 years to replace or modernize all of the vessels and aircraft it uses 50 miles or more offshore. Current deepwater assets include 206 aircraft, 93 vessels, and related sensor, communications, and navigation systems. This represents 99 percent of the Coast Guard's aircraft and 100 percent of its vessels 110 feet and longer, excluding buoy tenders and icebreakers. Primary deepwater missions include search and rescue, drug interdiction, alien migrant interdiction, and fisheries law enforcement.

In 1996, the Coast Guard received Departmental approval to proceed with the design of the Deepwater Project. Through fiscal year 2000, a total of \$75 million has been appropriated for project planning and preliminary design. For fiscal year 2001, \$42.3 million has been requested to allow the Coast Guard to finish the planning phase and prepare its acquisition strategy. For fiscal year 2002, the

Coast Guard anticipates requesting \$350 million to begin the Deepwater acquisition.

The Coast Guard's Deepwater assets will reach the end of their useful lives over the next 30 years. The question is not whether they have to be replaced or modernized but how and when. However, the planning phase for the project will not be completed in time to support the fiscal year 2002 budget request. Coast Guard will have to reconcile how it can proceed with a budget request in advance of completing the planning process. An important subsidiary issue is how priorities will be established within annual fiscal limitations. Three options are to: defer the anticipated \$350 million fiscal year 2002 Deepwater budget request until the results of the planning process are known; expedite the planning process to identify the most critical deepwater needs and justify the fiscal year 2002 budget request on that basis; or use information available to develop a current cost and schedule estimate for the project that identifies anticipated acquisitions and use that to justify the fiscal year 2002 request.

MARAD's Ship Scrapping Project. The Department, the Administration, and the Congress also face a challenge in determining how to dispose of MARAD's fleet of environmentally dangerous vessels in a timely manner. MARAD currently has 110 vessels in its fleet awaiting disposal, with 88 of these vessels slated specifically for scrapping. The average age of these vessels is 46 years, and they

have been awaiting disposal for an average of 13 years. Forty of these vessels are considered “worst condition.” These vessels are literally disintegrating.

Environmental dangers associated with MARAD’s deteriorating vessels increase daily. These ships contain hazardous substances such as asbestos and solid and liquid polychlorinated biphenyls. These vessels also contain oil that, if leaked into the water, would require immediate Federal and State action. MARAD has applied over 20 patches to leaks, removed hazardous materials, and pumped oil out of one vessel in the James River Reserve Fleet that is over 30 years old. That vessel is disintegrating to a point where it will not be seaworthy much longer.

Given the small size of the domestic ship scrapping industry and the Administration’s policy against using foreign ship scrapping facilities (which have poor environmental records), MARAD will likely need relief from the legislative requirement that it dispose of all obsolete vessels by 2001 in a way that maximizes financial return to the Government. MARAD would also benefit from authorization and funding for a program similar to a Navy pilot project, which pays for ship scrapping.

This year’s list has one other change. Last year our list cited Transportation and Computer Security as one issue. In view of the significance of both of these issues, we identified them separately in this year’s report.

Transportation Security. The U.S. transportation system includes 3.9 million miles of public roads, 1.5 million miles of oil and natural gas pipelines, 123,000 miles of major railroads, over 24,000 miles of commercially navigable waterways, over 5,000 public-use airports, 508 transit operators in 316 urbanized areas, and 145 major ports on the coasts and inland waterways. Over the last several years, the changing threat of terrorist and other criminal activities has heightened the need to improve domestic transportation security over these vital transportation assets.

The need to protect aviation security has long been recognized. Over 450 airports and 290 air carriers are subject to Federal Aviation Regulation security requirements and have FAA-approved security programs. More than 500 FAA security field agents monitor industry's compliance with these programs. Since 1997, FAA has also deployed more than 600 machines, at a cost exceeding \$250 million, for screening passenger checked and carry-on baggage. To improve its aviation security program, FAA should develop an integrated strategic security plan, work with the industry to improve airport access controls, and develop new requirements for issuing and accounting for airport identification media.

Surface transportation security issues, on the other hand, have not been a high priority. Also, the size and openness of surface transportation systems makes it much harder to develop appropriate, cost-effective security requirements.

Precisely because of their size and openness, however, surface transportation locations can become terrorist targets. For example, in March 1995, a cult released nerve agents in a Tokyo subway, and over 5,500 subway travelers required medical treatment. As a first step toward addressing these vulnerabilities, the National Research Council recommended that the Department work toward a surface transportation security strategy and develop the ability to perform meaningful risk assessments on surface transportation security threats.

Computer Security. The Department needs adequate computer security to ensure the integrity, confidentiality, and availability of its automated operations. The recent network attacks on major e-retailers demonstrate the need to re-examine this area in light of today's technology. While interconnected computer networks have made our operations more efficient, they also created new challenges for us. For example, we can no longer rely on physical isolation as our key safety net, which has been an important part of security for the Air Traffic Control Systems.

DOT, with \$2.7 billion in planned expenditures for fiscal year 2000, is responsible for the largest information technology investment among all civilian agencies. There are over 600 mission-critical systems in DOT, including safety-sensitive Air Traffic Control Systems, Coast Guard search and rescue systems, and financial management systems supporting the distribution of billions of dollars in grants.

Computer security comprises a wide range of work, from implementing sophisticated network tools to increasing employees' security awareness to performing proper background checks on people occupying key positions. To meet its responsibilities for secure computer operations, DOT should: perform risk assessments of its computer systems in order to prioritize use of limited resources, implement cost-effective protections for its critical systems, secure entry points to its interconnected network systems, and emphasize basics such as security training and background checks.

II. Items Continuing From the OIG's 1998 List

Eight items on last year's list are also on this year's list. They are: Air Traffic Control Modernization; FAA Financing; Aviation Safety; Surface Transportation Safety; Surface, Marine, and Airport Infrastructure Needs; Financial Accounting as Related to the Chief Financial Officers Act (CFO Act); Amtrak Financial Viability/Modernization; and DOT Implementation of the Government Performance and Results Act (GPRA).

Last month, at a joint hearing of this Subcommittee and the Senate Budget Committee, we testified on **Air Traffic Control Modernization** and **FAA Financing**. That testimony included detailed and updated discussions of our concerns in these areas, so we have not addressed them in this statement.

I would like to give you a short summary of the other six items continuing from last year.

Aviation Safety. The aviation industry expects continued growth in air traffic and closer spacing between airplanes due to increased demand and the implementation of new technologies. The key safety issues facing FAA include: ensuring that U.S. air carriers perform meaningful safety assessments on their foreign code share partners; using training and new technology to reverse the upward trend of runway incursions; reducing the number of air traffic operational errors and deviations; and working with the Congress to ensure passage of the FAA Reauthorization Act.

Surface Transportation Safety. Motor vehicle, railroad, and rail transit accidents account for over 42,000 deaths annually – more than 90 percent of all transportation-related fatalities. The Department’s first priority in this area is effective implementation of the Motor Carrier Safety Improvement Act of 1999. DOT must move quickly to establish the needed leadership in the new Federal Motor Carrier Safety Administration (FMCSA) and publish the 30 rulemakings FMCSA believes necessary to implement the new Act. These rulemakings would strengthen the commercial driver’s license program by enhancing the number and type of disqualifying violations, the enforcement of civil penalties, and reviews of new motor carrier operators.

In terms of railroad safety, DOT has made significant progress in reducing rail-highway grade crossing accidents and fatalities, which were once the leading cause of railway deaths. To continue this trend, DOT should target its limited resources to proven, cost-effective strategies, such as installation of median barriers preventing drivers from crossing tracks when a train is approaching.

The Department must also make adequate provisions for the safe transport of hazardous materials. While the probability of a serious hazardous materials incident is low, the consequences of such an incident can be catastrophic, as evidenced by the 1996 ValuJet crash in Florida. The Department is about to issue a Hazardous Materials Program Evaluation (HMPE), which will recommend establishing a central focal point to administer and deliver a DOT-wide hazardous materials program. This DOT-wide program would focus more outreach and inspection resources on shippers who introduce hazardous materials into the transportation stream and strengthen standards to ensure that all employees handling hazardous materials are adequately trained.

On the issue of pipeline safety, there is a critical need to ensure that DOT continues to enforce pipeline safety laws and implements recommendations that could further strengthen pipeline safety programs. Issues to be considered during reauthorization include: requiring Research and Special Programs Administration (RSPA) to comply with outstanding Congressional mandates to revise the

inspection process; expanding the focus of RSPA research to include “smart pigs” that can detect seam weld defects and alternative pipeline inspection technologies for pipelines that cannot accommodate smart pigs; training RSPA safety inspectors on the capabilities and use of pipeline inspection technologies; and implementing revisions in the collection of pipeline accident data to expand accident causal categories for more detailed trend analysis.

Surface, Marine, and Airport Infrastructure Needs. The Transportation Equity Act for the 21st Century (TEA-21) guarantees a minimum of \$198 billion in Federal funds for surface transportation infrastructure in fiscal years 1998 through 2003.

Since the oversight of TEA-21 projects has shifted to grantees, resulting in less direct Federal Government control over infrastructure projects, there is a need to identify and apply best practices to major projects and find systemic solutions to problems. For example, DOT needs to: require and closely examine finance plans for all large infrastructure projects; establish criteria for finance plans to ensure complete and consistent reporting of basic standardized financial data in the plans; monitor project performance and mitigate funding risks for infrastructure projects to protect the Government’s financial interests as soon as problems are identified; and continue to promote owner-controlled insurance programs that can reduce program costs, while ensuring that Federal

reimbursement for these programs is limited to the amounts actually needed to purchase insurance coverage or pay claims.

Also, as the results of OIG investigations demonstrate, vigilance must be improved across the Federal, state and grantee levels, in order to thwart fraud against TEA-21 funds.

In terms of airport infrastructure, FAA must exercise adequate oversight to ensure that airport revenues are reasonably established and that funds are used for eligible purposes. FAA must also ensure that airport sponsors require that their annual audits cover airport revenue use. The most important priority to support this and other aviation issues, is passage of the FAA Reauthorization Act.

Financial Accounting as Related to the Chief Financial Officers (CFO) Act.

During fiscal year 1999, DOT made extraordinary and labor-intensive efforts to overcome its accounting and financial system weaknesses. With these efforts, DOT was able to support the material items on its financial statements, thus earning an unqualified, or clean, audit opinion on the fiscal year 1999 Highway Trust Fund, FAA, and DOT Consolidated Financial Statements. Although getting a clean audit opinion was a major achievement, it is not the ultimate goal.

DOT still has to make long-term improvements in its financial management and accounting systems. If such improvements are not made, DOT will have to continue the same type of extraordinary, expensive, and labor-intensive efforts in the future. Such efforts are not sustainable for the long term and unnecessarily expend significant amounts of resources to maintain accurate records, which should be routinely produced by the accounting systems.

To its credit, DOT recognized several years ago that its financial systems do not meet today's needs. DOT is currently designing a new system, and plans to have a state-of-the-art, off-the-shelf commercial financial management system, with a cost accounting module, fully operational by June 30, 2001. FAA also is developing a separate cost accounting system for its management needs and to support user fee calculations. FAA's system is scheduled to be fully operational by fiscal year 2002.

Amtrak Financial Viability/Modernization. Amtrak's 1999 financial results show some progress, but still indicate the need for major improvement. Amtrak's cash loss last year was \$579 million, \$54 million higher than the 1998 cash loss and \$19 million worse than Amtrak had projected. Over half of the \$692 million in projections we considered to be "at risk" in the 1999 Business Plan represented investments and revenue placeholders for actions including the Market Based Network Analysis. This year, it is imperative that Amtrak begin to realize the

payoffs of such investments -- the small steps made the past 2 years must now be replaced with large strides. First quarter 2000 performance indicates these strides are slow in coming. Passenger revenues continue to lag, led by Intercity, which finished nearly \$11 million behind plan, \$2 million worse than the same period last year. Acela high-speed rail is critical to Amtrak's ability to reach operating self-sufficiency. The impact of delays in 2000 will be mitigated by offsetting expense savings and other means, but this should not understate how important it is for Amtrak to bring high-speed rail on line as soon as possible.

The criteria used to measure whether Amtrak has made its self-sufficiency goal needs to be defined: Amtrak will require capital funding after 2002 to continue operations of the railroad, and will not be able to fund depreciation, the costs of capital replacement, without Federal assistance. Allowing Amtrak to use capital funds for progressive overhauls will encourage Amtrak to make overhaul decisions based on good business practices, rather than what can be federally funded after 2002.

Amtrak's capital program should first address minimum needs before investing in high rate-of-return projects like new high-speed corridors. Although these investments are likely to result in revenues that will help Amtrak reach and sustain financial viability, Amtrak must first make the investments necessary to ensure the safe, reliable operations of the existing system. It will not have enough capital

funds available to do both. One of Amtrak's most pressing needs is the \$654 million unfunded fire and life-safety needs in Penn Station-New York and the associated river tunnels. Unless additional funding can be identified, the schedule for meeting these needs will extend to 2014. To ensure that these life-safety-requirements are completed in a timely manner, the Federal Railroad Administration (FRA) Administrator should work with Amtrak, New Jersey Transit, and the Long Island Rail Road to identify the necessary funding.

DOT Implementation of GPRA. DOT's first strategic and performance plans were rated by Congress as the best in the Federal Government. Further, in 1999, DOT had the foresight to do a dry run of preparing a performance report for the Congress by March 31, which will be the annual statutory due date starting in 2000. In the dry run, DOT was able to report prior year data for only 63 percent of its measures. Agency staff expect to be able to provide 1999 data for over 90 percent of the measures in the performance report they will submit to Congress this March 31.

To *continue* its GPRA success, the Department needs to continue to improve the reliability and timeliness of its performance data; face the challenge of having to accomplish some significant goals through States and other third parties; and ensure that the Operating Administrations set baselines, develop performance measures, and set performance goals for all important initiatives.

III. OIG Flight Delays and Airline Pricing and Customer Service Reviews

In addition to the 12 management issues presented, the state of customer service delivery in the aviation industry has developed into a major policy matter. At the request of the Congress, we have initiated three reviews in this area.

- Airline Flight Delays. Last summer, the increasing number of delayed and cancelled flights sparked sharp debate over the cause or causes of these delays and cancellations. FAA cited unusually bad weather as the primary culprit. In contrast, the airline industry held FAA responsible, citing several problems with air traffic control procedures and equipment outages. To gain a better insight into this important service delivery issue, this Subcommittee asked us to examine the sources of delays and cancellations and the factors that contribute to them. We are currently preparing our report and expect to issue it this Spring.
- Airline Pricing and Customer Service. The Transportation Appropriations Act of 1999 required the OIG to report on consumer access to lowest airfares and airline overbooking disclosure practices. We recently initiated a review to: identify the extent to which actual or potential barriers exist to consumer access to comparative price and service information; and determine the extent to which airlines fail to disclose to passengers or ticket agents whether flights are overbooked. In addition to airlines and travel agents, we will be exploring

these issues with Internet and other ticket distribution providers, consumer organizations, and aviation industry experts.

We have established an Internet web site and a toll free telephone number where consumers can submit descriptions of their travel experiences directly to us, and we will include an analysis of these experiences in our report. We expect to issue our findings later this year.

In December 1999, the Chairman of the Committee on Commerce, Science, and Transportation asked the OIG to review the domestic air carriers' customer service commitment plans. These plans describe what the airline will do in areas such as notifying passengers of known flight delays and cancellations; meeting customers' essential needs during long on-aircraft delays; improving on-time baggage delivery; providing prompt ticket refunds; and accommodating disabled and special needs passengers.

By mid-June, we will provide the Commerce Committee with an interim report on the completion, publication, and implementation of the airlines' Customer Service Commitment Plans and the individual air carriers' procedures to carry out their commitments. Our final report, due on December 31st of this year, will provide our evaluation on the quality of each air carrier's plan compared to the commitments. To date, we have visited the

corporate headquarters of each of the 14 air carriers included in our review. We are developing procedures for testing and evaluating the air carriers' implementation of the commitments.

This concludes my formal remarks. Thank you for inviting me to testify this morning. I would be happy to answer any questions the Subcommittee may have.