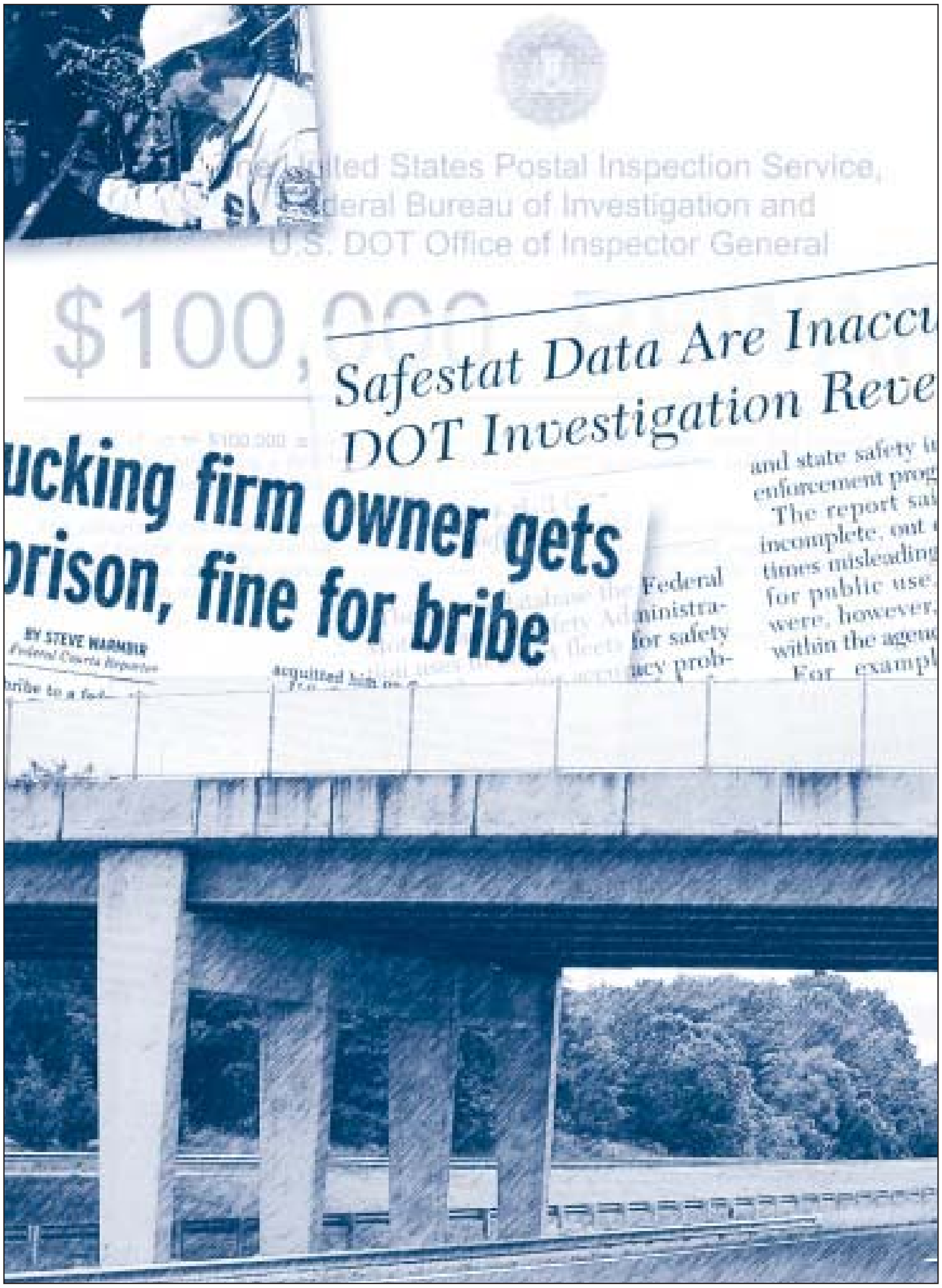
Office of Inspector General
U.S. Department of Transportation

Semiannual Report to Congress

OCTOBER 1, 2003 – MARCH 31, 2004

SEMIANNUAL REPORT TO CONGRESS

October 1, 2003 through March 31, 2004



Office of Inspector General ■ U.S. Department of Transportation

C O N T E N T S

FROM THE INSPECTOR GENERAL

I am pleased to present OIG's Semiannual Report to Congress for the six-month period ending March 31, 2004. I want to express appreciation to Secretary Mineta, Deputy Secretary Van Tine, modal Administrators, and Members and staff of Congress for their responsiveness to OIG recommendations for strengthening safety, improving program delivery, and maximizing efficiency.

■ **Aviation.** In terms of safety, both FAA and U.S. carriers have maintained a remarkable safety record. The 2003 Air Midwest crash in Charlotte was the only fatal commercial accident in the past two years. A significant challenge for FAA will be to adjust its safety oversight to trends in the industry, such as outsourcing maintenance.

As our airline industry metrics report illustrates, a critical challenge is how our system copes with increasing delays as the number of flights approach the levels experienced in 2000. Although systemwide delays have not yet reached 2000 levels, they are growing rapidly. In the first 5 months of 2004, the number of systemwide delays rose 33 percent over the same period in 2003, while delays in some key markets now exceed 2000 levels. Factors contributing to this either did not exist or were less prominent in 2000. Greater reliance on regional jets, expanded low-cost carrier service, and security screening requirements present new demands for our airports and airways.

Delays, such as those at Chicago's O'Hare, can radiate outward into the aviation system. Twice in the past year, DOT intervened to encourage the airlines to voluntarily reduce their schedules at O'Hare, but delays have continued to grow. In August, DOT and FAA convened a meeting with the domestic air carriers at O'Hare, reaching a voluntary agreement subsequently clarified in an FAA Order, to reduce the number of hourly flights for the six-month period from November 1, 2004 to April 30, 2005. Even if the airlines and the Administration are able to effectively reduce O'Hare delays through voluntary or administrative measures, we need to continue exploring other approaches as well, such as market-based solutions, which might be utilized for O'Hare and other airports faced with increasing delays.

While the number of air travelers has increased notably in recent months as demand continues to recover from the downturn following 9/11, there still remains a substantial decline in projected Aviation Trust Fund revenues. Current estimates for FY 2005 Trust Fund revenues are about $11.1 billion. FAA's FY 2005 budget request exceeds those revenues by nearly $3 billion. As several big ticket projects are ramping up, like En Route Automation Modernization and STARS, they will be competing against a host of other programs for available funds.

FAA faces the expected retirement of nearly half of its 15,000 air traffic controller workforce over the next decade. Whether FAA will need to replace them on a one-for-one basis depends on a variety of factors, including future air traffic levels, new technologies, and initiatives that FAA undertakes in hiring and training. Having a labor distribution system in place to provide critical data would help manage this surge by determining how many controllers are needed at each facility. While the system's deployment has been on hold for two years pending negotiations between FAA and the controllers' union, we are heartened that the Administrator recently committed to its implementation by June 2005.

■ **Surface Transportation.** Both FHWA and FTA continue to operate under short-term financing pending reauthorization of surface transportation programs. The debate has highlighted the overwhelming demand for transportation dollars at a time when less than anticipated revenue is flowing into the Highway Trust Fund, raising concerns as to whether funding levels will be sufficient to meet this demand.

In 2000, there were 16 FHWA and FTA projects in the mega projects category (costs estimated over $1 billion or with high congressional significance). Today, there are currently 41 active mega-projects, 15 highway and 26 transit, with a combined total cost estimate of $56 billion. There are another 34 proposed projects with a combined cost estimate of $57 billion.

Mass transit and passenger rail operators are facing the challenge of enhancing safety and security while carrying out their commercial function of keeping passengers on the move. Accordingly, we have begun to assess DOT's role and responsibilities in this area, the extent to which DOT and the Department of Homeland Security collaborate on security-related functions, and the effectiveness of DOT security funding.

Other noteworthy issues include:

■ **Pipeline security and safety:** RSPA's Office of Pipeline Safety has made significant progress in implementing NTSB recommendations and meeting congressional mandates, such as promulgating regulations requiring integrity management plans for hazardous liquid and natural gas transmission pipelines. However, it will be some years before the regulations are fully implemented nationwide. Further, one key segment of the system — the 1.8 million miles of natural gas distribution pipelines — is not required to have integrity management programs. Over the past decade, natural gas distribution pipelines have experienced four times the number of fatalities and three times the number of injuries than the combined totals for hazardous liquid and natural gas transmission pipelines.

■ **CDL Fraud:** We continue to find gaps in the commercial driver's license program. OIG investigators have identified schemes in 19 states involving thousands of drivers where examiners issued fraudulent CDLs in return for bribes. In addition, unlike applicants for hazardous material CDL endorsements, applicants for non-hazmat CDLs do not have to demonstrate U.S. citizenship or legal presence. Since nearly 70% of the 11 million CDLs issued since 1989 are for the non-hazmat category, this presents a large loophole. We recommended that all CDL applicants demonstrate that they are either a U.S. citizen or otherwise legally present in the United States.

■ **Highway Safety:** In light of the recent Supreme Court decision, we are reviewing FMCSA's readiness for ensuring that Mexican trucks and their drivers comply with U.S. safety standards once the border is fully opened. We also will issue our audit on whether NHTSA will be able to fully evaluate early warning data being submitted by vehicle and equipment manufacturers to detect early warning signs of potential defects that threaten public safety.

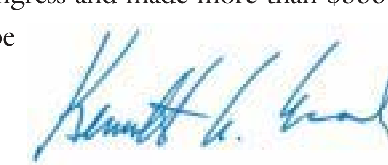
■ **Better utilizing and protecting taxpayer investments in highway and infrastructure projects:** We worked with the Secretary and Congress to propose several provisions in the House and Senate-passed TEA-21 reauthorization bills to enhance the oversight of major infrastructure projects and ensure the best use of taxpayer funds. OIG's third national fraud awareness conference in Seattle attracted officials from 45 states. Participants highlighted best practices for detecting and preventing fraud in highway and transit programs, which now account for 75% of our total contract and grant fraud caseload.

Motor fuel tax evasion drains money that would otherwise be available for infrastructure improvements from the Highway Trust Fund. For example, in June, a motor fuel distributor pled guilty to shortchanging the Trust Fund by more than $7.5 million in motor fuel excise taxes and three states by $10 million. Also, DOT must move more aggressively to deobligate the hundreds of millions of dollars that have sat idle on completed, cancelled, or modified projects, so these funds can be put to productive use on active projects.

■ **Financial accountability:** Working with the Secretary and modal administrators, the Department made significant progress in ensuring that taxpayer funds are spent effectively. For the third year in a row, DOT received a clean opinion on its FY 2003 financial statements, and it successfully completed the conversion throughout the Department to a new financial management system.

DOT must exercise vigilance to sustain this progress, as it faces the challenge of completing financial statements and obtaining a clean audit opinion by November 2004, under the accelerated OMB reporting deadlines. Corrective actions must also focus on the resolution of deficiencies existing in internal controls over financial management and reporting activities at FHWA and FMCSA.

Over the past 6 months, our investigative work resulted in 90 convictions and more than $24 million in fines, restitutions, civil judgments and recoveries. We also issued 39 audit reports, testified three times before Congress and made more than $553 million in financial recommendations that questioned costs and suggested how funds could be put to better use.



WORK PLANNED AND IN PROGRESS

This section describes major work the Office of Inspector General (OIG) has planned for the next reporting period — April through September 2004 — as well as work already in progress.

Aviation

Addressing Air Traffic Controller Attrition

Determine whether: (1) the Federal Aviation Administration (FAA) has identified future hiring requirements for air traffic controllers and if the agency's sources for filling controller vacancies will be sufficient to meet projected requirements; (2) FAA's on-the-job training effectively develops fully certified controllers in a timely and cost-effective manner; and (3) FAA's management of and controls over the air-traffic instructional services contract are adequate. Attrition in FAA's air-traffic-controller workforce is expected to rise sharply in upcoming years.

Safety Oversight of an Air Carrier Industry in Transition

Evaluate whether (1) FAA's monitoring of financially distressed air carriers is effective; (2) the Air Transportation Oversight System and the Safety Performance Analysis System provide the data and tools inspectors need to effectively monitor financially distressed air carriers; (3) FAA has effectively implemented procedures to heighten surveillance of low-cost air carriers during periods of growth or change; and (4) FAA is effectively using its risk-based surveillance-evaluation program to target identified risk areas and as an aid in allocating inspector resources for the oversight of low-cost air carriers.

Airport Modernization Plan

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

National Airspace Redesign

As FAA works to redesign the nation's airspace, assess the effectiveness of the agency's process to control costs, mitigate risks, and coordinate local, regional, and headquarters' efforts, and determine if opportunities exist to make the redesign efforts more cost effective.

STARS

Determine the validity of STARS's life-cycle cost studies and other relevant analyses used to justify and rebaseline the STARS program. STARS-Standard Terminal Automation Replacement System-is FAA's strategy for modernizing automation at aviation terminals throughout the National Airspace System. We are performing this work as directed by Congress in the conference committee report accompanying the FY 2004 omnibus appropriations.

En-Route Automation System

Determine (1) whether FAA has a realistic, executable plan to provide a new en-route automation system on time and within budget; (2) key program risks that could affect FAA's ability to meet cost and schedule projections; and (3) whether FAA has adequately addressed computer security in the system design. The program is intended to replace the "host" computer hardware and software used to receive, process, and track the movement of high-altitude aircraft throughout the National Airspace System.

Air Carriers' Use of Noncertificated Repair Facilities

Verify (1) how FAA identifies and oversees work performed at noncertificated repair facilities; (2) how FAA requirements for noncertificated facilities differ from those for certificated facilities; and (3) the quantity and type of work that air carriers outsource to noncertificated repair facilities.

Alleged Leave and Overtime Abuse

Identify what FAA has done (1) to investigate allegations that some employees are manipulating work schedules, sick leave, and annual leave to increase their overtime pay; and (2) to implement new policies and procedures to curtail potential future abuse.

Regional Support-Services Contracts

Determine whether FAA regional offices are implementing adequate contract-administration procedures and providing proper management oversight of support-services contracts for technical services such as engineering, environmental, and installation support.

Review of Tulsa International Airport

Determine whether the Tulsa International Airport's agreement to purchase property used as collateral in a loan to Great Plains Airlines could result in the misuse of airport funds.

Financial and Information Technology

Volpe Accounting System

Determine whether revenues and costs of the Volpe National Transportation Systems Center, in Cambridge, MA, which are accumulated by project and funded by various agencies, are accurately recorded in the accounting system and properly allocated to customers.

En-Route Air-Traffic-Control Computer Systems

Assess whether computer operations at the FAA Air-Traffic En-Route Center are adequately secured to ensure the integrity, confidentiality, and availability of mission-critical systems.

Air-Traffic-Control Developmental Computer Systems

Determine whether air-traffic-control developmental computer systems housed at FAA's Technical Center are adequately secured to ensure the integrity and continuity of efforts that support and modernize national airspace.

Inactive Obligations

Assess whether inactive obligations at the Federal Transit Administration (FTA), FAA, and the Maritime Administration (MARAD) represent valid financial liabilities.

FAA's Cost-Accounting System

As required by law, assess the adequacy and accuracy of FAA's cost-accounting system and apprise Congress of our results on specific assessment areas as of December 31, 2003.

Budget Requests for Enhancing Information Technology

Determine (1) whether the FY 2004 and 2005 budget requests for enhancing information technology from the Department and Operating Administrations contain duplicative or overlapping items; (2) whether the Office of the Chief Information Officer adequately planned and coordinated the budget requests; and (3) what progress has been made in improving information-technology security, e-government services, and IT investment management.

Annual Audit of Information Security

As required by law, evaluate (1) the adequacy of the security protecting the Department's information networks, systems, critical air-traffic-control infrastructure, and e-government services; and (2) the Department's progress in correcting information-security "material weaknesses" identified in our September 2003 audit report on the Department's information-security program.

DOT Consolidated Financial Statements

Perform our annual audit of the Department of Transportation's (DOT) principal financial statements to determine whether DOT had adequate internal controls over financial reporting. In FY 2003, DOT complied with laws and regulations, and the statements conformed to generally accepted accounting principles.

DOT Accounting Consolidation

Determine the extent of financial and operational benefits were DOT to consolidate its accounting functions.

Surface and Maritime Programs

Tren Urbano Follow-Up

For the Tren Urbano Rail Transit Project in San Juan, Puerto Rico, evaluate: the reliability of cost and schedule estimates; whether the Puerto Rico Highway and Transit Authority's (HTA's) financial plan is realistic; efforts to resolve significant, outstanding construction-quality problems; and HTA's plans and procedures to begin Tren Urbano's revenue operations, including operational testing of the rail system.

Highway-Rail Grade-Crossing Safety

Evaluate the Department's progress in implementing recommendations from our 1999 report on the highway-rail grade-crossing safety program; identify the states' best practices and strategies that are reducing the number of accidents, injuries, and fatalities at highway-rail grade crossings; and determine the status of departmental safety proposals to ensure the Department meets its 2004 goals.

Vehicle Safety Compliance

Evaluate the National Highway Traffic Safety Administration's (NHTSA) timeliness in processing applications to import vehicles that do not meet U.S. safety standards and in handling hardship exemptions for military personnel and others, and determine the reasons that importers may be experiencing delays in obtaining NHTSA's approval to import vehicles.

Defects Investigation

Evaluate NHTSA's progress in implementing recommendations from our 2002 audit report regarding timely completion of TREAD Act requirements and improved identification and investigation of potential defects in vehicles.

State Transportation Management

Determine the effectiveness of the Federal Highway Administration's

(FHWA) oversight of state transportation management processes.

Central Artery/Tunnel Finance Plan

As required by Congress, determine whether the estimated cost of the annual finance plan for the Central Artery/Tunnel Project in Boston, MA, is reasonable, the funding is sufficient, the project schedule is reasonable and addresses prior concerns, and cash flows and other project information are accurately presented. In addition to Congressional requirements, evaluate the progress made in recovering costs for design errors and omissions.

Structurally Deficient Bridges

Evaluate whether structurally deficient bridges in the National Highway System have been inspected in accordance with National Bridge Inspection Standards and FHWA's oversight is effective to address deficiencies.

FHWA Oversight of States

Evaluate FHWA's oversight of state processes and procedures for controlling, identifying, and tracking errors and omissions on major projects, and FHWA and state progress in recovering costs resulting from design errors and omissions.

Motor Carrier Safety

Assess the Federal Motor Carrier Safety Administration's (FMCSA) progress in implementing recommendations from our April 1999 audit report, implementing requirements on new-entrant motor carriers specified by the Motor Carrier Safety Improvement Act of 1999, and issuing rulemakings required by the act.

North American Free Trade Agreement (NAFTA) Cross-Border Trucking Provisions

Assess FMCSA's progress in implementing recommendations from our May 2003 audit report and to verify whether the agency's continues to have the staff, facilities, equipment, and procedures in place to implement NAFTA's provisions.

FTA New-Starts Criteria

Determine whether: (1) FTA's guidance is sufficient to ensure that alternative modes and/or alignments analyzed as part of the metropolitan planning process support the selection of projects forwarded to FTA for proposed "New Starts" funding; (2) determine whether FTA's processes and criteria for evaluating proposed New Starts projects adequately identify those projects that will result in the greatest tangible benefits to those paying for the system; and (3) identify improvements are needed in alternative analyses and evaluations processes to ensure transportation projects recommended for New Starts funding represent the best local solutions and the best use of taxpayer's dollars.

Competition and Economic Analysis

■ Title XI Loan-Guarantee Program

Determine if MARAD has implemented policies and procedures that adequately respond to our recommendations on the Title XI loan-guarantee program.

■ High-Speed Rail Corridors

Assess the status of each designated high-speed rail corridor, focusing on recent demand studies, expense projections, estimated capital requirements, and proposed implementation schedules.

■ Regional Jets

Identify how the airlines are using regional jets to replace and supplement mainline service, introduce new service, and replace service previously provided with turboprop equipment. Estimate the impact of regional jets on airfares and services.

■ Airline Industry Metrics

Report airline industry metrics that monitor trends in domestic air-service demand and capacity, air-service performance, airline finances, and air service at small airports.

■ Amtrak

Determine whether Amtrak's projected capital and operating funding needs for the period are reasonable. Provide to Congress and the Secretary an assessment of Amtrak's financial status and five-year strategic plan.

Hazardous Material, Security, and Special Programs

■ Pipeline Safety

Evaluate whether the Office of Pipeline Safety of the Research and Special Programs Administration (1) fulfilled pipeline safety mandates from 1992 and 1996; (2) expanded research and development to improve technologies used in pipeline inspections; (3) provided specialized training to pipeline inspectors on technologies used in, and reports generated from, pipeline inspections; (4) corrected shortcomings in pipeline data collection and analysis; and (5) established timetables to implement open pipeline safety recommendations of the National

Transportation Safety Board.

Volpe National Transportation System Center

Determine how the role and functions of the Volpe National Transportation Center have changed over the years and whether current center activities meet DOT needs.

Travel Charge Cards

Determine whether the Department has adequate controls over travel charge-card delinquencies and charge-offs and has taken appropriate actions against employees whose accounts were charged off.

DOT Rulemaking

Determine DOT's effectiveness in managing its rulemaking process and meeting its deadlines, using its new tracking system.

A V I A T I O N

Inspector General Testifies on FAA Modernization Before House Panel

The Inspector General addressed FAA's efforts to bring fiscal discipline and accountability to its air-traffic-control modernization program in testimony before the House Transportation and Infrastructure Aviation Subcommittee. He remarked that OIG is seeing positive signs from FAA in addressing problems with major acquisitions. Despite this improvement, much more work remains to address cost, schedule, and performance problems with major acquisitions.

The Inspector General listed the following core problems that require sustained management attention:

- FAA's commitment to major acquisitions and entry into long-term cost-reimbursable contracts before it fully understands user needs and agency requirements;
- Misleading and unreliable cost and schedule estimates;
- Beginning new, costly, and complex programs while still funding programs that are significantly over cost and behind schedule;
- Lack of centralized control and basic contract oversight;
- Lack of performance measures for assessing progress with major acquisitions and not holding managers and contractors accountable for cost growth and schedule slips.

"FAA is beginning to rein in unabated cost growth in its operations . . . and is restructuring air traffic as a performance-based organization."

California Man to Pay $197,384 in Restitution for Fraud, Draws Prison Term

David F. Slavens of Auburn, CA, was ordered by a U.S. District Court judge in Sacramento, CA, to serve a 21-month prison term and pay $197,384 in restitution for lying about his health in order to obtain a pilot's medical certificate, while simultaneously receiving Social Security benefits for a chronic illness. From 1988 to 2002, Slavens received more than $190,000 in Social Security benefits based on claims that he was suffering from chronic fatigue syndrome and could not work. Witnesses reported seeing Slavens repairing and flying his plane and making repairs to an apartment building during the period. FAA revoked Slavens's pilot's license, mechanic's license, and license giving him authority to inspect aircraft. Slavens was convicted by a jury on April 2, 2003. The investigation was conducted by DOT and Social Security Administration OIGs. *January 6*

Airline Industry Metrics Update

We released our fifth periodic report on airline and aviation metrics, which updated data for the last half of 2003. This report contains 40 metrics that we developed for monitoring airline industry trends relating to domestic-system demand and capacity, performance, finances, and air service at small airports.

Included among the findings:


Aviation Week's
Airports

Fort Lauderdale, Kennedy, McCarran Post Rare Three-Year Growth

January 13, 2004

US Airways Mulls Asset Sales

Continued on Page 2

- Break-even load factors are declining as airlines reduce costs and raise average airfares slightly.
- Scheduled flights, available seats, and enplanements continued to decline, but the use of regional jets dramatically increased.
- The number of scheduled flights in the last quarter of 2003 exceeded 2002 levels.
- Scheduled flights involving regional jets increased 140 percent since 2000, with regional jets now making up 25 percent of scheduled flights.
- As of December 2003, low-fare and other nonnetwork carriers accounted for 46 percent of all domestic air service.

The metrics are based on data obtained from the Department, FAA, the Bureau of Transportation Statistics, and the Air Transport Association and provide decision-makers with past, present, and future indicators of domestic air-service levels and the general state of the airline industry. *January 8*

Air Traffic Controller Defrauds Workers' Compensation Program of More Than $359,000

Michael L. Harms, of Grapevine, TX, a former air traffic controller, was convicted by a jury in U.S. District Court in Dallas on six counts of defrauding the Workers' Compensation Program of more than $359,000. Harms filed a workers' compensation claim in November 1996 when he injured his back while working as an air traffic controller. Even as he collected these funds and advised the Workers' Compensation Program of his continuing unemployment, Harms was earning income as a pilot for air-freight companies. Harms retired from FAA in April 2004 rather than face removal. He is scheduled to be sentenced in May. The investigation was conducted by OIGs of the Department of Labor and DOT. *February 6*

How FAA Records Time Granted for Representational Activities

A report we issued to the FAA Administrator contained our observations about official time granted for union representational activities, as reported by

FAA in a recent government-wide survey by the Office of Personnel Management. The hours that FAA reported as being spent on representational activities included time granted for traditional representational activities (such as negotiating agreements) and time granted for bargaining-unit employees to work on FAA work groups (such as task forces for developing new equipment).

We reported that FAA's methodology ensures the accounting of all time granted as a result of collective-bargaining requirements. Nevertheless, it presents an inaccurate picture of agency workforce activities, since FAA does not differentiate whether the time spent on work groups is a result of collective-bargaining requirements or at the request of management. The current method could therefore rule out meaningful comparisons with other government agencies. CRU-X, FAA's planned labor-distribution system, could be used to more accurately capture data on official time by designating different codes for tracking different activities. We recommended that FAA designate these different activities within CRU-X to ensure that official time, as reported, accurately reflects the activities of FAA's workforce. *February 10*

IG Testifies on FAA Before House Appropriations Panel

The Inspector General testified about FAA management and budget issues before the House Transportation-Treasury Appropriations Subcommittee. His testimony focused on FAA initiatives over the past year to control costs, opportunities for further cost reductions, and areas for improved performance.

The Inspector General noted that FAA is beginning to rein in the unabated cost growth in its operations account and is restructuring air traffic as a performance-based organization. For example, the agency has eliminated some costly memorandums of understanding with the air-traffic-controllers' unions. Despite these efforts, there remains a substantial decline in projected Aviation Trust Fund revenues. Current estimates for FY 2005 trust fund revenues are about $11.1 billion; FAA's FY 2005 budget request exceeds those revenues by nearly $3 billion.

Areas for improved performance include:

- Oversight of Outsourced Maintenance. FAA needs to follow through on its commitment to adjust its safety oversight to the emerging trend of outsourced maintenance in the aviation industry.
- Runway Incursions and Operational Errors. Operational errors increased 12 percent in FY 2003. While the number of runway incursions declined in FY2003,

the number of serious incursions increased during the first 5 months of FY 2004.

■ Planning for the Impending Wave of Air-Traffic-Controller Retirements. The Inspector General previewed a pending audit of FAA's plans to replace about 7,000 controllers who will become eligible to retire over the next decade. The audit, which we expect to soon release, found that "management attention is needed to better prepare for the expected increase in retirements."

■ Major Acquisitions. The Inspector General noted "positive signs" that the FAA Administrator and her team are addressing fundamental problems with a number of modernizations projects. Notwithstanding, he noted that additional steps are needed, among them developing reliable cost and schedule estimates, avoiding long-term cost-plus contracts, and improving contract management. FAA Administrator Marion Blakey also testified. *March 17*

Partner in Miami Airport's Largest Public-Works Contract Sentenced for Insurance Fraud

Linda Forrest, owner of Forrest Management Construction Services (FMCS), was ordered to spend a year and a day in prison by a U.S. District Court judge in Miami, FL, for insurance fraud. She will also have to repay $158,000 to Casualty Reciprocal Exchange, the insurance company she defrauded. Forrest pleaded guilty in May 2003.

Forrest's firm, FMCS, is one of eight partners comprising Dade Aviation Consultants, which was contracted in 1992 by the Miami-Dade Aviation Department to manage all of Miami International Airport's federally funded $5 billion construction projects. FMCS was included as a minority business enterprise.

Forrest conspired with employees of Casualty Reciprocal Exchange to file false personal-injury medical claims. Using an FCMS sister company, Lexor Property Management, Inc., as the payee on the claims, Forrest cashed checks for $125,000, paying two-thirds to the insurance company employees and keeping one-third for herself. This is an investigation of the Miami Dade Police Department's Public Corruption Unit, FBI, and OIG. *March 17*

Former FAA Computer Technician Jailed for Possessing Child Pornography

Lawrence A. Sage, a former FAA air-traffic-control computer specialist in Auburn, WA, was sentenced by a U.S. District Court judge in Seattle to 27 months in prison for possession of child pornography. OIG investigated Sage for using the government computer in his work station to download, view, and save child pornography and other obscene materials. Sage pleaded guilty to one count of possessing child pornography. As a result of OIG's investigation, Sage resigned from his position on July 11, 2003. *March 26*

FAA's Advanced Technologies and Oceanic Procedures

At the request of John L. Mica, chairman of the House Transportation and Infrastructure Aviation Subcommittee, we prepared a status report on FAA's Advanced Technology and Procedures (ATOP) program, which will modernize FAA facilities that manage traffic over the Atlantic and Pacific Oceans. We found that ATOP has experienced some serious and unexpected software development and testing problems. Due to these problems and pending delays, FAA modified the ATOP contract and made an $11 million adjustment in order to maintain the schedule for deploying the program to Oakland, CA.

While the $11 million adjustment can be accommodated within the current cost estimate, we expressed concern about what happens between now and February 28, 2005. This timeframe is important because the contract modification limits the contractor's responsibility for paying for fixing software problems after that date. *March 31*

Audit Finds $12.5 Million Diverted from San Francisco Airport to City

Our audit on revenue diversion at the San Francisco International Airport found about $12.5 million in airport revenue was diverted to San Francisco city and county uses in FYs 1998-2002. Eight city departments diverted revenues by charging the airport for indirect costs that were already received through an annual service payment, for unsupported costs, or for direct services which were based on an allocation inconsistent with other comparable units of government. We recommended that FAA determine the extent of any additional revenue diversion since FY 1998, find out if identified revenue-diversion practices have been corrected, and seek full recovery of the diverted revenues, including the $12.5 million identified in the audit. *March 31*

HIGHWAY, TRANSIT, AND RAIL

IG Testifies on Future of Intercity Passenger Rail

The Inspector General testified on the future of intercity passenger rail, Amtrak, and the DOT reauthorization proposal before the Senate Commerce, Science, and Transportation Committee. His testimony covered key reauthorization issues and how the Administration's bill proposes to address them. These issues include the development of short-distance corridors and its implications for long-distance trains; the separation of infrastructure from operating service responsibilities in the Northeast Corridor and its inherent risks; state governance of intercity rail service and associated funding obligations; funding Amtrak's current legacy expenses; and the need to secure a consensus for consistent Federal funding of passenger rail service.

The Inspector General commented on the Administration's bill, which proposes to focus Federal capital funding on developing and investing in short-distance corridors (routes with end-to-end distances of less than 500 miles). Development of short-distance corridors would target improvements to the services that are most patronized and hold the greatest future potential for passenger growth. He supported the Administration's transfer of more decision-making responsibilities to the states, recommended that the Northeast Corridor remain an integrated organization, and presented an estimate of the required level of funding under the Administration's bill. Federal Railroad Administrator Allan Rutter and Amtrak President David Gunn also testified. *October 2*

Company Owner Sentenced for Cheating Workers Out of Wages

Dennis E. Rehder, owner of DGS General Construction, Inc., of Woodburn, OR, was sentenced in U.S. District Court in Portland, OR, to pay $27,396 in restitution and $5,100 in fines for failing to pay his employees the prevailing wage. Rehder knowingly underpaid employees working on the Salem Historic Passenger Rail Station, a Federal-aid project, funded in part by the Federal Highway Administration, thereby avoiding payment of an additional $33,814 in wages. This investigation was conducted jointly by DOT OIG and the Department of Labor OIG. *December 8*

FRA's Oversight of Slow Orders and Track Reclassification

Our audit report regarding FRA's oversight of railroad slow orders and track reclassification found the agency has no recordkeeping and reporting requirements governing slow orders. In addition, we found that neither FRA nor two of the three railroads we visited maintain detailed historical records of slow orders. As a result, we could not determine whether slow orders affect track safety or cause the increasing number of train delays. We found that the largest railroads have steadily increased their rail roadway investment since 1980. In order to identify potential problems in roadway investments, we recommended that FRA review CSX Transportation's replacement practices for ballast-material placed on the roadbed to anchor track and monitor railroad annual financial and operational "R-1" reports to the Surface Transportation Board. FRA concurred with our recommendations. *December 10*

Amtrak's Loan-Condition 8

We issued a letter to Secretary Mineta, FRA Administrator Rutter, and the House and Senate Appropriations Committees on Amtrak's compliance with condition 8 of its Railroad Rehabilitation and Improvement Financing Loan. Loan-condition 8 requires Amtrak to identify the extent to which commuter operations would be affected if Amtrak shut down.

In response to Amtrak's initial submission to us, we asked for:

- an analysis of the overhead expenses required to operate the Northeast Corridor and commuter services if all other services shut down;
- an analysis of the capital funds required to maintain the Northeast Corridor and commuter services for three months and for one year if all other services shut down;
- a report incorporating these analyses into a detailed assessment of the operating and funding requirements for providing commuter services if all services but the Northeast Corridor shut down.

Amtrak simply submitted documents from which some, but not all, of the required data could be obtained. We concluded that Amtrak did not fully "explain the manner and extent to which any suspension of Amtrak operations would affect commuter rail operations" and found that Amtrak failed to comply with the requirements of condition 8. The Department approved the $100 million loan to Amtrak in June 2002. *December 9*

HIGHWAY, TRANSIT, AND RAIL

Electric Supply Company and President Fined $228,056 for DBE Fraud

L&K Electric Supply Company of Birmingham, AL, and company President Adriene Balton were sentenced in U.S. District Court in Norfolk, VA, to pay $228,056 in fines, restitution, and assessments for falsifying four applications to the Virginia Department of Transportation for disadvantaged business enterprise (DBE) certification. In September, Balton admitted she and her company committed fraud in order to win a $14.7 million contract that counts toward the state's DBE contract goal. L&K is barred from participating in the DBE program for the five years it is on probation. FHWA is considering debarring the firm from taking part in federally funded contracts for three years. The case was investigated by OIG and the FBI. *December 12*

Dywidag-Systems International Pays Over $1.5 Million for Bid Rigging on DOT-Funded Construction Projects

Construction company Dywidag-Systems International USA, Inc. (DSI) paid $1,564,447 in a civil settlement to the Federal Government and the States of California and Georgia for its role in a conspiracy to rig bids on DOT-funded constructions projects. Co-conspirators VSL Corporation and Avar Construction Systems, Inc., conspired to rig bids on federally funded construction projects in California involving the specialty construction technique known as "post-tensioning." DSI also conspired with VSL Corporation and Freyssinet International et Cie to rig bids on federally funded bridge projects.

In April 2002, Rene Friedrich, the owner of Avar Construction Systems, Inc., and Freyssinet International et Cie each agreed to pay $485,000 in civil fines for their roles in the conspiracies and violations of the False Claims Act. VSL Corporation has yet to reach a settlement agreement with the Government. *December 15*

Contractor to Sub-grantee Ordered to Pay $750,000 for Motor-Fuel Tax-Evasion Scam

Samuel Yakobowicz, owner of Twenty-Four Hour Fuel Corporation of Brooklyn, NY, was ordered by a U.S. District Court judge in Brooklyn to pay $750,000 in restitution and spend five years and five months in prison for his role in a motor-fuel tax-evasion scam. He had filed false tax returns and obstructed an IRS audit.

Yakobowicz, who sold fuel under contract to the Long Island Railroad, an FTA-subgrantee, evaded paying $684,318 in excise tax on more than 2.8 million gallons of fuel. He fraudulently obtained refunds of IRS excise taxes by making it appear that diesel fuel sold to gas stations had been sold to the tax-exempt railroad. In addition, on numerous occasions, rather than delivering diesel fuel — which is taxed-to the railroad — he delivered untaxed home heating oil instead. He then made out the delivery tickets to show that he had supplied diesel fuel, applied to the IRS for refunds of fuel excise taxes he had not paid, and pocketed the refunds. Yakobowicz was found guilty in September 2003. The case was investigated by the IRS and OIG. *December 17*

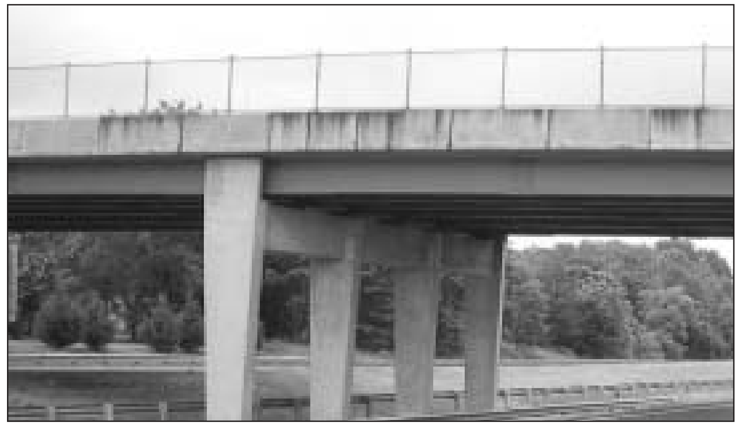
Florida Road Superintendent Fined $21,000 for Theft

Ray W. Root, a road superintendent for Couch Construction of Port Richey, FL, was ordered by a U.S. District Court judge in Tampa, FL, to pay the Florida Department of Transportation (FDOT) $21,000 for stealing asphalt millings from a Federal-aid highway project and selling them for personal profit. Couch Construction, the prime contractor, was to return the millings to FDOT.

Asphalt millings, which are ground off the road surface, can be mixed with new asphalt or used like gravel to fill potholes and cover dirt roads and driveways. Root pleaded guilty in August 2003 to stealing more than $21,000 worth of millings from a resurfacing project along U.S. Highway 19 in Pasco County, FL, near Port Richey and New Port Richey. During his two-year probation, Root is prohibited from bidding or acting as a Couch Construction manager on any state- or federally-funded highway projects. The case was investigated jointly by OIG, FDOT OIG, and the Florida Department of Law Enforcement. *January 8*

Contractor Fined for Bribery, State Inspector Pleads Guilty in Ohio Corruption Investigation

In an ongoing corruption investigation in Ohio, a federal contractor was sentenced for bribery and a state DOT employee was sentenced for making false statements. On January 8, George Ginnis, part owner of ARGO Contracting Corp., of Campbell, OH, was fined $5,000 by a U.S. District Court judge in Cleveland for offering a $2,000 bribe to an Ohio Department of Transportation bridge inspector. The bribe was paid in April 2001 in return for false statements regarding the quality and quantity of work on a federally funded bridge-painting contract.



Darrell G. Isaac, an Ohio DOT bridge-painting inspector, was fined $20,000 and given six months home confinement by a U.S. District Court judge in Cleveland, OH, on January 22. Between June 2000 and October 2001, Isaac admitted receiving a total of about $30,500 in cash payments for permitting contractors to use blasting material that did not meet specifications and to blast and paint in substandard conditions. He then reported the contractors' work was acceptable.

In the same investigation, Ohio DOT Inspector Jeff Burton was fined $500 in U.S. District Court in Cleveland on December 2, 2003, after previously pleading guilty to one count of making false statements regarding a Federal highway project. This is a joint OIG and FBI investigation.

Utah Man Fined $63,892 for Fraud

Glenn Hafen, owner of Sunrise Transportation, was ordered by a U.S. District Court judge in Salt Lake City, UT, to pay $63,892 in restitution for defrauding the Utah Transit Authority (UTA), which receives Federal aid from FHWA. Hafen entered into vanpool agreements with UTA, certifying that the major use for the vans was to transport commuters. OIG special agents found that Hafen's reason for participating in the vanpool program was to obtain the vans and operate a for-profit airport shuttle service that transported paying customers from the Salt Lake City International Airport to Utah vacation resorts. *January 14*

Former DC Public-Works Engineer Sentenced for Accepting Bribes

Timothy Martin, a former project engineer for the District of Columbia Department of Public Works, was ordered by a U.S. District Court judge in Washington, DC, to perform 100 hours of community service for accepting a bribe from a government contractor. Martin pleaded guilty in July 2002 to taking cash from an employee of the Fort Myer Construction Corporation in exchange for including false asphalt tickets as a cost of a Federal-aid paving contract. In April 2003, Fort Myer Construction was fined $900,000 after pleading guilty to conspiracy to bribe inspectors for the city public-works department. The conspiracy was tied to three paving companies that were performing about 30 federally funded contracts in the District and nine public-works employees. *February 23*

Review Finds $284 Million in Inactive FHWA Financial Obligations

Our audit identified $284 million in inactive federal-highway obligations that were no longer needed and could be freed up for use on other important projects. We conducted the audit to determine whether FHWA's inactive obligations represent valid financial liabilities or could be used on other projects, as well as to assess the effectiveness of FHWA's corrective actions since our 2001 report addressing inactive obligations.

The states annually review projects with inactive obligations of $1 million or more. Nevertheless, of the $284 million in unneeded obligations that we identified, about $224 million was associated with projects of $1 million or more. The remaining $60 million was for $500,000 to $1 million projects.

The $284 million represented 22 percent of the $1.3 billion we reviewed and was associated with projects that had been canceled, reduced in scope, or completed. The accuracy of financial obligations is a measure of the effectiveness of financial management practices. FHWA and state officials are in the process of freeing the unneeded amounts so they can be used on other projects. We also estimated that FHWA and the states could free another $251 million by more aggressively reviewing its inactive obligations. *March 31*

Courts Crack Down on 29 Extortionist Movers

During the reporting period, 29 employees of 11 household moving companies in New York and Florida drew cumulative prison terms of more than 75 years and were ordered to pay more than $4.2 million in restitution. The employees and moving companies were all investigated by OIG and the FBI for their part in conspiracies to extort money from unsuspecting customers. The extortion consisted primarily of giving "low-ball" estimates and then withholding delivery of the customers' possessions until they paid an exorbitantly inflated price. Following their prison sentences, 12 of the felons will be referred to immigration officials for possible deportation to Israel.

Brooklyn

Four men who operated four Brooklyn, NY, moving companies were ordered by a U.S. District Court judge in Brooklyn in October and December 2003 to spend a total of more than 25 years in jail and pay more than $2.3 million in fines and restitution for a scheme that extorted money from customers. The men were owners and presidents of Starving Students Moving and Storage, On-Time Van Lines, Newstart Moving, and Official Moving and Storage. It is estimated the men extorted at least $437,000 from more than 100 victims.

South Florida

In South Florida, 23 individuals were convicted and 24 were sentenced at seven moving companies. Those sentenced were ordered to pay more than $1.9 million in restitution and fines and ordered to cumulatively spend more than 50 years in prison for their role in the same type of extortionist conspiracy. The companies included Majesty Moving & Storage, Sunrise; Southeastern Van Lines, North Miami; AAA Van Lines and Express Van Lines, both of Miami; and Century Express Van Lines, Fort Lauderdale. Majesty Moving & Storage alone accounted for nine of the defendants.

Tacoma, WA

Two former employees of Nationwide Moving Company of Woodinville, WA, pleaded guilty in January in U.S. District Court in Tacoma, WA, to defrauding customers and are scheduled for sentencing on September 24, 2004. *October 2003-March 2004*

MARITIME

Shipping Company Fined $4.2 Million for Dumping Oil at Sea

The OMI Corporation of Stamford, CT, a shipping company that transports petroleum products, pleaded guilty in U.S. District Court in Newark, NJ, to preparing false documents to cover up the illegal dumping of thousands of gallons of waste oil and sludge at sea. The company agreed to pay a $4.2 million fine and serve three years probation. OMI admitted that from about May to September 2001, the chief engineer of the motor tanker Guadalupe authorized the discharge of wastes into the high seas and made fraudulent entries in the oil record book, which shows how waste oil is properly treated.

On September 10, 2001, the U.S. Coast Guard and Environmental Protection Agency (EPA) inspected the ship and were given the oil record book containing the falsified entries. The ship's captain and chief engineer pleaded guilty in May 2002 in connection with the case. The investigation was conducted by the U.S. Coast Guard, EPA, and DOT OIG. *January 21*

MARAD's Progress with Title XI Reform

We issued a memorandum to the acting deputy secretary regarding the Maritime Administration's (MARAD) progress in reforming the Title XI loan-guarantee program per the recommendations contained in our March 2003 audit report. We advised that while MARAD has made progress in developing new draft procedures, it still has to develop and implement three reform measures and issue official directives documenting its reforms. The procedures still in development are for the systems that monitor both the financial condition of borrowers and the physical condition of guaranteed assets over the term of a loan guarantee, as well as for the acquisition of external reviews.

Before MARAD can access $25 million in FY 2003 appropriated funds, it is required by law to implement the recommendations in our report, and we must certify to Congress that our recommendations have been met. We are continuing to work with MARAD officials in reviewing the adequacy of their new procedures and policies. *February 9*

DEPARTMENT MANAGEMENT ISSUES

Top Ten DOT Management Challenges Issued

We released our annual report on the top management challenges facing the Department, as required by law. The issues comprising this year's reports are highway safety, aviation safety, hazardous materials safety and security, protecting taxpayer investments in highway and transit infrastructure projects, improving FAA's fiscal discipline, intercity passenger rail, MARAD's loan-guarantee program, financial accountability, the disadvantaged business enterprise program, and information technology management.

In addition to its normal distribution within the Department and to appropriate congressional authorizing and appropriating committees, the report was incorporated into the Department's Accountability Report, which is signed by the Secretary and sent to Congress and the Office of Management and Budget. *December 5*

DOT Top Management Challenges for FY 2004

- ✦ Highway safety
- ✦ Aviation safety
- ✦ Hazardous materials safety and security
- ✦ Protecting taxpayers' investments in highway and transit infrastructure projects
- ✦ Controlling costs and improving acquisitions at FAA
- ✦ Intercity passenger rail
- ✦ MARAD loan-guarantee program
- ✦ Financial accountability
- ✦ Disadvantaged business enterprise program

DOT's Rulemaking Process and Tracking System

As a follow-up to our July 2000 report and at the request of Representative James Oberstar, ranking member of the House Committee on Transportation and Infrastructure, we issued an audit of DOT's effectiveness in managing its rulemaking process and tracking system. We found that DOT has taken positive steps to improve the rulemaking process and has made significant strides in overall timeliness. For example, final rules currently take less time to issue on average than they did in 1999.

Our recommendations to the Acting Deputy Secretary and Chief of Staff included requiring compliance with the directives in Secretary Mineta's memorandum of August 12, 2003, which instructed the Department's Operating Administrations to enter reliable data in the tracking system and use the tracking system to monitor rules. We also recommended that the Department modify the tracking system so mid-course adjustments can be made for rules that miss their original issuance date. Finally, we recommended that the Department's Operating Administrators be directed to (1) review pending rulemakings over 10 years old to determine whether they should remain ongoing rulemakings; and (2) analyze the age of pending rules in order to focus their efforts on completing the oldest rules. *March 2*

TRANSPORTATION SAFETY

CEO of Aviation Repair Station Fined $15,000 and Jailed for Lying about Jet Engine Repairs

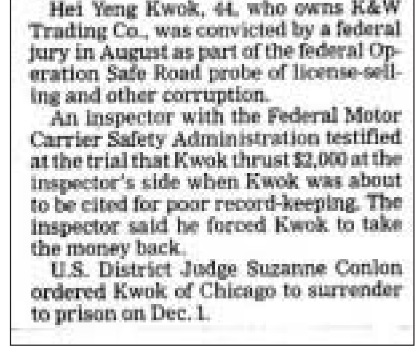
Gary Key, president of Key Enterprises, Inc., an FAA-certified repair station in Oilton, OK, was fined $15,000 and ordered to spend eight months in jail for falsifying FAA airworthiness approval tags on jet combustion chambers used on military or civilian aircraft. He was sentenced in U.S. District Court in Tulsa, OK. To increase profits, Key directed his employees to skip required repair specifications such as applying a special hardening coating to bushings in fuel combustion chambers, an omission that can cause engine fires and explosions. Repairs were falsified for Pratt & Whitney JT8 jet-engine combustion liners. FAA has ordered Key Enterprises to alert customers to potential problems. Key pleaded guilty in April 2003. OIG investigated the case jointly with the Defense Criminal Investigative Service, with assistance from FAA and NASA. *October 2*

METRO 21

Trucking firm owner gets prison, fine for bribe

Chicago Businessman Fined $40,000 and Jailed for Attempted Bribery of FMCSA Inspector

Hei Yeng Kwok, owner of K&W Trading Co., a Chicago trucking company, was fined $40,000 by a U.S. District Court judge in Chicago and ordered to serve 21 months in prison for attempted bribery of a Federal safety inspector. Kwok was arrested May 13 by OIG special agents for attempting to bribe the FMCSA inspector, first with $2,000 and later with $4,000, in order to improve an unsatisfactory rating on his company's safety compliance review. OIG investigated this case with assistance from FMCSA. *October 16*



U.S. DISTRICT COURT

Trucking firm owner sentenced for bribery

The owner of a Chicago trucking company was sentenced Thursday to 21 months in prison and fined $40,000 for bribing a federal transportation official to overlook safety violations at his business.

Hei Yeng Kwok, 44, who owns K&W Trading Co., was convicted by a federal jury in August as part of the federal Operation Safe Road probe of license-selling and other corruption.

An inspector with the Federal Motor Carrier Safety Administration testified at the trial that Kwok thrust $2,000 at the inspector's side when Kwok was about to be cited for poor record-keeping. The inspector said he forced Kwok to take the money back.

U.S. District Judge Suzanne Conlon ordered Kwok of Chicago to surrender to prison on Dec. 1.

Truck Driver Pleads Guilty to Use of Fraudulent CDL

Philip Hardee of North Charleston, SC, pleaded guilty in U.S. District Court in Charleston to making false statements about his use of a fraudulent commercial driver's license and falsifying his driver history to obtain employment. Hardee was a truck driver with Truck Air of the Carolinas, a commercial motor carrier in North Charleston. He is scheduled for sentencing in April. This investigation was conducted jointly by OIG and the South Carolina Law

Enforcement Division, with assistance from FMCSA and the South Carolina Division of Motor Vehicles. *October 30*

Owner of Detector Dogs Against Drugs & Explosives Gets 15 Months Added to Previous Prison Term

Russell L. Ebersole, owner of Detector Dogs Against Drugs & Explosives of Stephenson, VA, was sentenced by a U.S. District Court judge in Harrisonburg, VA, to serve 15 months in jail for instructing an employee to ship explosives by air and witness tampering. Ebersole pleaded guilty in August 2003 to telling an employee to ship by air a 1.4-pound box of explosives marked as kitchen supplies. The shipment violated DOT regulations and posed a serious risk to public safety. Ebersole also shipped a second box of undeclared explosives from Hagerstown, MD, to Seattle, WA, via UPS ground services. He told the individual who received the ground shipment to destroy the explosives and lie to Federal investigators.

Ebersole is already serving 72 months in jail for his conviction in an unrelated case of defrauding the Government. He contracted to provide explosives detection services at Federal agencies using dogs when the dogs were actually unable to distinguish explosives. Ten months of the 15-month jail term will be served consecutively with the 72-month term. *November 13*

Broker Pleads Guilty to Selling Substandard Aircraft Parts

Amanullah Khan of Brea, CA, pleaded guilty in U.S. District Court in Anaheim, CA, during the third day of his criminal trial to 12 counts of conspiracy and fraud in selling substandard aircraft parts. From 2000 to 2002, Khan operated United Aircraft & Electronics, an aircraft parts brokerage company in Anaheim, where he issued false certifications that claimed a grip assembly, a critical part for Bell helicopters, was made of steel when it was actually made of aluminum. Aluminum has a significantly shorter life than steel. A helicopter grip assembly connects the tail rotor blades to the tail, and if a grip failed in flight, the helicopter probably would crash. Khan also sold used aircraft parts that he represented as new. Khan is scheduled to be sentenced in August. This case was jointly investigated by OIG, the FBI, the Defense Criminal Investigative Service, and the Air Force Office of Special Investigations, with assistance from FAA. *November 20*

TRANSPORTATION SAFETY

Hazardous Waste Handler to Pay $1.29 Million for Violating Environmental Laws

Hormoz Pourat, vice president of AAD Distribution and Dry Cleaning Services, Inc., of Vernon, CA was ordered by a U.S. District Court judge in Los Angeles, CA, to 37 months in prison and fined $1.29 million for conspiring to violate hazardous waste laws. AAD was one of Southern California's largest handlers of dry-cleaning waste before authorities shut it down in January 2001. AAD charged cleaning establishments to transport, treat, and arrange for the disposal of a dry cleaning compound, perchloroethylene (PERC), a cancer-causing chemical. The AAD facility had greatly exceeded the storage limit for hazardous waste containers under its state hazardous waste permit, but from 1999 to 2001 Pourat continued to pick up drums of PERC waste from customers and transport and store them. To hide the permit violations from city and state inspectors, he and his partners loaded the drums onto trucks before inspections, shipped them off-site, stored them at facilities that were not permitted to store hazmat, and falsified the shipment manifests. Two other defendants were also charged. *December 3*

Two Hazmat Violators Sentenced in Motorcycle Shipment Cases

Alexander I. Eskin of Honolulu, HI, pleaded guilty in U.S. District Court in Albany, NY, to filing a false report regarding a hazardous material shipment. He was sentenced to pay a $5,000 criminal fine and $12,500 civil penalty. Eskin was a pilot for Northwest Airlines, when in June 2001 he tried to ship via air a used motorcycle concealed in a container from Albany to Michigan. In two phone conversations with the shipper the previous day, he was told he would have to declare the motorcycle as hazardous material (hazmat) because it contained gasoline and oil. Nonetheless, Eskin claimed on an airbill that the container did not contain dangerous goods regulated in air transport and also signed a shipper's security endorsement stating the cargo did not contain hazmat. The motorcycle never was shipped because the container could not fit through the plane's cargo door. *December 8*

In an unrelated case, Peter Lang, owner of U.S. European Trading Corporation, an indirect air carrier in Fort Myers, FL, was given two years on probation by a U.S. District Court judge in Fort Myers, for illegally shipping a used motorcycle. Lang shipped the motorcycle on a passenger plane in violation of hazardous material regulations. The investigation was conducted by OIG and the Transportation Safety Administration. *March 8*

Trucking Supervisor Imprisoned in Bribes-for-Illegal-CDLs Case

Frank Catanzarite, a former terminal supervisor for Watkins Motor Lines, Inc., Lyons, IL, was sentenced in U.S. District Court in Chicago to 17 months prison time for pocketing at least $10,000 in bribes from unqualified drivers. In order to meet the company's need for drivers, Catanzarite and John Nowak, a former safety supervisor for Watkins, recruited non-English-speaking individuals to obtain commercial driver's licenses (CDLs) issued in Florida. There, a third-party tester took cash to license the CDL applicants without testing their skills. Watkins, in turn, hired the CDL holders. Catanzarite allowed the drivers to work for Watkins in exchange for $500 to $2,000 apiece, and he gave Nowak $100 to $200 each for his help. In 1998, one of the drivers, Adem Salihovic, triggered a 74-vehicle pileup in California that killed two people and injured 51. *January 16*

FBI Fugitive Imprisoned for Defrauding FAA

Jose F. Guasch received a 13-month prison term from a U.S. District Court judge in Ocala, FL, for making and using forged documents to get a job as a flight instructor. From August 2000 to May 2001, Guasch used the name Jesus Franscisco Rios on an FAA airline transport and flight instructor certificate at Ocala Aviation. Investigation revealed that Guasch has been wanted by the FBI for the 1997 theft of a Lear jet. The FBI charges are still pending. Guasch pleaded guilty in November 2003 to making false statements to the FAA. *January 22*

Pilot Obtains License Under False Pretenses

Donald Wilson pleaded guilty in U.S. District Court in Miami to piloting aircraft without a legitimate airman certificate and flying a plane with an unapproved modification to its fuel system. Wilson used various fictitious identities, including FAA certificates, to evade arrest for federal parole violations. He also modified a plane by installing fuel-tank systems without making the change according to FAA maintenance regulations. His sentencing is scheduled in April. *January 29*

TRANSPORTATION SAFETY

Hialeah, FL Man Guilty of Hazmat, Credit Card Crimes

Humberto Ulloa of Hialeah, FL, pleaded guilty in U.S. District Court in Miami to five felony charges involving the transportation of hazardous fuel and use of counterfeit credit cards. Ulloa purchased $230,000 worth of gasoline between May and August 2003, using 270 counterfeit Postal Service credit cards at 203 different gas stations in the Miami and Ft. Lauderdale area. At one point, agents saw him make seven consecutive purchases of gas, totaling over 162 gallons, which he pumped into a 1992 Chevy pick-up that he had modified to transport large quantities of gasoline.

By modifying his truck and using it as a crude gasoline tanker, Ulloa was in violation of Federal standards and posed a threat to public safety. Ulloa's sentencing is scheduled in May. This was a joint investigation by the U.S. Postal Service OIG and DOT OIG, U.S. Secret Service, the Florida Department of Environment Protection, the Miami-Dade Police Department, and the Hialeah Police Department. *January 30*

Six Truckers Sentenced for Falsifying Logbooks

Of seven drivers for Ontelaunee Transport Services Inc., of Kempton, PA, who pleaded guilty to falsifying their driver's daily logbook, six were sentenced during the reporting period. The sentences handed down in U.S. District Court in Philadelphia, included a 10-month prison sentence for two defendants and a $10,000 fine for another. Two other drivers were fined $1,000, with the remaining two drivers being fined $1,500 and $2,000 respectively. All falsified their log books--some for as long as three years--to conceal the fact that they were driving over the maximum number of hours allowed under FMCSA regulations, thereby jeopardizing public safety.

Ontelaunee Transport Services is the successor company of the now-defunct David Kistler and Grandson, Inc. In September 2001, the Kistler company and several of its officials were fined a total of $50,000 for multiple violations of Federal hours-of-service regulations. Ontelaunee and its dispatcher have not yet been tried. OIG investigated the case with assistance from the Federal Motor Carrier Safety Administration. *December 2003-February 2004*

Pilot Ordered to Halfway House

Jack S. Stroming was ordered to spend four months in a halfway house and was prohibited from participating in aviation activities for a two-year period by a U.S. District Court judge in Fort Lauderdale, FL.

Stroming, a private pilot, lied about past criminal convictions on his application for an airman medical certificate by indicating he did not have a history of felonies when he had an extensive history of Federal and state criminal convictions, including narcotic, assault, and weapon offenses. He pleaded guilty on December 17, 2003, to one count of making false statements. FAA may also revoke Stroming's airman certificate. *March 5*

Trucker Responsible for Fatal Crash Sentenced for Falsifying Logbook

Stanley N. Waddy, Jr., a former commercial trucker for Tapscott Trucking in Thornburg, VA, was sentenced in U.S. District Court in Philadelphia to time served in prison on state charges (16 months) and put on five years of probation. Waddy pleaded guilty on January 5 to ten counts of making false statements to DOT for falsifying his driver logbook to hide how long he had been driving without rest. On December 12, 2001, Waddy, after using marijuana, caused a six-vehicle crash that killed two people in Ridley Township, PA. He was convicted on state charges related to the fatal crash and completed serving his jail time in December 2003. *March 29*

The United States Postal Inspection Service,
Federal Bureau of Investigation and
U.S. DOT Office of Inspector General

$100,000 REWARD

A reward of up to $100,000 is being offered for information leading to the arrest and conviction of the individual(s) responsible for introducing a threatening letter addressed to DOT containing the poison ricin discovered at a U.S. Postal facility in Greenville, SC on October 15, 2003.

The author(s) of this letter claimed to be a fleet owner of a tanker company and demanded that the present laws regarding hours of service regulations remain unchanged. On January 4, 2004, significant new federal regulations went into effect mandating more rest and orienting drivers toward a 24-hour work-rest cycle. Inside the envelope was a small, metal vial which contained ricin.

Typewritten on the exterior of the envelope was the following warning:


caution RICIN POISON
Enclosed in sealed container
Do not open without proper protection

The following is a representation of the language contained in the threat letter:

to the department of transportation: I'm a fleet owner of a tanker company.

I have easy access to castor pulp. If my demand is dismissed I'm capable of making Ricin.

My demand is simple, January 4 2004 starts the new hours of service for trucks which include a ridiculous ten hours in the sleeper berth. Keep at eight or I will start dumping.

You have been warned this is the only letter that will be sent by me.

Fallen Angel

Anyone having information, contact the Tip Line 1-866-839-6241
(1-866-839-6241)

Reward payment will be made in accordance with conditions of Postal Service Reward Poster 296, dated February 2000.

Public Health Information regarding ricin can be found at the Center for Disease Control website (www.cdc.gov)

Investigation Finds Violations and Deficiencies in New Orleans DBE Programs

An OIG investigation into allegations of disadvantaged business enterprise (DBE) fraud in New Orleans found significant programmatic deficiencies and violations in key areas at three city agencies. The agencies are the New Orleans International Airport, the Regional Transit Authority, and the Orleans Levee District, which operates Lakefront Airport, all of which receive DOT funding.

Our review resulted from a request by the House Appropriations Committee in the report accompanying the FY 2003 DOT Appropriations Act. The request stemmed from concerns initially raised by Representative Harold Rogers, then chairman of the House Transportation Appropriations Subcommittee, and Representative David Vitter over a series of articles in the New Orleans Times-Picayune newspaper about alleged systemic problems in local DBE programs.

New Orleans Lakefront Airport, Terminal Building, New Orleans, LA

WHAT WE FOUND

Our investigative report, released November 24, substantiated many of the alleged abuses in the DBE programs reported in the Times-Picayune series, finding DBE businesses controlled by nonminorities, suspected illegal DBE fronts, and a widespread perception that political patronage affected the awarding of DBE contracts. Under DOT laws, DBE firms must be owned and controlled by socially and economically disadvantaged individuals in order to participate in the program.

OIG special agents found alleged abuses in five major areas.

- **Illegal DBE Fronts**. We uncovered three suspected DBE fronts. The term "front" refers to a DBE that does not perform the work required to fulfill DBE participation under prime contracts. Instead, a prime contractor or subcontractor pays the DBE a relatively small amount to use their DBE status, thereby enabling the contractor to falsely represent that the DBE is performing the work. The prime contractor or another non-DBE contractor then actually performs the work and receives most of the payments. These investigations are ongoing.

- **DBE Owners Who Exceeded Personal Net-Worth Limits**. We identified several DBE owners who exceeded the personal net worth limit of $750,000. For example, one DBE owner was a multimillionaire and one of the largest contractors in the southeastern United States. The owner has since been decertified.

- **Businesses Controlled by Nonminorities**. We found multiple DBE businesses controlled by individuals who were ineligible for DBE status. One DBE owner, whose DBE status was based on her gender, admitted she knew little about the operation of her business, which her son, who was not eligible for DBE status, was running. She has been decertified.

- **No Annual Affidavits**. The three agencies did not enforce regulations requiring DBE owners to submit annual affidavits certifying continued program eligibility. Over half of the certification files we reviewed for the levee district lacked the affidavits, as did 30 percent of airport and 25 percent of transit-authority certification files.

- **Political Patronage**. We found a widespread perception that political patronage was prevalent in the DBE programs in New Orleans during the 1999-2002 period. More than 60 percent of the DBEs we interviewed expressed their belief that political patronage affected the awarding of DBE contracts.

- **Site Visits Not Conducted or Inadequate**. DBE program managers at the transit authority and levee district did not conduct required site visits with 50 percent and 30 percent, respectively, of their certified DBEs. Site visits that were conducted during the certification process were not thorough enough to detect eligibility violations or false statements and DBE fraud.

MAKING CHANGES

An important part of our investigation included briefing the city agencies on best practices and recommending ways to improve their oversight of the DBE programs. The three agencies have already begun to perform more thorough site visits, track recertification and annual reporting requirements, and a review of their DBE certification files and personal net-worth information.

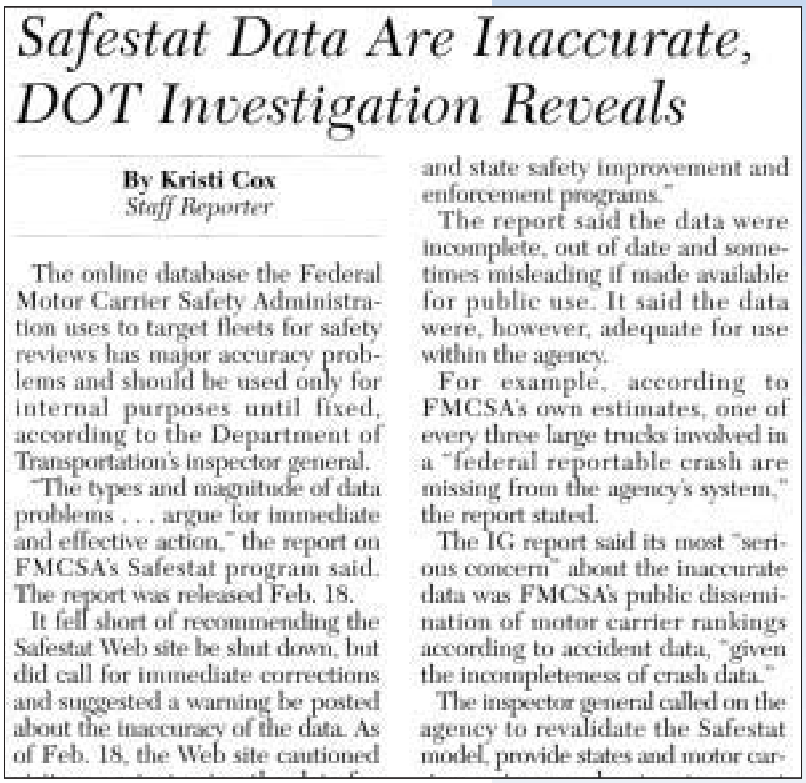
Because of weaknesses in FTA and particularly FAA's oversight of their New Orleans DBE programs, we recommended these agencies strengthen their stewardship by doing site visits, interviews of DBE and prime contractors, detailed reviews of certification files, work-site surveillance, and their own examination of local applications for certification.

This review uncovered several cases of possible fraud that we are continuing to investigate. The cases involve possible illegal fronts, political patronage, and the circumvention of procurement procedures.

SafeStat Data Lacking in Completeness, Accuracy, Timeliness

Our audit of SafeStat, an automated data system that FMCSA uses to target motor carriers for safety inspection and enforcement activities, raised a serious concern that the data be more complete, accurate, and timely because of the system's public dissemination and external use. We performed the audit, which we issued on February 13, at the request of Representative Thomas E. Petri, chairman of the House Transportation and Infrastructure Highways and Transit Subcommittee.

SafeStat, shorthand for Motor Carrier Safety Status Measurement System, is an automated system that measures the relative safety of motor carriers used in interstate commerce or to haul hazardous materials. Developed in the mid-1990s, it evaluates motor carriers in four areas — crashes, drivers, vehicles, and safety management — based on data reported to FMCSA, ranks carriers against one another, and assigns them a percentile ranking from 0 to 100, with 100 being the worst.



Safestat Data Are Inaccurate, DOT Investigation Reveals

By Kristi Cox
Staff Reporter

The online database the Federal Motor Carrier Safety Administration uses to target fleets for safety reviews has major accuracy problems and should be used only for internal purposes until fixed, according to the Department of Transportation's inspector general.

"The types and magnitude of data problems . . . argue for immediate and effective action," the report on FMCSA's Safestat program said. The report was released Feb. 18.

It fell short of recommending the Safestat Web site be shut down, but did call for immediate corrections and suggested a warning be posted about the inaccuracy of the data. As of Feb. 18, the Web site cautioned

and state safety improvement and enforcement programs."

The report said the data were incomplete, out of date and sometimes misleading if made available for public use. It said the data were, however, adequate for use within the agency.

For example, according to FMCSA's own estimates, one of every three large trucks involved in a "federal reportable crash are missing from the agency's system," the report stated.

The IG report said its most "serious concern" about the inaccurate data was FMCSA's public dissemination of motor carrier rankings according to accident data, "given the incompleteness of crash data."

The inspector general called on the agency to revalidate the Safestat model, provide states and motor car-

FINDINGS

Our audit found that SafeStat generally calculated scores consistent with its design. Government users told us they view SafeStat as an effective tool in targeting high-risk carriers.

The concern about SafeStat arises from the fact that since December 1999, it has been available to the general public over the World Wide Web for use in choosing which commercial truck or bus company to hire. Safestat is accessed as often as 80,000 times a month and can have an economic impact on carriers, so its reliability is important.

While we found SafeStat sufficient for internal use within the Department, we identified weaknesses in the data reported by states and motor carriers and with FMCSA's processes for correcting and disclosing data problems.

Our most serious concern was with the continued public dissemination of motor-carrier rankings for the accident-evaluation area because of the incompleteness of crash data. State motor-carrier safety data — including crash and inspection data — is not always reported to FMCSA for use in Safestat, and reported data is often untimely, incomplete, or inaccurate. For example, it is estimated that Arkansas, the District of Columbia, Florida, Georgia, New Hampshire, New Mexico, Rhode Island, Tennessee, and Virginia did not report at least 60 out of every 100 large trucks involved in reportable crashes in 2001. Timely and accurate reporting is important since Safestat more heavily weights crashes and negative inspection findings that have occurred within the last six months.

In addition, motor carriers are not regularly updating their census data (number of trucks and drivers) with FMCSA, a fact that undermines SafeStat's effectiveness when ranking carriers. In the worst case, carriers incorrectly shown on census records as having zero vehicles can have crashes, including fatalities, without a negative impact on their SafeStat score. For example, about 272,000 or 42 percent of the active interstate motor carriers had not met the congressionally mandated requirement to update census data every two years, as of January 2003.

RECOMMENDATIONS

We recommended that FMCSA: (1) revalidate the SafeStat model; (2) provide states and motor carriers with an improved system to correct inaccurate data; (3) expand cautionary statements on SafeStat to include state-specific information on data-quality problems; and (4) expeditiously establish an overall data-quality improvement program

FMCSA agreed with our concerns for improving data quality and cited a number of improvements it has already implemented or has under way. These include modifications to warn Safestat users of data limitations, revalidation of the SafeStat model; work with states to improve the accuracy of data reporting; and making federal motor-carrier safety-improvement grants to the states contingent on participation in certain data-quality programs.

Emery Worldwide Airlines Fined $6 Million for Illegal Shipment of Hazardous Cargo

Culminating a four-year investigation, a federal judge in Dayton, OH, fined Emery Worldwide Airlines $6 million on December 19, 2003, for 12 counts of willfully violating the Hazardous Material Transportation Act. The fine, the second-highest dollar recovery tied to hazardous materials in U.S. aviation history, was announced at a joint press conference of the departments of Transportation and Justice on September 30 in Washington, DC. At the press conference, U.S. Attorney General Ashcroft and Secretary of Transportation Mineta, with DOT Inspector General Mead and FAA Administrator Blakey, gave notice of a new joint initiative to stem illegal shipments of hazardous cargo.

Emery's sentence also included a three-year probationary term. During probation, Emery will institute a compliance program to prevent additional hazmat violations.

A wholly owned subsidiary of CNF, Inc., of Palo Alto, CA, Emery provided air and land transportation for business-to-business shippers of heavyweight cargo. Emery's admission of guilt involves 12 occasions at its hub near Dayton between November 1998 and July 1999 when it did not give the commanding pilot required written notice that hazmat had been loaded on aircraft. It is important for pilots to know about hazardous cargo so they can respond quickly and appropriately to on-board emergencies, such as fires or spills. The types of hazmat involved included nonflammable gas, corrosive liquid, flammable liquid, explosive and radioactive material, toxic substance, and "miscellaneous dangerous goods."

The case, which was investigated by OIG with assistance from FAA, first

Hazmat has been a top investigative priority of OIG since 1997.

came to the government's attention when an Emery employee made allegations that the company was shipping hazardous materials with inadequate documentation, failing to notify the pilots, and concealing problems from FAA inspectors.

According to DOT statistics, about 300 million shipments of hazardous materials are transported annually. About 5 percent move by air, 94 percent by motor carrier, and 1 percent by rail.

Hazmat has been a top investigative priority of OIG since 1997. OIG's role involves criminal investigations, with a focus on individuals and institutions that defraud DOT hazmat programs.

'Not an Isolated Case'

BY ANGELA GREILING KEANE

$6.5 million Emery fine heralds hazmat crackdown as DOJ, DOT, FAA step up anti-terror campaign

In a case the U.S. Justice Department used to trumpet a new crackdown on hazardous materials shipping, CNF Inc. agreed to pay $6.5 million in penalties after pleading guilty Sept. 30 to 12 counts of improperly documenting hazardous materials shipments at Emery Worldwide Airlines in 1998 and 1999.

"This is not an isolated case," Department of Transportation Inspector General Kenneth M. Mead said. "This is not an aberrant situation. Emery is a serious case but it's not the only one."

With anti-terror initiatives high on the agenda in Washington, the case drew attention at high levels of the government. Attorney General John Ashcroft joined top transportation officials at an event linking the Emery settlement to efforts they would extend across the transport modes.

"It is not difficult to postulate a terrorist attacking by hazmat," said Ashcroft alongside Transportation Secretary Norman Mineta, Federal Aviation Administrator Marion Blakey and Mead. "This initiative has already borne fruit."

The officials wouldn't discuss details of their initiative, however, nor how it was related to the investigation of documentation for shipments in the late 1990s.

"I thought it was unfortunate that the attorney general would link this case that occurred in 1998 to events today," said Jim Allen, a spokesman for CNF.

Allen said the mistakes were the fault of CNF, not shippers, and that the company fully cooperated with the investigation and is adding new training and safeguards on hazmat handling. "In this case, the blame lies with us," said Allen.

Even without the terror concerns, regulation of hazardous materials shipping is a huge undertaking. U.S. shippers send 1.56 billion tons of hazmat-class material each year on various modes of transportation. The federal government closely regulates such shipments with strict rules on documentation and handling.

Many such shipments are barred from passenger aircraft and some cargo airlines refuse to carry hazardous materials. The FAA conducted some 2,000 hazmat handling investigations in 2002, resulting in $6 million in civil penalties. The agency employs 125 hazmat inspectors, who conducted 9,000 inspections of carriers and shippers last year.

The DOT inspector general's office has more than 60 ongoing hazmat criminal investigations and has gotten at least 20 convictions in each of the last three years.

Hazardous materials take in obvious shipments such as chemicals and fertilizers to less obvious goods including materials packed in dry ice and consumer products such as nail polish removers and aerosol sprays — the kind of goods Emery was accused of misidentifying.

In the Emery case, said Allen, "these are normal industrial goods. It's not radioactive plutonium."

Under the plea agreement, entered in U.S. District Court in Dayton, Ohio, CNF will pay a $6 million criminal fine and a separate $500,000 civil fine. The company also agreed to five years' probation and to implement a hazardous materials handling compliance program for its employees at the company's expense. Although the penalties were the maximum for each count, the fines could have been higher if the government had prosecuted more counts of improperly handling hazardous cargo.

The former Emery Worldwide operates under the Menlo Worldwide Forwarding business that was reorganized into the Menlo Logistics business. The heavyweight air shipping operation uses contracted lift since Emery voluntarily grounded its airline in 2001 during an investigation into the crash of an Emery DC-8 freighter outside Sacramento, Calif., in 2000 that killed three crewmembers. The National Transportation Safety Board recently concluded Emery was at fault in that crash.

Emery employees triggered the separate hazmat investigation, complaining that pilots were not properly notified about the presence and location of hazardous materials on their aircraft. Investigators said Emery had not properly labeled some shipments and that the company had no way of tracking hazardous shipments diverted to different flights.

— Traffic World associate editor John D. Schulz contributed to this report.

DOT Receives Third Consecutive "Clean" Audit of Annual Financial Statements

For the third year in a row, the Department received an unqualified, or "clean," audit opinion on its consolidated financial statements. OIG is required by law to conduct an annual audit of DOT's financial statements. This year's audit opinion, issued on January 30, applies to the FY 2003 statements.

Consolidated financial statements show how the department accounted for its total budgetary resources of $128 billion in FY 2003 provided by American taxpayers for federal transportation activities. The Department has received an unqualified opinion on its financial statements for four of the last five years.

"The Department has received an unqualified opinion on its financial statements for four of the last five years."

Because DOT's financial operations — including assets, liabilities, and program costs — "are comparable in size to a Fortune 100 company, ensuring the Department's financial statements are in order is particularly important," Inspector General Kenneth Mead said. He attributed the Department's achievement of a clean opinion for the third year running to "a concerted effort to overcome significant financial and accounting hurdles."

We warned that the Office of Management and Budget has set a deadline of November 15, 2004, for completion of the FY 2004 financial statements. This accelerated due date will challenge some of the operating administrations to make major improvements in their accounting policies and procedures to enable the Department to meet the shortened timeframe.

We categorized problems encountered with the financial statements into four "material weaknesses," which are deficiencies in the design or operation of internal controls, and five less-serious reportable conditions. The material weaknesses involve:

- **Information security program**. The Department has made significant progress in protecting its systems against external attacks through the Internet. Nevertheless, it is still behind in protecting its systems against internal attacks from employees, contractors, grantees, and industry associations.

■ **Cost-reimbursable contracts at FAA**. Cost-reimbursable contracts have few inherent protections against cost overruns or improper payments. Although FAA has made significant progress closing out completed cost-reimbursable contracts, about $3.4 billion worth of completed contracts remain to be closed.

■ **Financial management and reporting for Highway Trust Fund agencies**. HTF agencies lack adequate accounting and financial management policies and procedures. To illustrate, most HTF agencies did not routinely reconcile their accounts during the year, a basic management practice. Problems caused by these long-standing deficiencies were compounded this year because FHWA and FMCSA did not adequately plan or implement their conversions to Delphi, the Department's new financial management system, in February 2003.

■ **Reconciling transactions with other federal agencies**. DOT has not implemented effective processes to reconcile its transactions with other Federal agencies. This problem occurs, for example, when FAA performs reimbursable work for the Department of Defense.

The five reportable conditions include (1) Delphi computer security; (2) FHWA's financial management reviews of grantees; (3) FAA's reporting of its property, plant, and equipment; (4) MARAD's financial management practices; and (5) accounting for loans in Delphi.

In addition to the department-wide audit, we conducted individual audits on the FAA and Highway Trust Fund financial statements, the FY 2003 and 2002 financial statements of the St. Lawrence Seaway Development Corporation, and, for the first time, the National Transportation Safety Board financial statements. All four audits resulted in unqualified opinions. The audits were performed by OIG staff, KPMG LLP, Clifton Gunderson LLP, Daniel Eke and Associates, and Brown and Company.

"DOT's financial operations are comparable in size to a Fortune 100 company."

OTHER ACCOMPLISHMENTS

This section describes significant accomplishments of OIG staff that are not included in the legal reporting requirements of the Inspector General Act.

GAO Financial Statement Checklist Completed

Based on our recommendation, the Department completed the GAO Financial Statement Checklist for its FY 2003 consolidated financial statements. While not required, completing the checklist helped assure the Department that it prepared its financial statements in accordance with federal generally accepted accounting principles and OMB. *October 2003*

Lines Rerouted to Avert Air-Traffic Disruptions

As a result of an OIG recommendation, an FAA en-route air-traffic-control center redirected its telecommunication lines to reduce their susceptibility to a mishap that might disrupt air-traffic-control operations. Before the correction, the center's primary and backup fiber-optical lines ran parallel and in close proximity to each other, thereby increasing their vulnerability to the same accident or incident. *December 2003*

FAA Renegotiates Air-Traffic-Controller MOUs

As a result of an OIG audit, FAA reviewed all memorandums of understanding (MOUs) and pay rules and included the most problematic ones as part of the Agency's negotiations to extend the National Air Traffic Controllers Association union contract. The renegotiated pay rules eliminated pay raises for controllers who transfer to a busier, consolidated facility in advance of moving. Also, the new pay rules should allow FAA to set newly hired controllers' salaries at levels that are commensurate with an entry-level position. Other changes to MOUs corrected issues that infringed on management's decisions making authority such as management's rights to make technical decisions and administer training in the deployment of new systems. FAA estimates that depending on hiring needs, the extension could result in a cost avoidance of as much as $40 million over the next four years. *December 2003*

Florida's Payment of Relocation Expenses Speeded Up

A hotline complaint from an arts center occupant in Jacksonville, FL, resulted in a finding by FHWA that the Florida Department of Transportation was lagging in paying the complainant's reestablishment expenses. The man was forced to relocate his establishments because of state right-of-way acquisitions. This laxity not only caused financial hardship, but also violated federal regulations concerning reimbursement of expenses when displaced organizations and small businesses have to move and reestablish themselves. FDOT paid the complainant for his expenses. *February 2004*

Safer Flights for a Cargo Airline Company

An OIG hotline complaint alleged that a cargo airline company in Miami, FL, was using old nets to secure cargo during transport, creating a potential safety hazard if the goods shifted in flight. The company took corrective action by issuing cargo alert bulletins, purchasing 500 new cargo nets, and contracting for repairs to the old cargo nets. *February 2004*

Hotline Complaints Prompt FMCSA Reviews

We received a number of hotline reports that prompted us to notify FMCSA of possible regulatory compliance problems. One complaint alleged that a Neenah, WI, trucking company was operating with a falsified insurance certificate. During a compliance review, FMCSA gave the company an unsatisfactory rating and initiated enforcement action. The company has since gone out of business. *February 2004*

Another complaint alleged a Little Rock, AR, trucking company was violating driver alcohol- and drug-testing and truck-maintenance requirements. In a compliance review, FMCSA gave the company a "conditional" safety rating based on these two types of violations, as well as duty-status violations, which could include safety issues such as allowing a driver to operate a commercial motor carrier without a valid commercial driver's license or failing to make a complete inquiry into a driver's driving record. *February 2004*

Another complainant alleged a trucking company in Romulus, MI, was violating hours-of-service and driver's logbook requirements. FMCSA gave the company a conditional safety rating and has taken enforcement action to address the carrier's noncompliance. *February 2004*

Threatened Employee Protected

An employee of the Transportation Federal Credit Union (TFCU) was the recipient of threatening and abusive calls while working at the Volpe Center's credit union office in Cambridge, MA. OIG, Volpe, and the security contractor established a protocol to contact the Cambridge Police Department if the suspect came to TFCU, which she did. OIG special agents were present when the police arrived to arrest the caller. *March 2004*

Charts & Tables

Summary of Performance

October 1, 2003 – March 31, 2004

Reports issued	39
Recommendations issued	103
Congressional testimonies	3
Total financial recommendations	$ 553,396,025
— that funds be better used	$ 547,500,000
— that questioned costs	$ 5,896,025
Cases referred for prosecution	224
Cases accepted for prosecution	151
Indictments	93
Fines, restitutions, civil judgments, and recoveries	$ 24,564,794
Convictions	90
Debarments and suspensions	2
Actions affecting DOT employees	20

Judicial and Administrative Actions

October 1, 2003 – March 31, 2004

Indictments	93
Administrative actions	
Employee	
terminations	3
suspensions	8
downgrade	1
reassignments	2
reprimands	2
resignations and retirements	4
Debarments and suspensions	2
Federal funding suspended or revoked	4
Licenses revoked, terminated, or suspended	4
Convictions	90
Years sentenced	119
Years probation	117
Years supervised release	114
Hours of community service	866

Financial Impact

Fines	$ 8,580,800
Restitutions/civil judgments	$ 8,945,161
Federal recoveries*	$ 1,601,947
Administrative recoveries†	$ 5,312,772
State recoveries*	$ 124,114
TOTAL	**$ 24,564,794**

** "Recoveries" include fines, restitution, civil judgments or settlements, and the cost of remedial actions. Federal recoveries go to the U.S. Treasury; state recoveries are retained by the states.*
†"Administrative recoveries" may include suspension, reduction, or redistribution of federal funding.

During the six-month reporting period, 129 cases were opened and 83 were closed, leaving a pending caseload of 587. Cases involving 224 people and institutions were referred for prosecution. Of the referrals during this or prior reporting periods, cases involving 151 people and institutions were accepted for prosecution, and the cases of 74 people or firms were declined. As of March 31, 2004, 26 cases were pending before prosecutors.

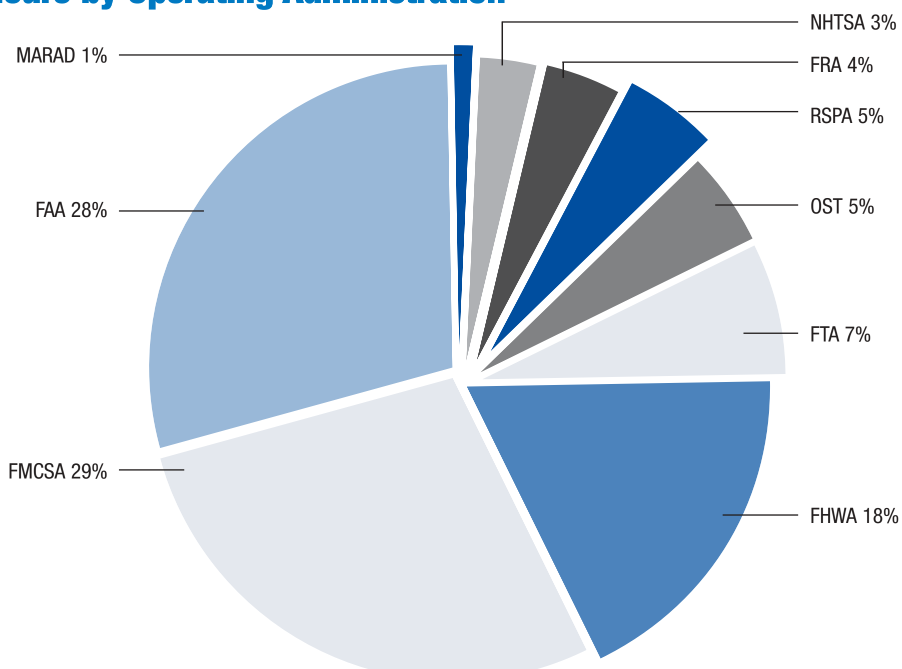
Profile of Pending Investigations

As of March 31, 2004

	Number of Cases	Types of Cases: Contract & Grant Fraud	Employee Integrity	Aviation Safety	Motor Carrier Safety	Hazmat	Other
Operating Administration							
Bureau of Transportation Statistics	1	0	1	0	0	0	0
Federal Aviation Administration	237	29	73	117	0	8	10
Federal Highway Administration	120	112	5	0	0	0	3
Federal Railroad Administration	18	5	4	0	0	6	3
Federal Transit Administration	32	29	0	0	0	1	2
Maritime Administration	4	4	0	0	0	0	0
Federal Motor Carrier Safety Administration	105	1	4	0	80	16	4
Office of the Secretary	15	6	7	0	0	0	2
Research and Special Programs Administration	41	2	3	0	0	36	0
National Highway Traffic Safety Administration	14	4	3	0	0	0	7
Totals	**587**	**192**	**100**	**117**	**80**	**67**	**31**
Percent of Total	**100%**	**33%**	**17%**	**20%**	**14%**	**11%**	**5%**

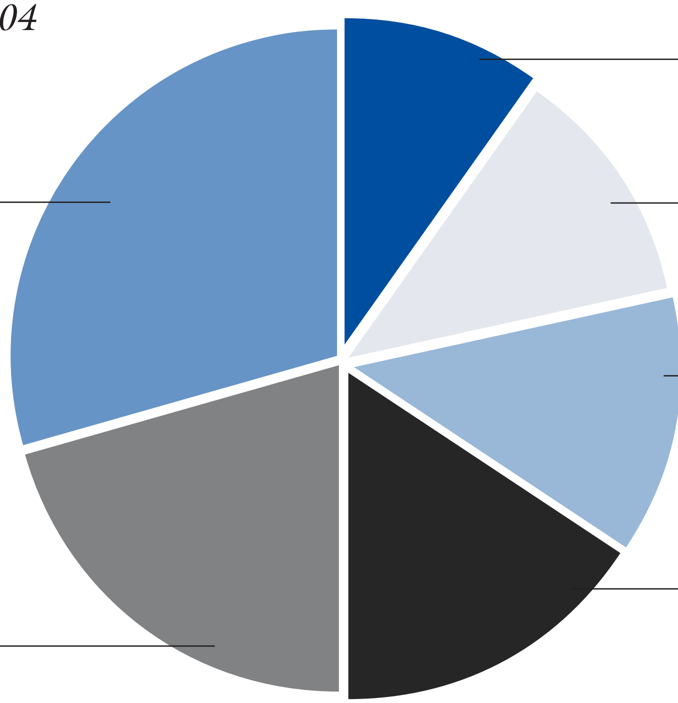
Application of Investigative Project Hours by Operating Administration

October 1, 2003 – March 31, 2004



Application of Investigative Resources by Priority Area

October 1, 2003 – March 31, 2004



Percentages add to more than 100 percent due to rounding.

AUDITS

Completed OIG Reports

October 1, 2003 – March 31, 2004

(Estimated amounts*, dollars in thousands)

Type of Review	Number of Reports	Number of Recommendations	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Internal Audits					
— Program/functional	7	26	0	$ 0	$547,500
— Chief financial officer financial statements	6	32	0	0	0
Other OIG Internal Reports	1	0	0	0	0
Total Internal Audits and Reports	**14**	**58**	**$0**	**$ 0**	**$547,500**
Grant Audits					
— Audits of grantee under Single Audit Act	25	45	$5,896	$ 0	$0
Total	**39**	**103**	**$5,896**	**$ 0**	**$547,500**

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

Note: Department of Transportation programs and operations are primarily carried out by the Department's personnel and recipients of federal grants. Audits by DOT's Office of Inspector General, as a result, fall into three categories: (1) internal audits of departmental programs and operations; (2) internal reviews of departmental programs and operations; and (3) audits of grant recipients. The table shows OIG's results in the three categories.

OIG Reports with Recommendations That Questioned Costs

October 1, 2003 – March 31, 2004

(Dollars in thousands)

Reports	Number of Reports	Number of Recommendations	Questioned Costs	Unsupported Costs*
A For which no management decision was made by the start of the reporting period	17	21	$ 48,982	$0
B Which were issued during the reporting period	20	31	$ 5,896	$0
Total A+B	**37**	**52**	**$ 54,878**	**$0**
C For which a management decision was made during the reporting period	21	30	$ 5,645	$0
— dollar value of disallowed costs†	14	20	$ 3,262	$0
— dollar value of costs not disallowed†	13	15	$ 2,567	$0
D For which no management decision was made by the end of the reporting period	18	22	$ 49,233	$0

**There were no recommendations for unsupported costs.*
†Includes reports and recommendations where costs were both allowed and disallowed.

OIG Reports with Recommendations That Funds Be Put to Better Use

October 1, 2003 – March 31, 2004

(Dollars in thousands)

Reports	Number of Reports	Number of Recommendations	Funds to Be Put to Better Use
A For which no management decision was made by the start of the reporting period	3	3	$ 763,500
B Which were issued during the reporting period	2	4	$ 547,500
Total A+B	**5**	**7**	**$ 1,311,000**
C For which a management decision was made during the reporting period	1	1	$ 48,000
— dollar value of recommendations agreed to by management	1 *	1 *	$ 18,700
— dollar value of recommendations not agreed to by management	1 *	1 *	$ 29,300
D For which no management decision was made by the end of the reporting period	4	6	$ 1,263,000

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

OIG Reports Recommending Changes for Safety, Economy, or Efficiency

October 1, 2003 – March 31, 2004

Reports	Number of Reports	Number of Recommendations
A For which no management decision was made by the start of the reporting period	44	112 *
B Which were issued during the reporting period	22	68
Total A+B	**66**	**180**
C For which a management decision was made during the reporting period	38†	78
D For which no management decision was made by the end of the reporting period	33†	102

**Adjusted from previous semiannual report by a net decrease of 2 recommendations.*

†Includes reports where management made decisions on some but not all recommendations.

Management Decisions Regarding OIG Recommendations

October 1, 2003 – March 31, 2004

(Dollars in thousands)

Description	Number of Reports	Number of Recommendations	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
Unresolved as of October 1, 2003	50	136*	$48,982	$0	$763,500
Audits with findings during current period	33	103	$5,896	$0	$547,500
Total to Be Resolved	**83**	**239**	**$54,878**	**$0**	**$1,311,000**
Management Decisions:					
— Audits prior period†	33	72	$2,611	$0	$48,000
— Audits current period†	17	37	$3,034	$0	$0
Total Resolved	**50**	**109**	**$5,645**	**$0**	**$48,000**
Unresolved:					
— Less than 6 mos. old	18	66	$2,862	$0	$547,500
— 6 mos.–1 year	16	46	$46,357	$0	$221,000
— 1 year–18 mos.	1	2	$14	$0	$0
— 18 mos.–2 years	0	0	$0	$0	$0
— Over 2 years old	6	16	$0	$0	$494,500
Total Unresolved as of March 31, 2004‡	**41**	**130**	**$49,233**	**$0**	**$1,263,000**

** Adjusted from previous semiannual report by a net decrease of 2 recommendations due to improper data entry.*
† Includes reports and recommendations where costs were both allowed and disallowed.
‡ Considered unresolved if management decisions have not been made on all report recommendations.

Office of Inspector General Published Reports

October 1, 2003 – March 31, 2004

Operating Administration/ Type of Report	Title	Focus of Report/ Recommendations	Date Issued	Report Number
Federal Aviation Administration				
Internal Audits: Program/Functional—3 reports				
	Using CRU-X to Capture Official Time Spent on Representational Activities	Better tracking of FAA's workforce needed	2–10–04	AV–2004–033
	Status Report on the Advanced Technologies and Oceanic Procedures System	New system may be delayed due to software development and testing problems	3–31–04	AV–2004–037
	Revenue Diversions at San Francisco International Airport	Put $12,500,000 to better use	3–31–04	SC–2004–038
Grant Audits: Audits of Grantee Under Single Audit Act—9 reports				
	City of San Jose, CA	$1 questioned	11–18–03	QC–2004–002
	Jackson County Airport Authority, MS	$238,535 questioned	11–18–03	QC–2004–003
	Lea County, NM	$27,816 questioned	11–18–03	QC–2004–004
	Port of Seattle, WA	Improve grantee oversight	12–23–03	QC–2004–011
	Owensboro–Daviess County Regional Airport Board, KY	$26,433 questioned	1–20–04	QC–2004–016
	State of North Carolina	$388,805 questioned	1–20–04	QC–2004–018
	Virginia Highlands Airport Commissions	$57,135 questioned	1–20–04	QC–2004–023
	Port Authority of New York and New Jersey	Improve grantee oversight	1–20–04	QC–2004–028
	City of Pendleton, OR	$16,807 questioned	1–27–04	QC–2004–030
Internal Audits: Chief Financial Officer Financial Statement—1 report				
	Quality Control Review of Audited Financial Statements for Fiscal Years 2003 and 2002	Unqualified opinion on financial statements	12–19–03	QC–2004–008
Federal Highway Administration				
Internal Audits: Program/Functional—1 report				
	Inactive Obligations	Put $535,000,000 to better use	3–31–04	FI–2004–039

Office of Inspector General Published Reports *(continued)*

Operating Administration/ Type of Report	Title	Focus of Report/ Recommendations	Date Issued	Report Number
Internal Audits: Chief Financial Officer Financial Statement—1 report				
	Quality Control Review, Audited Financial Statements for Fiscal Years 2003 and 2002, Highway Trust Fund	Unqualified opinion on financial statements	1–23–04	QC–2004–029
Grant Audits: Audits of Grantee Under Single Audit Act—6 reports				
	State of Rhode Island and Providence Plantations	$762,404 questioned	11–18–03	QC–2004–001
	Wyoming Department of Transportation	$43,000 questioned	1–20–04	QC–2004–013
	Commonwealth of Massachusetts	$979,042 questioned	1–20–04	QC–2004–015
	City of Fresno, CA	$50,145 questioned	1–20–04	QC–2004–024
	State of North Dakota	$35,958 questioned	1–20–04	QC–2004–026
	State of Louisiana	$294,302 questioned	1–20–04	QC–2004–027
Federal Motor Carrier Safety Administration				
Internal Audits: Program/Functional—1 report				
	Improvements Needed in the Motor Carrier Safety Status Measurement System	Additional safeguards and controls needed to ensure data quality; actions needed to improve the system's effectiveness	2–13–04	MH–2004–034
Federal Railroad Administration				
Internal Audits: Program/Functional—1 report				
	Review of Slow Orders and Track Reclassification	Improvements needed in replacement practices for ballast materials	12–10–03	MH–2004–007
Federal Transit Administration				
Grant Audits: Audits of Grantee Under Single Audit Act—10 reports				
	Central Ohio Transit Authority	Improve grantee oversight	12–23–03	QC–2004–010
	Suburban Mobility Authority for Regional Transportation, MI	$16,861 questioned	1–20–04	QC–2004–012
	Broward County, FL	$15,603 questioned	1–20–04	QC–2004–014
	State of Maryland	$329,253 questioned	1–20–04	QC–2004–017
	Chambersburg Transit Authority, PA	$355,721 questioned	1–20–04	QC–2004–019

Operating Administration/ Type of Report	Title	Focus of Report/ Recommendations	Date Issued	Report Number
	Central New York Regional Transportation Authority and Subsidiaries	$287,641 questioned	1–20–04	QC–2004–020
	Southeastern Pennsylvania Transportation Authority	Improve grantee oversight	1–20–04	QC–2004–021
	Port Authority of Allegheny County, PA	Improve grantee oversight	1–20–04	QC–2004–022
	City of Tulsa, OK	$738,705 questioned	1–20–04	QC–2004–025
	Washington Metropolitan Area Transit Authority, DC	$1,231,858 questioned	3–29–04	QC–2004–036
National Transportation Safety Board				
Internal Audits: Chief Financial Officer Financial Statement—1 report				
	Quality Control Review of Audited Financial Statements for Fiscal Year 2003	Unqualified opinion on financial statements	1–30–04	QC–2004–032
Office of the Secretary Of Transportation				
Internal Audits: Program/Functional—1 report				
	DOT's Rulemaking Process and Tracking System	Process and timeliness improved, but additional actions are needed	3–2–04	SC–2004–035
Internal Audits: Chief Financial Officer Financial Statement—1 report				
	Consolidated Financial Statements for Fiscal Years 2003 and 2002	Unqualified opinion on financial statements	1–30–04	FI–2004–031
Other Internal OIG Reports—1 report				
	Top Management Challenges	Top management challenges related to DOT's ongoing mission	12–5–03	PT–2004–006
Transportation Security Administration				
Internal Audits: Chief Financial Officer Financial Statement—1 report				
	Quality Control Review of TSA Balance Sheet as of February 28, 2003	Unqualified opinion on balance sheet	12–1–03	QC–2004–005
Saint Lawrence Seaway Development Corporation				
Internal Audits: Chief Financial Officer Financial Statement—1 report				
	Quality Control Review of Audited Financial Statements for Fiscal Years 2003 and 2002	Unqualified opinion on financial statements	12–23–03	QC–2004–009

Office of Inspector General Congressional Testimonies

October 1, 2003 – March 31, 2004

Title	Congressional Body	Testimony Date
The Future of Intercity Passenger Rail Service and Amtrak	Senate Committee on Commerce, Science, and Transportation	10–2–03
Observations on Bringing Fiscal Discipline and Accountability to FAA's Air Traffic Control Modernization Program	House Transportation and Infrastructure Subcommittee on Aviation	10–30–03
FAA's FY 2005 Budget: Opportunities to Control Costs and Improve Effectiveness of Programs	House Appropriations Subcommittee on Transportation, Treasury, and Independent Agencies	3–17–04

Status of Unresolved Recommendations Over Six Months Old

Cited in Semiannual Report for Reporting Period—	Status	Date Issued	Report No.
April 1–September 30, 2000			
Contract Towers: Observations on FAA's Study of Expanding the Program	Awaiting additional information from FAA	4–12–00	AV–2000–079
April 1–September 30, 2001			
Compensation Issues Concerning Air Traffic Managers, Supervisors, and Specialists	Working with FAA to resolve open issues	6–15–01	AV–2001–064
October 1, 2001–March 31, 2002			
Downtown Waycross Development Authority, GA	FTA working with grantee to resolve open issues	10–31–01	QC–2002–027
State of Minnesota	FHWA working with grantee to resolve open issues	10–31–01	QC–2002–030
FAA's Acquisition of Aviation Weather Systems	Working with FAA to resolve open issues	02–28–02	AV–2002–084
October 1, 2002–March 31, 2003			
Innovative Pavement Research Foundation	FHWA working with grantee to resolve open issues	03–31–03	QC–2003–035
April 1–September 30, 2003			
Operational Errors and Runway Incursions	Working with FAA to resolve open issues	04–03–03	AV–2003–040
Status Report on FAA's Operational Evolution Plan	Working with FAA to resolve open issues	07–23–03	AV–2003–048
City and County of San Francisco, CA	FTA working with grantee to resolve open issues	09–03–03	QC–2003–056
FAA Needs to Reevaluate STARS Costs and Consider Other Alternatives	Working with FAA to resolve open issues	09–09–03	AV–2003–058
Commonwealth of Massachusetts	FHWA working with grantee to resolve open issues	09–18–03	QC–2003–064
State of Hawaii, Department of Transportation, Airports Division	FAA working with grantee to resolve open issues	09–18–03	QC–2003–065
Miami–Dade County Aviation Department, FL	FAA working with grantee to resolve open issues	09–18–03	QC–2003–066

Status of Unresolved Recommendations Over Six Months Old

	Status	Date Issued	Report No.
Santa Barbara Electric Transportation Institute, CA	FTA working with grantee to resolve open issues	09–18–03	QC–2003–069
State of West Virginia	FHWA working with grantee to resolve open issues	09–23–03	QC–2003–079
City of Hattiesburg, MS	FTA working with grantee to resolve open issues	09–23–03	QC–2003–081
State of Tennessee	FHWA working with grantee to resolve open issues	09–23–03	QC–2003–084
State of California	FHWA working with Grantee to resolve open issues	09–23–03	QC–2003–085
Information Security Program, OST	Working with OST to resolve open issues	09–25–03	FI–2003–086
Air Carrier Compensation Claims	Working with OST to resolve open issues	09–30–03	CR–2003–092
Computer Security of Grant Management and Payment Systems	Working with FTA to resolve open issues	09–30–03	FI–2003–093
Allegheny County Airport Authority, PA	FAA working with grantee to resolve open issues	09–30–03	QC–2003–091

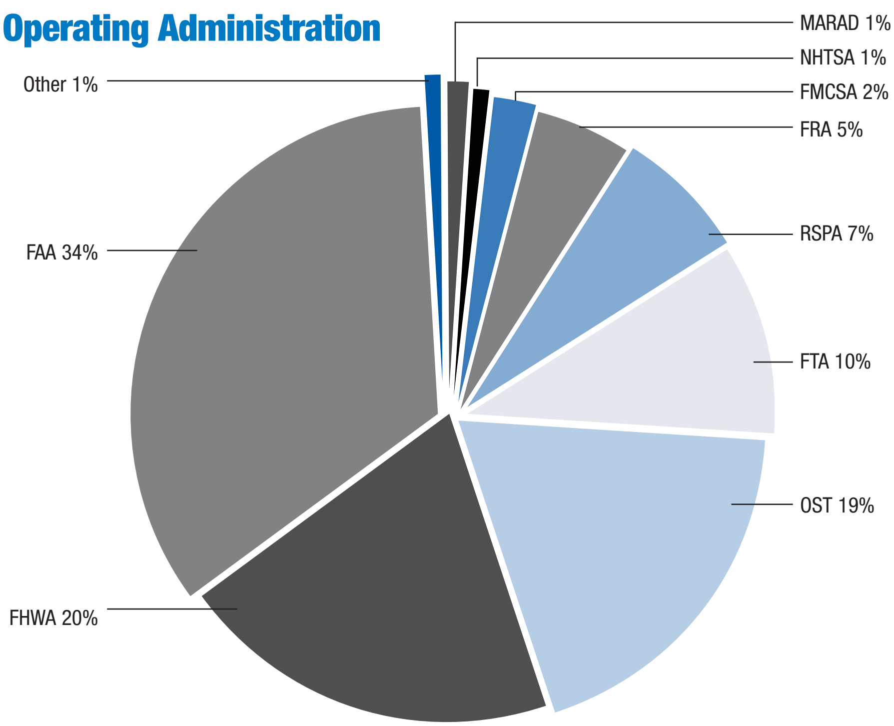
Note: In FY 2003, a total of 95 recommendations were transferred to the Department of Homeland Security for resolution — 7 for FAA, 11 for the Coast Guard, and 77 for the Transportation Security Administration.

Application of Audit Project Hours by Operating Administration

October 1, 2003 – March 31, 2004

Note: Resources shown for OST include time spent auditing the DOT consolidated financial statement (which includes all operating administrations) and other OST activities, including the DOT rulemaking process and tracking system.

"Other" represents resources expended on the National Transportation Safety Board, St. Lawrence Seaway Development Corporation, and Surface Transportation Board. These resources totaled less than 1 percent each.



Required Statements:

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

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

MISSION, ORGANIZATION, & CONTACTS

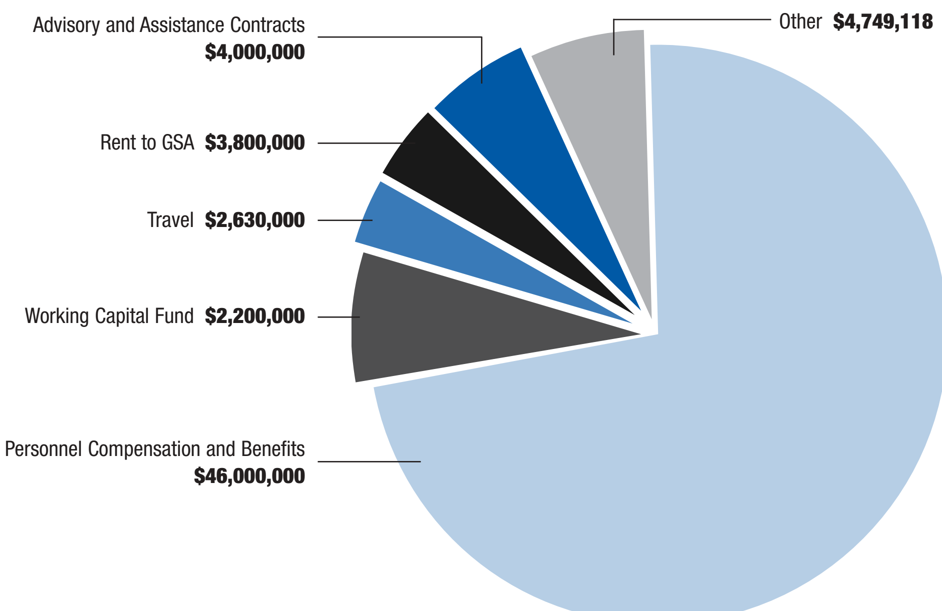
The Office of Inspector General for the Department of Transportation was created by Congress through the Inspector General Act of 1978 (Public Law 95–452). The act sets several goals for OIG:

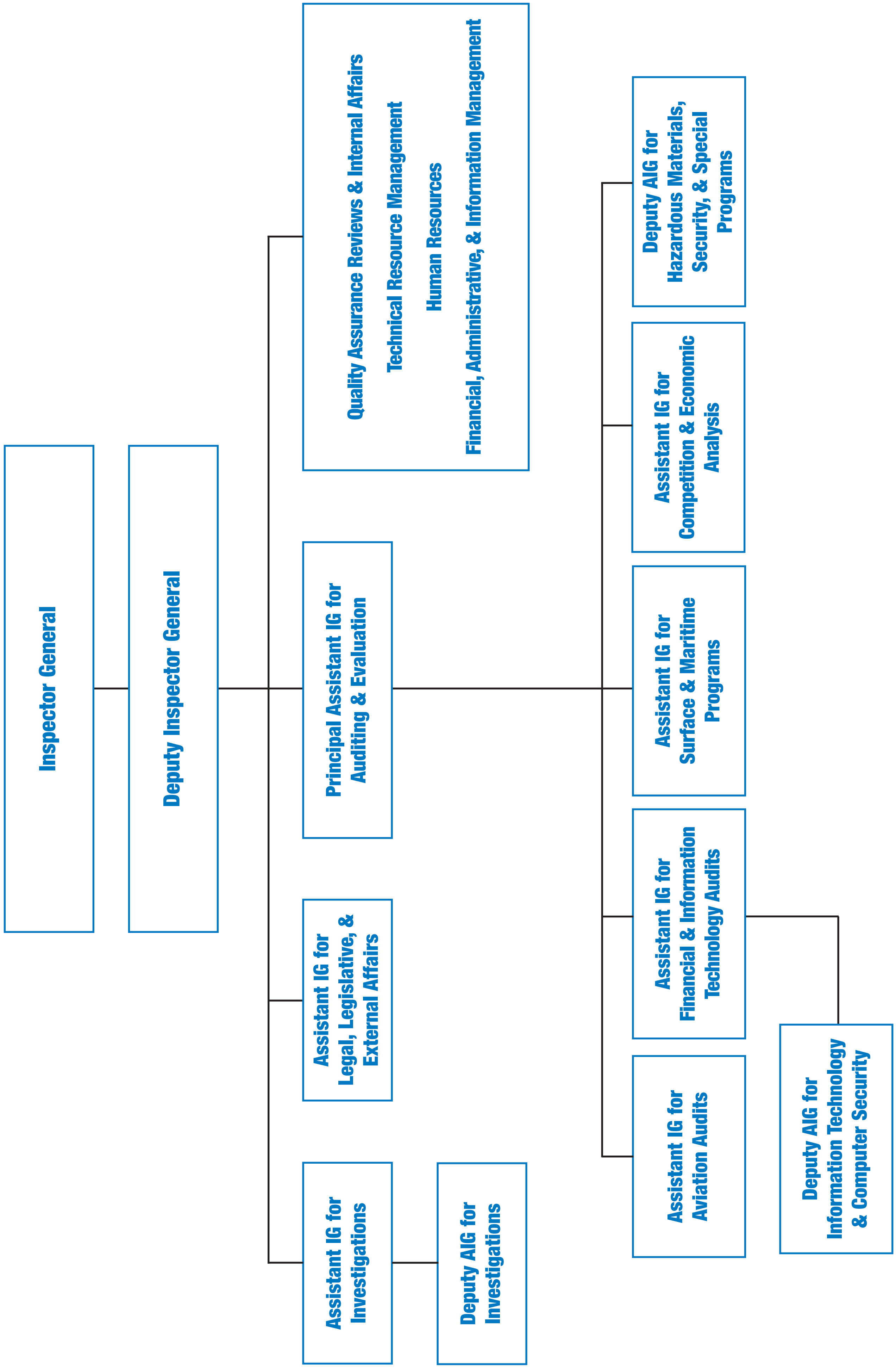
- To conduct or supervise objective audits and investigations of DOT's programs and operations;
- To promote economy, effectiveness, and efficiency within DOT;
- To prevent and detect fraud, waste, and abuse in the Department's programs;
- To review existing and proposed laws or regulations affecting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

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

OIG FY 2004 Program-Level Resources

Total: $63,379,118

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Deputy Inspector General
Quality Assurance Reviews & Internal Affairs
Technical Resource Management
Human Resources
Financial, Administrative, & Information Management
Principal Assistant IG for Auditing & Evaluation
Assistant IG for Legal, Legislative, & External Affairs
Assistant IG for Investigations
Deputy AIG for Investigations
Deputy AIG for Hazardous Materials, Security, & Special Programs
Assistant IG for Competition & Economic Analysis
Assistant IG for Surface & Maritime Programs
Assistant IG for Financial & Information Technology Audits
Deputy AIG for Information Technology & Computer Security
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e–mail: hotline@oig.dot.gov
OIG website: http://www .oig.dot.gov

ABBREVIATIONS

AIG .... Assistant Inspector General

BTS .... Bureau of Transportation Statistics

DBE .... Disadvantaged Business Enterprise

DOT .... Department of Transportation

FAA .... Federal Aviation Administration

FBI .... Federal Bureau of Investigation

FHWA .... Federal Highway Administration

FMCSA .... Federal Motor Carrier Safety Administration

FRA .... Federal Railroad Administration

FTA .... Federal Transit Administration

GAO .... General Accounting Office

GSA .... General Services Administration

IT .... information technology

IRS .... Internal Revenue Service

MARAD .... Maritime Administration

NHTSA .... National Highway Transportation Safety Administration

OIG .... Office of Inspector General

OMB .... Office of Management and Budget

OST .... Office of the Secretary of Transportation

RSPA .... Research and Special Programs Administration

SafeStat .... Safety Status Measurement System

STARS .... Standard Terminal Automation Replacement System

TREAD Act .. Transportation Recall Enhancement, Accountability, and Documentation Act of 2000

U.S. Department of Transportation

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