10. DEPARTMENTAL BUSINESS PRACTICES

DOT has established corporate management strategies (departmental business practices) that cut across all organizational boundaries within DOT and are key to performing its missions efficiently and providing its customers with consistent and seamless transportation policy and services.

Our work has identified five areas of DOT business practices that we think rise to the level of the agency's top management challenges. They are:

- financial accountability;
- timeliness of rulemaking;
- oversight of contract costs and closeouts;
- implementation of the Government Performance and Results Act (GPRA);
- administrative issues concerning space requirements for a new DOT headquarters building and the Transportation Administrative Service Center (TASC) role in providing administrative support.

Some of these issues are longstanding problems (financial accountability) while others are relatively new (DOT headquarters building). OIG has issued many key reports over the last few years with recommendations addressing the Department's business practices.

FINANCIAL ACCOUNTABILITY

Progress in the Last Year:

- After 9 total years of work and because of extraordinary efforts, DOT was able to provide sufficient evidence supporting all material line items on its FY 1999 Financial Statements, resulting in its first clean audit opinion.

- DOT partially implemented its new accounting system, called Delphi, within three of its internal agencies, the Federal Railroad Administration, the Office of Inspector General, and the Research and Special Programs Administration.

- FAA issued its Interim Final Rule on user fees for aircraft overflights, and began charging user fees for aircraft that fly in U.S. airspace, but do not take off or land here. In September 2000, FAA began billing airlines about $3 million per month in overflight fees.

- FAA implemented portions of its cost accounting system, which is planned to be fully operational by the end of FY 2002.

Most Significant Open Recommendations and Issues:

- Implementing a Financial Management and Accounting System. To sustain a clean audit opinion, the Department needs to implement a state-of-the-art financial management and accounting system across the Department that provides accurate and timely financial data, and produces the financial data for preparing annual financial statements. Successful implementation of the new Delphi accounting system by all DOT Operating Administrations is the foundation for financial statements and is essential to avoid the extraordinary and labor-intensive efforts that were needed over the last 2 years to overcome deficiencies in existing financial systems. Such efforts are not sustainable for the long term, and Delphi must be successfully implemented to sustain unqualified audit opinions on future annual financial statements.

  DOT was planning to have a fully operational and compliant accounting system by June 30, 2001. However, Delphi was to be fully operational in one of DOT's smaller operating administrations by May 2000, but as of November 30, 2000, a total of 56 unresolved issues still existed, 21 of which DOT categorizes as major issues. Most of the 21 major unresolved issues were identified over a year ago. On December 20, 2000, the DOT Deputy Chief Financial Officer advised that Delphi's implementation will be delayed due to the deferred availability of Oracle U.S. Federal Financial software.

- Implementing an Integrated Property Management System for FAA. FAA's property account alone is so significant (with acquisition costs of about $16 billion) that failure to properly track and account for the property items, retain documentation supporting acquisition values, and compute depreciation on its property can jeopardize a clean audit opinion for FAA and DOT.

  FAA was able to support the acquisition cost in its property accounts only by using alternative procedures and labor-intensive methods, such as preparing electronic spreadsheets to compute depreciation for 30,000 property items, manually researching and creating documentation files supporting $1.5 billion in costs for 20,000 backlogged job orders, and performing detailed manual searches of expense transactions back to 1982. Such manual processes are prone to errors and inaccuracies. FAA currently is implementing an integrated property management system. However, its first try to implement this new system failed to produce accurate results. FAA currently estimates it will have a compliant property management system by November 12, 2001.

- Developing and Implementing a Departmentwide Cost Accounting System. This action is particularly important in FAA where a cost accounting system has been under development for over 4 years. This is a significant undertaking for FAA and FAA is trying hard to do it right. FAA needs a cost accounting system to manage its operations and to control its growing costs. In the last 4 years, FAA's operations costs have increased from $5.3 billion to 6.5 billion. FAA will not be able to operate as a results-based organization or accurately account for the cost of air traffic control operations without a cost accounting system that is compliant with accounting standards. FAA currently plans to have a fully operational cost accounting system by the end of FY 2002.

- Developing and Implementing a Labor Distribution System for FAA. FAA needs such a system to capture labor and other costs associated with specific programs to better assess workload and performance. FAA has been slow to establish a labor distribution system. At present, FAA cannot accurately account for its labor cost by project or activity. FAA needs a labor distribution system to control its growing costs and improve the productivity of its workforce. FAA's operations costs alone have risen from $3.8 billion in 1990 to nearly $6 billion in FY 2000. Labor cost represents about 70 percent of FAA operations costs. By FY 2003, FAA projects its operations costs will grow to about $7.4 billion. FAA is working on an FAA-wide labor distribution system and currently plans to have it fully operational by July 31, 2003. FAA cannot have a fully operational and effective cost accounting system without a labor distribution system. Otherwise, its cost accounting system will lack credibility.

TIMELINESS OF RULEMAKING

Progress in the Last Year:

On July 20, 2000, the OIG issued a report disclosing that despite congressional mandates and interest from the public in issuing rules more quickly, DOT took more than twice as long to complete a significant rule and completed half as many significant rules in 1999 as it did in 1993. For the significant rules completed in 1999, DOT took an average of 3.8 years and a median of 2.8 years to issue a final rule. Table 1 compares the number of significant rules completed by Operating Administrations (OAs) in 1993 and 1999 and the average time to complete these rules.

Table 1: Significant Rules Completed by OAs in 1993 and 1999

OA	Number of Completed Significant Rules		Average Time in Years to Complete Significant Rules	
	1993	1999	1993	1999
OST	3	3	4.4	6.6
USCG	5	0	2.1	N/A
FAA	17	3	0.7	3.0
FHWA/FMCSA	3	3	0.4	2.3
FRA	2	2	2.8	1.5
NHTSA	10	4	2.8	3.7
FTA	2	1	2.3	0.3
RSPA	3	3	1.6	5.9
BTS	0	1	0	3.6
TOTAL	45	20		
AVERAGE			1.8	3.8

Our analysis shows that DOT has taken as long as 12 years to issue rules. Although overall DOT is taking longer to complete rules, it issued 7 of the 20 significant rules in less than 2 years: 5 were administrative in nature and 2 involved safety issues.

Concerning ongoing rules during 1999, DOT was working on 152 significant rules that were in various stages of development for an average of 3.1 years, compared to 177 significant rules for an average of 2.1 years in 1993. Examples of significant safety related rules with congressionally established deadlines that have not been met and remain open are shown in Table 2.

Table 2: Examples of Significant Rulemakings that were Overdue as of April 2000

OA	Rulemaking Identification Number (RIN)	*Rulemaking Action*	Action Due	Deadline	Years Past Deadline
OST	2105-AC65	Computer Reservations System Regulations Comprehensive Review	Final Rule	12/31/1997	2.3
USCG	2115-AD23	Permits for the Transportation of Municipal and Commercial Wastes	Final Rule	06/15/1989	10.9
USCG	2115-AD66	Discharge-Removal Equipment for Vessels Carrying Oil	Final Rule	08/18/1992	7.7
FAA	2120-AC87	Installation of Crashworthy Fuselage Fuel Tanks and Fuel Lines	NPRM	02/03/1989	11.2
FAA	2120-AD26	Sole Radio Navigation System; Minimum Standards for Certification	Final Rule	09/30/1989	10.6
FMCSA (FHWA)	2126-AA07 (2125-AC78)	Federal Motor Carrier Safety Regulations; General Transportation of Hazardous Materials	Final Rule	11/15/1991	8.4
FMCSA (FHWA)	2126-AA18 (2125-AD75)	Railroad Grade Crossing Safety	Final Rule	02/26/1995	5.2
FRA	2130-AA71	Whistle Bans at Highway-Rail Grade Crossings*	Final Rule	11/02/1996	3.5
FRA	2130-AA89	Locomotive Cab Working Conditions	Final Rule	03/03/1995	5.1
FRA	2130-AB16	Power Brake Regulations: Freight Power Brake Revisions	Final Rule	12/31/1993	6.3
RSPA	2137-AB15	Pipeline Safety: Gas Gathering Line Definition	Final Rule	10/24/1994	5.5
RSPA	2137-AC39	Emergency Flow Restricting Devices	Final Rule	10/24/1996	3.5
RSPA	2137-AC00	Safeguarding Food From Contamination During Transportation	Final Rule	08/01/1991	8.7
FTA	2132-AA63	Major Capital Investment Projects: Establish Criteria To Evaluate Major Capital Investment Mass Transportation Projects	Final Rule	12/07/1998	1.4

*Since this list was prepared in April 2000, Congress has directed FRA not to issue this rule before July 1, 2001. See Section 1127 of the Omnibus Consolidated Appropriations Act, December 15, 1999.

To improve the rulemaking process within the Department and its OAs, the OIG recommended the Secretary of Transportation:

1. Establish the timely completion of significant rulemaking actions as a priority within the DOT Strategic Plan, develop measurable objectives for issuing quality rules in a timely manner in the annual Performance Plans, and report accomplishments in the Performance Report.

2. Set departmentwide priorities for significant rulemaking actions; and include in Administrators' performance agreements, the requirement to establish priorities for issuing significant rules and establish schedules for meeting deadlines at each rulemaking stage.

3. Develop a training session on the rulemaking process and establish a requirement that incoming senior management officials in the OAs and OST attend the session.

4. Provide the authority to a senior management official, senior management team, or centralized office to ensure that OAs establish priorities and schedules by submitting quarterly reports on the status of OAs' rulemaking actions to the Secretary.

5. Create and manage a departmentwide rulemaking tracking and monitoring system to identify problems occurring both departmentwide and at the individual OAs and take corrective actions to streamline the rulemaking process.

6. Direct OAs to use best practices, such as the use of technology and supplemental rulemaking methods, to enhance the rulemaking process, as appropriate.

In response to the OIG report, the Secretary emphasized the Department's commitment to improving the rulemaking process by including requirements to establish rulemaking priorities in the Operating Administrators' FY 2001 performance agreements. Moreover, the Secretary agreed to (1) create and manage a departmentwide tracking and monitoring system to identify problems with individual rulemaking actions and streamline the rulemaking process by May 2001; (2) establish priorities and schedules for significant rulemakings in FY 2001; and (3) direct Operating Administrators to include timely completion of significant rulemaking actions as a priority in the DOT Strategic Plan, develop measurable objectives, and report rulemaking accomplishments in the Performance Report for FY 2002.

Most Significant Open Recommendations and Issues:

- Improving the Timeliness of Rulemaking. Although the Secretary committed the Department and each of its OAs to a course of corrective action, the key to improving the rulemaking process is the effective implementation of the recommended corrective actions, particularly the establishment of a departmentwide tracking and monitoring system. This system will need the capability to identify problems occurring departmentwide and in the individual OAs, track priorities and schedules, and ensure that OAs submit to the Secretary quarterly reports on the status of individual rulemaking actions.

OVERSIGHT OF CONTRACT COSTS AND CLOSEOUTS

Progress in the Last Year:

- Although this is a new issue, the DOT Assistant Secretary for Administration and the DOT Deputy Chief Financial Officer already have taken action to require contracting officers to: (1) review all physically completed contracts on an annual basis to ensure that only those funds necessary to pay the contractor's final invoice are retained under the contract, (2) take full advantage of contract quick closeout procedures, (3) have all contractors comply with closeout requirements, and (4) comply with DOT policy on monitoring of contract closeouts.

Most Significant Open Recommendations and Issues:

- Improving Oversight of Contract Costs. Since DOT internal agencies took over responsibility for contract audits, independent audits of DOT contracts by the Defense Contract Audit Agency have dropped from 397 in 1996 to 68 in 1999, resulting in minimal oversight over millions of dollars in contract costs. During the 5 years ended April 2000, DOT, excluding FAA, closed 864 cost-reimbursable contracts valued at $559 million. FAA was not included in this audit, but will be reviewed as a separate audit to be done later.

  We found in our sample review of these contracts that most (1) were closed without independent audits, (2) were not supported with annual certified contractor incurred cost proposals, (3) were not adjusted during contract performance for changes in billing rates, and (4) were awarded without determining whether the contractors' accounting systems were adequate to handle cost-reimbursable contracts as required by Federal regulations. For cost-reimbursable contracts, our sample results disclosed little evidence of review of the amounts billed by contractors.

- Improving Timeliness of Contract Closeouts and Deobligation of Funds. As of April 3, 2000, DOT had 419 cost-reimbursable contracts with obligations of $232 million that were overdue for closure from 1 to 9 years.

IMPLEMENTATION OF GPRA

Progress in the Last Year:

- DOT prepared, in March 2000, its first performance report required by GPRA. A recent study by the Mercatus Center of George Mason University ranks it as the second best among Federal agencies. DOT also was one of only two Federal agencies that received an "A" on its FY 1999 Performance Report from the Chairman of the Senate Committee on Governmental Affairs.

- DOT was the only Federal agency to conduct a "dry run" for its first GPRA performance report, which was due to Congress by March 31, 2000. The dry run gave DOT early warning of issues and time to address and resolve many of the issues before publishing its first report.

- The Bureau of Transportation Statistics has begun publishing a monthly "Transportation Indicators" report, which presents timely information on a wide array of transportation measures and trends, and could be a useful tool for tracking progress toward DOT strategic and performance goals.

- In response to an OIG audit report, Coast Guard improved the accuracy of its recreational boating fatality data and adjusted its performance goal for reducing the number of recreational boating fatalities. The OIG audit found that the Coast Guard used inaccurate historical data when it developed specific targets for its goal of reducing recreational boating fatalities.

Most Significant Open Recommendations and Issues:

- Maintaining and Improving the Department's Highly Rated Strategic Plan and Combined Performance Report/Performance Plan. A major factor that will impact DOT's ability to achieve its goals is the effective use of human resources. DOT must effectively manage its workforce, recruit highly qualified individuals for vacant positions, and provide appropriate technical and professional training in order to successfully meet the management, safety, and efficiency challenges facing the U.S. transportation system. In the past year, DOT made a Department-wide effort to devote at least two percent of its payroll budget to training. Another approach considered as a possible Secretarial initiative, but as yet incomplete, is reestablishing a central training authority in the Department responsible for executive training and management development.

- Linking GPRA Performance Measures to the Cost of Achieving Results. DOT will be unable to do this until its cost accounting systems are fully operational, which for FAA is planned for no sooner than the end of FY 2002.

- Verifying and Validating the Quality of GPRA Performance Data. DOT receives much of its performance data from sources outside the Department's control. To help with data quality issues, DOT's Bureau of Transportation Statistics is developing a statistical policy framework where the DOT Operating Administrations will work together to identify and implement the current, best statistical practice in all aspects of their data collection programs.

- Developing Performance Measures Supported by Valid Data. In the course of our ongoing audits, OIG reviews the Department's performance measures and the validity of the data being used to support those measures. Examples of our key findings follow.

- FAA should develop one or more performance measures for assessing air traffic control performance using the Aviation System Performance Metric data system, now under development. Quality control lapses with FAA's current aviation delay data system could lead to FAA reporting inaccurate and misleading performance data.

- Office of Pipeline Safety (OPS) should collect sufficient data to precisely identify pipeline accident causes. OPS has a goal to reduce "outside force damage" to pipelines by 5 percent over the next 3 years. However, we found that hazardous liquid pipeline accidents were underreported by 18 percent – casting doubt on progress OPS is reporting.

- The Federal Motor Carrier Safety Administration should standardize crash data requirements and crash data collection procedures, and obtain and analyze crash causes through comprehensive crash evaluations. The Department established a goal in 1999 to reduce large truck-related fatalities 50 percent by the end of 2009 and injured persons 20 percent by the end of 2008. Deficiencies in the available crash data and knowledge about the causes of a crash limit the design and implementation of effective strategies aimed at reducing large truck-related fatalities and injuries.

ADMINISTRATIVE ISSUES

<u>Progress in the Last Year:</u>

- In response to our prior reports, the Transportation Administrative Service Center (TASC) has taken action to discontinue services that were not cost effective. To date, TASC's Transportation Computer Center stopped providing mainframe computer services for DOT internal agencies in July 2000, and TASC has shut down its Learning and Development and Management Applications units.

<u>Most Significant Open Recommendations and Issues:</u>

- <u>Resolving Space Requirements for the New DOT Headquarters Building</u>. In 1992, DOT estimated it needed 1.70 million square feet of space for its new headquarters building. In response to subsequent "downsizing" initiatives, the General Services Administration and OMB reduced DOT's space requirements to 1.35 million square feet, which Congress approved in 1997. Since then, DOT requested and received options for an additional 400,000 square feet from the five finalists in the bidding process for the new lease. OMB is reviewing DOT's recommended bid proposal. According to the TASC Director, upon approval by

OMB, DOT plans to request congressional approval to exercise the option for the additional space.

- Resolving TASC's Role in Providing Administrative Support Services for the Department's Headquarters Units in Washington, DC. DOT policy allows internal DOT agencies to use outside sources instead of TASC when a financial analysis demonstrates that the outside source is cost effective. However, a 1999 OIG report disclosed that DOT agencies were not performing these financial analyses. For example, our analysis of graphics projects that were done by outside firms found TASC services were cost effective for 8 of 15 projects, but the agencies were not held accountable for noncompliance.

  When DOT agencies use outside sources for administrative services and it is not cost effective to do so, the agencies pay more while TASC loses revenues necessary to cover its overhead costs. Without a critical mass of customers to provide a particular service and generate income, TASC's ability to efficiently and competitively offer a wide range of administrative services will erode.

  In January 2000, FAA stopped using TASC to provide its employees with transit benefits. FAA had accounted for 44 percent of the DOT agencies' activity under this program. Although TASC's service delivery has declined in certain areas within DOT, TASC has increased its non-DOT business, mainly in the transit benefit area. For example, in FY 2001, TASC expects to provide transit benefit services to 13 of the 14 cabinet agencies. Further, TASC projects that over 60 percent of its FY 2001 overall revenues will come from non-DOT sources.

  The Department and its internal agencies need to settle on the role of TASC in providing administrative services to the Department's headquarters agencies in Washington, DC. Policy guidance providing the rules for when agencies are to use TASC and under what circumstances agencies are free to use outside sources should be enforced, and agencies should be held accountable when they ignore DOT policy.

Key OIG Contacts: John L. Meche, Deputy Assistant Inspector General for Financial, Information Technology, and Departmentwide Programs, 202-366-1496; David A. Dobbs, Deputy Assistant Inspector General for Aviation, 202-366-0500; and Thomas J. Howard, Deputy Assistant Inspector General for Maritime and Highway Safety Programs, 202-366-5630.

10. Departmental Business Practices

Dark Grey = Top Priority Task for 2001 **Light Grey** = Include in 2001 Top Management Challenges Efforts **White** = Sufficiently Resolved to be Dropped from Management Challenges Efforts	**First Year Issue Raised in OIG Management Challenges Report**	**Was Significant Progress made in last year?**
• Implement of a state-of-the-art financial system.	1998	Some
• Develop and implement a labor distribution system for FAA.	1999	Some
• Implement a commercial, off-the-shelf, integrated property management system for FAA.	New Issue	New Issue
• Establish a DOT rulemaking tracking and monitoring system.	New Issue	New Issue
• Resolve space requirements for the new DOT headquarters building.	New Issue	New Issue
• Develop and implement a departmentwide cost accounting system, especially in FAA.	1998	Some
• Link GPRA performance measures to the cost of achieving targeted results.	1998	N
• Verify and validate the quality of GPRA performance data.	1998	Some
• Resolve TASC's role in providing administrative support within DOT.	1998	N
• Develop performance measures supported by valid data.	New Issue	New Issue
• Improve oversight of contract costs, particularly through independent closeout audits.	New Issue	New Issue
• Improve timeliness of contract closeouts and deobligation of funds on completed contracts.	New Issue	New Issue
• Maintain and improve the Department's strategic plan and combined Performance Report/Performance Plan with effective use of human resources.	New Issue	Some
• Establish overflight user fees for Air Traffic Control services.	1998	Y
• Reauthorize the FAA.	1999	Y