



U.S. Department of  
Transportation

# **BUDGET ESTIMATES**

## **FISCAL YEAR 2014**

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**OFFICE OF  
INSPECTOR GENERAL**

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**SUBMITTED FOR THE USE OF  
THE COMMITTEES ON APPROPRIATIONS**

DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
FISCAL YEAR 2014 BUDGET ESTIMATES

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Overview Tab

## **Department of Transportation, Office of the Inspector General Fiscal Year 2014 Budget Submission: Administrator's Overview**

The Office of Inspector General (OIG) is committed to fulfilling its statutory responsibilities under The Inspector General Act of 1978, as amended (IG Act), while supporting the Secretary, members of Congress, senior Department of Transportation (DOT) officials, the Office of Management and Budget (OMB), and the American public in achieving a safe, efficient, and effective transportation system.

The accompanying budget request for fiscal year (FY) 2014 has been developed with the goal for OIG to build on its long-standing record as a highly respected contributor to the Department's mission. OIG has consistently demonstrated a commitment to ensuring the greatest return on taxpayer investments, and the work of OIG provides the only internal independent source of recommendations to DOT senior executives and managers. Our audits, investigations and reviews lead to recoveries of large amounts of improper payments, cost reductions, funds put to better use, and both financial and program improvements, including increased operational efficiencies and improved safety. **In FY 2012, our office reported a return on investment (ROI<sup>1</sup>) of \$23 for every appropriated dollar spent.**

We respectfully submit the OIG's FY 2014 budget request for \$85.6 million in total budgetary resources in support of 407 base-level full-time equivalents (FTEs). An estimated 15 additional FTEs are supported via carryover funding from the Disaster Relief Appropriations Act of 2013 for OIG oversight activities of the Federal Transit Administration's (FTA) Public Transportation Emergency Relief Program.

Of the \$85.6 million, \$63.1 million would support personnel compensation and benefits costs—which comprise about 74 percent of our budget—and \$22.5 million would support operating costs, over which we exercise minimal control. OIG has determined that this is the funding level needed to fully execute our mission—focusing on safety across all transportation modes—while continuing to identify cost-savings opportunities and making recommendations to improve DOT program efficiency and effectiveness.

The constrained budget environment of recent years has impacted OIG's ability to maintain staffing levels consistent with effective and efficient execution of our mission. To stay within limited funding levels, our office has been under a hiring freeze since August 2011 and, at the end of FY12, had fourteen FTEs separate or retire through the use of Voluntary Separation Incentive Payments and Voluntary Early Retirement Authority, **leaving OIG to operate at its lowest base FTE level since it was created in 1978.**

OIG's overall FTE level has dropped from a total of 443 in FY12 to a requested level of 422 in FY14, a decrease of 21 FTEs. OIG's eroding FTE level puts at risk its ability to

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<sup>1</sup> Return on Investment (ROI) compares the total dollar value of OIG findings to budgetary resources expended during the year. Findings are comprised of court-ordered fines, restitutions, recoveries of improper payments, recommended cost savings and recommendations for funds put to better use.



continue to meet statutory mandates and at the same time to address Congressional, OMB and Secretarial priorities and directives in a timely and relevant manner. This risk is magnified when taking into account how OIG oversight could benefit Departmental programs and operations adjusting to the effects of their own budget constraints.

To enable OIG to meet mission requirements and stakeholder priorities and directives, particularly in the areas of transportation safety programs and departmental procurement and contract acquisition practices, OIG requests \$252,000 to fund 2 additional FTEs (4 additional permanent positions for one half of FY14) and \$2.4 million to restore 17 FTEs in our base budget. These additional FTEs will increase our base budget level from 388, the FY13 annualized continuing resolution level, to 407. In addition, OIG requests funding for increased operating costs associated with the requested FTEs totaling \$1.6 million to restore mission-critical operating budgets to levels consistent with effective mission execution.

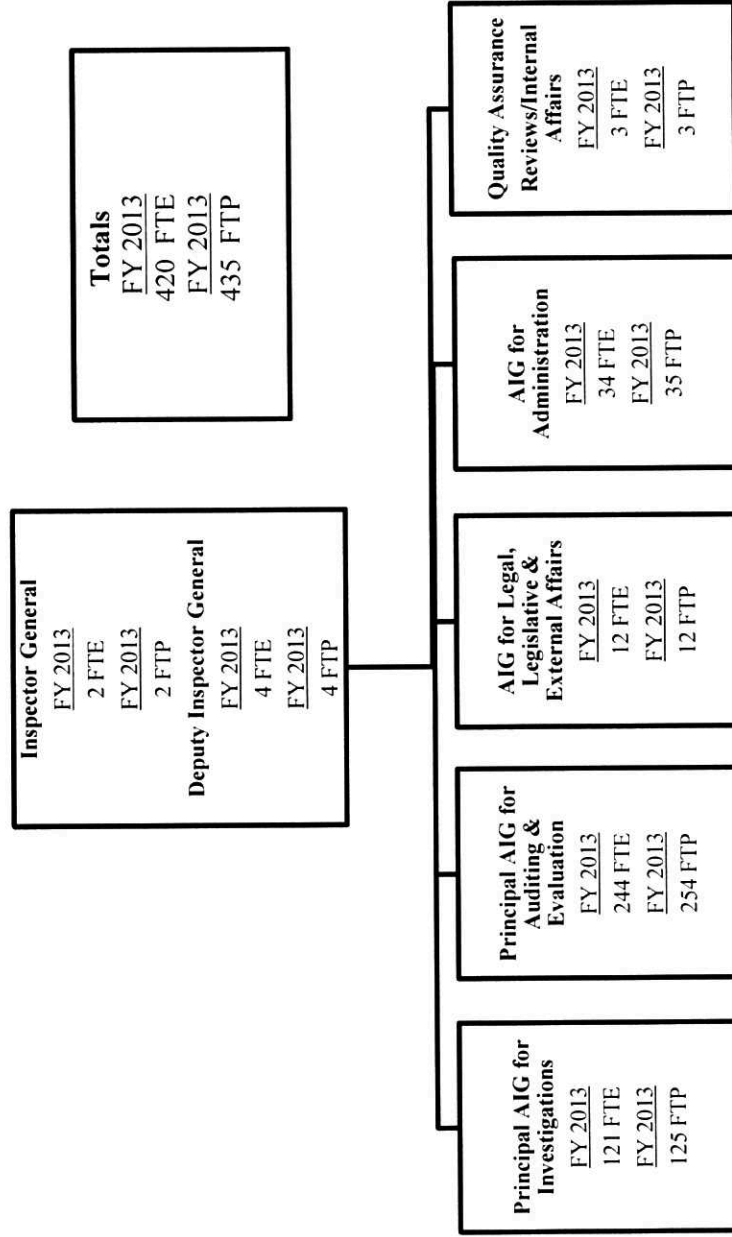
In addition to addressing the budgetary pressures on our professional staffing levels and mission critical operating costs, our FY14 request also includes adjustments to our base level operations for increased fixed costs for personnel and operating costs, as well as program increases of \$300,000 for needed upgrades of data circuits to support increased online collaborations, and to implement a disaster recovery and continuity of operations site. More detail on these initiatives are provided in the detailed justification.

We continue to closely manage our operations to further minimize our operating costs. As mentioned above, a hiring freeze instituted in August 2011 remains in place. Other actions taken include, but are not limited to, reductions in mission-related travel, space/rent, training, contractual and interagency services, communications, equipment, supplies, and publication subscriptions. These efforts to control and reduce our operating costs are ongoing, as we seek to continue to provide the greatest benefit in the most cost-efficient manner as possible.

We currently have 58 audits and 423 criminal investigations under way, and in FY 2012 we issued 188 audit reports, conducted investigations resulting in 145 indictments and 95 convictions, and testified before Congress 8 times. Also, based on our 24-month tactical plan, we have identified an additional 100 potential audits in critical areas across DOT's Operating Administrations.

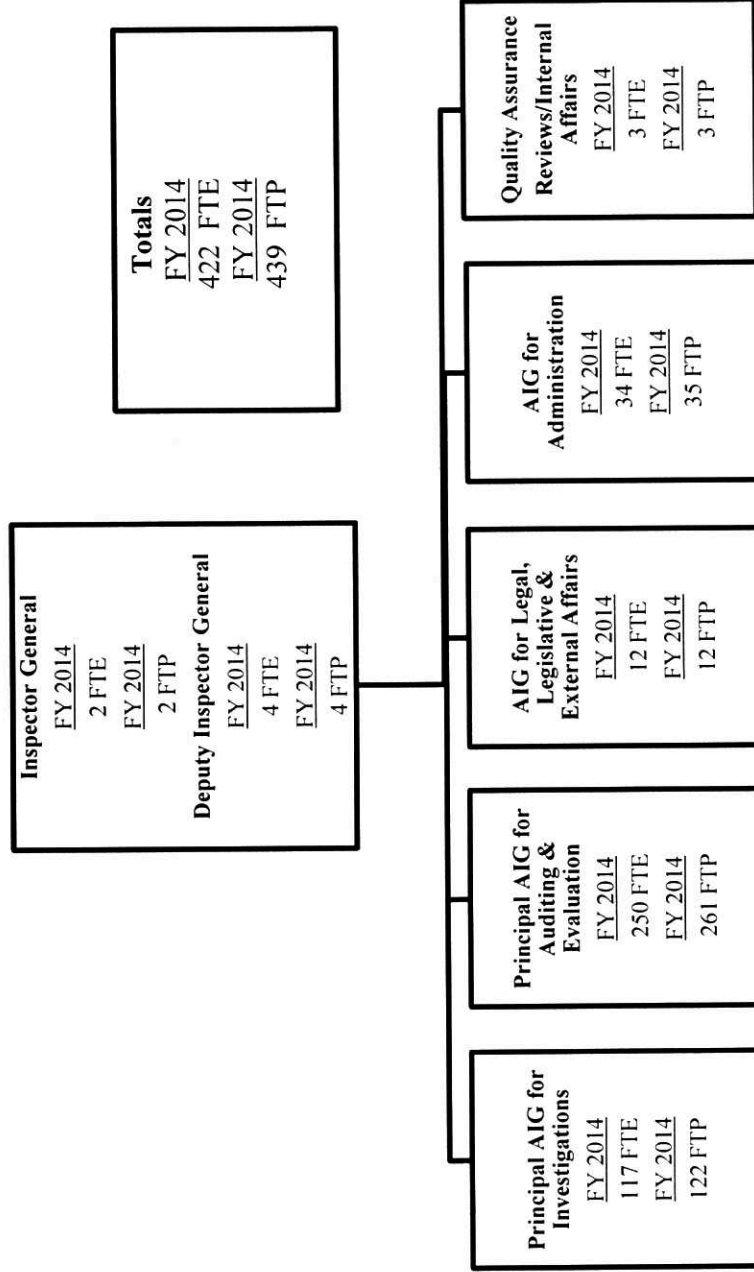
Demands on our limited resources have never been greater and we appreciate the continuing support of Congress to ensure that we have the resources necessary to carry out our important mission. We have determined that \$85.605 million is the funding level needed for our office to continue to effectively address safety issues across transportation modes, to continue to address the Department's procurement and contract acquisition programs, as well as identifying cost-savings opportunities and making recommendations to improve DOT program efficiency and effectiveness.

**EXHIBIT I-A**  
**FY 2013 ORGANIZATIONAL CHART**  
**DEPARTMENT OF TRANSPORTATION**  
**OFFICE OF INSPECTOR GENERAL**



Reflects estimated ARRA FTE and FTP of 27 and Emergency Disaster Relief Oversight FTE and FTP of 5.

**EXHIBIT I-B**  
**FY 2014 ORGANIZATIONAL CHART**  
**DEPARTMENT OF TRANSPORTATION**  
**OFFICE OF INSPECTOR GENERAL**



Budget Summary Tab

**EXHIBIT II-1**

**FY 2014 COMPARATIVE STATEMENT OF NEW BUDGET AUTHORITY  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
(\$000)**

<b>ACCOUNT NAME</b>	<b>FY 2012 ACTUAL</b>	<b>FY 2013 CR ANNUALIZED</b>	<b>FY 2014 REQUEST</b>
Salaries & Expenses	79,624	80,111	85,605
Salaries & Expenses, Emergency Disaster Relief Oversight		6,000	
<b>TOTALS:</b> Budget Authority	79,624	86,111	85,605

EXHIBIT II-2

FY 2014 TOTAL BUDGETARY RESOURCES BY APPROPRIATION ACCOUNT  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
Approps., Ob. Lims., and Exempt Obs.  
(\$000)

ACCOUNT NAME	FY 2012 ACTUAL	FY 2013 CR ANNUALIZED	FY 2014 REQUEST
Salaries & Expenses	79,624	80,111	85,605
Salaries & Expenses, Emergency Disaster Relief Oversight	0	6,000	0
<b>TOTALS:</b> Approps., Ob. Lims., & Exempt Obs.	79,624	86,111	85,605

**EXHIBIT II-3-a**  
**FY 2014 BUDGET REQUEST BY DOT OUTCOMES**  
**DEPARTMENT OF TRANSPORTATION**  
**OFFICE OF INSPECTOR GENERAL**  
**(\$000)**

DOT Outcome	Program	FY 2014 Request
<b>SAFETY</b>		
Reduction in injuries and fatalities		
Improved safety experience		
Other		
<b>STATE OF GOOD REPAIR</b>		
Increased percentage of highways in good condition		
Increased percentage of bridges in good and fair condition		
Increased percentage of transit assets in good condition		
Increased percentage of airport runways in good or fair condition		
<b>ECONOMIC COMPETITIVENESS</b>		
Maximize economic returns		
Competitive transportation system		
Advance U.S. transportation interests around the world		
Expanded opportunities for businesses		
Other		
<b>LIVABLE COMMUNITIES</b>		
Convenient and affordable choices		
Improved public transit experience		
Improved networks that accommodate pedestrians and bicycles		
Improved access for people with disabilities and older adults		
Other		
<b>ENVIRONMENTAL SUSTAINABILITY</b>		
Reduced carbon/emissions and improved energy efficiency and reduced dependence on oil		
Reduced pollution impacts on ecosystems		
Environmentally sustainable practices and transportation		
Environmentally sustainable practices in DOT services and facilities		
Other		
<b>ORGANIZATIONAL EXCELLENCE</b>	<b>OIG</b>	<b>85,605</b>
<b>OVERHEAD PROGRAMS/FUNCTIONS DISTRIBUTED TO PROGRAMS</b>		
<b>TOTAL</b>		<b>85,605</b>

**EXHIBIT II-4**

**FY 2014 BUDGET AUTHORITY  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
(\$000)**

<b>ACCOUNT NAME</b>	<b>FY 2012 ACTUAL</b>	<b>FY 2013 CR ANNUALIZED</b>	<b>FY 2014 REQUEST</b>
Salaries & Expenses	79,624	80,111	85,605
Salaries & Expenses, Emergency Disaster Relief Oversight	0	6,000	0
<b>TOTALS:</b> Approp., Ob. Lims., & Exempt Obs.	79,624	86,111	85,605



**EXHIBIT II-5**

**FY 2014 OUTLAYS  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
(\$000)**

<b>ACCOUNT NAME</b>	<b>FY 2012 ACTUAL</b>	<b>FY 2013 CR ANNUALIZED</b>	<b>FY 2014 REQUEST</b>
Salaries & Expenses	81,227	80,063	85,056
Salaries & Expenses, Recovery Act	4,359	3,943	0
Salaries & Expenses, Emergency Disaster Relief Oversight	0	750	2,500
<b>TOTALS: Outlays</b>	<b>85,586</b>	<b>84,756</b>	<b>87,556</b>

**EXHIBIT II-6**  
**SUMMARY OF REQUESTED FUNDING CHANGES FROM BASE**  
**DEPARTMENT OF TRANSPORTATION**  
**OFFICE OF INSPECTOR GENERAL**  
**Appropriations, Obligation Limitations, and Exempt Obligations**  
**(\$000)**

	FY 2013 CR Annualized	2014 Pay Raises (1.0%)	GSA Rent	WCF Increase/ Decrease	Inflation/ Deflation (0.5%)	FY 2014 Baseline Estimate	Program Increases/ Decreases	FY 2014 Request
Salaries and Expenses								
<b>PERSONNEL RESOURCES (FTE)</b>	388					388	19	407
Direct FTE	388					388	19	407
<b>FINANCIAL RESOURCES</b>								
<b>ADMINISTRATIVE EXPENSES</b>								
Salaries and Benefits	\$60,000	\$468				\$60,468	\$2,646	\$63,114
Travel	\$2,400				\$30	\$2,430	\$190	\$2,620
Transportation	\$5					\$5		\$5
GSA Rent	\$5,550		\$235			\$5,785		\$5,785
Communications, Rent & Utilities	\$970				\$31	\$1,001	\$180	\$1,181
Printing	\$5					\$5		\$5
Other Services:	\$10,186			\$96	\$30	\$10,312	\$1,123	\$11,435
-WCF (non-add)	\$4,022			\$96		\$4,118		\$4,118
Supplies	\$275				\$14	\$289	\$46	\$335
Equipment	\$625					\$625	\$380	\$1,005
Insurance claims and indemnities	\$75				\$25	\$100		\$100
Unvouchered	\$20					\$20		\$20
<b>TOTAL</b>	<b>\$80,111</b>	<b>\$468</b>	<b>\$235</b>	<b>\$96</b>	<b>\$130</b>	<b>\$81,040</b>	<b>\$4,565</b>	<b>\$85,605</b>

**EXHIBIT II-7**

**WORKING CAPITAL FUND  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
(\$000)**

<b>ACCOUNT NAME</b>	<b>FY 2013 CR ANNUALIZED</b>	<b>FY 2014 REQUEST</b>	<b>CHANGE FY 2013- 2014</b>
Salaries & Expenses	4,022	4,118	96
<b>TOTAL</b>	4,022	4,118	96

**EXHIBIT II-8**

**DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
PERSONNEL RESOURCE - SUMMARY  
TOTAL FULL-TIME EQUIVALENTS**

	<b>FY 2012 ACTUAL</b>	<b>FY 2013 CR ANNUALIZED</b>	<b>FY 2014 REQUEST</b>
Salaries & Expenses	413	388	407
Salaries & Expenses, Recovery Act	30	27	0
Salaries & Expenses, Emergency Disaster Relief Oversight	0	5	15
<b>TOTAL FTE</b>	443	420	422

**EXHIBIT II-9**

**DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
RESOURCE SUMMARY - STAFFING  
FULL-TIME PERMANENT POSITIONS**

	<b>FY 2012 ACTUAL</b>	<b>FY 2013 CR ANNUALIZED</b>	<b>FY 2014 REQUEST</b>
Salaries & Expenses	393	403	424
Salaries & Expenses, Recovery Act	42	27	0
Salaries & Expenses, Emergency Disaster Relief Oversight	0	5	15
<b>TOTAL FTP</b>	435	435	439

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Budget Request by Appropriation Tab

BUDGET REQUEST  
BY APPROPRIATION  
ACCOUNT

**DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL**

*Appropriations Language*

For necessary expenses of the Office of Inspector General to carry out the provisions of the Inspector General Act of 1978, as amended, [\$84,499,000]

*\$85,605,000: Provided, That the Inspector General shall have all necessary authority, in carrying out the duties specified in the Inspector General Act, as amended (5 U.S.C. App. 3), to investigate allegations of fraud, including false statements to the government (18 U.S.C. 1001), by any person or entity that is subject to regulation by the Department: Provided further, That the funds made available under this heading may be used to investigate, pursuant to section 41712 of title 49, United States Code: (1) unfair or deceptive practices and unfair methods of competition by domestic and foreign air carriers and ticket agents; and (2) the compliance of domestic and foreign air carriers with respect to item (1) of this proviso[: Provided further, That no funding through expenditure transfers shall be made between either the Federal Highway Administration, the Federal Aviation Administration, the Federal Transit Administration, or the National Transportation Safety Board, and the Office of Inspector General. (Department of Transportation Appropriations Act, 2012.)] Note. --A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.*



## EXHIBIT III-1

DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
Summary by Program Activity  
Appropriations, Obligation Limitations, and Exempt Obligations  
(S000)

ACCOUNTS	FY 2012 ACTUAL	FY 2013 CR ANNUALIZED	FY 2014 REQUEST	CHANGE FY 2013-2014
Salaries and Expenses	79,624	80,111	85,605	5,494
Salaries and Expenses, Recovery Act	0	0	0	0
Salaries and Expenses, Emergency Disaster Relief Oversight	0	6,000	0	(6,000)
<b>Total Budget Authority</b>	79,624	86,111	85,605	(506)
<u>FTE</u>				
Salaries and Expenses	413	388	407	19
Salaries and Expenses, Recovery Act	30	27	0	(27)
Salaries and Expenses, Emergency Disaster Relief Oversight	0	5	15	10
<b>Total FTE</b>	443	420	422	2

**DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSEPECTOR GENERAL**

***Program and Performance Statement***

This Department of Transportation (DOT) Inspector General conducts independent audits, investigations and evaluations to promote economy, efficiency and effectiveness in the management and administration of DOT programs and operations, including contracts, grants, and financial management; and to prevent and detect fraud, waste, abuse and mismanagement in such activities. This appropriation provides funds to enable the Office of the Inspector General to perform these oversight responsibilities in accordance with the Inspector General Act of 1978, as Amended (5 U.S.C. App. 3).

EXHIBIT III-1a

DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE INSPECTOR GENERAL  
SUMMARY ANALYSIS OF CHANGE FROM FY 2013 TO FY 2014  
Appropriations, Obligations, Limitations, and Exempt Obligations  
(\$000)

<u>ITEM</u>	Change from FY 2013 to FY 2014 (\$000)	Change from FY 2013 to FY 2014 FTE
<b>FY 2013 ANNUALIZED CR</b>	<b>80,111</b>	<b>388</b>
FY 14 Pay Raise (1.0%)	468	0
GSA Rent	235	0
Working Capital Fund	96	0
Non-Pay Inflation (0.5%)	130	0
<b>SUBTOTAL, ADJUSTMENTS TO BASE - 2014</b>	<b>929</b>	<b>0</b>
<b>NEW OR EXPANDED PROGRAMS</b>		
Restore Baseline FTEs - Salaries & Benefits	2,394	17
Additional Safety FTE	252	2
Increased Operating Costs to Restore Mission-related Operating Budgets	1,619	0
Regional Network Bandwidth Enhancement	180	0
Disaster Recovery/Continuity of Operations Site	120	0
<b>SUBTOTAL, NEW OR EXPANDED PROGRAMS</b>	<b>4,565</b>	<b>19</b>
<b>FY 2014 REQUEST</b>	<b>85,605</b>	<b>407</b>

## **DOT Office of Inspector General**

### **Fiscal Year 2014 Budget Request: Detailed Justification**

#### **What Do I Need To Know Before Reading This Justification?**

- The measurable value of the Office of Inspector General's (OIG) expertise comes in our independent and objective audits and investigations of specific programs and activities that support all of the Department's strategic goals.
- OIG's mission is unique within the Department of Transportation (DOT). OIG's work supports improved safety and increased operational efficiencies and our work products provide the only internal independent source of recommendations that lead to recoveries of large amounts of improper payments, cost reductions, funds to be put to better use, and both financial and program improvements.
- *For FY 2012, the OIG reported a return on investment (ROI) of \$23 for every appropriated dollar spent* through court-ordered fines, restitutions and recoveries as well as recommended costs savings and funds put to better use. During FY 2012 we issued 188 audit reports; provided testimony 8 times before Congress; and conducted investigations resulting in 145 indictments and 95 convictions.
- OIG's ability to conduct timely and relevant audits and investigations is directly linked to the number of FTEs we are able to support through our annual budget. Since OIG's inception, personnel compensation and benefits costs have comprised about 75 percent of our budget. The majority of the remaining 25 percent consists of fixed operating costs, such as rent, working capital fund, and information technology equipment, maintenance and services—over which we exercise minimal control.
- The constrained budget environment of recent years has impacted OIG's ability to maintain staffing levels consistent with effective and efficient execution of our mission. To stay within limited funding levels, our office has been under a hiring freeze since August 2011 and, at the end of FY12, had fourteen FTEs separate or retire through the use of Voluntary Separation Incentive Payments and Voluntary Early Retirement Authority, leaving OIG to operate in FY13 at its lowest base FTE level since it was created in 1978.

## What Is The Request And What Will We Get For The Funds?

**Table 1. FY 2014 DOT Office of Inspector General Budget Request**

Program Activity	(\$000)			
	FY 2012 Enacted	FY 2013 CR Annualized	FY 2014 Request	Difference from FY 2012 Enacted
Salaries and Expenses	\$79,624	\$80,111	\$85,605	\$5,981
Disaster Relief Oversight, 2013 <sup>1</sup>	0	6,000	0	0
<b>Total</b>	<b>\$79,624</b>	<b>\$86,111</b>	<b>\$85,605</b>	<b>\$5,981</b>

Our fiscal year 2014 budget request is for \$85.6 million in total budgetary resources in support of 407 base-level full-time equivalents (FTE). An estimated 15 additional FTEs are supported via carryover funding from the Disaster Relief Appropriations Act of 2013 for OIG oversight activities of the Federal Transit Administration's (FTA) Public Transportation Emergency Relief Program.

Of the \$85.6 million, \$63.1 million would support personnel compensation and benefits costs—which comprise about 74 percent of our budget—and \$22.5 million would support operating costs over which we exercise minimal control. OIG has determined that this is the funding level needed to fully execute our mission—focusing on safety across all transportation modes—while continuing to identify cost-savings opportunities and making recommendations to improve DOT program efficiency and effectiveness. We have consistently demonstrated our commitment to ensuring the greatest return on taxpayer investments and, in FY 2012, reported a return on investment (ROI) of \$23 for every appropriated dollar spent.

Our request includes adjustment to base level operations for increased fixed level costs for personnel and operating costs, as well as program increases for the following items:

### ***Transportation Safety, Procurement and Contract Acquisition FTEs***

The constrained budget environment of recent years has impacted OIG's ability to maintain staffing levels consistent with effective and efficient execution of our mission. In order to stay within limited funding levels, our office has been under a hiring freeze since August 2011 and, at the end of FY12, had fourteen FTEs separate or retire through the use of Voluntary Separation Incentive Payments and Voluntary Early Retirement Authority.

OIG's overall FTE level has dropped from a total of 443 in FY12 to a requested level of 422 in FY14, a decrease of 21 FTEs. OIG's eroding FTE level puts at risk its ability to continue to meet statutory mandates and at the same time to address Congressional, OMB and Secretarial

<sup>1</sup> P. L. No. 113-2, Disaster Relief Appropriations Act, 2013 for oversight of Federal Transit Administration's Public Transportation Emergency Relief Program funded by same legislation

priorities and directives in a timely and relevant manner. This risk is magnified when taking into account how OIG oversight could benefit Departmental programs and operations adjusting to the effects of their own budget constraints.

To enable OIG to meet mission requirements and stakeholder priorities and directives, particularly in the areas of transportation safety programs and departmental procurement and contract acquisition practices, OIG requests \$252,000 to fund 2 additional FTEs (4 additional permanent positions for one half of FY14) and \$2.4 million to restore funding for 17 FTEs in our base budget. These additional FTEs will increase our base budget level from 388, the FY13 annualized continuing resolution level, to 407.

These FTEs will support the Department's primary goal to improve safety by reducing transportation-related fatalities and injuries. This request reflects the anticipation of an expanded oversight role for OIG in transit safety, increased oversight of the Federal Motor Carrier Safety Administration's (FMCSA) actions to improve passenger and motor carrier safety, and the Pipeline and Hazardous Materials Safety Administration's (PHMSA) efforts to strengthen its oversight of interstate natural gas and hazardous liquid pipelines. These additional resources would be used to maximize our ability to uncover egregious violations of Federal safety laws and follow through by utilizing all available criminal and civil remedies, expand our work in identifying challenges to establishing an enhanced and effective Federal presence in the area of transit safety, expand our reviews of FMCSA to cover its new initiatives to enhance commercial passenger and motor carrier safety, and evaluate PHMSA's ongoing initiatives to improve its oversight of pipeline safety programs.

These FTEs will also support OIG reviews of departmental procurement and contract acquisition programs. Our latest review of the Department's acquisition function identified significant weaknesses that limit its ability to carry out its responsibilities in support of DOT's mission. For example, our extensive oversight of the Federal Aviation Administration's (FAA) implementation of the Next Generation Air Transportation System (NextGen) includes ongoing reviews of major contract acquisition processes and policies within the FAA. In a review of FAA's high dollar Systems Engineering 2020 contracts, we found that unclear FAA Acquisition Management System requirements resulted in unreliable cost baselines and overstated contract values, which impedes FAA's ability to manage total contract costs. In addition, FAA's practices to select contractors and oversee their performance were insufficient.

**Table 2. Total FTEs for Fiscal Year 2012 through Fiscal Year 2014**

<b>FTE Account</b>	<b>FY 2012 Actual</b>	<b>FY 2013 CR Annualized</b>	<b>FY 2014 Requested</b>
Salaries and Expenses	413	388	407*
Salaries and Expenses supported by ARRA	30	27	-
Disaster Relief Oversight, 2013	0	5	15
<b>Total FTEs</b>	<b>443</b>	<b>420</b>	<b>422</b>

\* Our request includes higher personnel costs totaling \$2.4 million in FY14 as compared to FY12 resulting from a significantly higher number of temporary employees onboard in FY12 than in prior years (due to continued budget limitations and uncertainties). These employees included rehired annuitants, temporary and term employees, experts, and students. In addition, OIG requests funding for increased mission-critical operating costs totaling \$1.6 million to restore operating budgets to levels consistent with effective mission execution in FY14. This includes areas such as mission-related travel, training, information technology and other equipment. The request to fund these additional operating costs will address the effects these same budgetary pressures have had on mission critical non-personnel costs.

***Improve Long Distance Collaboration to Support Reduced Mission-Critical Travel***

OIG requests \$180,000 to upgrade data circuits at the 6 largest OIG regional offices. OIG currently operates 14 field offices located across the United States in support of the OIG mission. Twelve of these offices are currently served by low speed network connections that have significantly impaired operations at those locations. In addition, new goals to reduce administrative overhead including reduced travel have worsened the situation by increasing the demand for bandwidth-intensive applications such as video conferencing and online collaboration software.

In an attempt to mitigate the problems caused by insufficient bandwidth, OIG implemented numerous workarounds such as the deployment of regional servers, restricting the use of high bandwidth applications, and constant monitoring of bandwidth use. However these attempts have not reduced the demand for connectivity to a degree where operations can proceed normally.

The solution that remains is to increase the bandwidth deployed to each site by upgrading the data circuits at the 6 largest OIG offices to a minimum of 45 megabits per second. (Mbps. A typical metropolitan residence has a high-speed broadband connection between 25 and 50 Mbps) This increased bandwidth would allow OIG to not only improve connectivity for existing applications, especially those related to the performance of our audit capability, but also deploy additional collaboration capabilities. These additional capabilities could then be used to work towards further reductions in our travel costs.

### ***Implement Disaster Recovery and Continuity of Operations (COOP) Site***

OIG requests \$120,000 to partially fund the deployment of appropriate hardware and software at an established DOT data center to provide for a basic level of service at a remote location. All production OIG Information Technology (IT) operations are currently located and maintained by OIG staff at DOT HQ in Washington, D.C. In the event of a disruption at DOT HQ that rendered the primary OIG data center unusable, the OIG would have great difficulty in quickly restoring operations due to the lack of a disaster recovery data center and redundant offsite data.

The OIG has developed a COOP plan, and maintains a COOP site at an east coast regional office. However that site is not suitable for housing all the required IT equipment for even reduced operations. OIG is currently working with both the DOT Chief Information Officer (CIO) and also the CIOs for other OIG organizations to find a suitable location to house a disaster recovery facility, while at the same time ensuring that the data center consolidation effort underway in the DOT is not impaired.

This capability would give the OIG the ability to quickly restore operations of mission critical services in the event of a disaster, or COOP situation, while also providing increased resiliency under normal operating conditions. No additional FTEs are requested under this plan.

#### **What Is This Program?**

The Inspector General Act of 1978, as amended (IG Act), established the OIG as an independent and objective organization within the DOT. The OIG is committed to fulfilling its statutory mission to promote economy, efficiency, and effectiveness and detect fraud, waste, and abuse in Departmental programs and operations. By law, the Inspector General must keep the Secretary and Congress "fully and currently" informed, plus is required to "expeditiously" report potential violations of criminal law to the Attorney General.

This program represents the whole of OIG's operational needs. The work of OIG provides the only internal independent source of recommendations to DOT senior executives and managers. The OIG remains focused on obtaining maximum use of taxpayer dollars through improved efficiency, as well as enhancing the effectiveness and integrity of the programs that DOT administers. Our audits, investigations and reviews lead to recoveries of large amounts of improper payments, cost reductions, funds put to better use, and both financial and program improvements, including increased operational efficiencies and improved safety.

#### **Why Do We Want/Need To Fund The Program At The Requested Level?**

The OIG is committed to fulfilling its statutory responsibilities under the IG Act while supporting the Secretary, senior DOT officials, members of Congress, and the American public in achieving a safe, efficient, and effective transportation system. OIG has a demonstrated record of efficient and effective oversight and consistently produces a significant return on investment of budget resources. This fiscal year 2014 budget request has been developed with



the goal for OIG to build on its long-standing record as a highly respected contributor to the Department's mission.

The OIG operates in a dynamic and evolving transportation environment. We must balance the demands on finite resources between responsiveness to stakeholders' priorities, time sensitive requests, statutory mandates and proactive work to identify emerging issues and opportunities for improvements in operations and programs. Our planning is designed to ensure we are available whenever called upon to provide timely, relevant, and effective results. The process is flexible in approach, emphasizing quick-turnaround, focused reviews, reflecting the interests of all stakeholders and seeking maximum benefit to taxpayers. In our planning we focus not only on our statutory requirements, but also on DOT's strategic goals and major programs, issues of interest to OMB and Members of Congress as well as the transportation community and the travelling public.

The measurable value of OIG's expertise comes in our independent and objective audits and investigations of specific programs and activities that support the Department's strategic plans. As such, our budget request belongs entirely under the departmental strategic goal of Organization Excellence. However, our work assists each of the Operating Administrations and ultimately the Department in meeting performance targets in all departmental strategic and organizational goals.

We use our comprehensive 24-month tactical audit plan and guidance on investigative priorities to ensure that we are maximizing our limited resources and providing the greatest potential benefits to the Department and the public. Through these tactical plans, we identified 100 audits that we expect to initiate in critical areas across DOT's Operating Administrations. The FY14 requested FTE level will allow us to maximize the institutional knowledge of our professional staff—our most valuable resource for achieving our mission—and continue executing the work identified in our tactical plans and investigative priorities. These tactical plans and priorities focus on the entire Department and its Operating Administrations and cover a wide array of topics, including:

#### ***Departmentwide***

- Assessing DOT's oversight of financial- and procurement-related issues such as travel card use, disadvantaged business enterprise (DBE) program implementation, administration of cost-reimbursable contracts, and management of information technology products and services contracts.
- Conducting other required Department-wide reviews including audits of DOT financial statements, improper payments, and cyber security.

- Supporting our ongoing procurement and grant fraud program to develop a national caseload and provide outreach activities to generate additional referrals from the Department and its Operating Administrations.
- Bolstering our successful investigative efforts in the New York and Philadelphia metropolitan areas, where the Department currently has several ongoing, multibillion dollar transportation infrastructure projects. Over the 5 fiscal years ending in fiscal year 2012, our investigations from our New York City and Philadelphia offices averaged over \$21 million per year in actual monetary recoveries via fines, restitution, forfeiture, and settlements, as well as an average of 99 indictments and 100 convictions per year. Forfeitures alone accounted for over \$96 million in recoveries.

#### ***Federal Aviation Administration (FAA)***

- Assessing FAA acquisition and NextGen modernization challenges, ranging from reducing risk to improving the execution of billion dollar efforts. These audits help determine overall program costs, schedule, and performance, as we assess FAA's implementation of the individual components, such as Automatic Dependent Surveillance-Broadcast (ADS-B), En Route Automation Modernization (ERAM), DataComm, Traffic Flow Management (TFM), and the 4D Weather Cube.
- Evaluating air traffic control (ATC) facilities and operations, including assessments of FAA's plans for consolidating ATC facilities, ATC system security, controller training, and controller collective bargaining agreement.
- Assessing key aviation safety areas, ranging from FAA's oversight of aircraft repair stations, controller operational errors and other aircraft separation losses, staffing levels for safety inspectors, and industry compliance with key safety directives.
- Our aviation safety case work targets fraud that impacts the traveling public, such as unapproved aircraft parts and false airmen medical certificates.

#### ***Federal Highway Administration (FHWA)***

- Evaluating FHWA's programs and tools for overseeing the billions of dollars provided to States and localities to build, maintain, and repair the Nation's roads and bridges to ensure compliance with newly enacted legislation (MAP-21). These audits include assessments of FHWA's oversight of States' transportation financial and project management plans for major highway projects.
- Assessing FHWA's oversight of the Highway Safety Improvement Program (HSIP) a data-driven and performance-based program to significantly reduce traffic fatalities and serious injuries on public roads.

- Assessing FHWA's oversight of American Recovery and Reinvestment Act (ARRA) projects ranging from internal program controls for detecting improper payments to evaluating risk mitigation strategies used to identify unsupported highway project costs.
- A significant portion of our grant fraud investigations focus on deceptive practices in FHWA grant programs, such as false statements or claims, anti-trust and prevailing wage violations, and DBE fraud.

#### ***Federal Motor Carrier Safety Administration (FMCSA)***

- Expanding upon an initiative to protect American consumers and workers from fraudulent and deceptive commercial practices that abuse FMCSA's programs governing interstate property brokers, such as household goods and motor carrier broker fraud schemes. Several states in the Southwest region are known hot spots for these deceptive schemes, and additional investigative resources would strengthen this initiative.
- Auditing FMCSA's effort to attain more comprehensive commercial motor carrier safety data and a broader array of interventions through its Compliance, Safety, and Accountability (CSA) Program, and an assessment of FMCSA's oversight of its largest grant program—the Motor Carrier Safety Assistance Program—which provides over \$200 million to states to reduce the incidence and severity of commercial motor vehicle crashes.
- Reviewing FMCSA's compliance with North American Free Trade Agreement (NAFTA) cross-border trucking provisions and the agency's efforts to enhance the consistency of information reported to the Mexican Conviction Database and improve its capacity to perform safe and efficient bus inspections at border crossings.
- Our criminal investigations involving FMCSA's programs include hazardous materials violations; egregious motor carrier safety violations, including CDL fraud and falsified hours of service records; and economic/consumer related scams in the household goods and motor carrier broker program.

#### ***National Highway Traffic Safety Administration (NHTSA)***

- Assessing NHTSA's oversight of Highway Safety Grants. These grants fund programs for occupant protection, child safety, motorcycle safety, and alcohol-impaired driving.
- Investigations of NHTSA programs include both transportation safety and grant fraud issues.

#### ***Federal Transit Administration (FTA)***

- Evaluating FTA's oversight of mega-transit projects in New York City, and other locations, focusing on cost, schedule, and local risks.

- Our grant fraud investigations involving FTA's programs include schemes, such as false statements or claims, anti-trust and prevailing wage violations, and DBE fraud.
- On January 29, 2013 the President signed Pub. Law 113-2, Disaster Relief Appropriations Act of 2013. This legislation provided FTA with funding for their Public Transportation Emergency Relief Program, and included \$6,000,000 to support OIG oversight of FTA activities under this program.

#### ***Federal Railroad Administration (FRA)***

- Assessing FRA's ability to effectively manage its recently expanded role to oversee the implementation of high-speed intercity passenger rail (HSIPR) and other responsibilities associated with the Passenger Rail Investment and Improvement Act (PRIIA). Assessing FRA's progress on rulemakings required by the Rail Safety Improvement Act of 2008 (RSIA). RSIA directs FRA to, among other things, issue new safety regulations. These new regulations will govern different areas related to railroad safety, such as hours of service requirements for railroad workers, automated collision-prevention technology in trains, standards for track inspections, and safety at highway-rail grade crossings.
- Assessing Amtrak operations, including its financial and accounting reporting system and conducting annual reviews on Amtrak's 5-Year Financial Plan.

#### ***Pipeline and Hazardous Materials Safety Administration (PHMSA)***

- Following up on our previous work regarding PHMSA's oversight of its Special Permits and Approval Program.
- Assessing PHMSA's oversight of States' gas pipeline safety programs; pipeline control room management, and hazardous liquid spill response plans.
- Our hazardous materials criminal investigations include fraud against PHMSA's programs, including pipeline safety.

#### ***Maritime Administration (MARAD)***

- Assessing MARAD's coordination and oversight of port infrastructure projects for state, local, and territorial authorities. We will use MARAD's experience at the Port of Anchorage Intermodal Expansion Project as a primary case study.

### **Why Is This Particular Program Necessary And How Do You Know The Program Works?**

OIG's mission is unique within DOT. Our work products provide the only internal independent source of recommendations to senior policy-making officials. OIG recommendations promote the efficient use of taxpayer dollars for maximum benefit, as well as enhanced effectiveness and integrity of the programs that DOT administers. Our audits, investigations and reviews lead to recoveries of large amounts of improper payments, cost reductions, funds put to better use, and both financial and program improvements, including increased operational efficiencies and improved safety. During fiscal year 2012, the monetary impact of our findings and recommendations represent a return of approximately \$23 for each budget dollar spent. The OIG has established a long-standing record as a highly respected contributor to the Department's mission.

OIG fulfills statutory responsibilities by completing required audits of DOT's financial statements and information security practices; assessing the adequacy of internal control systems; and ensuring tax dollars expended by DOT are well-spent and that acquisitions, contracts, and grants are well-managed to safeguard against fraud, including those under consideration as part of the economic recovery efforts. In addition, the Secretary and Congress frequently task OIG through requests, report directives, and statutory mandates to review critical ongoing and emerging transportation issues.

We also identify, monitor and report on issues we consider to be the Department's top management and performance challenges as a part of annual performance reporting. The challenges we identify are communicated to DOT leadership, and we monitor the Department's progress in addressing the issues. For fiscal year 2013, the key challenges identified for DOT include:

- Ensuring the Next Generation Air Transportation System Advances Safety and Air Travel
- Enhancing FAA's Oversight and Use of Data To Identify and Mitigate Safety Risks
- Overseeing Administration of Key Transportation Assets To Ensure Their Success and Sustainability
- Strengthening Existing Surface Safety Programs and Effectively Implementing New Safety Requirements
- Maximizing Surface Infrastructure Investments With Effective Program Oversight and Execution of New Legislative Requirements
- Adequately Overseeing Administration of High Speed Intercity Passenger Rail Grant Funds

- Strengthening Financial Management Over Grants To Better Use Funds, Create Jobs, and Improve Infrastructure
- Ensuring Effective Management of DOT's Acquisitions To Maximize Value and Program Performance
- Managing and Securing Information Systems To Efficiently Modernize Technology Infrastructure and Protect Sensitive Data From Compromise

To assess the outcome and effectiveness of OIG performance in terms of meeting our statutory responsibilities, we have adopted performance measures developed by the Council of Inspectors General on Integrity and Efficiency (CIGIE) based on the reporting requirements in the IG Act.

Following are examples of some of our recent and on-going work that we believe support the Department's strategic focus.

### ***Transportation Safety***

*Contract Towers Continue to Provide Cost-Effective and Safe Air Traffic Services, But Improved Oversight of the Program is Needed.* On November 5, 2012, we issued a report on the FAA's oversight of the Federal Contract Tower Program. Established in 1982, the Program currently oversees 250 contract towers providing low-cost air traffic control services to airports nationwide. We found that contract towers continue to provide air traffic control services at a lower cost than similar FAA towers. On average, a contract tower costs about \$1.5 million less to operate than a comparable FAA tower, mainly due to lower staffing and salary levels. In addition, contract towers had a lower number and rate of safety incidents compared to similar FAA towers, and users remain strongly supportive of the Program. However, we identified opportunities for FAA to enhance its oversight of the Program, including strengthening its financial controls and implementing voluntary safety reporting systems at contract towers. FAA concurred with all three of our recommendations to improve the Agency's oversight of the contractual and safety aspects of the Program.

At a hearing before the House Subcommittee on Aviation on July 18, 2012, the Inspector General testified regarding the FAA Contract Tower Program. The Inspector General indicated that, based on our ongoing work, contract towers continue to provide safe air traffic services, as contract towers have a lower number and rate of reported safety incidents and Agency-identified deficiencies when compared with similar FAA towers. In addition, contract towers remain strongly supported by users and continue to provide cost-efficient air traffic control services. Our work found that the average contract tower costs roughly \$1.5 million less to operate annually than a comparable FAA tower, largely due to lower staffing and salary levels. However, the Inspector General noted that FAA can improve its oversight of the program by implementing a voluntary safety incident reporting program at contract towers, reviewing labor



hours worked to ensure contract compliance, and implementing processes to regularly evaluate contract towers as required by Congress.

*FAA Has Not Effectively Implemented its Wildlife Hazard Mitigation Program.* On August 22, 2012, we issued a report on the FAA's Wildlife Hazard Mitigation Program, which aims to reduce the risk of wildlife strikes to aviation. Under the Program, FAA requires airports to create and implement wildlife hazard management plans to assess and minimize the risk of future strikes. However, we found that FAA's oversight and enforcement activities are not sufficient to ensure airports fully adhere to Program requirements or effectively implement their wildlife hazard plans. In addition, FAA's policies and guidance for monitoring, reporting, and mitigating wildlife hazards are mostly voluntary, thereby limiting their effectiveness. For example, FAA recommends but does not mandate that airports and aircraft operators report all wildlife strikes to FAA's strike database. As a result, FAA's strike data are incomplete, which impacts the Agency's ability to evaluate the effectiveness of its Program in reducing wildlife hazards. Finally, FAA coordinates effectively with the U.S. Department of Agriculture Wildlife Services, its main partner in wildlife hazard mitigation, but its efforts to coordinate with other relevant Government agencies are limited and infrequent. We made 10 recommendations intended to improve FAA's management and oversight of the Program. FAA concurred with six, partially concurred with three, and did not concur with one. We are requesting additional information or revised responses for five recommendations—particularly related to improving the quality and quantity of the Agency's wildlife strike data.

*Actions Needed to Improve FTA's Oversight of the Phase 1 Dulles Corridor Metrorail Project.* On July 26, 2012, we issued our report on FTA oversight of phase 1 of the Dulles Corridor Metrorail project. This was a self-initiated audit subsequent to a Management Advisory we issued in October 2009, which expressed concerns about the safety of using 11 pier foundations to support part of the Dulles project's guideway. Our audit found that while FTA implemented an oversight process to ensure that MWAA tested the 30-year-old pier foundations, the testing process has not yet provided assurance that the structures will meet the 50-year service life specified in FTA guidance. We also found that, as of February 2012, when we issued our draft report, FTA had not taken sufficient mitigation actions to address key project issues that put the schedule, cost estimate, and funding from the 2009 Full Funding Grant Agreement at risk. In its response to our draft report, FTA agreed to direct additional testing to further ensure the 50-year service life for the structures and to take acceptable actions to address the key project issues we raised.

*Timely and Targeted FMCSA Action is Needed to Fully Address National Transportation Safety Board Recommendations for Improving Passenger Carrier Oversight.* On April 17, 2012, we issued a report on the FMCSA's implementation of National Transportation Safety Board (NTSB) recommendations to improve Federal oversight of passenger carriers, a request initially included in the House Committee on Appropriations' committee report accompanying its version of the fiscal year 2011 THUD appropriations bill.

We found that FMCSA could improve its vetting process to detect reincarnated carriers and made recommendations to improve FMCSA's carrier vetting process. In addition, while FMCSA took action on rules NTSB recommended to improve passenger carrier oversight, it has yet to implement those rules. Finally, FMCSA has not implemented NTSB's recommendations on enhancing Federal Motor Vehicle Safety Standards compliance.

*Challenges to Improving Oversight of Rail Transit Safety and Implementing an Enhanced Federal Role.* On January 31, 2012, we issued our report on the challenges FTA may face if Congress passes legislation expanding its oversight role of rail transit safety. We found that although basic safety incident data, such as fatalities, injuries, and property damage, are currently captured in the National Transit Database (NTD), the data are insufficient for FTA to effectively oversee transit safety at the national level. FTA has not established goals, performance measures, and targets that are specific to its current rail transit safety activities. We also found that if Congress expands FTA's oversight role, establishing minimum national rail transit safety standards would present a number of challenges to FTA. Additionally, an expanded oversight role would significantly increase FTA's oversight and enforcement activities to ensure that State and local agencies implement any new national standards and regulations.

We recommended that the FTA Administrator identify actions taken or planned to: (1) work with the Volpe National Transportation Systems Center to complete FTA's assessment of existing data management activities and safety data needs; (2) consult with stakeholders to identify gaps in NTD data and opportunities, under its current authority, to improve the NTD's usefulness to the transit industry; (3) develop an updated performance plan that identifies clear and specific rail safety performance measures that align with the Department's strategic goals and with FTA's rail transit safety activities; and (4) assess FTA's progress in meeting the rail safety performance measures on an annual basis and produce a report summarizing results.

*Process Improvements Are Needed for Identifying and Addressing Vehicle Safety Defects.* On October 6, 2011, we issued a report on NHTSA's oversight of vehicle safety. We found that NHTSA's Office of Defects Investigation (ODI) followed its established procedures in investigating unintended acceleration (UA) issues for Toyota and other manufacturers and that UA-issues affected multiple vehicle manufacturers. Also, despite NASA's validation of ODI's investigative results for the Toyota UA-related cases, we found process improvements are needed for identifying and addressing vehicle safety defects. Finally, ODI's processes are well respected internationally, but its limited information sharing and coordination with foreign countries reduced opportunities to identify safety defects or recalls in an increasingly global automobile industry. We made ten recommendations to enhance ODI's processes and increase coordination with foreign countries.

*Pennsylvania Trucking Firm and Owner Sentenced.* On July 24, 2012, the owner-operator of D.A. Landis Trucking, Inc., a Lancaster, Pennsylvania company, was sentenced to five years probation, including 12 months home detention and electronic monitoring. In addition, he was



ordered to pay a criminal fine of \$15,000. His company was sentenced to four years probation and was ordered to pay a \$250,000 fine, a \$4,400 special assessment and to implement a comprehensive compliance and ethics plan. The sentencing follows a March 2012 guilty plea in which he admitted to routinely disregarding FMCSA regulations by allowing and causing commercial truck drivers employed by D.A. Landis Trucking, Inc. to operate in violation of FMCSA "hours of service" safety regulations. D.A. Landis Trucking, Inc. also dispatched company drivers on trips they knew required excessive hours of driving time and excessive hours of "on-duty" time, without allowing the required hours of rest or regulated "off-duty" time. He instructed employees of the company to prepare two sets of driver's logs, one of which was false and intended for FMCSA inspectors to conceal violations of safety regulations. During the execution of a search warrant of the company, federal agents seized numerous logbooks and documents marked "Not For DOT".

*South Carolina Department of Motor Vehicle Employee Sentenced for Issuance of Fraudulent CDLs.* On May 8, 2012, in U.S. District Court, Columbia, South Carolina, a former South Carolina Department of Motor Vehicles (SCDMV) customer service representative, was sentenced to 3 years probation, a \$100 special assessment, 6 months home confinement, and ordered to undergo vocational and psychiatric evaluations for her role in a scheme to provide CDLs to unqualified applicants. The former employee confessed to her role in the issuance of 19 CDLs and 13 drivers admitted to obtaining their CDLs or endorsements fraudulently. SCDMV officials instituted administrative revocations of those drivers' credentials and offered re-examinations of all drivers believed to be the recipient of fraudulent CDLs. The employee has been terminated from her position with the SCDMV.

*Long Term Success of ATSAP Will Require Improvements in Oversight, Accountability and Transparency.* On July 19, 2012, we issued a report on FAA oversight of the Air Traffic Safety Action Program (ATSAP)—a voluntary non-punitive reporting program for air traffic controllers to report safety concerns, such as operational errors and events that present hazards to aviation. We conducted this review at the request of the Chairmen and Ranking Members of the Senate Committee on Commerce, Science, and Transportation and its Subcommittee on Aviation Operations, Safety, and Security as well as the Chairman of the House Committee on Transportation and Infrastructure and the Chairman and the Ranking Member of the House Transportation and Infrastructure Subcommittee on Aviation.

We found that, although FAA completed ATSAP implementation at all ATC facilities in 2010, the Agency will need to make significant improvements before ATSAP will be able to effectively identify and address the root causes of safety risks. For example, due to ATSAP provisions designed to protect controller confidentiality, much of the ATSAP data that FAA collects are not validated, raising questions about the effectiveness of these data for analyzing safety trends. We also found that FAA's oversight of ATSAP lacks effective program management controls. For example, FAA does not have a formal process to review the effectiveness of decisions made by the program's review committees to ensure that report

acceptance criteria are rigorously followed and that conduct issues are dealt with appropriately. Failure to address potential deficiencies in transparency and accountability may lead to the perception that ATSAP is an amnesty program in which reports are automatically accepted, regardless of whether they qualify under the program's guidelines.

We made 10 recommendations to improve FAA's implementation of ATSAP and to strengthen internal controls, use of data, and performance management within the program. FAA fully concurred with five recommendations, partially concurred with three, and did not concur with two. We requested that the Agency reconsider its responses for these two recommendations, particularly regarding the validation of all data accepted through ATSAP.

*South Florida Men Sentenced to Jail Time and Ordered to Pay \$1.45 Million in Restitution in Aircraft Parts Fraud Conspiracy.* On April 15, 2012, in U.S. District Court, Miami, Florida, the owners of Daytona Aerospace, a South Florida aviation parts broker were sentenced for conspiracy to commit aircraft parts fraud. The two men were sentenced to a combined total of over six years in prison. Further, as part of their sentencing, they were to pay \$1.45 million in restitution and ordered a \$1 million forfeiture.

Our investigation revealed that Daytona Aerospace purchased, sold, and traded aircraft parts between commercial airlines, private aircraft, other brokers, and the U.S. Department of Defense, and specifically that owners misrepresented the condition and origin of aircraft parts in their responses to numerous bids advertised by the U.S. Air Force and U.S. Navy. Although the orders and contracts specifically required the defendants to supply new surplus parts manufactured by The Boeing Company, they used various unauthorized local dealers to manufacture the requested parts. The defendants, in concert with their employees, concealed the fraud by completing a Certificate of Conformance, also known as a "Parts or Material Certification Form" or an "ATA 106," and other paperwork, such as packing slips and invoices, that misrepresented either the condition of the parts or the manufacturer. Additionally, to further conceal the fraud, the two men created fraudulent inventory lists, certification forms, and letters bearing various airlines' corporate logos and attached these false forms to shipments containing the parts. They then forwarded the completed fraudulent paperwork, including the ATA 106 and other traceability documentation, and the counterfeit parts to the purchasers, including the Air Force and others in the commercial and military aviation industry.

*Vermont Man Sentenced to Jail for Falsifying Documents Used in Drug Testing Transportation Companies.* On July 10, 2012, the owner of Mobile Testing Services, Inc. (MTSI) was sentenced to 1 month incarceration, 2 years supervised release, and \$22,513.10 in restitution in U.S. District Court, Brattleboro, VT, for his involvement in a scheme to defraud transportation companies employing drivers subject to random drug testing.

The man, through his company represented himself as a third party administrator, capable of assisting transportation companies in complying with DOT regulations requiring that urine

samples be obtained by trained collectors and shipped to licensed labs with a completed Control and Custody Form (CCF) for drug testing. Test results must then be reviewed by a Medical Review Officer (MRO), a licensed physician trained in substance abuse. However, in 2009, Khouri subverted the role of the MRO by completing the CCFs and giving test results that were not reviewed by an MRO. After MTSI's contracted drug testing lab stopped testing due to nonpayment, he prepared false CCFs for untested specimens, misrepresenting that the specimens had tested negative and billing his clients for services not provided.

*Multiple Individuals Sentenced for their Roles in an Aircraft Parts Conspiracy* On October 18, 2012, the President, Vice-President, and General Manager of Aircraft Transparencies Repair (ATR) and Transparencies Engineering Group (TEG), were sentenced in U.S. District Court, Fort Lauderdale, Florida, for their roles in a scheme involving false representations that aircraft windows were overhauled properly, when they were not. The three were sentenced to a total of nearly 8 years in jail and ordered to collectively pay \$68,033 in restitution.

On October 19, 2012, the former Office Manager, was sentenced to 21 months of incarceration, 3 years of supervised release, and ordered to pay \$11,818.76 in restitution. Also, an aircraft window painter was sentenced to 4 years of probation and 200 hours of community service, and ordered to pay \$7,150 in restitution. And a sales representative was sentenced to 3 years of probation, ordered to perform 150 hours of community service and to pay \$9,600 in restitution.

On March 22, 2012, a multi-count indictment was filed against 16 employees of ATR and TEG for conspiracy to sell and falsely certify to commercial aviation customers the airworthiness of aircraft cockpit windows. The investigation revealed that from approximately August 2009, to August 2010, ATR employees continued repairing aircraft cockpit windows despite the repair station certificate having been revoked in July 2009. As part of the scheme, ATR/TEG purchased "as removed" aircraft cockpit windows in the open market and backdated documents to make it appear as if the windows had been retrieved from inventory prior to the certificate revocation. Additionally, serial numbers on the windows were changed to disguise the source and to further make it appear that all work had been performed prior to the revocation.

*Georgia Man Sentenced for Violating an Imminent Hazard Out-of-Service Order.* On August 30, 2012, a Cordele, GA man was sentenced in U.S. District Court, Albany, GA, to six months incarceration, followed by twelve months supervised release, and was ordered to pay a fine of \$3,000 for operating a commercial motor vehicle in violation of an Imminent Hazard - Out of Service Order issued by the FMCSA. On October 6, 2008, the man, doing business as Lewis Trucking Company/DDI Transport/DL Transport, was placed under an Imminent Hazard Order to cease all operations due to serious violations discovered during a compliance review conducted by FMCSA. The compliance review was subsequent to a fatality crash in Alabama which resulted in the deaths of seven State of Alabama prison guards.

Mississippi State Employees Sentenced for Falsifying Documents Relating to CDLs. In October 2012, the former Mississippi Department of Public Safety (DPS) Highway Patrol (MHP) Director of Driver Services and a former DPS clerk, pleaded guilty in U.S. District Court, Jackson, MS, for their involvement in a fraudulent CDL testing scheme. Our investigation disclosed that several Mississippi State troopers assisted CDL applicants by creating false CDL test scores to enable them to obtain CDLs and operational hazardous materials and passenger endorsements without meeting the required minimum State and Federal testing mandates. Additionally, troopers altered CDL driver records to reduce speeding infractions to lesser offenses and altered guilty judicial adjudications on drivers' records to prevent drivers from receiving judgments or license suspensions. OIG is currently working with FMCSA and DPS to correct altered driver records identified during this investigation.

California Man Sentenced for Unlawfully Refilling and Transporting Uncertified Compressed Gas Cylinders. On October 2, 2012, a Stockton, California man and former owner of Clean Fuels LLC, a business that transported compressed natural gas in metal cylinders to commercial natural gas users, was sentenced in U.S. District Court, Sacramento, California. The court ordered the man to pay \$100,000 in fines and serve five years of supervised release for the willful and unlawful refilling of a compressed natural gas cylinder that was overdue for its five-year requalification and then offering it for transportation.

Clean Fuels, LLC's owner, previously pleaded guilty and admitted to using a trailer to transport 38 cylinders of compressed natural gas. He had refilled all the cylinders knowing that the service certification dates expired months before and then personally transported them from his business in Stockton to Pacific Gas & Electric's natural gas refilling station in San Joaquin County.

### ***State of Good Repair***

FHWA Has Opportunities to Improve Oversight of ARRA High Dollar Projects and the Federal-Aid Highway Program. On November 14, 2012, we issued a report on FHWA's oversight of selected ARRA high dollar bridge and highway projects receiving at least \$20 million and \$25 million, respectively, in ARRA highway infrastructure investment grants. Our work focused on identifying significant issues that could impact FHWA's effective oversight of ARRA and to follow up on our June 2010 ARRA Advisory alerting the Department that States were not conducting required value engineering (VE) studies. Accordingly, our objectives were to report on whether (1) projects conducted required VE studies and (2) ARRA funds were obligated based on the States' best estimate of cost. We found that FHWA missed opportunities to maximize ARRA investments, since one-third of the States in our review did not perform VE studies during the project planning or design phase for at least one ARRA project. Further, FHWA also did not consistently emphasize its cost estimating guidelines designed to help ensure States obligate ARRA funds for projects based on best estimates of project costs. FHWA now faces the challenge to monitor ARRA obligations for any unused or idle funds that result from



overestimating or other occurrences, and make certain that the States re-obligate or return ARRA funds before they expire in 2015. The report recommended that FHWA (1) verify that required VE studies were conducted for ARRA projects; (2) identify steps needed to increase States' awareness of and compliance with VE legislative changes and FHWA's revised guidance; (3) verify that FHWA Division Offices review each State's procedures for estimating costs, including procedures to conduct periodic reviews and to address significant changes in market conditions; and (4) develop and implement a plan to make sure controls are in place to effectively manage remaining unexpended ARRA funds. FHWA concurred with three of our recommendations and concurred in part with another. We plan to close three recommendations based on FHWA actions, changes to VE requirements, and our initiation of follow-up audits to further assess FHWA's actions for a later report. One recommendation will remain open pending receipt of appropriate documentation of actions taken or planned.

*Improvements to Stewardship and Oversight Agreements are Needed to Enhance Federal-aid Highway Program Management.* On October 1, 2012, we issued a report on FHWA's Stewardship and Oversight Agreements with States. FHWA uses these agreements, which are required by law, to formalize the roles and responsibilities of FHWA Division Offices and the States to ensure adequate oversight of Federal funds, project quality, and safety. We conducted the review as part of our ongoing ARRA oversight work. We found that while FHWA fulfilled the statutory mandate to enter into Agreements with each State, the Agreements do not consistently reflect Federal requirements, or program risks and priorities that FHWA has identified. Further, FHWA has not provided sufficient guidance and oversight to Division Offices for the development and update of Agreements to ensure that inconsistencies reflect valid differences among the States and to ensure that legal issues are identified. FHWA concurred with one recommendation and partially concurred with the remaining four recommendations. We will close two of the recommendations, pending receipt of appropriate documentation of actions taken or planned. For the remaining three recommendations, we requested additional information and action dates to fully assess FHWA's plans for improving the use of agreements.

*Refinements to DOT's Management of the Highway Trust Fund's Solvency Could Improve the Understanding and Accuracy of Shortfall Projections.* On March 6, 2012, we issued a report on the issues related to the solvency of the Highway Trust Fund (HTF). We conducted our review at the request of the former Ranking Member of the Senate Budget Committee. We found that following the fiscal year 2008 shortfall in HTF's Highway Account (HA), both FHWA and FTA instituted procedures to forecast shortfalls and communicate with Congress regarding HTF's balance and possible shortfalls. Additionally, once a shortfall appears imminent, FHWA has developed additional procedures that allow it to adjust, when necessary, the amount and timing of HA's outlays to States. While FHWA and FTA shortfall projections are reasonable, improvements to their projection methodology could enhance the accuracy of their shortfall

estimates and enable them to implement, at the earliest possible date, shortfall management and communication procedures.

*California Man Sentenced in Airport Copper Theft Conspiracy.* On August 6, 2012, a Modesto, California man was sentenced in U.S. District Court, Fresno, CA, to serve 16 months in prison for conspiring to steal 2,800 feet of copper cable from the Medium Intensity Approach Lighting System at the Modesto Airport. The man was also ordered to pay \$60,000 to FAA for the damage caused to the Modesto Airport.

OIG began its investigation based on a referral from FAA alleging vandalism to the airport approach lighting system at the Modesto Airport. As part of the joint investigation, Modesto Police Department subsequently put up surveillance cameras, which led them to the defendant. OIG subsequently interviewed him, during which he confessed to the theft of copper cable and implicated his partner in the crime, another man from Modesto. Both men had pleaded guilty in May to the theft of Government property and conspiracy, admitting to having stolen the copper cable.

The damage to the airport is valued at more than \$40,000. Further, the theft resulted in the failure of the approach lighting—which is needed for poor visibility situations, such as fog and heavy rain—posing a significant safety risk to incoming aircraft and neighboring residents and the potential need to divert aircraft.

*Anchorage Company Manager Pleads Guilty and is Sentenced for Double-Billing Scheme on Alaska Highway Project.* On October 17, 2012, a highway construction project manager for Quality Asphalt Paving (QAP), pleaded guilty and was sentenced in U.S. District Court, Anchorage, Alaska, for making false statements in connection with a federally funded road construction project. He was sentenced to serve 3 years of probation and ordered to pay a \$2,000 fine and \$100 special assessment. In May 2012, the FHWA suspended the QAP project manager from working on Federal-aid contracts.

This investigation was initiated when OIG was advised that employees of QAP were allegedly conducting deceptive business practices on the Chief Eddie Hoffman Highway Rehabilitation, Airport to High School project. QAP was contracted to perform highway rehabilitation work by the Alaska State Department of Transportation in July 2006. The investigation disclosed that from approximately July 12 to July 16, 2007, the defendant directed QAP employees to create duplicate weight tickets for single truckloads of gravel for which QAP could then bill the State of Alaska. This fraud resulted in double billing the State for just under \$70,000. The scheme was reported to FHWA by a QAP driver who was directed to falsify weight tickets.

*Guam Company and its President Plead Guilty to Charges Related to a Buy America Billing Scheme on a \$1.8 million ARRA Funded Project.* On October 29, 2012, in the Districts of Guam and the Northern Mariana Islands, Hubtec International Corporation (Hubtec) and its president and project manager, pleaded guilty to false statements in connection with a highway project.

Hubtec and its president admitted devising a scheme to defraud the Department of Public Works (DPW) and FHWA by falsely representing that they used U.S.-made reinforcement steel bars for a Federally-funded project in Guam.

In January 2010, Hubtec received a contract with the DPW in the amount of \$1.8 million for the reconstruction and rehabilitation of the Route 2 culverts. The contract was funded in part by \$1.4 million in ARRA funds and required that the contractor comply with the Buy America requirement that all steel and iron permanently incorporated into the project be manufactured in the U.S.

OIG's investigation determined that Hubtec and its president falsely represented that they used U.S.-made reinforcement steel bars for the project, when in fact, they knew they had incorporated Korean-made reinforcement steel bars which were not in compliance with applicable Buy America requirements. They also committed fraud through a billing scheme, which falsely over-reported the costs of materials. We determined that the president of Hubtec submitted inflated invoices to the FHWA in the amount of approximately \$154,392, and the overall loss to the Government is estimated to be \$913,277.79.

### ***Economic Competitiveness***

*Update on FAA's Progress and Challenges in Advancing the NextGen Air Transportation System.* On September 12, 2012, the Inspector General testified before the House Committee on Transportation and Infrastructure Subcommittee on Aviation regarding the FAA's progress and challenges in advancing NextGen. The Inspector General identified three key challenges that continue to impact FAA's ability to realize NextGen's benefits: (1) implementing NextGen capabilities at congested airports; (2) resolving technical and program management problems with the En Route Automation Modernization (ERAM) program; and (3) managing program costs and schedules in developing and implementing NextGen's transformational programs. The Inspector General noted that FAA has made progress in improving air traffic management at congested airports in major cities through its metroplex initiative. However, critical work remains, and the Agency has not yet fully resolved key barriers to implementing NextGen capabilities in the near term. In addition, extensive software-related problems have caused cost increases and schedule delays for FAA's critical, multibillion dollar ERAM program—exposing significant programmatic and contract management issues. Finally, the Inspector General noted that FAA has not approved total cost, schedule, or performance baselines for any of NextGen's transformational programs or developed an integrated master schedule for managing NextGen.

*Weaknesses in Program and Contract Management Contribute to ERAM Delays and Put Other NextGen Initiatives at Risk.* On September 13, 2012, we issued a report on the FAA's progress and problems with the ERAM program, a multibillion dollar air traffic management system that will provide the foundation for NextGen. ERAM is a key NextGen enabling program for controlling high-altitude flights. It replaces a 40-year-old computer hardware and software

system, plus a backup, and more than 800 computer display workstations at 20 of FAA's Air Route Traffic Control Centers.

We found that FAA has experienced extensive software problems with ERAM that have delayed the effort by almost 4 years, with cost increases that could reach in excess of \$500 million. FAA's problems with ERAM are attributable to fundamental program management weaknesses as well as weaknesses in its contract—a contract that was not structured or administered to effectively manage costs and achieve desired outcomes. Ultimately, ERAM's delays pose significant risks to other critical NextGen initiatives. ERAM is on much stronger footing now than when we began our review, mostly due to sustained management attention by FAA leadership as well as focused risk management and close work with controllers. However, while FAA has made strides towards improving its program and contract management for ERAM, considerable risk still lies ahead as FAA implements ERAM at some of the Nation's busiest facilities. FAA concurred with 12 of our 13 recommendations to improve ERAM's program management, testing, contract structure, and oversight.

*Challenges with Implementing Near-Term NextGen Capabilities at Congested Airports Could Delay Benefits.* On August 1, 2012, we issued a report on the FAA's implementation of near-term capabilities for NextGen. Our audit focused on FAA's actions in response to recommendations from a government-industry Radio Technical Commission for Aeronautics (RTCA) task force on accelerating NextGen deployment, especially FAA's "metroplex" initiative to improve airspace efficiency at large, congested metropolitan airports. We found that while FAA quickly incorporated the task force's recommendations into its NextGen strategic plans and budgets, its efforts are delayed in key areas, including its critical metroplex initiative. Moreover, industry is concerned that the initiative does not yet include other related task force recommendations, such as better managing surface operations, and may not deliver all desired benefits.

In addition, FAA has not yet resolved many of the barriers that will impede implementation of the task force recommendations, such as streamlining the process for deploying new flight procedures and training controllers on advanced procedures. We made seven recommendations to FAA to improve its implementation of the task force recommendations. However, FAA's response did not meet the intent of four of our recommendations, and we requested additional information from the Agency.

*Status of Transformational Programs and Risks to Achieving NextGen Goals.* On April 23, 2012, we issued a report on the FAA's progress in planning and implementing its six transformational programs, which will provide foundational technologies and infrastructure for NextGen. These six programs are Automatic Dependent Surveillance Broadcast, System Wide Information Management, Data Communications, NextGen Network Enabled Weather, NAS Voice System, and Collaborative Air Traffic Management Technologies. We conducted our review at the request of the Chairmen and Ranking Members of the Senate Committee on



Commerce, Science, and Transportation and the Subcommittee on Aviation Operations, Safety, and Security.

We found that FAA has not yet established total program costs, schedules, or performance baselines for any of the six NextGen transformational programs, which limits visibility into the total costs and timelines required to achieve benefits. In addition, FAA's progress in implementing the programs has been limited by a lack of finalized program requirements. Other risks to effectively implementing these programs include the lack of an integrated master schedule—a key planning tool to manage the programs' interdependencies—as well as integration issues with complex automation systems.

*The Success of FAA's Long-Term Plan for Air Traffic Facility Realignments and Consolidations Depends on Addressing Key Technical, Financial, and Workforce Challenges.* On July 17, 2012, we issued a report on the FAA's plans for consolidating and realigning its ATC facilities. FAA operates 561 manned air traffic facilities nationwide, many of which are deteriorating and outdated, especially given the Agency's ongoing modernization efforts through NextGen. We conducted our review at the request of the Chairmen of the House Transportation and Infrastructure Committee and House Subcommittee on Aviation. We found that FAA recently approved an initial plan to consolidate air traffic facilities into large, integrated facilities over the next two decades—beginning with consolidating 49 facilities into an integrated facility for the New York/New Jersey/Philadelphia area, at an estimated cost of \$2.3 billion. However, FAA has not yet decided where to build the first facility, nor developed metrics to measure the effectiveness of its plans. In addition, we found that the successful implementation of FAA's plans will depend on addressing key challenges—such as aligning ongoing construction projects, making critical technical decisions, coordinating with NextGen offices, finalizing cost estimates, and addressing the impacts of consolidations on the workforce and affected communities.

*Completing a Grants Management Framework can Enhance FRA's Administration of the HSIPR Program.* On September 11, 2012, we issued a report that assessed the grants management framework the FRA uses to administer its HSIPR program. FRA has awarded and obligated almost \$10.1 billion in grant funds in the three years since it set up HSIPR, and \$8 billion of those funds were appropriated by ARRA. We conducted this review as part of our ongoing ARRA oversight because HSIPR gave FRA significant new grant-making and oversight duties. Our review focused on FRA grants management with regard to three areas: (1) policies, procedures, and guidance; (2) workforce adequacy; and (3) program performance mechanisms. We found that although FRA completed a *Grants Management Manual* in April 2012, the Agency obligated \$9.6 billion in grant funds while simultaneously developing the grant management policies and procedures outlined in the Manual. We also found that insufficient staffing and training further undermined FRA's efforts to effectively administer and ensure the accountability of HSIPR grant funds across all its active programs. Finally, we found that FRA lacks effective mechanisms for assessing program and grantee performance. While FRA has outlined HSIPR goals in several documents, the goals are inconsistent across these documents

and the goals' performance measures are also not specific enough to determine overall program progress. We made five recommendations to FRA to improve HSIPR grant fund administration and accountability. The Agency concurred with all five recommendations.

*FRA Needs to Expand Its Guidance on High Speed Rail Project Viability Assessments.* On March 28, 2012, we issued our report on guidance on high-speed rail viability assessments. The objectives of our audit were to: (1) identify key focus areas for analyses of HSIPR project economic viability; and (2) assess the FRA's requirements and guidance for HSIPR grant applicants on the information they must provide to FRA on project viability.

We found that three focus areas are key to sound project viability assessment: (1) the elements with the greatest impact on the components of the analysis (revenue forecasts, public benefits valuations, and operations and maintenance cost estimates) include current trip tracking, projections of future travel, and annual train-miles and train-hours operated; (2) the level of analytical detail required for these components at the preliminary, intermediate, and final phases in the development of a HSIPR proposal; and (3) issues central to methodological soundness. We also found that FRA's guidance and requirements for HSIPR grant applicants is inadequate to ensure all applicants submit sound, comparable project benefit assessments. We made recommendations to assist FRA in developing specific, detailed guidance for the preparation of HSIPR ridership and revenue forecasts, public benefits valuations, and operating cost estimates that reflects the key considerations identified in this report.

*DOT Established Timely Controls for the TIGER Discretionary Grants Program, but Opportunities Exist to Strengthen Oversight.* On September 20, 2012, we issued a report on the Office of the Secretary's (OST) Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grants Program, which uses competitive discretionary grants for capital investments in highway, bridge, public transportation, rail, and port infrastructure projects. Congress initially appropriated \$1.5 billion for the program through ARRA, and the program has since grown to over \$3.1 billion. We conducted the review as part of our ongoing ARRA oversight work. We found that OST established TIGER program policies that generally adhered to best practices, but vulnerabilities remain in reviewing grant agreements, overseeing individual projects, assessing program risks, and measuring performance. In addition, we found discrepancies in the requirements for safety standards in the grant agreements for rail infrastructure projects. OST concurred with three of our seven recommendations to strengthen oversight of the TIGER program and partially concurred with four. We will close six of the recommendations, pending receipt of appropriate documentation of actions taken or planned. For one recommendation aimed at improving collaboration between Operating Administrations to avoid inconsistent grant requirements, we requested additional information to fully assess OST's response.

*Improvements Needed In the FTA's Grant Oversight Program.* On August 2, 2012, we issued our report on improvements needed in FTA's Grant Oversight Program. We conducted this

audit at FTA's request. FTA's Oversight Program is carried out by its regional offices, as well as its contractors, to ensure that grantees spend funds effectively; comply with Federal laws and regulations; and prevent fraud, waste, and abuse. Our objectives were to assess whether FTA Headquarters provides its regions and contractors with adequate guidance and oversight to accurately identify and track grantee deficiencies and to assess whether FTA's Region III effectively follows up on grantee deficiencies. We found that FTA Headquarters does not provide its regions or contractors with adequate guidance or oversight to ensure they consistently identify and track grantee deficiencies. Further, FTA Region III has not effectively followed up on grantee deficiencies. We made six recommendations to enhance the level of oversight FTA provides, to develop performance measures assessing the effectiveness of the outcomes of its overall Oversight Program, and to ensure regions do not close findings before receiving documentation showing that a finding has been fully resolved. FTA fully concurred with our six recommendations and provided responsive plans to address them.

*FAA's Contracting Practices are Insufficient to Effectively Manage its Systems Engineering 2020 Contracts.* On March 28, 2012, we issued our report on the FAA's Systems Engineering 2020 (SE-2020) contracts. SE-2020 is a portfolio of contracts that FAA is using to obtain professional and technical services to support its development and implementation of NextGen. FAA awarded seven SE-2020 base contracts between April and October 2010, which have a cumulative maximum value of \$7.3 billion—the largest award in FAA's history. On February 4, 2010, the Chairmen of the House Committee on Transportation and Infrastructure and its Aviation Subcommittee, Representatives Mica and Petri requested OIG review FAA's SE-2020 effort. We assessed whether FAA (1) manages its SE-2020 contract costs effectively, and (2) uses sound contracting practices to select contractors and oversee their performance.

We found that unclear FAA Acquisition Management System requirements resulted in unreliable cost baselines and overstated contract values, which impedes FAA's ability to manage total contract costs. In addition, FAA's practices to select contractors and oversee their performance are not sufficient. We made 12 recommendations to improve FAA's cost management and contracting practices.

*FTA Can Improve Procedures to Ensure More Effective Implementation of the Charter Service Regulation.* On May 17, 2012, we issued our report on the FTA's management of its 2008 revisions to the Charter Service Regulation (CSR). We conducted our review at the request of the U.S. Senate Committee on Appropriations, which specifically requested that we assess the impact of the CSR at selected locations.

We found that FTA improved procedures for overseeing the implementation of the CSR, including procedures for responding to stakeholder concerns and for notifying private charter operators of potential business opportunities. However, inaccuracies in FTA data and misinterpretations of the regulation's requirements still exist. We made five recommendations to FTA to improve data quality, monitor stakeholder issues, and provide targeted outreach.

Construction Firm Agrees to Pay \$7.5 Million to Settle Fraud Allegations. On April 4, 2012, Judlau Contracting, Inc., Dragados USA Inc., and the Dragados/Judlau Joint Venture (Dragados/Judlau, JV), New York based construction companies, signed a civil settlement agreement in the U.S. District Court, New York City, New York, in which Judlau/Dragados, JV agreed to pay a \$7.5 million civil settlement related to DBE fraud on a major public works project that received \$2 billion in FTA funding. Judlau/Dragados, JV is the prime contractor on the "East Side Access Project" which involves the construction of a tunnel connecting the Long Island Railroad to Grand Central Station.

As part of this settlement, Judlau/Dragados, JV admitted that between 2006 and 2008, they listed four DBEs as subcontractors and indicated that the total contract amount for them would be approximately \$22 million. Rather than pay DBEs for work actually performed by them, Judlau/Dragados, JV paid three DBEs fees to act as "pass-throughs" while the work was actually being performed by non-DBE subcontractors.

Also as part of this settlement, approximately \$6 million will be returned to the FTA.

Concrete Companies Sentenced for Conspiring to Manipulate the Ready-Mix Concrete Market.

On February 2, 2012, GCC Alliance Concrete (GCC), Great Lakes Concrete, and Tri-State Ready-Mix were sentenced in U.S. District Court, Sioux Falls, Iowa, for Sherman Antitrust Act violations involving a scheme to manipulate the ready-mix concrete market via rigged bids and territorial allocations for ready-mix concrete sold in Iowa. On the following day, February 3, 2012, VS Holdings Company was sentenced for their involvement in this scheme.

GCC received 18 months probation; \$1,200 special assessment; and community service defined by supplying \$100,000 in concrete to non-profit organizations in the affected areas of the fraud. In addition, GCC has to include \$10,000 in advertising to solicit non-profits to define desired projects and to announce that this advertising is in response to their 18 month probation. GCC's probation will end upon the completion of any work, or after 18 months.

The other companies involved were assessed a combined total of \$1.2 million in fines and special assessments, and Tri-State Ready Mix was also placed on 5 years probation. The affected volume of commerce in this case was \$14.7 million.

Owner of Staten Island-Based Construction Company Pleads Guilty. On March 5, 2012, the owner of Staten Island-based MS Construction Corporation (MSC), pleaded guilty in U.S. District Court, New York City, New York to a three-count information charging conspiracy to commit mail and wire fraud. Between 1994 and March 2011, she participated in a conspiracy to use MSC as a front DBE for non-minority firms Crossboro Contracting Co.; RMD Holdings (d/b/a Nationwide Construction Group); and A.B. Recycling LLC, in order to give the appearance MSC was using DBE contractors. The fraudulent use of the front DBE company involved participation on various FHWA funded projects and an FAA funded project. In reality,



MSC did not perform a commercially-useful function and the work was performed by non-minority firms. The amount of the MSC subcontracts involved total approximately \$2 million. As part of her guilty plea, the owner agreed to a money forfeiture provision, the amount to be determined at a later date.

*Sacramento Man Sentenced for Defrauding Truckers in Motor Carrier Broker Scheme.* On March 27, 2012, a Sacramento man was sentenced in U.S. District Court in Sacramento, California, for devising a scheme to defraud unsuspecting motor carriers who shipped goods across state lines and were not subsequently paid for transporting the loads. The Court sentenced the man to 10 years, 8 months in prison, and ordered him to pay \$376,765 in restitution to his victims. He was also ordered to enter a 500-hour Bureau of Prisons substance abuse treatment program and at the conclusion of his prison sentence, will be placed on probation for 36 months.

The investigation disclosed that during 2004 and 2005, he submitted applications for motor carrier broker licenses to FMCSA, using false names, social security numbers, and driver's license numbers. Additionally, between 2002 and 2005, he used Internet-based "loadposting" boards to find freight loads that were available for transport and would offer to transport those loads for a fixed price. He would then re-post those loads on the same or different web sites, acting as a broker, to find another trucking company willing to transport the freight. In over 100 instances, the man found trucking companies to deliver the freight, allowed them to make the deliveries, and then received payment from the original brokers who believed the man had completed the deliveries himself. The Sacramento man then refused to pay the trucking companies who actually transported the freight, keeping the money for himself. In 2006, OIG agents executed a search warrant at an interstate broker business and interstate motor carrier owned and operated by him. During the search, he was arrested on charges related to his defrauding motor carriers and he was subsequently indicted on five counts of wire fraud. In 2007, OIG determined that the man continued his scheme in the exact same manner, even after having been previously indicted. Additional charges against the man were subsequently added in a superseding Indictment.

*Former El Paso Police Department Sergeant Pleads Guilty.* On May 3, 2012, a former Sergeant for the El Paso Police Department (PD), pled guilty and was sentenced in District Court 205, El Paso County, Texas, for altering a public document with the intent to defraud.

In 2009, the former Sergeant made false entries on traffic citations and submitted the documents in order to fraudulently claim overtime. The period in which she submitted the fraudulent documents was in support of a traffic safety initiative funded by NHTSA. In addition, she is one of 25 El Paso PD officers to date who have been investigated for submitting fraudulent overtime claims and when sentenced, was given deferred adjudication. If she does not violate the terms and conditions of community supervision after 36 months, the violation will be removed from her record. She was also ordered to pay a court fee of \$231, a monthly fee of \$60 for court

supervision, and restitution to the City of El Paso in the amount of \$7,150 and is required to forfeit her Texas police officer license for a period of at least 30 years.

This investigation represents 1 of 4 investigations in the southwest United States into allegations that police officers fraudulently received overtime pay with Selective Traffic Enforcement Program (STEP) grant funds to enforce laws such as seat belt usage and drunk driving. To date, we have identified around \$750,000 in STEP grant funds that have been misused in 4 police departments. Twenty-nine police officers have been removed from their positions or resigned under investigation, 30 police officers have been indicted, and 1 has pleaded guilty and been sentenced to 36 months probation and restitution and court costs of just over \$9,000.

*The United States and LaFarge North America Settle Civil Fraud Claims for \$950,000.* On August 13, 2012, in U.S. District Court, Buffalo, NY, a civil settlement was reached between the U.S. Attorney's Office and LaFarge North America (LNA). The settlement was based on claims that LNA fraudulently obtained subcontracts that were supposed to be performed by certain minority and DBEs. It was alleged that between June 2001 and March 2006, employees of LNA entered into a fraudulent agreement with the owner of Rayford Enterprises, a certified DBE construction company, and contracted to obtain DBE concrete supply subcontracts from Rayford Enterprises on eight separate projects in the Buffalo, NY, area funded, in part, by FHWA. Rayford Enterprises represented that it was a bona fide DBE that performed concrete work on highway construction projects, but it in fact used LNA, a non-DBE manufacturer, to perform all of the concrete work on the projects. The owner of Rayford Enterprises previously pleaded guilty to mail fraud charges and forfeited \$1.8 million. Pursuant to the settlement, LNA agreed to pay the United States \$950,000. The settlement does not constitute an admission of liability by LNA.

*New York Construction Company President Sentenced for Prevailing Wage Scheme.* On October 12, 2012, a principle at Takbeer Enterprises was sentenced in U.S. District Court, Brooklyn, New York, to serve nine months of home confinement to be followed by three years of supervised release. He was also ordered to pay a forfeiture in the amount of \$1,879,575 and a \$500 special assessment.

The defendant pleaded guilty to mail fraud and obstruction of justice resulting from his participation in a scheme to defraud public contracting agencies. He required laborers at Takbeer Enterprises to kickback a portion of their earnings, which resulted in the submittal of false certified payrolls on federally funded contracts with DOT grantee agencies such as the New York Metropolitan Transportation Authority, Port Authority of New York New Jersey, and New York City School Construction Authority. In addition, while under a cooperation agreement with the U.S. Attorney's Office, he continued to commit crimes by paying some of his workers in cash and not reporting the wages to the IRS, resulting in a tax loss of approximately \$14,000.

*President of PA Highway Construction Firm Pleads Guilty in Connection with a \$5.2M Road Project.* On November 6, 2012, the president and owner of JVC Contracting, Inc. (JVC),

pleaded guilty in U.S. District Court, Philadelphia, Pennsylvania, to false statements in connection with a payroll and benefits fraud scheme on a \$5.2 million FHWA-funded road construction project. JVC, a highway construction company located in Chester Springs, Pennsylvania, resurfaced and repaired highways, roads, and bridges for federal, state, and local authorities.

In March 2003, JVC served as the prime contractor on the DOT-funded project to widen, resurface, and reconstruct approximately 1.6 miles of road in Horsham Township, Pennsylvania. JVC's president admitted that between April 2005 and December 2006, he submitted approximately 40 false certified payroll reports to the Pennsylvania Department of Transportation (PennDOT), which represented, in part, that JVC paid the union employee fringe benefits. Based on these fraudulent submissions, PennDOT continued to authorize payments to JVC. The investigation disclosed that in reality, JVC failed to remit nearly \$70,000 in fringe benefits to 33 workers protected by DOT contract requirements.

### ***Livable Communities***

*Former General Manager of Virginia Transit Agency Pleads Guilty to Theft of FTA Grant Funds.* On June 1, 2012, the former general manager of Valley Metro Transit, pleaded guilty to theft of Government funds in U.S. District Court, Roanoke, VA. In 2006, FTA awarded Valley Metro an \$80,000 grant to replace furniture at the company's downtown Roanoke administration building. Valley Metro hired a local interior designer, to complete the project. The designer admitted to fabricating and inflating all competitors' bids to ensure Valley Metro would have to pay more than the true costs associated with the project. Following Valley Metro's acceptance of the bids, she submitted falsified invoices related to the bids that included inflated and nonexistent shipping costs. Subsequently, Valley Metro made direct payment to the furniture vendors on the inflated bills received from the designer. The vendors then issued checks back to her for the difference between the true costs and the cost paid by Valley Metro based on her deception. The total estimated loss caused by the designer's actions is between \$80,000 and \$120,000.

The Valley Metro Transit former general manager admitted that between July 1, 2007 and June 20, 2008 he used Valley Metro Transit credit cards to make inappropriate purchases that were paid for, in part, with FTA operating grant funds. For example, he used the grant funds to purchase meals, alcohol, golf fees, cigars, and gift cards totaling more than \$14,000. In April 2012, the designer was sentenced to 4 months in prison, 4 months of home confinement, a \$3,000 fine, and \$45,728 in restitution.

*Maine Man Pleads Guilty to \$900,000 Embezzlement from a Federally Funded Program.* On July 31, 2012, a former Chief Executive Officer (CEO) of York County Community Action Corporation (YCCAC), pled guilty in United States District Court, Portland, Maine, to conspiracy, embezzlement from a federally funded program, tax evasion and signing false tax return charges. YCCAC provides social service, health, educational, and transportation-related

assistance to York County individuals and families living in poverty. From 2006 to 2010, YCCAC received in excess of \$30,000,000 in federal funds to be used for those purposes, including approximately \$7 million in FTA grants. Some of the FTA grants, including those for the rural transit assistance program and urban transit assistance program, were authorized by ARRA. The investigation disclosed that that from 2004 to 2010, the former CEO embezzled approximately \$900,000 from YCCAC. He diverted \$413,000 in funds to a consulting company that had only submitted one invoice for \$8,700. In exchange for the fraudulent payments, the consulting company paid more than \$20,000 of the former CEO's personal expenses, including his home mortgage and also kicked cash back to him. From 2004 to 2009, the former CEO diverted more than \$400,000 in YCCAC funds to a defunct non-profit entity, New England Community Action Agency (NECAA), and recorded those payments as donations or consulting expenses. After transferring these funds to NECAA, he used more than \$300,000 to pay personal credit card bills and his home mortgage, and to gamble, failing to report over \$400,000 in embezzled income to the Internal Revenue Service (IRS). Finally, in 2005 and 2006, he prepared and signed NECAA tax returns which suggested the agency had revenue and assets, when, in fact, it did not. As part of his plea agreement, the former CEO agreed to pay restitution of approximately \$1.2 million to YCCAC and \$150,000 to the Internal Revenue Service (IRS).

*Former Moving Company Employees Sentenced for their Roles in a Household Goods Scheme.*

From April through September 2012, a Superseding Information was filed in U.S. District Court, San Jose, CA, charging a sales manager for National Moving Network (NMN), a Miami based household goods broker, with the failure to observe published moving tariffs. She pleaded guilty to the charges and was sentenced to serve 6-months probation, and was ordered to pay a \$25 special assessment fee and \$10,765 restitution to two NMN victims.

In August 2012, a data entry clerk and customer service representative for AY Transport, pleaded guilty to her participation in the scheme. She was sentenced to six months of probation, and ordered to pay a \$100 special assessment fee and \$1,248.00 restitution to two AY Transport victims.

In April and May, two estimators for NMN pleaded guilty and were sentenced to a total of 18 months probation to pay restitution of just over \$7,000 to NMN and AY Transport victims.

Based on information from FMCSA, OIG began investigating owners and employees of NMN and AY Transport, a San Jose-based moving company. As part of its daily business practice, NMN booked moves nationwide, then referred a majority of the moves to AY Transport for the transportation of the household goods. NMN employees, and owners and employees of AY Transport participated in a "low-ball estimate" scheme, where NMN estimators quoted customers a low estimate to move their household goods, and upon taking custody of customers' goods, raised the price to exorbitant rates.



*Investigating Household Goods Fraud.* On September 20, 2012, Tim Barry, the Principal Assistant Inspector General for Investigations testified before the Senate Committee on Commerce, Science, and Transportation, regarding the OIG's investigative work involving household goods (HHG) transportation fraud. Mr. Barry discussed criminal conduct OIG has targeted through its investigations – conduct which typically consists of holding a customer's household goods hostage while demanding significantly larger sums of money than originally quoted. Mr. Barry also described for the Committee OIG's national fraud project to proactively identify the most egregious consumer complaints involving hostage loads against HHG carriers and brokers, a project which is focused on those that illicitly engage in hostage fraud schemes. In addition, Mr. Barry highlighted several options available to consumers who believe they have been victimized by such schemes.

### ***Environmental Sustainability***

*Hazardous Liquid Pipeline Operators' Integrity Management Programs Need More Rigorous PHMSA Oversight.* On June 18, 2012, we issued a report on the PHMSA's oversight of hazardous liquid pipeline operators' integrity management (IM) programs. These programs include plans, processes, and procedures aimed at reducing the likelihood and severity of pipeline accidents in High Consequence Areas. PHMSA initiated an inspection program to oversee operators' implementation of their IM programs in 2002. Since then, the program has accomplished much, but still faces challenges that impact the Agency's oversight of operators' IM programs. These challenges include managing a growing backlog of inspections, identifying IM weaknesses through field inspections and onsite accident investigations, and transitioning to a new risk-based inspection program. In addition, PHMSA's oversight of non-line pipe facilities (such as valves, pump and meter stations, and storage tanks) is limited by less rigorous IM requirements, despite recent technological advances that would allow more rigorous oversight of these facilities. Finally, although PHMSA has established a corrective action plan to address long-standing data management deficiencies, the Agency has not yet resolved key deficiencies or established meaningful analysis capabilities to improve its oversight. We made nine recommendations to improve PHMSA's oversight.

*Stockton Man Fined \$100,000 for Unlawful Refilling and Transporting of Compressed Natural Gas Cylinders.* On October 2, 2012, a Stockton, California man and former owner of Clean Fuels LLC, a business that transported compressed natural gas in metal cylinders to commercial natural gas users, was sentenced in U.S. District Court, Sacramento, California. The court ordered the man to pay \$100,000 in fines and serve five years of supervised release for the willful and unlawful refilling of a compressed natural gas cylinder that was overdue for its five-year requalification and then offering it for transportation.

OIG began investigating the case based on a complaint from one of Clean Fuels' former employees. The employee alleged that the former owner of Clean Fuels was unlawfully refilling metal cylinders with compressed natural gas that were well beyond their required 5-year

certification dates. Compressed gas cylinders are highly pressurized containers that store various kinds of gases. Some of these gases may be relatively harmless, such as carbon dioxide, however others may be extremely hazardous.

Our investigation determined that the defendant used a trailer to transport thirty-eight refilled cylinders of compressed natural gas. All thirty-eight cylinders had certification dates that had expired months before they were transported from Clean Fuels in Stockton to Pacific Gas & Electric's natural gas refilling station on McDonald Island, in San Joaquin County.

*Northern California Man Sentenced in Scheme to Defraud NHTSA's "Cash for Clunkers" Program.* On September 25, 2012, the owner of Pinole-Rodeo Auto Wreckers, Rodeo, California, was sentenced in U.S. District Court, Oakland, California, for falsely certifying that he had destroyed vehicles after receiving payment from dealerships to dispose of them in accordance with NHTSA, Consumer Assistance to Recycle and Save Act (CARS) program. The defendant devised a scheme wherein the vehicles were actually being sold and exported out of the country. He was sentenced to one year of probation and ordered to pay a \$3,500 fine and \$25 special assessment.

This investigation was initiated based on a discovery of two vehicles by the California Highway Patrol (CHP) at the Port of Oakland that were identified as having been trade-ins from the CARS program. OIG executed a search warrant at Pinole-Rodeo Auto Wreckers in March 2011 and the evidence obtained determined that the defendant falsely represented to NHTSA and to car dealerships that he had destroyed the vehicles as he had been paid to do in accordance with the CARS program. However, our investigation found that he sold the two cars and had plans to export them out of the country by using the services of a freight-forwarder located in southern California.

*Company Owner Guilty of Trafficking in Counterfeit Airbags.* On October 17, 2012, in U.S. District Court, Charlotte, North Carolina, the owner of Krugger Auto, pleaded guilty to trafficking in counterfeit airbags and transporting them in violation of hazardous materials regulations. In conjunction with his guilty plea, Krugger Auto's owner forfeited over \$1.7 million, which represents the seizure of over 1,600 counterfeit airbags; \$60,000 in cash; and the seizure of his residence.

The defendant was previously indicted and arrested for his role in the trafficking of counterfeit airbags and the illegal shipment of undeclared hazardous materials in air commerce. The airbag systems are designed with an incendiary detonator. During testing of the counterfeit airbags by the National Highway Traffic Safety Administration, it was established that the airbags were volatile systems in that they were capable of not deploying at all, expending shrapnel and causing a fire, or both, when detonated.

## ***Organizational Excellence***

*Quality Control Review of the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2012 and 2011.* On November 15, we issued an audit report on our quality control review of the Department of Transportation's (DOT) consolidated financial statements for fiscal years 2012 and 2011. KPMG LLP, under contract to the Office of the Inspector General, issued a clean (unqualified) audit opinion on DOT's consolidated financial statements. KPMG LLP's report included one material weakness and two significant deficiencies in internal control over financial reporting. In addition, KPMG LLP's report included two instances of reportable noncompliance with laws and regulations tested.

*FISMA 2012: Ongoing Weaknesses Impede DOT's Progress Toward Effective Information Security.* On November 14, 2012, we issued our report presenting the results of our annual audit of the Department's information security program and practices, as required by the Federal Information Security Management Act of 2002 (FISMA). Consistent with FISMA and OMB requirements, our overall audit objective was to determine the effectiveness of DOT's information security program and practices. We found that DOT has made improvements to its security controls. For example, it enhanced the Department's cyber security policy and guidance. However, the Department has not implemented many of the recommendations we made over the past several years that would permit it to meet Federal IT security requirements. As a result, the Department's information systems remain vulnerable to serious security threats and risks due to continued deficiencies in DOT's information security procedures, controls, and remediation measures. We are making new recommendations to address these deficiencies. DOT's Acting Chief Information Officer will provide a description, along with milestone dates, of the specific actions to implement these recommendations.

*MWAA's Weak Policies and Procedures Have Led to Questionable Procurement Practices, Mismanagement, and a Lack of Overall Accountability.* On November 1, 2012, we issued a report on the management policies and processes of the Metropolitan Washington Airports Authority (MWAA). Established through the Metropolitan Washington Airports Act of 1982, MWAA operates the federally owned Washington Dulles International and Ronald Reagan Washington National airports under a lease agreement with the Department of Transportation (DOT). It is also responsible for designing, constructing, and partially financing the Dulles Corridor Metrorail Project. We conducted our audit at the request of Representatives Frank R. Wolf and Tom Latham.

As a result of our audit work and increased public scrutiny, MWAA has taken action to improve its accountability, transparency, and governance, such as approving new travel and ethics policies for employees and its Board of Directors. However, further actions remain to fully address the management weaknesses we identified during our audit. First, MWAA's contracting policies and practices are insufficient to ensure compliance with the Airports Act and the lease agreement between DOT and MWAA. We also found issues with ineffective contract



management and oversight and a lack of adequate procurement integrity policies to ensure impartiality when awarding and administering contracts. Second, MWAA's code of ethics for its employees and its related policies and procedures have lacked the rigor needed to ensure credibility and the integrity of management and employee decisions. For example, some MWAA employees regularly accepted inappropriate, high-dollar gifts from an MWAA contractor. Third, MWAA's human resources practices lack oversight and accountability, resulting in employees being hired and compensated without job descriptions, competition, pay setting reviews, or completed background checks. Finally, while MWAA has taken positive steps to improve its Board of Directors' accountability and transparency, significant attention will be required to ensure that new travel, ethics, and disclosure policies are implemented and enforced. We made 12 recommendations and 30 specific sub-recommendations to the DOT Office of the Secretary (OST) to improve MWAA's management policies and processes. OST responded that it has been working with MWAA over the last several months to ensure that it swiftly adopts needed reforms. OST also stated it will formally transmit the report to MWAA with a clear expectation that the Authority produce a detailed response within 30 days.

In addition, on November 16, 2012, the Inspector General testified before the House Committee on Transportation and Infrastructure regarding the governance of MWAA. In his statement, the Inspector General highlighted our November 1 report, which detailed deficiencies in MWAA's policies and oversight for its (1) contract award and procurement practices, (2) code of ethics for its employees, (3) hiring and compensation practices, and (4) Board of Director activities. The Inspector General also described actions that MWAA has taken to improve its accountability and transparency in response to our ongoing concerns. However, he noted that further actions are needed to fully ensure fiduciary and ethical responsibility and restore public trust in the soundness of MWAA's current and future activities.

*DOT's Improper Payment Reporting Generally Complies with IPERA.* On March 15, 2012, we issued our report on DOT's improper payment reporting under the Improper Payments Elimination and Recovery Act (IPERA). We found that DOT both accurately reported improper payment information in its fiscal year 2011 Annual Financial Report (AFR) and complied with IPERA, with some exceptions. The following three exceptions were the most significant: 1) the Department did not report planned or actual completion dates for corrective actions taken for improper payments in FHWA and FAA programs; 2) FAA did not achieve its 2011 improper payment target rate for its Airport Improvement Program; and 3) DOT's reporting on its payment recapture program was incomplete. We made two recommendations to assist the Department in its preparation for IPERA reporting.

In addition, on September 12, 2012, we issued a memorandum on DOT's High Dollar Improper Payments identified during the quarter ending December 31, 2011. Executive Order 13520 requires the IG to review their agencies' reports and provide recommendations to agency heads for improvements to their improper payment corrective action plans. We reviewed the report for accuracy and compliance with OMB Circular A-123 Appendix C requirements. We did not

identify any additional high-dollar overpayments that DOT should have reported for the quarter ending December 31, 2011. The report contained the required information, except for: (1) whether the improper payments were made by individuals or entities; and (2) the actions taken to prevent improper payments in future. DOT included this information in its fiscal year 2011 Agency Financial Report. We did not make any recommendations at this time.

*DOT Does Not Have an Effective Enterprise Architecture Program for Management of Information Technology Changes.* On April 17, 2012, we issued a report on the results of our audit of DOT's enterprise architecture (EA) program. An EA is a framework for information technology (IT) management and improvement that describes a Federal department's current state of IT operations (the baseline architecture) as well as the future state of these operations after the implementation of improvements (the target architecture). This framework also includes a transition plan to move from the baseline to the target architecture. Our audit objectives were to determine whether DOT has (1) an effective program for the development and oversight of a Departmentwide EA, and (2) established procedures for the assessment of EA activities.

We found that DOT does not have a Departmentwide EA program, and instead, has assigned authority for EA development to its components. The Department, however, has no plan to integrate the individual components' EA programs into a Departmentwide program. The components' EA programs are incomplete, and policies and procedures are incomplete and outdated at both the Department and component levels. Neither the Department nor the components sufficiently address IT security in their IT investment planning and management. Furthermore, DOT does not have procedures for EA assessment, and consequently, cannot measure the status and progress of its components' EAs. We made eight recommendations to the Department for EA improvements.

*The U.S. Merchant Marine Academy's Security Controls were Not Sufficient to Protect Sensitive Data from Unauthorized Access.* On May 30, 2012, we issued a report on the results of our self-initiated audit of the United States Merchant Marine Academy's (the Academy) network security controls. Our objectives were to: (1) determine whether the Academy's local area network (LAN) and Website are secure from compromise; and (2) identify security weaknesses in the Academy's LAN, Website and databases.

We found that the Academy's security controls were not sufficient to protect its Website and LAN from compromise. In March 2011, we successfully penetrated the Academy's network security and were able to gain full access to its LAN and sensitive information. Our test demonstrated that all Academy data, including personally identifiable information, is at high risk of exposure to hackers. Additional information security weaknesses exist in the Academy's LAN, Website and databases because the Academy has not implemented information security programs for protection of information and information systems, as required by FISMA and

DOT policies. As a result, the Academy runs the risk that intruders will gain unauthorized access to the large amount of sensitive information stored in its systems without being detected.

*Saint Lawrence Seaway Development Corporation Employee Pleads Guilty to Worker's Compensation Fraud.* On July 3, 2012, a millwright/welder employed by the Saint Lawrence Seaway Development Corporation (SLSDC), pleaded guilty to fraud regarding Federal worker's compensation benefits in U.S. District Court, Syracuse, NY. The SLSDC employee claimed an on-the-job injury in February 2004, yet continued to work in his welding business—AKJ Marine, established about a week after his purported injury—while receiving Federal worker's compensation benefits. The defendant failed to disclose his outside source of income on the annual Office of Worker's Compensation Program certification forms and remained in the program. As a result of his guilty plea, Schneller agreed to make restitution to the U.S. Department of Labor in the amount of \$84,987.

*FRA's Requirements for High Speed Rail Stakeholder Agreements Mitigated Risk, but Delayed Some Projects' Benefits.* On November 1, 2012, we issued a report on the Stakeholder Agreement Requirements for the FRA's High-Speed Intercity Passenger Rail (HSIPR) grant program. While FRA has awarded and obligated over \$10.1 billion in grant funds in the three years since it established HSIPR, our report focuses on the \$8 billion in ARRA funds appropriated in 2009 and awarded in January 2010. We conducted this review as part of our ongoing ARRA oversight work because HSIPR represents an unprecedented federal investment in the U.S. intercity passenger rail system. The objectives of our audit were to assess: (1) FRA's development of stakeholder agreement requirements for long-term corridor projects; and (2) the effects that the requirements' development had on short-term, ready-to-go projects. We found that while FRA took an important step to ensure that Stakeholder Service Outcome Agreements (SOA) for long-term corridor projects were in place before obligation, project stakeholders faced challenges and consequent delays in completing these SOAs in part because of unclear guidance from FRA on what they should contain. Further, FRA's initial focus on long-term projects delayed (1) short-term project obligations and (2) the determination of requirements for short-term project agreements. The report recommended that FRA: (1) require that state grantees submit all required stakeholder agreements that address all terms specified by PRIIA and FRA's Guidance prior to fund obligation; and (2) develop guidance on stakeholder agreements for short- and long-term projects that addresses the differences in the projects' scopes to ensure that the intended benefits of each HSIPR project can be achieved. The Agency partially concurred with the first recommendation, and concurred with the second recommendation, indicating that it is committed to addressing the issue of further guidance if more HSIPR funding becomes available.

*Owners and Two Employees of Moving Company Indicted In Hostage Freight Scheme.* On January 17, 2012, the owners and two employees of Golden Hand Moving LLC, and Movers USA LLC were indicted in U.S. District Court, Denver, Colorado, on charges of conspiracy,

wire fraud, extortion, making a false bill of lading and theft from interstate shipment. Golden Hand Moving LLC, subsequently d/b/a Movers USA LLC.

The charges are based on allegations that Golden Hand Moving/Movers USA was engaging in a hostage household goods scheme designed to unjustly enrich the owners of the company. The scheme entailed luring customers into doing business with Golden Hand Moving/Movers USA by offering extremely low estimates, taking possession of customers' household goods and then significantly increasing the price and withholding delivery of their household goods until the customers paid the fraudulently inflated price. In addition, customers were threatened that if they refused to pay the increased price, their goods would be auctioned off.

*Note: Indictments, informations, and criminal complaints are only accusations by the Government. All defendants are presumed innocent unless and until proven guilty.*

PHMSA's Inadequate Management and Oversight of Hazardous Materials Emergency Preparedness Grants Limited the Program's Effectiveness. On January 12, 2012, we issued a report on PHMSA's management and oversight of its Hazardous Materials Emergency Preparedness Grants Program. We conducted this audit at the request of the former Chairman of the House Committee on Transportation and Infrastructure. We found that PHMSA does not have sufficient policies and processes—and until recently, resources—to effectively execute the Program. For example, PHMSA relies on an outdated methodology for allocating grant funds that does not consider grantee needs. We also found that, until recently, PHMSA did not proactively or effectively reach out to or coordinate with grantees to enhance their approaches to emergency planning and training. Finally, we found that PHMSA's oversight is lacking, which has resulted in misused grant funds due to improper payments and erroneously advanced funds. For example, we identified more than \$1 million in improperly distributed grant funds that were not used or needed. We note that PHMSA developed a comprehensive action plan in March 2011 to address the deficiencies of the Program. We made 10 recommendations to PHMSA to improve its management and oversight of the Program.

## **Inspector General Reform Act Statement**

### **DOT/OIG's Fiscal Year 2014 Budget Request**

The Inspector General Act was amended in 2008 to require certain specifications concerning OIG budget submissions each fiscal year.<sup>2</sup>

Each Inspector General is required to transmit a budget request to the head of the establishment or designated Federal entity to which the Inspector General reports, specifying:

- the aggregate amount of funds requested for the operations of the OIG;
- the portion of this amount requested for OIG training, including a certification from the Inspector General that the amount requested satisfies all OIG training requirements for that fiscal year; and
- the portion of this amount necessary to support CIGIE.

In addition, the head of each establishment or designated Federal entity, in transmitting a proposed budget to the President for approval, shall include:

- an aggregate request for the OIG,
- the portion of this aggregate request for OIG training,
- the portion of this aggregate request for support of the CIGIE, and
- any comments of the affected Inspector General with respect to the proposal.

The President shall include in each budget of the U.S. Government submitted to Congress:

- a separate statement of the budget estimate submitted by each Inspector General,
- the amount requested by the President for each OIG,
- the amount requested by the President for training of OIGs,
- the amount requested by the President for support of the CIGIE, and
- any comments of the affected Inspector General with respect to the proposal, if the Inspector General concludes that the budget submitted by the President would substantially inhibit the Inspector General from performing the duties of the OIG.

Following the requirements as specified above, the OIG of the Department of Transportation submits the following information relating to the OIG's requested budget for fiscal year 2014.

- The aggregate budget request for the operations of the OIG is \$85.605 million in support of 407 base-level FTEs.
- The portion of this amount needed for OIG training is \$700,000.
- The portion of this amount needed to support the CIGIE is \$468,000.

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<sup>2</sup> Public Law 110-409



**PROGRAM AND FINANCING  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE INSPECTOR GENERAL  
(S000)**

		<b>FY 2012 ACTUAL</b>	<b>FY 2013 CONT. RES</b>	<b>FY 2014 REQUEST</b>
<b>OMB ACCOUNT ID: 021-56-0130-0</b>				
<b>Obligations by program activity:</b>				
0101	General Administration	79,479	80,111	85,605
0102	ARRA oversight administration	4,141	3,943	0
0103	Disaster Relief and Oversight 2013	0	750	2,500
	Direct program activities, subtotal	83,620	84,805	88,105
0801	Reimbursable program	27	0	0
0900	Total new obligations	83,647	84,805	88,105
<b>Budgetary Resources:</b>				
<b>Unobligated balance:</b>				
1000	Unobligated balance brought forward, Oct 1	8,085	4,028	5,334
1011	Unobligated balance transferred from other accounts	53	0	0
1050	Unobligated balance (total)	8,138	4,028	5,334
<b>Budget Authority:</b>				
<b>Appropriations, discretionary:</b>				
1100	Appropriation	79,624	80,111	85,605
1121	Appropriations, Transferred From Other Accounts	0	6,000	0
1160	Appropriations, discretionary (Total)	79,624	86,111	85,605
<b>Spending authority from offsetting collections, discretionary:</b>				
1700	Collected	58	0	0
1701	Change in uncollected payments, Federal sources	15	0	0
1750	Total Spending authority from offsetting collections	73	0	0
1900	Budget Authority (total)	79,697	86,111	85,605
1930	Total Budgetary Resources Available	87,835	90,139	90,939
<b>Memorandum (non-add) entries:</b>				
1940	Unobligated Balance Expiring	(160)	0	0
1941	Unexpired unobligated balance, end of year	4,028	5,334	2,834
<b>Change in obligated balance:</b>				
3000	Unpaid obligations, brought forward, Oct 1 (gross)	10,975	8,233	8,282
3001	Uncollected pymts, Fed sources, brought forward, Oct 1	(39)	(19)	(19)
3002	Obligated balance, start of year (net)	10,936	8,214	8,263
3010	Obligations incurred, unexpired accounts	83,647	84,805	88,105
3011	Obligations incurred, expired accounts	123	0	0
3020	Outlays (gross)	85,672	84,756	87,556
3030	Change in uncollected pymts, Fed sources, unexpired	(15)	0	0
3031	Change in uncollected pymts, Fed sources, expired	35	0	0
3041	Recoveries of prior year unpaid obligations, expired	(840)	0	0
3050	Obligated balance, end of year (net)	8,214	8,263	8,812
<b>Budget Authority and outlays, net:</b>				
4000	Budget authority, gross	79,697	86,111	85,605
<b>Outlays, gross:</b>				
4010	Outlays from new discretionary authority	72,697	72,850	77,045
4011	Outlays from discretionary balances	12,974	11,906	10,511
4020	Outlays, gross (total)	85,672	84,756	87,556
<b>Offsets against gross budget authority and outlays:</b>				
Offsetting collections (collected) from:				
4030	Federal sources	(27)	0	0
4033	Non-Federal sources	(31)	0	0
4040	Total offsetting collection (cash)	(58)	0	0
Additional offsets against gross budget authority only:				
4050	Chg in Uncollected cust orders fm Fed Sources (unexpired)	(15)	0	0
4051	Offsetting collections credited to expired accounts	(27)	0	0
4060	Additional offsets against gross budget authority only (total)	(42)	0	0
4180	Budget authority, net (total)	79,624	86,111	85,605
4190	Outlays, net (total)	85,586	84,756	87,556

**OBJECT CLASSIFICATION  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
SALARIES AND EXPENSES  
(\$000)**

		<b>FY 2012 ACTUAL</b>	<b>FY 2013 CR ANNUALIZED</b>	<b>FY 2014 REQUEST</b>
	Personnel Compensation:			
11.1	Full- time permanent.....	43,816	44,709	45,157
11.3	Other than full-time permanent.....	2,272	1,125	1,300
11.5	Other personnel compensation.....	2,723	2,800	2,850
		-----	-----	-----
11.9	Total personnel compensation.....	48,811	48,634	49,307
12.1	Civilian personnel benefits.....	15,914	15,860	16,073
13.1	Benefits for former personnel.....	352	0	0
21.0	Travel and transportation of persons.....	2,293	2,599	2,754
22.0	Transportation of things.....	7	5	5
23.1	Rental payments to GSA.....	5,053	5,550	5,785
23.2	Rental payments to others .....	364	270	290
23.3	Comm., utilities, and misc charges	664	700	891
24.0	Printing and reproduction.....	1	5	5
25.1	Advisory and assistance services.....	107	240	240
25.2	Other services.....	3,320	3,610	4,139
25.3	Other purchases of goods and services from Gov. accounts .....	5,231	5,516	6,241
25.7	Ops. & maint. of equipment .....	597	820	915
26.0	Supplies and materials.....	295	275	335
31.0	Equipment.....	594	625	1,005
42.0	Insurance Claims and indemnities....	0	75	100
91.0	Unvouchered.....	17	20	20
		-----	-----	-----
99.0	Subtotal, direct obligations.....	83,620	84,804	88,105
99.0	Reimbursable obligations	27	0	0
		-----	-----	-----
99.9	Total obligations.....	83,647	84,804	88,105

**EMPLOYMENT SUMMARY  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL**

		<b>FY 2012 ACTUAL</b>	<b>FY 2013 CR ANNUALIZED</b>	<b>FY 2014 REQUEST</b>
10.01	Direct civilian full-time equivalent employment	443	420	422

**FY 2004 – FY 2014 FUNDING HISTORY  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL  
SALARIES AND EXPENSES**

Request	Appropriation
2004.....\$55,000,000	2004.....\$55,243,018 <sup>1</sup>
2005.....\$59,000,000	2005.....\$58,132,000 <sup>2</sup>
2006.....\$62,499,000	2006.....\$61,874,010 <sup>3</sup>
2007.....\$64,143,000	2007.....\$64,043,000
2008.....\$66,400,000	2008.....\$66,400,000
2009.....\$70,468,000	2009.....\$71,400,000
2009 ARRA.....N/A	2009 ARRA .....\$20,000,000
2010.....\$74,839,000	2010.....\$75,114,000 <sup>4</sup>
2011.....\$81,772,000	2011.....\$76,960,000
2012.....\$89,185,000	2012.....\$79,624,000
2013.....\$84,499,000	2013.....\$80,111,000 <sup>5</sup>
2013 SANDY... N/A	2013 SANDY... \$ 6,000,000 <sup>6</sup>
2014.....\$85,605,000	2014.....

<sup>1</sup> Reflects WCF reduction of \$426,582 (P.L. 108-199, Div. F, Title V, sec. 517) and .59% across-the-board reduction of \$330,400 (P.L. 108-199, Div. H, sec. 168 (b)).

<sup>2</sup> Reflects WCF reduction of \$396,000 (P.L. 108-447, Div. H, Title I, sec. 197) and .8% across-the-board reduction of \$472,000 (P.L. 108-447, Div. J, Title I, sec. 122 (a)).

<sup>3</sup> Reflects 1% across-the-board reduction of \$624,990 (P.L. 109-148, Div. B, Title III, Chapter 8, sec. 3801 (a)).

<sup>4</sup> Two million direct transfer from FTA not included.

<sup>5</sup> Reflects fiscal year 2013 continuing resolution amount (P.L. 112-175).

<sup>6</sup> Reflects Disaster Relief Appropriations Act, 2013 (P.L. 113-2).

