

# OFFICE OF INSPECTOR GENERAL

## Semiannual Report To The Congress



April 1, 1997—September 30, 1997



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

The Inspector General

Office of Inspector General  
Washington, D.C. 20590

October 30, 1997

The Honorable Rodney E. Slater  
Secretary of Transportation  
Washington, DC 20590

Dear Mr. Secretary:

It is a pleasure to submit the *Semiannual Report to the Congress* for the 6-month period ended September 30, 1997. The report describes accomplishments of the Office of Inspector General (OIG) as required by the Inspector General Act of 1978, as amended.

During this reporting period, OIG issued 74 audit reports with total financial recommendations of \$129.9 million. Our audit of the Department's first consolidated financial statement resulted in \$32 billion of adjustments and spurred significant internal controls improvements. Investigative actions resulted in 72 indictments, 76 convictions, and \$4.9 million in monetary recoveries from fines, restitutions, judgments, and recoveries.

OIG strives to work proactively with Operating Administrations to prevent fraud, waste, and abuse and to find and correct problems in their incipency. Our highest priority is oversight of DOT's transportation safety programs. As one example, we are conducting a joint review with the Federal Aviation Administration on implementation of the task force report of safety oversight functions. We also place a high priority on efficient and effective investment in transportation infrastructure. To this end, we continue oversight of major transportation infrastructure projects to determine potential financial and schedule risks, including the Central Artery/Third Harbor Tunnel project and Amtrak's Northeast Corridor improvements. Another area we emphasize is oversight of internal operations of the Department to improve operating effectiveness and efficiency. For example, we will evaluate the utility and cost effectiveness of the Transportation Administrative Service Center in Fiscal Year 1998.

OIG appreciates the spirit of cooperation, open lines of communication, and support extended by you, Mr. Secretary, and employees throughout the Department.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kenneth M. Mead".

Kenneth M. Mead  
Inspector General

This page left blank intentionally.

# TABLE OF CONTENTS

April 1, 1997 — September 30, 1997

<b>LETTER TO THE SECRETARY .....</b>	<b>i</b>
<b>A MESSAGE TO THE SECRETARY OF TRANSPORTATION, THE CONGRESS, AND THE AMERICAN PUBLIC.....</b>	<b>iv</b>
<b>SUMMARY OF OIG PERFORMANCE .....</b>	<b>vi</b>
<b>SECTION I - ACCOMPLISHMENTS AND MAJOR INITIATIVES .....</b>	<b>1</b>
<b>SECTION II - AUDIT ACTIVITY</b>	
<b>A. Introduction.....</b>	<b>9</b>
<b>B. Audit Accomplishments.....</b>	<b>9</b>
<b>C. Requested Audits and Reviews.....</b>	<b>9</b>
<b>D. Selected Significant Findings and Recommendations.....</b>	<b>12</b>
<b>E. Management Decisions.....</b>	<b>19</b>
<b>F. Application of Audit Resources.....</b>	<b>25</b>
<b>SECTION III - INVESTIGATIONS ACTIVITY</b>	
<b>A. Introduction.....</b>	<b>29</b>
<b>B. Investigative Accomplishments.....</b>	<b>29</b>
<b>C. Selected Investigations .....</b>	<b>31</b>
<b>D. Other Significant Events.....</b>	<b>37</b>
<b>E. Application of Investigative Resources.....</b>	<b>38</b>
<b>SECTION IV - OIG HOTLINE</b>	
<b>A. OIG's Hotline Complaint CenterActivities.....</b>	<b>41</b>
<b>B. Selected Hotline Complaints.....</b>	<b>41</b>
<b>SECTION V - ORGANIZATION AND MANAGEMENT</b>	
<b>A. Organization and Staffing .....</b>	<b>45</b>
<b>B. Streamlining and National Performance Review Goals .....</b>	<b>47</b>
<b>C. Review of Legislation and Regulations.....</b>	<b>47</b>
<b>D. Freedom of Information Act (FOIA) .....</b>	<b>48</b>
<b>APPENDICES</b>	
<b>Glossary of Acronyms and Terms Used in This Report .....</b>	<b>A-1</b>
<b>Listing of Reports Issued During This Reporting Period .....</b>	<b>B-1</b>
<b>Reporting Requirements.....</b>	<b>C-1</b>

*NOTE: There have been no instances during this reporting period where information requested by OIG was refused by Department officials. Accordingly, we have nothing to report pursuant to Section 5(a)(5) of the Inspector General Act of 1978, as amended.*

**A MESSAGE TO THE SECRETARY OF TRANSPORTATION, THE CONGRESS,  
AND THE AMERICAN PUBLIC:**

***The Inspector General Act of 1978 (the IG Act), as amended, established the Office of Inspector General (OIG) as an independent and objective organization within the Department of Transportation (DOT). OIG conducts audits and investigations to promote economy, efficiency, and effectiveness in DOT programs and operations (total appropriated budget of \$39.2 billion in Fiscal Year 1997). We prevent and detect fraud, waste, and abuse. Lessons learned from our reviews and examples of “best practices” are identified so they can be applied throughout the Department. OIG accomplishments are reported to the Secretary, Congress, and the public on a semiannual basis.***

*A new feature in this Semiannual Report is a section highlighting major OIG accomplishments and initiatives in support of DOT’s Strategic Plan. **Section I - Accomplishments and Major Initiatives**, lists the strategic goals of the plan, notes significant OIG accomplishments relating to each goal, and highlights major work OIG plans to do in Fiscal Year (FY) 1998 relevant to each goal.*

*The Department’s Strategic Plan established five strategic goals to guide the agency over the next 5 years:*

**PROMOTING PUBLIC HEALTH AND SAFETY**

**SHAPING AMERICA’S FUTURE THROUGH ACCESSIBLE, SEAMLESS, EFFICIENT, AND FLEXIBLE TRANSPORTATION SYSTEMS**

**ADVANCING AMERICA’S ECONOMIC GROWTH AND COMPETITIVENESS**

**PROTECTING AND ENHANCING COMMUNITIES AND THE NATURAL ENVIRONMENT**

**ADVANCING THE NATION’S VITAL SECURITY INTERESTS**

*These five goals emphasize the importance of improving America’s transportation safety and infrastructure. OIG will work to find solutions to complex transportation issues, identify actions which will enhance transportation safety in all modes, make transportation programs more efficient, and assist the Secretary and the Congress in oversight of the Department. Oversight of DOT’s safety programs is a top priority. **Since 1992, OIG has issued 32 major reports addressing safety issues and made over 150 recommendations to improve safety programs and operations.** We also devote resources to review “mega” infrastructure projects, including the Central Artery/Third Harbor Tunnel in Boston, the City of Los Angeles Metrorail expansion, and the Amtrak Northeast Corridor Improvements Project. Resources are directed as well to the internal operations of the Department with a view toward preventing waste and promoting effectiveness and efficiency. An example is the review of the Transportation Administrative Service Center to evaluate its utility and cost effectiveness as a centralized service provider.*

*OIG also has significant responsibilities under the Chief Financial Officers (CFO) Act, the Government Performance and Results Act (Results Act), and the Government Management Reform Act. We perform audits of DOT's financial statements, including the Aviation and Highway Trust Funds, assess internal control systems, and identify opportunities to achieve financial benefits. Whenever practical, we now include a Results Act element in our audits, i.e., we determine if realistic performance measures have been established and quality data exists to support those measures. OIG is working with the Office of the Secretary to develop a plan for program evaluations, reviewing the adequacy of these evaluations, and conducting, where appropriate, independent evaluations of DOT operations and programs.*

*OIG's oversight responsibilities play a key role in assisting DOT in reaching long-term goals and objectives. Consistent with statutory responsibilities in the IG Act, OIG proactively supports the Secretary's priorities of improving safety, investing in transportation infrastructure, and implementing common sense government.*

*OIG values open lines of communication and constructive working relationships with the Secretary and the Operating Administrations (OA). We appreciate the support of the Secretary, Members of Congress, and all DOT operating administrators and departmental employees and welcome input to improve OIG efficiency and effectiveness.*

**Kenneth M. Mead**  
Inspector General

## ***SUMMARY OF OIG PERFORMANCE***

<b>OIG Accomplishments</b>	<b>April 1, 1997 - September 30, 1997</b>	
	<b>Number of reports issued</b>	<b>74</b>
	<b>Total financial recommendations</b>	<b>\$129,968,000</b>
	<b>- Recommendations that funds be put to better use</b>	<b>\$111,559,000</b>
	<b>- Questioned costs</b>	<b>\$18,409,000</b>
	<b>Referrals for criminal prosecution, civil litigation, and administrative action</b>	<b>221</b>
	<b>Cases accepted for prosecution</b>	<b>175</b>
	<b>Indictments</b>	<b>72</b>
<b>Results Attained</b>	<b>CFO Related Adjustments</b>	<b>\$32,000,000,000</b>
	<b>Management decisions to seek recoveries</b>	<b>\$142,233,000</b>
	<b>Investigative fines, restitutions, and recoveries</b>	<b>\$4,945,165</b>
	<b>Convictions</b>	<b>76</b>
	<b>Contractors/individuals suspended or debarred</b>	<b>17</b>
	<b>Administrative actions taken involving DOT employees</b>	<b>32</b>

# SECTION I

## ACCOMPLISHMENTS AND MAJOR INITIATIVES

In order to better serve Congress and the Department, OIG has begun to focus its work towards addressing the strategic goals as recently outlined by the Secretary in the DOT Strategic Plan. Following is a discussion of work completed and planned for each goal.

### □ DOT STRATEGIC GOAL: SAFETY

*“Promote the public health and safety by working toward the elimination of transportation-related deaths, injuries, and property damage.”*

Major accomplishments during the reporting period:

- OIG’s audit of the Federal Highway Administration’s (FHWA) Motor Carrier Safety Program made recommendations designed to improve the accuracy, promptness, and quality of compliance reviews as part of ongoing efforts to reduce the almost **5,000 fatalities a year attributable to trucking accidents**. FHWA agreed to implement improvements to enhance the effectiveness of compliance reviews, emphasize on-the-road performance data to identify high-risk carriers for review, and create a new system for assessing increased penalties for continued noncompliance.



- OIG’s review of Federal Aviation Administration’s (FAA) Aviation Inspection Program recommended establishing specific requirements for providing airworthiness inspectors with systems training and periodic recurrent training. FAA agreed with this recommendation. OIG is performing additional work to assess the implementation of FAA’s 1996 recommendations to improve its Aviation Inspection Program.
- In order to strengthen the United States Coast Guard’s (USCG) Merchant Mariner Licensing and Documentation (MLD) Program, OIG made recommendations concerning mariner qualifications and management effectiveness and oversight. ***This program issues over 50,000 licenses annually to qualified pilots, engineers, radio officers, and crew members.*** USCG has undertaken the following corrective actions: (1) establish new regulations which will require mariners to demonstrate professional skills to qualify for licenses and documents, and meet appropriate physical standards; (2) issue a Draft Commandant Notice establishing requirements and procedures for authenticating self-certified sea service; (3) develop a non-standardized modular exam for applicants; and

(4) revise the Marine Safety Manual to direct greater attention to management oversight of Regional Examination Centers.

- OIG and FAA participated in a joint training program to teach FAA inspectors about the national suspected unapproved parts (SUPs) policy and how to properly investigate SUPs allegations. An instructional phase was initiated in April 1997, with over 50 classes taught during FY 1997 throughout the United States and Europe. ***Over 1,200 inspectors have attended the training to date.***



Major FY 1998 OIG Initiatives:

In 1996, FAA established a task force to review its safety oversight functions following the ValuJet crash in southern Florida. The task force's 1996 report made numerous policy and program recommendations to improve FAA operations. OIG is conducting a joint review with FAA to assess the implementation of the recommendations made by the task force.

Assess enforcement of motor carrier and hazardous materials (HAZMAT) safety standards being phased-in at the United States borders with Mexico and Canada.

Review FHWA efforts to analyze post-accident data on commercial motor carrier crashes and evaluate plans to develop countermeasures addressing contributing human factors (driver fatigue, alcohol, drugs, and medical conditions).



Evaluate the effectiveness of the Federal Railroad Administration's (FRA) interim policy on bridge safety programs and the effectiveness of the Safety Assurance and Compliance Program. Of particular interest is the potential threat to rail and bridge structures caused by expected "El Nino" climatic conditions in 1998.



Update an assessment of DOT's actions to correct Year 2000 computer problems, with particular focus on those systems crucial to DOT safety missions.

Review the adequacy of FAA's efforts to reduce runway incursions (*287 recorded in 1996; annual statistics show an upward trend*).

Develop and implement a strategic plan to address OIG oversight coverage of key safety issues in DOT operating administrations. This includes such safety issues as operator fatigue and related human factors, pilot dependency on automation, terrain avoidance systems, and techniques for deploying safety inspection resources to areas of high risk.

#### ❑ DOT STRATEGIC GOAL: MOBILITY

*"Shape America's future by ensuring a transportation system that is accessible, seamless, efficient, and offers flexibility of choices."*

Major accomplishments during the reporting period:

- An OIG audit of FHWA's Emergency Relief Program concluded FHWA could have made better use of \$104 million in emergency relief funding. During the period of 1988 to 1995, *FHWA provided \$2.7 billion relief funding to help states repair damaged high-ways, roads, and facilities*. OIG recommended FHWA recover \$1.9 million in overpayments and improve the administration of emergency relief funds. FHWA concurred with most of the recommendations and is initiating actions to recover certain overpayments, update its Emergency Relief Manual to provide funding on a consistent basis among states, clarify eligibility matters, improve program administration, and develop enhanced training and oversight capabilities.



As part of the FY 1998 DOT appropriation bill, the U.S. Congress required FHWA to prepare a report explaining when emergency relief funds can be used to pay for "betterments" (ineligible costs associated with improvements); provide examples of the types of betterments FHWA would expend to fund; closely monitor the expenditure of funds; and adhere to program eligibility criteria.

- An OIG audit found FAA was not effectively reviewing its airport improvement grant funds resulting in an accumulation of more than \$28 million of idle grant funds and \$1.3 million of unneeded funds from projects totaling over \$172 million in FY 1994 and 1995. OIG recommendations included (1) establishing requirements for deobligating or reprogramming unneeded or idle funds; (2) ensuring FAA’s grant managers have the necessary project status information to monitor projects; and (3) establishing procedures for the review and monitoring of unexpended grant obligations. FAA concurred with the findings and issued program guidance addressing each recommendation.
- An OIG audit determined the State of Hawaii inappropriately used airport generated revenues to purchase land, located some distance from the Honolulu Airport, that was not needed for airport purposes. ***The State reimbursed \$64.4 million to the Airport Division of the Hawaii Department of Transportation in January 1997.*** In September 1997, the Airport Division suspended the collection of airport landing fees from commercial air carriers landing in Hawaii for two years, a cost saving of roughly \$40 million for the airlines. Air travelers and the tourism industry may benefit from this action by reduced airfares for flights to Hawaii over the next two years.

Major FY 1998 OIG Initiatives:

Review selected DOT “mega” infrastructure projects (*each with an estimated cost of \$1 billion or more*) to determine the current cost and work schedule status, reasonableness of supporting data, and potential financial and schedule risks of each project. Identified “best practices” and lessons learned our actions will be disseminated for use in other DOT operations and programs. Projects include:

1. Central Artery/Third Harbor Tunnel (CA/THT), Boston, Massachusetts (*estimated cost - approximately \$11 billion*)



Central Artery/Third Harbor Tunnel Project, Boston, MA.

2. Cypress Freeway Replacement Project, Oakland, California (*estimated cost - \$1.1 billion*)
3. Interstate 15 Reconstruction, Salt Lake City, Utah (*estimated cost - \$1.6 billion*)
4. Bay Area Rapid Transit's extension at the San Francisco International Airport (*estimated cost - \$1.2 billion*)
5. City of Los Angeles Metro Rail Recovery Plan for subway completion (*estimated cost - \$6.1 billion*)
6. Amtrak Northeast Corridor Improvement Project (*estimated cost - \$4.4 billion*). In addition, examine the implications of a **\$2.3 billion tax reimbursement plan** contained in Amtrak's reauthorization bill.
7. Washington Metropolitan Area Transit Authority (WMATA) Fast Track Rail Construction, Washington, District of Columbia (*estimated cost - \$1.9 billion*)
8. West Virginia's "Corridor H" Project, Elkins to Wardensville, West Virginia (*estimated cost - \$1.0 billion*)

Review FAA's multi-billion dollar effort to modernize the national airspace system, the advanced aviation infrastructure to support air operations. OIG will focus in particular on the Standard Terminal Automation Replacement System and integration of satellite technology into aviation communication, navigation, and airspace surveillance.



Complete an ongoing investigation of expenditures made under FAA's Advanced Automation System contract. ***\$1.2 billion was spent since 1983 to upgrade en route, terminal, and tower automation systems.***

Continue to review airport revenue usage to ensure compliance with FAA's grant assurance agreements and prevent illegal diversions.

Conduct investigations of allegations concerning major infrastructure projects including joint investigations with Federal and local law enforcement authorities.

❑ **DOT STRATEGIC GOAL: ECONOMIC GROWTH AND TRADE**

***“Advance America’s economic growth and competitiveness domestically and internationally through efficient and flexible transportation.”***

Major FY 1998 OIG Initiatives:

Complete the ongoing review of the accuracy and completeness of air carrier Passenger Origin-Destination Survey data (airline passenger counts, itineraries, and

fares paid) and determine if there are alternative procedures which could be used to provide the data more accurately and efficiently.

Audit the accuracy and reliability of airline on-time arrival performance data.

In response to language in the FY 1998 DOT appropriation bill, evaluate the utility and cost effectiveness of the Transportation Administrative Service Center; determine the responsiveness to customer needs at a competitive price; and assess whether FAA's franchise fund duplicates or reduces the center's cost effectiveness.

Review FAA's efforts to establish a cost accounting system that accurately accounts for aviation system costs and their allocation.

Evaluate DOT actions to meet the needs of new "mega" tankers and freighters that require deep channel depths and adequate port facilities.



❑ **DOT STRATEGIC GOAL: HUMAN AND NATURAL ENVIRONMENT**

***“Protect and enhance communities and the natural environment affected by transportation.”***

Major accomplishments during the reporting period:

- An OIG audit found USCG policies and procedures for gauging the performance of oil spill cleanup contractors were effective. OIG also determined USCG monitoring actions of cleanup services were sufficient to ensure oil spill cleanups were timely and complete.

OIG did find, however, certain USCG contracting procedures related to oil spill cleanup needed improvement. While the USCG was effective in ensuring oil spill cleanup was performed, USCG did not properly bill responsible parties for the cost of cleanup, resulting in \$8 million of unbilled accounts receivable. USCG agreed to develop uniform national contracting procedures; perform annual market surveys of oil spill cleanup contractors; and follow policies and procedures for billing responsible parties. ***The USCG has billed \$7 million of the outstanding unbilled accounts receivable.***

Major FY 1998 OIG Initiatives:

Determine whether USCG has established a complete inventory of contaminated USCG facilities, prioritized cleanup of sites representing the greatest hazard to the public, and effectively developed and implemented plans to accomplish the goals of the Environmental Compliance and Restoration Program.

Review USCG compliance with the Enforcement of Abandoned Barge Act, a program to *eliminate the navigation and environmental hazards posed by 1,180 abandoned barges (1996 USCG inventory)* in U.S. waterways.

Develop and coordinate Federal actions on a multi-agency approach, with Federal and state law enforcement and other Government agencies, including DOT, to exchange information on environmental problems, trends, and potential polluters.

Expedite OIG investigations of alleged HAZMAT violations. *HAZMAT issues are one of OIG's highest priorities due to the potential threat of such materials to the natural environment and public health.*

Evaluate FAA oversight of hazardous cargo shipped by air under the Dangerous Goods/Cargo Security Program (*unofficial estimate is over 900 tons per day on passenger carriers*).



❑ DOT STRATEGIC GOAL: NATIONAL SECURITY

*“Advance the nation’s vital security interests in support of national strategies such as the National Security Strategy and National Drug Control Strategy by ensuring that the transportation system is secure and available for defense mobility, that our borders are safe from illegal intrusion, and by promoting worldwide economic growth and stability.”*

Major FY 1998 OIG Initiatives:

Assess FAA progress in taking actions to purchase and ensure the effective use of advanced security equipment, and correct other aviation security weaknesses reported in OIG audits and identified by the *White House Commission on Aviation Safety and Security*.



Evaluate the Maritime Administration's (MARAD) oversight of the Maritime Security Act and the Maritime Security Program. The program enrolls private vessels for use in commercial sealifts in time of war or national emergency and maintains a United States international shipping presence. ***MARAD payments totalled \$43.6 million in FY 1997 on the Maritime Security Program.***

Evaluate MARAD's Title XI Ship Financing Program and applications for selected shipyard and ship loan guarantees (***\$37.4 million funding in FY 97.***)

Review USCG oversight of security on passenger vessels at marine terminals.



## SECTION II - AUDIT ACTIVITY

### A. INTRODUCTION

This section summarizes OIG audit activities for the 6-month period ended September 30, 1997.

The Office of Assistant Inspector General (AIG) for Auditing is responsible for conducting audits, evaluations, and reviews of programs and operations of DOT. The audits are intended to help managers improve and enhance the effectiveness of DOT programs and operations. Audits, evaluations, and reviews are also designed to provide reasonable assurance of detecting abuse or illegal acts and generally fall within the following two audit categories:

- Financial audits — include financial statement and financial-related audits.
- Performance audits — include economy and efficiency and program audits.

OIG's audit activities during this period were responsive to management's needs while at the same time fulfilling the mandates of the IG Act and the CFO Act. DOT programs and operations selected for audit were based on the magnitude of Federal funds involved, past audit activity, and the susceptibility of the activity to abuse and illegal acts. Additionally, Secretarial, OA, congressional, and the President's Council on Integrity and Efficiency concerns were considered in the allocation of OIG audit resources.

### B. AUDIT ACCOMPLISHMENTS

DOT's programs and operations are primarily carried out by departmental personnel and recipients of Federal-aid (grantees). Accordingly, audits are conducted from three distinct perspectives: (i) internal audits of DOT programs and operations, (ii) grantee audits, and (iii) contractor reviews. A statistical summary of audits completed in these categories is shown in Table 1.

### C. REQUESTED AUDITS AND REVIEWS

Providing requested services to departmental, congressional, and other officials is an important function of OIG. These services are intended to provide management officials with timely and meaningful advice and assistance on departmental and Governmentwide operations and activities. Examples of requested services provided by the audit organization in this reporting period are discussed below.

1. In response to a request from FAA, OIG audited the use of airport revenue by the Dade County Aviation Department in Miami, Florida. The audit disclosed Dade County used airport-generated revenue for prohibited purposes. OIG found Dade County improperly used airport-generated revenue to: (i) pay nonairport-related roadway, fire, and police impact fees; (ii) fund nonairport-related public relations activities of Dade County; and (iii) pay building permit fees for inspection services that were either not properly documented or were duplicative. Prohibited use of airport-generated revenue occurred because Dade County management disregarded assurances it provided FAA related to revenue use. OIG

**Table 1**  
**Completed Audits April 1, 1997 to September 30, 1997**  
(Dollars in Thousands)

Type of Review	Number of Reports	Number of Recommendations	Estimated Amounts*			
			Costs Questioned	Costs Unsupported	Funds To Be Put To Better Use	Adjustments and Reclassifications **
<i>Internal Audits:</i>						
Program/Functional Chief Financial Officer	14	49	\$7,563	\$4,000	\$111,479	\$0
Financial Statements:						
DOT Consolidated	2	77	\$0	\$0	\$0	\$32,000,000
FRA	1	2	\$0	\$0	\$0	\$0
<b>Total Internal Audits</b>	<b>17</b>	<b>128</b>	<b>\$7,563</b>	<b>\$4,000</b>	<b>\$111,479</b>	<b>\$32,000,000</b>
<i>Grant Audits:</i>						
Audits of Grantees under						
Single Audit Act	49	14	\$8,206	\$0	\$0	\$0
Other Grant Audits	2	2	\$0	\$0	\$80	\$0
<b>Total Grant Audits</b>	<b>51</b>	<b>16</b>	<b>\$8,206</b>	<b>\$0</b>	<b>\$80</b>	<b>\$0</b>
<i>Contract Audits:</i>						
Contracts	6	6	\$2,640	\$0	\$0	\$0
<b>Total Contract Audits</b>	<b>6</b>	<b>6</b>	<b>\$2,640</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTALS</b>	<b>74</b>	<b>150</b>	<b>\$18,409</b>	<b>\$4,000</b>	<b>\$111,559</b>	<b>\$32,000,000</b>
* The dollars shown are the amounts reported to management. The actual amounts may change during final resolution.						
** An adjustment occurs when an amount in an account should be moved to another account in another section of the financial statement. A reclassification occurs where the balance in an account includes amounts that should be in another account.						

identified prohibited use of airport-generated revenues totaling \$4.3 million during the period October 1989 through May 1996. OIG also considered \$4 million of building permit fees charged to the airport fund to be unsupported costs because Dade County Aviation Department was unable to document whether inspection services were provided or necessary.

OIG recommended FAA and Dade County improve management controls, restrict the use of airport-generated revenues, recover prohibited expenditures for nonairport-related expenses charged to the airport fund, and establish the eligibility of unsupported build-

ing permits costs. FAA agreed to request additional documentation from Dade County before establishing the final eligibility of \$220,000 of promotional fees. For the \$4 million OIG identified as unsupported building permit costs, FAA agreed to require Dade County to distinguish between eligible costs and refund the fees paid inappropriately.

2. In response to a request from the Chairman, Committee on Commerce, Science, and Transportation, U.S. Senate, related to DOT, Department of Commerce, the National Aeronautics and Space Administration (NASA), and the National Science Foundation, OIG and General Accounting

Office (GAO) jointly identified the top ten management issues facing DOT. In developing the top ten management issues, OIG and GAO work included the: (i) identification of items most in need of reform to improve efficiency and effectiveness, including management structure and specific programs under the purview of the agency; (ii) identification of steps taken to meet the requirements of the Results Act; (iii) our opinion on whether the agency is in compliance with the requirements of the CFO Act and whether financial statements are being prepared and being audited in compliance with the law; and (iv) identification of what the agency is doing to meet "Year 2000" computer problems. The information came from work by OIG and GAO.

The top ten management issues for DOT include: (i) Transportation Safety - DOT needs to improve the safety of air, highway, rail and marine transport to reduce the number of accidents, fatalities, and associated economic costs; (ii) Transportation Security - Protecting the security of the traveling public is one of DOT's most challenging and difficult tasks. The U.S. domestic aviation system continues to have numerous vulnerabilities that leave it susceptible to terrorism. While GAO's and OIG's audits have emphasized aviation security, all modes of transportation are vulnerable to terrorist attacks; (iii) Air Traffic Control Modernization - FAA's multi-billion dollar air traffic control modernization program has been plagued with cost overruns, schedule delays, and shortfalls in performance; (iv) FAA Financing - FAA could face potential funding shortfalls totaling several billion dollars over the next 5 years. These shortfalls could be mitigated, to some extent, if FAA controls costs and/or increases productivity. In addition, FAA needs to develop a cost accounting system to provide the financial management information necessary to make decisions that may help close this shortfall; (v) Effective and Efficient Use of Surface Transportation

Investment Funds - DOT needs to work with states and transit operators to enhance their ability to more effectively manage the costs of, and acquire financing for, large-dollar surface transportation projects; (vi) Amtrak Financing - Nationwide passenger rail service is threatened by financial problems; (vii) Organizational Structure - DOT needs to develop an appropriate management structure to achieve the most cost-effective delivery of services; (viii) Information Resources - DOT's information resources and databases are not managed adequately and hinder DOT's efforts in achieving its mission; (ix) DOT's Financial Accounting - Problems with financial accounting and reporting hinder DOT's ability to ensure the proper use of federal funds and present reliable financial statements on those funds, and to varying degrees, affect all administrative and program areas; (x) Compliance with Existing Requirements - DOT's OAs need to improve their compliance with existing requirements.

In the Results Act area, DOT is revising its current strategic plan, dated January 1994, to meet Results Act requirements. The revision encompasses steps to clarify DOT's mission; establish results-oriented goals; and develop measures that show progress towards results-oriented goals.

In the CFO Act area, DOT has achieved limited success in preparing reliable auditable financial statements. However, DOT faces several important challenges to meeting financial statement mandates including: (i) correct known weaknesses to produce reliable financial statements; (ii) implement new Federal accounting standards to effectively meet Federal financial management goals; (iii) implement and maintain financial management systems that comply substantially with Federal financial management systems requirements and the U.S. Government Standard General Ledger at the transaction

level; and (iv) submit fully auditable financial statements that cover all accounts and associated activities.

As DOT begins to deal with the Year-2000 computer issue, it is essential that executive management be fully aware of the problem and its potential impact on DOT and those who use its services. According to DOT's Year-2000 coordinator, the awareness campaign is about 67-percent complete. However, DOT has not completed some of the key tasks inherent in the awareness phase. In addition, DOT does not have a complete inventory of mission-critical systems.

OIG and GAO testified before the U.S. Senate, Committee on Commerce, Science, and Transportation on the safety related management issues.

3. The Inspector General testified on October 1, 1997, before the House Committee on Transportation and Infrastructure, Subcommittee on Aviation on "Observations on the FAA's Plan to Use Satellite Technology for Air Traffic Management." The testimony addressed the need for FAA to complete a comprehensive, agreed upon, lucid plan and strategy for transitioning to satellite tech-

nology for communications, navigation, and surveillance. Also addressed were four issues relating to satellites that need resolution in order to successfully implement satellite based systems. These issues were: the availability and use of a second Global Positioning System signal, the number of communications satellites needed and whether to lease or purchase them, the ability to receive satellite signals adequate for civil aviation when solar activity is at its peak, and the ability to adequately secure Global Positioning System signals from intentional interference.

#### **D. SELECTED SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

The following examples are illustrative of the types of findings and recommendations made to departmental officials during the past 6 months. These audits are presented by category of audit — Departmentwide and Administrationwide, Financial Statement, and Facility/Regional. Due to the recent issuance of some reports, final disposition or resolution may not be complete. OIG will evaluate the responses to final reports and, if disagreements occur, will seek resolution through the Department's formal resolution process.

## **DEPARTMENTWIDE AND ADMINISTRATIONWIDE AUDITS**

### **AUDITS ADDRESSING A CONDITION OR PROBLEM THROUGHOUT THE DEPARTMENT OR A PARTICULAR OA**

#### **FHWA DID NOT USE EMERGENCY RELIEF FUNDS IN ACCORDANCE WITH PROGRAM CRITERIA.** (Report No. R0-FH-7-009)

##### **OIG Findings**

OIG audited FHWA's administration of emergency relief funds in California, Florida,

Georgia, Missouri, and Washington. These states received \$2.3 billion of the \$2.7 billion emergency relief funds FHWA provided on Federal-aid highways between October 1,

1988 and June 30, 1995. OIG audited 82 projects, which accounted for \$1.3 billion of the \$2.3 billion emergency relief paid to the five states.

OIG found FHWA properly pursued and received credits from insurers and responsible third parties when Federal aid was used to pay for repairs to damaged highway facilities. However, FHWA needs to improve program guidance and adherence to existing regulations.

FHWA did not have adequate program guidance on how to address ineligible costs associated with improvements, generally referred to as “betterments”, recommended as a result of environmental reviews. OIG reviewed 10 projects for repairing damage caused by the Loma Prieta Earthquake to the Cypress Viaduct in Oakland, California. The 10 projects, valued at \$879 million, included betterments recommended through the environmental review process. FHWA did not determine whether the betterments, which included replacing the 1.5 mile, two-tier highway with five miles of single-tier freeway, while adding new interchanges to improve access to local streets and port facilities, were economically justified. Although required by Code of Federal Regulations, FHWA guidance did not clearly require betterments resulting from the environmental review process to be economically justified.

According to FHWA, the 10 projects, valued at \$879 million, included features developed through the environmental review process which included replacing the 1.5 mile, two-tier highway with five miles of single-tier freeway, while adding new interchanges to improve access to local streets and port facilities. FHWA is of the opinion the Cypress replacement project does not involve a betterment issue because the state could not have repaired or replaced the facility on its

prior location, and the replacement facility is comparable to function and service of the pre-disaster facility. However, FHWA agreed its guidance pertaining to betterments needs to be clarified and is updating its guidance to make the necessary clarifications.

Except as noted above, FHWA had adequate guidance for administering the emergency relief funds. However, FHWA did not always follow this guidance when approving emergency relief projects. OIG questioned whether FHWA used emergency relief funds in accordance with regulations for 27 projects. OIG found FHWA: (i) exceeded the Federal share payable for 19 projects; (ii) duplicated assistance available under other Federal programs for five projects; (iii) did not prepare economic justifications for two projects, neither of which resulted from an environmental review; and (iv) did not withdraw funds for one project that was not proceeding timely to construction. OIG concluded FHWA could have made better use of \$104 million of the \$463 million emergency relief funding provided for the 27 projects.

#### OIG Recommendations

OIG recommended FHWA recover overpayments, \$1.9 million, caused by billing errors for eight projects. OIG did not recommend FHWA recover funds for any additional projects because states acted in good faith based on FHWA advice. To improve administration of emergency relief funds, OIG recommended the Acting Administrator, FHWA (i) update program guidance to ensure betterments recommended by the environmental review process are economically justified, (ii) direct Headquarters staff to regularly monitor and consult with field staff to ensure adherence to existing regulations, and (iii) direct field staff to closely monitor emergency relief projects and reprogram funds for those projects not progressing in a timely manner.

### Corrective Actions

FHWA concurred with the recommendations and is taking action to recover overpayments totaling \$1.9 million. Also, FHWA expects to update its Emergency Relief Manual by March 1998 to ensure funding is provided on a consistent basis among states,

clarify eligibility matters, and improve program administration. Further, FHWA plans to develop a training course on the Emergency Relief Program by October 1998, while continuing workshops to discuss regulations and guidance with Federal, state, and local agency personnel. Finally, FHWA will more closely monitor emergency relief projects.

---

### **THE USCG'S MERCHANT MARINER LICENSING AND DOCUMENTATION PROGRAM DID NOT ENSURE MERCHANT MARINERS WERE QUALIFIED TO PERFORM THEIR DUTIES, AND LACKED ADEQUATE OPERATING PROCEDURES AND CONTROLS.**

(Report No. R9-CG-7-013)

### OIG Findings

The USCG's MLD Program did not effectively ensure merchant mariners were qualified to perform their duties, and could be more effectively managed. The goal of the MLD Program is to ensure merchant mariners are qualified to perform their duties for the purpose of: (i) promoting the safety of life and property at sea; (ii) promoting public safety; and (iii) protecting the marine environment.

USCG issues licenses to deck, engineer, pilot, and radio officers on merchant vessels, and to operators of uninspected towing and passenger vessels. Certificates of registry, which are another form of license, are issued to staff officers, including pursers, medical doctors, and nurses. Merchant mariner documents are issued to crew members for qualified ratings such as able seaman and qualified member of the engine department and for entry-level ratings such as ordinary seaman, wiper, and steward. During 1995, the USCG's 20 Regional Examination Centers (REC) issued 49,900 original licenses and documents; and 25,200 renewals, endorsements, and duplicates.

USCG issued licenses and documents to merchant mariners without ensuring they were qualified to perform their duties. This occurred because eligibility was based on unverified quantity, not quality, of sea experience; examinations were not challenging and did not require demonstration of mariners' sea skills; physical standards did not ensure mariners were fit for duty; eligibility evaluations were incomplete; and approved mariner training courses were not audited to ensure the highest quality of training. The MLD Program also lacked adequate operating procedures and controls. This occurred because management oversight of RECs was not performed, a fully operational management information system was not implemented, accountable documents were not controlled, and user fees were not safeguarded.

### OIG Recommendations

OIG made 11 recommendations to the Chief of Staff to strengthen and streamline the MLD Program. Seven recommendations concerned mariner qualifications and four recommendations addressed management effectiveness and MLD Program oversight. The recommendations included emphasizing quality of sea time and practical skills in evaluating

mariners for licenses and documents, increasing oversight of RECs, adhering to program operating procedures and controls, fully implementing a new management information system, and establishing accountability for forms and user fees.

#### Corrective Actions

USCG officials fully concurred with nine recommendations and partially concurred with two recommendations. Regarding mariner qualifications, new USCG regulations will require mariners to demonstrate professional skills to qualify for licenses and documents, and meet appropriate physical standards. A Draft Commandant Notice was issued establishing procedures for authenticating self-certified sea service, and requiring RECs to verify sea service of a sample of applicants who submit self-certified sea ser-

vice. Further, examination modules are being developed by random generation methods, and each REC will have the capability to generate distinct and individual examination modules.

Regarding management effectiveness, USCG formed a Quality Action Team to study the efficient and effective use of personnel and resources at RECs. Specifically, the Quality Action Team will review REC operations to identify ways to reduce low value-added functions to free resources to perform necessary administrative functions, and to ensure adequate controls are being developed to safeguard user fee collections. Also, the Marine Safety Manual, Volume III, Marine Industry Personnel was completely overhauled, and the automated Merchant Marine Licensing and Documentation System was implemented.

---

### **FAA DID NOT PROVIDE EFFECTIVE PROJECT CLOSEOUT PROCEDURES FOR AIRPORT IMPROVEMENT GRANT FUNDS.**

(Report No. R2-FA-7-012)

#### OIG Findings

OIG found FAA was not effectively reviewing its airport improvement grants to determine the viability of unexpended grant obligations and did not promptly deobligate unneeded funds. FAA accumulated more than \$28 million of idle grant funds and \$1.3 million of unneeded funds for the 39 projects reviewed. OIG found FAA grant managers did not have the necessary project status information needed to effectively monitor projects from startup through completion to aid in determining the disposition of unexpended grant obligations. OIG also found FAA's grant closeout procedures did not require the periodic review and monitoring of unexpended grant obligations, and did not require the deobligating or reprogramming of unneeded funds.

#### OIG Recommendations

OIG recommended FAA establish requirements for deobligating or reprogramming unneeded or idle funds, ensure its grant managers have the necessary project status information to effectively monitor projects from startup through completion, and establish specific policies and procedures for the periodic review and monitoring of unexpended grant obligations.

#### Corrective Actions

FAA concurred with the finding and has issued a program guidance letter to set policy addressing each recommendation.

**USCG SHOULD ACHIEVE COST EFFECTIVE OPERATIONS OF THE FACILITIES DESIGN AND CONSTRUCTION CENTER (FDCC).**

(Report No. R2-CG-7-015)

**OIG Findings**

FDCCs provide technical details and input to shore facility planning projects and documents, and oversee construction and major maintenance of shore facilities. USCG's two FDCCs have a combined staff of 133 military and civilian engineers, architects, and procurement, and administrative personnel. About 80 percent of project design, and all construction, is performed by contractors. OIG concluded that FDCC operations added value to the design and construction process by evaluating engineering alternatives, preparing detailed designs, obtaining required permits, and performing site inspections. However, the FDCC staffing and organizational structure did not make the most cost-effective use of USCG engineering resources. Despite decreased workload requirements, an

internal study which proposed eliminating one of the FDCCs, and the fact that about 75 percent of construction and major maintenance projects are located within the area of responsibility of one FDCC, USCG did not close either FDCC. Consequently, USCG missed an opportunity to realign FDCC resources to more closely match the geographical workload, make increased use of civil engineering capabilities within USCG, and take advantage of economies associated with contracting out.

**OIG Recommendations**

OIG recommended USCG reduce and realign FDCC resources to more closely match the amount and location of FDCC workload.

---

**USCG NEEDS TO IMPROVE THE OIL SPILL CLEANUP PROCUREMENT PROCESS.**

(Report No. R3-CG-7-005)

**OIG Findings**

USCG policies and procedures for monitoring contractor performance were effective. OIG found monitoring activities of the oil spill cleanup services contractors were sufficient to ensure oil spill cleanups were completed. However, USCG did not award basic ordering agreements timely and did not ensure negotiated labor and equipment rates were within a reasonable price range, resulting in increased cleanup costs and limiting opportunities to reduce costs. OIG also found USCG did not timely bill parties responsible

for the spills. As a result, about \$8 million of accounts receivable were unbilled.

**OIG Recommendations**

OIG recommended USCG develop uniform national contracting procedures, and comply with USCG requirement to perform annual market surveys of oil spill cleanup contractors. OIG also recommended USCG follow established policies and procedures for billing responsible parties, recovering oil spill costs, and expediting the billing of accounts receivable.

### Corrective Actions

USCG agreed with the recommendations and stated a plan for national contracting procedures was under development and annual market surveys would be up to date by

February 1998. New interim billing policies and procedures were implemented and \$7 million of the \$8 million in unbilled accounts receivable was billed as of August 1997, and \$480,000 of these billings had been collected.

## FINANCIAL STATEMENT AUDITS PERFORMED UNDER THE CHIEF FINANCIAL OFFICERS ACT OF 1990

**THE GOALS OF THE CFO ACT OF 1990 ARE TO ENHANCE THE FEDERAL GOVERNMENT'S ACCOUNTABILITY AND CREDIBILITY BY IMPROVING FINANCIAL MANAGEMENT. DURING THIS REPORTING PERIOD, OIG ISSUED ITS AUDIT REPORT ON DOT'S FIRST CONSOLIDATED DEPARTMENTWIDE FINANCIAL STATEMENT.**

### **DOT'S CONSOLIDATED FY 1996 FINANCIAL STATEMENT.** (Report No. AD-OT-7-004)

DOT did not have adequate supporting documentation for Property and Equipment, and Operating Materials and Supplies reported on the Statement of Financial Position at a value of \$25.8 billion (representing 38 percent of DOT's total assets). Balances recorded in the Departmental Accounting and Financial Information System did not agree with amounts recorded in automated property systems, physical inventories were not performed, and purchases of property and equipment were inappropriately expensed. Furthermore, DOT did not have adequate controls in place to: (i) ensure consistency between financial statements and budgetary reports in reporting budget execution results, and (ii) properly record liabilities. OIG was unable to conclude that reported amounts fairly represented the true value of DOT assets and liabilities and could not express an opinion, commonly referred to as a disclaimer of

opinion. In total, OIG identified 11 material internal control weaknesses, 13 reportable conditions, and 2 instances of noncompliance with laws and regulations.

OIG recommended adjustments and reclassifications totaling \$32 billion to improve the accuracy of the financial statement. OIG made 72 recommendations to strengthen internal controls and comply with laws and regulations by: (i) improving the accuracy of DOT's consolidated financial statement balances for Property and Equipment, Operating Materials and Supplies, and liabilities; and (ii) reconciling budget and financial statement reports. DOT made all recommended adjustments to the final version of the financial statement. Corrective action has been initiated on 57 recommendations. We are awaiting additional comments on the remaining 15 recommendations.

## FACILITY/REGIONAL AUDITS

### AUDITS ADDRESSING A PROBLEM OR CONDITION AT A SPECIFIC LOCALITY OR FACILITY

#### **FHWA SHOULD IMPROVE ITS OVERSIGHT OF COSTS FOR RELOCATION OF UTILITIES ON THE CA/THT PROJECT.**

(Report No. R2-FH-7-025)

##### OIG Findings

OIG concluded FHWA participated in costs to relocate a utility company's transformer substation which were not eligible for Federal participation. Relocation and construction of the new substation cost \$43.7 million. The Federal share of the relocation and construction costs paid was \$37 million.

Two independent assessments identified approximately \$10 million as "betterments." FHWA should not have participated in these costs, or should have had the amounts credited back. However, FHWA accepted a total recovery of only \$2.6 million of the \$10 million. Furthermore, FHWA staff did not perform their own analysis on this relocation, but relied on the Massachusetts Highway Department's evaluation.

OIG is concerned that FHWA relies too heavily on the state's oversight. Furthermore, OIG reaffirmed its longstanding position that Federal funds should not be used to pay for inefficiencies resulting from local project decisions not supported by demonstrated need and not eligible for Federal participation.

##### OIG Recommendations

OIG recommended FHWA reconsider its participation in the costs for the new substation, and increase its oversight of relocation of other utilities on the CA/THT Project.

##### Corrective Actions

OIG has not received FHWA's response to this report.

## E. MANAGEMENT DECISIONS

### 1. Background

Section 5 of the IG Act of 1978 requires an identification of each significant recommendation described in previous semiannual reports on which corrective actions have not been completed. The IG Act Amendments of 1988, P.L. 100-504, established new requirements to report recommendations. The term “management decision” means the evaluation by management of the finding and recommendation, including actions concluded to be necessary. Section 5 of the Act was amended to require statistical tables on the status of management decisions; a summary of audit reports over 6 months old for which no management decision was made; a description of, and reasons for, any significantly revised management decisions; and information on any significant management decision with which the IG is in disagreement.

### 2. Status of Management Decisions

Tables 2 and 3 are required by P.L. 100-504 (Section 5(a)(9) of the IG Act) and provide statistical summaries of the management decisions on OIG reports. Included in these tables are the number of reports, recommendations, and dollar value of recommendations reported for which:

- no management decision had been made by the commencement of the reporting period;
- a management decision was made during the period, including: (i) the dollar value of agreed to or disallowed costs and (ii) the dollar value of costs not agreed to or disallowed; and
- no management decision had been made by the end of the reporting period.

In addition, although not required by the Act, Table 4 is included to show management decisions for reports that recommended procedural improvements.

<b>Table 2</b>				
<b>Inspector General Issued Reports With Recommendations That Questioned Costs</b>				
(Dollars in Thousands)				
	Number of Reports	Number of Recommendations	Questioned Costs	Unsupported* Costs
A. For which no management decision had been made by the commencement of the reporting period	12	15	\$35,934	(\$4,700)
B. Which were issued during the reporting period	<u>12</u>	<u>22</u>	<u>\$22,409</u>	<u>(\$4,000)</u>
<b>TOTALS (A+B)</b>	<b>24</b>	<b>37</b>	<b>\$58,343</b>	<b>(\$8,700)</b>
C. For which a management decision was made during the reporting period	13	21	\$20,454	(\$4,000)
(i) dollar value of disallowed costs	11**	18***	\$20,345	(\$4,000)
(ii) dollar value of costs not disallowed	3**	4***	\$109	(\$0)
D. For which no management decision has been made by the end of the reporting period	11	16	\$37,889	(\$4,700)
* Unsupported costs are also included in the figures shown as questioned costs.				
** Includes reports where costs were both allowed and disallowed.				
*** Includes recommendations where costs were both allowed and disallowed.				

<b>Table 3</b>			
<b>Inspector General Issued Reports With Recommendations That Funds Be Put To Better Use</b>			
	Number of Reports	Number of Recommendations	Dollar Value (in Thousands)
A. For which no management decision had been made by the commencement of the reporting period	7	16	\$88,555
B. Which were issued during the reporting period	<u>5</u>	<u>6</u>	<u>\$111,559</u>
<b>TOTALS (A+B)</b>	<b>12</b>	<b>22</b>	<b>\$200,114</b>
C. For which a management decision was made during the reporting period	9	12	\$122,278
(i) dollar value of recommendations that were agreed to by management			
– based on proposed management action	8*	11*	\$121,888
– based on proposed legislative action	0	0	0
(ii) dollar value of recommendations that were not agreed to by management	1*	1*	\$390
D. For which no management decision has been made by the end of the reporting period	3	10	\$77,836
* Includes reports and recommendations where some costs were allowed and other costs were disallowed.			

<b>Table 4</b>		
<b>Inspector General Issued Reports With Procedural Recommendations</b>		
	Number of Reports	Number of Recommendations
A. For which no management decision had been made by the commencement of the reporting period	26	69
B. Which were issued during the reporting period	<u>20</u>	<u>122</u>
<b>TOTALS (A+B)</b>	<b>46</b>	<b>191</b>
C. For which a management decision was made during the reporting period	32	74
By Type of Audit		
– Internal Audits	18	56
– Grant Audits	12	14
– Contract Audits	2	4
D. For which no management decision has been made by the end of the reporting period	14	117
By Type of Audit		
– Internal Audits	13	112
– Grant Audits	1	5
– Contract Audits	0	0

### 3. Summary of Departmental Efforts

Departmental Order 8000.1C prescribes uniform definitions, requirements, and procedures for processing and resolving audit findings and recommendations. It includes specific procedures for referring unresolved

issues to the next higher organizational level and to the Secretary, when necessary.

Table 5 summarizes management decisions made during the past 6 months to resolve audit reports.

**Table 5**  
**Summary of Inspector General Issued Audit Reports With Recommendations**  
(Dollars in Thousands)

Description	Number of Reports	Number of Recommendations	Questioned Costs	Unsupported Costs*	Funds To Be Put To Better Use
Unresolved as of 3/31/97	30	100	\$35,934	(\$4,700)	\$88,555
Audits with Findings During Current Period	<u>26</u>	<u>150</u>	<u>\$22,409</u>	<u>(\$4,000)</u>	<u>\$111,559</u>
Total to be Resolved	<b>56</b>	<b>250</b>	<b>\$58,343</b>	<b>(\$8,700)</b>	<b>\$200,114</b>
Management Decisions During Current Period					
Audits Prior Period	19	45	\$7,702	(\$0)	\$10,719
Audits Current Period	<u>18</u>	<u>63</u>	<u>\$12,750</u>	<u>(\$4,000)</u>	<u>\$111,559</u>
Total Resolved Reports/Recommendations	<b>37</b>	<b>108</b>	<b>\$20,454</b>	<b>(\$4,000)</b>	<b>\$122,278</b>
Unresolved as of 9/30/97**	<b>19</b>	<b>142</b>	<b>\$37,889</b>	<b>(\$4,700)</b>	<b>\$77,836</b>
Aging of Unresolved Audits					
Less Than 6 Months Old	8	87	\$9,658	(0)	\$0
Between 6 Months and 1 Year	1	1	\$1,710	(0)	\$0
Between 1 Year and 18 Months	1	9	\$3,000	(0)	\$36,400
Between 18 Months and 2 Years	5	22	\$5,125	(\$4,700)	\$30,908
Over 2 Years Old	<u>4</u>	<u>23</u>	<u>\$18,396</u>	<u>(0)</u>	<u>\$10,528</u>
<b>TOTALS</b>	<b>19</b>	<b>142</b>	<b>\$37,889</b>	<b>(\$4,700)</b>	<b>\$77,836</b>
* Unsupported costs are also included with the figure shown as questioned costs.					
** A report is considered unresolved if management decisions have not been made on all the report recommendations.					

#### 4. Status of Unresolved Audit Recommendations Over 6 Months Old

##### a. BACKGROUND

Section 5(a)(10) of the IG Act, as amended, requires a summary of each audit report issued before the start of this semiannual reporting period for which no management decision had been made by the end of the period, including the date and title of each report and an explanation of the reasons the management decisions were not made.

##### b. INTERNAL AND GRANTEE AUDIT REPORTS

Identified in the following schedule are audits from previous semiannual reports containing findings and recommendations that required further action as of the end of this reporting period. To facilitate referencing these "open" items to the previous reports, the schedule identifies the applicable semiannual reports. In accordance with P.L. 100-504, IG Act Amendments of 1988, the current status of management action regarding resolution of these reports is also shown.

**STATUS OF UNRESOLVED AUDIT  
RECOMMENDATIONS OVER 6 MONTHS OLD \*  
SEMIANNUAL OCTOBER 1, 1993-MARCH 31, 1994**

FAA-Certification and Surveillance of Domestic and Foreign Repair Stations	R4-FA-4-009	03/07/94	This report was referred to the Departmental Resolution Official in February 1995.
FAA-Monitoring of Airport Revenues at the Phoenix Sky Harbor International Airport	R9-FA-4-001	10/18/93	This report was referred to the Departmental Resolution Official in June 1994. We were advised that resolution will be based on a legal opinion from General Counsel.

**SEMIANNUAL APRIL 1, 1995-SEPTEMBER 30, 1995**

FTA-Useful Life of Rail Cars Washington Metropolitan Area Transit Authority	R4-FT-5-091	06/27/95	This report was referred to the Departmental Resolution Official in August 1996. We were advised that resolution will be based on a legal opinion from General Counsel.
FTA-Administration of Capital Grants Metro Atlanta Rapid Transit Authority	R4-FT-5-106	7/11/95	This report was referred to the Departmental Resolution Official in January 1996. We were advised that resolution will be based on a legal opinion from General Counsel.

**SEMIANNUAL OCTOBER 1, 1995-MARCH 31, 1996**

FAA-Controls over Access to Aircraft for Free Transportation	AS-FA-6-004	02/20/96	This report was referred to the Departmental Resolution Official in August 1996. We were advised that resolution will be based on a legal opinion from General Counsel.
FAA-Use of Airport Revenues Stapleton International Airport	R6-FA-6-006	02/08/96	This report was referred to the Departmental Resolution Official in August 1996.
FAA-Voluntary Separation Incentive Payments	R6-FA-6-009	02/09/96	Awaiting FAA's investigation and U. S. Attorney action.
FAA-Monitoring Accountability and Use of Airport Revenues, Los Angeles	R9-FA-6-001	10/30/95	This report was referred to the Departmental Resolution Official in August 1996.
FAA-Advisory Memorandum on Santa Ynez Valley Airport Hotline	R9-FA-6-003	12/06/95	This report was referred to the Departmental Resolution Official in August 1996.

**SEMIANNUAL APRIL 1, 1996-SEPTEMBER 30, 1996**

FAA-Airport Improvement Program Grants Provided to Hawaii DOT	R9-FA-6-015	09/20/96	FAA response did not resolve all recommendations. We have requested Departmental Followup Official assistance for final resolution.
---	-------------	----------	---

**SEMIANNUAL OCTOBER 1, 1996-MARCH 31, 1997**

FAA-Single Audit of Federal Grant Funds Provided to the City of San Antonio	Z4-FA-7-018	1/29/97	We were advised resolution should be completed during the first quarter FY1998.
---	-------------	---------	---

\* - **OIG is working with the Department to improve the audit resolution process.**

## 5. REQUIRED REPORTS

Section 5(a)(11) of the IG Act, as amended, requires OIG to report on the description and explanation of any significant revised management decisions regarding OIG audit recommendations. In our February 5, 1995, report to FAA on the Utilization of Administrative Aircraft, (AS-FA-5-009), OIG recommended FAA dispose of six regional aircraft and use rental aircraft for the regional support program. On July 25, 1995, FAA agreed to initiate action to dispose of five of the regional Beechcraft C-90 aircraft by October 1, 1996, and retain the sixth Beechcraft F-90 aircraft for use in Flight Inspections. OIG agreed with these planned actions.

On October 23, 1996, FAA requested permission from the General Services Administration (GSA) to sell three of the five C-90 aircraft and apply the proceeds to open market rental of aircraft. On February 3, 1997, GSA granted FAA permission to sell the C-90 aircraft and apply the proceeds to aircraft rentals. However, FAA now believes it is more efficient to retain the C-90 aircraft and utilize them to accomplish Flight Standards inspector proficiency flying requirements rather than using rental aircraft.

On April 21, 1997, Aviation System Standards (AVN) proposed to assume custodianship of all five C-90 aircraft. According to AVN's proposal, the five Beechcraft C-90 aircraft, currently assigned to individual regions, would be consolidated at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma, and assigned to AVN. The aircraft would then be used on a reimbursable basis by the Flight Standards Service (AFS) at all nine FAA regions primarily for flight inspector proficiency. AVN would exercise program oversight within current budget allocations and would coordinate aircraft scheduling, maintenance,

and operations with AFS locations. AVN would also modify the aircraft with equipment required of commercial carriers including Ground Proximity Warning Systems, Global Positioning Systems, Flight Data Recorders, Cockpit Voice Recorders, and Traffic Collision Avoidance Systems. FAA has concluded this action is the most efficient means of meeting flight inspector proficiency requirements in aircraft equipped similarly to those used by the commercial carriers it oversees.

Although FAA has concluded this action is more efficient than selling the C-90 aircraft, neither FAA nor OIG can accurately determine, at this time, if the proposal is, indeed, cost-effective. At the suggestion of AFS officials, we plan to jointly review the new program with FAA after a one-year trial period. At that time, we will be able to evaluate the program and, if necessary, review other options including potentially selling the aircraft.

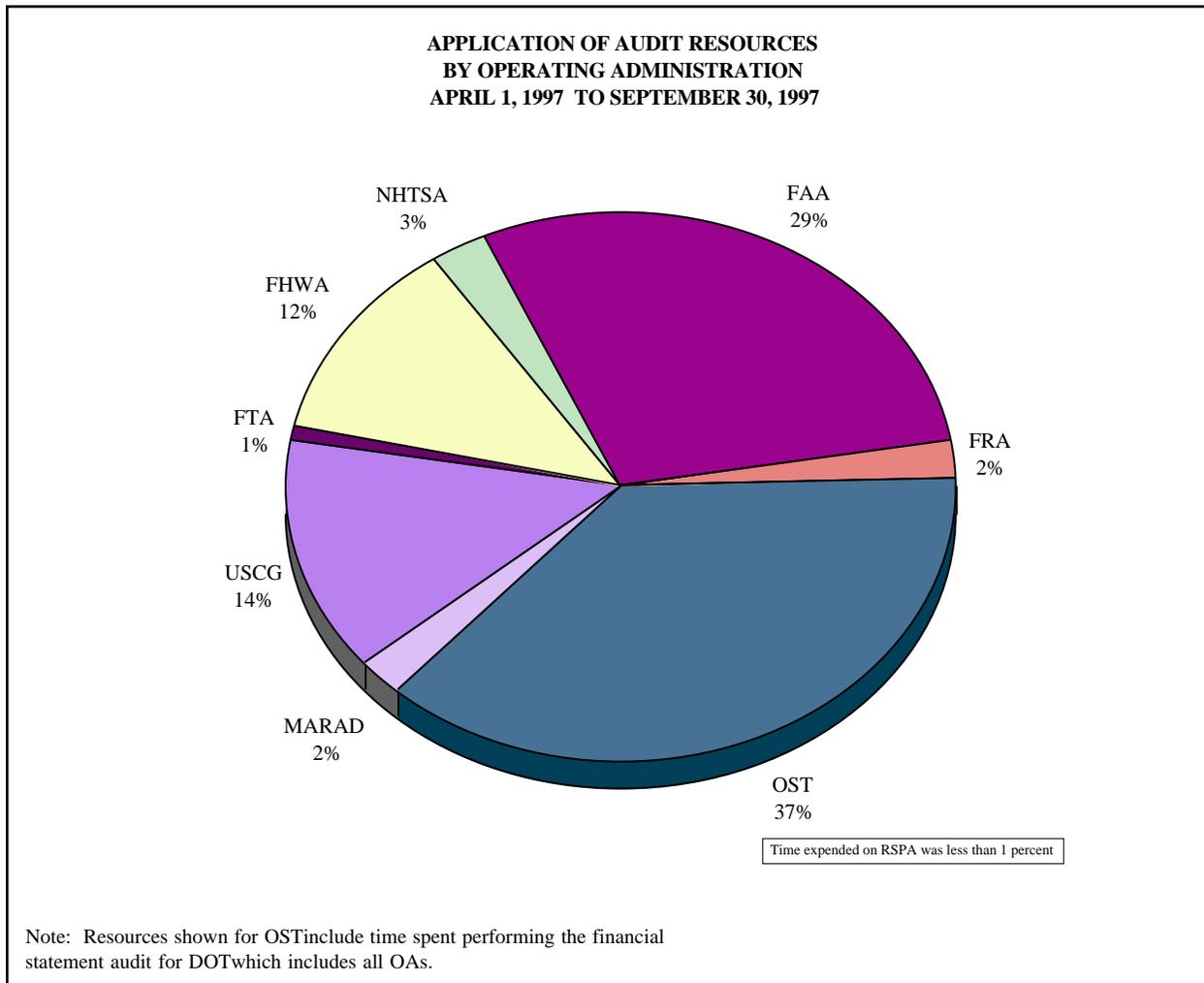
Section 5(a)(12) requires information concerning any significant management decision with which OIG is in disagreement. At the end of this reporting period, there were no significant management decisions with which OIG was in disagreement.

## F. APPLICATION OF AUDIT RESOURCES

At the end of the reporting period, the Office of AIG for Auditing had an authorized staffing level of 303 full-time positions involved in audit operations, of which 125 positions were located in Washington, DC, and the remaining 178 were distributed among seven OIG regional offices. The distribution of OIG audit staffing authorizations is shown in Table 6.

<b>Table 6: Audit Staffing Authorizations as of September 30, 1997</b>	
Office	Total Personnel
AIG for Auditing	12
Deputy AIG for Auditing-Aviation	30
Deputy AIG for Auditing-Financial, Economic and Information Technology	40
Deputy AIG for Auditing-Surface Transportation	20
Deputy AIG for Auditing-Maritime and Departmental Programs	23
Region II (New York)	28
Region III (Baltimore)	22
Region IV (Atlanta)	27
Region V (Chicago)	34
Region VI (Fort Worth)	24
Region IX (San Francisco)	28
Region X (Seattle)	<u>15</u>
<b>TOTAL</b>	<b>303</b>
<b>NOTE: Regional offices support the four Deputy Assistant Inspectors General.</b>	

The application of OIG audit resources by Operating Administration during this reporting period is shown in the following graph.



This page left blank intentionally.

# — SECTION III - INVESTIGATIONS ACTIVITY —

## A. INTRODUCTION

This section summarizes OIG's investigative activities for the 6-month period ended September 30, 1997.

The Office of AIG for Investigations conducts four types of investigations: reactive, proactive, preliminary inquiries, and hotlines. Reactive investigations focus primarily on individuals or companies identified as subjects at the outset of the investigation. Proactive investigations are OIG-initiated efforts which focus on DOT operations or activities vulnerable to fraud, waste, and abuse. Preliminary inquiries are limited reviews where factual bases for full investigations do not yet exist. Hotlines consist of the receipt, evaluation, and referral of complaints provided through various sources and offer anonymity to the complainant. Hotline activity is outlined in Section IV. During this 6-month period, 81 percent of direct investigative staff hours was devoted to reactive investigations, 16 percent to proactive investigations, and 3-percent to hotline activities.

## B. INVESTIGATIVE ACCOMPLISHMENTS

OIG investigations during this reporting period resulted in \$4,945,165 in monetary recoveries which included fines, court-ordered restitutions, civil judgments/settlements, and Federal and state recoveries. Monetary recoveries are collected by the Federal treasury and, in some instances, are returned to the Department. State monetary recoveries are retained by the states.

OIG investigations were directed toward specific individuals or companies based on alleged or suspected violations of law. Statistical summaries of investigations and synopses of selected significant investigations are presented as follows:

### 1. Investigation Activity

The pending inventory of investigations as of April 1, 1997, was 456. Seventy-nine cases were opened and 127 cases were closed during the reporting period, resulting in a pending caseload of 408 as of September 30, 1997. Table 8 shows the types of cases pending and the affected OAs.

### 2. Prosecutive Referrals

During this 6-month period, 175 cases were accepted and 46 were declined for prosecution. The number of cases pending before prosecutive authorities as of September 30, 1997, was 84.

<b>Table 8</b>					
<b>Profile of Pending Investigations</b>					
DOT Operating Administrations	Number of Cases	Types of Cases			
		Contracts	Employees	Grants	Other*
FAA	183	30	40	6	107
FHWA	121	9	4	25	83
FRA	2	0	2	0	0
FTA	27	5	2	14	6
MARAD	13	4	6	0	3
NHTSA	3	1	0	0	2
OST	7	0	3	1	3
RSPA	14	1	1	0	12
SLSDC	1	0	1	0	0
USCG	<u>37</u>	<u>11</u>	<u>14</u>	<u>1</u>	<u>11</u>
<b>TOTAL</b>	<b>408</b>	<b>61</b>	<b>73</b>	<b>47</b>	<b>227</b>
Percent of Total	100%	15	18	12	55
* Includes companies and individuals making false statements to departmental program elements.					

### 3. Judicial and Administrative Actions

Table 9 shows judicial actions during the reporting period ended September 30, 1997.

<b>Table 9</b>	
<b>Judicial Actions</b>	
<b>April 1, 1997 to September 30, 1997</b>	
Judicial Action	Number
Indictments	72
Convictions	76
Years Sentenced	79
Years Probation	140
Fines	\$804,087
Court-ordered Restitutions/Civil Judgments	2,781,975
Federal Recoveries	1,335,960
State Recoveries	<u>23,143</u>
<b>TOTAL</b>	<b>\$4,945,165</b>

During this reporting period, OIG was advised of 85 administrative actions taken by the various DOT elements as a result of inves-

tigative activity. Shown in Table 10 are administrative actions, including debarments, taken during this reporting period.

**Table 10**  
**Administrative Actions**  
**April 1, 1997 to September 30, 1997**

Administrative Actions	Number
Employee Suspensions	3
Employee Reprimands	6
Employee Resignations/Retirements	1
Employee Terminations	5
Counseling/Other Employee Actions	17
Debarment/Suspension of Individuals	11
Debarment/Suspension of Corporations/Companies	6
Price Adjustment	1
Corrective Action	27
New Procedure Instituted	7
Policy Restatement	1
<b>TOTAL</b>	<b>85</b>

### C. SELECTED INVESTIGATIONS

The investigations described below reflect the wide range of investigative efforts during this reporting period.

#### MISCHARGING BY USCG CONTRACTOR RESULTS IN \$1 MILLION SETTLEMENT

This investigation was opened as a result of a hotline complaint to the OIG that a Maryland company was mischarging on contracts with USCG. A joint task force comprised of OIG, NASA/OIG, and Defense Criminal Investigative Service (DCIS) was formed to investigate the allegations. The ensuing investigation disclosed that the company was mischarging Government contracts by shifting costs from fixed-price contracts to costs-incurred contracts. One of the contracts subject to the mischarging was a USCG firm-fixed-price contract to develop a vessel tracking system for the USCG. Shortly after

beginning the contract, the company began to fall behind schedule and over budget. As a result, employees were ordered to bill their time to an overhead account, which was then charged back to other USCG, NASA, and Department of Defense (DoD) contracts. After extensive investigation and negotiations, the company agreed in August 1997 to pay the Government \$1 million, representing twice the amount of the mischarging, plus penalties and costs of the investigation. The company has denied wrongdoing.

#### SUPPLIER OF SUBSTANDARD USCG CHEMICAL SUITS FOUND GUILTY, SUSPENDED FROM FEDERAL CONTRACTING

In a joint investigation with DCIS, a company president was convicted in June 1997 of mail fraud stemming from a contract his com-

pany had with USCG to provide chemical protection suits for use in Operations Desert Shield and Desert Storm. The company had

knowingly sold the USCG 400 chemical protection suits that were part of a lot of suits that DoD quality assurance representatives had earlier tested and rejected as substandard. Approximately 100 were issued to USCG personnel in the Persian Gulf. Additionally, a

civil complaint was filed in January 1997 under the False Claims Act to recover over \$100,000, including treble damages. In March 1997, the company was suspended from all Federal Government contracting. Sentencing is scheduled for October 1997.

---

#### **FAA CONSTRUCTION COMPANY CONTRACTOR FOUND GUILTY FOR FALSE CLAIMS**

This joint investigation with DCIS was based on information from the FAA Technical Center, Atlantic City, New Jersey, that a Maryland construction company had submitted improper contract claims. It was determined the company defrauded the Technical Center by funneling personal expenses through company overhead and charging

these expenses to FAA via an equitable adjustment claim of over \$1.8 million. The personal expenses included vacations, child daycare, cars, boats, and a loan to an acquaintance. In April 1997, the company and its president were found guilty of false claims, false statements, and obstruction of a DoD audit. Sentencing has not yet taken place.

---

#### **\$400,000 OF EMBEZZLED FUNDS REPAID TO FEDERAL TRANSIT ADMINISTRATION (FTA) GRANTEE**

As a result of a request for assistance by local police, OIG investigated an embezzlement from a municipal Maryland transportation department, an FTA grantee which received approximately \$325,000 for 2 years for maintenance and operating costs of its buses. An OIG audit of the superintendent's financial records disclosed that he embezzled

approximately \$497,000. In March 1997, the superintendent died, and his estate subsequently entered into a settlement and release agreement with the municipality to repay the embezzled funds. The estate paid approximately \$409,000, in a combination of cash, real estate, unpaid wages, and other assets, and forfeited his pension benefits.

---

#### **FOUR TAXI DRIVERS SENTENCED FOR FRAUDULENT TAXI VOUCHERS CONSPIRACY**

This investigation was initiated after allegations were received from the Chicago Regional Transit Authority, Office of Inspector General, that a number of taxi cab drivers and passengers had conspired to defraud the transit authority's Special Services Program, funded by FTA, by submitting vouchers for payment for trips that did not take place. It was alleged that passengers purchased FTA subsidized vouchers from the

transit authority and sold them to cab drivers for a profit. The drivers allegedly submitted payment vouchers for trips they did not provide at or about the maximum allowable amount per trip. Six defendants pled guilty in the scheme. During this reporting period, four defendants were sentenced to a total of 12 months incarceration - suspended, 132 months probation, 300 hours community service, and \$31,600 restitution.

### **STATE HIGHWAY OFFICIAL JAILED FOR DEFRAUDING STATE HIGHWAY AGENCY**

This joint investigation with the U.S. Postal Inspection Service and the State Highway Patrol was predicated upon information that a tire disposal company had an agreement to remove abandoned tires from the right-of-way of a Midwestern thoroughfare. It was alleged that the disposal company conspired with a state highway official to inflate the numbers

of tires removed and falsely bill the state agency. The state disposal program was partially federally funded. The state highway official subsequently pled guilty to mail fraud and was sentenced to 24 months imprisonment, 3 years supervised release after prison, and \$5,000 restitution to the state.

---

### **TRANSIT CONTRACTOR JAILED FOR BUS PARTS SUBSTITUTION SCHEME**

As the result of a joint investigation with the Federal Bureau of Investigation (FBI), a company and its manager were each convicted on five counts of mail fraud in connection with a scheme to falsely bill an FTA grantee for transmission repairs. The company held a contract with a transit agency to repair bus transmissions. The company merely replaced minor parts and charged for com-

plete replacement of the transmission. Overcharges were made on parts and labor. The company and its manager were found guilty by a Federal jury on five counts each of mail fraud for their involvement in the fraud. The manager was sentenced to 30 months of incarceration, and the company was ordered to pay \$825,000 in restitution.

---

### **FEDERAL SEARCH WARRANT ENDS 11 YEARS OF POLLUTING MISSISSIPPI RIVER AND RESULTS IN COMPANY GUILTY PLEA**

As a result of an investigation conducted jointly with the USCG, Environmental Protection Agency (EPA), FBI, and state and local police, a New Orleans barge cleaning company pled guilty in U.S. District Court to one count of violating the Clean Water Act. The evidence of the violations was uncovered during a search warrant executed at three locations near the Mississippi River, and through divers who recovered 55 gallon drums of solid wastes from the river. Upon execution of the search warrant, the corpora-

tion admitted to illegally dumping oil into the river in the New Orleans area for an 11-year period beginning in 1986 and ending in February 1997. The corporation has agreed, as part of the plea, to pay a fine of \$300,000; institute formal training for its employees regarding the handling of hazardous waste and pollutants; retrieve and remove drums pushed into the river; and to cooperate in this continuing joint task force investigation that is focusing on HAZMAT violators in the Gulf Coast area.

**VIRGINIA TRUCK COMPANY OWNER REINDICTED FOR CONTINUED DRIVERS' LOG FRAUD**

In a joint investigation with FHWA's OMC, OIG uncovered a conspiracy by a Virginia trucking company to falsify drivers' daily logs. Falsification involved concealing from OMC that drivers were exceeding the hours-of-duty requirements specified in the Department's motor carrier safety regulations. A Federal search warrant was executed at the company's premises and business records were seized. In August 1996, the company and its owner each pled guilty to an Information charging conspiracy to conceal information from the Federal Government and systematically falsifying records.

Pending formal sentencing, OIG subsequently learned that the practice of causing drivers' logs to be falsified was continuing, and that new means of concealing records from the Government had been created. As a result of this new information, a second search warrant was executed in November 1996. The owner of the company, and his sister, a company officer, were arrested by OIG and state police. In March 1997, a 40-count indictment was returned, charging the company owner, his sister, and the company with conspiracy and false statements. Trial is scheduled for October 1997.

---

**ARKANSAS MOTOR CARRIER FINED, AND OWNER JAILED FOR FALSIFYING LOGS**

In an investigation referred by OMC, the owner of a motor carrier operation in Arkansas was sentenced in U.S. District Court to 12 months in prison followed by 2 years probation and was fined \$15,000 for making false statements. The corporation was also sentenced and was ordered to pay a fine of \$100,000 for making false statements and was also placed on probation for 2 years. The sentencing of these two defendants follows a guilty plea by each to maintaining false, ficti-

tious and fraudulent driver logs, required to be prepared and maintained for inspection by OMC. The defendants admitted that they intentionally falsified the drivers' logs in order to conceal the excessive number of hours being driven by their truck drivers. They also admitted using fictitious or "ghost" names on the logs and other related documents to conceal this illegal activity from OMC inspectors.

---

**NATIONAL TRUCKING COMPANY OWNER JAILED, BARRED FROM TRANSPORTATION INVOLVEMENT**

In a previously reported case, also referred by OMC, a Federal judge in the Northern District of Texas, ordered the owner of a nationwide trucking firm to cease all involvement in any aspect of interstate or intrastate transportation of cargo or passengers for the duration of his 60-month probation. The owner was also sentenced to 6 months house arrest and fined \$5,000 for causing drivers at

his trucking company to falsify their daily drivers' logs to conceal that they were not in compliance with DOT highway safety regulations. One of the owner's schemes included instructing drivers to use fictitious names in drivers' logs in order to deceive OMC inspectors into believing that drivers were not exceeding the legal limit of driving hours. The motor carrier operator had a history of com-

pliance problems with the FHWA, and its drivers had been in a number of accidents, including a crash with an empty school bus in Texas. The police cited the driver for fatigue and falling asleep at the wheel as a contributing factor to the crash. The company was also sentenced to 3 years probation and fined

\$5,000, and ordered not to engage in any interstate or intrastate transportation of commercial cargo. Another corporate official was placed on probation for 12 months while the owner's wife, who also pled guilty to related charges, is awaiting sentencing.

---

### **CHARGES AND GUILTY PLEAS FILED IN MOTOR FUEL EXCISE TAX (MFET) CASE**

In July 1997, three individuals were charged and pled guilty in the Northern District of Georgia to one count each of filing false tax returns. The scheme involved the defendants purchasing, or arranging for purchases by other diesel fuel customers, large quantities of diesel fuel from an undercover operation below the "rack price" with the knowledge that Federal MFET had not been paid on the fuel. In exchange for their purchases from, or customer referrals to the undercover fuel business, the defendants

received a one cent per gallon kickback of fuel purchased. The defendants were charged with \$180,000 of income tax evasion for their kickback scheme involving the non-payment of MFET. The Internal Revenue Service (IRS) collects and remits MFET revenues to the FHWA's Highway Trust Fund (HTF). This fund is used for construction and maintenance of our Nation's highways. The investigation was conducted jointly with the Georgia Bureau of Investigation and IRS's Criminal Investigations Division.

---

### **MOTOR FUEL EXCISE TAX EVASION SCHEME BROKEN BY JOINT UNDERCOVER OPERATION**

The undercover operation was initiated in 1994 as a joint effort by the FBI, OIG, IRS, and State Police to identify entities in Michigan which were evading MFET. Various schemes were used to avoid Federal and state motor fuel taxes. The undercover operation purchased and sold motor fuel to individuals suspected of evading the excise taxes. The undercover operation was terminated with the execution of 14 simultaneous search warrants. During the previous report-

ing period, two brothers were sentenced in state court for evading state motor fuel taxes. The combined sentence was 72 months probation and a fine of \$21,030. During this reporting period, two additional individuals and one business were sentenced. One individual received a sentence of 6 months incarceration. The other individual received a sentence of 24 months probation and \$13,968 in restitution. The business was sentenced to \$1,050 in restitution.

---

### **GUILTY PLEAS REVEAL INTERNATIONAL CONSPIRACY TO SELL DAMAGED ENGINE PARTS FROM GULF WAR**

This investigation was initiated based upon information received through the FAA's SUPs Notification Program. An aviation parts broker purchased parts that originated from a

British Airways 747. The aircraft was in Kuwait at the time of the Gulf war and was destroyed by invading Iraqi forces. British Airways filed an insurance claim for the loss

of the aircraft and was paid by Lloyds of London, which contracted to have the aircraft dismantled and destroyed. Instead, engine parts were obtained by an unlicensed parts broker, who imported them into the U.S. with false Customs declarations. The parts broker attempted to resell the parts by falsifying the historical documents. On August 22, 1997, in Chicago, Illinois, a Kuwaiti national and an

Illinois parts broker pled guilty to one count each for committing mail fraud in their scheme to sell the parts. The two defendants were part of an international group of conspirators. The engine parts, some of which had been installed on commercial aircraft, were located, removed from the aircraft, and are now quarantined.

---

### **AIRCRAFT PARTS SCHEME RESULTS IN JAILING OF TWO INDIVIDUALS AND RESTITUTION EXCEEDING \$500,000**

In a previously reported case, worked jointly with the FBI, an investigation was initiated upon receipt of information that the owner of an aviation service company was selling unapproved aircraft parts, based on a lack of traceability, to a major parcel service. Information was developed that an employee of the parcel service, employed as an aviation parts buyer, was selling parts to his employer through his front corporation. The subject may have made excess profits in the amount of \$500,000 by controlling both sale and purchase prices. This scheme had been ongoing since at least October 1992. Subsequently,

two individuals were indicted in the scheme for wire/mail fraud, conspiracy, money laundering, conspiracy to launder money, and aiding and abetting. During this reporting period, both individuals were sentenced for mail fraud. One was sentenced to 18 months incarceration, \$241,211 restitution, and 36 months probation. The other was sentenced to 12 months incarceration, \$241,211 restitution, and 36 months probation. The front corporation was served with a permanent injunction and required to make a civil payment of \$80,960 to the victim.

---

### **FAA CERTIFIED MECHANIC PLEADS GUILTY TO FRAUDULENT ENGINE OVERHAULS**

In an investigation referred to OIG by FAA, an FAA certified Airframe and Powerplant mechanic working for two separate companies in the business of aircraft engine repair and overhaul, pled guilty in the Northern District of Mississippi to one count of conspiracy to commit mail and wire fraud. The individual was one participant in a conspiracy involving both companies for which he worked. The co-conspirators represented nationwide through trade publications that their respective companies could overhaul aircraft engines for substantial savings, as com-

pared to their competitors. They also promised a fast "turnaround" for their repairs and overhauls. In fact, new parts were rarely used, proper procedures were not followed, and numerous documents were falsified to support their fraudulent scheme. Statements by other mechanics and FAA inspectors also established that a significant amount of the internal aircraft engine parts used in overhauling the engines were never replaced as required by the manufacturer's specifications and Government regulations. Sentencing has not been scheduled.

### **AIRCRAFT PARTS OPERATOR PLEADS GUILTY IN COUNTERFEIT PARTS CASE**

The operator of an aircraft parts business in southern Florida pled guilty to defrauding the purchasers of aircraft parts by providing them with unapproved, counterfeit airplane parts. The defendant sold aircraft electrical generator parts used on large, commercial jet aircraft. He fraudulently represented that the parts were manufactured by FAA-approved manufacturers when, in fact, they were not. The operator admitted that he had machine shops manufacture the unapproved parts for

him which he would then sell as approved airplane parts at over a thousand percent markup. In addition to selling counterfeit aircraft parts to aviation companies, the operator sold unapproved parts to Federal agents operating a joint OIG/FBI/DCIS undercover aircraft parts business. The defendant faces a maximum penalty of 5 years imprisonment and a \$250,000 fine. Sentencing is set for October 20, 1997.

---

### **SECOND CONVICTION IN PILOT IMPERSONATION SCHEME**

In a previously reported case, an investigation was conducted upon receipt of information from FAA that an individual had been apprehended by police in Pennsylvania for attempting to obtain a free “jump seat” ride on a domestic commercial flight by presenting false identification indicating the subject to be a pilot. The subject was indicted on one count of false statement, pled guilty, and was sentenced to 4 years probation and \$3,220 in restitution. Further investigation revealed that another individual was involved who had used a fraudulent identification badge to

board the “jump seat” of another commercial aircraft, and that both individuals had conspired to obtain an FAA Airman’s Certificate under false pretenses. The second individual was determined to be responsible for producing false airline identification badges. In November 1996, the second individual was indicted for conspiracy to commit mail fraud. He pled guilty in April 1997 and was sentenced to 3 years probation, fined \$1,000 and ordered to pay restitution in the amount of nearly \$8,000.

---

## **D. OTHER SIGNIFICANT EVENTS**

### **1. EMPLOYEE PROVIDES MISLEADING INFORMATION TO CONGRESS**

At the request of Chairman Frank Wolf, House Appropriations Subcommittee on Transportation and Related Agencies, OIG investigated an allegation that an employee misled Congress with respect to decision-making associated with a multi-million dollar project. OIG’s investigation disclosed, among other significant findings, that the employee submitted a letter to Congress

which contained materially erroneous, misleading information regarding the disposition of the project. The agency concurred with OIG’s investigative findings and implemented OIG recommendations. Administrative action in this matter included a formal reprimand of the employee and relieving the employee of project responsibilities.

## 2. JOINT UNAPPROVED PARTS TRAINING PROJECT

In a cooperative effort with FAA, the Office of AIG for Investigations, participated in the development of the FAA SUPs Training Program. The development stage of the project started in May 1996 and was completed in March 1997. The training was designed to teach FAA inspectors national SUPs policy and how to properly investigate SUPs allegations from the regulatory perspective. Included in the 4 day course are 6 hours of investigative topics which cover the identification of SUPs, fraud indicators, and technical support to law enforcement agencies. Eight OIG investigators attended FAA-sponsored "SUPs Train The Trainers Course" in February 1997 and were certified by FAA to instruct the investigative portion of the course. This is the first time FAA and OIG have participated in a joint training program.

The instructional phase of the training project was initiated in April 1997. Fifty classes were taught during FY 97 at consolidated training locations throughout the United States and Europe. The locations were based upon SUPs activity and FAA needs. To date,

approximately 1,200 FAA inspectors have received the training. OIG investigators taught at all classes jointly with FAA instructors. An additional 26 classes have been scheduled for FY 98. Comments from the attendees have been extremely positive concerning our joint efforts.

Through fostering mutual cooperation and improved communication, FAA and OIG are committed to working together more effectively to combat SUPs.

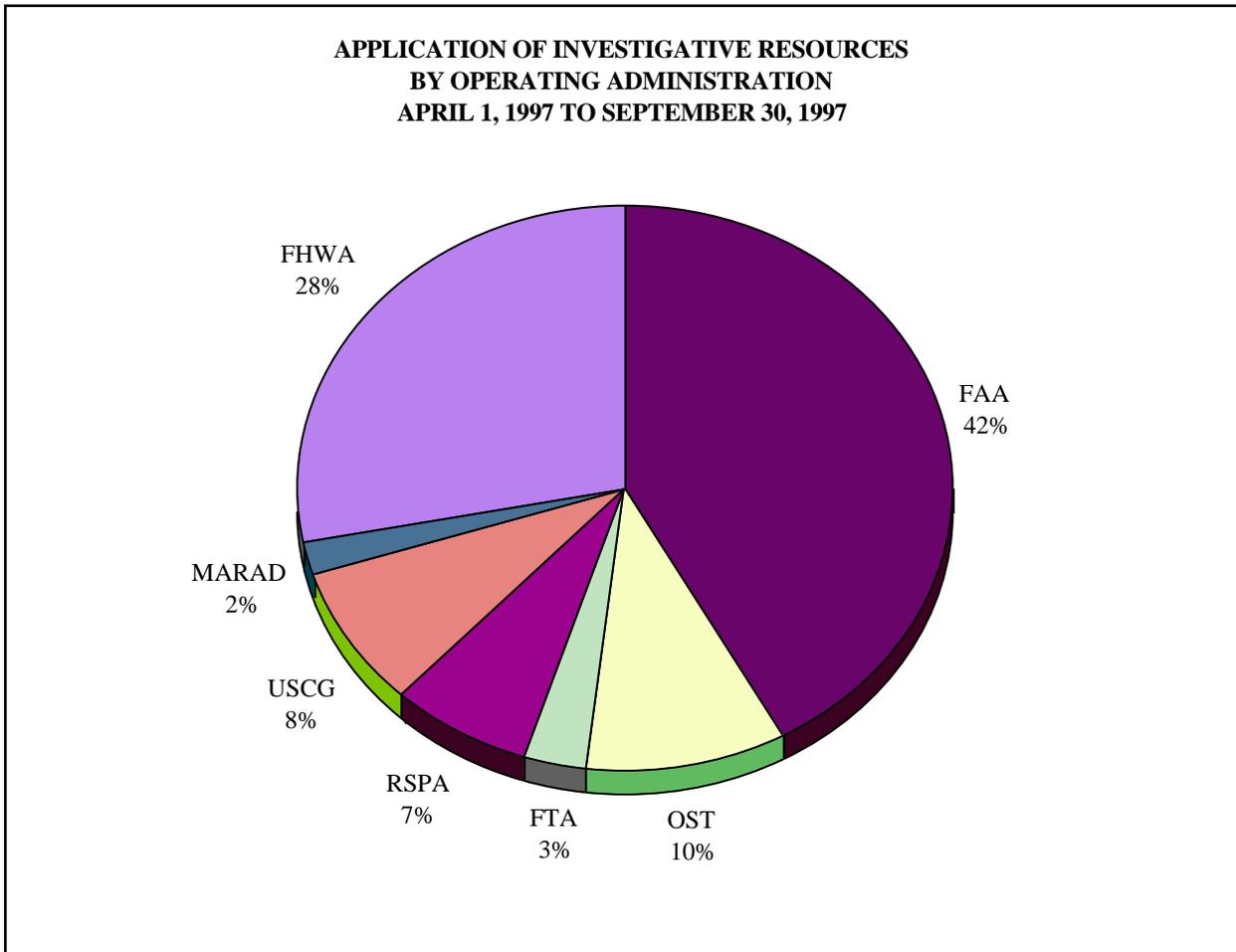
### E. APPLICATION OF INVESTIGATIVE RESOURCES

At the end of the reporting period, the Office of AIG for Investigations had an authorized staffing level of 102 full-time positions involved in investigative operations, of which 13 positions were located in Headquarters, Washington, DC, and the remaining 89 positions were distributed among four regional offices. The distribution of OIG investigative staffing authorizations is shown in Table 11.

**Table 11**  
**Investigative Staffing Authorizations as of September 30, 1997**

Office	Total Personnel
AIG for Investigations	2
Deputy AIG for Investigations	11
Region II (New York)	25
Region IV (Atlanta)	21
Region V (Chicago)	17
Region IX (San Francisco)	<u>26</u>
<b>TOTAL</b>	<b>102</b>

The application of OIG investigative resources by Operating Administration during this reporting period is shown in the following graph.



This page left blank intentionally.

## SECTION IV - OIG HOTLINE

### A. OIG’S HOTLINE COMPLAINT CENTER ACTIVITIES

During this reporting period, OIG’s Hotline Complaint Center processed 380 telephone, letter, and/or walk-in complaints. A statistical summary of the hotline complaints and their disposition is shown in the following table:

<b>Table 13 Hotline Complaints Processed</b>	
Disposition of Complaint	Number
Referred for Audit Inquiry	1
Referred for Investigative Inquiry	81
Referred to Program Management	281
Referred to Other Agencies	17
<b>TOTAL</b>	<b>380</b>

### B. SELECTED HOTLINE COMPLAINTS

Included below is a sample of OIG Hotline results for the reporting period.

#### FAA SAFETY INSPECTOR REPRIMANDED FOR ABUSING AUTHORITY TO TAKE FLIGHTS

##### Hotline Complaint

An anonymous individual alleged that an FAA safety inspector abused his authority by taking en route inspection trips for personal gain.

##### OIG Results

The hotline complaint was referred to FAA for investigation, which substantiated that the inspector utilized en route inspection trips for personal gain. The inspector admitted he flew to Kansas City, Missouri, five times over weekends to visit a critically ill brother. The inspector also admitted he took personal trips to Los Angeles, California, and Las Vegas, Nevada, to meet his wife. The inspector was issued a letter of reprimand for his actions.

### **FAA EMPLOYEE REPRIMANDED AND SUPERVISOR RECOMMENDED FOR COUNSELING FOR CONFLICT OF INTEREST VIOLATION**

#### **Hotline Complaint**

A complaint was received alleging an FAA supervisory engineering technician abused his position to obtain jobs for friends and relatives at an FAA contractor under his supervision.

#### **OIG Results**

The hotline complaint was referred to FAA for investigation, which disclosed the employee helped family and friends with their

resumes and recommended them to an FAA contractor under the employee's supervision. These actions were found by FAA to be "somewhat in conflict with his official duties and responsibilities." As a result, the employee was issued a letter of reprimand for inappropriate conduct. Additionally, it was determined the employee's supervisor was aware of the employee's activities, but did nothing to stop him. It was recommended the supervisor be counseled for his failure to stop his employee from acting improperly.

---

### **COMPLAINANT RECOGNIZED FOR SAVING USCG FUNDS**

#### **Hotline Complaint**

A complaint was received alleging waste on the part of the USCG regarding the acquisition of metal knobs, which were listed for \$23.89 each in the Federal Supply Catalog, but were purchased at a cost of \$150 each.

#### **OIG Results**

The hotline complaint was referred to the USCG for investigation, which verified the allegation that a DoD contractor shipped 5

metal knobs to a USCG Air Station and charged the USCG \$750 for the parts. It was determined the knobs were formerly listed in the Federal Supply Catalog at a cost of \$23.89 each, but the parts were discontinued without replacement before the purchase took place. The results of the investigation were forwarded to the Defense Supply Center, which credited the USCG \$750. As a result of the investigation, the Commanding Officer of the cognizant USCG Air Station presented a Letter of Appreciation to the complainant for reporting this issue.

---

### **USCG SUPERVISOR COURT MARTIALED, REDUCED IN RANK FOR THEFT**

#### **Hotline Complaint**

A complaint was received which alleged a USCG supervisor was stealing lawn mowers, top soil, mulch, and flowers from newly arriving shipments. The complainant also stated that although the employee's supervisor was aware of his activities, he did nothing to correct the problem.

#### **OIG Results**

The hotline complaint was referred to USCG for investigation, which confirmed the allegation that the USCG supervisor was stealing Government property. He was charged with larceny under the Uniform Code of Military Justice and received a Summary Court Martial. He was found guilty of the charges, fined \$697, and reduced in rank.

**FHWA EMPLOYEE COUNSELED FOR MISUSING GOVERNMENT TELEPHONES**

**Hotline Complaint**

An anonymous complainant alleged that a FHWA Transportation Specialist misused Government telephones by placing personal calls, some of which were long distance. It was also alleged that the employee spent a lot of time on computer chatrooms during his official duty hours.

**OIG Results**

The hotline complaint was referred to FHWA for investigation, which found that the employee used a Government extension for private purposes approximately six times per month during the period in question. The employee also admitted to calling computer chatrooms, but used his personal account number. The employee was subsequently counseled by his immediate supervisor not to use a Government phone for personal purposes.

---

**FOUR FALSE FRONT DISADVANTAGED BUSINESS ENTERPRISE TRUCKING FIRMS DISCOVERED IN TENNESSEE**

**Hotline Complaint**

A complainant alleged that several trucking firms operating in Tennessee were false front disadvantaged business enterprises.

**OIG Results**

The complaint was referred to the Tennessee State Department of Transportation for investigation. As a result, certification was withdrawn/denied for four trucking firms; one firm did not apply for recertification; and one firm was subsequently recertified.

## **USCG COUNSELS EMPLOYEES FOR MISSPENDING FUNDS**

### **Hotline Complaint**

A complainant alleged that the USCG Maintenance and Logistics Business Services Branch was violating a computer-related contract which stipulated the contractor's employees had at least one year's experience on the system designated for use. It was alleged that upon learning the contractor's employees did not have such knowledge, USCG trained the employees with USCG funds.

### **OIG Results**

The hotline complaint was referred to USCG for investigation, which confirmed the allegations that the employees were provided computer training at USCG expense despite a stipulation in a USCG contract that these employees have a minimum of one year's experience in the computer systems designated for use. After a review of the investigation by the appropriate USCG legal office, it was concluded that while no criminal violation had occurred, all persons involved with the action were counseled concerning their obligations to ensure Government funds were properly expended, and made aware of distinctions between Government employees and contractor employees.

# SECTION V - ORGANIZATION AND MANAGEMENT

## A. ORGANIZATION AND STAFFING

The DOT OIG was created by the IG Act of 1978 (P.L. 95-452). The IG Act established audit and investigative units to:

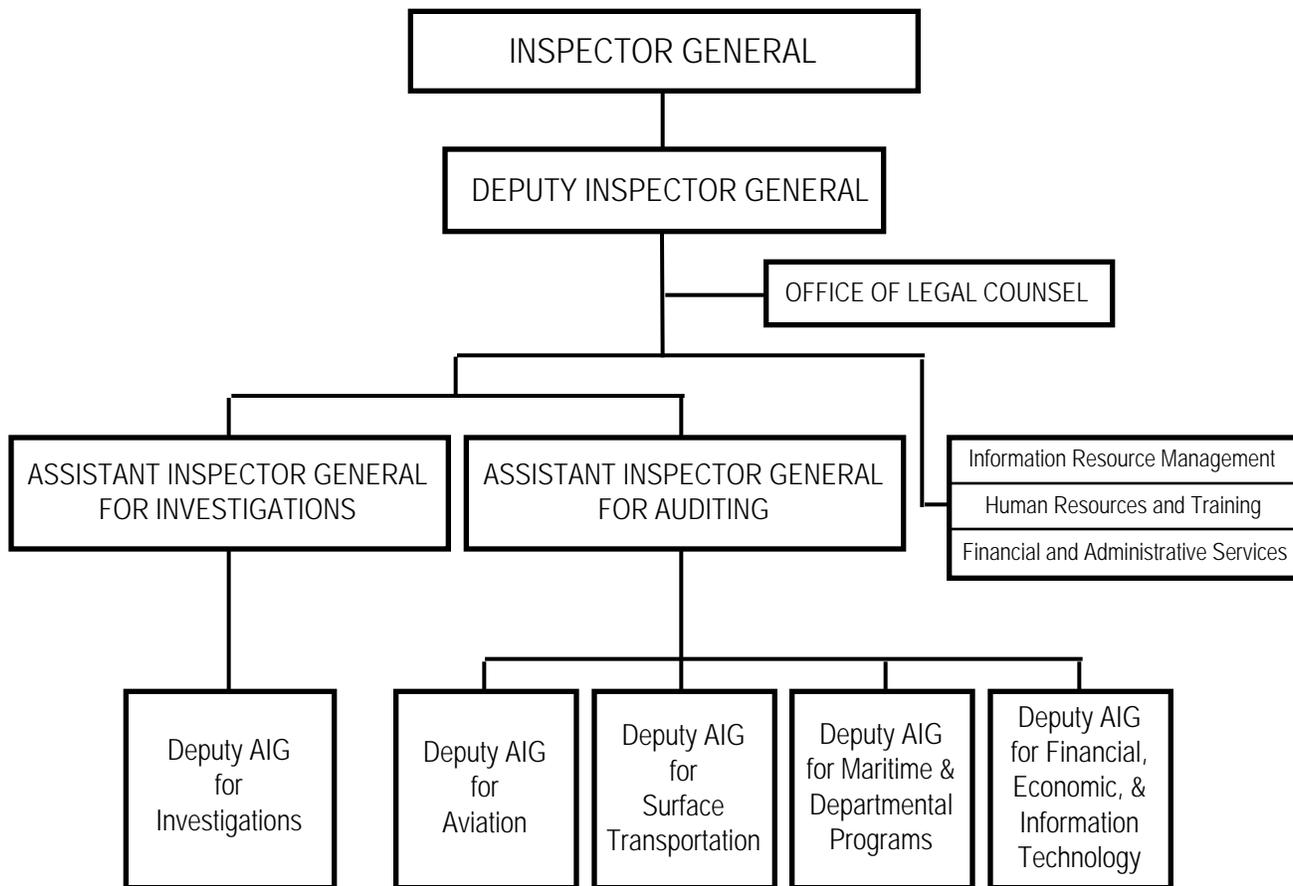
- conduct and supervise independent and objective audits and investigations relating to DOT programs and operations;
- promote economy, effectiveness, and efficiency within DOT;
- prevent and detect fraud, waste, and abuse in DOT programs and operations;
- review and make recommendations regarding existing and proposed legislation and regulations relating to DOT programs and operations; and

- keep the Secretary and the Congress fully and currently informed of problems in DOT programs and operations.

The IG Act Amendments of 1988 (P.L. 100-504) provided certain technical amendments designed to strengthen the independence and effectiveness of OIGs and required the reporting of management decisions on OIG audit reports regarding final action by management officials for those reports.

OIG is divided into two major functional units: Office of AIG for Auditing and Office of AIG for Investigations; and four support units: Office of Legal Counsel, Office of Information Resource Management, Office of Human Resources and Training, and Office of Financial and Administrative Services. Nationwide, the AIGs are supported by Headquarters and regional staff.

The organization of OIG follows:



\* Regional offices support the audit and investigation activities.

To perform its mission, OIG is authorized 440 full-time equivalents (FTE) for FY 1997.

	Headquarters	Field	Total
IG Immediate Office	8	0	8
Office of AIG for Auditing	125	178	303
Office of AIG for Investigations	13	89	102
Office of Legal Counsel	5	0	5
Office of Information Resource Management	6	0	6
Office of Human Resources and Training	7	0	7
Office of Financial and Administrative Services	9	0	9
<b>TOTALS</b>	<b>173</b>	<b>267</b>	<b>440</b>

#### **B. STREAMLINING AND NATIONAL PERFORMANCE REVIEW (NPR) GOALS**

In support of the NPR theme of streamlining as well as the Secretarial goal of common sense government, OIG continues to improve the efficiency and effectiveness of our operations. During this reporting period, OIG merged the Office of AIG for Evaluations with the Office of AIG for Auditing. The restructured Office of AIG for Auditing now consists of four major divisions which report to the AIG for Auditing. This new organization structure allows OIG to be solution oriented, responsive to Congressional and Secretarial interests, and proactive in planning and scheduling future work on major issues. The restructuring focuses expertise on major modes of transportation and improves the timeliness of providing services.

Other streamlining actions taken to improve the efficiency and effectiveness of OIG operations include:

- Abolishing the AIG for Evaluations position

- Abolishing the Director of Administration position
- Downsizing the Office of AIG for Investigations
- Eliminating two regional audit sub-offices, and
- Establishing a Quality Assurance/Internal Affairs office consisting of two senior employees

#### **C. REVIEW OF LEGISLATION AND REGULATIONS**

Section 4(a)(2) of the IG Act provides that the IG shall "... review existing and proposed legislation and regulations relating to programs and operations ..." of DOT, and make recommendations in the semiannual report regarding: (i) the impact on the economy and efficiency in the administration of programs and operations administered or financed by DOT, or (ii) the prevention and detection of fraud, waste, and abuse in such programs and operations. During the reporting period, OIG

reviewed 6 legislative proposals and 43 proposed regulations.

Highlights of existing and proposed legislation and regulations reviewed during the reporting period follow:

### **Legislation**

#### **Whistleblower Protection for FAA Employees**

FAA's new personnel management system implemented, pursuant to its FY 1996 authorizing legislation, left uncertain whether its employee could continue to seek redress through the U.S. Office of Special Counsel (OSC) and the Merit Systems Protection Board (MSPB) as a result of a claim of retaliation for whistleblowing to a Member of Congress or the IG. To remedy that, OIG recommended to Congress a legislative fix to ensure that OSC and the MSPB retain jurisdiction and authority.

### **Regulations**

The OIG concurred in four regulatory matters of significance: an FAA advance notice of proposed rulemaking on the best way to address the safety of children (child restraint systems) while onboard aircraft; an FAA final rule on the fatigue requirements for damage-tolerant structure on transport category airplanes to require full-scale fatigue testing, and inspection thresholds based on crack growth

from likely initial manufacturing defects in the structure; a National Highway Traffic and Safety Administration final rule addressing airbag deactivation; and an FAA proposed rulemaking to upgrade the fire safety standards for cargo or baggage compartments in certain transport category airplanes.

### **D. FREEDOM OF INFORMATION ACT (FOIA)**

During this reporting period, OIG had 203 FOIA requests to process (101 from previous periods and 102 received during this period). As of September 30, 1997, 79 requests are still awaiting processing. In addition, OIG received 8 administrative appeals.

OIG has made elimination of its FOIA backlog a priority. We implemented a Task Force to process backlogged cases and plan to eliminate the backlog within 6 months. In addition, OIG has begun an aggressive effort to work closer with requesters to identify the specific documents they need. By targeting requests better, the volume of documents that must be processed is being reduced, enabling a more timely response.

# GLOSSARY OF ACRONYMS AND TERMS USED IN THIS REPORT

## ACRONYMS

AFS.....	Flight Standards Service
AIG .....	Assistant Inspector General
AVN .....	Aviation System Standards
CA/THT.....	Central Artery/Third Harbor Tunnel
CFO.....	Chief Financial Officer
DCAA.....	Defense Contract Audit Agency
DCIS .....	Defense Criminal Investigative Service
DoD.....	Department of Defense
DOT .....	Department of Transportation
EPA .....	Environmental Protection Agency
FAA.....	Federal Aviation Administration
FBI .....	Federal Bureau of Investigation
FDCC.....	Facilities Design and Construction Center
FHWA .....	Federal Highway Administration
FOIA.....	Freedom Of Information Act
FRA.....	Federal Railroad Administration
FTA .....	Federal Transit Administration
FTE .....	Full-Time Equivalent
FY .....	Fiscal Year
GAO.....	Government Accounting Office
GSA.....	Government Services Administration
HAZMAT.....	Hazardous Material
HTF.....	Highway Trust Fund
IG .....	Inspector General
IRS .....	Internal Revenue Service
ITS.....	Intelligent Transportation Systems
MARAD.....	Maritime Administration

MFET.....Motor Fuel Excise Tax  
MLD.....Merchant Mariner Licensing and Documentation  
MSPB.....Merit System Protection Board  
NASA.....National Aeronautics and Space Administration  
NHTSA.....National Highway Traffic and Safety Administration  
NPR.....National Performance Review  
OA.....Operating Administration  
OIG .....Office of Inspector General  
OMC .....Office of Motor Carriers  
OSC.....Office of Special Counsel  
P.L. ....Public Law  
RSPA.....Research and Special Programs Administration  
SLSDC.....Saint Lawrence Seaway Development Corporation  
SUPs.....Suspected Unapproved Parts  
USCG.....United States Coast Guard  
WMATA.....Washington Metropolitan Area Transit Authority

## **TERMS**

**COSTS QUESTIONED** - Costs that are questioned by OIG because of: (i) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (ii) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (iii) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

**COSTS UNSUPPORTED** - Costs that are questioned by OIG because it found, at the time of the audit, such costs were not supported by adequate documentation.

**DISALLOWED COSTS** - Questioned costs that management, in managerial decisions, has sustained or agreed should not be charged to the Government.

**ECONOMY AND EFFICIENCY AUDITS** - These audits include determining: (i) whether the entity is acquiring, protecting, and using its resources economically and efficiently; (ii) the causes of inefficiencies or uneconomical practices; and (iii) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

**FINAL ACTION** - The completion of all actions management has concluded, in its decision, are necessary with respect to the findings and recommendations included in an audit report; and in the event management concludes no action is necessary, final action occurs when a management decision has been made.

**FINANCIAL STATEMENT AUDITS** - These audits determine: (i) whether the financial statements of an audited entity present fairly, in all material respects, the financial position, results of operations and changes in net position, cash flows, and budget and actual expenses in accordance with generally accepted accounting principles; (ii) whether the associated internal controls are adequate to ensure the integrity of financial transaction processing; and (iii) whether the entity has complied with laws and regulations for those transactions and events that may have a direct and material effect on the principal financial statements.

**FINANCIAL-RELATED AUDITS** - These audits include reviews of accounting records and other financial information for purposes of assisting DOT management in determining if amounts claimed or billed as indirect rates are reasonable and allowable, and, if appropriate, financial regulations were followed.

**INVESTIGATIVE RECOVERIES** - The recoveries of money or property of the Federal Government as a result of OIG investigations. The amounts shown represent: (i) recoveries which management has committed to achieve as the result of investigations during the reporting period; (ii) recoveries where a contractor, during the reporting period, agrees to return funds as a result of investigations; and (iii) actual recoveries during the reporting period not previously reported in this category. These recoveries are the direct result of investigative efforts of OIG.

**INVESTIGATIVE REFERRALS** - These cases require additional investigative work, civil or criminal prosecution, or disciplinary action. These cases are also referred by OIG to investigative and prosecutive agencies at the Federal, state, or local level, or to agencies for management or administrative action. An individual case may be referred for disposition in one or more of these categories.

**MANAGEMENT DECISIONS DURING THE PERIOD** - The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary.

**OIG HOTLINE COMPLAINT CENTER** - Activities consist of the receipt, evaluation, and referral of complaints for additional investigation, audit, or administrative action.

**PROACTIVE INVESTIGATIONS** - OIG-initiated efforts which focus on DOT operations or activities that are vulnerable to fraud, waste, and abuse. They may be narrow in scope and test a specific activity or broader-based, systemic reviews with an emphasis on the development and refinement of preventive measures. Proactive investigations can be initiated upon prior indications or, as in most cases, based on analysis showing a particular vulnerability. Quite often, during the course of the assignments, specific targets (companies and/or individuals) are identified and reactive cases are initiated. Most of these cases are complex, sensitive, and of a protracted nature which require a substantial amount of investigative resources.

**PROGRAM AUDITS** - These audits include determining: (i) the extent to which the desired results or benefits established by Congress or other authorizing body are being achieved; (ii) the effectiveness of organizations, programs, activities, or functions; and (iii) whether the entity has complied with laws and regulations applicable to the program.

**QUESTIONED COSTS FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE** - Costs questioned by OIG on which management has not made a determination of eligibility for reimbursement, or on which there remains disagreement between OIG and management. The Department has formally established procedures for determining the ineligibility of costs questioned. Because this process takes considerable time, this category may include costs that were questioned in both this and prior reporting periods.

**REACTIVE INVESTIGATIONS** - These investigations primarily focus on specific individuals or companies that are usually targets at the outset of an investigation based on some alleged or suspected violation of the law. Reactive investigations continue to be the area of greatest emphasis and dedication of staff effort.

**RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE** - Recommendations by OIG that funds could be more efficiently used if management took actions to implement and complete the recommendations, including: (i) reductions in outlays; (ii) deobligations of funds from programs or operations; (iii) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (iv) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (v) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or (vi) any other savings which are specifically identified. (Note: Dollar amounts identified in this category may not always allow for direct budgetary actions, but generally allow the Department to use the amounts more effectively in accomplishment of program objectives.)

**OFFICE OF INSPECTOR GENERAL  
LISTING OF REPORTS  
April 1, 1997 THROUGH September 30, 1997**

**FEDERAL AVIATION ADMINISTRATION**

**INTERNAL AUDITS - 7 Reports**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATI ON</b>	<b>RECOMMENDATI ONS MADE</b>
ASFA7006	97/06/06	FAA's FY 1996 Apportionment of Formula Grants	Washington, DC	No Recommendations
ASFA7008	97/04/04	Oversight of Extended Travel	Washington, DC	\$40,787 Questioned Procedural
ASFA7009	97/04/14	Oversight of Power Systems in the National Airspace System	Washington, DC	No Recommendations
R2FA7012	97/04/30	Project Closeout Procedures on Airport Improvement Grant Funds	Washington, DC	\$1,300,000 Better Use Procedural
R4FA7035	97/06/25	Diversion of Airport Revenue Dade County Aviation Department	Miami, FL	\$5,160,391 Questioned \$4,000,000 Unsupported Procedural
R9FA7006	97/04/17	Federal Air Marshall Program	Atlantic City, NJ	\$462,000 Questioned \$79,000 Better Use Procedural
R9FA7007	97/04/24	Airport Revenues At Prescott Municipal Airport	Prescott, AZ	No Recommendations

**GRANT AUDIT - POSTAWARD - 15 Reports**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATI ON</b>	<b>RECOMMENDATI ONS MADE</b>
R0FA7007	97/06/19	City of Idaho Falls	Idaho Falls, ID	No Recommendations
R0FA7008	97/07/14	QCR Salt Lake City Corp.	Salt Lake City, UT	No Recommendations
R2FA7024	97/08/06	QCR Coopers & Lybrand Single Audit Massachusetts Port Authority	Boston, MA	No Recommendations
Y4FA7033	97/04/01	City of Lincoln, Nebraska	Lincoln, NE	No Recommendations
Y4FA7034	97/04/01	Jacksonville Port Authority	Jacksonville, FL	No Recommendations
Y4FA7036	97/04/01	Massachusetts Port Authority	Boston, MA	No Recommendations
Y4FA7040	97/04/24	State of Hawaii, Department of Transportation, Airports Division	Honolulu, HI	Procedural
Y4FA7042	97/05/12	City of Idaho Falls	Idaho Falls, ID	No Recommendations
Y4FA7043	97/05/15	City of St. Joseph, Missouri	St. Joseph, MO	No Recommendations
Z4FA7050	97/06/09	City of Houston, Texas	Houston, TX	No Recommendations
Y4FA7051	97/06/20	City of Wichita, Kansas	Wichita, KS	Procedural
Y4FA7058	97/08/28	City of Baltimore	Baltimore, MD	No Recommendations
Y4FA7060	97/08/28	City of Dallas, Texas	Dallas, TX	No Recommendations
Y4FA7061	97/08/28	Pitkin County	Aspen, CO	No Recommendations
Y4FA7066	97/09/29	Port of Seattle	Seattle, WA	No Recommendations

**OFFICE OF INSPECTOR GENERAL  
LISTING OF REPORTS  
April 1, 1997 THROUGH September 30, 1997**

**FEDERAL HIGHWAY ADMINISTRATION**

**INTERNAL AUDITS - 2 Reports**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATI ON</b>	<b>RECOMMENDATI ONS MADE</b>
R0FH7009	97/08/26	Emergency Relief Program	Washington, DC	\$1,900,000 Questioned \$102,100,000 Better Use Procedural
R2FH7025	97/08/12	Relocation of Utilities, Central Artery/Third Harbor Tunnel Project	Boston, MA	Procedural

**GRANT AUDIT - POSTAWARD - 14 Reports**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATI ON</b>	<b>RECOMMENDATI ONS MADE</b>
R2FH7016	97/04/17	QCR Office of Auditor General State of Rhode Island	Pawtucket, RI	No Recommendations
R2FH7023	97/08/06	QCR Deloitte & Touche Single Audit Commonwealth of Massachusetts	Boston, MA	No Recommendations
Z4FH7037	97/04/07	State of Ohio	Columbus, OH	\$7,813,948 Questioned Procedural
Y4FH7038	97/04/08	Wyoming Department of Transportation	Cheyenne, WY	No Recommendations
Z4FH7041	97/05/12	State of Wisconsin	Madison, WI	No Recommendations
R4FH7044	97/06/04	State of Alabama	Montgomery, AL	No Recommendations
Y4FH7059	97/08/28	State of Hawaii, Department of Transportation, Highways Division	Honolulu, HI	No Recommendations
Y4FH7062	97/09/04	State of Maryland	Annapolis, MD	No Recommendations
Z4FH7063	97/09/30	State of Texas	Austin, TX	\$391,161 Questioned
Z4FH7064	97/09/29	State of Indiana	Indianapolis, IN	No Recommendations
Y4FH7065	97/09/29	Illinois Department of Transportation	Springfield, IL	No Recommendations
R9FH7008	97/05/06	State of California	Sacramento, CA	No Recommendations

**OFFICE OF INSPECTOR GENERAL  
LISTING OF REPORTS  
April 1, 1997 THROUGH September 30, 1997**

**FEDERAL RAILROAD ADMINISTRATION**

**INTERNAL AUDITS - 1 Report**

<u>REPORT</u>	<u>DATE</u>	<u>SUBJECT</u>	<u>LOCATI ON</u>	<u>RECOMMENDATI ONS MADE</u>
ADFR7005	97/04/21	Supplementary Report on Internal Control Systems & Compliance with Laws and Regulations	Washington, DC	Procedural

**OFFICE OF INSPECTOR GENERAL  
LISTING OF REPORTS  
April 1, 1997 THROUGH September 30, 1997**

**MARITIME ADMINISTRATION**

**GRANT AUDIT - POSTAWARD - 2 Report**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATI ON</b>	<b>RECOMMENDATI ONS MADE</b>
R2MA7017	97/04/21	Calculations Farrell Lines, Inc FY 1997 Subsidizable Costs For Per Diem	New York, NY	Procedural
R9MA7012	97/09/17	American Presidential Lines, Ltd. Operating Differential Subsidy Claim	Oakland, CA	\$80,000 Better Use

**CONTRACT AUDITS - 6 Reports**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATI ON</b>	<b>RECOMMENDATI ONS MADE</b>
R2MA7018	97/05/07	Apex Marine Corporation National Shipping Authority	Lake Success, NY	\$45,073 Questioned Procedural
R2MA7019	97/05/19	Aquarius Marine Company Maintenance and Repair Costs	Lake Success, NY	\$3,111 Questioned
R3MA7006	97/05/12	Chestnut Shipping Company Maintenance and Repair Costs	Bala Cynwyd, PA	No Recommendations
R6MA7005	97/04/01	Lykes Brothers Steamship Company National Shipping Authority	New Orleans, LA	No Recommendations
R6MA7006	97/04/01	Lykes Brothers Steamship Company Operating Differential Subsidy Claim	New Orleans, LA	\$2,592,802 Questioned
R6MA7008	97/09/12	Lykes Brothers Steamship Company Operating Differential Subsidy Claim	New Orleans, LA	No Recommendations

**OFFICE OF INSPECTOR GENERAL  
LISTING OF REPORTS  
April 1, 1997 THROUGH September 30, 1997**

**OFFICE OF THE SECRETARY OF TRANSPORTATION**

**INTERNAL AUDITS - 1 Report**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATION</b>	<b>RECOMMENDATIONS MADE</b>
ADOT7004	97/04/10	Department of Transportation Consolidated Financial Statement	Washington, DC	Procedural

**GRANT AUDIT - POSTAWARD - 1 Report**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATION</b>	<b>RECOMMENDATIONS MADE</b>
Y4OT7052	97/06/20	Howard County	Ellicott City, MD	No Recommendations

**OFFICE OF INSPECTOR GENERAL  
LISTING OF REPORTS  
April 1, 1997 THROUGH September 30, 1997**

**UNITED STATES COAST GUARD**

**INTERNAL AUDITS - 5 Reports**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATI ON</b>	<b>RECOMMENDATI ONS MADE</b>
ADCG7003	97/04/04	Actuarial Estimated Retired Pay and Health Care	Washington, DC	Procedural
R0CG7006	97/04/21	Polar Class Icebreaker Reliability Improvement Project	Washington, DC	Procedural
R2CG7015	97/07/25	Facilities Design and Construction Centers	Washington, DC	Procedural
R3CG7005	97/04/18	Oil Spill Cleanup Procurements	Washington, DC	Procedural \$8,000,000 Better Use
R9CG7013	97/09/30	Marine Licensing and Documentation	Ballston, VA	Procedural

**OTHER - 1 Report**

<b>REPORT</b>	<b>DATE</b>	<b>SUBJECT</b>	<b>LOCATI ON</b>	<b>RECOMMENDATI ONS MADE</b>
R2CG7014	97/07/17	Management Advisory On Limited Scope of Governors Island Personal Property	New York, NY	Procedural

**OFFICE OF INSPECTOR GENERAL  
LISTING OF REPORTS  
April 1, 1997 THROUGH September 30, 1997**

**FEDERAL TRANSIT ADMINISTRATION**

**GRANT AUDIT - POSTAWARD - 21 Reports**

REPORT	DATE	SUBJECT	LOCATI ON	RECOMMENDATI ONS MADE
R3FT7007	97/09/25	State of Maryland	Annapolis, MD	No Recommendations
Y4FT7032	97/04/01	City of Cedar Rapid, Iowa	Cedar Rapid, IA	No Recommendations
Y4FT7039	97/04/14	Dallas Area Rapid Transit	Dallas, TX	No Recommendations
Z4FT7045	97/06/05	City of Boise, Idaho	Boise, ID	No Recommendations
Z4FT7046	97/06/05	City of Boise, Idaho	Boise, ID	No Recommendations
Y4FT7047	97/06/05	Massachusetts Bay Transportation Authority	Boston, MA	\$1 Questioned Procedural
Y4FT7049	97/06/05	Southeastern Regional Transit Authority	Boston, MA	No Recommendations
Y4FT7053	97/06/26	Omnitrans	San Bernardino, CA	No Recommendations
Y4FT7054	97/07/16	Regional Transit Authority	New Orleans, LA	No Recommendations
Y4FT7056	97/08/07	Palm Beach County	West Palm Beach, FL	No Recommendations
Y4FT7057	97/08/14	Los Angeles County Metropolitan Transportation Authority	Los Angeles, CA	No Recommendations
Y4FT7067	97/0930	Puerto Rico Department of Transportation and Public Works	San Juan, PR	\$2 Questioned
Y4FT7068	97/0930	Puerto Rico Department of Transportation and Public Works	Santurce, PR	\$2 Questioned
Y4FT7069	97/0930	Puerto Rico Department of Transportation and Public Works	Santurce, PR	No Recommendations
R5FT7003	97/04/15	Northern Indiana Commuter Transportation District	Chesterton, IN	No Recommendations
R5FT7004	97/07/30	Des Moines Metropolitan Transit Authority	Des Moines, IA	No Recommendations
R6FT7007	97/05/15	Via Metropolitan Transit San Antonio, Texas	San Antonio, TX	No Recommendations
R6FT7013	97/09/23	Dallas Area Rapid Transit	Dallas, TX	No Recommendations
R9FT7009	97/05/21	Golden Gate Bridge Highway and Transportation	San Francisco, CA	No Recommendations
R9FT7010	97/06/13	Sunline Transit Agency	Thousand Palms, CA	No Recommendations
R9FT7011	97/08/14	Omnitrans	San Bernardino, CA	No Recommendations

This page left blank intentionally.

# REPORTING REQUIREMENTS

To facilitate the reader's understanding of OIG's compliance with the specific statutory reporting requirements prescribed in the IG Act of 1978, as amended, the following list is provided.

<b>REQUIREMENTS</b>	<b><i>Page</i></b>
Section 4(a)(2) - Review of Existing and Proposed Legislation and Regulations . . . . .	47
Section 5(a)(1) - Significant Problems, Abuses, and Deficiencies . . . . .	12
Section 5(a)(2) - Recommendations for Corrective Actions with Respect to Significant Problems, Abuses, and Deficiencies .	13
Section 5(a)(3) - Prior Recommendations Not Yet Implemented . . . . .	23
Section 5(a)(4) - Matters Referred to Prosecutive Authorities . . . . .	30
Section 5(a)(5) - Summary of Instances Where Information Was Unreasonably Refused . . . . .	iii
Section 5(a)(6) - List of Audit Reports . . . . .	B-1
Section 5(a)(7) - Summary of Particularly Significant Reports . . . . .	12
Section 5(a)(8) - Statistical Table of Management Decisions on Questioned Costs. . . . .	20
Section 5(a)(9) - Statistical Table on Management Decisions on Recommendations That Funds Be Put To Better Use . . . . .	21
Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old for Which No Management Decision Has Been Made . . . . .	24
Section 5(a)(11) - Description and Explanation for Any Significant . . . . .	25
Revised Management Decisions	
Section 5(a)(12) - Information on Any Significant Management Decisions with Which the IG Disagrees. . . . .	25

This page left blank intentionally.

# WANT TO KNOW MORE ?

To meet the needs of readers who wish to know more about a particular audit discussed in this report, OIG's final audit reports are now available on the Internet. OIG's home page Internet address is:

**<http://www.dot.gov/oig/>**

If you do not access to the Internet, OIG has provided a tear-out card at the bottom of this page that folds into a self-mailer (postage required). Please identify those reports you would like to receive and include your name and mailing address. The reports will be sent to you as soon as possible.

Thank you for your interest in the work of OIG. OIG will continue to explore ways to make these reports responsive to the readers' needs within the parameters of OIG's statutory requirements. Please address any questions or comments to OIG, U.S. Department of Transportation, Room 7422, 400 Seventh Street, S.W., Washington, DC 20590.

## **Please send me the following report(s):**

- R0-FH-7-009 FHWA Emergency Relief Program**
- R9-CG-7-013 Marine Licensing and Documentation**
- R2-FA-7-012 Project Closeout Procedures on Airport Improvement Grant Funds**
- R2-CG-7-015 USCG Facilities Design and Construction Centers**
- R3-CG-7-005 USCG Oil Spill Cleanup Procurements**
- AD-OT-7-004 DOT Consolidated Financial Statement**
- R2-FH-7-025 Relocation of Utilities, Central Artery/Third Harbor Tunnel Project**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

---

Office of Inspector General  
U.S. Department of Transportation  
Room 7422  
400 Seventh Street S.W.  
Washington, DC 20590

Staple



If you have knowledge of fraud, waste, or abuse involving contracts, grants, personnel, or regulatory programs administered by the U.S. Department of Transportation, including the following organizations, contact the **INSPECTOR GENERAL'S HOTLINE.**

Office of the Secretary of Transportation  
Federal Aviation Administration  
Federal Highway Administration  
United States Coast Guard  
Federal Railroad Administration  
National Highway Traffic Safety Administration  
Federal Transit Administration  
Maritime Administration  
St. Lawrence Seaway Development Corporation  
Research and Special Programs Administration

**CALL:**  
**INSPECTOR GENERAL'S HOTLINE**  
**TOLL FREE**  
**800-424-9071**  
**(202) 366-1461**

**WRITE:**  
**INSPECTOR GENERAL**  
**POST OFFICE BOX 23178**  
**WASHINGTON, D.C. 20026-0178**

You may also visit the Special Agent-in-Charge in your area.

- YOU CAN REMAIN ANONYMOUS
- YOU CAN REQUEST THAT YOUR IDENTITY BE PROTECTED
- GOVERNMENT EMPLOYEES ARE PROTECTED FROM REPRISALS BY THEIR EMPLOYERS

OFFICE	GEOGRAPHICAL AREAS	OFFICE	GEOGRAPHICAL AREAS
<b>NEW YORK REGIONAL OFFICE</b> Special Agent-in-Charge (212) 264-8700 26 Federal Plaza, Rm 3134 New York, New York 10278	Delaware, Connecticut, Maine, Maryland, Massachusetts, New Hampshire, New York, Pennsylvania, Rhode Island, Vermont, and New Jersey	<b>CHICAGO REGIONAL OFFICE</b> Special Agent-in-Charge (312) 353-0106 111 North Canal Street, Rm 677 Chicago, Illinois 60606	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin
<b>ATLANTA REGIONAL OFFICE</b> Special Agent-in-Charge (404) 562-3869 61 Forsyth St., S.W. Suite 17T60 Atlanta, Georgia 30309	Alabama, District of Columbia, Florida, Georgia, Kentucky, Mississippi, Tennessee, North Carolina, South Carolina, Virginia, West Virginia, Puerto Rico, and Virgin Islands Arkansas, Louisiana, New Mexico, Oklahoma, and Texas	<b>SAN FRANCISCO REGIONAL OFFICE</b> Special Agent-in-Charge (415) 744-3090 201 Mission Street, Suite 2310 San Francisco, California 94105	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming, and U.S. Possessions-Pacific