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FEDERAL MANAGEMENT

Challenges Facing the
Department of
Transportation

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Mr. Chairman and Members of the Subcommittee:

We are here today to discuss the critical management challenges facing the Department of Transportation (DOT). My testimony is based on a report we issued in January as part of GAO's performance and accountability series on major management challenges and program risks facing the federal government.¹ With a budget request of over \$50.5 billion for fiscal year 2000, the Department faces critical challenges in achieving its goals of ensuring the safe and efficient movement of people and goods and in making cost-effective investments in the nation's transportation infrastructure.

While DOT has had many successes in improving the nation's transportation systems, it has also experienced problems that have impeded its ability to achieve its goals. We, DOT's Inspector General, and the Department have documented these problems and recommended solutions. Although some corrective actions have been taken, major performance and management challenges remain for DOT's agencies that cover aviation and surface transportation, the U.S. Coast Guard, and the Department itself. In summary:

- The Federal Aviation Administration (FAA) faces considerable challenges in managing its multibillion-dollar air traffic control modernization program, making its computer systems ready for the year 2000, and addressing shortcomings in its safety and security programs. Additional challenges include funding uncertainties facing FAA and the nation's airports and the lack of airline competition in some communities. While DOT has started to address some of these issues, more needs to be done. For example, FAA has initiated activities to address many of our concerns about its air traffic control modernization program but none are completed. Moreover, because of its size, complexity, cost, and past problems, since 1995, we have designated the air traffic control modernization program as a high-risk information technology initiative.
- DOT and the Congress face challenges in continuing to improve the oversight of highway and transit projects and in determining the future of passenger rail. Large-dollar highway and transit projects have experienced cost increases and delays and have had difficulties acquiring needed financing. While some improvements can be made by DOT's agencies, others may require congressional action. For example, the Federal Transit Administration (FTA) has implemented a new tracking system to help

¹Major Management Challenges and Program Risks: Department of Transportation (GAO/OCG-99-13, Jan. 1999).

ensure the correction of deficiencies found during its oversight review of grants, but we have not reviewed it to determine if it addresses our concerns about the agency's need for complete, timely information. Other improvements—such as addressing Amtrak's tenuous financial condition and changing the federal oversight role for large-dollar highway projects—will require congressional action.

- The Coast Guard had not thoroughly addressed planning issues for its 20-year, \$9.8 billion project to replace or modernize many of its deepwater ships and aircraft. We found that the Coast Guard had not adequately addressed this project's justification and affordability, and we recommended that DOT and the Coast Guard take several steps to improve their planning processes. The Coast Guard has begun implementing our recommendations, but it has not resolved issues concerning the project's affordability.
- DOT's lack of accountability for its financial activities impairs its ability to manage programs and exposes the Department to potential fraud, waste, abuse, and mismanagement. Over the years, the Inspector General has been unable to express an audit opinion on the reliability of the financial statements of the Department and some of its agencies. DOT faces considerable challenges in achieving an unqualified audit opinion on its fiscal year 1999 financial statements due to the numerous problems that need to be addressed, and the serious financial management weaknesses at FAA have contributed to these problems. Consequently, this year we designated financial management at FAA as a high-risk area.

Aviation Challenges

Over the past 17 years, FAA's multibillion-dollar air traffic control modernization program has experienced cost overruns, schedule delays, and performance shortfalls of large proportions. The Congress appropriated over \$25 billion for the program through fiscal year 1998, and FAA estimates that the program will need an additional \$17 billion for fiscal years 1999 through 2004. Because of its size, complexity, cost, and problem-plagued past, we have designated this program as a high-risk information technology initiative since 1995. Among other things, FAA needs to adopt disciplined acquisition processes and change its organizational culture so that employees become strongly committed to mission focus, accountability, coordination, and adaptability. Although FAA has initiated activities to address many of our concerns, such as improving its software acquisition capabilities, none are completed. Additionally, we recently reported that FAA is not effectively managing information security for future air traffic control modernization systems and we made several recommendations. For example, we recommended that FAA ensure that

specifications for all new air traffic control systems include security requirements based on detailed assessments.

FAA also faces considerable challenges in making its computer systems ready for the year 2000. In August 1998, we testified that FAA was unlikely to complete all critical tests of its computer systems in time and that unresolved risks—including those associated with data exchanges, international coordination, reliance on the telecommunications infrastructure, and business continuity and contingency planning—threatened aviation operations. The implications of FAA's not meeting the Year 2000 deadline are enormous and could affect hundreds of thousands of people through customer inconvenience, increased airline costs, grounded or delayed flights, or degraded levels of safety. FAA is making progress in addressing the Year 2000 computing problem. Earlier this month, DOT reported that FAA validated 74 percent of its mission critical systems undergoing repair, up from 20 percent in November 1998. However, much remains to be done to complete validating and implementing the repairs and the replacements of FAA's mission critical systems. As of January 31, 1999, FAA had implemented only about 15 percent of its mission critical systems undergoing repair. In addition, airports and airlines depend on computer technology and, thus, will face Year 2000 risks. We reviewed the status of airports' preparations for the year 2000 and found that nearly one-third of the more than 330 airports that responded to our survey did not report that they would meet the June 1999 date recommended by FAA to complete preparations for the year 2000 and that they did not have contingency plans for Year 2000-induced failures. Because of the interdependence among airline flights and airport facilities, equipment malfunctions related to the date change at one airport could decrease efficiency and cause delays at other airports and eventually impede the flow of air traffic throughout the nation, especially if those delays occur at airports that serve as hubs.

DOT and the Congress face a challenge in reaching agreement on the amount and the source of long-term financing for FAA and the nation's airports. The National Civil Aviation Review Commission recommended that the Congress fund FAA through a combination of cost-based user charges, fuel taxes, and general fund revenues. The administration's proposal to authorize FAA for fiscal years 1999 through 2004 would fund the agency through user charges—in the form of excise taxes or new cost-based charges—and would shift funding away from the general fund. But any cost-based system depends on accurate and reliable data, which FAA presently lacks. FAA will need to continue its efforts to fully implement

its cost accounting system so that it can use reliable and accurate data to improve its management and performance and establish user fees as mandated by the Congress. In addition, continued funding for airports will be critical to ensuring adequate capacity for the nation's airport system. From 1997 through 2001, planned development at airports might require as much as \$10 billion per year nationwide compared to about \$7 billion in funding at historical levels. Several proposals to increase airports' funding have emerged in recent years, including increasing the amount of funding from FAA, but some of them are controversial. In addition, FAA's prior efforts to address airport funding needs—such as pilot programs to use grants in more innovative ways—might provide additional flexibility, especially if changes are made to expand the number of projects and reduce some restrictions.

We have identified numerous shortcomings in FAA's safety and security programs. These include the need for the agency to improve its oversight of the aviation industry, record complete information on inspections and enforcement actions, provide consistent information and adequate training for users of weather information, and resolve data protection issues to enhance the proactive use of recorded flight data to prevent accidents. While FAA is taking some steps to address these shortcomings, including totally revamping its inspection program, resolving the problems will take considerable time and effort. In addition, while progress has been made in strengthening airport security, it will take years for FAA and the aviation industry to fully implement current initiatives.

A final aviation challenge is the lack of airline competition in some communities. Although DOT and others generally consider airline deregulation to be a success, contributing to better service and lower fares for most travelers, not all communities have benefited. In a number of small and medium-sized communities, a lack of airline competition contributes to higher fares and/or poorer service. Operating barriers—such as long-term, exclusive-use gate leases and “slot” controls that limit the number of takeoffs and landings at certain congested airports—contribute to higher fares and service problems by deterring new entrant airlines while fortifying established airlines' dominance at key airports. Recently proposed alliances between the nation's six largest airlines have raised additional concerns about competition. DOT has attempted to address problems with competition by such efforts as granting a limited number of additional slots at two airports. Additional actions—some of which are controversial—may be needed by the Congress, DOT, and the private sector. In this regard, various bills have

been introduced to address competition issues and the administration has proposed legislation that would eliminate slot restrictions at three of the four slot-controlled airports.

Highway, Transit, and Passenger Rail Challenges

Many large-dollar highway and transit projects, each costing hundreds of millions to billions of dollars, have incurred cost increases, experienced delays, and had difficulties acquiring needed financing. In fiscal year 1998, DOT's Federal Highway Administration provided over \$21 billion to assist the states in building and repairing highways and bridges. We have identified several options to help improve the management of these projects, particularly those involving large amounts of dollars, depending on the oversight role that the Congress chooses for the federal government. For example, one option would be to establish performance goals and strategies for controlling costs as large-dollar projects move through the design and construction phases.

FTA has improved its oversight of federal transit grants, but shortcomings exist in its follow-up on noncompliance. Our prior work indicated that, frequently, some grantees did not meet FTA's time frames for corrective actions and that FTA had allowed compliance deadlines to be revised, which enabled grantees to delay corrective actions. Also, FTA did not have complete, timely information to help ensure the correction of deficiencies found during its oversight reviews of grants. The agency has implemented a new tracking system, but we have not reviewed it to determine if it addresses our concerns.

The National Railroad Passenger Corporation's (Amtrak) financial condition remains tenuous. Despite efforts to control expenses and increase revenues, Amtrak's financial condition has deteriorated in recent years. Since it began operations in 1971, Amtrak has received nearly \$22 billion in federal subsidies for operating and capital expenses, and it is likely to remain heavily dependent on federal assistance well into the future. Amtrak loses about \$2 for every dollar it earns in revenues from its train service, and only one of Amtrak's 40 routes covers its costs. The business decisions that Amtrak makes regarding the structure of its route system will play a crucial role in determining its long-term viability. Because there is no clear public policy that defines the role of passenger rail in the national transportation system and because Amtrak is likely to remain dependent on federal assistance, the Congress needs to decide on the nation's expectations for intercity rail and the scope of Amtrak's mission in providing that service.

Coast Guard Challenges

The Coast Guard did not thoroughly address planning issues for its 20-year, \$9.8 billion Deepwater Capability Replacement Project to replace or modernize many of its ships and aircraft. This effort, which is potentially the largest acquisition project in the agency's history, is still in its early stages. We found that the Coast Guard did not adequately address the project's justification and affordability. In fact, the remaining useful life of its aircraft—and perhaps ships—may be much longer than the agency originally estimated. We recommended that DOT and the Coast Guard take several steps to improve their planning processes, such as expediting the development and the issuance of updated information on the remaining service life of the agency's aircraft and ships and revising acquisition guidelines so that future projects are based on more accurate and complete data. The Coast Guard has begun implementing our recommendations, but has not resolved issues concerning the project's affordability.

Departmentwide Challenge

DOT's lack of accountability for its financial activities impairs its ability to efficiently and effectively manage programs and exposes the Department to potential fraud, waste, abuse, and mismanagement. Since 1993, when the Office of Inspector General began auditing the financial statements of certain agencies within the Department, it has been unable to determine whether the reported financial results are correct and has thus been unable to express an audit opinion on the reliability of these statements. The Inspector General also has been unable to express an opinion on the reliability of the departmentwide statements since these statements were first audited in fiscal year 1996. A key issue affecting the ability to express an opinion on these financial statements has been DOT's inability to reliably determine the quantities, the locations, and the values of property, plant, and equipment and inventory, reported at \$28.5 billion as of September 30, 1997. Serious financial management weaknesses at FAA have contributed to this situation. Consequently, we have designated financial management at FAA as a high-risk area. In addition, as we previously mentioned, DOT lacks a cost-accounting system or an alternative means to reliably accumulate and report the full cost of specific projects and activities. Due to the deficiencies in its financial accountability, it is unlikely that DOT can accurately determine costs and meaningfully link them to performance measures. On September 30, 1998, DOT submitted a plan to the Office of Management and Budget for resolving the financial management deficiencies that had been identified in its financial statement audits. However, the Department faces significant challenges in achieving its goal

of receiving an unqualified audit opinion on its fiscal year 1999 financial statements due to the numerous problems that need to be addressed.

In summary, many challenges we identified are long-standing and will require sustained attention by DOT and the Congress. While DOT has initiatives underway to address the shortcomings in some of its programs, these activities are only in the early stages of implementation. It will take time to fully address the issues we and others have identified and to assess whether the Department has fully resolved them. Furthermore, congressional actions will also be required to address certain challenges facing the Department. Finally, congressional oversight, such as provided by this hearing, will help ensure the effective resolution of these challenges.

Mr. Chairman, this completes my testimony. I will be glad to respond to any questions that you or other Members of the Subcommittee may have.