

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I am pleased to report that the objectives of both Section 2 (Material Weaknesses) and Section 4 (Material Nonconformances) of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 were met at the U.S. Department of Transportation (DOT) during fiscal year (FY) 2001. All departmental organizations are subject to Sections 2 and 4 of the FMFIA except the St. Lawrence Seaway Development Corporation, which reports under the Government Corporations Control Act.

Each year we report on areas of concern over the internal controls and financial systems within the Department. There was one material weakness in internal controls and one material nonconformance of financial systems requirements pending as of the end of FY 2001. The material weakness involves information systems security within the Department. Protection of our systems and data from intrusion and compromise is a complex and critical issue that we are continuing to address. The material nonconformance relates to Federal Aviation Administration (FAA) property systems that did not provide the data necessary for preparation of the DOT Consolidated Financial Statements. Details about the material weakness and the material nonconformance, the corrective actions taken and planned, and the estimated completion dates are contained within Enclosures B and C respectively of this report. The information below summarizes other actions taken this year.

Transportation Systems Vulnerability

The events of September 11, 2001, brought to light threats and increased vulnerabilities to the Nation's transportation systems, whether they be air, sea, or land based. These systems are at risk of being used as targets by terrorists to damage or destroy our communities and wreak havoc with our commerce and overall economy. The Department is working to protect the critical infrastructure elements of our aviation, highways, railways, and transit systems, pipelines, ports, and waterways.

In September 2001, I created the National Infrastructure Security Committee (NISC) to focus on intermodal transportation security issues. The Committee established various Direct Action Groups (DAGs), comprised of senior DOT personnel, that bring in key industry representatives, labor leaders and other stakeholders to provide input to the Department on maritime, pipeline, and hazardous materials issues. We identified high-value, high-consequence transportation assets and current protection strategies. We are developing national standards that address a prudent level of protection for the Nation's most critical transportation assets. We are addressing strategic gaps between the current and desired level of protection for the most critical of these assets. The following DAG activities have been completed:

1. The Maritime Direct Action Group (MDAG) – Maritime Administration (MARAD)/United States Coast Guard (USCG). The MDAG met in person and by conference call with approximately thirty individuals representing nearly two dozen maritime related organizations to discuss maritime related security issues and heightened security measures. These organizations included associations representing deep-sea carriers, inland waterway and great lake carriers, ports, the maritime business community, the cruise ship industry, and shippers as well as labor, and government organizations.
2. The Hazardous Materials Direct Action Group (HMDAG) – Research and Special Programs Administration (RSPA). The HMDAG met with representatives of the hazardous materials industry, emergency response community, and state governments to discuss security issues and recently implemented security measures. The HMDAG identified gaps in current security arrangements, discussed specific areas of concern, recommended government action to augment industry security programs, and suggested legislative and regulatory changes that could enhance the overall security of hazardous materials during transportation.
3. The Pipeline Direct Action Group (PDAG) – RSPA. The focus of the PDAG is to identify current security protocols and existing gaps, and to improve and establish better company and government agency preparedness and response. The PDAG met with representatives from 18 organizations including representatives from the pipeline industry, trade groups, state response agencies, labor, and environmental groups. The PDAG prepared a series of recommendations and completed a final report for the NISC.
4. The Surface Direct Action Group (SURFDAG) – Federal Highway Administration (FHWA)/Federal Motor Carrier Safety Administration (FMCSA). The SURFDAG met with several dozen individuals representing more than two dozen organizations including state and local government transportation organizations and associations, labor, motor carrier associations, law enforcement and first responder representatives, and relevant technology organizations.

The SURFDAG is in the process of compiling a series of recommendations, follow-up steps, and a final report on critical infrastructure requirements and increased security measures.

5. The Transit Direct Action Group (TDAG) – Federal Transit Administration (FTA). The TDAG is in the process of interviewing appropriate associations and organizations to identify gaps in security measures affecting mass transit systems. Preliminary work for the TDAG process included a conference call with more than 13 individuals representing major metropolitan transit agencies and the American Public Transportation Association.
6. The Railroad Direct Action Group (RDAG) – Federal Railroad Administration (FRA). FRA is expecting shortly an extensive report on security related matters from the Association of American Railroads and will then form its Direct Action Group.

The activities of the NISC, particularly through the DAG process, will continue for the foreseeable future. Activities of the various DAGs will focus on direct DOT to industry efforts to improve security in the Nation's intermodal transportation system and to make every effort to ensure that terrorist actions can be prevented.

The Office of Homeland Security and the Homeland Security Council are coordinating Federal, state, and local efforts to strengthen protections against terrorist attacks in the United States. The Department has a very important role to play in efforts aimed at increasing homeland security. As you know, the Aviation and Transportation Security Act of 2001 establishes the Transportation Security Administration, which is responsible for security for all modes of transportation. There is other legislation, such as the proposed Port Maritime and Rail Security Act of 2001 (S.1214), which provides for improvement of port, waterway, and rail safety and security. We have taken other immediate steps to strengthen security as summarized below.

Air:

The FAA significantly increased required security measures for domestic airports, domestic air carriers, and foreign air carriers operating from the United States. These measures include:

- increased Federal Air Marshals;
- tighter security screening at airport checkpoints;
- adding uniformed law enforcement officers to patrol boarding areas;
- increased passenger pre-boarding checks;
- limiting curbside or off-airport check-in of luggage;
- increased use of explosive detection systems for checked baggage screening;
- screening of all persons who handle checked baggage against the Federal Bureau of Investigation (FBI) Watch List;
- criminal history checks for all employees who have unescorted access to secure areas of airports; and
- strengthening air cargo security requirements.

FAA has taken steps to improve terminal security by implementing procedures to ensure explosive devices could not be left in or near terminals, restricting the presence of knives or similar potential weapons within sterile terminal areas to only those persons whose duties absolutely require them, removing unauthorized vehicles from terminal areas, and taking more appropriate actions in the event that airport security is breached. Further, FAA requested states to post National Guard personnel at airport checkpoints.

In addition, the FAA and the aviation industry are jointly investigating ways for flight crews to maintain control over their aircraft in the event of hijacking or other emergency. Changes to aircraft, flight deck procedures, and additional security training are being evaluated for rapid implementation to mitigate the vulnerabilities which existed prior to September 11.

Ports and Waterways:

Since September 11, the USCG increased its maritime security posture using existing cutters, boats, aircraft, and active-duty, civilian, reserve and auxiliary personnel. USCG shifted some of its mission activity to enhance its role as the lead Federal agency for maritime homeland security. Since the September 11 attacks, the USCG established near shore and port domain presence with 55 cutters, 42 aircraft, and hundreds of small boats patrolling the ports and coastlines. USCG deployed 4 Port Security Units to domestic ports in Boston, New York City, Los Angeles, and Seattle and recalled more than 2,700 selected reservists to support maritime homeland security operations in major ports. In addition, USCG changed the “Notice of Arrival” requirements for ships entering domestic ports from 24 hours to 96 hours to increase port domain awareness and prepare responses.

The USCG also identified high interest vessels and prioritized critical vulnerabilities so that the agency’s limited resources can be applied in an efficient manner. USCG is encouraging the formation of additional local Port Security Committees to help integrate security planning.

The USCG is also promoting the concept of “Maritime Domain Awareness” in cooperation with members of the National Security Council. Further, USCG is working on establishing domestic active-duty Maritime Safety & Security Teams that will possess specialized law enforcement and force protection capabilities to ensure effective control of maritime traffic.

Highways:

The FHWA has in place programs to assist in emergency situations. FHWA updated all of its Continuity of Operations Plans and developed Emergency Preparedness Plans for all offices. Some of the actions taken by FHWA subsequent to September 11 include:

- **Emergency Preparedness and Response Team:** FHWA and the FMCSA created a joint team to examine issues and initiatives to maintain the flow of commerce, protect and restore critical transportation facilities, and monitor the movement of hazardous materials.
- **World Trade Center Disaster Relief:** FHWA is working with the Federal Emergency Management Agency, the New York State Department of Transportation, and the New York City Department of Transportation to repair Manhattan streets.
- **Critical Infrastructure:** With the assistance of states and DOT personnel, FHWA developed a list of critical infrastructure needs in the interest of transportation security.
- **2002 Winter Olympic Games and Paralympic Games:** Critical Olympic-related infrastructure projects are all completed or underway. FHWA identified conflicts between security and transportation, and DOT officials are addressing these issues with representatives of the Salt Lake Olympic Committee.
- **Surface Transportation Security:** FHWA is assisting with the coordination of transportation security issues with the states. Regular Federal-aid funds are available for security planning and to install, operate, and maintain security equipment to monitor traffic operations and to provide for continuous visual inspection of vital bridge and tunnel structures.
- **Transportation Security Canadian Border:** The tighter security following the events of September 11 has resulted in increased delays in border crossings. While affected parties recognize the need for security, the negative economic impacts of such delays are a major concern. A plenary meeting of the United States and Canada Transportation Border Working Group is scheduled for January 2002 in Windsor, Ontario, to discuss concepts and initiatives to reduce border crossing delays while maintaining adequate safety and security.

Railroads:

Since the the September 11 attacks, FRA personnel have maintained frequent contact with major freight and passenger railroads to identify gaps in security. FRA obtained and quickly disseminated significant information regarding potential terrorist threats against railroads to the FBI and other law enforcement authorities, the railroad industry, and senior leadership within the Department. FRA also assisted the railroads in applying the emergency provisions of various railroad safety laws and regulations to keep the system fluid. Specific steps taken include:

- Conducting on-site security reviews at all major passenger terminals to gauge the state of railroad passenger security readiness.
- Conducting an industry-wide teleconference with representatives from all major freight, passenger, commuter and shortline railroads, all rail labor organizations, and the FTA to discuss how the industry should proceed to re-examine railroad security. As a result of the teleconference, six Critical Action Teams (CATs) were formed to re-examine security risks in the railroad industry and develop strategies to deal with those risks. The work of the six CATs will be submitted to the Office of Homeland Security and the DOT Office of Intelligence and Security.
- FRA personnel met with representatives of several commuter railroads in the New York City area to discuss options for enhanced security measures.

Mass Transit:

The FTA took the initiative to address issues related to the recent national security threats by providing a Safety and Security Tool Kit to all providers of public transportation. Key documents contained in the kit include:

- the list of FTA Services and Publications;
- Practical Security and Emergency Response Advice from New York and Washington;
- an Overview of FTA's Security Assessment Services;
- Key Transit Security Publications;
- Transit Cooperative Research Program Synthesis Reports on Emergency Preparedness for Transit Terrorism;
- Sample Materials to Increase Public Awareness about Safety and Security; and
- Transit Safety Institute Courses and Seminars Catalog, October 2001 – September 2002.

FTA arranged to have professional security experts conduct security assessments of the 100 largest transit systems with the objective of identifying security threats and developing practical solutions. As a follow-up, two-day, cost

free security awareness training workshops are being offered across the country. These measures are intended to provide support and assistance to the transit community as they refine their security and emergency response plans.

Pipelines:

Since the September 11 attacks, RSPA's Office of Pipeline Safety acted with other Federal and state agencies and the pipeline industry to assess the ability of the Nation's pipeline infrastructure to prepare for, withstand, and recover from a terrorist attack. RSPA provided security information to industry immediately following the attacks. For the longer-term, RSPA is conducting vulnerability assessments, interagency coordination, and coordination with industry to jointly develop protection strategies.

Motor Carrier Safety:

As a result of the September 11 attacks, FMCSA moved quickly to ensure the safety and security of the Nation's motor carrier vehicle infrastructure. FMCSA has given top priority to visit all 34,000 hazardous materials carriers to ensure these carriers are aware of necessary security measures. FMCSA is also providing educational and technical assistance information to enhance security surrounding the transport of hazardous materials. FMCSA will take every available action in working with carriers to ensure that a truck carrying a hazardous material will not be used in a terrorist attack.

FMCSA is also reaching out to its state partners to identify opportunities to improve security. Information gathered will be shared to assist others in their efforts to enhance security activities.

Ship Manager Contracts in MARAD

As reported last year, the findings of an ongoing FBI and Office of Inspector General (OIG) investigation of MARAD's ship manager contracts disclosed improper actions of kickbacks and fraud by individuals and companies. MARAD has consistently suspended and debarred the individuals and companies from doing business with the government in accordance with regulatory guidance.

Concurrently, the OIG conducted an audit of MARAD's administration of the ship manager contracts and found that MARAD had not consistently adhered to established procedures and practices for administering the ship manager contracts and general agency agreements.

To minimize future risks and exposure to wrongful activity, MARAD's program and acquisition officials also conducted a review of the existing subcontracting procedures in the ship manager contract system. Following the OIG audit and MARAD's own review, subcontracting procedures were revised to provide for more stringent levels of checks and balances without hampering the progress of the program. Under the revised procedures:

- MARAD partnered with the Defense Contract Audit Agency (DCAA) to review the ship managers' commercial purchasing system;
- identified required elements to be incorporated into each Task Order issued to ship managers;
- set more stringent guidelines for the issuing and closing of Task Orders;
- provided additional training to MARAD personnel to enable better detection of potentially fraudulent invoices; and
- provided for more frequent reviews of ship managers' purchasing activities.

MARAD also is implementing electronic invoicing for ship managers and DCAA will have on-line access to that process.

Financial Management Improvements and Financial Statement Reporting

The Department's FY 2000 Consolidated Financial Statements received a qualified audit opinion from the OIG because FAA's net book value of property could not be substantiated. The OIG's report advised that the Department was not in full compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 because:

- the Departmental Accounting and Financial Information System (DAFIS) did not comply with the requirement for meeting the Government's Standard General Ledger;
- DAFIS and the FAA property systems did not provide the data necessary for preparing the Consolidated Financial Statements; and
- a managerial cost accounting system had not been implemented.

To further improve financial management, the Chief Financial Officer (CFO) took the following steps:

- As part of central processing, DAFIS/Delphi will generate CFO financial statements electronically; process information into the Standard General Ledger; and automate preparation of Adjusted Trial Balances, Report on Budget Execution (SF-133), and Year-end Statement (FMS-2108) for each Operating Administration within DOT. The module also contains a detailed audit trail so that all adjustments can be easily identified and audited by the OIG. All DOT Operating Administrations have begun using the financial statement module to prepare their financial statements. The financial statements module (FSM 2000) is presently being connected to a consolidated Oracle database and will provide DOT with the ability to produce Consolidated CFO Financial Statements.
- FAA is continuing its development of an integrated Financial/Fixed Asset System which will receive data electronically from various property systems further tightening the integration of DOT's financial systems.

- FAA is continuing its development of a broad ranging cost accounting system. As the elements of the Department continue to migrate to Delphi, they will have enhanced cost accounting capabilities based on the best practices of the private sector. We acknowledge that full multi-purpose cost accounting systems and the associated analytical and decision support capability is far from completion. However, all Delphi users will have the software infrastructure necessary to fulfill this objective.

The result of these remedial and progressive actions address the OIG findings and will bring the Department into substantial compliance with the FFMIA when successfully implemented. We are continuing to work with the OIG to ensure that these deficiencies are effectively corrected and are committed to maintaining the integrity of the Department's financial management information.

Sincerely yours,

/s/ Norman Y. Mineta

Norman Y. Mineta

Enclosures

Enclosure A: Statistical summary of performance under Sections 2 and 4 of the FMFIA

Enclosure B: Pending Material Weakness

Enclosure C: Pending Material Nonconformance

DEPARTMENT OF TRANSPORTATION

Enclosure

A

STATISTICAL SUMMARY OF PERFORMANCE

SECTION 2, INTERNAL CONTROLS

	Number of Material Weaknesses		
	Number reported for the first time in:	For that year, number that have been corrected:	For that year, number still pending:
Prior Years	146	146	0
1999 Report	0	0	0
2000 Report	0	0	0
2001 Report	1	0	1
Total	147	146	1
Of the total number corrected, how many were corrected in 2001? <u>0</u>			

SECTION 4, FINANCIAL MANAGEMENT SYSTEMS

	Number of Material Nonconformances		
	Number reported for the first time in:	For that year, number that have been corrected:	For that year, number still pending:
Prior Years	59	59	0
1999 Report	0	0	0
2000 Report	1	0	1
2001 Report	0	0	0
Total	60	59	1
Of the total number corrected, how many were corrected in 2001? <u>0</u>			

**DEPARTMENT OF TRANSPORTATION (DOT)
OFFICE OF THE SECRETARY OF TRANSPORTATION (OST)
PENDING MATERIAL WEAKNESS**

MATERIAL WEAKNESS: The DOT Information Security Program is a critical component of the overall infrastructure protection of DOT. Program policy is managed by the Office of the CIO and is integrated throughout the Department through the DOT CIO Council and the IT Security Committee of the Council. Numerous audit reports including the recently released FI-2001-090 have highlighted Information Technology (IT) security vulnerabilities throughout DOT. These vulnerabilities could adversely effect the confidentiality, availability, and integrity of DOT IT Systems.

Program Manager: Ms. Lisa Schlosser, S-80, (202) 366-0629. **Source:** Management (OIG Information Security Program Audit Report FI-2001-090, dated 09/07/2001).

EXECUTIVE SUMMARY	MILESTONES	DATES O=Original L=Last Year C=Current	ACTUAL DATE
<p>How shall we fix it? Develop and implement a coordinated approach to securing DOT IT systems. This activity will be done by completing a Department-wide assessment and associated corrective action plan. The next facet of the program is the development and implementation of a Performance Measurement Program. This will require a commitment at all levels throughout DOT.</p> <p>How will we know it's fixed? When all parts of DOT are reporting data which meet the performance criteria established in the Performance Measurement Program; and the OA programs reflect progress in accordance with identified goals, as monitored by the Performance Measurement Program.</p> <p>How are we doing? On target. We are in the process of building the foundation to the IT Security Program. The DOT IT Security Program has been issued, the Department-wide Assessment and associated Corrective Action Plan have been completed, and we are developing the framework for the Performance Measurement Program.</p>	<p><u>Year Identified:</u></p> <p><u>Completed :</u></p> <ul style="list-style-type: none"> • Developed and Issued the DOT IT Security Program (an overall framework for IT Security within DOT) • Department-wide IT Security Assessment • IT Security Corrective Action Plan <p><u>Planned :</u></p> <ul style="list-style-type: none"> • Develop and Monitor Performance Measurement Program • Develop Network Security Guide • Develop Incident Reporting Program • Integrate Security into IT Capital Planning Process <p><u>Completion Date:</u></p>	<p style="text-align: center;">2001</p> <p>O - 05/2001</p> <p>O - 09/2001</p> <p>O - 10/2001</p> <p>O - 06/2002</p> <p>O - 06/2002</p> <p>O - 08/2002</p> <p>O - 12/2002</p> <p>O - 12/2002</p>	<p style="text-align: center;">05/2001</p> <p style="text-align: center;">09/2001</p> <p style="text-align: center;">10/2001</p>

**DEPARTMENT OF TRANSPORTATION (DOT)
FEDERAL AVIATION ADMINISTRATION (FAA)
PENDING MATERIAL NONCONFORMANCE**

MATERIAL NONCONFORMANCE: Because of the largely manual and intensive efforts required to generate Depreciation and Net Book Value of FAA assets, the existing method resulted in significant errors. These errors resulted in misstatements to the Consolidated Financial Statements.

Program Manager: Guy Danley (202) 267-9003.

Source: OIG Audit of FY 2000 Financial Statements.

EXECUTIVE SUMMARY	MILESTONES	DATES O=Original L=Last Year C=Current	ACTUAL DATE
<p>How shall we fix it? FAA will install an integrated Financial/Fixed Asset system. The system will have the appropriate controls to track property data for financial purposes. The system will also generate depreciation and asset net book value automatically. The software being utilized for both the Interim Fixed Asset System (IFAS) and Delphi is ORACLE so that the impact of conversion to the new accounting system will be minimized.</p> <p>How will we know it's fixed? IFAS will reconcile to the DAFIS General Ledger accounts and will institute the appropriate controls to prevent inadvertent data discrepancies. It will generate depreciation and net book value automatically.</p> <p>How are we doing? On target.</p>	<p><u>Year Identified:</u></p> <p><u>Completed</u> – Interim Fixed Asset System (IFAS) was developed.</p> <p>Property data from external Personal and Real Property Systems was loaded into the IFAS.</p> <p><u>Planned (Near-Term)</u> – IFAS to be implemented prior to the FY 2001 Financial Statements completion (2/02).</p> <p><u>Planned (Long-Term)</u> – Conversion to Delphi to be completed in FY 03 (10/02).</p> <p><u>Completion Dates:</u></p>	<p align="center">2000</p> <p>O – 09/2000</p> <p>O – 02/2001</p> <p>O – 02/2000 L – 02/2001 C – 02/2002</p> <p>O – 10/2002 L – 10/2002 C – 10/2002</p> <p>O – 10/2002 L – 10/2002 C – 10/2002</p>	<p align="center">09/2000</p> <p align="center">04/2001</p>