GAO

CERTIFICATION OF NEW AIRLINES

Department of Transportation Has Taken Action to Improve Its Certification Process

GAO

**United States
General Accounting Office
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**Resources, Community, and
Economic Development Division**

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The Honorable James L. Oberstar
Ranking Democratic Member
Committee on Transportation
    and Infrastructure
House of Representatives

The Honorable William O. Lipinski
Ranking Democratic Member
Subcommittee on Aviation
Committee on Transportation
    and Infrastructure
House of Representatives

Since deregulation began in 1978, the airline industry has experienced
significant growth as a number of new airlines start up each year.
According to officials in the Department of Transportation (DOT), the
traveling public has benefited from this growth through increased
competition among the airlines, air transportation services to more
locations, and lower airfares. DOT recently estimated that new airlines
generate about $4 billion annually in direct savings to the traveling public.
This growth, however, has also increased the government's workload for
certifying new airlines.

Before commencing operations, new airlines must obtain two separate
authorizations from DOT—"economic" authority from the Office of the
Secretary (OST) and "safety" authority from the Federal Aviation
Administration (FAA). Within OST, the Air Carrier Fitness Division is
responsible for assessing whether applicants have the managerial
competence, disposition to comply with regulations, and financial
resources necessary to operate a new airline. This Division then
recommends to the Assistant Secretary for Aviation and International
Affairs whether such applicants should be found "fit" and issued effective
operating authority. At FAA, the Flight Standards Service is responsible for
certifying that the applicants' manuals, aircraft, facilities, and personnel
meet federal safety standards.

Representative Oberstar, in his former role as Chairman of the
Subcommittee on Aviation, House Committee on Transportation and
Infrastructure, asked us to review the efficiency of DOT's processes for
certifying the initial operations of new airlines. As agreed with the

Subcommittee's staff, we are also sending this report to Representative Lipinski, the Ranking Democratic Member of the Subcommittee on Aviation. This report addresses the initial certification of new airlines' operations, focusing on three questions: (1) How many applicants have applied for and received authorization to begin new airlines since 1990?[1] (2) What processes does DOT have in place to certify new airlines? and (3) How much does it cost to certify new airlines and how are these costs distributed between the government and the applicants?

Results in Brief

From January 1990 through July 1995, 180 applicants applied to OST to begin new airline operations. Of these, 90 received authorization from both OST and FAA and actually began operations. Fifty-seven of these 90 were operating as of July 1995, while 33 had ceased operations during these 5-1/2 years. The 90 remaining applicants had not completed either OST's and/or FAA's processes for beginning operations. Specifically, 33 of the 90 applicants were tentatively found fit by OST but had not begun or never began operations, primarily because they were unable to acquire the financial resources necessary to carry out the proposed services. Another 47 applications had been withdrawn by the applicant or were dismissed or denied by OST. Ten applications were pending OST's approval.

While OST's and FAA's certification processes are crucial for ensuring that new carriers meet federal economic and safety standards, we found that some applicants proceeded far into DOT's certification processes—resulting in the expenditure of a significant amount of federal resources—before it became apparent that they could not acquire the financial resources necessary to complete the process. Recognizing this problem, FAA revised its certification process in October 1995 to require applicants to complete certain steps before its inspectors will expend additional resources on certification activities. For example, applicants must provide proof, such as signed contracts or letters of agreement, that they have purchased or leased the aircraft, facilities, and services needed to conduct the proposed operations and have been found tentatively fit by OST before FAA inspectors will begin reviewing the applicants' operating, maintenance, or training manuals. Also, OST recently tightened its standards by requiring applicants to submit third-party verification of their financial plans with their applications. In addition, in October 1995 OST and FAA established an electronic communication link to better share

[1]This report discusses only applications filed with OST and FAA to begin new services for large transport and commuter air carriers. We excluded the carriers that provide on-demand services, commonly called air taxis, because they are exempt from the fitness requirements in the Federal Aviation Act of 1958.

information about the applicants. It is too early to determine how these recent changes will work in practice and to what extent they will reduce the unnecessary expenditures of DOT's resources.

The government incurs a substantial financial burden when certifying new airlines' operations. However, the fees that the applicants currently pay for certification amount to less than 1 percent of the government's costs. Specifically, applicants pay less than $1,000 per application to OST for these services and nothing to FAA. In contrast, the costs to the government can total more than $150,000 per application. While DOT officials recognized that the existing fees are insufficient to cover the certification costs, they pointed out that a portion of these costs are recouped from ticket and fuel taxes once the applicants begin operations. Although OST and FAA officials recognized that the certification costs are not recovered under the existing fee structure, they have not yet revisited the appropriateness of the current fees.

Background

The Federal Aviation Act of 1958, as amended, gives DOT responsibility for promoting new airlines' operations, while at the same time determining whether applicants proposing to provide air transportation services for compensation or hire meet federal economic and safety standards before commencing operations. Within DOT, this responsibility is shared by OST and FAA. All applicants must obtain separate authorization from both offices before starting their operations.

OST's Certification Process

When OST receives an application, it administers a three-part test to determine whether the applicant is "fit, willing, and able" to properly perform the proposed services. First, OST assesses whether the applicant's key personnel[2] and management team as a whole possess the background and experience necessary to perform the proposed operations. Second, it reviews the applicant's operating and financial plans to determine whether the applicant has access to or a plausible plan for raising sufficient funds to pay all of its start-up expenses and maintain a working capital reserve equal to 3 months' normal operating costs. Finally, it reviews the applicant's compliance record to determine whether the applicant or its key personnel have a history of safety violations or consumer fraud and may thus pose a risk to the traveling public, or whether other factors

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[2]"Key personnel" generally refers to the president, vice presidents, chief executive officer, chief operating officer, general manager, chief financial officer, chief pilot, and directors of operations and maintenance.

indicate that the applicant would not be likely to comply with federal rules, laws, and directives.

If OST finds that the applicant meets these criteria, it issues a "show cause" order tentatively finding the applicant fit to operate. Interested parties, including competitor airlines and members of the public, are given an opportunity to raise concerns or objections about the applicant's fitness to conduct the proposed operation. If no objections are filed that convince OST that its tentative findings were incorrect, it will issue a "final" order finding the applicant fit. Even so, the authority to begin the proposed operation will not be granted until the applicant submits the required (1) Air Carrier Certificate and Operations Specifications from FAA; (2) evidence that it has liability insurance coverage for each of its aircraft; (3) information on any changes in financing, ownership, key personnel, or management since the initial determination of fitness; and (4) verification that it has sufficient funds to meet OST's financial criteria.

FAA's Certification Process

FAA uses a five-phase process to determine whether an applicant's manuals, aircraft, facilities, and personnel meet federal safety standards. First, in the preapplication phase, FAA gives the applicant basic information about the agency's certification process and assigns a team of inspectors to meet with the applicant to discuss the proposed operation. Second, in the formal application phase, the applicant must submit all required documents, including a letter of application, operations and maintenance manuals, training curriculums, and personnel résumés documenting key personnel's managerial and technical skills. Third, in the document compliance phase, FAA inspectors review the documents to determine whether they comply with applicable safety regulations and operating practices. Fourth, in the demonstration and inspection phase, the inspectors conduct on-site inspections of the applicant's aircraft and maintenance facilities; observe proposed training programs; review maintenance, operations, and record-keeping procedures; and review actual in-flight operations. Finally, in the certification phase, FAA issues an Air Carrier Certificate and approves the applicant's operations specifications.

Many Applicants Do Not Complete OST's and FAA's Certification Processes

We found that many applicants do not successfully complete OST's and FAA's certification processes and, therefore, cannot begin flight operations. From January 1990 through July 1995, 180 applicants filed with OST to begin new airline operations. Ninety of the 180 applicants successfully completed OST's and FAA's processes and began operations. Of these 90, 57 were operating as of July 1995, while 33 began flying but ultimately ceased operations for a variety of reasons, such as insufficient revenues and competition from other airlines. As shown in figure 1, 33 of the remaining 90 applicants were tentatively found fit by OST but either never began operations, primarily because they lacked the financial resources necessary to carry out the proposed operations, or are still attempting to complete their financing or finish FAA's certification process before they can begin operations. Another 47 applicants had withdrawn their applications or had them dismissed or denied by OST because the applicants were unable to meet its fitness standards. Ten applications were pending OST's approval.

Figure 1: Status of New Airline Applicants From January 1990 Through July 1995
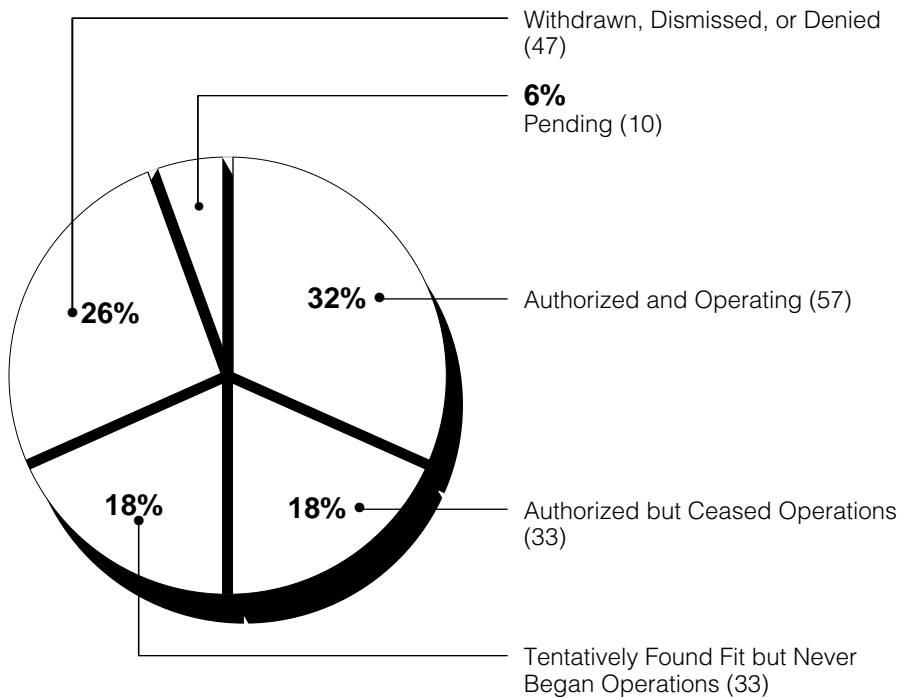
Source: Based on data obtained from OST.

OST analysts and FAA headquarters officials told us that several factors determine whether an applicant successfully completes both offices' processes. These factors include the completeness of the initial application, the applicant's managerial skills and technical knowledge about operating an airline, and the applicant's ability to obtain sufficient funds to meet OST's financial criteria. Furthermore, the analysts told us that the majority of the applicants that do not complete the processes or never begin operations do not acquire the financial resources necessary to cover the start-up costs for their proposed operations.

OST and FAA Have Recently Acted to Improve the Efficiency of Their Processes

While OST's and FAA's certification processes are designed to ensure that new airlines meet federal economic and safety requirements, we found that the processes contained some inefficiencies that resulted in spending federal resources on applicants that had little probability of successfully completing the processes and beginning operations. Specifically, OST determined some applicants to be financially fit before they had sufficient funds to complete both certification processes. Because a significant amount of resources is spent on applicants that never complete the certification processes, FAA recently revised its process to require applicants to complete certain tasks before it will expend resources on other certification activities. Additionally, OST tightened its financial standards by requiring applicants to submit third-party verification of their financial plans with their applications. And together, OST and FAA have established an electronic communications link to better share information about applicants.

OST Determines Applicants Financially Fit Before They Have Resources on Hand

To determine financial fitness, OST requires applicants to submit financial plans that show they have a plausible plan for raising the capital needed to conduct the proposed services. Only after the applicants receive FAA's certification—but before OST gives them the authority to operate—are they required to verify that they actually have sufficient funds to meet OST's financial criteria for beginning and sustaining their proposed operations. OST officials indicated that they require only a financial plan and not actual funds on hand because some applicants are unable to obtain funds from financial institutions or other investors unless they can show that OST has found them fit. As a result, applications can proceed far into FAA's certification process before they are terminated or suspended because of the applicants' inability to raise the needed capital. Consequently, hundreds of hours of FAA inspectors' time can be expended on certification

efforts before it is known that the applicants are unable to obtain the needed funds.

According to OST analysts, the primary reason that 33 applicants tentatively found fit had never begun or had not yet begun operations was that they were unable or are still trying to obtain the funds necessary to meet OST's financial criteria and complete FAA's process. Although the analysts routinely give applicants additional time to raise money, many still do not acquire the needed funds because their funding plans fall through or the market conditions change. For example, OST found an applicant fit on the basis of its proposal to raise about 98 percent of its capital through state economic development funds. However, the funds from that prospective source never became available, and the applicant had to seek alternative financing. OST granted the applicant four extensions to allow time to raise the needed capital, but the applicant never obtained the funds necessary to commence operations. FAA expended about 650 staff hours, or about $52,000, on certification activities for this applicant.[3] We could not determine the staff hours, or dollars, that OST analysts spent on certification activities for this applicant because, according to the analysts, they do not maintain records of the staff time spent on individual applicants.

In another case, we found that FAA had to suspend its certification efforts during the demonstration phase (phase four)—in which FAA reviews each applicant's aircraft operations—because an applicant had not acquired its aircraft. Four months after these efforts were suspended, the applicant withdrew from the process because it was unable to obtain the funds to purchase or lease any aircraft. In this case, FAA had spent about 800 staff hours, or about $64,000, on certification activities.

Even though OST still requires applicants to present only a plan for raising the necessary capital, OST recently tightened its standards on what is acceptable as evidence of a funding plan and when such evidence must be submitted. According to the Chief of the Air Carrier Fitness Division, all applicants are now required to submit, with their applications, third-party verification that they are working with an established brokerage firm, financial institution, or qualified individuals to raise the necessary capital. Copies of private placement agreements, debt instruments, or other stock offerings must be submitted as part of the application before OST will

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[3]According to FAA headquarters officials and field inspectors we interviewed, the cost of performing certification activities, based on an inspector's hourly rate, is about $80 per hour, including direct and indirect costs. Using this figure, we calculated that the certification costs in this case were about $52,000 ($80 times 650 hours).

process it further and issue a show cause order finding the applicant fit. OST officials said that these changes are an attempt to reduce the amount of OST's and FAA's resources expended on applicants that do not have their basic financing plans in place when they seek OST's authority to begin operations.

FAA Has Revised Its Certification Process

Recognizing that a significant amount of resources is expended on applicants that do not complete the certification process, FAA revised its process in October 1995 to make the process more efficient. FAA officials stated that this action was necessary given the amount of time and resources devoted to applicants that never successfully complete the process and given the need to find a way to reduce the staff resources expended on these applicants. Under FAA's new process, which incorporates a "gate" system, applicants are required to complete certain steps—at key points in the process—before FAA inspectors will expend additional resources on certification activities. To illustrate, FAA now requires applicants to have applied for OST's authority during the preapplication phase (phase one) before FAA assigns a certification team to the applicant. During our review, we found that one applicant had proceeded to phase three—the document compliance phase—of FAA's five-phase process before it submitted an application to OST. Upon reviewing the application, OST analysts questioned the reasonableness of the applicant's estimated start-up expenses and operating costs for 3 months. As a result of the analysts' inquiry, the applicant subsequently withdrew its application. However, by this time FAA had expended 1,300 hours of inspectors' time, incurring about $104,000 in certification costs. FAA's new process, if properly implemented, should preclude the recurrence of this type of problem.

FAA officials told us that in the past, some applicants would wait until the last moment to purchase or lease the aircraft, facilities, and services necessary to conduct the proposed operations. Because some applicants could not raise the needed capital, they delayed completing or never completed the process, resulting in FAA's expending significant resources on unsuccessful applications. Under FAA's revised process, when submitting their formal applications in phase two, the applicants must provide proof, such as signed contracts or letters of agreement, that they have purchased or leased the aircraft, facilities, and services needed for the proposed operations before FAA will begin reviewing their operating, maintenance, or training manuals. In addition, by the time the applicants

reach the formal application phase, they must have been tentatively found fit by OST and a show cause order must have been issued.

Furthermore, FAA now requires applicants to submit completed general operating, maintenance, and training manuals at the time of the formal application. Applicants are encouraged to seek outside assistance in preparing these documents. FAA inspectors told us that in the past it was not uncommon for them to spend a significant amount of time assisting applicants in developing these documents. For example, although OST had determined that one applicant's key personnel possessed the technical knowledge and skills necessary to provide the proposed services, during a subsequent certification review, FAA inspectors found that the applicant's personnel did not have the necessary knowledge and skills to develop the required manuals for the proposed operations. Even after obtaining extensive assistance from FAA, the applicant submitted maintenance manuals that included procedures for replacing an aircraft's propellers, whereas the proposed operations would use only DC-9 jet aircraft. When the applicant did not obtain certification within 1 year of the date of the initial determination of fitness, OST granted the applicant an extension without fully coordinating with FAA. Even with the extension, the applicant could not produce acceptable manuals, and FAA eventually terminated its certification efforts. By this time, however, FAA had expended about 1,800 staff hours, or about $144,000, processing the application. According to DOT officials, in October 1995 OST and FAA established an electronic communications link to better share information about applicants, and OST now routinely contacts FAA before granting any extensions of the 1-year period.[4]

Current Application Fees Do Not Recoup OST's and FAA's Certification Costs

Applicants currently pay nominal fees to OST but nothing to FAA to certify their proposed new operations. The fees that applicants currently pay represent less than 1 percent of what it costs the government to conduct certification activities. For example, the 90 applicants that completed OST's and FAA's certification processes paid an average fee of only $760 for certification, or less than 1 percent of the government's average estimated cost of over $150,000 to certify each applicant.

OST officials recognize that the existing fees do not cover a substantial portion of the costs of certifying new airlines. The Chief of the Air Carrier

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[4]Under an OST regulation (14 C.F.R. 204.7), an applicant has 1 year from the date of OST's final order finding the applicant fit to begin operations, or this authority will be terminated for reason of dormancy. Where good cause can be shown, OST may grant applicants an extension of this 1-year use-or-lose period to allow them additional time to complete their financing or FAA certification.

Fitness Division estimated that it typically takes an OST analyst about 80 to 100 staff hours, costing about $4,000, to certify a new carrier. We could not determine the actual number of staff hours or dollars OST spent on certification efforts for applicants from January 1990 through July 1995 because, according to OST analysts, they did not maintain such data. Nevertheless, based on the Chief's estimate of $4,000 per applicant, we calculated that OST spent about $360,000 in certification costs for the 90 airlines that actually began operations, or about $720,000 for the 180 applicants that filed applications during the 5-1/2 years covered by our review. In comparison, OST officials estimated that the 180 applicants paid a total of only $160,000 in fees.

The Chief of the Air Carrier Fitness Division recognized that OST may be recouping only a portion of the government's costs for processing applications through the fees. Nevertheless, the Chief commented that the regulation setting the application fees paid to OST—which includes fees for 50 types of applications, including applications to operate new airlines—has not been reviewed in over 10 years because of the scope of the undertaking and the limited availability of staff.

Like OST, FAA could not readily determine the total number of staff hours spent on the applications received since January 1990 because, according to both FAA headquarters officials and field inspectors, they did not have a centralized system for recording this information for the 5-1/2 years covered by our review. Nevertheless, in May 1995 FAA told us that recent certification efforts have required between 1,200 and 2,700 hours of inspectors' time, for an average of 1,835 hours, to certify a new airline. At the $80 hourly rate for inspectors, the average cost is about $150,000 per certification. We estimate that it cost FAA more than $13.5 million to certify the 90 airlines that actually began operations. In October 1995, FAA estimated the staff time and costs for the applicants that did not complete its process to be about 800 hours, or $64,000 per applicant. Nevertheless, FAA does not charge fees for its certification efforts.

We found that, in addition to paying nominal fees for certification, applicants also can make substantial modifications to their proposed operations during the certification process without paying additional fees, even though such actions can significantly increase the government's costs. For example, during the certification process one applicant changed the type of aircraft it planned to use. This action caused FAA inspectors to essentially restart their efforts, resulting in additional reviews and increased costs.

Title 31, section 9701, of the U.S. Code gives federal agencies the authority to charge fees for services or benefits provided to specific beneficiaries. The Office of Management and Budget's Circular A-25 implements this authority by prescribing guidelines for imposing charges on users of the government's services. The general policy is that a reasonable charge should be made to each identifiable recipient of a government service, privilege, authority, or certificate from which a special benefit is derived. Section 9701 states that such charges are to be based on the (1) cost of the service to the government, (2) value of the service to the recipient, and (3) public policy or interest served. In addition, the statute establishes a policy that such services should be as self-sustaining as possible.

Although FAA does not currently charge a fee for its certification efforts, DOT officials commented that a portion of the certification costs is recouped from ticket and fuel taxes paid by the operating airlines and deposited into the Airport and Airway Trust Fund. Even so, applicants do not pay into the fund until they begin operations; therefore, applicants that never begin operations never contribute to the fund. As mentioned earlier, 80 of the 180 applicants that filed applications with OST between January 1990 and July 1995 (1) were tentatively found fit but had yet to begin or had never begun operations or (2) withdrew their applications or had them dismissed or denied and thus had never contributed to the fund.

OST and FAA officials recognized that the existing fees were insufficient to cover certification costs but have not reviewed the appropriateness of the current fee structures. Under legislation introduced in the Congress in September 1995, FAA would be allowed to charge fees to support various aviation services. According to the Deputy Director of Flight Standards Service, FAA plans to examine all services requiring certificates and the existing fee structures to determine the extent to which the government's costs have been or should be recouped. A date for completing this action has yet to be determined.

Conclusions

DOT's certification processes have resulted in 90 new carriers' entering the airline industry over the past 5-1/2 years. These new carriers have benefited the traveling public by increasing competition among airlines and, in turn, reducing airfares. However, about half of the applicants that applied to operate new airlines did not complete the processes, primarily because they could not obtain sufficient financial resources. In some instances, FAA expended a significant amount of resources on costly certification activities. Although OST and FAA recently revised their

certification processes to reduce the amount of resources spent on unsuccessful applications, it is too early to determine how the revisions will work in practice and to what extent they will reduce unnecessary expenditures.

The fees that applicants pay for certification allow the government to recoup only a small portion—less than 1 percent—of its costs for those applicants that complete DOT's processes. Although the government recoups some of its certification costs through ticket and fuel taxes, these funds are collected only from applicants that successfully begin and sustain their operations. Applicants that never begin operations do not pay such taxes. Requiring applicants to pay a greater share of the certification costs could generate revenue that could help defray these costs—a particularly important outcome during this period of declining federal budgets. We recognize that the Congress will ultimately be involved in any decision to establish fees for various aviation support services.

Recommendation

Given the current reduction in federal resources, we recommend that the Secretary of Transportation reevaluate the appropriateness of the Office of the Secretary's increasing its fees and FAA's establishing fees for services to certify new airlines, taking into consideration the government's costs, the value of the services to the applicant, and the public policy or interest served.

Agency Comments and Our Evaluation

We provided a draft of this report to DOT officials for their review and comment. We met with Department officials, including OST's Chief of the Air Carrier Fitness Division and FAA's Deputy Director of Flight Standards Service, to discuss their comments. The draft report contained proposed recommendations to DOT to improve OST's and FAA's certification processes and to reevaluate the existing fees for certification services.

These officials generally agreed with the findings and conclusions in the draft report. In commenting, the officials provided a number of clarifications and updates that have been incorporated into the report as appropriate. Most significantly, the report has been updated to recognize a number of actions that OST and FAA have taken during the course of our review to improve their processes for certifying new airlines. Specifically, (1) FAA has revised its certification process to require that applicants complete certain steps before it will expend additional resources, (2) OST now requires all applicants to submit, with their applications, third-party
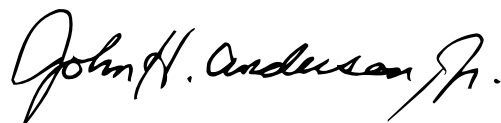
verification that they are working with an established brokerage firm, financial institution, or qualified individuals to raise the necessary capital, and (3) OST and FAA have established an electronic communications link to better share information about applicants. As a result of these actions, we have deleted our proposed recommendation to improve OST's and FAA's certification processes because, if properly implemented, these actions should mitigate several of the concerns we identified and improve the efficiency of the process for certifying new airlines.

DOT officials generally agreed with our remaining recommendation, recognizing that the existing fees do not cover the government's certification costs. But DOT has taken no action to date to reevaluate the existing fees. In addition, while legislation introduced in the Congress in September 1995 would allow FAA to charge fees for various aviation services, this legislation has not yet been enacted. Therefore, we continue to believe that DOT should review the appropriateness of its fees for certifying new airlines, either as a separate issue or as part of any broader effort to examine FAA's fees for the services provided to the aviation industry.

We conducted our review from October 1994 through December 1995 in accordance with generally accepted government auditing standards. A detailed discussion of our objectives, scope, and methodology appears in appendix I.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after the date of this letter. At that time, we will send copies to the Secretary of Transportation; the Administrator, FAA; the Director, Office of Management and Budget; and other interested parties. We will also make copies available on request.

Please call me at (202) 512-2834 if you have any questions about this report. Major contributors to this report are listed in appendix II.

John H. Anderson, Jr.
Director, Transportation and
Telecommunications Issues

Objectives, Scope, and Methodology

In August 1994, Representative James L. Oberstar, the then Chairman of the Subcommittee on Aviation, House Committee on Public Works and Transportation (now the Committee on Transportation and Infrastructure), asked us to examine the Department of Transportation's (DOT) efforts to ensure that new airlines meet federal economic and safety standards before commencing flight operations. On the basis of subsequent discussions with the Subcommittee's office, this report addresses three questions: (1) How many applicants have applied for and received certification to begin new airlines since 1990? (2) What processes does DOT have in place to certify new airlines? and (3) How much does it cost to certify new airlines and how are these costs distributed between the government and the applicants?

To address the first question, we obtained from DOT's Office of the Secretary (OST) a list of all the applicants that applied for new airline certification between January 1990 and July 1995. The list identified 180 applicants and gave the status of their applications as of July 1995. We also asked the Federal Aviation Administration (FAA) to verify the status of the applications.

To address the second question, we reviewed pertinent federal statutes and DOT's regulations to identify which DOT units are responsible for performing certification activities. We also reviewed OST's criteria, procedures, and other pertinent documents outlining the requirements for determining an applicant's fitness. We discussed these issues with the five analysts in OST's Air Carrier Fitness Division who are responsible for assessing whether applicants have the necessary skills and resources to operate a new airline. We also selected a judgmental sample of 40 of the 180 applications filed with OST from January 1990 through July 1995 for detailed review to validate how OST's process was implemented. We selected these 40 applicants because they represented a broad mix of categories of applicants and proposed operations. The 40 applicants selected included 15 of the 57 operating airlines, 7 of the 33 airlines that began but ceased operations, 7 of the 33 airlines that were found tentatively fit but had yet to begin operations or had never operated, and 11 of the 47 applicants that had withdrawn their applications or had them dismissed or denied. We did not review any of the 10 pending applications.

In addition, we reviewed FAA's criteria, procedures, and other documents used to certify new airlines and discussed them with a selected sample of 37 FAA inspectors working in the flight standards district offices we visited. We also conducted detailed reviews of a judgmental sample of files on 16

of the 57 airlines that began operations after January 1990 in order to validate how FAA's certification process was implemented. We selected the 16 airlines because they represented a mix of carriers, including different types of airlines, fleet sizes, aircraft, and proposed operations.

While examining OST's and FAA's criteria, documentation, and procedures for certifying new airlines, we looked for possible deficiencies in the certification processes. Additionally, we interviewed analysts in OST's Air Carrier Fitness Division and FAA inspectors to obtain their views on what deficiencies, if any, existed in the processes and whether any efforts were under way to correct the known problems.

To address the third question, we interviewed analysts in the Air Carrier Fitness Division and FAA headquarters officials and field inspectors and reviewed OST and FAA documents to determine the number of staff hours and associated costs required to certify a new airline. We also discussed with the officials how the costs are distributed between the government and applicants. In addition, we reviewed DOT's regulations and the Office of Management and Budget's guidance on charging fees for services provided by the government and the collection of fees by OST and FAA to determine the extent to which the government's certification costs are or should be recouped.

We performed our work at the DOT's Air Carrier Fitness Division within OST and at FAA headquarters in Washington, D.C. We also performed work at three of the nine FAA regional offices (Eastern, Southern, and Western Pacific) and six of FAA's 91 flight standard district offices (Reno, Nevada; Scottsdale, Arizona; Chantilly, Virginia; and Orlando, Ft. Lauderdale, and Miami, Florida). We selected the regional and flight standards district offices to obtain geographical diversity and because these locations were responsible for certification efforts for many of the applications that FAA received between January 1990 and July 1995. We conducted our review between October 1994 and December 1995 in accordance with generally accepted government auditing standards.

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