



UNITED STATES DEPARTMENT OF TRANSPORTATION

PERFORMANCE AND ACCOUNTABILITY REPORT



FY 2006

MARY E. PETERS

SECRETARY OF TRANSPORTATION

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MESSAGE FROM THE SECRETARY



As I begin my tenure as the new Secretary of Transportation, I look forward to continuing the U.S. Department of Transportation's record of excellence. Safety is and continues to be our top priority. Over the past few years, we achieved one of the highest rates of safety belt usage, the lowest level of rail-related accidents and the lowest level of aviation fatalities. Yet, even with these successes, there is still more work to be done. As we move forward, I challenge the employees of the Department to focus on improving the safety of our transportation systems, improving system performance and reliability, and implementing 21st century solutions to 21st century problems.

Moving forward we must be mindful of our obligation to be responsible stewards of the American taxpayers' dollars, and we must align our resources to the areas that need the greatest attention. In the Federal Highway Administration (FHWA), that means using a performance-based approach to focus our safety resources within the 16 identified states where the greatest opportunity exists to save lives. In the Federal Aviation Administration (FAA), we are ranking airspace design projects based on relative benefits. In the Pipeline and Hazardous Materials Safety Administration (PHMSA), we are rigorously inspecting pipelines near communities and environmentally sensitive areas. This approach ensures our efforts are concentrated on the highest priority areas.

IMPROVE SAFETY

The Department has made tremendous strides in creating and maintaining the safest and most efficient transportation system in our country's history. However, we are discovering that we have reached the limits of traditional solutions. The fatality rate per 100 million vehicle-miles traveled (VMT) was 1.47 in 2005, up from 1.45 in 2004. Actual fatalities for this period increased more than 1 percent to 43,443, which is the highest level since 1990. The Department is firmly committed to meeting the fatality rate goal of 1.0 fatalities per 100 million VMT, but we will need the assistance of state and local governments, the entire traffic safety community and all motorists if we are to be successful in making our roads even safer.

To continue making our roads safer, we are exploring new strategies and technologies to reduce highway fatalities. We are also exploring new performance targets in key areas to focus the Department's efforts on the critical factors responsible for the overall highway fatality rate increase. Being a rider myself, one area of particular concern is motorcycle safety, where the data is screaming for something to be done. Motorcycle fatalities have been going up steadily



over the past few years especially in my own 50-plus age group. Crashes have gone up an astonishing 400 percent in 10 years. In my first month as Secretary, I met with motorcyclists and manufacturers, and asked all the top state transportation officials to make sure manufacturers, dealers, and others are able to offer safety training programs to motorcycle riders.

We must also address: impaired driving, commercial motor vehicle safety, and safety belt use. DOT has launched a new campaign to focus on impaired drivers, “Drunk Driving. Over the Limit. Under Arrest.” Sadly, 14,593 fatalities last year involved a driver or motorcycle operator with a blood alcohol concentration of .08 or higher, the legal limit throughout the United States. Thirty-nine percent of all traffic deaths in 2005 involved alcohol misuse. We have discovered that impaired driving disproportionately impacts particular segments of our population. We need to do a better job of reaching out to the newly identified communities and addressing the root causes.

The Department also has completed a pilot project dealing with safety strategies and commercial motor vehicles. The purpose of the project was to test ways to reduce fatalities resulting from other vehicles cutting off, tailgating, and speeding near and around large trucks. We were able to demonstrate the effectiveness of using high-visibility enforcement, education, media and evaluation to raise public awareness of the need to be vigilant when driving near large trucks.

In the past five years, safety belt use has increased steadily from 71 percent in 2000 to 81.7 percent in 2005 (latest data available). To date, 25 states, the District of Columbia, and Puerto Rico have enacted primary safety belt use laws. The Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU), provides real incentives for states to enact stronger belt use laws. We already are seeing benefits. Since the beginning of 2006, three more states, Alaska, Kentucky, and Mississippi, have enacted primary safety belt use laws in direct response to the SAFETEA-LU incentives.

IMPROVE SYSTEM PERFORMANCE AND RELIABILITY

Each of our major transportation systems are facing challenges, and our infrastructure is showing signs of aging. Increased congestion on our highways, railways, airports, and seaports is choking our cities and reducing our nation’s economic productivity and consuming our citizens’ time.

The Department is working to both increase system capacity and focus on ways to improve the efficiency of the existing transportation network. For example, FAA is pursuing a redesign of the airspace around LaGuardia airport to reduce delays and improve efficiency. FHWA is focusing on delays that create uncertainty in travel times. By promoting the use of 511 traveler information systems, and implementing quick clearance policies and roving response teams in the case of accidents, a measure of system reliability can be returned to travelers.



Shippers face serious freight bottlenecks at every turn. Our Corridors of the Future pilot project will help us test leading-edge policies and find better and more effective ways to keep goods moving. Eliminating the freight chokepoints and bottlenecks along our key corridors and border crossing will make American products more competitive on the global market place.

IMPLEMENTING 21ST CENTURY SOLUTIONS TO 21ST CENTURY PROBLEMS

The Department recognizes that traditional problem solving approaches may no longer be effective. The traveling public needs us to take a fresh look at how we consider the issues of today. The decades-old solutions aren't working anymore.

The reauthorization of FAA will be our first opportunity to re-think traditional approaches. FAA has already started this process by providing a clear line of sight between the work employees perform on a daily basis and the overarching goals of the organization with their Organizational Flight Plan.

As traditional funding sources are no longer able to keep up with program demands, we are exploring ways to incorporate private sector resources to provide greater flexibility to state and local officials. The Department is in the process of compiling best-practices and creating model legislation and model contracting language to spur public-private partnerships. We must re-think the traditional approaches to problem solving in order to fully realize the next level of system performance.

SECURITY/PREPAREDNESS

The aftermath of last year's hurricanes reinforced the importance of preparedness. It is not enough that the Department was able to quickly respond to disasters after the fact. The Department has begun a systematic analysis of ways to improve our preparedness so crucial contracts and Memoranda of Understanding with other relief organizations are in place prior to a disaster.

For example, DOT, in support of the Department of Homeland Security, has established major contracts for bus and passenger rail evacuation support to ensure the capability is in place to evacuate large populations in the event of a catastrophic incident. DOT also refined an existing contract to improve access to commercial aviation services. These contracts clearly define the roles and responsibilities of each organization charged with responding to a catastrophic event.

PROGRAM AND FINANCIAL PERFORMANCE

Our 2006 Performance and Accountability Report contains performance and financial data that are substantially complete and reliable. The Performance Data and Completeness and Reliability section in the report contains a detailed assessment of the inadequacies in the DOT's



performance data, and explains how we will remedy those deficiencies. DOT has a qualified statement of assurance with exceptions noted under the Federal Managers' Financial Integrity Act (FMFIA) in the Management Discussion and Analysis Section. Two material weaknesses are for Section 2 and one material non-conformance is for Section 4. We will continue to make improvements throughout FY 2007.

CONCLUSION

My top priorities at DOT are to keep the traveling public safe and secure, increase their mobility, and have our transportation system contribute to the Nation's economic growth.

Our achievements from the past year inform, but do not limit, our direction. I believe the Department has the talent, creativity and innovative spirit to produce tangible results for the American people, making our communities more prosperous and improving quality of life. We are on the brink of new and exciting programs that will further our ability to provide a safe, effective, and efficient transportation system for all Americans.

November 15, 2006



MESSAGE FROM THE ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS & CHIEF FINANCIAL OFFICER



The Department of Transportation (DOT) made great strides in enhancing our budget, performance and financial management programs during Fiscal Year (FY) 2006. By integrating these programs, we can use performance and financial information to make better budget and business decisions for DOT programs, as demonstrated in this Performance and Accountability Report. For the first time this year, we brought representatives of our budget, performance and financial management staffs together for a joint training workshop to discuss common issues and determine our strategy for moving forward together.

This was our first year operating under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which was passed in August 2005 to reauthorize surface transportation programs for four years. SAFETEA-LU provides for increased transportation infrastructure investment, strengthens transportation safety and environmental programs, and continues core research activities.

The Secretary is leading a new commission established by Congress to develop innovative funding strategies for future surface transportation programs. Another challenge for the future is the reauthorization of DOT's aviation programs; planning and budget development for this effort are underway.

PRESIDENT'S QUALITY AWARD FOR BUDGET-PERFORMANCE INTEGRATION

DOT is proud that we received the President's Quality Award this year for our outstanding budget-performance integration program. DOT routinely uses performance information to make funding decisions during the budget formulation process. We strive to reflect the results achieved by our Operating Administrations by providing links between resources and performance attained.

DOT also received the President's Quality Award for Competitive Sourcing this year. DOT is proud to be the only Department to receive two President's Quality Awards in FY 2006.

EXCELLENCE IN FINANCIAL MANAGEMENT

Over the past three years, DOT has continued to realize significant benefits from our state-of-the-art financial system. This year, we further enhanced our Financial Statement Solution, which produces statements from our core accounting system overnight at the end of each month, at the end of the fiscal year, and anytime on demand. In conjunction with a government-wide



accounting code initiative led by the Office of Management and Budget (OMB), we are planning enhancements to our accounting classification structure to support improved financial operations and to make our financial information and reports more useful to DOT program managers.

In 2003, DOT became the first cabinet-level agency to finish converting all our organizations to a new financial management system that runs on a cost-effective single production instance for 17 Sets of Books. DOT's financial system uses non-customized commercial off-the-shelf software to minimize upgrade costs (we have successfully upgraded our system four times) and currently supports 4,000 users.

In February 2005, the President's budget named DOT one of four government-wide Centers of Excellence for financial management. These Federal Shared Service Providers were designated to offer financial systems and accounting services to other Federal agencies. DOT's Center, called the Enterprise Services Center (ESC), is hosted at the Mike Monroney Aeronautical Center in Oklahoma City. In 2005, DOT became the only Center to competitively select a private sector business partner to help market to new customers and implement them on our financial system.

This summer DOT signed our fourth customer when the Government Accountability Office (GAO) selected DOT's financial system in a competitive process. GAO will be implemented on DOT's system in October 2007. GAO joins DOT's first three customers, the National Endowment for the Arts, the Commodity Futures Trading Commission, and the Institute for Museum and Library Services. Three of our customers have also contracted with DOT's Center to provide accounting services including Accounts Receivable, Accounts Payable, Supplier Table maintenance, monthly closing and reconciliation, and financial reporting.

CONSOLIDATING OPERATIONS AND SYSTEMS

DOT also made great progress in consolidating our accounting operations at the ESC. During FY 2006, we completed consolidating nine Federal Aviation Administration (FAA) regional accounting offices at the ESC at an estimated savings of \$4.9 million. We will migrate the accounting services of our last two Operating Administrations to the ESC during FY 2007. Consolidating accounting services provides significant economies of scale and supports our efforts to further streamline and standardize our processes and implement best practices.

In addition to consolidating accounting services, DOT has an active program to consolidate and sunset redundant financial systems that have grown up over many years. During FY 2006, DOT sunset the following systems: our legacy payroll and Human Resources (HR) systems (replaced by Interior's Federal Personnel and Payroll System [FPPS]), our legacy Time and Attendance and labor distribution system (replaced by a new server- and Web-based system interfaced with FPPS and DOT's accounting system), our legacy HR analysis and reporting system (replaced by the



FPPS Data Mart), the Transportation Safety Institute's legacy procurement system (consolidated with the Volpe National Transportation Systems Center's procurement system), and six travel management systems (replaced by our new e-Travel system).

NEW E-TRAVEL SYSTEM

During FY 2006, DOT built on our history of innovation in travel management by implementing one of the new e-travel systems selected by the General Services Administration under OMB's e-Gov program. DOT has more travel transactions flowing through a new e-travel system than any other department, and we have developed and implemented the most sophisticated automated interface from the e-travel system to our financial system, including real-time funds checking. At the same time, DOT has remained vigilant and has successfully kept our travel card delinquency rate below one percent.

NEW INTERNAL CONTROL PROGRAM

During FY 2006, DOT developed and implemented the first year of our in-depth two-year Internal Control program to meet the revised requirements of OMB Circular A-123, *Management's Responsibility for Internal Control*. Each DOT entity conducted internal control environment surveys, and we identified 12 key business processes. This year we documented, assessed risk and extensively tested the first six of these 12 key processes. Corrective action plans have been developed and are being implemented to address the findings, none of which were material. Our auditors determined that our Internal Control program was in compliance with OMB requirements.

To ensure effective implementation and oversight of our Internal Control program, in 2005 DOT established an Internal Control Senior Advisory Team and an Internal Control Working Group. To avoid duplication of effort, we are integrating our Internal Control program with our CFO audits, with our Federal Managers Financial Integrity Act program, and with our innovative Improper Payments Information Act (IPIA) program, which this year sampled 1,500 highway projects across the country and developed a nationwide improper payment rate. This year we also developed component improper payment rates for transit and aviation programs. Together, these efforts improved our progress score on the President's Management Agenda goal for IPIA.

NEW INTERAGENCY AGREEMENT POLICY AND PROCESS

Culminating an extensive two-year collaborative effort involving all DOT Operating Administrations, we recently developed and issued a new policy and business process for inter- and intra-agency agreements. The new policy and process are being implemented throughout DOT during FY 2007. This effort will greatly facilitate eliminations on financial statements; this has long been recognized as a significant problem for all government agencies.

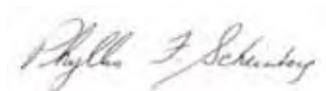
MANAGERIAL COST ACCOUNTING

Managerial cost accounting enables program managers to analyze and manage program costs accurately and timely. DOT Operating Administrations have been working aggressively to implement managerial cost accounting for several years. Examples include:

- During FY 2006, the FAA completed implementing its Cost Accounting System (CAS) for its remaining two lines of business, Aviation Safety and Airports. FAA has also implemented labor distribution reporting in all lines of business, covering over 45,000 employees.
- The Federal Highway Administration is developing a new capability in our accounting system to make program, project, and task information available to Federal Lands Highway Program managers, engineers, and financial managers; this new capability will be implemented in FY 2007.
- The Federal Transit Administration has begun using labor distribution reporting to assign salary and benefit expenses to programs and is consolidating administrative, salary, benefit and grant expenses from various systems to provide that information to program managers.
- DOT's leadership and progress in cost accounting was recognized in the GAO report *Managerial Cost Accounting (MCA) in the Departments of Education, Transportation, and Treasury*. We are continuing to integrate program and accounting data and to expand cost accounting within DOT.

CONCLUSION

FY 2006 has been another productive year in our efforts to enhance and strengthen our budget, performance and financial management programs. Looking back, we see that we are far ahead of where we were only a few short years ago. Building on our accomplishments, we will continue to develop and implement CFO initiatives so that we can better demonstrate the financial and program results the American people expect and deserve.



November 15, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS





ABOUT THIS REPORT

The Department of Transportation's (DOT) Performance and Accountability Report (PAR) for Fiscal Year 2006 (Report) provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Department relative to its mission and stewardship of the resources entrusted to it. This Report satisfies the reporting requirements of the following major legislation:

- Chief Financial Officers Act of 1990
- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Reports Consolidation Act of 2000

Under the Reports Consolidation Act of 2000, agencies are permitted to submit combined reports in implementing statutory requirements for financial and performance management reporting to improve the efficiency of executive branch performance.

These reports are combined in the PAR, which consists of the Annual Performance Report required by the Government Performance and Results Act of 1993, with annual financial statements required under the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, and other reports such as management assurances on internal controls, and Inspector General assessments of an agency's management challenges.

You may view this report online at <http://www.dot.gov>. You may also have additional copies of the report mailed to you by writing a request to:

U.S. Department of Transportation
Office of the Chief Financial Officer (Room 10101)
400 7th Street S.W.
Washington, D.C. 20890



HOW THIS REPORT IS ORGANIZED

Management's Discussion and Analysis (MD&A)

The Management's Discussion and Analysis (MD&A) section provides a summary of the entire Report. It includes an organizational overview; a summary of the most important performance results and challenges for FY 2006; a brief analysis of financial performance; a brief description of systems, controls, and legal compliance; and information on the Department's progress in implementing the President's Management Agenda. The MD&A also addresses the management challenges identified by the Department's Inspector General and a summary of the Inspector General's audit report.

The Performance Report

The Performance Report section contains the annual program performance information required by the Government Performance and Results Act of 1993 (GPRA) and includes all of the required elements of an annual program performance report as specified in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. The results are presented by Strategic Goal.

The Financial Report

The Financial Report section contains the Department's financial statements, notes, required supplementary information, supplementary information pertaining to the Department's stewardship of Federal assets, related Inspector General's Audit Report, and other accompanying information.



DOT MISSION AND VALUES

MISSION

The National objectives of general welfare, economic growth and stability, and the security of the United States require the development of transportation policies and programs that contribute to providing fast, efficient, and convenient transportation at the lowest cost consistent with those and other National objectives, including the efficient use and conservation of the resources of the United States.

VALUES

PROFESSIONALISM

As accountable public servants, we exemplify the highest standards of excellence, integrity, and respect in the work environment.

TEAMWORK

We support each other, respect differences in people and ideas, and work together in ONE DOT fashion.

CUSTOMER FOCUS

We strive to understand and meet the needs of our customers through service, innovation, and creativity. We are dedicated to delivering results that matter to the American people.



ORGANIZATION

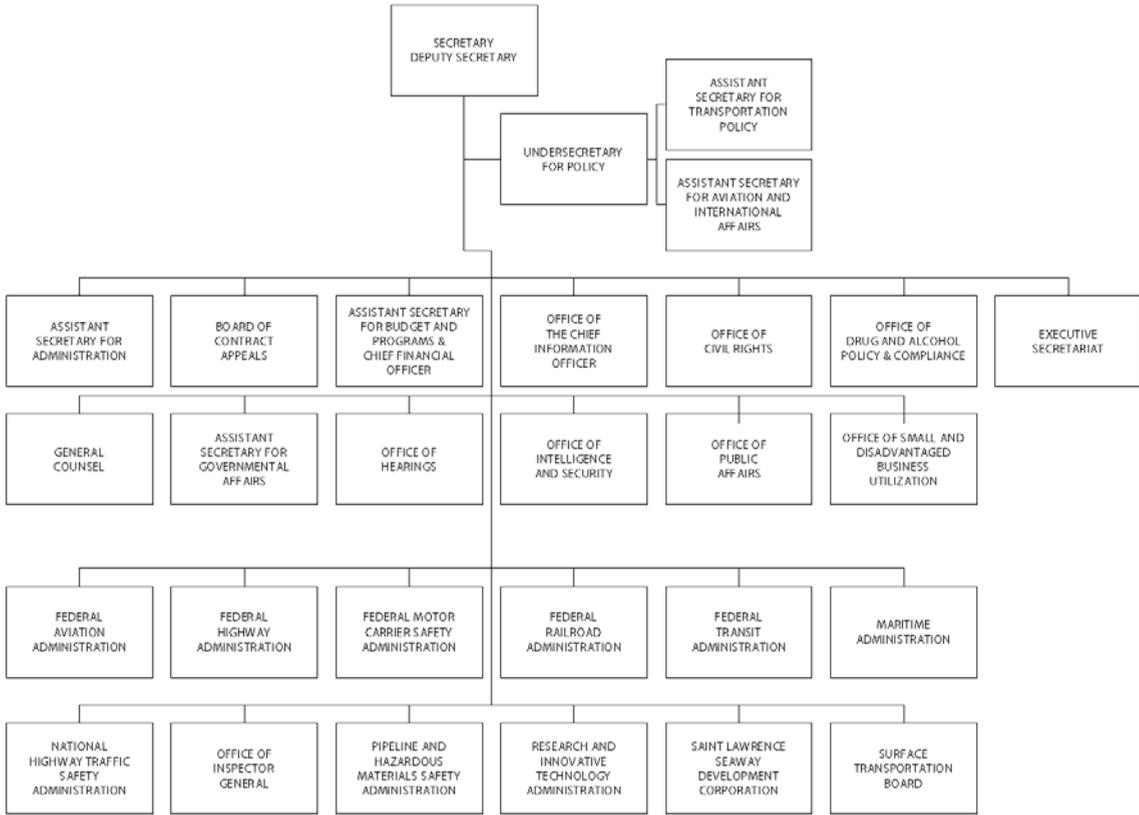
HISTORY

Established in 1967, DOT sets Federal transportation policy and works with State, local, and private sector partners to promote a safe, secure, efficient, and interconnected National transportation system of roads, railways, pipelines, airways, and seaways. DOT's overall objective of creating a safer, simpler, and smarter transportation program is the guiding principle as we move forward to achieve specific goals.

HOW WE ARE ORGANIZED

DOT employs almost 60,000 people across the country, in the Office of the Secretary of Transportation (OST) and through twelve Operating Administrations (OAs) and bureaus, each with its own management and organizational structure.

The Office of the Secretary of Transportation provides overall leadership and management direction, administers aviation economic programs, and provides administrative support. The Office of Inspector General (OIG) and the Surface Transportation Board (STB), while formally part of DOT, are independent by law.





OVERVIEW OF LEGISLATIVE AUTHORITIES

The DOT strategic plan summarizes the legislative authorities of each Operating Administration. To provide a context for the reader, the highlights of the responsibilities of each Operating Administration are listed below.

Office of the Secretary. The Office of the Secretary (OST) oversees the formulation of national transportation policy and promotes intermodal transportation. Other responsibilities range from negotiation and implementation of international transportation agreements, assuring the fitness of U.S. airlines, enforcing airline consumer protection regulations, issuance of regulations to prevent alcohol and illegal drug misuse in transportation systems and preparing transportation legislation.

Federal Aviation Administration. The Federal Aviation Administration's (FAA) mission is to promote aviation safety and mobility by building, maintaining, and operating the Nation's air traffic control system; overseeing commercial and general aviation safety through regulation and inspection; and providing assistance to improve the capacity and safety of our airports.

Federal Highway Administration. The mission of the Federal Highway Administration (FHWA) is to enhance mobility through innovation, leadership, and public service.

Federal Motor Carrier Safety Administration. The Federal Motor Carrier Safety Administration's (FMCSA) primary mission is to prevent commercial motor vehicle-related fatalities and injuries.

Federal Railroad Administration. The Federal Railroad Administration's (FRA) mission is to ensure that our Nation has safe, secure, and efficient rail transportation that enhances the quality of life for all.

Federal Transit Administration. The Federal Transit Administration (FTA) provides leadership, technical assistance, and financial resources for safe, technologically advanced public transportation that enhances mobility and accessibility, improves America's communities, preserves the natural environment, advances economic growth, and ensures that transit systems are prepared to function during and after criminal or terrorist attack.

Maritime Administration. The Maritime Administration's (MARAD) mission is to promote the development and maintenance of an adequate, well-balanced U.S. merchant marine that is sufficient to carry the Nation's domestic waterborne commerce and a substantial portion of its waterborne foreign commerce, and to serve as a naval and military auxiliary in time of war or national emergency.



National Highway Traffic Safety Administration. The National Highway Traffic Safety Administration's (NHTSA) mission is to save lives, prevent injuries and reduce economic costs due to road traffic crashes through education, research, safety standards, and enforcement activity.

Office of Inspector General. The Inspector General Act of 1978, as amended, established the Office of Inspector General (OIG) as an independent and objective organization within the DOT. The OIG's mission is to promote economy, effectiveness, and efficiency and to prevent and detect fraud, waste, and abuse in DOT operations and programs by conducting and supervising independent and objective audits and investigations.

Pipeline and Hazardous Materials Safety Administration. The Pipeline and Hazardous Materials Safety Administration (PHMSA) is dedicated to safety and security by working toward the elimination of transportation-related deaths and injuries in hazardous materials and pipeline transportation, and by promoting transportation solutions that enhance communities and protect the natural environment.

Research and Innovative Technology Administration. The Research and Innovative Technology Administration (RITA) is dedicated to the advancement of DOT priorities for innovation and research in transportation technologies and concepts. Innovations that will improve our mobility, promote economic growth, and ultimately deliver a better integrated transportation system.

Saint Lawrence Seaway Development Corporation. The U.S. Saint Lawrence Seaway Development Corporation (SLSDC), a wholly owned government corporation and an OA of DOT, is responsible for the operations and maintenance of the U.S. portion of the St. Lawrence Seaway between Montreal and Lake Erie.

Surface Transportation Board. The Surface Transportation Board (STB) is charged with promoting substantive and procedural regulatory reform in the economic regulation of surface transportation, and with providing an efficient and effective forum for the resolution of disputes and the facilitation of appropriate business transactions.



PERFORMANCE HIGHLIGHTS

Secretary Mary E. Peters is committed to ensuring that our transportation system remains safe, secure, and efficient and that it serves as the engine that drives our Nation's economy. Because economic activity and global trade are increasing, our roads, railways, pipelines, public transit systems, airways, and waterways are experiencing increasing growth in demand.

This Administration is working to ensure that our transportation system has the capacity to accommodate the needs of a growing and prosperous America. Below, we present the highlights of our fiscal year (FY) 2006 results in our five strategic areas: safety, mobility, global connectivity, environmental stewardship and security. We also present our internal organizational achievements that enhance DOT's performance as a results-driven Federal agency.

SAFETY

Transportation makes possible the movement of people and goods fueling our economy and improving our quality of life. Development of transportation systems has become a major determinant of a nation's economic success. At the same time, transportation exposes us to the risk of harm. While we have made progress in making all modes of transportation safer, the Department's top priority and central focus remains improving safety. All modes of transportation have a share in achieving our strategic safety goal: *Enhance public health and safety by working toward the elimination of transportation-related deaths and injuries.*

For the first time in many years, DOT is reporting that the highway fatality rate increased on our Nation's roads and highways. The fatality rate per 100 million vehicle-miles traveled (VMT) was 1.47 in 2005, up from 1.45 in 2004. Actual fatalities for this period increased 1.4 percent to 43,443, which is the highest level since 1990. While firmly committed to meeting the 1.0 fatality rate goal, the Department realizes that we will not achieve this goal by FY 2008 as originally planned. The Department will need the assistance of State and local governments, along with the entire traffic safety community to achieve this goal.



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Our central strategies for reducing the increasing rate of highway fatalities and injuries are to reduce alcohol-impaired driving, increase safety belt use, reduce the rising motorcycle fatality rate, and improve the safety of commercial vehicle operations. Some of the approaches to increased highway safety the Department is pursuing are:



- National Highway Traffic Safety Administration (NHTSA) provided funds to the ten States with the highest fatality rates to facilitate implementation of effective programs, including periodic and sustained high-visibility enforcement efforts and media campaigns.
- NHTSA initiated the new national advertising campaign delivering the message *Drunk Driving: Over the Limit; Under Arrest*. As part of this campaign, States conduct impaired driving enforcement crackdowns during the Labor Day weekend and the December holiday season.
- FMCSA has begun developing recommended practices for on-board safety technologies in large trucks, including collision warning systems, adaptive cruise control, and stability systems.



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Northern Virginia Community College

The increase in 2005 vehicle fatalities comes from the rise in the number of motorcycle fatalities and the increase in pedestrian fatalities over the previous year, which more than compensate for the slight decrease in motor vehicle occupant fatalities (- 0.7 percent). Motorcycles continue to be of particular concern, playing a large role in the increase with a 13 percent increase in motorcycle fatalities in 2005, to a total of 4,553, an increase of more than 115 percent since 1997. The number of pedestrian fatalities increased from 4,675 in 2004 to 4,881 in 2005, a 4.4 percent increase. All of this underscores the need for a renewed, aggressive and coordinated effort to make America's roads safer.

Although FAA did not meet its commercial aviation safety measure this year, this remains one of the safest periods in aviation history. Since 2001, there have been 50 million successful flights. This represents 2.7 billion passengers who have flown on commercial jet aircraft in the United States without an onboard fatality—nine times the population of our country. Accidents involving passenger fatalities have a rate of about one every 18 million departures.

Rail and transit safety continue to improve. Based on preliminary estimates, DOT expects to exceed the FY 2006 target of 16.80 rail-related accidents/incidents per million train miles, limiting accidents/incidents to 16.14 per million train miles. This improvement was accomplished while the overall number of train-miles nationally rose almost 3 percent. The rail industry also saw a 4.3 percent decrease in accidents during that period, from 14,496 to 13,875. Transit safety continues to exceed expectations. In FY 2006, transit fatalities decreased from 0.428 in FY 2005 to 0.344 per 100 million passenger miles traveled. Strong growth in transit ridership and the continued expansion of transit service significantly increased the number of transit passenger miles in FY 2006 over FY 2005.



DOT's safety performance results from targeting unsafe practices for improvement, partnering with an ever-widening group of stakeholders to leverage our resources, and fostering the use of Web-enabled and other technologies to achieve safer transportation.

MOBILITY

Historically, the mobility that transportation provides has helped define us as a people and as a Nation. Our ability to travel from place to place allows us to connect with other people, work, school, and marketplaces throughout the United States and around the world. In partnerships with the States and private transportation providers, we have made continuous improvements in mobility as stated in our strategic goal: *Advance accessible, efficient, intermodal transportation for the movement of people and goods.* Highlights of our results are presented below.



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Recent forecasts indicate that commercial aviation is rebounding. FAA exceeded its target for percentage of flights arriving within 15 minutes of schedule in FY 2006. To manage the increased air traffic, FAA continued to focus on easing congestion in eight metropolitan areas; improving overall capacity at the Nation's top 35 airports; building new runways; enhancing access to reliever airports for general aviation operations; and increasing traffic coordination and communication by using new technologies. In FY 2006, we opened four new runways, one each in Minneapolis-St. Paul, Cincinnati, St. Louis, and most recently in Atlanta, the world's busiest airport. The recent commissioning of a new runway at Atlanta-Hartsfield Airport, allows for 33 percent more operations a year.

Mobility and accessible transportation go hand-in-hand. For our aging population and for persons with disabilities, we must be proactive to ensure their mobility and access to transportation, now and in the future. For FY 2006, DOT met both of its performance targets measuring compliance with the Americans with Disabilities Act (ADA). An estimated 97 percent of bus fleets are now ADA compliant, either being lift-equipped or having low floors to accommodate wheelchairs and people with limited mobility. Approximately 92 percent of key rail stations are also ADA compliant, increasing transportation access for all of our citizens.

Work continued to improve the pavement condition on the Nation's highways. The results from this year show that 54.2 percent of our roads meet the "good-rated" ride quality standard, not quite meeting the target for FY 2006. However, FHWA has found that more improvement is needed in key states that have the most influence on the nationwide results in order to meet the higher standard.



The percent of travel nationwide that is under congested conditions is estimated to be 32.1 percent in calendar year 2006, which meets this year's target. Although the congestion levels continue their upward trend, DOT's efforts have contributed to slowing the rate of the increase. Based on the current state of the highway system, DOT expects that the congestion levels will continue to rise if there is no significant change in transportation system capacity or existing operating practices.

FHWA intensified its efforts to manage highway capacity through the implementation of pricing strategies. The Agency developed a Tolling and Pricing Primer for states and other public entities that provide a comprehensive perspective of federal tolling and pricing initiatives, including public-private partnerships and innovative financing programs.

GLOBAL CONNECTIVITY

Transportation systems within and among nations are lifelines to economic growth, to less restricted trade, and greater cultural exchange. A domestic and international intermodal approach is central to DOT's role in promoting global connectivity. Our strategies to address transportation in the global economy have two prongs. One is directed toward opening international transportation markets and the other is directed toward the improvement of essential, intermodal transportation linkages.

Supporting economic growth is a fundamental purpose of our transportation network. Transportation facilitates distribution of goods and creates economic value for the producer. Our strategic goal: *Facilitate a more efficient domestic and global transportation system that enables economic growth and development*, concerns the efficiency of transportation, an important part of our competitive edge in global trade.



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In an effort to provide greater access to international transportation markets and assure a minimum standard of safety within those markets, the Department conducts negotiations for Open Skies agreements, enters into Open Skies agreements, and enters into Bilateral Aviation Safety Agreements once the Open Skies agreements are in place.

Open Skies agreements have made it possible for the airline industry to provide the opportunity for better quality, lower priced, and more competitive air service in thousands of international city-pairs to an increasing portion of the world's population. As a result of newly implemented Open Skies agreements, DOT increased the number of potential air transportation customers to 3.01 billion, an increase over



FY 2005. In FY 2006, the Department reached Open Skies agreements with Canada, Cameroon, Kuwait and several other countries. We now have 75 Open Skies agreements with countries all over the world.

In FY 2006, DOT entered into four Bilateral Aviation Safety Agreements (BASA), exceeding its performance target. These agreements improve global understanding of U.S. safety regulations, processes, and procedures, which leads to better international regulatory oversight. The BASAs allow FAA to focus on U.S. safety priorities by relying on the capabilities and technical expertise of other civil aviation authorities and minimizing duplication of efforts.

The Saint Lawrence Seaway is the international shipping gateway to the Great Lakes, with almost 50 percent of Seaway traffic traveling to and from overseas ports, especially in Europe, the Middle East and Africa. The Great Lakes Seaway System offers access and competitive costs with other routes and modes to the interior of the country, so it is critical that the locks maintained by the Saint Lawrence Seaway Development Corporation (SLSDC) be open and navigable continuously during the navigation season. Once again SLSDC met its target, making the Seaway available for shipping 99 percent of the season.

ENVIRONMENTAL STEWARDSHIP

While transportation ties us together as a Nation, it can also produce unwanted side effects such as air and water pollution, the loss of ecosystems and disruption of communities. Americans want solutions to transportation problems that are consistent with sound environmental planning. DOT is committed to avoiding or mitigating the adverse environmental effects that can accompany transportation as stated in our strategic goal: *Promote transportation solutions that enhance communities and protect the natural and built environment.* Highlights of our results follow.

For the first time since we began measuring the activity in FY 2002, conformity lapses for transportation systems fell far below the target. On average, the Nation experienced approximately six air quality transportation conformity lapses in any given month. In FY 2006, the 12-month moving average number of areas in a conformity lapse was 1.3. In FY 2005, EPA announced that States and cities would have to meet a new, more stringent requirement for fine particulates in the air by April 2006. In anticipation of this deadline, DOT and EPA conducted numerous workshops, training sessions, and other outreach activities to raise awareness and to prepare State departments of transportation, State air agencies, and Metropolitan planning organizations to meet the requirements. As a result of the advanced preparation, many of the areas formerly in non-attainment status were able to meet conformity determinations by the April 2006 deadline.



Once again, DOT exceeded its target of creating/replacing at least 1.5 acres of wetlands for every acre affected by Federal-aid Highway projects, achieving a ratio of 2.6 to 1 in FY 2006. DOT is proud of its nine year track record of exceeding the target. In a demonstration of commitment to environmental stewardship and ecosystem conservation, DOT has begun using a new measure to assess the impact of projects on entire ecosystems rather than limiting the impact to a site-specific area. Traditional mitigation for transportation impacts tend to be site-specific, with little consideration of how the project fits into the context of the surrounding ecosystem. Under the ecosystem approach, the frame of reference and project objectives are broader and are applied within a defined geographic framework such as an eco-region, watershed, species range, or transportation planning area.

The Maritime Administration (MARAD) has more than 130 obsolete and deteriorating ships awaiting disposal that pose potentially costly environmental threats to the waterways near where they are stored. Due to legal, financial, and regulatory factors that have complicated the disposal effort, MARAD did not meet the congressionally mandated disposal schedule. However, in FY 2006, MARAD removed 25 obsolete ships, 23 of which were either high or moderate priority vessels. They completed dismantling of 20 additional ships, some of which were removed from the MARAD fleet sites in earlier fiscal years.



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SECURITY

Our transportation system must remain a vital link for mobilizing our armed forces for military contingencies and for supporting civilian emergency response. Examples of our achievements under our strategic goal: *Balance homeland and national security transportation requirements with the mobility needs of the Nation for personal travel and commerce*, are described below.

DOT provided sealift services to the Department of Defense (DoD) in support of Operation Iraqi Freedom during the redeployment phase of the war. In addition to the availability of commercial U.S.-flag vessels, MARAD has 48 government-owned Ready Reserve Force vessels available to satisfy DoD's surge sealift requirements, a decrease of 10 vessels from FY 2005. MARAD, in conjunction with DoD, also negotiates an agreement with each DoD-designated commercial strategic port specifying which facilities will be needed to conduct a military deployment. These ports are expected to make their facilities available to the military within 48 hours of written notice. While DOT did not meet the shipping capacity performance target of 94 percent availability within mobilization timelines, MARAD did meet its target for commercial strategic port availability, and in fact achieved 100 percent readiness within established timelines.



The Department continues to focus on emergency preparedness through the Office of Intelligence, Security, and Emergency Response. In FY 2006, DOT established the Transportation Management Unit in Baton Rouge, Louisiana, to manage the Federal response activities for Gulf Coast evacuations and emergencies during the hurricane season. The Office was involved in the implementation of protective measures for the transportation system in response to several international terrorism threats.

ORGANIZATIONAL EXCELLENCE

Secretary Peters has challenged the Department to renew its commitment to a culture of foresight and continuous improvement, which is essential to achieving our strategic goals. We have put this into practice as evidenced by DOT's achieving the Office of Management and Budget's "green" rating for four of the five government-wide President's Management Agenda (PMA) initiatives.

DOT's Inspector General released the annual report on the Department's consolidated financial statements, for which we were issued an qualified opinion. Consolidated financial statements show how the Department is accountable for budgetary resources, provided by American, taxpayers for Federal transportation activities. Individual audits were also conducted for the Aviation and Highway Trust Funds, which both received qualified opinions.

DOT continues its stewardship of taxpayer monies through its management of large transportation projects. Project financial plans are approved at the Department level and reviewed yearly to track any significant cost and schedule deviations. Areas of program risk are identified earlier so that managers can implement the necessary changes in a timely fashion.

To ensure a secure infrastructure, DOT has certified and accredited 90 percent of its information technology (IT) systems. This provides management with an acceptable level of assurance that all systems either meet a minimum level of baseline requirements or have plans of action and milestones to mitigate any remaining risks.



FINANCIAL HIGHLIGHTS

Preparing these statements is part of the Department’s goal to improve financial management and to provide accurate and reliable information that is useful for assessing financial performance and allocating resources. Departmental management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this Report have been prepared from the accounting records of the DOT in conformity with generally accepted accounting principles (GAAP). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

OVERVIEW OF FINANCIAL POSITION

ASSETS

The Consolidated Balance Sheet shows the Department had total assets of \$65.1 billion at the end of FY 2006. This represents a decrease of \$903 million (1.4 percent) over the previous year’s total assets of \$66.0 billion. The decrease is primarily the result of a decrease of \$1.5 billion in Fund Balance with Treasury and a \$823 million increase in investments. The Department’s assets reflected in the Consolidated Balance Sheet are summarized in the following table.

ASSETS BY TYPE • DOLLARS IN THOUSANDS	2006	%	2005	%
Fund Balance with Treasury	\$ 27,692,908	42.6	\$ 29,140,842	44.2
Investments	19,824,151	30.5	19,000,999	28.8
General Property, Plant & Equipment	15,455,811	23.8	15,325,392	23.2
Inventory and Related Property, Net	897,494	1.4	939,639	1.4
Direct Loans and Guarantees, Net	618,179	1.0	760,448	1.2
Accounts Receivable	315,987	0.5	503,424	0.8
Cash and Other Assets	261,091	0.4	297,802	0.5
Total Assets	\$ 65,065,621	100.0	\$ 65,968,546	100.0



LIABILITIES

The Department had total liabilities of \$13.7 billion at the end of FY 2006. This represents a 6.3 percent increase over the previous year's total liabilities of \$12.9 billion, which is reported on the Consolidated Balance Sheet and summarized in the following table.

LIABILITIES BY TYPE • DOLLARS IN THOUSANDS	2006	%	2005	%
Other Liabilities	\$ 4,622,073	33.8	\$ 5,019,980	39.0
Grant Accrual	5,546,895	40.5	4,086,728	31.7
Accounts Payable	424,993	3.2	408,755	3.2
Federal Employee and Veterans' Benefits Payable	950,466	6.9	1,007,303	7.8
Environmental and Disposal Liabilities	953,634	7.0	1,003,585	7.8
Debt	839,357	6.1	952,536	7.4
Loan Guarantees	345,864	2.5	393,451	3.1
Total Liabilities	\$ 13,683,282	100.0	\$ 12,872,338	100.0

Of the total liabilities, \$3.2 billion were not covered by budgetary resources. The \$3.2 billion is primarily comprised of \$361 million liabilities to other Federal agencies (intragovernmental), \$951 million liability to Federal Employees' and Veterans' Benefits Payable, \$954 million of environmental and disposal liabilities, and \$922 million of other liabilities with the public.

NET POSITION

The Department's Net Position at the end of FY 2006 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position is \$51.4 billion, a \$1.7 billion (3.2 percent) decrease from the previous fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

RESULTS OF OPERATIONS

The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position.



PROGRAM COSTS

The Department's total net cost of operations for FY 2006 was \$61.8 billion.

NET PROGRAM COSTS • DOLLARS IN THOUSANDS	2006	%	2005	%
Surface Transportation	\$ 46,527,176	75.28	\$ 42,309,410	74.34
Air Transportation	14,453,211	23.39	14,029,096	24.65
Maritime Transportation	457,525	0.74	278,914	0.49
Costs Not Assigned to Programs	390,463	0.63	261,911	0.46
Less Earned Revenues Not Attributed to Programs	30,985	-0.05	25,165	-0.04
Cross-Cutting Programs	7,355	0.01	8,728	0.02
Net Cost of Operations	\$ 61,804,745	100.0	\$ 56,862,894	100.0

Surface and air costs represent 98.67 percent of the Department's net cost of operations. Surface transportation program costs represent the largest investment for the Department at 75.28 percent of the Department's net cost of operations; Air transportation is the next largest investment for the Department at 23.39 percent of the Department's net cost of operations.

RESOURCES

BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Department for the year and their status at fiscal year-end. For the 2006 fiscal year, the Department had total budgetary resources of \$112.5 billion, compared to the FY 2005 levels of \$114 billion.

The Department's FY 2006 budget authority of \$115.8 billion primarily consists of \$60.8 billion of appropriations received and \$51.9 billion of borrowing and contract authority. The Department incurred obligations of \$65.6 billion for the 2006 fiscal year, a 6.6 percent decrease over the \$69.8 billion of obligations incurred during FY 2005. Outlays reflect the actual cash disbursed against the Department's obligations.



FINANCING

The Consolidated Statement of Financing reconciles the resources available to the Department to finance operations with the net costs of operating the Department's programs.

HERITAGE ASSETS AND STEWARDSHIP LAND INFORMATION

Heritage assets are property, plant and equipment that are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics.

Stewardship Land is land and land rights owned by the Federal Government but not acquired for or in connection with items of general property, plant and equipment.

The Department's Heritage assets consist of artifacts, museum and other collections, and buildings and structures. The artifacts and museum and other collections are those of the Maritime Administration. Buildings and structures include Union Station (rail station) in Washington, D.C., which is titled to the Federal Railroad Administration.

Financial information for Heritage assets is presented in the Financial Section of this Report under the Financial Statements and Required Supplementary Information.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Transportation, pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from the books and records of the Department of Transportation in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to conduct an annual evaluation of their management controls and financial systems and report the results to the President and Congress. The Secretary of Transportation then prepares an annual Statement of Assurance based on these internal evaluations.

As a subset of the FMFIA Statement of Assurance, DOT is required to report on the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. A separate discussion on Appendix A is located at the end of this section.

The Secretary of Transportation has issued a qualified Statement of Assurance for FY 2006. A copy of the Statement of Assurance is included in this section under *Management Assurances*. The Department evaluated its management control systems and financial management systems for the fiscal year ending September 30, 2006. This evaluation provided reasonable assurance and formed the basis of the Secretary's Statement of Assurance that the objectives of the FMFIA were achieved in FY 2006.

FMFIA ANNUAL ASSURANCE PROCESS

The FMFIA review is an agency self-assessment of the adequacy of financial controls in all areas of the Department's operations—program, administrative, and financial management.

OBJECTIVES OF CONTROL MECHANISMS
<ol style="list-style-type: none"> 1. Financial and other resources are safeguarded from unauthorized use or disposition. 2. Transactions are executed in accordance with authorizations. 3. Records and reports are reliable. 4. Applicable laws, regulations, and policies are observed. 5. Resources are efficiently and effectively managed. 6. Financial systems conform to government-wide standards.

Managers within the Department, being in the best position to know and understand the nature of the problems they face, establish appropriate control mechanisms to ensure Departmental resources are sufficiently protected from fraud, waste, and abuse, and to meet the intent and requirements of the FMFIA.



The head of each Operating Administration and Departmental office submits an annual statement of assurance representing the overall adequacy and effectiveness of management controls within the organization to the Assistant Secretary for Budget and Programs/Chief Financial Officer (CFO). FMFIA material weaknesses and material nonconformances are also reported along with remediation plans to correct the material weakness or nonconformance. Specific guidance for completing the end of fiscal year assurance statement and reporting on material deficiencies is issued annually by the Department's Office of Financial Management.

CRITERIA FOR REPORTING MATERIAL WEAKNESSES AND NONCONFORMANCES

A material weakness under FMFIA must fall into one or more of the categories below plus merit the attention of the Executive Office of the President and/or the relevant Congressional oversight committees.

CRITERIA FOR REPORTING A MATERIAL WEAKNESS
<ol style="list-style-type: none">1. Significant weakness of the safeguards (controls) against waste, loss, unauthorized use or misappropriation of funds, property, or other assets.2. Violates statutory authority, or results in a conflict of interest.3. Deprives the public of significant services, or seriously affects safety or the environment.4. Impairs significantly the fulfillment of the agency's mission.5. Would result in significant adverse effects on the credibility of the agency.

A material nonconformance under FMFIA must fall into one or more of the categories below plus merit the attention of the Executive Office of the President or the relevant Congressional oversight committees.

CRITERIA FOR REPORTING A MATERIAL NONCONFORMANCE
<ol style="list-style-type: none">1. Prevent the primary accounting system from centrally controlling financial transactions and resource balances.2. Prevent compliance of the primary accounting system, subsidiary system, or program system under the Office of Management and Budget Circular A-127.



SUMMARY OF FY 2006 FMFIA MATERIAL WEAKNESSES

Status of Internal Controls—FMFIA, Section 2

DOT has two material weaknesses under Section 2. One of the material weaknesses - Timely Processing of Transactions and Accounting for the Construction in Progress (CIP) Account at the Federal Aviation Administration (FAA) is a carryover from FY 2005. Financial Management, Oversight, and Reporting at the Highway Trust Fund (HTF) is a new material weakness.

Timely Processing of Transactions and Accounting for the CIP Account. Last year we reported that FAA did not have effective processes to capitalize headquarters-based projects in a timely manner. During FY 2006, FAA took action to resolve the elements of the FY 2005 prior year material weakness associated with property accounting by working with the Air Traffic Organization (ATO) on a comprehensive review of projects totaling \$1.2 billion. However, significant improvements still need to be made including strengthening policies and procedures over CIP accounting, establishing controls to ensure that policies and procedures are being followed, and continuous monitoring of accounts. In addition, FAA must ensure that supporting documentation for capitalization of fixed assets is properly managed and maintained.

Financial Management, Reporting, and Oversight at the HTF. During FY 2006, several issues existed in financial management, reporting and oversight at the HTF. These issues include, improper recording of journal entries, lack of controls in place to track and monitor journal entries, inadequate controls over grant accruals, and lack of policies and procedures addressing abnormal balances.

The following table shows the Department's progress with correcting and closing material weaknesses.



DEPARTMENT OF TRANSPORTATION STATISTICAL SUMMARY OF PERFORMANCE SECTION 2, INTERNAL CONTROLS			
NUMBER OF MATERIAL WEAKNESSES			
	NUMBER OF REPORTED FOR THE FIRST TIME IN:	FOR THAT YEAR, NUMBER THAT HAVE BEEN CORRECTED:	FOR THAT YEAR, NUMBER STILL PENDING:
1999 Report	1 FAA Property, Plant and Equipment (PP&E)	0	0
2000 Report	0 FAA PP&E (R)	0	0
2001 Report	1 FAA PP&E (R) Information Security Program	0	0
2002 Report	2 Information Security Program (R) FTA Management FAA Contracts	1 FAA PP&E	0
2003 Report	2 Information Security Program (R) FAA Contracts (R) HTF Financial Mgmt. Reconciling Transactions (Eliminations)	1 FTA Management	0
2004 Report	2 HTF Financial Mgmt. (R) Reconciling Transactions (Eliminations) (R) HTF Grants Financial System Controls	2 Information Security Program FAA Contracts	0
2005 Report	1 HTF Financial Mgmt. (R) HTF Grants (R) FAA Reconciliations	2 Reconciling Transactions Financial System Controls	1 FAA Reconciliations/CIP
2006 Report	1 FAA Reconciliations/CIP (R) HTF Financial Reporting	2 HTF Financial Mgmt. HTF Grants	1 FAA Reconciliations/CIP (R)
1999–2006 Total	10	8	2
Of the total number corrected, how many were corrected in 2006 <u>2</u> ; (R) - Repeat			

Status of Financial Management Systems—FMFIA, Section 4

DOT reported again this year that the Department was not in substantial compliance with OMB Circular A-127. For FY 2006, this noncompliance consists of three issues: Preparation of Financial Statements; Use of a Standard General Ledger (credit reform/loans); and Federal Accounting Standards (cost accounting).

The following table shows the Department’s progress with correcting and closing material nonconformances.



DEPARTMENT OF TRANSPORTATION STATISTICAL SUMMARY OF PERFORMANCE SECTION 4, FINANCIAL MANAGEMENT SYSTEMS			
	NUMBER OF MATERIAL NONCONFORMANCES		
	NUMBER OF REPORTED FOR THE FIRST TIME IN:	FOR THAT YEAR, NUMBER THAT HAVE BEEN CORRECTED:	FOR THAT YEAR, NUMBER STILL PENDING:
1999 Report	0	0	0
2000 Report	1 FFMIA Nonconformance 1.a. Preparation of Financial Statements 1.b. Standard General Ledger 1.c. Managerial Cost Accounting	0	1 FFMIA Nonconformance 1.a. Preparation of Financial Statements 1.b. Standard General Ledger 1.c. Managerial Cost Accounting
2001 Report	1 Information Security Program FFMIA Nonconformance (R)	0	0
2002 Report	0 Information Security Program (R) FFMIA Nonconformance (R)	0	0
2003 Report	0 FFMIA Nonconformance (R)	1 Information Security Program	0
2004 Report	1 Financial System Controls FFMIA Nonconformance (R)	0	0
2005 Report	0 FFMIA Nonconformance (R)	1 Financial System Controls	0
2006 Report	0 FFMIA Nonconformance (R)	0	0
2000–2006 Total	3	2	1

Of the total number corrected, how many were corrected in 2006 0 ; (R) - Repeat

APPENDIX A, INTERNAL CONTROL OVER FINANCIAL REPORTING

Appendix A of OMB Circular A-123 emphasizes management’s responsibility for establishing and maintaining effective internal control over financial reporting. Appendix A requires agencies to maintain documentation of the controls in place and of the assessment process and methodology management used to support its assertion as to the effectiveness of internal control over financial reporting. Agencies are also required to test the controls in place as part of the overall FMFIA assessment process. The assurance statement related to the assessment performed under Appendix A acts as a subset of the Overall Statement of Assurance reported pursuant to Section 2 of the FMFIA legislation. Management’s assurance statement as it relates to Appendix A is based on the controls in place as of June 30. The assurance statement is located in the following section of this report.

DOT is reporting a limitation of scope for its assurance statement on internal controls over financial reporting due to its two year implementation of Appendix A. During FY 2006, DOT identified 12 key business processes that are material to financial reporting. Of these 12 processes, six were documented and tested in FY 2006. The remaining key business processes will be documented and tested during FY 2007 as described in our implementation plan.

MANAGEMENT ASSURANCES—OMB CIRCULAR A-123



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

NOV - 9 2006

The President
The White House
Washington, DC 20500

Dear Mr. President:

The U.S. Department of Transportation's (DOT) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). All departmental organizations are subject to Sections 2 and 4 of the FMFIA except the Saint Lawrence Seaway Development Corporation, which reports under the Government Corporations Control Act.

The DOT is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of two material weaknesses reported under Section II and one non-conformance reported under Section IV. DOT's qualified statement of assurance is based on the limited scope assurance we are providing under Appendix A and the material weaknesses and non-conformances reported under Section 2 and Section 4 of FMFIA. The details of the exceptions are provided in Enclosure B.

The DOT conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, DOT identified two material weaknesses in its internal control over the effectiveness and efficiency of operations and one non-compliance with applicable laws and regulations as of September 30, 2006. Other than the exceptions noted below, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

For FY 2006, DOT has two material weaknesses in internal controls (Section 2) and one material nonconformance (Section 4).

Of the FY 2006 material weaknesses (Section 2), one is new and one is repeated and still in the process of being corrected. The repeat material weakness is: Timely Processing of Transactions and Accounting for the Construction in Progress Account (CIP) at the Federal Aviation Administration (FAA). The new material weakness is Financial Management, Reporting, and Oversight at the Highway Trust Fund (HTF).



In FY 2006, DOT has one repeat material nonconformance (Section 4) in financial system controls, which is still in the process of being corrected.

Material Weaknesses (Section 2)

Material weaknesses are deficiencies in the design or operation of internal controls that do not reduce to a relatively low level the risk that significant errors, fraud, or noncompliance could occur and not be detected by employees in the normal course of performing their duties. The two material weaknesses are:

1. Timely Processing of Transactions and Accounting for the CIP Account.

Last year we reported that FAA did not have effective processes to capitalize headquarters-based projects in a timely manner. During Fiscal Year (FY) 2006, FAA took action to resolve the elements of the FY 2005 prior year material weakness associated with property accounting by working with the Air Traffic Organization (ATO) on a comprehensive review of projects totaling \$1.2 billion. However, significant improvements still need to be made including strengthening policies and procedures over CIP accounting, establishing controls to ensure that policies and procedures are being followed, and continuous monitoring of accounts. In addition, FAA must ensure that supporting documentation for capitalization of fixed assets is properly managed and maintained.

2. Financial Management, Reporting, and Oversight at the HTF.

During FY 2006, several issues existed in financial management, reporting and oversight at the HTF. These issues include, improper recording of journal entries, lack of controls in place to track and monitor journal entries, inadequate controls over grant accruals, and lack of policies and procedures addressing abnormal balances.

Material Nonconformance (Section 4)

Nonconformances (Section 4) in internal controls represent deficiencies in the design or operation of internal controls that could adversely affect the DOT consolidated financial statements. The material nonconformance is:

1. Compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996.

Last year, we reported that FAA was not in substantial compliance with FFMIA because five of its seven key financial systems that support data entered into our Delphi financial system did not substantially comply with FFMIA compliance categories listed in OMB Circular A-127, Section 7. Although corrective actions were initiated to correct these deficiencies, the issues still remained during FY 2006.

For 2006, we are reporting that FAA was not in compliance with Federal accounting standards due to their inability to provide representation that the CIP balance and activity was fairly stated and in accordance with applicable accounting standards, as of and for the year ended, September 30, 2006. During FY



2006 we are reporting that the HTF agencies continue to be non-compliant with FFMA due to the lack of common data elements or functionality in the feeder systems, which prevent the feeder systems from being fully integrated with the core accounting system, Delphi.

Appendix A. Internal Control Over Financial Reporting

In addition, DOT conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The Department is reporting a scope limitation for its assurance statement on internal control over financial reporting due to its two-year implementation of Appendix A. DOT identified 12 key business processes that are material to financial reporting and documented and tested six of these key business processes in Fiscal Year 2006. The remaining six key business processes will be documented and tested during Fiscal Year 2007 as described in our Office of Management and Budget (OMB) – approved Implementation Plan.

Based on the results of this evaluation, DOT identified no material weaknesses in its internal control over financial reporting as of June 30, 2006.

Enclosure A provides a Statistical Summary of Performance. Details about the material weaknesses and our corrective plan of action and milestones with estimated completion dates are provided in Enclosure B (for Section 2) and in Enclosure C (for Section 4).

Respectfully,

Mary E. Peters

Enclosure A – Statistical Summary of Performance under Section 2 and Section 4 of the FMFIA.

Enclosure B – Description of Pending Material Weaknesses (Section 2).

Enclosure C – Description of Pending Material Nonconformance (Section 4).

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies' financial management systems provide reliable financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, financial management systems must substantially comply with three requirements — Federal financial management system



requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL). In addition, agencies must determine annually whether their systems meet these requirements. This determination is to be made no later than 120 days after the earlier of (a) the date of receipt of the agency-wide audited financial statement, or (b) the last day of the fiscal year following the year covered by such statement.

To assess conformance with FFMIA, the Department uses OMB Circular A-127 survey results, FFMIA implementation guidance issued by OMB, results of OIG and GAO audit reports, annual financial statement audits, the Department's annual Federal Information Security Management Act (FISMA) Report, and other relevant information. The Department's assessment also relies a great deal upon evaluations and assurances under the FMFIA, with particular importance attached to any reported material weaknesses and material nonconformances.

FFMIA OF 1996 NONCOMPLIANCE ISSUES

In FY 2006, DOT reported that the Department was not in compliance with FFMIA. For FY 2006, this noncompliance consists of: Federal financial management information systems requirements and Federal accounting standards.

Federal Financial Management Information Systems Requirements. FAA, FHWA, and FTA were not in compliance with Federal financial management information systems requirements. Key financial systems used by FAA, FHWA, and FTA which feed or support the financial data in the core accounting system do not comply substantially with the categories of FFMIA compliance listed in OMB Circular No. A-127, Section 7—Financial Management System Requirements. Specific weaknesses in these systems are in the following areas:

- Does not adhere to functional and Computer Security Act requirements;
- Inadequate systems and processing documentation;
- Lacks adequate internal controls;
- Lacks adequate training and user support; and,
- Lacks appropriate maintenance.

Federal Accounting Standards. FAA management was unable to provide representation that the CIP balance and activity was fairly stated and in accordance with applicable accounting standards, as of and for the year ended, September 30, 2006.



FFMIA OF 1996 FINANCIAL MANAGEMENT SYSTEMS STRATEGY

During FY 2006, DOT continued its financial management strategy to improve financial systems by supporting business modernization and by standardizing and integrating financial and program data. By standardizing systems, DOT is poised to achieve the goals of the President's Management Agenda.

The DOT financial system enterprise architecture includes: Delphi (DOT's core financial system, which uses Oracle Financials commercial-off-the-shelf software without customizations) and CASTLE (new time and attendance and Labor Distribution system interfaced with Delphi), along with OA managerial cost accounting, procurement management, and grants management systems. DOT plans to further integrate cost accounting, procurement and grants systems with Delphi and to expand Delphi capability by piloting two new modules: Loan Management and Enterprise Planning and Budgeting. As a designated Federal Shared Service Provider, DOT will continue its mission to market our Delphi financial system and accounting services to new clients and to help government agencies further standardize and streamline business processes and realize greater economies of scale.

DOT has been implementing our FFMIA corrective action plan through several initiatives. First, DOT addressed FAA's budgetary and proprietary reconciliation problems and reduced suspense balances by consolidating accounting services into our Enterprise Services Center (ESC) in Oklahoma City. Second, DOT sunset several redundant systems, including our legacy payroll and HR systems following our migration to DOI's Federal Personnel and Payroll system (FPPS). Third, DOT replaced six stand-alone travel systems with our implementation of the GovTrip e-Travel system.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Federal Information Security Management Act (FISMA) requires Federal agencies to identify and provide security protections commensurate with the risk and magnitude of harm resulting from the loss of, misuse of, unauthorized access to, or modification of information collected or maintained by or on behalf of the agency. DOT maintains one of the largest portfolios of information technology (IT) systems among Federal civilian agencies; it is therefore essential that the Department protect these systems, along with their sensitive data. In FY 2006, DOT's IT budget totaled about \$2.5 billion.

The Inspector General's office tested a representative subset of DOT systems, including contractor-operated or -maintained systems that had undergone systems security certification reviews in order to determine whether DOT had complied with Government standards for (1) assessing system risks, (2) identifying security requirements, (3) testing security controls, and



(4) accrediting systems as able to support business operations. The Inspector General also performed a detailed follow-up review of the Department's process for managing remediation of known security deficiencies.

During FY 2006, the Inspector General reported that the Department made noticeable improvement in tracking, prioritizing, and correcting security weaknesses, further noting that aggressive action was taken to identify systems containing personally identifiable information for proper security protection, including procuring encryption software to secure all laptop computers. The full FY 2006 FISMA report can be found at www.oig.dot.gov.

SAS 70 REVIEW ON DOT'S FINANCIAL MANAGEMENT SYSTEM

The Department's report summarizes the results of a review of system security controls over the DOT Enterprise Service Center's (ESC) Delphi Financial Management System. The ESC performs accounting and financial management functions for DOT and other Federal agencies. It is maintained by Federal Aviation Administration employees at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma, under the strategic direction of the Departmental Chief Financial Officer.

ESC is one of four financial management Centers of Excellence (Federal Shared Service Providers) designated by the Office of Management and Budget to provide a financial management system and accounting services to other government agencies. In addition to all DOT Operating Administrations, the ESC also supports the National Endowment for the Arts, the Commodity Futures Trading Commission, and the Institute of Museum and Library Services, and in the summer of 2006 signed up the Government Accountability Office as its newest customer. The Office of Management and Budget requires Centers of Excellence to provide client agencies with an independent audit report in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement of Auditing Standards (SAS) 70.

This year's SAS 70 audit was conducted by Clifton Gunderson, LLP, of Calverton, Maryland. The DOT Office of Inspector General performed a quality control review of this audit work to ensure that it complied with applicable standards.

The Clifton Gunderson SAS 70 audit report, dated May 31, 2006, concluded that management's description of controls for the Delphi Financial Management System presents fairly, in all material respects, the controls that had been placed in operation as of May 31, 2006. In addition, on 9 out of 10 control objectives, the independent auditor concluded that controls are suitably designed and were operating effectively during the period from October 1, 2005, through May 31, 2006. The full OIG report can be found on their Web site at www.oig.dot.gov. ESC Delphi management developed a detailed Corrective Action Plan to implement Clifton Gunderson's recommendations to further strengthen Delphi controls.



Follow-up Review

Since the issuance of its May 31, 2006 report, Clifton Gunderson completed a follow-up review covering the period from June 1, 2006 through September 30, 2006 fiscal year end. The purpose of this follow-up review was to determine whether any significant changes had been made to Delphi's operating environment. The follow-up review documented the corrective actions that have been implemented to strengthen Delphi controls in accordance with the SAS 70 recommendations.

IMPROPER PAYMENTS INFORMATION ACT OF 2002

In FY 2006, the Department continued implementing efforts to meet requirements of the Improper Payments Information Act of 2002 (IPIA), which requires that agencies (1) review programs and activities and identify those susceptible to significant improper payments (2) estimate the amount of improper payments in identified programs and activities, (3) report to Congress on the amount and causes of improper payments, and (4) report to Congress on actions to reduce such payments.

In FY 2005, the Department successfully completed its second review of ten programs determined to be susceptible to significant improper payments. While these reviews found no significant improper payments, for those programs involving payments to grantees, the reviews did not address payments made by grantees. To address payments by grantees, the Department developed and tested a model for estimating the amount of improper payments in the Federal Highway Administration's (FHWA) Federal-aid Highway Program and committed to developing and testing a model for estimating the amount of improper payments in the Federal Transit Administration's (FTA) Formula Grants Program and the Federal Aviation Administration's (FAA) Airport Improvement Program. Former Section 57 of OMB Circular A-11 designated these as programs susceptible to significant improper payments.

In FY 2006, the Department re-engaged AOC Solutions, Inc., to execute the model developed for the Federal-aid Highway Program nationwide and to develop and test the models for the FTA Formula Grants Program and the FAA Airport Improvement Program. The samples designed to execute the model are of sufficient size to yield an estimate with a 90 percent confidence interval within +/- 2.5 percent points around the estimate of the percentage of erroneous payments, as prescribed by OMB. The results of these efforts are discussed below.



FEDERAL-AID HIGHWAY PROGRAM

The Department with the aid of a contractor developed and executed a sampling plan to test project payments in all 50 States and two territories that received funding under this program. The objectives of this effort were to: estimate the amount of improper payments nationwide and assist the FHWA in developing test criteria and procedures for monitoring highway project payments in the future through its Financial Integrity Review and Evaluation (FIRE) Program.

The nationwide testing program was executed by personnel from the 52 FHWA division offices and covered Federal payments to grantees over the five month period October 1, 2005 through February 28, 2006. Time and resource constraints limited the period of coverage. In FY 2007, the testing will cover a 12-month period.

The sampling plan involved a multi-staged statistical approach that included the selection of 513 State payments and then 928 testable line items from those payments for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct Federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling \$125,508.56 were found in the sample of 928 tested items selected from a population of 10,116 items. The projection of this result to the population of program payments for the five-month period results in an improper payment estimate of \$30.15 million +/- \$35.04 million. This projection does not meet OMB's definition of significant improper payments (\$10 million and 2.5 percent of total program payments). The improper payments reported resulted from factors such as data entry errors, missing approvals, incorrect cost allocations, and unallowable charges. The FHWA will implement fully its FIRE Program in FY 2007 to monitor State and territory payments and provide a mechanism for assisting these entities with effectively addressing operational issues that result or could result in improper payments.

FTA FORMULA GRANTS PROGRAM

The Department and the FTA developed and tested a model for testing grantee payments under this Program. The objectives of the FY 2006 effort were to develop the model and field test it at two grantees and to assist the FTA in incorporating the test procedures in its statutorily required Triennial Review Program. The FY 2006 model development and testing effort were not designed to provide a nationwide or program-wide estimate of improper payments.



The review covered federal payments to two grantees during the period October 1, 2005 through June 30, 2006 and related payments by these grantees. To execute the review, a two-stage statistical approach was used to select the line items for testing. The model's test procedures examined a range of administrative and contractual elements similar to those tested in the Federal-aid Highway Program.

For the first grantee, the review found administrative and contractual compliance as addressed in the test model and no improper payments. For the second grantee, improper payments totaling \$11,664.08 were found in the sample of tested payments. The sample size was 18 payments selected from a population of 100 payments. The projection of this result to the population of payments under the Program by the grantee is an improper payment estimate of \$252,000.00.

In FY 2007, the Department and the FTA will expand the Triennial Review Program to provide an estimate of the amount and rate of improper payments for the grantees subject to the 2007 Triennial Review. Chapter 49 U.S.C. Section 5307 requires a triennial review of agencies receiving Urban Area Formula Grant Funds. The Triennial Review assesses compliance with Federal regulations in 23 areas

FAA AIRPORT IMPROVEMENT PROGRAM (AIP)

The Department and the FAA developed and tested a model for testing grantee payments under this Program. The objectives of the FY 2006 effort were to develop the model and field test it at one grantee and to assist the FAA in incorporating the test procedures in its grants management oversight and AIP review programs. The FY 2006 model development and testing effort was not designed to provide a nationwide or program-wide estimate of improper payments.

The review covered Federal payments to a single grantee during the period October 1, 2005 through June 30, 2006 and related payments by this grantee. To execute the review, a two-staged statistical approach was used to select the line items for testing. As with the FTA Formula Grants Program, the model's test procedures examined a range of administrative and contractual elements similar to those tested in the Federal-aid Highway Program.

The review found administrative and contractual compliance as addressed in the test model and no improper payments.

The pilot effort identified several opportunities for maximizing the effectiveness of future improper payment reviews. Notably, the structure of AIP project funding is an important consideration in designing an IPIA review. Federal payments that cover only a portion of eligible costs incurred can be characterized as reimbursements for a percentage of allowable payments made during a period rather than reimbursements for specific payments. The model was modified accordingly and should provide for an effective and efficient review.



In FY 2007, the Department and the FAA will apply the test model nationwide to estimate the amount and rate of improper payments for the AIP.

SCORECARD ON THE PRESIDENT'S MANAGEMENT AGENDA

HUMAN CAPITAL INITIATIVE

Goal: Develop a Department-wide human capital workforce strategy to address future workforce gaps, eliminate skill gaps in critical occupations, develop performance-based incentives for the workforce, ensure citizen-centered, delayed, and mission-focused organizations; strengthen leadership skills, and ensure a robust leadership pipeline; improve the measurement and evaluation of human capital strategies; and integrate e-Government and Competitive Sourcing strategies.

FY 2006 Status: ● Green

FY 2006 Progress: ● Green

How DOT is Meeting PMA Challenges: DOT's Human Capital Plan focuses on long-term management of the DOT workforce and is aligned with the OPM/OMB Standards for Success.

- Met hiring timelines for General Schedule vacancies—68 percent were completed within 45 days; we also set hiring timeline targets for the Senior Executive Service. The Department met the requirement to notify applicants of hiring decision status—84 percent were notified within 45 days;
- Identified Mission Critical Occupation (MCO) Competency and Leadership Gap Analysis targets; provided MCO Resource Chart;
- Met IT Workforce Report hiring targets;
- Submitted updates to the Improvement Plan for Human Resource Management Competency Gap Analysis;
- Identified targets for improving the quality and number of applicants in the hiring process;
- Verified leadership bench strength numbers in agency pilot program;



- Implemented performance management system improvement strategies in the pilot project with FMCSA; identified Federal Railroad Administration as the next mode to participate in the expanded pilot project;
- Received OPM approval of the revised Succession Plan;
- Met accountability system requirements, received OPM approval; conducted five on-site accountability reviews; and,
- Began the Career Patterns initiative.

COMPETITIVE SOURCING INITIATIVE

Goal: Improve the consistency for defining commercial and inherently governmental inventories across the Department. Identified competable activities, provided strategic direction for competitive sourcing and human capital initiatives, and developed and shared high-quality intellectual capital within the Department and other agencies.

FY 2006 Status: ● Green

FY 2006 Progress: ● Yellow

How DOT is Meeting PMA Challenges: In FY 2006, DOT was awarded a Green rating for competitive sourcing. To receive this rating, DOT completed the following:

- Provided updated green competition plan to OMB;
- Made performance decisions on the National Highway Transportation Safety Administration competition;
- Completed competitive sourcing policy document; and,
- Shared lessons learned within the Department and with other agencies.

However, DOT drops to yellow in progress due to limited competitions planned for fiscal years 2007-2008.



IMPROVED FINANCIAL MANAGEMENT INITIATIVE

Goal: Develop financial management systems capable of producing more timely and accurate information, and maintain a record of unqualified opinions on our financial statements.

FY 2006 Status: ● Red

FY 2006 Progress: ● Green

How DOT is Meeting PMA Challenges: DOT's Office of Financial Management provides overnight closing and produces statements every month and at year-end. These statements, with the exception of the Statement of Financing, are prepared directly from trial balances from Delphi utilizing the Financial Statement Solution (FSS). In 2006, the FSS was further enhanced to run overnight. Additional actions include the following:

- FHWA Financial Management - Put into production Release 2 of Delphi Financial Statement Solution to enhance preparation of statements; results were produced overnight 75 percent faster;
- FHWA Grants Management - Field offices conducted Financial Integrity Review and Evaluation (FIRE) reviews using revised FHWA headquarters order;
- FAA improved transaction processing:
 - o Process for reconciling Subsidiary to General Ledger completed monthly;
 - o Achieved significant progress reducing Suspense Account balances;
 - o Completed significant cleanup for Construction In Progress balances affecting prior fiscal years' activity; and,
 - o Automated Budgetary to Proprietary reconciliations; reflected in improved financial reporting.
- Reported monthly corrective action plan progress to OMB; and,
- Provided preliminary Federal Manager's Financial Integrity Act assurance statements with draft FY 2006 A-123 testing results.



E-GOVERNMENT INITIATIVE

Goal: To better justify and track costs and performance of information technology projects, as well as participate in government-wide initiatives that automate and simplify how the public deals with the government and reduce redundancies and increase efficiencies across government-wide.

FY 2006 Status: ● Green

FY 2006 Progress: ● Yellow

How DOT is Meeting PMA Challenges: During FY 2006, the Department's efforts on the E-Government initiative had a number of important successes: DOT met established requirements and made further improvements in enterprise architecture, privacy, and capital planning.

- Finalized milestones for quarterly Enterprise Architecture reporting with OMB and submitted the first report before the end of FY 2006;
- Achieved certification and accreditation for more than 99 percent of operational Information Technology systems;
- Provided quarterly Earned Value Management variance and high risk reports;
- Provided a status update on FAA's Earned Value Management System Plan of Action & Milestones for applicable systems;
- Completed all E-Government implementation plan milestones; and,
- Completed FY 2006 milestones for FAA to the Government Accountability Office High Risk list plan.



BUDGET AND PERFORMANCE INTEGRATION INITIATIVE

Goal: To better integrate budget and performance functions by integrating respective staff work; developing plans and budget with outcome goals, output targets, and resources requested in the context of past results; charging full budgetary costs of programs; and documenting program effectiveness.

FY 2006 Status: ● Green

FY 2006 Progress: ● Green

How DOT is Meeting PMA Challenges: In FY 2006, DOT achieved its goals in this area and maintained a green score by completing the following:

- Published the Department's 2006–2011 Strategic Plan;
- Submitted the DOT efficiency measures report;
- Submitted a budget request to OMB that clearly articulated the performance impact of implementing a budget at the target level, and supported by sound and thorough analysis and performance data; and
- Provided marginal cost of performance information in each modal administration's FY 2008 OMB budget submission in accordance with OST guidance.

ELIMINATING IMPROPER PAYMENTS INITIATIVE

Goal: Develop financial management systems capable of producing more timely and accurate information, and eliminating improper payments to DOT vendors/customers.

FY 2006 Status: ● Green

FY 2006 Progress: ● Red



How DOT is Meeting PMA Challenges: During FY 2006, DOT took significant steps towards the implementation of the Improper Payments Information Act (IPIA) of 2002. DOT's efforts focused on program areas in three of our largest Operating Administrations: FHWA Highway Planning and Construction Program, FTA Formula Grants, and FAA Airport Improvement Program.

- FHWA Planning and Construction
 - o State testing is nearing completion and work is transitioning to the data analysis phase;
 - o Received completed workbooks from 50 out of 52 States and Territories; 50 States, Puerto Rico and the U.S. Virgin Islands; and,
 - o Identified \$82 thousand in improper payments.

- FTA Formula Grants
 - o Completed FTA test model;
 - o Received grantee payment data from Minneapolis and Charlotte transit organizations and selected test samples; and,
 - o Made arrangements for conducting testing.

- FAA Airport Improvement Program
 - o Finalized baseline test model; and,
 - o Selected samples from Washington Airports Authority and began testing payments.

REAL PROPERTY INITIATIVE

Goal: Use sound real property management of real property resources for diverse transportation missions, maintaining the quality of real property assets managed, and disposing of assets that are no longer required.

FY 2006 Status: ● Yellow

FY 2006 Progress: ● Green



How DOT is Meeting PMA Challenges: DOT continues to make progress under this initiative. The Real Estate Management System used by DOT is a single-point inventory, contains the required performance metrics, and is compatible with the government-wide real property database.

- Completed necessary system enhancements to provide DOT real property information to the Federal real property database by the first quarter of FY 2007;
- Submitted prioritized investment list of assets across DOT portfolio of assets;
- Continued to close the inventory and performance data gaps for full constructed asset level reporting;
- Continued identifying draft performance measure targets and goals; and,
- Revised draft 3-year timeline, including narrative of initiatives supported by specific capital actions.



OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

IMPLEMENTING OMB CIRCULAR A-123

During FY 2006, DOT modified its implementation plan for OMB Circular A-123 and obtained approval from OMB to implement A-123, Appendix A over a 2-year cycle. DOT has successfully completed the first year of our implementation plan, including:

- Conducted detailed entity-level assessments of the control environment in each of our organizations to determine how well internal controls were designed and functioning and to assist managers in evaluating current internal controls;
- Established the DOT Internal Control Senior Assessment Team (ICSAT) and the Internal Control Working Group (ICWG);
- Trained the ICSAT, ICWG, and key business process owners on the requirements of A-123;
- Completed documentation and testing for six of our twelve key business processes; and,
- Developed corrective action plans to address findings identified during testing and worked to complete the remaining corrective actions.

In addition to finishing work on corrective actions, DOT is currently planning the documentation and testing efforts for the second group of key business processes, which will be tested during FY 2007.

In the upcoming months, DOT will continue educating its management and staff on effective internal controls to prevent fraud, waste, abuse, and mismanagement of resources. Our management training focuses on the applicable laws and regulations; on how to implement segregation of duties; and on how to properly record and document transactions, conduct risk assessments, test controls, implement corrective action plans and monitor progress. We are also developing internal controls training to be included in the orientation for all new employees and additional web-based training for DOT staff.



DOT is also continuing its efforts to fully integrate our internal control program with the annual financial statement audits, FMFIA, Improper Payments Improvement Act (IPIA) program, and other related activities with the goal of realizing significant efficiencies and savings. The integration of these potentially overlapping efforts will result in a more comprehensive platform for top management to utilize in assessing and managing risk and vulnerability across the Department.

CONSOLIDATED AUTOMATED SYSTEM FOR TIME AND LABOR ENTRY

In September 2006, the Department implemented a DOT-wide system for Automated Leave Requests 2006 (CASTLE 3.3 release). This new feature allows employees simple online entry of leave requests and immediate email notification of leave approval by their supervisor. A handy online Employee Leave Calendar showing leave requests and approval status is included with this new request system.

Approving officials receive immediate notification of leave requests and are able to easily approve those leave requests online. There is also a Group Leave Calendar showing requested leave and approval status for all employees in the timekeeping group. This feature can be used for workforce planning.

Timekeepers will be able to select a special button to automatically fill the timecard with leave information from approved leave requests. There is also a helpful Leave Discrepancy Report to identify discrepancies between leave requests and the leave recorded on an employee's timecard. Another valuable feature of this system is the online history of leave requests.

MANAGERIAL COST ACCOUNTING

Managerial cost accounting identifies, tracks, and analyzes the total costs attributable to a particular task, job, or program. The purpose of managerial cost accounting is to provide program managers with cost information required to accurately report program efficiency and to develop a program's future budget. DOT's Operating Administrations (OAs) are working aggressively to implement managerial cost accounting systems in order to provide their managers with cost information to make better informed decisions.

Several OAs made substantial process in implementing full cost accounting during FY 2006. The Federal Transit Administration (FTA) has completed the majority of its cost accounting implementation. FTA is using a commercial off the shelf software to import administrative, salary and benefit, and grant expenses from existing systems. FTA employees also began using activity codes to record their time and attendance using the Labor Distribution Reporting (LDR) function within CASTLE. By doing so, FTA has been able to assign salary and benefit expenses to



activities. FTA has already provided their Executive Management Team (EMT) with preliminary reports from the cost accounting system. FTA plans to finalize the reports and begin distributing them to the EMT and other managers monthly starting in November 2006.

During FY 2006, the Federal Aviation Administration (FAA) completed its implementation of the cost accounting system by implementing the remaining two lines of business, Aviation Safety and Airports. FAA is now providing cost accounting information to all lines of business. Labor distribution has been implemented in all of the lines of business and in most of the staff offices, covering over 45,000 employees. FAA plans to implement the remaining staff offices consisting of approximately 1,500 employees in FY 2007.

The Federal Lands Highway Program of the Federal Highway Administration is in the process of developing a solution within Oracle's Project Accounting module which will provide reports to manage their programs and projects. The goal of the solution is to capture program, project, and task information on the budget distribution and execution transactions in order to generate reports for financial managers, program managers, and engineers. A data warehouse is being developed which will enable Federal Lands to retrieve the data they need to manage their programs and projects in various formats. The solution will be completed in January 2007.

In addition to the progress noted above, FRA and FHWA also implemented LDR and are using activity codes to record employee time. The vast majority of DOT's employees are now using LDR to record their time.

The Government Accountability Office recognized DOT's leadership and cited progress in Managerial Cost Accounting (MCA) in their report titled "Managerial Cost Accounting (MCA) in the Departments of Education, Transportation, and Treasury" as follows:

"Transportation has in recent years shown strong leadership in developing MCA systems both Department-wide and at the individual operating administrations (OA). According to Transportation officials, the 12 OAs were developing MCA systems tailored to their respective needs, which should be able to interface with Delphi – an integrated financial management system, a component of which could be used by OAs for cost accounting. One of the two largest OAs, the Federal Aviation Administration (FAA), was mandated to develop a cost accounting system in 1996, and had implemented MCA in two business lines covering over 80 percent of its budget."

DOT will continue to take the steps necessary to integrate program and accounting data. DOT will work with the remaining small OAs during FY 2007 to implement their managerial cost accounting plans.



INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES

DOT OFFICE OF INSPECTOR GENERAL'S APPROACH

The Office of Inspector General (OIG) issues its annual report on DOT's top management challenges to provide a forward-looking assessment for the coming fiscal year. The purpose of the report is to aid DOT's agencies in focusing attention on and mapping work strategies for the most serious management and performance issues facing the Department.

In selecting the challenges for each year's list, the OIG continually focuses on the Department's key strategic goals to improve transportation safety, capacity, and efficiency. In addition to the OIG's vigilant oversight of DOT programs, budgetary issues, and progress milestones, it also draws from several dynamic factors to identify key challenges. These include new Departmental initiatives, cooperative goals with other Federal departments, recent changes in the Nation's transportation environment and industry, as well as global issues that could have implications for the United States' traveling public. As such, the challenges included on the OIG's list vary each year to reflect the most relevant issues and provide the most useful and effective oversight to DOT agencies.

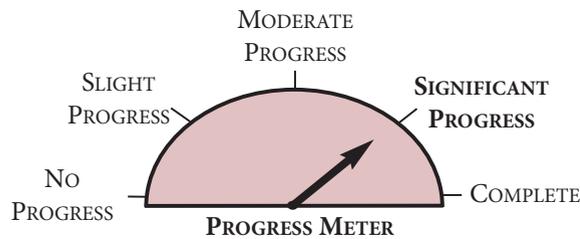
As required by OMB Circular A-136, the OIG's report briefly assesses DOT's progress in addressing the challenges identified. To track management challenges identified from year to year, the OIG provides an exhibit to the report that compares the current list of management challenges with the list published the previous fiscal year. In addition, the OIG may refine the scope of the management challenge from year to year based on program developments, external factors, or other information that becomes available.

The Department recognizes that management challenges are not issues that are easily solved. In many cases they require investments or upgrades to technology or substantial changes in long-standing procedures or program activities. To completely address a management challenge may take more than one fiscal year. Since the OIG may refine the scope of the management challenge based on information that may become available during the year, it can be difficult to provide a context showing how far along the Department is in resolving a particular challenge. To provide perspective on the Department's progress, we have provided a self assessment showing the achievements toward resolving the challenge as currently defined. The result is displayed via the Progress Meter icon. DOT hopes that this approach will provide perspective toward gauging the Department's progress in resolving a management challenge.



1. MANAGEMENT CHALLENGE: WORKING WITH OTHER AGENCIES TO RESPOND TO DISASTERS AND ADDRESS TRANSPORTATION SECURITY

Responding to Hurricane Katrina and Other National Disasters



The attacks of September 11, 2001, along with the destruction of the Gulf Coast by Hurricanes Katrina and Rita highlighted the need for a well-defined, well coordinated, interagency approach to preparing for and responding to catastrophic events. Under the Federal Government's National Response Plan, the DOT is responsible for coordinating and providing Federal and civil transportation support, as directed by the Federal Emergency Management Agency (FEMA) during times of national emergency.

To provide a centralized, effective program, the Office of Intelligence, Security, and Emergency Response (OET), in the Office of the Secretary (OST), performs coordinated crisis management functions for multimodal transportation emergencies, including:

- natural disasters;
- technological incidents / accidents;
- labor strikes;
- security situations, such as domestic criminal acts or international terrorist acts; and,
- national defense mobilization.

To facilitate interdepartmental and intermodal coordination during times of crisis, DOT established the Crisis Management Center (CMC). During the London transportation bombings, for example, the CMC was staffed with many of DOT's emergency coordinators from each operating administration for full-time around-the-clock operations. CMC personnel regularly communicate with Federal, State, and local entities to acquire, confirm, and communicate



information prior to reporting to senior DOT officials. DOT also has a representative in the Department of Homeland Security's Operations Center to further facilitate communications during times of emergency.

The Department played a significant role in responding to the Gulf Coast hurricanes. More than \$2.7 billion in FHWA Emergency Relief (ER) funds were provided in late 2005 (first quarter of FY 2006) to assist States in the repair and recovery of Federal-aid highways damaged by hurricanes. These funds were instrumental in assisting the Gulf Coast region with needed recovery efforts following the devastating impact from Hurricanes Katrina, Rita, and Wilma. Repairs to the I-10 Twin Spans bridge in Louisiana, the replacement of two bridges on U.S. 90 in Mississippi that were completely destroyed, and debris removal that opened closed roadways were funded using ER resources. In addition, ER funds were used for repairs to traffic signals, guardrail replacement, and restoration of washed-out pavements and shoulders caused by extensive flooding all over the Gulf Coast region.

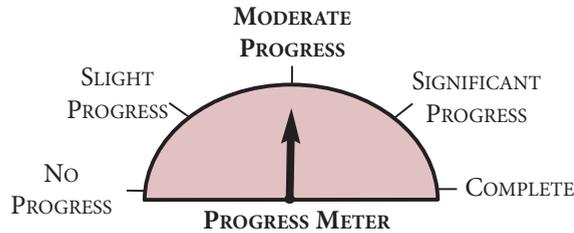
In the rush to restore transportation services as quickly as possible, it was also important that DOT's Operating Administrations provide proper stewardship over the resources devoted to the recovery effort. Incorporating lessons learned from the Gulf Coast hurricane relief effort, DOT's Chief Financial Officer issued cost reporting guidance in July 2006, to the Department for future emergency responses and related activities. This guidance identified statutory authorities for relief efforts; provided instructions to each Operating Administration on how to account for direct, indirect, and other costs associated with relief efforts; and mandated specific reporting requirements so management could provide the proper oversight.

To support the Department's responsibilities during national emergencies, the FAA's Southern Region awarded a competitive contract in 2002 to provide the bulk of transportation services designated to the region by FEMA. To administer the contract, the FAA Southern Region, assigned to the newly established Emergency Transportation Center (ETC) in Baton Rouge two experienced, full-time senior contracting officers. These contracting officers have implemented procedures directly responsive to Inspector General recommendations. Specifically, they have implemented procedures to randomly evaluate costs and pricing tendered by the current contractor, by comparing relevant market prices for the same or similar assets or services to determine fair market value. The contracting officers, in conjunction with other ETC personnel, enter transactions into the PRISM/Delphi cost accounting system as soon as possible after terms of agreement are reached with the contractor for particular tasks.

The FAA has also completed mitigating strategies to ensure the timeliness and tracking of credit card purchases through the use of the US Bank's computer system, Access Online. As of July 2006, all purchase card transactions in all FAA regions, centers, and headquarters offices are tracked with Access Online.



Addressing Transportation Security



There is a growing interdependency among Federal agencies to work together to secure the U.S. transportation system and protect the users of the transportation system from criminal and terrorist acts. The imperative for DOT is to effectively integrate new security measures into its existing safety regimen and to do so in a way that promotes stronger security without degrading transportation safety and efficiency.

Significant progress was made in providing timely and accurate information to support federal, State and local response activities. For example, the FAA collaborated with many of our stakeholders to design an Airport Status Report that will be issued daily during periods of emergency. This report assists those responsible for the dispatch and operation of responding aircraft by providing specific information on the availability and usability of airport infrastructure, navigation aids, runways, and support facilities within a declared emergency or disaster area. It will also aid pilots operating in crisis environments by alerting them of compromised airport conditions, thereby facilitating informed and safer decisions. This type of communication flow continues to increase the FAA's ability to help the first-responders make critical decisions that reduce the effects of natural disasters and other crisis events.

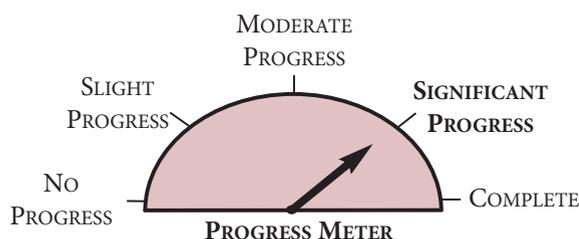
DOT and the Department of Homeland Security (DHS) are implementing a Memorandum of Understanding (MOU) to improve cooperation and coordination in promoting the safety, security, and efficient movement of people and goods throughout the U.S. transportation system. We have established MOU annexes and agreements between DHS and the Federal Railroad Administration, Pipeline and Hazardous Materials Safety Administration, Federal Transit Administration, Federal Aviation Administration, and the Maritime Administration. These annexes clearly define the roles and responsibilities of each organization and provide the structure, processes, and oversight of research and development, emergency communications, and enforcement activities. Under the National Infrastructure Protection Plan, the modal agencies are working with their DHS counterparts to develop modal-specific security regulations or directives that ensure security issues are balanced with safety and efficiency.



With the experiences of Hurricanes Katrina and Rita behind us along with our growing collaboration with the Department of Homeland Security and other federal agencies, the Department has made great progress in our ability to respond to disasters and address transportation security. Although we may conclude that we have met the challenge presented by the Office of the Inspector General, the issue of disaster preparedness must be continually monitored and adjusted as needs dictate. DOT will take advantage of every opportunity to evaluate internal practices and partner with federal, State, and local officials to improve our disaster response capabilities as well as our support to the security of the Nation's transportation sector.

2. MANAGEMENT CHALLENGE: GETTING THE MOST FOR EVERY TAXPAYER DOLLAR INVESTED IN HIGHWAY AND TRANSIT PROJECTS

Actions by FHWA and the States Are Needed To Provide Oversight of Highway Funds to Ensure Projects Are Delivered On Time, Within Budget, and Free From Fraud.



In a 2003 Report to Congress, FHWA outlined its efforts to develop a more multi-disciplinary approach towards project management and oversight activities of highway projects. During the past three years, the Agency has addressed key areas including: 1) optimizing the use of internal staffing; 2) increasing training for existing and new staff; and 3) implementing specific stewardship and oversight initiatives. In addition, FHWA has taken steps to use available funds more efficiently across its project portfolio and to minimize improper payments.

As part of its efforts to optimize internal staffing, FHWA continued a program to move Agency employees beyond reviewing and approving project level actions to ensuring the effectiveness of local processes in major project drivers such as financing, cost control, schedule performance, and transportation planning.

FHWA continues to develop a multidisciplinary workforce. After a Department-wide assessment identified a skill gap in the financial management area, FHWA revised both the existing position descriptions and the available training opportunities for financial managers. This was done to



clearly identify financial management job duties and responsibilities so training could be aligned accordingly. In addition to new training options for financial managers, FHWA provided training for project managers including offerings in cost estimating and risk management. The FHWA is also addressing skill gaps by changing the mix of new hires to a multidisciplinary focus that includes positions other than those in civil engineering, which was traditionally the focus of recruitment efforts.

To increase project oversight for major programs, a project oversight manager position is being assigned to the largest projects. The major duties of the project oversight manager include ensuring the credibility of cost estimates/schedule milestones as well as overseeing completion of required activities at major project milestones.

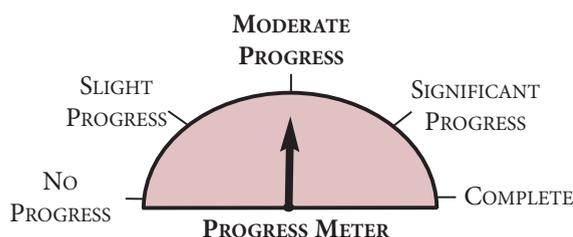
FHWA's stewardship and oversight role was strengthened in SAFETEA-LU legislation passed last year. The legislation requires FHWA to conduct an annual review of the State departments of transportation financial management systems and project delivery systems, develop minimum standards for estimating project costs, and periodically evaluate State practices in these areas. It also places requirements for a project management plan and financial plan on all major projects of \$500 million or more, and requires each State to provide a value engineering analysis on each Federal-aid project with a total cost of \$25 million or more, a bridge project of \$20 million or more, and other designated projects. In January of this year, the FHWA issued Interim Major Project Guidance based on the philosophy of expanding the FHWA oversight role to optimize its positive influence in the management of major projects.

FHWA revised regulation 23 CFR 630, Subpart A, Project Authorization and Agreements in order to better manage available funding and minimize inactive obligations. This regulation change assists States and FHWA in monitoring Federal-aid highway projects and provides greater assurance that the Federal funds obligated reflect the current estimated cost of the project. FHWA will revise the Federal obligation amount and reallocate inactive funding obligation balances if a State fails to take action as required by the regulation.

In April 2006, FHWA issued a new directive titled the *Financial Integrity Review and Evaluation Program*. The new directive requires each Federal-aid Division Office to conduct an improper payments review of its programs. In addition, FHWA implemented an improper payments testing and assessment methodology into the normal grant testing procedures.



Enhancing Fraud Prevention Capabilities and Taking Aggressive Action Against Those Who Perpetrate Fraud, Including Motor Fuel Tax Evasion.

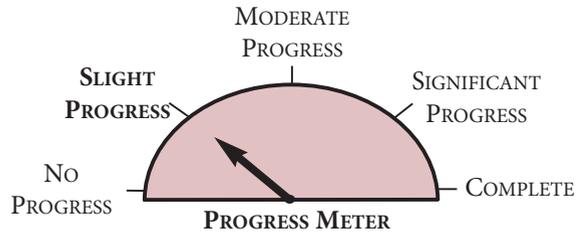


Detecting, preventing and responding to fraud, waste and abuse in the Federal-aid highway program is an essential component of FHWA's stewardship and oversight mission. FHWA continues to team with the DOT Office of Inspector General in elevating the awareness of fraud prevention. In April, FHWA co-sponsored the 2006 Fraud Prevention Conference, which drew over 300 participants from Federal, State and local governments, and the private sector. Detecting, preventing and responding to fraud are included in the FHWA Contract Administration Core Curriculum Course, which was presented in seven States in FY 2006 and has already been requested by 17 States for FY 2007. FHWA continues to stress the use of fraud indicators and reporting procedures and is working with the transportation and highway industry to report allegations of fraud, waste, and abuse on Federal-aid infrastructure construction projects.

The FHWA and the Internal Revenue Service (IRS) continue to work together to address the issue of evasion of motor fuel and other highway use taxes. An enforcement strategy, signed in January 2006, by the FHWA Administrator and the IRS Commissioner, focuses on enhancing enforcement efforts by developing and modernizing systems to improve service and enforcement; sharing best practices, lessons learned, and expertise with agencies involved with motor fuel and highway use tax enforcement; conducting outreach and education for stakeholders; and continuing research into finding solutions to the problem of tax evasion. Additionally, a Memorandum of Understanding identifying program-related responsibilities, accountability requirements, and funding levels, was also signed in January. FHWA has enlisted the help of a number of states by providing grant funds for intergovernmental enforcement efforts designed to address motor fuel tax evasion. Awards were given for innovative projects that involved a number of agencies working together with identified performance objectives. Project team leaders will submit an annual report presenting a summary of the project, accomplishments, as well as other comments on the project experience. FY 2006 was the first year intergovernmental grants were provided to the states through a competitive process. Grant funding is available through FY 2009.



Tough Decisions Ahead in Choosing Between Competing Transit Needs



FTA's New Starts program encourages the submission of transit proposals that produce significant transportation benefits at a reasonable cost. Many worthwhile proposals are received each year. Unfortunately, the program is over subscribed – the total cost of proposals received exceeds the available funding. Therefore, it is incumbent upon FTA to have a prioritization process that funds only those programs that yield the greatest benefits to the public.

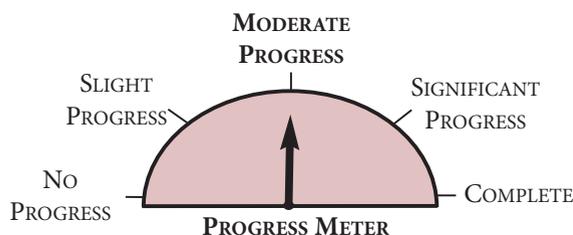
The current New Starts evaluation and rating process evaluates transit proposals using the following criteria: project cost estimates, benefits, and performance impacts for various planning alternatives. A thorough application of a planning alternatives analysis will result in reliable cost estimates, impacts, and benefits of these alternatives sufficient to make an informed decision. Through this process, FTA emphasizes the need for reliable ridership forecasts and cost estimates by including reliability of forecasting methods as an evaluation criterion.

While the current New Starts evaluation and rating process provides an evaluation and rating framework that enables FTA to make sound decisions on the competing transit needs, the process will be improved in the future by replacing the three-level rating scale with a five-level scale.



3. MANAGEMENT CHALLENGE: BUILDING ON RECENT INITIATIVES TO FURTHER STRENGTHEN SURFACE SAFETY PROGRAMS

Addressing Highway Safety Problems Where Serious Injuries and Fatalities Persist



To reduce the number and rate of fatalities in traffic related crashes, the FHWA launched a performance based approach to safety in FY 2005 that better focuses resources on 16 identified States where the greatest opportunity exists to save lives. These States continued to receive funding in FY 2006 and FY 2007. In addition to the 16 identified States, a program entitled the Accelerating Safety Activities Program (ASAP) was adopted to support grants for all States to advance safety at the State, multi-State and local level. Over the last two years, 56 ASAP grants were approved.

In continuing to combat this problem, NHTSA made available more than \$118 million to the States, the District of Columbia and Puerto Rico for alcohol-impaired driving countermeasure laws or programs, such as administrative license revocation laws and graduated licensing programs, or to meet certain performance criteria based on their alcohol-related fatality rates. Within this program, the ten States with the highest impaired driving fatality rates received extra funding. NHTSA will work closely with these ten States to facilitate implementation of effective programs, including periodic and sustained high-visibility enforcement efforts and media campaigns. NHTSA initiated the new national advertising campaign delivering the message “Drunk Driving: Over the Limit: Under Arrest.” As part of this campaign, States conduct impaired driving enforcement crackdowns during the Labor Day weekend and the December holiday season. Additionally in FY 2006, NHTSA further enhanced its impaired driving program with continued emphasis on assisting high-risk populations (e.g., underage drinkers, 21 to 34 year-olds, individuals with high blood alcohol levels and repeat offenders). NHTSA also completed its demonstration of effective records system improvement strategies. Improved records systems ensure a more comprehensive and consistent approach to the apprehension, adjudication, and sanctioning of impaired drivers.



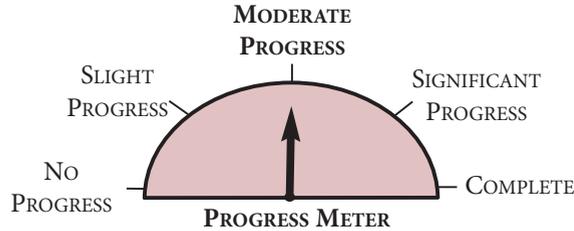
NHTSA has been effective in promoting safety belt use—steadily increasing the usage rate to a high of 82 percent in 2005. To further increase safety belt use, in FY 2006 NHTSA provided \$123.3 million in incentive grant funding to 22 States, the District of Columbia and Puerto Rico that had implemented primary State safety belt use laws. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) authorizes the Federal surface transportation programs for highways, highway safety, and transit for the 5-year period 2005-2009. SAFETEA-LU established new core safety programs, encouraging safer cars and safer roads, and aggressively discouraging impaired driving while providing real incentives for States to enact stronger belt use laws. These incentives are already showing results. Since the beginning of 2006, three more States, Alaska, Kentucky, and Mississippi, have enacted primary safety belt use laws in direct response to the SAFETEA-LU incentives. In addition, the agency conducted its May 2006 *Click It or Ticket* campaign and encouraged States to increase participation in periodic high-visibility safety belt law enforcement mobilizations with coordinated paid and earned media efforts. Currently, a full National Occupant Protection Use Survey is being conducted to help quantify the results of the campaign's efforts. To reach hard-core safety belt non-users, NHTSA will continue to identify new communication strategies and messages and conduct research and demonstration projects among nighttime drivers, rural populations, pick-up truck drivers, 8-15 year olds, and teens.

Motorcycle rider fatalities have increased for the last eight years. To address this alarming trend, NHTSA issued a final rule in FY 2006 implementing the Motorcyclist Safety grant program. This rule establishes the requirements a State must meet and the procedures it must follow to receive a Motorcyclist Safety grant. The grants are to support rider training, motorist awareness, and impaired driving programs. In FY 2006, NHTSA awarded \$5.9 million Motorcycle Safety grant funds to 44 States. Additionally, the agency developed and distributed implementation guidance and recommendations to State and local communities in the National Agenda for Motorcycle Safety. NHTSA also initiated a demonstration program to implement the “best practices” identified from a review of State training and licensing programs. Other NHTSA efforts include forming new partnerships with AARP, insurance companies, and health/medical organizations to assist with older/returning motorcyclists. The agency also recently released its 2006 Motorcycle Safety Program Plan, which provides a comprehensive look at NHTSA motorcycle safety efforts. The document can be found on NHTSA's website at

<http://www.nhtsa.dot.gov/people/injury/pedbimot/motorcycle/MotorcycleSafety.pdf>.



Preventing Fraud in the Commercial Driver's License Program



In FY 2006, FMCSA took a proactive approach to prevent fraud in State Commercial Drivers License (CDL) programs. FMCSA has just completed enhanced compliance reviews of 16 State CDL programs to ensure that: 1) States have the proper statutes and administrative procedures to administer their CDL programs in compliance with the Federal requirements, and 2) that State computer systems and licensing procedures are actually being implemented in compliance with the Federal requirements. Findings and recommendations from the compliance reviews have been provided to the States so they can make the necessary improvements to driver licensing issuance and testing procedures in order to reduce their susceptibility to fraud.

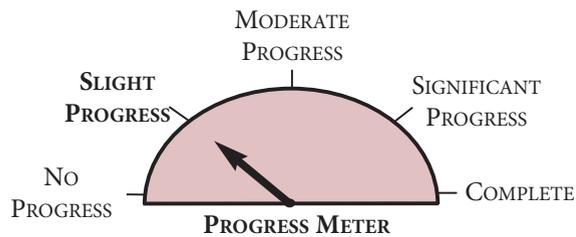
In April 2006, FMCSA initiated rulemaking to require covert monitoring of examiners and social security number (SSN) verification of CDL applicants. Currently, FMCSA has encouraged (but not required) States to establish covert oversight for both State and third-party testing examiners and provided grants funding to set up such programs. FMCSA continues to encourage States to perform SSN verification on all drivers, especially CDL holders and encourages the States to apply for CDL grant funds for the verification process. At least 45 States are currently performing SSN verification on CDL applicants and holders. States are required to perform Immigration and Naturalization Service Number verification through the Transportation Security Administration for CDLs with a hazardous materials endorsement. The proposed rulemaking that is under development would require both covert monitoring of examiners and SSN verification of CDL applicants, as well as continuing the current practice of Immigration and Naturalization Service Number verification.

A total of 39 States were awarded \$19.6 million in grants to support improvements in State CDL programs and address deficiencies identified in compliance reviews and Inspector General audits. Nearly \$2.4 million of this funding was allocated to improve the accuracy, speed, and completeness of driver history information exchanged among the various components of the system—including law enforcement, prosecutors, the courts, employers, and State driver licensing agencies—both within the States and between States.



FMCSA has also taken steps to strengthen and modernize information systems associated with the CDL program. Congress recognized the importance of improving data quality by authorizing funding for a State safety data improvement program, known as the Safety Data Improvement Program (SaDIP). In FY 2006, FMCSA received 15 SaDIP applications from States with total funding requests equal to \$5.8 million. FMCSA is currently reviewing applications and anticipates that it will award all \$2 million in FY 2006 authorized funding to States.

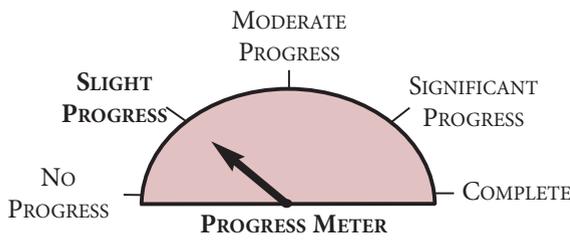
Strengthening Rail Safety Program Oversight and Enforcement



The FRA has the responsibility to ensure the safe operation of the Nation's rail system. The Close Call Confidential Reporting System (CCCRS) is a process for proactively collecting and analyzing leading indicator data, and for improving the safety reporting culture in the railroad industry. Currently, the safety reporting systems in the railroad industry, including FRA's, are reactive systems for reporting accidents that often trigger punitive actions and the withholding of critical safety-related information. While reactive systems are valuable in identifying safety issues, the typically small number of accidents that are reported in such systems hinders effective trend spotting and other analyses. CCCRS reports many more events and thereby allows safety problems to be identified and corrected before accidents can occur. Moreover, CCCRS can significantly reduce accidents and injuries by creating a trusting environment in which critical safety-related information is openly shared for analyses, instead of being actively withheld to avoid punishment or liability.



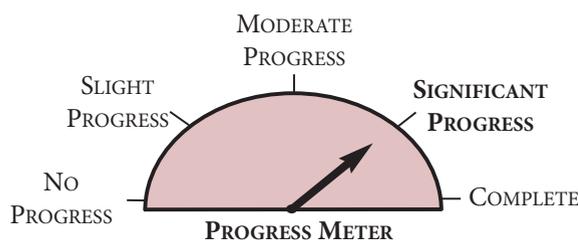
4. MANAGEMENT CHALLENGE: REFORMING INTERCITY PASSENGER RAIL TO IMPROVE PERFORMANCE



To address this challenge, FRA together with the Office of Secretary, has been heavily engaged in promoting a reauthorization of Amtrak that would address many issues surrounding intercity passenger rail. These issues include but are not limited to size, operations and governance of the Nation’s passenger rail systems. DOT recognizes that the need for work in these areas is ongoing, particularly in addressing Amtrak’s operating accounts and services it provides such as food and beverage and first class services. Through the annual grants to Amtrak, in particular the capital grant, and the Department’s presence on the Amtrak board of directors, DOT has been able to assure that capital investments address the company’s highest priorities and are consistent with the funding available.

5. MANAGEMENT CHALLENGE: MITIGATING FLIGHT DELAYS AND RELIEVING CONGESTION—ACTIONS NEEDED TO MEET DEMAND

Taking Appropriate Action Against Growing Aviation Delays



In FY 2004, the FAA completed a study analyzing system capacity. The study identified 21 non-Operational Evolution Plan (OEP) airports as potentially needing additional capacity. In FY 2005, phase two of the capacity study was undertaken to enhance the level of detail of the non-OEP airports identified. This included conducting annual service volume studies,



developing capacity benchmarks, and detailing national airspace simulation. In addition, potential solution sets were developed to improve airport capacity. In FY 2006, FAA continued these efforts and analyzed the benefits of the potential solutions through detailed modeling.

The Agency is increasing capacity by working with airports and local communities to build new runways. Four new runways opened at OEP airports in FY 2006 at Atlanta, St. Louis, Cincinnati, and Minneapolis, providing the airports with the potential to accommodate an additional 665,000 annual operations. Runways are under construction at six other airports—Boston, Philadelphia, Los Angeles, Seattle, Washington Dulles, and Chicago O’Hare. Eight projects are in the planning or environmental review stage—one airfield reconfiguration, two runway extensions, two new runways, and three new airports that are expected to provide significant capacity benefits through 2015.

Technological improvements are aggressively being pursued to improve system capacity. In June 2006, the Airspace Flow Program (AFP) was deployed. AFP is a traffic management initiative that identifies constraints in the enroute system, develops a real-time list of flights that are filed into a constrained area, and distributes departure clearance times to meter demand through the area. It allows controllers to delay only those flights that are expected to pass through airspace affected by bad weather and safely meters traffic throughout the constrained area. AFP reduces the number of flight delays and brings an estimated \$900 million in cost savings to the airlines and the flying public over ten years. AFP provides flexible, equitable metering of traffic through a constrained area of airspace.

As a result of this new program, the crippling effects of thunderstorms that impact the Nation’s airspace system are minimized. Even with limited use of the program to date, the number of required reroutes has declined and routes within the constrained airspace appear to remain useable for longer periods. In addition, with the deployment of the AFP, the FAA has seen a decrease in the number of ground delays for flights destined to the Northeast. AFP initial deployment was limited to select geographical areas in the Northeastern Corridor. FAA expects to continue the geographical expansion of the AFP as the analysis of the procedure becomes mature and familiarization and experience with the process increases.

In addition to these decision support tools, the Agency is continuing to explore and apply state of the art weather forecast information to improve services to our customer, to mitigate the impact of weather on air traffic. Two systems are now in place to help—the Collaborative Convective Forecast Product and Corridor Integrated Weather System.

The Collaborative Convective Forecast Product, available during the March to October severe weather season, is a graphical forecast of convection (winds, showers, and thunderstorms) developed specifically for use in strategic planning and the management of air traffic. With this

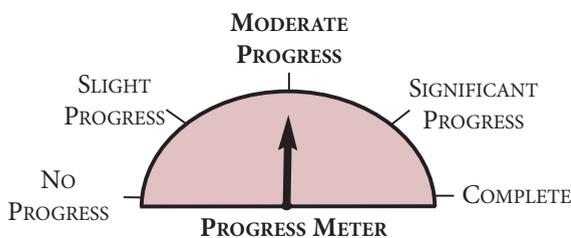


forecast product, collaborative activities occur more rapidly and traffic management decisions based on weather data are more accurate. The tool provides advance planning for long haul flights and allows for schedule predictability based on 2-4-6 hour forecasts.

The Corridor Integrated Weather System provides a more accurate convective weather forecast out to 120 minutes in the future. The product is deployed on a limited basis at several Air Traffic Control centers as a prototype. Preliminary results indicate controllers are making and coordinating decisions more quickly, which reduced delays due to severe weather. FAA expects that this prototype can be ultimately tested and integrated into the NAS system in the near future.

Procedural changes have also been implemented to improve performance. In FY 2006, the FAA created a new position at the Air Traffic Control Systems Command Center (ATCSCC) called the National Enroute Spacing Position (NESP). The goal of the NESP is to distribute enroute volume efficiently during severe weather or other events that constrain the NAS. As such, the NESP is the focal point when implementing an AFP. The NESP position was implemented as part of a larger concept change at the ATCSCC called the National System Strategy Team (NSST). The NSST was developed to clearly define areas of specific individual responsibility among personnel. Implementing individually assigned and recognized responsibilities in the NSST will improve the efficiency and effectiveness of system-wide planning, coordination, and responsiveness including reroute generation and exit strategy planning.

Keeping Planned Infrastructure and Airspace Projects on Schedule to Relieve Congestion and Delays

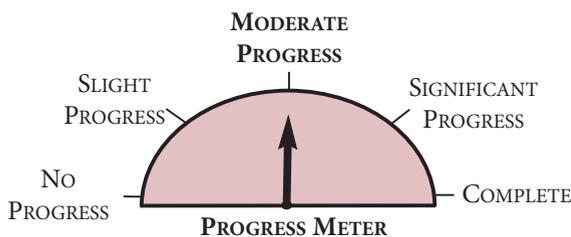


An integration team comprised of representatives from all appropriate FAA organizations monitors the progress of each new runway construction project and is responsible for ensuring that the runway is commissioned on schedule with all necessary equipment and airspace procedures in place. The team provides quarterly updates to FAA executives on the status of each project and issues relating to the runway project are discussed, assigned to an executive to resolve, and tracked by the integration team to ensure resolution.



Improving the efficiency of existing airport capacity by redesigning airspace is critical for taking full advantage of new runways and enhancing the flow of air travel around existing runways and airports. To support improved investment decisions, FAA commissioned a study that was delivered in March 2006, to estimate the customer benefits of airspace redesign projects and then rank projects based on relative benefits. A prioritization index was developed based on each project's ability to meet FAA agency goals, customer and agency benefits, and risk factors. In FY 2006, when the Airspace Management Program (AMP) budget experienced significant cuts, the airspace prioritization index was used to make difficult funding decisions. Along with this index, the AMP program office completed a quantified assessment of the operational benefits of all proposed projects. This assessment has been used to create an earned-value metric that measures the progress and projected value of a proposed airspace effort. The Airspace Current Benefit State metric is defined as a weighted dollar value of the experienced and expected customer benefits of chartered and funded airspace projects.

Exploring Alternatives for Managing Capacity Where Infrastructure and Airspace Redesign Initiatives Are Not Feasible



Over the past several years, the FAA has conducted extensive research efforts to explore the feasibility of various market-based and administrative mechanisms to manage congestion at capacity constrained airports where expansion is not a viable option. For example, the FAA, in concert with the National Center of Excellence for Aviation Operations Research, has initiated research on auctions, congestion pricing, and various administrative solutions.

In FY 2006, the FAA began to promote a more efficient allocation of resources through the use of market-based mechanisms. In August 2006, a congestion management Notice of Proposed Rulemaking (NPRM) for New York's LaGuardia Airport was published in the Federal Register. The proposed rule establishes an operational limit on the number of aircraft landing and taking off at the airport. To offset the effect of this limit, the rule would implement an airport-wide, average aircraft size requirement. The intent is to encourage the use of larger aircraft to increase the number of passengers who use the airport. To maintain a level of service to small communities, FAA proposes to permit a fixed number of operating authorizations for service to



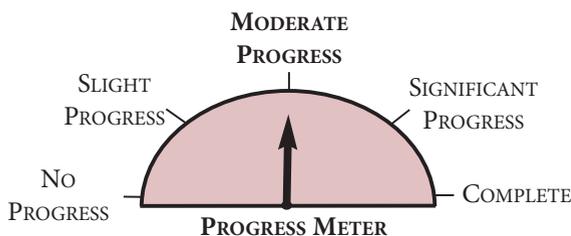
smaller airports, exempt from the aircraft size requirement. The proposed rule also announces the Administration's intent to use market-based mechanisms beginning in 2010. The FAA is directing its efforts toward the publication of the final rule for LaGuardia and developing market-based language in the FAA Programmatic Reauthorization, which must be enacted by the end of FY 2007.

Similarly, FAA published a Final Congestion and Delay rule for Chicago O'Hare International Airport in August 2006. The rule will manage capacity at that airport until the O'Hare Modernization Plan (OMP) expansion yields additional capacity. The first OMP runway is expected to open in November 2008. Therefore, FAA adopted October 2008 as the sunset date for this rule.

Although the rule is temporary, FAA has included market-based elements for the secondary market allowing the purchase, sale, and lease of arrival authorizations by air carriers. The FAA-operated market will be "blind," keeping the bidders' identities secret until the sale has closed and FAA has forwarded the highest bid to the seller. A blind market will advance the goals of promoting the most efficient use of the airspace and maximizing reliance on market forces. This will also ensure that new entrants and all other airlines have an equal opportunity to purchase/lease arrival authorizations.

6. MANAGEMENT CHALLENGE: REAUTHORIZING AVIATION PROGRAMS—ESTABLISHING REQUIREMENTS AND CONTROLLING COSTS ARE PREREQUISITES FOR EXAMINING FAA FINANCING OPTIONS

Control Major Acquisitions Costs—Delivering New Systems that Work on Time and Within Budget and Making Decisions about the Scope of Billion-Dollar Projects that Have Been Delayed



In an effort to better control major acquisition costs and schedules, FAA has implemented a series of executive and management reviews to oversee program progress. Currently, FAA acquisitions over \$10 million require the approval of the Chief Financial Officer (CFO). The FAA's Chief



Information Officer now reviews any information technology acquisition in excess of \$250,000. The Associate General Counsel also provides a legal review for all procurement actions greater than \$100,000.

In addition to the executive-level reviews, the agency has implemented acquisition management controls through the Joint Resource Council (JRC), the ATO Executive Council, and the Capital Investment Team (CIT). The JRC reviews and approves all major investments and the Facilities and Equipment (F&E) budget. It delegates to subordinate boards the authority to approve non-major investments in accordance with the FAA Acquisition Management System (AMS). It also conducts service-level reviews, which provide a FAA-wide overview of operations and investments by service organization.

The ATO Executive Council meets monthly to approve mission need statements of programs beginning the investment process. They review major investments prior to submitting these to the JRC for further review and approval. They also provide review and approval of non-major investments to begin acquisitions. For the Executive Council to approve a program, the program must first complete the ATO-Finance Capital Investment Team review process.

The CIT reviews both the benefits and costs of each ATO investment program, and validates the methodology to determine if benefits are calculated properly, validates the requirements for major investments, and ensures recipient benefits are correctly identified. They also validate the development costs, whether a proper alternatives analysis was conducted, and whether ATO can afford to operate the system once it is developed. As a result of the CIT process, several projects have been restructured, had resources reallocated, or have been terminated. Through these actions, the F&E budget baseline has been decreased by over \$450 million dollars.

Further, FAA has strengthened its management processes. Recent changes to the Acquisition Management System require major acquisition projects to meet OMB Exhibit 300 standards for business case justification before receiving program approval and funding. Key changes include limiting funding approvals to three – five year segments, training and certifying all project managers, and strengthening the investment analysis process.

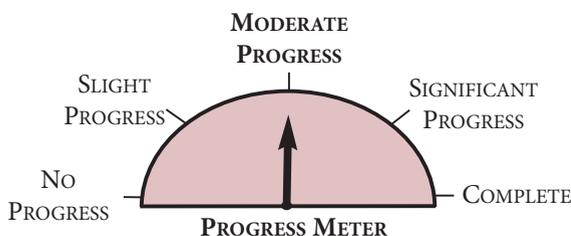
In addition, a major earned value management (EVM) effort has been initiated across the agency. For all newly approved IT investments that have funding greater than \$10 million, project personnel are required to track and measure program performance in accordance with EVM guidelines. By applying EVM methodologies to its acquisitions, the FAA is able to ensure project planning and control by effectively integrating the project scope of work with cost, schedule, and performance elements.

Implementation of executive and management reviews and wide-ranging processes have resulted in positive, measurable, and dramatic changes in how FAA controls major acquisition costs. FAA is meeting its performance target related to acquisition costs and is meeting 97.4 percent of its



acquisition schedule milestones. More importantly, the FAA is beginning to efficiently and effectively deliver critical technology to the National Airspace System, resulting in increased safety and system capacity for airline passengers.

Get Control of Support Services Contracts



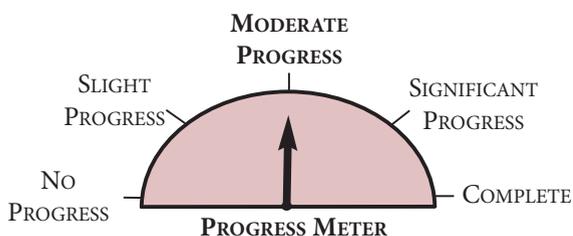
FAA support service contracts now undergo the same rigorous executive and management oversight as do other FAA acquisitions. In addition to the executive reviews discussed in the previous section on controlling major acquisition costs, FAA's Deputy Administrator also plays an important role in reviewing and managing FAA support services costs. For any support service contract where fewer than three bidders are competing for a contract over \$1 million, the Deputy Administrator's approval is required. This additional step in the review process insures adequate competition exists in awarding service contracts.

As discussed in the Inspector General's audit report on FAA's National Contracting Service, the agency has also implemented corrective actions to address a practice known as revolving employment - where former FAA employees return as contractor employees. In October 2005, AMS Clause 3.1.7-6, Disclosure of Certain Employee Relationships was implemented. This clause is intended to enforce the Agency's policy of not conducting business with contractors, subcontractors and consultants who have an unacceptable conflict of interest or an unacceptable appearance of a conflict of interest. Additional guidance was implemented in the October 2006, AMS update.

The IG also pointed out in the same audit report that there were variations in the mechanisms used by different FAA organizations in carrying out procurement oversight responsibilities. In response, the FAA is developing a nationwide, uniform procedure for such oversight under the FAA's Acquisition Executive, which will be incorporated into the AMS by January 31, 2007.



Establish Requirements for the Next Generation Air Traffic Management System (NextGen)



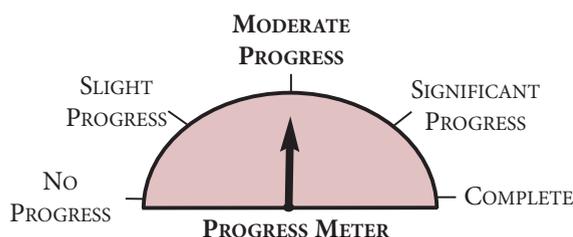
The goal of the Next Generation Air Transportation System (NextGen) is the creation of a more flexible and scalable air transportation system through use of new technologies and capabilities. It will be a data driven system capable of handling new types of aircraft, new industry business models, and the growing demands on capacity expected in the years ahead. Achieving this requires a concerted focus and alignment of efforts in both government and the aviation industry.

The FAA has released an initial draft of the enterprise architecture and its companion concept of operations for stakeholder comment. The concept of operations was developed with the assistance of the private sector and member Federal agencies. The concept forms a baseline to initiate a dialogue with the aviation stakeholder community, to develop the policy agenda, and encourage the research needed to achieve NextGen. An iterative process of defining the concept of operations (ConOps) and enterprise architecture (EA) will continue into early FY 2008, at which time the full breadth and depth of NextGen will have been addressed. However, the ConOps and EA will be further refined over time as research results are achieved, policy decisions are reached, and the impacts of technology breakthroughs are assessed.

In order to better understand the costs and benefits of NextGen, the FAA asked the Next Generation Air Transportation System Institute to host a series of workshops with industry where the critical assumptions and uncertainties underlying future cost estimates can be reviewed, scrutinized, and validated for future use. The workshops have been focused on three objectives. The first has been to focus on specific cost drivers affecting the first five years of the NextGen initiative. The second objective is to develop the assumptions for research and development, facilities, and equipment for the five to fifteen year timeframe. And finally, the third objective is to gain insight into how aviation service and equipment providers view the future of the global marketplace. The workshops have proven highly successful and with this input, the FAA is in a much better position to offer an estimate of the future costs of NextGen. A completed cost benefit case will be developed in FY 2007.



Address the Expected Surge in Air Traffic Controller Attrition and Negotiating an Affordable and Equitable bargaining Agreement



In August 2006, FAA released an updated air traffic controller workforce plan—*A Plan for the Future: The FAA’s 10-Year Strategy for the Air Traffic Control Workforce*. The plan provides a comprehensive 10-year strategy to ensure the FAA has an adequate number of controllers available, in the right place, to handle the coming decade’s projected air traffic. These resource needs are then tightly aligned to the agency’s performance budgets. The plan also outlines how we will hire these new controllers using a schedule designed to provide adequate training lead-time and to address changing air traffic demands over the coming decade.

In FY 2006, the FAA hired and trained new controllers at the level consistent with the updated staffing plan. Controller staffing levels will need to increase each year through 2012 to ensure the number of certified professional controllers in the system stays ahead of expected retirements. Adequate funding requests to hire and train new staff in the future will continue to be consistent with targets set in the controller workforce plan.

Academy training and facility training capacity improvements have been implemented and further improvements are continuing in order to decrease the time it takes a new hire to become a certified professional controller, from three to five years down to two to three years. Even-flow hiring that links Academy training capacity and facility training capacity has avoided training bottlenecks at both the Academy and in-the-field facilities. Training classes at the Academy are full and two classes have been added to the FAA Academy course schedule for FY 2007 to meet hiring and training needs. Academy graduates will fill targeted air traffic facility vacancies that have been identified through the third quarter of FY 2007.

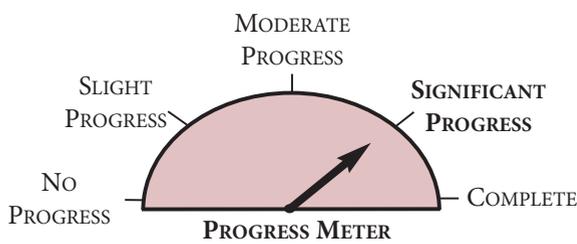
The FAA has also undertaken several key initiatives to achieve significant reductions in operating costs by ensuring controller productivity measures are in place. Since the release of the first air traffic control workforce plan in December 2004, ATO has introduced methods to save \$20,000 per FAA Academy trainee, achieved one-year cost avoidances of \$6.4 million, and reduced direct labor costs by almost \$1 million.



The FAA implemented new work rules for the nation’s air traffic controller workforce which went into effect September 3, 2006, with all past practices and Memorandums of Understanding rendered null and void. The work rules associated with the new National Air Traffic Controllers Association contract ensure that the funding, technology, and people will be in place to provide safe and seamless travel for the flying public, while fairly compensating controllers.

The new contract restores basic management rights lost in the last agreement. Going forward, the agency will be in charge of daily schedules, work assignments, and decisions regarding the deployment of technology. Significant costs savings are achieved through a new controller pay scale and by eliminating two types of premium pay—Controller Incentive Pay, a second locality pay unique to some controllers, and Controller-in-Charge Pay premium, which had not reduced required supervision as originally intended.

Completing the Cost Accounting System to Control Costs and Improve Operations



During FY 2006, the FAA completed the implementation of the Cost Accounting System (CAS) in the last two lines of business – Airports and Aviation Safety. With the implementation of the CAS across all lines of business, FAA management is able to obtain invaluable management information to assess operational performance and make critical business decisions.

The integration of the Air Traffic Organization (ATO) labor distribution system with the CAS was also completed in FY 2006. An updated version of CAS was implemented in ATO, which uses actual ATO labor distribution data – thereby eliminating the use of the less precise staffing standards to assign ATO labor costs. Tracking data indicates that organization-wide, over 90 percent of labor distribution reporting hours are charged to valid projects and activities and that ATO has been achieving a compliance rate near 92 percent.

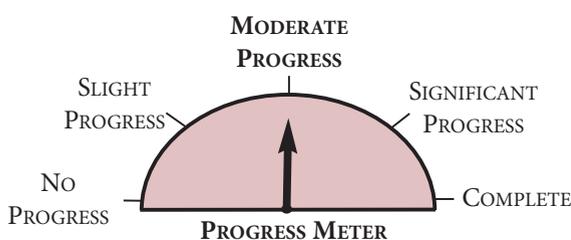
Financial information from CAS is also being used to determine past trends and future needs and is coupled with operational data to determine unit costs. ATO managers are driving cost improvements, and measuring those improvements using key financial performance metrics. For example, the ATO has identified economic drivers, such as controlled flights, and manages to a



“full cost per controlled flight” performance target. The ATO also manages to an overall direct to indirect field employee staffing ratio, to assure resources are deployed to support the operational workforce in a cost-efficient manner.

7. MANAGEMENT CHALLENGE: AVIATION SAFETY—DEVELOPING EFFECTIVE OVERSIGHT PROGRAMS FOR AIR CARRIER OPERATIONS, REPAIR STATION MAINTENANCE, AND OPERATIONAL ERRORS

Implement a Risk-Based Approach to Air Carrier and Repair Station Oversight



The FAA has continued implementation and expansion of the Air Transportation Oversight System (ATOS), a proven risk-based approach to air carrier oversight. ATOS enables FAA inspectors to look at the whole system, from pilots to maintenance facilities to flight dispatch to cabin safety. ATOS provides inspectors with the ability to continually adjust the focus of surveillance through the identification and prioritization of risks. Of the 116 major air carriers, 39 are currently under ATOS and the remaining 77 will be under ATOS by December 2007.

A significant part of air carriers’ maintenance work is performed at night or on weekends. To fully address this circumstance, FAA adjusted its surveillance requirements to reflect the amount of maintenance performed during these hours. To support this adjustment, the agency issued new guidance that requires certificate management teams to identify and document how much maintenance is accomplished off-hours and to develop surveillance plans to monitor risks associated with work performed during these times. The guidance also requires managers to ensure that inspectors assess risk, adjust surveillance plans accordingly, and that surveillance reports are annotated to indicate when inspections are accomplished off-hours.

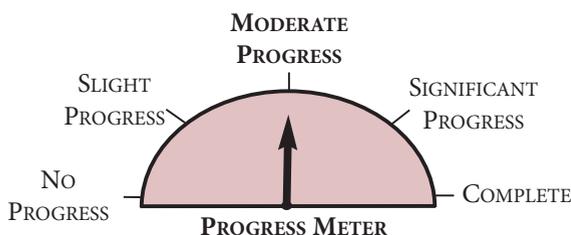
The FAA issued new guidance and proposed rules for the oversight of both domestic and foreign repair stations. For domestic facilities, the guidance establishes a system safety oversight and risk assessment program. A notice of proposed rule making (NPRM) that revises standards for the FAA to certify repair stations is also currently under review at the Department of Transportation.



To provide customers a better understanding of the capabilities of specific repair stations, the FAA has prepared and sent to DOT a NPRM that revises the rating system for repair stations to better reflect evolving technologies and business practices. The proposed rule also requires repair stations to have a self-audit system to assure the repair station only returns to service products that meet all airworthiness requirements.

The FAA continues to conduct a repair station prototype program that uses an air carrier certificate management team structure to strengthen oversight. Advantages of this approach include standardization and control from a central FAA office. The program is targeting large repair stations and companies that operate multiple repair stations or satellite repair facilities. Based on the results, FAA will evaluate expanding this approach in FY 2008.

Ensure Reporting of Operational Errors



To ensure operational errors are reported, the FAA issued a general notice to all Air Traffic Control facilities to establish an incident audit process. This program was implemented in October 2005, and is fully operational. The incident audit review process contains a highly structured system of checks and balances to ensure the reporting of operational errors. The process requires reviews of Air Traffic Services using existing playback tools to identify operational errors. The playback tools recreate air traffic incidents by replaying recorded radar and voice data. FAA Headquarters is also conducting similar reviews to capture operational errors. Further, the FAA has added a requirement to its Air Traffic Quality Assurance Order that directs all facilities to conduct monthly audits of a random sampling of radar or other data. Each facility or hub prepares a quarterly report of the findings to their respective Service Area Quality Assurance Manager. FAA data indicates the audit program is having the desired effect—facilities are more accurately reporting operational errors and deviations.

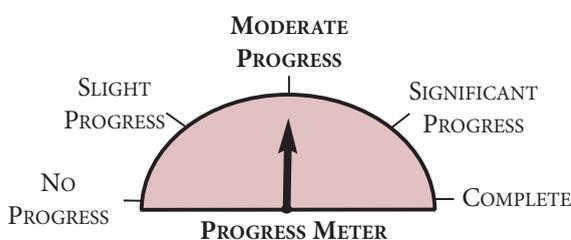
To automate this incident audit review process, FAA is currently developing and implementing a nationwide automated software prototype to depict separation conformance in both the terminal and enroute environments called the Traffic Analysis Review Program. This detection technology



applies separation logic to targets, identifies where applicable separation standards are not being maintained, and highlights incidents for further investigation. The FAA is on schedule for initial implementation in the third quarter FY 2007.

8. MANAGEMENT CHALLENGE: IMPROVING INFORMATION TECHNOLOGY INVESTMENT AND COMPUTER SECURITY

Clarify the Departmental Investment Review Board's Role in Assisting the Secretary to Maximize the Value and Manage the Risk of Major Information Technology Investments

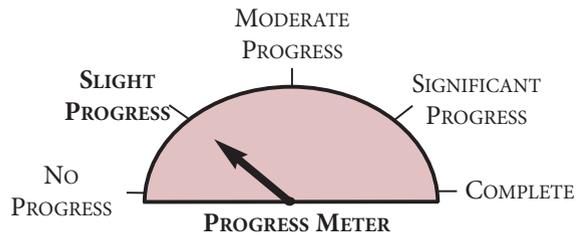


With the cooperation of the DOT General Counsel and FAA's Chief Counsel Offices, the role of the DOT Investment Review Board (IRB) in major IT investments has been more clearly defined. The IRB will continue its oversight role for the entire Department, with the FAA agreeing to voluntarily submit its major investment projects to the IRB for review. The IRB will continue to make recommendations to the FAA with respect to major IT programs as a necessary part of developing the Department's IT portfolio in the budget process. If the FAA chooses not to adopt the Department's recommendations with respect to major IT investments, the Department retains the authority to exclude the project from the Department's budget.

In order to improve management and oversight of IT investments, DOT is revamping its overall governance structure, including changes to the IRB to make it more value added in the oversight process. The IT budget submission schedule will be changed to better align it with the overall budget schedule. Reporting requirements for IT investments will also change to allow managers to identify at-risk or potentially at-risk programs earlier in the acquisition process. The Department's Chief Information Officer intends to have these changes implemented in FY 2007.



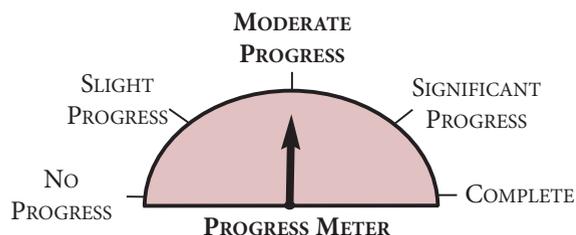
Eliminating Redundant IT Infrastructure Outside of DOT Headquarters to Reduce Operating Costs.



During FY 2006, DOT continued to integrate hardware and software services to its common operating environment. The Department also made gains in eliminating IT redundancy as field office e-mail and desktop workstations were consolidated in several operating administrations. Server migrations were also completed at several field facilities in five different operating administrations.

The Department’s focus in FY 2007 will be to plan for the broader remaining activities related to consolidating field office IT infrastructure and eliminating duplication. Consolidating networks and implementing a services support model will be included in the planning process. A comprehensive project plan will be completed and submitted to the CIO Council and the Investment Review Board for review and approval.

Better Securing Operational Air Traffic Control Systems



The Security Certification and Accreditation (C&A) Program is an integral part of FAA’s efforts to ensure the security of its information technology systems, including air traffic control systems. The FAA adopted National Institute of Standards and Technology (NIST) guidelines and standards for certification, accreditation, and monitoring of its IT systems. The C&A process



provides FAA senior managers the most complete and accurate information possible on the security status of the agency's information systems so they can make timely, credible, risk based decisions on whether to authorize operation of those systems.

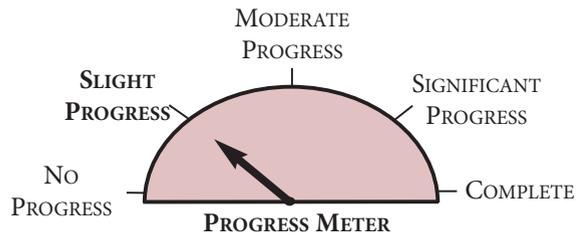
The FAA undertook several initiatives to maintain current certification and authorization (C&A) of its IT systems, which includes air traffic control systems. The FY 2006 goal was to complete C&As on 33 percent of its IT systems, or 95 total C&As. Of the 95 total C&As, 28 were planned to be initial certifications and 67 re-certifications. The agency completed initial C&As on 26 systems (rather than 28 as two developmental systems were not fielded) and recertified 73 systems in FY 2006. Remaining systems will undergo self-assessments as the FAA is required to review all IT systems on a yearly basis using a C&A or self-assessment. In addition, the agency revised the C&A Handbook to reflect NIST guidelines and standards. The agency also established a FY 2006 goal to remediate 20 percent, or 36, of the 180 high-risk weaknesses identified. To date, the FAA has remediated 112 of the targeted 180 vulnerabilities, far exceeding the FY 2006 target.

The FAA took steps to improve its business continuity plan (BCP) to deal with prolonged service disruptions at a major facility that would severely disrupt air traffic, cause significant economic losses, and subject travelers to delays and inconvenience. The FAA has completed actions on recommendation received in FY 2005 to mitigate a prolonged service disruption at an enroute facility. Further, the agency established an engineering team to support continuity plan activities. The BCP team completed an engineering analysis and developed proposed near, mid, and long-term solutions. The team briefed FAA Senior Executives who formalized BCP activity as a priority. By December 2006, the BCP team will develop a schedule and program management plan to support the proposed business continuity plan solutions.

The FAA also designated a focal point for decision-making in long-term disaster recovery. This designation is reflected in an update to the Air Traffic Organization Operational Contingency Plan. The update also reflects the transition from short-term contingency to long-term continuity, which will enable the FAA to deal more effectively with prolonged service disruptions at major facilities.



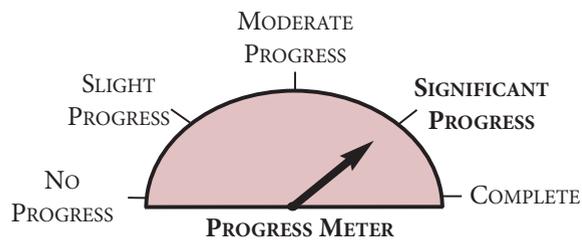
Correcting Weaknesses in the Federal Railroad Administration Network and Enhancing Business Contingency Plans for Critical DOT Systems



In response to the Inspector General’s finding, FRA has eliminated a router vulnerability in its administrative network. Using static route statements, all communication from external sources passing through the network’s edge routers are now directed to the security firewalls. All firewalls have been upgraded with the latest security software updates/patches, and hardened following the guidance in existing DOT standards. The overall firewall policy being followed is to block all inbound communications traffic unless that traffic is explicitly permitted. This firewall policy was adapted from DOT guidance, the Computer Emergency Response Team/Coordination Center and the SANS (SysAdmin, Audit, Network, Security) Institute. Users have been given training on security awareness and the handling of sensitive data. FRA has also added their headquarters systems to the DOT Windows Active Directory domain in order to ensure compliance with DOT standards.

9. MANAGEMENT CHALLENGE: ENSURING THAT REFORMS ARE IMPLEMENTED IN THE MARITIME ADMINISTRATION’S TITLE XI LOAN GUARANTEE PROGRAM

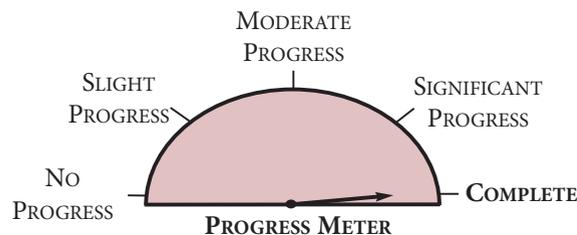
Completing the Development of the Title XI Loan Guarantee Tracking System





During FY 2006, MARAD continued development and implementation of the loan guarantee tracking system. By the second quarter of FY 2007, the computerized monitoring software should be fully capable of meeting the Title XI program's requirements. The computerized monitoring system will be fully developed and operational by the end of FY 2007. The tracking system will increase the program's efficiency in performing the required financial analysis for each Title XI loan guarantee and the tracking of insurance and vessel classification certificates for vessels and shipyards financed by the Title XI program. The computerized monitoring system will help the Title XI program staff minimize defaults since the increased efficiency in performing financial analysis will help identify troubled loan guarantees earlier and provide more time for the staff to take corrective actions when necessary.

Enforcing the Requirements Established To Mitigate Risks of Noncompliant Loans and Pursuing Remedies to Cure Defaults



MARAD has completed an accounting of each borrower's Reserve Fund requirements. MARAD has actively worked to cure any defaults of noncompliant loans and will continue to work with any borrower that is noncompliant on its Reserve Fund deposit requirements.

With the implementation of the new loan guarantee tracking system, MARAD considers this management challenge resolved. In September 2004, the DOT Inspector General issued a follow-up audit on the Title XI Program and stated that MARAD developed policies and procedures that addressed each of their five recommendations from the March 2003, audit report in a satisfactory manner. The Title XI Program has not experienced a loan guarantee pay-off since April 2002.



PERFORMANCE FRAMEWORK

INTRODUCTION

The Department of Transportation's overarching mission is:

The National objectives of general welfare, economic growth and stability, and the security of the United States require the development of transportation policies and programs that contribute to providing fast, efficient, and convenient transportation at the lowest cost consistent with those and other National objectives, including the efficient use and conservation of the resources of the United States.

Everything we do at DOT is aimed toward meeting this mission statement and making measurable improvements in our transportation system, the security of our Nation, and the quality of American life. In the Performance and Accountability Report we hold ourselves accountable to the public for effectively bringing to bear the Department's energy and resources in improving the Nation's transportation system. We use these results to improve our strategies and resource decisions.

DOT's performance framework is as follows:

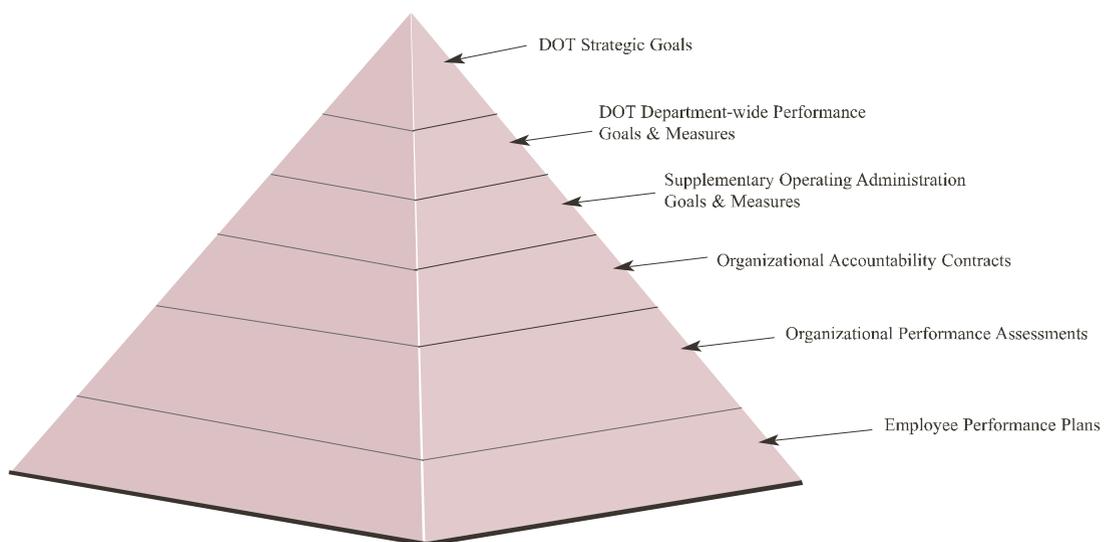
- The **DOT Strategic Plan** provides a comprehensive vision for improving the Nation's complex and vital transportation system. DOT's 2003 – 2008 Strategic Plan outlines five strategic goals in the areas of safety, mobility, global connectivity, security and environmental stewardship that articulate the longer term focus of the Department. In addition to the broad objectives, the plan targets specific outcomes we want to achieve and identifies key challenges.
- The **DOT Performance Budget** operationalizes the Strategic Plan, and provides direct linkages between DOT's budget request and the results the public can expect from programs within each of our Operating Administrations. The performance budget defines the performance goals and measures used to manage progress toward our strategic goals. It describes in detail one fiscal year's resources and programmatic effort within a strategic context. The performance budget also aligns each dollar requested to one of our strategic goals.
- This **DOT Performance and Accountability Report** provides a public accounting of our FY 2006 performance results.



Performance accountability for DOT organizations, executives, and employees embed the philosophy of managing for performance into the Department's culture and daily practices. Performance accountability within the Department is accomplished through the following mechanisms:

- **Organizational Accountability Contracts**—Prepared at the beginning of each fiscal year, these agreements between the Secretary of Transportation and each modal Administrator document expected levels of organizational performance for the upcoming year.
- **DOT Organizational Assessments of Performance**—A review of each Operating Administration's performance is done at the end of the fiscal year to assess the organization's success in the following areas: meeting Department-wide performance targets; results of Office of Management and Budget Program Assessments using the Program Assessment Rating Tool; President's Management Agenda initiative ratings; and efforts associated with addressing any management challenges or material weaknesses identified by DOT's Office of Inspector General. The results of these assessments are then factored into the personal performance evaluations of our senior executives.
- **Employee Performance Plans**—Prepared early in the fiscal year, these plans document expected levels of employee performance that clearly link to our strategic goals through the performance framework.

The following graphic describes how DOT plans, measures, manages, and reports on performance:





HOW DOT WORKS TO ACHIEVE ITS STRATEGIC AND PERFORMANCE GOALS

The Department achieves its goals through its leadership role in U.S. transportation policy, operations, investment, and research. To influence results, DOT programs rely on a number of common interventions and actions. These include:

- Direct operations and investment in DOT capital assets that provide capability, such as air traffic control and the Saint Lawrence Seaway operations;
- Infrastructure investments and other grants, such as investment in highway, rail, transit, airport, and Amtrak capital infrastructure, and grants for safety, job access, or other important transportation programs;
- Innovative financial tools and credit programs, such as those provided for by the Transportation Infrastructure Finance and Innovation Act, and the Railroad Rehabilitation and Improvement Financing Program;
- Rulemaking, in areas such as equipment, vehicle, or operator standards; for improving safety; and for fostering competition in the transportation sector of the U.S. economy;
- State/local organizational capacity building, through training, best practices, peer-to-peer exchanges and other activities that strengthen the capability of State Departments of Transportation, Metropolitan Planning Organizations, and local governments to play their essential front-line role in planning, investing in, and operating highway and transit systems;
- Enforcement to ensure compliance, including inspections, investigations, and penalty action;
- Research and technology development and application, such as fostering new materials and technologies in transportation, and transportation related research;
- Education and outreach, such as consumer awareness, and campaigns to influence personal behavior; and,
- Public Information, such as that provided by the Bureau of Transportation Statistics, and each DOT Operating Administration, so that States, localities, regions, and private sector entities can better plan their activities.

Some of these interventions and actions reside entirely within the Federal Government, but most involve significant partnering with State and local authorities and with the transportation industry. These are the broad areas of action that DOT—and State and local governments—commonly use to bring about desired results.



PERFORMANCE REPORT

Our FY 2006 Results: A Reader's Guide

The performance section of this report is composed of chapters for each strategic goal identified in the DOT Strategic Plan. The Organizational Excellence section of the report focuses on overall DOT efforts to achieve our part of the President's Management Agenda, ensuring that we are a citizen-centered, results-oriented Cabinet agency, depending on market-based transportation solutions.

For each strategic goal, we present four increasingly detailed levels of information, which together help the reader understand the breadth of the Department's activities.

- The first level, which consists of the strategic goal, strategic outcome, and annual resources, provides a summary-level view of how the Department is engaged in a national priority like transportation mobility;
- The second level, the performance goal and annual resources dedicated to the performance goal, focuses on a particular aspect of the priority being discussed;
- The performance measure, at the third level, shows the reader how we measure our progress toward the performance goal, the target we set for ourselves, and our success in reaching it; and,
- The narrative in the fourth level provides the reader details about our accomplishments or the challenges we faced, along with a forecast of our ability to meet the next year's target.

TERMINOLOGY

We use the following terminology throughout the Report:

Strategic Goal—statement from the DOT Strategic Plan, outlining the desired long-term end-state.

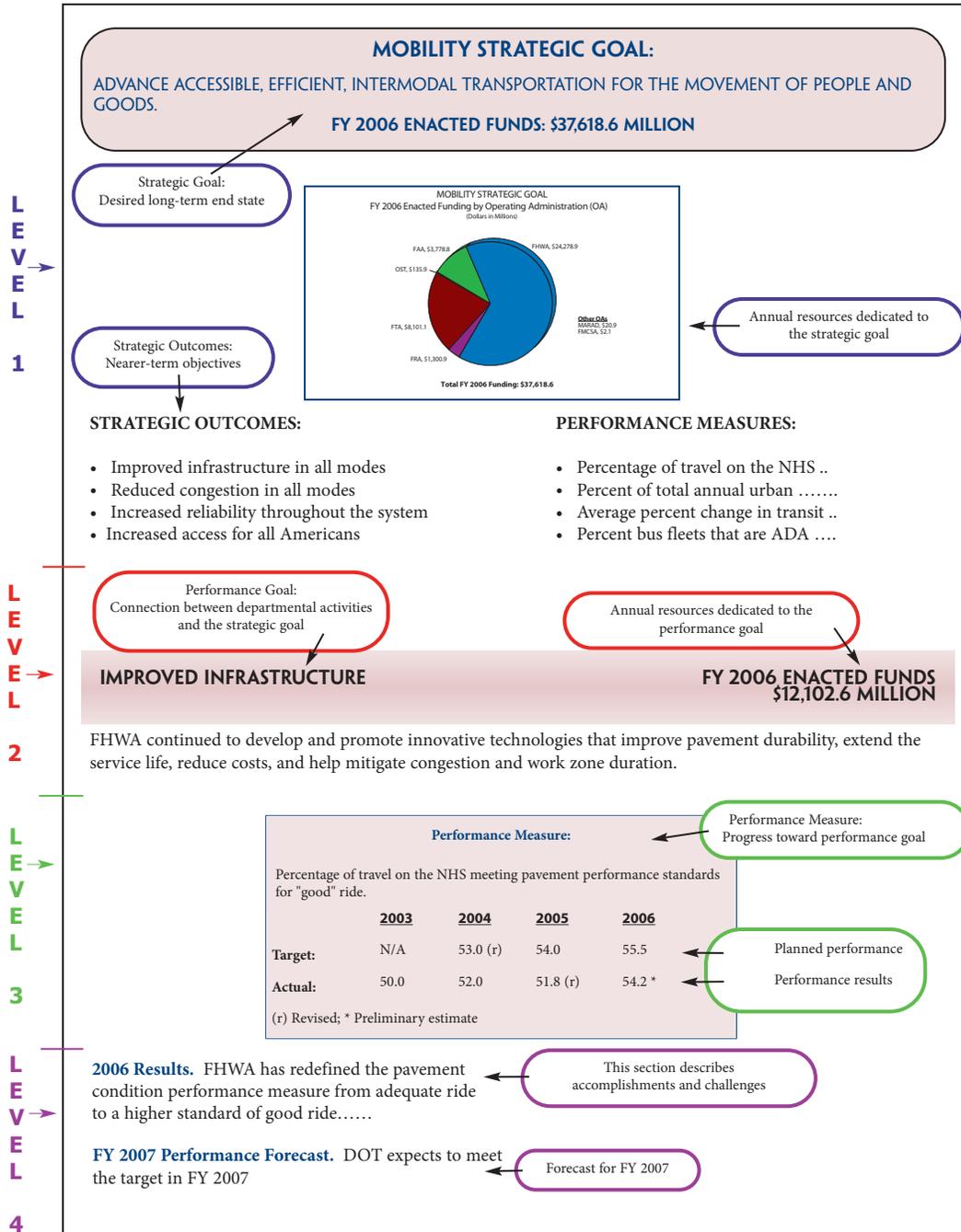
Strategic Outcome—statement from the DOT Strategic Plan, outlining nearer-term objectives.

Performance Goal—a performance objective, connecting effects created by Departmental activities and programs, and the resulting influence on strategic outcomes.

Performance Measure—a measurable indicator of progress toward a performance goal, with annual targets.



This graphic shows the different levels of information and how they are presented.





The relationship between DOT's activities and observed results—The relationship between resources and results can be complex, and a mix of current and prior-year resources and activity almost always influences any performance result. For example, direct service program results such as FAA air traffic control operations are influenced both by external forces and prior-year acquisition activities. Other results, such as highway congestion or transit ridership, are predominately influenced by prior-year funding.

Data completeness—An exhaustive assessment of the completeness and reliability of our performance data and detailed information on the source, scope, and limitations for the performance data in this report are provided at: <http://www.bts.gov/programs/statistical-policy-and-research/source-and-accuracy-compendium/index.html>. In that Web site, we also provide information to resolve the inadequacies that exist in our performance data.

Preliminary vs. final results—Reporting FY 2006 results by November 2006 has been challenging where we rely on third party reporting. Often we have only preliminary or estimated results based on partial-year data and must wait for final data to properly verify and validate our results. In some cases where data is provided solely as an annual value and is not available in time for this report, we rely on historical trend information and program expertise to generate a projected result. We have been careful to point out where we have assessed our performance on a preliminary or projected basis. Preliminary estimates or projected results will be adjusted after final compilation or verification and validation. In all cases where results have changed from last year's report, we indicate that by placing an (r) with the number, indicating a revision.

DOT contributions to common governmental outcomes—DOT's performance is aligned with its legislative mandates, but in some cases there are no "bright lines" separating DOT from other agencies. For instance, in DOT's Security Strategic Goal, we make very important contributions in accordance with our mandates and appropriations, but we do so alongside the Departments of Defense, Homeland Security, State, Justice, Commerce, and Energy. Similarly, other agencies make significant contributions to the Nation's transportation system.

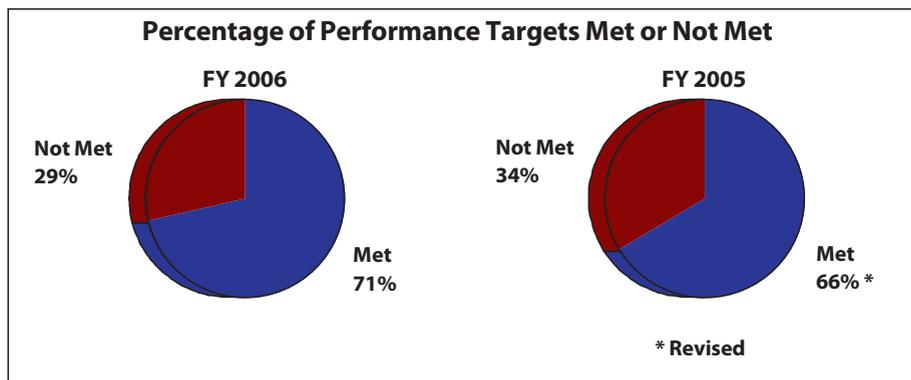
Management challenges—The DOT Inspector General and the Government Accountability Office publish reports describing a number of problems and challenges facing the Department. We take these issues seriously, and have folded our approach to meeting these challenges into our general efforts to achieve good performance outcomes. We have placed a description of each management challenge and the Department's response in Management's Discussion and Analysis near the front of this report.

Summary performance table—One of the ways that DOT interprets its progress towards achieving its strategic goals is to compare single year results to historical trends. We have provided a tabular summary of long-term performance for each of the Strategic Goals to provide context for the FY 2006 achievements.



SUMMARY PERFORMANCE TABLES

OVERALL DOT PERFORMANCE SUMMARY



SAFETY PERFORMANCE SUMMARY

Performance Measure	2000	2001	2002	2003	2004	2005	2006 Actual	2006 Target	Met / Not Met
Highway fatalities per 100 million vehicle-miles traveled (VMT)	1.53	1.51	1.51	1.48	1.45 (r)	1.47 (r) *	1.44 #	1.38	✗
Fatalities involving large trucks per 100 million truck VMT	2.57	2.45	2.30	2.31 (r)	2.29 (r)	2.31 (r)	2.32 *	1.85	✗
U.S. commercial fatal aviation accidents per 100,000 departures (last 3-years' average)	0.037	0.037	0.026	0.024	0.021	0.017 *	.020 *	.018	✗
Number of fatal general aviation accidents	341	359	348	366 (r)	340	354 (r) *	297 *	337	✓
Rail-related accidents and incidents per million train-miles	22.84	23.44	20.04	19.40 (r)	18.95 (r)	17.62 (r)	16.14 *	16.80	✓
Transit fatalities per 100 million passenger-miles traveled	0.499	0.482	0.473	0.461	0.467 (r)	0.428 (r)	0.344 *	0.477	✓
Number of natural gas pipeline incidents and hazardous liquid pipeline accidents	380	341	330	370 (r)	440 (r)	490 (r)	407 *	365	✗
Number of serious hazardous materials transportation incidents	564 (r)	588 (r)	465 (r)	472 (r)	490 (r)	482 (r) *	432 *	460	✓

(r) Revised; * Preliminary estimate; # Projection ✓ Met; ✗ Not Met



MOBILITY PERFORMANCE SUMMARY

Performance Measure	2000	2001	2002	2003	2004	2005	2006 Actual	2006 Target	Met / Not Met
Percent of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride ¹	48.0	49.0	49.3 (r)	50.0 (r)	52.0 (r)	51.8 (r)	54.2 *	55.5	✗
Percent of total annual urban-area travel occurring in congested conditions	29.6	30.6	30.7	31.0	31.6	31.8 (r)	32.1 #	33.7	✓
Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels	5.0	4.3	0.2	0.7	0.7	1.9 (r)	2.1 *	1.0	✓
Percent bus fleets compliant with the ADA	80	85	90	93	95	97	97 *	97	✓
Percent of key rail stations compliant with the ADA	52	67	77	82	82	91	92 *	91	✓
Number of employment sites (in thousands) that are made accessible by Job Access and Reverse Commute transportation services ²	17	28.4	52.1	73.7	82.8	95.4 (r)*	71.5 *	50	✓
Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays	74.9	76.5	82.2	82.3	79.07	88.4 (r)	88.36	87.40	✓

(r) Revised; * Preliminary estimate; # Projection ✓ Met; ✗ Not Met

ADA — Americans with Disabilities Act;

¹ Starting in FY 2005, measure was redefined to measure "good" rated pavement versus "acceptable" rated pavement. Results for FY 2000 through FY 2004 have been adjusted accordingly.

² Starting in FY 2006, the administration of FTA's JARC program changed from a separate nationally-administered competitive program into a state-administered formula program as enacted in SAFETEA-LU.



GLOBAL CONNECTIVITY PERFORMANCE SUMMARY

Performance Measure	2000	2001	2002	2003	2004	2005	2006 Actual	2006 Target	Met / Not Met
Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses	4.5	3.7	3.8	4.2	3.8 (r)	6.6 (r)	6.7 *	5.1	✓
Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses	17.7	17.4	16.2	15.8	15.6 (r)	12.7 (r)	11.8 *	14.5	✗
Percent of days in shipping season that the U.S. portion of the St. Lawrence Seaway is available	99.2	98.1	98.7	98.9	99.1	99.7	99.0	99.0	✓
Number of new or expanded bilateral aviation safety agreements implemented	N/A	N/A	N/A	N/A	3	2	4	2	✓
Number of potential air transportation consumers (in billions) in international markets traveling between the U. S. and countries with Open Skies and open transborder aviation agreements (measure revised in FY 2005)	N/A	N/A	N/A	1.48	1.72	2.97	3.01 *	2.99 (r)	✓
Number of international negotiations conducted annually to remove market-distorting barriers to trade in air transportation (new measure in FY 2005)	N/A	N/A	N/A	N/A	N/A	10 (r)	10	10	✓

(r) Revised; * Preliminary estimate; ✓ Met; ✗ Not Met



ENVIRONMENTAL STEWARDSHIP PERFORMANCE SUMMARY

Performance Measure	2000	2001	2002	2003	2004	2005	2006 Actual	2006 Target	Met / Not Met
Ratio of wetlands replaced for every acre affected by Federal-aid highway projects	3.8	2.1	2.7	2.7	2.1	3.3 (r)	2.6 #	1.5	✓
Percent DOT facilities characterized as No Further Remedial Action Planned under the Superfund Amendments and Reauthorization Act	90	91	91	94	93	92	92	93	✗
12-month moving average number of area transportation emissions conformity lapses	6.0	6.0	6.0	6.0	6.3 (r)	5.8 (r)	1.3 *	6.0	✓
Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines	0.0083	0.0026	0.0057	0.0071	0.0102	0.0090 (r)	0.0059 *	0.0060	✓
Percent reduction in the number of people in the U. S. who are exposed to significant aircraft noise levels	N/A	N/A	N/A	-15	-28 (r)	-29 (r)	-27 #	-4	✓

(r) Revised; * Preliminary estimate; # Projection from trends; ✓ Met; ✗ Not Met

SECURITY PERFORMANCE SUMMARY

Performance Measure	2000	2001	2002	2003	2004	2005	2006 Actual	2006 Target	Met / Not Met
Percent of DoD-required shipping capacity complete with crews available within mobilization timelines	92	97	94	96	94	95	93	94	✗
Percent of DoD-designated commercial ports available for military use within DoD established readiness timelines	93	92	92	86	93	87	100	93	✓
Transportation Capability Assessment for Readiness Index Score (New Measure in FY 2005)	N/A	N/A	N/A	59	67	65	72	72	✓

✓ Met; ✗ Not Met



ORGANIZATIONAL EXCELLENCE PERFORMANCE SUMMARY

Performance Measure	2000	2001	2002	2003	2004	2005	2006 Actual	2006 Target	Met / Not Met
For major DOT aviation systems , percentage of cost goals established in the acquisition project baselines that are met ¹	N/A	N/A	89.5	88	100	97	100	85	✓
For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met ²	N/A	N/A	74	77 (r)	91.5 (r)	92	97.4	85	✓
For major Federally funded infrastructure projects, percentage that meet schedule milestones established in project or contract agreements, or miss them by less than 10 percent	N/A	N/A	85	88	95	95	91	95	✗
For major Federally funded infrastructure projects, percentage that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent	N/A	N/A	85	88	74	79	82	95	✗
Percentage of transit grants obligated within 60 days after submission of a completed application	21	51	67	83	91	91	94	80	✓

(r) Revised; ✓ Met; ✗ Not Met

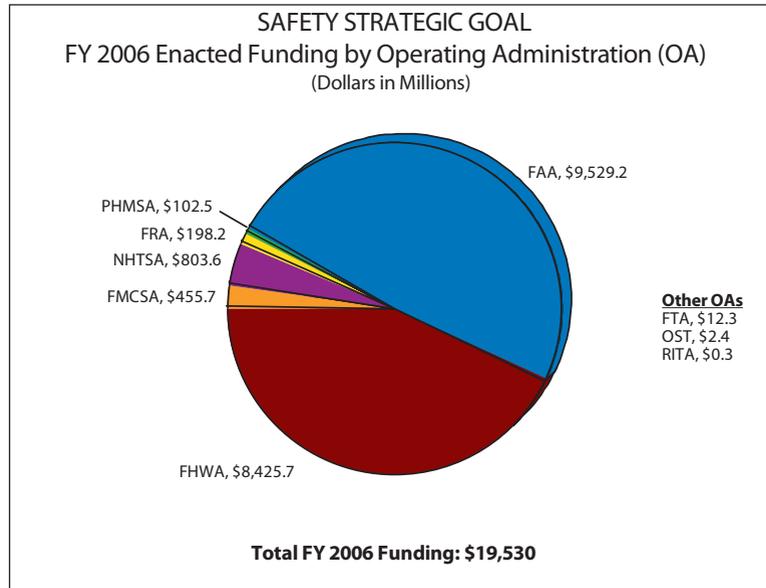
^{1&2} These measures were combined in FY 2004 to include both cost goals and schedule milestones



SAFETY STRATEGIC GOAL

PROMOTE THE PUBLIC HEALTH AND SAFETY BY WORKING TOWARD THE ELIMINATION OF TRANSPORTATION-RELATED DEATHS AND INJURIES

FY 2006 ENACTED FUNDS: \$19,530 MILLION



STRATEGIC OUTCOMES

- Reduction in Transportation-Related Deaths
- Reduction in Transportation-Related Injuries

PERFORMANCE MEASURES

- Highway fatalities per 100 million vehicle-miles traveled (VMT).
- Fatalities involving large trucks per 100 million truck VMT.
- U.S. commercial fatal aviation accidents per 100,000 departures (last 3 year's average).
- Number of fatal general aviation accidents.
- Rail-related accidents and incidents per million train miles.
- Transit fatalities per 100 million passenger-miles traveled.
- Number of natural gas pipeline incidents and hazardous liquid pipeline accidents.
- Number of serious hazardous materials transportation incidents.



HIGHWAY SAFETY

**FY 2006 ENACTED FUNDS
\$9,668.6 MILLION**

Highway crashes account for 95 percent of all transportation-related fatalities and 99 percent of transportation injuries. There are a number of facts known about this leading cause of death for Americans age 4 through 34: about 60 percent of fatalities occur in roadway departure crashes and 59 percent of those happen on rural roads; 22 percent of fatal crashes occur at intersections; 18 percent of Americans, or about 55 million people, still do not use safety belts all of the time when driving motor vehicles; and alcohol is still the single biggest contributing factor in fatal crashes. Three Operating Administrations—the National Highway Traffic Safety Administration, the Federal Highway Administration, and the Federal Motor Carrier Safety Administration—contribute to the accomplishment of the Department’s highway safety goal by focusing on safer roads, safer vehicles, and safer driver behavior.

NHTSA After two consecutive years of decline in overall highway fatalities and impaired driving fatalities, and having achieved the lowest recorded fatality rate in history, fatality data revealed a setback in 2005 (latest data available). Total fatalities increased by 1.4 percent over 2004, to a total of 43,443 in 2005. The 2005 figure includes a minimal decrease in total alcohol-related fatalities by 0.2 percent to a total of 16,885. The increase in vehicle fatalities comes from the dramatic rise in the number of motorcycle fatalities and the increase in pedestrian fatalities over the previous year, which more than compensate for the slight decrease in motor vehicle occupant fatalities (-0.7 percent). Motorcycles continue to be of particular concern, with a 13 percent increase in motorcycle fatalities in 2005, to a total of 4,553. The number of pedestrian fatalities increased from 4,675 in 2004 to 4,881 in 2005, a 4.4 percent increase. All of this underscores the need for a renewed, aggressive and coordinated effort to make America’s roads safer.

FHWA Approximately 60 percent of fatalities occur in roadway departure crashes, involving a run-off-road in a single vehicle or a head-on or sideswipe collision with another vehicle. The FHWA continues to concentrate efforts on reducing the number of fatalities in three types of crashes: roadway departures, crashes at or near intersections, and collisions involving pedestrians. Roadway departures fatalities in 2005 (latest data available) were 25,388, a slight decrease from 2004. Fatalities for intersection-related fatal crashes in 2005 were 9,188 and 4,881 for pedestrian-related fatalities. Both figures represent slight increases from 2004. The FHWA safety-related programs yielded multiple benefits for communities across the United States, including a reduction in the number of specific types of crashes and improvements in system conditions and operations. Highway construction programs contributed to safety by improving unsafe roadway design and operations, improving the condition of bridges, and removing roadway hazards. The continued use of Road Safety Audits assisted communities with safety improvements during the construction of new roadways and reconstruction of existing roadways. FHWA influenced decisions to increase staffing, funding, and coalition partnerships for safety initiatives in Maine, Illinois, Minnesota, and States along the I-95 corridor.



FMCSA Based on preliminary estimates for 2006, the number of deaths in crashes involving large trucks has decreased by almost 20 percent from its all-time high in 1979. In addition to the low rate for crash-related fatalities, the rate for crash incidence is the lowest in decades. Preliminary projections for 2006 suggest that FMCSA will be able to maintain this historic low. Currently, about 8 million large trucks are registered to operate across the Nation, traveling over 230 million truck miles.

2006 Results. DOT is not expected to meet the targeted highway fatality rate. The early projection for 2006 is a fatality rate of 1.44 per hundred million VMT, resulting in 43,463 fatalities. The rate continues to decline, but at a slower pace than anticipated. In 2003, the fatality rate was 1.48 per hundred million vehicle miles traveled (VMT) based on 42,884 killed in traffic-related crashes. With 42,836 fatalities in 2004, the rate declined to 1.45 per hundred million VMT. In 2005, there was a slight rise to 43,443 traffic deaths, resulting in a fatality rate of 1.47.

Performance Measure				
Highway fatalities per 100 million vehicle-miles traveled (VMT)				
	2003	2004	2005	2006
Target	1.4	1.38	1.38	1.38
Actual	1.48	1.45 (r)	1.47 (r) *	1.44 #
(r) Revised; * Preliminary estimate; # Projection				

DOT is reviewing trends and identifying the program factors that contribute to reductions in the average fatality rate to identify the States that appear to be on track to achieve substantial reduction in fatalities over the next few years. With the new Highway Safety Improvement Program established in SAFETEA-LU and continued implementation of existing programs, the current trends can hopefully be reversed. The FHWA, NHTSA, FMCSA, FTA and FRA, as well as external safety advocates and partners including the American Association of State Highway Transportation Officials, will continue working together to develop effective approaches and countermeasures.

FY 2007 Performance Forecast. It is unlikely that the target will be met in FY 2007.





2006 Results. DOT did not meet the target. Preliminary data for 2006 shows that the actual large truck fatality rate is 2.32 fatalities per 100 million truck VMT, while the target was no more than 1.85 fatalities per 100 million truck VMT. This constitutes an estimated shortfall of .47 fatalities per 100 million truck VMT; based on the projected mileage for 2006.

Performance Measure				
Fatalities involving large trucks per 100 million truck VMT				
	2003	2004	2005	2006
Target	2.19	2.07	1.96	1.85
Actual	2.31 (r)	2.29 (r)	2.31 (r)	2.32 *
(r) Revised; * Preliminary estimate				

Despite the lowest incidence of truck crashes and fatalities in decades, it has become clear that our gains have reached a plateau, and further reductions in the fatality rate are becoming harder and harder to attain. In response, beginning in FY 2005, FMCSA launched major initiatives to reexamine and reengineer core safety activities. The Comprehensive Safety Analysis (CSA) 2010 project is examining the foundation of all of FMCSA's safety programs, exploring new enforcement regimes, and revisiting many existing practices and procedures to increase and sharpen the agency's focus on improving safety. In FY 2007, FMCSA will launch important research and development cycles for CSA 2010 concepts and in FY 2008 the Agency will begin initial testing and evaluation of the CSA 2010 projects through pilot tests in multiple states. In FY 2007, FMCSA will renew its focus on the role of drivers in preventing crashes. An increasing body of research shows that influencing driver behavior is the biggest factor in crash prevention. This is an important area for the Agency to look at for future gains in safety.

FY 2007 Performance Forecast. The Department will likely fall short of the Secretary's goal of 1.75 fatalities per 100 million truck vehicle-miles traveled.

IN-DEPTH ACCOMPLISHMENTS PROMOTING HIGHWAY SAFETY

NHTSA

Safety Belts

In the past five years, safety belt use has increased steadily from 71 percent in 2000 to 82 percent in 2005 (latest data available). NHTSA has found safety belt use is statistically lower in States with secondary belt enforcement laws than in States with primary laws, and even lower in rural areas than in urban or suburban areas. Primary enforcement allows law enforcement officers to issue a citation any time they observe an unbelted driver or passenger. Secondary enforcement only allows officers to issue a safety belt citation if the officer has stopped the vehicle for some other reason. To date, 25 States, the District of Columbia, and Puerto Rico have enacted primary safety belt use laws. SAFETEA-LU provides real incentives for States to enact stronger belt use



laws. It is already seeing benefits; since the beginning of 2006 three more States—Alaska, Kentucky, and Mississippi—have enacted primary safety belt use laws in direct response to the SAFETEA-LU incentives.

In May 2006, NHTSA conducted one national Click It or Ticket (CIOT) campaign, while encouraging States to continue to conduct periodic high-visibility safety belt law enforcement mobilizations during the summer months. The agency continued demonstration projects to increase safety belt use among high-risk populations such as drivers in rural areas, pick-up truck occupants, 8-15 year olds and teens. NHTSA continued to work with organizations representing these populations to try to raise their lower-than-average safety belt use rates. This year's CIOT campaign was accompanied in 18 States by an additional campaign, Buckle Up in Your Truck, to encourage improved safety belt usage in pickups.

Impaired Drivers

NHTSA made available more than \$118.3 million to the 50 States, the District of Columbia and Puerto Rico for alcohol-impaired driving countermeasure laws or programs, such as administrative license revocation laws and graduated licensing programs, or to meet certain performance criteria based on their alcohol-related fatality rates. Within this program, the ten States with the highest impaired driving fatality rates received extra funding under SAFETEA-LU. NHTSA will work closely with these ten States to facilitate implementation of effective programs, including periodic and sustained high-visibility enforcement efforts and media campaigns. NHTSA initiated the new national advertising campaign delivering the message “Drunk Driving: Over the Limit; Under Arrest.” As part of this campaign, States conduct impaired driving enforcement crackdowns during the Labor Day weekend and the December holiday season.

Safer Vehicles

Under NHTSA's New Car Assessment Program (NCAP), the agency tested approximately 80 percent of new vehicles in order to provide consumers with frontal and side crashworthiness information. The agency has published a new regulation, effective November 2006, to require the placement of NCAP safety ratings on vehicles at the point of sale by September 1, 2007.

The agency also rated 99 child safety seats for ease of use from 14 different manufacturers for 2006. According to the annual ratings, the newest models of child safety seats are easier to use than their predecessors. Of the 99 seats rated, 85 received an overall score of “A”. In 2005, 74 percent of rated seats received an overall score of “A”. Clearer labels and instructions accounted for most of the improvements in 2006.

Rollover ratings for 2006 model year sport utility vehicles (SUVs) show a marked improvement over 2005. The rating results also point to an unprecedented number of SUVs with electronic stability control (ESC) in 2006. For the 2006 model year, 39 SUVs (42 percent of those rated)



earned four stars in NHTSA's rollover rating program. In 2005, 34 percent received four stars. For the 2006 model year, 57 SUVs (69 percent of all SUV models) offer ESC as standard equipment, up from 43 percent in 2005. Earlier research by NHTSA documented the potential life-saving benefits of ESC, reducing single vehicle crashes by 63 percent for SUVs and 30 percent for passenger cars.

FHWA

Roadway Departure

In 2006, FHWA continued to actively pursue improved roadway departure safety through a multi-faceted approach. FHWA worked closely with State highway engineers and safety specialists, law enforcement personnel, and safety researchers to identify appropriate engineering countermeasures for high-risk locations on existing roads and to incorporate state-of-the-practice design features on new roads. This effort includes promoting greater use of improvements such as upgraded guardrails and other roadside features to current standards, encouraging expanded use of pavement grooves as warning devices (i.e., rumble strips), and greater use of retro-reflective signs. To minimize the impact of a crash when a vehicle leaves the roadway and strikes objects such as trees or guardrails, an educational CD that addresses the need to balance roadside aesthetics with safety was widely distributed to State highway departments.

Intersection Safety

To improve intersection safety, the FHWA worked with its partners to develop engineering and technology improvements, provide training and technical assistance for State and local safety officials, develop a sample intersection safety action plan for use by States, and evaluate the effectiveness of intersection safety countermeasures. As a result of these efforts, FHWA provided information to State and local officials on intersection safety, including novel or non-traditional intersections. FHWA continues to develop Intelligent Transportation Systems technology-based systems that might significantly reduce intersection crashes in the future, such as a Cooperative Intersection Collision Avoidance System, which has the potential to significantly reduce intersection crashes by enabling the vehicle to communicate with the highway to help drivers avoid potential crashes.

Pedestrian Safety

To counter the serious issue of pedestrian fatalities, FHWA continued to partner with State and local agencies to target high crash locations in those States with the highest pedestrian fatalities. FHWA developed a comprehensive guide to help State and local agencies to develop and implement a pedestrian safety action plan. FHWA delivered 37 courses on *How to Develop a Pedestrian Safety Action Plan* and *Engineering for Pedestrian Safety in States* with pedestrian safety



issues. In addition, FHWA developed bilingual educational materials designed to provide native Spanish speaking audiences with important information related to pedestrian and bicycle safety issues in the United States.

FMCSA

Compliance and Enforcement

During FY 2006, FMCSA continued to place a high priority on enforcement and compliance operational activities. FMCSA obligated over \$250 million to States for motor carrier compliance and enforcement activities to complement Federal operations. During FY 2006, FMCSA completed over 15,398 federally conducted safety compliance reviews, 2,577 conditional carrier reviews, 10,057 federally conducted new entrant safety audits, 186,389 federally conducted Southern border vehicle/driver inspections, 737 federally conducted border safety audits, and 3,032,625 roadside inspections. In addition, the Agency completed 501 motorcoach compliance reviews, 15,867 motorcoach inspections and 15,513 border motorcoach inspections. FMCSA also worked with State partners to ensure their completion of over 5,161 compliance reviews, 28,863 new entrant audits, 138 motorcoach compliance reviews, 8,871 motorcoach inspections, 499 border motorcoach inspections, and 537,124 southern border vehicle/driver inspections.

Education and Outreach

FMCSA, in partnership with NHTSA, completed a project known as TACT (Ticketing Aggressive Cars and Trucks), the first demonstration pilot project of its kind. The project demonstrated the effectiveness of using high visibility enforcement, education, media and evaluation to raise public awareness to reduce fatalities resulting from other vehicles cutting off, tailgating, and speeding near and around large trucks. The results of the project showed that drivers of passenger vehicles understood the message and learned how to drive more responsibly around trucks.

FMCSA began developing a Non-Entrant Education and Outreach Program to identify interstate motor carriers and shippers throughout the country who have not registered with FMCSA and educate them about their responsibility to register and receive formal operating authority. The program will also educate them on their responsibility to comply with the Federal Motor Carrier Safety Regulations and Hazardous Materials Regulations, and the penalties for non-compliance.



RESEARCH, TECHNOLOGY AND SAFETY INFORMATION

FMCSA's Research and Technology programs continue to provide advances and innovations to improve commercial motor vehicle safety. In FY 2006, FMCSA evaluated a lane departure warning system that would monitor the position of a vehicle within a roadway lane and warn a driver if the vehicle deviates or is about to deviate outside the lane. The Agency also began developing recommended practices for other on-board safety technologies, including collision warning systems, adaptive cruise control, and stability systems.

FMCSA is also constructing a prototype and testing countermeasures to alert drivers if their vehicle is following too closely to a commercial motor vehicle. The Agency initiated the design and prototype of an Employer Notification Service system that will allow carriers to register their drivers so that they are notified in a timely manner of any convictions or citations that may disqualify a driver from holding a commercial driver's license.



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FMCSA also began the development, testing and evaluation of a prototype Drowsy Driver Detection System. This project will develop a prototype drowsy driver and distraction monitoring feedback system for commercial motor vehicle drivers using two or more proven sensors. The Agency also commenced Phase 3 of the North American Fatigue Management Program which will provide training and tools for fleet managers, schedulers, drivers and their families. This comprehensive program is currently being tested at one U.S. and one Canadian trucking company to provide fatigue management and awareness training for the different audiences using classroom instruction and DVDs.

AVIATION SAFETY

**FY 2006 ENACTED FUNDS
\$9,529.2 MILLION**

Commercial aviation is one of the safest forms of transportation. Although rare, aviation accidents can have catastrophic consequences, with large loss of life. The public demands a high standard of safety and expects continued improvement. General Aviation (GA) is also an important element of the U.S. transportation system and the U.S. economy. While the majority of aviation fatalities have occurred in this segment of aviation, there has been a gradual trend downward in the number of general aviation accidents since 1988. Progress, however, has not been steady.



2006 Results. DOT did not meet the commercial aviation fatal accident rate. In late August 2006, the commercial aviation industry experienced the tragic loss of a commuter jet with 49 fatalities in Lexington, Kentucky. Earlier in the fiscal year, three fatal accidents occurred on the ground. Each of these fatalities is a sober reminder of the need to continue to work on safety.

Performance Measure				
U.S. commercial fatal aviation accidents per 100,000 departures (last 3-years' average)				
	2003	2004	2005	2006
Target	.033	.028	.023	.018
Actual	.024	.021	.017 *	.020 *
* Preliminary estimate				

Despite these losses, this remains one of the safest periods in aviation history. Since 2001 there have been 50 million successful flights. This represents 2.7 billion passengers who have flown on commercial jet aircraft in the United States without an onboard fatality – nine times the population of our country. The National Airspace System operates 32,000 scheduled commercial flights daily. Accidents involving passenger fatalities have a rate of about one every 18 million departures.

To further strengthen aviation safety, the FAA continued to aid the movement of aircraft throughout the system through the use of required navigation performance (RNP). RNP is performance-based and not dependent on a specific piece of equipment. RNP is not new hardware for the cockpit or new navigation aids. It is a statement of navigation position accuracy necessary for operation within a defined airspace. It establishes highly refined parameters for aircraft airspace containment and ensures aircraft containment 99.9 percent of the time. The accurate, repeatable path, integrity and continuity ensure procedures will be flown in the same manner by all aircraft. Controllers can then expect aircraft to be at a specific position with a high degree of confidence, thus maximizing safety and the efficient flow of aircraft through airspace.

While maintaining its regulatory and enforcement role, FAA continues to partner with the aviation community in improving safety, which is reflected in three basic long-term strategies: (1) prevent accidents by addressing recurrent causes; (2) improve certification and surveillance; and (3) share safety data and information with aviation partners. These strategies are at the heart of most of FAA's significant and long-term safety programs.

FY 2007 Performance Forecast. DOT will not meet its FY 2007 Commercial Air Carrier fatal accident target.





2006 Results. FAA met the target this year for reducing General Aviation (GA) Fatal Accidents. Although most people are familiar with FAA's role in commercial aviation, they may not be aware that it also oversees the safety of almost 300,000 general aviation aircraft in the United States. These aircraft include single-seat home-built airplanes, rotorcraft, balloons, and highly sophisticated extended-range turbojets. General aviation activities include student training, crop dusting, fire fighting, law enforcement, news coverage,

Performance Measure				
Number of fatal general aviation accidents				
	2003	2004	2005	2006
Target	374	349	343	337
Actual	366 (r)	340	354 (r) *	297 *
(r) Revised; * Preliminary estimate				

sightseeing, industrial work, on-demand air taxi service, corporate transportation, as well as personal use and recreational flying. In FY 2006, personal, agricultural, and amateur-built operations showed especially sharp improvements.



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FAA worked with various members of the GA community during FY 2006, including aeromedical evacuation, charter services, and other members of the community to promote education and training on night landings, weather, and other areas of concern.

FY 2007 Performance Forecast. DOT expects to meet the FY 2007 General Aviation safety performance target.

IN-DEPTH ACCOMPLISHMENTS PROMOTING AVIATION SAFETY

Creating safe flying conditions is a complex interplay of many activities but FAA has learned that by addressing the precursors to accidents – operational errors and runway incursions – safety is enhanced. Therefore, the agency spends considerable time and resources to reduce operational errors and runway incursions.

Runway Safety

A runway incursion is any occurrence at an airport involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard or results in a loss of separation with an aircraft taking off, intending to take off, landing, or intending to land. Reducing runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage.



The number of serious runway incursions has been reduced by more than 50 percent from five years ago. In FY 2006, there were 231 (preliminary estimate) of the most serious runway incursions. This equated to an estimated rate of .458 per million operations, a significant improvement over the FY 2006 target rate of .551. Ongoing activities to reduce the risk of runway incursions include improvements to air traffic controller, pilot and vehicle driver awareness, as well as to airport infrastructure and technology enhancements. In FY 2006, the FAA completed crew resource management training designed to help the controller detect and correct controller and pilot mistakes before they result in operational errors or collisions.

Operational Errors

One of the fundamental principles of aviation safety is separation—the need to maintain a safe distance from other aircraft, terrain, obstructions, and restricted airspace. Air traffic controllers employ rules and procedures that define separation standards for this environment. An operational error (OE) occurs when controllers fail to apply or follow these procedures that enforce separation and allow aircraft to end up too close to each other or to an obstruction.

The performance limit for FY 2006 was set not to exceed a rate of 4.27 operational errors per million activities. The FY 2006 preliminary estimates indicate 4.09 operational errors per million activities, tracking slightly below the year-to-date projected performance limit. The FAA continues to implement performance management and communications initiatives focused on operational awareness. To ensure an accurate severity classification of an operational incident, FAA is refining the process used to describe the seriousness of an operational error.

Alaska Accidents

FAA has continued to work proactively to meet its goal to reduce accidents in Alaska for general aviation and all smaller aircraft. Because of the challenges weather and terrain present in Alaska and the broad use of general aviation as a means of transportation, FAA's Flight Plan focuses specifically on reducing general aviation accidents in Alaska. The goal is to reduce Alaska accidents from the 2000—2002 average of 130 accidents per year to no more than 99 accidents per year by FY 2009. The FY 2006 target is 115.

There were 102 accidents in Alaska versus a not-to-exceed ceiling of 115. Based on preliminary data, Alaska experienced a total of seven fatal accidents this year. As a percentage of total accidents, Alaska continues to have one of the lowest proportions of fatal vs. non-fatal accidents, 6.8 percent. From 2000 through 2005, the national percentage of fatal accidents to total accidents was 19 percent. Alaska is at nine percent for those five years, with 65 fatal accidents out of 699.



The introduction of new technology has significantly improved the General Aviation operating environment. Pilots in Alaska can now conduct Global Positioning System approaches using sophisticated on-board equipment at runways that are normally not accessible in low visibility and bad weather conditions.

Also, FAA's continuing development of the Automatic Dependent Surveillance Broadcast (ADS-B) technology holds promise for this region. Unlike conventional radar, ADS-B works at low altitudes and on the ground so that it can be used to monitor traffic on the taxiways and runways of an airport. It is effective in remote areas or in mountainous terrain where there is no radar coverage, or where radar coverage is limited.

RAIL SAFETY

**FY 2006 ENACTED FUNDS
\$159.1 MILLION**

In May 2005, the Secretary announced the Department's National Rail Safety Action Plan to improve the safety of the Nation's freight railroad operations. Substantial progress has been made in FY 2006 to implement the plan's many components.

For example, the National Inspection Plan has been adopted for all five FRA safety disciplines (track; signal and train control; motive power and equipment; operating practices; and hazardous materials). Although data are preliminary for the fiscal year, the plan is having an immediate impact as it makes better use of available inspection resources and accident data to identify safety "hot spots" before an unsafe condition arises.

Other highlights completed during the plan's first year include: the demonstration of vehicle-mounted photo-imaging technology to identify hard-to-detect cracks in rail joint bars; the testing of wireless communications technology to monitor when track switches are left in the wrong position in non-signalized (or dark) territory; a pilot project to ensure emergency responders have accurate and timely information about train accidents involving hazardous materials; and assistance to States to reduce collisions and fatalities and highway-rail grade crossings.

2006 Results. Preliminary results indicate that FRA met its FY 2006 target. In attempting to evaluate the success of the National Rail Safety Action Plan, a review of nine months of accident data is not particularly useful or meaningful. The plan is comprehensive and will require some time for its various components to take hold in the industry;

Performance Measure				
Rail-related accidents and incidents per million train-miles				
	2003	2004	2005	2006
Target	N/A	17.49	17.14	16.80
Actual	19.4 (r)	18.95 (r)	17.62 (r)	16.14 *
(r) Revised; * Preliminary estimate				



however, some results in FY 2006 appear positive. Although preliminary, the 16.14 rate of rail-related accidents/incidents is considerably lower than its goal of 16.80, and the rates of many of its components are lower than their safety performance goals.

For example, the rate of train accidents caused by human factors is 23 percent below its goal for the year, while those of accidents caused by track, equipment, and signal defects are below their goals by 3 percent, 21 percent, and 5 percent, respectively. These comprise four of the five key safety disciplines addressed in the plan, with the benefit to the public of fewer accidents and casualties. The plan targets the most frequent, highest-risk causes of accidents, thereby helping to protect the public and nurture a safe railroad environment.

Although FRA did not meet its targeted accidents/incidents rate in FY 2005, it did reduce its rate by seven percent over FY 2004, and this improvement was accomplished while the overall number of train-miles nationally rose almost three percent. The rail industry also saw a 4.3 percent decrease in accidents during that period, from 14,496 to 13,875. Unfortunately, disasters like Hurricane Katrina late in the fiscal year may have kept us from reaching our goal.

FY 2007 Performance Forecast. The FY 2007 target will be met.

IN-DEPTH ACCOMPLISHMENTS PROMOTING RAIL SAFETY

Track-caused accidents comprised almost 35 percent of all train accidents over the last five years. Roughly an equal amount is attributable to human factors. The remainder is divided between equipment and signal defects. Some of the leading track causes of train accidents are very difficult to detect in normal railroad inspections. Broken joint bars, for example, are a leading cause, but the kinds of cracks in those bars that foreshadow a derailment-causing break are very hard to spot with the naked eye. Similarly, broken rails account for some of the most serious accidents, but the internal flaws that lead to many of those breaks can be detected only by specialized equipment.

To reduce rail-related accidents and incidents, FRA is developing an automated, high-resolution video, joint bar inspection system that can be deployed on a hi-rail maintenance vehicle that will detect visual cracks in joint bars without having to stop the vehicle. In October 2005, a prototype system that inspects joint bars on both sides of each rail was successfully demonstrated. Testing showed that the high-resolution video system detected visual cracks that were missed by the traditional visual inspections.



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In 2006, the system was enhanced with new developments to improve the reliability of the joint bar detection system and adding capabilities to include global positioning satellite coordinates for each joint for future inspection and identification. Additionally, software is being developed and tested to automatically scan the images, detect the cracked joint bar and send a message with the image to the operator.

TRANSIT SAFETY

**FY 2006 ENACTED FUNDS
\$12.3 MILLION**

Public transportation provides a flexible, safer alternative to traveling by automobile. Currently, transit is one of the safest modes of travel per passenger-mile traveled. According to the National Safety Council, passengers on the Nation's bus, rail, or commuter rail systems are 40 times less likely to be involved in a fatal accident, and 10 times less likely to be involved in an accident resulting in injury. The challenge is to further reduce the rate of fatalities and injuries even as the total number of people using transit increases.

2006 Results. DOT met the target for FY 2006. Strong growth in transit ridership and the continued expansion of transit service significantly increased the number of transit passenger miles traveled in FY 2006 over FY 2005. At the same time, using six months of data from FTA's National Transit Database and four months of Commuter Rail (CR) data from the FRA Rail Accident Incident Reporting System (RAIRS), FY 2006 safety figures show a decline in the number of fatalities and injuries. The resulting rates of fatalities and injuries per 100 million passenger miles traveled were well below the performance targets.

Performance Measure				
Transit fatalities per 100 million passenger-miles traveled				
	2003	2004	2005	2006
Target	.492	.487	.482	.477
Actual	.461	.467 (r)	.428 (r)	.344 *
(r) Revised; * Preliminary estimate				

To sustain and improve gains made in safety performance, FTA is working collaboratively with the public, the transportation industry, State departments of transportation, and the research and engineering communities to develop new programs to target and address safety and security concerns. FTA's strategy to keep fatality and injury rates low, in spite of significant increases in passenger miles traveled is: to implement policies and activities (such as research, training technical assistance, information dissemination, and oversight) that encourage transit decisions, practices, programs and operations that will have a direct impact on reducing these statistics; to improve and maintain the condition of the transit infrastructure (vehicles, track and facilities), which has a impact on overall system safety and performance; and to promote system safety in



the planning and design of a transit system from its inception. This approach also includes promoting emergency preparedness procedures which enhance the speed and effectiveness of responses to accidents and incidents that do occur.

The impact on the riding public is a reduction in transit related fatalities, injuries and incidents, and a reduction in the cost and damage to the transit infrastructure due to transit accidents. Also, there is a greater public perception and awareness of the safety of traveling by transit, which is one of the factors that may increase the attractiveness of transit as a mode of choice compared to other modes of transportation with higher accident and fatality rates.

FY 2007 Performance Forecast. DOT will meet the FY 2007 target.

IN-DEPTH ACCOMPLISHMENTS PROMOTING TRANSIT SAFETY

In FY 2006, public transportation did not experience a single accident resulting in double digit fatalities such as the New York Staten Island Ferry incident in October 2003, or the Los Angeles Metrolink Commuter Rail collision, derailment and fire in January 2005. In FY 2006, FTA's strategy for further reducing the low rate of transit fatalities and injuries included:

- Continued investment in new, safer bus and rail vehicles, and improvements to track and transit facility conditions. Newer vehicles and well-maintained facilities are inherently safer than older, less dependable infrastructure.
- Collaboration with Federal, state, and local agencies to promote comprehensive approaches to the management of emergency incidents, including response and recovery activities. FTA developed and disseminates guidance documents to enhance transit system preparedness for dealing with safety and security related incidents and the deployment of critical resources.
- Technical assistance to help the transit industry understand and implement innovative safety and security strategies that reduce risks and mitigate consequences from acts of intentional harm against the transit infrastructure or its passengers and employees.
- Continued support for safety and security training. Over 11,000 transit employees were trained in FY 2006. Training courses included accident prevention and investigation, emergency management, industrial safety, alternative fuels, bus operator safety, and fatigue awareness.

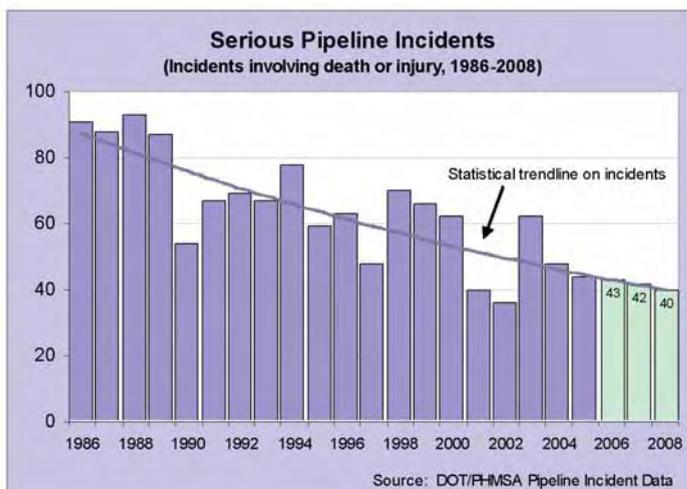


- Continued auditing of alcohol and drug testing programs. Nine years of audits conducted by FTA have shown that the drug and alcohol programs of grantees, sub-recipients, and their contractors have increased compliance with testing rules. An effective drug and alcohol program assists in the reduction of accidents. It is estimated that the drug and alcohol program has led to the direct avoidance of 817 accidents, saved six lives and avoided 718 injuries during the period 1996-2002. Fatalities resulting from accidents in which employees have positive drug test results, dropped from three in 1995 (first year of mandatory testing) to one over the period of 1999 through 2004.

PIPELINE SAFETY

**FY 2006 ENACTED FUNDS
\$54.1 MILLION**

While pipelines are among the safest modes for transporting hazardous liquid and natural gas, the nature of their cargo is inherently dangerous. Therefore, the Pipeline and Hazardous



Materials Safety Administration (PHMSA) has designed and implemented a strong risk-based systems approach to ensure the safety, security, and reliability of our Nation's pipeline infrastructure. Accordingly, this risk-based systems approach also ensures the secure and reliable transportation of our Nation's energy resources. To address risks, PHMSA develops and enforces standards, provides grants to assist states in managing pipeline safety programs, provides training and education, sponsors research and development,

develops plans for emergency response, and responds to incidents to reduce the risk to the public and the environment.

The pipeline safety record is good and improving. The long-term trend shows a general decline in the number of total pipeline incidents. But beginning in 2002, PHMSA saw three successive years of increasing incidents. About 25 percent of this increase can be attributed to recent increases in the price of natural gas (i.e. which escalate the value of product lost), while the reporting threshold has remained fixed at \$50,000. The number of serious incidents has declined markedly



over the past 20 years, and preliminary estimates for 2006 indicate a continuing decline. We believe this indicator provides a better overall measure of program performance than total reported incidents.

2006 Results. Based on preliminary data, PHMSA projects 407 pipeline incidents in 2006, which misses the performance target by about 11 percent. However, this projection, based on six months of reporting, indicates that the number of incidents in 2006 probably will be substantially lower than the previous two years. Data for 2003 and 2004 are revised slightly from earlier reports because operators have submitted new reports or amended old reports.

Performance Measure				
Number of natural gas pipeline incidents and hazardous liquid pipeline accidents				
	2003	2004	2005	2006
Target	326	310	295	365
Actual	370 (r)	440 (r)	490 (r)	407 *
(r) Revised; * Preliminary estimate				

Over the past 20 years, PHMSA has cut the risk of serious incidents—those involving death or injury—by more than half. The agency’s goal is to continue this trend, reducing serious incidents by 10 percent every three years. The risk of serious incidents is down for all three major industry sectors: hazardous liquid, gas transmission, and gas distribution pipelines. Integrity management has been the core of the agency’s approach over the past several years. PHMSA is finishing implementation of integrity management practices in the hazardous liquid and natural gas transmission pipeline systems and extending integrity management practices to gas distribution systems.

It is important to note that since 2004 about 14 percent of the total gas transmission and distribution incident reports submitted to PHMSA per year were reported on incidents that did not meet the reporting criteria in the regulations—death, injuries, or \$50,000 property damages (e.g., since 2002, reporting increased about 25 percent due solely to rapid escalation of natural gas prices and the cost of gas lost in incidents—an important component of property damage). We are working to reduce or eliminate non-reportable incidents from the data. As previously noted, PHMSA will shift its reporting to emphasize serious incidents. PHMSA is also developing a regulatory proposal to adjust the property damage criteria for incidents from a cost basis to a volumetric basis.

FY 2007 Performance Forecast. PHMSA does not anticipate meeting its FY 2007 target.



IN-DEPTH ACCOMPLISHMENTS PROMOTING PIPELINE SAFETY

In FY 2006, the Government Accountability Office (GAO) conducted a study on the effect of PHMSA's integrity management program for gas pipelines on public safety. Early indications were that the condition of transmission pipelines is improving as operators complete assessments and related repairs of their pipelines. In its final report (GAO-06-946), GAO noted the "gas integrity management program is benefiting public safety by supplementing existing safety requirements with risk-based management principles that focus on safety risks in highly populated or frequented areas, referred to as high consequence areas." GAO found that the "gas pipeline industry, state pipeline agency and safety advocate representatives generally agree that the program enhances public safety, citing operators' improved knowledge of the risks to their pipeline systems that stems from systematic assessments as the primary benefit of the program."

As part of its continued implementation of the risk-based approach, PHMSA stepped up the oversight of the new natural gas transmission operator requirements, completing over 75 percent of inspections of the high consequence area mileage covered under the transmission natural gas integrity management rule.

PHMSA issued a new final rule for gas gathering lines in 2006. Through this rule, rural and non-rural gas gathering lines are regulated using a risk-based approach. For the first time, high-risk rural lines are protected under DOT standards, while standards are reduced or eliminated for previously regulated non-rural lines that pose a low risk to public safety.

HAZARDOUS MATERIALS SAFETY

**FY 2006 ENACTED FUNDS
\$106.7 MILLION**

The Pipeline and Hazardous Materials Safety Administration (PHMSA) formulates, issues, and revises Hazardous Materials Regulations (HMR) under the Federal Hazardous Materials Transportation Law. The HMR cover hazardous materials definitions and classifications, hazard communications, shipper and carrier operations, training and security requirements, and packaging and container specifications. PHMSA uses risk management principles and security threat assessments to understand, communicate, and reduce dangers inherent in hazardous materials transportation. PHMSA partners with other modes within DOT and the Department of Homeland Security in developing new regulations and enforcing the provisions of HMR within the hazmat community.

PHMSA focuses its enforcement and outreach resources on hazmat packaging manufacturers, retesters and reconditioners, and commercial shippers of hazardous materials, such as petrochemical companies, large retailers and hospitals. Hazmat carriers are regulated by their respective modes.



2006 Results. PHMSA shares authority to enforce the HMR with other DOT modes—FAA, FMCSA and FRA—as well as the US Coast Guard. PHMSA expects to achieve its serious incidents target this year. PHMSA has implemented practices and software to better track incidents as it learns about them in the press or other sources and aggressively follows up with companies that do not submit a report in a timely manner. The agency believes it is now getting reports that it would not have gotten without the new, more aggressive tactics. In addition, during 2006, PHMSA invested heavily in a prototype information system that will allow modes to share company-specific compliance information, to better identify high-risk hazmat carriers and shippers and plan interventions to limit those risks. The agency intends to invest heavily in this system development during FY 2007 and 2008.

Performance Measure				
Number of serious hazardous materials transportation incidents				
	2003	2004	2005	2006
Target	515	509	503	
Actual	472 (r)	490 (r)	482 (r) *	432 *
(r) Revised; * Preliminary estimate				

FY 2007 Performance Forecast. PHMSA expects to achieve the re-baselined serious incident target in FY 2007.

IN-DEPTH ACCOMPLISHMENTS PROMOTING HAZMAT SAFETY

PHMSA is leading the development of the Hazardous Materials Intermodal Database, a new information system that consolidates all company-specific records across all DOT hazmat programs. The system will be used by hazmat inspectors in all modes to produce reports on facilities' compliance records, including their involvement in incidents, penalties imposed by DOT inspectors, and special permits held. This system will focus DOT enforcement resources on the highest-risk hazmat shippers and carriers, thus enhancing safety efficiently. PHMSA also continues to work in tandem with the Department of Homeland Security to implement rules that protect the Nation from the intentional release of hazardous materials.

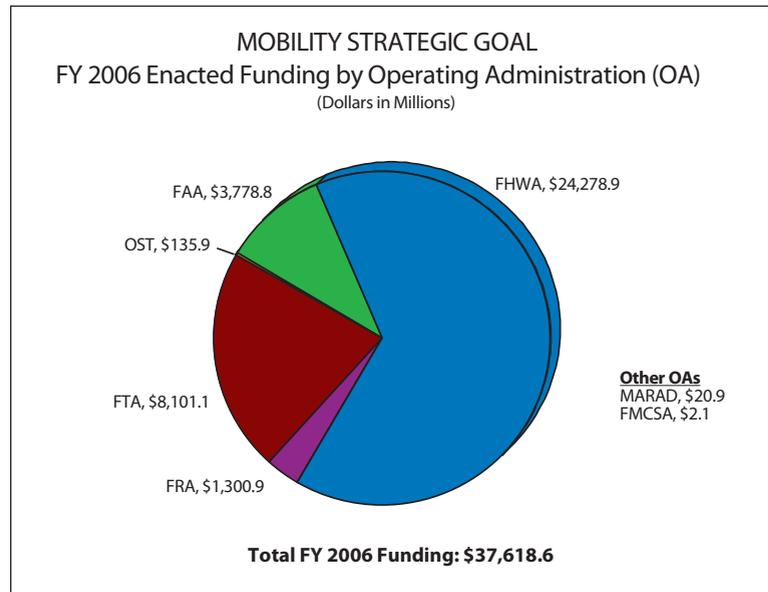
During FY 2006, PHMSA revised transportation requirements for infectious substances, including regulated medical waste, to adopt new classification criteria, new exceptions, and packaging and hazard communication requirements consistent with revised international standards and to clarify existing requirements to promote compliance. These revisions will ensure an acceptable level of safety for the transportation of infectious substances and facilitate domestic and international transportation. PHMSA is also working with FRA to enhance rail transportation security for hazardous materials shipments.



MOBILITY STRATEGIC GOAL

ADVANCE ACCESSIBLE, EFFICIENT, INTERMODAL TRANSPORTATION FOR THE MOVEMENT OF PEOPLE AND GOODS

FY 2006 ENACTED FUNDS: \$37,618.6 MILLION



STRATEGIC OUTCOMES

- Improved infrastructure in all modes
- Reduced congestion in all modes
- Increased reliability throughout the system
- Increased access for all Americans

¹ Starting in FY 2005, measure was redefined to measure “good” rated pavement versus “acceptable rated pavement. Results for FY 2000 through FY 2004 have been adjusted accordingly.

² Starting in FY 2006, the administration of FTA’s JARC program changed from a separate nationally-administered competitive program into a State-administered formula program as enacted in SAFETEA-LU. A feasibility study is being conducted on the proposed replacement measures.

PERFORMANCE MEASURES

- Percent of travel on the National Highway System (NHS) meeting pavement performance standards for good rated ride. ¹
- Percent of total annual urban-area travel occurring in congested conditions.
- Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels.
- Percent bus fleets compliant with the Americans with Disabilities Act (ADA).
- Percent of key rail stations compliant with the ADA.
- Number of employment sites (in thousands) that are made accessible by Job Access and Reverse Commute transportation services. ²
- Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to National Airspace System (NAS)-related delays.



IMPROVED INFRASTRUCTURE

**FY 2006 ENACTED FUNDS
\$12,102.6 MILLION**

Improving the condition and performance of pavement and bridges is critical to the structural integrity and cost effectiveness of the transportation system. The condition of the national highway system (NHS) also impacts traffic congestion, the wear-and-tear on vehicles, the comfort of travelers, and fuel consumption.

2006 Results. Efforts continue to improve the pavement condition on the Nation's highways. The goal is to reach a target of 58.5 percent of vehicle-miles traveled on NHS pavements with good ride quality (International Roughness Index (IRI) of 95 inches/mile or less) by 2008. In 2006, 54.2 percent of travel on the NHS occurred on facilities with a reported IRI of 95 inches per mile or less.

Performance Measure				
Percent of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride				
	2003	2004	2005	2006
Target	N/A	53.0	54.0	55.5
Actual	50.0 (r)	52.0 (r)	51.8 (r)	54.2 *
(r) Revised; * Preliminary estimate				

FY 2007 Performance Forecast. Based on recent trends, it is unlikely that the target will be met in FY 2007. The criteria for the pavement condition measure were revised in FY 2005 to encourage States to focus on increasing the good quality pavements, rather than simply minimizing the poor pavements. However, more improvement is needed in key states that have the most influence on the nationwide results.

REDUCED CONGESTION

**FY 2006 ENACTED FUNDS
\$13,626.8 MILLION**

Traffic congestion on our Nation's highways now affects more trips, more hours of the day, and more of the transportation system than ever before. Congestion varies significantly day to day because demand and capacity are constantly changing at any given location. However, 67 percent of the peak-period travel nationwide is congested, compared to 32 percent in 1982. Travelers in 85 urban areas spent 3.76 billion hours stuck in traffic in 2002, an increase from 0.72 billion in 1982. Reducing congestion and delay will improve urban travelers' mobility and productivity and curb economic inefficiencies induced by congestion.



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2006 Results. DOT and FHWA have adopted the percent of daily-congested travel nationwide as an indicator of overall system performance. The measure is an estimate of the percent of daily traffic in approximately 400 urbanized areas moving at less than free-flow speeds. The estimate of percent of congested travel was 32.1 percent in 2006, a figure below the target of

33.7 percent. The actual result in 2005 was 0.2 percent higher than in 2004. The results for the 2002-2005 period suggest that the overall rate of growth in traffic congestion nationwide has slowed somewhat. In addition, the rate of growth in traffic congestion nationwide appears to be slowing based on the analyses of real-time traffic data that the FHWA has collected during 2004-2006 from travel information Web sites and transportation management centers in selected cities.

Performance Measure				
Percent of total annual urban-area travel occurring in congested conditions				
	2003	2004	2005	2006
Target	31.6	32.3	33.0	33.7
Actual	31.0	31.6	31.8 (r)	32.1 #
(r) Revised; # Projection				

FY 2007 Performance Forecast. Congestion levels nationwide should remain below the target of 32.5 percent in FY 2007, so the current target will likely be met. The results for the period between 2002 and 2005 indicate that the overall rate of growth in traffic congestion nationwide is slowing, and is less than projected increases of 0.7 percent annually.

IN-DEPTH ACCOMPLISHMENTS PROMOTING MOBILITY

FHWA continued to promote the use of the Mechanistic Empirical Pavement Design Guide, a pavement analysis and modeling system released by the National Cooperative Highway Research Program (NCHRP) and submitted to the American Association of State Highway and Transportation Officials (AASHTO). Potential users of the design guide increased their familiarity with the system by participating in FHWA sponsored workshops, equipment demos, and site visits. New test procedures and equipment were developed that will be used in writing future performance related specifications, by conducting State visits with the FHWA mobile asphalt and concrete laboratory. Also, FHWA completed a study of ways to use pavement management system information to calibrate the design guide procedures.

FHWA continued efforts to optimize the performance of the highway system by providing performance data, analysis, and product information that engineers and managers can use to design, build, maintain and manage more cost effectively. With the Foundation for Pavement Preservation and other association forums on pavement preservation, the Agency initiated a national effort to examine State DOT pavement preservation practices and processes in order to identify areas of potential improvement in this area. Seventeen on-site reviews of state pavement preservation programs were conducted in FY 2005-2006.



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FHWA made significant progress in implementing high performance materials for wide-spread applications to ensure more durable bridges. Forty-three States are using high-performance steel and all States are using high-performance concrete in their bridges. FHWA assisted the States in implementing the Load Resistance and Factor Design (LRFD) specification, which provides a more reliable and uniform level of safety for bridges. Seventeen States are utilizing the LRFD specifications for all new designs.

A series of pavement smoothness workshops were delivered in five States that can most affect the pavement condition target. A best practices document was prepared based on site reviews of pavement production quality assurance systems in four States. Research and development on advancing pavement materials testing, performance prediction, analysis, and recycling continued through cooperative agreements with the American Concrete Institute, the Asphalt Institute, Iowa State University, Auburn University, and a consortium of universities through the Western Research Institute.

FHWA continued to deploy custom workshops and training to States and other partners implementing asset management, and provided focused resources and technical assistance to practitioners utilizing economic analysis and evaluation tools. With AASHTO and the Transportation Research Board (TRB), the FHWA supported the Transportation Asset Management Web site to provide best practices information to transportation owners. FHWA responded to numerous inquiries from the Web site as well as over 50 requests for technical assistance to practitioners.

FHWA continued to promote accelerated construction through a series of workshops and reports, including a How To Guide for State Highway Agencies to assist states in developing their own programs. As of October 2005, Accelerated Construction Technology Transfer (ACTT) is a key step in the project development process and defines Federal-aid funding eligibility. A progress report, ACTT III – Transition to Tomorrow, was released in May. In addition, FHWA has accelerated construction of Bridges by developing resources such as the Decision Making Framework for Prefabricated Bridges, Manual for Bridge Moves using Self-Propelled Mobile Transporters, cost studies, connection details, and specifications.

Federal Lands Highway (FLH) partnered with the National Park Service (NPS) to transform the way the NPS manages its constructed assets. For the first time, NPS has comprehensive information about their inventory of roadway assets. Also, it is completing the first round of comprehensive roadway condition assessments. Understanding the actual and total costs for sustaining its assets in an acceptable condition is critical, as it makes future strategic decisions concerning the allocation of financial resources. FLH and the NPS conducted a pilot study and beta-test of the application of an automated Pavement Management System to assist in the



development of a prototype Transportation Improvement Program for the Park Roads and Parkways program of the NPS Northeast Region. This procedure incorporates Asset Management practices including both Pavement Management Systems and Bridge Management Systems into a transportation planning process to influence decision making from both an economical and technical point of view. The pilot study also utilized the Right Fix-Right Time approach, which uses the Roadway Inventory Program data, specific decision trees for various environmental zones, deterioration curves for the Maintenance and Rehabilitation activities in the environmental zones, and an optimization analysis to make recommendations for the pavement activities. The recommendations were considered during the development of a multi-year program of priority projects that balance pavement preservation with other maintenance and rehabilitation activities, as well as bridge and safety needs. In addition to the work that only involves the NPS, FLH completed stewardship and oversight agreements with its three major partners, the U.S. Forest Service, the NPS, and the U.S. Fish & Wildlife Service. Working with the Fish & Wildlife Service, FLH also instituted an assessment and review function to ensure compliance with laws, agreements, and regulations. Finally, FLH began implementation of the Indian Reservation Roads program's tribal agreements between FHWA and individual tribal governments.

Encouraging public private partnerships is a key strategy in the Transportation Secretary's National Strategy to Reduce Congestion, which was announced in June. The FHWA compiled a manual of all the innovative ways to use public-private partnerships on highway projects under current law, including SAFETEA-LU, in order to facilitate private industry entering into partnerships with public agencies to build roads. The Agency posted model public-private partnership contract and legislative language on its Web site. FHWA continued to gather information about enabling legislation and contract documents used at the state-level to share with States that are considering enabling legislation or entering into public-private partnerships under existing authority. Numerous presentations about innovative financing and public private partnerships were made at conferences and meetings.

FHWA initiated efforts to develop and deploy new SAFETEA-LU programs to fund designated projects that will add capacity to the National Highway System. The Agency issued program guidance for the Projects of National and Regional Significance Program, which involves 25 projects and \$1.779 billion in funding over five years, and the National Corridor Infrastructure Improvement Program, which involves 33 projects and \$1.948 billion in funding over five years. Initial funding was provided to two projects. FHWA also began an effort to develop a list of significant traffic bottlenecks in each state in order to identify the areas where the Agency can focus efforts to reduce their effects or eliminate them altogether.

FHWA sponsored an assessment on traffic signal training to identify knowledge, skills and abilities necessary for traffic signal technicians and engineers, as well as categorize and assess existing traffic signal timing courses. We completed the Traffic Signal Timing on a Shoestring



guidance and initiated work on a comprehensive traffic signal operations manual. Adaptive Control Software (ACS)-Lite was introduced to help support changes in traffic signal timing in response to changes in facility use.

To ensure that Intelligent Transportation System (ITS) technologies can work together smoothly and effectively, FHWA continued to ensure the technical and institutional framework needed for deployment of the Nation's ITS infrastructure. FHWA supported the completion of 270 Regional ITS Architectures. Another eight regional architectures are currently under development. FHWA provided a robust program of training and technical assistance to partner agencies in developing Regional ITS Architecture and in understanding how to properly use and maintain them once developed.

FHWA continued to support the deployment of 511, a national travel information telephone service that provides drivers with easier access to local travel conditions information. Through the AASHTO-led 511 coalition, FHWA developed guidelines and provided technical assistance and information through various means including Web meetings and a national conference. The 511 telephone service is now accessible to about 38 percent of the Nation's population. In addition, we assisted State and local transportation agencies with providing high-quality traveler information through other means such as dynamic message signs and Web sites.

FHWA intensified its efforts to manage facility capacity through the implementation of pricing strategies. In response to new options provided in SAFETEA-LU, a Federal Register Notice was issued to assist public authorities in identifying the most appropriate program to meet their requirements. A Web-based information clearinghouse was created to describe all of the eligible programs, as well as to solicit and collect expressions of interest from states and other candidate authorities. Finally, a Tolling and Pricing Primer that provides a comprehensive perspective of the Agency's tolling and pricing initiatives, including Public-Private Partnerships and Innovative Financing programs, was developed for States and other public entities.

Numerous States conducted a self-assessment, with support from FHWA, in order to examine their current state-of-the-practice in work zone management and implementation with other states. In addition, we produced and promoted a suite of implementation guidance documents, regional technical assistance workshops, web-based questions and answers to assist States in meeting the October 2007 implementation deadline for the 2004 Work Zone rule. The rule requires State work zone mobility and safety policies, consideration of work zone impacts, and identification of work zone impact mitigation strategies. In partnership with the Highways for Life Program, the Agency launched a major initiative to provide focused technical assistance to support State efforts in making work zones work better.

FHWA continued its efforts to assist States and metropolitan areas in improving their Traffic Incident Management (TIM) programs. Select metropolitan areas assessed TIM programs for program and institutional issues, on-scene operational issues, and communications and



technology. In addition, significant institutional and technical advancements were made with the establishment of the National TIM Coalition, supported by FHWA and comprised of representatives from a number of transportation, public safety and private sector organizations. In addition to establishing a National TIM Unified Goal, the Coalition continued its outreach and educational efforts. Also, FHWA encouraged the establishment of new or enhancement of existing service patrols as a way to better manage traffic incidents.

Weather events can cause traffic congestion and contribute to accidents. Efforts continued with the National Oceanic Atmospheric Administration to jointly develop several improved weather products and services, including an observation system that assimilates road weather conditions and feeds them into better road weather information products, and training materials that highlight the ways in which state and local Departments of Transportation can make the most use of National Weather Service advisories, watches and warnings.

TRANSIT RIDERSHIP **FY 2006 ENACTED FUNDS**
\$7,711.0 MILLION

Transit is one of the safest ways of traveling, relieves road congestion, and reduces air pollution. The Federal investments in transit, combined with State and private sector funds, make public transportation possible for millions of Americans every day.



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Traffic congestion now costs motorists in our Nation's top urban areas about \$68 billion a year in wasted time and fuel. Without transit, traffic congestion would cost an additional \$19 billion.

Many of the 37 million Americans who live below the poverty line rely on transit as their only means of transportation for work and non-work trips. As former welfare recipients move from welfare to jobs, transit offers the critical link that makes employment possible and the American workforce stronger.

Accessible public transportation is also important to 24 million Americans with physical disabilities who can use public transportation, and the increasing elderly population who can no longer drive.



2006 Results. DOT met the performance target. Collectively, the top 150 operators represent about 96 percent of transit ridership nationwide. The analysis provides the opportunity to report data that is consistent across transit systems and time periods. FTA's methodology captures the average change per market to reflect FTA's goal of increasing ridership in every transit market. In addition, based on a number of studies that document the effect of employment changes on transit ridership, FTA accounts for changes in employment by market utilizing Department of Labor monthly employment reports. FTA issues a quarterly report to agency staff regarding ridership boardings (unlinked trips) nationally.

Performance Measure				
Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels				
	2003	2004	2005	2006
Target	2.0	2.0	1.0	1.0
Actual	0.7	0.7	1.9 (r)	2.1 *
(r) Revised; * Preliminary estimate				

A combination of factors contributed to the increase in ridership in 2006 including programs such as the Commuter Choice/Commuter Check, the guaranteed ride home program, partnerships between transit agencies and employers, and universities to provide transit passes, simplified fare structures, and greater marketing of transit. The purchase of new vehicles by many transit properties increased the amenities and rider comfort which also attracts riders. In addition to these system initiated efforts to increase transit ridership, economic factors such as the increase in the price of gasoline and higher levels of employment contributed to the growth in ridership during 2006.

FY 2007 Performance Forecast. DOT expects to meet the transit ridership target for FY 2007.

IN-DEPTH ACCOMPLISHMENTS PROMOTING TRANSIT RIDERSHIP

To support this goal, FTA continued to invest in the Nation's transit infrastructure to ensure transit is as safe, efficient and cost-effective as possible, thus attracting new riders, and maintaining existing riders. FTA also implemented several new initiatives to promote ridership, and recognized transit agencies that developed innovative and successful programs to increase ridership. Some of the FTA ridership accomplishments include the following:

In FY 2006, the United We Ride (UWR) human service coordination initiative moved to improve transportation services for transportation disadvantaged populations (older adults, persons with disabilities and individuals with low incomes) by improving the coordination of various Federal program resources. As a result of UWR, 32 States have developed state coordination action plans



and state transportation coordination councils to promote coordinated human transportation strategies within their states. FTA developed guidance to implement the coordinated planning requirements of SAFETEA-LU to implement coordinated public transit/human service.

- In FY 2006, FTA established two additional ridership teams to work with transit systems in California and Michigan that have had declines in ridership during the past two years. During FY 2007, these two transit systems will implement the actions recommended by FTA to increase ridership.
- FTA is working with the Transit Cooperative Research Program on a study entitled, “Determining the Elements Needed to Create High Ridership Transit Systems,” which is expected to be completed by December 31, 2006.
- The FTA Ridership Web site, launched in FY 2005, contains best practices on approaches used by transit agencies to increase ridership, reports on four Ridership Team Reviews completed by FTA, National Transit Institute training opportunities, and a link to the American Public Transit Association (APTA) Web site for additional information.
- FTA completed a national study of guaranteed ride home (GRH) programs to demonstrate their cost effectiveness and posted it on FTA’s Ridership Web page. It is expected to be published in 2 national journals by the end of CY 2006.
- FTA hosted a ridership forum at the APTA Annual Conference in San Jose in October 2006 which examined what transit agencies can do to maintain and increase ridership.

INCREASED ACCESSIBILITY

**FY 2006 ENACTED FUNDS
\$399.3 MILLION**

Accessible public transportation is vital to maintaining the independence and mobility for people with disabilities and linking them to employment, health care and the community. Access to transportation is essential for people who are making the transition from welfare to work.



2006 Results. DOT met the bus target for compliance with the Americans with Disabilities Act (ADA). The bus fleet continues to become more accessible as older vehicles are replaced with those that are lift-equipped or have low floors to accommodate wheel chairs. The overall rate of increase in bus accessibility has slowed somewhat since many of the buses replaced were already lift-equipped. While all new buses are lift equipped or have low floors, it will be difficult to reach 100 percent compliance because many transit operators retain buses that are not lift-equipped for more than twenty years.

Performance Measure				
Percent of bus fleets compliant with the ADA				
	2003	2004	2005	2006
Target	89	92	95	97
Actual	93	95	97	97 *
* Preliminary estimate				

FY 2007 Performance Forecast. DOT expects to meet the bus fleet accessibility target for FY 2007.



2006 Results. DOT met the key rail station target for compliance with the Americans with Disabilities Act (ADA). There are 687 key rail stations nationwide designated as such by the commuter authority or light/rapid rail operator, in cooperation with the local disability community. 549 of these key rail stations make up our goal. The remaining 138 stations are under FTA approved time extensions for meeting ADA compliance requirements because they require extraordinarily expensive structural modifications to bring them into compliance. Transit operators have made significant progress in meeting the goal; the remaining stations tend to be those that require a significant amount of work and are very expensive. Many of these operators are discovering that the scope of work needed to comply with the ADA exceeds their original projections. As a result, more time will be required to complete the necessary modifications. The flat level of growth in the percentage of key stations made accessible between 2003 and 2004 reflect these realities and led FTA to lower its previous projection for achieving full key station accessibility beyond FY 2004.

Performance Measure				
Percent of key rail stations compliant with the ADA				
	2003	2004	2005	2006
Target	79	89	84	91
Actual	82	82	91	92 *
* Preliminary estimate				

FY 2007 Performance Forecast. DOT expects to meet the accessibility target for FY 2007.



IN-DEPTH ACCOMPLISHMENTS TO INCREASE TRANSIT ACCESSIBILITY

For FY 2006, preliminary estimates indicate that 92 percent of key rail stations are ADA compliant, which is higher than anticipated. A key factor in exceeding the 91 percent target is attributed to aggressive monitoring, follow-up, and continuation of the ADA key rail station compliance assessment process. Since 1995, FTA has conducted more than 700 assessments or follow-up assessments to track progress toward ADA compliance. Quarterly rail station status reports and key rail station assessments have helped to significantly increase the number of key rail stations that have come into compliance. FTA is providing the necessary technical assistance to transit operators as both parties work together to achieve the goals. FTA will continue efforts to encourage and support transit agencies to meet the accessibility goal for key rail stations.

JOB ACCESS AND REVERSE COMMUTE SERVICES (JARC)

In areas of the country that receive JARC funds, the program successfully meets the transportation needs of low-income individuals seeking reliable transportation to employment and related support services. Transit agencies have used JARC funds for a wide variety of services, ranging from expansion of fixed route bus systems, and demand responsive services, to providing customer information. In each community that received a grant, JARC transportation services have reached new employment sites, making thousands of entry-level jobs and employers accessible for the program's target populations. New stops supported by JARC funds have also increased access to critical employment support sites, particularly childcare and job training facilities.

2006 Results. DOT met the JARC target for the number of employment sites that are made accessible by Job Access and Reverse Commute (JARC) transportation services. The administration of FTA's JARC program was changed from a separate nationally administered competitive program into a state-administered formula program as enacted in SAFETEA-LU. This change provided each state with the opportunity to consider and prioritize their mobility needs when planning transit. In response to this change, FTA evaluated the performance measure and found that the measure could be improved. FTA is in the process of defining a new measure and undertaking a feasibility study. Upon the conclusion of the feasibility study, FTA hopes to have baseline information available by FY 2007.

Performance Measure				
Number of employment sites (000s) that are made accessible by Job Access and Reverse Commute (JARC) transportation services				
	2003	2004	2005	2006
Target	23.5	50.0	50.0	50.0
Actual	73.7	82.8	95.4 (r) *	71.5 *
(r) Revised; * Preliminary estimate				



Riders have reported that JARC services played an important role in their lives by making jobs accessible. An overwhelming majority (93 percent) of passengers surveyed in 2002 indicated that JARC services were either “very important” (81 percent) or “important” (12 percent) to them. Two-thirds (66 percent) of the respondents indicated that they would not have been able to access their destination without the JARC service. JARC services are used most frequently to travel to and from a work site, approximately 62.5 percent of all trips. Nearly one out of every three JARC respondents did not work prior to making use of the services.

FY 2007 Performance Forecast. It is anticipated that DOT will meet the FY 2007 target, once it is established.

INCREASED RELIABILITY

**FY 2006 ENACTED FUNDS
\$3,778.8 MILLION**

Major factors affecting National Air Space (NAS) on time arrivals include seasonal weather patterns, airport conditions, airport construction projects, and increases in traffic volume, which have surpassed pre-September 11, 2001 levels.

Our strategic programs and initiatives, such as airspace redesign, revised air traffic control procedures, and the introduction of new technology, are expected to further improve on-time arrivals. To address these issues, FAA employees at the Air Traffic Control System Command Center (ATCSCC) have daily meetings with airline industry representatives to coordinate traffic around factors that could potentially cause delays. Careful collaborative planning with our industry partners on the previous day ensures that aircraft land on time.

2006 Results. We exceeded our FY 2006 target of 87.40 percent, achieving an on-time arrival rate of 88.36 percent. NAS On-Time Arrival is the percentage of all flights arriving at the 35 Operational Evolution Plan (OEP) airports equal to or less than 15 minutes late. It excludes minutes of delay attributed by air carriers to weather, carrier action, security delay, and prorated minutes for late arriving flights at the departure airport.

Performance Measure				
Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays				
	2003	2004	2005	2006
Target	78.2	82.1	87.4	87.40
Actual	82.3	79.07	88.4 (r)	88.36
(r) Revised				

Further improvements to on-time arrivals are expected as we accomplish programs and initiatives such as airspace redesign, revised air traffic control procedures, and the introduction of new technology, as outlined in our on-going 10-year OEP.

FY 2007 Performance Forecast. FAA expects to meet the target for FY 2007.



IN-DEPTH ACCOMPLISHMENTS REDUCING AVIATION DELAYS

Growth in air travel has generally been accomplished by increasing the number of flights. Measuring the growth of airport capacity indicates the limit at which increased service can be accommodated without affecting delay. The ability of the system to respond to demand is a function of airport runway capacity, airspace capacity, the status of air traffic control equipment, and weather conditions. Major factors affecting performance include weather, volume and runway construction. Delays occur when the demand for air transport services exceeds the capacity of the system.

In the last nine years, thirteen new runways have opened at the 35 OEP airports, providing the airports with the potential to allow almost 1.7 million more operations. In FY 2006, we opened four new runways, one each in Minneapolis-St. Paul, Cincinnati, St. Louis, and most recently in Atlanta, the world's busiest airport. The recent commissioning of a new runway at Atlanta-Hartsfield Airport, allows for 33 percent more operations a year.



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For years, FAA has targeted efforts at eight major metropolitan areas (New York, Philadelphia, South Central Florida, Chicago, Baltimore/Washington, Atlanta, Los Angeles Basin, and San Francisco Bay area) that most affect total system delays. Every year after thorough data analysis, FAA updates this list of metropolitan areas. With FY 2006 improvements, we have achieved our capacity goals for Atlanta. Therefore, our FY 2007 efforts will focus on the remaining 7 major metropolitan areas that affect system delay. By redefining the metro areas our FY 2007 target has been refined to 63,650 average daily arrival and departure rates.

Two tools that accommodate air growth and improve efficiency, Area Navigation (RNAV) standard instrument departures (SID), and Standard Terminal Arrivals (STARs), are producing the most immediate impact towards near-term capacity gains and operator cost savings. RNAV uses a computerized flight management system (FMS) to combine navigation sensors and a database of procedures for a very accurate navigation capability. RNAV procedures simplify the issuance of clearances by allowing air traffic control to specify procedures by name without having to describe the route in detail. RNAV SID are published air traffic control departure procedures that provide obstacle clearance and a transition from the terminal area to the enroute structure. RNAV STAR provide standardized routing from the enroute structure into the terminal area. Since FY 2005, FAA has published 128 RNAV – SID and STAR procedures, resulting in over \$40 million in reduced delay and capacity benefits.



In FY 2006, FAA RNAV implementations occurred at Washington Reagan National Airport (3 STAR), Miami (4 STAR, 7 SID), Fort Lauderdale (3 STAR, 6 SID), Atlanta (4 STAR, 16 SID), Seattle-Tacoma Airport (2 SID), Palm Beach (3 STAR), Phoenix (2 STAR) and Boca Raton (2 STAR).

Additionally in FY 2006, FAA:

- Implemented daily use of a software tool, Traffic Management Advisor, at several locations. With the use of this tool in Oakland Oceanic Airspace, FAA reduced the separation standard from 100 nautical miles lateral to 30 nautical miles lateral. This first application allowed one of the aircraft to ascend 6 minutes sooner than with the previous standard. This reduction in spacing will result in fuel savings for the airlines and greater capacity for the National Airspace System.
- Announced approval for the initial deployment of the Automatic Dependent Surveillance Broadcast (ADS-B), throughout the United States. Switching from our reliance on ground-based radar equipment to satellite-based operations enhances safety while providing increased capacity and efficiency. ADS-B will keep aircraft safely separated, provide better use of available airspace, and enable more direct aircraft routing, thus saving fuel.

HOUSE HOLD GOODS (HHG) ENFORCEMENT

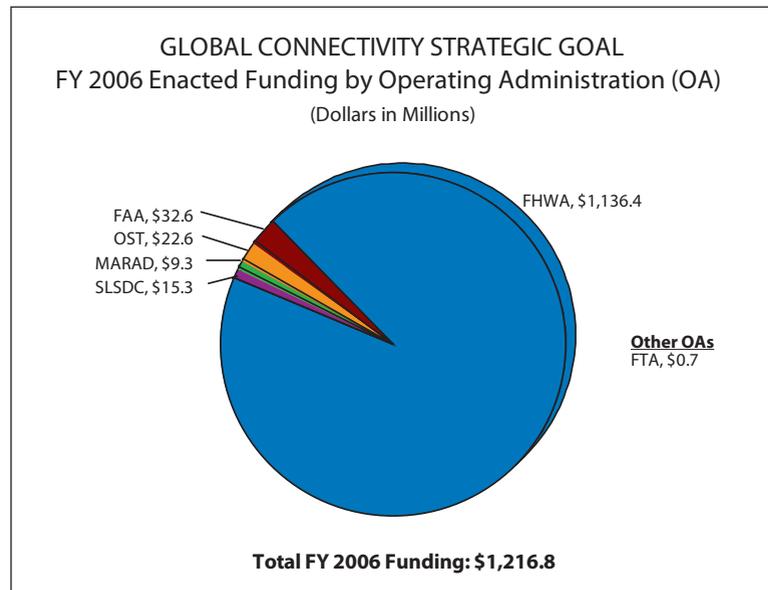
FMCSA's regulation of the HHG moving industry and enforcement of the commercial requirements included in the Federal Motor Carrier Commercial Regulations (FMCCRs) contribute to efficient and reliable transportation operations and DOT's mobility strategic goal. An estimated 40 million Americans relocate each year, approximately 1.6 million of which are interstate moves. Fortunately, the majority of household moves are completed without incident. Following FMCSA's launch of a consumer education program to raise FMCSA's public profile regarding the Agency's role in collecting complaints about shippers, HHG complaints are continuing to rise. FMCSA receives nearly 3,000 legitimate HHG complaints annually. Calls and internet complaints from consumers are rising every year. There are over 4,000 registered motor carriers actively transporting HHG across State lines and, as investigations have uncovered, many more that operate without proper authority. In FY 2006, FMCSA initiated four strike force operations targeting HHG carriers and conducted its first-ever roadside inspections of HHG CMVs that resulted in enforcement cases. FMCSA completed 562 commercial investigations (124 percent of goal) and continues to focus on, and increase enforcement actions against, unscrupulous HHG movers.



GLOBAL CONNECTIVITY STRATEGIC GOAL

FACILITATE A MORE EFFICIENT DOMESTIC AND GLOBAL TRANSPORTATION SYSTEM THAT ENABLES ECONOMIC GROWTH AND DEVELOPMENT

FY 2006 ENACTED FUNDS: \$1,216.8 MILLION



STRATEGIC OUTCOMES

- Reduced barriers to trade in transportation goods and services
- More efficient movement of cargo throughout the supply chain
- Enhanced international competitiveness of the U.S. transport providers and manufacturers
- Harmonized and standardized regulatory and facilitation requirements
- The most competitive, cost effective and efficient environment for passenger travel
- Expanded opportunities for all businesses, especially small, women-owned and disadvantaged businesses

PERFORMANCE MEASURES

- Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses.
- Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses.
- Percent of days in shipping season that the U.S. portion of the St. Lawrence Seaway is available.
- Number of new or expanded bilateral aviation safety agreements implemented.
- Number of potential air transportation consumers (in billions) in international markets traveling between the U. S. and countries with Open Skies and open transborder aviation agreements (measure revised in FY 2005).
- Number of international negotiations conducted annually to remove market distorting barriers to trade in air transportation (new measure in FY 2005).



EXPANDED OPPORTUNITIES

FY 2006 ENACTED FUNDS \$5.1 MILLION

Expanded opportunities for all businesses, especially small, women-owned and disadvantaged businesses, serves the economic interest of the United States, both nationally and globally. Small businesses routinely develop, manufacture and distribute quality products to the private sector, but continue to face significant hurdles participating in procurement opportunities with the Federal Government. To help these entrepreneurs have a fair opportunity to compete, Congress and the Administration have established procurement goals for the Federal Government. In turn, each DOT Operating Administration develops targets consistent with legislative mandates and anticipated contracting and subcontracting opportunities.

2006 Results. Preliminary data indicates that DOT met the target for women-owned businesses (WOB) but did not meet the target for small disadvantaged businesses (SDB). Data are not final until SBA submits its annual end of fiscal year report, normally in December.

Based on preliminary FY 2006 data, the Department of Transportation issued \$1.3 billion in contract awards. Women-owned businesses received 6.7 percent of all contracting dollars and more than \$152 million, or 11.8 percent, of the total contracting dollars went to small disadvantaged businesses.

In FY 2006, for the second time since its inception, DOT not only met the WOB legislative goal, but exceeded it by more than 20 percent. This is a significant achievement considering that the government-wide participation level is less than 3 percent. While below the target, the SDB participation in DOT contracting is still twice as much as the government-wide level of participation. To ensure that the SDB goal is met, DOT will continue to emphasize more hands-on involvement with its procuring agencies, and an increase in outreach and technical assistance with the SDB community.

FY 2007 Performance Forecast. DOT expects to meet the targets for both measures in FY 2007.

Performance Measure				
Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses				
	2003	2004	2005	2006
Target	5.1	5.1	5.1	5.1
Actual	4.2	3.8 (r)	6.6 (r)	6.7 *
(r) Revised; * Preliminary estimate				

Performance Measure				
Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses				
	2003	2004	2005	2006
Target	14.5	14.5	14.5	14.5
Actual	15.8	15.6 (r)	12.7 (r)	11.8 *
(r) Revised; * Preliminary estimate				



MORE EFFICIENT MOVEMENT OF CARGO

**FY 2006 ENACTED FUNDS
\$1,151.7 MILLION**

The bi-national St. Lawrence Seaway is the international shipping gateway to the Great Lakes, offering access and competitive costs with other routes and modes to the interior of the country. Commercial trade on the Great Lakes Seaway System annually sustains more than 150,000 U.S. jobs, \$4.3 billion in personal income, \$3.4 billion in transportation-related business revenue, and \$1.3 billion in Federal, state, and local taxes. Since 1959, more than two billion metric tons of cargo estimated at \$300 billion has moved through the St. Lawrence Seaway to and from Canada, the United States, and nearly 50 other nations. Almost 50 percent of Seaway traffic travels to and from overseas ports, especially in Europe, the Middle East, and Africa.

2006 Results. For FY 2006, DOT's Saint Lawrence Seaway Development Corporation (SLSDC) met the performance target with a system availability rate of 99.0 percent. During the year, commercial navigation was suspended for 68 hours, 12 minutes during the 6,685-hour year, due mostly to vessel-related incidents, weather conditions, and other non-navigation related delays.

Performance Measure				
Percent of days in the shipping season that the U.S. portion of the St. Lawrence Seaway is available				
	2003	2004	2005	2006
Target	99.0	99.0	99.0	99.0
Actual	98.9	99.1	99.7	99.0

Vessel incidents in FY 2006 accounted for 29 hours, 41 minutes of delays, or 43 percent of total delays. Vessel incidents involve ship operations, most commonly caused by human error on the part of a vessel's crew. Also included as vessel incidents are vessel breakdowns, which are caused by mechanical problems with a vessel. The majority of vessel incident delays are related to a non-hazardous commercial vessel grounding in September 2006, which resulted in 16 hours, 20 minutes (24 percent of entire year's non-availability) of suspended navigation during its inspection and refloating operations.

Weather-related delays totaled 25 hours, 47 minutes or 38 percent of total delays. These weather delays usually occur at the beginning and end of each navigation season, and are mostly caused by poor visibility, dense fog, high winds, or ice.

Other non-navigation delays were caused by pilotage delays and equipment that had fallen into the lock chamber, causing 9 hours, 37 minutes, or 14 percent of total delays.

While none of these delay factors are directly under the control of the SLSDC, the agency is taking steps to address these issues and improve vessel transit efficiency. For example, since 1997 the SLSDC has joined with its Canadian counterpart, the St. Lawrence Seaway Management



Corporation, as well as the U.S. and Canadian Coast Guards, to institute a joint boarding program for the foreign vessels that use the Seaway. Each year, SLSDC marine inspectors examine more than 200 foreign vessels to ensure compliance with safety and environmental protection regulations in Montreal, Quebec, before they enter U.S. waters.

In FY 2006, the SLSDC continued this program by inspecting 100 percent of all ocean vessels in Montreal. This improved inspection regime has saved vessels, on average, four hours per transit and ensured that any safety, security, or environmental issues are addressed prior to entering U.S. waters. As a result, delays were reduced and ocean carriers using the Seaway saved more than \$500,000.

The U.S. and Canadian Seaway agencies began enforcing mandatory Automatic Identification System (AIS) use on commercial vessels entering the waterway beginning in 2003. The Seaway became the first inland waterway in the western hemisphere to implement an operational AIS vessel traffic services system. AIS technology uses data from ship-to-ship, ship-to-shore, and shore-to-ship, thereby enabling a constant two-way communication between mariners and the three Seaway vessel traffic control centers. Originally developed primarily for safety reasons, AIS has become increasingly of interest to maritime security officials in the post September 11th environment as it offers the ability for them to track with precision any vessel carrying the transponder. In April 2006, the SLSDC and USCG signed a Memorandum of Agreement that establishes provisions for sharing Seaway AIS data with the USCG as well as provisions for sharing USCG AIS data with the Seaway as their stations in the Great Lakes come on line.



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Of the remaining factors that cause system non-availability, the SLSDC has the most control over the proper functioning of its lock equipment. During FY 2006, there were 3 hours, 7 minutes of delays, or 5 percent, related to lock equipment malfunctioning incidents. Lock equipment delays represented five one-hundredths of 1 percent of the total navigation time during FY 2006.

In order to ensure that the two U.S. Seaway locks are in sound working condition, the SLSDC performs an aggressive infrastructure winter maintenance program each year focusing on inspections, preventative maintenance, concrete rehabilitation, and repairs to lock equipment and parts. This program has been instrumental in the SLSDC's long-term success in providing a safe, efficient, secure, and reliable commercial waterway.

FY 2007 Performance Forecast. DOT expects to meet the FY 2007 target of 99.0 percent.



MEASURE UNDER DEVELOPMENT—FREIGHT TRAVEL

Freight transportation is a critical enabler of international economic activity and highways are a critical component of the freight transportation system. A doubling of international trade over the last decade placed a strain on many of the Nation's intermodal ports and gateways and contributed to an increase in traffic congestion. A further increase in freight activity on the Nation's highways is anticipated in this decade due to continued growth in international trade. Traffic congestion hinders freight movement and undermines business productivity and international trade.



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2006 Results. The FHWA began measuring travel speeds along significant freight corridors in 2005. As illustrated below, travel speed measurements were used to calculate the average travel speed and average buffer index for five Interstate corridors in which data were collected. Data collection is expanding to 25 freight corridors in 2006. The buffer index represents the extra time freight carriers should add to their average travel time in order to ensure on-time arrival, at least 95 percent of the time, for an end-to-end trip along the corridor. The extra time is added to account for any unexpected delay. The buffer index, which is expressed as a percentage, decreases as trip reliability improves. The DOT and FHWA have adopted the number of freight corridors with an annual decrease in their annual average buffer index rating as a measure of improvement in freight travel in significant corridors. As travel speeds become more consistent and reliable in these significant corridors being monitored, the number with a declining annual buffer index rating should increase.

For the period from January 1 to March 31, 2006, the change in quarterly average travel speed for the five corridors was less than 0.3% from the same quarter last year. At the same time, the change in the quarterly average buffer index for all five corridors combined was 18.8%, an increase of 2% over the same period last year. While there was a combined increase in the average buffer index, three of the five corridors experienced a decrease. Significant increases in two corridors, I-70 and I-45, resulted in the overall combined increase in buffer index.

It is unlikely that the FY 2007 target, which is based on reducing the buffer index in 100 percent of the corridors monitored in FY 2006, will be met. However, we expect to see improvement in a majority of the corridors under study.



Average Travel Speed and Buffer Index on Freight Significant Corridors FY 2006			
Corridor Name	Description (Start and End Locations)	Average Travel Speed (miles per hour)	Average Buffer Index (%)
I-5	San Diego, CA (Mexican Border) to Blaine, WA (Canadian Border)	49.7 mph	18.9%
I-10	Santa Monica, CA to Jacksonville, FL	55.9 mph	20.8%
I-45	Galveston, TX to Dallas, TX	54.1 mph	30.8%
I-65	Mobile, AL to Gary, IN	57.7 mph	6.8%
I-70	Cove Fort, UT to Baltimore, MD	54.3 mph	11.1%

The DOT National Freight Policy (NFP) was announced in January 2006. The NFP provides a national framework that enables Federal, State and local governmental organizations, and the private sector to coordinate their resources and efforts to advance key objectives to improve multimodal freight mobility on the U.S. transportation network. FHWA is contributing to the deployment of this policy in a variety of ways.

- DOT developed courses in freight financing, engaging the private sector in transportation planning activities, freight and environment, for the Freight Professional Development program.
- DOT held a national conference with the Transportation Research Board to advance forecasting and analysis models used to support decision makers in freight transportation. This conference identified numerous research initiatives that will improve freight modeling.
- The Freight Analysis Framework, a database tool used extensively in both the public and private sector, was recalibrated using data from the 2002 Commodity Flow Survey and integrated with key international gateway data. In addition to recalibration, the FHWA updated the highway network with 2002 freight flows, generated forecasts of freight movement to 2035, initiated current year estimate methodologies, and began comparing prior survey data with current data so an accurate trend line can be developed.



- Numerous test pilots and workshops were initiated with States and Metropolitan Planning Organizations (MPOs) to enable local transportation planners to integrate local data with national data to support investment decisions.

The Border Information Flow Architecture (BIFA) was widely disseminated to stakeholders and efforts began to replicate this successful endeavor on the southern border. The goal is to use BIFA, which maps systems and information flow between stakeholders, as a tool to develop and implement bi-national technology solutions to problems at borders, such as delay, congestion, and unpredictable crossing times. Examples include advanced traveler information and border wait time systems, expedited cargo clearance and processing systems, and incident management systems.

HARMONIZED AND STANDARDIZED REGULATORY & FACILITATION REQUIREMENTS

**FY 2006 ENACTED FUNDS
\$40.2 MILLION**

Bilateral Aviation Safety Agreements (BASA) promote aviation safety and environmental quality, enhances cooperation and increases efficiency in civil aviation matters. The agreements are based on recognized comparability of U.S. and foreign systems for approval and surveillance of the aviation industry. By building a network of competent civil aviation authorities and concluding agreements with additional countries and/or regional authorities, FAA increases safety globally.

Improved global understanding of U.S. safety regulations, processes, and procedures leads to better international regulatory oversight. The BASAs allow FAA to focus on domestic safety priorities by relying on capabilities and technical expertise of other civil aviation authorities and minimizing duplication of efforts.

2006 Results. FAA met the target. FAA is cooperating with partners in Europe and Asia to negotiate executive agreements and associated implementation procedures to support the transfer of aviation products and services. These agreements lay the essential groundwork for cooperation between the United States and the respective target country's aviation authority. In FY 2006, the FAA concluded:

Performance Measure				
Number of new or expanded bilateral aviation safety agreements implemented				
	2003	2004	2005	2006
Target	N/A	2	2	2
Actual	N/A	3	2	4

- An expanded implementation procedure for airworthiness with New Zealand;



- A revised simulator implementation procedure with Switzerland; and,
- A maintenance implementation procedure and implementation procedures for licensing with Canada.

These implementation procedures will promote a safer aviation environment for U.S. travelers.

FY 2007 Performance Forecast. DOT expects to achieve the target in FY 2007.

ENHANCED COMPETITIVE ENVIRONMENT FOR PASSENGER TRAVEL

FY 2006 ENACTED FUNDS \$4.0 MILLION

Since the 1940's, international air transportation has been subject to restrictive bilateral agreements that limit price and service options and artificially suppress aviation growth. DOT's policy is to negotiate bilateral agreements to open international air travel to market forces, thereby removing limitations on the freedom of U.S. and foreign airlines to increase service, lower fares, and promote economic growth. These Open Skies agreements have made it possible for the airline industry to provide the opportunity for better quality, lower priced, more competitive air service in thousands of international city-pairs to an increasing portion of the world's population.

2006 Results. DOT is working with foreign civil aviation authorities throughout the world to negotiate and execute Open Skies agreements. The new Open Skies agreements concluded each year continually increase the total world population brought under the umbrella of Open Skies. This year DOT concluded a number of new agreements that allowed it to exceed its target goal of 2.99 billion. In FY 2006, the Department reached Open Skies agreements with Canada, Cameroon, Kuwait and several other countries. We now have 75 Open Skies agreements with countries all over the world.

Performance Measure				
Number of potential air transportation consumers (in billions) in international markets traveling between the U.S. and countries with Open Skies and open transborder aviation agreements (measure revised in FY 2005)				
	2003	2004	2005	2006
Target	N/A	1.51	1.53	2.99 (r)
Actual	1.48	1.72	2.97	3.01 *
(r) Revised; * Preliminary estimate				

FY 2007 Performance Forecast. DOT expects to meet the FY 2007 target of 3.05 billion.



REDUCED BARRIERS TO TRADE

**FY 2006 ENACTED FUNDS
\$15.8 MILLION**

DOT’s policy is to negotiate liberalized bilateral aviation agreements to open international air travel to market forces resulting in increased services, lower fares, and economic growth. These negotiations require DOT to arrange, conduct and fully participate in a number of formal international meetings with the goal of achieving less restrictive agreements and ultimately “Open Skies” agreements with foreign countries or associations of foreign countries, such as the European Union.

2006 Results. DOT continually works with foreign civil aviation authorities throughout the world to negotiate and execute less restrictive aviation agreements with the ultimate goal of reaching “Open Skies” agreements with our international partners. During the course of FY 2006 the Department achieved its performance measure. In FY 2006, it had negotiating rounds with the European Union, China, Japan, Canada, Kuwait and others. The number of rounds it takes in order to reach a new agreement varies from partner to partner based on the evolution of the aviation relationship.

Performance Measure				
Number of international negotiations conducted annually to remove market-distorting barriers to trade in air transportation (new measure in FY 2005)				
	2003	2004	2005	2006
Target	N/A	N/A	10	10
Actual	N/A	N/A	10 (r)	10
(r) Revised				

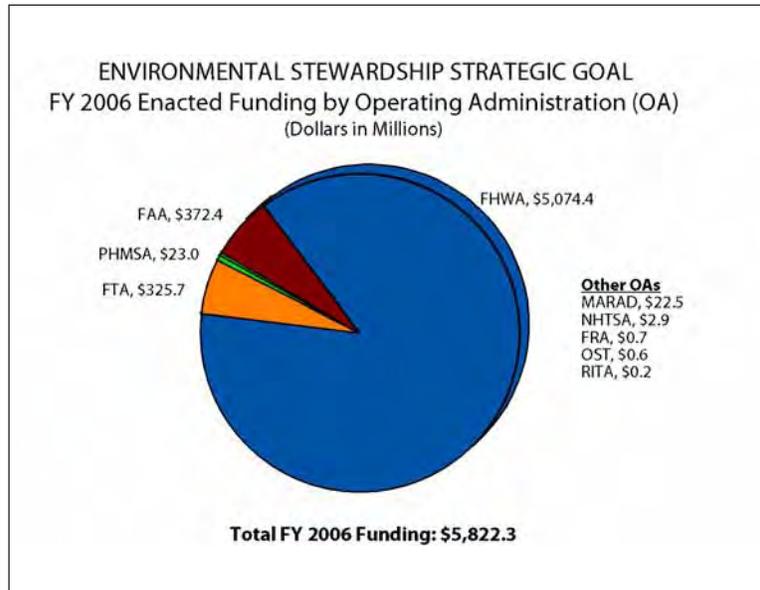
FY 2007 Performance Forecast. DOT expects to meet the FY 2007 target of 12 rounds.



ENVIRONMENTAL STEWARDSHIP STRATEGIC GOAL

PROMOTE TRANSPORTATION SOLUTIONS THAT ENHANCE COMMUNITIES AND PROTECT THE NATURAL AND BUILT ENVIRONMENT

FY 2006 ENACTED FUNDS: \$5,822.3 MILLION



STRATEGIC OUTCOMES

- Reduce pollution and other adverse environmental effects of transportation and transportation facilities
- Streamlined environmental review of transportation infrastructure projects

PERFORMANCE MEASURES

- Ratio of wetlands replaced for every acre affected by Federal-aid highway projects.
- Percent DOT facilities characterized as No Further Remedial Action under the Superfund Amendments and Reauthorization Act.
- 12-month moving average number of area transportation emissions conformity lapses.
- Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines.
- Percent reduction in the number of people within the U.S. who are exposed to significant aircraft noise levels.



REDUCE POLLUTION AND OTHER ENVIRONMENTAL EFFECTS

**FY 2006 ENACTED FUNDS
\$5,692 MILLION**

WETLANDS RESTORATION

Wetlands are important natural ecosystems that filter pollutants and minimize potential floodwater damage. Before their value was fully recognized, many of the Nation's wetlands were adversely affected or lost in the development of transportation and other infrastructure facilities. In 1996, FHWA established a national policy on wetland protection that called for a net gain of wetlands in federally assisted projects. Over the past 10 years, considerable progress has been made in States and Federal Lands Highway Divisions.

2006 Results. Federal-aid projects nationwide replaced wetlands at a ratio of 2.6 acres of compensatory wetland mitigation for every acre impacted.

FY 2007 Performance Forecast. This measure will continue to be tracked internally, but no longer reported after FY 2006. A new measure tracking the number of Exemplary Ecosystem

Initiatives (EEI) will be reported on in FY 2007. An EEI is an action or measure that will help sustain or restore natural systems and their functions and values, using an ecosystem or landscape context. Examples include mitigation projects that support wildlife movement and habitat connectivity, the development of watershed-based environmental assessment and mitigation approaches, the use of wetland banking, and the use of special measures to prevent invasive species along highway rights-of-way.

Performance Measure				
Ratio of wetlands replaced for every acre affected by Federal-aid Highway projects				
	2003	2004	2005	2006
Target	1.5	1.5	1.5	1.5
Actual	2.7	2.1	3.3 (r)	2.6 #
(r) Revised; # Projection				

DOT FACILITY CLEANUP

DOT has a special responsibility to ensure that its own facilities are compliant with environmental laws and regulations. Restoration activities involve identifying, investigating, and cleaning up contaminated sites. Compliance activities include the operation of facilities, equipment, and vessels in accordance with environmental requirements. Pollution prevention activities involve preventing future cleanup activities by avoiding the generation of pollutants in our operations or facilities.



2006 Results. DOT did not meet the target. FAA continued work under State agreements at several facilities, including five that the Environmental Protection Agency (EPA) identified as needing further evaluation or remediation. In FY 2006, FAA received a written determination of "No Further Remedial Action Planned" from the EPA for the Jackson Homer Beacon Annex in Jackson, Nebraska; and, a verbal notification of "No Further Remedial Action Planned" from the EPA for the Washington-Reagan National Airport. In addition, during this fiscal year, FAA achieved closure at 27 State regulated sites. To reduce the likelihood of petroleum contamination from mission critical equipment, FAA meets current EPA requirements for fuel storage tanks; continues to replace outdated fuel storage tanks at the end of their normal life cycle to prevent leakage; tests in-service tanks; and will investigate, remove or clean tanks at decommissioned facilities.

Performance Measure				
Percent DOT facilities characterized as No Further Remedial Action Planned under the Superfund Admendments and Reauthorization Act				
	2003	2004	2005	2006
Target	92	92	93	93
Actual	94	93	92	92

FY 2007 Performance Forecast. DOT expects to meet the target in FY 2007.

SHIP DISPOSAL

MARAD conducts its Ship Disposal Program to help achieve DOT's Environmental Stewardship strategic goal to *promote transportation solutions that enhance communities and protect the natural and built environment*. By expediting the disposal of high- and moderate-priority ships via full and open competition, utilizing all feasible disposal options, MARAD will eliminate the risk posed by these ships to the local environment.



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MARAD was required by law to dispose of all obsolete ships in the National Defense Reserve Fleet by the end of FY 2006. MARAD did not meet the deadline due to limited domestic industrial capacity and regulatory impediments to expedited and cost-effective foreign recycling. The

presence of hazardous substances such as asbestos and solid and liquid polychlorinated biphenyls (PCBs), and concerns raised by the EPA about the export of PCBs, removed overseas recycling as a viable option for expedited disposal.

MARAD informed the Congress in 2002 that the deadline was unlikely to be met. However, MARAD has removed 72 obsolete ships since 2001 including all 37 ships identified as high disposal priorities, in 2001 with the exception of one ship that is on hold pending historic



assessment. It is anticipated that this vessel will be available for disposal by the end of FY 2006. While clearance through the historical assessment process at times affects the disposal availability of some specific ships, the process is not impeding the rate of vessel removals overall.

Additional ships are added to the disposal inventory as other merchant-type Federal vessels become obsolete. Thus, much of the improvement as seen in the decreased number of obsolete vessels awaiting disposal has been offset by additional vessels being declared obsolete. However, all high-priority vessels available to the disposal program have been removed from MARAD's reserve fleets so the risk to the environment has been reduced.

During FY 2006, MARAD removed 25 obsolete ships from three National Defense Reserve Fleet sites. This included 23 high and moderate priority vessels. All of the removals were the result of dismantling/recycling contracts with domestic ship disposal companies with the exception of one ship that was disposed of via deep-sinking. Depending on the characteristics of each vessel and the capability of each contractor, it may take from several months to over a year to dismantle a ship once it has arrived at a disposal facility. Dismantling was completed on 20 ships during 2006. These ships were removed from the fleet sites during the current and preceding fiscal years. The rate of dismantling is dependent on a number of external factors, including weather, contractor resource availability and the contractor's ability to quickly and properly arrange for disposal of hazardous materials. MARAD also entered into additional disposal contracts that will result in the dismantling/recycling of 22 additional ships in subsequent years.

MOBILE SOURCE EMISSIONS

The National Ambient Air Quality Standards (NAAQS) target six major pollutants as among the most serious airborne threats to human health. Transportation is a major contributor to some of the pollutants, particularly ozone, carbon monoxide and particulate matter. Recent studies show that 27 to 56 percent of all emissions related to these pollutants originated from on-road vehicles. Areas exceeding certain NAAQS, known as air quality non-attainment areas, are required to meet transportation conformity requirements in the Clean Air Act. Failure to meet the requirements will place an area in a conformity lapse, during which only limited types of projects can proceed. The EPA recently revised the national ambient air quality standards for fine particulate matter. Under the more stringent standard, more areas will be designated as non-attainment and will be subject to conformity requirements.



2006 Results. Prior to FY 2006, approximately 6 non-attainment and maintenance areas were in a conformity lapse in any given month. In FY 2006, the 12-month moving average number of areas in a conformity lapse was 1.3. The number of conformity lapses was very low throughout most of FY 2006. As required by the Clean Air Act, non-attainment and maintenance areas are required to demonstrate that, through the conformity process, emissions estimated from the planned transportation system must be consistent with the clean air goal of the State. Many new non-attainment areas were required to demonstrate conformity for the fine particulate air quality standards by April, 2006. In anticipation of this deadline, DOT and EPA conducted numerous workshops, training sessions, and other outreach activities to raise awareness and to prepare State departments of transportation, State air agencies, and Metropolitan Planning Organizations (MPOs) to meet the requirements. In addition, guidance documents were issued by the two agencies to ensure that the transition to new conformity requirements went smoothly. State and local agencies took the initiative to coordinate the process well in advance of the deadline. As a result of the advanced preparation, all the non-attainment areas were able to meet conformity determinations by the April 2006, deadline.

Performance Measure				
12-month moving average number of area transportation emissions conformity lapses				
	2003	2004	2005	2006
Target	6.0	6.0	6.0	6.0
Actual	6.0	6.3 (r)	5.8 (r)	1.3 *
(r) Revised; * Preliminary estimate				

FY 2007 Performance Forecast. DOT expects to meet or exceed the performance targets in FY 2007 for areas in a conformity lapse. While there are multiple causes for a transportation lapse, including new conformity requirements for the new fine particulate matter air quality standard, the FHWA should be able to provide adequate guidance and assistance to these areas to address these causes and meet the more stringent targets in most instances.

IN-DEPTH ACCOMPLISHMENTS PROMOTING AIR QUALITY

FHWA continued to work closely with States, MPOs, the Federal Transit Administration (FTA), and EPA to reduce on-road mobile source emissions. With the implementation of new SAFETEA-LU provisions, the Agency expects State and local partnering agencies to fund and implement even more cost-effective strategies often focusing on heavy-duty diesel emissions. FHWA seeks to increase the percentage of non-attainment and maintenance areas meeting the mobile source emissions budgets for ozone, carbon monoxide, and particulate matter. Following the



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release of more stringent standards for ozone and fine particulate matter, the Agency continued to address the impact of the regulatory changes and to maintain area transportation conformity lapses at current low levels. Through improved integrated transportation and air quality planning, the transportation conformity process is designed to ensure that emissions from an area's transportation system are consistent with the Clean Air Act. The EPA is required to revise the conformity regulation to reflect all the SAFETEA-LU transportation conformity changes by August 2007.

PIPELINE HAZMAT SPILLS

One of the major consequences of pipeline incidents—particularly from hazardous liquid pipelines—can be adverse impacts to the environment. This is a function of the type, amount and location of commodity spilled.

PHMSA's first priority is the continued safe operation and reliability of all pipelines. PHMSA has taken a proactive approach to protecting the environment by designing and implementing a strong risk-based systems approach to ensure the safety, security, and reliability of the Nation's pipeline infrastructure.

Over the long term, PHMSA continues to significantly reduce the environmental impact of non-volatile hazardous liquid spills by achieving a 48 percent reduction in the five year average of hazardous liquid spill volume from 1996-2000 compared to 2001-2005, even with major hurricane damages in 2005 – an accomplishment due to several new initiatives adopted by PHMSA since 2001.

2006 Results. Based on the preliminary data, PHMSA expects to meet the FY 2006 performance target, despite two significant accidents in Kansas (Montgomery County and Wyandotte County). These two accidents account for 62 percent of the net tons lost in the first half of this year. This measure is very dependent on single large events because a single spill can account for 50 percent or more of the annual total spill amount for all reportable pipeline releases.

Performance Measure				
Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines				
	2003	2004	2005	2006
Target	.0073	.0068	.0064	.0060
Actual	.0071	.0102	.0090 (r)	.0059 *
(r) Revised; * Preliminary estimate				

In December 2000, PHMSA issued the hazardous liquid integrity management (IM) regulations to assess, evaluate, repair and validate the integrity of hazardous liquid pipelines that could affect High Consequence Areas (HCAs). At the end of 2005, the total number of pipeline segment



miles inspected that could affect HCAs (including environmentally sensitive areas) is approximately 80,000 miles, of which 22,500 miles were inspected in 2005 (the 2006 figure will be available in 2007).

The IM strategy is a long-term program investment. The expected environmental benefits of the IM approach in terms of reduction in number and consequences of hazardous liquid accidents in HCAs should be even more apparent over time. Since the inception of the IM regulations, over 3,000 conditions were repaired or mitigated that needed immediate attention, nearly 10,000 other conditions were repaired on a scheduled basis, and an additional 21,000 conditions were repaired beyond those required by the hazardous liquid IM regulations.

FY 2007 Performance Forecast. PHMSA expects to meet the FY 2007 target.

IN-DEPTH ACCOMPLISHMENTS

In 2006, PHMSA proposed an important environmental protection through its new low-stress hazardous liquid pipeline Notice of Preliminary Rule Making. The rule would require operators to address the most common threats to these lines, corrosion and third-party damage, and provide other protections to the surrounding environment. The importance of this step was underscored by two spills from BP Corporation pipelines on Alaska's North Slope. DOT and PHMSA took command of these accidents, directed extensive testing of and repair to these previously unregulated pipelines, and is closely overseeing all work. DOT and PHMSA generally received high marks from all sides on its efforts including from the Congress in three oversight hearings.

PHMSA has strengthened and improved its oversight program to foster improved operator IM Programs and to assure compliance with the new IM rules that protect environmentally sensitive areas. PHMSA and its state partners will soon complete initial comprehensive inspections of all hazardous liquid operator IM Programs. Approximately 175 inspections have been completed encompassing more than 98 percent of the hazardous liquid pipeline mileage. Re-inspections of operators with especially poor performance have begun to assure they are making progress toward attaining full compliance.



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AIRCRAFT NOISE EXPOSURE

The FAA is working to increase the number of flights at America's top airports to keep pace with forecasted demand. However, public concern and sensitivity to aircraft noise around airports continues to grow. Noise complaints increase even while quieter aircraft technology is introduced into the fleet. Aircraft noise is an undesired by-product of mobility, and FAA acts to reduce the public's exposure to unreasonable noise levels.

In the past decade, the phase-out of noisier commercial aircraft was principally responsible for the reduction in the number of people exposed to high levels of aircraft noise, although its efforts were complemented by noise compatibility projects funded under the Airport Improvement Program (AIP). While the new international aircraft noise standard will encourage the introduction of quieter aircraft into operations, AIP-funded noise compatibility projects will be the principal means employed by FAA to mitigate significant aircraft noise exposure in the near future.

2006 Results. DOT met the performance target. DOT continues to pursue a program of aircraft noise control in cooperation with the aviation community through the development and adoption of quieter aircraft, soundproofing and buyouts of buildings near airports, operational flight control measures, and land use planning strategies. FAA is authorized to provide funds for soundproofing and residential relocation, but each project must be locally sponsored and be part of a noise compatibility program prepared by the airport sponsor and approved by the FAA. The noise target is based on FAA's historical experience and reflects the relocation of people from significant noise areas through grant funding, but is also affected by market forces that drive changes in commercial aircraft fleets and operations.

Performance Measure				
Percent reduction in the number of people in the U.S. who are exposed to significant aircraft noise levels				
	2003	2004	2005	2006
Target	-1	-2	-3	-4
Actual	-15	-28 (r)	-29 (r)	-27 #
(r) Revised; # Projection from trends				

The significant performance improvement over the targeted goals in noise reduction grew out of a confluence of a number of external factors: the economic downturn, the impact of September 11th on the industry, and the severe acute respiratory syndrome (SARS) outbreak. These factors produced a dramatic downturn in operations as well as a large-scale premature retirement of older Stage Three aircraft (B727s, DC-9s, and MD-80s). This combination of lower operations and the rapid reduction of the average age of the fleets operating produced the dramatic improvements in the noise exposure environment.



Operational levels began to recover in FY 2004 and continue to increase. Taking into account the Next Generation Air Transportation System goal of increasing capacity threefold, the dramatic level of the improvements witnessed over the last three years is unlikely to persist.

FY 2007 Performance Forecast. DOT will meet the target in FY 2007.

**MEASURE UNDER DEVELOPMENT—
ENVIRONMENTAL STREAMLINING**

**FY 2006 ENACTED FUNDS
\$130.3 MILLION**

Project delays impede needed transportation system improvements and increase costs. Streamlining environmental reviews and documentation is essential to mitigating time delays and completing infrastructure projects on a more timely and cost effective basis. DOT has begun implementing new SAFETEA-LU requirements for an Environmental Impact Statement (EIS) review that are intended to make the process quicker and more predictable. The new requirements focus on better identifying agencies, issues, and methodologies; coordinating reviews by participating agencies in accordance with a coordination plan; and engaging members of the public at critical points early in the process.

Three DOT modes are affected by the new requirements: the Federal Highways Administration, the Federal Aviation Administration, and the Federal Transit Administration. These agencies expended significant funds in FY 2006 developing collection systems, revising procedures, and working with stakeholders in order to improve the Department’s performance in processing EISs. DOT intends to report on progress against targets in FY 2008.



SECURITY STRATEGIC GOAL

BALANCE HOMELAND AND NATIONAL SECURITY TRANSPORTATION REQUIREMENTS WITH THE MOBILITY NEEDS OF THE NATION FOR PERSONAL TRAVEL AND COMMERCE

FY 2006 ENACTED FUNDS: \$828.5 MILLION



STRATEGIC OUTCOMES

- All modes have implemented steps that would prepare them for a rapid recovery of transportation from international harm and natural disasters
- The U.S. transportation system meets National security requirements

PERFORMANCE MEASURES

- Percent of DoD-required shipping capacity complete with crews available within mobilization timelines.
- Percent of DoD-designated commercial ports available for military use within DoD established readiness timelines.
- Transportation Capability Assessment for Readiness Index Score (New measure in FY 2005).



STRATEGIC MOBILITY

**FY 2006 ENACTED FUNDS
\$254.1 MILLION**

The Department of Defense (DoD) relies heavily on the U.S. commercial sector for surface cargo movement and sealift in order to maximize its logistics capabilities and minimize cost. The ability of the United States to respond to military contingencies requires adequate commercial and government-owned U.S.-flag sealift, the use of associated maritime infrastructure and skilled U.S. maritime labor. DOT manages four programs that help make these resources available to DoD.

DOT, through the Maritime Administration (MARAD), operates the Voluntary Intermodal Sealift Agreements (VISA) program as the means used by the Department of Defense (DoD) to pre-plan the availability of militarily useful commercial vessels for DoD use in times of emergency. VISA constitutes DoD's official emergency preparedness program for sealift. Approximately 77 percent, of the ship capacity enrolled in VISA is from the 60 U.S.-flag commercial vessels receiving Maritime Security Program (MSP) payments, managed by DOT. The remaining component of vessels enrolled in VISA is made up of ship operators transporting Federal Government preference cargoes and domestic cargoes. These operators are required to provide varying levels of ship capacity to VISA. All ships enrolled in VISA must commit certain percentages of their vessel capacity and use of their related intermodal transportation resources to DoD. In 2006, MARAD implemented the newly reauthorized MSP. The reauthorization expanded the program from 47 to 60 ships and increased the payment levels to MSP ship operators.

The Ready Reserve Force (RRF) is a fleet of 48 government-owned, militarily useful cargo ships that are owned and maintained by DOT and made available to DoD to support the rapid, massive movement of military unit equipment and supplies in times of emergency or war. These ships are also available for emergency response after domestic natural disasters. During 2006, the number of vessels assigned to the RRF fleet decreased by 10 ships. The Department of Defense determined that the RRF should reduce to 48 ships due to changing sealift requirements and shifting funding priorities. This resulted in the shift of two Lighter Aboard Ship (LASH) vessels, four crane ships (TACS) and four small Roll-On/Roll-Off (RO/RO) vessels out the RRF.

MARAD also supports mariner education programs to help produce new merchant marine officers. In 2006, approximately 40 percent of these new mariners had an obligation to serve in the U.S. Navy Reserve/Merchant Marine Reserve for a period of six years. All of these graduates help to replenish the "pool" of mariners available to crew the RRF in times of need and to crew U.S.-flag commercial ships.



The ability of the United States to respond to military contingencies also requires the availability of adequate U.S. commercial port facilities. DOT, through MARAD, is responsible for establishing DoD's prioritized use of port facilities and related intermodal services and facilities during DoD mobilizations to ensure the safe, secure, and smooth flow of military cargo through the commercial U.S. transportation system while minimizing commercial cargo disruptions.

DoD, in conjunction with MARAD, negotiates a Port Planning Order with each designated strategic port, specifying which facilities will be needed to conduct a military deployment. The port is expected to be able to make these facilities available to the military within 48 hours of written notification. If a port forecasts that it will be unable to provide the specific facilities, or



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provide acceptable alternative facilities within 48 hours, it will report that it is not available. MARAD conducts strategic commercial port planning and readiness activities to help ensure the availability of these ports for DoD use in times of emergency. These port planning and readiness activities include chairing the National Port Readiness Network (NPRN), monitoring port facility availability, maintaining security clearances at the strategic ports, maintaining security communication equipment at the strategic ports, participating in port readiness committee meetings and port readiness exercises, completing semi-annual enhanced port

readiness assessment reports, participating in area maritime security committee meetings, participating in American Port Authority Association (AAPA), Transportation Research Board (TRB), and National Defense Transportation Association (NDTA) activities, and leading the NPRN strategic port study. The port planning and readiness activities continue to train commercial port employees and help coordinate military deployment and redeployment moves through the strategic ports. DoD did not experience any strategic port delays in 2006.

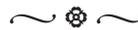
2006 Results. DOT did not meet the performance target. In April 2006, MARAD was directed by the Commander of the United States Transportation Command (USTRANSCOM) to remove ten vessels from the RRF to the NDRF by July 27, 2006. Prior to this direction, the vessels had been maintained and kept in good repair to successfully activate in accordance with their prescribed time frames. With the concurrence of USTRANSCOM, MARAD immediately ceased all maintenance and repair in April on these vessels and commenced preparation for long term storage at the National Defense Reserve Fleet site.

Performance Measure				
Percent of DoD-required shipping capacity complete with crews available within mobilization timelines				
	2003	2004	2005	2006
Target	94	94	94	94
Actual	96	94	95	93



By immediately discontinuing the preventative maintenance programs and ongoing repairs on these vessels, MARAD was able to avoid approximately \$6.0 million in planned costs for the management and repair of these ten vessels. These savings were applied to the necessary actions for long term lay-up of the vessels at the NDRF sites and to pay for cancellation of the Ship Manager Contracts on these vessels. Additional savings were applied to deferred maintenance and service life extension projects on the balance of current RRF vessels.

FY 2007 Performance Forecast. DOT expects to meet the FY 2007 target.



2006 Results. DOT met the performance target. From 2003-2006, DoD has not experienced any port related delays in its execution of the deployment and redeployment of Operation Enduring Freedom/Operation Iraqi Freedom troops and equipment. However, current congestion and the impact of anticipated trade growth on the

Performance Measure				
Percent of DoD-designated commercial ports available for military use within DoD established readiness timelines				
	2003	2004	2005	2006
Target	92	92	93	93
Actual	86	93	87	100

exhausted and limited physical capacity of strategic ports may make it difficult for DOT to meet this performance measure in the future. A draft NPRN report nearing completion reviewed the strategic port system, military requirements, and readiness timelines. The report is expected to conclude that all the strategic ports are necessary to meet the national military objectives and provide operational flexibility and redundancy and that, based upon industry views and independent data, congestion and lack of port infrastructure will continue to challenge the strategic ports' ability to meet both commercial and military surge requirements without commercial disruption. The NPRN draft report provided data to a DoD report that was requested by Congress after strategic ports expressed concerns about congestion and their future ability to meet military deployment requirements in a more congested transportation system. The expected completion date for the DoD report is October 2006. DOT will incorporate study findings into future planning and continue working with DoD to identify other possible solutions that better match requirements with availability at the individual port facilities.

FY 2007 Performance Forecast. DOT expects to meet the FY 2007 target. During FY 2007, MARAD will work with DoD and the industry to insure that every effort is made for clarifying and anticipating requirements to minimize the impact on commercial cargo flow while providing timely and sufficient port facilities for military deployments.



TRANSPORTATION READINESS **FY 2006 ENACTED FUNDS \$574.4 MILLION**

The past year marked the busiest on record for the Office of Intelligence, Security, and Emergency Response. The response to Hurricanes Katrina, Rita and Wilma began late in FY 2005 and continued through FY 2006. These storms illustrated the importance of preparedness on a scale not previously experienced in domestic incident response. DOT, under Emergency Support Function (ESF) No. 1 of the National Response Plan, led the response for transportation and played a significant role in the response to these storms. Although the Department met the challenges these storms presented, their severity and the duration of the response stretched our resources to their limits. FY 2006 marked an incident-free year in domestic transportation security. However, several international terrorism threats and incidents prompted the implementation of targeted protective measures to ensure the security of the domestic transportation system. DOT's role in identifying and helping to implement the most effective and efficient measures was reinforced and helped quickly close potential gaps as the threat environment changed.

2006 Results. In addition to responses to threats and emergencies, the Department measures internal preparedness using the Transportation Capability Assessment for Readiness (TCAR) score. It assesses six functional areas to obtain the overall TCAR score. These areas include monitoring operations, emergency response, training and exercises, continuity of operations, continuity of government, and international civil emergency planning. Although DOT met the target with a score of 72, expectations of all Federal departments and agencies involved in these activities have risen in the wake of the 2005 Hurricanes and are reflected in numerous White House and Congressional reports. The on-going challenges for Departmental preparedness have risen significantly, with a few examples provided below:

Performance Measure				
Transportation Capability Assessment for Readiness Index Score				
	2003	2004	2005	2006
Target	N/A	N/A	71	72
Actual	59	67	65	72

- **Operational Response (National Response Plan ESF-1):** There has been an increase in demand for DOT to provide transportation services during emergencies. For example, in three successive years, emergency transportation support needs have risen from 700 truckloads of commodities moved in 2004 to over 23,000 truckloads during last year's hurricane season. This increase was in addition to the major evacuation support described below. Although it is impossible to predict the severity of future natural or man-made disasters, it is clear that we must be prepared to respond effectively and efficiently to catastrophic events at any time.



- **Evacuations:** During Hurricane Katrina, DOT, through ESF-1, provided over 1,100 evacuation buses, arranged for an Amtrak evacuation train, and coordinated the air evacuation of over 24,000 residents from New Orleans. For the 2006 hurricane season, DOT, in support of the Department of Homeland Security has established major contracts for bus and passenger rail evacuation support to ensure the capability is in place to evacuate larger populations in the event of a catastrophic incident. DOT also refined an existing contract to improve access to commercial aviation services. DOT leads and staffs the Transportation Management Unit in Baton Rouge, Louisiana, which was established to conduct planning and response activities for Gulf Coast evacuations and emergencies this hurricane season. Although additional planning will be needed to evolve plans to assist other States with evacuations, these measures represent levels of evacuation planning and increased capacity in the Federal Government. Sustaining these capabilities and providing additional evacuation planning support will be critical to future preparedness.
- **Continuing Role of the Office of Intelligence, Security, and Emergency Response:** In addition to the increase in preparedness and operations responsibilities described above, the Department has ongoing obligations, which are summarized below;
 - o Provide intelligence information and timely analysis of threats; and security, diplomatic, and economic issues that impact the Department's ability to effectively perform its mission;
 - o Monitor the status of the national transportation system from the Crisis Management Center (CMC), 24 hours a day, seven-days a week;
 - o Develop and review preparedness and security policy;
 - o Represent and prepare the Department for national and Senior Official level exercises and training required under the National Exercise Program and other directives;
 - o Ensure the Department meets the requirements of Continuity of Operations and Continuity of Government established by Executive Order. This includes development and maintenance of continuity plans, conducting training and maintaining an alternate site from which to conduct DOT operations; and,
 - o Participate in international civil emergency planning for response to natural disasters and crises, including national security.

FY 2007 Performance Forecast. In 2007, the Department is planning to expand intelligence support to Operating Administrations, security policy development and preparedness and response operations. We anticipate meeting the performance target of 75 in FY 2007.



ORGANIZATIONAL EXCELLENCE STRATEGIC GOAL

ADVANCE THE DEPARTMENT'S ABILITY TO MANAGE FOR RESULTS AND ACHIEVE THE GOALS OF THE PRESIDENT'S MANAGEMENT AGENDA

FY 2006 ENACTED FUNDS: \$1,165.8 MILLION



STRATEGIC OUTCOMES

- Strategic management of human capital
- Competitive sourcing
- Improved financial management
- Expanded E-Government
- Budget and performance integration

PERFORMANCE MEASURES

- For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met.
- For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met.
- For major Federally funded infrastructure projects, percentage that meet schedule milestones established in project or contract agreements, or miss them by less than 10 percent.
- For major Federally funded infrastructure projects, percentage that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent.
- Percentage of transit grants obligated within 60 days after submission of a completed application.



PRESIDENT'S MANAGEMENT AGENDA

**FY 2006 ENACTED FUNDS
\$1,190.3 MILLION**

Secretary Peters' central management strategy for achieving organizational improvement is full implementation of the PMA. The PMA contains five core, mutually reinforcing goals that the DOT Team is integrating into its corporate culture in striving for continuous management improvement. In implementing the President's Management Agenda in DOT, our objective is to achieve the following organizational excellence outcomes:

- Achieved strategic management of human capital;
- Achieved competitive sourcing goals;
- Achieved financial performance goals;
- Achieved E-government goals; and,
- Achieved budget and performance integration goals.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

President Bush's management agenda focuses on long-term management of the Federal workforce and fostering a citizen-centered, results-based government that is organized to be agile, lean, and capable of making timely decisions. As we determine our human capital requirements, DOT continually assesses and improves critical competencies, thoughtfully restructuring organizations as needed to foster performance.

FY 2006 ACCOMPLISHMENTS

Balanced Scorecard. Since 1998, DOT has used a Balanced Scorecard instrument to evaluate each Administration's delivery of HR services and information and identify opportunities for improvement. The scorecard gathers perspectives of customers, employees, and HR managers in the following performance areas:

- *Timeliness
- *Quality
- *Service Partnership
- Quality Work Environment
- Executive Leadership
- Excellence in HR Programs
- Effective Use of Information Technology
- Quality Workforce
- Mission Goals
- Financial Perspective

(* These dimensions are rated by customers.



While organizations that participated regularly in the survey areas shown above experienced a general trend of improvement, average scores in the critical area of “Service Partnership” hit a plateau between the 2000 and 2002 surveys, holding steady at 69.5 percent. DOT set a goal in 2002 to reach an 80 percent satisfaction score. The most recent survey, administered in the fall of 2005, showed an average score for service partnership of 79.7 percent. Through the balance of FY 2006, Operating Administrations (OAs) implemented improvement plans to build on this new base, and further improve scores in other service dimensions.

Career Resident Pilot. In 2005, DOT piloted a Career Resident program to expand entry level hiring in mission-critical occupations. Highly targeted recruitment identified a pool of diverse candidates with competencies matching specific needs. The pool of candidates identified in the initial 2005 recruitment met all of the criteria for program success, and OAs who hired from that pool were extremely happy with the performance of the employees. As a result, both the candidate pool and hiring commitments doubled in 2006, despite severe budget constraints that dampened overall hiring.

Workforce planning and talent management. One-DOT initiatives have identified and closed or narrowed competency gaps in leaders, using automated assessments and targeted training; narrowed gaps for IT workers; identified competency gaps and strategies for human resource specialists, identified specific functions performed in four cross-cutting engineering disciplines, and mapped out more disciplined succession strategies. DOT also saw a number of successful initiatives in individual OAs:

PHMSA strengthened its “People Pipeline”. PHMSA’s workforce analysis showed that too much of its workforce was clustered at high grades, with similar age and length of service demographics. The Agency needed to take steps to build a pipeline for critical technical and professional positions. In FY 2006, PHMSA, an agency of fewer than 400 positions, had 9 employees under student appointing authorities and 2 student volunteers, and filled a third of its positions at the entry level.

FRA used multiple strategies to close skills gaps. FRA’s workforce planning study of its financial management functions highlighted the need for greater analytical and automation skills, in agreement with recommendations from the Department. As a result, FRA combined its financial services, budget, and support systems operations into one office; established a Deputy Chief Financial Officer position dedicated to financial management responsibilities only; and used a buyout to create vacancies for the organization that have been used to hire employees with the desired skills/competencies. FRA also met targets for closing gaps among Rail Safety Inspectors through technical training, on-the-job coaching and mentoring, and targeted improvements in recruitment and hiring strategies.



FTA placed people with disabilities. By working closely with the Virginia Department of Rehabilitative Services (VDRS), FTA provided internships for disabled candidates, many of whom were subsequently appointed to permanent full-time or longer-term temporary positions. Additionally, FTA earned recent special recognition from the Northern Virginia Department of Rehabilitative Services as “Employer of the Year” for its “disability-friendly” spirit toward employment, accessibility and service to individuals with disabilities.

FAA supported employees affected by competitive sourcing. The FAA Automated Flight Service Station (AFSS) Competitive Sourcing competition included 58 facilities in the continental United States, Puerto Rico, and Hawaii operated by the FAA. In February 2005, the FAA awarded a 10-year contract (5-year base, with 5 option years) to Lockheed Martin, the winning bidder, which assumed operations on October 4, 2005. FAA Human Resources had a number of huge, critical tasks to support the transition of service and the employees affected by it, and the majority of these tasks extended through 2006.

COMPETITIVE SOURCING

DOT uses competitive sourcing as a key tool for efficiently getting commercial-type work done. By doing so, we can ensure that we are providing the highest quality and the most economical service to Americans.

FY 2006 ACCOMPLISHMENTS

Workforce Analysis Pilot Project. In 2006, as required by both human capital and competitive sourcing President’s Management Agenda initiative Standards for Success, DOT created a model process that better integrates workforce planning and competitive sourcing. The ongoing pilot project allows DOT’s human capital staff to evaluate Mission Critical Occupations for achieving staffing and skill gap closure. DOT uses a process that relates current personnel, organizational, and functional requirements with future staffing and skill requirements. Included in this process is relating FAIR Act Inventory data with the above process.

Post-competition Accountability and Independent Validation of Savings. In an ongoing effort, the Office of Competitive Sourcing staff and support consultants develop post-competition accountability (PCA) policy and guidance and trained individual agency managers on correct application of procedures to validate savings and performance improvements resulting from competition. As of 2006, DOT has anticipated savings of \$2.22 billion and operating administrations are implementing PCA procedures to validate savings and performance improvements. Additionally, the Office of Competitive Sourcing staff conducts independent validations of completed competition to verify savings which further demonstrates the Department’s successful implementation of the President’s Management Agenda for competitive sourcing.



IMPROVED FINANCIAL PERFORMANCE

Improved financial performance is a key aspect of improving the Government's overall performance. Knowing the full cost of DOT's programs and services is a critical element of program management. Good financial stewardship, excellent financial and acquisition systems, and improved performance on DOT's financial metrics guides DOT financial performance. In recent years, the Government Accountability Office and the DOT Office of Inspector General have aggressively recommended that DOT financial management focus on needed improvements. DOT has responded with several efforts that have improved financial performance throughout the Operating Administrations (OAs) and the Department.

FY 2006 ACCOMPLISHMENTS

Managerial Cost Accounting

Managerial cost accounting (MCA) identifies, tracks, and analyzes the total costs attributable to a particular task, job, or program. The purpose of managerial cost accounting is to provide program managers with cost information required to accurately report program efficiency and to develop a program's future budget. DOT OAs are working aggressively to implement managerial cost accounting systems in order to provide their managers with cost information to make better-informed decisions.

During FY 2006, the Federal Aviation Administration (FAA) completed their implementation of the Cost Accounting System (CAS) by implementing the remaining two lines of business, Aviation Safety and Airports. FAA is now providing cost accounting information to all lines of business. Labor distribution has been implemented in all of the lines of business and in most of the staff offices, covering over 45,000 employees. FAA plans to implement the remaining staff offices consisting of approximately 1,500 employees in FY 2007.

The Federal Lands Highway Program of the Federal Highway Administration is in the process of developing a solution within Oracle's Project Accounting module which will provide reports to manage their programs and projects. The goal is to capture program, project, and task information on the budget distribution and execution transactions in order to generate reports for financial managers, program managers, and engineers. A data warehouse is being developed that will enable Federal Lands to retrieve the data they need to manage their programs and projects in various formats. The solution will be completed in early 2007.

Several OAs made substantial progress in implementing full cost accounting during FY 2006. The Federal Transit Administration (FTA) has completed the majority of its cost accounting implementation. FTA is using commercial-off-the-shelf software to import administrative, salary and benefit, and grant expenses from existing systems. FTA employees also began using activity codes to record their time and attendance using the Labor Distribution Reporting (LDR) function



within CASTLE. By doing so, FTA has been able to assign salary and benefit expenses to activities. FTA has already provided its Executive Management Team (EMT) with preliminary reports from the cost accounting system. FTA plans to finalize the reports and begin distributing them to its EMT and other managers monthly starting in November 2006.

In addition to the progress noted above, the FRA and FHWA have also implemented LDR and are using activity codes to record employee time. The vast majority of DOT's employees are now using LDR to record their time.

DOT will continue to take the steps necessary to integrate program and accounting data. DOT will work with the remaining small OAs during FY 2007 to implement their managerial cost accounting plans.

Improved Financial Processes

DOT's Office of Financial Management provides overnight closing and produces statements every month and at year-end. Each month the OAs prepare and submit monthly non-audited financial statements comprised of: the Balance Sheet, Statement of Net Cost, Statement of Net Position, and Statement of Budgetary Resources. These statements, with the exception of the Statement of Financing, are prepared directly from trial balances from Delphi utilizing the Financial Statement Solution (FSS). In 2006, the FSS was further enhanced to run overnight.

In addition, DOT:

- Developed an incremental year-end close process that can be run throughout the year and make the carry forward balances available on the first day of the new fiscal year;
- Developed a new accounting classification structure to standardize financial management and was actively involved in the effort to develop a common government-wide accounting classification structure (CGAC); and,
- Continued consolidating accounting services at the Enterprise Services Center in Oklahoma City.

Reimbursable Policy

In 2006, DOT made a substantial progress in finalizing the reimbursable policy and business process. This is a critical part of DOT's efforts to streamline and standardize business practices and to strengthen Internal Controls across DOT. The Policy also addresses the FY 2005 financial statement audit finding on reconciling transactions within DOT by requiring all agreements must:



- designate a common agreement number;
- have one Treasury Fund Symbol; and,
- not exceed 5 years.

Implementation of the new policy will begin during FY 2007, with implementation mandatory as of October 1, 2007.

Federal Shared Service Provider Activities

In February 2005, OMB designated DOT one of the four Financial Management Line of Business Federal Shared Service Providers (FSSP), giving DOT the opportunity to offer its suite of integrated tools and services to other government agencies. In FY 2006, the DOT Enterprise Service Center (ESC) established a Project Management Office to coordinate and track FSSP activities and work with our private sector teaming partner, Systems Research and Applications Corporation (SRA).

In addition to the 15 original customers (14 DOT agencies and TSA) during FY 2006, DOT increased the number of Federal Agencies it cross-services to four:

- The National Endowment for the Arts.
- The Institute of Museum and Library Sciences (IMLS). IMLS has also contracted the DOT's Enterprise Service Center (ESC) to provide a full range of accounting services including Accounts Receivable, Accounts Payable, Supplier Table Maintenance, Monthly Closing and Reconciliation, Financial Reports.
- The Commodity Futures Trading Commission (CFTC). CFTC also contracted with the ESC to provide a full range of accounting services.
- The Government Accountability Office (GAO). GAO will also rely on ESC to provide selected accounting services. DOT and its private sector business partner, SRA recently began the GAO conversion to Delphi, scheduled for completion by October 2007.

In June 2005, DOT selected SRA as its private sector business partner to help market ESC to, and implement new customers. Working together, SRA and the DOT ESC:

- Successfully implemented CFTC on Delphi;



- Developed a cost estimate and detailed project plan /implementation schedule for GAO; and,
- Marketed and submitted joint proposals to several Federal agencies.

Delphi Security

Delphi is the Department's financial management system. The FY 2006 Delphi certification and accreditation (C&A) effort provides the Authorizing Official with important information necessary to make an informed, risk-based decision regarding the operation of Delphi. This C&A was performed against the new 2006 standards for C&A IT Security audits, NIST Special Publication 800-53/53A. The risk assessment for 2006 identified no "high risk" vulnerabilities in any of the Delphi controls. This is the first full recertification of Delphi that included all of Delphi's subsystems.

In addition, in 2006, a new educational program to ensure that the appropriate security training for all Delphi personnel from the head of the ESC to Delphi end users was conducted per NIST regulations. We maintain the confidentiality, integrity and accessibility for our Delphi systems by being NIST and OMB compliant with all security best practices, procedures, policies and laws in the most cost effective delivery of financial systems.

EXPANDED ELECTRONIC GOVERNMENT

President Bush has called for an expanded electronic government that improves service to individuals, businesses, and State and local governments through the use of information technologies. DOT is committed to ensuring that the Department's investment in information technology (IT) significantly improves its ability to serve citizens, and that IT systems are secure, and delivered on time and on budget. Effective implementation of E-Government is important in making DOT more responsive and cost-effective.

FY 2006 ACCOMPLISHMENTS

The Department continues to participate actively in many of the Administration's government-wide E-Government initiatives, such as grants management and E-Authentication, and others. The results allow the general public customers easy and secure access to their government. For example, DOT:

- Increased public access to, awareness of, and the ability to apply through a central portal DOT grant opportunities;
- Implemented a secure, standard E-Authentication mechanism for two major DOT business programs; and,



- Made a large number of OMB forms available to citizens through the Business Gateway PMA E-Government Web site.

During FY 2006, the Department's efforts in the E-Government portion of the President's Management Agenda had a number of important successes: DOT met established requirements and made further improvements in enterprise architecture, privacy, and capital planning. In FY 2006, over 99 percent of operational Information Technology (IT) systems have current certification and accreditation. DOT continued to update and refine enterprise architecture artifacts and plans that focus IT investment business functions. DOT also reduced cost, schedule and performance overruns and shortfalls for major projects to less than 10 percent.

In the spring of 2006, DOT saw the successful completion of its headquarters IT infrastructure consolidation project. The project aimed to create a more mission-effective, secure, and cost-efficient Common Operating Environment (COE) to meet DOT IT infrastructure requirements. The scope of the IT consolidation program included the following specific IT services: Consolidated Information Security; Consolidated Help Desk; Network Management; Wide Area Network (WAN); Metropolitan Area Network (MAN); Local Area Network (LAN); Telecommunications; Remote Access; Electronic Mail (Email); Domain Name Service (DNS); End-User Devices; File Services; Print Services; Backup (Information); IT Support & Maintenance; File Storage; and Server Hosting. Participants in the project included all Operating Administrations (except FAA), and selected field activities nationwide. DOT successfully migrated all Operating Administrations (except FAA) to the DOT Common Operating Environment within established schedule and cost goals. In addition, DOT implemented a 2-tier Information Technology Infrastructure Library-compliant service management structure, reduced desktop support costs by 30 percent, and increased customer satisfaction from 82 percent to 93 percent.

DOT also made great strides to address previously Inspector General identified information assurance weaknesses. DOT expanded its oversight and quarterly compliance review process to go beyond the C&A process to improve staff and executive level awareness and action on critical Plans of Action and Milestones, contingency planning and testing, annual security control testing, and awareness training. By implementing Department-wide improvements, DOT complies with the law and provides DOT management the assurance that IT assets are able to provide greater system security for services delivered to the public.

BUDGET AND PERFORMANCE INTEGRATION

Regular, systematic measurement and accountability for program performance compared to pre-determined targets will be the means to improve DOT management. The President's Management Agenda stresses a change of direction in Federal management—that of changing yearly budgetary and resource decisions from the “increment” to the “base,” and through the focus of accountability for programmatic results.



FY 2006 ACCOMPLISHMENTS

Linking Performance to Resource Decision-Making. DOT continues to be recognized as a leader in Budget and Performance Integration and continues to build on previous efforts to improve the link between performance results to resource decisions and to hold executives and managers accountable for those results. In order to make financial and performance information available to executives and managers, the Department created a Web portal on the DOT Intranet providing links to performance, budget, and financial management information available throughout the Department. The Web portal approach was pursued after the Department, due to cost and funding constraints, terminated its implementation of a real-time Automated Dashboard Desktop User Interface (DASHboard) linked to the Department's Delphi financial management system.

DOT continues to incorporate results from the Program Assessment Rating Tool (PART) into the resource decision making process. Since the Office of Management and Budget (OMB) began assessing the Department's programs using PART, it has resulted in DOT program offices justifying their budget requests based on actual performance results and focused program managers to fully address improvement recommendations received from OMB program examiners. DOT's PART results, which are consistently above the Government-wide average, are presented to the Secretary of Transportation and her staff during the budget preparation process in order to better link resource allocation decisions to program results. PART results and performance measures are also documented in the final budget documents that are submitted to OMB and to Capitol Hill.

During the FY 2006 budget cycle, DOT took performance budgeting to the next level by estimating the marginal cost of performance (what results can be achieved at different levels of funding) for selected programs. This approach was expanded to all modal administrations and for the FY 2007 budget cycle, all DOT modes will provide marginal cost information for at least one of their performance goals. For the FY 2008 budget cycle, each modal administration will provide marginal cost of performance information in their FY 2008 OMB budget submission for performance goals that have discretionary budget changes from the previous year in accordance with Departmental guidance.

Recognized as a government leader in marginal cost methodologies, the Department continues to share lessons learned with other Federal agencies in order to provide all Government executives and managers the best information possible to make resource decisions.

ELIMINATING IMPROPER PAYMENTS

The President's Management Agenda (PMA) strives to instill first class financial management practices in departments and agencies throughout the Executive Branch. Such efforts ensure that taxpayer dollars are spent wisely and efficiently, appropriately accounted for, and protected from



fraud or misuse. To advance these important objectives, the Administration has made the elimination of improper payments a major focus of the PMA. An improper payment occurs when Federal funds go to the wrong recipient, the recipient receives the incorrect amount of funds, or the recipient uses the funds in an improper manner.

FY 2006 ACCOMPLISHMENTS

During FY 2006, DOT took significant steps toward the implementation of the Improper Payments Information (IPIA) Act of 2002. DOT's efforts focused on program areas in three of our largest operating administrations: FHWA Highway Planning and Construction Program, FTA Formula Grants, and FAA Airport Improvement Program.

Highway Planning and Construction Program. Leveraging innovative work that was accomplished in previous fiscal years, FHWA applied a standardized methodology to establish a nationwide improper payment rate in FY 2006. This comprehensive project involved an unprecedented level of cooperation and participation between State, Federal, and contractor personnel from all 50 States and two territories with a goal of obtaining a data-driven snapshot of improper payments in the Highway Planning and Construction Program. In the course of doing this work, fundamental root causes for improper payments were also documented so that policies and procedures can be instituted to prevent the reoccurrence of such transactions in the future.

Because our methodology focuses on detailed transactions between the grantees (States and territories) and the sub-grantees (actual contractors performing the work), we have found opportunities for improvement at the base level of payments. We have participated in discussions, which may lead to the application of our methodologies to other Federal grant programs across the government.

FTA Formula Grants and FAA Airport Improvement Program. During FY 2006, DOT also took significant steps forward in classifying and scoping improper payments in FTA's Formula Grants and the FAA's Airport Improvement Program. In conjunction with OMB, our objective was to arrive at rates of improper payments for both programs. Activity this fiscal year focused on the development of a methodology that would facilitate valid statistical sampling and analysis. As a result, DOT was able to achieve its objective of deriving a component improper payment rate for both programs. This methodology and related lessons learned will be expanded to obtain a nationwide perspective in FY 2007.

FEDERAL REAL PROPERTY ASSET MANAGEMENT

It is the policy of the United States to promote the efficient and economical use of America's real property assets and to ensure management accountability for implementing Federal real property management reforms. Based on this policy, executive branch departments and agencies shall



recognize the importance of real property resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action.

FY 2006 ACCOMPLISHMENTS

On behalf of the Department, the FAA provided inventory information and performance measures to the Federal Real Property Council (FRPC), that included metrics for the approximately 69,500 DOT real property assets. The data and performance measures are maintained in the Real Estate Management System (REMS) which serves as the single-point inventory database for DOT real property assets. The full inventory of real property assets will be transmitted to the Federal Real Property Profile (FRPP) in FY 2007 for inclusion in the full Federal real property inventory database.

In accordance with the DOT Asset Management Plan (AMP) and during the preparation of the Department's Three-Year Timeline for Real Property, each of the OAs was offered the opportunity to review the data and identify properties for disposition based on the mode's asset inventory and the Department's decision-making process.

In addition, the investment list was prioritized across the DOT portfolio of assets. The investment priorities were sorted by fiscal year, rather than by Operating Administration and functional area as previously reported. Prioritization was established using the following parameters:

- Mission criticality;
- Facility condition index;
- Utilization Rate; and,
- Annual Operating Costs.

The prioritized list will aid the Department in managing its wide-range of real property assets at the constructed asset level.

RESEARCH, DEVELOPMENT, AND TECHNOLOGY (RD&T)

Through RITA's management of the RD&T coordination function, leadership has identified the emerging research priorities that the Department intends to pursue over the next several years. The plan incorporates the RD&T programs of all DOT operating administrations and considers how research by other Federal agencies, State departments of transportation, the private sector, and others contributes to DOT goals and how unnecessary duplication is avoided.



Over the next several years, a number of external factors will affect the Department’s ability to achieve transportation goals, some of which will create particular challenges for RD&T. These include globalization, the economy, demographic and lifestyle changes, transportation fuel, obstacles to intermodalism, declining revenue in transportation trust funds, constraints on expanding capacity, and advances in technology.

The Department’s emerging research priorities were selected by DOT leadership to help focus the Departmental R&D resources. Research priorities include human–automation interaction, application of enhanced transportation safety data and knowledge, congestion reduction policy research and technologies, system resilience and global logistics, next generation air transportation system, and energy efficiency and alternative fuels.

ORGANIZATIONAL EXCELLENCE PERFORMANCE GOALS

In addition to the President’s Management Agenda, DOT also manages for results by tracking our progress in acquisition management and financial stewardship. Through these measures, DOT endeavors to improve organizational performance and productivity.

ACQUISITION MANAGEMENT **FY 2006 ENACTED FUNDS**
\$0.6 MILLION

Lifecycle acquisition management is built around a logical sequence of phases and decision points. DOT uses these phases and decision points to determine and prioritize its needs, make sound investment decisions, implement solutions efficiently, and manage services and assets over their lifecycle. The overarching goal is continuous improvement in the delivery of safe, secure, and efficient services over time. DOT ensures that taxpayer dollars spent through DOT’s acquisition programs achieve performance outcomes required by tracking, cost and schedule milestones.

2006 Results. FAA exceeded the FY 2006 performance targets for major acquisitions cost and schedule. FAA tracked 39 milestones against 29 acquisition programs for this performance measure and has met the variances for cost and schedule.

Performance Measure				
For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met				
	2003	2004	2005	2006
Target	80	80	80	85
Actual	88	100	97	100



The FAA's success in meeting these yearly acquisition goals is attributable to our continued efforts to incorporate and apply effective management control processes. We are segmenting large, complex investment programs into development, demonstration, or production phases, with the Joint Resources Council (JRC) approving each phase incrementally. Segmentation clarifies schedules and allows the JRC to assess how well work is progressing before approving subsequent phases. This gives the FAA better control of costs and schedules.

Performance Measure				
For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met				
	2003	2004	2005	2006
Target	80	80	80	85
Actual	77 (r)	91.5 (r)	92	97.4
(r) Revised				

We are using Earned Value Management (EVM) techniques for contracts where there is significant risk to the Government. With the use of EVM as a project management tool, we are able to optimize project planning and control through integration of the project scope of work with cost, schedule, and performance elements. Major programs were assessed against the industry standard for EVM compliance and action plans put in place to achieve full compliance. Continued surveillance reviews will ensure continuity of program planning and the reliability of performance data.

FY 2007 Performance Forecast. DOT anticipates meeting the performance targets in FY 2007.

FINANCIAL STEWARDSHIP

FY 2006 ENACTED FUNDS \$1.1 MILLION

DOT needs to ensure that infrastructure improvements are delivered on time and within budget. Infrastructure projects are not static, at any point conditions may change, which impact either the cost of the project or the delivery date. Monitoring cost, schedule, and performance of infrastructure projects are critical to identify problems and initiate action to mitigate risks. Three Operating Administrations have projects included in the following infrastructure project performance measures: FTA, FAA, and FHWA.

2006 Results. Although FTA and FAA projects are all within ten percent of cost and schedule milestones, excessive cost and schedule variances on certain FHWA projects prevented the Department from meeting its overall targets for keeping major infrastructure projects on schedule and within budget.

Performance Measure				
For major Federally funded infrastructure projects, percentage that meet schedule milestones established in project or contract agreements or miss them by less than 10 percent				
	2003	2004	2005	2006
Target	95	95	95	95
Actual	88	95	95	91



FTA has four mega projects (active New Starts projects with Full Funding Grant Agreements (FFGA) that exceed \$1 billion). The four projects included in the measure are: New Jersey Hudson-Bergen-Minimum Operable Segment (MOS) II Light Rail; San Juan Tren Urbano Heavy Rail; Denver Southeast Corridor Project; and, Seattle Central Link Light Rail. All of the FTA projects are within 10 percent of the cost estimates and schedule milestones associated with their current FFGA.

Performance Measure				
For major Federally funded infrastructure projects, percentage that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent				
	2003	2004	2005	2006
Target	95	95	95	95
Actual	88	74	79	82

The following activities contributed to FTA’s success in meeting the performance targets for the infrastructure projects. FTA initiated a risk management program for its major capital projects. FTA’s risk management is a continuous process that includes a formal planning activity, assessment activities, a mitigation strategy for selected risks, and monitoring the progress in reducing the selected risks to the desired level. The risk assessment for project cost and schedule is performed by FTA’s Project Management Oversight (PMO) contractors and identifies and ranks the highest areas of risk. The report is then used as a guide to establish a risk mitigation plan with which to monitor risk through the completion of the project. This risk management program creates a confidence level for the project budget and schedule, and enables FTA and the grantee to proactively manage the project.

FAA has major runway projects at St. Louis, Seattle-Tacoma, and Atlanta. In FY 2006, both Lambert St. Louis International and Atlanta Hartsfield-Jackson International opened one new runway. FAA also added one new project, Phase 1 of the Chicago O’Hare Modernization Program (OMP), consisting of one new runway construction, an existing runway relocation, and one runway extension. Both major runway projects and OMP Phase 1 are on schedule and within cost. The Seattle-Tacoma runway is on schedule to open in 2008 and OMP Phase 1 is on schedule for completion in 2009.

FHWA has approved financial plans or their annual updates for 14 major projects. Of the 14 major projects that have reached the financial plan stage, 11 of 14, or 79 percent, are currently on or within allowable budget variances. In addition, 12 of 14 projects, or 86 percent, are within the forecasted schedule completion variance. The targets of 95 percent were not met because some projects exceeded their baseline estimates for cost and schedule by at least 10 percent. There are numerous project specific reasons for this situation including overly optimistic initial cost estimates. Once a project exceeds the threshold for cost, it is difficult to meet the threshold in future years.



FY 2007 Performance Forecast. DOT will have difficulty meeting both the cost and schedule targets for infrastructure projects in FY 2007.



2006 Results. FTA met the target for FY 2006. The amount of time to process grants was reduced from an average of 67 days in 2001 to an estimated 28 days in 2006. Higher FTA program funding and the number of new programs have increased the workload and number of awards being processed through FTA's Transportation Electronic Award and Management (TEAM) system. The improvements in the timeliness of grant processing have resulted in improved customer service. FTA has continued to build on and refine initiatives implemented in FY 2004 and FY 2005 to improve grant processing time, including:

Performance Measure				
Percentage of transit grants obligated within 60 days after submission of a completed application				
	2003	2004	2005	2006
Target	80	80	80	80
Actual	83	91	91	94

- Implementing an electronic Grants Notification System for grants that are over \$1 million and processed for release by Congress;
- Opening the Transportation Electronic Award and Management (TEAM) system for grant processing earlier in FY 2006 as a result of monthly reconciliation of TEAM data during FY 2005;
- Continuing to work with the Department of Labor (DOL) to streamline procedures for certifying grants;
- Continuing the expedited notification of certification by the DOL; and,
- Resolving mid-year problems with electronic notification to DOL resulting from new computer security firewall protections.

FY 2007 Performance Forecast. FTA anticipates meeting the FY 2007 target.

ENVIRONMENTAL JUSTICE

The Environmental Justice measure was part of the DOT 2000-2005 Strategic Plan. Last year was the first year of reporting under the DOT 2003-2008 Strategic Plan and this measure was retained in error. Consistent with the DOT 2003-2008 Strategic Plan, we have discontinued reporting this information.



PERFORMANCE DATA COMPLETENESS AND RELIABILITY

Performance measurement is dependent on the availability of useful data that will indicate level of performance and helps progress toward achieving organizational goals. Because all data are imperfect in some fashion, pursuing perfect data may consume public resources without creating appreciable value. For this reason, there must be an approach that provides sufficient accuracy and timeliness but at a reasonable cost. This section of the report provides information on how DOT uses performance data, assesses limitations of the data, and plans to improve DOT's data.

IN GENERAL

In an attempt to bring consistency and quality to its performance reporting, DOT has implemented some general rules regarding the data it uses and how it is evaluated.

Annual Data. Whenever available, the data in this document are reported on a Federal Government fiscal year basis. However, there are instances where fiscal year data are not available so calendar year data are used instead. This often occurs when data are collected and reported to DOT by external sources and a calendar year reporting requirement is specified in the implementing regulation.

Completeness of Data for Annual Results. If available, the results for the most recent year in the report are listed as Actual in the shaded box for each performance measure. However, given the November 15 deadline for submission of the Performance and Accountability Report, not all data have been compiled and finalized for the entire year. When an actual value is not available for the current year, either an estimate or a projection is provided instead. In general, estimates are based on partial-year data that are extrapolated to cover a full 12-month period. Historical trend information, supplemented by program expertise, is then applied to estimate the remaining months of performance for which actual data is unavailable. The result is identified as a preliminary estimate in the report. If partial-year data are not available, then past trend information is analyzed and supplemented by program knowledge to develop a projected value for the annual performance measure. The result is identified as a projection in the report. As data are finalized, the projections and preliminary estimates are replaced by actual results, with resulting changes denoted by an (r). Results are also amended as errors and omissions are identified in the data verification process, as updated information is provided by the reporting sources, or because of legal or other action that changes a previously-reported value.



Reliability of Measurement Data. DOT performance data are generally reliable (useful to program managers and policy makers). But because performance results in a given year are influenced by multiple factors, some of which are beyond DOT's control, and some of which are due to random chance, there may be considerable variation from year to year. A better “picture” of performance may be gained by looking at results over time to determine if there is a trend.

Virtually all data have errors. We have compiled Source and Accuracy Statements for each of the DOT data programs used in this report, which can be found at http://www.bts.gov/programs/statistical_policy_and_research/source_and_accuracy_compendium/index.html. The Source and Accuracy Statements give more detail on the methods used to collect the data, sources of variation and bias in the data, and methods used to verify and validate the data.

Assessing and, where possible, eliminating sources of error in DOT data collection programs has always been an important task for data program managers. As part of their ongoing work, managers of Departmental data programs use quality control techniques to identify where errors can be introduced into the data collection system. Program managers also use computerized edit checks and range checks to minimize errors that may be introduced into the data of their respective programs. In addition, quality measurement techniques are employed to measure the effects of unanticipated errors. These include verification of data collection and coding, as well as coverage, response and non-response error studies to measure the extent of human error affecting the data. As sources of error are identified, data collection is improved.

The data used in measuring performance come from a wide variety of sources. Much of it originates from sources outside of the Department and, therefore, outside of the direct control of the Department. The data often come from administrative records or from sample surveys. While DOT may not have a strong voice in improving the quality of outside data, the Department takes all available information about the limitations and known biases in outside data into account when using the data.

To help the OAs address these issues, the Bureau of Transportation Statistics (BTS) is developing a statistical policy framework where the OAs will work together to identify and implement the current statistical best practices in all aspects of their data collection programs. This project is consistent with the data capacity discussions found in the DOT Strategic Plan.

See Other Accompanying Information in the Financial Report for detailed explanations of completeness and reliability for each performance measure.



DATA LIMITATIONS

DOT Data Source Limitations. Timeliness is the most significant limitation for DOT performance measurement data. Some DOT data are not collected annually. For example, the National Household Travel Survey and the Commodity Flow Survey each collect data every five years. Data that are collected each year (or more frequently) require time to analyze, confirm and report results. For example, Highway Performance Monitoring System vehicle-miles traveled (VMT) data require several months of post-collection processing, making final results unavailable for this performance report.

Other performance measurement data limitations are identified in the previously mentioned Source and Accuracy Statements for DOT data programs. These statements contain descriptions of data collection program design, estimates of sampling errors (if applicable), and discussions of non-sampling errors. Non-sampling errors include under-coverage, item and unit non-response, interviewer and respondent response errors, processing errors, and errors made in data analysis.

Estimating and Projection Techniques Used. As discussed under completeness, most of the FY 2006 measures must be projected from either partial-year data or historical trends. The projections based on partial-year data from FY 2006 are more likely to reflect changes effected by current DOT policies and programs. The measures projected from FY 2005 and prior historical data reflect continuing trends from ongoing programs, but do not reflect the effects of changes implemented in FY 2006.

External Data Source Limitations. Data that originates from external or third-party sources are not directly controlled by DOT. These data often come from administrative records or from sample surveys. Timeliness is also a significant limitation. For example, many DOT internal data programs rely on data provided by State DOTs. DOT partners closely with the States, but does not have direct control over these programs.



DOT PROGRAM EVALUATIONS

Performance measures show if intended outcomes are occurring and assess any trends. Program evaluation uses analytic techniques to assess the extent to which our programs are contributing to those outcomes and trends. As required by the Government Performance and Results Act of 1993, the Department's FY 2006—2011 Strategic Plan includes an updated list of new program evaluations planned for those fiscal years. This appendix provides a summary of DOT's program evaluation efforts and a report on program evaluations scheduled for completion in FY 2006. In addition, updates of FY 2005 evaluations that were not completed when last year's PAR went to press are also included to maintain continuity across fiscal years.

TYPES OF PROGRAM EVALUATIONS

Program evaluation is an assessment, through objective measurement and systematic analysis, of the manner and extent to which programs achieve intended outcomes. Evaluations are of the following types:

- *Impact Evaluations* use empirical data to compare measurable program outcomes with what would have happened in the absence of the program. These represent the highest standard of program evaluations and are often the most difficult and expensive to construct and interpret.
- *Outcome Evaluations* assess the extent to which programs achieve their outcome-oriented objectives. Outcome evaluations will use quantitative methods to assess program effectiveness, but fall short of the rigorous causal analysis of impact evaluations.
- *Process Evaluations* assess the extent to which a program is operating as intended. While a true process evaluation will use objective measurement and analysis, it falls short of assessing the causal links between intervention and outcome.
- *Cost-Benefit and Cost-Effectiveness Analyses* compare a program's outputs or outcomes with the costs to produce them. This type of analysis conforms with program evaluation when applied systematically to existing programs and when measurable outputs and outcomes are monetized.



PROGRAM EVALUATION MANAGEMENT

DOT staff, contractors, academic institutions, the Office of the Inspector General (OIG), or the Government Accountability Office (GAO) may conduct program evaluations. Program evaluation efforts are designed to ensure that the finished evaluations are useful regardless of who conducts the evaluation or the methodology used.

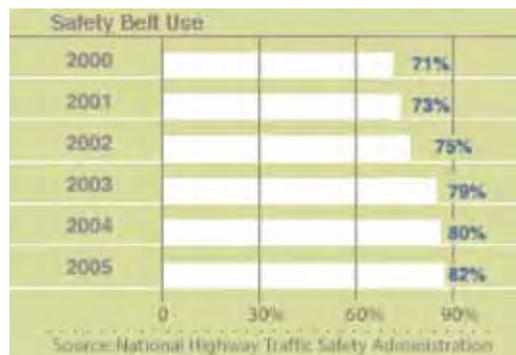
The programs selected for evaluations are vetted through the Department’s strategic planning process. Each modal administration nominates programs that are then reviewed by a strategic planning executive committee to ensure two things: 1) adequate breadth of program evaluations across modal administrations; and 2) alignment to the strategic goals developed through the planning process. The OIG and the GAO continue their own program evaluations independent of this schedule, as deemed appropriate.

FY 2006 PROGRAM EVALUATION SUMMARIES

A summary of DOT program evaluations scheduled for completion in FY 2006 follows.

EVALUATION OF NATIONAL TRAFFIC SAFETY ENFORCEMENT MOBILIZATIONS

Safety belt use is the most effective countermeasure available to passenger vehicle occupants to prevent fatalities and injuries in highway motor vehicle traffic crashes. This being the case, NHTSA has encouraged States to aggressively enforce laws mandating the use of safety belts in motor vehicles. Data indicates that safety belt use has increased over the preceding six year period as shown below:





As part of the enforcement effort, the Click It Or Ticket (CIOT) campaign was established to promote safety belt use. The CIOT program includes: the use of high visibility enforcement mobilizations by local law enforcement officials, paid advertisements focusing on safety belt enforcement, measurement of motorists' awareness of safety belt campaigns, and measurement of the change in the rate of seat belt use.

Related Strategic Goal: Safety

The purpose of this outcome evaluation is to determine the effectiveness of various CIOT program components in increasing the overall safety belt usage rate. Data collection is ongoing to determine the amount of funds spent for enforcement actions and advertising. In addition, the results of State reported surveys of safety belt use, motorist knowledge/attitude surveys administered at Driver Licensing offices, and a national telephone survey conducted pre/post yearly mobilization efforts are being analyzed to track progress.

Both the FY 2004 and FY 2005 evaluation results will be published by the end of 2006 and the FY 2006 results will be published by December 2007.

EVALUATION OF FRA'S RESEARCH, DEVELOPMENT, AND DEMONSTRATION PROGRAM

The Federal Railroad Administration (FRA) Research, Development and Demonstration (RD&D) Program conducts work that directly supports the agency's regulatory safety mission. The purpose of the program is to support FRA's efforts to sustain the safety and efficiency of the rail system.

Related Strategic Goal: Safety

Based on the recommendations of a 2004 program assessment, FRA is in the process of completing a strategic framework for managing the program and its component research projects. This will involve developing multi-year RD&D program plans that contain detailed schedule and budget information as well as clear explanations of how projects support Department-wide goals. After the completion of the framework and program plans in FY 2007, annual reviews of the program will commence.



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RAILROAD SAFETY BOARD EVALUATION

The Railroad Safety Board reviews and approves, or denies, waiver petitions, block-signal applications, and requests for special approval submitted by railroads and other parties subject to the applicable regulations. A third party review of the Railroad Safety Board was initiated in order to improve the effectiveness and efficiency of the Board. The evaluation was performed by private contractor, Zeta-Tech Associates, Inc.

Related Strategic Goal: Safety, Organizational Excellence

The evaluation objectives included the following:

- Review the overall operations of the Railroad Safety Board;
- Assess the completeness of documentation relating to the review process;
- Check the availability of standard forms and instructions to applicants;
- Analyze the processes and performance of the Board as compared to similar DOT agencies and other regulatory bodies; and,
- Develop recommendations to improve the efficiency and effectiveness of the Railroad Safety Board.

In performing the process evaluation, Zeta-Tech interviewed FRA staff, Safety Board Members, and railroad representatives. They also reviewed documentation outlining the waiver process and attended multiple Railroad Safety Board meetings. Based on the recommendations provided by Zeta-Tech, FRA has taken the actions indicated in the list below.

- The Safety Board will retain the current membership structure but underlying support has been enhanced with greater administrative staff participation. As part of the overall modifications to correspondence handling procedures, documentation of the entire waiver process was reviewed and rewritten. This documentation is now available to internal participants in both electronic and hard-copy format. This has clarified the steps involved in the waiver process and delineated individual responsibilities.
- A Web page has been posted to the FRA website explaining the requirements for a waiver petition or block signal application. This ensures that standards are followed for each submission. The requestors also benefit as they are able to read about the overall process and see what information is expected from them, arranged by type of request, along with projected time frames for completion.



- Many waivers have conditions and restrictions added by the Safety Board to clarify when and how the waiver is in effect. Copies of every decision letter are currently sent to each regional office in hard-copy format, and are electronically posted to the DOT Document Management System and are also attached to the waiver tracking system available to Office of Safety personnel. The Correspondence Control Manager is used by headquarters and regional offices for tracking of waivers. The Office of Safety is working toward making this an online process, allowing all field personnel to check for conditions and restrictions, even when not connected to the FRA network. In addition, many of the field users use e-mail to send copies of the decision letters to co-workers.
- On the day(s) that the Safety Board convenes, staff members that worked on waivers being considered are now available in person or by telephone to answer any questions or supply technical expertise for the Safety Board. If the staff member is not available, a designate will be available who has been fully briefed and can provide information in support of the position taken by the original staffer. This is a departure from past practice, since many staff members regularly scheduled travel on the day the Safety Board met.

FMCSA PERFORMANCE MEASUREMENT AND LINKAGES PROGRAM EVALUATION

The Performance Measurement and Linkages Program evaluation focused on an assessment of the underlying mission, goals, objectives and strategies of Federal Motor Carrier Safety Administration (FMCSA), and development of strategic plans, integrated performance budgets and operational plans based on sound performance measurement.

Related Strategic Goal: Organizational Excellence

This process evaluation focused on the current quantitative measures being used by the Agency in defining accomplishments, and recommended ways to more closely align the planning and budgeting processes. It also provided analysis into the validity of Agency performance measures and related measurement tools.

The findings identified the following recommendations:

- FMCSA should more clearly integrate performance measurement, strategic planning and the performance budget;
- FMCSA should redefine the fatality rate performance measure;
- FMCSA could measure the number of commercial investigations launched and the number of household goods (HHG) complaint calls received to measure achievement of the HHG strategic objective; and,



- FMCSA should develop research, development and technology performance measures.

FMCSA has already begun implementing the evaluation recommendations. Upcoming actions include the following:

- FMCSA will release a refreshed 2006-2011 modal strategic plan in the fall of 2006 that more clearly ties strategic goals, performance measures and the integrated performance budget together;
- FMCSA has begun reviewing the fatality rate performance measure to determine if it is accurate and the best indicator of performance of safety programs;
- FMCSA has developed several new performance measures for the FY 2008 budget request that track responsiveness to complaints and targeted investigations;
- FMCSA will develop new research, development and technology performance measures for the FY 2008 budget; and,
- FMCSA has developed a new process for documenting performance measures, tracking them within the Agency budget, and validating their measurement processes.

In addition to the findings related to current strategies and measures, the evaluation also provided recommendations for improvement of the Agency's internet-based Accomplishments Tracking System and identified issues to be considered in long-term authorization planning.

EVALUATION OF THE COMPLIANCE REVIEW IMPACT ASSESSMENT MODEL

A Compliance Review (CR) is an onsite examination of a motor carrier's operations to determine the carrier's safety fitness. FMCSA, in cooperation with the Volpe National Transportation Systems Center, has developed an analytic model to measure the effectiveness of the Compliance Review in terms of crashes avoided, injuries avoided, and lives saved. This tool provides FMCSA management with the information it needs to address the requirements of the Government Performance and Results Act (GPRA) of 1993, which obligates Federal agencies to measure the effectiveness of their programs as part of the budget cycle process. It also provides FMCSA and State safety program managers with a quantitative basis for optimizing the allocation of field safety resources. This analytic tool is known as the CR Effectiveness Model.



Related Strategic Goal: Safety

The CR Effectiveness Model shows the direct impact of compliance reviews on motor carrier safety, but not the "deterrent" effects (i.e., the effect on a carrier's behavior due to the potential of having a CR). The model is based entirely on "before and after" changes in the safety performance of motor carriers that received CRs. The model compares a motor carrier's crash rate in the 12-month period after a CR to its crash rate in the 12-month period prior to that review. To make this comparison, the model uses: (1) crash data reported by the states, and (2) power unit data reported by carriers or obtained during CRs.

This impact evaluation focused on CRs conducted in 2002 and 2003 to identify the extent to which the model could be used and to identify the associated benefits. In 2002, 12,139 compliance reviews were conducted. The analytical model was able to assess the impact of 9,172 of these reviews (some compliance reviews are removed from the model because the motor carrier receiving the compliance review was not active 12 months after the CR, had zero power units, or had crash and power unit data that did not pass edit checks designed to screen out erroneous data). Based on this assessment, it is estimated that during the period from 2002 to 2003, 1,426 crashes were avoided, 1,087 injuries were avoided, and 62 lives were saved as result of performing compliance reviews in 2002.

In 2003, 11,086 compliance reviews were conducted. The analytical model was able to assess the impact of 8,587 of these reviews. Based on this assessment, it is estimated that during the period from 2003 to 2004, 2,276 crashes were avoided, 1,651 injuries were avoided, and 90 lives were saved as result of performing compliance reviews in 2003.

EVALUATION OF THE ROADSIDE INSPECTION/ TRAFFIC ENFORCEMENT ANALYTICAL MODEL

FMCSA, in cooperation with the Volpe National Transportation Systems Center, has developed an analytic model to measure the effectiveness of roadside inspections and traffic enforcements in terms of crashes avoided, injuries avoided, and lives saved. This model provides FMCSA management with information to address the requirements of the Government Performance and Results Act of 1993 (GPRA), which obligates Federal agencies to measure the effectiveness of their programs as part of the budget cycle process. It also provides FMCSA and State safety program managers with a quantitative basis for optimizing the allocation of safety resources in the field. This analytic model is known as the Intervention Model.



Related Strategic Goal: Safety

The Intervention Model is based on the premise that the two programs—Roadside Inspection and Traffic Enforcement—directly and indirectly contribute to a reduction in crashes. The model includes two components that are used for measuring these different effects, the direct effects model component and indirect effects model component. Direct effects are based on the assumption that vehicle and/or driver defects discovered and then corrected at the roadside reduce the probability that these vehicles/drivers will be involved in subsequent crashes. In order to measure the direct effects of the intervention, the model assigns crash risk probabilities to each of the violations found at the roadside. The model then calculates direct-effect-prevented crashes according to the number and type of violations detected and corrected during the intervention.



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Indirect effects are the by-products of the carriers' increased awareness of FMCSA programs and the consequences that the programs could impose if steps are not taken to ensure and/or maintain higher levels of safety. In order to measure indirect effects, which are essentially changes in behavior involving driver preparation, practices and vehicle maintenance, the model calculates motor carrier responses to exposure to the programs, and the resulting reduction in potentially crash-causing violations.

Most recently, the model was implemented to measure program effectiveness during the 2004 activity year using March 25, 2005, data extracted from the Motor Carrier Management Information System (MCMIS). The number of inspections as well as the model results are shown below for 2004 and the previous two years.

Number of Inspections			
Calendar Year	2002	2003	2004
Roadside Inspections	2,255,921	2,215,762	2,211,875
Traffic Enforcements	762,561	791,157	803,032
Total Interventions	3,018,482	3,006,919	3,014,907



Program Effectiveness			
Calendar Year	2002	2003	2004
Roadside Inspections	16,387	17,151	18,673
Traffic Enforcements	12,716	13,062	13,615
Total Interventions	781	722	722

COMMERCIAL DRIVERS LICENSE PROGRAM EVALUATION

The objective of the Commercial Drivers License (CDL) program evaluation is to assess how well the CDL program is meeting its implicit goal of improving highway safety, which includes preventing unqualified drivers from obtaining a CDL and ensuring that commercial drivers are disqualified from driving when appropriate. Phase I of the evaluation used existing data to assess the program's effectiveness and was completed in July 2005. Phase II of the evaluation is gathering additional data and is scheduled for completion in 2007.

Related Strategic Goal: Safety

Findings from the Phase I impact evaluation include:

- FMCSA issued 464 citations to States for non-compliance with Federal Regulations for preventing unqualified drivers from obtaining CDLs. For those regulations specific to this issue, States are having the greatest difficulties meeting requirements related to testing and background checks on drivers (49 CFR Part 384, Sections 201-205).
- FMCSA issued 1,260 citations to States for non-compliance with Federal Regulations to remove bad drivers from the road. For those regulations specific to this issue, States are having the greatest difficulties meeting requirements related to State disqualification of drivers and recordkeeping (49 Code of Federal Regulations (CFR) Part 384, Sections 231 and Sections 215-219).
- Issues involving the potential for obtaining fraudulent CDLs are addressed during the State Compliance Reviews. All States are meeting some requirements to prevent fraud; however, the potential for unqualified drivers to obtain fraudulent CDLs still exists.



As a result of these findings, FMCSA has taken significant steps to improve oversight of the CDL program, including implementation of more thorough and more frequent reviews of State CDL programs. The final portion of the review (Phase II) is accumulating diverse stakeholder feedback through surveys and focus groups to help determine why the States are not fully successful, with the goal of recommending additional improvements to the CDL program.

EVALUATION OF DOT'S RESEARCH AND DEVELOPEMENT STRATEGIC PLANNING PROCESS

Congress directed the Government Accountability Office (GAO) to assess Research and Innovative Technology Administration's (RITA's) coordination of DOT's research and development activities and to evaluate how RITA is resolving concerns about the process raised by its predecessor organization—the Research and Special Programs Administration (RSPA).

Related Strategic Goal: Organizational Excellence

The purpose of the GAO evaluation was to: (1) determine how RITA's responsibilities for overseeing DOT's Research, Development, and Technology (RD&T) activities differ from RSPA's; (2) identify RITA's practices for coordinating, facilitating, and reviewing RD&T activities; and (3) evaluate the progress RITA has made in implementing previous GAO recommendations made to RSPA in 2003.

GAO collected information through legislative histories, document reviews, and interviews to compare RITA with RSPA with respect to mission, organizational structure, oversight of RD&T activities, budgetary resources, and strategic goals.

The findings from the GAO evaluation were as follows:

- RITA differs from RSPA in proposed budgetary levels, authority for evaluation, and extent of multi-modal focus;
- RITA has established several coordination, facilitation, and review groups and practices, but lacks performance goals and a plan for evaluating its own efforts;
- RITA has made some progress in implementing the GAO's recommendations from 2003, partially implementing four of the five recommendations previously identified.

GAO made several recommendations to the Secretary of Transportation to enhance RITA's ability to manage and ensure the effectiveness of RD&T activities. GAO urged RITA to develop and incorporate into its annual budget process and upcoming RD&T strategic plan:



- Performance goals and an overall implementing strategy to ensure the effectiveness of the Department's RD&T investment;
- Common performance measures for DOT RD&T programs;
- A strategy for identifying and reviewing all DOT RD&T projects to determine duplication, overlap and opportunities for joint efforts;
- A strategy to ensure that the results of all DOT RD&T activities are evaluated according to established best practices;
- A summary of all RD&T program evaluations conducted in the last three years and a schedule for future evaluations; and,
- A description of RITA's process for systematically evaluating the results of its own multi-modal research programs.

EVALUATION OF THE NATION'S HIGHWAYS, BRIDGES AND TRANSIT (CONDITION AND PERFORMANCE REPORT)

The Conditions and Performance (C&P) Report provides Congress and other decision makers an appraisal of highway, bridge and transit physical conditions, operational performance, financing mechanisms, and future investment requirements. The C&P Report consolidates conditions, performance, and finance data provided by States, local governments, and transit operators to provide a national summary.

Related Strategic Goals: Safety, Mobility, Environmental Stewardship, Global Connectivity, Security, and Organizational Excellence

Executive Order 12893, Principles for Federal Infrastructure Investments (January 1994), directs each Executive Department and Agency with infrastructure responsibilities to base investments on systematic analysis of expected benefits and costs, including both quantitative and qualitative measures. The highway investment requirements in the C&P Report are developed in part from the Highway Economic Requirements System, which quantifies user, agency and societal costs for various types and combinations of improvements including travel time, vehicle operating, safety, capital, maintenance, and emissions costs. The National Bridge Investment Analysis System uses engineering and benefit-cost analysis to evaluate bridge investment requirements. Transit investment analysis is based on the Transit Economic Requirements Model (TERM), which consolidates engineering and cost/benefit analysis. TERM identifies the investments needed to replace and rehabilitate existing assets, improve operating performance, and expand transit systems to address the growth in travel demand and evaluate these needs to select future investments. The 2006 version of the C&P Report was completed in May 2006 and will be released upon review and approval by the Office of Management and Budget.



MANAGING THE PHYSICAL SECURITY OF FAA FACILITIES EVALUATION

The FAA operates systems and facilities, including Air Traffic Control Centers, Terminal Radar Approach Control facilities, air traffic control towers, and supporting facilities that collectively make up the National Airspace System (NAS). The President, through the publication of Homeland Security Presidential Directive-7, dated December 17, 2003, designated the NAS as part of the Nation's critical infrastructure because of commercial aviation's role in fostering and sustaining the national economy and ensuring the safety and mobility of air travelers.

Related Strategic Goal: Security

The FAA has established physical security requirements to ensure the safety and security of the NAS, FAA personnel, and assets. These security requirements are implemented through the FAA's Facility Security Management Program. All staffed NAS facilities are periodically assessed and inspected for program compliance. Security shortfalls or "findings" are aggressively tracked until corrected. Once all required security measures are implemented at a facility, the facility receives security "accreditation." The FAA has completed assessments at all of its staffed facilities and continues to work toward completing accreditation.

The DOT OIG conducted an independent evaluation to assess the adequacy of physical security at FAA facilities. The OIG concluded that the FAA has continued to improve its security measures since the September 11th attacks and has taken steps to strengthen its physical security environment. Nevertheless, physical security weaknesses at FAA facilities were identified and the OIG made recommendations for improvement that the FAA is actively pursuing.

The OIG's report is protected as sensitive security information and is not released to the public.

FY 2005 PROGRAM EVALUATION UPDATES

For those evaluations that were scheduled for completion in FY 2005 and did not have results available for publication in the FY 2005 Performance and Accountability Report, an update is provided below.

EVALUATION OF AUTOMOBILE SIDE IMPACT PROTECTION

Side impacts rank second only to frontal impacts as a cause of occupant fatalities in cars, light trucks and vans. Federal Motor Vehicle Safety Standard 214 sets minimum performance requirements in side impacts. The requirements were phased into passenger cars during model years 1994 to 1997 and extended to light trucks and vans in model year 1999.



Related Strategic Goal: Safety

The results of this outcome evaluation will not be published by the end of FY 2006 as planned. This evaluation is subject to new Office of Management and Budget (OMB) peer review requirements. Although the review is nearing completion, the added level of review will delay publication until sometime in FY 2007.

LARGE TRUCK CRASH CAUSATION STUDY

The Government Accountability Office and the Department of Transportation's Inspector General stated in separate reports in 1999 that the lack of large truck crash causation data hampers FMCSA program effectiveness. In addition, the Motor Carrier Safety Improvement Act of 1999 authorized funding for a study of the causes of commercial vehicle crashes. In response, in cooperation with the National Highway Traffic Safety Administration (NHTSA), FMCSA initiated the Large Truck Crash Causation Study (LTCCS); the first-ever National study of the causes of crashes involving large trucks.

Related Strategic Goal: Safety

Nationally representative data on the primary and secondary causes of serious large truck crashes were collected by teams of trained investigators from NHTSA's National Automotive Sampling System and FMCSA-funded State truck inspectors. The goal of the LTCCS was to determine the reasons for, and factors contributing to, serious large truck crashes, so FMCSA can take the results of this process evaluation and implement the most effective countermeasures to reduce crash occurrence and severity.



© AP Photo/Lisa Poole

The LTCCS collected data on crashes in 24 sites in 17 States from 2000 through 2003. All the crash data were collected and encoded into a database. In March 2006, FMCSA completed a report to Congress on the LTCCS results. Information and findings from the evaluation included:

- Most of the crashes involved collisions with another motor vehicle, usually a passenger vehicle;
- About two-thirds of the trucks involved in the crashes were truck tractors pulling a single semi-trailer;



- The immediate reason for large truck crashes in an overwhelming majority of the cases was an action or inaction by the driver of the truck or the passenger vehicle involved;
- Driver recognition and decision errors were recorded most often for drivers of both trucks and passenger vehicles;
- Truck drivers were in better condition to drive and made fewer driving performance errors than passenger vehicle drivers;
- Fatigue was a significant issue for truck drivers, but was recorded even more often for passenger vehicle drivers;
- Alcohol and illegal drug use was rare among truck drivers, but more common among passenger vehicle drivers; and,
- Trucks were recorded with much higher rates of mechanical problems than passenger vehicle drivers, usually brake problems.

FMCSA is analyzing the results of this evaluation and will use the findings to improve the Agency's safety programs.

BUS CRASH CAUSATION STUDY

In 2004, FMCSA initiated the Bus Crash Causation Study (BCCS) as a complementary and follow-on effort to the Large Truck Crash Causation Study (LTCCS). The goal of the BCCS is to determine the reasons for, and factors contributing to, serious bus crashes, so FMCSA can take the results of this process evaluation and implement the most effective countermeasures to reduce crash occurrence and severity.

Related Strategic Goal: Safety

The BCCS uses the same data collection methodology as followed in the LTCCS. Data collection was initiated in 2004 and will continue through 2006, with a release of initial data and findings to Congress and the public scheduled for FY 2007. By August 2006, investigations of 32 bus crashes had been conducted.

FINANCIAL REPORT





DEPARTMENT OF TRANSPORTATION CONSOLIDATED BALANCE SHEET

As of September 30,
Dollars in Thousands

2006

2005

ASSETS (Note 2)

Intragovernmental

Fund Balance with Treasury (Note 3)	\$ 27,692,908	\$ 29,140,842
Investments (Note 4)	19,824,151	19,000,999
Accounts Receivable, Net (Note 5)	212,616	358,857
Other Assets (Note 6)	37,946	96,346

Total Intragovernmental Assets	47,767,621	48,597,044
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Cash and Other Monetary Assets	27,639	40,573
Accounts Receivable, Net (Note 5)	103,371	144,567
Loans Receivable and Related Foreclosed Property, Net (Note 7)	618,179	760,448
Inventory and Related Property, Net (Note 8)	897,494	939,639
General Property, Plant & Equipment, Net (Note 9)	15,455,811	15,325,392
Other Assets (Note 6)	195,506	160,883

Total Assets	\$ 65,065,621	\$ 65,968,546
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Stewardship Property, Plant & Equipment (Note 10)

LIABILITIES (Note 11)

Intragovernmental

Accounts Payable	\$ 21,271	\$ 182,710
Debt (Note 12)	839,357	952,536
Other Intragovernmental Liabilities (Note 13)	3,212,891	3,378,564

Total Intragovernmental Liabilities	4,073,519	4,513,810
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Accounts Payable	403,722	226,045
Loan Guarantees (Note 7)	345,864	393,451
Federal Employee and Veterans' Benefits Payable	950,466	1,007,303
Environmental and Disposal Liabilities (Note 15)	953,634	1,003,585
Grant Accrual (Note 14)	5,546,895	4,086,728
Other Liabilities (Notes 13 & 17)	1,409,182	1,641,416

Total Liabilities	\$ 13,683,282	\$ 12,872,338
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Contingencies and Commitments (Note 17)

NET POSITION

Unexpended Appropriations - Earmarked Funds	\$ 682,501	
Unexpended Appropriations - Other Funds	7,799,530	5,448,954
Cumulative Results of Operations - Earmarked Funds	30,053,924	
Cumulative Results of Operations - Other Funds	12,846,384	47,647,254

Total Net Position	\$ 51,382,339	\$ 53,096,208
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Total Liabilities and Net Position	\$ 65,065,621	\$ 65,968,546
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The accompanying notes are an integral part of these financial statements.



DEPARTMENT OF TRANSPORTATION
CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30,
Dollars in Thousands

2006

2005

PROGRAM COSTS (Notes 19 & 20)

SURFACE TRANSPORTATION

Gross Costs	\$	46,922,501	\$	42,519,917
Less: Earned Revenue		395,325		210,507
Net Costs		46,527,176		42,309,410

AIR TRANSPORTATION

Gross Costs	\$	15,112,554	\$	14,618,959
Less: Earned Revenue		659,343		589,863
Net Costs		14,453,211		14,029,096

MARITIME TRANSPORTATION

Gross Costs	\$	739,789	\$	735,215
Less: Earned Revenue		282,264		456,301
Net Costs		457,525		278,914

CROSS-CUTTING PROGRAMS

Gross Costs	\$	442,044	\$	536,912
Less: Earned Revenue		434,689		528,184
Net Costs		7,355		8,728

Costs Not Assigned To Programs		390,463		261,911
Less: Earned Revenues Not Attributed to Programs		30,985		25,165
NET COST OF OPERATIONS	\$	61,804,745	\$	56,862,894

The accompanying notes are an integral part of these financial statements.



DEPARTMENT OF TRANSPORTATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30,

Dollars in Thousands

	2006		2005	
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	\$ 31,316,081	\$ 16,329,106	\$ 47,645,187	\$ 49,592,505
Budgetary Financing Sources				
Other Adjustments (Rescissions, etc.)	(48,206)	—	(48,206)	(165,954)
Appropriations Used	3,582,258	3,493,303	7,075,561	5,965,970
Non-Exchange Revenue (Note 21)	49,482,068	11,967	49,494,035	48,602,831
Donations & Forfeitures of Cash & Cash Equivalents	2,151	—	2,151	2,504
Transfers-In / Out Without Reimbursement	54,185	67,477	121,662	17,812
Other Budgetary Financing Sources	—	(263)	(263)	(9,351)
Other Financing Sources (Non-Exchange)				
Transfers-In / Out Without Reimbursement	(1,032,131)	892,660	(139,471)	(58,866)
Imputed Financing	460,143	102,134	562,277	554,579
Other	—	(7,880)	(7,880)	8,118
Total Financing Sources	52,500,468	4,559,398	57,059,866	54,917,643
Net Cost of Operations	53,762,625	8,042,120	61,804,745	56,862,894
Net Change	(1,262,157)	(3,482,722)	(4,744,879)	(1,945,251)
Cumulative Results of Operations	\$ 30,053,924	\$ 12,846,384	\$ 42,900,308	\$ 47,647,254
Unexpended Appropriations				
Beginning Balances	1,520,236	3,923,924	5,444,160	5,284,364
Budgetary Financing Sources				
Appropriations Received	2,778,855	7,422,451	10,201,306	6,591,723
Appropriations Transferred-In/Out	25,365	4,117	29,482	13,497
Other Adjustments (Rescission, etc.)	(59,684)	(59,738)	(119,422)	(449,796)
Appropriations Used	(3,582,271)	(3,491,224)	(7,073,495)	(5,990,834)
Total Budgetary Financing Sources	(837,735)	3,875,606	3,037,871	164,590
Total Unexpended Appropriations	\$ 682,501	\$ 7,799,530	\$ 8,482,031	\$ 5,448,954
NET POSITION	\$ 30,736,425	\$ 20,645,914	\$ 51,382,339	\$ 53,096,208

The accompanying notes are an integral part of these financial statements.



DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30,

2006

2005

Dollars in Thousands

	2006		2005	
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts
BUDGETARY RESOURCES (Note 22)				
Unobligated Balance, Brought Forward, October 1	\$ 43,793,009	\$ 434,789	\$ 38,244,246	\$ 1,595,313
Recoveries of Prior Year Unpaid Obligations	709,780	728,153	634,513	240,569
Budget Authority				
Appropriations Received	60,768,943	—	61,516,780	—
Borrowing Authority	269,300	225,051	282,260	\$ 456,800
Contract Authority	51,421,012	—	50,427,292	—
Spending Authority From Offsetting Collections				
Earned				
Collected	2,344,798	395,477	2,011,267	148,995
Change in Receivables from Federal Sources	(152,036)	3,803	199,911	(5,713)
Change in Unfilled Customer Orders				
Advance Received	32,546	—	55,825	—
Without Advance from Federal Sources	397,898	(40,360)	684	32,780
Expenditure Transfers from Trust Funds	142,346	—	7,711,917	—
Subtotal	115,224,807	583,971	122,205,936	632,862
Nonexpenditure Transfers, Net	23,093	—	29,169	—
Temporarily Not Available Pursuant to Public Law	(80,837)	—	(61,067)	—
Permanently Not Available	(47,871,478)	(1,007,732)	(47,818,493)	(1,679,091)
Total Budgetary Resources	\$ 111,798,374	\$ 739,181	\$ 113,234,304	\$ 789,653
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ 62,959,622	\$ 380,354	\$ 67,052,096	\$ 330,863
Reimbursable	2,272,080	—	2,382,937	—
Subtotal	65,231,702	380,354	69,435,033	330,863
Unobligated Balance				
Apportioned	23,324,733	—	17,784,534	59,442
Exempt from Apportionment	269,421	—	190,273	—
Subtotal	23,594,154	—	17,974,807	59,442
Unobligated Balance Not Available	23,972,518	358,827	25,824,464	399,348
Total Status of Budgetary Resources	\$ 111,798,374	\$ 739,181	\$ 113,234,304	\$ 789,653

The accompanying notes are an integral part of these financial statements.



DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENT OF BUDGETARY RESOURCES (CONT.)

For the Years Ended September 30,
 Dollars in Thousands

	2006		2005	
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts
CHANGE IN OBLIGATED BALANCES				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	\$ 70,820,273	\$ 2,361,768	\$ 67,849,718	\$ 2,398,507
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(1,338,353)	(196,147)	—	—
Total Unpaid Obligated Balance, Net	69,481,920	2,165,621	67,849,718	2,398,507
Obligations Incurred	65,231,702	380,354	69,435,033	330,863
Gross Outlays	(63,011,808)	(307,018)	(71,847,262)	(320,115)
Recoveries of Prior Year Unpaid Obligations, Actual	(709,780)	(728,153)	(634,513)	(240,569)
Change in Uncollected Customer Payments from Federal Sources	(251,840)	36,557	200,595	27,067
Obligated Balance, Net, End of Period				
Unpaid Obligations	72,330,387	1,706,951	70,820,313	2,339,218
Uncollected Customer Payments from Federal Sources	(1,590,193)	(159,590)	(1,365,277)	(196,147)
Total Unpaid Obligated Balance, Net, End of Period	70,740,194	1,547,361	69,455,036	2,143,071
NET OUTLAYS				
Gross Outlays	63,011,808	307,018	71,847,262	320,115
Offsetting Collections	(2,513,482)	(395,475)	(14,658,640)	(148,996)
Less: Distributed Offsetting Receipts	(236,451)	—	(61,990)	(36,395)
Net Outlays	\$ 60,261,875	\$ (88,457)	\$ 57,126,632	\$ 134,724

The accompanying notes are an integral part of these financial statements.



DEPARTMENT OF TRANSPORTATION CONSOLIDATED STATEMENT OF FINANCING

For the Years Ended September 30,
Dollars in Thousands

2006 2005

Resources Used To Finance Activities

Budgetary Resources Obligated

Obligations Incurred	\$ 65,612,056	\$ 69,765,896
Less: Spending Authority From Offsetting Collections and Recoveries	4,562,405	11,030,748
Obligations Net Of Offsetting Collections and Recoveries	61,049,651	58,735,148
Less: Offsetting Receipts	236,451	98,385
Net Obligations	60,813,200	58,636,763

Other Resources

Transfers In / Out Without Reimbursement	(139,471)	(58,866)
Imputed Financing From Costs Absorbed by Others	562,277	554,579
Other Miscellaneous Resources	(7,880)	8,118
Net Other Resources Used To Finance Activities	414,926	503,831

Total Resources Used To Finance Activities

\$ 61,228,126 \$ 59,140,594

Resources Used To Finance Items Not Part Of The Net Cost Of Operations

Change In Budgetary Resources Obligated For Goods, Services, and Benefits Ordered But Not Yet Provided	(1,448,198)	2,137,768
Resources That Fund Expenses Recognized In Prior Periods	528,360	290,178
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost of Operations		
Credit Program Collections Which Increase Liabilities For Loan Guarantees or Allowances for Subsidy	205,918	(19,281)
Other	73,075	12,510
Resources That Finance the Acquisition of Assets or Liquidation of Liabilities	1,261,904	1,570,399
Other Resources or Adjustments To Net Obligated Resources That Do Not Affect Net Cost of Operations	200,692	(46,320)

Total Resources Used To Finance Items Not Part Of The Net Cost of Operations

821,751 3,945,254

Total Resources Used To Finance the Net Cost of Operations

\$ 60,406,375 \$ 55,195,340

Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period

Components Requiring / Generating Resources In Future Periods

Increase in Annual Leave Liability	30,105	31,157
Upward / Downward Reestimates of Credit Subsidy Expense	98,058	3,832
Increase in Exchange Revenue Receivable From The Public	1,291	(23,891)
Other		
Increase in MARAD Liabilities	(22,694)	27,438
Increase in FAA Liabilities	2,314	196,698
Other Miscellaneous Increases	101,142	48,385

Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods

\$ 210,216 \$ 283,619

Components Not Requiring or Generating Resources

Depreciation and Amortization	1,165,371	1,278,650
Revaluation of Assets or Liabilities	3,997	2,233
Other		
Other WCF Components	(31)	—
Other FAA Components	57,164	68,418
Other Miscellaneous Components	(38,347)	34,634

Total Components of Net Cost of Operations That Will Not Require or Generate Resources

1,188,154 1,383,935

Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period

1,398,370 1,667,554

NET COST OF OPERATIONS

\$ 61,804,745 \$ 56,862,894

The accompanying notes are an integral part of these financial statements.



NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990, Title IV of the Government Management Reform Act of 1994. The statement has been prepared from the books and records of DOT in accordance with Office of Management and Budget (OMB) requirements for form and content for entity financial statements and DOT's accounting policies and procedures. OMB Circular No. A-136, Financial Reporting Requirements, has been used to prepare the Balance Sheet, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the agency net position. Agency assets include both entity assets (those which are available for use by the agency) and non-entity assets (those which are managed by the agency but not available for use in its operations). Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the agency as a whole.

The Statement of Changes in Net Position reports beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, dated June 2006.

The Statement of Financing is intended to be a bridge between an entity's budgetary and financial (i.e., proprietary) accounting. The Statement of Financing illustrates the relationship between net obligations derived from an entity's budgetary accounts and net cost of operations derived from an entity's proprietary accounts by identifying and explaining key differences between the two numbers. Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in Note 23 to the financial statements.



The Department is required to be in substantial compliance with all applicable accounting principles and standards established, issued, and implemented by the Federal Accounting Standards Advisory Board, which is recognized by the American Institute of Certified Public Accountants as the entity to establish Generally Accepted Accounting Principles (GAAP) for the Federal Government. The Federal Financial Management Improvement Act of 1996 requires the Department to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

B. Reporting Entity

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; international transportation agreements; conducting planning and research for the future; and helping cities and States meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data, including various trust funds, revolving funds, appropriations and special funds of the following organizations:

- Office of The Secretary (OST - includes OST Working Capital Fund)
- Federal Aviation Administration (FAA)
- Federal Highway Administration (FHWA)
- Federal Motor Carrier Safety Administration (FMCSA)
- Federal Railroad Administration (FRA)
- National Highway Traffic Safety Administration (NHTSA)
- Maritime Administration (MARAD)
- Federal Transit Administration (FTA)
- Surface Transportation Board (STB)
- Office of Inspector General (OIG)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)
- Research and Innovative Technology Administration (RITA—includes Volpe National Transportation System Center)



In November 2004, President Bush signed into law the Norman Y. Mineta Research and Special Program Improvement Act to be enacted in February 2005. This new law split Research and Special Programs Administration (RSPA) who ceases to exist into two different entities, Research and Innovative Technology Administration (RITA) and Pipeline and Hazardous Materials Safety Administration (PHMSA).

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data have not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 24.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, dated June 2006. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 2006, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

DOT accounted for revenues and other financing sources for earmarked funds separately from other funds. This new method was adopted in accordance with the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, Identifying and Reporting Earmarked Funds, which became effective October 1, 2005. This new standard amended SFFAS No. 7, Revenue and Other Financing Sources, by: (1) elaborating the special accountability needs associated with dedicated collections; (2) separating dedicated collections into two categories—earmarked funds and fiduciary activity; and (3) defining and providing accounting and reporting guidance for earmarked funds.

In accordance with SFFAS No. 27, DOT did not restate the prior period columns of the consolidated financial statements and related notes. See Note 18 for specific required disclosures related to the DOT's earmarked funds.



E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from offsetting collections and user fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds With the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U.S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest that must be paid to borrow funds. Lockboxes have been established with financial institutions to collect payments, and these funds are transferred directly to Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

G. Receivables

Accounts receivable consist of amounts owed to the Department by other Federal agencies and the public. Federal accounts receivable are generally the result of the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Public accounts receivable are generally the result of the provision of goods and services or the levy of fines and penalties from the Department's regulatory activities. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts, which is based on historical collection experience and/or an analysis of the individual receivables.

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs



(due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of repairable, excess, obsolete, and unserviceable items are made to appropriate allowance accounts.

I. Investments in U.S. Government Securities

Investments that consist of U.S. Government Securities are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated. DOT currently has a capitalization threshold of \$200,000 for structures and facilities and for internal use software, and \$25,000 for other property, plant and equipment. Capitalization at lesser amounts is permitted. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. The straight-line method is generally used to depreciate capitalized assets.

FASAB standards require DOT stewardship assets to be omitted from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Information section and the Required Supplementary Stewardship Reporting section of this statement. See Note 10 for specific required disclosures related to Stewardship Heritage Assets.



K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet data. Available budgetary resources include new budget authority, spending authority from offsetting collections, recoveries of unexpired budget authority through downward adjustments of prior year obligations, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and permanent indefinite appropriations or borrowing authority. Unfunded liabilities are not considered to be covered by such budgetary resources. An example of an unfunded liability is actuarial liabilities for future Federal Employees' Compensation Act payments. The Government, acting in its sovereign capacity, can abrogate liabilities arising from other than contracts.

M. Contingencies

The criteria for recognizing contingencies for claims are (1) a past event or exchange transaction has occurred as of the date of the statements; (2) a future outflow or other sacrifice of resources is probable; and (3) the future outflow or sacrifice of resources is measurable (reasonably estimated). DOT recognizes material contingent liabilities in the form of claims, legal action, administrative proceedings and environmental suits that have been brought to the attention of legal counsel, some of which will be paid by the Treasury Judgment Fund. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

N. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Accruals for other leave (e.g., credit hours and compensatory leave) are also recorded in the financial statement. Under the OST Working Capital Fund, the liability for accrued annual leave is a funded item. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expended as taken.



Air Traffic Controllers covered under the Federal Employees Retirement System (FERS) are eligible, upon retirement, for a sick leave buy back option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty percent of the value of his or her accumulated sick leave as of the effective date of retirement.

O. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Employing agencies are required to recognize pensions and other post retirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefits is the responsibility of the administering agency, the Office of Personnel Management. Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

P. Comparative Data

Comparative data for the prior year have been presented for the principal financial statements and their related notes.

Q. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include (a) the allocation of trust fund receipts by the Office of Treasury's Assessment (OTA), (b) yearend accruals of accounts and grants payable, (c) accrued workers' compensation, and (d) allowance for doubtful accounts receivable. Actual results may differ from these estimates.

R. Reclassifications

Certain reclassifications were made to the FY 2005 financial statement presentation to conform with that used in FY 2006.



S. Parent/Child Allocations

According to OMB Circular No. A-136, effective FY 2007 the parent must report all budgetary and proprietary activity of the child account in its financial statements, whether material to the parent or not. For FY 2006, DOT implemented this requirement early as agreed upon by its child agencies and reported all budgetary and proprietary activity in its financial statements, except for the proprietary activity related to the funds allocated to the U.S. Army Corps of Engineers and U.S. Forest Service.



As of September 30,

2006

2005

Intragovernmental		
Fund Balance with Treasury	\$ 186	\$ 7,066
Accounts Receivable	—	2,931
Total Intragovernmental	186	9,997
Accounts Receivable	39	1,637
Total Non-Entity Assets	225	11,634
Total Entity Assets	65,065,396	65,956,912
Total Assets	\$ 65,065,621	\$ 65,968,546



FUND BALANCE WITH TREASURY

Dollars in Thousands

As of September 30,

	2006	2005
Fund Balances		
Trust Funds	\$ 7,883,395	\$ 4,992,309
Revolving Funds	591,806	609,041
Appropriated Funds	18,930,510	22,713,473
Other Fund Types	287,197	826,019
Total Fund Balances	\$ 27,692,908	\$ 29,140,842
Status of Fund Balance With Treasury		
Unobligated		
Available	\$ 4,248,737	\$ 8,171,205
Unavailable	1,403,548	1,461,669
Obligated Balance Not Yet Disbursed	21,715,828	19,145,967
Non-Budgetary Fund Balance With Treasury	324,795	362,001
Total Status of Fund Balance With Treasury	\$ 27,692,908	\$ 29,140,842

Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Other Fund Types include uncleared Suspense Accounts, which temporarily hold collections pending clearance to the applicable account, and Deposit Funds, which are established to record amounts held temporarily until ownership is determined.



As of September 30, 2006

	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Intragovernmental Securities					
Marketable	\$ 152,616	\$ 2,037	\$ 154,653	\$ (3,233)	\$ 151,420
Non-Marketable					
Par Value	18,890,967	—	18,890,967	—	18,890,967
Market-Based	698,055	(1,388)	696,667	—	696,667
Subtotal	19,741,638	649	19,742,287	(3,233)	19,739,054
Accrued Interest	85,097	—	85,097	—	85,097
Total Intragovernmental	\$ 19,826,735	\$ 649	\$ 19,827,384	\$ (3,233)	\$ 19,824,151

As of September 30, 2005

Intragovernmental Securities					
Marketable	\$ 65,850	\$ (799)	\$ 65,051	\$ (635)	\$ 64,416
Non-Marketable					
Par Value	18,318,001	—	18,318,001	—	18,318,001
Market-Based	528,116	(663)	527,453	—	527,453
Subtotal	18,911,967	(1,462)	18,910,505	(635)	18,909,870
Accrued Interest	91,129	—	91,129	—	91,129
Total Intragovernmental	\$ 19,003,096	\$ (1,462)	\$ 19,001,634	\$ (635)	\$ 19,000,999

Investments in Federal securities include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. Non-Federal securities include those issued by State and local governments, Government-sponsored enterprises, and other private corporations.

Marketable Federal securities can be bought and sold on the open market. Non-marketable par value Treasury securities are issued by the Bureau of Public Debt to Federal accounts and are purchased and redeemed at par exclusively through Treasury's Federal Investment Branch. Non-marketable market-based Treasury securities are also issued by the Bureau of Public Debt to Federal accounts. They are not traded on any securities exchange but mirror the prices of particular Treasury securities trading in the Government securities market. Amortization is done using the interest or straight-line method.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for Government purposes. Treasury securities are issued to the DOT as evidence of its receipts. Treasury securities are an asset to the DOT and a liability to the U.S. Treasury. Because the DOT and the U.S. Treasury are both parts



INVESTMENTS (CONT.)

Dollars in Thousands

of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

Treasury securities provide the DOT with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the DOT requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.



	Gross Amount Due	Allowance for Uncollectable Amounts	FY 2006 Net Amount Due	FY 2005 Net Amount Due
Intragovernmental				
Accounts Receivable	\$ 212,616	\$ —	\$ 212,616	\$ 358,857
Total Intragovernmental	212,616	—	212,616	358,857
Public				
Accounts Receivable	\$ 172,686	\$ 69,315	\$ 103,371	\$ 144,454
Accrued Interest	—	—	—	113
Total Public	172,686	69,315	103,371	144,567
Total Receivables	\$ 385,302	\$ 69,315	\$ 315,987	\$ 503,424

Allowance for Uncollectible Amounts is based on historical data or actual amounts that are determined to be uncollectible based upon review of individual receivables. Accrued interest includes interest, penalties, and other administrative charges pertaining to accounts receivable.



OTHER ASSETS

Dollars in Thousands

	FY 2006	FY 2005
Intragovernmental		
Advances and Prepayments	\$ 37,946	\$ 95,627
Other	—	719
Total Intragovernmental	\$ 37,946	\$ 96,346
Public		
Advances to the States	\$ 98,401	\$ 95,861
Other Advances and Prepayments	96,550	62,486
Other	555	2,536
Total Public	\$ 195,506	\$ 160,883

Intragovernmental Other Assets are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods or services not yet received and undistributed assets and payments for which DOT is awaiting documentation. Public Other Assets are comprised of advances to the States and advances to employees and contractors.



NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS
Dollars in Thousands

DOT administers the following direct loan and/or loan guarantee programs:

1. Railroad Rehabilitation Improvement Program
2. Amtrak Loans
3. Transportation Infrastructure Finance Innovation Act (TIFIA) Loan
4. Federal Ship Financing Fund (Title XI)
5. OST Minority Business Resource Center Guaranteed Loan Program
6. Federal Ship (Title XI) Liquidating Fund

An analysis of loans receivable, allowance for subsidy costs, liability for loan guarantees, foreclosed property, modifications, reestimates, and administrative costs associated with the direct loans and loan guarantees is provided in the following sections.

DIRECT LOANS OBLIGATED PRIOR TO FY 1992, NET

FY 2006

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Direct Loans, Net
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss method					
(1) Railroad Rehab. Improvement	\$ 21,900	\$ 82	\$ —	\$ —	\$ 21,982
Direct Loan Programs (After FY 1991)					
(1) Railroad Rehab. Improvement	\$ 449,320	\$ —	\$ —	\$ 9,471	\$ 458,791
(3) TIFIA Loan	117,950	—	—	(8,901)	109,049
Subtotal	\$ 567,270	\$ —	\$ —	\$ 570	\$ 567,840

FY 2005

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Direct Loans, Net
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss method					
(1) Railroad Rehab. Improvement	\$ 26,078	\$ —	\$ —	\$ —	\$ 26,078
Direct Loan Programs (After FY 1991)					
(1) Railroad Rehab. Improvement	\$ 398,197	\$ 6,453	\$ —	\$ (10,242)	\$ 394,408
(3) TIFIA Loan	289,876	8,031	—	(22,835)	274,072
Subtotal	688,073	14,484	—	(34,077)	668,480

TOTAL AMOUNT OF DIRECT LOANS DISBURSED (POST-1991)

Direct Loan Programs	FY 2006	FY 2005
(1) Railroad Rehab. Improvement	\$ 79,249	\$ 85,808
(3) TIFIA Loan	43,683	102,087
Subtotal	\$ 122,932	\$ 187,895



NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)

Dollars in Thousands

SUBSIDY EXPENSE FOR DIRECT LOANS BY PROGRAM AND COMPONENT

FY 2006

Subsidy Expense for New Direct Loans Disbursed

	Interest Differential	Defaults	Fees & Other Collections	Modifications / Re-Estimates	Total
Direct Loan Programs					
(3) TIFIA Loans	—	3,101	218	(11,821)	(8,502)
Subtotal	\$ —	\$ 3,101	\$ 218	\$ (11,821)	\$ (8,502)

FY 2005

Direct Loan Programs

(1) Railroad Rehab. Improvement	\$ —	\$ —	\$ —	\$ 14,585	\$ 14,585
(3) TIFIA Loans	—	6,926	—	2,884	9,810
Subtotal	\$ —	\$ 6,926	\$ —	\$ 17,469	\$ 24,395

BUDGET SUBSIDY RATES FOR DIRECT LOANS FOR THE CURRENT YEAR COHORT

FY 2006

	Interest Differential	Defaults	Fees & Other Collections	Other	Total
Direct Loan Programs					
(1) Railroad Rehab. Improvement	0.00%	0.00%	0.00%	0.00%	0.00%
(3) TIFIA Loans	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal	0.00%	0.00%	0.00%	0.00%	0.00%

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)

Beginning Balance, Changes, and Ending Balance

	FY 2006	FY 2005
Beginning Balance of the Subsidy Cost Allowance	\$ 34,077	\$ 33,496
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Fees and Other Collections	157	(1,238)
Other Subsidy Costs	(4,078)	—
Total of the Above Subsidy Expense Components	\$ (3,921)	\$ (1,238)
Adjustments		
Subsidy Allowance Amortization	(6,432)	(15,650)
Ending Balance of the Subsidy Cost Allowance Before Reestimates	\$ 23,724	\$ 16,608
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	(510)	140
Technical/Default Reestimate	(23,784)	17,329
Total of the Above Reestimate Components	\$ (24,294)	\$ 17,469
Ending Balance of the Subsidy Cost Allowance	\$ (570)	\$ 34,077



. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)

Dollars in Thousands

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
FY 2006					
(4) Federal Ship (Title XI) Financing Fund	\$ 7,713	\$ 144	\$ 19,000	\$ 1,500	\$ 28,357
FY 2005					
(4) Federal Ship (Title XI) Financing Fund	\$ 87,357	\$ 2,617	\$ 19,004	\$ (43,088)	\$ 65,890

GUARANTEED LOANS OUTSTANDING

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(4) Federal Ship (Title XI) Financing Fund	2,936,187	2,936,187
(5) OST Minority Business Resource Center	5,011	4,015
(6) Federal Ship (Title XI) Liquidating Fund	6,781	6,781
Subtotal	\$ 2,947,979	\$ 2,946,983

NEW GUARANTEED LOANS DISBURSED

	FY 2006	FY 2005
FY 2006		
(4) Federal Ship (Title XI) Financing Fund	139,731	139,731
(5) OST Minority Business Resource Center	2,515	1,886
Subtotal	\$ 142,246	\$ 141,617
FY 2005		
(4) Federal Ship (Title XI) Financing Fund	11,969	11,969
(5) OST Minority Business Resource Center	6,200	4,650
Subtotal	\$ 18,169	\$ 16,619

LIABILITY FOR LOAN GUARANTEES (PRESENT VALUE METHOD POST-1991 GUARANTEES)

	FY 2006 Total Liabilities for Loan Guarantees	FY 2005 Total Liabilities for Loan Guarantees
Loan Guarantee Programs		
(4) Federal Ship (Title XI) Financing Fund	\$ 345,341	\$ 392,870
(5) OST Minority Business Resource Center	523	581
Total	\$ 345,864	\$ 393,451



. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)

Dollars in Thousands

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT

Subsidy Expense for New Loan Guarantees Disbursed

FY 2006	Defaults Net	Fees & Other Collections	Other Subsidy Costs	Modifications / Re-Estimates	Total
(4) Federal Ship (Title XI) Financing Fund	(3,378)	(12,707)	75,210	(106,654)	(47,529)
(5) OST Minority Business Resource	(77)	—	—	—	(77)
Subtotal	\$ (3,455)	\$ (12,707)	\$ 75,210	\$ (106,654)	\$ (47,606)

FY 2005

(4) Federal Ship (Title XI) Financing Fund	(876)	5,793	9,582	—	14,499
(5) OST Minority Business Resource	131	—	—	(136)	(5)
Subtotal	\$ (745)	\$ 5,793	\$ 9,582	\$ (136)	\$ 14,494

BUDGET SUBSIDY RATES FOR LOAN GUARANTEES FOR THE CURRENT YEAR COHORT

FY 2006

Loan Guarantee Programs	Interest Differential	Defaults	Fees & Other Collections	Other	Total
(3) TIFIA Loans	0.00%	0.00%	0.00%	0.00%	0.00%
(4) Federal Ship (Title XI) Financing Fund	0.00%	12.52%	(4.88)%	0.00%	7.64%
(5) OST Minority Business Resource	0.00%	1.85%	0.00%	0.00%	1.85%
Subtotal	0.00%	14.37%	(4.88)%	0.00%	9.49%



NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)
Dollars in Thousands

SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES (POST-1991 LOAN GUARANTEES)

Beginning Balance, Changes, and Ending Balance	FY 2006		FY 2005	
Beginning Balance of the Loan Guarantee Liability	\$	393,451	\$	378,612
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component				
Default Costs (net of recoveries)		(3,455)		(745)
Fees and Other Collections		(12,707)		5,793
Other Subsidy Costs		75,210		9,582
Total of the Above Subsidy Expense Components	\$	59,048	\$	14,630
Adjustments				
Fees Received		—		(6,068)
Interest Supplements Paid		—		(12,000)
Interest Accumulation on the Liability Balance		19		18,413
Ending Balance of the Loan Guarantee Liability Before Reestimates	\$	452,518	\$	393,587
Add or Subtract Subsidy Reestimates by Component				
Technical/Default Reestimate		(106,654)		(136)
Total of the Above Reestimate Components	\$	(106,654)	\$	(136)
Ending Balance of the Loan Guarantee Liability	\$	345,864	\$	393,451

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups: (1) Pre-1992 means the direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loan obligations or loan guarantees, and (2) Post-1991 means the direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees.

The Act provides that, for direct loan obligations or loan guarantee commitments made after FY 1991, the present value of the subsidy costs (which arises from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed.

Direct loans are reported net of an allowance for subsidy at present value, and loan guarantee liabilities are reported at present value. Foreclosed property is valued at the net realizable value. Loans receivable, net, or their value of assets related to direct loans, is not the same as the proceeds that they would expect to receive from selling their loans. DOT calculated the allowance for pre-1992 using the allowance for loss method.

Administrative costs could not be determined and disclosed because DOT has not fully implemented cost accounting Department-wide.



NOTE 8. INVENTORY AND RELATED PROPERTY

Dollars in Thousands	Cost	Allowance for Loss	FY 2006 Net	FY 2005 Net
Inventory				
Inventory Held for Current Sale	\$ 69,960	\$ 6,031	\$ 63,929	\$ 87,928
Excess, Obsolete and Unserviceable Inventory	47,607	5,814	41,793	11,962
Inventory Held for Repair	376,366	87,615	288,751	328,661
Other	224,652	35,774	188,878	13,632
Total Inventory	<u>\$ 718,585</u>	<u>\$ 135,234</u>	<u>\$ 583,351</u>	<u>\$ 442,183</u>
Operating Materials and Supplies				
Items Held for Use	\$ 229,098	\$ 3,061	\$ 226,037	\$ 430,039
Items Held for Reserve for Future Use	69,414	—	69,414	66,472
Excess, Obsolete and Unserviceable Items	758	758	—	—
Items Held for Repair	33,558	14,866	18,692	945
Total Operating Materials & Supplies	<u>\$ 332,828</u>	<u>\$ 18,685</u>	<u>\$ 314,143</u>	<u>\$ 497,456</u>
Total Inventory and Related Property			<u><u>\$ 897,494</u></u>	<u><u>\$ 939,639</u></u>

All DOT inventory is in FAA and the OST Working Capital Fund. Valuation methods used include moving weighted average, standard price/specific identification, and last acquisition price.

DOT operating materials and supplies are in FAA and MARAD. Valuation methods used include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. The only restriction on use is that FAA is not permitted to donate.



GENERAL PROPERTY, PLANT AND EQUIPMENT

Dollars in Thousands

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation	FY 2006 Net Book Value	FY 2005 Net Book Value
Land and Improvements		\$ 113,482	\$ 393	\$ 113,089	\$ 102,882
Buildings and Structures	Various	4,388,151	2,307,250	2,080,901	2,084,107
Furniture and Fixtures	Various	55,112	25,827	29,285	40,738
Equipment	Various	15,752,755	8,055,763	7,696,992	7,655,284
ADP Software	Various	163,967	143,688	20,279	27,459
Electronics	6-10 years	2,720	2,626	94	8
Assets Under Capital Lease	Various	127,024	89,181	37,843	45,191
Leasehold Improvements	Various	59,933	29,491	30,442	31,573
Aircraft	11-20 years	401,614	280,758	120,856	138,471
Ships and Vessels	Over 20 years	1,653,368	1,110,010	543,358	621,917
Small Boats	Various	15,648	14,240	1,408	649
Construction in Progress		4,741,761	—	4,741,761	4,565,239
Property Not in Use		117,050	86,598	30,452	4,700
Other Miscellaneous Property		73,097	64,046	9,051	7,174
Total		<u>\$ 27,665,682</u>	<u>\$ 12,209,871</u>	<u>\$ 15,455,811</u>	<u>\$ 15,325,392</u>

Depreciation is computed using the straight line method. Net book value of multi-use heritage assets is now included in general property, plant and equipment, while “physical quantity” information is included in the Heritage Assets section of Required Supplementary Information.



NOTE 10. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

STEWARDSHIP MISSION

Implied within the Maritime Administration's mission is the promotion of the Nation's rich maritime heritage. One aspect of this entails the collection, maintenance and distribution of maritime artifacts removed from MARAD ships prior to their disposal. These artifacts are sought for public display in museums, aboard memorial ships, and in facilities used by government organizations and issued on a long-term loan basis for this purpose.

Washington's Union Station support's DOT's mobility mission, facilitating the movement of intercity and commuter rail passengers through the Washington DC metropolitan area.

STEWARDSHIP POLICY

The Maritime Administration has established a list of artifact-type items that are typically found aboard agency-owned ships. As ships are assigned to a non-retention status in preparation for disposal, artifact items are collected, inventoried, photographed and relocated to secure shoreside storage facilities. This resulting inventory of artifacts is made available for long-term loan to qualified organizations for public display purposes. Qualified organizations have access to the artifact inventory via Web-based system. The artifact loan process is also managed on-line via this system. The program also supports required National Historical Preservation Act processing prior to vessel disposal. Funding for the maintenance of heritage items is typically the responsibility of the organization requesting the loan. As all items are durable and restorable, disposal is not a consideration.

The Federal Railroad Administration has an oversight role in the management of Washington Union Station. FRA received title through legislation, and sublets the property to Union Station Venture Limited which manages the property.

Net book value of multi-use heritage assets is included in general property, plant and equipment, while "physical quantity" information is included in the Heritage Assets section of Required Supplementary Information. The condition of the stewardship assets is included in the Deferred Maintenance section of the Required Supplementary Information.



Dollars in Thousands

	FY 2006	FY 2005
Intragovernmental		
Debt	\$ 4,841	\$ —
Other Liabilities	356,460	477,063
Total Intragovernmental	\$ 361,301	\$ 477,063
Accounts Payable	\$ —	\$ 44
Federal Employee and Veterans' Benefits Payable	950,466	1,007,303
Environmental and Disposal Liabilities	953,634	1,003,585
Other Liabilities	922,089	1,011,512
Total Liabilities Not Covered by Budgetary Resources	\$ 3,187,490	\$ 3,499,507
Total Liabilities Covered by Budgetary Resources	10,495,792	9,372,831
Total Liabilities	\$ 13,693,282	\$ 12,872,338



Dollars in Thousands

	FY 2005 Ending Balance	Net Change During Fiscal Year	FY 2006 Ending Balance
Intragovernmental Debt			
Debt to the Treasury	\$ 949,653	\$ (112,973)	\$ 836,680
Debt to the Federal Financing Bank	2,883	(206)	2,677
Total Intragovernmental	<u>\$ 952,536</u>	<u>\$ (113,179)</u>	<u>\$ 839,357</u>

Net Change During Fiscal Year includes new borrowing, repayments and net change in accrued payables. Debt to the Treasury and to the Federal Financing Bank is for FRA direct loans to railroads, for FHWA direct loans under the Transportation Infrastructure Finance and Innovation Act (TIFIA), and for MARAD Title XI guaranteed loans.



Dollars in Thousands

FY 2006

	Non-Current	Current	FY 2006 Total
Intragovernmental			
Advances and Prepayments	\$ —	\$ 2,797,414	\$ 2,797,414
Accrued Pay and Benefits	993	52,546	53,539
FECA Billings	121,877	91,572	213,449
Uncleared Disbursements and Collections	—	(26,967)	(26,967)
Deferred Credits	—	2,199	2,199
Deposit Funds	—	(2,437)	(2,437)
Other Accrued Liabilities	164,702	10,992	175,694
Total Intragovernmental	<u>\$ 287,572</u>	<u>\$ 2,925,319</u>	<u>\$ 3,212,891</u>
Public			
Other Accrued Unbilled Payments	\$ —	\$ 11,772	\$ 11,772
Accrued Pay and Benefits	182,330	686,968	869,298
Legal Claims	3,281	8,001	11,282
Deferred Credits	115,175	74,675	189,850
Capital Leases	34,199	8,607	42,806
Advances and Prepayments	—	105,554	105,554
Uncleared Disbursements and Collections	—	6,548	6,548
Deposit Funds	(3,950)	3,139	(811)
Other Custodial Liability	—	57,902	57,902
Other Accrued Liabilities	88,991	25,990	114,981
Total Public	<u>\$ 420,026</u>	<u>\$ 989,156</u>	<u>\$ 1,409,182</u>

FY 2005

	Non-Current	Current	FY 2005 Total
Intragovernmental			
Advances and Prepayments	\$ —	\$ 2,689,272	\$ 2,689,272
Accrued Pay and Benefits	—	45,902	45,902
Undisbursed Loans	152,634	—	152,634
FECA Billings	118,311	92,178	210,489
Uncleared Disbursements and Collections	—	(35,698)	(35,698)
Deposit Funds	—	9,094	9,094
Other Accrued Liabilities	2,125	304,746	306,871
Total Intragovernmental	<u>\$ 273,070</u>	<u>\$ 3,105,494</u>	<u>\$ 3,378,564</u>
Public			
Other Accrued Unbilled Payments	\$ —	\$ 81,143	\$ 81,143
Accrued Pay and Benefits	134,055	721,692	855,747
Legal Claims	470	6,588	7,058
Deferred Credits	27,903	1,766	29,669
Capital Leases	42,597	8,193	50,790
Advances and Prepayments	—	258,418	258,418
Uncleared Disbursements and Collections	—	(7,495)	(7,495)
Deposit Funds	(2)	2,145	2,143
Other Custodial Liability	231	8,457	8,688
Other Accrued Liabilities	331,577	23,678	355,255
Total Public	<u>\$ 536,831</u>	<u>\$ 1,104,585</u>	<u>\$ 1,641,416</u>

Accrued pay and benefits pertain to unpaid pay and benefits, and may be either current or non-current. Agency expenses for payments made under the Federal Employees Compensation Act (FECA) are forwarded to the Department of Labor (DOL). Funding for FECA is normally appropriated to agencies in the fiscal year two years subsequent to the actual FECA billing from DOL.



Dollars in Thousands

Grant liabilities are accrued in two categories. The first category is grant related requests for payments that had been billed to an agency as of September 30, but had not yet been paid. The second category is for the grant related costs incurred, but not yet reported (IBNR). IBNR represents an estimate of amounts due to grantees for their expenditures made through September 30, for which payment requests have not been received from grantees as of September 30.

Grant accruals, by Operating Administration, at September 30, 2006 and 2005, are summarized as follows:

	FY 2006		FY 2005
Highway Trust Fund	\$ 3,556,098	\$	2,274,780
Federal Transit Administration	1,437,190		1,281,550
Federal Aviation Administration	549,758		507,590
Federal Highway Administration (non-trust fund)	34		17,908
Federal Railroad Administration	3,815		4,900
Total Grant Accrual	\$ 5,546,895	\$	4,086,728



Dollars in Thousands

	FY 2006		FY 2005
Public			
Environmental Cleanup Liabilities			
FAA Environmental Remediation	\$ 573,263	\$	596,536
MARAD Environmental Cleanup (PCB, Lead, Oil)	380,371		407,049
Total Public	\$ 953,634	\$	1,003,585

Environmental cleanup generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). Environmental remediation includes the fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup associated with normal operations or as a result of an accident. Cost estimates for environmental and disposal liabilities are not adjusted for inflation and are subject to revision as a result of changes in technology and environmental laws and regulations.

The current law requires all non-retention ships to be disposed of by the end of FY 2006. If an extension of this requirement is not granted and/or foreign scrapping is not available, then MARAD could realize a substantial increase in this unfunded environmental liabilities.



Dollars in Thousands

Capital Leases

Summary of Assets Under Capital Lease by Category

Land and Buildings	\$	127,024
Accumulated Amortization		(89,181)
Net Assets Under Capital Lease	\$	<u>37,843</u>

Capital Leases—Future Payments Due

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
Year 1(2007)	\$ 11,541	\$ —	\$ 11,541
Year 2 (2008)	9,948	—	9,948
Year 3 (2009)	9,656	—	9,656
Year 4 (2010)	8,978	—	8,978
Year 5 (2011)	7,951	—	7,951
After 5 Years (2012+)	16,945	—	16,945
Total Future Lease Payments	\$ 65,019	\$ —	\$ 65,019
Less			
Imputed Interest	22,213	—	22,213
Net Capital Lease Liability	\$ 42,806	\$ —	\$ 42,806
Liabilities Not Covered by Budgetary Resources			\$ <u>42,806</u>

Operating Leases—Future Payments Due

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
Year 1(2007)	\$ 112,589	\$ 20,250	\$ 132,839
Year 2 (2008)	89,328	20,250	109,578
Year 3 (2009)	75,843	20,250	96,093
Year 4 (2010)	61,915	16,750	78,665
Year 5 (2011)	50,166	16,750	66,916
After 5 Years (2012+)	244,871	33,500	278,371
Total Future Lease Payments	\$ 634,712	\$ 127,750	\$ 762,462



NOTE 17. CONTINGENCIES, COMMITMENTS, AND OTHER DISCLOSURES

Contingencies

Hurricane Disaster Relief. In September 2005, Hurricanes Katrina, Rita, and Wilma significantly affected certain sections with the states of Louisiana, Florida, Mississippi, Texas and Alabama.

Currently DOT in conjunction with other Federal entities is assessing the estimated financial impact of the affected areas. As of September 30, 2006, DOT obligated \$1.83 billion of which \$389 million will be reimbursed to the DOT from FEMA.

During FY 2006 Congress, through Public Law 109-148, appropriated an additional \$2.75 billion for bridge and road repair. These funds cover certain transit and travel costs used in evacuating and relocating displaced persons; a Ready Reserve Fleet of ships used for temporary housing, relief and recovery; airfield and terminal repairs; restoration of FAA facilities; pipeline inspection; emergency work to restore essential traffic and minimize damage, and protect remaining facilities and; repair and rebuild railroad infrastructure in a safe manner.

Legal Claims. As of September 30, 2006 and 2005, DOT's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at \$27.9 million and \$65.1 million, respectively. DOT does not have material amounts of known unasserted claims.

Grant Programs. FHWA pre-authorizes States to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the States for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the States can then apply for reimbursement of costs that they have incurred on such project, at which time FHWA can accept or reject such request. For the fiscal year ended September, 2006 and 2005, FHWA has pre-authorized \$45 billion and \$40 billion, respectively, under these arrangements; however, no liability is reflected in the Highway Trust Fund financial statements at September, 2006 and 2005.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. As of September 30, 2006 and 2005, approximately \$1.4 billion and \$2.2 billion respectively in Section 5309 New Starts funds has been committed under FFGAs, but not yet appropriated by Congress. However, no liability is reflected in the DOT financial statements at September 30, 2006, for these agreements.



Contract Options and Negotiations. As of September 30, 2006 and 2005, FAA had contract options of \$3.35 billion and \$10 billion, respectively. These contract options give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, National security, and the U.S. foreign policy. FAA may issue (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

FAA maintains standby non-premium war-risk insurance policies for 37 air carriers having approximately 1,634 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the Air Transportation Safety and System Stabilization Act (Public Law 107-42) expanded premium insurance program authority to permit insurance of domestic operations. Under this program, FAA initially provided third party liability war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks of September 11, 2001. Public Law 108-11 (and subsequent amendments) required FAA to extend policies in effect on July 19, 2002, until August 31, 2006. The Secretary of Transportation has extended coverage through December 31, 2006 as allowed by Public Law 108-11. It also mandated provision of hull loss and passenger and third party war risk liability insurance for those policies. During this year there were 75 FAA premium war-risk policies. Insured air carrier per occurrence limits for combined hull and liability coverage range from \$100 million to \$4 billion.

Current war risk coverage is intended as a temporary measure to provide insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by FAA and are based on the value of policy coverage limits and aircraft activity. However, airlines' total charge for coverage is subject to a cap mandated by Congress. During FY 2006 and FY 2005, FAA recognized insurance premium revenue of \$168.4 million and \$157.5 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage. Premium revenue is reported on the FAA's Consolidated Statement of Net Cost, under "Regional and Center Operations and Other Programs."

The maximum liability for both hull loss and liability, per occurrence, is \$4 billion. No claims for losses were pending as of September 30, 2006, or 2005. In the past, FAA has insured a small number of air carrier operations and established a maximum liability for losing one aircraft. Since the inception of the Aviation Insurance Program dating back to 1951, only four claims, all involving minor dollar amounts, have been paid. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.



Commitments

Grant Programs. FAA's Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security and environmental concerns. FAA's share of eligible costs for large and medium primary hub airports is 75 percent with the exception of noise program implementation, which is 80 percent. For remaining airports (small primary, relievers, and general aviation airports), FAA's share of eligible costs is 95 percent.

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2006, FAA issued letters of intent covering FY 1988 through FY 2020 totaling \$5.3 billion. As of September 30, 2006, FAA had obligated \$3.8 billion of this total amount leaving \$1.5 billion unobligated.

Through September 30, 2005, FAA issued letters of intent covering FY 1988 through FY 2017 totaling \$4.7 billion. As of September 30, 2005, FAA had obligated \$3.6 billion of this total amount, leaving \$1.1 billion unobligated.



Dollars in Thousands

Highway Trust Funds

The Highway Trust Fund is comprised of the Highway Corpus Trust Fund and certain accounts of the Federal Highway Administration, Federal Motor Carrier Safety Administration, Federal Transit Administration, Federal Railroad Administration and the National Highway Traffic Safety Administration. The HTF was created in 1956 with the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. The use of the fund has also been expanded to brace highway safety. The HTF prepares financial statements in accordance with generally accepted accounting principles and the form and content requirements specified by the Office of Management and Budget's Financial reporting Requirements No. A-136. Financial reports are also used to monitor and control budgetary resources, which are prepared from the same books and records. Overall, there are 64 earmarked funds in the HTF.

Federal Aviation Administration Trust Funds

Aviation Insurance Revolving Fund (AIRF) was authorized under Public Law Title 49 of the U.S. Code to provide insurance coverage for aircraft operations that are deemed essential to the foreign policy interests of the United States when commercial insurance is unavailable on reasonable terms. The AIRF is a separate fund within FAA's accounting structure and included as part of FAA's consolidated financial statements.

Aviation User Fees (AUF) was authorized by the Federal Aviation Reauthorization Act of 1996 and Title 49 U.S. Code 45301, as amended by Public Law 104-264, to establish a fee schedule and collection process for air traffic control and related services provided to aircraft, other than military and civilian aircraft of the U.S. government or a foreign government, that neither take off nor land in the United States. The AUF is a separate fund within FAA's accounting structure and included as part of FAA's consolidated financial statements.

Airport and Airway Trust Fund (AATF) was authorized by the Airport and Airway Revenue Act of 1970 to provide funding for the Federal commitment to the nations aviation system and typically includes annual funding for four distinct areas; Operations, Grant in Aid for Airports, Facilities and Equipment and Research, Engineering and Development. The activity within each area is reported by fund group within FAA's accounting structure and included as part of FAA's consolidated financial statements. The AATF is managed by the Bureau of Public Debt (BPD) for FAA and receipts are unavailable until appropriated by the U. S. Congress. AATF funds are invested in government securities by BPD which are liquidated and transferred to authorized funds as needed. The unavailable or unappropriated funds in AATF, referred to as Corpus, are also included as part of FAA's consolidated financial statements.



Federal Highway Administration Non-Trust Funds

Trust funds are accounts established by law to hold receipts collected by the Federal Government earmarked for financing special purposes and programs. Examples of receipts are specific taxes and revenue. Earmarked funds are tracked separately to ensure expenditures do not exceed available revenues. The use of earmarked fund receipts are authorized by Congress.

Federal Transit Administration (Mass Transit)

Fiscal Year 2005 and prior, FTA programs were funded 80 percent through the Mass Transit account and 20 percent through Treasury General Receipt (Fund) account. During these prior years, FTA's formula programs were paid out of general fund accounts combined with financing sources transferred in without reimbursement from expenditure transfers from an FTA conduit Trust Fund account (69X8350). The Mass Transit account is considered earmarked funds as described in FASAB SFFAS 27, *Identifying and Reporting Earmarked Funds*.

SAFETEA-LU legislation (Public Law 109-59) changed the way FTA programs are funded. Beginning in FY 2006, FTA formula and bus appropriation (69X8350) is funded 100 percent by the Mass Transit account and is reported in the HTF financial statements as earmarked funds. The administrative, capital investment and research accounts are funded 100 percent by the Treasury General Receipt account and is reported as non-HTF activity in the financial statements.

Maritime Administration

War Risk Insurance Fund. MARAD is authorized to insure against loss or damage from marine war risks until commercial insurance can be obtained on reasonable terms and conditions. This insurance includes war risk hull and disbursement interim insurance, war risk protection and indemnity interim insurance, second seaman's war risk interim insurance and war risk cargo insurance standby program.

Special Study, Services & Project Fund. All payments for work or services performed or to be performed under the Act shall be deposited in this separate accounts which may be used to pay directly the costs of such work or services.

Gifts and Bequests Fund. The Secretary is authorized to accept, hold, administer and gifts and bequests of property, both real and personal for the purpose of aiding or facilitating the work of Department of Transportation.

Office of the Secretary

X-5423 - Emergency Air Service post 911 travel; X-8304—Emergency Air Service post 911 travel; X-8548—Investment at Treasury from a gift that earns interest twice a year.



Pipeline and Hazardous Material Safety Administration

The pipeline funds are used to oversee the safety, security, and environmental protection of pipeline through analysis of data, damage prevention, education and training, enforcement of regulations and standards, research and development, grants for State pipeline safety programs, and emergency planning and response to accidents. PHMSA reports this as a Special Fund. Collections are deposited to an Unappropriated Receipt Account and funds are drawn down as needed during the year up to the limitation established by Congress. The authority is established by Public Law 109-115.

Trust Fund provides funding for pipeline to provide regulations, proposed and final rulemakings, pipeline statistics, report accidents/incidents and corrective action orders. PHMSA reports this fund as a Special Fund. The authority is established by Public Law 109-115.

Emergency Preparedness Grants funds are used to establish a national registration program for shippers and carriers of hazardous materials. These fees finance emergency preparedness planning and training grants, development of a training curriculum for emergency responders, and technical assistance to States, political subdivisions, and Indian tribes. This fund is reported as a Special Fund. The authority is established by Public Law 109-115.

Sources of Earmarked Funds

Highway Trust Funds. The funding needed to support the HTF programs and activities are financed from excise taxes collected on specific motor fuels, truck taxes, and fines and penalties. Annual appropriations are the authority to collect these tax revenues to support programs as authorized by law. A small portion of the financing revenues are provided by offsetting collections for work performed under a reimbursable agreement. Taxes are recognized as revenues at the time they are deposited in the Highway Trust Fund Corpus account.

Aviation Insurance Revolving Fund. FAA collects insurance premiums from participating carriers that finance a continuing cycle of operations. These revenues are inflows of resources to the government.

Aviation User Fees. FAA collects overflight user fees for providing air traffic control services. These revenues are inflows of resources to the government.

Airport and Airway Trust Fund. Funding currently comes from several aviation related excise tax collections from passenger tickets, passenger flight segments, international arrivals/departures, cargo waybills and aviation fuels. These revenues are inflows of resources to the government.



Federal Highway Administration Non Trust Funds. Source of funding is from receipts that come in from various public sources. The level of funding is not known. These receipts are the sole source of funding for miscellaneous trust funds.

Federal Transit Administration (Mass Transit). FTA had a significant amount (greater than 50 percent) of its earmarked funds in the FTA general fund accounts. To properly comply with FASAB 27, FTA management decided to report the majority of the funds in their general fund appropriation accounts as earmarked funds.

Maritime Administration. War Risk Insurance Fund—Insurance premium; Special Study, Services & Project Fund—Fee for performing work or service; Gift and Bequests Fund—Donation.

Office of the Secretary. X-5423—Funding comes from FAA as a transfer of funds, 100 percent intragovernmental flow; X-8304—Funding comes from the Bureau of Public Debt as a transfer of funds, 100 percent intragovernmental flow; X-8548—Investment at Treasury from a gift that earns interest twice a year, 100 percent resources to the Government.

Pipeline and Hazardous Material Safety Administration. Pipeline—Financing is a result of user fees; Trust Fund—Funds are appropriated and received from the BPD Trust fund; EP Grants—Financing is obtained from registration fees.

There were not changes in legislation as of September 30, 2006, that significantly changed the purpose of the earmarked funds or redirected a material portion of the accumulated balance.



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Dollars in Thousands

	Highway Trust Fund	FAA Programs	Airport and Airway Trust Fund	Mass Transit	All Other Funds	Fy 2006 Consolidated Total
Balance Sheet						
Assets						
Fund Balance with Treasury	\$ 4,431,555	\$ 2,597,692	\$ 645,458	\$ 5,858,113	\$ 445,251	\$ 13,978,069
Investments, Net	10,997,655	707,190	7,967,539	—	37,413	19,709,797
Accounts Receivable, Net	38,564	2,470,079	—	15,064	11,824	2,535,531
Property, Plant & Equipment	101,070	—	—	—	4,275	105,345
Other	191,346	3,455,833	—	8,445	12,034	3,667,658
Total Assets	\$ 15,760,190	\$ 9,230,794	\$ 8,612,997	\$ 5,881,622	\$ 510,797	\$ 39,996,400
Liabilities and Net Position						
AATF Due to FAA	\$ —	\$ —	\$ 2,214,186	\$ —	\$ —	\$ 2,214,186
Liabilities	3,888,600	2,427,234	—	581,236	148,719	7,045,789
Unexpected Appropriation	—	426,474	—	171,578	84,449	682,501
Cumulative Results of Operations	11,871,590	6,377,086	6,398,811	5,128,808	277,629	30,053,924
Total Liabilities and Net Position	\$ 15,760,190	\$ 9,230,794	\$ 8,612,997	\$ 5,881,622	\$ 510,797	\$ 39,996,400
Statement of Net Cost						
Program Costs	\$ 37,203,191	\$ 2,066,167	\$ 11,604,263	\$ 3,694,562	\$ 169,062	\$ 54,737,245
Less: Earned Revenue	61,846	640,181	—	59,163	213,430	974,620
Net Program Costs	37,141,345	1,425,986	11,604,263	3,635,399	(44,368)	53,762,625
Net Cost of Operations	\$ 37,141,345	\$ 1,425,986	\$ 11,604,263	\$ 3,635,399	\$ (44,368)	\$ 53,762,625
Statement of Changes in Net Position						
Beginning Net Position	\$ 10,231,428	\$ 6,314,719	\$ 7,317,573	\$ 8,844,979	\$ 127,618	\$ 32,836,317
Budgetary Financing Sources	38,752,831	2,515,678	10,685,501	90,666	190,045	52,234,721
Other Financing Sources	28,676	(600,851)	—	140	47	(571,988)
Net Cost of Operations	37,141,345	1,425,986	11,604,263	3,635,399	(44,368)	53,762,625
Net Position End of Period	\$ 11,871,590	\$ 6,803,560	\$ 6,398,811	\$ 5,300,386	\$ 362,078	\$ 30,736,425



NOTE 19. NET COST BY PROGRAM

Dollars in Thousands

	FY 2006	FY 2005
PROGRAM COSTS		
SURFACE		
Federal Aid Highway Program	\$ 33,552,312	\$ 31,163,144
Mass Transit Program	9,428,642	8,078,973
Other Surface Transportation Program	3,546,222	3,067,293
Total Surface Program Costs	\$ 45,527,176	\$ 42,309,410
AIR		
Air Traffic Services	\$ 9,615,233	\$ 8,931,418
Airports	3,851,902	3,711,927
Aviation Safety	943,242	1,075,118
Other Federal Aviation Administration Programs	27,585	296,560
Commercial Space	15,249	14,073
Total Air Program Costs	\$ 14,453,211	\$ 14,029,096
MARITIME		
Maritime Operations and Training	\$ 149,242	\$ 54,872
Maritime Guaranteed Loan	(58,940)	(14,403)
Maritime Security Program	154,700	98,484
Maritime Ocean Freight Differential Program	161,088	105,503
Maritime Vessel Operations Revolving Fund	31,144	26,788
Maritime Operating Differential Subsidy	220	517
Maritime Operating Ship Disposal	21,201	14,332
Other Maritime Programs	(1,130)	(7,179)
Total Maritime Program Costs	\$ 457,525	\$ 278,914
CROSS-CUTTING		
Office of the Secretary Working Capital Fund	\$ 5,127	\$ 3,999
Volpe National Transportation Systems Center	2,228	4,729
Total Cross-Cutting Program Costs	\$ 7,355	\$ 8,728



Surface Transportation

Federal-Aid Highway Program

Intragovernmental Gross Costs
 Less: Intragovernmental Earned Revenue
 Intragovernmental Net Costs

Gross Costs with the Public
 Less: Earned Revenues from the Public
 Net Costs with the Public
 Total Net Cost

Mass Transit Program

Intragovernmental Gross Costs
 Less: Intragovernmental Earned Revenue
 Intragovernmental Net Costs

Gross Costs with the Public
 Less: Earned Revenues from the Public
 Net Costs with the Public
 Total Net Cost

Other Surface Transportation Programs

Intragovernmental Gross Costs
 Less: Intragovernmental Earned Revenue
 Intragovernmental Net Costs

Gross Costs with the Public
 Less: Earned Revenues from the Public
 Net Costs with the Public
 Total Net Cost

Total Net Cost—Surface Transportation

Air Transportation

Intragovernmental Gross Costs
 Less: Intragovernmental Earned Revenue
 Intragovernmental Net Costs

Gross Costs with the Public
 Less: Earned Revenues from the Public
 Net Costs with the Public
 Total Net Cost

	FY 2006	FY 2005
Intragovernmental Gross Costs	\$ 251,703	\$ 240,562
Less: Intragovernmental Earned Revenue	8,263	17,502
Intragovernmental Net Costs	<u>243,440</u>	<u>223,060</u>
Gross Costs with the Public	33,329,236	30,978,622
Less: Earned Revenues from the Public	20,364	38,538
Net Costs with the Public	<u>33,308,872</u>	<u>30,940,084</u>
Total Net Cost	<u>\$ 33,552,312</u>	<u>\$ 31,163,144</u>
Intragovernmental Gross Costs	\$ 3,344	\$ 91,817
Less: Intragovernmental Earned Revenue	54,301	37,977
Intragovernmental Net Costs	<u>(50,957)</u>	<u>53,840</u>
Gross Costs with the Public	9,469,186	8,026,289
Less: Earned Revenues from the Public	(10,413)	1,156
Net Costs with the Public	<u>9,479,599</u>	<u>8,025,133</u>
Total Net Cost	<u>\$ 9,428,642</u>	<u>\$ 8,078,973</u>
Intragovernmental Gross Costs	\$ 223,100	\$ 284,932
Less: Intragovernmental Earned Revenue	70,354	(4,185)
Intragovernmental Net Costs	<u>152,746</u>	<u>289,117</u>
Gross Costs with the Public	3,641,373	2,897,695
Less: Earned Revenues from the Public	247,897	119,519
Net Costs with the Public	<u>3,393,476</u>	<u>2,778,176</u>
Total Net Cost	<u>\$ 3,546,222</u>	<u>\$ 3,067,293</u>
Total Net Cost—Surface Transportation	<u>\$ 46,527,176</u>	<u>\$ 42,309,410</u>
Intragovernmental Gross Costs	\$ 2,227,253	\$ 1,999,237
Less: Intragovernmental Earned Revenue	331,294	133,073
Intragovernmental Net Costs	<u>1,895,959</u>	<u>1,866,164</u>
Gross Costs with the Public	12,873,935	12,619,722
Less: Earned Revenues from the Public	316,683	456,790
Net Costs with the Public	<u>12,557,252</u>	<u>12,162,932</u>
Total Net Cost	<u>\$ 14,453,211</u>	<u>\$ 14,029,096</u>



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Dollars in Thousands

Maritime Transportation

Intragovernmental Gross Costs	\$	104,578	\$	150,505
Less: Intragovernmental Earned Revenue		272,108		448,796
Intragovernmental Net Costs		<u>(167,530)</u>		<u>(298,291)</u>
Gross Costs with the Public		625,876		584,710
Less: Earned Revenues from the Public		821		7,505
Net Costs with the Public		<u>625,055</u>		<u>577,205</u>
Total Net Cost	\$	<u>457,525</u>	\$	<u>278,914</u>

Cross-Cutting Programs

Intragovernmental Gross Costs	\$	9,812	\$	37,492
Less: Intragovernmental Earned Revenue		454,722		521,327
Intragovernmental Net Costs		<u>(444,910)</u>		<u>(483,835)</u>
Gross Costs with the Public		457,491		499,420
Less: Earned Revenues from the Public		5,226		6,857
Net Costs with the Public		<u>452,265</u>		<u>492,563</u>
Total Net Cost	\$	<u>7,355</u>	\$	<u>8,728</u>

Costs Not Assigned to Programs		390,464		261,911
Less: Earned Revenues Not Attributed to Programs		30,985		25,165

Net Cost of Operations

	\$	<u>61,804,745</u>	\$	<u>56,862,894</u>
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Dollars in Thousands

NON-EXCHANGE REVENUE

FY 2006

FY 2005

Highway Trust Fund

Excise Taxes and Other Non-Exchange Revenue (transferred from the Treasury general fund)

Gasoline	\$	24,667,951	\$	23,420,989
Diesel and Special Motor Fuels		9,906,181		9,551,359
Trucks		5,510,705		4,549,657
Gasohol		—		1,797,493
Fines and Penalties		10,961		14,070
Total Taxes	\$	<u>40,095,798</u>	\$	<u>39,333,568</u>
Less: Transfers		(448,313)		(435,121)
Gross Taxes	\$	<u>39,647,485</u>	\$	<u>38,898,447</u>
Less: Refunds of Taxes (reimbursed to Treasury general fund)		(883,155)		(1,006,854)
Total Excise Taxes	\$	<u>38,764,330</u>	\$	<u>37,891,593</u>
Other Non-Exchange Revenue		16,028		10,035
Net Non-Exchange Revenue	\$	<u><u>38,780,358</u></u>	\$	<u><u>37,901,628</u></u>

Federal Aviation Administration

Taxes and Other Non-Exchange Revenue

Passenger Ticket	\$	7,423,271	\$	7,007,134
International Departure		1,993,697		1,922,368
Fuel (Air)		402,436		926,860
Waybill		478,614		460,563
Investment Income		483,363		439,793
Gasoline		17,003		43,934
Tax Refunds and Credits		(112,909)		(100,628)
Other		16,234		—
Net Non-Exchange Revenue	\$	<u>10,701,709</u>	\$	<u>10,700,024</u>

Other Miscellaneous Net Non-Exchange Revenue

Total Non-Exchange Revenue	\$	<u>11,968</u>	\$	<u>1,179</u>
	\$	<u><u>49,494,035</u></u>	\$	<u><u>48,602,831</u></u>

The financial statements of DOT for the Highway Trust Fund and the Airport and Airway Trust Fund reflect actual tax collections for the six months ended March 31, 2006, plus an estimate of tax collections expected for quarters ended June 30, 2006, and September 30, 2006. Actual tax collection data for the two quarters ended June 30, 2006, and September 30, 2006 will not be available from the IRS until December 2006 and March 2007 respectively.



Dollars in Thousands

	FY 2006	FY 2005
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B, and exempt from apportionment as of end of fiscal year:	\$ 65,612,056	\$ 69,765,896
Available Contract Authority as of end of fiscal year	\$ 21,935,692	\$ 38,783,649
Available Borrowing Authority as of end of fiscal year	\$ 30,383	\$ 20,607
Undelivered Orders as of end of fiscal year	\$ 67,588,782	\$ 68,081,990
Adjustments during fiscal year to Beginning Balance of Budgetary Resources		
Rescissions	—	(9,068)
Prior Year Recoveries	—	519,964
Temporarily Not Available	—	(60,947)
Cancelled Authority	—	(5,190)
Permanently Not Available	—	(762,764)
Other Adjustments	—	43,401
Total Adjustments to Budgetary Resources	<u>\$ —</u>	<u>\$ (274,604)</u>

The amounts reported for undelivered orders only includes balances obligated for goods and services not delivered and does not include prepayments.

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

FAA has permanent indefinite appropriations for the Facilities and Equipment, Grants-in-Aid, and Research, Development and Engineering appropriations in order to fully fund special projects that were on-going and spanned several years.

Additional Disclosures

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent year until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

For FY 2007, the enacted budget of the United States has not been finalized. The President's Budget of the United States for FY 2008 will not be published until February 2007, therefore, DOT is unable to confirm if differences exist between the information required by SFFAS No. 7 and the amounts described as "actual" for FY 2006 in the FY 2008 Budget of the United States. The information will be published on OMB's Web site located at www.whitehouse.gov/omb.

Budget authority on the FY 2005 Combined Statement of Budgetary Resources includes expired funds of \$2.8 million that are not presented in the Budget of the United States Government for the FAA. Also, obligations incurred on the FY 2005 Combined Statement of Budgetary Resources includes \$77 million of expired funds and \$762 million of certain reimbursable and revolving fund obligations incurred that are not presented in the Budget of the United States Government. As a result, DOT's FY 2005 Combined Statement of Budgetary Resources differs from FY 2005 "actuals" reported in the appendix of the FY 2007 Budget of the United States Government.



DOLLARS IN THOUSANDS

Dollars in Thousands

Revenue Activity

Sources of Cash Collections

Miscellaneous Receipts

Fines, Penalties, and Forfeitures

Total Cash Collections

Total Custodial Revenue

Disposition of Collections

Transferred to Treasury (General Fund)

Net Custodial Revenue Activity

FY 2006

FY 2005

\$	19,096	\$	20,758
	5,903		—
\$	24,999	\$	20,758
<hr/>			
\$	24,999	\$	20,758
<hr/>			
\$	—	\$	—
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Dollars in Thousands

Condensed Information:

	FY 2006	FY 2005
Cash and Short-Term Time Deposits	\$ 15,967	\$ 15,594
Long-Term Time Deposits	392	882
Accounts Receivable	82	79
Inventories	256	249
Other Current Assets	2	—
Property, Plant and Equipment	76,074	76,835
Deferred Charges	3,086	2,716
Other Assets	516	602
TOTAL ASSETS	\$ 96,375	\$ 96,957
Current Liabilities	\$ 3,034	\$ 2,820
Actuarial Liabilities	3,086	2,716
TOTAL LIABILITIES	\$ 6,120	\$ 5,536
Invested Capital	\$ 91,065	\$ 91,818
Cumulative Results of Operations	(810)	(397)
TOTAL NET POSITION	\$ 90,255	\$ 91,421
TOTAL LIABILITIES AND NET POSITION	\$ 96,375	\$ 96,957

REQUIRED SUPPLEMENTARY INFORMATION



DEFERRED MAINTENANCE

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition [†]	Cost to Return to Acceptable Condition [‡]
FAA	Buildings	Condition Assessment Survey	4&5	\$ 74,751
	Other Structures and Facilities	Condition Assessment Survey	4&5	23,605
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	3	32,401
	Real Property, Buildings: U.S. Merchant Marine Academy, NY	Condition Assessment Survey	3	41,250
	Real Property, Buildings: Warehouse and Wharf Repairs, Poland Avenue, New Orleans, LA	Condition Assessment Survey	3	3,455
	Real Property, Buildings: Parking Lot, Reserve Fleet, CA	Condition Assessment Survey	3	4,125
	Real Property, Structure: Beaumont Reserve Fleet, Reserve Fleet, TX	Condition Assessment Survey	3	4,000
	Fleet Facilities, Beaumont, TX	Condition Assessment Survey	3	4,075
	Real Property, Structure: Suisun Bay Reserve Fleet, CA	Condition Assessment Survey	3	3,555
	Fleet Facilities, James River	Condition Assessment Survey	3	1,820
	Stewardship Heritage Assets	Condition Assessment Survey	2,3,4	200
	Stewardship Heritage Assets Total			

[†] Asset Condition Rating Scale

- 1 - Excellent
- 2 - Good
- 3 - Fair
- 4 - Poor
- 5 - Very Poor

Asset	[‡] Acceptable Condition is	Comments
FAA Buildings	3 (Fair)	
FAA Other Structures and Facilities	3 (Fair)	
MARAD Vessels, Ready Reserve Force	1 (Excellent)	Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD Real Property, Buildings	3 (Fair)	Buildings are safe and inhabitable.
MARAD Real Property, Structures	3 (Fair)	Adequate water depth, shore power, and mooring capabilities.
MARAD Stewardship Heritage Assets	3 (Fair)	

Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.



HERITAGE ASSETS SUMMARY ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2006 NUMBER OF PHYSICAL UNITS

	Units as of September 30, 2005	Additions	Withdrawals	Units as of September 30, 2006
Personal Property				
Collections				
Artifacts	38	—	—	38
Museum	456	2	—	458
Other Collections	100	1	—	101
Total Collections	594	3	—	597
Total Personal Property Heritage Assets	594	3	—	597
Real Property				
Buildings and Structures	1	—	—	1
Total Real Property Heritage Assets	1	—	—	1

Artifacts are those of the Maritime Administration. Maritime Administration artifacts are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies.

Museum and Other Collections are owned by the Maritime Administration. They are merchant marine artifacts, composed of ships' operating equipment, obtained from obsolete ships. They are inoperative and in need of preservation and restoration. Museum items are on loan to organizations whose purpose is historic preservation, education, and remembrance, open to the public during regularly scheduled hours. Other collections are on loan to public and private entities, the display of which is incidental to maritime affairs, such as county and State buildings, port authorities, pilots associations, public and college libraries, and other organizations.

Buildings and Structures include Union Station in Washington, D.C. Union Station is an elegant and unique turn-of-the-century rail station in which one finds a wide variety of elaborate, artistic workmanship characteristic of the period. Union Station is listed on the National Register of Historic Places. The station consists of the renovated original building and a parking garage which was added by the U.S. Park Service. The Federal Railroad Administration received title to Union Station through appropriated funds and assumption of a mortgage. Mortgage payments are made by Union Station Venture Limited which manages the property. Union Station Redevelopment Corporation, a non-profit group instrumental in the renovation of the station, sublets the operation of the station to Union Station Venture Limited.

Financial information for multi-use heritage assets is presented in the principal statements and notes. The condition of the stewardship heritage assets is presented in the Deferred Maintenance section of the Required Supplementary Information.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION



NON-FEDERAL PHYSICAL PROPERTY ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2006 TRANSPORTATION INVESTMENTS

Dollars in Thousands	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Surface Transportation					
Federal Highway Administration					
Federal Aid Highways (HTF)	\$ 29,377,231	\$ 29,258,796	\$ 29,207,012	\$ 29,750,120	\$ 32,190,231
Other Highway Trust Fund Programs	211,883	243,874	300,493	445,083	452,022
General Fund Programs	31,616	73,046	962,370	330,790	14,240
Appalachian Development System	146,306	128,480	263,430	425,810	366,816
Federal Motor Carrier	149,091	159,628	299,450	195,740	117,004
Federal Transit Administration					
Discretionary Grants	\$ 495,322	\$ 291,889	\$ 160,655	\$ 119,277	\$ 91,961
Formula Grants	4,283,634	4,390,965	4,723,674	4,521,288	3,376,068
Capital Investment Grants [†]	2,371,521	2,632,841	2,788,920	3,375,206	3,073,294
Washington Metro	89,227	11,252	12,409	1,719	4,255
Interstate Transfer Grants	8,155	9,459	1,479	1,411	206
Formula and Bus Grants	N/A	N/A	N/A	N/A	1,862,772
Surface Transportation Non-Federal Physical Property Investments	\$ 37,163,986	\$ 37,200,230	\$ 38,719,892	\$ 39,166,444	\$ 39,686,097
Air Transportation					
Federal Aviation Administration					
Airport Improvement Program	\$ 2,933,542	\$ 2,786,717	\$ 2,977,300	\$ 3,712,423	\$ 3,852,141
Air Transportation Non-Federal Physical Property Investments	\$ 2,933,542	\$ 2,786,717	\$ 2,977,300	\$ 3,712,423	\$ 3,852,141
Total Non-Federal Physical Property Investments	\$ 40,097,528	\$ 39,986,947	\$ 41,697,192	\$ 42,878,867	\$ 43,538,238

[†] Fiscal Year 2003 outlays are not net of Federal Emergency Management Administration (FEMA) collection of \$2.75 billion.

The **Federal Highway Administration** reimburses States for construction costs on projects related to the Federal Highway System of roads. The main programs in which the States participate are the National Highway System, Interstate Systems, Surface Transportation Program, and Congestion Mitigation/Air Quality Improvement. The States' contribution is ten percent for the Interstate System and twenty percent for most other programs.



The **Federal Transit Administration** provides grants to State and local transit authorities and agencies.

Formula grants provide capital assistance to urban and nonurban areas and may be used for a wide variety of mass transit purposes, including planning, construction of facilities, and purchases of buses and railcars. Funding also includes providing transportation to meet the special needs of elderly individuals and individuals with disabilities.

Capital investment grants, which replaced discretionary grants in 1999, provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Capital investment grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related facilities.

Washington Metro provides funding to support the construction of the Washington Metrorail System.

Interstate Transfer Grants provided Federal financing from FY 1976 through FY 1995 to allow States and localities to fund transit capital projects substituted for previously withdrawn segments of the Interstate Highway System.

The **Federal Aviation Administration** (FAA) makes project grants for airport planning and development under the Airport Improvement Program (AIP) to maintain a safe and efficient nationwide system of public-use airports that meet both present and future needs of civil aeronautics. FAA works to improve the infrastructure of the Nation's airports, in cooperation with airport authorities, local and State governments, and metropolitan planning authorities.



HUMAN CAPITAL INVESTMENT EXPENSES ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2006

Dollars in Thousands	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Surface Transportation					
Federal Highway Administration					
National Highway Institute Training	\$ 9,146	\$ 8,539	\$ 4,069	\$ 11,844	\$ 14,123
Federal Motor Carrier Safety Administration					
California Highway Patrol		926	192	41	—
Idaho Video	199	593	344	208	—
Kentucky IT Conference					175
Massachusetts Training Academy	25	175	9	53	—
Minnesota Crash Investigation	18	57	21	—	1
Federal Transit Administration ^{††}					
National Transit Institute Training	3,946	4,292	4,667	3,318	3,961
National Highway Safety Administration					
Section 403 Highway Safety Programs	83,389	49,013	53,964	110,981	221,523
Highway Traffic Safety Grants	229,145	210,469	205,509	216,702	279,244
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	7,763	7,782	7,780	8,065	7,800
Surface Transportation Human Capital Investments	\$ 333,631	\$ 281,846	\$ 276,555	\$ 351,212	\$ 526,827
Maritime Transportation					
Maritime Administration					
State Maritime Academies Training [‡]	\$ 8,257	\$ 8,363	\$ 9,208	\$ 9,215	\$ 7,528
Additional Maritime Training	463	463	388	328	134
Maritime Transportation Human Capital Investments	\$ 8,720	\$ 8,826	\$ 9,596	\$ 9,543	\$ 7,662
Total Human Capital Investments	\$ 342,351	\$ 290,672	\$ 286,151	\$ 360,755	\$ 534,489

[†] FY 2002 outlay amounts are based on the enacted budget authority for FYs 1999, 2000, and 2001, and on the approved outlay rates for the National Transit Institute (5 %, 50%, 40%, and 5%).

[‡] Does not include funding for the Student Incentive Payment Program, which produces graduates who are obligated to serve in a reserve component of the U.S. armed forces.



The National Highway Institute develops and conducts various training courses for all aspects of **Federal Highway Administration**. Students are typically from the State and local police, State highway departments, public safety and motor vehicle employees, and U.S. citizens and foreign nationals engaged in highway work of interest to the U.S. Types of courses given and developed are modern developments, technique, management, planning, environmental factors, engineering, safety, construction, and maintenance.

The California Highway Patrol educates the trucking industry for the **Federal Motor Carrier Safety Administration** about Federal and State commercial motor vehicle/carrier inspection procedures, and increased commercial motor vehicle driver awareness. The Idaho Video Program develops video training material utilized by FMCSA National Training Center for the purpose of training State and local law enforcement personnel. The Massachusetts Training Academy provides training to State law enforcement personnel located in the northeast region of Massachusetts. The Minnesota Crash Investigation program provides training and develops processes and protocols for commercial motor vehicle crash investigations.

The National Transit Institute of the **Federal Transit Administration** develops and offers training courses to improve transit planning and operations. Technology courses cover such topics as alternative fuels, turnkey project delivery systems, communications-based train controls, and integration of advanced technologies.

The **National Highway Traffic Safety Administration's** programs authorized under the Highway Trust Fund provide resources to State and local governments, private partners, and the public to effect changes in driving behavior on the Nation's highways to increase safety belt usage and reduce impaired driving. NHTSA provides technical assistance to all States on the full range of components of the impaired driving system as well as conducting demonstrations, training, and public information/education on safety belt usage.

The **Pipeline and Hazardous Materials Safety Administration** administers Hazardous Material Training (Hazmat). The purpose of Hazmat Training is to train State and local emergency personnel on the handling of hazardous materials in the event of a hazardous material spill or storage problem.



RESEARCH AND DEVELOPMENT INVESTMENTS ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2006

Dollars in Thousands	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Surface Transportation					
Federal Highway Administration					
Intelligent Transportation Systems	\$ 124,950	\$ 126,256	\$ 146,852	\$ 183,634	\$ 129,219
Other Applied Research & Development	183,142	115,368	142,557	114,315	105,336
Federal Railroad Administration					
Railroad Research & Development Program	9,600	2,402	9,342	6,032	11,681
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research [†]	1,931	3,895	3,483	2,546	6,543
Transit University Transportation Centers [‡]	8,168	—	—	—	—
Office of the Secretary					
Applied Research and Development					
Emergency Transportation	137	650	8	—	—
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Pipeline Safety	4,000	5,523	6,375	10,810	11,705
Hazardous Materials	233	1,755	1,489	1,638	2,204
Research and Innovative Technology Administration					
Applied Research and Development					
Research and Technology	1,608	1,454	1,134	1,564	1,110
Surface Transportation Research and Development Investments	\$ 333,769	\$ 257,303	\$ 311,240	\$ 320,539	\$ 267,798
Air Transportation					
Federal Aviation Administration					
Research and Development Plant	\$ 3,020	\$ 2,903	\$ 4,230	\$ 5,287	\$ 3,821
Applied Research	59,150	29,406	91,743	103,659	106,390
Development	603	251	478	547	587
Administration	44,480	31,669	28,643	29,163	30,566
Air Transportation Research and Development Investments	\$ 107,253	\$ 64,229	\$ 125,094	\$ 138,656	\$ 141,364
Total Research and Development Investments	\$ 441,022	\$ 321,532	\$ 436,334	\$ 459,195	\$ 409,162

[†] FY 2002 updated with Transit Cooperative Research Program estimate based on actual outlays.

[‡] FY 2002 updated based on actual research and development related outlays.



The **Federal Highway Administration's** research and development programs are earmarks in the appropriations bills for the fiscal year. Typically these programs are related to safety, pavements, structures, and environment. Intelligent Transportation Systems were created to promote automated highways and vehicles to enhance the national highway system. The output is in accordance with the specifications within the appropriations act.

The **Federal Transit Administration** supports research and development in the following program areas:

- Research and development in Transit Planning and Research supports two major areas: the National Research Program and the Transit Cooperative Research Program. The National Research Program funds the research and development of innovative transit technologies such as safety-enhancing commuter rail control systems, hybrid electric buses, and fuel cell and battery-powered propulsion systems. The Transit Cooperative Research Program focuses on issues significant to the transit industry with emphasis on local problem-solving research.
- Transit University Transportation Centers, combined with funds from the Highway Trust Fund, provide continued support for research, education, and technology transfer.
- Capital investment grants, which replaced discretionary grants in FY 1999, provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Capital investment grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related activities.

The **Office of the Secretary's** Office of Emergency Transportation is involved in research and development in mapping software for the Crisis Management Center, transportation policy, and outreach efforts.

The **Pipeline and Hazardous Materials Safety Administration** funds research and development activities for the following organizations and activities:

- The Office of Pipeline Safety is involved in research and development in information systems, risk assessment, mapping, and non-destructive evaluation; and,
- The Office of Hazardous Materials is involved in research, development, and analysis in regulation compliance, safety, and information systems.



The **Research and Innovative Technology Administration's** Office of Research and Technology is involved in research and development for the University of Technology and Education.

The **Federal Aviation Administration** conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Research priorities include aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved in-flight icing and ground de-icing operations; better tools to predict and warn of weather hazards, turbulence and wake vortices; aviation medicine, and human factors.



U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: **ACTION:** Report on Consolidated Financial Statements for Fiscal Years 2006 and 2005, DOT Report Number: FI-2007-010 Date: November 15, 2006

From: Calvin L. Scovel III *Calvin L. Scovel III* Reply to Attn. of: JA-20
Inspector General

To: The Secretary

I respectfully submit the Office of Inspector General report on the Department of Transportation (DOT) Consolidated Financial Statements for Fiscal Years (FY) 2006 and 2005 (see Attachment). This year, our audit concluded that DOT's consolidated financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles, with one exception. That exception concerns the FY 2006 Construction in Progress (CIP) balance, which is a subcomponent of the Property, Plant, and Equipment line item on the Department's balance sheet.

KPMG LLP, under contract to us and under our supervision, audited the Federal Aviation Administration's (FAA) financial statements and rendered a qualified opinion because deficiencies in FAA's accounting for CIP prevented FAA from providing adequate support to verify that reported CIP balances were reliable.¹ Because FAA's property, including CIP, represents about 95 percent of the Property, Plant, and Equipment line item on the Department's consolidated balance sheet, the Department's consolidated financial statements must be similarly qualified.

We recognize that you, the Department's Chief Financial Officer, and other Department leaders are concerned that deficiencies in FAA's CIP accounting process resulted in this qualification to the Department's consolidated financial statement. The Department's leaders have demonstrated a longstanding

¹ FAA uses a complicated process to track and account for billions of dollars in capital investments. The majority of these investments are needed to modernize the air traffic control system—a critical national infrastructure. This multiyear development effort involves the extensive use of advanced technologies. While under development, all spending must be carefully tracked and recorded in the CIP account. When commissioned into use, these investments must be reclassified as in-service assets, which are then subject to depreciation.



commitment to improving financial management in the Department and in each Operating Administration. As reflected in our prior financial statement audit reports, that commitment has substantially improved the Department's ability to track and properly report financial results. We also recognize your history of strong support for improved financial management processes, as reflected by the critical and effective leadership that you demonstrated in correcting longstanding financial issues in the Federal Highway Administration (FHWA) during your tenure as the Administrator.

FAA's process for accounting for CIP is a longstanding concern. Auditors reported material weaknesses concerning FAA's Property, Plant, and Equipment account balances, including inaccurate and untimely CIP transaction processing, annually from FY 1992 through FY 2002. Although FAA substantially corrected the deficiencies by FY 2003, the problems recurred during FY 2004 and subsequent years. At that time, FAA replaced key CIP manual processes with an automated project accounting module but did not implement adequate controls and oversight to ensure that the new process worked effectively.

In FY 2005, KPMG reported a material weakness related to deficiencies in FAA's ability to process transactions and reconcile account balances in a timely manner, including its ability to ensure that CIP transactions were timely and accurately recorded when assets were placed in service. Although FAA management agreed to correct those deficiencies during FY 2006, the corrective actions were not implemented effectively. As a result, the CIP balance presented to KPMG in August 2006 contained material errors, and FAA was not able to complete its review of CIP or to properly state the CIP balance as of September 30, 2006. Consequently, FAA management was unable to represent to KPMG that the CIP balance, reported to be \$4.7 billion, was fairly stated. Accordingly, KPMG could not complete its audit of CIP balances. KPMG also identified CIP process deficiencies as a material weakness.

The lack of controls over CIP-related transactions was one of several concerns included in last year's material weakness reporting. This year, KPMG reported that, except for CIP-related processing, FAA has taken adequate corrective actions to ensure timely recording of obligations, supporting advances and prepayments, clearing suspense accounts, reconciling budgetary to proprietary accounts, and reconciling subsidiary to general ledger account balances. If FAA stays focused on fixing CIP-related operations, it should be able to produce the same results in FY 2007. However, we are concerned that this correction effort may become diverted.

Responding to this year's report, FAA hired a contractor and committed to taking aggressive action to ensure that capitalized assets are properly valued and transactions are recorded in a timely manner by improving policies and



procedures, enhancing communications between program officials and accounting personnel, and conducting a comprehensive evaluation of CIP balances to make appropriate accounting adjustments. However, FAA has first directed the contractor to analyze a sample of CIP assets in order to generate a more reliable estimate of the CIP balance as of September 30, 2006. FAA then intends to provide this additional information to KPMG, requesting that KPMG continue auditing the FY 2006 balance and issue a new report, sometime during FY 2007, that provides a restatement on FAA's FY 2006 financial statements. In our view, diverting resources to generate a new estimate of the FY 2006 CIP balance and to reissue the FY 2006 financial statement audit report will further delay efforts to fix the CIP process deficiencies and will increase the risk that FAA will again not be able to correct its underlying material weakness during FY 2007.

Successfully implementing these corrective actions in FY 2007 is critical for two reasons. First, FAA has stated that its goal is to implement sound financial management processes. This must include establishing stronger processes to account for its property. In doing so, FAA will be in a substantially stronger position to correct the material weakness and obtain a clean opinion on its financial statements in FY 2007.

Second, the FAA deficiencies may adversely affect DOT's ability to meet the Office of Management and Budget's FY 2007 internal control requirements under Circular A-123—the Federal version of the Sarbanes/Oxley Act. Circular A-123 requires the Department's leaders to implement adequate management and financial controls to deliver the best value with the resources entrusted to the agency. At the end of FY 2007, the Department will be required, for the first time, to provide specific assurance that it has adequate controls to provide reasonable assurance that property is accounted for properly. The adequacy of FAA's controls will be key to whether the Secretary will be able to provide that assurance.

The Department's Chief Financial Officer also recognizes the importance of correcting the underlying process deficiencies. She told us that her office will now closely monitor FAA's efforts to correct CIP process deficiencies to ensure that FAA implements timely and effective corrective actions. Given the importance of correcting these deficiencies, we agree that this is appropriate.

Turning now to the audit of the Highway Trust Fund (HTF) financial statements, KPMG rendered an unqualified (clean) opinion this year—the eighth consecutive clean opinion since FY 1999. However, FHWA continued to experience problems preparing reliable draft HTF financial statements in a timely manner, primarily due to difficulties analyzing and consolidating underlying data. To illustrate, the HTF finances operations in multiple DOT Operating Administrations: FHWA, the Federal Transit Administration, the National Highway Traffic Safety



Administration, the Federal Motor Carrier Safety Administration, the Federal Railroad Administration, and the Research and Innovative Technology Administration. In addition, 17 other agencies outside of DOT receive HTF appropriations through FHWA. Together, these agencies disbursed about \$37 billion in Federal funds during FY 2006. To compile the HTF statements, FHWA had to monitor fund transfers, collect reliable information about how funds were used from all of these Operating Administrations and outside agencies, and reconcile related account balances. KPMG's audit report also identified deficiencies in other accounting operations and financial oversight that make it more difficult for FHWA to generate timely and reliable HTF financial statements.

Our report identifies two financial management matters that KPMG and we consider material and several other reportable conditions that are significant but not material. The material matters are that:

- FAA must take immediate action to correct the underlying process deficiencies that limit its ability to properly account for CIP-related transactions; and
- FHWA and other HTF Operating Administrations must enhance their financial accounting operations and oversight in several areas, such as better control over journal entries to process accounting adjustments, more timely correction of abnormal account balances, improved coordination with non-DOT agencies that receive HTF appropriations through FHWA, and validation of the accrual methodology used to estimate unpaid grant expenses.

Generating timely, reliable, and useful financial information is no small task and requires continued senior management attention. DOT is a complex organization that is accountable for substantial resources. DOT's FY 2006 financial statements show total assets of \$65 billion, liabilities of almost \$14 billion, program costs of nearly \$62 billion, and available financial resources of more than \$112 billion. In FY 2006, DOT received appropriations (revenue) of \$61 billion. More than \$49.5 billion (about 81 percent) of DOT's revenue sources came from two trust funds, the HTF and the Airport and Airway Trust Fund.

We provided a draft of this report to the DOT Assistant Secretary for Programs and Budget/Chief Financial Officer, who concurred with its findings and agreed to implement its recommendations. We appreciate the cooperation and assistance of DOT and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959; Ted Alves, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1992; or Rebecca Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1496.

Attachment



**DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT
ON THE DEPARTMENT OF TRANSPORTATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEARS 2006 AND 2005**

To the Secretary

The Department of Transportation (DOT) Office of Inspector General (OIG) audited the DOT Consolidated Financial Statements for the years ended September 30, 2006, and September 30, 2005. In our audit, "DOT Consolidated Financial Statements for Fiscal Years 2006 and 2005," we found:

- Except for the accuracy and completeness of the Construction in Progress (CIP) account, financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles.
- Two material internal control weaknesses: timely processing of transactions and accounting for the Federal Aviation Administration (FAA) CIP account; and financial management, reporting, and oversight for the Highway Trust Fund (HTF) agencies.²
- Seven reportable conditions: reporting of earmarked funds for the Federal Transit Administration, financial system controls, DOT's information security program, reconciling intragovernmental transactions, deobligating unneeded funds in the HTF agencies, FAA grants management, and FAA contract management.
- Three instances of noncompliance with laws and regulations: the Federal Financial Management Improvement Act of 1996 (FFMIA), the Anti-Deficiency Act, and the Improper Payments Information Act of 2002.
- Financial information in the Management Discussion and Analysis was materially consistent with the financial statements.
- Supplementary and stewardship information, and other accompanying information, was materially consistent with management representations and the financial statements.

² Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, Federal Motor Carrier Safety Administration, and the Research and Innovative Technology Administration.



We performed our work in accordance with Generally Accepted Government Auditing Standards and Office of Management and Budget (OMB) Bulletin 06-03, "Audit Requirements for Federal Financial Statements." The following sections discuss these conclusions. Our audit objectives, scope, and methodology can be found in Exhibit A. We believe that our audit provides a reasonable basis for our opinion.

A. QUALIFIED OPINION ON FINANCIAL STATEMENTS

In FY 2005, KPMG reported a material weakness related to deficiencies in FAA's ability to process transactions and reconcile account balances in a timely manner, including its ability to ensure that CIP transactions were promptly and accurately recorded when assets were placed in service. Although FAA management agreed to correct those deficiencies during FY 2006, the corrective actions were not implemented effectively. As a result, the CIP balance presented to KPMG in August 2006 contained material errors, and FAA was not able to develop a reliable and supportable CIP balance prior to the issuance of DOT's FY 2006 Performance and Accountability Report. Accordingly, KPMG could not complete its audit of CIP balances. FAA's CIP balance, which is included as a component of the Property, Plant, and Equipment line item in footnote number 9 on the balance sheet, was reported to be \$4.7 billion as of September 30, 2006. Because FAA's Property, Plant, and Equipment balance represents 95 percent of the Department's property as of September 30, 2006, potential errors in FAA's CIP balance could have a material impact on the Department's financial statement.

In our opinion, except for the FY 2006 CIP account balance (a component of Property, Plant, and Equipment on DOT's consolidated financial statements), the DOT consolidated financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with generally accepted accounting principles, the DOT assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations as of September 30, 2006, and September 30, 2005, and for the years then ended. This qualification occurred because, as discussed in the paragraph above, material adjustments to the CIP balance would be likely had FAA management completed its review of CIP transactions and had we been able to apply sufficient procedures to complete our audit.

Under contract with OIG and under our supervision, KPMG audited the financial statements of FAA as of and for the years ended September 30, 2006, and September 30, 2005. KPMG qualified its opinion on the FY 2006 FAA financial statements because of concerns over the accuracy of the CIP account and rendered an unqualified opinion on the FY 2005 FAA financial statements. KPMG also audited the financial statements of the HTF as of and for the year ended



September 30, 2006, and rendered an unqualified opinion on the HTF financial statements. Clifton Gunderson, LLP, previously audited and rendered an unqualified opinion on the financial statements of the HTF as of and for the year ended September 30, 2005. We performed quality control reviews of the work performed by KPMG and Clifton Gunderson and relied on their results in performing our work on the FY 2006 and FY 2005 DOT consolidated financial statements.

Also, as discussed in financial statement footnote numbers 1 and 18, DOT adopted the provisions of Statement of Federal Financial Accounting Standards 27, "Identifying and Reporting Earmarked Funds," effective October 1, 2005. As discussed in financial statement footnote numbers 1 and 21, the accompanying financial statements reflect actual excise tax revenues deposited in the HTF and the Airport and Airway Trust Fund through March 31, 2006, and excise tax receipts estimated by the Department of the Treasury Office of Tax Analysis for the two quarters ended June 30, 2006, and September 30, 2006.

B. CONSIDERATION OF INTERNAL CONTROLS

In planning and performing our audit, we considered DOT's internal controls over financial reporting and compliance with laws and regulations. We do not express an opinion on internal controls and compliance because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB Bulletin 06-03 audit guidance, not to express an opinion on internal controls.

For the controls we tested, we found two material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

Our work identified seven reportable conditions in internal controls. Reportable conditions in internal controls, although not considered material weaknesses, represent significant deficiencies in the design and operation of internal controls that could adversely affect the ability of DOT to meet its internal control objectives. Our internal control work would not necessarily disclose all material weaknesses or reportable conditions.



MATERIAL WEAKNESSES

The following sections describe the material weaknesses that we identified.

Timely Processing of and Accounting for the FAA Construction in Progress Transactions

In FY 2005, KPMG reported a material weakness related to deficiencies in FAA's ability to process transactions and reconcile account balances in a timely manner. The account most affected was the CIP component of the Property, Plant, and Equipment (PP&E) line item. To illustrate, in order to prepare reliable financial statements, FAA had to commit substantial resources to properly categorize \$1.1 billion of CIP transactions during the last month of the fiscal year and \$180 million during the first 2 weeks after the fiscal year ended.

KPMG's FY 2005 audit report recommended that FAA improve its processes and controls to ensure that PP&E is consistently and accurately capitalized. That report also noted that, without substantial changes to FAA's processes and controls over recording transactions and reconciling accounts throughout the year, FAA might not be able to meet future financial statement reporting deadlines.

Although FAA management agreed to correct those deficiencies during FY 2006, the corrective actions were not implemented effectively. As a result, FAA again had to devote substantial resources at the end of the year. This year, however, the CIP balance presented to KPMG in August 2006 contained material errors, and FAA was not able to complete its review of CIP or to properly state the CIP balance as of September 30, 2006, before the issuance of the Department's Performance and Accountability Report. FAA management was also unable to represent to KPMG that the CIP balance, reported to be \$4.7 billion, was fairly stated. Accordingly, KPMG could not complete its audit of CIP balances.

In its FY 2006 audit report, KPMG again identified CIP process deficiencies as a material weakness. Specifically, KPMG noted that FAA lacks adequate policies, procedures, and controls to monitor its CIP activity and balances in a routine and timely fashion. KPMG reported that FAA: (1) needs to strengthen accounting policies and procedures, (2) lacks controls to ensure that CIP transactions are properly accounted for in a timely manner, (3) does not have a process to ensure that documentation adequately supports the basis for CIP transactions, and (4) does not adequately monitor the process to ensure that CIP balances are routinely reconciled to subsidiary listings and supporting detail.

- **Strengthening accounting policies and procedures.** KPMG noted that FAA's policies and procedures did not describe how to determine when Research and Development costs should be capitalized; treat bulk purchases; allocate costs when equipment is deployed to multiple locations; capitalize



costs of long-term projects when deployments occur over several years; account for agency prototypes; address recognition of operational feasibility; and expense costs of delayed or postponed projects.

- **Ensuring that CIP transactions are properly accounted for in a timely manner.** KPMG reported that FAA does not have front-end and in-process controls to ensure that all CIP projects are accurately and completely accounted for in a timely manner. For example, FAA has not established adequate processes or controls to ensure that CIP is capitalized to PP&E within 30 days of being placed in service, as required by FAA policy. KPMG found that 96 percent of the items it tested were not capitalized within the 30-day period.

FAA does not have adequate policies and procedures to identify errors and make timely corrections to the underlying accounting records. KPMG found that even when errors were identified on project activity reports, they were not investigated and resolved or reported to senior management. FAA also lacks a routine and effective process to identify and correct projects that are improperly set up, either as expense or capital activities. In one case, KPMG identified a project with a CIP balance of \$101 million that should have been expensed.

- **Ensuring that documentation is maintained that adequately supports the basis for CIP transactions.** KPMG found that FAA does not have a process to ensure that adequate documentation is maintained to support management's decisions and accounting transactions. For example, FAA could not provide documentation without spending several days locating supporting evidence. When provided, documentation showed clear inconsistencies with the classification of assets in the accounting system. KPMG noted a 50 percent error rate between documentation provided and data in the accounting system.

Also, key documentation was not always available. In particular, two documents are key to determining when assets have been placed into service; however, in numerous instances, those documents were not available. Decisions regarding asset classifications were made without adequate supporting documentation. For example, KPMG identified over \$200 million in 8 CIP projects that had been expensed from CIP in FY 2006 but subsequently had to be reversed after FAA provided documentation that contradicted the initial entry recorded by FAA.

- **Monitoring and reconciling CIP balances.** KPMG reported that FAA does not provide adequate monitoring and supervision of CIP processes and that the accounting system lacks controls to ensure that CIP balances are reconciled to



subsidiary listings and supporting details. KPMG also reported that a lack of clear lines of authority and communication among accounting organizations in the Office of Financial Management, the Air Traffic Organization, and the Office of Regions, Centers, and Operations has led directly to inaccurate or untimely accounting for CIP activity.

KPMG made 10 recommendations to correct these deficiencies, and FAA committed to implement the recommendations, including improving policies and procedures to ensure that capitalized assets are properly valued and transactions are recorded in a timely manner; enhancing communications between program officials and accounting personnel; and conducting a comprehensive evaluation of CIP balances to make appropriate accounting adjustments.

The lack of controls over CIP-related transactions was one of several concerns included in last year's material weakness reporting. This year, KPMG reported that, except for CIP-related processing, FAA has taken adequate corrective actions to ensure timely recording of obligations, supporting advances and prepayments, clearing suspense accounts, reconciling budgetary to proprietary accounts, and reconciling subsidiary to general ledger account balances. If FAA stays focused on fixing CIP-related operations, it should be able to produce the same results in FY 2007. However, we are concerned that this correction effort may become diverted.

FAA hired a contractor to assist the review of CIP transaction processing. However, FAA has first directed the contractor to analyze a sample of CIP assets in order to generate a more reliable estimate of the CIP balance as of September 30, 2006. FAA then intends to provide this additional information to KPMG, requesting that KPMG continue auditing the FY 2006 balance and issue a new report, sometime during FY 2007, providing a restatement on FAA's FY 2006 financial statements.

In our view, diverting resources to generate a new estimate of the FY 2006 CIP balance and to reissue the FY 2006 financial statement audit report will further delay efforts to fix the CIP process deficiencies and will increase the risk that FAA will again not be able to correct its underlying material weakness during FY 2007.

Successfully implementing these corrective actions in FY 2007 is critical for two reasons. First, FAA has stated that its goal is to implement sound financial management processes. This must include establishing stronger processes to account for its property. In doing so, FAA will be in a substantially stronger position to correct the material weakness and obtain a clean opinion on its financial statements in FY 2007.



Second, the FAA deficiencies may adversely affect DOT's ability to meet OMB's FY 2007 internal control requirements under Circular A-123—the Federal version of the Sarbanes/Oxley Act. Circular A-123 requires the Department's leaders to implement adequate management and financial controls to deliver the best value with the resources entrusted to the agency. At the end of FY 2007, the Department will be required, for the first time, to provide a specific assurance that it has adequate controls to provide reasonable assurance that property is accounted for properly. The adequacy of FAA's controls will be key to whether the Secretary will be able to provide that assurance.

The Department's Chief Financial Officer also recognizes the importance of correcting the underlying process deficiencies. She told us that her office will now closely monitor FAA's efforts to correct CIP process deficiencies to ensure that FAA implements timely and effective corrective actions. Given the importance of correcting these deficiencies, we agree that this is appropriate.

HTF Agencies' Financial Management, Reporting, and Oversight Activities

Since the audit of the FY 2003 HTF financial statements, we reported that material weaknesses existed in internal controls over financial management and reporting activities in the HTF agencies. During FY 2006, the HTF agencies implemented significant improvements over several previously reported deficiencies. As a result, some issues—cleaning up suspense accounts and reconciling the Fund Balance with Treasury—have been downgraded to reportable conditions for HTF financial statement reporting. Other issues—implementation of managerial cost accounting and tracking intragovernmental transactions—were closed.

However, KPMG continued to identify deficiencies in the area of financial management, reporting, and oversight. These deficiencies include: (1) the preparation, approval, and processing of journal entries; (2) the preparation and analysis of the HTF financial statements; (3) the analysis of abnormal account balances; (4) the analysis of proprietary and budgetary account relationships; (5) the coordination with non-DOT agencies that receive HTF appropriations through FHWA; and (6) the estimation and reporting of grant accruals.

- **Preparation, Approval, and Processing of Journal Entries.** A significant number of accounting transactions are recorded into Delphi (the departmental accounting system for financial statement compilation) through the use of journal entries during FY 2006. The HTF agencies used manual journal entries to process routine transactions, such as recording and distributing budget authority, recording and reversing accruals, and recording cash draw-downs. Use of journal entries to process routine transactions increases the risk of error and misstatement as users can enter transactions that do not comply with



Treasury standard general ledger posting logic. HTF agencies should use journal entries to process non-routine transactions, such as recording one-time adjustments.

To ensure a controlled journal-entry process, when appropriate, the HTF agencies developed standardized forms to include the name of the preparer, reason for the entry, type of supporting documentation provided, and signature by the approver. However, key information required on the form was frequently missing. KPMG reviewed 183 journal entries and identified 12 instances where the name of the preparer was not provided, 16 instances where the journal entries were not approved before they were recorded in Delphi, and 33 instances where either no supporting documentation was provided or the documentation provided was insufficient. In addition, documentation to support eight journal entries could not be located and three journal entries could not be traced to the general ledger.

- **Preparation and Analysis of the HTF Financial Statements.** KPMG identified several concerns associated with compilation of HTF financial statements. Specifically, agencies are required to report net cost of operations by major programs on the Statement of Net Cost. In addition, OMB asked agencies to allocate net cost of operations by the agency's strategic goals in financial statement note disclosures for information purposes. During FY 2006, the HTF agencies revised the methodology used to allocate the \$37 billion net cost of operations by DOT's strategic goals. However, KPMG determined that the new methodology and the allocation results were not properly supported. As a result, HTF agencies reported cost allocations by three major programs—Federal Aid Highways, Mass Transit, and Other programs—in the Statement of Net Cost note disclosure. The information about the cost associated with DOT's strategic goals was instead presented as Other Accompanying Information to the financial statements. KPMG also found deficiencies in the Management Discussion and Analysis section in the financial statements. For example, HTF agencies initially presented information not relevant to the HTF, which had to be eliminated. Also, the performance measures had to be revised to conform to OMB requirements.
- **Analysis of Abnormal Account Balances.** The HTF agencies did not have effective processes to identify and resolve abnormal balances at the Treasury appropriation fund symbol level. Abnormal balances, such as a credit balance in asset accounts or a debit balance in liability accounts, normally result from incorrect transaction processing. Each HTF agency has the ability to produce a standard report from the Delphi accounting system, entitled "Account Balance Exception Report," but did not routinely produce or review the report, document the review, or resolve exceptions identified. According to



departmental officials, the existing Delphi report was inappropriately designed to identify discrepancies within each Treasury symbol. During FY 2006, the Department developed an alternative solution to report discrepancies at the Treasury symbol level. However, HTF agencies only began using the alternative report during the fourth quarter of FY 2006.

- **Analysis of Proprietary and Budgetary Account Relationships.** Federal agencies are required to perform dual-postings to proprietary (e.g., operating expenses) and budgetary (e.g., obligations incurred) accounts to record certain business transactions. Balances in these two sets of accounts need to be reconciled to ensure consistency. Account relationship tests between proprietary and budgetary accounts are an effective tool to ensure that general ledger accounts have integrity and that incorrect transactions are detected and corrected. To be fully effective, account relationship tests should be performed at the Treasury symbol level.

During FY 2006, HTF agencies developed various account relationship tests—both automated and manual. While these tests did not identify material discrepancies between proprietary and budgetary accounts, KPMG found that HTF agencies did not have effective processes for analyzing and assessing the impact of discrepancies on financial statement reporting. For example,

- FHWA had 21 separate account relationship tests, including one performed automatically by Delphi and one still under development at June 30, 2006. However, it did not assess the impact of account relationship discrepancies at yearend.
 - FTA had 16, and the remaining 4 HTF agencies had 6, separate account relationship tests. However, these tests were performed only at the appropriations summary level. As a result, discrepancies at the Treasury symbol level could have occurred without being detected.
- **Coordination with Non-DOT Agencies that Receive HTF Appropriations through FHWA.** During FY 2006, FHWA took action to resolve accounting discrepancies related to the reporting of allocation transfers of budgetary authority to 17 other Federal agencies outside DOT. These non-DOT agencies receive HTF appropriations through FHWA, such as the Forest Service and the Army Corps of Engineers. However, FHWA must further strengthen procedures to obtain information from these non-DOT agencies to support HTF financial statement assertions related to transactions processed by the other agencies that are included in the HTF Consolidated financial statements.



- **Estimating and Reporting Grant Accruals.** For yearend reporting, the HTF agencies calculate and record an estimate (\$3.6 billion at September 30, 2006) for the amount of work performed by grantee contractors but not yet billed to and reimbursed by the Federal agency. During FY 2006, FHWA did not ensure the grant accrual estimate included the total time between when work was accepted by grantees and when it was reimbursed by FHWA. As a result, in October 2006, FHWA had to initiate a special effort to confirm the accrual amounts with grantees in all states, which resulted in about a \$200 million adjustment to the original estimate. Also, FTA made a material mathematical error in the calculation of its grant accrual estimate, which resulted in about a \$600 million adjustment in the HTF financial statements.

KPMG made a series of recommendations to improve financial management, reporting, and oversight activities in its financial statement audit report, dated November 6, 2006. FHWA and DOT agreed to implement the recommendations. Therefore, we are not making additional recommendations in this report.

REPORTABLE CONDITIONS

The following sections describe the reportable conditions that we identified.

Reporting of Earmarked Funds for Federal Transit Administration

Statement of Federal Financial Accounting Standard 27, entitled “Identifying and Reporting Earmarked Funds,” became effective for FY 2006 reporting. OMB Circular A-136, “Financial Reporting Requirements,” issued July 24, 2006, requires both Net Position amounts (Unexpended Appropriations and Cumulative Results of Operations) attributable to earmarked funds, if material, to be reported separately on the Balance Sheet and Statement of Changes in Net Position. Through consultation with OMB, DOT agreed that commingled Treasury accounts (with a mixture of earmarked and non-earmarked funds) would be reported based on the preponderance of the funds.

At September 30, 2006, the Federal Transit Administration (FTA) had seven Treasury accounts that included a mixture of earmarked and non-earmarked funds. Since they were financed predominantly by non-earmarked funds, they should not have been reported as earmarked funds. However, these seven accounts were initially reported as earmarked in the draft DOT Consolidated Balance Sheet and Statement of Changes in Net Position. This material error occurred because FTA incorrectly applied the DOT guidance at the summary level instead of at the Treasury symbol level. Consequently, adjustments totaling \$5.2 billion were required to the net position amounts (\$3.5 billion to Unexpended Appropriations and \$1.7 billion to Cumulative Results of Operations) before the FY 2006 DOT Performance and Accountability Report was issued.



Financial System Controls

Last year, we reported DOT's financial system controls as a reportable condition. This included weaknesses in Delphi computer controls and computer security deficiencies in several FAA, FHWA, and FTA systems that provide financial data to Delphi. In FY 2006, DOT made significant progress in improving controls over Delphi. The enhanced operational environment enabled auditors to rely on Delphi financial management system controls when conducting this year's financial statement audits. However, continued improvement is needed, and there are still deficiencies in FAA, FHWA, and FTA subsidiary financial systems that provide information to Delphi. Therefore, financial system controls continue to be a reportable condition.

According to KPMG, four FAA financial systems had access control vulnerabilities that could diminish the reliability of computerized data and increase the risk of data destruction or inappropriate disclosure. In addition, KPMG found that two FTA mission-critical systems, which track grants and feed information to the Department-wide Delphi financial management system, had access controls weaknesses that could have a material effect on HTF's financial statements. KPMG also found opportunities to improve the FAA, FHWA, and FTA financial systems security planning, segregation of duties, and service continuity.

KPMG's audit reports, dated November 3, 2006 (FAA) and November 6, 2006 (HTF), included recommendations to improve financial system controls. The DOT Chief Financial Officer agreed with the recommendations; therefore, we are not making any additional recommendations.

DOT Information Security Program

In October 2006, we issued our sixth annual report on DOT's Information Security Program and reported a noticeable improvement in tracking, prioritizing, and correcting security weaknesses—a major concern last year. The Department also took actions to identify systems containing personally identifiable information for security protection and provide oversight to major IT investments. However, like last year, the Department continues to face a challenge in recertifying systems security.

FY 2007 will be especially challenging for DOT because it must recertify about 230 systems—half of the Department's total inventory, including many major financial subsidiary systems. Meanwhile, DOT must upgrade systems security to meet new Government standards, relocate its Headquarters and more than 75 information systems, and implement a consolidated IT infrastructure in the new Headquarters building. The consolidated IT operations will require a higher level of security protection because of the potential impact of disruptions on multiple



Operating Administrations, not just one. However, the plan and schedule to implement and test this new infrastructure are still evolving, due to a variety of move-related problems.

We made a series of recommendations to help the Department strengthen its information security program. The departmental Chief Information Officer agreed with them. Therefore, we are not making additional recommendations in this report.

Intragovernmental Transactions

During the audits of the FY 2003 and FY 2004 DOT Consolidated Financial Statements, we reported a material weakness in the DOT processes and procedures to reconcile transactions among its Operating Administrations and its transactions with other Federal agencies. During FY 2005, we found intra-DOT activity of \$402 million (\$293 million in assets and \$109 million in non-exchange revenue) that was not eliminated in the DOT Consolidated Financial Statements. Since the amount was significantly lower than the year before, the issue was downgraded from a material weakness to a reportable condition.

While DOT continued to make progress during FY 2006, DOT again did not fully eliminate its intragovernmental activity within DOT in the draft FY 2006 DOT Consolidated Financial Statements. We found intra-DOT activity of \$169 million (\$84 million in assets and liabilities and \$85 million in non-exchange revenue) that was not eliminated in the draft DOT Consolidated Financial Statements.

The DOT Chief Financial Officer has advised that the Office of Financial Management will continue working with the Operating Administrations to implement new processes and procedures to identify and eliminate intragovernmental activity during FY 2007. Therefore, we are not making additional recommendations in this report.

Deobligating Unneeded Funds in the HTF Agencies

Title 31, United States Code, Section 1501, requires amounts to be recorded as an obligation of the United States only when supported by documentary evidence of a binding agreement in writing between a Federal agency and another entity (including an agency) for a purpose authorized by law and executed before the end of the period of availability. Undelivered orders reflect obligations for goods or services that have not been delivered or received. DOT financial policy requires the agencies to monitor their open obligations on a quarterly basis to ensure timely deobligation of unneeded obligations prior to year end, so that funds could become available for other use.



KPMG sampled 107 Undelivered Orders, totaling \$994.2 million, that had no activity for a period of 1 year or more as of June 30, 2006. KPMG found 14 obligations, totaling \$118.6 million, that were invalid and no longer needed (see details in Table 1).

Table 1. Unneeded Obligations Detected

Operating Administration*	# of Obligations Tested	Amount of Obligations Tested (in millions)	# of Obligations Unneeded	Amount of Obligations Unneeded (in millions)
FHWA	27	463.1	8	\$71.7
FTA	27	475.2	2	37.4
FMCSA	3	7.4	3	7.4
FRA	20	34.2	1	2.1
NHTSA	20	7.8	0	0
RITA	10	6.5	0	0
Total	107	\$994.2	14	\$118.6

* FMCSA: Federal Motor Carrier Safety Administration, FRA: Federal Railroad Administration, NHTSA: National Highway Traffic Safety Administration, RITA: Research and Innovative Technology Administration

The HTF agencies agreed to deobligate these obligations for the sample items for FY 2006 year-end reporting.

FAA Grants Management

In our report on the FY 2005 DOT Consolidated Financial Statements, we reported FAA Grants Management as a Reportable Condition. FAA is responsible for establishing and maintaining accounting and internal controls over expenditures related to the Airport Improvement Program (AIP). The program's growth (from \$2.8 billion to \$3.9 billion between FY 2004 and FY 2006), availability of resources, and reliance on sponsors, among other risks, led to the potential for waste, fraud, and abuse of Federal funds, especially within the oversight and monitoring phases of the grants management process.

According to KPMG, FAA's specific internal control weaknesses in grants management include: (1) lack of an effective, risk-based approach to oversight and monitoring of AIP grant sponsorship activities; (2) inadequate policies and procedures describing the roles and responsibilities of regional managers; and (3) disproportionate reliance on OMB Circular A-133, "Single Audit Act," for assurances that grant recipients are administering Federal funds properly and have sufficient internal controls. More reliable grants administration and monitoring processes feature preventive front-end and early-detection controls.



Last year FAA agreed with the KPMG recommendations to implement a risk-based approach to monitor AIP grants. However, FAA decided to defer the implementation to FY 2007. According to KPMG, the new grants monitoring approach was implemented on October 1, 2006, so we are not making any additional recommendations.

FAA Contract Management

In our report on the FY 2005 DOT Consolidated Financial Statements, we reported FAA Contract Management as a Reportable Condition because of weaknesses in the management and oversight of cost-reimbursable and support service contracts—two significant vehicles used to support modernization of the air traffic control system. During FY 2006, FAA made progress in both fronts. For example, FAA reduced the backlog of completed cost-reimbursable contracts awaiting closeout process, and dissolved one of the multiple-award “umbrella” programs used to procure support services. The OIG found that the support service procurement program was not properly structured and FAA would incur \$24 million to \$44 million in higher costs if all option years were exercised under that program.

While FAA has taken steps to enhance controls over support services procurement, more follow-through actions are needed. In August 2005, the FAA Administrator issued a directive requiring FAA-wide procurement enhancements. However, the OIG found that FAA had not implemented Agency-wide oversight to ensure consistent fulfillment of FAA’s Acquisition Management System requirements by its diverse procurement workforce. FAA has agreed to implement an oversight program. Therefore, we are not making any additional recommendations.

C. COMPLIANCE WITH LAWS AND REGULATIONS

In planning and conducting our audit, we performed limited tests of DOT’s compliance with laws and regulations, as required by OMB guidance. It was not our objective to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to testing selected provisions of laws and regulations that would have a direct and material impact on the financial statements and be reportable under Generally Accepted Government Auditing Standards or under OMB guidance. Our work disclosed the following instances of noncompliance with laws and regulations.



FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

Under FFMIA, we must report whether DOT's financial management system substantially complies with Federal requirements and standards. FFMIA requires agencies to produce timely, auditable financial statements based on data from the agency's financial system. KPMG concluded that four FAA and seven HTF systems were not in compliance for the year ended September 30, 2006. These key financial systems—which support data entered into Delphi—do not substantially comply with FFMIA compliance categories listed in OMB Circular A-127 (section 7), such as implementation of adequate internal controls and adherence to Computer Security Act requirements. KPMG recommended that FAA, FHWA, and FTA resolve the weaknesses noted in the key financial systems used to compile financial statements.

ANTIDEFICIENCY ACT

Title 31, United States Code, Section 1517, provides that an officer or employee of the U.S Government may not make or authorize an expenditure or obligation exceeding an amount available in an allotment. In our report on the FY 2005 DOT Financial Statements, we reported that FHWA still needed to resolve a \$5 million violation first identified in FY 2003, and FAA needed to report a \$1.9 million violation associated with the Small Community Air Service program to the President and Congress.

According to KPMG, FHWA resolved the \$5 million violation with Treasury in September 2006. However, FAA still has not reported the \$1.9 million violation to the President and Congress. FAA is working with the Office of the Secretary of Transportation to report the violation during FY 2007.

IMPROPER PAYMENTS INFORMATION ACT OF 2002 (IPIA)

OMB Circular A-123, Appendix C, issued on August 10, 2006, entitled "Requirements for Effective Measurement and Remediation of Improper Payments," implements the requirements of IPIA and is effective for FY 2006 reporting. The bulletin defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts include overpayments and underpayments, payments made to an ineligible recipient or for an ineligible service, duplicate payments, payments for services not received, and payments for the incorrect amount.

The bulletin prescribes a four-step approach for use by agencies in evaluating improper payments: (1) review all programs and identify those susceptible to significant erroneous payments; (2) statistically estimate the annual amount of



improper payments; (3) implement a plan to reduce erroneous payments; and (4) report estimates of the annual amount of improper payments and progress in reducing them.

During FY 2005, DOT reported the results of its review of the 10 programs susceptible to significant improper payments. The review found no significant improper payments and did not address payments made by DOT grantees.

During FY 2006, DOT concentrated on testing improper payments made by DOT grantees under FHWA's Federal-aid Program, FTA's formula grants program, and FAA's AIP. Among these three Operating Administrations, FHWA was the only one that was able to statistically estimate the amount of improper payments. However, due to the constraints of the methodology used, FHWA could not estimate the annual amount of improper payments made under the Federal-aid Program. Instead, the estimation was limited to a period of 5 months—about \$30 million.

FTA and FAA are still in the early stage of implementing the improper payment testing requirements. During FY 2006, FAA performed testing of grant payments made by one airport authority, and FTA tested payments made by two transit grantees.

DOT (i.e., FHWA, FTA, and FAA) must continue to implement IPIA so that annual (12-month) estimates are reported, plans are identified and implemented to reduce erroneous payments, and progress in reducing improper payments can be reported.

D. CONSISTENCY OF OTHER INFORMATION

The Management Discussion and Analysis, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Accompanying Information contain a wide range of data, some of which are not directly related to the financial statements. We are not required to, and we do not, express an opinion on this information. As required by OMB guidance, we inquired of management about the methods of preparing this information, and we compared this information for consistency with the DOT Consolidated Financial Statements and other knowledge obtained during the audit of the financial statements. Based on this work, we found no material inconsistencies with the DOT Consolidated Financial Statements or nonconformance with OMB guidance.

E. PRIOR AUDIT COVERAGE

Our report on the DOT Consolidated Financial Statements for FY 2005 and FY 2004 expressed an unqualified opinion and made no new recommendations.



Our report on the DOT Consolidated Financial Statements for FY 2002 and FY 2001 made one recommendation: that DOT confirm and reconcile intra-governmental balances with trading partners. DOT must continue to work to improve the accounting for intra-governmental balances with trading partners, timely de-obligation of unneeded transactions, and testing of improper payments. Exhibit B displays the status of the prior year's and new issues.

Since we issued our report on the DOT Consolidated Financial Statements for FY 2005 and FY 2004, we issued 19 reports related to the DOT Consolidated Financial Statements. The reports are listed in Exhibit C.

The Assistant Secretary for Budgets and Programs/Chief Financial Officer provided comments on a draft of the report (see Appendix). The response agreed with the material weaknesses and reportable conditions in this report and stated that corrective actions have already been initiated. Management agreed to provide a detailed action plan addressing each finding by December 29, 2006.

This report is intended for the information of and use by DOT, OMB, the Government Accountability Office, and Congress. This report is a matter of public record, and its distribution is not limited.

Calvin L. Scovel III

Calvin L. Scovel III
Inspector General



EXHIBIT A. OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives for the DOT Consolidated Financial Statements for FY 2006 and FY 2005 were to determine whether (1) principal DOT Consolidated Financial Statements and accompanying notes are presented fairly, in all material respects, in conformity with generally accepted accounting principles; (2) DOT has adequate internal controls over financial reporting, including safeguarding assets; (3) DOT has complied with laws and regulations that could have a direct and material effect on the DOT Consolidated Financial Statements or that have been specified by OMB, including FFMIA; (4) financial information in the Management Discussion and Analysis, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Accompanying Information is materially consistent with the information in the principal DOT Consolidated Financial Statements; and (5) internal controls ensured the existence and completeness of reported data supporting performance measures.

DOT is responsible for (1) preparing the DOT Consolidated Financial Statements for FY 2006 and FY 2005 in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that broad control objectives of FMFIA are met; (3) ensuring that DOT financial management systems substantially comply with FFMIA requirements; and (4) complying with other applicable laws and regulations. DOT is responsible for maintaining an effective system of internal controls. The objectives of these controls are explained below.

- **Financial reporting.** Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- **Compliance with laws and regulations.** Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and Government-wide policies identified by OMB audit guidance.
- **Reliability of Performance Reporting.** Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of required performance information.

To fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed

Exhibit A. Objectives, Scope, and Methodology



the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding and performed limited tests of internal controls related to financial reporting, compliance with laws and regulations, and performance measures; and (5) tested compliance with selected provisions of certain laws, including FFMIA.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring that programs achieve their intended results and that resources are used consistent with agency missions. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected.

The Government Accountability Office performed agreed-upon procedures at the Internal Revenue Service on the excise taxes distributed to the HTF and the Airport and Airway Trust Fund during FY 2006. The Treasury Office of Inspector General reported on the effectiveness of controls placed in operation over the Bureau of Public Debt Trust Fund Management Branch and Federal Investments Branch for the period October 1, 2005, to July 31, 2006, and attained management's assurance on the effectiveness of the controls through September 30, 2006. The Treasury Office of Inspector General also reported on selected schedules of assets and liabilities of the HTF and the Airport and Airway Trust Fund prepared by the Bureau of Public Debt Trust Fund Management Branch.

We did not test compliance with all laws and regulations applicable to DOT. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the DOT Consolidated Financial Statements for the years ended September 30, 2006, and September 30, 2005. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

The Chief Financial Officers of DOT and each Operating Administration have been assigned the responsibility to address the weaknesses identified in this report. Management's response to the findings and recommendations in this report is contained in the Appendix.

We performed our work in accordance with Generally Accepted Government Auditing Standards and OMB Bulletin 06-03, "Audit Requirements for Federal Financial Statements."

Exhibit A. Objectives, Scope, and Methodology



EXHIBIT B. STATUS OF PRIOR YEAR'S AND NEW ISSUES

Issue	As Reported 9/30/2005	As Reported 9/30/2006
Timely Processing of and Accounting for the FAA Construction-in-Progress Transaction	Material Weakness	Material Weakness
HTF Agencies' Financial Management, Reporting, and Oversight Activities	Material Weakness	Material Weakness
Financial Oversight of Highway Grants	Material Weakness	Reportable Condition (Deobligating Unneeded Funds)
Reporting of Earmarked Funds for FTA	----	Reportable Condition
Financial System Controls	Reportable Condition	Reportable Condition
DOT Information Security Program	Reportable Condition	Reportable Condition
Intragovernmental Transactions	Reportable Condition	Reportable Condition
FAA Grants Management	Reportable Condition	Reportable Condition
FAA Contract Management	Reportable Condition	Reportable Condition
MARAD Oversight of Title XI Loan Guarantees	Reportable Condition	Resolved
Federal Financial Management Improvement Act of 1996	Noncompliance	Noncompliance
Antideficiency Act	Noncompliance	Noncompliance
Improper Payments Information Act of 2002	----	Noncompliance
Federal Managers' Financial Integrity Act	Noncompliance	Management Letter
Government Performance and Results Act	Noncompliance	Management Letter
FAA Franchise Fund Enabling Legislation	Noncompliance	Resolved

Exhibit B. Status of Prior Year's and New Issues



EXHIBIT C. FINANCIAL-RELATED REPORTS

Report Title	Report Number	Date Issued
Audit of Special-Purpose Financial Statements for Fiscal Year 2005, Fiscal Year 2004	FI-2006-015	November 18, 2005
Independent Accountant's Agreed-Upon Procedures for Intragovernmental Activity and Balances	FI-2006-017	December 2, 2005
FAA Has Opportunities To Reduce Academy Training Time and Costs by Increasing Educational Requirements for Newly Hired Air Traffic Controllers	AV-2006-021	December 7, 2005
Internal Controls Over the Emergency Disaster Relief Transportation Services Contract	AV-2006-032	January 20, 2006
Inspector General Review of Fiscal Year 2005 Drug Control Funds	FI-2006-033	February 1, 2006
FAA Telecommunications Infrastructure Program: FAA Needs To Take Steps To Improve Management Controls and Reduce Schedule Risks	AV-2006-047	April 27, 2006
Report on the Air Traffic Organization's Management Controls Over Credit Hours	AV-2006-050	June 21, 2006
Internal Controls Over Payments for Emergency Disaster Relief Transportation Services	AV-2006-051	June 30, 2006
Use of Airport Revenues by the Greater Orlando Aviation Authority	AV-2006-056	August 3, 2006
Mississippi Department of Transportation's Award of Selected Hurricane Katrina Emergency Repair Contracts	MH-2006-065	September 6, 2006

Exhibit C. Financial-Related Reports



Report Title	Report Number	Date Issued
Federal Aviation Administration's RESULTS National Contracting Service	FI-2006-072	September 21, 2006
Follow-Up Audit Report on FAA's Management Of and Controls Over Memorandums of Understanding	AV-2006-074	September 28, 2006
Quality Control Review of the Report on Controls Over the Enterprise Service Center's Delphi Financial Management System	QC-2006-076	September 29, 2006
DOT's Information Security Program	FI-2007-002	October 23, 2006
Quality Control Review of Audited Financial Statements for Fiscal Year 2006 and Fiscal Year 2005: Saint Lawrence Seaway Development Corporation	QC-2007-005	November 9, 2006
Quality Control Review of the Audited Financial Statements for Fiscal Year 2006: FAA Franchise Fund	QC-2007-006	November 13, 2006
Quality Control Review of Audited Financial Statements for Fiscal Year 2006 and Fiscal Year 2005: Federal Aviation Administration	QC-2007-009	November 14, 2006
Quality Control Review of Audited Financial Statements for Fiscal Year 2006: Highway Trust Fund	QC-2007-008	November 14, 2006
Top Management Challenges	PT-2007-004	November 15, 2006

Exhibit C. Financial-Related Reports



APPENDIX. ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS/CHIEF FINANCIAL OFFICER RESPONSE TO AUDIT REPORT



**U.S. Department of
Transportation**
Office of the Secretary
of Transportation

Assistant Secretary
for Budget and Programs
and Chief Financial Officer

400 Seventh St., S.W.
Washington, D.C. 20590

November 14, 2006

MEMORANDUM TO: Calvin L. Scovell, III
Inspector General

FROM: Phyllis F. Scheinberg *Phyllis F. Scheinberg*

SUBJECT: Management Response – Report of the Inspector
General (IG) on the Consolidated Financial
Statements for Fiscal Years (FY) 2006 and 2005

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for FY 2006 and FY 2005.

This year's audit concluded that DOT's consolidated financial statements are fairly presented, in all material respects, in conformity with generally accounting principles, with one exception: the FY 2006 Construction in Progress (CIP) balance on Footnote 9, which is a subcomponent of the Property, Plant and Equipment line item on the consolidated balance sheet for the Department.

We concur with the two material weaknesses and seven reportable conditions described in your report and are developing corrective actions to resolve them. By December 29th, we will send you our detailed action plan to address all the findings in your report. Our action plan will also address the findings in the audits of the Highway Trust Fund (HTF) and the Federal Aviation Administration (FAA).

This year the Department made significant progress in resolving long standing financial management internal control issues, including the following highlights:

- The Federal Highway Administration (FHWA) eliminated the FY 2005 material weakness in improving financial accounting processes. This year the FHWA produced financial statements from the core accounting system with very few adjustments. The FHWA was also able to produce the data required for Treasury's FACTS II reporting directly from the core accounting system with very few minor adjustments. Over the past year, the FHWA also revised its journal entry process, resulting in a reduction of more than 50 percent in the number of journal entries.

**Appendix. Assistant Secretary for Budget and Programs/Chief
Financial Officer Response to Audit Report**



- The FHWA successfully implemented the FIRE program in all FHWA field offices, which resolved the material weakness in grants management that had been identified in FY 2004. The FIRE program also focused attention on inactive obligations, resulting in deobligating funding on more than 1,000 projects during the year. This action addressed a particular concern of your office over the last several years.
- In FY 2005, the FAA had one material weakness consisting of six different areas of timely processing and reconciling of transactions that needed improvement. In FY 2006, five of these areas were resolved. The FAA has further improved its accounting by consolidating all nine regional accounting offices to DOT's Enterprise Service Center in Oklahoma City. This produced significant cost savings and improved the reliability and timeliness of FAA accounting data.

We also made significant progress on the Department's Improper Payments Information Act (IPIA) program. Based on the methodology we developed during FY 2005 to test the improper rate of payments made by our grantees to their contractors, the FHWA sampled a total 1,500 projects covering all States and has developed a nationwide improper payment rate. In addition, the FAA and the Federal Transit Administration have developed component improper payment rates for their major grant programs.

In addition, we completed the first year of our two-year approved Implementation Plan for the Office of Management and Budget's Circular A-123, *Management's Responsibility for Internal Control*. We documented, assessed risk and tested the first six key business processes and developed action plans to address all the findings. During FY 2007, we will review on-going corrective actions, document the remaining key business processes, and complete the second year testing under our A-123 Plan.

We generally agree with the recommendations listed in the audit reports and will use them to develop our corrective action plan. We will work closely with the Operating Administrations and the various audit groups to ensure that the Department continues to make strong progress in improving financial management in FY 2007.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff during the course of the audit. Please refer any questions to Laurie Howard, Director of Financial Management, at extension 62135.

**Appendix. Assistant Secretary for Budget and Programs/Chief
Financial Officer Response to Audit Report**



Performance Measure Completeness and Reliability Details

Each table includes a description of a performance measure and associated data provided by the agencies in charge of the measure. The Scope statement gives an overview of the data collection strategy for the underlying data behind the performance measure. The Source statement identifies the data system(s) from which the data for each measure was taken. The Statistical Issues statement has comments, provided by the Bureau of Transportation Statistics (BTS) and the agency in charge of the measure, which discuss variability of the measure and other points. The Completeness statement indicates limitations due to missing data or availability of current measures, methods used to develop projections are also provided, as appropriate. The Reliability statement gives the reader a feel for how the performance data are used in program management decision making inside DOT.

For further information about the source and accuracy (S&A) of these data, and DOT’s data quality guidelines in accordance with Section 515 of the Treasury and General Government Appropriations Act for Fiscal Year 2001 (P.L. 106-554), please refer to the BTS S&A compendium available at http://www.bts.gov/programs/statistical_policy_and_research/source_and_accuracy_compendium/index.html.

Details on DOT Safety Measures

Highway Fatality Rate

Measure:	Highway fatalities per 100 million vehicle-miles traveled (VMT). Calendar Year (CY)
Scope:	The number of fatalities is a count of occupant and non-motorist deaths which occur within 30 days of a crash involving motor vehicle traffic traveling on a trafficway customarily open to the public within the 50 States and the District of Columbia. VMT represent the total number of vehicle miles traveled by motor vehicles on public roadways within the 50 States and the District of Columbia.
Sources:	Motor vehicle traffic fatality data are obtained from the National Highway Traffic Safety Administration’s Fatality Analysis Reporting



	<p>System (FARS). The FARS database is based on police crash reports and other State data.</p> <p>VMT data for 2006 are estimated based on preliminary 2005 VMT data from FHWA's Traffic Volume Trends (TVT); a monthly report based on hourly traffic count data in the Highway Performance Monitoring System (HPMS). VMT data for 2005 and prior years are from the HPMS system based on State samples of road segments.</p>
Statistical Issues:	<p>The primary source of uncertainty in the fatality rate measure is the denominator, VMT. While the number of total fatalities used in the numerator is derived from census data and is relatively accurate, the VMT estimate in the denominator has far more variability.</p> <p>The TVT data used for the 2006 VMT are an early estimate from the 2005 VMT. These data, collected at approximately 4,000 continuous traffic counting locations nationwide, are used to determine the percentage change in traffic for the current month from the same month of the previous year. The percentage change is applied to the nationwide travel for the same month of the previous year to obtain an estimate of nationwide travel for the current month.</p> <p>The 2005 and earlier VMT are compiled from data provided to FHWA from each State. They are estimates based on a sample of road segments, so the numbers have associated sampling errors. The methodology used by each of the States to estimate VMT varies and may introduce additional non-sampling errors. Although States provide VMT estimates on an annual basis, they are only required to update their traffic counts at all sampling sites once every three years. Thus, an annual VMT estimate from a particular State may be based, in part, on data collected during a previous year.</p>
Completeness:	<p>FARS has been in use for many years and is generally accepted as a complete measure for describing safety on the Nation's highways. Total annual fatalities are available through CY 2005. The fatality estimates used to calculate the 2006 rates shown in this report were forecasted using the most recent fatality counts from FARS. NHTSA's first official estimates for 2006, the Early Projections, will be completed in spring 2007. Differences between the official Early Projection estimates and those in this report are to be expected.</p>



	<p>VMT data for 2005 are preliminary estimates provided by the FHWA. VMT data used to calculate the 2006 rates shown in this report are projected assuming an increase rate of 1.5 percent (based on previous increases in VMT) from the 2005 VMT estimate. The final measure of VMT for CY 2006 from the HPMS system will not be available until October 2007.</p>
Reliability:	<p>The measure informs and guides NHTSA and FHWA highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing highway crashes.</p>

Large Truck-Related Fatalities

Measure:	Fatalities involving large trucks per 100 million truck VMT. (CY)
Scope:	<p>The measure includes all fatalities (e.g., drivers and occupants of passenger cars, motorcycles, large trucks, or pedestrians) associated with crashes involving trucks with a gross vehicle weight rating of 10,000 pounds or more.</p> <p>Truck Vehicle Miles of Travel (TVMT) represents the total number of vehicle miles traveled by large trucks on public roadways within the 50 States and the District of Columbia.</p>
Sources:	<p>The number of fatalities comes from NHTSA's Fatality Analysis Reporting System (FARS) data, a census of fatal traffic crashes within the 50 States and the District of Columbia.</p> <p>The TVMT data are derived from the FHWA's Highway Performance Monitoring System (HPMS)</p>
Statistical Issues:	<p>The fatality counts in FARS are generally quite accurate. The major sources of error are underreporting by some precincts and inconsistent use of the definition of a truck.</p> <p>Because the TVMT data provided to FHWA from each State are estimates based on a sample of road segments, the numbers have associated sampling errors. The methodology used by each of the States</p>



	to estimate TVMT varies and may introduce additional non-sampling error. Although States provide TVMT estimates on an annual basis, they are only required to update their traffic counts at all sampling sites once every three years. Thus, a portion of each States' sample sites will report estimated traffic rather than actual traffic counts.
Completeness:	<p>The FARS has been in use for many years and is generally accepted as a complete measure for describing safety on the Nation's highways. Truck-related fatality data is complete through 2005. For 2006, the FARS data for crashes involving large trucks are not available. The value used for the 2004 rate is projected recent trend data. The actual fatality count for 2006 will be available in October 2007.</p> <p>The TVMT is complete through 2004. For 2005 and 2006, it is projected using the historical trend with adjustments for observed change in the total VMT in 2004. The final TVMT estimate for 2005 will be available in December 2006, and the final TVMT estimate for 2006 will be available in December 2007.</p>
Reliability:	The measure informs and guides FMCSA and FHWA highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing truck and bus crashes.

Commercial Air Carrier Fatal Accident Rate

Measure:	U.S. commercial fatal aviation accidents per 100,000 departures (Last three years' average). (FY)
Scope:	This measure includes both scheduled and nonscheduled flights of large U.S. air carriers (14 CFR Part 121) and scheduled flights of regional operators (14 CFR Part 135). It excludes on-demand (i.e., air taxi) service and general aviation. Accidents involving passengers, crew, ground personnel, and the uninvolved public are all included.
Sources:	Fatal aviation accidents: The data on commercial and general aviation fatalities come from the National Transportation Safety Board's (NTSB) Aviation Accident Database. Aviation accident investigators under the



	<p>auspices of the National Transportation Safety Board develop the data.</p> <p>Departures Performed: The Office of Airline Information (OAI) within the Bureau of Transportation Statistics (BTS) collects the data on Form 41, Schedule T-100—U.S. Air Carrier Traffic and Capacity Data By Nonstop Segment and On-flight Market and Form 41, Schedule T-100 (f)—Foreign Air Carrier Traffic and Capacity Data by Nonstop Segment and On-flight Market.</p>
Statistical Issues:	<p>The joint government/industry group working on improving the level of safety for U.S. commercial aviation has determined that the number of departures is a better denominator measure to use for determining accident rates and the Government Accountability Office recommended that FAA use departures.</p> <p>Both accidents and departures are censuses, having no sampling error. However, missing data, particularly in the departure counts, will result in bias to some degree. The fatal accident rate is small and could significantly fluctuate from year to year due to a single accident. Use of an average over three years smoothes the fluctuation that may occur in any given year.</p>
Completeness:	<p>The FAA does comparison checking of the departure data collected by BTS. However, FAA has no independent data sources against which to validate the numbers submitted to BTS. FAA compares its list of carriers to the DOT list to validate completeness and places the carriers in the appropriate category (i.e., Part 121 or Part 135). Actual departure data for any given period of time is considered preliminary for up to 12 months after the close of the reporting period. This is due to amended reports subsequently filed by the air carriers. However, the changes to departure data rarely have an effect on the annual fatal accident rate. NTSB and FAA's Office of Accident Investigation meet regularly to validate the accident count.</p> <p>To overcome reporting delays of 60 to 90 days, FAA must rely on historical data, partial internal data sources, and Official Airline Guide (OAG) scheduling information to project at least part of the fiscal year activity data. FAA uses OAG data until official BTS data is available. The air carrier fatal accident rate is not considered reliable until BTS provides preliminary numbers. Due to reporting procedures in place, it is unlikely that calculation of future fiscal year departure data will be</p>



	markedly improved. Lacking complete historical data on a monthly basis and independent sources of verification increases the risk of error in the activity data.
Reliability:	Results are considered preliminary based on projected activity data. FAA uses performance data extensively for program management, personnel evaluation, and accountability. Most accident investigations are a joint undertaking. NTSB has the statutory responsibility, but, in fact, most of the accident investigations related to general aviation are conducted by FAA Aviation Safety Inspectors without NTSB direct involvement. FAA's own accident investigators and other FAA employees participate in all accident investigations led by NTSB investigators.

General Aviation Fatal Accidents

Measure:	Number of fatal general aviation accidents. (FY)
Scope:	The measure includes on-demand (non-scheduled FAR Part 135) and general aviation flights. General aviation includes a diverse range of aviation activities. The range of general aviation aircraft includes single-seat homebuilt aircraft, helicopters, balloons, single and multiple engine land and seaplanes including highly sophisticated extended range turbojets.
Sources:	The data on general aviation fatalities come from the National Transportation Safety Board's Aviation Accident Database (NTSB). Aviation accident investigators under the auspices of the NTSB develop the data.
Statistical Issues:	There is no major error in the accident counts. Random variation in air crashes results in a significant variation in the number of fatal accidents over time.
Completeness:	NTSB and FAA's Office of Accident Investigation meet regularly to validate information on the number of accidents. Results are considered preliminary. NTSB continues to review accident results from FY 2005.



	<p>Numbers are final when the NTSB releases its report each March. So for March 2006, FY 2004 accident numbers will be finalized. However, the number is not likely to significantly change from the end of each fiscal year to when the rate is finalized.</p>
Reliability:	<p>FAA uses performance data extensively for program management and personnel evaluation and accountability. Most accident investigations are a joint undertaking. NTSB has the statutory responsibility, but, in fact, most of the accident investigations related to general aviation are conducted by FAA Aviation Safety Inspectors without NTSB direct involvement. FAA's own accident investigators and other FAA employees participate in all accident investigations led by NTSB investigators.</p>

Train Accidents Rate

Measure:	<p>Rail-related accidents and incidents per million train-miles (FY). (Measure revised in FY 2004)</p>
Scope:	<p>The Railroad Safety Information System (RSIS) is the principal monitoring strategy used by the FRA for the management, processing, and reporting on railroad-reported accidents/incidents; railroad inspections; highway-rail grade crossing data; and related railroad safety activities. The Railroad Accident/Incident Reporting Subsystem (RAIRS) is the repository of all FRA-mandated reports of railroad accidents, incidents, casualties, highway-rail grade crossing collisions, and operating information.</p> <p>A train accident is any collision, derailment, fire, explosion, act of God, or other event involving the operation of railroad on-track equipment (standing and moving), which results in damages greater than the current reporting threshold to railroad on-track equipment, signals, track, track structures, and roadbed. Train accidents are reported on form FRA F6180.54, Rail Equipment Accident/Incident Report. The reporting threshold for 2006 is \$7,700.</p> <p>A train incident is any event involving the movement of on-track equipment that results in a reportable casualty but does not cause</p>



	<p>reportable damage above the current threshold established for train accidents.</p> <p>Operational data, including train-miles, are reported on the form FRA F6180.55, Railroad Injury and Illness Summary.</p>
Sources:	FRA's Railroad Accident/Incident Reporting Subsystem.
Statistical Issues:	None.
Completeness:	<p>Railroads are required by regulation (49 CFR 225) to file monthly reports to the FRA of all train accidents that meet a dollar threshold (currently \$7,700). They are also required to file monthly operations reports of train-miles, employee-hours, and passenger train-miles.</p> <p>Reports must be filed within 30 days after the close of the month. Data must be updated when the costs associated with an accident vary by more than 10 percent (higher or lower) from that initially reported.</p> <p>Railroad systems that do not connect with the general rail system are excluded from reporting to FRA. Examples include subway systems (e.g., Washington, D.C. Metro, New York City subway, San Francisco Bay Area Rapid Transit District), track existing inside an industrial compound, and insular rail (e.g., rail that is not connected to the general system and does not have a public highway rail crossing or go over a navigable waterway).</p>
Reliability:	<p>FRA uses the data in prioritizing its inspections and safety reviews, and for more long-term strategic management of its rail safety program. FRA has inspectors who review the railroads' reporting records, and who have the authority to write violations if railroads are not reporting accurately. Violations may result in monetary fines.</p>

Transit Fatality Rate

Measure:	Transit fatalities per 100 million passenger-miles traveled. (CY)
Scope:	Transit fatality data includes passengers, revenue facility occupants,



	<p>trespassers, employees, other transit workers (contractors), and others. A transit fatality is a death within 30 days after the incident, which occurs under the categories of collision, derailment, personal casualty (not otherwise classified), fire, or bus going off the road in the National Transit Database (NTD) reporting. Previous to 2002, transit involved parties that were defined as patrons, employees, and others (the safety data was collected on a fiscal year, as opposed calendar year basis). Fatalities for the performance measurement only use transit agency Directly Operated (DO) mode data. Purchased Transportation (PT) data are not part of this measure. Certain fatalities are excluded, as they are not considered to be directly related to the operation of transit vehicles. Those include suicides and fatalities occurring in parking facilities and stations, as well as fires in right-of-ways and stations. Also, the measure includes only the major transit modes (motor/trolleybus, light rail, heavy rail, commuter rail with vanpool, automated guideway, and demand response) and excludes ferryboat, monorail, inclined plane, cable car, and jitney.</p> <p>The passenger-miles traveled on public transit vehicles (e.g., buses, heavy and light railcars, commuter railcars, ferries, paratransit vans, and vanpools) only refer to miles while in actual revenue service to the general public.</p> <p>These data are reported annually by operators to the FTA National Transit Database (NTD) and to the Federal Railroad Administration's (FRA) Rail Accident and Incident Reporting System (RAIRS). FRA RAIRS data are used exclusively for commuter rail (CR) safety data. NTD and RAIRS data are an input to FTA's Transit Safety and Security Statistics and Analysis program (formerly known as Safety Management Information Statistics [SAMIS]).</p>
<p>Sources:</p>	<p>The Transit Safety and Security Statistics and Analysis Annual Report, formerly SAMIS, is a compilation and analysis of transit accident, casualty, and crime statistics reported under the Federal Transit Administration's (FTA's) NTD Reporting System by transit systems that are beneficiaries of FTA Urbanized Area Formula funds. Starting in 2002, commuter rail safety data are being collected from the FRA Rail Accident Reporting System (RAIRS) in order to avoid redundant reporting to NTD.</p>



	<p>Transit fatalities: Transit Safety and Security Statistics and Analysis Annual Report.</p> <p>Transit passenger miles: Transit Safety and Security Statistics and Analysis Annual Report.</p>
<p>Statistical Issues:</p>	<p>The fatality counts in FTA’s Transit Safety and Security Statistics and Analysis are a census. The major source of uncertainty in the measure relates to passenger-miles traveled.</p> <p>Passenger-miles are an estimate derived from reported passenger trips and average trip length. Passenger-miles are the cumulative sum of the distances ridden on passenger trips. Transit authorities have accurate counts of unlinked passenger trips and fares. An unlinked trip is recorded each time a passenger boards a transit vehicle, even though the rider may be on the same journey. Transit authorities do not routinely record trip length. To calculate passenger-miles, total unlinked trips are multiplied by average trip length. To obtain an average trip length for their bus routes, transit authorities use Automatic Passenger Counters (APC’s) with GPS Technology or a FTA-approved sampling technique. To obtain passenger mile data on rail systems, ferry boats, and paratransit, transit authorities often use Smart Card or other computerized tracking systems. Passenger-miles are the only data element that is sampled in the NTD.</p> <p>Validation based on annual trend analysis is performed on the passenger mile inputs from the transit industry. The validation is performed by statistical analysts at the NTD contractor (Veridian/General Dynamics Corporation).</p>
<p>Completeness:</p>	<p>The information for this measure comes from the FTA’s Transit Safety and Security Statistics and Analysis program, formerly FTA’s Safety Management Information System (SAMIS), which uses data reported by transit operators to the NTD.</p> <p>Many categories and definitions were added or changed in the new NTD in 2002, and have allowed for improvements and more timely analysis of trends and contributing factors.</p>



	The 2006 measure is an extrapolation of partial-year data, particularly of passenger-miles traveled.
Reliability:	An independent auditor and the transit agency's CEO certify that data reported to the NTD are accurate. Using data from the NTD to compile the Transit Safety & Security Statistics & Analysis program (formerly SAMIS) data, the USDOT Volpe National Transportation Systems Center compares current safety statistics with previous years, identifies questionable trends, and seeks explanation from operators.

Natural Gas and Hazardous Liquid Pipeline Incidents

Measure:	Number of natural gas pipeline incidents and hazardous liquid pipeline accidents. (CY)
Scope:	<p>Gas pipeline incidents are reportable under 49 CFR 191.15 if they involve:</p> <ul style="list-style-type: none"> • a release of gas from a pipeline or of liquefied natural gas or gas from an LNG facility and: <ul style="list-style-type: none"> - A death or personal injury requiring in-patient hospitalization, or - estimated property damage, including cost of gas lost, of \$50,000 or more • an event that results in an emergency shutdown of an LNG facility • an event that is significant in the judgment of the operator, even if it does not meet any other reporting criteria <p>Liquid pipeline accidents are reportable under 49 CFR 195.50 if there is a release of hazardous liquid or carbon dioxide and any one of the following:</p> <ul style="list-style-type: none"> • unintentional explosion or fire • release of 5 gallons or more (except certain maintenance activities) • death or injury requiring hospitalization • estimated property damage, including costs of cleanup and recovery, value of lost product, and other property damage exceeding \$50,000. <p>Gas incidents include both gas transmission and gas distribution pipeline systems.</p>



	<p>Data are adjusted/normalized for time series comparisons to account for changes in reporting criteria over time. This includes screening out hazardous liquid spills of less than 50 barrels (or five barrels for highly-volatile liquids) unless the accident meets one of the other reporting criteria.</p>
Source:	<p>DOT/Pipeline and Hazardous Materials Safety Administration (PHMSA) Incident Data – derived from Pipeline Operator reports submitted on PHMSA Form F-7100.1 and F-7000.1.</p>
Statistical Issues:	<p>A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined.</p> <p>Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal annual variation in the number of reported incidents.</p>
Completeness:	<p>Compliance in reporting is very high and most incidents that meet reporting requirements are submitted. Operators must submit reports within 30 days of an incident or face penalties for non-compliance.</p> <p>The reported estimates are based upon incident data reported in January through June 2006. There may be a 60-day lag in reporting and compiling information in the database for analysis. Traditionally, there are more incidents in the summer than the winter. Preliminary estimates are based on data available as of middle of August, with six months of data through the end of June. The CY 2006 estimate is a projection using both a seasonal adjustment (using a 10-year baseline) and a separate adjustment to account for the historical filing of late reports (92.5 percent of reports for January - June were filed by this time last year).</p>
Reliability:	<p>PHMSA routinely cross-checks incident/accident reports against other sources of data, such as the telephonic reporting system for incidents requiring immediate notification provided to the National Response Center (NRC). PHMSA is developing a Best Management Practice to ensure quality of the incident data.</p> <p>Data are not normalized to account for inflation. A fixed reporting threshold (\$50,000) for property damage results in an increasing level of</p>



	<p>reporting over time. This threshold was set for gas pipeline incidents in 1985 and for hazardous liquid accidents in 1994.</p> <p>Data are not normalized to account for the subjective judgment of the operator in filing reports for incidents that do not meet any of the quantitative reporting criteria. This may result in variations over time due to changes in industry reporting practices.</p> <p>The performance measure is not normalized for changes in exposure—external factors like changes in pipeline mileage that could affect the number of incidents without affecting the risk per mile of pipeline.</p> <p>PHMSA uses these data in prioritizing its inspections and safety reviews, and for more long-term strategic management of its pipeline safety program.</p>
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Serious Hazardous Materials Incidents

Measure:	Number of serious hazardous materials transportation incidents. (CY)
Scope:	<p>Hazardous materials transportation incidents are reportable under 49 CFR 100-185.</p> <p>Serious hazardous materials incidents include those incidents resulting in:</p> <ul style="list-style-type: none"> • a fatality or major injury; • the evacuation of 25 or more employees or responders or any number of the general public; • the closure of a major transportation artery, the alteration of an aircraft flight plan or operation caused by the release of a hazardous material; • the exposure of hazardous material to fire; or, • any release of radioactive materials from Type B packaging, Risk Group 3 or 4 infectious substances, over 11.9 gallons or 88.2 pounds of a severe marine pollutant, or a bulk quantity (over 119 gallons or 882 pounds) of a hazardous material.



	<p>This measure tracks only transportation-related releases of hazardous materials that are in commerce. It includes incidents in all modes of transportation (air, truck, rail, and water) except pipelines.</p>
Sources:	<p>Hazardous Material Information System (HMIS) maintained by DOT/Pipeline and Hazardous Materials Safety Administration—derived from reports submitted on Form DOT F 5800.1.</p>
Statistical Issues:	<p>A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined.</p> <p>Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal variation in the number of reported incidents.</p>
Completeness:	<p>Each person in physical possession of a hazardous material at the time that any of the following incidents occurs during transportation (including loading, unloading, and temporary storage) must submit a Hazardous Materials Incident Report on DOT Form F 5800.1 (01-2004) within 30 days of discovery of the incident. Incident reports are received continuously by PHMSA. Carriers are required to submit incident reports to PHMSA within 30 days of an incident. Once received by PHMSA, it takes approximately one month for incident reports to be processed and verified. The data are then made available in the HMIS database during the next monthly update.</p> <p>PHMSA continues to receive reports from calendar year 2006. By the end of September 2006 actual incident data was received through August 31, 2006. PHMSA is projecting the remainder of the calendar year using the actual number of incidents that occurred during September, October, November, and December of 2005—the previous calendar year. This methodology for projecting the CY 2006 estimate is expected to be within 2-4 percent of the final estimate, which becomes available during the second quarter of CY 2007.</p>
Reliability:	<p>PHMSA routinely cross-checks incident data against other sources of data, including the use of a news clipping service to provide information on significant hazmat incidents that might not be reported.</p> <p>The performance measure is not normalized for changes in exposure—</p>



	<p>external factors like changes in the amount of hazmat shipped that could affect the number of incidents without affecting the risk per ton shipped.</p> <p>Annual hazmat incident data are used to track program performance, plan regulatory and outreach initiatives, and provide a statistical basis for research and analysis. The data is also used on a daily basis to target entities for enforcement efforts, and review of applications for exemption renewals.</p>
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Details on DOT Mobility Measures

Highway Infrastructure Condition

Measure:	Percent of travel on the National Highway System (NHS) meeting pavement performance standards for good rated ride. (CY)
Scope:	Data include vehicle-miles traveled on the Highway Performance Monitoring System (HPMS) reported NHS sections and pavement ride quality data reported using the International Roughness Index (IRI). IRI is a quantitative measure of the accumulated response of a quarter-car vehicle suspension experienced while traveling over a pavement. An IRI of 95 inches per mile or less is necessary for a good rated ride. Vehicle-Miles of Travel (VMT) represents the total number of vehicle-miles traveled by motor vehicles on public roadways within the 50 States, Washington, D.C., and Puerto Rico.
Source:	Data for this measure are collected by the State Highway Agencies using calibrated measurement devices that meet industry set standards and reported to FHWA. Measurement procedures are included in the FHWA HPMS Field Manual. The VMT data are derived from the HPMS.
Statistical Issues:	The major source of error in the percentages is the differences in data collection methodologies between the States and the differences in data collection intervals. FHWA is working on revisions to the HPMS data collection guidelines to minimize these potential errors. VMT data are also subject to sampling errors. The magnitude of error depends on how



	well the sites of the continuous counting stations represent nationwide traffic rates. HPMS is also subject to estimation differences between the States, even though FHWA works to minimize such differences and differing projections on growth, population, and economic conditions that impact driving behavior.
Completeness:	The 2006 actual results for this measure are reported based on 2005 data, which may be incomplete as late as October 2006. Prior to 2006, actual results were reported in the prior year and a projection for the current year was made based on the prior year data.
Reliability:	The HPMS data are collected by the 50 States, the District of Columbia, and Puerto Rico in cooperation with local governments. While many of the geometric data items, such as type of median, rarely change; other items, such as traffic volume, change yearly. Typically, the States maintain data inventories that are the repositories of a wide variety of data. The HPMS data items are simply extracted from these inventories, although some data are collected just to meet Agency requirements. The FHWA provides guidelines for data collection in the HPMS Field Manual. Adherence to these guidelines varies by State, depending on issues such as staff, resources, internal policies, and uses of the data at the data provider level. An annual review of reported data is conducted by the FHWA, both at the headquarters level and in the Division Offices in each State. The reported data are subjected to intense editing and comparison with previously reported data and reasonability checks. A written annual evaluation is provided to each State to document potential problems and to encourage corrective actions. Data re-submittal is requested in cases where major problems are identified.

Highway Congestion

Measure:	Percent of total annual urban-area travel occurring in congested conditions. (CY)
Scope:	Data are derived from approximately 400 urban areas. The data reflects travel conditions on freeway and principal arterial street networks.



	<p>Definitions:</p> <ol style="list-style-type: none"> 1. Urban area: Developed area with a density of greater than 1,000 persons per square mile. 2. Congested Travel: Traveling below the free flow speed—60 mph on freeways and 35 mph on principal arterials.
Source:	Data collected and provided by the State Departments of Transportation from existing State or local government databases, including those of Metropolitan Planning Organizations. FHWA’s Highway Performance Monitoring System (HPMS) serves as the repository of the data. The Texas Transportation Institute utilizes HPMS data to derive the above measures.
Statistical Issues:	The methodology used to calculate performance measures has been developed by the Texas Transportation Institute (TTI) and reported in their annual Mobility Study. A detailed description of the of TTI’s methodology is available at http://mobility.tamu.edu/ums/report/methodology_appB.pdf
Completeness:	The 2004 and prior measures are final. The 2005 measure is preliminary, as partial 2005 HPMS data were used to construct the estimates. HPMS data is compiled from the States and verified approximately 10 months from the base year, e.g., 2006 actual numbers will not be available from HPMS until October 2007. The 2006 measure is a projection based on recent year trends.
Reliability:	The HPMS data are collected by the 50 States, the District of Columbia, and Puerto Rico in cooperation with local governments. While many of the geometric data items, such as type of median, rarely change; other items, such as traffic volume, change yearly. Typically, the States maintain data inventories that are the repositories of a wide variety of data. The HPMS data items are simply extracted from these inventories, although some data are collected just to meet Agency requirements. The FHWA provides guidelines for data collection in the HPMS Field Manual. Adherence to these guidelines varies by State, depending on issues such as staff, resources, internal policies, and uses of the data at the data provider level.



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Transit Ridership

<p>Measure:</p>	<p>Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels. (CY)</p>
<p>Scope:</p>	<p>The metric is the average percent change in transit boardings adjusted for employment levels. The components are transit passenger boardings and employment levels within a transit market.</p> <p>The modes covered are: Motor Bus (MB), Heavy Rail (HR), Light Rail (LR), Commuter Rail (CR), Demand Response (DR), Vanpool (VP), and Automated Guideway (AG).</p> <p>Employment data are collected and reported by the Bureau of Labor Statistics.</p>
<p>Sources:</p>	<p>Transit Passengers: Data derived from counts made on bus and rail routes by transit agencies that are beneficiaries of FTA Urbanized Area Formula funds, as part of their monthly National Transit Database (NTD) Reporting System submissions. Data are collected from the 150 largest transit systems.</p> <p>Employment: Bureau of Labor Statistics Current Employment Statistics (CES) Survey.</p>
<p>Statistical Issues:</p>	<p>The sources of uncertainty include coverage errors and auditing issues. These data are validated by the FTA Office of Oversight's NTD contractor staff.</p> <p>By statute, every FTA formula grant recipient in an urbanized area (defined by the Census as having a population of 50,000 or more) must</p>



report to the National Transit Database (NTD). In cities of this size, virtually every transit authority receives FTA funding, and there are only a few cities with over 50,000 persons that do not provide public transit service. Publicly-funded transit service can be directly-operated or purchased transportation.

Transit authorities have accurate counts of unlinked passenger trips and fares. An unlinked trip is recorded each time a passenger boards a transit vehicle, even though the rider may be on the same journey. As a check, trips are routinely reconciled against fare revenues. The sources of uncertainty include coverage errors and auditing issues. Until 2002, reports were required only on an annual basis.

Beginning in 2002, monthly NTD reports were required of the largest 150 transit operators on certain safety, service level, and service utilization statistics. In 2003 and part of 2004, due to lack of NTD funding, there were many months without contract support to perform monthly data collection. With contract support, by the end of 2005, almost all transit agencies were reporting on a monthly basis. However, the 150 are dynamic, not static. Because much of transit is contracted out or purchased transportation in the first few years, there are often reporting gaps in the top 150, when contracts are lost or contractors go out of business. For example, in New York City, the top six private bus contractors went out of business in 2005. In 2006, reporting by the top 150 is much more stable, all of the agencies are reporting. These 150 operators represent 96 percent of nationwide transit utilization.

Employment data are reported by Bureau of Labor Statistics. The Current Employment Statistics (CES) Survey is a monthly survey of business establishments that provides estimates of employment, hours, and earnings data by industry for the Nation as a whole, all States, and most major metropolitan areas. The CES survey is a Federal-State cooperative endeavor in which State employment security agencies prepare the data using concepts, definitions, and technical procedures prescribed by the Bureau of Labor Statistics. All estimates from a sample survey are subject to sampling and other types of errors. Survey data are also subject to non-sampling errors, such as those that can be introduced into the data collection and processing operations. Estimates not directly derived from sample surveys are subject to additional errors resulting from the special estimation processes used.



<p>Completeness:</p>	<p>DOT has revised this measure to better account for the impact of economic conditions on transit use by adjusting for changes in the level of employment in each urbanized area and to improve timeliness. An increase in average transit ridership per market, adjusted for changes in employment, represents an increase in transit's share of the personal travel market.</p> <p>For 2006, the indicator compares transit ridership for the urbanized areas containing the 150 largest transit agencies, aggregated by mode, and normalized for employment levels for the year ending June 30, 2006, with the year ending June 30, 2005. Data on employment are based on monthly employment levels for metropolitan statistical areas reported by the Bureau of Labor Statistics.</p>
<p>Reliability:</p>	<p>An independent auditor and the transit agency's CEO certify that annual data reported to the NTD are accurate. FTA also compares data to key indicators such as vehicle revenue-miles, number of buses in service during peak periods, etc.</p> <p>FTA has undertaken a major initiative to increase ridership nationwide. This measure has been built into all FTA senior executive performance accountabilities.</p>

Transportation Accessibility

<p>Measure:</p>	<p>1. Percent of bus fleets compliant with the Americans with Disabilities Act (ADA). (CY)</p> <p>2. Percent of key rail stations compliant with the Americans with Disabilities Act (ADA). (CY)</p>
<p>Scope:</p>	<p>Accessibility for bus fleet means that vehicles are equipped with wheelchair lifts or ramps.</p> <p>Transit buses are buses used in urbanized areas to provide public transit service to the general public. Transit buses do not include private intercity buses (e.g., Greyhound), private shuttle buses, charter buses, or school buses.</p>



	<p>The percentage of bus fleets that are equipped with lifts or ramps is only a partial measure of overall accessibility under the ADA as it measures only the availability of transit buses in our National fleet that can accommodate wheelchairs through the use of mechanical lifts or ramps. Accessibility for transit vehicles under the ADA includes other equipment and operational practices that are not reflected in this indicator.</p> <p>Accessibility for key rail facilities is determined by standards for ADA compliance. Transit systems were required to identify key stations. A key station is one designated as such by public entities that operate existing commuter, light, or rapid rail systems. Each public entity has determined which stations on its system have been designated as key stations through its planning and public participation process using criteria established by DOT regulations.</p> <p>All new rail stations are required to be ADA compliant upon completion and must meet standards for new rail stations, not key stations.</p> <p>All altered stations are required to be ADA compliant upon completion and must meet standards for alterations of transportation facilities by public entities</p>
<p>Sources:</p>	<p>Compliant bus fleets: National Transit Database (NTD).</p> <p>Compliant rail stations: Rail Station status reports to the FTA.</p>
<p>Statistical Issues:</p>	<p>Data are obtained from a census of publicly-funded transit buses in urbanized areas. Information on the ADA key rail stations is reported to FTA by transit authorities. These data are not based on a sample.</p>
<p>Completeness:</p>	<p>At a transit authority, vehicle purchases are significant capital expenditures. Vehicles purchased with FTA funds must have a useful life of 12 years. Whether a bus is purchased or leased, the equipment on the bus is recorded, including lifts and ramps. For the last 20 years, transit agencies have reported on the equipment in their bus fleets to the FTA in their annual NTD submissions. There is a census of publicly-funded transit buses in urbanized areas. It is not a sample. Urbanized areas have more than 50,000 persons, and are defined by the Census Department. By statute, every FTA formula grant recipient in an</p>



	<p>urbanized area must report to the NTD. In cities of this size, virtually every transit authority receives FTA funding. There are only a few cities of over 50,000 persons that do not provide public transit service. Publicly funded transit service can be directly operated or purchased transportation.</p> <p>Data reported for key station accessibility have historically excluded those stations for which time extensions had been granted under 49 CFR 37.47(c) (2) or 37.51(c) (2). There are a total of 138 such stations for which time extensions of various lengths were granted, some of them through 2020, the maximum permitted. These deadlines are now beginning to pass, and these stations can no longer be excluded from the total key station accessibility figures; the total number of time extensions from 2006 through 2020 stands at 26. The total number of key stations will therefore increase, and the percentage of compliant stations may decrease as they are added to the total key station count. Beginning in 2007, the key station accessibility figures will report the total number of key stations, the total number that are accessible, and the number with outstanding time extensions.</p>
<p>Reliability:</p>	<p>All data in the NTD are self-reported by the transit industry. The transit agency's Chief Executive Officer and an independent auditor for the transit agency certify the accuracy of this self-reported data. The data are also compared with fleet data reported in previous years and cross-checked with other related operating and financial data in the report. Fleet inventory is also reviewed as part of FTA's Triennial Review, and a visual inspection is made at that time.</p> <p>Information on ADA key rail stations is reported to FTA by transit authorities. The FTA's Office of Civil Rights conducts oversight assessments to verify the information on key rail station accessibility. Quarterly rail station status reports and key rail station assessments have significantly increased the number of key rail stations that have come into compliance over the last several years.</p> <p>FTA will primarily influence the goal through Federal transit infrastructure investment, which speeds the rate at which transit operators can transition to ADA-compliant facilities and equipment, oversight, and technical assistance.</p>



Access to Jobs

Measure:	Number of employment sites (in thousands) that are made accessible by Job Access and Reverse Commute (JARC) transportation services. (FY)
Scope:	<p>This measure assesses one part of the JARC program—the numbers of employment sites made accessible that were not previously accessible. The new employment sites represented new sites connected geographically by the new service or new employment sites reached during time periods not previously covered (late night and weekend service). An employment site is a new stop reaching employers not previously reached either directly by demand responsive services or that are within ¼ mile of the new service stop for fixed route service. Services that make an employment site accessible may include, but are not limited to, carpools, vanpools, and other demand-responsive services as well as traditional bus and rail public transit. This measure does not account for those JARC activities that encourage riders to use already existing sources of public transit.</p>
Source:	FTA Grantees
Statistical Issues:	In previous years, FTA has had difficulty in getting complete information from its grantees. Changes resulting from a FTA analysis of this issue have improved grantee reporting compliance to 80 percent of those JARC grantees expected to report.
Completeness:	<p>JARC grantees are requested to report the new employment sites reached by the transportation services initiated under their grant. Approximately 80 percent of the JARC grantees have reported this data for FY 2005 and similar or better results are expected for FY 2006. FTA projects these results to estimate the total new employment sites reached by all grantees.</p> <p>The calculation methodology is based on the expenditures of selected grantees when compared to the total expenditures of all grantees during the same two-fiscal-year period. In subsequent years, FTA further proposes to supplement this approach by simplifying the data-reporting process, developing profiles of all grantees, and conducting on-site surveys to collect qualitative information about program performance from selected grantees.</p>



	<p>The preliminary methodology for projecting the number of employment sites reached in FY 2006 has two elements. Phase I will use existing data collected for FY 2005 to project employment sites reached, based on expenditure level for FY 2006. Phase 2 will involve projections based on actual FY 2005 and FY 2006 cumulative data that will be available in early 2007. Phase 2 involves the collection of 2006 data collected from grantees. If data collected is incomplete, then projections will be made for grantees not reporting, based on data collected in FY 2005 / FY 2006.</p>
Reliability:	<p>Oversight contractors review the data and contact grantees to ascertain methodologies on a sample basis, or when the information warrants review.</p>

Aviation Delay

Measure:	<p>Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan (OEP) airports due to National Airspace System (NAS) related delays. (FY)</p>
Scope:	<p>NAS On-Time Arrival is the percentage of all flights arriving at the 35 OEP airports equal to or less than 15 minutes late, based on the carrier flight plan filed with the FAA, and excluding minutes of delay attributed by air carriers to weather, carrier action, security delay, and prorated minutes for late arriving flights at the departure airport.</p> <p>The number of flights arriving on or before 15 minutes of flight plan arrival time is divided by the total number of completed flights.</p> <p>A flight is considered on-time if it arrives no later than 15 minutes after it's published, scheduled arrival time. This definition is used in both the DOT Airline Service Quality Performance (ASQP), and Aviation System Performance Metrics (ASPM) reporting systems. Air carriers, however, also file up-to-date flight plans for their services with the FAA that may differ from their published flight schedules. This metric measures on-time performance against the carriers filed flight plan, rather than what may be a dated published schedule.</p> <p>The time of arrival of completed passenger flights to and from the 35 OEP airports is compared to their flight plan scheduled time of arrival.</p>



	For delayed flights, delay minutes attributable to extreme weather, carrier caused delay, security delay, and a prorated share of delay minutes due to a late arriving flight at the departure airport are subtracted from the total minutes of delay. If the flight is still delayed, that delay is attributed to the NAS and the FAA, and counted as a delayed flight.
Sources:	The ASPM database, maintained by the FAA’s Office of Aviation Policy and Plans, supplemented by DOT’s ASQP causation data, provides the data for this measure. By agreement with the FAA, ASPM flight data is filed by certain major air carriers for all flights to and from most large and medium hubs, and is supplemented by flight records contained in the Enhanced Traffic Management System (ETMS) and flight movement times provided by Aeronautical Radio, Inc. (AIRINC). Data are sufficient to complete ASPM data files for 75 airports. The 35 OEP airports are a sub-set of these 75 airports.
Statistical Issues:	ASQP data is not reported for all carriers, only 21 carriers report monthly into the ASQP reporting system.
Completeness:	The FY 2006 data will not be finalized until about 90 days after the close of the fiscal year; essentially the start of the next calendar year.
Reliability:	The reliability of ASPM is verified on a daily basis by the execution of a number of audit checks, comparison to other published data metrics, and through the use of ASPM by over 1500 registered users. ASQP data is filed monthly with DOT under 14CFR234, Airline Service Quality Performance Reports, which separately requires reporting by major air carriers on flights to and from all large hubs.

Details on DOT Global Connectivity Measures

Disadvantaged and Women-Owned Small Businesses

Measure:	1. Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses. (FY)
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	2. Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses. (FY)
Scope:	Includes contracts awarded by DOT Operating Administrations through direct procurement. It does not include FAA contracts exempt from the Small Business Act.
Sources:	<p>Prior to October 1, 2003, these data are derived from the USDOT Contract Information System (CIS, which fed the old Federal Procurement Data System (FPDS). The CIS included all USDOT contracting activities that reported to the Federal Procurement Data Center (FPDC). Migration to the new Federal Procurement Data System on October 1, 2003 enabled the removal of agency FPDS feeder systems government-wide (including CIS). New data reports will come directly from FPDS.</p> <p>Data are compiled by USDOT Contracting staff from Department contract documents. Selected information is either transmitted from the operating administration contract writing systems, or manually data-keyed via the FPDS web site, into the FPDS database, which can be queried to compute needed statistics. All USDOT contracts are enumerated.</p>
Statistical Issues:	<p>Until recently the reliability of the Federal Procurement Data System/Next Generation (FPDS/NG) was an issue with DOT and other federal agencies including the Government Accountability Office (GAO). The FPDS is designed to be an accurate and reliable system, as required by the Small Business Act, Section 644(g). However, it is recognized that at least through the transitional periods of FY 2003 through FY 2006, there may be issues of synchronization and data reliability between federal agencies and the FPDS/NG. DOT currently is required to scrub FPDS/NG data and resubmit it for validation.</p> <p>After re-verifying these data against internal sources, there are no known major errors present in the data. Business types are as identified in the Central Contractor Registration (CCR) database. However, random variation in the number of DOT contracts as well as the number of women-owned and small disadvantaged businesses each year results in some random variation in these measures from year to year.</p>



Completeness:	The Federal Procurement Data System (FPDS) is prescribed by regulations as the official data collection mechanism for DOT acquisitions.
Reliability:	There is extensive regulatory coverage to ensure data reliability. The system is used to prepare many reports to Congress, the Small Business Administration, and others. Performance goals actual data, as finalized by the Small Business Administration is the only reliable basis for program evaluations as mandated by the Small Business Act, Section 644(g).

St. Lawrence Seaway System Availability

Measure:	Percent of days in the shipping season that the U.S. portion of the St. Lawrence Seaway is available. (FY)
Scope:	The availability and reliability of the U.S. sectors of the St. Lawrence Seaway, including the two U.S. Seaway locks in Massena, N.Y., are critical to continuous commercial shipping during the navigation season (late March to late December). System downtime due to any condition (weather, vessel incidents, malfunctioning equipment) causes delays to shipping, affecting international trade to and from the Great Lakes region of North America. Downtime is measured in hours/minutes of delay for weather (visibility, fog, snow, ice); vessel incidents (human error, electrical and/or mechanical failure); water level and rate of flow regulation; and lock equipment malfunction.
Sources:	Saint Lawrence Seaway Development Corporation (SLSDC) Office of Lock Operations and Marine Services
Statistical Issues:	None.
Completeness:	As the agency responsible for the operation and maintenance of the U.S. portion of the St. Lawrence Seaway, SLSDC's lock operations unit gathers primary data for all vessel transits through the U.S. Seaway sectors and locks, including any downtime in operations. Data is collected on site, at the U.S. locks, as vessels are transiting or as



	<p>operations are suspended. This information measuring the System’s reliability is compiled and delivered to SLSDC senior staff and stakeholders each month. In addition, SLSDC compiles annual System availability data for comparison purposes. Since SLSDC gathers data directly from observation, there are no limitations.</p> <p>Historically, the SLSDC has reported this performance metric for its entire navigation season (late March/early April to late December). Unfortunately due to reporting timelines, system availability data is only reported through September in this report.</p>
Reliability:	SLSDC verifies and validates the accuracy of the data through review of 24-hour vessel traffic control computer records, radio communication between the two Seaway entities and vessel operators, and video and audiotapes of vessel incidents.

Bilateral Agreements

Measure:	<p>Number of new or expanded bilateral aviation safety agreements implemented. (FY)</p> <p>The Bilateral Aviation Safety Agreement (BASA) is made up of two parts: (1) an executive agreement signed by the Department of State and Ministry of Foreign Affairs, and (2) one or more implementation procedures signed by the FAA and the other civil aviation authority. The measure is the number of agreements signed with foreign governments.</p>
Scope:	<p>Bilateral Agreements related to aviation safety have two components: executive agreements and implementation procedures. The Executive Agreement is signed by the Department of State and the target country’s Ministry of Foreign Affairs. It lays the essential groundwork for cooperation between the two governments and their respective aviation authorities. Once executed, the negotiations for the second component, the implementation procedures can proceed. Implementation procedures provide detailed operational safety and certification arrangements between the FAA and the target country’s civil aviation authority. The implementation procedure is the operational portion of</p>



	<p>the bilateral agreement that allows for the reciprocal acceptance of aviation goods and services between the two countries. The target is achieved when either a new Executive Agreement is signed or a new or expanded implementation procedure is concluded with the target country or aviation authority.</p>
Sources:	<p>The executive agreements are negotiated and maintained by the Department of State. The implementation procedures are negotiated and concluded by FAA. The official signed document is maintained at the FAA.</p>
Statistical Issues:	<p>None.</p>
Completeness:	<p>There are no completeness data issues associated with this measure since it is a simple count of the final signed new executive agreement or implementation procedures.</p> <p>This performance target is monitored monthly by tracking interim negotiation steps leading to completion of a BASA and tracking FAA internal coordination of the negotiated draft text.</p> <p>The final signing of executive agreements is generally out of the control of the FAA. Many sovereign nations view these agreements as treaties that require legislative approval. The FAA and U.S. Government cannot control the timing of legislatures in other countries. Therefore, the FAA will count executive agreements only when signed. The negotiation of implementation procedures is more within FAA's control.</p> <p>The signed document of the executive agreement constitutes evidence of completion. For implementation procedures, evidence of the conclusion of the agreement will be a signed document. Interim targets related to negotiations may also be proposed and documented through some agreement between both authorities that material negotiations are concluded. This can take the form of a signed agreement stating that fact, e-mail, meeting minutes, or other mutual documentation.</p>
Reliability:	<p>No issues.</p>



Reduced Barriers to Trade in Transportation

Measure:	Number of potential air transportation consumers (in billions) in international markets traveling between the U. S. and countries with open skies and open transborder aviation agreements (measure revised in FY 2005).
Scope:	The number of potential air transportation consumers is the total population of the U.S. and countries with open skies aviation agreements with the U.S. By the end of FY 2006, there were 75 open skies agreements. This measurement includes the annual increase in population for the countries where open skies have been achieved, as well as the additional populations for newly negotiated open skies agreements. The estimate for the additional population is based on the median population size of the countries without open skies agreements. The measurement thus reflects the extent to which the liberalization resulting from open skies agreements, negotiated by DOT, increases travel opportunities between the U.S. and countries with previously restricted aviation agreements.
Source:	Estimate of the population of the U.S. and countries with open skies agreements with the U.S., Midyear Population, International Data Base, and U.S. Bureau of the Census (per website).
Statistical Issues:	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and other issues. These qualifying notes do not significantly affect our analyses.
Completeness:	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and other issues. These qualifying notes do not significantly affect our analyses.
Reliability:	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and



	other issues. These qualifying notes do not significantly affect our analyses.
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Enhanced International Competitiveness of U.S. Transportation Providers

Measure:	Number of international negotiations conducted annually to remove market-distorting barriers to trade in air transportation.
Scope:	The number of international negotiations conducted annually to remove market-distorting barriers to trade in transportation is the number (or rounds) of meetings and negotiations that are conducted in an effort to reach open skies agreements, other liberalized aviation agreements, or to resolve problems. By the end of FY 2006, there were 75 open skies agreements, an open transborder agreement with Canada and 19 liberalized (but not open skies) agreements. These numbers, however, do not represent, but understate, the number of negotiating sessions that have historically been held to complete these agreements. The measurement thus reflects an estimate of the extent of and manner by which the DOT might best apply the necessary resources to open the competitive environment and provide increased travel opportunities and economic benefits.
Source:	Estimate of the number of annual negotiating sessions that are required to achieve further international aviation liberalization. It is an internal estimate generated by the Office of the Assistant Secretary for Aviation and international Affairs based on a number of analytical, economic and geopolitical factors.
Statistical Issues:	Due to geopolitical factors, the nature of international aviation negotiations can follow an unpredictable course. It is impossible to gauge or comment upon the data limitations, statistical issues, data completeness and data reliability.
Completeness:	Due to geopolitical factors, the nature of international aviation negotiations can follow an unpredictable course. It is impossible to gauge or comment upon the data limitations, statistical issues, data completeness and data reliability.



Reliability:	Due to geopolitical factors, the nature of international aviation negotiations can follow an unpredictable course. It is impossible to gauge or comment upon the data limitations, statistical issues, data completeness and data reliability.
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Details on DOT Environmental Stewardship Measures

Wetland Protection and Recovery

Measure:	Ratio of wetlands replaced for every acre affected by Federal-aid Highway projects. (FY)
Scope:	Measure includes acreage of wetlands associated with all Federal-aid highway projects funded during the fiscal year. To be included, wetland replacement (or investment in a wetland bank) must have begun.
Source:	State DOTs input Federal-aid related wetland degradation and replacement data into either locally-developed wetland mitigation databases or the FHWA Wetlands Management Database. FHWA compiles and reports the final data.
Statistical Issues:	The uniformity of the data is not guaranteed, since it is subject to interpretation by the State Departments of Transportation. In particular, there is no uniform definition of what should be reported as acres mitigated. FHWA has provided guidance to the States as to which mitigation activities are to be reported.
Completeness:	Data are compiled by State Departments of Transportation using local sources.
Reliability:	All Federal agencies including FHWA and other DOT modes must comply with National Environmental Policy Act (NEPA) and the Clean Water Act (specifically section 404(b) (1)) regarding disruption of wetlands. These laws require agencies to identify project alternatives that would avoid or minimize impacts to wetlands as a first consideration. These alternatives are subjected to analysis under both NEPA and the Clean Water Act. Under the law, these alternatives must



	<p>be chosen unless the project sponsors clearly demonstrate that they are not viable because they do not meet the project purpose and need, or will lead to other more significant environmental impacts. If, in compliance with the law, wetland disruption is unavoidable, FHWA then works to achieve the goal of wetland replacement.</p>
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DOT Facility Cleanup

Measure:	Percent of DOT facilities categorized as No Further Remedial Action (NFRAP) under the Superfund Amendments and Reauthorization Act (SARA). (FY)
Scope:	EPA maintains a Federal Facility Hazardous Waste docket which contains information regarding Federal facilities that manage hazardous wastes or from which hazardous substances have been or may be released. DOT facilities listed on the docket are discussed in the Annual SARA report sent to Congress each year. EPA regional offices make the determination to change facility status to NFRAPs on the docket.
Sources:	EPA Federal Facility Hazardous Waste docket which is issued twice a year.
Statistical Issues:	None.
Completeness:	The primary criterion for NFRAP is a determination that the facility does not pose a significant threat to the public health or environment. Responsibility for these facilities may be with FAA, FHWA, or FRA. NFRAP decisions may be reversed if future information reveals that additional remedial actions are warranted. The OAs' activities are controlled, to a degree, by interaction and decisions made by EPA Regional personnel. This measure is current and has no missing data.
Reliability:	DOT uses this data to prioritize cleanup activities and attendant resource levels. However, there is insufficient time to complete remediation prior to the close of the FY for any sites added in the July report.



Mobile Source Emissions

Measure:	12-month moving average number of area transportation emissions conformity lapses. (FY)
Scope:	The transportation conformity process is intended to ensure that transportation plans, programs, and projects will not create new violations of the National Ambient Air Quality Standards (NAAQS), increase the frequency or severity of existing NAAQS violations, or delay the attainment of the NAAQS in designated non-attainment (or maintenance) areas.
Sources:	The FHWA and FTA jointly make conformity determinations within air quality non-attainment and maintenance areas to ensure that Federal actions conform to the purpose of State Implementation Plans (SIP). With DOT concurrence, the EPA has issued regulations pertaining to the criteria and procedures for transportation conformity, which were revised based on stakeholder comment.
Statistical Issues:	None.
Completeness:	If conformity cannot be determined within certain time frames after amending the SIP, or if three years have passed since the last conformity determination, a conformity lapse is deemed to exist and no new non-exempt projects may advance until a new determination for the plan and Transportation Improvement Program (TIP) can be made. This affects transit as well as highway projects. During a conformity lapse, FHWA and FTA can only make approvals or grants for projects that are exempt from the conformity process (pursuant to Sections 93.126 and 93.127 of the conformity rule) such as a safety project and transportation control measures (TCM) that are included in an approved SIP. Only those project phases that have received approval of the project agreement, and transit projects that have received a full funding grant agreement, or equivalent approvals, prior to the conformity lapse may proceed. This measure is current and has no missing data.



Reliability:	There are no reliability issues. FHWA and FTA jointly make conformity determinations within air quality non-attainment and maintenance areas to ensure that Federal actions conform to the purpose of the SIP.
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Hazardous Liquid Materials Spilled from Pipelines

Measure:	Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines. (CY)
Scope:	<p>Liquid pipeline accidents (spills) are reportable under 49 CFR 195.50 if there is a release of hazardous liquid or carbon dioxide and any one of the following:</p> <ul style="list-style-type: none"> • unintentional explosion or fire; • release of five gallons or more (except certain maintenance activities); • death or injury requiring hospitalization; and, • estimated property damage, including costs of cleanup and recovery, value of lost product, and other property damage exceeding \$50,000. <p>Data are adjusted/normalized for time series comparisons to account for changes in reporting criteria over time. This includes screening out hazardous liquid spills of less than 50 barrels (or five barrels for highly-volatile liquids) unless the accident meets one of the other reporting criteria.</p> <p>Highly-volatile liquid (HVL) spills are not included in this performance measure. HVLs evaporate on release and don't impact the environment in the usual way that other liquid petroleum products do.</p>
Sources:	<p>DOT/Pipeline and Hazardous Materials Safety Administration (PHMSA) Incident Data – derived from Pipeline Operator reports submitted on PHMSA Form F-7000.1.</p> <p>Ton-mile data are calculated using a base figure reported in a 1982 USDOT study entitled Liquid Pipeline Director and then combined with data from the Association of Oil Pipe Lines and the Oil Pipeline Research Institute.</p>



<p>Statistical Issues:</p>	<p>A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined.</p> <p>Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal annual variation in the number of reported incidents.</p> <p>The performance measure is a ratio of “Tons Net Loss” and “Ton-Miles Shipped.” Uncertainty in either the numerator or the denominator can have a large effect on the overall uncertainty. Some factors of possible variance in the numerator include: 1) a few large spills can make PHMSA miss this goal and 2) even when the total number of spills fluctuates, the net volume lost may increase. The denominator may fluctuate with the overall economy, i.e., the volume shipped increases with economic boom and decreases when the economy slows down.</p> <p>The environmental metric tracks a highly variable trend and PHMSA has noted in the past that the variability of this metric warrants close study.</p> <p>The past long term pattern for the trend was to generally meet or miss the goal every other year as the actual performance bounced above and below the trend line regularly. PHMSA continues to lessen the overall standard deviation of the metric over time (the performance of the trend is getting statistically more sound over time). This measure also has continued a general downward trend even though it bounces above and below the trend line over time.</p>
<p>Completeness:</p>	<p>Compliance in reporting is very high and most incidents that meet reporting requirements are submitted. Operators must submit reports within 30 days of an incident or face penalties for non-compliance.</p> <p>The reported estimates are based upon incident data reported in January through June 2006. There may be a 60-day lag in reporting and compiling information in the database for analysis. Traditionally, there are more incidents in the summer than the winter. Preliminary estimates are based on data available as of middle of August, with six months of data through the end of June. The CY 2006 estimate is a projection using both a seasonal adjustment (using a 10-year baseline) and a separate adjustment to account for the historical filing of late</p>



	<p>reports (92.5 percent of reports for January - June were filed by this time last year).</p>
<p>Reliability:</p>	<p>Projection of the environmental measure is less precise due to the nature of pipeline spills. A single large spill (10,000 barrels or more) can easily dwarf the total for all other CY spills combined. These large spills cannot be factored into a projection model due to their magnitude and infrequent and unpredictable occurrences. Thus, projections for the remaining six months of this CY assume that the average spill volume in the past six months will remain the same in the next six months. However, any large spill of non-highly volatile hazardous liquid in the next six months can move the projection upwards.</p> <p>PHMSA routinely cross-checks accident reports against other sources of data, such as the telephonic reporting system for incidents requiring immediate notification provided to the National Response Center (NRC). PHMSA is developing a Best Management Practice to ensure quality of the incident data.</p> <p>Data are not normalized to account for inflation. A fixed reporting threshold (\$50,000) for property damage results in an increasing level of reporting over time. This threshold was set for hazardous liquid accidents in 1994.</p> <p>Data are not normalized to account for the subjective judgment of the operator in filing reports for accidents that do not meet any of the quantitative reporting criteria. This may result in variations over time due to changes in industry reporting practices.</p> <p>Lack of additional information for ton-mile data raises definitional and methodological uncertainties about the data's reliability. Moreover, the three different information sources introduce data discontinuities, making time comparisons unreliable. (National Transportation System (NTS) 2002).</p> <p>PHMSA uses this data in conjunction with pipeline safety data in prioritizing compliance and enforcement plans and in strategic management of the pipeline safety program.</p>



Aircraft Noise Exposure

Measure:	Percent reduction in the number of people within the U.S. who are exposed to significant aircraft noise levels (Day/Night Average Sound Level (DNL) 65 decibels or more) from the three-year average for 2000 to 2002. (FY)
Scope:	Residential population exposed to aircraft noise above Day-Night Sound Level of 65 decibels around U.S. airports.
Sources:	A statistical modeling technique (Model for Assessing the Global Exposure of Noise because of Transport Airplanes (the MAGENTA model)) is applied using U.S. population data from the Department of Commerce, locally-developed traffic distribution (route and runway utilization), and aircraft distributions developed using the Enhanced Traffic Management System (ETMS) and current aircraft registration databases. The local traffic utilization data is available for the busiest U.S. airports in the form of studies developed for the FAA's Integrated Noise Model (INM). For smaller airports, a generic statistical procedure was employed.
Statistical Issues:	<p>This measure is derived from model estimates that are subject to errors in model specification. FAA has replaced the actual number of people exposed to significant noise with the percent decrease in the number of people exposed, measured from the three-year average for calendar year 2000-2002. Moving to the three-year average stabilizes noise trends, which can fluctuate from year to year and are affected by unusual events such as the 9/11 attacks and the subsequent economic downturn. The 2000-2002 base time periods includes these events and is the same three-year period used for the emissions goal.</p> <p>The move from actual numbers to percent helps avoid confusion over U.S. noise exposure trends caused by annual improvements to the noise exposure model. A major change to MAGENTA (Model for Assessing the Global Exposure of Noise because of Transport Airplanes) resulted in a significant improvement in the estimate of the number of people exposed to significant noise levels around US airports. Until now, the scope of the measure included scheduled commercial jet transport airplane traffic at major U.S. airports. With access to better operational data sources, the scope of the MAGENTA calculation has expanded to</p>



	<p>include unscheduled freight, general aviation, and military traffic. The expanded scope of operations results in an increase in the estimate of the number of people exposed to significant noise.</p> <p>The growth in the number of people exposed results from improvements in measurement, not a worsening in aviation noise trends. Planned improvements to MAGENTA will continue to increase the estimate of the number of people exposed to aircraft noise, giving the false impression that aircraft noise exposure is increasing. Changing the noise performance goal to an annual percent change in aircraft noise exposure will better show the trend in aircraft noise exposure. The change will also make the Government Performance Results Act (GPR) goal consistent with the FAA Flight Plan goal.</p>
Completeness:	<p>No actual count is made of the number of people exposed to aircraft noise. Aircraft type and event level are current. However, some of the databases used to establish route and runway utilization were developed from 1990 to 1997, with many of them now over seven years old. Changes in airport layout including expansions may not be reflected. The FAA continues to update these databases as they become available. The benefits of Federally-funded mitigation, such as buyout, are accounted for.</p>
Reliability:	<p>The Integrated Noise Model (the core of the MAGENTA model) has been validated with actual acoustic measurements at both airports and other environments such as areas under aircraft at altitude. External forecast data are from primary sources. The MAGENTA population exposure methodology has been thoroughly reviewed by an ICAO task group and was most recently validated for a sample of airport-specific cases.</p>

Details on DOT Security Measures

Strategic Mobility

Measure:	Percent of DoD-required shipping capacity, complete with crews, available within mobilization timelines. (FY)
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<p>Scope:</p>	<p>This measure is based on the material availability of 48 ships in the Maritime Administration’s Ready Reserve Force (RRF) and approximately 120 ships enrolled in the Voluntary Intermodal Sealift Agreement (VISA) program, which includes 60 ships enrolled in the Maritime Security Program (MSP).</p> <p>The performance measure represents the number of available ships (compared to the total number of ships in the RRF and VISA) that can be fully crewed within the established readiness timelines. Crewing of the RRF vessels is accomplished by commercial mariners employed by private sector companies under contract to the government. Currently there are more qualified mariners than jobs, even in the most under represented categories. However, due to the voluntary nature of this system, there is no guarantee that sufficient mariners will be available on time and as needed especially during a large, rapid activation.</p>
<p>Sources:</p>	<p>Material availability of ships: MARAD records (and information exchanged with DoD) on the readiness/availability status of each ship by MARAD’s Office of Sealift Support (MSP/VISA ships) and the Office of Ship Operations (RRF ships). Typical reasons why a ship is not materially available include: the ship is in dry-dock, the ship is undergoing a scheduled major overhaul, or the ship is undergoing an unscheduled repair. MARAD and DoD also maintain records of the sealift ships enrolled in the MSP and VISA and their crew requirements.</p> <p>Availability of mariners: MARAD, through their Mariner Outreach System, extracts the number of qualified mariners from the data recorded in the U.S. Coast Guard’s Merchant Mariner Licensing and Documentation (MMLD) system. The willingness and availability of these mariners to sail is then estimated using all available information including total U.S. requirements for deep sea mariners, recent sea service, and mariner surveys.</p>
<p>Statistical Issues:</p>	<p>None.</p>
<p>Completeness:</p>	<p>Data are complete.</p>
<p>Reliability:</p>	<p>MARAD’s data is reasonably reliable and useful in managing its reserve fleet readiness program.</p>



DoD-Designated Port Facilities

Measure:	Percent of DoD-designated commercial strategic ports available for military use within DoD established readiness timelines.
Scope:	<p>The measure consists of the total number of DoD-designated commercial strategic ports for military use that forecast their ability to able to meet DoD-readiness requirements within 48-hours of written notice from MARAD, expressed as a percentage of the total number of DoD-designated commercial strategic ports. Presently, there are 15 DoD-designated commercial strategic ports. Port readiness is based on monthly forecasts submitted by the ports and semi-annual port readiness assessments by MARAD in cooperation with other National Port Readiness Network partners.</p> <p>The MARAD/DoD semi-annual port assessments provide data or other information on a variety of factors, including the following: the capabilities of channels, anchorages, berths, and pilots/tugboats to handle larger ships; rail access, rail restrictions, rail ramp offloading areas, and rail storage capacities; the availability of trained labor gangs and bosses; number and capabilities of available cranes; long-term leases and contracts for the port facility; distances from ports to key military installations; intermodal capabilities for handling containers; highway and rail access; number of port entry gates; available lighting for night operations; and number and capacity of covered storage areas and marshalling areas off the port.</p>
Sources:	MARAD data are derived from monthly reports submitted by the commercial strategic ports and from MARAD/DoD semi-annual port assessments.
Statistical Issues:	None.
Completeness:	Data are complete.
Reliability:	MARAD’s data is reasonably reliable according to the Bureau of Transportation Statistics and useful in managing its port readiness program.



Transportation Capability Assessment for Readiness

Measure:	Transportation Capability Assessment for Readiness Index Score. (FY)
Scope:	<p>The Office of Emergency Transportation (OET) was transferred to the Office of Intelligence, Security, and Emergency Response in Fiscal Year 2005. (OET) measures its performance in meeting the Homeland and National Security Performance goal to “prepare the nation’s transportation system for a rapid recovery from intentional harm and natural disasters” by assessing progress in six functional areas: (1) Crisis Management Center, (2) U. S. Disaster Response, (3) Training and Exercises, (4) Continuity of Operations (COOP), (5) Continuity of Government (COG), and (6) International Response. A new performance measure is under development to capture the performance of all of the Office of Intelligence, Security, and Emergency Response.</p>
Sources:	<p>This measure is based on a self-assessment score determined by OET. Each functional area is rated based on between 1 and 5 specific criteria.</p> <p>The criteria are:</p> <p>Function 1—Crisis Management Center (20 points)</p> <ol style="list-style-type: none"> 1. Does the Secretary’s Crisis Management Center (CMC) have adequate resources, such as communications, technology, and fully ready technical staff? (10 points) 2. Have the CMC workers been trained and participated in at least two exercises per year? (10 points) <p>Function 2—U. S. Disaster Response (20 points)</p> <ol style="list-style-type: none"> 1. Do the Regional Emergency Transportation Coordinators (RETCO) and Regional Emergency Response Teams have the necessary time, skills and equipment to successfully carry out their natural disaster and WMD functions? (6 points) 2. Is there adequate secure communications with state and local government and the transportation community when dealing with WMD or national security crises? (5 points) 3. Has the National Response Plan (NRP) Transportation Annex been updated in the past 2 years? (3 points)



	<p>4. Within the past 2 years, have all ten regions updated their NRP Transportation Annexes? (3 points)</p> <p>5. Have DOT and DoD sufficiently coordinated their transportation functions? (3 points)</p> <p>Function 3—Training and Exercises (20 points)</p> <p>1. Have Regional Response Teams and key personnel from state and local government and industry participated in DOT sponsored training and exercises, and did the training and exercises include both natural disasters and national security crises? (20 points)</p> <p>Function 4—Continuity of Operations (COOP) (20 points)</p> <p>1. Is DOT’s primary COOP site fully functional? (10 points)</p> <p>2. Is the OST COOP plan updated at least once every two years? (3 points)</p> <p>3. Have the Operating Administrations COOP Plans been updated in the last 2 years? (4 points)</p> <p>4. Has there been at least one COOP exercise or activation for both OST as well as all DOT modes in the last 12 months? (3 points)</p> <p>Function 5—Continuity of Government (COG) (10 points)</p> <p>1. Does DOT have a complete National Emergency Management Team (NEMT)? (5 points)</p> <p>2. Have the NEMT team members received at least 1 training/exercise session during the year? (5 points)</p> <p>Function 6—International Response (10 points)</p> <p>1. Has DOT, as a U.S. representative to NATO, participated in at least 4 key NATO meetings and 2 exercises annually? (8 points)</p> <p>2. Has DOT sufficiently coordinated its international disaster role with the U.S. State Department and its Civil Reserve Air Fleet activities with the DoD? (2 points)</p>
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Statistical Issues:	None.
Completeness:	The measure is complete and reflects the combined score of all evaluation criteria.
Reliability:	Scores are reliable to the extent that specific quantitative evaluation criteria are available for each of the questions used to rate the functions.

Details on DOT Organizational Excellence Measures

DOT Major System Acquisition Performance

Measure:	For major DOT aviation systems, the percent of cost and schedule performance goals established in acquisition project baselines that are met. (FY)
Scope:	This performance measure encompasses acquisition management data for all of DOT’s major systems acquisition contracts, primarily in the FAA, but also from any office procuring a major system as defined in OMB Circular A-11, and DOT’s Capital Programming and Investment Control order.
Source:	The data for acquisition programs comes from each DOT organization procuring major systems. FAA tracks and reports status of all schedule and cost performance targets using an automated database, providing a monthly Red, Yellow, or Green assessment that indicates their confidence level in meeting their established milestones. Comments are provided monthly that detail problems, issues, and corrective actions, ensure milestones and cost are maintained within the established performance target. The performance status is reported monthly to the FAA Administrator through FAA Flight Plan meetings.



Statistical Issues:	<p>FAA: Performance is measured separately for schedule and cost goals. Schedule performance is measured by calculating the number of schedule milestones met divided by the total schedule milestones planned. Cost performance is measured by comparing the total F&E budget-at-completion amount established in the January FAA Capital Investment Plan (CIP) against the projected budget-at-completion amount published in the August CIP. Any program with a total variance of more than a 10 percent threshold would be considered not meeting the established fiscal year performance goal.</p>
Completeness:	<p>This measure is current with no missing data. Each DOT organization maintains its own quality control checks for cost, schedule, and technical performance data of each major systems acquisition in accordance with OMB Circulars A-11, A109, and A-130, Federal Acquisition Regulations, and Departmental orders implementing those directives and regulations.</p>
Reliability:	<p>Each DOT organization having major system acquisitions uses the data during periodic acquisition program reviews, for determining resource requests. It is also used during the annual budget preparation process, for reporting progress made in the President’s Budget and for making key program management decisions.</p>

Major DOT Infrastructure Project Cost and Schedule Performance

Measure:	<p>1. For major Federally funded infrastructure projects, percent that meet schedule milestones established in project or contract agreements, or miss them by less than 10 percent. (FY)</p> <p>2. For major Federally funded infrastructure projects, percent that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent. (FY)</p>
Scope:	<p>Active FTA New Starts projects with Full Funding Grant Agreements larger than \$1 billion; FHWA projects with a total cost of \$1 billion or more, or projects approaching \$1 billion with a high level of interest by the public, Congress, or the Administration; and FAA runway projects with a total cost of \$1 billion or more.</p>



<p>Sources:</p>	<p>FTA: FTA uses independent reviews and third-party assessments such as the Corps of Engineers and other oversight contractors to validate the accuracy of project budgets and schedules before grantees are awarded Full Funding Grant Agreements. Project/Financial Management Oversight contractors review project budgets on a monthly basis and FTA assesses projected total project costs against baseline cost estimates and schedules.</p> <p>FHWA: The percent cost estimates and scheduled milestones for a FHWA Major Project are measured from when the Initial Financial Plan (IFP) is prepared and approved to the required Annual Project Update. The update contains the latest information about the cost and schedule for each of the Major Projects. Division Office Project Oversight Managers provide monthly status reports as a supplement to the Annual Update.</p> <p>FAA: Project cost performance for each major project is measured from cost estimates submitted by the airport sponsor to support its letter of intent (LOI) and actual expenditure data from FAA data sources (for grants) and airport sponsor submissions (for overall project cost). Project schedule performance is measured from the Runway Template Action Plan (RTAP), as specified in the National Airspace System Operational Evolution Plan.</p>
<p>Statistical Issues:</p>	<p>FTA: Scheduled milestone achievement is measured by the difference between the actual Revenue Operations Date and the date of the execution of the Full Funding Grant Agreement divided by the difference between the Revenue Operations Date in the Full Funding Grant Agreement and the date of execution of the Full Funding Grant Agreement. Cost estimate achievement is measured by the actual Total Project Cost divided by the Total Project Cost in the Full Funding Grant Agreement.</p> <p>FHWA: A scheduled milestone is defined as being achieved upon completion of the project. Major Projects generally require 6-10 years from an IFP to completion. Cost estimates are prepared by comparing the costs in the most recent Annual Update to the IFP estimate. Because of the small number of Major Projects, FHWA may not meet its target if only a few projects show cost increases.</p>



	<p>FAA: Schedule completion performance is measured for two milestones—the project design and the project construction. A project milestone is considered to meet the performance target if actual cumulative rate of completion is not more than 10 percent behind scheduled cumulative rate of completion, using the RTAP schedule as a base. For example, a 36-month schedule would allow a 3.6 month delay at any point in the schedule.</p> <p>Cost performance is measured by comparing cumulative actual costs incurred at the end of each fiscal year with cumulative costs shown in the scheduled of costs submitted with the LOI application. A project will be considered to meet the cost performance target if cumulative costs are no more than 10 percent higher than projected costs in the cost schedule.</p>
<p>Completeness:</p>	<p>FTA: This measure is current with no missing data. The information is currently tracked with an in-house MS Excel database. A Web-based database, FASTTrak, is being developed to track this type of project information in the future. The measures are calculated monthly by an FTA Headquarters Engineer, checked by the Team Leader and reviewed by the Office Director.</p> <p>FHWA: The FHWA Major Projects Team maintains the project schedules and cost estimate information in a spreadsheet, which is updated when a Project IFP is approved and/or the Annual Update is received and accepted. The data is available and reported on a semi-annual basis.</p> <p>FAA: Federal financial commitments to airport sponsors are tracked by two automated systems, the System of Airports Reporting (SOAR) and the Delphi financial system. These systems are updated immediately when a grant payment is made or a grant is amended or closed-out. The FAA relies on the airport sponsor to report actual project costs on a quarterly basis. Project design and construction milestones (scheduled and actual) are contained in the RTAP and developed by all involved FAA lines of business, the airport sponsor and airlines. The RTAP is comprised of tasks that must be considered when commissioning the runway and assigns accountability to the airport, airline, and FAA allowing early identification and resolution of issues that might impact the runway schedule.</p>



Reliability:	<p>FTA: Calculations of schedule achievement are based on month of this report, and not on projected Revenue Operations Date. Re-calculations of schedule and cost baselines are made to reflect amendments to the Full Funding Grant Agreements. FTA uses independent reviews and third-party assessments such as the Corps of Engineers and other oversight contractors to validate the accuracy of project budgets and schedules before grantees' are awarded Full Funding Grant Agreements. FTA continues to work to improve its rigorous oversight program and has made project cost and budget performance a core accountability of every senior manager in the agency.</p> <p>FHWA: Both the IFP and the Annual Update undergo a rigorous review by the Division Office and the Major Projects Team prior to approval and acceptance.</p> <p>FAA: Reporting of Federal financial commitments to airport sponsors is done in accordance with FAA policy and guidance related to administering the Airport Improvement Program (AIP) and the authorizing statute. The FAA's AIP Branch monitors FAA regional offices for compliance with policy and guidance, including input into SOAR and Delphi, and conducts periodic regional evaluations. Actual project costs reported by the airport sponsor are verified by an annual single audit required by OMB. Such audits cover the entire financial and compliance operation of the airport sponsor's governing body. Status of the project design and construction schedule contained in the RTAP is updated quarterly, based on meetings held with the airport sponsor and airlines.</p>
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Transit Grant Process Efficiency

Measure:	Percent of transit grants obligated within 60 days after submission of a completed application. (FY)
Scope:	FTA grants obligated during a fiscal year period for major programs: Urbanized area, non-Urbanized area, and Elderly and Persons with Disabilities formula grants; Capital grants; Job Access and Reverse Commute grants; Over-The-Road Bus grants; and Planning grants.



Sources:	FTA internal databases including the Transportation Electronic Award Management (TEAM) system.
Statistical Issues:	Processing time is calculated from submission date to obligation date. Zero-dollar, non-funding grant amendments are excluded from analysis.
Completeness:	Data are current with no missing data, since FTA uses internal databases, including the Transportation Electronic Award Management (TEAM) system. All grants obligated during the fiscal year for the selected programs (see scope) are included in the original data set. In rare cases where the submission date is omitted (which prevents processing time calculation), missing dates are researched and added to the database prior to reporting. The zero-dollar amendments are excluded because they are not representative of the grant processing action being tested.
Reliability:	The files that contain raw data from TEAM have been tested to ensure that all fiscal-year-to-date obligated grants are included and that data is current. Report programs screen various date fields to identify any missing or out-of-sequence dates that would skew averages; dates are corrected prior to reporting. Reconciliation reports of TEAM data are produced monthly and anomalies are explored and resolved. Detailed monthly grant processing progress reports provide management tools to the Regional Administrators, who continue to make this goal a top priority.



TOP MANAGEMENT CHALLENGES

Department of Transportation

Report Number: PT-2007-004

Date Issued: November 15, 2006



U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: INFORMATION: DOT's FY 2007
Top Management Challenges
Report Number PT-2007-004

Date: November 15, 2006

From: Calvin L. Scovel III
Inspector General

Reply to
Attn. of: J-1

To: The Secretary
Deputy Secretary

The Office of Inspector General (OIG) has identified 10 top management challenges for the Department of Transportation (DOT) for fiscal year (FY) 2007. In considering the items for this year's list, we continue to focus on the Department's key strategic goals to improve transportation safety, capacity, and efficiency.

The OIG's list for FY 2007 is summarized below. This report and the Department's response (see Appendix) will be incorporated into the DOT Performance and Accountability Report, as required by law. The exhibit to this report compares this year's list of management challenges with the list published in FY 2006.

• **Defining, Developing, and Implementing Strategies To Improve Congested Conditions on the Nation's Highways, Ports, Airways, and Borders**

- *Leading Stakeholders*
- *Overcoming Organizational Structures That Inhibit Intermodal Tradeoffs*
- *Funding Future Infrastructure Needs Will Be a Challenge*
- *Proposals for Market-Based Solutions To Better Utilize Existing Capacity Raise Important Policy Issues*
- *Keeping Planned Short- and Long-Term Aviation Capacity Enhancing Initiatives on Schedule To Relieve Congestion and Delays*



- **FAA Reauthorization—Reaching Consensus on a Financing Mechanism To Fund FAA and Establishing Funding Requirements**

- *Deciding on a Financing Mechanism That Promotes a More Efficient Use of the Air Traffic Control System and Is Considered Equitable by All Users*
- *Determining the Next Generation Air Transportation System's Funding Requirements, Quantifying Expected Benefits, and Developing a Roadmap for Industry To Follow*
- *Continuing Efforts To Address the Expected Surge in Air Traffic Controller Attrition*
- *Using the Cost Accounting System To Control Costs and Improve Operations*

- **Responding to National Disasters and Emergencies—Assisting Citizens and Facilitating Transportation Infrastructure Reconstruction**

- *Clarifying Roles and Responsibilities Given Expanded Mission Requirements*
- *Ensuring Continued Vigilance in Protecting Taxpayer Funds Spent for Relief and Recovery Efforts*

- **Strengthening Efforts To Save Lives by Improving Surface Safety Programs**

- *Promoting Improved Performance Measures and Enhanced State Accountability To Maximize Efforts To Reduce Fatalities Caused by Impaired Driving*
- *Building on Successful Efforts To Better Enforce Motor Carrier Safety Regulations*
- *Ensuring the Integrity and Future Modernization of the Commercial Driver's License Program*
- *Enhancing Railroad Safety Through Improved Oversight of Grade-Crossing Reporting and Better Identification of Trends*

- **Aviation Safety—Performing Oversight That Effectively Utilizes Inspection Resources and Maintaining Aviation System Safety**

- *Advancing Risk-Based Oversight Systems*
- *Maintaining a Sufficient Inspector Workforce*
- *Reducing the Risk of Accidents on the Ground and in the Air*



- **Making the Most of the Federal Resources That Sustain Surface Transportation Infrastructure Improvements by Continuing To Emphasize Project Oversight**

- *Initiatives To Improve the Oversight of Highway Funds Need To Be Implemented Effectively To Ensure That Projects Are Completed On Time, Within Budget, and Free From Fraud*
- *FHWA's Oversight Must Include Actions To Ensure That Highway Tunnels Are Safe for the Driving Public*
- *FTA Must Continue To Exercise Vigilant Oversight To Ensure Large and Complex Transit Infrastructure Projects Are Completed on Time and Within Budget*

- **Achieving Reform of Intercity Passenger Rail**

- *Amtrak Must Do More To Improve Cost-Effectiveness, Operate Efficiently, and Improve Performance*
- *Amtrak Needs a New Model for Providing Passenger Rail Transportation*

- **Improving Acquisition and Contract Management To Reduce Costs and Eliminate Improper Payments**

- *Institutionalizing the Use of Defense Contract Audit Agency Contract Audit Services*
- *Strengthening Financial Management Oversight of Institutions Performing Research Under DOT Cooperative Agreements and Grants*
- *Promoting More Vigilance and Enhanced Oversight of FAA's Acquisition and Contract Management Practices*
- *Ensuring That Department Employees Maintain High Ethical Standards*
- *Enforcing Suspensions and Debarments More Rigorously*

- **Protecting, Monitoring, and Streamlining Information Technology Resources**

- *Enhancing Air Traffic Control Systems Security Through Resource Commitment and Progress Measurement*
- *Meeting New Security Standards While Recertifying Systems Security*
- *Securing the Consolidated IT Infrastructure and Eliminating Operating Administrations' Fragmented Systems Backup/Recovery Sites*
- *Working With Operating Administrations To Strengthen Oversight of IT Investment and To Streamline Duplicative IT Systems*

- **Strengthening DOT's Coordination of Research, Development, and Technology Activities and Funding**

- *Ensuring Effective Coordination of DOT's Research, Development, and Technology Activities*



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If you have any questions concerning this report, please call me at (202) 366-1959 or Todd J. Zinser, Deputy Inspector General, at (202) 366-6767. You may also contact Theodore P. Alves, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1992.

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I. Defining, Developing, and Implementing Strategies To Improve Congested Conditions on the Nation's Highways, Ports, Airways, and Borders

The Department is implementing new initiatives to reduce transportation congestion nationwide, and this is the first year that the Office of Inspector General has reported it as an emerging issue. The Department has taken initial steps to pursue cross-modal approaches with various stakeholders; yet, there are difficult challenges the Department must overcome to achieve solutions that will provide short- and long-term benefits to the traveling public.

Transportation congestion reduces Americans' quality of life and limits economic growth. Time spent sitting in traffic or on a runway is time taken away from our families and communities, wastes billions of gallons of fuel, and costs billions of dollars in lost productivity.¹ The benefits businesses and consumers realized from reductions in the cost of moving freight in recent years² could be erased if projected increases in freight transportation are not properly addressed.³ In addition, the more than doubling of international trade in recent years has led to congestion at border gateways, which is expected to worsen as trade and security requirements increase.⁴ Congestion can be tackled by improving the efficiency and productivity of existing facilities and investing in new capacity through projects that will have the highest rate of return.

The Secretary's May 2006 plan, the *National Strategy to Reduce Congestion on America's Transportation Network*, provides a blueprint for Federal, state, and local authorities to reduce congestion. The plan's six elements are: relieve urban congestion by establishing Urban Partnership Agreements with selected communities, allow the private sector to assume a broader role in investing in transportation, promote operational and technological improvements that increase information dissemination and incident-response capabilities, establish a new "corridors of the future" competition, address freight bottlenecks and expand

¹ The Texas Transportation Institute estimated that in 2003, congestion in the top 85 urban areas caused 3.7 billion hours of travel delay and 2.3 billion gallons of wasted fuel, for a total cost of \$63 billion.

² The cost of moving freight dropped from 16.1 percent of U.S. Gross Domestic Product in 1980 to approximately 10.0 percent in 2000. *The Freight Story: A National Perspective on Enhancing Freight Transportation*. U.S. Department of Transportation. November 2002.

³ In terms of tons transported, domestic freight transportation by truck, rail, air, water, and air grew by about 20 percent from 1993 to 2002 and is expected to increase by another 65 to 70 percent by 2020. *Freight Facts and Figures 2005*. U.S. Department of Transportation.

⁴ Between 1990 and 2000, U.S. international trade more than doubled in inflation-adjusted terms, rising from about \$900 billion to \$2.2 trillion. According to the Federal Highway Administration, "Many gateways now suffer from congestion, which is expected to intensify as a result of increased demand and enhanced security measures." *The Freight Story: A National Perspective on Enhancing Freight Transportation*. U.S. Department of Transportation. November 2002.



freight policy outreach, and accelerate major aviation capacity projects and provide a future funding framework.

To date, the Department has begun a public outreach campaign to state legislators, transportation officials, and chief executive officers of major companies to encourage multi-state approaches to congestion, public-private partnerships, and multi-modal strategies. The Department has instituted working groups that meet weekly and comprise representatives from different disciplines to encourage consideration of multi-modal solutions. The Department has established target outcomes and developed performance measures and milestones to gauge progress towards these targets.

The challenges facing the Department in implementing this initiative and reducing congestion are:

- Leading stakeholders who are not used to following when the Department neither controls the purse strings nor has the final decision making power,
- Overcoming stovepipe programs and organizational structures that inhibit intermodal tradeoffs among transportation solutions,
- Meeting demands for additional resources in circumstances of constrained Federal resources,
- Achieving acceptance of market-based solutions to better utilize existing capacity, and
- Keeping aviation capacity improvements on schedule.

Leading Stakeholders

Solutions to congestion problems cut across transportation modes; however, the Department's role in funding and/or approving projects varies greatly among the modes. The Department funds and operates the air traffic control system, but states and localities set highway and transit priorities for most projects in these areas, and ports and freight railroads largely decide on investments in capacity enhancements with no Federal funding and little Federal involvement. For some modes, particularly highways and transit, Congress is actively engaged in deciding which projects to fund.

The Department faces a difficult challenge in convincing other stakeholders to follow its lead and make congestion a unifying priority in their investment decisions. To be successful, the Department needs to gain maximum leverage from those tools it has to influence decisions on transportation infrastructure investments (i.e., its "bully pulpit"), prioritization of regulatory reviews and approvals, and alignment of the Department's data and research agenda to spotlight the impact of congestion and the benefits from its relief.

***Overcoming Organizational Structures That Inhibit Intermodal Tradeoffs***

The different transportation modes have rarely worked together to determine the best solution to congestion in any particular bottleneck. To relieve highway congestion, for example, the solution may be to develop alternatives to building new highways, such as freight rail, transit, intercity passenger rail, or barge. However, the Department is organized by transportation mode and the different pots of transportation funding typically can only be used to support a single modal solution. The Alameda Corridor project is an example of effective cooperation among departmental modal administrations. In that project, the Federal Highway Administration and the Federal Railroad Administration worked cooperatively to create a 20-mile long rail cargo expressway linking the ports of Los Angeles and Long Beach to the intercontinental rail network near downtown Los Angeles. Separating rail and highway traffic resulted in more efficient freight rail movements and reduced traffic congestion on surface streets.

The Department needs to convince stakeholders, including its own employees, that congestion, and the intermodal tradeoffs required to solve congestion, will be a long-term priority that will endure beyond any changes in departmental leadership.

Funding Future Infrastructure Needs Will Be a Challenge

Over the long term, the Department will need to find new funding solutions for surface, maritime, and aviation infrastructure, either seeking new sources of funding or using existing funds in better ways. The National Surface Transportation Policy and Revenue Study Commission created in The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and chaired by the Secretary has the potential to provide important insights for the Department and Congress to consider regarding funding surface transportation needs in the future. The Department should carefully weigh all alternatives for funding the Nation's surface transportation needs to set the groundwork for the next surface transportation reauthorization. In particular, there is a growing interest of private sector capital investors in surface transportation and with it, concerns in some sectors regarding the appropriateness of these investments. While the Department is working to remove or reduce barriers to private sector investment in the construction and operation of transportation infrastructure, it also needs to articulate the case that these investments are in the public's long-term interest. The Department's challenge regarding funding the Nation's aviation needs will be to achieve consensus on a financing mechanism that meets the Federal Aviation Administration's (FAA) future resource needs, promotes a more efficient use of the air traffic control system, and addresses users' equity concerns.



***Proposals for Market-Based Solutions To Better Utilize Existing Capacity
Raise Important Policy Issues***

Building new roads and runways is one way to address congestion, but equally important is improving the efficiency and productivity of existing infrastructure. Value pricing, also referred to as peak-period or congestion pricing, is a mechanism that allocates the costs of congestion more equitably to its contributors. For highways, this can take the form of tolls that vary by the level of demand, tolls that vary by level of occupancy, and priced express lanes. For aviation congestion, the Department has a long-term goal of using a market-based strategy to reduce congestion at LaGuardia Airport and has the opportunity to consider congestion pricing as part of FAA's reauthorization proposal.

The Department's challenge will be to educate the public on pricing strategies and their benefits. This includes overcoming the perception of double taxation (i.e., the belief that the roads have already been paid for) and income-equity issues. The Department will also need to be vigilant in monitoring collateral effects of market-based pricing strategies on its constituents, such as the impact of these strategies on air service in small communities.

***Keeping Planned Short- and Long-Term Aviation Capacity Enhancing
Initiatives on Schedule To Relieve Congestion and Delays***

In the short term, the Department needs to keep planned infrastructure projects on track. While new technologies can enhance airport arrival rates, new runways provide the most increases in capacity. FAA reports that since 2000, 12 new runway projects have been built at some of the Nation's busiest airports. A major airport project at Chicago O'Hare is underway, and additional runways are expected to be completed, including ones at airports in Boston, Philadelphia, and Seattle, between now and the end of 2008. Table 1-1 provides information on the runway projects that are tracked in FAA's Operational Evolution Plan (OEP), the Agency's overall blueprint for enhancing capacity and reducing delays.



Table 1-1. Status of Major New Runway Projects, September 2006

Airport	Initial OEP (June 2001) Estimated Completion Date	Current Estimated Completion Date	Phase	Current Cost Estimate* (in Millions)
Boston Logan	Dec 2005	Nov 2006	Construction	\$87
Philadelphia	Not in initial OEP	Dec 2007	Construction	\$65
Seattle-Tacoma	Nov 2006	Nov 2008	Construction	\$1,129
Los Angeles	Not in initial OEP	Jun 2008	Construction	\$333
Washington-Dulles	Not in initial OEP	Nov 2008	Construction	\$243
Chicago O'Hare (Phase I)	Not in initial OEP	Nov 2008	Construction	\$619

* Estimated cost data for Boston Logan, Philadelphia, Seattle-Tacoma, Los Angeles, and Washington-Dulles were obtained from airport sponsors. Estimated cost data for Chicago O'Hare were obtained from an FAA update to its quarterly report.

These six runway projects are expected to significantly increase airport operations or contribute to delay reduction. The Department's challenge is to make sure the navigation equipment, new procedures, and airspace modifications are in place when these projects are commissioned to get the expected capacity benefits.

As we have noted in the past, airspace changes—even without a new runway—can enhance the flow of air traffic. In May 2005, we made recommendations aimed at improving the overall management and execution of FAA's airspace redesign efforts, including coordination among FAA organizations. FAA has taken some steps to address our concerns and now is pursuing 20 airspace projects. The challenges facing FAA's airspace redesign efforts focus on completing complex environmental reviews and matching projects with available funds.

In the longer term, the Department and FAA need to continue to develop concepts, milestones, and transition strategies for the next generation air traffic management system being developed by FAA's Joint Planning and Development Office. The next generation system is expected to accommodate three times more aircraft through, among other things, increasing automation for controllers and shifting greater responsibility to the cockpit. The importance of FAA's efforts to develop the next generation system and corresponding funding requirements are included in our views on the challenges facing FAA in the upcoming reauthorization process.



For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Perspectives on the Progress and Actions Needed To Address the Next Generation Air Transportation System*
- *Chicago's O'Hare Modernization Program*
- *Airspace Redesign Efforts Are Critical To Enhance Capacity but Need Major Improvements*
- *Aviation Industry Performance: Trends in Demand and Capacity, Aviation System Performance, Airline Finances, and Service to Small Airports (June 2005 and August 2006)*
- *Review of December 2004 Holiday Air Travel Disruptions*
- *Audit of Small Community Aviation Delays and Cancellations*
- *Observations on Current and Future Efforts To Modernize the National Airspace System*
- *Observations on the Progress and Actions Needed To Address the Next Generation Air Transportation System*



2. FAA Reauthorization—Reaching Consensus on a Financing Mechanism To Fund FAA and Establishing Funding Requirements

The aviation excise taxes that support Federal Aviation Administration (FAA) programs and the authorization underlying most of those programs (VISION 100) expire at the end of fiscal year (FY) 2007. Over the next year, the congressional aviation agenda will be dominated by two separate but related issues: how to finance FAA programs and the level of funding those programs require. Moving forward with reauthorization will require the Department, FAA, and Congress to reconcile very divergent stakeholder positions regarding potential financing mechanisms, obtain more precise funding requirements, and ensure tighter controls over Agency costs.

To its credit, FAA has hosted forums and held discussions with aviation stakeholders and is developing a proposal regarding the best way to finance FAA. The challenges facing FAA in this regard include:

- Deciding on a financing mechanism that promotes a more efficient use of the air traffic control system and is considered equitable by all users;
- Determining the Next Generation Air Transportation System's (NGATS) funding requirements, quantifying expected benefits, and developing a roadmap for industry to follow;
- Continuing efforts to address the expected surge in air traffic controller attrition; and
- Using its cost accounting system to control costs and improve operations.

Deciding on a Financing Mechanism That Promotes a More Efficient Use of the Air Traffic Control System and Is Considered Equitable by All Users

There has been considerable debate over whether the current excise tax system is fair, is equitable, and will generate sufficient revenues to meet future FAA needs, particularly regarding NGATS. Stakeholders have very divergent, and at times opposing, views on the answer to this question.

Proponents of the current system note that excise tax revenues, which are deposited into the Aviation Trust Fund, have increased over the past 2 years, and the estimates show revenues continuing to increase over the next decade. However, others note that revenues are less than what was estimated previously, when events such as the September 11th attacks impacted the industry as a whole.



While Trust Fund revenues are an important aspect of the debate, they are only one part of the equation. Determining whether projected revenues will be sufficient to cover FAA's costs depends on assumptions regarding future appropriations for FAA programs, such as airport grants and capital programs, as well as contributions from the General Fund. It is extremely difficult, if not impossible, to determine the "right" assumptions regarding these factors, making it equally difficult to answer whether the current financing system will be adequate in the future.

A more fundamental question regarding FAA's future is whether the air transportation system will be sufficient to meet the anticipated future demand for air travel. FAA projects that the current system (or business as usual) will not be sufficient to meet future demands. Over 700 million passengers used the system last year, and this number is forecast to grow to over 1 billion by 2015. As part of its overall solution to this problem, FAA should examine whether a financing system can promote a more efficient use of the air traffic control system. The Agency can use the expiration of the current aviation excise taxes as an opportunity to seek consensus on implementing such a system. There are a number of options for FAA to consider.

Excise Taxes. FAA has long been supported by a system of excise taxes, the revenues from which are deposited into the Aviation Trust Fund. Almost 70 percent of those revenues come from the 7.5 percent ticket tax and \$3.30 segment tax. Excise taxes are easy to collect, familiar to air travelers and industry, and difficult to evade. While the current taxes are not directly related to the FAA's costs in providing the specific services used, the General Aviation community argues that they fairly allocate costs among users. However, airlines argue that they pay disproportionately more for the services they receive. In addition, as FAA points out, excise taxes are not linked to usage or cost of providing services. As such, excise taxes provide little incentive for the efficient use of FAA services or for the more cost effective provision of services by the Agency. Furthermore, if excise tax revenues did increase, this would not automatically translate into an increase in spending on FAA programs under current budget rules.

User Charges. User charges attempt to correlate the cost of a providing a service to the fees collected for using that service. In practice, the strength of this correlation can vary significantly. For example, over 100 countries base their user charges on a combination of aircraft weight and distance flown. These charges are more closely related to costs than are excise taxes but less closely related than a true cost-based fee-for-service user charge.

User charges can provide incentives for users to be more efficient in their use of FAA services and for FAA to control costs. These incentives become stronger the



closer the charges approximate cost-based fee-for-service charges and the degree to which there is appropriate user oversight of the charges and their expenditure. Also, cost-based fee-for-service user charges are more likely than excise taxes to fall on the mandatory side of the budget, allowing them to be spent without congressional action.

However, there is intense controversy regarding what type of fees should be charged, who should pay what, and how—if at all—the current oversight of FAA spending should be altered. There is also disagreement on the cost of administering the fees and the burden on the aviation community of paying them. We believe that any proposal to give FAA more flexibility and additional funds needs to be accompanied by strong oversight mechanisms to ensure funds are spent efficiently.

Should FAA determine that a user charge can be developed that promotes the efficient use of FAA services, it faces a formidable challenge in making the case for change and obtaining consensus on what that change should entail. To meet this challenge, FAA would need to demonstrate clearly and convincingly why the current excise tax financing mechanism is not adequate and how its proposed solution would fix this problem.

Borrowing/Bonding. This alternative would either permit the FAA to borrow directly from the Treasury or permit it, or another entity on its behalf, to sell bonds in the private markets. This solution is typically considered in conjunction with user charges, although such charges are not a prerequisite. The borrowing or bonds would be repaid or backed by FAA-generated revenues, such as excise taxes or user charges.

Borrowing or bonding authority would provide FAA with a large infusion of funds, presumably for capital projects, without requiring similarly large upfront increases in excise taxes or user fees. However, granting this authority would require significant legislative changes to implement and waivers of current budget rules to be effective. As we have previously noted, borrowing or bonding authority by itself provides little incentive for either users or FAA to operate efficiently and would require a powerful oversight mechanism to ensure that FAA invests wisely and controls costs.

Determining the Next Generation Air Transportation System's Funding Requirements, Quantifying Expected Benefits, and Developing a Roadmap for Industry To Follow

Closely related to the question of how to finance FAA is what level of funding to provide to it. As we previously stated, the answer to this question determines the level at which excise taxes, user fees, or borrowing/bonding needs to be set to support the program authorizations. FAA's future funding requirements will be



driven, in large part, by the need to change the current air transportation system to meet the anticipated demand for air travel and reduce FAA operating costs.

FAA’s Joint Planning and Development Office (JPDO) was mandated by Congress to develop a vision for the next generation air transportation system in the 2025 timeframe and coordinate diverse agency research efforts. Currently, participating agencies include the National Aeronautics and Space Administration, the Department of Commerce, the Department of Defense, and the Department of Homeland Security.

Key challenges for the Department, FAA, and the JPDO focus on what the new office can deliver and when and how much its proposals will cost. These are central questions in the debate about how to finance FAA programs and will shape the size, requirements, and direction of the capital program for the next decade.

Moving to the next generation system is a high-risk effort and will require significant investments from FAA (new ground systems) and airspace users (new avionics). The JPDO is conducting workshops with industry to gather input on the potential costs of the future system. FAA’s Air Traffic Organization (ATO) and a working group of the Agency’s Research, Engineering, and Development Advisory Committee have developed some estimates, but they have not been finalized or approved by senior FAA management. There are considerable unknowns, and costs depend on, among other things, performance requirements for new automation and weather initiatives and to what extent FAA intends to consolidate facilities.

Preliminary estimates from the ATO suggest that next generation air traffic management initiatives would cost a total of \$4.4 billion for the next 6 years above the current investment levels in FAA’s Capital Investment Plan. These preliminary numbers do not distinguish between development efforts, adjustments to existing programs, or implementation of new initiatives.

FAA will have to analyze information from the JPDO/industry workshops and other sources and provide Congress with expected funding requirements and when the funding will be needed. When transmitting this information to Congress, FAA should provide cost data on three vectors—research and development needed (including demonstration projects), adjustments to existing projects, and estimates for implementing NGATS initiatives.

Also, another challenge that was raised at the JPDO workshops concerns the need for FAA to clearly define the expected benefits from NGATS initiatives, particularly for projects that require airspace users to equip with new avionics. At an April 2006 workshop, industry participants asked FAA for a “service roadmap” that (1) specifies required equipment in specific time increments, (2) bundles



capabilities with clearly defined benefits and needed investments, and (3) uses a 4- to 5-year equipage cycle that links with aircraft maintenance schedules. It will be important for FAA to provide industry with this information.

Continuing Efforts To Address the Expected Surge in Air Traffic Controller Attrition

Another challenge facing FAA is the hiring and training of over 11,000 new controllers through FY 2015 as controllers hired after the 1981 strike begin retiring. In December 2004, FAA developed a comprehensive workforce plan for addressing that challenge. FAA issued the second in a planned series of reports in June 2006. The workforce plan lays out the magnitude of the issue and establishes broad measures for meeting the challenge. However, as we reported in May 2005, the plan lacks essential details concerning two key areas.

First, the plan does not address staffing needs by location. Planning by location is critical because FAA has over 300 terminal and en route air traffic control facilities with significant differences in the types of users they serve, the complexity of airspace they manage, and the levels of air traffic they handle. Without accurate facility-level planning, FAA runs the risk of placing too many or too few controllers at key locations. FAA recognizes this need and is in the process of evaluating its facility staffing standards down to the sector and position level for each location. FAA expects to complete this assessment for its 21 en route centers (its largest facilities) by the beginning of the next calendar year. However, the estimated completion date for the entire project is not until 2008. Given the significant expenditures that will be required to hire and train controllers over the next 10 years, FAA needs to ensure this project remains on track.

Second, FAA's plan does not identify how much it will cost. The cost of hiring and training 11,000 new controllers will be substantial, particularly since it currently takes new controllers 2 to 5 years to become fully certified. During that time, FAA incurs the cost of trainees' salaries and benefits as well as the cost of the salaries and benefits of the certified controllers who instruct them one-on-one. FAA needs to develop detailed cost estimates before the next submission of its staffing plan, particularly now that questions concerning new controllers' salaries have been settled under a new contract with the National Air Traffic Controllers Association.

Using the Cost Accounting System To Control Costs and Improve Operations

Irrespective of the financing system ultimately decided upon, it is important that FAA has an effective cost accounting system. This becomes more important for those options that approach true cost-based user fees.



FAA has substantially completed a cost accounting system for all its lines of business and labor distribution systems for all its personnel. With a number of further refinements, FAA should have a sufficiently accurate system to support cost-based user fees. These refinements include making further progress in assigning labor hours to projects, documenting an easily understandable and readily available set of rules, and establishing new and specific labor codes to track costs as duties change. Also important to this discussion is allocating FAA's costs to airspace users. FAA needs to finalize and publish its ongoing cost allocation study.

In addition to its role in financing options, FAA's cost accounting system can help FAA more effectively manage its operations. However, FAA makes only limited use of its cost accounting system for this purpose. To use the system effectively, FAA must improve the accuracy and timeliness of the financial data, link the system with its performance measures, and assign about \$1 billion in miscellaneous service-level costs (including depreciation) to facilities.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Observations on FAA's Oversight of Aviation Safety*
- *Perspectives on the Progress and Actions Needed To Address the Next Generation Air Transportation System*
- *Perspectives on FAA's FY 2007 Budget Request and the Aviation Trust Fund*
- *FAA Has Opportunities To Reduce Academy Training Time and Costs by Increasing Educational Requirements for Newly Hired Air Traffic Controllers*
- *Next Steps for the Air Traffic Organization*
- *Report on Controller Staffing: Observations on FAA's 10-Year Strategy for the Air Traffic Controller Workforce*
- *Addressing Controller Attrition: Opportunities and Challenges Facing the Federal Aviation Administration*
- *Opportunities To Improve FAA's Process for Placing and Training Air Traffic Controllers in Light of Pending Retirements*
- *FAA's Management of and Control Over Memorandums of Understanding*



3. Responding to National Disasters and Emergencies— Assisting Citizens and Facilitating Transportation Infrastructure Reconstruction

The Department of Transportation (DOT) has a significant role in assisting citizens and helping states and localities to rebuild infrastructure damaged or destroyed during natural and manmade disasters, such as earthquakes and acts of terrorism. Under the National Response Plan, DOT is the lead agency for coordinating transportation support (Emergency Support Function-1) during these types of emergencies and serves as a support agency for 11 other critical functions. For example, DOT works with state and local transportation departments and industry partners after disasters to assess transportation infrastructure damage and analyze associated impacts on transportation operations, nationally and regionally, and to report changes as they occur. DOT also has statutory roles related to preparedness for, response to, and recovery from emergencies, such as through the Federal Highway Administration's Emergency Relief program.

Since the 2005 Gulf Coast hurricanes, DOT has undertaken a number of initiatives to enhance preparations for future disasters, such as examining regulations that may impede the transportation industry's ability to quickly respond to disasters and developing procedures to overcome such hurdles. DOT has also been responsive to our audit recommendations. For example, better procedures are now in place for evaluating contractor price quotes and ensuring documentation of the actual amount of services received before authorizing payments under the Department's emergency disaster relief transportation services contract.

The Department needs to ensure that it remains responsive to the changing emergency operations environment and that relief and recovery aid is spent appropriately. We see two key issues that DOT needs to focus on to better mitigate the effects of future disasters:

- Clarifying roles and responsibilities given expanded mission requirements and
- Ensuring continued vigilance in protecting taxpayer funds spent for relief and recovery efforts.

Clarifying Roles and Responsibilities Given Expanded Mission Requirements

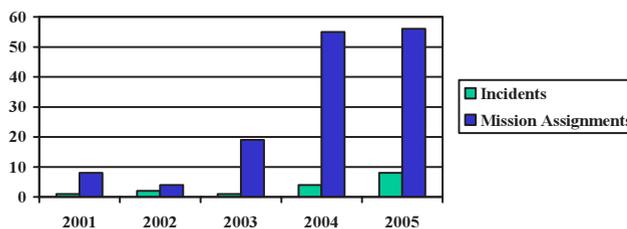
As a result of the presidentially directed "lessons learned" review of the Federal Government's response to last year's hurricanes, DOT has been given new responsibilities for mass evacuations when disasters overwhelm state and local government capabilities. The Department is now primarily responsible for



developing the capability to conduct and coordinate the potential movement of millions of *people* within the general population during response efforts, while also moving *commodities*, such as water, ice, and food, which composed the bulk of DOT emergency disaster relief transportation services efforts in the past. DOT has already taken many short-term actions, such as coordinating with the American Red Cross to improve evacuation capabilities based on lessons learned in 2005 and is examining a range of potential longer-term options, including ways to maximize internal resources and processes to better respond to catastrophic incidents requiring mass evacuations.

The number of disasters involving DOT relief and recovery assistance, including those requiring Federal Emergency Management Agency (FEMA) mission assignments for services under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, has increased during the past 3 years (see Figure 3-1). In addition, the magnitude and duration of relief and recovery efforts in response to the 2005 hurricanes has far surpassed those of any previous disasters in which DOT has been involved. For example, many of the FEMA-requested emergency transportation services required as a result of these hurricanes lasted for more than 6 months, which is much longer than the historically typical duration of several weeks or a month or 2. We note that the Nation is also facing an avian bird flu pandemic threat that, if it materializes, could last 18 months.

Figure 3-1: Departmental Disaster Involvement



Source: Office of the Secretary

To fulfill future emergency response responsibilities, DOT Office of the Secretary and Operating Administration personnel must work together effectively with staff at FEMA and other Federal agencies and with state and local government entities across the Nation. This requires clearly defined missions, chains of command, lines of communication, and adequate resources for effective intra- and inter-agency coordination. DOT has reported that while the systems, plans, and training it had in place for fulfilling its National Response Plan responsibilities during the 2005 Gulf Coast hurricanes generally worked well, they were not always sufficient for the devastation wrought by Hurricanes Katrina, Rita, and Wilma in Louisiana, Mississippi, Alabama, Texas, and Florida.



According to DOT, telecommunications systems, such as satellite phones, failed; communications and coordination with FEMA staff were difficult; and lines of authority were not always clear. DOT is taking steps to address these issues and remain responsive to the changing emergency operations environment. For example, the Department has been coordinating with FEMA and the U.S. Army Corps of Engineers to improve communications capabilities and is emphasizing disaster planning as part of its Security, Preparedness and Response Strategic Goal in its “Strategic Plan for Fiscal Years 2006-2011.”

Ensuring Continued Vigilance in Protecting Taxpayer Funds Spent for Relief and Recovery Efforts

History has shown that substantial infusions of funding for disaster relief and recovery efforts increase the risk of fraud by those who exploit weaknesses in Government oversight. Senior departmental leaders, including the Secretary, have emphasized that DOT should provide effective stewardship and oversight of disaster-related expenditures to prevent fraud, waste, and abuse. The general consensus within and outside the Department has been that the scope of the 2005 Gulf Coast hurricane disasters presents special challenges for DOT and its Operating Administrations to ensure that taxpayer interests are fully protected. Public and congressional expectations for future disasters are likely to be no different, given the stewardship and oversight standards set for the 2005 hurricane disasters.

DOT expects to spend nearly \$4.5 billion⁵ responding to the 2005 Gulf Coast hurricanes, primarily for emergency and permanent repairs to damaged roadways and bridges on Federal-aid highways. Included in this amount is about \$500 million in Stafford Act disaster assistance for which FEMA will only reimburse DOT after FEMA determines it can rely on DOT reports that the expenditures were valid and appropriate. If FEMA determines that it cannot rely on DOT reporting, it will disapprove the reimbursement requests until it is satisfied that the expenditures were legitimate. The Office of Inspector General is working with the Department’s Office of Intelligence, Security, and Emergency Response to ensure sufficient Defense Contract Audit Agency coverage of DOT’s emergency transportation services contract, which has a value not to exceed \$800 million. This contract is managed by the Federal Aviation Administration and supports DOT-wide responsibilities during national emergencies, primarily in response to FEMA mission assignments. We believe the cost of Defense Contract Audit Agency audit coverage should be identified as a FEMA reimbursable item for mission assignments involving the use of this contract and that DOT should ensure these types of audits are accomplished, as appropriate.

⁵ The majority of these funds are from two emergency supplemental appropriation bills signed into law in response to the 2005 Gulf Coast hurricanes, specifically Public Law 109-148, December 30, 2005 (119 Stat. 2680), and Public Law 109-234, June 15, 2006 (120 Stat 418).



DOT has also taken other actions to ensure more intense oversight of its obligations and expenditures related to disaster relief and recovery activities. For example, the Department's Assistant Secretary for Budget and Programs/Chief Financial Officer (1) created a special financial integrity team to ensure that spending resulting from Hurricane Katrina is thoroughly documented and funds are properly accounted for and (2) has already issued guidance on tracking and reporting costs related to the 69 tasks assigned to the Department as part of the National Strategy for Pandemic Influenza for planning, detecting, and responding to this emerging threat.

Continued vigilance and follow-through at all levels of the Department is needed to ensure that relief and recovery aid is spent appropriately. This is an especially critical issue because the risks of disaster-related fraud, waste, and abuse increases when 100 percent of the funding is provided by the Federal Government, as was the case for most of last year's hurricane-related relief and recovery projects. Simply put, because grantees no longer are required to share in the cost of these projects, they have less incentive to control costs.

In addition, post-hurricane staffing for at least one grantee left fewer staff available to perform oversight. For example, we found that after experiencing financial difficulties due to the substantial loss of passenger revenue following the hurricanes, management at New Orleans International Airport cut operations staffing levels by almost half, from a pre-Katrina level of 222 employees to just 123 employees after the hurricane. Similarly, the airport accounting staff was cut from 10 to 7, leaving fewer staff to manage FAA Airport Improvement Program hurricane grant expenditures.

For further information, the following reports can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Federal Aviation Administration Oversight of Airport Improvement Program Hurricane Grants*
- *Mississippi Department of Transportation's Award of Selected Hurricane Katrina Emergency Repair Contracts*
- *Internal Controls Over the Emergency Disaster Relief Transportation Services Contract*
- *Internal Controls Over Payments for Emergency Disaster Relief Transportation Services*
- *Management Advisory: Accounting and Financial Reporting of Related Hurricane Costs*



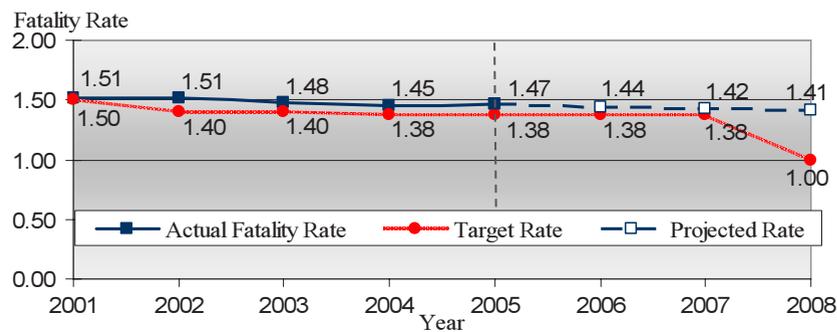
4. Strengthening Efforts To Save Lives by Improving Surface Safety Programs

The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) provided significant enhancements for surface transportation safety programs. As the Department implements these programs, it must use the increased resources across all modes in ways that result in safer surface transportation and more lives saved.

While the highway fatality rate per 100 million vehicle miles traveled has been reduced by approximately 40 percent in the last 20 years, 2005 marked the first increase in the highway fatality rate since 1986. The most recent crash data from the National Highway Traffic Safety Administration (NHTSA) shows that 43,443 people were killed in motor vehicle crashes in 2005 and the crash fatality rate for 2005 increased to 1.47 from 1.45 in 2004.

The Department of Transportation's (DOT) ambitious target, set forth in the September 2003 Strategic Plan, was to reduce the fatality rate to 1.0 by 2008. However, as shown in Figure 4-1, the actual rates have lagged behind the yearly targets, and our projection of past trends estimates a 2008 fatality rate of 1.41. DOT's latest Strategic Plan for 2006 through 2011, issued in September 2006, sets transportation safety as the Department's number one goal and retains the target rate of 1.0 but extends the time for reaching this goal out to 2011. Meeting the 1.0 target rate, even with this extended timeframe, will require a significant acceleration in past improvements.

Figure 4-1: Actual Highway Fatality Rates Lag Targeted Rates*



Source: NHTSA budget information for actual fatality rates and target rates. Projected rates for 2006, 2007, and 2008 were calculated using NHTSA's forecasting methodology.

* Fatality rates are shown as the number of fatalities per 100 million vehicle-miles traveled.

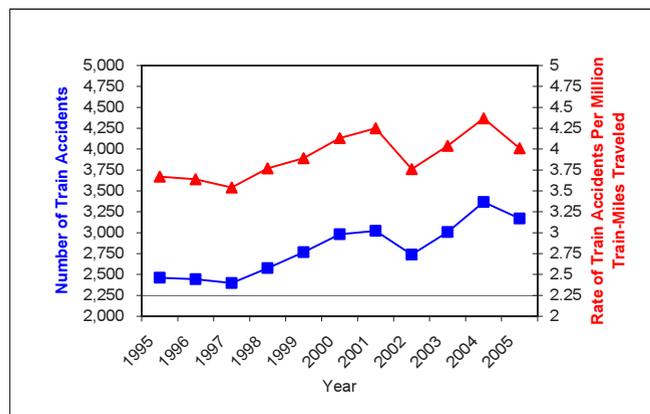
Despite the overall increase in highway fatalities and the fatality rate in 2005, the latest data show improvements in a number of areas, including these examples.

- Alcohol-related traffic fatalities accounted for 16,885 of the 43,443 fatalities in 2005 (39 percent), the lowest level since 1999.
- Fatalities in large truck crashes decreased in 2005 to 5,212, after increasing in the 2 previous years.
- The number of young drivers (age 16 to 20) killed declined from 3,538 to 3,374.
- Observed seat belt use increased to 82 percent in 2005, compared to 80 percent in 2004.

The highway crash data also show specific areas where challenges remain. For example, motorcycle fatalities increased by 13 percent in 2005, from 4,028 to 4,553. In addition, non-occupant fatalities (including pedestrians) rose by almost 6 percent, from 5,532 to 5,849. The rise in fatalities in these two areas more than offset an overall decrease in passenger vehicle fatalities.

For rail safety, data from the last decade also show challenges, although the 2005 data registered an improvement. In 2005, train accidents decreased by 6 percent and the rate of train accidents per million train-miles traveled decreased by 8 percent. However, the overall data for 1995 through 2005 show that train accidents increased by 29 percent and the rate of train accidents grew by 9 percent (see Figure 4-2).

Figure 4-2: Trends in the Number and Rate of Train Accidents



Source: Federal Railroad Administration



The importance of rail safety is illustrated by the tragic consequences that can occur from just one accident. For example, a 2005 train accident in Graniteville, South Carolina, which was attributed to human error, caused the train to derail and a tank car to release a hazardous material. As a result, 9 people were killed and 292 people were injured.

To their credit, NHTSA, the Federal Motor Carrier Safety Administration (FMCSA), and the Federal Railroad Administration (FRA) have taken action to address the surface safety challenges discussed in our previous reports. To further enhance DOT's surface safety programs for highway and rail travel, we have identified the following key actions in this year's report:

- Promoting improved performance measures and enhanced state accountability to maximize efforts to reduce fatalities caused by impaired driving,
- Building on successful efforts to better enforce motor carrier safety regulations,
- Ensuring the integrity and future modernization of the Commercial Driver's License (CDL) Program, and
- Enhancing railroad safety through improved oversight of grade-crossing reporting and better identification of trends.

Promoting Improved Performance Measures and Enhanced State Accountability To Maximize Efforts To Reduce Fatalities Caused by Impaired Driving

NHTSA is the lead Federal agency responsible for reducing alcohol-impaired driving. In our ongoing audit of alcohol-impaired driving programs, the 10 states reviewed reported benefits derived from Federal funding. However, NHTSA's ability to fully gauge the effectiveness of state programs would be improved if states had established performance measures designed to assess key strategies, such as sustained enforcement of alcohol-impaired laws. We are discussing with management ways to help NHTSA target Federal resources to the program areas most likely to lead to future reductions in alcohol-impaired traffic fatalities. Enhanced state accountability will also be promoted if NHTSA continues the timely implementation of the triennial reviews of highway safety grant programs that are required by SAFETEA-LU and follows up on recommendations made to the states in these reviews.

Building on Successful Efforts To Better Enforce Motor Carrier Safety Regulations

Our 2006 audit found that FMCSA's implementation of the Motor Carrier Safety Improvement Act of 1999 had significantly improved oversight of motor carrier safety. However, the audit found that FMCSA could further strengthen its



oversight by imposing maximum fines on truck or bus companies that chronically violate serious safety regulations. FMCSA did not consistently implement the law's sanctions against such repeat violators—only 33 of the 533 repeat violators we identified received the maximum penalty. In response to the report, FMCSA committed to strengthening its policy by May 2007 to ensure all violations falling within the two most serious categories set up by the Agency are appropriately counted when identifying chronic or repeat violators subject to maximum penalties.

Our 2006 audit also found that FMCSA and the states have taken and are continuing to take positive steps to improve the quality of safety-related performance data, but challenges remain. For example, after FMCSA took action, the percentage of motor carriers not reporting census data on drivers and trucks was reduced from 42 percent as of January 2003 to approximately 27 percent as of January 2005. Data also show improvement in the overall completeness of crash reporting from the states, although studies done at selected states indicate that more improvements are needed.

Quality data are needed to properly rank motor carriers' safety performance, identify high-risk motor carriers, and target those carriers for compliance reviews and inspections. Reasonable and workable quality standards must also be maintained if the data are to be made public. The challenge to obtain higher quality data will require continued effort from FMCSA and the states to carry out the initiatives that are underway.

Ensuring the Integrity and Future Modernization of the Commercial Driver's License Program

Over the past 5 years and with the support of FMCSA, we have carried out investigations with other law enforcement agencies that involved CDL fraud schemes in 24 states. These investigations have led to the prosecution of CDL fraud schemes in 15 states and have revealed that thousands of CDLs were issued to drivers who obtained them through corrupt state or state-approved (third-party examiners) testing processes. Curbing CDL fraud is important to highway safety and ensures that only drivers with requisite skills, including applicable training for hazardous material transportation, obtain CDLs.

Our 2006 audit on CDL oversight recognized several positive steps that FMCSA took to counter CDL fraud. For example, FMCSA instituted a fraud component within its CDL compliance review program. It also worked with the states and other organizations to identify fraud vulnerabilities and to develop model law enforcement programs. In 2007, FMCSA needs to follow through on its commitment in response to our report, to request that states track the status of



drivers suspected of fraud, and to continue to demonstrate the high priority it places on this issue.

FMCSA is also faced with the challenge of modernizing the Commercial Driver's License Information System (CDLIS). The CDLIS Modernization Program should improve the system's security and effectiveness and prevent further system degradation as system usage and requirements grow. The modernization efforts should also address future financing of the system.

Enhancing Railroad Safety Through Improved Oversight of Grade-Crossing Reporting and Better Identification of Trends

FRA has taken significant steps to reduce collisions and fatalities at highway-rail grade-crossings, including the establishment of a reconciliation process to ensure that fatal grade-crossing collisions are promptly reported to the National Response Center. However, our ongoing audit work shows that railroads are not providing timely written reports to FRA for all grade-crossing collisions (both fatal and non-fatal). In some cases, collisions have gone unreported. Without data on all grade-crossing collisions, FRA's ability to identify emerging trends and new areas for further safety improvements is limited.

The identification of trends for the targeting of resources to high-risk areas is particularly critical, because FRA inspections decreased by 6 percent, from 67,517 in 2003 to 63,264 in 2005. To facilitate the targeting of resources, in October 2005, FRA began to phase in the implementation of its National Inspection Plan. The Plan is intended to make better use of data and direct safety inspectors to high-risk areas. This action will complement the aggressive and ambitious National Rail Safety Action Plan launched in May 2005. The Action Plan includes initiatives to reduce train accidents caused by human factors and to enhance hazardous materials safety and emergency preparedness. Better targeting of resources may enable FRA to carry out its safety mission more efficiently, but FRA needs to ensure that its inspection activity remains at the level needed to adequately oversee the safety of the Nation's railroads.

For additional information, the following reports and testimonies are available on the OIG web site at <http://www.oig.dot.gov>:

- *Reauthorization of TEA-21 Safety Programs*
- *Processing Petitions To Import Non-Canadian Gray Market Vehicles*
- *Follow-Up Audit on NHTSA's Office of Defects Investigation*
- *Significant Improvement in Motor Carrier Safety Since 1999 Act but Loopholes for Repeat Violators Need Closing*
- *Federal Motor Carrier Safety Administration Oversight of Commercial Driver's License Program*



- *Background Checks for Holders of Commercial Driver's Licenses With Hazardous Materials Endorsements*
- *Follow-Up Audit of the Implementation of the North American Free Trade Agreement's Cross-Border Trucking Provisions*
- *Highway-Railroad Grade Crossing Safety Issues*
- *FRA Safety-Related Findings and Recommendations*
- *Report on the Audit of the Highway-Rail Grade Crossing Safety Program*
- *Audit of Oversight of Highway-Rail Grade Crossing Accident Reporting, Investigations, and Safety Regulations*



5. Aviation Safety—Performing Oversight That Effectively Utilizes Inspection Resources and Maintaining Aviation System Safety

Safety is the Federal Aviation Administration's (FAA) highest priority. For more than 4 years, FAA and the U.S. aviation industry has experienced one of the safest periods in history, even though the industry was undergoing dramatic changes. However, the August 27, 2006, crash of Comair Flight 5191 served as a reminder that we must continue to do more to make a safe system even safer.

While the Comair accident is the most recent U.S. air carrier accident, other fatal accidents occurred in the past year as well. In December 2005, a 58-year old Chalks Ocean Airways seaplane crashed off the coast of Florida when the right wing separated from the aircraft during flight. During the same month, a Southwest Airlines aircraft skidded off the runway at Chicago Midway and collided with an automobile off the airport grounds. Each of these accidents is the subject of an ongoing National Transportation Safety Board investigation.

Notwithstanding these tragic accidents, the United States has maintained one of the safest aviation systems in the world. This is a remarkable accomplishment given the many changes occurring within the industry. For example, network air carriers continue to work aggressively to move away from high-cost structures by reducing in-house staff, renegotiating labor agreements, and increasing the use of external repair facilities. To address these changes, FAA is working to implement and refine risk-based safety oversight systems.

At the same time, FAA must also remain attentive to other issues that could affect the safety of the aviation system, such as runway incursions (potential collisions on the ground) and operational errors (potential collisions in the air). In recent years, FAA has made progress in reducing the overall number of runway incursions, but serious incidents (where a collision was barely avoided) continue to occur. For example, on March 21, 2006, a controller at Chicago O'Hare mistakenly cleared two commercial aircraft (an Airbus 319 and an Embraer E145) for takeoff on intersecting runways. Before stopping, the two aircraft came within 100 feet of one another at the runway intersection.

Key challenges for FAA are:

- Advancing risk-based oversight systems for air carriers and external repair facilities,



- Maintaining a sufficient inspector workforce to effectively respond to changes in the industry, and
- Continuing to emphasize and address the risks of runway incursions and operational errors.

Advancing Risk-Based Oversight Systems

In the past 8 years, FAA has made important progress in developing risk-based approaches to safety oversight. As of October 13, 2006, there are 39 air carriers under FAA's Air Transportation Oversight System—a system that permits inspectors to use maintenance and operations data to focus their oversight on areas of higher risk. In addition, FAA has developed a risk-based oversight system for aircraft repair facilities. However, FAA continues to face challenges in advancing both these efforts. Also, FAA needs to gather more information about the type of work repair facilities not certificated by FAA perform and determine what range of actions are required to improve oversight of these facilities.

Risk-Based Oversight System for Air Carriers. FAA has made significant progress in implementing its risk-based oversight approach for air carriers; however, FAA is still refining the system and working to implement it at the remaining 85 air carriers. In 2005, we reported that the system was not mature enough to permit inspectors to effectively respond to the rapid changes occurring in the industry. Further, when the 2005 mechanics' strike occurred at Northwest Airlines, FAA abandoned the system in favor of a more simplified approach to oversight that was much like the process used under the old inspection system.

In response to our 2005 report, FAA developed guidance to help inspectors more thoroughly address industry changes, such as financial distress and growth, when assessing safety risks. FAA also revised guidance to ensure inspectors are continually monitoring the effects of air carrier changes, rather than waiting for a major event such as an air carrier declaring bankruptcy. In addition, FAA has now developed a schedule and plans to complete transition of all air carriers to its risk-based oversight system by the end of calendar year 2007. For this effort to be successful, FAA must ensure its inspectors are well trained and located in areas of greater need.

Oversight Systems for External Repair Facilities. As air carriers worked to reduce costs, use of external maintenance facilities dramatically increased. Air carriers that had traditionally performed all their maintenance in-house began to use domestic and foreign repair facilities to do this work. For example, in March 2005, Delta Air Lines announced that it would substantially reduce its in-house mechanics' staff and use external facilities to perform most of its heavy airframe maintenance. From 1996 to 2005, air carriers' use of external repair



facilities has grown from 37 percent of air carriers' maintenance costs to 62 percent.

Recognizing that its inspector workforce cannot provide continuous oversight of every maintenance facility and in response to recommendations in our July 2003 report, FAA has now developed a risk-based oversight approach to FAA-certificated repair stations. However, at the time of our review, the system has not been fully implemented; rather, inspectors had the option of using a manual system for assessing potential safety risks at repair stations. According to FAA, the more effective automated system was implemented on October 1, 2006. As with its air carrier oversight system, FAA must ensure its inspectors are well trained on the new system for this effort to be successful.

FAA also needs to develop a more effective oversight process for work performed at non-FAA-certificated repair facilities. In December 2005, we reported that air carriers are now using these facilities to perform critical and scheduled maintenance work. We identified 6 domestic and foreign facilities that performed scheduled maintenance and 21 that performed maintenance that is key to the airworthiness of the aircraft. FAA oversight of the work performed at these facilities is important because there are significant differences in regulatory requirements for operation of the facilities and the amount of training the mechanics at non-certificated repair facilities receive. For example, non-certificated repair facilities are not required to have a quality control system, designated supervisors and inspectors, or a training program.

We recommended that FAA inventory air carrier maintenance providers and identify which non-certificated facilities perform critical maintenance functions and scheduled maintenance and, based on the results of this inventory, make a determination as to whether it should limit the type of work non-certificated facilities can perform. Also, we recommended that FAA evaluate air carrier training and oversight programs for work performed at non-certificated facilities. FAA committed to implement all our report recommendations and needs to follow through on its commitment.

Maintaining a Sufficient Inspector Workforce

Much attention has been paid to controller staffing—FAA plans to hire over 11,000 controllers in the next 10 years. While replacing retiring controllers is a critical issue for FAA, it is also important to maintain a safety inspector workforce sufficient to achieve the Agency's mission of safety oversight.

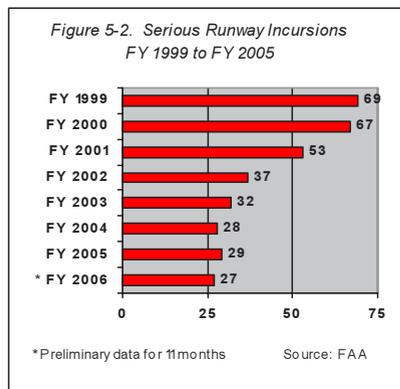
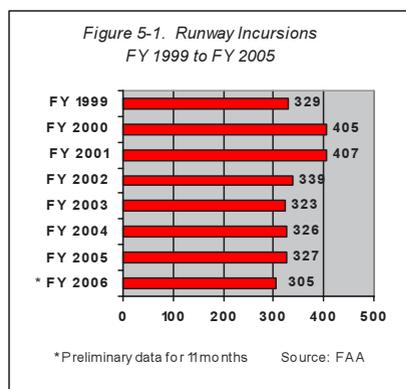
FAA's fiscal year (FY) 2007 budget request calls for an increase of 116 safety inspectors. However, it is unlikely that staffing gains over the next few years will be enough to offset the number of safety inspectors eligible to retire during the same time period. For example, this year, 28 percent of the current inspector

workforce (1,008 of 3,628) will be eligible to retire. By 2010, half of the current safety inspector workforce (1,820 of 3,628) will be eligible to retire. Just as FAA has recognized the need to address an expected surge in controller attrition, it must also ensure it closely monitors retirements and takes steps to hire and train the next generation of safety inspectors. FAA will need to carefully evaluate its inspector staffing levels to ensure it can sustain sufficient oversight in light of the potential attrition within that workforce.

Reducing the Risk of Accidents on the Ground and in the Air

Two primary indicators of system safety are runway incursions and operational errors. Reducing these incidents are key performance goals for FAA that require heightened attention at all levels of the Agency.

From 1998 to 2001, we reported that runway incursions were increasing at alarming rates. To its credit, FAA took decisive action—it established regional runway safety offices, conducted numerous safety evaluations at problem airports, initiated aggressive educational programs for pilots, and implemented technologies at major airports that alert controllers of potential runway accidents. As shown in Figures 5-1 and 5-2, the total number of runway incursions decreased from a high of 407 in FY 2001 to 327 in FY 2005, and the most serious incidents have decreased from a high of 69 in FY 1999 to 29 in FY 2005.



However, since 2003, the number of runway incursions has leveled off, and very serious runway incursions (those in which a collision was barely avoided) continue to occur. Recent incidents at several large airports highlight the potential safety risks associated with runway incursions. During the period FY 2005 through August 2006, Boston Logan, Chicago O'Hare, and Philadelphia International all experienced increases in runway incursions. Boston Logan had



22 incidents (1 severe), Chicago O'Hare had 15 incidents (5 severe), and Philadelphia had 15 incidents (1 severe involving a collision). Those were the highest number of runway incursions among the Nation's large commercial airports. FAA needs to remain committed to its efforts addressing these significant safety risks.

While FAA has seen a reduction in the number of runway incursions nationwide, it has not had the same success with operational errors—where aircraft come too close together in the air. Not only are these incidents continuing to increase, but shortcomings in FAA's reporting system for operational errors have indicated that the true number of these incidents is not yet known.

For example, in FY 2005, there were 1,489 operational errors (up from 1,149 in FY 2004), which is the highest number of errors reported in the past 6 years. Seventy-three of those errors were classified as serious incidents (those rated as "high" severity), compared to 40 serious incidents reported in FY 2004.

While the increases in operational errors are significant, it is important to recognize that the number of errors reported in prior years may not be an accurate benchmark. This is because at the majority of FAA facilities, FAA relies on an inaccurate system of self-reporting operational errors. In September 2004, we reported that only 20 of FAA's 524 air traffic control facilities have an automated system that identifies when operational errors occur. At its towers and terminal radar approach control (TRACON) facilities, FAA depends on an unreliable system of self-reporting operational errors.

This past year, FAA has taken steps to improve operational error reporting. For example, FAA implemented procedures that require towers and TRACONs to conduct random audits of radar data to identify potential unreported operational errors. FAA Headquarters is also conducting random audits at selected facilities and is evaluating its severity rating system in an effort to more accurately capture the collision risk that operational errors pose. More importantly, FAA is developing an automated system to identify when operational errors occur at TRACON facilities. FAA plans to start fielding this system in FY 2008 with an estimated completion date in FY 2009.

Clearly, these actions are steps in the right direction. FAA will need to remain committed to following through on those efforts and identify an accurate baseline of the number of operational errors that are actually occurring.



For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Safety Oversight of an Air Carrier Industry in Transition*
- *Letter to Representative Oberstar Regarding FAA Actions on Air Carriers' Use of Aircraft Repair Stations*
- *Controls Over the Reporting of Operational Errors*
- *Alleged Cover-Up of Operational Errors at DFW TRACON*
- *Review of Air Carriers' Use of Non-Certificated Repair Facilities*
- *Letter to Representative Oberstar Regarding FAA's Aging Airplane Safety Rule*



6. Making the Most of the Federal Resources That Sustain Surface Transportation Infrastructure Improvements by Continuing To Emphasize Project Oversight

At a time when transportation infrastructure needs are increasing faster than the financial resources available to fund them, stewardship of taxpayer dollars continues to be a priority for the Department of Transportation. During fiscal year 2006, both the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) took positive actions to increase their oversight of grant funds. For example, FHWA continued to strengthen its oversight of inactive obligations by deobligating \$738 million in unneeded funds for highway projects. Joint work by FHWA and the Office of Inspector General resulted in one firm agreeing to a \$3 million civil settlement involving the inappropriate use of Disadvantaged Business Enterprises on 38 different federally funded highway projects. In addition, FTA continues to use its special office in New York City to oversee \$4.4 billion in high-priority transit projects being built in Lower Manhattan in response to the September 11, 2001, terrorist attacks.

FHWA's and FTA's actions are steps in the right direction, but more needs to be done to sustain and build on these oversight improvements. This is a significant challenge, given the annual budgets of both Operating Administrations: FHWA's of about \$40 billion and FTA's of about \$9 billion.

We see three key issues that need continued management emphasis.

- FHWA must ensure that initiatives to strengthen its oversight of Federal highway funds are implemented effectively so that major projects are delivered on time, within budget, and free from fraud.
- FHWA's oversight must include actions to ensure that highway tunnels are safe for the driving public.
- FTA must continue to exercise vigilant oversight to ensure that large and complex transit infrastructure projects are completed on time and within budget.

Initiatives To Improve the Oversight of Highway Funds Need To Be Implemented Effectively To Ensure That Projects Are Completed on Time, Within Budget, and Free From Fraud

In 2006, FHWA implemented several initiatives to strengthen its oversight—testing whether Federal highway payments to states were eligible for



reimbursements, issuing new regulations to help states monitor obligated Federal highway funds, and dedicating staff in its Division Offices to oversee active major projects. Although we foresee positive outcomes to these initiatives, FHWA must take additional steps to ensure that large, complex construction projects are delivered on time, within budget, and free from fraud.

Specifically, FHWA needs to:

- **Strengthen financial and cost controls for Federal highway funds to better detect improper payments to states.** FHWA's implementation of its Financial Integrity Review and Evaluation (FIRE) Program will help to improve controls and safeguard highway funds. The FIRE Program is the cornerstone of FHWA's plan to improve oversight by supporting the annual certification of internal and financial controls over the Highway Trust Fund financial statements. The program also includes a risk assessment of the grant financial management process and statistical reviews of Federal-aid billing transactions to determine whether costs submitted to FHWA by state transportation departments are eligible for reimbursements. Establishment of the FIRE Program is a significant step. FHWA must ensure that the program is implemented effectively in each of its 52 Division Offices.

In addition, FHWA Divisions need to do more to ensure that states have better financial management practices for identifying and recovering improper payments, particularly on state contracts awarded with Federal-Aid Highway funds. FHWA also needs to refine its testing techniques for identifying improper payments. For example, in August 2006, FHWA recovered \$20 million from the Tennessee Department of Transportation for the Memphis Intermodal Transportation Project because Federal highway funds approved for this project were inappropriately used to build a parking garage adjacent to a national sports arena. While FHWA's actions in recovering these funds were effective, stronger oversight by FHWA is needed to help avoid such improper payments in the first place.

- **Ensure that cost estimates and schedule milestones for major projects are realistic, reasonable, and credible and that potential risks are thoroughly considered.** FHWA can build on its existing practices by increasing its oversight and providing greater financial and technical expertise to help states address funding shortages, cost increases, schedule delays, and construction quality issues. FHWA oversees 117 major highway projects⁶ estimated to cost \$192 billion (\$63 billion for 37 active projects and \$129 billion for 80 projects currently in the pipeline).

⁶ The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users defines major highway construction projects as those that are estimated to cost \$500 million or more.



Of the 12 major highway projects we are monitoring, two-thirds have experienced moderate to significant increases in their cost estimates. We found that states' cost estimates have frequently excluded or understated known elements of cost growth that were needed to complete projects. Further, some major highway projects have fallen months or years behind schedule, which has led to rising project costs. To ensure that states prepare reliable estimates of the cost to complete major projects, FHWA needs to routinely validate the reliability of estimated costs.

As a result of Hurricane Katrina destroying three major bridges, the value of Federal-aid highway programs in both Louisiana and Mississippi more than doubled. FHWA mobilized very quickly to respond to the catastrophic conditions and took the initiative to evaluate costs and to question unreasonable emergency repair contract charges. However, FHWA's continued oversight will be important to ensure that, in addition to other highway projects, those three critical bridge replacement projects are completed on time, within budget, and able to withstand future hurricanes.

- **Ensure that special oversight managers are properly trained to identify risks.** Several provisions under the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) promote stronger oversight of Federal-aid funds by: (1) lowering the major project threshold from \$1 billion to \$500 million and (2) requiring states to submit project management plans and annual financial plans to FHWA for each major project. According to FHWA, the lower monetary threshold is expected to more than double the number of active and future major projects that will require FHWA's oversight. To meet the challenge of providing primary Federal oversight of active major highway construction projects, FHWA assigned project oversight managers to its Division Offices. These managers are responsible for identifying cost growth, schedule delays, funding shortages, and other critical risks on active major highway projects. FHWA needs to ensure that they are trained in identifying critical risks and taking appropriate corrective actions.

FHWA's Oversight Must Include Actions To Ensure That Highway Tunnels Are Safe for the Driving Public

During the past 2 years, serious failures in construction quality on the Central Artery/Tunnel Project have highlighted the need for FHWA to take additional steps to ensure the safety of the Nation's highway infrastructure. Effective quality control and vigilant oversight are key components throughout the construction process to ensure the safety of the driving public. The Project's complex network of tunnels and bridges has a history of schedule delays and construction problems, including water leaks and the July 10, 2006, ceiling collapse that killed an



automobile passenger and led to widespread tunnel closures. To address these problems, FHWA is providing technical assistance to the National Transportation Safety Board in its investigation and to Massachusetts to support the reopening of closed tunnels, conducting an independent review of the ceiling failure, and advising the Governor's office on a "Stem-to-Stern Safety Review."⁷ The magnitude of this oversight effort, as well as the intense public concern for the safety of this massive project, presents a significant challenge to FHWA and the Department beyond their normal oversight roles. FHWA's actions will be critical in 2007 to restore confidence that the Project is safe.

The safety problems that surfaced in the Central/Artery Tunnel Project also call into question the oversight and quality control processes for constructing and maintaining highway tunnels. In light of the known problems of the Central Artery tunnels, FHWA should develop and implement a system to ensure that states inspect and periodically report on the condition of the Nation's tunnels. FHWA should begin by promptly determining whether a rulemaking or additional legislative authority is necessary for this action.

FTA Must Continue To Exercise Vigilant Oversight To Ensure Large and Complex Transit Infrastructure Projects Are Completed On Time and Within Budget

FTA has an established program for oversight of its transit infrastructure projects, including the hiring of outside project and financial management oversight consultants. FTA uses a risk-based approach for the oversight of its Federal projects—a best practice. In addition, it has recently taken the initiative to fine-tune its risk-based assessments of transit projects and has hired an external consulting firm to evaluate this approach. FTA's initiatives have generally improved oversight for its projects; however, numerous large and complex transit projects; especially those in New York City and the Washington, DC, metropolitan area; will present new oversight challenges.

On July 13, 2006, we testified to Congress that effective day-to-day oversight of these large and complex transportation projects is critical and that FTA should use all of its oversight tools effectively. For example, FTA's project management oversight contractors are charged with regularly monitoring each project and providing feedback to Federal officials should any problems arise. The oversight contractors hired for each project are charged with conducting risk assessments, reviewing costs and schedules regularly, and assessing each grantee's plans for the project. The key points are that FTA must ensure that it fully analyzes the results

⁷ The goal of the Stem-to-Stern Safety Review, performed by a major forensic engineering firm under a contract with the Commonwealth of Massachusetts, is to conduct an independent review of the infrastructure within the Metropolitan Highway System tunnels and facilities and to provide a complete assessment of the near- and long-term safety of the system.



of the contractors' reports; takes actions, where appropriate; and exercises its own oversight role in addition to the contractors' work.

Vigilant oversight will be particularly important because FTA must continue to oversee a number of transit infrastructure projects throughout the Nation, while at the same time overseeing several large and complex initiatives collectively costing about \$19 billion. The initiatives are the Lower Manhattan Recovery Projects (four FTA projects and one FHWA project with a Federal commitment of \$4.4 billion), the New York/Second Avenue Subway Minimum Operable Segment (estimated to cost \$4.7 billion), the Long Island Rail Road East Side Access (estimated to cost \$7.3 billion), and the Dulles Corridor Metrorail Project (estimated to cost \$2 billion).

The projects in New York City and the concurrent construction activity there can be expected to create significant competition for materials and labor. As demonstrated in our September 2006 report on selected Hurricane Katrina contracts that were awarded in Mississippi, increased competition for materials and labor, among other things, resulted in much higher prices for emergency repairs of highways and bridges. FTA will need the right mix of oversight resources to effectively manage costs, schedules, and quality issues during the construction of each of these large infrastructure projects.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Testimony on Impact of Water Leaks on the Central Artery/Tunnel Project and Remaining Risks*
- *Audit of Federal Highway Administration's Inactive Obligations*
- *Audit of Oversight of Load Ratings and Postings on Structurally Deficient Bridges on the National Highway System*
- *Testimony on Lower Manhattan Reconstruction: Lessons Learned From Large Transportation Projects*
- *Audit of the Mississippi Department of Transportation's Award of Selected Hurricane Katrina Emergency Repair Contracts*



7. Achieving Reform of Intercity Passenger Rail

Intercity passenger rail service is an important component of a balanced transportation system. However, as we stated last year, the current model for providing this service remains broken. Amtrak continues to incur unsustainably large operating losses, provide poor on-time performance, and require increasing levels of infrastructure and fleet investment. Amtrak projects a \$1.2 billion operating loss in fiscal year (FY) 2006, the fifth consecutive year of operating losses in excess of \$1 billion. Adding to its fiscal troubles, Amtrak's flagship service, *Acela*, is underperforming financially. Meanwhile, Amtrak's overall on-time performance worsened this past year. In July, overall on-time performance fell to 67.7 percent—2.4 percent below July FY 2005 year-to-date levels.

A year ago, we indicated that the Department must work with Congress and other stakeholders to break the cycle of appropriations without authorization for Amtrak and to realign the size, operations, and governance of the intercity passenger rail system to match the levels and sources of funding available. In the past year, modest progress was made on our recommendation regarding reducing Amtrak's costs. Still outstanding is our recommendation regarding mechanisms giving states a larger voice in determining service requirements and establishing adequate and stable Federal funding.

Critical questions remain regarding where intercity passenger rail makes sense, what types of service should be provided, how much it should cost, and who should pay for it. Reform should focus on reducing costs while improving mobility in corridors (routes of less than 500 miles) around the country—not just in the Northeast Corridor—and in restructuring long-distance service (routes of greater than 500 miles) to complement corridor services. In the meantime, the Department should use its broad authority, through the grant approval process, to secure improvements in Amtrak's operating efficiency.

Additional effort is needed in the following areas to create a new model for passenger rail transportation.

Amtrak Must Do More To Improve Cost-Effectiveness, Operate Efficiently, and Improve Performance

Amtrak has an obligation to be a prudent steward of the taxpayer support it receives and operate cost effectively; yet it has few, if any, internal incentives to do so. Its operations are neither disciplined by competition since it is the sole provider of intercity passenger rail service nor by the marketplace since it has access to the Federal treasury. As a result, until recently, there has been little



implementation of reforms to improve the cost-effectiveness of Amtrak's operations.

This past year, Congress directed Amtrak to operate more cost effectively by achieving savings from operational reforms. Our office was required to report on and certify Amtrak's achievement of operational reform savings. This requirement—in conjunction with constrained appropriations, the Department's grant application review process, and the Amtrak Reform Board's strategic reform initiatives—has resulted in modest savings from the first stages of a limited number of operational reform initiatives. Much more needs to be done. In addition, the Department must work to institutionalize incentives for Amtrak to control costs that will ensure taxpayers receive the maximum level of intercity passenger rail service in exchange for their subsidies.

We have reported quarterly on the 15 areas targeted to operational reform that Amtrak identified to reduce long-term operating costs. We found that only a few, primarily those targeting food and beverage and overhead functions, have resulted in any savings so far (Amtrak saved \$46.3 million through May of this fiscal year, of which only \$3.8 million was from FY 2006 reform initiatives). Amtrak expects to implement an expanded list of reforms in FY 2007.

As we indicated in our quarterly reports, to operate efficiently and achieve significant reductions in its Federal operating subsidies, Amtrak must address the cost of state-supported services, route restructuring, and its labor costs. We have also reported that Amtrak's losses on its food and beverage and sleeper service remain unacceptably high. Although it has begun to reform its food service, we have yet to see a plan that would result in Amtrak breaking even in this area. Additionally, while some sleeper service reform has begun, Amtrak needs to do more to achieve its goal of breaking even in this area as quickly as possible.

Many of Amtrak's reform efforts will take several years of sustained commitment to implement fully. Also, for many reforms, the difficult work has not yet begun. In light of the considerable time and effort required for Amtrak to achieve meaningful operational reforms, the Department will be challenged to ensure that the proper external incentives are brought to bear on Amtrak to see this effort through to fruition.

Amtrak Needs a New Model for Providing Passenger Rail Transportation

The Department and Amtrak need to give states more say in selecting the best mix of service for their constituents and provide the infrastructure funding needed for passenger rail to operate as an effective alternative mode of transportation.

States should decide which cities are served, schedules, frequency of service, and what amenities should be provided. Those decisions are made by Amtrak, unlike



other transportation programs (including highways, transit, and airports) in which similar key decisions are made by state or local governments. As a result, these service decisions do not always reflect the states' preferences and priorities. Intercity passenger rail would be better served with state-led initiatives as to where and how intercity passenger rail service is developed. State sponsorship will become increasingly important because the states should also be asked to provide increased operating and investment support. Capital funding decisions, as with mass transit, should ultimately reside with the Department, based on congressional direction and in partnership with the states.

No corridor around the country, including the Northeast Corridor, can provide the type of mobility needed without significant up-front investment. In the Northeast Corridor, this means bringing the existing facilities to a state of good repair. In other corridors around the country, it means creating the infrastructure for high-frequency services in partnership with freight railroads and commuter authorities.

A robust Federal program of capital matching grants will be essential if these corridors are to be developed. In addition, long-distance services that provide connections between corridors require recapitalization if they are to be run efficiently and are to provide the high-quality services their passengers deserve. None of this, however, implies giving more money directly to Amtrak, especially under the current model.

Introducing competition into the intercity passenger rail system by authorizing multiple passenger rail service providers is one way to encourage efficiency and innovation. But competition is not likely to occur unless and until the rail system is restored to a state of good repair. The first steps that must be achieved are to ensure adequate Federal and state funds are available for infrastructure repair; make significant reductions to operating costs; and give states more power to select routes, schedules, frequencies, and amenities.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *FY 2006 First, Second, and Third Quarterly Reports on Amtrak's Financial Status*
- *Intercity Passenger Rail and Amtrak*
- *Reauthorization of Intercity Passenger Rail and Amtrak*
- *Analysis of Cost Savings on Amtrak's Long-Distance Services*
- *Assessment of Amtrak's 2003 and 2004 Financial Performance and Requirements*



8. Improving Acquisition and Contract Management To Reduce Costs and Eliminate Improper Payments

Over the past several years, the Department has shown its ability to strengthen its oversight practices in the area of grant oversight and financial management when it focuses its attention on the issue. For example, the Department made significant progress strengthening its oversight of Federal-aid highway grants since we highlighted the issue as a management challenge in 2004. As we report in a separate section of this document, Federal Highway Administration (FHWA) division officials worked aggressively with states this year to review the need for inactive funds on transportation projects. As a result, \$738 million of idle Federal-aid funds were made available for use on active transportation projects. The Department, which requested about \$8.7 billion for acquiring goods and services in its fiscal year (FY) 2007 budget, should now apply the same degree of dedication and initiative toward strengthening its procurement and acquisition processes.

Providing increased attention to ensure that procurement and acquisition activities are conducted in an efficient and effective manner and that taxpayer dollars are protected from fraud and abuse is a Government-wide priority. Congress enacted the Services Acquisition Reform Act of 2003, which established Chief Acquisition Officers at Federal agencies with the intention of strengthening oversight of the acquisition life-cycle. More recently, in October 2006, the Deputy Attorney General formed a nationwide procurement fraud task force to focus law enforcement resources, including our office and other Inspectors General on this issue. For our part, we have also focused significantly more audit and investigative resources on procurement and acquisition issues, including the establishment of a new senior executive position and the hiring of additional staff to carry out a robust audit program for contracting and procurement activities in the Department.

In recent years, we identified incidents of fraud, waste, and abuse on Department of Transportation (DOT) contracts and research agreements. When these incidents were brought to management's attention, DOT and its agencies took swift action to correct the problem or limit its impact. For example, upon notifying the Federal Aviation Administration (FAA) of wasteful contract management practices affecting a \$500 million multiple-award program to acquire support services, the FAA Administrator immediately acted on our recommendations and issued a directive requiring actions to enhance competitive practices, strengthen reviews over payments, and add integrity training.



While DOT agencies are cooperating on eliminating problems as they arise and implementing actions to improve its stewardship and oversight processes, as illustrated by FAA's actions, DOT must be more proactive to further enhance its vigilance and oversight in this area.

We have identified several contracting issues that require the Department's focused attention:

- Institutionalizing the use of Defense Contract Audit Agency contract audit services,
- Strengthening financial management oversight of institutions performing research under DOT cooperative agreements and grants,
- Promoting more vigilance and enhanced oversight of FAA's acquisition and contract management practices,
- Ensuring that Department employees maintain high ethical standards, and
- Enforcing suspensions and debarments more rigorously.

Institutionalizing the Use of Defense Contract Audit Agency Contract Audit Services

Contract audit services provided by Defense Contract Audit Agency (DCAA) are a valuable tool for assisting contracting officers in combating excessive prices and unallowable charges. Additionally, monetary benefits from DCAA audits not only cover audit costs but can also reduce program costs. For example, from FY 2001 through FY 2005, DOT agencies saved \$8 for every \$1 spent on a DCAA contract audit.

The Department is doing more to obtain these needed audits. For example, DOT's Office of the Senior Procurement Executive has been working with DCAA, Operating Administrations, and the Office of Inspector General to find better methods for obtaining needed audits. Additionally, responding to our recommendation, FAA revised its guidance to require that all cost-reimbursable contracts over \$100 million and 15 percent of those contracts under \$100 million obtain post-award audits of allowable costs incurred. Also, FAA's acquisition baselines for major programs are now required to set aside funding for audits, including pre-award audits of prices for new contracts. At other DOT agencies, incurred-cost audits are now required, unless sufficient justification is documented for not obtaining them.

However, these policy enhancements need to be implemented more effectively throughout the Department. Recent Office of Inspector General audits covering



all DOT agencies identified that many program offices are not setting aside funding for audits and some procurement officials are unaware of or lack details on implementing the audit policies. For example, a recent audit of the use of contract audit services at DOT agencies other than FAA—covering 30 cost-reimbursable contracts valued at \$618 million—disclosed that DOT contracting officers did not obtain any annual incurred-cost audits for 18 of the 30 contracts (60 percent).

***Strengthening Financial Management Oversight of Institutions
Performing Research Under DOT Cooperative Agreements and Grants***

The Department uses cooperative agreements and grants to partner with universities to acquire transportation-related research services. According to DOT senior acquisition officials, DOT agencies in FY 2005 awarded agreements valued at over \$200 million to colleges, research centers, and other similar recipients. In contrast with contract and grants awards, cooperative agreements require more collaboration between Federal agencies and awardees.

In recent audits and investigations, we found recipients and DOT agencies lacked sufficient guidance and procedures to administer and oversee the agreements. Examples include:

- An audit of cooperative agreements awarded to a major university, which performs research on crash simulations, concluded that the university billed FHWA for “inflated or fictitious” charges. We found a serious lack of oversight and internal controls, and the university agreed to reimburse the Government more than \$1.8 million for the full amount of overcharges plus penalties. The responsible professor has been imprisoned for embezzlement.
- The Research and Innovative Technology Administration’s management and oversight of an assistance award to a major university was inadequate, and, as a result, about \$3.5 million in ineligible costs were allowed as matching funds. The university claimed a building as its matching funds, but our investigation determined that no transportation education, research, or technology transfer occurred at the building.
- A non-profit research entity billed a Federal Transit Administration cooperative agreement for over \$400,000 in unallowable charges and failed to apply its share of matching funds to liquidate expenditures under the grant. This matter is currently under investigation by the Office of Inspector General.

In response to recent audits and investigations, FHWA established a new division responsible for administering cooperative agreements. The new division is developing detailed guidance for administration and oversight of grants and cooperative agreements. FHWA needs to follow through to ensure that it provides



adequate oversight of cooperative agreements, and other Operating Administrations need to similarly strengthen their oversight of cooperative agreements.

Promoting More Vigilance and Enhanced Oversight of FAA's Acquisition and Contract Management Practices

FAA faces challenges for each phase of the acquisition cycle, including planning, awarding, and administering contracts. Our audit of a multiple-award procurement program valued at over \$500 million found particular problems with the program structure. Unlike other support services programs, such as those offered by the General Services Administration, FAA did not establish common labor categories and qualifications or leverage the Government's buying power by pre-competing labor rates. Instead, FAA defined and negotiated labor rates separately for each contract and overpaid for services under the program. Likewise, competitive practices were not used for most individual contract awards.

We identified weaknesses in FAA's methods of pricing and awarding new contracts for support services. FAA contracting officers did not adequately conduct or document price analyses. Although over 76 percent of 114 support services awarded under the program lacked sufficient competition, price analyses were not adequately supported. We estimated that FAA would be paying \$24 million to \$44 million more if all option years under existing support services contracts were exercised. Also, problems in contract administration, the last phase of an acquisition, were identified in our review of 11 support services contracts. In one case, performance problems were not addressed, and the contractor was being reimbursed for work performed beyond the statement of work. FAA followed our recommendations throughout the audit; most significantly, FAA dissolved the program and is obtaining these services using competitive procurements. Further, FAA's Administrator issued a directive to require that any new award over \$1 million with fewer than three competitive bids not be awarded without the review and approval of the FAA Deputy Administrator.

Our work on DOT's emergency transportation contract administered by FAA also identified problems with price analyses. In the aftermath of Hurricane Katrina, the immediate transportation of people and vital supplies to and from hurricane-affected areas was critical. FAA contracting officials immediately modified the contract to ensure the availability of emergency services. Due to rushed conditions, however, sufficient steps were not taken to ensure that the services were reasonably priced. For example, one contracting officer awarded a modification that doubled the maximum contract value for additional services for Hurricane Katrina without obtaining a price proposal or negotiating reductions to fixed indirect rates. Although an emergency existed, the contracting officer is still responsible for ensuring that pricing factors are reasonable. Due to the



emergency, the modification could have been awarded subject to a later review of pricing factors. FAA needs to continue strengthening its oversight of acquisitions to ensure that procurement and contracting officials implement the Agency's Acquisition Management System regulations and guidance.

Ensuring That Department Employees Maintain High Ethical Standards

DOT, like other Federal agencies, is vulnerable to contract and grant fraud stemming from ethical lapses on the part of employees involved in awarding or administering procurements. Employees involved in the acquisition of support services are particularly susceptible. For example:

- At one Operating Administration, a program manager (who is no longer with the Department) received a \$120,000 kickback from a contractor who was awarded about \$3.5 million in purchase orders for information technology services.
- At another Operating Administration, a senior executive attended social functions paid for by a contractor (the executive's previous employer) and exerted perceived pressure on subordinates to award over \$1.1 million in contract task orders to this contractor for a strategic plan and marketing-related services.
- At a third Operating Administration, a program manager steered a \$465,000 subcontract for financial analysis-related services to a firm owned and controlled by a household member.
- In a departmental office, a senior manager (who is no longer with the Department) awarded multiple sole-source contracts and cooperative agreements for support services, including advertising and logistics, to an individual with whom the director socialized.

In many cases, officials failed to maintain an appropriate "arms-length" relationship with contractors and cooperative agreement recipients, resulting in significant administrative and, sometimes, criminal consequences for both employees and contractors. In some instances, employees simply did not recognize in advance that their actions could violate ethical standards or create, at a minimum, the appearance of ethical impropriety.

DOT needs to continually promote and reinforce ethical standards—in particular, the critical importance of avoiding conflicts of interest in contracting—through rigorous ethics awareness and training programs. Moreover, while DOT has taken some steps to strengthen controls, such as those governing cooperative agreements for the Office of the Secretary, it needs to remain vigilant to strengthen internal



controls to prevent and detect inappropriate conduct involving procurements and take action when violations occur.

Enforcing Suspensions and Debarments More Rigorously

The Department has also strengthened its procedures to ban companies and individuals that defraud the Government. Most notably, DOT has taken firm action to enhance its suspension and debarment actions when fraud is identified. DOT promulgated a new, more rigorous Suspension and Debarment Order in June 2005, which increased accountability and has resulted in an increase in the number of indicted or convicted parties referred to Operating Administrations for suspension and debarment actions. However, more work is needed to implement the policy, specifically in ensuring timelier processing and reporting of suspension and debarment actions. A centralized database is also needed, and agencies need to share best practices to identify effective procedures for implementing the policy.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Financial Policies and Procedures at the George Washington University National Crash Analysis Center*
- *Audit of the Federal Aviation Administration's RESULTS National Contracting Service*



9. Protecting, Monitoring, and Streamlining Information Technology Resources

The Department of Transportation's (DOT) information technology (IT) investment portfolio, with more than 400 computer systems supporting key mission areas at a cost of about \$2.5 billion annually, is one of the largest among civilian agencies. Over 80 percent of these investments are in air traffic control modernization. During fiscal year (FY) 2006, the Department made noticeable improvements in tracking, prioritizing, and correcting security weaknesses—a major concern identified last year. The departmental Investment Review Board also provided close oversight to a multibillion-dollar IT investment project managed by the Federal Aviation Administration (FAA). However, the Department did not make adequate progress in strengthening air traffic control systems security and needs to continue enhancing oversight of IT investments.

FY 2007 will be a particularly challenging year for the Department. First, it has to implement a consolidated IT infrastructure to support all Operating Administrations (except FAA and the Surface Transportation Board) in the new Headquarters building. This consolidated IT infrastructure presents opportunities to eliminate fragmented IT operations; however, it will require a higher level of security protection—one that has not yet been tested. In addition, about 230 systems—more than half of the Department's total inventory—are due for security recertification and have to meet new security standards. The major challenges facing DOT in the IT security and investment areas include the following:

- Enhancing air traffic control systems security through resource commitment and progress measurement,
- Meeting new security standards while recertifying systems security,
- Securing the consolidated IT infrastructure and eliminating Operating Administrations' fragmented systems backup/recovery sites, and
- Working with Operating Administrations to strengthen oversight of IT investment and to streamline duplicative IT systems.



Enhancing Air Traffic Control Systems Security Through Resource Commitment and Progress Measurement

The President has designated air traffic control systems a critical national infrastructure due to the important role commercial aviation plays in fostering and sustaining the national economy and ensuring citizens' safety and mobility. In FY 2004, based on audit findings, FAA made a strong commitment to enhancing the security protection of air traffic control systems. One of its promises was to complete security reviews of all operational air traffic control systems—at en route, approach control, and airport terminal facilities—between FY 2005 and FY 2007. This is critical to protecting air traffic control systems because security vulnerabilities could inadvertently be created when changes are made to the “baseline” systems to meet local operational needs.

FAA made little progress in reviewing operational air traffic control systems security until after April 2005, when the Inspector General sent a letter to the FAA Administrator expressing concern over the slow pace of the corrective action. By the end of FY 2005, FAA had conducted initial reviews at all en route facilities, representing a clear step in the right direction. However, FAA did not follow through with this effort during FY 2006 because of, according to FAA officials, a funding shortage.

In October of this year, the FAA Chief Information Officer (CIO) and the head of the Air Traffic Organization committed to developing a plan by the end of December 2006 detailing the approach FAA will take during FY 2007 to evaluate security differences between systems used to direct air traffic at terminal and tower facilities and the “baseline” systems previously tested in its computer laboratory. If this process is implemented effectively, it will significantly strengthen security protection of air traffic control systems.

Another FAA promise was to develop a contingency plan to restore more than essential air services in case of prolonged service disruptions at en route centers. FAA's existing business continuity plan has worked well in the past to ensure flight safety when dealing with temporary, less severe disruptions.

In FY 2005, we reported that FAA had identified a contingency strategy to deal with prolonged service disruptions but was years away from its implementation. In October of this year, the FAA Deputy Administrator informed us that FAA had identified an interim solution based on the results of an engineering study. The Deputy Administrator also made a strong commitment to fund this interim solution with existing FAA resources.

We recognize that FAA faces critical decisions in balancing its priorities and using its funds at a time of increasingly tight budgets. Yet, issues concerning the



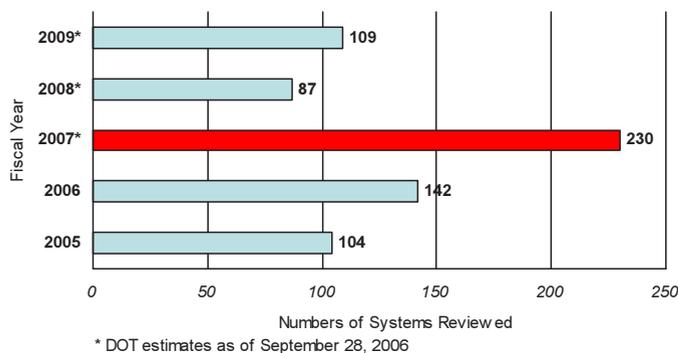
security of a critical national infrastructure should receive attention and support from the Office of Management and Budget and Congress.

We plan to initiate an audit of FAA's progress in reviewing operational systems security and implementing the interim solution for contingency planning in accordance with the approved plans.

Meeting New Security Standards While Recertifying Systems Security

In FY 2004, the Department made significant strides in reviewing and testing information systems security and successfully increased the system certification and accreditation (C&A) rate from 33 percent to over 90 percent. The C&A process is a statutory requirement to ensure that information systems are adequately secured to support agency missions and must be conducted every 3 years or upon major system change. The 2004 reviews are due for recertification in 2007, as will be the systems moving to the new Headquarters building (a major change). Consequently, DOT will be faced with the need to recertify some 230 systems during FY 2007 (see Figure 9-1).

Figure 9-1: DOT Information Systems Estimated To Require Certification and Accreditation Reviews, Fiscal Years 2005-2009



What further complicates the issue is that these recertifications have to meet new Government standards. The Federal Information Security Management Act of 2002 (FISMA) required the National Institute of Standards and Technology to develop minimum Government security standards for Federal agencies. These new standards become effective in March 2007 and may require security upgrades in agency systems, such as greater encryption sophistication. In performing a preliminary assessment on a safety-critical system, we found that it meets only



about two-thirds of the minimum security standards in one critical area. To meet all of these challenges, the Operating Administrations will need to submit system recertification work schedules for approval, identify security upgrade needs and funding sources, and report progress against approved schedules throughout the year.

Securing the Consolidated IT Infrastructure and Eliminating Operating Administrations' Fragmented Systems Backup/Recovery Sites

Traditionally, each Operating Administration has managed its own IT infrastructure (e. g., desktop computers, local area networks, and e-mail) in the departmental Headquarters. These duplicative IT operations were expensive to maintain and had inconsistent security protections—both physical and logical.⁸ Since they were interconnected, security weaknesses in one Operating Administration's infrastructure could endanger others: in other words, the agencies' IT security was only as strong as the weakest link. As part of the move to the new Headquarters, the Department seized the opportunity to consolidate these IT infrastructure operations into one.

While the consolidated IT infrastructure can help strengthen Departmentwide security protection and make IT operations more efficient, it needs to be thoroughly tested before being accredited for operation. However, the plan and schedule to implement and test this new infrastructure are still evolving, due to a variety of move-related problems. If not properly secured, this consolidated infrastructure could result in much greater harm to the integrity of departmental system operations than would be the case if only one Operating Administration were affected. The Department needs to allow sufficient time to thoroughly test this new IT infrastructure before installing Operating Administration mission-critical systems on the new infrastructure.

As part of this IT consolidation effort, the Department needs to identify a consolidated backup/recovery site at a sufficient geographic distance from the new Headquarters and conduct contingency testing for all Operating Administration systems operating on the consolidated IT infrastructure after completing the Headquarters move. Further, the CIO needs to direct that the Operating Administrations not make additional investments to equip their individual backup/recovery sites until decisions have been made for the consolidated backup/recovery site. Operating Administrations have been responsible for establishing their individual backup/recovery sites because they had separate IT infrastructures. In FY 2003, we reported inadequate contingency planning and testing at Operating Administration recovery sites. In addition, we reported that,

⁸ Logical security consists of software safeguards for an organization's systems, including user identification and password access, authentication, access rights, and authority levels. These measures are to ensure that only authorized users are able to perform actions or access information on a network or a workstation.



to reduce the probability of losing both primary and backup sites to the same disaster, the Department needed to develop guidance on the minimum geographic distance between a system's primary and recovery processing sites. We found cases in which Operating Administrations' recovery sites were within 10, 15, or 25 miles of primary sites. In case of an emergency, those Operating Administrations would likely lose both the primary and backup computers for their mission-critical systems, such as safety inspection and grants management systems, since natural disasters often cover areas larger than 25 miles.

Working With Operating Administrations To Strengthen Oversight of IT Investment and To Streamline Duplicative IT Systems

Last year, we expressed concern over the departmental Investment Review Board's ability to provide value-added services when reviewing FAA's major IT investment projects. As a result, we recommended that the Department clarify the Board's authority and increase the Board's capability to research potential project cost, schedule, and performance shortfalls on complicated IT investments. Subsequently, the Department confirmed that the Board, through advising the Secretary, can influence budget decisions on all IT investments. During FY 2006, the Board used this authority to enhance project management of a multibillion-dollar investment project called FAA Telecommunications Infrastructure.

In terms of identifying problems associated with major IT investments, the Department plans to delegate this responsibility to individual Operating Administration review boards to oversee their specific IT investments. While we support the idea of holding Operating Administrations more accountable for their own projects, this will not be possible until the departmental Board establishes clear performance measures for IT investments, such as Earned Value Management (EVM) measures. However, we found that 70 percent of DOT's major IT investment projects met fewer than half of the Office of Management and Budget's criteria for EVM implementation. Currently, 13 departmental IT investment projects are included in the Office of Management and Budget's high-risk list, 12 of which are related to air traffic control modernization—the management of which remains on the Government Accountability Office's high-risk list, where it has been for more than 10 years. The departmental Board needs to work with Operating Administration review boards to continue exercising knowledgeable oversight of these major IT investments.

Another area requiring senior management attention is continuing to streamline duplicative common systems for cost savings. In FY 2003, the Department identified opportunities to consolidate duplicative systems used in 11 common business areas across Operating Administrations, such as office IT infrastructure, financial management, grants management, and training. During FY 2006, the Department completed its consolidation of recruitment systems and will complete



consolidation of IT infrastructures at the new Headquarters in FY 2007. Progress has also been made in eliminating duplicative financial systems and teaming with the Department of Housing and Urban Development to streamline grants management systems. The Department needs to continue to actively pursue streamlining these duplicative systems to realize the cost savings that consolidation can offer.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *DOT Information Security Program (October 2004, 2005, and 2006)*
- *Security and Controls Over the Remote Maintenance and Management System, FAA*
- *Security and Controls Over Technical Center Computer Systems, FAA*
- *Security and Controls Over En Route Center Computer Systems, FAA*
- *Office of the Chief Information Officer's Budget, DOT*



10. Strengthening DOT's Coordination of Research, Development, and Technology Activities and Funding

The Department of Transportation's (DOT) management strategy for research, development, and technology (RD&T) activities is a relatively new initiative, and this is the first year that the Office of Inspector General has reported it as an emerging issue. DOT has taken significant steps in improving coordination of its RD&T activities, but there are a few areas that bear watching to ensure long-term benefits to the Department.

For 2007, DOT has requested over \$1 billion for RD&T. (See Table 10-1 for a listing of RD&T funding by Operating Administration.)⁹ These funds are used to support a wide assortment of RD&T projects and activities, including the Federal Aviation Administration's continued work on aviation safety (\$88 million), the Federal Highway Administration's Innovative Bridge Research and Development program (\$11.2 million), the Pipeline and Hazardous Materials Safety Administration's pipeline safety research (\$9.7 million), and the Federal Railroad Administration's Train Occupant Protection Program (\$4.95 million). While many of these RD&T programs are highly specialized, others cut across various modes of transportation—such as human factors research.¹⁰

**Table 10-1: RD&T Budget Request by Operating Administration
FY 2007 Actual (\$000)**

FHWA	\$586,079
FAA	\$263,148
NHTSA	\$84,502
FTA	\$61,685
FRA	\$38,646
PHMSA	\$12,236
FMCSA	\$12,458
RITA	\$4,362
Other	\$8,910
Total	\$1,072,026

In 2005, DOT took two significant steps designed to improve the coordination of the various research efforts and to maximize the Department's RD&T investments. The first involved the establishment of the Research and Innovative Technology Administration (RITA) in accordance with the Norman Y. Mineta Research and Special Programs Improvement Act of 2004. RITA was established in part to coordinate, facilitate, and review the Operating Administrations' RD&T programs and activities and to help identify and eliminate cross-modal project

⁹ The dollar amounts listed in Table 10-1 are based on the amount of funds received by each Operating Administration. In some cases, however, funds are used to support programs administered by another DOT or state organization. For example, FHWA officials note that a large portion of their RD&T budget is used to fund programs administered by RITA, including \$110 million for Intelligent Transportation Centers and \$69.7 million for University Transportation Centers. Another \$165.7 million is dedicated Federal-Aid Highway funds apportioned to the states for research.

¹⁰ Human factors research is an area in which cross-modal coordination has occurred for many years through the Human Factors Coordinating Committee.



redundancies.¹¹ A second step involved the creation of the RD&T Planning Council. Comprising senior DOT officials and chaired by the RITA Administrator, the Planning Council (and subordinate Planning Team) was tasked with ensuring "...cross-modal collaboration and coordination in the RD&T initiatives within DOT and with external entities."¹²

RITA's and the RD&T Planning Council's ability to effectively coordinate the Department's RD&T program is affected by a number of factors. First, in an August 2006 report, the Government Accountability Office (GAO) noted that RITA lacked a strategic approach sufficient to ensure the Department is effectively managing its RD&T investment.¹³ Second, the Transportation Research Board (TRB) in an August 2006 letter to the Acting Secretary of Transportation cited the growth in congressional RD&T earmarks and the resulting impact on DOT's ability to manage its RD&T programs in support of strategic objectives. Third, RITA and the RD&T Planning Council have limited oversight authority and must rely on a consensus-based decision making process to prevent unnecessary duplication of RD&T efforts and resolve cross-modal differences. Finally, while the RD&T Planning Council has received significant support from DOT's senior leadership over the last year, it will be critical that such support be maintained over the long term. As a result of these factors, we see the Department's efforts to ensure the effective coordination of RD&T activities as an emerging issue.

Ensuring Effective Coordination of DOT's RD&T Activities

Whereas RITA's and the RD&T Planning Council's overall challenge will be to effectively coordinate the Department's RD&T program, their success is largely dependent on how well a number of key factors are addressed. First, GAO recently reported that RITA's ability to fulfill its mission is hampered by the lack of a clear implementing strategy, established performance goals, and an evaluation plan that indicates how the Agency's coordination role will further DOT's mission or ensure the effectiveness of the Department's RD&T investment. In particular, GAO recommends that RITA develop a strategy to identify and review all RD&T projects for duplication and to identify areas for joint efforts. Other issues affecting RITA include the lack of a DOT-wide database for monitoring RD&T programs and activities and vacancies in several key management positions (e.g., RITA Administrator and the Associate Administrator for the Office of Research, Development and Technology).

¹¹ RITA also helps fulfill one of the initiatives in the President's Management Agenda. That initiative calls for the implementation of investment criteria for research and development.

¹² DOT Order 1120.39A, "Research, Development and Technology Planning Council, Team, and Process," May 2, 2005.

¹³ U.S. Government Accountability Office, "Transportation Research: Opportunities for Improving the Oversight of DOT's Research Programs and User Satisfaction with Transportation Statistics," GAO-06-917, August 2006.



A second factor deals with the growth in congressional RD&T earmarks and their impact on RITA's and the Planning Council's ability to ensure the effective use and allocation of DOT's RD&T resources. Between 1995 and 2003, congressional earmarks of DOT's research budget increased from 1 percent to 14 percent according to a 2005 study done by the University of California, Berkeley. This study also noted that earmarks were especially high for surface transportation programs. For example, between fiscal year (FY) 1997 and FY 2003, congressional earmarks of the Federal Highway Administration's research budget increased from 12 percent to 29 percent. Likewise, earmarks were over 40 percent of FY 2006 funding for the Federal Highway Administration Surface Transportation Research, Development, and Deployment Program (STRDD).¹⁴ Moreover, in its August 2006 letter, TRB cited the dramatic growth in earmarking and the resulting constraints on the Department's ability to allocate resources in a coherent and strategic manner. As a result, TRB called on DOT "...to put forward a thoughtful and persuasive plan for RD&T investment." TRB's hope is that such a plan will help foster executive branch and congressional agreement on Federal RD&T funding for the Nation's most pressing transportation needs.

A third factor affecting RITA and the RD&T Planning Council involves their ability to effectively resolve cross-modal differences. To date, the Council has been instrumental in helping define RITA's RD&T coordination role, drafting the Department's 5-year RD&T Strategic Plan,¹⁵ and providing a Departmentwide forum for reviewing, coordinating, and strengthening RD&T budget submissions. Whether RITA and the Council will have similar success in achieving consensus on cross-modal differences—such as eliminating areas of unnecessary duplication—remains to be seen. For instance, DOT Order 1120.39A, "Research, Development and Technology Planning Council, Team, and Process" simply indicates that the "Planning Team shall adopt participative consensus-based decision making procedures. In the absence of consensus, options for resolution shall be referred to the RD&T Planning Council." Since the Planning Council and RITA do not have direct authority to adjudicate cross-modal RD&T disagreements, both may face challenges in trying to prevent unnecessary duplication without the assistance of DOT's senior leadership.

Thus, the Department faces a number of challenges in the RD&T arena. RITA needs to establish a clear implementing strategy for improving DOT-wide RD&T coordination, DOT needs to develop an RD&T investment plan for gaining executive branch and congressional agreement on funding DOT's research priorities, and the Planning Council needs to have the long-term support of senior

¹⁴ Making up roughly half of FHWA's authorized RD&T funding, STRDD includes a range of projects dealing with pavement, structures, environment, technology, highway safety, planning, and policy.

¹⁵ This plan will serve as a guide for the Department's RD&T investments over the next 5 years.



DOT leaders to prevent unnecessary duplication and resolve cross-modal disagreements. These factors will all play a critical role in improving coordination among the Operating Administrations and ensuring the best use of the Department's substantial RD&T investment.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Volpe's Project Management Oversight*
- *The Role and Functions of the Volpe National Transportation Systems Center*
- *Improving Aviation Safety, Efficiency, and Security: FAA's FY 2001 Budget Request for Research, Engineering, and Development*
- *DOT's Management and Oversight of University-Based Research*



EXHIBIT. COMPARISON OF FY 2007 AND FY 2006 TOP MANAGEMENT CHALLENGES

Items in FY 2007 Report	Items in FY 2006 Report
<ul style="list-style-type: none"> Defining, Developing, and Implementing Strategies To Improve Congested Conditions on the Nation’s Highways, Ports, Airways, and Borders 	<p>—</p>
<ul style="list-style-type: none"> FAA Reauthorization—Reaching Consensus on a Financing Mechanism To Fund FAA and Establishing Funding Requirements 	<ul style="list-style-type: none"> Reauthorizing Aviation Programs—Establishing Requirements and Controlling Costs Are Prerequisites for Examining FAA Financing Options
<ul style="list-style-type: none"> Responding to National Disasters and Emergencies—Assisting Citizens and Facilitating Transportation Infrastructure Reconstruction 	<ul style="list-style-type: none"> Working With Other Agencies To Respond to Disasters and Address Transportation Security
<ul style="list-style-type: none"> Strengthening Efforts To Save Lives by Improving Surface Safety Programs 	<ul style="list-style-type: none"> Building on Recent Initiatives To Further Strengthen Surface Safety Programs
<ul style="list-style-type: none"> Aviation Safety—Performing Oversight That Effectively Utilizes Inspection Resources and Maintaining Aviation System Safety 	<ul style="list-style-type: none"> Aviation Safety—Developing Effective Oversight Programs for Air Carrier Operations, Repair Station Maintenance, and Operational Errors
<ul style="list-style-type: none"> Making the Most of the Federal Resources That Sustain Surface Transportation Infrastructure Improvements by Continuing To Emphasize Project Oversight 	<ul style="list-style-type: none"> Getting the Most for Every Taxpayer Dollar Invested in Highway and Transit Projects
<ul style="list-style-type: none"> Achieving Reform of Intercity Passenger Rail 	<ul style="list-style-type: none"> Reforming Intercity Passenger Rail To Improve Performance
<ul style="list-style-type: none"> Improving Acquisition and Contract Management To Reduce Costs and Eliminate Improper Payments 	<p>—</p>
<ul style="list-style-type: none"> Protecting, Monitoring, and Streamlining Information Technology Resources 	<ul style="list-style-type: none"> Improving Information Technology Investment and Computer Security
<ul style="list-style-type: none"> Strengthening DOT’s Coordination of Research, Development, and Technology Activities and Funding 	<p>—</p>
<p>—</p>	<ul style="list-style-type: none"> Ensuring That Reforms Are Implemented in the Maritime Administration’s Title XI Loan Guarantee Program
<p>—</p>	<ul style="list-style-type: none"> Mitigating Flight Delays and Relieving Congestion—Actions Needed To Meet Demand

Exhibit. Comparison of FY 2007 and FY 2006 Top Management Challenges

APPENDIX. OST COMMENTS



**U.S. Department of
Transportation**
Office of the Secretary
of Transportation

Memorandum

ACTION: Departmental Comments on the OIG Draft Report – Top Management Challenges, Department of Transportation

Subject: **ACTION:** Departmental Comments on the OIG Draft Report – Top Management Challenges, Department of Transportation

Date: October 31, 2006

From: Phyllis F. Scheinberg
Assistant Secretary for Budget and Programs/Chief Financial Officer

Reply to
Attn. of:

To: Calvin L. Scovel III
Inspector General

We appreciate the opportunity to review and comment on the Office of Inspector General's (OIG) Top Management Challenges Report for the Department of Transportation (DOT). We value the perspective offered by the OIG and your efforts to help the Department's management ensure DOT's programs are on track and its operations are effective, efficient and financially sound. We are pleased that the issues identified in this report largely coincide with Secretary Peter's goals of continued improvement in transportation safety with particular effort directed at groups experiencing disproportionate crashes and fatalities, improving transportation system performance and reducing congestion. The Secretary has made clear that we need to seek 21st century solutions to the 21st century issues we face. We are also pleased to note that DOT is taking meaningful actions relating to each of the management challenges identified in this report.

We provide the following discussion, which offers some highlights of those actions, to be included in the final OIG Top Management Challenges report. Separately we provided OIG with detailed comments related to specific and technical issues in the draft report.

Seeking New Solutions to Relieve Congested Transportation Systems

Recognizing the burden that congestion places on our economy, environment, and public welfare, DOT launched a National Strategy to Reduce Congestion on America's Transportation Network during the past year. Congestion in the Nation's ports, rail systems and highways pose an increasingly significant threat to our economic vitality.

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The Nation's transportation systems must adjust to changing trade flows to enable the efficient flow of goods throughout the economy. Congestion is also affecting the quality of Americans lives by robbing them of time that could be spent with families and friends. Under the Congestion Initiative, the Department is conducting intermodal efforts to relieve urban congestion, unleash private sector investment resources, promote operational and technological improvements, establish a "Corridors of the Future" competition, target major freight bottlenecks and expand freight policy outreach, and accelerate major aviation capacity projects. The Department recognizes the challenges ahead and has issued its strategic plan for Fiscal Year (FY) 2007 and beyond that weaves together a cooperative intermodal approach to improve transportation system efficiency and enable the efficient flow of both passengers and freight.

Working to Identify Equitable Funding Mechanisms for FAA Reauthorization

The Department is working aggressively to explore possible alternative funding mechanisms for the Federal Aviation Administration (FAA) in an effort to help to keep this Nation's aviation system second to none. FAA is conducting extensive outreach to its stakeholders in order to understand the implications of alternative funding options. FAA is refining its Cost Accounting System to clearly identify the cost of providing its wide range of services to the various users of the National Airspace System (NAS). We seek a funding mechanism that provides a more rational, equitable and stable system along with appropriate incentives for system users and FAA to operate efficiently. The increasing demands being placed on the NAS and evolving technologies with potential application to air traffic control have brought about the need to focus on new approaches to NAS management in the future. Through the Joint Planning and Development Office, the Department, together with stakeholders, is working to bring future demands and capabilities into focus in a Next Generation Air Transportation System.

Expedient, Effective Transportation Services for Natural Disasters and Emergencies

The Department's role in responding to natural disasters and other emergencies is to maintain readiness and provide the capability to quickly move the people and goods necessary for emergency response and recovery, and over time to assist with reconstruction. In addition, this year the President expanded the Department's role during times of emergency to include movement of the general population away from danger. In response to an emergency, speed and efficiency of movement are the first and most critical concerns. Nonetheless we recognize that effective stewardship also requires that the Department provide transportation services in a manner that is economic and derives the maximum benefit from each dollar expended. The Gulf Coast hurricanes of 2005 provided the largest test of the Department's capabilities to date. The results of these efforts were extensively reviewed and changes were implemented to improve future performance. Additional work is continuing to ensure that prices charged during the emergency conditions, were reasonable.

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Departmental Programs Continue to Focus on Improving Surface Transportation Safety

Transportation safety is the primary focus of the Secretary and the Department. Thanks to the efforts of organizations including the National Highway Traffic Safety Administration (NHTSA), the Federal Motor Carrier Safety Administration (FMCSA), and the Federal Railroad Administration (FRA) and others throughout the Department continued progress has been achieved in reducing traffic fatalities related to alcohol consumption and large truck crashes. Safety belt usage in private vehicles has risen to record levels, and NHTSA continues to evaluate the efficacy of new active safety devices such as vehicle stability control systems which offer significant potential for saving additional lives. The Department continues to set aggressive targets for reducing fatalities associated with surface transportation. Our detailed data analyses provide information on both success and failure in meeting those goals, but also pinpoints new trends, opportunities, and challenges. For example, analysis of motorcycle-related fatalities pinpointed the need to address the trend of increased motorcycle use by older populations. DOT is using such data and analyses to identify initiatives that will better focus scarce Federal resources on emerging trends and identify opportunities for significant safety improvement. Finally, the Department recognizes the need to establish tunnel management systems addressing the various features of highway and rail transportation tunnels. The Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) jointly developed the "Highway and Rail Transit Tunnel Inspection Manual," to provide highway and rail transit tunnel owners guidance in developing a comprehensive inspection and maintenance program.

FAA Efforts Continue to Improve Aviation Safety Oversight

FAA continued to oversee one of the safest aviation systems in the world during the past year. While FAA continues to make progress on its system safety indicators, some accidents did occur. As part of its efforts to ensure that the Nation maintains the exceptionally high level of safety we have grown to expect in the face of new and expanding system challenges, FAA continues to implement and refine its data-driven, analytically based system to focus inspector resources on those areas of greatest risk. In the operational environment, the latest available data show an improvement in FY 2006 compared to FY 2005. For example, the data show a 20 percent decrease in accidents for the first 9 months of the FY for commercial air carriers and similar improvement for general aviation. While these findings are encouraging, they represent a snapshot in time and continued diligence will be required to achieve further improvement.

Efforts in Place to Maintain and Enhance Federal Funds Stewardship

The Department continues to expect and demand nothing less than full accountability over the use of Federal funds and works hard to ensure that its expenditures are effective and efficient. The Department recognizes that it must function effectively in a world where there is increasing competition for scarce Federal resources. As recognized in the management challenges report, the FHWA continued to strengthen its oversight of

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inactive obligations. As a result, it was able to utilize nearly three-quarters of a billion dollars in funds for current transportation priorities. FTA also continues its strong oversight of Federal funds for the construction of major new transit projects under its New Starts Program and the replacement of transit infrastructure destroyed in the attacks of September 2001.

DOT is a Proponent of Amtrak Reform and Effective Oversight

DOT, by working with the Congress and through its membership on the Amtrak Board of Directors, has been a vocal proponent of effective Amtrak reform to increase management accountability and encourage response to market forces. During the past year, FRA enhanced the grant agreements it completes each year with Amtrak, to improve oversight and provide meaningful requirements intended to improve management of the railroad. We also note that Amtrak has implemented important reforms in key areas, such as procurement, that offer the potential for continuing improvement in the future. Overall, Amtrak must focus on those services and markets with the greatest return on investment to achieve long-term success. The type and extent of future Federal support should be commensurate with a 21st century national passenger rail system. We are continuing to work with Amtrak and the Congress to bring about effective intercity passenger rail reform.

DOT Maintains Effective Acquisition and Contracting Policies

The Department appreciates the OIG report's recognition of FHWA's improved oversight of inactive highway funds and agrees that heightened oversight would benefit the overall effectiveness of acquisition and procurement programs. DOT management has taken initiative to implement improved systems. For example, the Office of the Senior Procurement Executive has implemented new purchase card systems and processes to enable the Department to continue to enjoy the purchase card program's benefits while improving internal controls. Also, the Office of Senior Procurement Executive is working to strengthen controls over cooperative agreements, to improve planning for contract audits, and to improve internal DOT suspension and debarment processes. Further improvement must be set against a continuing outlook for constrained resources available to implement additional or expanded controls. As a result, we must rely on creative solutions, and the continued effective efforts by the both the audit and investigative teams within the OIG.

Actions Continue to Address Information Technology Security, Investment and Enterprise Architecture

DOT continues to strengthen its information technology (IT) infrastructure by addressing computer security issues, improving IT acquisition oversight, and updating its enterprise architecture. DOT has certified and accredited over 99 percent of its IT systems and improved its Plan of Action and Milestone Process. Taken together, these steps assure management that agency systems meet a minimum level of baseline requirements, and where there are risks, a plan of action and milestones process is in place to mitigate those

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risks. In support of improving management controls, DOT exercised increased oversight of at-risk major IT programs. Building on plans developed over the past year, and with the support of the Office of Management and Budget, the Department continues to reduce the risks associated with FAA Air Traffic Control Modernization. Finally, the coming year brings a particularly challenging IT environment in which the Department must continue to fulfill the high standards established for Federal IT systems while consolidating its IT environment and moving to a new headquarters building.

New Departmental Focal Point for Coordinating Research, Development and Technology

The Research and Innovative Technology Administration (RITA) offers the Department a single, focused entity to coordinate, facilitate and evaluate its research, development and technology (RD&T) activities. RITA's efforts include advancing innovative technologies and providing comprehensive transportation statistics research, analysis, and reporting. RITA is striving to excel in its RD&T coordination role while facing the administrative challenges of standing up a new organization amid pervasive resource challenges. In the face of these issues it is gratifying to see that a recent Government Accountability Office (GAO) report noted the significant progress RITA has achieved since GAO last reviewed the Department's RD&T coordination activities. While much has been achieved, we recognize that RITA has just embarked on a journey that will require much work and sufficient resources to meet the Mineta Act mandates.

In conclusion, we appreciate and benefit from perspective offered by the OIG and seek to make the best use of information from its reports in improving the Department's programs. The issues identified in this report align well with the Department's efforts to enable the Nation to benefit from a safe, efficient, and effective transportation system. Finally, we look forward to a constructive exchange of ideas and information with you in each of these areas.

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DOT FY 2006 OMB Program Assessment Rating Tool (PART) PROGRAM

Summaries from the FY 2006 PART evaluation cycle are shown below:

Program Name	FAA – Facilities and Equipment
Strategic Goal(s) Effected	Organizational Excellence
Score	55% – Adequate
Major Findings/ Recommendations	<ul style="list-style-type: none"> ○ Continue efforts to develop better internal financial management standards and controls to validate the basis for estimating capital program costs and benefits. ○ Improve contract management discipline by increasing the use of performance-based contracts and employing an incremental lifecycle approach. ○ Revise the Acquisition Management System to ensure it aligns with the government standards for justifying capital investments in FY 2005.
Actions Planned/Taken	<p>The capital investment team (CIT) is an established group and will continue to function in the review and oversight of major capital project acquisitions to ensure better financial management standards. The CIT's reviews have led to the restructuring or termination of several programs. By FY 2007, FAA will adopt standard cost estimation guidelines to improve accuracy of cost estimates.</p> <p>Improved procurement oversight has enabled us to meet our acquisition goals for cost and schedule for FY 2004 -05. We are on track to meet our goals for FY 2006.</p> <p>FAA has adopted the capital asset plan and business case process recommended by OMB as its own internal process for major IT acquisitions. The Joint Resource Committee (JRC) for major acquisition approved the OMB business case, now the Acquisition Program Baseline (APB).</p>
Program Name	FAA – Aviation Safety
Strategic Goal(s) Effected	Safety: Commercial Air Carrier Fatal Accident Rate, General Aviation Fatal Accidents
Score	84% – Moderately Effective
Major Findings/ Recommendations	<ul style="list-style-type: none"> ○ Develop efficiency metric to measure cost to develop a rulemaking in FY 2005. ○ Conduct look-back study in FY 2005 to determine if rule maximized net benefits.
Actions Planned/Taken	<p>FAA has developed a metric to provide cost per rule. A broader scope efficiency measure would be more representative of the FAA's efforts. The search for such ongoing. After attempting to baseline and determine a suitable target, FAA has contracted with PriceWaterhouseCoopers to analyze labor and cost data to help develop more broad-based efficiency metrics that will allow us to analyze and make decisions based on the data. The timeframe for this to occur is in the September – October 2006.</p> <p>Over the past two years, FAA completed three reviews and has one currently underway. The completed reviews are: (1) Revised Standards for Cargo or Baggage Compartments in Transport Category Airplanes (Class D to Class C Compartments) (FY2004); (2) Fatigue Evaluation of Structure (FY2004); and (3) Revisions of Digital Flight Data Recorder (DFDR) Rules (FY2006). FAA is performing a review of the Terrain Awareness Warning System rule.</p>



Program Name	FHWA – Research and Development Program, Intelligent Transportation Systems
Strategic Goal(s) Effected	Mobility
Score	83% – Moderately Effective
Major Findings/ Recommendations	<ul style="list-style-type: none"> ○ Require the recipients of earmarked funds to demonstrate how projects and intended results support FHWA and DOT goals. ○ Include in FHWA’s RD&T annual performance reports a numeric chart showing progress made towards achieving performance goals at the R&D project level. ○ Discuss how FHWA is implementing the President's R&D investment criteria (relevance, quality, and performance) in the FY 2006 DOT budget and performance documents.
Actions Planned/Taken	All recommendations were completed. Program office is developing new recommendations for Office of Management and Budget (OMB) review.
Program Name	MARAD Maritime Security Program
Strategic Goal(s) Effected	Security
Score	91% – Effective
Major Findings/ Recommendations	<ul style="list-style-type: none"> ○ MARAD has developed and will include in the Budget a new measure to track MSP’s contribution to the total commercial sealift capacity requirement. This will also help DOT evaluate whether the current mix of vessels in the MSP fleet are appropriate. ○ The Budget will also propose to give the MSP more flexibility in entering into contract with the commercial carriers so that the program can better meet the changing requirements of the Department of Defense.
Actions Planned/Taken	All recommendations are completed.
Program Name	Research and Special Programs Administration (now PHMSA) Pipeline Safety
Strategic Goal(s) Effected	Safety
Score	81% – Moderately Effective
Major Findings/ Recommendations	<ul style="list-style-type: none"> ○ Enhance program resources for States to address the performance of gas transmission pipelines. The Administration also will allocate resources to provide improved technical oversight and evaluation of program partners. ○ Include language in pipeline safety grant agreements and other transactions to ensure State program partners commit to and report on the program’s long-term and annual goals. ○ Finalize a program-wide strategic plan, including research and development activities. ○ Develop and collect baseline data for two efficiency measures related to enforcement actions and costs of implementing the Integrity Management Program in HCAs.
Actions Planned/Taken	PHMSA will request authorization authority and resources to provide better technical oversight and recurring systematic evaluation of program partners. Program has developed the language to incorporate the recommendations in pipeline safety agreements. PHMSA is developing a methodology and analyzing the data to develop reasonable baselines for at least two efficiency measures. When will these efforts be complete?



Program Name	FRA Research and Development
Strategic Goal(s) Effected	Safety and Organizational Excellence
Score	77% – Moderately Effective
Major Findings/ Recommendations	<ul style="list-style-type: none"> ○ Develop a strategic framework for managing the program and its component research projects. This would involve developing multi-year R&D program plans that contain detailed schedule and budget information; clear explanations of how research projects support FRA performance goals; standard procedures for soliciting stakeholder input on setting research agendas; and standard procedures for obtaining merit reviews of work performed and funded by FRA. ○ Request \$150,000 in the FY 2006 budget for staff and resources to coordinate this effort. ○ Include in FRA’s annual performance reports a numeric chart showing progress made towards achieving performance goals at the R&D project level. ○ Develop process for tracking ‘on-budget’ and ‘on-schedule’ efficiency measures.
Actions Planned/Taken	FRA has developed and is continuing to refine efficiency measures for this program. Additionally, FRA requested and received funding for a new employee to develop multi-year R&D program plans that contain detailed schedule and budget information and clear explanations of how research projects support strategic goals.
Program Name	FTA – Formula Programs – Section 5307 and 5309
Strategic Goal(s) Effected	Mobility and Organizational Excellence
Score	92% – Effective
Major Findings/ Recommendations	Administration will work with FTA to evaluate ways to improve national ridership rates and to ensure that FTA continues to administer the grants efficiently.
Actions Planned/Taken	FTA has worked with the 150 largest transit agencies to adopt best practices that will lead to increased ridership. FTA has also initiated a three-pronged effort to ensure that the average number of days to award and process a grant, as well as grantee performance, is monitored and controlled. For FY 2006, FTA committed to: ensuring that the average number of days to process a grant is 36 days or fewer, after receipt of a completed application by the appropriate regional offices; closing-out 95% of fully disbursed grants by September 30, 2006; and reducing the backlog of inactive, open grants by 90%.
Program Name	FMCSA –Safety and Operations
Strategic Goal(s) Effected	Highway Safety
Score	73% – Moderately Effective
Major Findings/ Recommendations	<ul style="list-style-type: none"> ○ Develop and implement a comprehensive and recurring Regulatory Evaluation program. This program will provide a comprehensive review of Agency regulations to evaluate their timeliness and effectiveness in improving Agency performance. ○ Develop and implement a comprehensive Quality Assurance Program to ensure Agency programs and practices are consistent, standardized and applied in a timely manner.
Actions Planned/Taken	All recommendations have been completed.



Program Name	NHTSA – Operations and Research
Strategic Goal(s) Effected	Highway Safety
Score	75% – Moderately Effective
Major Findings/ Recommendations	<ul style="list-style-type: none"> ○ Increase funding for fatality data analysis to ensure that DOT has timely and accurate fatalities statistics. ○ Conduct a review of completed safety evaluations to determine the effectiveness of programs in contributing to safety goals. ○ Implement its Motorcycle Safety Program Plan to identify methods and strategies for improving motorcycle safety.
Actions Planned/Taken	<p>Following the passage of SAFETEA-LU, FastFARS (Early Fatality Notification System) was initiated, with a goal of providing more timely fatality counts so States can use the information to improve their highway safety programs within weeks, rather than over a year later.</p> <p>A review was conducted of the effectiveness of enacted rulemakings and NHTSA vehicle and behavioral safety programs, which enables the Agency to prioritize future rule making actions. For example, Electronic Stability Control (ESC), initially installed in SUVs and a few expensive passenger vehicles, was evaluated and found to be highly effective. NHTSA is initiating a rulemaking for ESC to be a required feature in all private vehicles.</p> <p>The 2006 Motorcycle Safety Plan, which incorporates SAFETEA-LU mandates and new initiatives, has been completed and can be viewed at: http://www.nhtsa.dot.gov/people/injury/pedbimot/motorcycle/MotorcycleSafety.pdf</p>



IPIA REPORTING DETAILS

1. Improper Payment Program Risk Assessment Description

In prior years, the Department identified the following ten programs as being susceptible to significant improper payments. At that time, the ten programs in the table below were identified as having the highest potential for improper payments.

Operating Administration	Program
Federal Highway Administration	<ul style="list-style-type: none"> • Federal-aid Highway Program – State Project* • Federal Lands Highway Program – Contracts*
Federal Aviation Administration	<ul style="list-style-type: none"> • Operations • Facilities and Equipment • Airport Improvement Program*
Federal Transit Administration	<ul style="list-style-type: none"> • Capital Investment Grants* • Formula Grants*
Office of the Secretary of Transportation	<ul style="list-style-type: none"> • Working Capital Fund • DOT Payroll**
Federal Railroad Administration	<ul style="list-style-type: none"> • Grants

*Identified in the former Section 57 of OMB Circular A-11

**For administrative purposes, payroll was reviewed as a single program for all of DOT

Bolded programs were included in the FY 2006 IPIA review

In accordance with IPIA requirements and OMB guidelines, during FY 2004 and 2005 the Programs reflected in the Table above were subject to a risk assessment and an in-depth improper payment review, including a review of payments by the Department to grantees. No improper payments exceeding both 2.5 percent of program payments and \$10 million were found. The ten identified programs were subject to a risk assessment based on the following criteria: Gross Expended Amount, Complexity of Payments, Established Internal Controls and Oversight, Type of Program Recipient, Number of Program Recipients, Volume of Payments, Probability of Growth, and Changes in the Program from the previous year. The risk criterion was used to determine the sampling size for each program. From that, each program underwent an in depth statistically based improper payment review.

Based on these reviews, which spanned two fiscal years, the Department concluded that all but four programs were not susceptible to significant improper payments as defined by the OMB. For these four programs, because of the significance of grantee payments and the fact that such payments were not tested under previous efforts due to a lack of data at the Federal level required for testing, additional testing was required. The four programs are the Federal Highway Administration Federal-aid Highway Program, Federal Aviation Administration Airport Improvement Program, and Federal Transit Administration Formula Grants Program and Capital Investment Grant Program. Because of program



and funding changes, the Department is assessing the extent of testing required for the FTA Capital Investment Grant Program.

In Fiscal Year 2006, to address payments by grantees, the Department developed and tested a model for estimating the amount of improper payments in the Federal Highway Administration's (FHWA) Federal-aid Highway Program and committed to developing and testing a model for estimating the amount of improper payments in the Federal Transit Administration's (FTA) Formula Grants Program and the Federal Aviation Administration's (FAA) Airport Improvement Program. These Programs were designated in former Section 57 of OMB Circular A-11 as programs susceptible to significant improper payment.

In FY 2006, the Department re-engaged AOC Solutions, Inc. to execute the model developed for the Federal-aid Highway Program nationwide and to develop and test the models for FTA Formula Grant Program and FAA Airport Improvement Program. The results of the testing process for each of these programs are described below.

- **FHWA, Federal-aid Highway Program** – Improper payments totaling \$125,508.56 were found in the sample of 928 tested items. The projection of this result to the population of Program payments for the five month period results in an improper payment estimate of \$30.15 million +/- \$35.04 million. This projection does not meet OMB's definition of significant improper payments (\$10 million and 2.5 percent of total program payments).
- **FTA, Formula Grants Program** – This review, which was designed solely to test the sufficiency of the model, covered Federal payments to grantees during the period October 1, 2005 through June 30, 2006 and related payments by these grantees. For the first grantee, the review found administrative and contractual compliance as addressed in the test model and no improper payments. For the second grantee, improper payments totaling \$11,664.08 were found in the sample of tested payments. The projection of this result to the population of payments under the Program by the grantee is an improper payment estimate of \$252,000.00.
- **FAA, Airport Improvement Program** – This review, which also was designed solely to test the sufficiency of the model, covered federal payments to a single grantee during the period October 1, 2005 through June 30, 2006 and related payments by this grantee. The review found administrative and contractual compliance as addressed in the test model and no improper payments.

The Department will execute the test models nationwide covering a 12 month period for these programs in FY 2007, and at the conclusion of the testing process is able to provide a full assessment of their risk to substantial improper payments.

2. Statistical Sampling Process Used for Estimating the Improper Payment Rate

Federal-aid Highway Program

For the FHWA Federal-aid Highway Program, the statistical sampling process used a three-stage approach designed with a 90 percent confidence level, which indicates a 90



percent likelihood that the true population is within the results of the sample value, with a 2.5 percent margin of error. Stage One involved selecting federal payments to states. In order to obtain a sample that included invoices from each of the 52 states, the population of federal payments from October 1, 2005 through February 28, 2006 was segregated by state and territory and then further divided into high or low strata. For each state and territory, two payments were randomly selected from the high stratum and one payment was randomly selected from the low stratum. In this manner, each state except Puerto Rico contributed three payments to the Stage One sample. Puerto Rico contributed two payments to the Stage One sample. (Puerto Rico contained just one payment in the high stratum, so it was included in the sample along with a randomly selected payment from the low stratum—for a total of two.) A Stage One sample of 155 federal payments was selected using this stratification scheme.

Stage Two involved selecting state payments associated with a selected Federal payment. For each of the federal payments selected in the Stage One sample, the state grantee provided lists showing the supporting state level payments to contractors or lists showing internal state documents capturing internal charges. A stratified random sample from each list of state payments was selected by first stratifying the list into two groups, those state payments that met or exceeded the 90th percentile of the dollar distribution in the panel (i.e. the high strata), and those state payments below the 90th percentile (i.e. the low strata). After the lists were stratified, three state payments from each stratum were randomly selected. Using this method, at most six state payments (three from the high strata and three from the low strata) were selected for each federal payment under review.

Stage Three involved selecting line items from contractor invoices and internal state documents for testing. The ultimate test unit was the line item on the contractor invoice or state internal document. For each of the state payments selected in the Stage Two sample, the state grantee provided the actual contractor invoices and/or internal documents showing various materials and services delivered on an approved project. Detailed line item expenditure pools were created from the state's backup. These expenditure pools represented the universe of test units associated with the state payment. After the line items expenditure pools were identified, simple random sampling was used to identify the testable units. For each state payment, three line items were selected. During testing, a payment line item was categorized as proper if all applicable test model questions were answered in the affirmative.

FTA Formula Grants Program and FAA Airport Improvement Grant Program

For the FTA Formula Grants Program and the FAA Airport Improvement Program, a multi-staged statistical sampling approach designed with a 90 percent confidence level was also used. The Formula Grants Program review sampling frame started with the universe of federal payments to two grantees from October 1, 2005 through June 30, 2006. All grantee payments to contractors supporting these federal payments were identified and the first stage sample was drawn from this list. For the first grantee, the largest 12 payments and for the second grantee, the largest 14 payments were identified as the “certainty stratum.” All of these payments were selected. Probability proportional to size was used to select the remaining payments. When nested invoices were found,



sub-sampling with probability proportional to size continued. Within the selected invoices, the second stage sample was drawn using probability proportional to size. In this manner, 100 line items for the first grantee and 18 line items for the second grantee were selected for testing. During testing, a line item was categorized as proper if all applicable test model questions were answered in the affirmative. For the first grantee, the review found administrative and contractual compliance as addressed in the test model and no improper payments. For the second grantee, improper payments totaling \$11,664.08 were found in the sample of tested payments. The sample size was 18 payments selected from a population of 100 payments. The projection of this result to the population of payments under the Program by the grantee is an improper payment estimate of \$252,000.00.

The Airports Improvement Program review sampling frame started with a universe of federal payments to one sponsor from October 1, 2005 through June 30, 2006. All sponsor payments to contractors supporting these federal payments were identified and the first stage sample was drawn from this list. All invoices with total amounts above the certainty cut-off amount of \$600,000 were automatically included in the sample. Smaller invoices were sampled with their probability of selection proportional to their size. Within the selected invoices, the second stage sample was drawn. All line items above the certainty cut-off amount of \$50,000 were automatically included. Smaller invoices were sampled with their probability of selection proportional to their size. In this manner, 234 line items were selected for testing. For federal payments categorized as reimbursements for a percentage of allowable costs, a payment was considered proper if the sponsor had, at the time of drawdown, incurred allowable costs meeting or exceeding the federal grant.

3. Corrective Action Plans for Reducing the Estimated Rate of Improper Payments.

FHWA Federal-aid Highway Program

FHWA Division Offices listed the following reasons for the improper payments identified as a result of the IPIA review: Data entry errors, missing approvals, incorrect cost allocations, payments for missing field office equipment, unallowable charges, materials received not in accordance with contract terms, and source documentation not supporting payment amounts.

The Department and the FHWA will implement fully the Financial Integrity Review and Evaluation Program in FY 2007 to monitor State and Territory payments and provide a mechanism for assisting these entities with addressing effectively operational issues that result or could result in improper payments. The Department believes that this proactive approach will establish internal control mechanisms for both preventing and detecting improper payments through effective oversight and outreach, the latter being intended to assist grantees in improving program management.

FTA Formula Grants Program and FAA Airport Improvement Program

Since the effort to date has been on IPIA model development and testing, the Department, FTA, and the FAA have no statistics on the amount and rate of improper payments for



these programs. The Department, FTA, and the FAA developed and tested a model for testing grantee payments under these Programs. The objectives of the FY 2006 effort were to develop the model and field test it to assist the FTA and FAA in incorporating the test procedures into their respective grants management oversight policies and procedures. The FY 2006 model development and testing effort was not designed to provide a nationwide or program-wide estimate of improper payments. However, in FY 2007, this test model will be executed nationwide for these programs.

4. Department Accomplishments in Grant Programs

The Department completed the development and testing of models for determining the amount and rate of improper payments in its major grant programs. The FHWA review of the Federal-aid Highway Program represented nationwide application of an innovative research and develop strategy implemented in FY 2005 and updated in FY 2006. This methodology successfully resolved a limitation of prior year efforts examining federal outlays to primary recipients. As discussed above, methodology models that reached grantee level data in the FTA and FAA programs were developed and field tested in FY 2006. These models will be rolled out nationwide in 2007.



5. Improper Payment Estimated Error Rates, Dollar Estimates, and Outlook

Program	PY		CY ¹		CY +1		CY +2		CY +3	
	IP %	IP \$	IP %	IP \$	IP %	IP \$	IP %	IP \$	IP %	IP \$
FHWA: Federal-aid Highway Program	NA	NA	.247%	\$30.15 million	NA	NA	NA	NA	NA	NA
FTA: Formula Grants Program	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
FAA: Airport Improvement Program	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

¹ CY percentages are for only a 5 month period. FY 2007 will be the first year in which an entire 12 month period will be tested for improper payments.



6. Recovery Audit Results

Starting in FY 2002, the Department engaged PRG-Shultz to provide recovery audit services. In FY 2005, this contract was re-competed and awarded to Horn and Associates. Since award of this new contract, staff from Horn has been working to identify overpayments and other areas of weakness. The recovery auditor has been granted access to our financial system to review payment records and has been tightly integrated into our existing business processes with minimal disruption or cost to the government.

To date, the recovery auditor has not uncovered any chronic problems with DOT's business processes and procedures. They are currently in the process of reviewing contracts, vendor statements, and real estate leases. The chart below depicts their findings to date:

Agency Component	Amount Subject to Review for CY Reporting	Amounts Identified for Recovery	Amounts Identified/Amounts Reviewed	Amounts Recovered CY	Amounts Recovered PY
OST	\$ 2,846,512,015	\$ 65,751,781	\$ 68,961	\$ 0	\$ 0
FAA	9,528,068,552	150,219,554	4,739,975	45,109	0
FHWA	2,343,398,062	218,995,827	340,622	0	0
FMCSA	182,705,574	5,740,338	97,273	0	0
FRA	5,815,740,923	922,035,393	72,384	0	0
FTA	327,017,797	10,908,847	563,769	0	0
MARAD	2,014,025,448	48,528,867	568,010	0	0
NHTSA	1,857,952,895	5,920,159	0	0	0
OIG	42,465,487	415,809	0	0	0
PHMSA	28,261,569	4,021	0	0	0
RITA	19,823,586	13,337	0	0	0
STB	1,259,489	10,832	0	0	0
TOTAL	\$25,007,231,396	\$1,428,544,765	\$6,450,993	\$45,109	\$0

7. Department Plans for Ensuring Managers are Held Accountable for Reducing and Recovering Improper Payments

Department management continues to take a strong role in ensuring that agency managers are held accountable for reducing and recovering improper payments. The Deputy CFO has taken the lead in initiative and is heavily involved in the daily decisions of the program. Additionally, the Department's CFO has taken a role in advocating the program. During the year our CFO spoke at an American Association of State Highway Transportation Officials meeting on the initiative.



Monthly, the Department's chief financial officers and agency financial managers are briefed at the CFO Council and Financial Management Committee meetings on the status of improper payment initiatives. Additionally, monthly reports are distributed to all levels of the Department outlining the work of the recovery audits.

To date there have been no significant improper payments identified that are necessary to reduce and recover. If improper payments are found, the Office of the Secretary/Office of Financial Management will work with the organization to ensure that reduction targets and recovery rates are established.

8. Information Systems and Infrastructure Requirements to Reduce Improper Payments

The Department is completing full implementation of the IPIA and at this point has not identified a need for any additional systems and infrastructure requirements.

9. Describe the statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

The Department has not identified any statutory or regulatory barriers that limit its corrective action efforts.



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Sylvia Davis	Laurie Howard	Willie Miller	Alexis Stefani
Gretchen	Lana Hurdle	Linda Moody	James Taylor
DePasquale	Alan Jeeves	Maribeth Monti	David Tochen
Tyler Duvall	Andrew Julian	Ray Morris	Robert Tuccillo
Sheldon Edner	Catherine Johnson	Kevin O'Malley	Michael Tyler
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U.S. DEPARTMENT OF TRANSPORTATION
400 7TH STREET, SW
WASHINGTON, D.C. 20590
WWW.DOT.GOV