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## MESSAGE FROM THE SECRETARY



The top priorities of the Department of Transportation (DOT) are to keep the traveling public safe, to increase mobility, and to ensure that our transportation system supports the Nation's economic growth and development. To ensure we achieve our goals, DOT managers keep a watchful eye on performance metrics and closely monitor our progress.

I'm proud to report that for the last five years, DOT has earned an unqualified audit opinion on our financial statements. This shows that we provide strong stewardship and accountability for the resources entrusted to us by the Nation. To improve our operations, we continue to consolidate and streamline programs and to improve service delivery and project management. To support these efforts, this year the Congress realigned programs and established two new organizations within the Department: the Pipeline and Hazardous Materials Safety Administration and the Research and Innovative Technology Administration.

## TRANSPORTATION SAFETY

Safety remains our most important strategic goal, and the Nation's roads are the safest in history. However, highway crashes cause 95 percent of all transportation-related fatalities and 99 percent of transportation injuries and are the leading cause of death for people ages 4 through 33. Alcohol is the biggest contributing factor to fatal crashes, claiming 16,694 lives in 2004 alone (39 percent of all crash related fatalities). Our projected highway fatality rate is the lowest in 30 years, but is still higher than our target. An upsurge in the number of trucks on the road and the number of miles traveled caused a slight increase in truck-related fatalities. The Department is realizing that we may have achieved as much as possible with our current safety strategies. To continue to make our roads safer, we will need to explore new strategies and technologies and best practices.

In May 2005, I unveiled a new National Rail Safety Action Plan that will analyze data to identify potential high risk accident causes so we can focus oversight and inspection resources on them.

## SURFACE TRANSPORTATION RE-AUTHORIZATION

On August 10, 2005, the President signed into law the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which authorizes transportation programs for highways, highway safety, hazardous materials transportation, transit, and motor carriers for 2005 through 2009. With \$286.4 billion in funding for highways, highway safety, and public transportation, SAFETEA-LU represents the largest surface transportation investment in our Nation's history. SAFETEA-LU also refines the programmatic framework for the investments needed to maintain and grow our vital transportation infrastructure. SAFETEA-LU promotes more efficient and effective surface transportation programs by focusing funding on transportation issues of National significance, while giving State and local transportation decision makers more flexibility for solving transportation problems in their communities.

We are also preparing for the reauthorization of our aviation programs and the Aviation Trust Fund that supports them. As always, we are requesting public input and involving our stakeholders in preparing for aviation reauthorization.



## **NEXT GENERATION AIR TRANSPORTATION SYSTEM**

Our Nation's air transportation system serves as a critical engine of economic growth and facilitates the safe and efficient movement of people and goods across the globe. We must be prepared to accommodate this growing demand in the years ahead. The Next Generation Air Transportation System will take advantage of the latest technologies while incorporating the many security improvements that have been introduced in the recent years. It will also establish an effective security system without limiting mobility or civil liberties; reduce the impact of weather on air travel by using enhanced weather forecasts; minimize the impact of aircraft noise and emissions; and harmonize global air operations standards, policies and procedures.

As air travel levels have increased and are set to surpass pre-September 11, 2001 levels, airport capacity is becoming a pressing issue. The Federal Aviation Administration is implementing an Operational Evolution Plan to keep pace with airport demand over the next decade. This Plan focuses on infrastructure, primarily runways, as well as new technology and enhanced processes. The Plan is based on the Nation's changing population distribution, particularly in the South and Southwest, to ensure that capacity needs are addressed before they become aviation choke points.

The Department continues to negotiate "open skies" agreements—bilateral agreements that let passenger demand and market conditions, not government regulation, determine landing and departure schedules. New agreements with Ethiopia, India, Maldives, Paraguay, Thailand and Uruguay have created access to better quality, lower priced air service for almost 3 billion people.

## **SECURITY**

The relationship between transportation security and maintaining transportation's contributions to our Nation's economic vitality is a critical challenge facing several Departments. Working with the Department of Homeland Security, we are continuing to enhance the security of the Nation's transit systems and the St. Lawrence Seaway infrastructure, and we are working to harmonize safety and security regulations for the rail industry. We are working with the States to enhance the security of highway connections to strategic ports and critical elements on the highway system, such as tunnels and bridges, and are working with the Military Transportation Command to ensure adequate planning for the strategic movement of military cargos on the highways. The Federal Motor Carrier Safety Administration is working with the Departments of Justice and Homeland Security and the American Association of Motor Vehicle Administrators to update security checks for hazardous materials endorsements on commercial driver licenses.

## **PRESIDENT'S MANAGEMENT AGENDA**

The Department maintained four *green* status ratings on the President's Management Agenda scorecard in FY 2005. For the competitive sourcing goal, DOT completed seven competitions, including a large, complex competition for FAA's automated flight service stations. To date DOT has completed 20 competitions for 2,900 positions with anticipated savings of \$2 billion. For the human capital goal, we linked our performance management system to our strategic goals and enhanced our accountability system and training for managers. Under the E-Government goal, we migrated DOT employees to a new payroll and personnel system and service provider. For the budget-performance integration goal, we



incorporated marginal cost of performance data for each operating administration into our FY 2007 budget request and presented our marginal cost of performance methodology at a government-wide summit as a model to other Federal agencies.

I'm also proud that in February 2005, DOT was named a Center of Excellence to provide our financial system and services to other Federal agencies. DOT now cross-services the National Endowment for the Arts and recently signed up two new customers: the Commodity Futures Trading Commission and the Institute for Museum and Library Services.

### **HURRICANE RELIEF STEWARDSHIP**

Under the National Response Plan, DOT is the lead agency for providing transportation in disaster areas. Following Hurricane Katrina, we immediately sent personnel and direct support to the affected region. DOT coordinated the largest civilian airlift operation in U.S. history to move evacuees to safe locations and coordinated the formation of an emergency bus fleet rivaling the size of the Greyhound fleet in a matter of days. In addition, we moved 14,000 truckloads of water, ice, meals ready-to-eat, and generators. I took the initiative to activate our Ready Reserve Force vessels to support command and control centers. DOT is a critical part of the on-going effort to repair the infrastructure at airports, roadways, ports and pipelines.

### **PROGRAM AND FINANCIAL PERFORMANCE**

Our FY 2005 *Performance and Accountability Report* contains performance and financial data that are substantially complete and reliable. The *Performance Data Completeness and Reliability* section in the report contains a detailed assessment of the inadequacies in DOT's performance data, and explains how we will remedy those deficiencies. The Department continues to work to ensure we have no material noncompliance with laws or regulations. However, DOT has a qualified statement of assurance with exceptions noted under the Federal Managers' Financial Integrity Act (FMFIA). Three material weaknesses are for Section 2 and one material weakness is for Section 4. We will continue to make improvements throughout FY 2006.

### **CONCLUSION**

Our accomplishments underscore the Department's commitment to continue improving the management of all our resources and programs. While reporting on our accomplishments over the last year, this report also provides a blueprint for our future performance objectives in safety, mobility, global connectivity, environmental stewardship and security. I look forward to continuing to work with the President, the Administration, and the Congress to achieve a safer, simpler and smarter transportation system for our Nation.

November 15, 2005



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



The Department of Transportation (DOT) has significantly improved its financial management over the last year. It is now two years since we became the first cabinet level agency to finish converting all our organizations to a state-of-the-art financial management system. Our 3,500 system users are realizing significant benefits from the new system, including receiving financial statements produced from our core accounting system monthly and at the end of the fiscal year. We are very proud that we have earned an unqualified audit opinion on the DOT consolidated financial statements for the last 5 years and that we have continued to meet the accelerated deadline for audited financial statements.

In July 2005, I issued a new policy that enhances the organizational placement and oversight functions of the Chief Financial Officer (CFO) in each DOT Operating Administration. The effectiveness of our financial managers is enhanced by our Departmental CFO Council and the specialized financial workgroups we have established to resolve specific issues.

The FY 2005 financial audit determined that two material weaknesses have been downgraded to reportable conditions (reconciliation within DOT and with other Federal agencies, and financial systems controls). While significant progress has also been made on grants oversight and financial reporting for Highway Trust Fund agencies, they remain material weaknesses. In addition, the Federal Aviation Administration (FAA) has a new material weakness in timely processing of transactions and reconciliation of accounts. Solutions for correcting audit weaknesses and noncompliance include better oversight and stronger controls over financial operations. We are committed to correcting these issues as quickly as possible.

### **DESIGNATED A FINANCIAL MANAGEMENT CENTER OF EXCELLENCE**

In February 2005, the President's FY 2006 budget named DOT as one of four government-wide Financial Management Centers of Excellence. Through this designation, other Federal agencies are encouraged to take advantage of the experience and expertise DOT developed as we implemented our new financial system. By using DOT's financial system, other agencies lower their cost and risks in adopting a new financial system and realize significant economies of scale. Joining our first customer, the National Endowment for the Arts, are two new customers, the Commodity Futures Trading Commission and the Institute for Museum and Library Services, which recently signed up to use our financial system and accounting services.

### **ACCOMPLISHMENTS IN IMPROVING FINANCIAL MANAGEMENT**

In addition to our new processes for monthly and year-end closing and producing financial statements, we have established a new reimbursable agreement reconciliation process and developed a new chart of accounts and sets of books for the Department's two new organizations: the Pipeline and Hazardous Materials Safety Administration and the Research and Innovative Technology Administration.



## **WE ARE ALSO:**

**CONSOLIDATING ACCOUNTING OPERATIONS.** A critical element in strengthening our financial management programs has been to consolidate accounting operations at the Department's Enterprise Services Center, which is operated by the FAA's Mike Monroney Aeronautical Center in Oklahoma City. Accounting functions for nearly all remaining DOT organizations will be consolidated during FY 2006. We are also working closely with the Department's Senior Procurement Executive and the procurement community to be able to interface procurement data directly into our financial system. This will complete the effort started by the FAA, which conducts a majority of DOT procurements and already has its procurement system integrated with the Department's financial system.

**IMPLEMENTING MANAGERIAL COST ACCOUNTING.** The FAA, whose cost accounting system now covers about 90% of its budget, is currently working to implement cost accounting for the two remaining lines of business. During the last quarter of FY 2005, the Federal Highway Administration began implementing labor distribution reporting through the Department's new Time and Attendance and Labor Distribution system. The Federal Transit Administration completed its pilot test on labor distribution reporting, and the entire agency will be reporting labor hours in January 2006, in preparation for full implementation of managerial cost accounting in March 2006.

**CONSOLIDATING REDUNDANT FINANCIAL SYSTEMS.** In early 2004, we completed the sunset of our legacy accounting system, and in early 2006 we are sunsetting our legacy personnel, payroll, and time and attendance systems. Under the Office of Management and Budget (OMB) e-Payroll initiative, during FY 2005 we migrated our 55,000 employees to the Department of the Interior's Federal Personnel and Payroll System. In conjunction with this migration, we upgraded our Time and Attendance and Labor Distribution system to support managerial cost accounting throughout the Department; full implementation of labor distribution will be completed in FY 2006. Also in FY 2006, we will sunset half a dozen legacy travel systems as we complete the Department-wide implementation of our new GovTrip e-Travel system, which is interfaced with the Department's financial system and replaces an earlier self booking system, authorization/voucher processing system, and travel management services with one paperless end-to-end travel solution.

## **PRESIDENT'S MANAGEMENT AGENDA**

The Department has maintained our five *green* scores among eight initiatives on the President's Management Agenda (PMA) goals. For the budget and performance integration goal, we identified efficiency measures for all programs that have been scored by the Program Assessment Rating Tool (PART) and provided marginal cost of performance information in budget submissions for selected performance goals. OMB has recognized DOT as a Government-wide leader in the marginal cost of performance program and asked us to present our approach to other Federal agencies at an OMB-sponsored seminar on improving marginal cost methods and practices.

For the financial performance PMA goal, we developed, pilot-tested, and implemented the first phase of a managers' DASHboard that presents financial and performance data to support business decision-making by our managers. We will be expanding and enhancing our DASHboard throughout FY 2006. For the improper payment PMA goal, DOT completed risk assessments of our largest programs, which revealed an extremely low rate of improper payments. Working with the Tennessee Department of Transportation, we conducted an innovative research project which developed a methodology that we will use to assess improper payments for additional transportation programs across the Nation. We will also include the



Hurricane Katrina response effort in our improper payments assessment program for FY 2006. For the real property PMA goal, the FAA is serving as the executive agent for the Department and is coordinating implementation of the Federal Real Property Council's performance measures.

## **CONCLUSION**

DOT is committed to having a reliable financial management system that produces timely and accurate information for our managers. Now that DOT has been named a Center of Excellence for financial systems and services, we are working with our private sector business partners to add new customers to our Center. Our plans for further enhancing our financial and performance management programs by consolidating financial systems and operations and implementing managerial cost accounting will build on our accomplishments and continue to strengthen our accountability to Congress, the President, and the public in FY 2006 and beyond.

November 15, 2005



# MANAGEMENT'S DISCUSSION & ANALYSIS





## ABOUT THIS REPORT

The Department of Transportation's (DOT) Performance and Accountability Report (PAR) for Fiscal Year 2005 (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.

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

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 CFO Act, as amended by the Government Management Reform Act of 1994—and other reports, such as assurances on internal control, accountability reports by agency heads, and Inspector General assessments of an agency's management challenges.

Additional copies of the Department of Transportation's Fiscal Year 2005 Performance and Accountability Report are available by writing to

U.S. Department of Transportation  
Office of the Chief Financial Officer  
400 7th Street S.W., Room 10101  
Washington, DC 20590

**YOU MAY ALSO VIEW THIS REPORT ONLINE AT [HTTP://WWW.DOT.GOV](http://www.dot.gov)**



## 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 2005; 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, *Preparing, Submitting and Executing the Budget*. The results are presented by Strategic Objective.

### 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

To develop and administer policies and programs that contribute to providing fast, safe, efficient, and convenient transportation at the lowest cost consistent with the National objectives of general welfare, economic growth and stability, the National security, and 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, courtesy 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

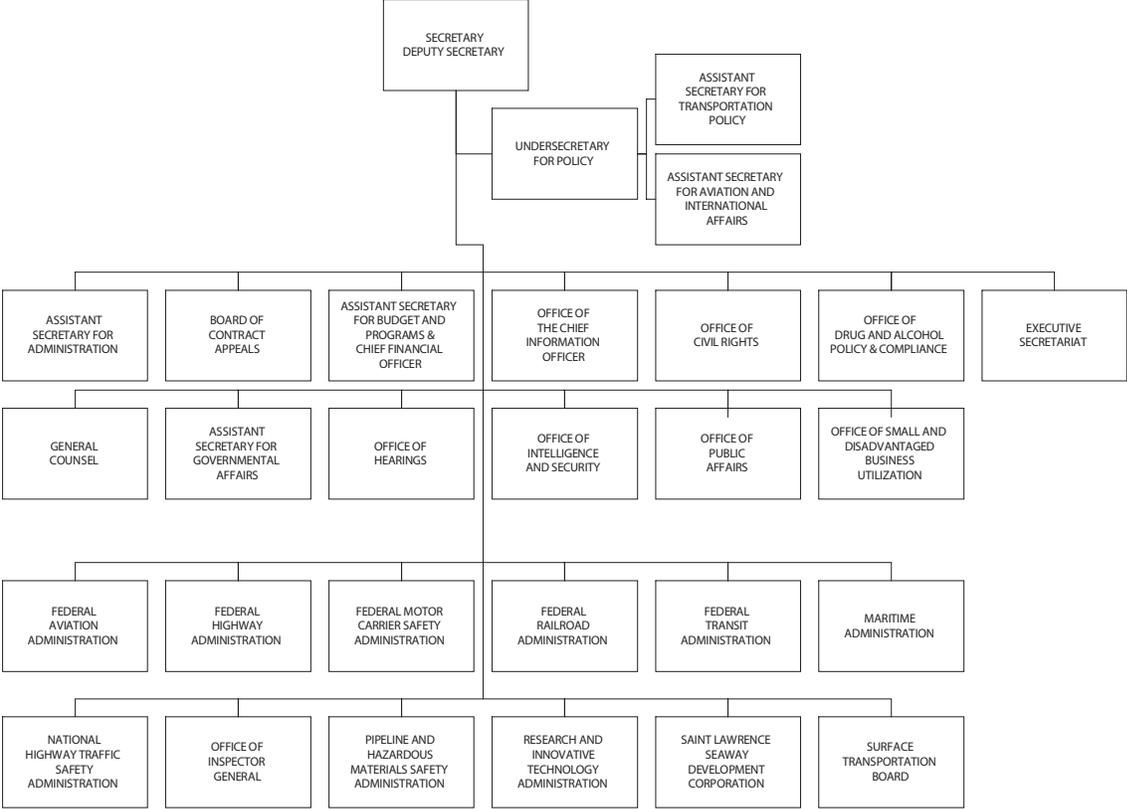
## HISTORY

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 OA 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. The agency conducts critical behavioral and vehicular programs, and provides grants to the States for the administration of highway traffic safety programs.

**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 solely 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 Norman Y. Mineta 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 unprecedented 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) 2005 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. 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 objective: *Enhance public health and safety by working toward the elimination of transportation-related deaths and injuries.*

Although we have more work to do to meet our aggressive performance targets, we can report results in several areas this year that are the best since record keeping began. The highway fatality rate reported in FY 2005 was the lowest in 30 years. The early estimate of the fatality rate per 100 million vehicle-miles traveled shows a decline to an estimated value of 1.43, below 1.50 for the third consecutive year. The total number of fatalities also declined, reversing a six-year trend, to 42,643 fatalities. The number of crash related injuries dropped to a historic low. The early estimates for the large truck-involved fatality rate show a slight increase over last year's due to the increase in number of miles traveled and number of large trucks on the road. Safety belt use reached a historic high of 82% in 2005. In addition, all 50 States, the District of Columbia, and Puerto Rico have contributed to highway safety by lowering the legal threshold for impaired driving to 0.08 blood alcohol concentration, contributing to a 2.4% decrease in the alcohol-related fatality rate.



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In aviation, DOT achieved the lowest airline fatal accident rate in the history of aviation and has improved trends in reducing general aviation accidents. The FAA is currently exceeding its FY 2005 goal of reducing the airline fatal accident rate to a three-year rolling average rate of 0.023 per 100,000 departures. The actual figure of 0.017 fatal accidents per 100,000 departures translates to about one fatal accident per 5.9 million departures.



For the third year in a row, runway incursions are down. A runway incursion is “any occurrence in the airport runway environment involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard, or results in a loss of required separation with an aircraft taking off, intending to take off, landing, or intending to land.” (“Loss of required separation” refers to the loss of minimum safe distances between aircraft and other objects on the runway surface.)

Total rail-related accidents/incidents declined for the fourth consecutive year. Based on preliminary estimates, DOT expects to exceed the FY 2005 target of 17.14 accidents/incidents per million train miles, limiting accidents/incidents to 16.79 per million train miles. Total rail-related casualties (fatalities and injuries) fell 8.4% for the 10 month period of October 2004 to July 2005.

Transit safety continued to exceed expectations although there was a slight increase in the number of fatalities in FY 2005. FY 2005, transit fatalities increased from 0.359 to 0.492 per 100 million passenger miles traveled. Through capital investment programs, older bus and rail vehicles were replaced with newer, safer vehicles and improvements were made in track and transit facility conditions.

The leading cause of pipeline incidents is excavation damage and PHMSA promotes damage prevention in communities across the U.S. to reduce these failures. Programs in Connecticut, Georgia, Massachusetts, Minnesota, and Virginia contributed to a 30% reduction in damages following the implementation of enforcement in those States.

DOT's impressive 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 objective: *Advance accessible, efficient, intermodal transportation for the movement of people and goods*. Highlights of our results are presented below.

Recent forecasts indicate that commercial aviation is rebounding. By FY 2007, air carrier, commuter, and air taxi operations are anticipated to increase approximately 12% from 2004. To manage 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.



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 2005, DOT has met both of its performance targets measuring compliance with the Americans with Disabilities Act (ADA). An estimated 97% of bus fleets are now ADA compliant either being lift-equipped or having low floors to accommodate wheelchairs and people with limited mobility. Approximately 91% of rail stations are also ADA compliant increasing transportation access for all of our citizens.



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DOT exceeded the performance target for employment sites made accessible by Job Access and Reverse Commute (JARC) transportation services. This program successfully meets the transportation needs of low-income individuals seeking transportation to jobs and community services. JARC transportation services have reached over 82,000 employment sites, making jobs, employers, job training, and child care accessible for those citizens utilizing the program's services.

To improve the capability of the Nation's transportation system to move current and future levels of freight traffic safely and efficiently, DOT began to implement the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) legislation. Among the goals outlined in the legislation are; upgrading our nation's network of roads, bridges and mass transit systems; establishing a safety belt incentive program; providing financing for needed road improvements; and aiming to ease traffic congestion.

Work continued to improve the pavement condition on the Nation's highways. The performance measure that DOT uses to assess pavement condition has been revised to measure pavements with "good" rated ride quality, which is a more stringent standard than previously used. The results from this year show that 54.6% of our roads meet this higher standard, meeting the target for FY 2005. DOT adopted a more ambitious standard because our previous measurement of "acceptable" rated ride quality was consistently in the 90th percentile.

The percent of travel nationwide that is under congested conditions is estimated to be 32.1% in calendar year 2005 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.

## **GLOBAL CONNECTIVITY**

Transportation systems within and among nations are lifelines to economic growth, to freer 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 objective: *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.

In an effort to open more international transportation markets, the Department continues to negotiate “open skies” agreements with other countries. An open skies agreement is another term for a bilateral agreement that lets passenger demand and market conditions, not government regulations, determine landing and departure schedules. In FY 2005, DOT conducted 25 rounds of negotiations, some of which resulted in new open skies agreements with the following six countries: Ethiopia, India, Maldives, Paraguay, Thailand, and Uruguay. Through FY 2005, DOT has negotiated bilateral open skies agreements with 69 countries.

As a result of open skies agreements, more people from around the world have access to better quality, lower priced, more competitive air service. With the new agreements negotiated this year, DOT exceeded its target by providing 2.97 billion potential air transportation consumers the opportunity to travel between the United States and countries with open skies agreements.



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Since 1997, the St. Lawrence Seaway Development Corporation (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. In FY 2005, the SLSDC continued this program by inspecting 100% 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.

SLSDC met its performance target to have the U.S. portion of the Seaway available 99% of the time during the shipping season (frozen rivers and lake conditions prevent shipping during parts of the winter). As a result, delays were reduced and ocean carriers using the Seaway saved more than \$500,000 in operating costs during FY 2005.

## 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 objective: *Promote transportation solutions that enhance communities and protect the natural and built environment*. Highlights of our results follow.

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 2.4 to 1 in FY 2005. Federal-aid projects nationwide provided 1,814 acres of compensatory mitigation. A leader in expanding the use of wetland banking and sponsoring wetland research, DOT is proud of its eight year track record of exceeding the target. In a demonstration of commitment to environmental stewardship and ecosystem conservation,



DOT recognized eight new Exemplary Ecosystem Initiatives (EIs), exceeding its target of designating two additional projects in the year. EIs are reducing habitat fragmentation and barriers to animal movement, encouraging the development of more sustainable mitigation sites, stimulating early ecosystem planning, and fostering ecosystem-based research.

The Maritime Administration (MARAD) has more than 100 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 is behind the congressionally mandated disposal schedule. However, in FY 2005, MARAD removed 18 obsolete ships that posed potential environmental hazards at its three fleet sites and dismantled 13 additional ships.

## 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 objective: *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 capacity to the Department of Defense (DoD) in support of Operation Iraqi Freedom during the redeployment phase of the war using 58 Ready Reserve Force vessels, an increase of 37 vessels over FY 2004.

DoD, in conjunction with the DOT's Maritime Administration negotiates an agreement with each strategic port specifying which facilities will be needed to conduct a military deployment. DOT met a performance target by achieving 95% shipping capacity within mobilization timelines. However, we did not meet our 93% availability target due to commercial congestion at two of the strategic ports. The ports are expected to make their facilities available to the military within 48 hours of notification.

## ORGANIZATIONAL EXCELLENCE

Secretary Mineta understands that a culture of foresight and continuous improvement is essential to achieving our strategic objectives. 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 unqualified audit opinion for the fifth consecutive year. 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 unqualified opinions.

DOT continues its stewardship of taxpayer monies through its management of large transportation projects (over \$1 billion in total cost). 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. Last year, FTA's *New Starts* transit program began using a quantitative risk assessment tool to incorporate risk factors into program management planning, thus enhancing our ability to ensure that transit projects meet cost,



schedule, and transportation benefit expectations. This year, with implementation of the risk assessment tool, all large transit projects are within 10% of cost estimates. The tool has provided improved project execution trend assessments and helped managers track the impact of their mitigation efforts.

To ensure a secure infrastructure, DOT has certified and accredited 85% 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. A continuous vulnerability scanning program has been implemented Department-wide.

## RESPONDING TO NATURAL DISASTERS

The National Response Plan (NRP) designates DOT as the lead support agency to the Department of Homeland Security/Federal Emergency Management Agency (FEMA) for transportation-related emergency support and recovery efforts from damage due to an event like Hurricane Katrina. In the aftermath of Hurricane Katrina, DOT oversees Federal infrastructure programs which support the rebuilding of highway, bridge, and airport assets. The FHWA and FAA administer our largest relief programs, the Emergency Relief program, which provides reimbursement to States for expenses related to highway infrastructure damage, and the Airport Improvement Program (AIP), which helps rebuild airport infrastructure.

Specifically, DOT provided \$5 million in immediate relief funds to begin repairs to the I-10 Twin Span Bridge which connects New Orleans and Slidell, Louisiana. DOT released \$5 million in immediate emergency relief funds to the Mississippi Department of Transportation to reimburse the State for repairs to U.S. 90, I-10, and other Federally funded roads and bridges. DOT announced a grant of \$15.2 million to repair and rebuild airfield lighting, fencing, and other security systems damaged at Louis Armstrong New Orleans International Airport. DOT has issued a \$1.6 million grant for terminal repairs and airfield lighting at Gulfport-Biloxi International Airport.

DOT also uses its expertise in other modes of transportation to help port authorities, transit agencies, and private rail and pipeline operators assess damage to their infrastructure, identify specific needs, and restore service to their customers. When electrical damage resulting from Hurricane Katrina shut down the Colonial and Plantation pipelines (the only major source of gasoline, jet and diesel fuel for the southeast United States), the Pipeline and Hazardous Materials Safety Administration (PHMSA) immediately took action. In order to restore service as quickly as possible, PHMSA approved the manual operation of pipeline facility controls to provide for a “low-tech”, 1950s style configuration for both pipelines. PHMSA then deployed inspectors to each rural pumping station along the Alabama to Maryland route to assure the safety of these operations. Within four days of Katrina making landfall and the Department’s engagement, the Colonial and Plantation pipelines were operating at 50% capacity. Approximately three days later, they were at 100 percent. Ninety-five percent of the Nation’s refining capacity was restored within ten days after Katrina hit, and we are once again seeing 100% flow of gasoline, diesel, and jet fuel throughout the country.



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The Department has also worked closely with the two largest transit agencies affected by Katrina—in New Orleans and Baton Rouge—to secure \$47 million in FEMA Public Assistance Funds for emergency transit services. These funds will give evacuees in Baton Rouge access to vital social services, jobs, and medical care, and help returning residents of New Orleans reclaim their city.

In response to Hurricane Katrina, we have provided 11,377 trucks to FEMA in order to move 14,097 truckloads of goods. Over 1,350 buses and 15 helicopters were mobilized to support the evacuation and to assist in the response. We have delivered over 19 million meals ready-to-eat, 25 million liters of water, 13 million pounds of ice, 11,000 power units, and 2,000 mobile homes.



## 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 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 \$66 billion at the end of FY 2005. This represents a decrease of \$2.3 billion (-3.4%) over the previous year’s total assets of \$68.3 billion. The decrease is primarily the result of decreases of \$1.6 billion in Investments and \$581 million in Fund Balance with Treasury. The decrease in Fund Balance with Treasury primarily resulted from a decrease in obligated balances not yet disbursed. The Department’s assets reflected in the Consolidated Balance Sheet are summarized in the following table.

ASSETS BY TYPE • DOLLARS IN THOUSANDS	2005	%	2004	%
Fund Balance with Treasury	\$ 29,140,842	44.2	\$ 29,721,350	43.52
Investments	19,000,999	28.8	20,618,224	30.19
General Property, Plant & Equipment	15,325,392	23.2	15,395,359	22.55
Accounts & Loans Receivable and Related Foreclosed Property, Net	1,263,872	1.9	1,132,939	1.66
Inventory and Related Property, Net	939,639	1.4	913,513	1.34
Cash and Other Assets	297,802	0.5	504,624	0.74
<b>Total Assets</b>	<b>\$ 65,968,546</b>	<b>100.0</b>	<b>\$ 68,286,009</b>	<b>100.0</b>



## LIABILITIES

The Department had total liabilities of \$12.9 billion at the end of FY 2005. This represents a decrease of \$535.6 million (-4.0%) over the previous year's total liabilities of \$13.4 billion, which is reported on the Consolidated Balance Sheet and summarized in the following table.

LIABILITIES BY TYPE • DOLLARS IN THOUSANDS	2005	%	2004	%
Other Liabilities	\$ 5,019,980	39.0	\$ 4,957,398	36.97
Grant Accrual	4,086,728	31.7	4,180,440	31.18
Accounts Payable	1,416,058	11.0	1,605,730	11.98
Environmental and Disposal Liabilities	1,003,585	7.8	1,135,163	8.47
Debt	952,536	7.4	1,150,606	8.58
Loan Guarantees	393,451	3.1	378,612	2.82
<b>Total Liabilities</b>	<b>\$ 12,872,338</b>	<b>100.0</b>	<b>\$ 13,407,949</b>	<b>100.0</b>

Of the total liabilities, \$3.5 billion were not covered by budgetary resources. The \$3.5 billion is primarily comprised of the \$477 million liabilities to other Federal agencies (intragovernmental), \$1.0 billion liability to Federal Employees' and Veterans' Benefits Payable, \$1.0 billion of environmental and disposal liabilities, and \$1.0 billion other liabilities with the public.

## NET POSITION

The Department's Net Position at the end of FY 2005 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position is \$53.1 billion, a \$1.8 billion (-3.3%) decrease from the previous fiscal year, principally due to an increase in net cost of operations. 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 2005, after intra-departmental eliminations, was \$56.9 billion.

NET PROGRAM COSTS • DOLLARS IN THOUSANDS	2005	%	2004	%
Surface Transportation	\$ 42,309,410	74.34	\$ 41,287,079	76.381
Air Transportation	14,029,096	24.65	12,193,994	22.55
Maritime Transportation	278,914	0.49	237,161	0.439
Costs Not Assigned to Programs	261,911	0.46	347,864	0.664
Less: Earned Revenues Not Attributed to Programs	25,165	0.04	12,631	0.023
Cost-Cutting Programs	8,728	0.02	746	0.001
<b>Net Cost of Operations</b>	<b>\$ 56,862,894</b>	<b>100.0</b>	<b>\$ 13,407,949</b>	<b>100.0</b>

Surface and air costs represent 99% of the Department's net cost of operations. Surface transportation program costs represent the largest investment for the Department at 74.3% of the Department's net cost of operations; Air transportation is the next largest investment for the Department at 24.7% 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 2005 fiscal year, the Department had total budgetary resources of \$114 billion, an increase of 6.5% from FY 2004 levels of \$107 billion.

Budget Authority of \$113.2 billion—which consists of \$61.5 billion of appropriations received and \$50.7 billion of borrowing and contract authority plus net transfers—comprise 99.1% of the total budgetary resources. The Department incurred obligations of \$69.8 billion for the 2005 fiscal year, a 3.75% increase over the \$67.2 billion of obligations incurred during 2004. 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.



## **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 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.



## MANAGEMENT CONTROLS, FINANCIAL MANAGEMENT SYSTEMS, AND COMPLIANCE WITH LAWS AND REGULATIONS

### FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to conduct an annual evaluation of its 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.

The Secretary of Transportation's qualified Statement of Assurance for FY 2005 is included in the Message from the Secretary located at the beginning of this Report. The Department evaluated its management control systems and financial management systems for the fiscal year ending September 30, 2005. This evaluation formed the basis of the Secretary's Statement of Assurance for FY 2005.

### 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

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 Department's Office of Financial Management. FMFIA material weakness and material nonconformances are also reported, citing milestones and/or accomplishments. 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"> <li>1. Significant weakness of the safeguards (controls) against waste, loss, unauthorized use or misappropriation of funds, property, or other assets.</li> <li>2. Violates statutory authority, or results in a conflict of interest.</li> <li>3. Deprives the public of significant services, or seriously affects safety or the environment.</li> <li>4. Impairs significantly the fulfillment of the agency's mission.</li> <li>5. Would result in significant adverse effects on the credibility of the agency.</li> </ol>

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"> <li>1. Prevent the primary accounting system from centrally controlling financial transactions and resource balances.</li> <li>2. Prevent compliance of the primary accounting system, subsidiary system, or program system under the Office of Management and Budget Circular A-127.</li> </ol>

## SUMMARY OF FY 2005 FMFIA MATERIAL WEAKNESSES

### STATUS OF INTERNAL CONTROLS—FMFIA, SECTION 2

DOT has three material weaknesses. Two of the material weaknesses—HTF financial reporting and Highway grants management—were carryovers from FY 2004. FAA financial reporting is a new material weakness. The three material weaknesses are:

**HTF AGENCIES' FINANCIAL MANAGEMENT AND REPORTING ACTIVITIES.** Since the audit of the FY 2003 HTF financial statements, we reported that material deficiencies existed in internal controls over financial management and reporting activities in the HTF agencies. While FHWA began making organizational and procedural improvements during FY 2005, many of the improvements were initiated too late in the year and were not in effect for sufficient time to overcome the accounting problems that existed in prior years. In addition, extraordinary efforts were again needed to prepare the HTF financial statements during the year and at September 30, 2005. The remaining deficiencies to be overcome include (1) financial statement preparation and analysis, (2) resolving reconciliation differences during the year, (3) implementing managerial cost accounting, (4) tracking intragovernmental transactions, and (5) linking the FACTS II reporting to the financial statement preparation process.



**FINANCIAL OVERSIGHT OF HIGHWAY GRANTS.** Last year we reported that FHWA and the FTA needed to establish stronger financial and cost controls to better ensure that grant funds are protected from fraud, waste, and abuse. FHWA and FTA have both implemented improved procedures and controls over grants during FY 2005. For example, FHWA initiated the Financial Integrity Review and Evaluation (FIRE) program in March 2005, and FTA instituted sufficient improvements in its oversight of transit grants to not be included in the material weakness this year. However, FHWA needs to continue to improve its financial oversight of highway grants.

**TIMELY PROCESSING OF FAA TRANSACTIONS AND RECONCILIATION OF ACCOUNTS.** Last year, FAA faced problems implementing Delphi and a new procurement system. During FY 2005, the problems became more severe and adversely affected FAA's ability to process transactions and reconcile accounting balances in a timely manner. FAA needs to improve processes and controls to ensure that property plant and equipment is consistently and accurately capitalized, obligations are recorded in a timely manner, reconciliations of Fund balances with Treasury and suspense accounts are timely, abnormal balances in budgetary to proprietary account relationships are investigated, and subsidiary systems and supporting documentation are reconciled to general ledger balances. Consequently, FAA's interim financial statements were not reliable and FAA needed to make adjustments totaling \$2.1 billion to the draft FY 2005 financial statements in order to make them reliable. FAA is committed to correcting the problems in early FY 2006.

The following table shows the Department's progress during the past five years 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	0	0
2000 Report	0 FAA Property, Plant and Equipment (R)	0	0
2001 Report	1 FAA Property, Plant and Equipment (R) Information Security Program	0	0
2002 Report	2 Information Security Program (R) FTA Management FAA Contracts	1 FAA Property, Plant and Equipment	0
2003 Report	2 Information Security Program (R) FAA Contracts (R) HTF Financial Mgmt. Reconciling Transactions (Eliminations)	1 FTA Management	1 HTF Financial Management
2004 Report	2 HTF Financial Mgmt. (R) Reconciling Transactions (Eliminations) (R) HTF Grants Financial System Controls	2 Information Security Program FAA Contracts	1 HTF Grants
2005 Report	1 HTF Financial Mgmt. (R) HTF Grants (R) FAA Reconciliations	2 Reconciling Transactions Financial System Controls	1 FAA Reconciliations
1999-2005 Total	9	6	3
Of the total number corrected, how many were corrected in 2005 <u>2</u> ; (R) - Repeat			



## STATUS OF FINANCIAL MANAGEMENT SYSTEMS FMFIA, SECTION 4

One material nonconformance from FY 2004—financial system controls—was downgraded to a reportable condition in FY 2005. DOT reported again this year that the Department was not in substantial compliance with OMB Circular A-127. For FY 2005 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).

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
1999–2005 Total	3	2	1

Of the total number corrected, how many were corrected in 2005 1; (R) - Repeat

## 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 2005, DOT reported that the Department was not in compliance with FFMIA. For FY 2005, this noncompliance consists of three issues: preparation of financial statements, use of Standard General Ledger, and Federal Accounting Standards (cost accounting).

**PREPARATION OF FINANCIAL STATEMENTS.** The process used by FHWA and FAA, including utilization of the Delphi accounting system, was not adequate to prepare reliable and timely financial statements during the year or at September 30, 2005. Several adjustments were made to correct system processing errors, record activities not recorded at the transaction level, and correct discrepancies with the data reflected in subsidiary systems. FAA system conversion issues contributed to problems in recording all Delphi transactions, which interfered with FAA's ability to produce accurate and complete financial and budgetary reports.

FFMIA requires agencies to produce auditable financial statements based on data from its financial systems on a timely basis.

**USE OF STANDARD GENERAL LEDGER.** DOT Agencies have not consistently used Delphi for routine accounting events at the transaction level to meet OMB and Treasury reporting requirements.

**FEDERAL ACCOUNTING STANDARDS.** DOT Agencies were not in full compliance with the SFFAS No. 4 Managerial Cost Accounting Concepts and Standards for the Federal Government and the related provisions of the Government Performance and Results Act (GPRA). The FY 2005 financial statements did not properly reflect full costs or measure the effectiveness of the Agencies' programs.

## 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 2005, DOT's IT budget totaled about \$2.7 billion.

For FISMA, 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 IG identified that DOT needs to better manage corrections of system security deficiencies and that FAA needs to take aggressive actions to enhance the air traffic control systems security. In FY 2005, the Government Accountability Office (GAO) identified the need to enhance computer security protection in air traffic control systems and physical security protection at air traffic control facilities. In April 2005, FAA started to initiate aggressive actions to correct previously identified air traffic control security deficiencies.



## **SAS-70 REVIEW ON DOT'S FINANCIAL MANAGEMENT SYSTEM**

An annual external review was conducted for cross-servicing functions within the Department as required by the Office of Management and Budget (OMB) guidance. The OMB requires Centers of Excellence to provide Federal agencies with an independent audit report in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement of Auditing Standards (SAS) 70.

The Department's report summarizes the results of a review of system security controls over the DOT Enterprise Service Center's (service center) Delphi Financial Management System. The Delphi Financial Management System 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 direction of the departmental Chief Financial Officer.

The service center is one of four Centers of Excellence designated by the OMB to provide financial management information system services to other Federal agencies. To date, the service center supports one other Federal agency, the National Endowment for the Arts.

Clifton Gunderson, LLP, an independent auditor, of Calverton, Maryland, completed the review. The OIG performed a quality control review of Gunderson's audit work to ensure that it complied with applicable auditing standards Generally Accepted Government Auditing Standards and the AICPA's SAS-70.

The Gunderson audit report 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 June 30, 2005. In addition, Gunderson concluded that controls, as described, are suitably designed to provide reasonable assurance that 8 of the 10 specified control objectives would be achieved, if these controls were complied satisfactorily. Gunderson's testing found that controls were operating effectively to provide reasonable assurance that 7 of the 10 control objectives were achieved during the period from October 1, 2004 to May 31, 2005.

Since September 2003, DOT management implemented more disciplined security administration and oversight of Delphi operations, strengthened controls over access to the General Ledger module to ensure the integrity of financial statement compilation in Delphi, and installed an enclosed area in the computer center to better protect Delphi servers. In addition, management enhanced controls over changes to Delphi production programs and tested the contingency plan to ensure continuity of Delphi operations in case of emergency.

## **IMPROPER PAYMENTS PROGRAM FOR FY 2005 AND PLANS FOR FUTURE YEARS**

In FY 2005, the Department engaged AOC Solutions, Inc. to conduct an improper payments review of FY 2004 payments in ten programs for compliance with the Improper Payments Information Act of 2002 (IPIA). The objectives of this review were to (1) assess the amount and causes of improper payments, (2) identify programs with significant improper payments, and (3) identify action plans for reducing improper payments in programs identified as high risk.



The following programs were reviewed by AOC Solutions, Inc.

- Department of Transportation Payroll
- Office of the Secretary of Transportation—Working Capital Fund
- Federal Railroad Administration—Grant Program
- Federal Highway Administration—Federal Aid Grant Program\*
- FHWA—Federal Lands
- Federal Transit Administration—Formula Grant Program\*
- FTA—Capital Investment Grant Program\*
- Federal Aviation Administration—Airport Improvement Program\*
- FAA—Operations (excluding Payroll)
- FAA—Facilities and Equipment

\* Identified in Section 57 of OMB A-11

During the review, AOC Solutions, Inc. found no significant improper payments which would result in a program exceeding 2.5% and \$10 million of the total expenditures for the fiscal year. In total, eight improper payments were found, resulting in a projected amount of improper payment to be \$8,125.

Additionally, the Department was able to improve its processes over last year. In the previous PAR it was reported that FAA was not able to provide sufficient data or answers to many outstanding questions. During the review this year, FAA was able to provide sufficient information for all questions, and had no questionable payments.

As noted in last year's PAR, another constraint was the limited amount grant data available. During our review this year, test procedures applied covered payments made by DOT to grantee entities. However, test procedures did not address subsequent flow down payments made by grantees to vendors. States and other non-Federal entities administer these grant programs and, accordingly, much of the activity subject to testing for improper payments is accounted for at these entities.

To address the limitation, DOT devised an innovative research and development (R&D) strategy that was implemented at the Federal Highway Administration's Highway and Construction grant program. The R&D project strategy; was to develop and test a methodology for implementing the IPIA requirements at the grantee level.

The development phase of this study involved meeting with State transportation and audit officials to document the processes used in administering the Federal Highway Planning and Construction Program. This resulted in a comprehensive document that described the planning and construction phases of projects and a methodology for determining whether goods and services received were in accordance with contractual terms and conditions, including Federal requirements. Payments for goods and services that did not comply with contractual terms and conditions represented an improper payment.

For testing, two project sites were selected to test the methodology. The tests involved a sample value of \$21,269,706 from a population value of \$26,056,918 for the first project and a sample value of \$6,741,482 from a population value of \$8,450,999 for the second project.



The tests disclosed three underpayments, one of which (from project one) was statistically insignificant and an extrapolation of the other two to the population of payments for the project (project two) in which they occurred resulted in an improper payment estimate of \$ 111,671.

DOT completed the project successfully in the summer of 2005 and is in the process of extending the methodology nationwide.

In 2006 and 2007 the Department has several goals for the improper payments program. First, the Department will continue its recovery audit work, which has been conducted since 2002. While there have been no significant findings, the Department has found it to be very beneficial.

Secondly, DOT will continue to expand the methodology from the R&D project. Work has begun to develop a similar methodology in the Department's remaining OMB A-11, Section 57 grant programs. To help facilitate the expansion of this methodology the Department has put together the following plans.

In 2006, the Department will begin testing the four Section 57 grant programs for improper payments in a concentrated area. DOT has spent millions of dollars on relief efforts to repair damage from Hurricanes Katrina and Rita. Depending on supplemental appropriations, DOT expects to spend billions of dollars to rebuild the transportation infrastructure in Alabama, Louisiana, Texas, and Mississippi.

By testing for improper payments in this region, DOT will be able to focus on inherently high risk projects, based on the dollar amount and the speed at which money is being spent. This will allow for further refining of our improper payment methodology and contribute to the oversight of these regions. As a result of the testing, DOT will be able to test and establish new controls for emergency projects.

Concurrently, DOT will work with the FAA, FTA, and FHWA grant programs to implement the methodology into their normal grant processes. By having the improper payment methodology worked into the normal grant procedures, the Department will have nationwide testing beginning in FY 2007.

## **SCORECARD ON THE PRESIDENT'S MANAGEMENT AGENDA**

### **HUMAN CAPITAL INITIATIVE**

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 2005 STATUS** ● GREEN

**PROGRESS** ● GREEN



**HOW DOT IS MEETING PMA CHALLENGES.** DOT's Human Capital Plan is aligned with the President's Management Agenda and the OPM/OMB Standards for Success. During this fiscal year, the Department:

- Completed FAA's Air Traffic Controller staffing plan to ensure that there will be adequate prepared controllers to accommodate a retirement surge and increasing workloads;
- Steadily improved annual workforce planning and analysis, integrating competitive sourcing, and acquiring a new forecasting tool;
- Achieved provisional certification of the SES performance management system, developed SES pay for performance policies, and instituted a centralized executive coaching program for new SES hires;
- Acquired, automated, and piloted a model for measurement and management of leadership competencies, and developed a GS-15 Executive Pipeline forum series;
- Began systematic measurement and target-setting for mission-critical competencies;
- Instituted a Career Residents program to hire and develop promising graduates into mission critical occupations;
- Eliminated pass-fail performance management systems, replacing them with systems that link to strategic goals and make performance distinctions, and set new requirements for the training and evaluation of leaders;
- Developed new policies to improve the strategic use of probationary periods for new supervisors and managers and for employees;
- Conducted gap analysis for IT competencies and set targets for closing gaps;
- Decreased the time-to-fill for SES and GS positions, and
- Assessed Department-level accountability system, and began documentation and review of accountability measures and practices at the OA level in all areas of human capital management.

## COMPETITIVE SOURCING INITIATIVE

Improved consistency for defining commercial and inherently governmental inventories across the Department. Identified commercial competeable activities, provided strategic direction for competitive sourcing and human capital initiatives, and developed and shared high-quality intellectual capital with staffs at OPM and OMB.

**FY 2005 STATUS** ● GREEN

**PROGRESS** ● GREEN

**HOW DOT IS MEETING PMA CHALLENGES.** In FY 2005, DOT maintained its green status on the President's Management Agenda scorecard for competitive sourcing.

During 2005, DOT completed one standard and six streamlined competitions including the largest and most complex competition conducted to date under OMB Circular A-76 for FAA's automated flight service stations. To date, DOT has completed 20 competitions for over 2,889 full time equivalent positions with anticipated savings of over \$2.0 billion over the performance periods.



DOT initiated an Executive Steering Committee for competitive sourcing which evaluates the opportunity for cross organizational competitions throughout the Department and brings more consistency to DOT's competitive sourcing efforts.

DOT requires OAs develop their competitive sourcing plans in conjunction with their workforce planning efforts to ensure human capital solution strategies include public-private competition.

## **E-GOVERNMENT INITIATIVE**

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 government-wide.

**FY 2005 STATUS** ● GREEN

**PROGRESS** ● GREEN

**How DOT is Meeting PMA Challenges: Capital Planning.** Participation in capital planning process expanded across all Operating Administrations. DOT Departmental Investment Review Board (IRB) reviewed and approved the FY 2007 IT portfolio in support of the budget and Department mission and goals. IRB conducted quarterly reviews of high risk major projects. Updated Capital Planning and Investment Control and Enterprise Architecture (EA) policy and governance structure to ensure alignment between the two areas. Achieved 100% acceptable business cases for the FY 2006 budget.

**IT Security.** DOT has certified and accredited 85% of all IT systems. DOT continues to conduct weekly vulnerability scanning of all public facing and e-Government Web servers. Expanded the vulnerability scanning to internal servers as well as part of a quarterly compliance review process.

**Enterprise Architecture (EA).** Released an updated iteration of DOT's Modernization Blueprint including As-Is and To-Be architecture for the DOT common IT infrastructure. The EA Framework and Reference Models are aligned with the OMB Federal Enterprise Architecture Program Management Office Framework. OAs continue to make progress maturing their EAs for their unique business/mission areas.

**Government-wide Initiatives.** DOT participates in 24 e-Government initiatives that span all four categories. The e-Government project managers work closely with Managing Partners in the implementation of these initiatives. The Office of the Chief Information Officer monitors initiative progress against milestones in the OMB approved e-Gov Implementation Plan. Major schedule and performance issues are brought to the IRB for review and action. DOT completed the migration to a new payroll provider except for FAA who will migrate in October 2005. DOT completed the implementation of a Department-wide Learning Management System except for OIG who will migrate in the first quarter of FY 2006. DOT will complete the implementation of e-Authentication for the SAFER system in October 2005.

## **BUDGET AND PERFORMANCE INTEGRATION INITIATIVE**

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 2005 STATUS** ● GREEN

**PROGRESS** ● GREEN

**HOW DOT IS MEETING PMA CHALLENGES.** In FY 2005, DOT achieved its goals in this area and earned a green score on the scorecard by completing the following:

- DOT identified efficiency measures for all programs that have been scored by the Program Assessment Rating Tool (PART).
- All DOT modes provided marginal cost of performance information in their budget submissions for at least one of their performance goals.
- Recognized as a leader in marginal cost within the Federal government, DOT presented its marginal cost of performance approach to other Federal agencies at an OMB sponsored seminar on improving marginal cost methods and practices.

DOT Performance Plan and Reports. DOT's Performance and Accountability Report has consistently garnered a high standing from George Mason University's Mercatus Center, scoring within the top three across government for the fifth year in a row.

### **IMPROVED FINANCIAL MANAGEMENT INITIATIVE**

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

**FY 2005 STATUS** ● RED

**PROGRESS** ● GREEN

**HOW DOT IS MEETING PMA CHALLENGES**

- DOT received its fifth consecutive unqualified audit opinion.
- DOT produced its FY 2005 financial statements on target and met the November 15, 2005 deadline for audit completion and submission of this year's Performance and Accountability Report.
- DOT put into production a DASHboard. The DASHboard provides up-to-date financial and performance information to program managers. DOT is developing a plan to expand the use of the DASHboard to incorporate additional program performance information and financial data.
- Financial data from Delphi is available on demand to 3,500 users and is being used throughout the Department to help manage programs on a daily basis.
- DOT was named a Center of Excellence for Financial Systems and Services. DOT has one external customer, the National Endowment for the Arts, in production since October 2004. In addition, DOT has signed two new customers: the Commodity Futures Trading Commission and the Institute for Museum and Library Services, which will be implemented on DOT's Delphi financial management



system in FY 2006 and will also be using accounting services from DOT's Center of Excellence. DOT has competitively selected a private sector business partner to help market to implement new customers on our Delphi Financial Management System (Oracle Federal Financials).

## RESEARCH AND DEVELOPMENT INITIATIVE

Apply the Research and Development (R&D) Investment Criteria of relevance, quality, and performance and continuously improve management of research programs.

**FY 2005 STATUS** ● GREEN

**PROGRESS** ● GREEN

**HOW DOT IS MEETING PMA CHALLENGES.** In FY 2005, DOT achieved its goals in this area and earned a green score on the scorecard by completing the following:

- DOT established the Research and Innovative Technology Administration (RITA) to guide the coordination and management of R&D activities across the Department. The creation of RITA instituted an integrated planning process to ensure that RD&T investments are effective and aligned with Departmental goals. The process has three elements: multiyear strategic planning, annual program planning, and budget and performance planning.
- DOT also established two executive-level bodies: the RD&T Planning Council composed of Operating Administrators and Assistant Secretaries, and the RD&T Planning Team, which includes modal RD&T program managers at the Associate Administrator level. These bodies ensure the collaboration and coordination of RD&T both within DOT and with external entities.
- In 2005, the RD&T Planning Council and Planning Team led DOT in the setting of agency-wide priorities for the FY 2007 RD&T budget. They also provided guidance for annual program reviews, at which the Operating Administrations presented their RD&T programs' mission and goals, research focus, and use of the R&D investment criteria.
- DOT also issued the annual *RD&T Plan* and the RITA Report to Congress on the Department's research priorities. Both reports were developed through extensive cross-modal planning and coordination.

## REAL PROPERTY ASSET MANAGEMENT INITIATIVE

Uses sound real property management of real property resources for diverse transportation missions, maintaining the quality of real property assets managed, and disposing of no longer required assets.

**FY 2005 STATUS** ● RED

**PROGRESS** ● GREEN



**HOW DOT IS MEETING PMA CHALLENGES.** DOT continues to make progress under this initiative. The 2005 status of the PMA initiative is **RED** due to the amount of work required to create an accurate inventory of all real property assets throughout the Department. However, OMB rated the Department **GREEN** in progress in recognition of the significant advances made in the fourth quarter of FY 2005 in accomplishing the goals set forth in this PMA initiative.

The Federal Aviation Administration owns approximately 69,500 of the roughly 70,000 assets in the Department and has continued to lead in managing the inventory databases and applications.

DOT is aggressively pursuing a status upgrade to yellow in the first quarter of FY 2006:

- DOT will complete the Asset Management Plan (AMP) for OMB approval
- DOT will implement the AMP
- DOT will capture Federal Real Property Council established performance measure data for successful inventory reporting December 15th to GSA

DOT's two chartered committees will establish decision making guidelines for acquisition, disposition, capital funding, and a three year timeline of initiatives.

### **IMPROPER PAYMENTS INITIATIVE**

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

**FY 2005 STATUS** ● **RED**

**PROGRESS** ● **GREEN**

**HOW DOT IS MEETING PMA CHALLENGES.** In FY 2005, the Department took several steps towards eliminating improper payments.

- Tested the Department's Top Ten Program for improper payments and found little to no erroneous payments.
- Conducted Recovery Audits in all Operating Administrations finding a very small number of overpayments.
- Developed and tested an innovative solution for determining the level of improper payments in grantees and sub-grantees.



## **POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS**

### **HURRICANE RECOVERY EFFORTS**

In support of the Federal response to hurricane relief efforts, DOT is requiring all of its Operating Administrations to report their obligations and expenditures hurricane-related costs. DOT is coordinating all parties involved in the transportation related response and relief efforts. Federal, State, and local governments are working side-by-side to deliver relief to the areas physically damaged by Hurricane Katrina and to communities across the South that have been affected by the storm. Efforts and resources are focused on proving transport and logistics to support long-term recovery. The Department has made available the latest information from its agencies on the operational status of airports, roads and highways, rail lines, transit systems, ports and pipelines in the tri-state area affected by Hurricane Katrina.

### **COORDINATION WITH DEPARTMENT OF HOMELAND SECURITY (DHS)**

DOT is coordinating with the Department of Homeland Security (DHS) on transportation security related matters. This year, DOT is working with DHS' emergency response staff on the hurricane relief efforts. Numerous DOT offices have ongoing projects related to the Patriot Act compliance for HAZMAT endorsement background checks, and HAZMAT tracking projects. DOT and DHS have an advanced traveler systems work for helping mobility and the flow of traffic during rush hours. FTA has a transit security training project with DHS. The lessons learned from recent National disasters such as Hurricane Katrina and Hurricane Rita are guiding the Department's responses to future natural and man-made disasters.



## OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

### FIVE-YEAR FINANCIAL MANAGEMENT PLAN: PROGRESS REPORT TO MEET DOT'S FINANCIAL MANAGEMENT GOALS

#### GOALS OF FINANCIAL MANAGEMENT PLAN:

##### **PRODUCE ACCURATE AND TIMELY FINANCIAL INFORMATION. MANAGEMENT'S USE OF THE INFORMATION TO DRIVE DECISIONS AND RESULTS.**

DOT continually seeks to expand the use of financial and performance information to ensure that DOT program managers have all the information they need to drive results in their organizations. Through enhanced decision making, the Department can more effectively and efficiently manage tax payers' dollars.

At the forefront of our efforts is the Federal Aviation Administration's Air Traffic Organization (ATO), which has developed key cost metrics for each of its major functions. With accurate financial information, tied with ATO performance information, ATO is increasingly able to make better informed decisions on how to improve the ATO Line of Business. Several other OAs are making similar progress for their program managers.

DOT is expanding our support for providing information to managers through our Delphi DASHboard project. On May 16, 2005, DOT moved its first Delphi DASHboard pilot into production. Using Oracle's Web Portal and Balanced Scorecard tools, DOT managers are using the Delphi DASHboard to track their progress on OMB's Financial Performance Metrics and the DOT's own CFO Internal Scorecard, as well as to check the status of the funds under their control.

##### **IMPLEMENT A PLAN TO EXPAND THE SCOPE OF ROUTINE DATA USE TO INFORM MANAGEMENT.**

Piloting the Delphi DASHboard has been a valuable learning experience for the Department. Through this effort, DOT is identifying more and more of the Department's data needs and is also identifying the Department's data strengths, i.e., data sources that are already available. The OAs have a wealth of financial and program data for many of their programs and projects. Our DASHboard pilot proved that a Web-enabled dashboard is the best way to present and continue to expand the use of data to make management decisions.

Additionally, DOT will continue working to improve internal controls and overall financial management of the Department's programs and operations, including the centralization of accounting functions at the DOT Financial Management Center of Excellence in Oklahoma City. DOT will also work to improve on the CFO Council's Performance Metrics.



With all this data readily available, the DOT will be reviewing the most efficient and cost effective way to combine and clearly present financial and performance information. For the Fall of FY 2006, DOT has committed to re-examine its methods and tools for meeting its DASHboard and business intelligence needs. Oracle's Balanced Scorecard has proved to be a useful tool, but some of the OAs see value in other solutions. Using input and expertise from the OAs and from our Financial Management Center of Excellence, DOT will determine the most efficient and cost effective Web-enabled solution for flexibly presenting financial and performance data to DOT managers.

#### **RECEIVE AN UNQUALIFIED AUDIT OPINION.**

Since early in 2005, DOT has been working hard to receive an unqualified audit opinion on its FY 2005 financial statements. DOT earned an unqualified audit opinion for each of the previous four years.

#### **MEET FINANCIAL STATEMENT REPORTING DEADLINES.**

In 2004 the Department met the accelerated November 15 reporting deadline by working closely with each of DOT's financial statement auditors. With upgrades to DOT's Delphi financial system, we are now delivering monthly and year-end financial statements for each OA overnight. This new capability will save us precious time, especially at year-end; previously preparing statements took several days.

#### **SYSTEMS ARE IN COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA).**

With the conversion of the FAA to Delphi on November 10, 2003, DOT completed converting all its OAs to a state-of-the-art, COTS-based, JFMIP-certified, Standard General Ledger (SGL) compliant financial management system. DOT is the first cabinet-level agency to complete this conversion and have all its operating elements in production on a cost-effective single instance of the *Oracle Federal Financials* application software. To take advantage of all new system capabilities as they become available, we upgraded Delphi to release 11.5.9 in May 2004 and to the 9i Oracle database technology in August 2004. The next upgrade is scheduled for the Winter of FY 2006. DOT is continuing centralization of accounting operations at the DOT Financial Management Center of Excellence in Oklahoma City.

#### **HAS NO MATERIAL:**

- **AUDITOR-REPORTED INTERNAL CONTROL WEAKNESSES;**
- **NONCOMPLIANCE WITH LAWS OR REGULATIONS; OR**
- **WEAKNESSES OR NONCONFORMANCES REPORTED UNDER SECTIONS 2 & 4 OF FFMIA**

DOT has been working diligently with our OAs to resolve all material internal control weaknesses reported by our auditors in previous years or at least sufficiently addressed for them to be downgraded to a reportable condition. DOT has made significant progress in this area and will continue to be vigilant in FY 2006 to ensure that we have no material auditor-reported internal control weaknesses.

DOT has also been working closely with our Operating Administrations to ensure that we have no material noncompliance with laws or regulations and will continue these efforts in FY 2006.

DOT has been working closely with each Operating Administration to correct all material weaknesses and nonconformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems. We will continue these efforts throughout FY 2006.



## IMPLEMENTING A-123

### APPENDIX A

During FY 2005, DOT moved aggressively to address the requirements of Appendix A, beginning with the establishment of a distinct organizational structure to oversee the implementation of this initiative. An Internal Controls Senior Advisory Team (ICSAT), headed by the CFO, was established with senior-level representation from each of DOT's Operating Administrations. The ICSAT meets on a monthly basis to review progress and to actively engage in all decisions relating to approach and the prioritization of issues. A working group consisting of representatives was also established to complement the ICSAT and to carry out the decisions at the working level across the Department. DOT has also engaged the services of a contractor to participate in both the planning and testing phases of this initiative.

DOT's plan for approaching Appendix A was submitted to OMB in August and received favorable feedback. Since then, considerable progress has been made in implementing this plan, including the identification and documentation of key business processes and controls, determination of materiality, and the establishment of a testing approach. The DOT ICSAT recognizes that the implementation of all aspects of Appendix A will require a multi-year approach. During FY 2006, initial testing will be based upon assessment of risk and availability of resources. A similar approach will be applied to addressing follow-on work in FY 2007 and 2008.

### APPENDIX B

In anticipation of the issuance of Appendix B, DOT proactively worked these new requirements into the re-competition of our task orders with our bank providers. As a result, DOT is well-positioned to implement these requirements in FY 2006 with minimal cost and disruption of resources.

On the travel card side, for example, DOT arranged for the creditworthiness requirement to be managed by the vendor **at no cost to the Government**. We have also established a salary offset program in the FAA which covers the vast majority of DOT credit card holders. Preliminary technical work has also been initiated to implement split disbursement for the reimbursement of travel expenses. We have been coordinating the introduction of split pay with our e-Travel provider and will work with them to introduce this enhancement to our travelers in FY 2006.

## MANAGERIAL COST ACCOUNTING

Managerial cost accounting identifies, tracks, and analyzes the total cost attributable to a particular task, job, or program. The purpose of managerial cost accounting is to provide program managers the cost information required to accurately report program efficiency and development of a program's future budget. DOT policy requires that OAs accumulate, distribute, monitor, and evaluate cost information during each accounting period.

All DOT OAs have implemented the Department's financial management system, Delphi, but it will be several years before cost-accounting data systems are fully mature and include historical data that will allow DOT managers to integrate performance and accounting data. In the meantime, DOT must be able to tie resources to results.



DOT, therefore, has decided to focus during the FY 2007 budget cycle on the linkage between funding and agency level outcomes and outputs and draw a comparison between the marginal benefits and the marginal cost associated with additional funds or reduced funding as recommended in section 51.2 of OMB Circular A-11. To accomplish this, the DOT OAs will be requested to provide the following in their FY 2007 budgets for at least one performance measure.

- Current services funding;
- Requested increase or decrease to funding;
- Associated agency-level performance measure for the activity in question;
- Baseline performance targets associated with the current services funding;
- New targets associated with changes in funding; and
- Discussion of how agency level results contribute to DOT level strategic outcomes.

This will be an interim step in tying resources to results until cost accounting data is more widely available throughout the Department. This approach does the following:

- Introduces a new conceptual framework for budget-building;
- Builds a more visible logic model showing the tie between agency funding and Departmental outcomes;
- Requires more rigorous target-setting methods from the OAs; and
- Helps the OAs articulate more clearly the impact of funding changes.

## **INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES REPORTED FROM FY 2002–FY 2005**

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. As a result, to completely address a Management Challenge may take more than one fiscal year. In an effort to provide some context to the Management Challenges, we have listed information on the year that the challenge was first reported. DOT hopes to begin to collect information to that will supply perspective overtime on the Department's progress towards resolving the challenges.

### **1. CHALLENGE: AVIATION SAFETY**

The U.S. aviation industry continues to be the safest in the world. However, FAA must adjust its safety oversight to emerging trends in the aviation industry and changing economic conditions. While air carriers have turned increasingly to outside, contracted repair stations, FAA continues to focus its inspection resources on air carriers' in-house maintenance work. The IG recommended that FAA strengthen its oversight procedures of foreign aviation authorities conducting inspections on its behalf. Since the OIG's Report was released, there was real progress on runway incursions (potential collisions on the ground), but operational errors (when air traffic controllers allow planes to come too close together in the air) continue to increase. Corrective actions are imperative to address this ongoing safety problem.



**REPORTED:** FY 2002

**RESOLVED:** This item is has not been resolved.

**FAA ACTIONS TAKEN TO RESOLVE CHALLENGE:**

**ADJUST SAFETY OVERSIGHT TO ADDRESS INCREASED MAINTENANCE OUTSOURCING.**

To address challenges at air carrier repair stations, FAA formed a Risk Assessment work group, which is developing a repair station prototype program. This program will bring together a team representing all the areas of expertise to oversee aviation certificate holders of large repair stations or companies that own multiple repair stations and satellite repair stations.

The work group is developing guidance materials for inspectors and information databases to improve FAA oversight of repair stations. The work group has also developed a comprehensive surveillance program, which requires repair stations to use elements of a system-safety approach such as risk assessment and risk management tools. FAA has revised its guidance and anticipates training for the inspector workforce to begin in November 2005.

Additionally, FAA is revising its Flight Standards Handbook Bulletin for Airworthiness (14 CFR Part 43.17) to incorporate the pending Bilateral Aviation Safety Agreement with associated Maintenance Implementation Procedures (BASA/MIP) with Canada to ensure the standardization of maintenance on U.S. certified aircraft repaired in Canada. There are no FAA certificated repair stations in Canada. In lieu of FAA certificated repair stations, the Handbook states that the United States accepts the work and return to service of U.S.-registered aircraft and components that are located in Canada by a properly Transport Canada Civil Aviation (TCCA) certificated entity.

Finally, FAA is negotiating a BASA/MIP with the European Union that will be used to continuously verify European member states conducting surveillance/certification activities on behalf of the FAA. FAA hopes to finish negotiations and implement the agreement by 2008.

**REDUCE OPERATIONAL ERRORS AND RUNWAY INCURSIONS AS TRAFFIC REBOUNDS.**

Reducing operational errors and runway incursions as traffic continues to increase is a shared responsibility among pilots, air traffic controllers, and vehicle drivers. To address this challenge, the FAA focused on outreach, awareness, improved procedures and infrastructure, and technology.

Progress was made in reducing the severity, number and rate of pilot deviations—the most common type of runway incursion. To enhance pilot situational awareness, the FAA released a new pilot guide and DVD that highlighted communication procedures for safe surface operations. In collaboration with industry, the FAA also created an online course that educates general aviation pilots on runway safety.

To enhance air traffic supervisor and controller discussion of serious events during team briefings, the FAA developed a safety awareness campaign designed to help controllers visualize an event that actually happened and aid the development of strategies based on intuitive and experiential expertise for use in similar situations. Additionally, the agency has developed an operational error database to support identification of trends from which error reduction initiatives will be developed.



#### IMPROVE OPERATIONAL ERROR REPORTING FROM TOWER AND TERMINAL RADAR APPROACH CONTROL (TRACON) FACILITIES.

In July 2005, the FAA issued a general notice (GENOT) instructing all air traffic control facilities to establish a facility audit process by September 1, 2005. This audit process allows for random reviews of Air Traffic Services using playback tools to identify operational errors and operational deviations, and provides greater assurance that operational errors and operational deviations are being reported.

In addition to the facility audit process conducted each month, the agency identified select facilities based on trends, analysis, intelligence, complaints and statistics, and required them to review data. The FAA reviewed the same data from these select facilities and addressed the issue by training or decertifying controllers, as appropriate. The agency's findings and supporting data are retained at the headquarters' level for two and one half years.

## 2. CHALLENGE: MOTOR VEHICLE SAFETY

In its 2005 update on DOT's management challenges, the IG made four findings related to motor vehicle safety: (1) Overcoming obstacles to increasing safety belt usage; (2) Addressing SUV rollover issues; (3) Pursuing laws to discourage alcohol-impaired driving; and (4) Spotting vehicle defects.

**REPORTED:** FY 2002

**RESOLVED:** FY 2004.

### RE-REPORTED IN FY 2005

#### ACTIONS TAKEN TO RESOLVE CHALLENGE:

To improve defect investigations, the routine submission of additional manufacturer data, pursuant to the requirements of the Transportation Recall Enhancement, Accountability and Documentation (TREAD) Act, allows NHTSA access to a substantially increased amount of early-warning data that can be analyzed to determine whether a potential safety-related problem exists, giving the agency the ability to report any defects to the public in a more-timely manner.

**SAFETY BELT USE**—Safety belt use in 2005 increased to 82%, an all-time high. NHTSA is continuing to implement strategies from its 2003 integrated project team (IPT) report on increasing safety belt usage, to include an added emphasis on high-risk groups such as minorities, younger drivers, rural populations, pick-up truck occupants, 8–15 year-old passengers, part-time safety belt users, and motor vehicle occupants in States with secondary safety belt use laws. In addition to an occupant protection IPT, NHTSA also had an IPT on vehicle rollover. The agency is continuing to implement strategies and activities from the report to include necessary safety standard requirements to reduce rollover events and minimize injuries when such events occur.

**DRUG-IMPAIRED DRIVING**—To reduce alcohol-impaired driving, NHTSA made available more than \$29.9 million in alcohol-impaired driving countermeasure incentive grants to 34 States having alcohol-impaired driving laws such as open container and repeat offender laws.



### 3. CHALLENGE: THE FUTURE OF INTERCITY PASSENGER RAIL

DOT should continue to work with the Congress 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 of funding available from all sources.

**REPORTED:** FY 2002

**RESOLVED:** This item has not been resolved.

#### ACTIONS TAKEN TO RESOLVE CHALLENGE:

FRA, together with the Office of the 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. Through the annual grants to Amtrak, in particular the capital grant, and the Department's presence on the Amtrak Board of Directors, FRA has been able to assure that capital investments address the company's highest priorities, and are consistent with the funding available. FRA recognizes that the need for work in this area is ongoing, particularly in addressing Amtrak's operating accounts and the services it provides such as food and beverage and first class services.

### 4. CHALLENGE: INFORMATION TECHNOLOGY MANAGEMENT

DOT has one of the largest IT investment portfolios among the civilian agencies. DOT IT systems support air traffic control and distribute billions of dollars in Federal grants for transportation improvements. Security breaches against these systems could have far-reaching effects on the Nation's transportation system and economy.

DOT enhanced its defense against Internet intrusions and developed a more reliable inventory of systems. DOT, however, must further protect critical IT systems (especially air traffic control systems) against attack and enhance contingency planning to ensure business continuity in an emergency.

**REPORTED:** FY 2002

**RESOLVED:** This item has not been resolved.

#### ACTIONS TAKEN TO RESOLVE CHALLENGE:

In FY 2005, DOT revised its Departmental Information Resources Management Manual (DIRMM), and updated policies and practices specific to Information Technology Capital Planning, IT Security, and Enterprise Architecture. This will ensure that:

- DOT is in compliance with legal and OMB requirements;
- Operating Administrations manage their portfolios of investments in a like manner; there is a consistent approach in security and the development of a "Federated" Enterprise Architecture; and,
- As a result of a consistent approach for enterprise architecture, DOT reduces redundant systems, promotes data sharing, component re-use, and collaborative efforts within DOT and with external partners.



DOT revised its Capital Planning and Investment Control Guide clearly defining, through detailed criteria, how DOT will identify high-risk agency IT projects for review. The revised guidance also includes process changes specific to earned value management, which DOT will use to identify high risk projects that exceed established variance levels.

DOT issued new, specific guidance on reporting project cost, schedule and performance variance. Project reports are provided to the CIO on a quarterly basis, but include monthly data.

#### **FAA SECURING CRITICAL COMPUTER SYSTEMS:**

Because FAA's IT portfolio constitutes a significant portion of the entire DOT portfolio, it was critical to the Departmental effort that FAA also takes specific steps to strengthen its oversight of IT investment. Accordingly, in FY 2005, FAA:

- Built on an already-strong Exhibit 300 training, development, and approval process, resulting in significant improvement to its initial passback scores over the previous year.
- Implemented a process to evaluate adherence to cost and schedule projections on all major projects, regularly monitor cost, schedule, and performance variances, and institutionalized the use of Corrective Action Plans for investments with variances greater than negative 10 percent.
- Achieved one of the highest scores of any agency on the GAO IT Investment Management Model (ITIM) scorecard, and adopted GAO's recommendations to move the agency to level 3 compliance with GAO's model. In FY 2005, FAA implemented 79% of ITIM stage two practices.
- Improved processes and capabilities for acquiring software intensive systems.
- Instituted changes to the overall acquisition management system, including the use of Exhibit 300s as the core investment decision document.

The Department's Transportation Cyber Incident Response Center (TCIRC) serves as the focal point for monitoring and protecting the Department's critical IT assets. Using a wide variety of tools, the TCIRC continuously monitors and scans the Department's IT infrastructure and looks for vulnerabilities. The Office of the CIO has also established a robust continuity of operations plan that provides for the quick reconstitution of critical IT services in the event of a prolonged disruption.

The FAA made significant progress toward improving information systems security for all FAA systems in FY 2005 and increased monitoring of its information systems through additional intrusion detection systems. The FAA Computer Security Incident Response Center also monitors the DOT system after normal working hours and on weekends and holidays thus providing DOT continual coverage.

**INVESTMENTS:** In FY 2005, DOT continued to expand and enhance the role of the Departmental Investment Review Board (IRB). The IRB, which is chaired by the Deputy Secretary, and consists of the CIO, Chief Financial Officer, General Counsel, Under Secretary for Policy, Assistant Secretary for Administration, and four Operating Administrators, has the authority to approve, modify, or terminate major IT investments. To ensure that the IRB can improve the cost-effectiveness of DOT's \$2.6 billion annual IT investment, it needs to:

- play a more proactive role in identifying high-risk modal administration IT projects for review;
- ensure that OAs conduct effective and detailed reviews of their portfolios;



- require the modal administrations to share more timely information on proposed IT projects; and
- perform more in-depth reviews of the data.

## 5. CHALLENGE: HOLDING THE LINE ON PROGRAMS CONDUCTIVE TO FRAUD

For the Department of Transportation, fraud has the serious potential for diverting critical funds from infrastructure programs, subverting the efforts of safety regulators and undermining the integrity of important public policy. The Office of Inspector General (OIG) has identified three areas where fraud has a particularly damaging effect on the Department's mission: (1) Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) programs involving highway and transit infrastructure, (2) Federal Motor Carrier Safety Administration's (FMCSA) program related to commercial driver's licenses, and (3) DOT's Disadvantaged Business Enterprise Program.

**REPORTED:** FY 2002

**RESOLVED:** This item has not been resolved.

### ACTIONS TAKEN TO RESOLVE CHALLENGE:

**HIGHWAY AND TRANSIT INFRASTRUCTURE PROJECTS.** FHWA continues to stress the use of fraud indicators and reporting procedures and is working with the transportation and highway industry to include the DOT OIG as a resource for reporting allegations of fraud, waste, and abuse on Federal-aid infrastructure construction projects. The FHWA and the Internal Revenue Service have jointly developed an enforcement strategy to strengthen tax evasion enforcement. FHWA identified opportunities to fortify deterrence strategies by increasing both, failure to register penalties and failure to report penalties from \$50 to \$10,000 per occurrence. In July 2005, FHWA changed the requirement that heavy vehicle use tax (HVUT) be paid quarterly to an annual payment to match the vehicle registration payment cycle. Finally, they developed temporary regulations for the tamper-proof dye injectors, which became effective October 2005.

Going forward FHWA and the Internal Revenue Service (IRS) will implement the provisions from Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and the American Jobs Creation Act of 2004. As each of the new provisions is applied over the next few years, the enforcement program will become more comprehensive. The IRS will be able to identify where evasion is occurring and target resources in those areas. For instance, enforcement efforts will be focused through a National fuel tax territory. The territory will work as one unit focusing on specific areas where evasion problems have been identified.

FTA initiated a risk management program which consists of planning, assessment activities, mitigation strategies for risk, and monitoring. This program creates a level of confidence in the project budget and schedule and enables FTA and the grantee to proactively manage the project.

**MONITORING COMMERCIAL DRIVER'S LICENSES.** To combat fraud in licensing for commercial motor vehicles, FMCSA:

- Distributed more than \$28 million in grants to States for Commercial Driver's License (CDL) fraud prevention, covert monitoring of the CDL process, and support of CDL improvement projects;



- Developed a fraud emergency warning system to notify States of acts of fraud and theft of documents, identification production equipment etc;
- Developed the Commercial Skills Test Information Management System, a Web-based system to assist States in administering and providing oversight of third-party skill testers; and
- Conducted 13 CDL Compliance Reviews to check State implementation of the CDL program.

#### DISADVANTAGED BUSINESS ENTERPRISE (DBE) PROGRAM

FAA took a number of actions in FY 2005 to strengthen oversight of the DBE program. The agency conducted limited reviews of basic DBE compliance activities at airports and developed a standard methodology for conducting DBE self-assessments and compliance reviews. FAA developed a Web-based system for airports to report their DBE accomplishments. This system will enable the agency to conduct trend analyses of the data received. The agency issued a revised regulation for airport concessions, which contains items to assist in the prevention of DBE fraud, such as a personal net worth cap, required eligibility reviews, and increased emphasis on monitoring and compliance by airports.

### 6. CHALLENGE: IMPROVED FISCAL DISCIPLINES AT FAA

As FAA increasingly turns to the General Fund to make up for revenue shortfalls in the Aviation Trust Fund, the agency will be competing with other critical Federal programs for funds during a period of fixed budgets.

Compounding the budget challenges it faces, FAA estimates that nearly half the controller workforce will leave the FAA between FY 2005 and FY 2012. To hire and train that many controllers within a severely constrained operating budget, FAA must identify ways to make every stage of its process for hiring, placing, and training new controllers more efficient and cost effective.

FAA also faces significant challenges with respect to its major acquisition programs. The Agency will need to gain control of existing projects, determine what the Agency's priorities are, and improve the overall management of its major acquisitions in a constrained budget environment.

**REPORTED:** FY 2002

**RESOLVED:** This item has not been resolved.

#### FAA ACTIONS TAKEN TO RESOLVE CHALLENGE:

In June 2005, an FAA/DOT team drafted an alternative financing options report on the aviation trust fund as part of a broader effort that will take place on developing a reauthorization proposal for FAA programs. This options report will continue to be updated through the end of FY 2005 and into FY 2006 to reflect the final recommendations from FAA and DOT officials and will provide the basis for reauthorization legislation.

On December 21, 2004, the FAA announced its 10-year Air Traffic Controller Staffing Plan. Over the next 10 years, the agency will hire and train 12,500 controllers to backfill projected total retirement and non-retirement controller losses. The Air Traffic Controller Staffing Plan is currently being updated, with the second version to be released in December 2005.



FAA is making significant strides in improving its capital investment acquisition and procurement oversight:

- By the end of FY 2005, there were 105 certified program managers for projects greater than \$50 million;
- Large and complex investments were segmented into phases to improve oversight and control;
- In developing the capital budget, the agency prioritized programs and allocated resources using criteria such as strategic relevance, cost reduction and productivity increases, benefits and risk; and
- The newly formed Capital Investment Team, which provides an independent and objective review of costs and benefits of investments, reviewed 79 programs, recommending the re-structuring of 15 and termination of two.

## 7. CHALLENGE: IMPROVING AVIATION SYSTEM CAPACITY

After a few years of relative reprieve from aviation congestion, traffic and delays are once again returning. The Department of Transportation's challenge is determining how and where traffic is likely to grow over the next decade and planning for adequate investment in facilities, technology and operational improvements to address both long-range and short-term needs.

**REPORTED:** FY 2002

**RESOLVED:** This item has not been resolved.

### ACTIONS TAKEN TO RESOLVE CHALLENGE:

**DETERMINE HOW AND WHERE TRAFFIC IS LIKELY TO GROW OVER THE NEXT DECADE.** In FY 2004, FAA completed a study analyzing system capacity, taking into account the socioeconomic and demographic trends expected to occur in the United States through 2020. This study expanded the focus of the 35 major airports and evaluated nearly 300 commercial service airports nationwide. The study identified the airports that need additional capacity and the constraints to enhancing capacity. In FY 2005, FAA began a second phase of this study that will take a more detailed look at airports other than those in major metropolitan areas and will begin to identify possible solutions to increase long-term capacity.

In the meantime, FAA is increasing short-term capacity by working with airports and local communities to build new runways. While there are no new runways opening in FY 2005, six runways are under construction with four of the runways opening in FY 2006. This will provide the potential to accommodate an additional 665,000 annual operations. Two additional projects, a runway extension and a runway/taxiway relocation, are expected to begin construction in FY 2006. In addition, there are 9 projects, including 3 new airports, in the planning or environmental assessment stages that could provide significant capacity benefits through FY 2015.

**NEW RUNWAYS AND AIRSPACE REDESIGN INITIATIVES.** 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.



The New York/New Jersey/Philadelphia Airspace Redesign project is on schedule to publish a draft Environmental Impact Statement in Fall 2005. This is a critical step in moving to a final decision, after which airspace redesign may begin.

Chicago's O'Hare airport is one of the busiest in the Nation; capacity problems at this airport can quickly cascade throughout the NAS. To address this critical hub in the aviation system, FAA is engaged in two separate, but related activities: the Chicago O'Hare Modernization Project and the Midwest Airspace Enhancement project. These projects will add and modify sectors and routes to increase traffic flow efficiencies in the Midwest by FY 2007.

Along the west coast, a series of advanced navigation routes was implemented in FY 2005 to reduce the miles flown between Seattle and San Francisco or Los Angeles. The routes utilize the navigational capabilities of advanced avionics aboard the aircraft, permitting operations along the shortest path between the airports rather than flying over ground-based navigation aids.

**POTENTIAL MARKET-BASED INITIATIVES TO MORE EFFICIENTLY ALLOCATE EXISTING CAPACITY.** FAA has conducted detailed simulation exercises in the last year to examine the effects of market-based alternatives like congestion pricing and slot auctions (of arrivals and departures) on airlines and airport operations. These simulations have provided stakeholders an opportunity to comment on these potential tools for managing congestion. FAA is committed to continue working toward a market-based solution for congested airports and is investigating these options for potential use at New York's LaGuardia Airport.

## **8. CHALLENGE: GETTING THE MOST VALUE FROM INVESTMENTS IN HIGHWAY AND TRANSIT INFRASTRUCTURE PROJECTS**

With fewer resources to fund transportation projects, it is important to ensure that infrastructure improvements are delivered on time and within budgets. In addition, the Department needs to ensure that taxpayer investments yield the greatest benefits for the given costs.

**REPORTED:** FY 2003

**RESOLVED:** This item has not been resolved.

### **ACTIONS TAKEN TO RESOLVE CHALLENGE:**

In a 2003 Report to Congress, the FHWA outlined its efforts to develop a more multi-disciplinary approach towards project management and oversight activities. During the past two years, the Agency has addressed four key areas outlined in the Report:

- Optimizing the use of internal staffing;
- Effective recruitment of project managers;
- Increased training for existing and new staff; and
- Implementing specific stewardship and oversight initiatives, including the development of Project Management Plans and an Agency-wide risk management approach.



In FY 2005, the FHWA continued a program to transition Agency employees from the traditional role of reviewing and approving highway engineering project level actions to a new role of ensuring the effectiveness of state department of transportation processes in areas that are major project drivers, such as financing, controlling project level costs, schedule performance, transportation planning, maintaining funds accountability, and providing greater oversight of higher level management and financial issues. The majority of the positions filled in the Agency's Professional Development Program were by individuals from disciplines other than civil engineering, which is the traditional background. A series of multidisciplinary workshops were held for headquarters and field supervisors and managers. The FHWA implemented training that focused on the development of project oversight and financial management, delivered over 30 sessions of a workshop that focuses on process review procedures, and delivered Web conference seminars in the financial management area.

The responsibility for oversight includes monitoring and tracking the cost and schedule elements of a project, as defined in the environmental process, from the design phase to construction completion. The FHWA began monitoring project cost and schedules on projects exceeding \$1 billion in costs, called Major projects, in 2000. FHWA is presently monitoring 12 projects that have reached the Initial Financial Plan milestone. As of June 2005, 9 of the projects were within the established budget variance, ranging from 8.24 percent above the base cost estimate to 16.2 percent below. All 10 of the projects are expected to be finished within the variance range of the estimated completion date.

Beginning in 2002, the FHWA began monitoring total cost growth on all large projects, exceeding \$10 million in size. Data has been accumulated on projects authorized from FY 2000 through FY 2004. The data indicates that construction projects are generally awarded at a level below the Engineer's Estimate and show a relatively small increase as the projects move to completion. It is not anticipated that the total growth for all projects in this category will increase much beyond 5 percent. The projects authorized in FY 2000 have been underway for 4 to 5 construction seasons; most costs are known by this point. In fact, the growth for projects initiated between FY 2000 and FY 2002 has only risen about 2 percent.

Early in 2005, both the Government Accountability Office (GAO) and the Office of the Inspector General (OIG) raised additional concerns about the Federal Highway Administration (FHWA) oversight of cost and schedule issues on projects funded with Federal-aid resources.<sup>1</sup> While FHWA did agree, in part, with some of the recommendations, the Agency did not agree with the recommendation to convert its Fiscal Management Information System (FMIS) into a Project Management Tracking System. The FMIS is used to track obligations and expenditures on projects or project phases when a State Transportation Agency (STA) elects to use Federal funds as part of the funding package.

To address some of these continuing concerns and take advantage of existing STA project systems, FHWA initiated an effort in June 2005 to develop a more formal, documented approach to Project Delivery Oversight. Each Division Office was directed to survey their respective data systems that contain the

<sup>1</sup> See GAO Report, *Federal-Aid Highways: FHWA Needs a Comprehensive Approach to Improving Project Oversight*, GAO-05-173, January 2005; and the OIG Report, *FHWA Needs to Capture Basic Aggregate Cost and Schedule Data to Improve Its Oversight of Federal-Aid Funds*, No. MH-2005-0046, February 2005.



project cost and schedule management elements. In particular, the Division Offices will assess whether the STA have the needed information for the Agency to perform periodic projects reviews and evaluations on these areas. The results will give FHWA the assurance that future program reviews can access the appropriate project information to effectively monitor project elements using Federal funds.

The FHWA's stewardship and oversight role is strengthened in SAFETEA-LU. The Transportation Secretary is required to establish an oversight program to monitor the effective and efficient use of Federal aid funds. The legislation requires the FHWA conduct an annual review of the State department 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.

## **9. CHALLENGE: OVERSIGHT OF THE MARAD TITLE XI LOAN GUARANTEE PROGRAM**

The Maritime Administration (MARAD) needs to continue work on implementing the recommendations made on how to best minimize potential financial loss to the \$3.8 billion Title XI Loan Guarantee Program.

**REPORTED:** FY 2003

**RESOLVED:** This item resolved in FY 2005.

### **MARAD ACTIONS TAKEN TO RESOLVE CHALLENGE:**

MARAD and IG staffs have worked closely together to address the issues raised in the audit. These activities have included the development of procedures to monitor the financial condition of borrowers and the assets they finance under the Title XI program. For example, MARAD has developed a Credit Watch Report to more closely monitor and report on the financial condition of Title XI companies that may experience financial difficulties. MARAD has also obligated \$2 million for the development of a computer based portfolio monitoring system. Due to these and other efforts undertaken by MARAD, the IG staff has indicated that the recommendations in their audit have been resolved.

## **10. CHALLENGE: STRENGTHENING FINANCIAL MANAGEMENT AND ACCOUNTABILITY**

While a lot of work has been accomplished to strengthen financial management, there are still several key areas that the Department needs to continue to improve. Particularly: freeing up dollars in idle funds to be used more productively on active projects, exercising greater stewardship over the \$35 billion awarded annually on highway and transit projects, consolidating or replacing fragmented financial systems, and implementing cost accounting systems to help improve operations.

FAA has pledged to have a fully operational cost accounting system and labor distribution system in place by the end of Calendar Year 2005. The agency, however, faces several challenges in reaching that goal: it must revamp the system to account for recent significant organizational changes; deploy the system to new business units; begin associating actual labor costs and other unassigned service costs to specific facilities and activities; and implement financial and performance measures for activities, which are critical to achieving performance efficiencies and cost savings.



**REPORTED:** FY 2003

**RESOLVED:** This item has not been resolved.

**ACTIONS TAKEN TO RESOLVE CHALLENGE:**

The fiscal year 2004 audit of the Highway Trust Fund (HTF) identified grants financial management oversight as a material weakness. It had previously been reported as a reportable condition in the FY 2003 audit. FHWA's current Financial Management Improvement Program requires division offices to identify areas needing improvement and then work with the States to make the improvements. The HTF audit stated that the required financial management risk assessment and associated reviews of grantees were not performed in 41 of 45 projects sampled.

In response to the FY 2004 audit findings, the FHWA introduced the Financial Integrity Review and Evaluation (FIRE) Program in April. This program consolidates current financial oversight responsibilities of the Federal-aid division offices into a single directive. It incorporates current requirements to perform a financial management process review, review inactive projects, follow up on audit findings, assure compliance with the Single Audit Act (see below), and assess the accounting and internal controls relating to administrative funds. It also includes new requirements to review a sample of Federal-aid billing transactions and administrative transactions. As a result, Division offices performed the required reviews and analyses, identify areas needing improvements, implement the improvements, report the results annually to the Administrator, and maintain sufficient documentation to support the division office's conclusions and actions taken. Based on the results of the FIRE requirements, the Division Administrator will certify the results of these activities as part of the annual, year-end Section 2 and 4 certification required by the Federal Managers' Financial Integrity Act. Division Offices also completed a risk assessment on the identified financial payment processes but will not be required to perform a grant financial management process review. However, the full requirements of the Order will be in effect during FY 2006.

In compliance with the Single Audit Act, States are required to conduct annual audits of sample grant amounts in excess of \$300 thousand dollars to ensure that appropriate controls are in place to identify any payment that should not have been made or that was made for an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements, or to an ineligible recipient. The Single Audit Act requirements, and supporting OMB regulations that States comply with, are insufficient to address and identify improper payments. As a result, the DOT and OMB agreed to better define the criteria that State auditors use to evaluate improper payments and engage State DOT auditors to test the criteria. The results of this research project will be a refinement of OMB's expectations/regulations under the Single Audit Act for use by all State DOT auditors, including possibly the expansion of the definition of an improper payment to include "quality" issues such as "did the design achieve intended results," "did the specifications result in a road condition that will last for X years."

A consulting firm was engaged to conduct this study and the Tennessee DOT is the test State. During March 2005, representatives from OST, FHWA, and the State DOT identified the different phases of a highway project and developed the test criteria specifically for each phase, with emphasis on the construction phase. A Special Advisory Group was established to oversee this research project, which includes the includes DOT Deputy Chief Financial Officer, FHWA Chief Financial Officer, OMB representatives, and the Inspector Generals from the Departments of Labor and Education.



## **FAA ACTIONS FOR IMPLEMENTING COST ACCOUNTING SYSTEMS:**

In January 2006, FAA will complete the work to revamp the Cost Accounting System to account for a recent significant organizational change. The system will replace labor assignment business rules with actual labor costs from the Labor Distribution System. This improvement will provide more accurate labor costs using actual time spent to maintain the National Airspace System equipment instead of using current allocation rules based on staffing standards.

FAA plans to implement cost accounting for the Airports and Aviation Safety business units by the end of June 2006. This will complete the implementation of cost accounting for the entire FAA organization.

As part of its cost accounting efforts, FAA will implement financial and performance measures to achieve performance efficiencies and cost savings.

## **OTHER REPORTS AND EMERGING ISSUES**

### **EMERGING ISSUE — STRATEGIC HUMAN CAPITAL PLANNING**

**EMERGING ISSUE:** GAO has stated that the entire Federal Government faces an impending wave of retirements of long-service, highly competent Federal employees. National demographic projections show the retirement wave will coincide with a reduced labor pool. These circumstances create a large-scale strategic human resource planning challenge. While the exodus of talent will not happen overnight, DOT is planning and acting now to ensure a highly competent, diverse, well-led, and productive workforce at all levels, now and into the future.

While the Inspector General did not cite human capital as a FY 2005 management challenge, he did identify “Meeting Human Resource Needs” as an “emerging issue,” citing specific challenges facing FAA’s controller workforce, and the need for the Federal Highway Administration to balance its changing skill mix.

### **GAO REPORT — IMPROVED PROGRAM MANAGEMENT NEEDED TO ADDRESS TIMELY DISPOSAL OF OBSOLETE SHIPS**

**GAO:** The Maritime Administration has more than 100 obsolete and deteriorating ships awaiting disposal that pose potentially costly environmental threats to the waterways near where they are stored. Congress, in 2000, mandated that MARAD dispose of them by September 30, 2006. While MARAD has various disposal options available, each option is complicated by legal, financial and regulatory factors.

GAO Report 05-264 had three recommendations for executive action to improve MARAD’s ship disposal program:

- 1) Develop a comprehensive approach to manage MARAD’s ship disposal program that would:
  - identify a strategy and an implementation plan to dispose of all existing obsolete ships and future transfers in a timely manner; maximizing the use of all available disposal methods;
  - determine the needed resources, the associated funding plan, and specific milestones for this disposal;



- establish a framework for decision making that would delineate roles and responsibilities and establish guidance and procedures;
  - identify external factors that could impede program success and develop plans to mitigate them; and
  - evaluate annually results and implement corrective actions
- 2) Regularly communicate MARAD's plan, required resources, and any impediments that require congressional assistance in the mandated reports to Congress.
  - 3) MARAD should change its contracting approach for acquiring ship scrapping services from the use of Program Research and Development Announcements (PRDAs) to an appropriate method.

#### MARAD ACTIONS:

MARAD has already taken action on all three recommendations. A Ship Disposal Comprehensive Management Plan (CMP) that addresses the items in the first recommendation is in the final stages of development and will be finalized in first quarter of FY 2006. Upon approval of this CMP, MARAD will be able to proceed further with the second recommendation. MARAD continues to communicate its disposal plan and impediments to the Congress most recently in the mandated reports dated April 2005 and October 2005. Also, if the CMP becomes a mandated requirement through enactment of the House National Defense Authorization Act for FY 2006, the CMP will serve as additional regular communication with the Congress. Finally, MARAD has ceased using PRDAs as a method for acquiring ship scrapping services. Since January 2005, MARAD has been using the Federal Acquisition Regulation (FAR) Test Program for Certain Commercial Items "Standing Quotations." The use of Standing Quotations is a simplified acquisition procedure for the competitive procurement of commercial services.



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# **PERFORMANCE REPORT**







## PERFORMANCE FRAMEWORK

### INTRODUCTION

Department of Transportation's overarching mission is:

To develop and administer policies and programs that contribute to providing fast, safe, efficient, and convenient transportation at the lowest cost consistent with the National objectives of general welfare, economic growth and stability, the National security, and 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 objectives in the areas of safety, mobility, global connectivity, security and the environment 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 for programs within each of our Operating Administrations. The performance budget defines the performance goals and measures used to manage progress toward our strategic objectives. 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 objectives.
- This [DOT Performance and Accountability Report](#) provides a public accounting of our FY 2005 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:

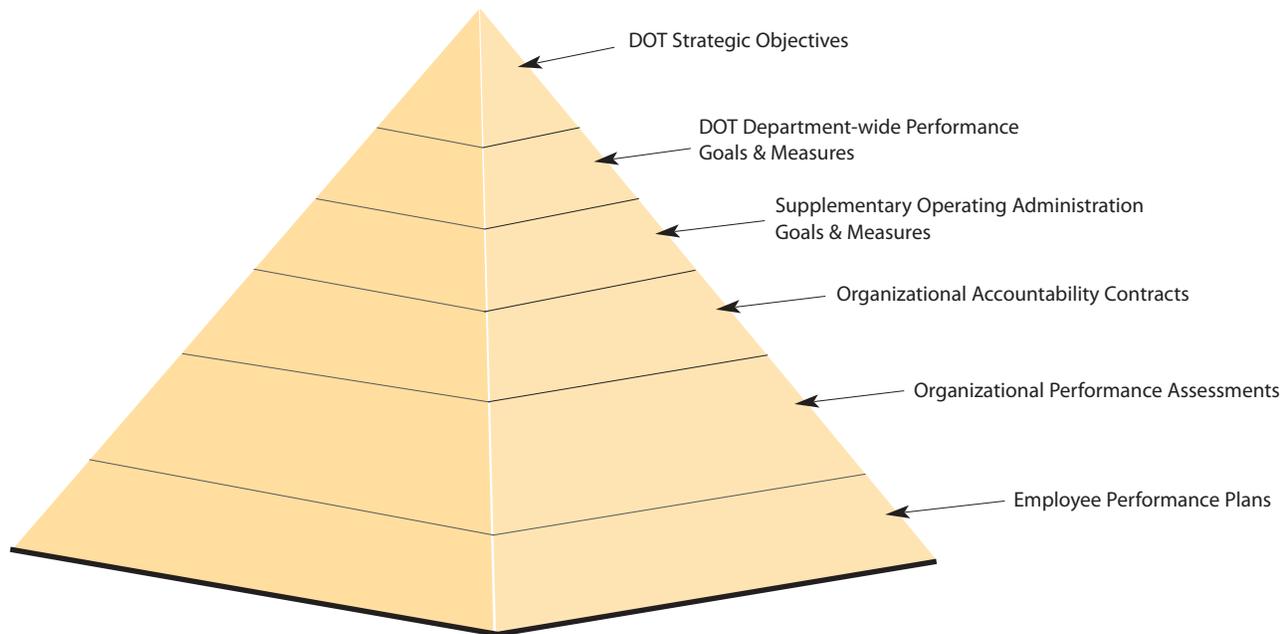
*Organizational Accountability Contracts*—Prepared at the beginning of each fiscal year, these agreements between the Secretary of Transportation and each modal Administrator document expected levels of organizational performance for the upcoming year.



*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 in to 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 objectives through the performance framework.

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





## HOW DOT WORKS TO ACHIEVE ITS STRATEGIC OBJECTIVES 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 St. 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.
- *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 2005 RESULTS: A READERS GUIDE

The performance section of this report is composed of chapters for each strategic objective 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 objective, 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 objective, 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, 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.
- 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:

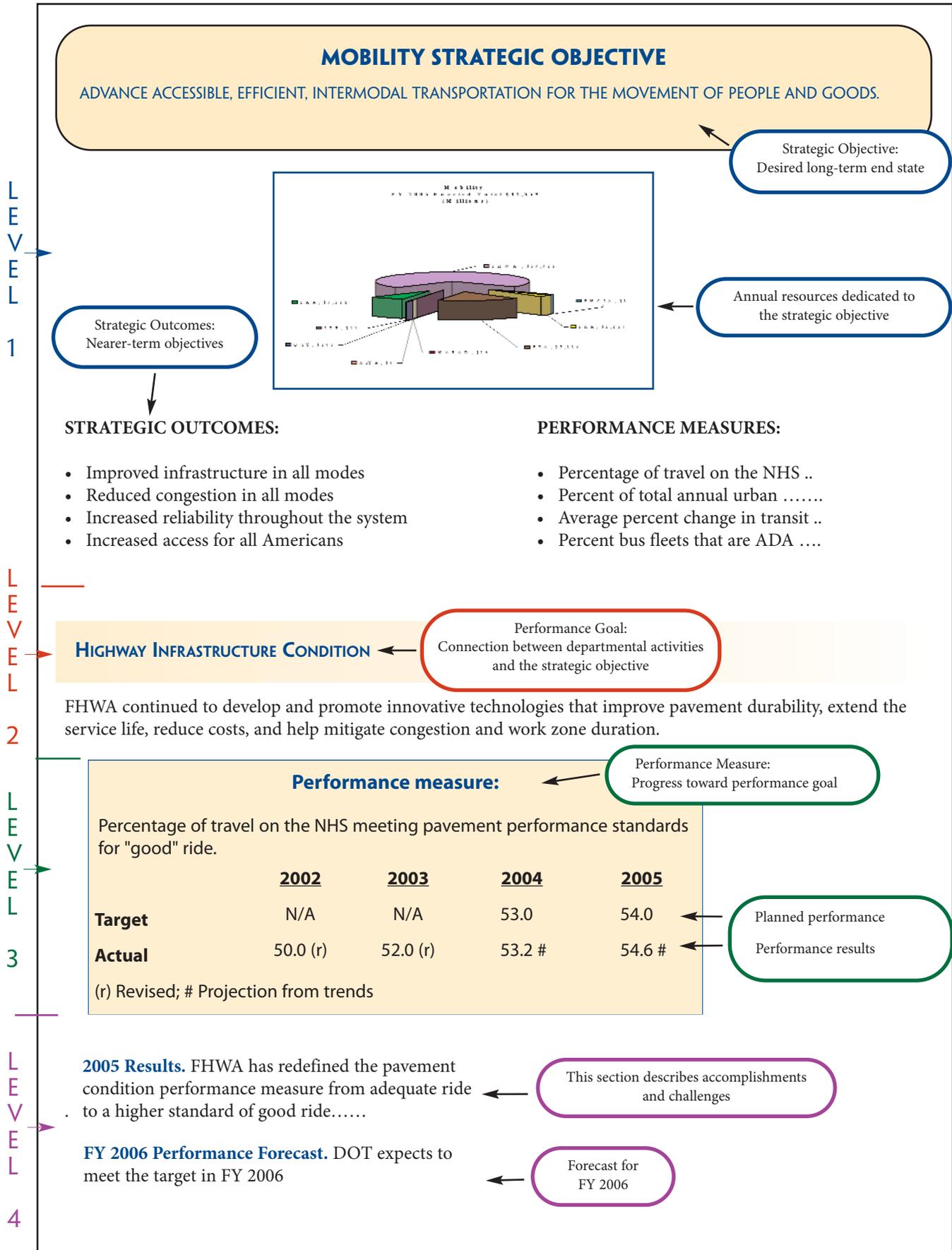
**Strategic Objective**—statement from the DOT Strategic Plan, outlining the desired long-term end-state.

**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.

The graphic on the following page 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: [www.bts.gov/programs/statistical\\_policy\\_and\\_research/source\\_and\\_accuracy\\_compendium/index.html](http://www.bts.gov/programs/statistical_policy_and_research/source_and_accuracy_compendium/index.html). In that website, we also provide information to resolve the inadequacies that exist in our performance data.

**Preliminary vs. final results**—Reporting FY 2005 results by November 2005 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 or Objective, 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.

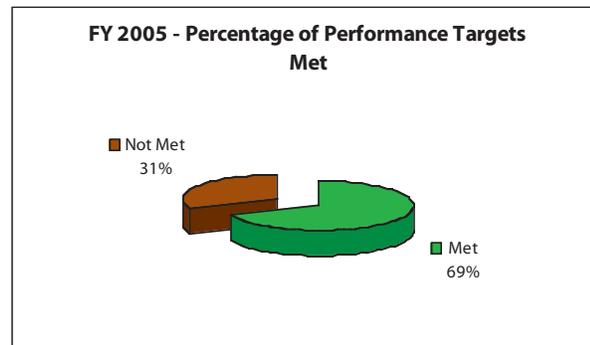
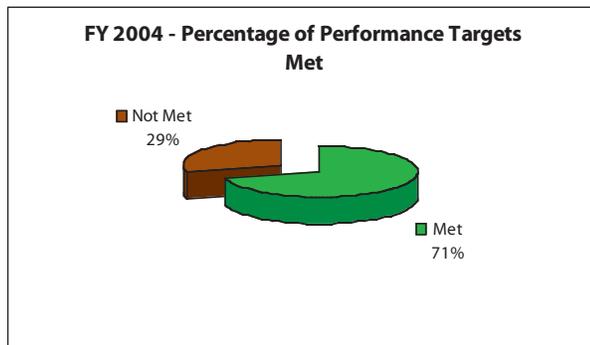
**Management challenges**—The DOT Inspector General and the Government Accountability Office publish reports describing a number of problems and challenges facing the Department. We take these issues seriously, and have folded our approach to meeting these challenges into our general efforts to achieve 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 objectives is to compare single year results to historical trends. We have provided a tabular summary of long-term performance for each of the Strategic Objectives to provide context for the FY 2005 achievements.



## SUMMARY PERFORMANCE TABLES

### OVERALL DOT PERFORMANCE SUMMARY



### SAFETY PERFORMANCE SUMMARY

Performance Measure	1999	2000	2001	2002	2003	2004	2005 Actual	2005 Target	Met / Not Met
Highway fatalities per 100 million vehicle-miles traveled (VMT)	1.55	1.53	1.51	1.51	1.48	1.46 (r)	1.43*	1.38	✗
Fatalities involving large trucks per 100 million truck VMT	2.65 (r)	2.57 (r)	2.45	2.30	2.33 (r)	2.34 (r)	2.35*	1.96	✗
U.S. commercial fatal aviation accidents per 100,000 departures (Last 3-year average)	0.051	0.037	0.037	0.026	0.024	0.021 *	0.017 *	0.023	✓
Number of fatal general aviation accidents	364	341	359	348	360 (r)	340 *	350 *	343	✗
Rail-related accidents and incidents per million train miles (measure revised in FY 2004)	23.92 (r)	22.84 (r)	23.44 (r)	20.04 (r)	19.33 (r)	18.73 (r)	16.79*	17.14	✓
Transit fatalities per 100 million passenger-miles traveled	0.530	0.499	0.482	0.473	0.461	0.359 *	0.492 *	0.482	✗
Number of incidents for natural gas and hazardous liquid pipelines	339 (r)	380 (r)	341 (r)	330 (r)	369	429 (r)	396 *	295	✗
Number of serious hazardous materials transportation incidents	544	576	598	480 (r)	473 (r)	509 (r)	408 *	503	✓

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



## MOBILITY PERFORMANCE SUMMARY

Performance Measure	1999	2000	2001	2002	2003	2004	2005	2005 Target	Met / Not Met
Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride <sup>2</sup>	46.0 (r)	48.0 (r)	49.0 (r)	50.0 (r)	52.0 (r)	53.2 #	54.6 #	54.0	✓
Percent of total annual urban-area travel occurring in congested conditions	29.1 (r)	29.6 (r)	30.6 (r)	30.7 (r)	31.0 (r)	31.6 (r)	32.1 #	33.0	✓
Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels	5.0	5.0	4.3	0.2	0.7	0.7	1.4	1.0 (r)	✓
Percent bus fleets compliant with the ADA	77	80	85	90	93	95	97 *	95	✓
Percent of key rail stations compliant with the ADA	49	52	67	77	82	82	91 *	84 (r)	✓
Number of employment sites (in thousands) that are made accessible by Job Access and Reverse Commute transportation services	1.7	17.0	28.4	52.1	73.7 (r)	82.8 (r) *	82.1 #	50	✓
Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays	76.0	74.9	76.5 (r)	82.2	82.3	79.07 (r)	88.1 *	87.4	✓

<sup>2</sup> Starting in FY 2005, measure was redefined to measure "good" rated pavement versus "acceptable" rated pavement. Results for FY 1999 through FY 2004 have been adjusted accordingly.

(r) Revised; \* Preliminary estimate; ADA — Americans with Disabilities Act; ✓ Met; ✗ Not Met



## GLOBAL CONNECTIVITY PERFORMANCE SUMMARY

Performance Measure	1999	2000	2001	2002	2003	2004	2005	2005 Target	Met / Not Met
Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses	4.1	4.5	3.7	3.8	4.2	3.0 (r)	6.4 *	5.1	✓
Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses	17.9	17.7	17.4	16.2	15.8	12.3 (r)	15.1 *	14.5	✓
Percent of days in shipping season that the U.S. portion of the St. Lawrence Seaway is available	98.9	99.2	98.1 (r)	98.7	98.9	99.1	99.7	99.0	✓
Number of new or expanded bilateral and multilateral agreements completed (new measure in FY 2004)	N/A	N/A	N/A	N/A	N/A	3	2	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 (revised measure)	N/A	N/A	N/A	N/A	1.48	1.72	2.97	1.53	✓
Number of international negotiations conducted annually to remove barriers to trade in air transportation (new measure in FY 2005)	N/A	N/A	N/A	N/A	N/A	N/A	25	10	✓

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



## SECURITY PERFORMANCE SUMMARY

Performance Measure	1999	2000	2001	2002	2003	2004	2005	2005 Target	Met / Not Met
Percentage of DOD-required shipping capacity complete with crews available within mobilization timelines	97	92	97	94	96	94	95	94	✓
Percentage of DOD-designated commercial ports available for military use within DOD established readiness timelines	93	93	92	92	86	93	87	93	✗
Transportation Capability Assessment for Readiness Index Score (New Measure)	N/A	N/A	N/A	N/A	59	67	65	71	✗

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

## ENVIRONMENTAL STEWARDSHIP PERFORMANCE SUMMARY

Performance Measure	1999	2000	2001	2002	2003	2004	2005	2005 Target	Met / Not Met
Ratio of wetlands replaced for every acre affected by Federal-aid highway projects	2.3	3.8	2.1	2.7	2.7	2.1	2.4	1.5	✓
Percent DOT facilities characterized as No Further Remedial Action under the Superfund Amendments and Reauthorization Act	90	90	91	91	94	93	92	93	✗
12-month moving average number of area transportation emissions conformity lapses	N/A	6.0	6.0	6.0	6.0	6.0	6.0	6.0	✓
Tons of hazardous liquid materials spilled per million ton-miles shipped by pipeline	0.0184 (r)	0.0083 (r)	0.0026 (r)	0.0057 (r)	0.0071 (r)	0.0102	0.0097 *	0.0064	✗
Percent reduction in the number of people in the U. S. who are exposed to significant aircraft noise levels (revised measure)	N/A	N/A	N/A	N/A	-15%	-27% (r)	-27% #	-3%	✓

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



## ORGANIZATIONAL EXCELLENCE PERFORMANCE SUMMARY

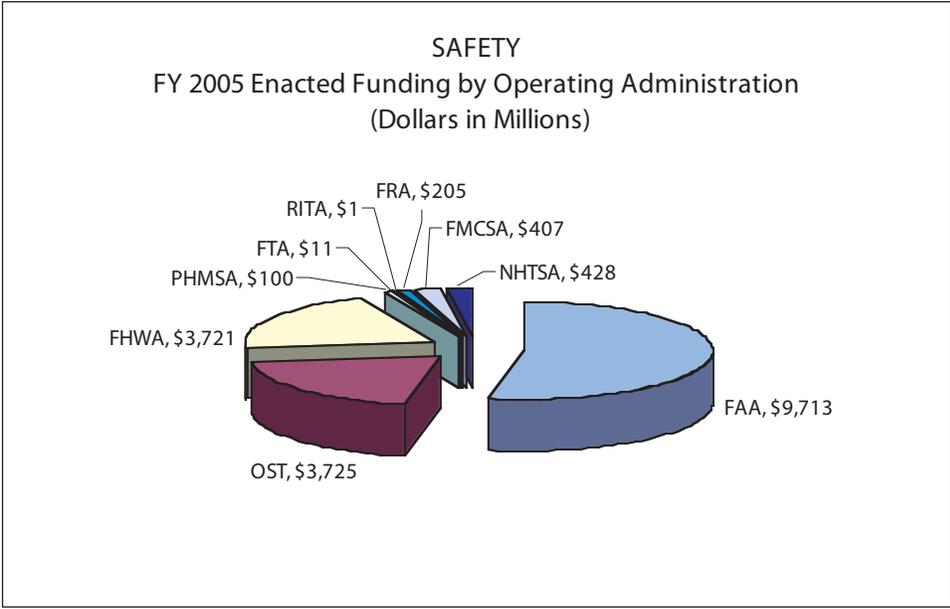
Performance Measure	1999	2000	2001	2002	2003	2004	2005	2005 Target	Met / Not Met
For major DOT systems , percentage of cost goals established in the acquisition project baselines that are met <sup>3</sup>	N/A	N/A	N/A	89.5	88	100	97	80	✓
For major DOT systems, percentage of scheduled milestones established in acquisition project baselines that are met <sup>4</sup>	N/A	N/A	N/A	74	78	92	92	80	✓
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	N/A	85	88	95	95	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	N/A	85	88	74	79	95	✗
Percentage of transit grants obligated within 60 days after submission of a completed application	N/A	21	51	67	83	91	91	80	✓
Number of environmental justice (EJ) cases that remain unresolved after one year	29	56	39	65	76	73	45	35	✗

<sup>3</sup> & <sup>4</sup> This measure was combined in FY 2004 to include both cost goals and schedule milestones; ✓ Met; ✗ Not Met



**SAFETY STRATEGIC OBJECTIVE**

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



**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 average).
- Number of fatal general aviation accidents.
- Rail-related accidents and incidents per million train miles (measure revised in FY 2004).
- Transit fatalities per 100 million passenger-miles traveled.
- Number of incidents for natural gas and hazardous liquid pipelines.
- Number of serious hazardous materials transportation incidents.



## HIGHWAY SAFETY

Improving the safety of the Nation's transportation system is the top priority of Secretary Mineta. DOT's central strategies for reducing fatalities and injuries on the Nation's highways are to reduce alcohol-impaired driving, increase safety belt use and improve the safety of commercial vehicle operations. Three Operating Administrations are the key contributors to the Highway Safety goal: the National Highway Traffic Safety Administration (NHTSA), the Federal Highway Administration (FHWA) and the Federal Motor Carrier Safety Administration (FMCSA).

**NHTSA.** Highway crashes cause 95% of all transportation-related fatalities and 99% of transportation injuries, and are the leading cause of death for Americans age 3 through 33. Alcohol is still the single biggest contributing factor in fatal crashes. While declining for the second year in a row (-2.4%), fatalities in alcohol-related crashes still claimed 16,694 lives in 2004, falling below 17,000 fatalities for the first time in five years. In 2004, approximately 12% of all people killed in motor vehicle incidents were involved in a crash with a large truck, yet trucks represented less than 4% of registered vehicles and approximately 8% of the vehicle miles of travel. Eighteen percent of Americans still do not use safety belts all of the time when driving motor vehicles. The large number of crashes has placed a considerable burden on the Nation's health care system and has had significant economic effects. The cost to the economy of all motor vehicle crashes is approximately \$230.6 billion, or 2.3% of the U.S. gross domestic product.

**FHWA.** 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 FY 2005, the number of deaths in crashes involving large trucks decreased by almost 21% from its all-time high in 1979. Additional long-term accomplishments include:

- The rate for large truck fatalities involving alcohol has declined by more than two thirds over the last decade.
- Six states, Alabama, Connecticut, Maine, New Jersey, Utah, and Washington currently meet the FY 2008 target fatalities per 100 million Truck Vehicle-Miles Traveled (TVMT).

While these long-term accomplishments are significant, FMCSA needs to continue to work towards achieving its performance targets. To that end, FMCSA initiated the Comprehensive Safety Analysis (CSA) 2010 project, to reach the next level of safety. The 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.



**2005 Results.** DOT did not meet the highway fatality rate. However, as a direct result of DOT's programs, motor vehicle travel has become significantly safer. The overall fatality rate declined from 3.35 in 1980 to a revised 1.46 fatalities per hundred million vehicle miles traveled in 2004—the lowest fatality rate in our Nation's history. DOT projects that in 2005, the fatality rate dropped even further—to 1.43. Final figures for FY 2005 will be reported in next year's report.

<b>Performance Measure</b>				
Highway fatalities per 100 million vehicle-miles traveled (VMT).				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	1.4	1.4	1.38	1.38
Actual	1.51	1.48	1.46 (r)	1.43 *
(r) Revised; * Preliminary estimate				

Early estimates for roadway departure fatalities, which include run-off-the-road and head-on fatalities, are 24,848 fatalities in FY 2004, a slight reduction from FY 2003. Preliminary fatalities for intersection-related fatal crashes are 8,887 and 4,641 for pedestrian-related fatalities. These estimates also represent slight reductions from FY 2003.

**FY 2006 Performance Forecast.** The Department will likely fall short of the Administrator's goal of 1.38 fatalities per 100 million VMT in 2006 if the trends remain the same.

**2005 Results.** Preliminary estimates for FY 2005 indicate fatalities increased from a rate of 2.34 per 100 million Truck Vehicle-Miles of Travel (TVMT) in 2004 to a rate of 2.35 per 100 million TVMT in FY 2005, and as a result FMCSA will not meet its annual target. FMCSA and its State partners have made, over the long run, solid progress in reducing both the number and rate of fatalities involving large trucks despite yearly increases in both TVMT and the number of vehicles traveling our Nation's roads. These latest trends indicate that after years of steady progress in reducing large truck-related fatality rates, FMCSA may have achieved most of the safety improvements it can expect using current operational practices and procedures. In response, FMCSA in FY 2005 initiated the Comprehensive Safety Analysis (CSA) 2010 project to reach the next level of safety.

<b>Performance Measure</b>				
Fatalities involving large trucks per 100 million truck VMT.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	2.32	2.19	2.07	1.96
Actual	2.30	2.33 (r)	2.34 (r)	2.35 *
(r) Revised; * Preliminary estimate				

**FY 2006 Performance Forecast.** FMCSA does not anticipate meeting its FY 2006 target but is working to reduce the rate of fatalities involving large trucks.



## IN-DEPTH ACCOMPLISHMENTS PROMOTING HIGHWAY SAFETY

### NHTSA

Using a performance-based management process, NHTSA awarded \$115.3 million in State and community highway safety formula grants. States used this and their own funds to:

- reduce speed-related fatalities;
- encourage proper use of occupant protection devices;
- reduce alcohol and drug impaired driving;
- reduce crashes between motorcycles and other vehicles;
- reduce school bus crashes;
- improve police traffic services;
- improve emergency medical services and trauma care systems;
- increase pedestrian and bicyclist safety; and
- improve traffic record systems.

The grants also provided support for State data collection and reporting of traffic deaths and injuries.

### SAFETY BELTS

In the past four years, safety belt use has increased steadily from 71% in FY 2000 to 82% in FY 2005. The 82% safety belt usage will save 15,700 lives and \$67 billion in economic costs associated with traffic-related crashes, injuries, and deaths every year. Belt use is statistically higher in states with primary belt enforcement laws than in states with secondary laws, and higher in urban or suburban areas than in rural areas. In FY 2005, states that allowed more stringent enforcement of their belt use laws (“primary” states) reached a milestone of 85% belt use. 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.



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Fatalities of unrestrained passenger vehicle occupants declined by 3.4%, which may reflect the increasing use of safety belts, and contribute to the overall reduction in passenger vehicle occupant fatalities. However, in FY 2004, 55% of those killed in passenger vehicles were still not wearing safety belts. Many times passenger vehicle occupants are killed in motor vehicle crashes when they are unbelted and ejected from the vehicle during a rollover event. In FY 2004, rollover deaths among passenger vehicle occupants increased 1.1% from 10,442 to 10,553.

In May 2005, NHTSA conducted a National Click It or Ticket campaign, while encouraging States to continue to conduct periodic high-visibility safety belt law enforcement mobilizations, during the ensuing summer months. The agency published new strategies and best practices from demonstration grants, included in the FY 2003 Occupant Protection Integrated Project Team report, which focuses on high-risk groups such as minorities, younger drivers, rural populations, pick-up truck occupants, 8-15 year old passengers, part-time safety belt users, and motor vehicle occupants in states with secondary safety belt



laws. Likewise, NHTSA reached out to new partners representing these populations to try to raise their lower-than-average safety belt use rates. In addition, NHTSA intensified media strategies through partnerships with the Ad Council and other outlets to develop messages to increase booster seat use among the 4 to 8 year-old age group.

### **IMPAIRED DRIVERS**

While alcohol-related fatalities declined for the second year in a row (-2.4% in FY 2005), alcohol-related crashes and their related mortality tolls continued to pose a significant public health challenge throughout the country. Alcohol-related crashes claimed 16,694 lives in 2004, falling below 17,000 fatalities for the first time in five years. In addition, fatalities declined by 1.8% in crashes where the highest blood alcohol concentration (BAC) was 0.08 grams per deciliter or greater. In continuing to combat this problem, NHTSA further enhanced its impaired driving prevention program, with continued emphasis on assisting high-risk populations (e.g., underage drinkers, 21 to 34 year-olds, individuals with high BAC or repeat offenders) in order to continue the current declining trend.

NHTSA made available more than \$29.9 million to 34 States having alcohol-impaired driving countermeasure laws or programs, such as administrative license revocation laws and graduated licensing programs. Technical and program support was provided to ten States receiving Highway Safety program grants to conduct comprehensive impaired driving program assessments, countermeasure implementation and evaluation. Additionally, 49 States, the District of Columbia, and Puerto Rico received \$61.3 million in incentive grants for lowering the legal threshold for impaired driving to .08 BAC. With Minnesota's .08 BAC legislation taking effect in August 2005, now all 50 States, the District of Columbia, and Puerto Rico have enacted .08 BAC laws.

### **SAFER VEHICLES**

To improve tire safety, NHTSA published the final rule for Tire Pressure Monitoring Systems to begin phase-in of new requirements with 2006 model year vehicles. By 2008, all new 4-wheeled vehicles weighing 10,000 pounds or less must be equipped with a monitoring system that meets the new requirements. NHTSA estimates that about 120 lives a year will be saved when all new vehicles are equipped with the tire pressure monitoring systems. Under the New Car Assessment Program, NHTSA conducted and released results of its frontal and side crash tests, rollover ratings, child safety seat ease-of-use results, and information for consumers on vehicle safety features available as standard or optional equipment. The agency re-issued its warning to users of 15-passenger vans because of an increased rollover risk under certain conditions. In a new research report related to improper tire maintenance on 15-passenger vans, the NHTSA study found that 74% of all 15-passenger vans had significantly mis-inflated tires. NHTSA research has consistently shown that improperly inflated tires can change handling characteristics, increasing the prospect of a rollover crash in 15-passenger vans.

Similar warnings were issued in 2001, 2002, and 2004. The public is responding to safety information about 15-passenger vans. Fatalities from 15-passenger van rollover crashes have declined 35% since advisories began in 2001.

From Calendar Year (CY) 2001 through May 2005, there were 1,801 recalls for safety-related defects and 435 of these recalls—representing about 41.8 million vehicles and 337,000 equipment items—were influenced by NHTSA investigations. During this same period, there were 381 recalls to correct noncompliances with Federal motor vehicle safety standards. In 2003, NHTSA established a separate



category for child safety seat recalls. Formerly, these were shown as equipment recalls. From CY 2001 through May 2005, there were four NHTSA-influenced child safety seat recalls that involved nearly 5 million seats, and one NHTSA-influenced tire recall that involved 2.8 million tires. Information on NHTSA's rollover ratings, five star crash tests, defect investigations and safety recalls can be found on the agency's newly redesigned Web site, [www.safercar.gov](http://www.safercar.gov), which was reconstructed to be more consumer-friendly.

## **FHWA**

### **ROADWAY DEPARTURE AND INTERSECTION SAFETY**

FHWA pursued improved roadway departure safety through improvements in engineering, education, and enforcement. As part of its comprehensive safety program, FHWA engineers worked closely with State highway engineers and law enforcement officials to identify appropriate engineering safety countermeasures for high-risk locations and new roads. For instance, they worked on promoting greater use of roadway improvements such as, upgraded guardrails and rumble strips, encouraging greater use of retro reflective signage and improved markings, and removing of roadside hazards. FHWA worked with industry partners to promote a National Agenda for Intersection Safety, which includes a number of solutions and strategies, such as: engineering and technology improvements, intersection safety audits, red-light cameras, training for local safety professionals, and increasing public awareness.

The Intelligent Transportation Systems (ITS) Program continued to develop technology-based systems that could significantly reduce intersection crashes. At the new intersection safety test facility, FHWA is developing an Intersection Collision Avoidance System to help drivers avoid crashes at intersections. Pedestrian fatalities are also a significant issue. FHWA targeted the cause of crashes in major urban areas and select rural locations and facilitated community-based programs that fully and safely accommodated pedestrians.

### **HIGHWAY SAFETY PLANNING**

FHWA, the American Association of State Highway and Transportation Officials (AASHTO) and other National organizations jointly hosted a National Safety Leadership Forum to advance the Lead States initiative and strategic safety plans. FHWA continues to promote the AASHTO Strategic Highway Safety Plan, which includes an outreach program to encourage lead states to develop strategic highway safety plans. Effective plans include strong crash data systems, a statewide goal for reducing deaths within a set period of time, and stakeholder safety teams dedicated to supporting the effort. Twenty states currently have statewide strategic highway safety plans and 11 more are actively developing plans.

## **FMCSA**

### **COMPLIANCE AND ENFORCEMENT**

Regulatory standards continue to provide the cornerstones of FMCSA's compliance and enforcement mission. In 2005, the Agency issued rules concerning: hours of service, Title VI regulations for financial assistance, rules of practice, transportation of household goods, and, parts and accessories necessary for



safe operation. In addition to providing technical assistance to industry and the public, FMCSA has processed in excess of 1,000 e-mails and over 35,000 phone calls concerning safety regulations. Additionally, FMCSA processed through the Internet Web site [www.pay.gov](http://www.pay.gov):

- 7,721 operating authority applications;
- 3,703 reinstatements of operating authority;
- 471 voluntary revocations;
- 21,173 new MCS-150 (Motor Carrier Identification Report) applications;
- 25,205 MCS-150 updates;
- 27 cargo tank facility manufactures' applications; and,
- 159 cargo tank updates.

During FY 2005, FMCSA continued to place a high priority on enforcement and compliance operational activities. FMCSA obligated \$100 million to States for motor carrier compliance and enforcement activities to complement Federal operations. Working closely with its State partners in coordination with the OIG, FMCSA initiated five strike force operations in targeting household goods carriers (HHG) and conducted



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its first ever roadside inspections of HHG Commercial Motor Vehicles (CMVs), resulting in the initiation of two enforcement cases. FMCSA completed 380 commercial investigations and continues to focus on and increase enforcement actions against unscrupulous HHG movers, with the addition of three positions dedicated to HHG activities. Additionally, FMCSA completed the second year of a two-year study of HHG dispute settlement programs. During FY 2005, Federal and State safety enforcement operations to ensure compliance with Federal motor carrier safety regulations included:

- 978 border safety audits;
- 3,196 conditional carrier reviews;
- 33,925 new entrant safety audits;
- 12,449 safety compliance reviews;
- 353,357 border inspections; and
- 2,941,231 roadside inspections.

In FY 2005, the number of States participating in the Performance and Registration Information Safety Management system, an initiative that links the safety records of motor carriers with their ability to register their vehicles, increased by 5 to a total of 42; and, enforcement operations resulted in FMCSA initiating 4,164 enforcement cases.

#### **EDUCATION AND OUTREACH**

As of June 2005, FMCSA provided commercial motor vehicle (CMV) safety training for over 5,890 State and local law enforcement personnel.



FMCSA continues to focus on increasing CMV driver safety belt usage through increased partnering activities, research, education and outreach materials and enforcement. FMCSA has been working closely with NHTSA to increase safety belt use among CMV drivers and has transferred funds to conduct two CMV safety belt studies. Also, FMCSA funded a study conducted by the Transportation Research Board on industry practices and motivational factors for CMV safety belt use.

FMCSA is piloting an education/enforcement program aimed at eliminating aggressive driving behaviors around large trucks and passenger cars, which will result in the reduction of large truck crash fatalities and injuries. FMCSA has also implemented a Passenger Carrier Safety Program to reduce fatalities, injuries, and crashes. Additionally, FMCSA has developed several brochures for the passenger motor coach industry and has implemented a Web-based information source for safe interstate passenger transportation to help consumers consider safety issues when selecting a passenger transportation company.

### **DRIVER IDENTIFICATION AND QUALIFICATION**

Medical qualifications of CMV drivers remain an area of focus. As of June 2005, FMCSA completed a draft Charter for the Medical Review Board, reviewed over 693 applications for vision exemptions and 57 applications for diabetes exemptions, and, amended medical standards by publishing new Blood Pressure Guidelines.

### **RESEARCH, TECHNOLOGY AND SAFETY INFORMATION**

FMCSA's research and technology (R&T) programs provide advances and innovations to improve CMV safety. The agency completed the pilot testing of the Commercial Truck Simulator Validation (Sim Val) Study and completed updates for the following reports:

- Estimates of the prevalence and risk of fatigue in fatal crashes,
- Comparison of the 10- and 11-hours of driving critical incident data, and
- Measuring sleep quantity using actigraphy data.

FMCSA also completed the Safety Belt Best Practices Synthesis Report, provided research support to the Secretary of Transportation's Safety Belt initiative; and published reports on:

- CMV driver fatigue and driver health;
- CMV driver safety belt usage;
- Hours of service and fatigue management techniques;
- Individual differences and the "high risk" driver;
- Sleep apnea crash risk study; and
- Pilot test of fatigue management technologies.

Better understanding of the factors contributing to large truck and motor coach crashes is critical to developing agency programs, policies and safety interventions. In FY 2005, FMCSA continued to provide technical support to States to deploy Commercial Motor Vehicle Information Systems and Networks and completed statistical analysis of the Large Truck Causation Study.



FMCSA initiated Comprehensive Safety Analysis (CSA) 2010, an ambitious program to realign, strengthen, consolidate where possible, and focus its safety programs and enforcement operations. The results of the analysis will be used to assist the Agency in refocusing existing and developing new analytic techniques and methods to identify potentially unsafe drivers. When fully implemented, CSA 2010 will provide FMCSA a new operational model that will greatly enhance the Agency’s safety performance by significantly expanding its ability to reach and thoroughly evaluate a significantly larger portion of the regulated population, both carriers and drivers.



## AVIATION SAFETY

Commercial aviation is one of the safest forms of transportation. While rare, aviation accidents can have catastrophic consequences, with large loss of life; as a result, the public demands a high standard of safety and expects continued improvement.

FAA's role in commercial aviation is well known, less known is the fact 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, sightseeing, industrial work, on-demand air taxi service, corporate transportation, as well as personal use and recreational flying. The majority of aviation fatalities have occurred in this segment of aviation. Since 1988, there has been a gradual trend downward in the number of general aviation accidents, but progress has not been steady.



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**2005 Results.** Based on the preliminary estimate, DOT met the commercial aviation fatal accident rate. This is one of the safest periods in aviation history. The National Airspace System operates 32,000 scheduled commercial flights daily. Based on the preliminary estimate, FAA exceeded its FY 2005 goal of reducing the airline fatal accident rate to a three-year rolling average rate of 0.023 per 100,000 departures. The actual figure of 0.017 fatal accidents per 100,000 departures translates to about one fatal accident per 5.9 million departures. Since the last fatal airliner accident involving passengers in November 2001, over two billion airline passengers have safely reached their destination.

Performance Measure				
U.S. commercial fatal aviation accidents per 100,000 departures (Last 3-years' average).				
	2002	2003	2004	2005
Target	.038	.033	.028	.023
Actual	.026	.024	.021 *	.017 *
* Preliminary estimate				

**FY 2006 Performance Forecast.** FAA is on track to meet the performance target in FY 2006.

**2005 Results.** Based on the preliminary estimate, DOT failed to meet the general aviation fatal accident target. FAA was challenged to meet the target this year for reducing General Aviation (GA) fatal accidents. GA fatal accidents ran higher each month than the previous year. The agency believes that increased flight activity, the increased use of turbine aircraft, and pilots exceeding their limitations were leading factors.

Performance Measure				
Number of fatal general aviation accidents.				
	2002	2003	2004	2005
Target	379	374	349	343
Actual	348	360 (r)	340 *	350 *
(r) Revised; * Preliminary estimate				

**FY 2006 Performance Forecast.** FAA may not meet the performance target in FY 2006.



## IN-DEPTH ACCOMPLISHMENTS PROMOTING AVIATION SAFETY

**Commercial Air Carrier Safety.** 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:

- prevent accidents by addressing recurrent causes;
- improve certification and surveillance; and
- 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.

FAA also worked in FY 2005 to increase aviation safety by preventing fuel tank explosions. The agency submitted a Notice of Proposed Rulemaking for inerting flammable fuel vapors. This process involves reducing levels of flammable vapors in fuel tanks to meet the level achieved when fuel tanks are made chemically unreactive. This rule would apply to current aircraft in service, new production aircraft, and new kinds of aircraft designs in the transport category.

FAA continued efforts to improve use of onboard technology that can enable pilots to navigate aircraft to any point in the world using only geographical coordinates. Required Navigation Performance (RNP) is an important step in moving the United States from an exclusively ground-based navigation system to one located within the aircraft itself. By providing pilots precise guidance to all runways, RNP can help prevent two major types of accidents—controlled flight into terrain and accidents that occur during the approach and landing phase of flight. In addition, RNP will enable pilots to land in weather conditions that would ordinarily require diversion to alternate airports. FAA continued its emphasis on improving Runway Safety Areas (RSAs). In FY 2005, FAA exceeded its goal of improving 41 RSAs by completing improvements to 50 RSAs.

In addition to these safety initiatives, FAA also engaged in hands-on preventative measures in FY 2005, such as increased security screening of cargo to root out fireworks and other hazardous materials. Those efforts aided in the detection of many undeclared hazardous materials, allowing FAA to safeguard airline passengers through increased investigation of violations of hazardous materials regulations.

**General Aviation Safety.** To improve safety awareness and training, the FAA works collaboratively with the General Aviation community, while continuing to enhance the Aviation Safety Program. The General Aviation Joint Steering Committee, a partnership of the FAA and major general aviation associations, recently created a turbine operations subgroup. The group identified actions to encourage charter and corporate operators to adopt safety management systems. In addition, the JSC continues its work to improve safety for operators of single-engine airplanes.

**Reducing Precursors.** FAA has identified runway incursions and operational errors as significant precursors to fatal accidents in both commercial and general aviation. Reducing these incidents is critical to reducing fatalities in aviation.

**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.



For the third year in a row, serious runway incursions are down. The number of the most serious types of runway incursions is projected at 29, which is lower than the FAA's performance limit of 36 for FY 2005.

The agency continues to develop and coordinate efforts to improve runway safety including a variety of education and awareness materials focused on air traffic controllers, pilots and airport drivers to help reduce the number of serious runway incursion incidents. Other tools, such as air traffic control memory aids, better airport surface markers, and public service announcements, have contributed to the reduction in incursions.

A new runway technology system was deployed in FY 2004 to reduce the potential for runway collisions at major U.S. airports. Airport Surface Detection Equipment, Model X (ASDE-X) was first commissioned at General Mitchell International Airport in Milwaukee, WI. This equipment maps moving objects on the airport grounds or those approaching by air, which helps controllers detect potential runway collisions. In FY 2005, FAA deployed ASDE-X at three additional locations. The agency expects to install this equipment at 14 additional U.S. airports by FY 2009.

**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 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 an obstruction.

The FAA estimates that it will exceed the FY 2005 performance limit of 637 most serious operational errors by more than 6% (680 operational errors). Although FAA did not meet its target, it has instituted performance management and communication initiatives in FY 2005 that are already helping to make improvements, some of which are identified below:

- Certification skills checks, focusing on operational error causal factors, were conducted on all control room personnel;
- FAA began conducting regular quality assurance teleconferences with air traffic facilities and producing a regular newsletter for controllers to highlight causal factors, trends solutions, procedures, and training;
- Two Air Traffic Organization units, En Route and Oceanic Services and Terminal Services, have worked with the Controller Training Division to improve training content and identify simulation solutions to enhance the performance of developmental air traffic control specialists and the current full-performance level workforce.

In FY 2006, FAA will continue its performance management and communications initiatives, refine the operational error severity classification process to ensure an accurate identification of the risk posed by an operational incident, and review a procedural change for aircraft operating on crossing and diverging courses to provide additional operational efficiency while maintaining safety.



## RAIL SAFETY

Chief among the many achievements during FY 2005 was the unveiling by Secretary Mineta of the National Rail Safety Action Plan. The plan will help prevent train accidents caused by human error, improve the safety of HAZMAT shipments, minimize the dangers of crew fatigue, deploy state-of-the-art technologies to detect track defects, and focus inspectors on safety trouble spots. To accomplish this, Federal Railroad Administration will accelerate its research into tank-car structural integrity for increased crash survivability; help ensure that emergency responders have accurate and timely access to consist information following a train accident involving hazmat; and identify promising technologies to reduce the risk of train accidents in territory without signals where hazmat are transported.



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**2005 Results.** For the 10-month period October 2004–July 2005, total rail-related accidents fell 8.4%, from 11,944 to 10,943, while total casualties (fatalities and injuries) declined 6.5%, from 8,288 to 7,749. These dramatic reductions accompanied a modest 3.0% drop in train accidents, from 2,667 to 2,586. A primary reason for the reductions was a greater emphasis by the railroad industry on reducing employee-on-duty casualties, particularly within rail yards. FRA has worked extensively with the industry over the past two years to better protect the activities of rail employees involved in dangerous switching operations.

Performance Measure				
Rail-related accidents and incidents per million train miles.				
	2002	2003	2004	2005
Target	N/A	N/A	17.49	17.14
Actual	20.04 (r)	19.33 (r)	18.73 (r)	16.79 *
(r) Revised; * Preliminary estimate				

As mentioned in the FY 2004 PAR, the measure was revised to capture an expanded universe of data. FAR reviewed the data on-hand has provided updated historical data to include the new categories now factored into the measure. Previously, FRA had reported that they met the performance target for FY 2004; however the preliminary estimate was based on six months of data. Once the final data was received FRA found that in some cases initial reports from railroads either under reported its data, or reports were revised to reflect the final numbers which had increased.

**FY 2006 Performance Forecast.** Based on current projections, FRA should meet the FY 2006 target for the rail-related accidents rate.



## TRANSIT SAFETY

Public transit provides a flexible alternative to traveling by automobile, offering a higher degree of safety as well. Currently, transit is one of the safest modes of travel per passenger-mile traveled. According to the National Safety Council, riding the bus is 47 times safer than traveling by car. The challenge is to further reduce the rate of fatalities and injuries even as the total number of people using transit increases.

**2005 Results.** Although preliminary estimates suggest DOT will not meet the target for FY 2005, initial data does not include all data sources. Historical trends indicate that this number will be reduced once the data is finalized.

**FY 2006 Performance Forecast.** DOT will meet the FY 2006 target.

In 2005, FTA's strategy for further reducing the low rate of transit fatalities included:

- Continued investment in new, safer bus and rail vehicles, and improvements to track and transit facility conditions.
- Continued safety design consideration for new projects from project inception.
- Safety technical assistance to improve technology and training programs and compliance with the Americans with Disabilities Act's safety requirements by providing FTA planning and research funds to assist States, local transit authorities, and the transit industry.
- Continued support of the Transportation Safety Institute's (TSI) safety and security training program, which provided 29 safety and security training courses to over 4,900 transit employees. Training courses included accident prevention and investigation, emergency management, industrial safety, alternative fuels, bus operator safety, and fatigue awareness.

Performance Measure				
Transit fatalities per 100 million passenger-miles traveled.				
	2002	2003	2004	2005
Target	.492	.492	487	482
Actual	.473	.461	359 *	492 *
* Preliminary estimate				

## IN-DEPTH ACCOMPLISHMENTS PROMOTING TRANSIT SAFETY

- Continued oversight of the States' programs for Safety Oversight of Rail Systems to ensure they are in compliance with the requirements of the State Safety Oversight Rule for Rail Fixed Guide way Systems.
- Worked with partners—the American Public Transportation Association (APTA), the Community Transportation Association of America (CTAA), and the American Association of State Highway and Transportation Officials (AASHTO)—to implement and promote the Model Transit Bus Safety and Security Program. This included developing technical assistance documents for small/rural, medium, and large transit agencies on security, driver selection and training, vehicle maintenance, and drug and alcohol abuse programs.



## PIPELINE SAFETY

While pipelines are among the safest modes for transporting hazardous liquids and natural gases, the nature of their cargo is inherently dangerous, and pipeline failures can pose an immediate threat to people and communities.

Excavation damage during construction causes 30% of pipeline failures for all types of pipelines, corrosion causes another 18% of failures, and natural forces such as earthquakes cause 9% of failures. Incorrect operation, construction/material defects, equipment malfunction, failed pipes, and other miscellaneous causes account for the remaining 43% of pipeline failures. PHMSA is closely monitoring the number of incidents in gas transmission and gas distribution lines which were increased in the past two years. PHMSA is also evaluating whether a substantial increase in natural gas prices in the past two years contributed to the increase in the number of reportable incidents in natural gas pipeline systems (a reportable incident involves either a death or injury or at least \$50,000 of property damage, which includes value of product lost). In the past 10 years, there have been 22 fatalities annually related to natural gas or hazardous liquid pipeline failures.



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The Pipeline Safety Improvement Act of 2002 reinforced and strengthened PHMSA programs to assure the long-term integrity and security of existing pipelines. The Act improved the tools available to address the causes of pipeline failure. The Act required integrity management programs for gas transmission pipelines, enhanced pipeline safety research, added better means to evaluate operator qualification, strengthened the oversight role of the States, and increased PHMSA's enforcement authority.

**2005 Results.** Based on the preliminary data for FY 2005, PHMSA expects to miss the FY 2005 performance target. The pipeline industry continues to face challenges due to an expanding economy that brings an increase in new housing and commercial construction as well as an increase in pipeline mileage. The construction activity adds more risk of pipeline excavation damage, especially in gas transmission and gas distribution lines.

<b>Performance Measure</b>				
Number of incidents for natural gas and hazardous liquid pipelines.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	343	326	310	295
Actual	330 (r)	369	429 (r)	396 *
(r) Revised; * Preliminary estimate				

In 2003 and 2004, pipeline incidents reflected the impact of economic activities as incidents increased due to excavation damages to gas distribution and transmission lines increased. The extrapolation for FY 2004 was based on January-June data available during the time of reporting. The second half of FY 2004, however, showed a steep increase in incidents.



Based on the first six months' incident reports in FY 2005, continuing construction expansion in commercial and housing markets, and steadily increased gas distribution mileage, PHMSA expects that pipeline incidents will continue to increase. A preliminary analysis of incident reports from Texas, Louisiana, Alabama and Mississippi, which were hit by Hurricanes Katrina and Rita, indicate the number of incidents is two or three times higher than past years due to the hurricanes.

The performance goal is to reduce all pipeline incidents by 5% per year, from 381 in FY 2000 to 280 in FY 2006. PHMSA is considering changing the incident reporting threshold to reflect the increased cost of gas.

**FY 2006 Performance Forecast.** Based on the preliminary data for FY 2005 and the reasons explained above, PHMSA expects to miss the FY 2006 performance targets.

### IN-DEPTH ACCOMPLISHMENTS PROMOTING PIPELINE SAFETY

PHMSA is closely monitoring the upward movement of gas distribution and transmission incidents in the past two years (2003 and 2004) and is assessing strategies to achieve the targets previously set. PHMSA is aware that the preliminary estimate of the number of pipeline incidents may be underestimated at this point given the impact of Hurricanes Katrina and Rita on U.S. infrastructure. There could be a significant increase in the number of incidents in the August and September reports.

PHMSA has the following strategies for reducing natural gas and hazardous liquid pipeline incidents:

- Advancing the Integrity Management Program concepts throughout the entire system;
- Advancing damage prevention, particularly through enforcement efforts;
- Advancing public education—one initiative is the recently established nationwide three-digit telephone number for one-call centers to provide timely and consistent information on the location of underground utilities;
- Investing in technologies for better detection of defects and strengthening materials for repair; and
- Strengthening PHMSA's enforcement program through improved Federal/State Partnerships.

PHMSA's Integrity Management Program (IMP) started with hazardous liquid pipes and was extended to gas transmission lines. The IMP improves pipeline safety by:

- Accelerating assessments of pipelines in high consequence areas;
- Improving integrity management systems within companies;
- Improving the government's role in reviewing the adequacy of integrity programs and plans; and,
- Providing increased public assurance in pipeline safety.



## HAZARDOUS MATERIALS SAFETY

Many of the materials used in manufacturing and many of the retail products people buy include hazardous materials (HAZMAT). There are over 800,000 HAZMAT shipments each day in the United States. These range from flammable materials and explosives to radioactive materials, poisons and corrosives. Release of these materials during transportation could result in serious injury or death, or harm to the environment.

PHMSA issues hazardous materials regulations in coordination with other parts of DOT and shares enforcement responsibility with FAA, FMCSA, and FRA, as well as the Department of Homeland Security's U.S. Coast Guard.

**2005 Results.** Based on preliminary estimates, DOT will meet the performance target. Road accidents leading to HAZMAT releases continue to dominate overall serious hazardous materials incident statistics, constituting 77% of total serious incidents in FY 2005. Serious rail incidents accounted for approximately 19% of the total. Serious air and water incidents accounted for the remaining 4%.

Performance Measure				
Number of serious hazardous materials transportation incidents.				
	2002	2003	2004	2005
Target	523	515	509	503
Actual	480 (r)	473 (r)	509 (r)	408 *
(r) Revised; * Preliminary estimate				

**FY 2006 Performance Forecast.** DOT expects to meet its rebaselined, more ambitious target in FY 2006.

### IN-DEPTH ACCOMPLISHMENTS PROMOTING HAZMAT SAFETY

DOT has six long-term strategies for reducing serious hazardous materials transportation incidents:

- Develop and maintain National standards for the safe, secure transportation of hazardous materials;
- Obtain compliance with these standards through formal training, and by development and distribution of education materials on specific Hazardous Materials Regulation (HMR) requirements to shippers, carriers, enforcement personnel and the public;
- With nearly 200,000 commercial motor vehicle (CMV) inspections per year, implement a National safety inspection and enforcement program to determine compliance with the HMR;
- Provide funds to States for planning and training to minimize hazardous materials incident consequences;
- Publish and distribute the Emergency Response Guidebook, the principal source document used by State and local response personnel and industry to handle hazardous material incidents; and,
- Conduct research and development to analyze and monitor hazardous materials transportation safety issues.



As part of the effort to increase HAZMAT safety FAA implemented a prioritized risk-based shipper inspection plan. This plan incorporates HAZMAT information electronically shared with other Operating Administrations and deployed as a searchable database for field agents.

The majority of serious hazardous material incidents that occur on our Nation's roads involve commercial motor vehicles (CMV). In 2004, FMCSA and its Federal and State partners minimized serious HAZMAT incidents involving CMVs to 375, exceeding its stated limit of 419 incidents. This was the result of better training of hazmat carrier employees and better-targeted enforcement activities.

### Compliance with Regulations

In January 2005, FMCSA's final rule on Hazardous Materials Safety Permitting, establishing standards and procedures for motor carriers of specific high-hazard materials, became effective. FMCSA's safety enforcement operations conducted in FY 2005 to ensure compliance with Federal Hazardous Materials Regulations (HMR) include:

- 97 cargo tank facility reviews;
- 385 hazardous materials shipper reviews;
- 3,902 hazardous materials compliance reviews
- 7,474 hazardous materials package inspections; and,
- 186,871 hazardous materials vehicle inspections.

### Safety Information and Technology

FMCSA is developing a hazardous material shipper prioritization algorithm to identify high-risk HAZMAT carriers, to better focus limited enforcement resources. FMCSA also completed identification and analysis of factors affecting cargo tank stability. The analysis will be used to evaluate the need for new technology requirements to stabilize cargo tanks, modifications to some high-risk intersections to reduce the likelihood of rollovers, and enhanced driver training.

FRA continues work to increase the safety of HAZMAT shipments. In FY 2005, FRA has continued work on many initiatives in the HAZMAT area. This includes but is not limited to:

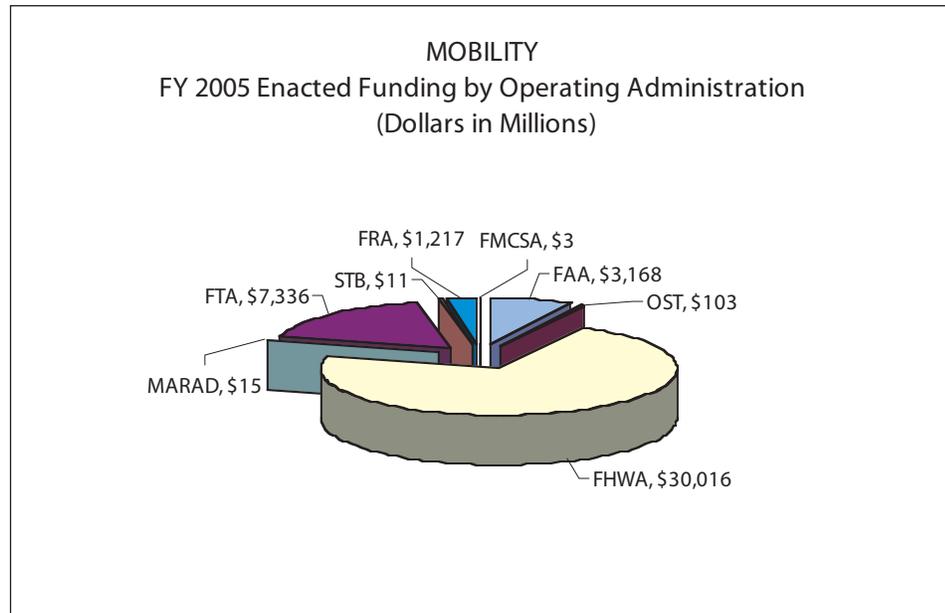
- focusing enforcement efforts;
- visiting shippers with the highest number of incidents over the six-year period;
- tracking Hazardous Materials Incident Reports; and,
- tracking how many times FRA inspectors investigate an incident.

FRA continues to work with the Transportation Security Administration (TSA) to address security, and developed and implemented Administrative Guidelines to enhance inspection data quality and promote uniformity throughout all railroads. FRA reviewed all Class 1 railroad security plans (a Class 1 railroad is a carrier having revenue of \$277,700,000 or more) and many regional and short-line railroads to ensure compliance with the current security related regulations. FRA continues to investigate concerns about HAZMAT tank cars, resulting in improved quality procedures at the impacted facilities, and perhaps leading to the recall of additional tank cars for further review.



## MOBILITY STRATEGIC OBJECTIVE

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



### STRATEGIC OUTCOMES

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

### PERFORMANCE MEASURES

- Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for good rated ride.<sup>5</sup>
- 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 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.
- Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays.

<sup>5</sup> Starting in FY 2005, measure was redefined to measure “good” rated pavement versus “acceptable rated pavement. Results for FY 1999 through FY 2004 have been adjusted accordingly.



## HIGHWAY INFRASTRUCTURE CONDITION

FHWA continued to develop and promote innovative technologies that improve pavement durability, extend the service life, reduce costs, and help mitigate congestion and work zone duration.

FHWA initiated a series of pavement smoothness workshops focusing on key States that can most affect the pavement condition target. 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, the Silica Fume Association, and a consortium of universities.

FHWA made significant progress toward the implementation of high-performance materials to ensure more durable bridges with a longer design life. Forty-two States are using high-performance steel and all States now use high-performance concrete in their bridges. FHWA assisted the States in implementing the Load and Resistance Factor Design (LRFD), which provides a more reliable and uniform level of safety for bridges. The LRFD Specification for bridges was fully implemented in at least 16 States, and partially implemented in 35 additional States.

The revised National Bridge Inspection Standards (NBIS) regulation, last updated in 1988, was published and implemented by the States. The revision incorporates advances in inspection practices, and makes the regulations easier to read and understand for field inspectors and administrators of highway bridge inspection programs.

The FHWA completed a manual for using public-private partnerships on highway projects, compiling all of the innovative techniques that make it easier for the private sector to enter into a partnership with the public sector to build roads. This information is targeted towards State decision-makers that are: 1) considering enacting new or modifying existing enabling legislation; or 2) entering into public-private partnerships under existing authority.

FHWA is cooperating with its partners to advance asset management techniques, as States and local entities face increasing demands on their aging infrastructure with limited resources available. Decision-makers use the principles of asset management, applied to economic analysis, to identify the best alternatives for capital improvement programs, system preservation projects, and operations. To date, FHWA has deployed over 15 custom workshops to States and other partners who are implementing asset management, and provided focused resources and technical assistance to practitioners utilizing economic analysis and evaluation tools.

**2005 Results.** FHWA has redefined the pavement condition performance measure from “adequate” ride to a higher standard of “good” ride. An International Roughness Index (IRI) of less than 95 inches per mile is representative of the level of roughness that is widely perceived by the driving public as of good or very good quality, whereas an IRI of 170 inches per mile used previously is generally considered the breakpoint between fair and poor quality.

<b>Performance Measure</b>				
Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for “good” rated ride.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	N/A	N/A	53.0 (r)	54.0
Actual	50.0 (r)	52.0 (r)	53.2 #	54.6 #
(r) Revised; # Projection from trends				



The goal is to reach a target of 58.5% of vehicle-miles traveled on National Highway System (NHS) pavements with good ride quality by FY 2008. The actual value for good ride in FY 2003 was 52.0% and the projected results are 53.2 and 54.6% for FY 2004 and FY 2005, respectively. If these projections hold, the targets will be met.

**FY 2006 Performance Forecast.** DOT expects to meet the target in FY 2006.

## HIGHWAY CONGESTION

Intelligent Transportation Systems (ITS) encompass a broad range of wireless and wire line communications-based information and electronics technologies. To ensure that ITS technologies can work together smoothly and effectively to relieve congestion and improve safety, FHWA continued to focus on establishing the technical and institutional framework needed for deployment of the Nation's ITS infrastructure. FHWA supported the completion of 238 regional ITS architectures, as well as provided training and technical assistance to partner agencies to help them develop regional ITS architectures and understand how to properly use and maintain them once developed.

FHWA continued to support the deployment of 511 Traveler Telephone Information Service. The 511 service is a National travel information telephone number that, when fully deployed, will provide easy access to information on local travel conditions anytime, anywhere, across America. As of August 2005, the 511 Service was accessible to about 28% of the Nation's population. To provide travelers with information to make better decisions, FHWA continued to promote improved motorist information messages conveyed by electronic dynamic message signs (DMS). An interactive workshop allowed practitioners to exchange information on techniques for providing travel time messages on DMS. The number of locations providing travel time messages increased from 12 to 20 in 2005.

The FHWA also focused on poor or out-of-date traffic signal timing, which is one of the key causes of recurring traffic congestion. FHWA sponsored the development of a traffic signal operations self-assessment tool and the National Traffic Signal Report Card, in partnership with the National Transportation Operations Coalition. This effort, which received a very positive media response, called for increased investment in traffic signal operations by State and local transportation agencies.

To focus on mitigating non-recurring congestion, FHWA continued to assist State DOTs in evaluating their work zone management practices. The States conducted a work zone self-assessment and the results allowed States to compare their current State work zone management practices and implementation to other States. The results provided key information to States for improving their methods, as well as to FHWA for refining its work zone program.

FHWA continued its efforts to assist States in improving their Traffic Incident Management (TIM) programs. Similar to the Work Zone Self Assessment, selected metropolitan areas assessed their programs with respect to program and institutional issues (i.e., multi-agency strategic program planning, mutual agreements, program performance measurement), on-scene operational issues (i.e., incident clearance, responder safety, traffic control, incident command), and communications and technology (i.e., integrated communications systems to provide two-way voice, video and data information exchange, ITS solutions for traffic management and incident-specific traveler information). FHWA initiated demonstration projects in Detroit, Tucson, and Portland (Oregon) to focus on regional transportation operations



collaboration and coordination. Similar to work zones and traffic incident management, FHWA supported government officials in the 75 largest metropolitan areas in conducting self-assessments as a way to gauge regional progress in addressing traffic congestion.

**2005 Results.** The percent of daily-congested travel nationwide is 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 early estimate of the percent of congested travel is 31.6% in 2004, a figure below the anticipated increase to 32.3 percent. The result was 0.6% higher than in FY 2003, but below the anticipated increase for the third straight year. The projected result for FY 2005 is 32.1 percent.

<b>Performance Measure</b>				
Percentage of total annual urban-area travel occurring in congested conditions.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	30.9	31.6	32.3	33.0
Actual	30.7 (r)	31.0 (r)	31.6 (r)	32.1 #
(r) Revised; # Projection from trends				

**FY 2006 Performance Forecast.** The target of 33.7% in 2006 will likely be met. The results for the period from 2002–2005 suggest that the overall rate of growth in traffic congestion nationwide is slowing, and is much less than recently projected increases of 0.7% annually.

## TRANSIT RIDERSHIP

Transit is one of the safest ways of traveling, it relieves road congestion, and it 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.

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

Many of the 37 million Americans who live below the poverty line rely on transit as their only means of transportation. 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 disabilities who can use public transportation, and the increasing elderly population who can no longer drive.

**2005 Results.** DOT met the performance target. FTA adopted a new ridership target in 2005 of 1.0%, that was based on monthly transit boarding data that FTA began collecting in January 2002 from the largest 150 transit operators. Collectively, the top 150 operators represent about 95% of transit ridership nationwide. The new database provided the opportunity to report data that is consistent across transit systems and time

<b>Performance Measure</b>				
Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	3.5	2.0	2.0	1.0 (r)
Actual	0.2	0.7	0.7	1.4
(r) Revised				



periods. The methodology was changed to capture the average change per market (instead of the total average change) to reflect FTA's goal of increasing ridership in every transit market, not in just a handful of large transit markets. In addition, based on a number of research studies that documented the effect of employment changes on transit ridership, FTA began to account for changes in employment by market, utilizing the Department of Labor's quarterly employment reports. The revised FY 2005 goal of 1.0% is based on the results of two years of data (FY 2003 and FY 2004).

**FY 2006 Performance Forecast.** DOT expects to meet the transit ridership target for FY 2006.

### 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. 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:

- Individualized Marketing Demonstration Program—FTA partnered with four communities (Bellingham, Washington; Sacramento, California; Columbus, Ohio; and Durham, North Carolina) to test an innovative travel behavior modification program through personalized marketing. The program encouraged individuals to choose alternatives to single occupancy vehicle travel, such as transit, cycling, carpooling or walking. Each demonstration includes a “before and after” survey, with a control group, to determine the impact of the program on travel behavior.
- Market-Based Ridership Strategies—FTA developed a two-day National Transit Institute course to assist transit operators in learning about and implementing market-based strategies to increase transit ridership.
- United We Ride—FTA launched the United We Ride initiative to improve accessibility to transportation for individuals with disabilities, older adults, and people with lower incomes.
- A Ridership Tool Kit (a compendium of best practices that have been effective in promoting ridership) was distributed to the general managers of all U.S. transit systems.
- FTA assembled two ridership teams to work with transit systems that have had declines in ridership during the past two years. By FY 2006, FTA assembled two ridership teams to make recommendations to increase ridership.
- FTA is working with the Transit Cooperative Research Program on a study, Determining the Elements Needed to Create High Ridership Transit Systems, which is expected to be completed by the end of calendar year 2005.



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- FTA launched a new Web site dedicated to ridership best practices from the transit industry. The site is updated regularly to include successful approaches used by transit agencies to increase ridership.

## TRANSPORTATION ACCESSIBILITY

Transportation is vital to maintaining independence and mobility for people with disabilities, and to linking them to employment, health care, and the community. Access to transportation is the key to making the transition from welfare to work.

**2005 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% compliance because many transit operators retain buses for more than twenty years.

Performance Measure				
Percent of bus fleets compliant with the ADA.				
	2002	2003	2004	2005
Target	86	89	92	95
Actual	90	93	95	97 *
* Preliminary estimate				

**FY 2006 Performance Forecast.** DOT expects to meet the accessibility target for FY 2006.

**2005 Results.** DOT met the key rail station target for compliance with the Americans with Disabilities Act (ADA). Currently, there are 138 stations under FTA approved time extensions, and these stations are not included in the goal. Although transit operators have made significant progress in meeting the goal, the remaining stations tend to be those that require the most significant amount of work. Many of these operators are discovering that the scope of work that is needed to comply with the ADA exceeds their original projections. As a result, more time will be required to complete the necessary modifications. The virtually flat level of growth in the percentage of key stations made accessible between 2003 and 2004 reflected these realities and led FTA to lower its previous target for achieving full key station accessibility beyond FY 2004.

Performance Measure				
Percent of key rail stations compliant with the ADA.				
	2002	2003	2004	2005
Target	68	79	89	84 (r)
Actual	77	82	82	91 *
(r) Revised; * Preliminary estimate				

For FY 2005, preliminary data indicates that 91% of key rail stations are ADA compliant, which is higher than anticipated. Aggressive monitoring, follow-up, and a continuation of the ADA key rail station compliance assessment process have all been vital to the success. Since 1995, FTA has conducted more than 700 assessments or follow-up assessments to track progress towards 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 its grantees as the parties work together to achieve the goals. FTA will continue efforts to encourage transit agencies to meet the accessibility goal for key rail stations.

**FY 2006 Performance Forecast.** DOT expects to meet the accessibility target for FY 2006.

**JOB ACCESS AND REVERSE COMMUTE SERVICES (JARC)**

In areas that receive JARC funds, the program successfully meets the transportation needs of low-income individuals seeking reliable transportation to employment and related support services. Grantees have used JARC funds for a wide variety of services, ranging from expansion of fixed route bus systems, and demand responsive services, to the provision of 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 have also increased access to critical employment support sites, particularly childcare and job training facilities.

**2005 Results.** FTA conducted an evaluation of the data collection and verification process for JARC data collected in FY 2003 and 2004. The accessible number of employment sites in FY 2003 has been revised to 73,700 and the FY 2004 revised estimate is 82,800. The FY 2004 verified data and percentage change in JARC funds for FY 2005 were used to project FY 2005 performance.

<b>Performance Measure</b>				
Number of employment sites (in thousands) that are made accessible by Job Access and Reverse Commute (JARC) transportation services.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	20.4	23.5	50.0	50.0
Actual	52.1	73.7 (r)	82.8 (r) *	82.1 #
(r) Revised; * Preliminary estimate; # Projection				

Riders have reported that JARC services have played an important role in their lives by making jobs accessible. An overwhelming majority (93%) of passengers surveyed in 2002 indicated that JARC services were either “very important” (81%) or “important” (12%) to them. Two-thirds (66%) 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% of all trips. Nearly one out of every three JARC respondents did not work prior to using the services.

**FY 2006 Performance Forecast.** DOT will meet the accessibility targets for FY 2006.

**AVIATION DELAY**

Recent forecasts indicate that commercial aviation is rebounding. By 2007, air carrier, commuter, and air taxi operations are anticipated to increase approximately 12% from 2004. In order to accommodate this growth, the capacity of the National Airspace System (NAS) must be used more efficiently without compromising the safety of flight. To respond to an increase in delays, 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.



**2005 Results.** The FY 2005 NAS On-Time Arrivals Target of 87.4% was met; preliminary data shows that we will achieve 88.1%.

FAA employees at the Air Traffic Control System Command Center confer daily with airline industry representatives to coordinate traffic nationwide around factors that could potentially cause delays. By planning before the day begins, FAA and industry work together to ensure that aircraft land on time. This daily collaboration to manage aviation congestion is complemented by FAA programs and initiatives such as new runway construction, airspace redesign, revised air traffic control procedures, and the introduction of new technology, all of which address short-term and long-term capacity needs.

**Note.** This measure was redefined in FY 2005 to adjust for delays beyond FAA's control, such as those caused by severe weather, decisions made by the air carrier, and security delays. Targets and results through FY 2004 are for the unadjusted measure.

**FY 2006 Performance Forecast.** FAA expects to meet the target for FY 2006.

<b>Performance Measure</b>				
Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	77.2	78.2	82.1	87.4
Actual	82.2	82.3	79.07 (r)	88.1 *
(r) Revised; * Preliminary estimate				

### IN-DEPTH ACCOMPLISHMENTS REDUCING AVIATION DELAYS

Since FY 2000, eight new runways have been commissioned in metropolitan areas providing these airports with the potential to accommodate almost 1 million more annual operations. In order to maximize the capacity of the new runways, FAA redesigned the surrounding airspace. These changes include new fixes to routes and sector structure to allow aircraft to use the new runways. Airspace redesign effort included the Las Vegas Redesign, Great Lakes Integrated Design Plan Short-term Initiatives, and National Choke Points Initiative. The airspace changes reduced delays and flight distances. Departure delays for several Great Lakes corridor airports, including Cleveland and Detroit, were significantly reduced, contributing to overall improvements in on-time performance. In Southern California, revised departure routes and climb procedures, coupled with airspace changes, provided more fuel-efficient departures and increased the number of aircraft allowed to climb without restrictions by 70%.

FAA continues to develop criteria and guidance materials that will be used for new Area Navigation (RNAV) and required navigation performance (RNP) routes and procedures. Use of RNP permits greater flexibility and standardizes airspace performance requirements. By adopting RNAV and RNP and leveraging existing and emerging cockpit capabilities, the FAA in collaboration with the aviation community will be able to improve airspace and procedures design, leading to increased capacity and improved efficiency. FAA published the first public RNP procedure in the world at Washington Reagan National Airport in September 2005. FAA implemented 58 RNAV arrival and departure procedures, including major implementations at



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Atlanta Hartsfield Airport and Dallas-Fort Worth. FAA also implemented 24 RNAV routes during FY 2005, including 20 high altitude and four low-altitude routes which provided flexibility and efficiency in the National Airspace System.

### **DAILY AIRPORT CAPACITY**

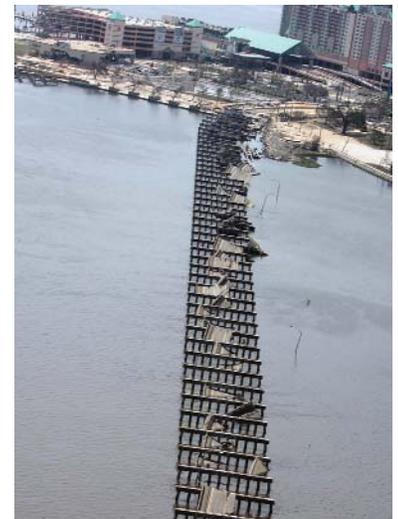
In FY 2005, the Agency's airport capacity measure was modified to include both arrival and departure capacity, replacing the daily arrival capacity measure and arrival efficiency rate used previously. Using the new metric, FAA's FY 2005 target was 99,892 flights. Preliminary data shows that the average for the year was 101,200 flights, exceeding the target.

### **FHWA'S EMERGENCY RELIEF PROGRAM — GULF COAST HIGHWAY RECONSTRUCTION**

The Emergency Relief Program provides funds for the repair or reconstruction of Federal-aid highways and roads on Federal lands which have suffered serious damage as a result of (1) natural disasters or (2) catastrophic failures from an external cause. This program, commonly referred to as the emergency relief or ER program, supplements the commitment of resources by States, their political subdivisions, or other Federal agencies to help pay for unusually heavy expenses resulting from extraordinary conditions.

In mid-September, Secretary Mineta presented \$10 million to Mississippi and Louisiana to begin repairing roads and bridges that were ravaged by Hurricane Katrina. This is the first installment of emergency relief funds to be used to reconstruct US-90 across the Gulf Coast in Mississippi and reestablish the I-10 corridor across Mississippi into New Orleans including the Twin Span Bridge across Lake Pontchartrain at Slidell, LA. As the flood waters on portions of I-10 and US-90 in the New Orleans area recede, additional funds will be provided to Alabama, Mississippi, and Louisiana to assess, repair, or possibly replace, roads and bridges that were heavily damaged by the hurricane and subsequent flooding.

In the Fall of 2004, the FHWA worked closely with its State transportation partners and law enforcement agencies, particularly the Florida Department of Transportation, to provide immediate emergency relief funds for necessary repairs, most importantly, to restore two-way traffic on I-10 across the Escambia Bay east of Pensacola, FL following damage from Hurricane Ivan. After four hurricanes struck Florida and the southeastern States, Congress passed a supplemental hurricane relief bill in October 2004 that provided \$1.202 billion to repair and reconstruct highways damaged by hurricanes in Florida and other eastern States.



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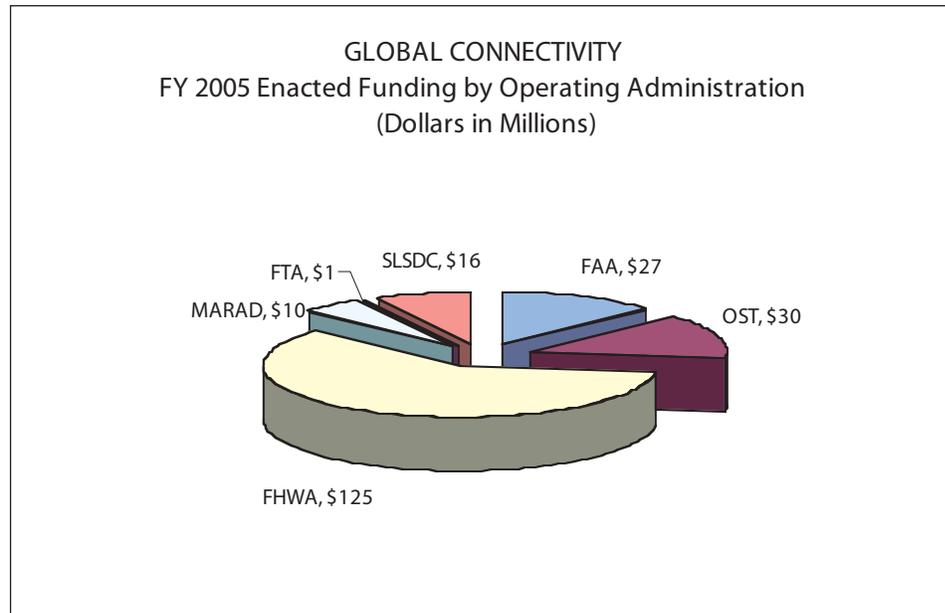
Through the FHWA's emergency relief program, more than \$740 million was provided additionally to 34 States and U.S. territories in FY 2005. The monies were used to repair highway and bridge damage from flooding, earthquakes, mudslides, and natural disasters such as hurricanes Ivan and Katrina.





## GLOBAL CONNECTIVITY STRATEGIC OBJECTIVE

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



### 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 and multilateral agreements completed (new measure in FY 2004).
- 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 (revised measure).
- Number of international negotiations conducted annually to remove market distorting barriers to trade in air transportation (new measure in FY 2005).



## SMALL DISADVANTAGED AND WOMEN-OWNED BUSINESS CONTRACTS

The women-owned business goal continues to be a challenge for the Department given that we have no prescribed Federal Acquisition Regulation (FAR) set-aside authority which would allow us to achieve the procurement target. In addition, DOT's ability to achieve the women-owned business goals, without a prescribed set-aside, has also been affected by a new preference category (Small Disabled Veteran-Owned Small Business), which established a set-aside and sole source mechanism with a prescribed statutory goal of 3% of total Government procurement.

The Office of Small and Disadvantaged Business Utilization (OSDBU) is working closely with the Department's Senior Procurement Executive in order to develop a set of new acquisition directives and comment mechanisms, which will help determine how best to allocate the contract opportunities among the various preference categories. The Department is reviewing its internal policies as a component of a more proactive approach to attain the goals set out by legislation. Part of the review also includes an assessment of each operating administration's subcontracting program with more emphasis on subcontracting as a means of increasing opportunities for small businesses; especially in the women-owned business preference group.

**2005 Results.** Preliminary data indicates that DOT met the targets for women-owned businesses (WOB) and small disadvantaged businesses (SDB). In FY 2004, the preliminary data estimated that the target for SDB would be met. However, once the final data was analyzed, the target was not achieved. This is shown by the revised FY 2004 actual value displayed above.

In order to reach the WOB goal, the OSDBU and Minority Resource Center have developed small business training for the Department's contracting officers and developed policy directives on small business contracting. These efforts have increased the participation by the OAs in developing a proactive solution to meeting and exceeding the current performance.

**FY 2006 Performance Forecast.** DOT expects to meet the WOB target and the SDB target in FY 2006.

<b>Performance Measure</b>				
Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	5.1	5.1	5.1	5.1
Actual	3.8	4.2	3.0 (r)	6.4 *
(r) Revised; * Preliminary estimate				

<b>Performance Measure</b>				
Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	14.5	14.5	14.5	14.5
Actual	16.2	15.8	12.3 (r)	15.1 *
(r) Revised; * Preliminary estimate				



## MARITIME NAVIGATION

More than 2 billion tons of freight worth \$1 trillion moves annually through U.S. ports and waterways. The 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 generates 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.

**2005 Results.** For FY 2005, DOT's Saint Lawrence Seaway Development Corporation (SLSDC) met the performance target. An analysis of system non-availability during FY 2005 indicates that the most common causes were weather and vessel accidents/incidents.

Weather-related delays caused 10 hours, 11 minutes of the total 19 hours, 15 minutes of delays (or 53%). These weather delays usually occur at the beginning and end of each navigation season, and are caused by poor visibility, high winds, ice, blizzards, and dense fog. Vessel incidents in FY 2005 accounted for 1 hour, 29 minutes of delays (or 8 percent). Vessel incidents involve ship operations, and are usually caused by human error on the part of a vessel's crew. Incidents also include vessel breakdowns that are caused by mechanical problems with a vessel.

While none of these factors is directly under the control of the SLSDC, the agency is taking steps to address them. 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. In FY 2005, the SLSDC continued this program by inspecting 100% 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 in operating costs during FY 2005.

Performance Measure				
Percent of days in the shipping season that the U.S. portion of the St. Lawrence Seaway system is available.				
	2002	2003	2004	2005
Target	99.0	99.0	99.0	99.0
Actual	98.7	98.9	99.1	99.7



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In addition, the U.S. and Canadian Seaway agencies began enforcing mandatory Automatic Identification System (AIS) use on commercial vessels entering the waterway beginning in 2003. 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 9/11 environment as it offers them the ability to track with precision any vessel carrying the transponder.

Of the remaining factors that cause system non-availability, the Corporation has the most control over the proper functioning of its lock equipment. During FY 2005, there were 7 hours,



35 minutes of delays, or 39%, related to two lock equipment malfunctioning incidents, which represented 1/10 of 1% of the navigation time during the fiscal year. These were the first delays due to lock equipment malfunctions since the 2003 navigation season.

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, and reliable commercial waterway.

**FY 2006 Performance Forecast.** DOT expects to meet the FY 2006 target.

## HARMONIZING INTERNATIONAL AVIATION STANDARDS

A Bilateral Aviation Safety Agreement (BASA) promotes aviation safety and environmental quality, enhances cooperation and increases efficiency in matters related to civil aviation. The agreements are based on recognition of comparability of the U.S. and foreign systems for approval and surveillance of aviation industry. Through these means, FAA increases aviation safety globally by building a network of competent civil aviation authorities and concluding agreements with additional countries and/or regional authorities.

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

**2005 Results.** DOT met the FY 2005 goal to conclude two new bilateral agreements recognizing safety certification and approval systems with two key countries or regional authorities. FAA concluded a BASA with Australia and one with China. Several other agreements are in the negotiation stage, most significantly negotiations with the European Community. These bilateral agreements promote a safer aviation environment for U.S. travelers.

Performance Measure				
Number of Bilateral and Multilateral agreements completed.				
	2002	2003	2004	2005
Target	N/A	N/A	2	2
Actual	N/A	N/A	3	2

**FY 2006 Performance Forecast.** DOT expects to achieve the target in FY 2006.



## OPEN SKIES AVIATION AGREEMENTS

Since the 1940s, 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.

**2005 Results.** DOT exceeded the performance target by negotiating new open skies agreements with the following six countries during FY 2005: Ethiopia, India, Maldives, Paraguay, Thailand and Uruguay. These new agreements increased the number of bilateral open skies agreements to 69 thus providing unrestricted air transportation opportunities and economic benefits to countries with a total population of 2.97 billion people.

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.				
	2002	2003	2004	2005
Target	N/A	N/A	1.51	1.53
Actual	N/A	1.48	1.72	2.97

**Note.** This measure replaces *Number of passengers (in millions) in international markets with open skies aviation agreements* and more accurately gauges the potential impact of liberalized agreements on the air transportation market.

**FY 2006 Performance Forecast.** DOT expects to achieve the FY 2006 target.

## INTERNATIONAL NEGOTIATIONS

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).

**2005 Results.** DOT exceeded the performance target by conducting 25 rounds of negotiations, some of which resulted in new open skies agreements with the following six countries during FY 2005: Ethiopia, India, Maldives, Paraguay, Thailand and Uruguay. Through FY 2005, DOT has negotiated bilateral open skies agreements with 69 countries. There are also liberalized (but not open skies) agreements with 19 countries.

Performance Measure				
Number of international negotiations conducted annually to remove market-distorting barriers to trade in air transportation.				
	2002	2003	2004	2005
Target	N/A	N/A	N/A	10
Actual	N/A	N/A	N/A	25

**FY 2006 Performance Forecast.** DOT anticipates completing the target number of planned negotiations.



## MEASURES UNDER DEVELOPMENT— FREIGHT TRAVEL

Significant volumes of freight move through key corridors and border crossings of our transportation network. As a result, keeping our corridors and land border crossings as free flowing as possible, is vital to our Nation's economy. With the assistance of industry partners, the FHWA has collected data and refined two performance measures for travel time reliability on freight significant corridors and at land border crossings. The FHWA measured average travel rates in five interstate highway corridors to calculate a preliminary Travel Time Index (TTI) and Buffer Time Index (BTI). The TTI, which ranged from 1.08 on I-65 (from Mobile, AL to Chicago) to 1.24 on I-5 (along the west coast States from the Mexican border to the Canadian border), is a measure of reliability expressed as the ratio of the observed average travel time to free flow travel time estimated at 60 miles per hour. The BTI, which ranged from 4.48 on I-45 (from Galveston, TX to Dallas) to 24.85 on I-10 (from Los Angeles to Jacksonville, FL), represents how much extra buffer time must be allowed to account for variations in the system.

FHWA expects to have a full year of data in FY 2006 to establish baselines for this measure. The FHWA also initiated a project using Geographical Positioning Systems in commercial trucks to collect border crossing and delay times at high volume U.S.-Canada land border crossings. A full year of data will be available in 2006; a baseline for the measure will also be established.

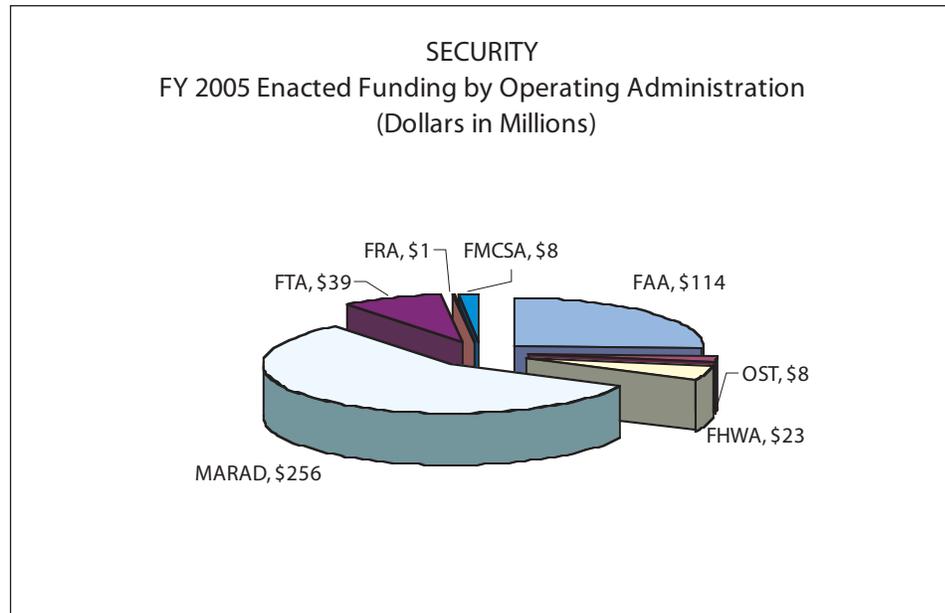


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## SECURITY STRATEGIC OBJECTIVE

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



### 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

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



## STRATEGIC MOBILITY

During FY 2005, MARAD maintained the enrollment of 47 ships in the Maritime Security Program, which provides U.S. Flag Ships and U.S. crews for DoD use; and 121 ships in the Voluntary Intermodal Sealift Agreement (VISA) program. The VISA program is used by DoD to pre-plan the availability of militarily useful vessels for DoD use in times of emergency. A total of 60 VISA ships were used during FY 2005 to support Operation Iraqi Freedom or Operation Enduring Freedom (OIF/OEF).

The Ready Reserve Force (RRF) is a fleet of 58 government-owned, militarily useful cargo ships available to DoD to support the rapid, massive movement of military unit equipment and supplies in times of emergency or war. The RRF ships were heavily involved in OIF/OEF during FY 2005. Six RRF ships continued operations from FY 2004 and 18 new ships were activated to support the mission. Once activated, the vessels maintained 99% operational reliability. On average for FY 2005, 84% of the RRF was available for use by DoD.

MARAD-supported mariner training programs produced 589 new, licensed merchant mariners during 2005. These new mariners graduated from the United States Merchant Marine Academy and from the six State Maritime Schools. Of these graduates, 248 have an obligation to serve in the U.S. Navy Reserve/Merchant Marine Reserve for a period of six years. These graduates help to replenish the 'pool' of mariners available to crew the RRF in times of need.

During most of FY 2005, 13 of the 15 DoD-Designated Strategic Ports had acceptable facilities available for military use within DoD established readiness timelines. DoD, in conjunction with MARAD, negotiates a Port Planning Order with each 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 notification. If a port forecasts that it will be unable to provide the specific facilities, it will report that it is not available. In some cases, the port cannot be available as quickly as required or it cannot provide the specific facilities that meet the military's requirements.

**2005 Results.** DOT met the performance target. In FY 2005, the shipping capacity was achieved primarily as a result of the excellent record of performance of the RRF. The RRF logged 99% reliability as a result of the strong partnership between MARAD, the RRF commercial ship managers, the sea-going labor unions, and the U.S. ship repair industry.

<b>Performance Measure</b>				
Percentage of DoD-required shipping capacity complete with crews available within mobilization timelines.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	93	94	94	94
Actual	94	96	94	95

**FY 2006 Performance Forecast.** DOT expects to meet the FY 2006 target.



**2005 Results.** DOT did not meet the performance target. Commercial cargo congestion at two of the strategic ports prevented them from having the necessary facilities, or an alternative, available within the readiness timelines. This is a measure of availability, particularly of time, but also of certain facilities. Although the specified facilities were not available, military cargoes were not delayed. However, the FY 2005 results support the need for a thorough review of the strategic port system.

<b>Performance Measure</b>				
Percentage of DoD-required commercial parts available for military use within DoD established readiness timelines.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	92	92	92	93
Actual	92	86	93	87

**FY 2006 Performance Forecast.** DOT expects to meet the FY 2006 target. During FY 2006, a requirements validation will be underway and consideration will be given to prioritizing ports in conjunction with an evolving National military strategy.

## TRANSPORTATION READINESS

The Office of Intelligence, Security, and Emergency Response (OISER) measures the Department’s internal preparation for disasters or other situations which may cause a disruption in the transportation system with the Transportation Capability Assessment for Readiness (TCAR) score. It assesses six functional areas to obtain the TCAR score; monitoring operations, emergency preparedness, continuity of operations and continuity of government; and coordinating recovery assistance after disasters.

**2005 Results.** The TCAR measure is a new measure in FY 2005. Although DOT had significant accomplishments in this area, we did not meet the target for this performance measure. Resource constraints limited our ability to train State and local response teams as planned. Also, our alternate work site to maintain continuity of operations in the event of an emergency has some identified deficiencies that have not been resolved, thus lowering our score.

<b>Performance Measure</b>				
Transportation Capability Assessment for Readiness Index Score.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	N/A	N/A	N/A	71
Actual	N/A	59	67	65

**FY 2006 Performance Forecast.** DOT anticipates meeting the performance target in FY 2006.

## IN-DEPTH ACCOMPLISHMENTS FOR TRANSPORTATION READINESS

OISER provided monitoring operations through the Secretary’s Crisis Management Center (CMC), 24 hours a day, 7 days a week. The CMC analyzes the effect of transportation incidents, infrastructure problems, disasters and crises on the transportation needs of citizens and the movement of goods so that officials at the Federal, State and local levels and industry can make immediate, proactive, and educated decisions on how to best respond.



To have adequate functioning transportation systems that can aid people and property during natural disasters and National security crises, OISER regularly and continuously coordinates State and local planning, training and exercises which prepare for disasters and crises.

Various exercises were performed in FY 2005 in support of Homeland Security Presidential Directive 8 on National Preparedness. For example, to ensure that senior staff is prepared for natural disasters or terrorist events OISER conducted tabletop, command post, and situational exercises at the National, regional, and local levels.

OISER met implementation training and certification requirements for the National Incident Management System. This included providing required training to headquarters and field staff and reviewing and revising all emergency plans, directives and operations orders.



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If DOT's headquarters building becomes unavailable during crisis events, OISER ensures that essential Secretarial functions continue operations at an alternate site. Also, OISER makes certain that essential Presidential DOT functions continue at a secure location during National security emergencies. (Note: This is a classified Continuity of Government program.) OISER maintained and staffed a Continuity of Government site and provided staff training to enhance expertise through a formal training program.

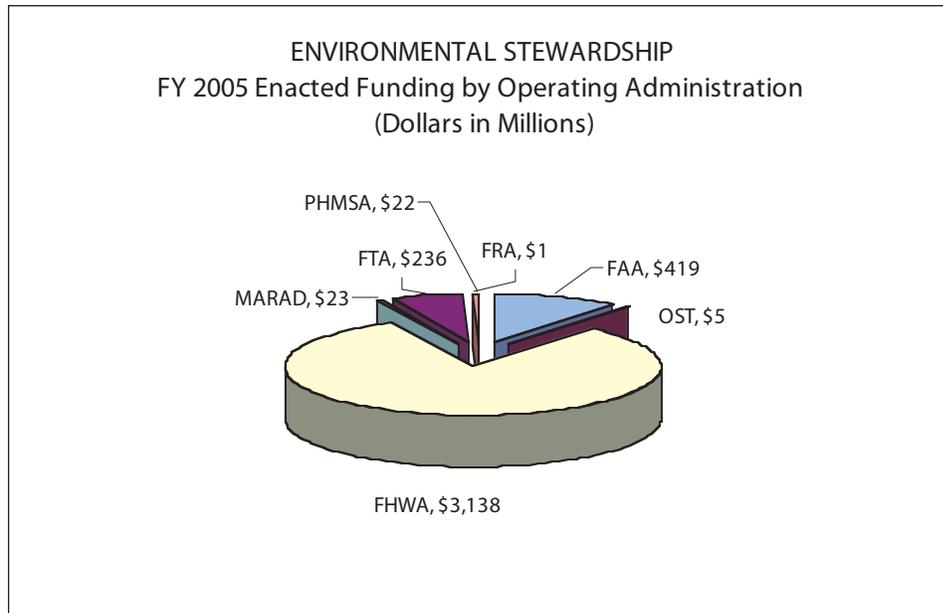
In support of the recovery efforts after hurricanes Katrina and Rita, OISER coordinated the DOT efforts at the National Response Coordination Center, and the DOT Crisis Management Center in Washington, DC; and the Emergency Transportation Center in Atlanta, GA, Regional Response Coordination Centers, and Emergency Operations Centers and mobilization centers throughout the Gulf Coast.

We organized the largest civilian airlift in history, of evacuees from the Superdome, and again from the Astrodome in Houston. We managed a bus fleet of over 1100 buses in Louisiana, to transport both evacuees and responders. In addition, DOT transported supplies and equipment in preparation for and following Hurricanes Katrina and Rita, including over 38 million pounds of ice, 22 million meals, 9 million gallons of water, and a thousand mobile homes to date.



## ENVIRONMENTAL STEWARDSHIP STRATEGIC OBJECTIVE

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



### 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 (revised measure).



## WETLAND PROTECTION AND RECOVERY

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. The FHWA continued to coordinate wetlands programs and research initiatives with other Federal agencies including the Environmental Protection Agency (EPA) and the Department of the Interior. The FHWA, EPA, and the Army Corps of Engineers implemented guidance for the use of mitigation banks under the Clean Water Act permitting process, one of the first actions completed under the National Wetlands Mitigation Action Plan.

**2005 Results.** DOT met the performance target. Federal-aid projects nationwide annually impacted 745 acres of wetlands and provided 1,814 acres of compensatory mitigation; a ratio of 2.4 acres of compensatory wetland mitigation for every acre of impact.

Performance Measure				
Ratio of wetlands replaced for every acre affected by Federal-aid Highway projects.				
	2002	2003	2004	2005
Target	1.5	1.5	1.5	1.5
Actual	2.7	2.7	2.1	2.4

An Exemplary Ecosystem Initiative (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. The FHWA recognized eight new EEIs, exceeding the target of designating additional initiatives and bringing the total number that FHWA has designated thus far to twenty-three.

**FY 2006 Performance Forecast.** The FHWA expects to meet the FY 2006 target for wetlands mitigation and exemplary ecosystems.

## DOT FACILITY CLEANUP

DOT has a special responsibility to ensure that its own facilities are compliant with environmental laws and regulations. The Department does this through restoration, compliance, and pollution prevention. Restoration activities involve identifying, investigating, and cleaning up contaminated sites. Compliance includes the operation of facilities, equipment, and vessels in accordance with environmental requirements. The Department reduces the possibility of future cleanup activities by avoiding the generation of pollutants in its operations and facilities.

MARAD is the Government's disposal agent for merchant-type vessels weighing 1,500 gross tons or more, and is required by law to dispose of all obsolete ships in the National Defense Reserve Fleet by the end of FY 2006. Due to 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, sales for overseas disposal were halted in 1995. Additional ships will be added to the disposal inventory as other merchant type Federal vessels become obsolete.



**2005 Results.** DOT did not meet the target. The facility cleanup complied with the Superfund Amendments and Reauthorization Act (SARA) process and with the National Oil and Hazardous Substances Pollution Contingency Plan. Working with States, local governments, and the EPA, DOT used a “worst first” prioritization system to attack the overall problem presented by DOT facilities where significant pollution problems present themselves.

Performance Measure				
Percent DOT facilities characterized as No Further Remedial Action under the Superfund Admndments and Reauthorization Act.				
	2002	2003	2004	2005
Target	91	92	92	93
Actual	91	94	93	92

FAA continued work under State agreements at several facilities and at the six facilities which EPA has identified as needing further evaluation, including the Omaha Air Force Station in Nebraska, which was added to the docket in FY 2005. 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.

**FY 2006 Performance Forecast.** DOT expects to meet the FY 2006 target.

## SHIP DISPOSAL



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During FY 2005, MARAD removed 18 obsolete ships from three National Defense Reserve Fleet sites that posed potential environmental hazards. This included 16 high and moderate priority vessels. All of the removals were the result of dismantling/recycling contracts with domestic ship disposal companies. 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 13 ships during 2005; two less than anticipated. These ships were removed from the fleet sites during FY 2004 and FY 2005.

Dismantling is dependent on a number of external factors, including weather and the contractor’s ability to quickly and properly arrange for disposal of hazardous materials. During FY 2005, MARAD also entered into additional disposal contracts that will result in the dismantling/recycling of 20 additional ships in subsequent years, five more than the target.

As a result of MARAD’s ‘worst first’ policy on ship disposals, where the ships in the worst condition are given removal priority, all but five of MARAD’s high priority ships have now been awarded in disposal contracts. The inventory of remaining moderate priority obsolete ships poses less of a risk to the environment, and the remaining low priority vessels pose no more of a risk than fully operational ships. MARAD can work pro-actively to dispose of the remaining ships before the situation becomes critical.



## 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. About two-thirds of transportation-related emissions come from on-road motor vehicles. The quality of our air is a public good, and the cost of these pollutants is not captured in the marketplace. For this reason, the Government works to mitigate this negative impact.

Areas throughout the United States with a non-attainment or maintenance designation are required to meet transportation conformity requirements in the Clean Air Act. Transportation conformity ensures that emissions from planned transportation activities are consistent with clean air goals of the area, and will not create new violations of the NAAQS, increase the frequency or severity of existing violations, or delay the attainment of the NAAQS in designated non-attainment or maintenance areas.



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Following the release of the final Conformity Rule Amendments to address the new 8-hour ozone and particulate matter (PM 2.5) standards, Federal Highway Administration (FHWA) has worked with EPA and Federal Transit Administration (FTA) on several companion guidance documents to clarify the new conformity requirements.

FHWA continued to work with the EPA and FTA to finalize an additional rule to specifically address conformity hot-spot requirements of the new PM 2.5 standard. A final rule is expected in March 2006. FHWA also worked closely with State and local agencies as well as our Federal partners to implement of the transportation conformity regulations, especially in the areas not attaining the new 8-hour ozone and PM 2.5 standards.

**2005 Results.** The performance target was met in FY 2005.

**FY 2006 Performance Forecast.** DOT expects to meet the performance target in FY 2006. While there are multiple causes for a transportation lapse, such as new conformity requirements for the new fine particulate matter (PM 2.5) air quality standard, the FHWA will continue to monitor the number of lapses as an early indicator of progress contributing to emissions reductions.

Performance Measure				
12-month moving average number of area transportation emissions conformity lapses.				
	2002	2003	2004	2005
Target	6	6	6	6
Actual	6	6	6	6



## PIPELINE HAZMAT SPILLS

PHMSA is expanding its damage prevention and integrity management program initiatives to diminish risks of environmental harm from pipeline spills. Because of the volume of liquid materials moved by pipelines, any spill into the environment is potentially a significant one.

PHMSA follows several strategies to reduce the amount of hazardous liquid materials spilled per ton-miles shipped by pipeline:

- Advance the Integrity Management Program concepts throughout the entire system;
- Advance damage prevention;
- Advance public education—one initiative is the recently established nationwide three-digit telephone number for one-call centers to provide timely and consistent information on the location of underground utilities;
- Invest in technologies to better detect defects and strengthen materials for repair; and
- Strengthen PHMSA's enforcement program through improved Federal/State partnerships.

PHMSA's long-term strategies for reducing environmental damage, property damage and economic disruption resulting from oil spills is essentially the same as it is for gas pipelines. The agency requires pipeline operators to have the ability to clean up significant spills (those that involve either a death or injury, at least \$50,000 of property damage, or more than 50 barrels of spillage). PHMSA implements the Oil Pollution Act of 1990 provisions for onshore oil pipelines by making pipeline oil spills less likely, diminishing the spills' threats to people and the environment, and strengthening the response to spills in accordance existing regulation. PHMSA oversees this requirement by:

- reviewing and approving operators' spill response plans for onshore oil pipelines;
- overseeing field and table-top exercises to strengthen operator readiness to respond to oil spills from pipelines;
- monitoring major spills and clean-up efforts; and
- identifying and providing access to information on the location of unusually sensitive ecological areas.

**2005 Results.** Although the downward trend continues, based on the preliminary data for FY 2005, PHMSA expects to miss the FY 2005 performance target. Performance in this area has not been consistent; PHMSA has met its target in some years and missed it in others. The agency continues to re-evaluate the targets based on the trend line.

The calculation is influenced by the volume of shipments in each year of net tons lost as a percentage of total volume shipped. Therefore, as total volume shipped decreased since 2000 (the baseline year) due to a slow down in the economy, the resulting net loss calculation is magnified.

<b>Performance Measure</b>				
Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	.0077	.0073	.0068	.0064
Actual	.0057 (r)	.0071 (r)	.0102	.0097 *
(r) Revised; * Preliminary estimate				



However, gross volume spills for all hazardous liquid is following a decreasing trend over time. The decrease in total volume could be a function of PHMSA-required pressure reduction on many liquid pipelines to provide a margin of safety. The preliminary analysis of accident reports received to date indicates that the accidents frequencies in four States, Texas, Louisiana, Alabama, and Mississippi due to natural force damages during Hurricanes Katrina and Rita are three times higher than the past three year's experience with the number of incidents in those States. This may increase the preliminary estimates of tons of hazardous liquid spilled per million ton-miles for 2005 significantly.



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Prior to the Pipeline Safety Improvement Act of 2002, PHMSA began to improve environmental protection through several initiatives. For example, PHMSA adopted the Hazardous Liquid Integrity Management Program (IMP) to assess, evaluate, and repair the integrity of hazardous liquid pipeline segments that, in the event of a leak or failure, could affect populated areas, areas unusually sensitive to environmental damage and commercially navigable waterways. The IMP regulations which were adopted for all hazardous liquid operators during 2001–2003, resulting in programs with a 7-year test cycle. Operations are just past the midpoint. The programs have resulted in assessment of about 50% of the regulated pipelines in high consequence areas (HCAs). The IMP approach is a risk-based analysis that targets potentially high risk incidents by evaluating the integrity of the pipeline. The pipeline is evaluated for the potential for all threats, potential impacts of a release to an HCA (e.g., drinking water intake) and operators are required to prevent and mitigate risks to pipeline integrity. The expected safety benefits of the IMP approach in terms of reduction in number and consequences of hazardous liquid accidents in HCAs should be more apparent over time. Preliminary information indicates that over 20,000 defects have been found and repaired due to IMP.

**FY 2006 Performance Forecast.** Based on the decrease in the volume shipped, PHMSA expects that the FY 2006 target of 0.0060 tons of liquid materials spilled per million ton-miles shipped by pipelines will not be met.

## AIRCRAFT NOISE EXPOSURE

Public concern and sensitivity to aircraft noise around airports is high. In recent years, noise complaints have increased even while quieter aircraft technology has been introduced. Aircraft noise is an undesired by-product of mobility, and the Government 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 the Government to mitigate significant aircraft noise exposure in the near future.



**2005 Results.** Based on projected trend analysis, DOT met the performance target. DOT pursues a program of aircraft noise control in cooperation with the aviation community through development and adoption of quieter aircraft, soundproofing and buyouts of buildings near airports, operational flight control measures such as preferential runways, and land-use planning strategies.

<b>Performance Measure</b>				
Percent reduction in the number of people in the U.S. who are expected to significant aircraft noise levels.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	N/A	-1%	-2%	-3%
Actual	N/A	-15%	-27% (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 long-term impact of the events 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 (B-727s, 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 2004 and continue to recover in 2005. Taking into account the Next Generation Air Transportation System goal of increasing capacity threefold, and the related rise in aviation noise that will follow, the dramatic level of improvements witnessed over the last two years will not persist.

**Note.** FAA improved its noise exposure model and redefined the measure. The rate of change in noise exposure is more programmatically useful than the number of people affected.

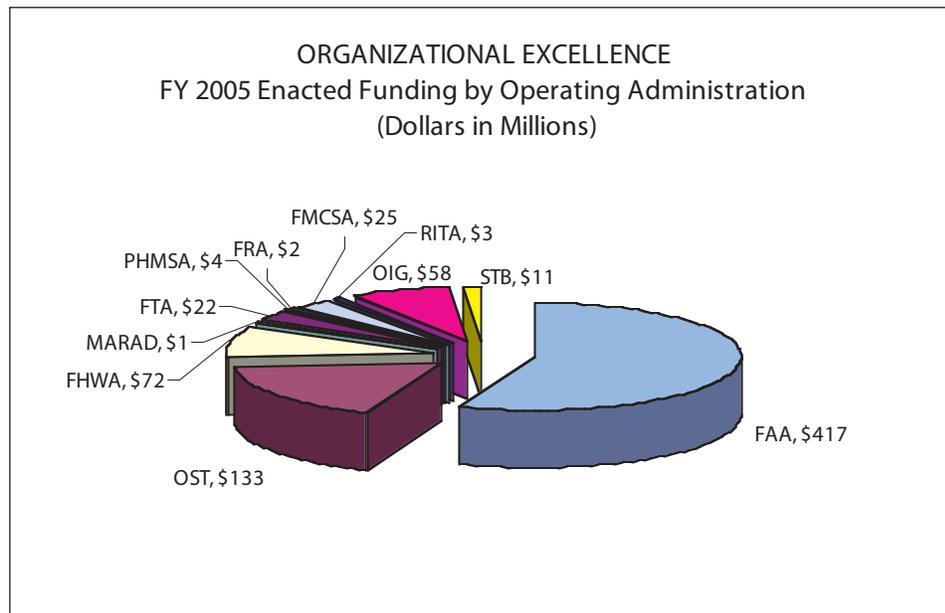
**FY 2006 Performance Forecast.** DOT will meet the target in FY 2006.





## ORGANIZATIONAL EXCELLENCE STRATEGIC OBJECTIVE

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



### STRATEGIC OUTCOMES

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

### PERFORMANCE MEASURES

- For major DOT systems, percentage of cost goals established in the acquisition project baselines that are met.
- For major DOT 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.
- Number of environmental justice (EJ) cases that remain unresolved after one year.



## PRESIDENT'S MANAGEMENT AGENDA

Secretary Mineta's 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 budget and performance integration goals
- Achieved e-government 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 will thoughtfully restructure our organization.

### FY 2005 ACCOMPLISHMENTS

The current DOT Human Capital Plan contains approved goals and milestones to guide our efforts through the third quarter of FY 2006, and is fully aligned with the President's Management Agenda and standards developed by the Office of Management and Budget, Office of Personnel Management, and Government Accountability Office. These standards promote the use of strategic alignment and accountability strategies to accomplish measurable improvements in the three primary human capital drivers of organizational performance: leadership and knowledge management, performance culture, and talent. DOT's plan is focused on efforts to strengthen critical competencies, with particular emphasis on leadership, to improve the way performance is measured and managed, and to upgrade the metrics used to monitor all aspects of employee performance.

With continued strong Departmental leadership and support from the Operating Administrations, DOT maintained its "green" status in Human Capital, counting among its accomplishments:

- Provisional certification for the SES Performance Plan, and an SES pay plan that links pay decisions to organizational performance and need;
- Migration of all employee performance plans to multi-level systems that make distinctions among levels of performance;
- An electronic learning management system (eLMS), with training, a users' guide, and strong promotional activities;
- Reduced hiring timeframes;
- A development program for GS-15 employees to improve succession pipelines; and



- Analysis of results from the Federal Human Capital Survey for every DOT organization, and communication and improvement efforts.

As the Department addressed these cross-cutting human capital issues, the Operating Administrations also examined their unique human capital challenges. As organizations identified competency and/or succession gaps, they used flexibilities such as voluntary early retirement (VERA) and voluntary separation incentives (VSIP) to restructure jobs. Among the many other accomplishments at the operating administration level:

- FAA developed a comprehensive workforce plan for its Air Traffic Controllers to ensure that adequate controller staffing levels are available through this decade and beyond. The plan addresses the hiring, training, and deployment of 12,500 controllers over 10 years, and ensures an appropriate ratio between developmental and fully certified controllers. It also addresses cost-containment strategies and efficiency measures to reduce required staffing levels.
- FHWA's continued improvements in workforce analysis and planning have allowed it to decrease numerical gaps between needed and on-board strength, restructure the skills mix in mission-critical occupations, and identify and address under-representation of Hispanic employees.
- The Maritime Administration's Human Capital Council has used the Payroll Management Information System (PMIS) as a tool to make strategic decisions about the use of vacancies for maximum program performance within a constrained resource environment. MARAD used the PMIS to make a determination on how to schedule its recent early out/buy out request to maximize the financial savings while minimizing the effect on any one program area.
- The Federal Aviation Administration has achieved millions of dollars of cost containment through restructuring of its workers' compensation program.

The FHWA has developed a proactive Workforce-Human Capital Plan that focuses on creating a multidisciplinary workforce to deliver the Federal-aid Highway Program. With increasing numbers of employees retiring and up to 37% of FHWA's workforce eligible to retire in the next five years, the Agency will need to recruit a staff with diverse skills and build the competencies of employees in areas such as program and project oversight, effective financial management, implementation of internal controls, and procurement integrity.

In FY 2005, internal teams examined and inventoried the competencies and staffing levels needed for various disciplines across the organization. The FHWA identified existing skill gaps in its mission-critical occupations including transportation planners, environmental protection specialists, civil engineers, financial managers and specialists, engineering technicians, realty specialists, and transportation specialists.

## 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 2005 ACCOMPLISHMENTS

In FY 2005, DOT maintained its green status on the President's Management Agenda scorecard for competitive sourcing. During 2005, DOT completed one standard and six streamlined competitions, including the largest and most complex competition conducted to date under OMB Circular A-76 for FAA's Automated Flight Service Stations.



To date, DOT has completed 19 competitions for over 2,800 full time equivalent positions with anticipated savings of over \$2.2 billion from the inception of the study through all of the performance periods. DOT initiated an Executive Steering Committee for competitive sourcing, which evaluates the opportunity for cross organizational competitions throughout the Department and brings more consistency to DOT's competitive sourcing efforts. DOT requires the Operating Administrations to develop their competitive sourcing plans in conjunction with their workforce planning efforts to ensure that human capital solution strategies include public-private competition.

## **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 good 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 and the Department.

### **FY 2005 ACCOMPLISHMENTS**

In May 2005, DOT moved its financial management tool Delphi DASHboard pilot into production. The Delphi DASHboard provides managers with key financial information and is being enhanced to provide program performance information as well. The combination of financial and program information provides DOT managers with a more complete program picture and enables them to make cogent business decisions.

Currently included on the DASHboard are the Office of Management and Budget's financial performance metrics (broken out by operating administration), DOT's internal scorecard on financial improvement initiatives, and accounting status reports derived directly from DOT's Delphi financial management system.

Additionally, DOT has been centralizing operating administration accounting operations at the Department's Financial Management Center of Excellence in Oklahoma City, which is one of four such Centers designated by OMB in the President's Budget in February 2005. With the cost of the Centers shared among the other Departments who use the Center's services, tax payers benefit from the cost-savings achieved by eliminating redundant operations.

With DOT's successful phase one conversion to the Department of Interior's Federal Personnel and Payroll system during 2005, DOT is also moving ahead to retire three major legacy payroll and Human Resources systems in March 2006. DOT closed out its legacy accounting system in March 2004 and is shutting down its travel management systems as we implement the new GovTrip system under the e-Travel program.

## **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 improving transportation through market-based policies that foster competition by using



electronic government resources, and increasing the range of transportation choices available to travelers and shippers. DOT is also committed to a more efficient use of information technology to create faster and easier ways for citizens to transact their business with DOT.

## **FY 2005 ACCOMPLISHMENTS**

The Department continues to participate actively in many of the Administration's government-wide E-Government initiatives, such as online rulemaking, business gateway, e-learning, e-travel, e-grants and others. The results allow the general public and the regulated community easier access to their government. For example, DOT:

- made a large number of OMB forms available to citizens through the Business Gateway PMA E-Government Web site;
- increased public access to and awareness of DOT grant opportunities; and
- expanded the use of consolidated automated staffing functions, using Quick Hire software for all of DOT.

During FY 2005, the Department maintained a “green” rating in the E-Government portion of the President's Management Agenda; indicating DOT met established requirements and made further improvements in capital planning, security and enterprise architecture issues. In FY 2005, 85% of operational Information Technology (IT) systems have current certification and accreditation. In addition, 100% of DOT's FY 2006 business cases were determined by OMB to be IT acceptable. 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%.

To identify potential IT security weaknesses and opportunities for consolidation for more efficient operations, each of DOT's IT systems undergoes a rigorous security certification and accreditation process. Results of these certifications and accreditations are used to identify system weaknesses and provide corrective actions. DOT implemented a quarterly compliance review process to go beyond the C&A process, and reviewed DOT-wide efforts to comply with the Privacy Act and the Americans with Disabilities Act (ADA) accessibility requirements. By implementing systems Department-wide, the Department will gain consistency in its corrective efforts as well as provide cost-savings for IT security solutions. Certification and accreditation provides DOT management the assurance that IT assets are able to provide greater system security for services delivered to the public.

In FY 2005, the Department's Investment Review Board (IRB) focused on management of the Department's information technology portfolio, DOT Operating Administration IT investment strategies, and project management practices. Through greater IRB involvement, senior managers from across the Department have assumed an expanded role in the oversight of high risk projects.



## **BUDGET AND PERFORMANCE INTEGRATION**

Regular, systematic measurement and accountability for program performance compared to pre-determined goals 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 2005 ACCOMPLISHMENTS**

DOT continues to be recognized as a leader in Budget and Performance Integration and made significant strides in FY 2005 to further improve the link between performance results and resource decisions, and to hold executives and managers accountable for those results. To make financial and performance information more readily available to executives and managers, the Department began implementation of the Automated Dashboard Desktop User Interface (DASHboard). When fully deployed, this system will bring financial and performance information to the desktops of executives and managers, thereby improving oversight of the Department's programs.

DOT has also fully incorporated results from OMB's Program Assessment Rating Tool (PART) into the resource decision-making process. PART results are presented to the Secretary of Transportation and his staff during the budget preparation process in order to better link resource allocation decisions to program results. Since the OMB began assessing the Department's programs using PART, DOT program managers have had to justify their budget requests based on actual performance results and address OMB's recommendations for program improvement. PART results and performance measures are also documented in the final budget documents that are submitted to the OMB and to the Congress.

For 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 Operating Administrations and for the FY 2007 budget cycle, all DOT agencies will provide marginal cost information for at least one of their performance goals. Recognized as a government leader in marginal cost methodologies, the Department presented its marginal cost approach and processes at a Government-wide marginal cost seminar to assist other Federal agencies in improving their marginal cost capabilities.

## **RESEARCH, DEVELOPMENT, AND TECHNOLOGY (RD&T)**

DOT established a new organization to focus the research and development planning processes across DOT, the Research and Innovative Technology Administration (RITA). RITA will enable the Department to more effectively coordinate and manage the Department's research portfolio and expedite implementation of cross-cutting innovative technologies.

Under the reorganization, RITA's resources will be used to:

- coordinate and advance transportation research efforts within DOT;
- support transportation professionals in their research efforts through grants and consulting services, as well as professional development through training centers; and



- inform transportation decision-makers on intermodal and multi-modal transportation topics through the release of statistics, research reports, and a variety of information products via the internet, publications, and in-person venues such as conferences.

To assist with RD&T planning, the Department recently established two internal bodies: the RD&T Planning Team and the RD&T Planning Council. At the working level, the Planning Team develops recommendations for DOT-wide RD&T priorities; at the leadership level, the Planning Council reviews and approves the priorities. Upon such approval, it is expected that within each Operating Administration, those leaders will steer more of the available research resources toward those RD&T priorities, as is appropriate for their agencies' missions.

Through the RD&T Planning Council and Team, the Department also ensures the effectiveness of RD&T. In particular, DOT conducts annual RD&T program reviews to assess Operating Administrations' implementation of the Administration's R&D Investment Criteria.

## ORGANIZATIONAL EXCELLENCE PERFORMANCE GOALS

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

### ACQUISITION MANAGEMENT

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.

**2005 Results.** DOT met both performance measures. Thirty-five critical acquisition programs are tracked against these performance measures and they have met targets for both cost and schedule variance in FY 2005. Staying on schedule and within budget is critical to updating the air traffic system. In the last three years FAA has implemented processes for tracking and reporting variance, which have strengthened control over major acquisitions and resulted in significant performance gains.

**FY 2006 Performance Forecast.** DOT anticipates meeting the new performance targets in FY 2006.

Performance Measure				
For major DOT systems, percentage of cost goals established in the acquisition project baselines that are met.				
	2002	2003	2004	2005
Target	80	80	80	80
Actual	89.5	88	100	97

Performance Measure				
For major DOT systems, percentage of scheduled milestones established in acquisition project baselines that are met.				
	2002	2003	2004	2005
Target	90	80	80	80
Actual	74	78	92	92



## FINANCIAL STEWARDSHIP

With fewer resources to fund important transportation projects, DOT needs to ensure that infrastructure improvements are delivered on time and within budget, and that taxpayer investments are those that yield the greatest benefits for the given costs. Infrastructure projects are not static, at any point in the process 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.

### FTA

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 (identification and analysis) to estimate the likelihood and predict the impact on the project, 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 contractor and identifies and ranks the highest areas of risk. The report is then used as a guide to establish a risk mitigation plan 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.

### FHWA

FHWA issued guidance defining the content and format of the financial plans for major projects, which are generally defined as projects at the \$1 billion dollar and larger level. A financial plan provides a comprehensive view of the total cost of the project and reasonable assurances that there will be sufficient financial resources to complete the project as planned. Cost containment strategies are also identified in the financial plan, as well as an implementation schedule for completing the project.

Both the Government Accountability Office and the Office of Inspector General raised additional concerns about agency oversight of cost and schedule for projects funded with Federal-aid funds. To address some of these continuing concerns and lay the groundwork for building a new project management tracking system, the agency initiated an effort to develop a more formal, documented approach to project delivery oversight.

As part of its efforts to support effective program management, the Transportation Infrastructure Finance and Innovation Act (TIFIA) credit program developed formal guidance for project oversight and credit monitoring. The guidance is intended to assist the DOT and its Operating Administrations in carrying out oversight responsibilities for TIFIA-funded projects by providing a consistent approach to monitoring projects through a project's life cycle.



**2005 Results.** DOT met the performance target for keeping major infrastructure projects on schedule, but not the performance target for keeping projects within budget.

FHWA has approved financial plans or their annual updates for 12 major projects. Of the 12 projects that have reached the financial plan stage, 92% are within the forecasted schedule completion variance, and 75% are currently on or within allowable budget variances.

FHWA issued guidance in FY 2004 to help States improve upon their initial project estimates and has actively promoted better financial and project management practices since then. However, the initial project cost estimates for projects such as the Katy (TX) Freeway Reconstruction Project, the

Oakland Bay Bridge, and the New Haven (CT) Harbor Crossing Improvement Project predate the issuance of this guidance.

All three major FAA runway projects, St. Louis, Seattle-Tacoma, and Atlanta, continue on time with Seattle-Tacoma and Atlanta also within budget. Costs for the St. Louis runway rose above thresholds due to complex land acquisition and construction issues. In FY 2004, the FAA issued an amendment to the city of St. Louis to help offset the cost increases. New runways at Atlanta Hartsfield-Jackson International and Lambert St. Louis International are on schedule to open in 2006, while the new runway at Seattle-Tacoma International is on schedule to open in 2008.

All four FTA mega transit projects (active New Starts projects with Full Funding Grant Agreements (FFGA) that exceed \$1 billion) are within 10% of the cost estimate of their current FFGA agreements. The four projects are: New Jersey Hudson-Bergen—MOS II Light Rail; San Juan Tren Urbano Heavy Rail; Denver Southeast Corridor Project; and, Seattle Central Link Light Rail. The FFGA for the San Juan Tren Urbano project has been amended to reflect the increased cost to complete. FTA has also been aggressively working with this grantee to ensure closeout activities such as safety and security certification are complete in accordance to FTA standards and managing the project cost and schedule to the current projected figures. FTA's four mega projects are also within 10% of the schedule milestones of the current FFGA agreements.

**FY 2006 Performance Forecast.** DOT expects to meet the target for major infrastructure projects that stay on schedule, but it anticipates continued difficulty in attaining the target for major infrastructure projects staying within budget.

<b>Performance Measure</b>				
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.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	95	95	95	95
Actual	85	88	95	95

<b>Performance Measure</b>				
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.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	95	95	95	95
Actual	85	88	74	79



**2005 Results.** DOT met its performance target for grant processing.

As of September 2005, 91% of the 2,047 grants were processed and obligated in 60 days or less. FTA implemented several key activities essential to improve processing time, including:

- Implemented the electronic Grants Notification System for grants that are over \$1 million and processed for release to congress by the Office of the Secretary;
- Opened the Transportation Electronic Award and Management (TEAM) system for grant obligation earlier in FY 2005 as a result of monthly reconciliation of TEAM data during FY 2004;
- Worked with the Department of Labor (DOL) to develop a streamlined procedure for certifying grants in each grant amendment adding incremental funding;
- Expedited notification of certification by the DOL; and
- Resolved mid-year problems with electronic notification to DOL resulting from new computer security firewall protections.

<b>Performance Measure</b>				
Percentage of transit grants obligated within 60 days after submission of a completed application.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	60	80	80	80
Actual	67	83	91	91

**FY 2006 Performance Forecast.** DOT will meet the target for FY 2006.

## **ENVIRONMENTAL JUSTICE**

DOT strives to ensure that transportation projects are accomplished even-handedly, so that no community or group bears a disproportionate burden. As a result, DOT has chosen to highlight Departmental Office of Civil Rights' (DOCR) Environmental Justice activities. DOCR monitors the investigation of civil rights complaints alleging that transportation programs, policies, or activities have had a disproportionately high and adverse human health or environmental effect on minority or low-income populations.

**2005 Results.** DOT did not meet the performance target. Environmental Justice complaints are processed by the DOCR and investigated by the relevant operating administration. Environmental justice complaints are very complex, and therefore time-consuming, compared to other external civil rights complaints. Several factors contribute to the complexity of the cases; for instance, environmental justice complaints always involve classes and not single individuals; complaints almost always involve controversies relating to unsettled areas of the law; and they often involve time-consuming and legally difficult jurisdictional determinations. A few complaints involve projects in the planning stages that may or may not be funded. Some of the complaints involve longstanding controversies in local land use and may result in serious and fundamental community debates. For many of these complaints, DOT is considering Alternative Dispute Resolution.

<b>Performance Measure</b>				
Percent of Environmental Justice cases that remain unresolved after one year.				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Target	40	35	35	35
Actual	65	76	73	45



The DOCR is working on a Complaint Resolution Manual to help the Operating Administrations resolve complaints more effectively and expeditiously. The manual will outline the expected steps for processing, investigating, and resolving a discrimination complaint, with the goal of promoting a more uniform approach to complaints across the Department.

**FY 2006 Performance Forecast.** DOT does not expect to meet the target in FY 2006.





## 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 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](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 the Department and, therefore, outside 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 2005 measures must be projected from either partial-year data or historical trends. The projections based on partial-year data from FY 2005 are more likely to reflect changes effected by current DOT policies and programs. The measures projected from FY 2004 and prior historical data reflect continuing trends from ongoing programs, but do not reflect the effects of changes implemented in FY 2005.



**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 Government Performance and Results Act of 1993, the Department's *FY 2003–2008 Strategic Plan* included an initial list of new program evaluations planned for those fiscal years. This section provides a summary of DOT's program evaluation efforts scheduled for completion in FY 2005. In addition, updates of FY 2004 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 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 objectives developed through the planning process. The OIG and the GAO conduct their own program evaluations independent of this schedule, as appropriate.



## FY 2005 PROGRAM EVALUATION SUMMARIES

A summary of DOT program evaluations scheduled for completion in FY 2005 follows.

### EVALUATION OF FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION'S (FMCSA'S) COMPLIANCE REVIEW (CR) IMPACT ASSESSMENT MODEL

FMCSA's CR program is a nationwide program in which FMCSA and State inspectors conduct on-site reviews of motor carrier compliance with Federal Motor Carrier Safety Regulations (FMCSRs). FMCSA expects that through enforcement of the FMCSR, and promotion of safety requirements, motor carriers will improve the safety of their operations and reduce their chances of being involved in crashes.

#### RELATED STRATEGIC OBJECTIVE: SAFETY

The purpose of this impact evaluation is to measure the effectiveness of FMCSA's CR program in terms of crashes avoided, injuries avoided, and lives saved. The objective of conducting this evaluation is to provide FMCSA management and State safety partners with a quantitative basis for optimizing the allocation of resources dedicated to the improvement of commercial motor vehicle safety. The Volpe National Transportation Systems Center conducted this evaluation.

The scope of this evaluation is the safety impact of all CRs performed by FMCSA and its State partners. In 2002, Federal and State enforcement personnel conducted 13,430 CRs. The model used to evaluate the impact of these CRs is designed to measure the direct impact of CRs on carrier safety. It is not designed to measure indirect aspects such as deterrence (i.e., the threat of having a CR).

The methodology used to conduct this impact evaluation is an analytic program evaluation model called the CR Effectiveness Model, which FMCSA developed in cooperation with the Volpe National Transportation Systems Center. The model is based on the individual and cumulative "before and after" changes in the safety performance of carriers that received CRs. The model compares a motor carrier's crash rate in a time period after a CR to its crash rate prior to that review. To make this comparison, the model uses crash and power unit data from the Motor Carrier Management Information System (MCMIS) snapshots taken before and after the CR.

The results of this evaluation are as follows:

Compliance Review Program Effectiveness 1999–2004						
	1999	2000	2001	2002	2003	2004 #
Crashes Avoided	1,200	2,200	1,600	1,656	1,462	2,242
Injuries Avoided	822	1,395	1,105	1,261	1,087	1,624
Lives Saved	51	91	67	70	62	86
# FY 2004 data are preliminary projections						



The latest available data from 2003 and 2004 projected results are provided in the table above. The data trend over the last four years continues to remain positive as more crashes and injuries are avoided and the number of lives saved increases. FMCSA's plan is to continue to conduct this evaluation of the CR Program on an annual basis in order to monitor the effectiveness of the agency's CR program. Completion of this evaluation is set as an annual agency milestone.

## **EVALUATION OF FMCSA ROADSIDE INSPECTION/TRAFFIC ENFORCEMENT**

Roadside inspection and traffic enforcement (RI/TE) are two of the Federal Motor Carrier Safety Administration's (FMCSA) key safety programs. The roadside inspection program consists of roadside inspections of vehicle and driver safety performed by qualified safety inspectors. The traffic enforcement program is based on the enforcement of 21 moving violations noted in conjunction with a roadside inspection. State RI/TE activities are funded through FMCSA's Motor Carrier Safety Assistance Program.

### **RELATED STRATEGIC OBJECTIVE: SAFETY**

The purpose of the evaluation is to measure the impact of the RI/TE program in terms of crashes avoided, injuries avoided, and lives saved. The objective of conducting this evaluation is to provide FMCSA management and State safety partners with a quantitative basis for optimizing the allocation of resources dedicated to the improvement of commercial motor vehicle safety. FMCSA expects that vehicle and/or driver defects discovered, and then corrected as the result of RI/TE interventions, will reduce the probability that these vehicles/drivers will be involved in subsequent crashes, which will reduce overall crash rates. The Volpe National Transportation Systems Center conducted this evaluation.

The scope of this evaluation includes all RI/TEs funded by the FMCSA. In 2002, approximately 3.0 million RI/TEs were conducted. The model which is used to conduct this evaluation is designed to measure both the direct and indirect impact of RI/TEs on improving safety, (i.e., crashes avoided, injuries avoided, and lives saved).

The methodology used to conduct this impact evaluation is an analytic program evaluation model called the Intervention Model, which FMCSA developed in cooperation with the Volpe National Transportation Systems Center. The Intervention Model is based on the premise that the two programs, roadside inspection and traffic enforcement, directly and indirectly contribute to the reduction of crashes. The model includes two sub-models that are used for measuring these both direct and indirect effects:

- Direct effects are based on the assumption that vehicle and/or driver defects discovered and then corrected as the result of interventions reduce the probability that these vehicles/drivers will be involved in subsequent crashes. The model calculates direct-effect, prevented crashes according to the number and type of violations detected and corrected during an intervention.
- Indirect effects are the byproducts of the carriers' increased awareness of FMCSA's programs and the potential consequences that the programs could impose if steps were 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 and practices and vehicle maintenance, the model calculates responses to the programs and the resulting reduction in potentially crash-causing violations.



The results of this annual evaluation are as follows:

<b>Program Effectiveness 2001–2004</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Crashes Avoided	15,138	16,387	17,151	18,673
Injuries Avoided	11,646	12,716	13,062	13,615
Lives Saved	738	781	722	722

The latest available data from 2004 are provided in the table above. Although crashes and injuries avoided continue their positive trend, lives saved have stayed relatively flat over the four year period. FMCSA's plan is to continue to conduct this evaluation on an annual basis in order to monitor the effectiveness of the agency's RI/TE program. Completion of this evaluation is set as an annual agency milestone.

## **HAZARDOUS MATERIALS AIR TRANSPORTATION EVALUATION**

Both air carriers and passengers play a critical role in the transportation of hazardous materials by air. Air carriers (including shippers and repair stations that ship hazardous materials) are required to transport the material in accordance with the existing Federal Regulations. Passengers are prevented from carrying unauthorized hazardous materials on to scheduled commercial flights if discovered during the security screening. To ensure compliance, Special Agents periodically inspect and conduct investigations of violations by air carriers, shippers, and repair stations that ship by air. These hazardous materials regulations are promulgated by DOT's Pipelines and Hazardous Materials Safety Administration (PHMSA). The regulations are inter-modal, applying to ground, sea, rail, and air transportation.

### **RELATED STRATEGIC OBJECTIVE: SAFETY**

DOT's OIG conducted an independent evaluation to assess the management of FAA's Hazardous Materials Air Transportation program and its effectiveness in ensuring compliance with existing hazardous materials regulations. The OIG found that since the transfer of this program from the Transportation Security Administration (TSA) to the FAA, the FAA has made considerable progress in reestablishing it as a bona fide program for overseeing and enforcing industry's compliance with hazardous material regulations. Since October 2002, FAA has realigned the Program's organizational structure, hired and trained new members of its workforce, developed and implemented guidance and work plans for conducting inspections and investigations, and created an automated system for collecting and reporting the results of inspection and enforcement activities. Nevertheless, the current situation is far from an "end state" for ensuring the safety of hazardous material shipments by air, and new approaches are needed in managing the program.

To improve the management of this effort, the OIG recommendations included the following:



- Institute guidelines and timeframes for conducting hazardous materials investigations, conducting legal reviews, and issuing Notices of Proposed Civil Penalties through the coordinated efforts of the Hazardous Materials Division and the FAA's Office of the Chief Counsel.
- Develop and implement alternate means of administering hazardous materials enforcement cases, such as the ticketing system used by Pipeline and Hazardous Materials Safety Administration (PHMSA).
- Finalize and implement the FAA voluntary disclosure reporting program. FAA needs to take a systematic approach in effectively managing the program, to include disseminating all useful information to the air carriers, hazardous material shippers, and DOT Operating Administrations with hazardous materials oversight and enforcement responsibilities.
- Implement a pilot project with the TSA and one or more air carriers to determine the effectiveness and cost of an automated operating system to record and process violations of hazardous materials regulations discovered during screening of the passenger's carry-on and checked baggage. In the interim, collaborate with TSA to implement procedures for notifying FAA of hazardous materials incidents associated with passengers' carry-on baggage.
- Issue an Advisory Circular notifying all air carriers that they must report to FAA all unauthorized hazardous materials found in passengers' checked baggage and take enforcement actions against those air carriers not complying with the reporting requirements.

In response to the OIG recommendations, the following actions have been taken:

- FAA has issued written field guidance on the timeliness of civil penalty cases that reduces the time allowed for civil penalty enforcement investigative reports to be submitted for legal review from 120 to 90 days. In addition, the FAA's Chief Counsel's Office expects to revise Order 2150.3A by December 2005 that will also provide more consistent guidance to all FAA inspectors.
- The FAA expects to publish an initial notice in the Federal Register by March 30, 2006, that will implement a notice of violation process similar to both the Pipelines and Hazardous Materials Safety Administration "ticketing" process and the process previously used by FAA to administer certain aviation security violations.
- FAA, in cooperation with its Chief Counsel's Office completed a review of the draft Voluntary Disclosure Advisory Circular for certain hazardous materials violations. The draft Voluntary Disclosure Advisory Circular has been circulated for notice to, and comment from, air carrier associations. FAA expects to publish this Advisory Circular by December 2005.
- FAA has developed and is using a department-wide intermodal shipper database that contains the Department's hazardous materials inspections, penalties, incidents, exemptions and registrations information. The system will help set shipper inspection priorities based on prior penalties and incidents on record.
- The FAA has made arrangements with the Air Transport Association to provide its member air carriers with summary results of FAA hazardous materials inspections of their operations. The FAA has conducted over 3,000 outreach visits to hazardous materials shippers in the last twelve months and FAA field agents will provide a summary of a shipper's prior incident records to the shipper during inspections. Finally, the FAA has provided its inspection and penalty records for the intermodal database system so they are available for the OAs.

The FAA has drafted a revision to its Memorandum of Agreement (MOA) with the TSA. This revised MOA will be the basis for a mechanism to share TSA data on security checkpoint seizures of hazardous materials with the FAA. The FAA will evaluate and prioritize the information in terms of the risks posed



by the abandoned hazardous materials. Lower risk items will be entered into the FAA's system to generate an automated outreach notification to the relevant passenger, higher risk items will be forwarded to the relevant FAA Regional Office for investigation. Concerning unauthorized hazardous materials discovered during checked baggage screening, the TSA Standard Operating Procedure advises screeners to refer their discoveries to the air carrier that checked the bag. The air carrier would have to notify the FAA. The FAA initiated its system to generate automated outreach notices in January 2005. The system of collaboration between FAA, TSA and the air carriers themselves, has resulted in the mailing of over 4,000 notices to passengers.

## **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 OBJECTIVE: SAFETY**

In 1997 NHTSA began testing vehicle performance at higher speeds and publishing the results through the New Car Assessment Program (NCAP). Initially, manufacturers upgraded side structures and affixed padding to meet Standard 214. In 1996 and later years, they installed two types of side air bags—torso bags and head air bags—that substantially improved side impact performance on the NCAP tests.

NHTSA originally planned to evaluate only the initial upgrades to structure and padding and complete the study by 2005, with a separate evaluation of side air bags at a later date. But, side air bags have become an integral part of the occupant protection system in much of the vehicle fleet (30% of new cars by 2002).

Consumers and manufacturers want to know as soon as possible about the effectiveness of side air bags. To expedite the impact evaluation of side air bags, NHTSA is combining it with the study of structures and padding. To ensure the statistics are more meaningful, on this relatively new technology, 2004 Fatality Analysis Reporting System and General Estimates System crash data are being included. These data are just now becoming available. NHTSA anticipates completing the report, sending it for peer review outside the agency, and publishing it in FY 2006.

## **LARGE TRUCK CRASH CAUSATION STUDY**

There is no National database that provides information on the causes of, or factors contributing to, large truck crashes. FMCSA recognizes the importance of having this information and began investigating methods to collect it several years ago. 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. 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.



#### **RELATED STRATEGIC OBJECTIVE: SAFETY**

The goal of the LTCCS is 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.

The LTCCS collected data on crashes in 24 sites in 17 States from 2000 through 2003. Each crash involved at least one large truck with a gross vehicle weight rating of more than 10,000 pounds, and resulted in at least one fatality or at least one incapacitating or non-incapacitating but evident injury. To get the highest quality data possible, the on-site investigations began as soon as possible after crashes occurred. Data collection was performed at each crash site by a two-person team consisting of a trained researcher and a State truck inspector. Researchers collected data at crash scenes through driver, passenger, and witness interviews.

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. Preliminary findings to date indicate the immediate reason for large truck crashes in an overwhelming majority of the cases was an action by the driver of the truck or the other vehicle involved. Driver recognition and decision errors were coded most often for drivers of both trucks and passenger vehicles. Truck drivers, however, were in better condition to drive and made fewer driving performance errors than passenger vehicle drivers.

All of the crash data has been collected and encoded into a database. An initial release of data from the study to Congress and the public is scheduled for the first quarter of FY 2006.

#### **BUS CRASH CAUSATION STUDY**

There is no National database that provides information on the causes of, or factors contributing to, bus crashes. In 2004, in cooperation with the National Highway Traffic Safety Administration (NHTSA), FMCSA initiated the Bus Crash Causation Study (BCCS) as a complementary and follow-on effort to the Large Truck Crash Causation Study (LTCCS). The purpose of the BCCS is to analyze the causes of crashes involving buses.

#### **RELATED STRATEGIC OBJECTIVE: SAFETY**

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. The BCCS will use the same 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.

#### **EVALUATION OF FMCSA COMMERCIAL DRIVERS LICENSE (CDL) PROGRAM**

The Commercial Drivers License (CDL) program is one of the Federal Motor Carrier Safety Administration's (FMCSA's) most important safety programs. Since the first CDL was granted in 1989, over 11 million have been issued and approximately 40,000 new CDLs are issued every month. Congress passed the Commercial Motor Vehicle Safety Act of 1986 (CMVSA) (Public Law 99-570, 100 Stat. 3207-170, 49 U.S.C. 31301), which established the CDL program. CMVSA made it illegal for drivers to



hold more than one license and required States to adopt testing and licensing standards for truck and bus drivers to check a person's ability to operate the type of vehicle he/she plans to operate. The goal of the CDL program is to improve highway safety by ensuring that drivers of large trucks and buses are qualified to operate those vehicles and to remove unsafe and unqualified drivers from the highways.

#### **RELATED STRATEGIC OBJECTIVE: SAFETY**

The objective of this evaluation is to determine whether the CDL program is meeting its goal of removing unsafe and unqualified drivers from the highways. More specifically, this evaluation will focus on assessing the effectiveness of State systems and procedures to identify and take action against unsafe CDL holders.

This outcome evaluation is being conducted with support from the U.S. Department of Energy's Oak Ridge National Laboratories (ORNL). This is a two-phase evaluation. Phase I of this evaluation was completed in July 2005. Phase I focused on analyzing results of the CDL Reviews conducted on State CDL programs by FMCSA. ORNL analyzed these CDL reviews and recommended actions to strengthen the program's ability to foster the removal of unsafe and unqualified drivers from the highways. Under Phase II of this evaluation, ORNL will perform a more in-depth statistical analysis of the effectiveness of systems and procedures to identify and take action against unsafe CDL holders. Phase II is expected to be completed by December 2005.

#### **RAIL GRADE CROSSING WARNING DEVICE INSTALLATION STUDY**

This study will evaluate the effectiveness of the various types of warning devices used to control traffic at highway-rail grade crossings in preventing grade crossing collisions. The purpose of the evaluation is to provide traffic engineers, and others involved in the selection of warning devices at highway-rail grade crossings, with information on the type of warning devices that provide the greatest safety improvement for crossings.

#### **RELATED STRATEGIC OBJECTIVE: SAFETY**

FRA has not performed this study for several reasons. First, the purpose of the study, to provide information to aid in the selection of appropriate warning devices, was achieved in a separate DOT effort. In November 2002, DOT published the *Guidance on Traffic Control Devices at Highway-Rail Grade Crossings* document. This is a guidance document for users who understand general engineering and operational concepts of highway-rail grade crossings and are involved in the selection of traffic control devices. The Guide serves as a reference to aid in decisions to install traffic control devices or otherwise improve such crossings. A traffic control device selection procedure and extensive list of quantitative guidance are the specific products of this document.

Secondly, there were several other studies initiated that cover the subject. The Volpe National Transportation Systems Center is currently conducting an analysis to determine the various factors during the last ten years that have led to an almost 50% reduction in the number of fatalities resulting from crossing collisions. This study is looking into the effectiveness of the various types of warning devices at the crossings as part of the study. Volpe is also conducting an evaluation of safety measures implemented on the North Carolina Sealed Corridor. A third evaluation that studies the effectiveness of educational and law enforcement efforts in Arlington Heights, Illinois is also nearing completion.



In June 2004, the Department released the Secretary's Action Plan for Highway-Rail Crossing Safety and Trespass Prevention. One of the specific actions to be undertaken in the plan is an evaluation of current safety efforts to determine the effectiveness of the principal grade crossing collision mitigation methods. FRA's actions will include the following:

- Use the results from these three studies to evaluate the effectiveness of current safety efforts. This will include both engineering and non-engineering safety treatments.
- Issue a report on the current status of crossing safety efforts.

FRA anticipates that this report will be issued by the end of December 2006. The report will provide guidance to those who are involved in determining the appropriate traffic control device that should be installed at highway-rail grade crossings. It also will provide information on non-engineering efforts that can be made to improve crossing safety.

### **EVALUATION OF INTELLIGENT TRANSPORTATION SYSTEM (ITS) OPERATIONS INVESTMENTS BY LOCAL GOVERNMENTS**

Intelligent transportation systems (ITS) improve transportation safety and mobility through the use of advanced communications technologies. ITS encompasses a broad range of wireless and wire line communications-based information and electronics technologies. When integrated into the transportation system's infrastructure, and in vehicles themselves, these technologies relieve congestion, improve safety and enhance efficiency.

#### **RELATED STRATEGIC OBJECTIVES: SAFETY & MOBILITY**

In 2002, the Federal Highway Administration (FHWA) sponsored a program evaluation to determine to what extent Federal funding is being used at the local level to fund operations. The evaluation included a survey of 267 people from 141 agencies (including 125 officials representing 67 municipalities or county organizations). Among other findings, the survey revealed that ITS and operations investments are difficult to ascertain because they are usually included as part of larger capital infrastructure investments, or are not typically undertaken with Federal funds because local governments lack operations expertise and have few incentives to undertake investments in operations vis-à-vis larger capital investments. As a result of this finding, a new evaluation in FY 2005 was not undertaken.

The FY 2002 program evaluation, however, included four key recommendations and the FHWA has responded to each. For example, in FY 2004, FHWA commissioned an effort to provide agencies with more outcome-oriented information regarding the benefits of using ITS and operations solutions for tackling surface transportation problems. FHWA estimated the benefits that might be derived from the full deployment of ITS technologies and operational strategies in medium and large metropolitan areas. The study revealed that total congestion-related delay could be reduced by up to 27%, fuel consumption by up to 24%, and emission of harmful pollutants by up to 25% from current levels. Widespread deployment of ITS technologies and operational strategies not only relieves congestion, but also makes travel on the highway system more reliable and predictable.



## ALTERNATE DISPUTE RESOLUTION PROCESS EVALUATION

Experience in both the public and private sectors shows that alternative dispute resolution (ADR) can improve communication and achieve mutually acceptable solutions more effectively than traditional, non-collaborative processes. Established in May of 2003, the U.S. Department of Transportation's *Center for Alternative Dispute Resolution* works with DOT organizations, its management teams, and employees to increase knowledge, quality, and use of ADR. The Center serves as an information resource to both DOT ADR providers and users, and advises senior DOT officials on procedural approaches to resolving disputes having significant impact on National transportation policy.

### RELATED STRATEGIC OBJECTIVE: ORGANIZATIONAL EXCELLENCE

The Center, staffed by one full-time and one part-time employee, partners with the Office of the Dispute Resolution Specialist at the Department of Health and Human Services to offer conflict management-related informational and skill based training courses. From 2003–2005, the Center trained over 650 DOT employees, mediated approximately 16 cases, facilitated 4 office interventions, helped DOT organizations establish and support two workplace ADR programs and one civil penalties arbitration program, provided support for both court-ordered and party-agreed-upon mediation of complex cases, and incorporated ADR into DOT's procurement disputes process.

The goal of this process evaluation was to determine service quality, growth in use of alternative dispute resolution process, and cost-effectiveness throughout DOT and to gain information for improving ADR services and programs.

The evaluation results show an increase in knowledge and use of ADR across DOT. In addition, the Center's training program has received high marks from customers. The evaluation also made the following recommendations. The Center should:

- Follow a co-mediation model to increase available number of mediators.
- Conduct a survey to determine what percentages of employees are aware of available ADR services;
- Market its program using positive employee comments;
- Conduct post-mediation and facilitation surveys; and
- Survey mediation and training participants to see whether relationships have improved.

Beginning in FY 2006, the Center will implement the recommendations as follows:

- Use employees trained in Basic Mediation Skills as co-mediators;
- Survey all mediation and facilitation participants; and
- Design and implement an evaluation tool to determine any effect of Conflict Management Skills for Managers training on targeted participants. Final analysis would be completed in FY 2008.



## EVALUATION OF THE TITLE VI COMPLAINTS PROCESS

The Departmental Office of Civil Rights (DOCR) oversees external complaints processed in accordance with Title VI of the Civil Rights Act of 1964. Title VI prohibits discrimination on the basis of race, color, and National origin in programs and activities receiving Federal financial assistance. DOT Order 1000.12, Implementation of the DOT Title VI Program, provides guidance and procedural instructions for all modal administrations on processing Title VI complaints. The Operating Administrations (OAs) use the procedures set forth in the Order to investigate external complaints, filed in accordance with Title VI, that are directly related to their mode of transportation. Both DOCR and the OAs use the Order to define the shared responsibility for collecting, accepting and dismissing external complaints. The Order also supports the OA's responsibility for collecting complaint related information. This information is used by DOT to provide its customers with the status of individual complaints and the status of the Title VI complaints program in its entirety.

### RELATED STRATEGIC OBJECTIVE: ORGANIZATIONAL EXCELLENCE

This process evaluation was conducted by the DOCR Information Technology and Program Evaluation Division (S-31). The techniques employed for this evaluation were in accordance with generally accepted program evaluation methods and the Generally Accepted Government Audit Standards (GAGAS).<sup>6</sup>

The evaluation identified several strengths in DOT's Title VI civil rights process:

- The Department has people with expert knowledge of the Title VI requirements as they relate to each mode of transportation;
- DOCR and the OAs have established effective partnerships that informally support information dissemination methods;
- DOT's decentralized structure allows for timely intake of complaints; and,
- Decentralized investigations also enable the Department to obtain program specific expertise, which can provide for more effective investigations.

Conversely, the evaluation identified several factors that contribute to untimely complaint processing:

- DOT has not formalized a strategic commitment to early Title VI complaint intervention;
- Despite providing billions of dollars toward transportation services, the Department of Transportation has not reduced Title VI resource inefficiencies within DOCR and the OAs;
- Outdated guidance and standards inhibit DOT's ability to collect complete and accurate Title VI complaint information;
- Annually scheduled formal training has been unavailable to employees with complaints intake and investigation responsibilities;
- Formal information dissemination methods have not been established, which prevents knowledge sharing; and,
- Ineffective complaint tracking and administrative automated tools do not supply functions required to process complaints expeditiously and are not useful for providing the status of individual cases, or the status of the DOT program in its entirety.

<sup>6</sup> U.S. Government Accountability Office, *Government Auditing Standard (2003 revision)*. GAO-03-673G.



Prior to this evaluation, the DOT began taking actions to improve civil rights programs and their respective products and services. The DOCR, the OAs' civil rights offices, and other DOT partners are reviewing the composition and organizational structure of their civil rights programs to ensure quality and timely services are provided to customers. In support of this review, a series of streamlining proposals are being discussed for the Title VI and Title VII programs that will improve complaints processing. Also, the DOCR External Policy and Program Development Division has drafted a complaints investigation manual, which will establish a standardized method for investigating complaints filed under Title VI and other nondiscrimination statutes. The document is expected to be approved and its processes implemented by the first quarter of FY 2006.

Nevertheless, the DOT must take additional actions to improve its Title VI program. The following actions are being recommended to improve timely complaint processing and program efficiency for DOT's Title VI civil rights program:

1. Establish a committee to review the allocation of resources to implement complaint avoidance methods, ensure program compliance, and process/investigate cases;
2. Revise DOT Order 1000.12 and all supplemental guidance to ensure that external civil rights complaints are processed using similar, if not standard, Title VI procedures. The Order must clearly outline procedures for data entry and tracking complaint activity;
3. Establish a formal training program that periodically certifies DOT personnel responsible for processing complaints under Title VI;
4. Establish quarterly knowledge sharing sessions to ensure that DOT personnel, who support Title VI requirements, are knowledgeable of DOT processes and Federal changes impacting Title VI complaint processing procedures;
5. Expand the existing External Civil Rights Task Force initiative to include defining requirements for a Departmental Title VI Civil Rights complaint tracking system;
6. Establish a uniform intake process that ensures all Title VI complaints filed with the DOT are identified and accounted for to provide sufficient detail to meet external reporting requirements;
7. Identify personnel within each OA who is responsible for ensuring that information resources used to create formal electronic records are complete and accurate;
8. Provide each OA with access to quarterly reports that identify the status and processing times of complaints filed in accordance with Title VI of the Civil Rights Act of 1964; and,
9. Establish a Title VI complaint early resolution intervention program that utilizes mediation as a means of resolving complaints filed against DOT in accordance with Title VI of the Civil Rights Act of 1964.

## **DATA QUALITY REVIEWS**

The Research and Innovative Technology Administration's (RITA's) Bureau of Transportation Statistics (BTS) employs the statistical expertise of its workforce to conduct reviews of data programs and provide recommendations for data quality improvements.



#### **RELATED STRATEGIC OBJECTIVE: ORGANIZATIONAL EXCELLENCE**

The purpose of the data quality reviews is to assess the data systems and methodologies that support data production and maintenance. By strengthening the underlying systems and methodologies, agencies can improve the performance of their data programs and increase the cost-effectiveness of their budgetary investment in such programs.

In recent years, the focus of data quality reviews has been internal to BTS's own data programs. In particular, various aspects of the Airline Statistics program have been the subjects of review. During FY 2005, four aspects of the airline data program underwent some level of review including the Airline On-Time Performance data, Foreign Air Carrier Traffic data, Airline Financial data and study by the Airline Data Total Quality Management Group. In addition, a review of the National Household Travel Survey was initiated. None of these reviews were completed due to reprioritization of statistical program activities following the creation of the RITA and BTS's relocation to the new agency.

As necessary, BTS may be called upon to perform this function; however, there are no further reviews scheduled.

#### **DOT RESEARCH & DEVELOPMENT STRATEGIC PLAN PROCESS EVALUATION**

Research and technology innovation is critical to advancing the priorities of DOT and in completing the strategic objectives of the Department. Recognizing the need to improve planning and coordination of the Department's research and development activities, a reorganization was proposed and subsequently approved when President Bush signed the Norman Y. Mineta Research and Special Programs Improvement Act on November 30, 2004. The newly created Research and Innovative Technology Administration (RITA) will be dedicated to the advancement of the Department's priorities for innovation and research in transportation technologies and concepts.

#### **RELATED STRATEGIC OBJECTIVE: ORGANIZATIONAL EXCELLENCE**

The scheduled program evaluation of the Department's Research and Development Strategic Planning Process was not conducted as planned in FY 2005 because it coincided with the creation of RITA and the reorganization of the Department's coordination, facilitation, and review of research activities. As a result, the Department's approach to research, development and technology (RD&T) program evaluation and coordination was significantly strengthened. A new RD&T coordination and management process was adopted through DOT Order 1120.39A, which established the RD&T Planning Council and Team. The basic features of RD&T management and coordination include multiyear strategic planning, annual budget and performance planning, and annual program planning. Early accomplishments were the preparation and submittal to Congress of the mandated report on the Department's research activities, FY 2005 RD&T program reviews, FY 2007 RD&T budget priorities and cross-modal initiatives, and the beginning of the transportation RD&T strategic plan.

The Department is implementing the coordination, facilitation and review of research activities according to the process of DOT Order 1120.39A and as reported to Congress in March 2005. The strategic planning process will be reviewed by the National Research Council (NRC), pending funding availability, in FY 2006.



## TRANSPORTATION PLANNING CAPACITY BUILDING PROGRAM EVALUATION

The Transportation Planning Capacity Building (TPCB) program provides information, training, and technical assistance to help transportation professionals in State and local transportation agencies create plans and programs that respond to the needs of the many users of their local transportation systems. The program improves transportation planning to be more comprehensive, inclusive and efficient.

### RELATED STRATEGIC OBJECTIVE: ORGANIZATIONAL EXCELLENCE

The TPCB program began as a pilot for metropolitan areas in 2000 and was expanded to include statewide, rural and small communities, and Tribal transportation planning in 2001. The Federal Highway Administration (FHWA) assesses program accomplishments, communicates the results to program stakeholders, and adjusts the program as necessary to best meet its objectives with available resources. The program consists of four key task areas or tracks: outreach and dissemination; peer programs; training; and scans and research.

Because of the differences in work processes and products among the four tracks, FHWA applied the following outcome and process evaluation techniques to evaluate the different tracks:

- Quantitative measures of geography and other audience factors were employed to assess the market penetration of program materials; less formal qualitative feedback from meetings with stakeholders was used to assess quality and usefulness of outreach and dissemination methods. The results are summarized in annual reports.
- FHWA annually assesses information about participants such as agency type and location to assess gaps in program coverage. After the first two years, the program surveyed a balanced sample of peer program participants to assess the application of knowledge and skills gained in from participating in the peer programs.
- Training delivered through the National Highway Institute and National Transit Institute includes a pre- and post-evaluation of class participants to assess how course content and instructor ability affect participant learning.
- Customer responsiveness is measured using an annual assessment of matching research to program stakeholder topic area priorities, and the completion of research on time and on budget is monitored on a monthly basis.

The FHWA annually adjusts the content and delivery methods of the program based on the evaluation results. For example, based on the list of distributed booklets and Web site downloads, a CD-ROM was developed containing the most requested documents. This reduced the cost of distributing booklets, while increasing the types of media available to program audiences. In another instance, a review of 21 peer events, which included participants from 34 States and the District of Columbia, revealed the need to increase the diversity of participants. In FY 2004–2005, the program included participants from 12 additional States and increased diversity by including representatives from several different areas of transportation and all levels of government.



## FY 2004 PROGRAM EVALUATION UPDATES

For those evaluations that were scheduled for completion in FY 2004 and did not have results available for publication in the FY 2004 Performance and Accountability Report, an update is provided below.

### EVALUATION OF FMCSA COMPLIANCE REVIEW PHASE II

The Federal Motor Carrier Safety Administration's (FMCSA) enforcement and compliance programs are nationwide programs in which FMCSA and State partners conduct on-site compliance reviews (CR) and roadside inspections (RI) of motor carrier compliance with the Federal Motor Carrier Safety Regulations (FMCSR) and Federal Hazardous Materials Regulations (FHMR). FMCSA expects that through enforcement of these regulations, and promotion of safety requirements, motor carriers will improve the safety of their operations and reduce their chances of being involved in crashes.

#### RELATED STRATEGIC OBJECTIVE: SAFETY

This process evaluation is a management study conducted for the purpose of improving the effectiveness of FMCSA's enforcement and compliance programs. A workgroup of FMCSA headquarters and field personnel, with the support of the Volpe National Transportation Systems Center, conducted this evaluation. This is the second phase of a two-phase study. Phase I focused on developing short-term improvements to the existing CR process. The Phase II effort had the broader goal of developing long-term improvements to the agency's overall enforcement and compliance programs.

The scope of this evaluation was all aspects of FMCSA enforcement and compliance operations, which account for the great majority of all agency activities and resources.

The methodology used for this evaluation was to gather data on existing FMCSA enforcement and compliance operations, examine the current results of these operations, and assess the long-term efficacy of the agency's current operational model. In making this analysis, the study also compared FMCSA operations to those of similar operations of other Federal, State, and Canadian organizations.

Public listening sessions were conducted in San Diego, Atlanta, Dallas, Chicago, Falls Church, Virginia and Springfield, Massachusetts. The listening sessions, conducted in September and October 2004, were designed to collect public input regarding ways FMCSA can improve its process of monitoring and assessing the safety performance of the commercial motor carrier industry. These sessions help support the objective of obtaining input in advance so that formal proposals are crafted in a clear and concise manner to facilitate future deliberations through the rulemaking or legislative process.

The Compliance Review Work Group issued a Phase II final report in February 2005, *Proposed Operational Model for FMCSA Compliance and Safety Program*. The report concluded that FMCSA's existing compliance and safety programs are resource intensive and reach only a small portion of the regulated community and that a new operational model for FMCSA was needed. As a result, the Comprehensive Safety Analysis 2010 (CSA 2010) initiative was formed to implement the necessary changes. The ultimate goal of CSA 2010 going forward is to develop an optimal operational model that will assess the safety posture of the entire regulated industry. The Agency wants to be able to globally say, "This is a safe operation," for those motor carriers that are truly operating in a safe manner. Conversely, the FMCSA wants to be able to focus its limited resources on monitoring and improving poor safety performers.



## EVALUATION OF FHWA STATE MOTOR FUEL DATA

This process evaluation set out to examine State motor-fuel data to reduce the risk of errors and increase the reliability of the information used to distribute Federal highway program funds to the States. State motor-fuel data reported to the Federal Highway Administration (FHWA) is used as an apportionment factor in Federal-aid Highway funds distribution.

### RELATED STRATEGIC OBJECTIVE: MOBILITY

A June 2000 Government Accountability Office (GAO) Study stated that there was little assurance that the Federal-aid Highway funds distributed to the States were sufficiently accurate. The GAO made the following recommendations to FHWA as a means of increasing accuracy:

- Perform detailed oversight verifications of motor fuel data used in process;
- Fully document the current methodology;
- Conduct an independent review;
- Evaluate the potential reliability of the Internal Revenue Service (IRS) *Excise Files Information Retrieval System* (ExFIRS) data as a tool to verify validity of State data.

FHWA agreed with the above recommendations and set out an action plan to achieve the results.

The scope of the evaluation was comprehensive with every aspect of the motor fuel reporting and attribution process in every State being evaluated. High-risk areas and FHWA internal processing were given the highest priorities. Continuous process improvement model was the single most prominent feature of the evaluation design. Other methods included zero defect processing, modeling, and comparison of State data sets with Treasury results. FHWA found through a reassessment that its basic attribution process was sound but in need of updating. It set out a multi-pronged action plan that included outreach and data-provider training to improve accuracy.

With one exception, FHWA and GAO have agreed that all action plan items and milestones were met. The exception concerns a comparison of Internal Revenue Service (IRS) ExFIRS data set with FHWA State-reported data set. The Agency is currently working with the IRS to resolve this issue.

## EVALUATION OF FEDERAL HIGHWAY ADMINISTRATION (FHWA) INTELLIGENT TRANSPORTATION SYSTEMS (ITS) DEPLOYMENT

The ITS program oversees the deployment and use of ITS technology to improve transportation on Federal, State and local highways, including private vehicular traffic as well as transit and commercial vehicle operations.



#### **RELATED STRATEGIC OBJECTIVE: MOBILITY**

The ITS deployment tracking program is intended to track the integration of ITS technology in major metropolitan areas. This is accomplished by tracking deployment outputs, including numbers of systems deployed, percentage of roadway miles under instrumentation, and percentage of vehicle fleets instrumented, as well as integration between key metropolitan agencies.

Data for the process evaluation are gathered through surveys of transportation agencies in the 75 largest metropolitan areas. A score is assessed for each ITS deployment based on five key areas: freeway, arterial, transit, public safety, and traveler information. An integration score is determined based on evaluation of real-time integration between freeway, arterial, and transit agencies. The deployment and integration rankings are combined into a single ranking of high, medium, or low for each metropolitan area. The overall goal is for each of the 75 metropolitan areas to achieve a ranking of medium or high by CY 2005.

The most recent rankings report was published in December 2004. The FY 2004 survey results indicated that a total of 62 areas achieved a medium or high level of deployment, six short of the 68 target. The final 2005 results will be published in May 2006.

In September 2005, the Government Accountability Office published report GAO-05-943, *Intelligent Transportation Systems' Promise for Managing Congestion Falls Short, and DOT Could Better Facilitate Their Strategic Use*. The report found that progress has been made toward achieving DOT's deployment goal, but DOT's goal and measures have limitations and fall short of capturing ITS's impact on congestion. In addition, the measures do not capture the extent to which deployed ITS technologies are effectively operated. DOT noted in their response to this report that the recently passed SAFETEA-LU legislation repealed the ITS integration deployment program. Therefore, DOT will no longer update ITS program goals.

#### **EVALUATION OF THE EFFECTIVENESS OF FHWA DESIGN-BUILD CONTRACTING**

Design-build is an optional contracting mechanism that enables the design and construction of highway projects to be let in a single contract to one vendor in order to save time and money on highway construction. The *Transportation Equity Act for the 21st Century* (TEA-21) authorized the use of this approach; a final rule was issued effective January 2003.

#### **RELATED STRATEGIC OBJECTIVE: MOBILITY**

TEA-21 required the FHWA to evaluate the suitability of this project procurement and delivery technique for States engaged in highway capital projects. The FHWA examined highway and bridge capital projects, particularly those involved in the Special Experimental Project No. 14 Innovative Contracting (SEP-14) program; developed lessons learned from other types of capital projects, including other modes and industries; and considered the perspectives of both project sponsors and stakeholders.

The objectives of the comprehensive National impact evaluation were to:

- Compare the effect of design-build contracting on project delivery vis-à-vis the traditional design-bid-build approach;
- Determine the appropriate level of design for design-build procurements;



- Assess the impacts of design-build contracting on small business, particularly small contractors and design firms;
- Assess the variation, use, and fairness of cost and non-cost factors used in the award of contracts; and
- Recommend concerning design-build contracting procedures and implementation approaches.

The FHWA prepared a draft Report to Congress on the Assessment of Design-Build Contracting in July 2005. The Report, which is under Departmental review, concludes that the design-build approach saves time in the project delivery process. However, the results are inconclusive regarding cost savings. In addition, there was no appreciable difference between design and construction quality between the traditional design-bid-build method and the design-build method. The study also found that the preliminary design included in the request-for-proposal document should be advanced to no more than a 30 percent design level to assure an efficient use of resources in the project delivery process. The impact of design-build on small firms was inconclusive. Overall subcontracting levels were noted to be similar when comparing design-bid-build with design-build. Cost and non-cost factors were increasingly being used in the award of design-build contracts.

### **EVALUATION OF FHWA INNOVATIVE BRIDGE RESEARCH AND CONSTRUCTION (IBRC) PROGRAM**

The Innovative Bridge Research and Construction (IBRC) Program was authorized under TEA-21. The legislation made funding available to the States for projects to demonstrate the application of innovative materials relating to repair, rehabilitation, and construction of bridges and other highway structures. The program has two main components:

- Funds for repair, rehabilitation, replacement or new construction of bridges and other highway structures using innovative materials; and,
- Support for research and technology transfer activities related to the program's goals.

#### **RELATED STRATEGIC OBJECTIVE: MOBILITY**

The IBRC program is essentially a discretionary bridge construction grant program to the States. The process evaluation examined the rate of usage by the States, the effectiveness of the program, and the feasibility and desirability of continuing it in future legislation. A summary assessment of the IBRC program was conducted in 2005, in accordance with the provisions of 23 U.S.C. 503(b).

This program was fully funded at \$20 million for construction and \$1 million for research during 1998–2005. Of the 92 proposals received in FY 2004, 60 projects were awarded totaling \$18.8 million in 41 States, the District of Columbia, and the Commonwealth of Puerto Rico. The States must now execute the contracts related to these project awards and report the results from their construction and in-service performance monitoring programs. A total of 102 project proposals were received from 41 States and the Commonwealth of Puerto Rico in FY 2005. The proposals are currently being reviewed.

The IBRC has been effective in developing and deploying new bridge technologies. Almost all States are now using High Performance Concrete (HPC) regularly in projects. High performance steel technology has also moved into conventional practice. Fiber reinforced polymer (FRP) composites are more popular applications for bridge deck replacements. About 125 bridge projects have been built to date. The use of FRP for repair and strengthening has been fully recognized. Thousands of pier columns were retrofitted



using the FRP technology in States located in high seismic zones. Stainless steel or galvanized steel reinforcement is being employed for bridge deck construction. In 2004, the program was expanded to include prefabricated bridges and few projects were selected to demonstrate its effectiveness on rural bridges.

Funding for the IBRC was continued in SAFETEA-LU with a new set-aside for high performance concrete bridge technology research. In addition, several new initiatives that address bridge life and performance were funded including Long-term Bridge Performance, High Performing Steel Bridge Research and Technology Transfer, and Steel Bridge Testing.

### **FHWA'S 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 with an appraisal of highway, bridge and transit physical conditions, operational performance, financing mechanisms, and future investment requirements.

#### **RELATED STRATEGIC OBJECTIVES: SAFETY, MOBILITY, ENVIRONMENT, GLOBAL CONNECTIVITY, SECURITY, & 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 *C&P Report* consolidates conditions, performance, and finance data provided by States, local governments, and transit operators to provide a National summary. The highway investment requirements in the *C&P Report* are developed in part from the *Highway Economic Requirements System* (HERS), 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. 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, improves operating performance, and expands transit systems to address the growth in travel demand and evaluates these needs to select future investments. The 2004 version of the *C&P Report* was completed in December 2004. The DOT will release it upon review and approval by the Office of Management and Budget.

### **EVALUATION OF MARAD'S SHIP DISPOSAL PROGRAM**

The Maritime Administration (MARAD) has more than 100 obsolete and deteriorating ships awaiting disposal that pose potentially costly environmental threats to the waterways near where they are stored. Congress, in 2000, mandated that MARAD dispose of them by September 30, 2006. While MARAD has various disposal options available, each option is complicated by legal, financial, and regulatory factors.

#### **RELATED STRATEGIC OBJECTIVE: ENVIRONMENTAL STEWARDSHIP**

MARAD's ship disposal evaluation, originally scheduled for completion in FY 2004, was re-scheduled for FY 2005. However, the planned DOT evaluation yielded to an evaluation that was being conducted by the GAO on the same ship disposal effort. GAO reviewed the ship disposal program and published a report on March 7, 2005 titled *Maritime Administration: Improved Program Management Needed to Address Timely Disposal of Obsolete Ships*, report number: GAO-05-264.



The GAO study concluded that MARAD is unlikely to meet its statutory deadline of September 30, 2006. As of September 2004, MARAD had disposed of 18 ships from its inventory, with over 100 ships left to dispose of by the deadline. MARAD's slow progress is due to not having a comprehensive management approach, which could address the myriad of environmental, legal, and regulatory challenges that the program faces. MARAD's approach lacks an integrated strategy with goals, milestones, performance measures, and a mitigation plan for overcoming anticipated impediments. In the absence of this comprehensive approach, MARAD's ship disposal program lacks the vision needed to sustain a long-term effort. Consequently, MARAD has not been able to assure Congress that it can dispose of these ships in a timely manner to reduce the threat of a costly environmental event, nor has it clearly articulated what additional congressional assistance, such as funding, may be needed.

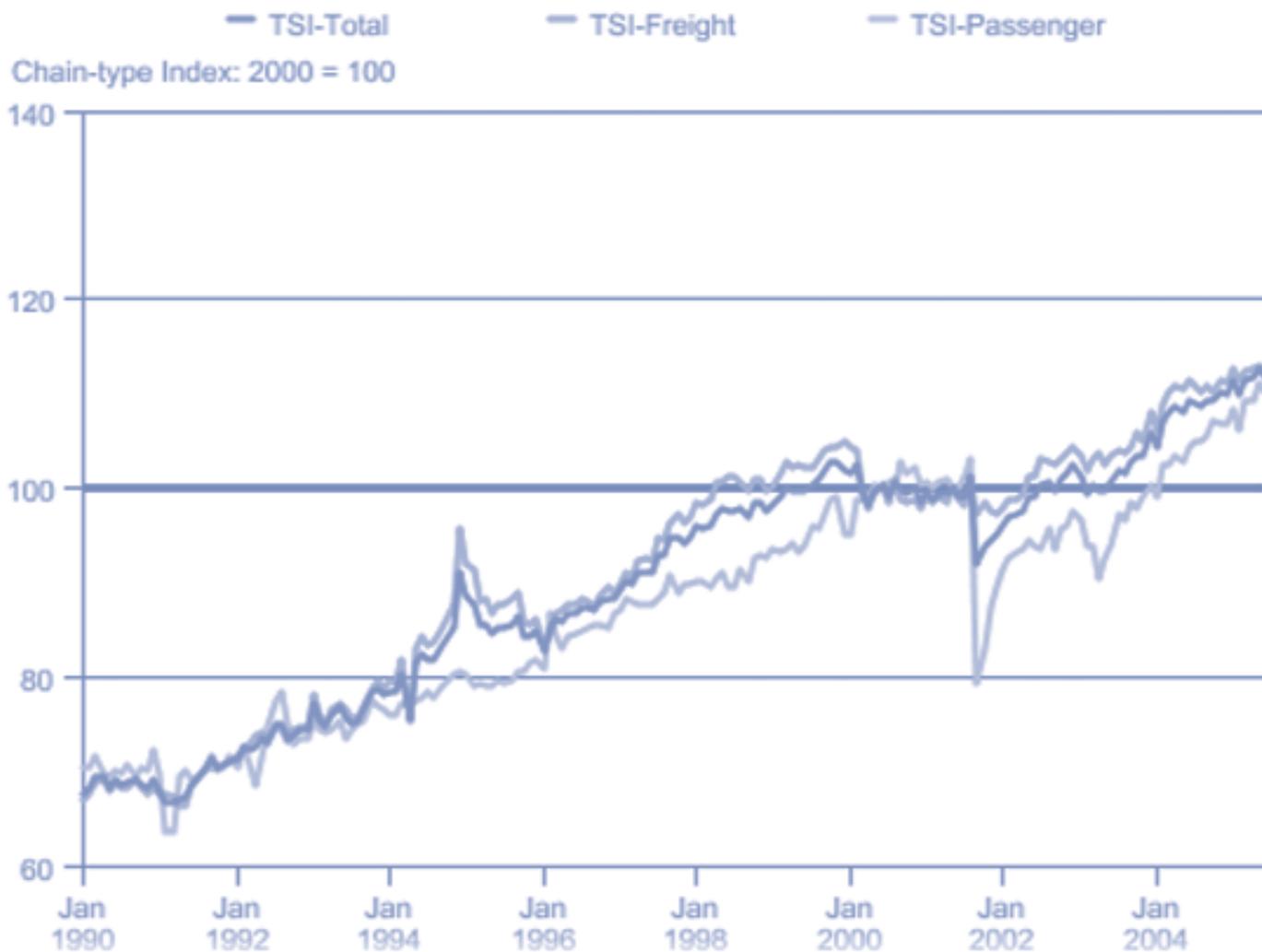
In addition the study found that since FY 2002, MARAD had relied on an inappropriate procurement method—Program Research and Development Announcements (PRDAs)—to acquire ship scrapping services. Federal acquisition regulations dictate that PRDAs may only be used for contracting for research or development efforts.

To address the GAO findings, MARAD has taken the following steps:

- To improve program management, MARAD has developed and implemented additional performance measures that more completely cover all aspects of the program; and,
- MARAD has ceased using PRDAs as a contract procurement method for ship disposal efforts and has developed a draft Ship Disposal Comprehensive Management Plan (CMP) that will be finalized in the first quarter of FY 2006.

Further follow-up efforts by MARAD will be evaluated by OMB in FY 2006 when the program is scheduled to undergo a Program Assessment Rating Tool (PART) evaluation.

Jan 1990 - Jun 2005 (Seasonally Adjusted)



# FINANCIAL REPORT



# **CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2005 AND 2004**

*Department of Transportation*

*Report Number: FI-2006-014*

*Date Issued: November 15, 2005*



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 2005 and 2004, DOT FI-2006-014

Date: November 15, 2005

From: Kenneth M. Mead  
Inspector General 

Reply to  
Attn. of: JA-20

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) 2005 and 2004 (see attachment). This is the fifth year in a row that the Department has received an unqualified, or clean, opinion. The clean opinion signals to financial statement users that they can rely on the information presented, including the use of appropriated funds, the amount of outstanding obligations, expenditures made during the year, and costs by major program. It signals to the public that the Department can properly account for its revenues, expenditures, assets, and liabilities. Under contract to us and under our supervision, KPMG LLP also audited the Federal Aviation Administration's (FAA) financial statements and Clifton Gunderson LLP audited the Highway Trust Fund (HTF) financial statements. Their audit reports also expressed clean opinions.

The Department's ability to provide audited financial statements in time to meet the Office of Management and Budget's accelerated deadlines and get a clean opinion would not have occurred without your emphasis and commitment to improving financial management practices, along with that of the Operating Administrators and your senior leadership team. Your attention to this area from day one has moved the Department from the days of an obsolete accounting system and disclaimed or qualified audit opinions, to a modern Department-wide financial management system and the unqualified opinion in the attached report.

Generating timely, reliable, and useful financial information is no small task because DOT is a complex organization that is accountable for substantial resources. DOT's FY 2005 Financial Statements show assets of \$66 billion, liabilities of \$13 billion, program costs of \$57 billion, and available financial



resources of \$114 billion. In FY 2005, DOT received appropriations (revenue) of about \$62 billion. About \$49 billion, or about 79 percent of DOT's revenue, came from two trust funds, the HTF and the Airport and Airway (Aviation) Trust Fund, which are supported by passenger, fuel, and user taxes.

To put the size of our organization into perspective, DOT would rank among the top 20 corporations in America, based on revenues. In 2004, Bank of America ranked number 18 among U.S. corporations, with revenues of \$63 billion, and State Farm Insurance Companies ranked number 19, with revenues of \$59 billion. Other corporations of similar size include J.P. Morgan Chase, Kroger, and Pfizer. As for assets, DOT would also rank among the top 20 corporations but for the fact that other than the Air Traffic Control system, DOT assets do not include the billions of dollars we spend each year on highways, bridges, and airports. Those assets do not show up on our books because they are grants to states and municipalities, but we nonetheless remain accountable for those investments.

In addition to ensuring that DOT's books balance at the end of the year, our audit also looks at management and financial controls. These controls are important not just to balance the books on time, but also to improve management's ability to deliver the best value with the resources entrusted to the Department. The Operating Administrations have also made substantial progress in strengthening management controls and providing better oversight of resources. However, our audit shows that they still have a way to go to measure up to what is expected at large publicly held corporations—especially following implementation of the Sarbanes/Oxley Act.

In this regard, our report identifies three financial management matters that KPMG, Clifton Gunderson, and we consider material and several other reportable matters that are significant but not material. The material matters are that (1) FAA needs to process transactions and reconcile its accounts in a more timely manner; (2) the Federal Highway Administration (FHWA) needs better processes to support management's preparation of reliable financial statements during the year and at year-end; and (3) FHWA needs to strengthen its grants management and oversight practices, particularly at the Division Administrator and state DOT levels.

We believe FHWA and FAA have plans underway that, if implemented on a sustained basis during FY 2006, will result in these areas not being material next year. Addressing each area will position the Department to do the following:

- **Reauthorize aviation programs.** A central issue in the upcoming reauthorization is certain to be FAA finances, including who should pay for the services FAA provides and in what amounts, what the next generation air traffic control system will consist of, and how much it will cost. The ability to generate timely, reliable, and detailed financial information will be important to track the actual costs of providing services and to allocate these costs by unit of services delivered.



- **Address highway and aviation trust fund revenue shortfalls.** FAA faces financial challenges in the near term and FHWA faces financial challenges in the longer term, as revenues fail to keep up with growing demands for transportation investments. Better financial information can help DOT and the Congress better anticipate and deal with funding shortfalls.
- **Oversee transportation projects.** The Department, and FHWA in particular, has a responsibility to ensure that we get the best return on transportation investments, including preventing losses to fraud, waste, and abuse, and detecting them when they do occur. Improved FHWA processes, especially at the Division Office level, are important to provide assurance that the states are adequately overseeing federal aid projects.

Set forth below are the three areas we consider material and for which the Operating Administrations plan corrective actions:

- **Process transactions and reconcile accounts at FAA in a timely manner.** Problems implementing Delphi and a new procurement system adversely affected FAA's ability to process transactions and reconcile account balances in a timely manner. As a result, FAA needed to make adjustments totaling over \$2 billion to make its year-end financial statements reliable. FAA needs to address this issue so that it can make maximum use of its new cost accounting system, on which it has made significant progress this year. Detailed facility-level cost accounting information will also provide an important tool that managers can use to control operating and capital investment costs.

Further, the Air Traffic Organization will need to interface more effectively with the FAA Chief Financial Officer during the year, since much of the delay in processing transactions was the responsibility of Air Traffic Organization officials. To illustrate, because Air Traffic officials did not properly record assets when they were placed into service during the year, FAA's Chief Financial Officer had to make about \$1.3 billion in adjustments at the end of the year.

- **Improve financial accounting processes at FHWA.** Since FY 2003, we have reported that material deficiencies existed in internal controls over financial management and reporting activities in the HTF agencies. FHWA leadership deserves a great deal of credit, in response to your emphasis on this area, for initiating improvements in FY 2005. However, largely because many improvements were initiated late in the year (July 2005), they were not in effect for enough time to overcome the accounting problems.

As a result, FHWA officials had to undertake extraordinary efforts to prepare reliable financial statements at the end of the year. Some adjustments should be expected to any year-end statements, but in this case, FHWA needed to make over \$16 billion in audit adjustments to make the financial statements reliable. A closely



related matter was that FHWA needed to make many of those adjustments to make sure that costs were properly allocated to the various FHWA programs. However, I want to emphasize that this process went much more smoothly this year and necessary adjustments were far fewer than what was required last year.

- **Improve FHWA grants oversight practices.** Last year, we reported that FHWA needed to establish stronger financial and cost controls to ensure that grant funds are used effectively and are protected from fraud, waste, and abuse. To strengthen its oversight, in April 2005, FHWA initiated the Financial Integrity Review and Evaluation (FIRE) program. FIRE requires each FHWA Division Office to establish a comprehensive oversight program to include reviews of state grants management processes, Federal-aid billings, inactive obligations, and administrative processes. However, largely due to the late start, the FIRE program was not in place long enough to be substantially implemented by the end of the year, and FHWA's own implementation schedule calls for the program to be fully implemented in FY 2006.

We believe the FIRE program is both sound and comprehensive. To illustrate its potential to improve FHWA oversight, this year for the first time, FHWA was able to free hundreds of millions of dollars that have sat idle for years on completed, canceled, or modified highway projects. This year, we estimated that about \$660 million in unneeded obligations could be freed and used on active projects. FHWA Division Offices, under the FIRE program, identified and deobligated over \$750 million by the end of the year. The single most important key to success for the FIRE program will be ensuring that Division Administrators in the field implement the program in accordance with FHWA's schedule. While progress with FIRE can be monitored and overseen by Headquarters here in Washington, the fact is that the work must actually be done in the field and at state DOTs and that is why the Division Administrators will be the key to FHWA's success.

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, KPMG, and Clifton Gunderson representatives. If we can answer any questions, please call me at (202) 366-1959 or Ted Alves, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1992.

Attachment



**DEPARTMENT OF TRANSPORTATION  
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT  
ON THE DEPARTMENT OF TRANSPORTATION  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR FISCAL YEARS 2005 AND 2004**

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, 2005, and September 30, 2004. In our audit, "DOT Consolidated Financial Statements for Fiscal Years 2005 and 2004," we found:

- Financial statements that are fairly presented, in all material respects, in conformity with generally accepted accounting principles.
- Three material internal control weaknesses: timely processing of transactions and reconciliation of accounts for the Federal Aviation Administration (FAA), financial management and reporting for Highway Trust Fund agencies,<sup>1</sup> and financial oversight of highway grants; and six reportable conditions: reconciling intragovernmental transactions, financial system controls, DOT's information security program, the Maritime Administration's (MARAD) oversight of Title XI loan guarantees, FAA contract management, and FAA grants management.
- Instances of noncompliance with the Federal Financial Management Improvement Act of 1996, the Anti-Deficiency Act, the Federal Managers' Financial Integrity Act, the Government Performance and Results Act, and the FAA Franchise Fund Enabling Legislation.
- Financial information in the Management Discussion and Analysis was materially consistent with the financial statements.
- Supplementary and stewardship information was consistent with management representations and the financial statements.

We performed our work in accordance with Generally Accepted Government Auditing Standards and Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements." The following sections discuss these conclusions. Our audit objectives, scope, and methodology can be

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<sup>1</sup> Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, and Federal Motor Carrier Safety Administration.



found in Exhibit A. We believe that our audit provides a reasonable basis for our opinion.

### **A. UNQUALIFIED OPINION ON FINANCIAL STATEMENTS**

In our opinion, the 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, 2005, and September 30, 2004, and for the years then ended.

Under contract with OIG and under our supervision, KPMG LLP audited the financial statements of FAA as of and for the years ended September 30, 2005, and September 30, 2004. KPMG rendered an unqualified opinion on the FAA financial statements. Also under contract with OIG and under our supervision, Clifton Gunderson, LLP audited the financial statements of the Highway Trust Fund (HTF) as of and for the years ended September 30, 2005, and September 30, 2004. Clifton Gunderson rendered an unqualified opinion on the HTF financial statements. In addition, under contract with OIG and under our supervision, Williams, Adley & Company, LLP audited the Balance Sheets of the Office of the Secretary Working Capital Fund (WCF) and the Volpe National Transportation Systems Center as of September 30, 2005. Williams Adley rendered an unqualified opinion on the WCF and Volpe Balance Sheets. We performed a quality control review of the work performed by KPMG and Clifton Gunderson, and relied on their results in performing our work on the FYs 2005 and 2004 DOT Consolidated Financial Statements.

As discussed in note 18, the accompanying financial statements reflect actual excise tax revenues deposited in the HTF and the Airport and Airways Trust Fund through March 31, 2005, and excise tax receipts estimated by the Department of the Treasury Office of Tax Analysis for the two quarters ended June 30, 2005, and September 30, 2005.

As discussed in note 19, DOT restated the FY 2004 Statement of Budgetary Resources to properly report its FY 2004 budget authority for the Highway Trust Fund and the FHWA Transportation Infrastructure Finance and Innovation Act. We audited these adjustments and concluded that they were appropriate and properly applied.



## **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 01-02 audit guidance, not to express an opinion on internal controls.

For the controls we tested, we found three material weaknesses. A material weakness is a reportable 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 six 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 amounts reported in the DOT Consolidated Financial Statements. 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 FAA Transactions and Reconciliation of Accounts**

Last year, FAA faced problems implementing Delphi and a new procurement system, but its financial managers were able to isolate and keep the problems contained. During FY 2005, the problems became more severe and adversely affected FAA's ability to process transactions and reconcile accounting balances in a timely manner. FAA needs to improve processes and controls to ensure that property plant and equipment is consistently and accurately capitalized, obligations are recorded in a timely manner, advances and prepayments are supported, suspense accounts are cleared in a timely manner, abnormal balances in budgetary to proprietary account relationships are investigated, and subsidiary systems and supporting documentation are reconciled to general ledger balances. Consequently, FAA's interim financial statements were not reliable and FAA needed to make adjustments totaling more than \$2.0 billion to the draft FY 2005



financial statements in order to make them reliable. FAA officials have committed to correct the problems during FY 2006.

**Capitalizing Property Plant and Equipment.** FAA did not have effective processes to capitalize headquarters-based projects in a timely manner. KPMG found that 131 of 142 property items tested (92 percent) were not capitalized within 30 days after the item was placed in service. Property placed in service during the year remained classified as “construction in process” in the accounting records, causing errors in the financial statements, including an understatement of depreciation expense of \$83 million. To correct the problem for year-end reporting, FAA capitalized about \$1.1 billion during September and another \$180 million in October.

**Recording Obligations.** FAA Southern Region procured services from a contractor related to hurricane disaster mission assignments received from FEMA, and did not record the obligation and did not confirm that funding was available. Obligations totaling more than \$222 million were not recorded at year-end, of which funding was available for only \$60 million, but the FAA and DOT Counsels determined that FAA did not violate the Anti-Deficiency Act.

**Supporting Advances and Prepayments.** FAA had advances and prepayments of \$24.8 million related to activity prior to October 2003 that was unsupported.

**Clearing Suspense Accounts.** FAA did not clear transactions held in suspense until after year-end. KPMG reported that the FAA suspense account balance was \$235.2 million at June 30, 2005; and 347.8 million at August 31, 2005, of which \$193.8 million was more than 60 days old.

**Reconciling Budgetary to Proprietary Accounts.** FAA has not established effective processes to investigate the cause of abnormal balances and budgetary to proprietary account discrepancies. In March 2005, FAA identified discrepancies in excess of \$600 million between certain proprietary and budgetary accounts, and these discrepancies existed throughout the year. FAA did not take action to fix these discrepancies until October 2005, and the resolution required substantial manual effort during the yearend closing process. In addition, FAA did not link the cause to a Delphi transaction posting error until after yearend, more than 9 months after they discovered the out-of balance condition.

**Reconciling Subsidiary Systems General Ledger Balances.** FAA did not perform timely reconciliations of subsidiary systems and supporting records to the Delphi general ledger balances. Consequently, FAA’s financial statements were not accurately and completely supported by detailed records during the year. For example, five of the seven subsidiary reconciliations that should have been



performed were not completed by June 30, 2005, 9 months after the beginning of the fiscal year. The differences were as much as \$122 million during the year.

Consequently, FAA was unable to prepare reliable financial statements in a timely manner during the year and at yearend. After material adjustments to year-end balances totaling more than \$2.0 billion, complete and accurate financial statements were not available until late October, or 4 weeks after the end of the fiscal year. Due to the requirement to submit audited financial statements 45 days after year-end, FAA's ability to meet this deadline in future years is questionable without substantial changes to FAA's processes and controls over recording transactions and reconciling accounts throughout the year.

KPMG made a series of recommendations to FAA to improve the processing of transactions and reconciliation of accounts in its financial statement audit report, dated November 8, 2005. FAA agreed to implement the recommendations, so we are not making additional recommendations in this report.

### **HTF Agencies' Financial Management and Reporting Activities**

Since the audit of the FY 2003 HTF financial statements, we have reported that material deficiencies existed in internal controls over financial management and reporting activities in the HTF agencies. While FHWA began making organizational and procedural improvements during FY 2005, many of the improvements were initiated too late in the year and were not in effect for sufficient time to overcome the accounting problems that existed in prior years. In addition, extraordinary efforts were again needed to prepare the HTF financial statements during the year and at September 30, 2005. The remaining deficiencies to be overcome include (1) financial statement preparation and analysis, (2) resolving reconciliation differences during the year, (3) implementing managerial cost accounting, (4) tracking intragovernmental transactions, and (5) linking the FACTS II (Federal Agencies Centralized Trial-Balance System) reporting to the financial statement preparation process.

Clifton Gunderson reported that during FY 2005, FHWA began to reorganize and refocus its accounting functions at the management and staff levels. Clifton Gunderson commended FHWA for the improvements made during FY 2005 and their commitment to continue to improve the accuracy and timeliness of financial reporting. Some of the improvements made by FHWA during FY 2005 include (1) the automation of the Statement of Budgetary Resources and Statement of Financing, (2) expanded monitoring of the Treasury Statement of Differences, (3) expanded review and analysis of the September 30, 2005 financial statements, including involvement of program and division office personnel, (4) correcting child allocation accounts and transactions in the general ledger in September 2005,



(5) refining the grants reconciliation processes and reducing the differences between the subsidiary and general ledgers, and (6) involving budget personnel in the preparation of the Statement of Budgetary Resources.

However, Clifton Gunderson reported that deficiencies continued to exist in the internal control structure in the HTF agencies that ultimately prevented management from preparing accurate and timely financial statements during FY 2005. Certain components of the financial statements prepared during the year were not reliable, many matters were not resolved until the end of the year, and account discrepancies remained at September 30, 2005. The resolution of these discrepancies during the audit process resulted in material adjustments to the draft financial statements provided for audit in October 2005. Clifton Gunderson reported that improvements are need in the following areas.

**Financial Statement Preparation and Analysis.** HTF agencies' financial statement preparation and analysis process continued to be manually intensive because of the top-side non-standard journal entries needed to correct data in the accounting system. During FY 2005, HTF agencies posted hundreds of adjustments with an absolute value of \$425 billion, several of which were posted in the fourth quarter. The volume and amount of these adjustments suggest that the system is not working properly to accurately capture financial events at the transaction level at the time the transaction occurs. This manually intensive process has a high risk of error, is time consuming, and utilizes resources that should be spent on the analysis of the financial statements. In addition, the analysis of the HTF financial statements through June 30, 2005 was inadequate, and the relationships between proprietary and budgetary accounts were not adequately analyzed during the year or at year-end. Audit adjustments exceeding \$16 billion were made to the draft financial statements provided for audit.

**Resolving Reconciliation Differences.** While Clifton Gunderson reported improvements since last year, certain reconciliation differences were not resolved in a timely manner. Several deficiencies continued with the Fund Balance With Treasury, including reconciliations of parent and child allocation accounts, and aging, supporting, and reporting suspense account balances. The absolute value of the suspense accounts was \$467 million at September 30, 2005. Unreconciled differences continued between the grants subsidiary ledger and the general ledger by as much as \$578 million in absolute value. Finally, the HTF agencies recorded a significant number of adjustments in net position and budgetary accounts during the year resulting from nonexpenditure transfers and budgetary account reconciliations.

**Implementing Managerial Cost Accounting.** The HTF agencies did not have a cost accounting system in place to allocate costs to their programs. As a result, the



HTF agencies could not prepare a Statement of Net Cost or corresponding footnote in accordance with OMB requirements.

**Tracking Intragovernmental Transactions.** The HTF agencies did not consistently reconcile and eliminate intragovernmental transactions during FY 2005, and could not adequately support the Trading Partner schedule included in the HTF financial statements.

**Linking FACTS II Reporting to the Financial Statements.** The HTF agencies did not have a system in place to ensure that erroneous accounts are reviewed and corrected prior to the preparation of draft the financial statements.

Clifton Gunderson made a series of recommendations to improve financial management and reporting activities in its financial statement audit report, dated November 8, 2005. The DOT CFO agreed with the recommendations. Therefore, we are not making additional recommendations in this report.

### **Financial Oversight of Highway Grants**

Last year, we reported that FHWA and the Federal Transit Administration (FTA) needed to establish stronger financial and cost controls to better ensure that grant funds are protected from fraud, waste, and abuse. FHWA and FTA have both implemented improved procedures and controls over grants during FY 2005. For example, FHWA initiated the Financial Integrity Review and Evaluation (FIRE) program in March 2005, and FTA instituted sufficient improvements in its oversight of transit grants to not to be included in the material weakness this year. However, FHWA needs to continue to improve its financial oversight of highway grants.

FHWA announced and started implementing its FIRE program in April 2005. FIRE requires each FHWA Division Office to establish a comprehensive oversight review program to include reviews of state grant management processes, Federal-aid billings, inactive obligations, and administrative processes. Partial FIRE reviews were to be completed for FY 2005, and FY 2006 will be the first complete year reviewed. During the FY 2005 audit, Clifton Gunderson reported that FHWA had not fully developed a mechanism to determine whether the Division Offices are consistently following the FIRE requirements, and controls to monitor, assess, and validate the Division Offices' implementation of FIRE. FHWA developed a timeline to fully implement FIRE by September 30, 2006.

Clifton Gunderson also reported that FHWA may still have a number of inactive grant projects as of September 30, 2005. They reported that FHWA had 1,542 undelivered orders more than a year old at a total value of \$42.2 billion. However, our review of inactive obligations in 14 states during FY 2005



concluded that FHWA had made significant progress in freeing up idle funds for other transportation projects. While we reported that an estimated \$661 million in idle funds existed nationwide, in commenting on our draft report, FHWA informed us that \$757 million would be deobligated nationwide. We commended FHWA for working aggressively with the states to provide more effective oversight of Federal funds, but reminded FHWA they needed to continue working with the states to institutionalize the processes to identify and release unneeded funds.

Clifton Gunderson made a series of recommendations to improve financial oversight of highway grants in its financial statement audit report dated November 8, 2005. The DOT CFO agreed with the recommendations. Therefore, we are not making additional recommendations in this report.

## **REPORTABLE CONDITIONS**

Reportable conditions, although not considered material weaknesses, represent significant deficiencies in the design or operation of internal controls that could adversely affect the DOT consolidated financial statements.

### **Intragovernmental Transactions**

Since the audit of the FY 2003 DOT Consolidated Financial Statements, we have reported a material weakness in the DOT processes and procedures to reconcile transactions among its Operating Administrations, and its transactions with other Federal agencies. Last year we reported that while DOT had made progress during FY 2004, DOT did not have an effective process for reconciling transactions with other Federal agencies and among its Operating Administrations. DOT made significant progress during FY 2005 in reconciling its intragovernmental transactions with its trading partners, but additional efforts are still needed. This issue is being downgraded from a material weakness to a reportable condition in FY 2005.

While DOT established a new reimbursable agreement reconciliation process in FY 2005, DOT did not fully eliminate its intragovernmental activity within DOT in the FY 2005 DOT Consolidated Financial Statements. We found intra DOT activity of \$402 million (\$293 million in assets and \$109 million in nonexchange revenue) that was not eliminated in the DOT Consolidated Financial Statements.

The DOT CFO has advised that the Office of Financial Management will continue working with the Operating Administrations to implement new processes and procedures, and anticipates completing all corrective actions during FY 2006. Therefore, we are not making additional recommendations in this report.



## Financial System Controls

Last year, we reported a material weakness in DOT financial system controls. 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 2005, DOT made significant progress in improving controls over its financial systems; we therefore believe that its financial control weaknesses should be downgraded to a reportable condition.

While noting progress, however, both independent auditors—KPMG and Clifton Gunderson—found areas needing further oversight. For example, they found that continued management oversight is needed to correct weaknesses in FAA and HTF subsidiary financial systems. According to KPMG, four FAA financial applications had potentially high-risk combinations of duties in which individuals could exceed or abuse their assigned authorities. They also found poor user administration, inadequate system configuration management, outdated change request process documentation, and inadequate system change documentation. In addition, financial application servers were not configured as securely as they should have been.

According to Clifton Gunderson, systems that track HTF grants, which feed information to the Department-wide Delphi financial management system, had weaknesses that could have a material effect on HTF's financial statements. Control weaknesses identified in FHWA and/or FTA financial systems included poor security program planning and management, inadequate program change control, weak logical access controls, lack of business security plans, and inadequate application controls.

KPMG's and Clifton Gunderson's financial statement audit reports, dated November 8, 2005, included recommendations to improve financial system controls. The DOT CFO agreed with the recommendations; therefore, we are not making any additional recommendations.

## DOT Information Security Program

Last year, we reported that DOT had made significant progress in its information technology security program, yet it was still considered a reportable condition. In our fifth annual report on DOT's Information Security Program, issued in October 2005, we reported that while the quality of security certification reviews had improved, the Department still faced a challenge in recertifying systems security while enhancing certification quality. During FY 2005, about 15 percent of DOT systems were overdue for recertification.



DOT also needed to better manage correction of systems security deficiencies: it had about 3,000 weaknesses awaiting correction, but management could not effectively prioritize them because the importance of over half—1,600—had not been assessed. Further, DOT needed to enforce implementation of its security configuration policy, ensure that computer network vulnerabilities are corrected in a timely manner, complete deployment of the intrusion-detection system at one Internet connection point, and test contingency plans.

Further, FAA did not take aggressive action to enhance air traffic control systems security. While it committed to completing security reviews of all operational air traffic control systems—at en route, approach control, and airport terminal facilities—within 3 years, and to identifying a cost-effective alternative to restoring essential air service in the event of prolonged service disruption at an en route facility, the agency nonetheless made only limited progress during FY 2005 in fulfilling these commitments.

Finally, we reported that departmental oversight of major systems investments needed to be enhanced; the Department's Investment Review Board needed to perform more substantive and proactive reviews of information technology (IT) investments managed by individual operating administrations. This remains a challenge, especially for air traffic control modernization projects, which account for over 80 percent of the Department's IT budget. This year, the Board reviewed investment projects managed by various Operating Administrations, including FAA. While projects managed by most Operating Administrations have benefited from this oversight, the Board has had little impact on complicated air traffic control projects, which are still experiencing significant cost increases and schedule delays.

We believe that DOT's information security program should remain a reportable condition. We made a series of recommendations to improve the information technology security program, and the Chief Information Officer (CIO) agreed with them. Therefore, we are not making additional recommendations in this report.

### **MARAD Oversight of Title XI Loan Guarantees**

Last year, we reported that (1) the Maritime Administration (MARAD) needed to enforce the requirements that borrowers establish and maintain specified financial reserves to mitigate the risks of noncompliant loans, (2) it lacked the expertise or resolve to effectively address troubled loans, and that (3) its rudimentary financial monitoring system was not adequate to effectively manage its \$3.2 billion loan portfolio. Further, this year, our Top Management Challenges report reiterated the importance of implementing reforms, including development of a computerized database to assess the financial conditions of companies in its portfolio.



MARAD's loan guarantees are designed to assist private companies in obtaining financing for the construction of ships or the modernization of U.S. shipyards—with the Government holding a mortgage on the equipment or facilities financed. Over 25 percent (\$800 million) of the portfolio remains on “Credit Watch,” meaning that it is at an elevated risk of default. MARAD has, however, reduced the proportion of its high-risk loans from 15 percent of total loan value at the end of FY 2004 to 4 percent at the end of FY 2005.

The reforms that we have recommended—timely financial monitoring and tracking of the portfolio and seeking compensating measures to address the increased risk associated with waivers or modifications—are fundamental to proper management and oversight of any credit program. While MARAD has made progress in these areas, it must remain vigilant and continue to closely monitor and manage its loan portfolio through completion of the computerized tracking system, enforcing reserve requirements, and pursuing remedies for any defaults.

### **FAA Contract Management**

According to KPMG, FAA has weaknesses in the management and oversight of cost-reimbursable and support services contracts, two significant vehicles used by the agency to support its National Airspace System (NAS). Specifically, FAA (1) has a backlog of \$318 million in completed contracts awaiting closeout, (2) lacks an adequate tracking system to identify and monitor cost-reimbursable contracts, (3) has not formally analyzed the results of Defense Contract Audit Agency (DCAA) contract audits, and (4) has not consistently followed its own contract administration and procurement policies by awarding some support services contracts with little or no competition.

This situation exists because FAA fell seriously behind more than 5 years ago in its closeout of cost-reimbursable contracts, due to inadequate policies and procedures governing contract management. In fact, in FY 2001, FAA had more than \$6 billion in backlogged contracts awaiting closeout. Since that time, through the use of DCAA and a renewed emphasis on decreasing the contract closeout backlog, FAA has made significant progress—reducing the backlog some 95 percent.

However, according to FAA's own review of the management of its support services contracts, valued at \$1.3 billion, weaknesses exist in its controls to prevent waste, fraud, and abuse. Poor contract management processes increase the risk of undetected violations of appropriations laws, contract clauses, and mismanagement of funds, which could lead to inaccurate financial reporting by the FAA.



KPMG has made recommendations to improve contract management activities, which FAA has agreed to implement. Therefore, we are not making any additional recommendations.

### **FAA Grants Management**

FAA is responsible for establishing and maintaining accounting and internal controls over expenditures related to the Airport Improvement Program (AIP). The program's size, 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.

The DOT OIG has issued ten reports since 2003 detailing revenue diversion, embezzlement, and other malfeasance committed by grant sponsors and related contractors, citing the actual or possible misuse of about \$314 million in airports revenue and funding.

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.

These weaknesses arose from factors including the discretion of regional FAA project managers in determining their level of involvement and oversight. Elements contributing to such decisions include personnel availability, project proximity and complexity, and whether it is considered high profile. Over time, FAA has increased its potentially dangerous reliance on sponsors to provide oversight ("self-certification"), including inspection and fiscal compliance. The agency has, in effect, relegated reliance on internal controls to project sponsors, making them responsible for fiscal integrity and adherence to laws and regulations. Another factor contributing to this trend has been an expansion of AIP without a concomitant increase in regional administrative resources.

KPMG has made recommendations to improve grants management activities, which FAA has agreed to implement. 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 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 (FFMIA)**

Under FFMIA, we must report whether DOT's financial management system substantially complies with Federal requirements and standards in three specific areas. FFMIA requires agencies to produce timely, auditable financial statements based on data from the agency's financial system. KPMG concluded that FAA was not in substantial compliance for the year ended September 30, 2005, because five of its seven 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. For example, four of the five key FAA systems lacked adequate internal controls.

KPMG recommended that FAA resolve the weaknesses noted in the key financial systems used to compile financial statements for FAA.

Given the difficulties that HTF Agencies encountered in generating reliable financial statements in a timely manner, Clifton Gunderson concluded that the systems used by HTF Agencies did not substantially comply with Federal financial management systems requirements, Federal Accounting Standards, and the Standard General Ledger at the transaction level.

#### **ANTI-DEFICIENCY 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 2004 DOT Financial Statements, we reported that FHWA was reviewing four potential violations, in which obligations may have exceeded budget authority by about \$600,000 as of September 30, 2004. We also reported two additional violations



(\$495 million for FHWA and \$77 million for FTA), first reported in 2003 had not been fully resolved.

During FY 2005, Clifton Gunderson reported that all potential violations had been resolved as of September 30, 2005, except the \$5 million violation attributed to FHWA. KPMG reported that FAA had a \$1.9 million violation associated with the Small Community Air Service Development Program. The violation first occurred in FY 2004, was not detected by FAA until FY 2005, and FAA was in the process of reporting the violation to the President and Congress.

### **FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)**

During FY 2004, Clifton Gunderson reported that the HTF agencies, except the Federal Motor Carrier Safety Administration (FMCSA), had not formalized procedures to identify, assess, and monitor management controls. In addition, we found that two other DOT agencies, the Office of the Secretary and the Research and Special Projects Administration (RSPA), likewise had not fully assessed the effectiveness of their management controls under FMFIA.

Clifton Gunderson again reported that during FY 2005, no HTF agencies except FMCSA had formalized procedures to monitor management controls. And again, we found that the Office of the Secretary and the Research and Innovative Technology Administration (RSPA's new entity) had not fully assessed the effectiveness of their FMFIA management controls.

### **GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA)**

GPRA requires agencies to manage their programs efficiently and effectively, based on reliable financial and performance information. To comply, agencies need systems to track costs and allocate them among individual activities, thereby allowing them to measure efficiency and effectiveness. According to Clifton Gunderson, because HTF agencies have not fully implemented managerial cost accounting systems, they could not present the full cost of each program in the Statement of Net Cost for FY 2005. Further, because DOT does not have systems in place to allocate costs by major program, performance measures did not provide cost-effectiveness data and were not linked to the cost of achieving targeted results.



## **FAA FRANCHISE FUND ENABLING LEGISLATION**

The Department of Transportation and Related Agencies Appropriations Act, 1997 requires the FAA Administrative Services Franchise Fund to be paid in advance by its customers, prior to the performance of services. KPMG reported that the FAA Franchise Fund routinely performed work for its customers without being paid in advance. KPMG reported that of the seven lines of business, only the Logistics Center consistently received advanced funding from its customers, and as much as 40 percent of the Franchise Fund work in FY 2005 was performed without advances from their customers. KPMG made recommendations to correct this noncompliance in its financial statement audit report, dated November 8, 2005. FAA agreed to implement the recommendations. Therefore, we are not making additional recommendations in this report.

## ***D. CONSISTENCY OF OTHER INFORMATION***

The Management Discussion and Analysis, required supplementary information (including 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 compared this information for consistency with the DOT Consolidated Financial Statements and discussed the methods of measurement and presentation with DOT officials. Based on this work, we found no material inconsistencies with the DOT Consolidated Financial Statements or nonconformance with OMB guidance. Further, because DOT does not have systems in place to allocate costs by major program, the performance measures did not provide information about cost effectiveness and were not linked to the cost of achieving targeted results or to the Statement of Net Cost.

## ***E. PRIOR AUDIT COVERAGE***

Our report on the DOT Consolidated Financial Statements for FYs 2004 and 2003 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 intragovernmental balances with trading partners. DOT needs to continue to work to improve the accounting for intragovernmental balances. 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 FYs 2004 and 2003, we issued 25 reports related to the DOT Consolidated Financial Statements. These reports are listed in Exhibit C.

The Assistant Secretary for Budget 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 31, 2005.

This report is intended for the information of and use by DOT, the Office of Management and Budget, the Government Accountability Office, and Congress. This report is a matter of public record, and its distribution is not limited.

Kenneth M. Mead  
Inspector General



## EXHIBIT A. OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives for the DOT Consolidated Financial Statements for FYs 2005 and 2004 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 is materially consistent with the information in the principal DOT Consolidated Financial Statements; (5) internal controls ensured the existence and completeness of reported data supporting performance measures; and (6) supplementary, stewardship, and other accompanying information is consistent with management representations and the DOT Consolidated Financial Statements.

DOT is responsible for (1) preparing the DOT Consolidated Financial Statements for FYs 2005 and 2004 in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that broad control objectives of FFMIA are met; (3) ensuring that DOT financial management systems substantially comply with FFMIA requirements; and (4) complying with other applicable laws and regulations.

The OIG is responsible for obtaining reasonable assurance that the DOT Consolidated Financial Statements for FY 2005 and FY 2004 are presented fairly, in all material respects, in conformity with generally accepted accounting principles. 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.

### Exhibit A. Objectives, Scope, and Methodology



- **Performance measures.** Transactions and other supporting data are properly recorded and summarized.

We are also responsible for (1) obtaining sufficient understanding of internal controls over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the DOT Consolidated Financial Statements for FYs 2005 and 2004.

To fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed 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 reported in the Management Discussion and Analysis; and (5) tested compliance with selected provisions of certain laws, including FFMIA.

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 2005. 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, 2004, to July 31, 2005, and attained management's assurance on the effectiveness of the controls through September 30, 2005. 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 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. We also caution that our internal control testing may not be sufficient for other purposes and that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that compliance with controls may deteriorate.

#### **Exhibit A. Objectives, Scope, and Methodology**



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, 2005, and September 30, 2004. 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 01-02, "Audit Requirements for Federal Financial Statements."

#### **Exhibit A. Objectives, Scope, and Methodology**



**EXHIBIT B. STATUS OF PRIOR YEAR'S AND NEW ISSUES**

Prior Year Condition	As Reported 9/30/2004	As Reported 9/30/2005
<p><b>FHWA/HTF: Financial Management and Reporting</b>  <i>Material deficiencies in internal controls over financial management and reporting activities in HTF agencies resulted in the need for extraordinary efforts to prepare FY 2005 financial statements. Progress has been made, yet remaining weaknesses exist in areas including reconciliation of differences, implementing managerial cost accounting, and tracking intragovernmental transactions.</i></p>	<b>Material Weakness</b>	<b>Material Weakness</b>
<p><b>FHWA: Financial Oversight of Highway Grants</b>  <i>Stronger financial and cost controls were needed to better protect grant funds from fraud, waste, or abuse. Improved procedures and controls were instituted in FY 2005, including FHWA's Financial Integrity Review and Evaluation (FIRE) program. It is not clear, however, whether Division Offices are consistently following FIRE requirements, and FHWA must continue to work with the states to institutionalize processes necessary to identify and release unneeded funds.</i></p>	<b>Material Weakness</b>	<b>Material Weakness</b>
<p><b>Intragovernmental Transactions</b> <i>While progress has been apparent, DOT needs to continue implementing new processes for reconciling transactions among its Operating Administrations and with other Federal agencies.</i></p>	<b>Material Weakness</b>	<b>Reportable Condition</b>
<p><b>DOT Financial System Controls</b> <i>In FY 2004 deficiencies were noted in Delphi computer controls and in computer security in several FAA, FHWA, and FTA systems from which Delphi receives financial data. Good progress has been made, yet better computer controls are needed for segregation of duties, user administration, and system configuration management.</i></p>	<b>Material Weakness</b>	<b>Reportable Condition</b>
<p><b>FAA: Timely Transaction Processing and Accounts Reconciliation</b> <i>Problems in implementing Delphi and a new procurement system worsened in FY 2005, affecting FAA's ability to process transactions and reconcile balances in a timely manner.</i></p>		<b>Material Weakness</b>
<p><b>DOT Information Security Program</b> <i>The quality of security certification reviews has improved, but DOT still faces the challenge of recertifying the security of hundreds of systems while enhancing certification quality. Further, over 1,600 of 3,000 security deficiencies that await correction have not yet been prioritized. FAA has not fulfilled its commitment to enhance air traffic control systems security.</i></p>	<b>Reportable Condition</b>	<b>Reportable Condition</b>

**Exhibit B. Status of Prior Year's and New Issues**



<p><b>MARAD Title XI Loan Guarantee Oversight</b> <i>MARAD's financial monitoring system is not up to effectively managing its \$3.2-million loan portfolio, and the agency needs to enforce the requirement that borrowers maintain specified financial reserves. Progress has been made, but more is needed.</i></p>	<p><b>Reportable Condition</b></p>	<p><b>Reportable Condition</b></p>
<p><b>FAA Contract Management</b> <i>FAA's controls over the management and oversight of cost-reimbursable and support services contracts are inadequate to prevent fraud, waste, or abuse. Issues include a closeout backlog, an ineffective tracking system, analysis of contracts performed by DCAA, and inconsistent adherence to its own contract administration and procurement policies.</i></p>		<p><b>Reportable Condition</b></p>
<p><b>FAA Grants Management</b> <i>The program's size, availability of resources, and over-reliance on sponsors has increased its risk of fraud, waste, and abuse. Since 2003, the DOT OIG has cited actual or possible misuse of about \$314 million in airports revenue and funding.</i></p>		<p><b>Reportable Condition</b></p>
<p><b>Delphi Loans</b> <i>Delphi lacked a mechanism for recording anticipated loan repayments, and loans receivable were not reconciled between FHWA and FRA. In FY 2004 DOT established a work group to address accounting for loan activity.</i></p>	<p><b>Reportable Condition</b></p>	<p><b>Management Letter<sup>a</sup></b></p>

<sup>a</sup> Issued by Clifton Gunderson LLP.

**Exhibit B. Status of Prior Year's and New Issues**



**EXHIBIT C. FINANCIAL-RELATED REPORTS**

<b>Subject</b>	<b>Report Number</b>	<b>Date Issued</b>
2003 Assessment of Federal Aviation Administration Cost Accounting System and Practices	FI-2005-010	November 17, 2004
Special-Purpose Financial Statements for Fiscal Year 2004	FI-2005-014	November 18, 2004
Managing Risk in the Federal-Aid Highway Program	MH-2005-012	November 19, 2004
Terminal Modernization: FAA Needs to Address Its Small, Medium, and Large Sites Based on Cost, Time, and Capability	AV-2005-016	November 23, 2004
Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances	FI-2005-017	December 2, 2004
FAA Inactive Obligations	FI-2005-044	January 31, 2005
Accounting for FY 2004 Drug Control	FI-2005-045	February 1, 2005
FHWA Needs to Capture Basic Aggregate Cost and Schedule Data to Improve Its Oversight of Federal-aid Funds	MH-2005-046	February 15, 2005
Office of the Chief Information Officer's Budget	FI-2005-055	March 31, 2005
Status of FAA's Major Acquisitions: Cost Growth and Schedule Delays Continue To Stall Air Traffic Modernization	AV-2005-061	May 26, 2005
Consolidation of DOT Accounting Functions	FI-2005-064	June 17, 2005
FAA's En Route Modernization Program Is On Schedule but Steps Can Be Taken to Reduce Future Risks	AV-2005-066	June 29, 2005
Quality Control Review of the Report On Controls over the Delphi Financial Management System	QC-2005-075	September 2, 2005
Quality Control Review of KPMG's Notice of Finding and Recommendation	QC-2005-076	September 22, 2005

**Exhibit C. Financial-Related Reports**



Report on the Agreed-Upon Procedures: Selected Personnel-Related Cost Items	FI-2005-077	September 27, 2005
Management of Land Acquired Under Airport Noise Compatibility Programs	AV-2005-078	September 30, 2005
Midway Atoll Cost Sharing	FI-2005-079	September 30, 2005
Actions to Prevent Fraud on Cooperative Agreements with Universities	FI-2005-080	September 30, 2005
DOT's Information Security Program	FI-2006-002	October 7, 2005
Quality Control Review of Audited Financial Statements, FY 2005 and 2004, for Saint Lawrence Seaway Development Corporation	QC-2006-009	November 8, 2005
Quality Control Review of Audited Financial Statements, FY 2005 and 2004, for the Federal Aviation Administration	QC-2006-010	November 14, 2005
FHWA Inactive Obligations	FI-2006-011	November 14, 2005
Quality Control Review of Audited Financial Statements, FY 2005 and 2004, for the Highway Trust Fund Agencies	QC-2006-012	November 15, 2005
Quality Control Review of Audited Balance Sheet, September 30, 2005, FAA Franchise Fund	QC-2006-013	November 15, 2005
Top Management Challenges	PT-2006-007	November 15, 2005

**Exhibit C. Financial-Related Reports**



## **APPENDIX. ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS/CHIEF FINANCIAL OFFICER RESPONSE TO AUDIT REPORT**

MEMORANDUM TO: Kenneth M. Mead  
Inspector General

FROM: Phyllis F. Scheinberg *Phyllis F. Scheinberg*  
Assistant Secretary for Budget and Programs/CFO

SUBJECT: Management Response – Report of the Inspector General (IG) on the Consolidated Financial Statements for Fiscal Years (FY) 2005 and 2004

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for FYs 2005 and 2004. For the fifth consecutive year we have achieved an unqualified audit on the Consolidated Financial Statements.

We concur with the three material weaknesses and six reportable conditions contained in your report. Corrective actions have already been initiated to address several of these matters, especially in regards to financial management. The Department plans to submit a detailed Action Plan no later than December 31, 2005, to address the findings contained in your report. Our Action Plan will also address the findings contained in the Audits of the following entities listed below:

- The Highway Trust Fund,
- The Federal Aviation Administration (FAA),
- The FAA Franchise Fund,
- The Department's Working Capital Fund, and
- The Research and Innovative Technology Administration,  
John A. Volpe National Transportation Systems Center.

We generally agree with the recommendations listed in these reports and will utilize them to develop corrective action measures.

The achievement of an unqualified audit opinion was accomplished through the joint efforts of your staff, contract auditors and the financial staffs of the Operating Administrations. We will work with our Operating Administrations and the various audit groups to ensure that the Department continues to take steps to improve Financial Management.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff and your contractors during the course of the audit.

**Appendix. Assistant Secretary for Budget and Programs/Chief Financial Officer Response to Audit Report**





## U.S. DEPARTMENT OF TRANSPORTATION CONSOLIDATED BALANCE SHEET

**As of September 30,**  
**Dollars in Thousands**

**2005**

**2004**

### ASSETS (Note 2)

Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 29,140,842	\$ 29,721,350
Investments (Note 4)	19,000,999	20,618,224
Accounts Receivable, Net (Note 5)	358,857	189,800
Other Assets (Note 6)	96,346	229,006
<b>Total Intragovernmental Assets</b>	<b>48,597,044</b>	<b>50,758,380</b>
Cash and Other Monetary Assets	40,573	26,995
Accounts Receivable, Net (Note 5)	144,567	339,052
Loans Receivable and Related Foreclosed Property, Net (Note 7)	760,448	604,087
Inventory and Related Property, Net (Note 8)	939,639	913,513
General Property, Plant & Equipment, Net (Note 9)	15,325,392	15,395,359
Other Assets (Note 6)	160,883	248,623
<b>Total Assets</b>	<b>\$ 65,968,546</b>	<b>\$ 68,286,009</b>

### LIABILITIES (Note 10)

Intragovernmental		
Accounts Payable	\$ 182,710	\$ 73,041
Debt (Note 11)	952,536	1,150,606
Other Intragovernmental Liabilities (Note 12)	3,378,564	3,668,305
<b>Total Intragovernmental Liabilities</b>	<b>4,513,810</b>	<b>4,891,952</b>
Accounts Payable	226,045	514,148
Loan Guarantees (Note 7)	393,451	378,612
Federal Employee and Veterans' Benefits Payable	1,007,303	1,018,541
Environmental and Disposal Liabilities (Note 14)	1,003,585	1,135,163
Grant Accrual (Note 13)	4,086,728	4,180,440
Other Liabilities (Notes 12 & 15)	1,641,416	1,289,093
<b>Total Liabilities</b>	<b>\$ 12,872,338</b>	<b>\$ 13,407,949</b>

Contingencies and Commitments (Note 15)

### NET POSITION

Unexpended Appropriations	\$ 5,448,954	\$ 5,284,601
Cumulative Results of Operations	47,647,254	49,593,459
<b>Total Net Position</b>	<b>53,096,208</b>	<b>54,878,060</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 65,968,546</b>	<b>\$ 68,286,009</b>

The accompanying notes are an integral part of this financial statement.



U.S. DEPARTMENT OF TRANSPORTATION  
**CONSOLIDATED STATEMENT OF NET COST**

**For the Year Ended September 30,**  
**Dollars in Thousands**

**2005**

**2004**

**PROGRAM COSTS (Notes 16 & 17)**

**SURFACE TRANSPORTATION**

Intragovernmental Gross Costs	\$ 617,311	\$ 579,829
Less: Intragovernmental Earned Revenue	51,294	48,265
Intragovernmental Net Costs	566,017	531,564
Gross Costs with the Public	41,902,606	41,070,515
Less: Earned Revenues from the Public	159,213	315,000
Net Costs with the Public	41,743,393	40,755,515
<b>TOTAL NET COST</b>	<b>\$ 42,309,410</b>	<b>\$ 41,287,079</b>

**AIR TRANSPORTATION**

Intragovernmental Gross Costs	\$ 1,999,237	\$ 2,380,081
Less: Intragovernmental Earned Revenue	133,073	84,246
Intragovernmental Net Costs	1,866,164	2,295,835
Gross Costs with the Public	12,619,722	10,126,861
Less: Earned Revenues with the Public	456,790	228,702
Net Costs with the Public	12,162,932	9,898,159
<b>TOTAL NET COST</b>	<b>\$ 14,029,096</b>	<b>\$ 12,193,994</b>

**MARITIME TRANSPORTATION**

Intragovernmental Gross Costs	\$ 150,505	\$ 22,047
Less: Intragovernmental Earned Revenue	448,796	260,710
Intragovernmental Net Costs	(298,291)	(238,663)
Gross Costs with the Public	584,710	477,002
Less: Earned Revenues with the Public	7,505	1,178
Net Costs with the Public	577,205	475,824
<b>TOTAL NET COST</b>	<b>\$ 278,914</b>	<b>\$ 237,161</b>

**COST-CUTTING PROGRAMS**

Intragovernmental Gross Costs	\$ 37,492	\$ 54,157
Less: Intragovernmental Earned Revenue	521,327	615,741
Intragovernmental Net Costs	(483,835)	(561,584)
Gross Costs with the Public	499,420	568,543
Less: Earned Revenues from the Public	6,857	6,213
Net Costs with the Public	492,563	562,330
<b>TOTAL NET COST</b>	<b>\$ 8,728</b>	<b>\$ 746</b>

Costs Not Assigned To Programs	261,911	347,864
Less: Earned Revenues Not Attributed to Programs	25,165	12,631
<b>NET COST OF CONTINUING OPERATIONS</b>	<b>\$ 56,862,894</b>	<b>\$ 54,054,213</b>

The accompanying notes are an integral part of this financial statement.



U.S. DEPARTMENT OF TRANSPORTATION  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

**For the Year Ended September 30,**  
**Dollars in Thousands**

**2005**

**2004**

	<b>Cumulative Results of Operations</b>		<b>Cumulative Results of Operations</b>	
		<b>Unexpended Appropriations</b>		<b>Unexpended Appropriations</b>
<b>Beginning Balances</b>	\$ 49,592,505	\$ 5,284,364	\$ 54,730,579	\$ 3,654,525
Correction of Errors—Prior Period Adjustments (±) (Note 18)	(34,827)	16,678	(794,425)	1,214
<b>Beginning Balances, As Adjusted</b>	<b>49,557,678</b>	<b>5,301,042</b>	<b>53,936,154</b>	<b>3,655,739</b>
<b>Budgetary Financing Sources</b>				
Appropriations Received	—	6,591,723	—	6,757,803
Appropriations Transferred-In / Out (±)	—	13,497	—	34,544
Other Adjustments (Rescissions, etc.) (±)	(165,954)	(499,796)	(338,428)	(249,022)
Appropriations Used	6,000,797	(6,007,512)	5,028,427	(4,914,464)
Non-Exchange Revenue (Note 18)	48,602,831		44,397,375	
Donations & Forfeitures of Cash & Cash Equivalents	2,504		1,718	
Transfers-In / Out Without Reimbursement (±)	17,812		17,329	
Other Budgetary Financing Sources	(9,351)		(420)	
<b>Other Financing Sources</b>				
Donations & Forfeitures of Property	—		(28,961)	
Transfers-In / Out Without Reimbursement	(58,866)		(72,508)	
Imputed Financing from Costs Absorbed by Others	554,579		735,625	
Other (±)	8,118		(28,639)	
<b>Total Financing Sources</b>	<b>54,952,470</b>	<b>147,912</b>	<b>49,711,518</b>	<b>1,628,862</b>
<b>Net Cost of Operations (±)</b>	<b>56,862,894</b>		<b>54,054,213</b>	
<b>Net Change</b>	(1,910,424)	147,912	(4,342,695)	1,628,862
<b>ENDING BALANCES</b>	<b>\$ 47,647,254</b>	<b>\$ 5,448,954</b>	<b>\$ 49,593,459</b>	<b>\$ 5,284,601</b>

The accompanying notes are an integral part of this financial statement.



U.S. DEPARTMENT OF TRANSPORTATION  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**

**For the Year Ended September 30,**  
**Dollars in Thousands**

**2005**

**2004 (Restated)**

	2005		2004 (Restated)	
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts
<b>BUDGETARY RESOURCES (Note 19)</b>				
<i>Budgetary Authority</i>				
Appropriations Received	\$ 61,516,780	\$ —	\$ 58,421,517	\$ —
Borrowing Authority	282,260	456,800	573,912	1,522,351
Contract Authority	50,427,292	—	46,231,541	—
Net Transfers (±)	23,799	—	25,235	—
<i>Unobligated Balance</i>				
Beginning of Period	38,244,246	1,595,313	35,767,051	26,454
Net Transfers, Actual (±)	5,370	—	7,545	—
<i>Spending Authority From Offsetting Collections</i>				
<i>Earned</i>				
Collected	2,011,267	148,995	1,851,577	614,137
Receivable from Federal Sources	199,911	(5,713)	22,840	5,713
<i>Change in Unfilled Customer Orders (±)</i>				
Advance Received	55,825	—	36,227	—
Without Advance from Federal Sources	684	32,780	155,008	—
Transfers from Trust Funds	7,711,917	—	6,868,941	—
<b>Subtotal</b>	<b>\$ 9,979,604</b>	<b>\$ 176,062</b>	<b>\$ 8,934,593</b>	<b>\$ 619,850</b>
Recoveries of Prior Year Obligations	634,513	240,569	299,969	57,000
Temporarily Not Available Pursuant to Public Law	(61,067)	—	(107,734)	—
Permanently Not Available	(47,818,493)	(1,679,091)	(44,766,843)	(572,038)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$ 113,234,304</b>	<b>\$ 789,653</b>	<b>\$ 105,386,786</b>	<b>\$ 1,653,617</b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
<i>Obligations Incurred</i>				
Direct	\$ 67,052,096	\$ 330,863	\$ 63,452,365	\$ 339,088
Reimbursable	2,382,937	—	3,452,900	—
<b>Subtotal</b>	<b>\$ 69,435,033</b>	<b>\$ 330,863</b>	<b>\$ 66,905,265</b>	<b>\$ 339,088</b>
<i>Unobligated Balance</i>				
Apportioned	17,784,534	59,442	14,743,985	27,035
Exempt from Apportionment	190,273	—	311,529	132
<i>Unobligated Balance Not Available</i>	25,824,464	399,348	23,426,007	1,287,362
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$ 113,234,304</b>	<b>\$ 789,653</b>	<b>\$ 105,386,786</b>	<b>\$ 1,653,617</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>				
Obligated Balance, Net, As Of October 1	\$ 67,849,718	\$ 2,398,507	\$ 65,501,865	\$ 2,422,306
<i>Obligated Balance, Net, End of Period</i>				
Accounts Receivable	(512,900)	(59)	(321,686)	(5,713)
Unfilled Customer Orders From Federal Sources	(852,377)	(196,088)	(894,729)	(155,879)
Undelivered Orders	65,744,226	2,337,764	63,932,011	2,475,311
Accounts Payable	5,076,087	1,454	5,344,729	39,558
<i>Outlays</i>				
Disbursements	71,847,262	320,115	68,355,322	345,404
Collections	(14,658,640)	(148,996)	(13,217,481)	(614,137)
<b>Subtotal</b>	<b>\$ 57,188,622</b>	<b>\$ 171,119</b>	<b>\$ 55,137,841</b>	<b>\$ (268,733)</b>
Less: Offsetting Receipts	61,990	36,395	662,178	94,685
<b>NET OUTLAYS</b>	<b>\$ 57,126,632</b>	<b>\$ 134,724</b>	<b>\$ 54,475,663</b>	<b>\$ (363,418)</b>

The accompanying notes are an integral part of this financial statement.



## U.S. DEPARTMENT OF TRANSPORTATION CONSOLIDATED STATEMENT OF FINANCING

For the Year Ended September 30,	2005	2004 (Restated)
<b>Dollars in Thousands</b>		
<b>Resources Used To Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 69,765,896	\$ 67,244,353
Less: Spending Authority From Offsetting Collections and Recoveries	11,030,748	9,911,412
Obligations Net Of Offsetting Collections and Recoveries	58,735,148	57,332,941
Less: Offsetting Receipts	98,385	756,863
Net Obligations	58,636,763	56,576,078
<b>Other Resources</b>		
Donations and Forfeitures of Property	—	(28,961)
Transfers In / Out Without Reimbursement	(58,866)	(72,508)
Imputed Financing From Costs Absorbed by Others	554,579	735,625
Other Miscellaneous Resources	8,118	(28,639)
Net Other Resources Used To Finance Activities	503,831	605,517
<b>Total Resources Used To Finance Activities</b>	<b>\$ 59,140,594</b>	<b>\$ 57,181,595</b>
<b>Resources Used To Finance Items Not Part Of The Net Cost Of Operations</b>		
Change In Budgetary Resources Obligated For Goods, Services, and Benefits Ordered But Not Yet Provided	\$ 2,137,768	\$ 1,562,362
Resources That Fund Expenses Recognized In Prior Periods	290,178	423,023
<b>Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost of Operations</b>		
Credit Program Collections Which Increase Liabilities For Loan Guarantees or Allowances for Subsidy	(19,281)	(72,899)
Other	12,510	41,100
Resources That Finance the Acquisition of Assets or Liquidation of Liabilities (±)	1,570,399	2,187,920
Other Resources or Adjustments To Net Obligated Resources That Do Not Affect Net Cost of Operations	(46,320)	807,781
Total Resources Used To Finance Items Not Part Of The Net Cost of Operations	3,945,254	4,949,287
<b>Total Resources Used To Finance the Net Cost of Operations</b>	<b>\$ 55,195,340</b>	<b>\$ 52,232,308</b>
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>		
<b>Components Requiring / Generating Resources In Future Periods</b>		
Increase in Annual Leave Liability	\$ 31,157	\$ 123,231
Upward / Downward Reestimates of Credit Subsidy Expense	3,832	6,000
Increase in Exchange Revenue Receivable From The Public	(23,891)	(75,457)
Other		
Increase in MARAD Liabilities	27,438	—
Increase in FAA Liabilities	196,698	—
Other Miscellaneous Increases	48,385	543,176
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	\$ 283,619	\$ 596,950
<b>Components Not Requiring or Generating Resources</b>		
Depreciation and Amortization	\$ 1,278,650	\$ 1,042,026
Revaluation of Assets or Liabilities	2,233	15,730
Other		
Other WCF Components	—	170,419
Other FAA Components	68,418	(8,605)
Other Miscellaneous Components	34,634	5,385
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	1,383,935	1,224,955
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period</b>	<b>\$ 1,667,554</b>	<b>\$ 1,821,905</b>
<b>NET COST OF OPERATIONS</b>	<b>\$ 56,862,894</b>	<b>\$ 54,054,213</b>

The accompanying notes are an integral part of this financial statement.



## NOTE 1. SUMMARY OF 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 (CFO Act), Title IV of the Government Management Reform Act of 1994 (GMRA). 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. Early implementation was not done for the Statement of Net Cost. OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, has been used to prepare the Statement of Net Cost.

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 2005.

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 20 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 (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish Generally Accepted Accounting Principles (GAAP) for the Federal Government. The



Federal Financial Management Improvement Act (FFMIA) 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**

The Department 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 of Transportation 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—including OST Working Capital Fund)
- Federal Aviation Administration (FAA)
- Federal Highway Administration (FHWA)
- Federal Motor Carrier Safety Administration (FMCSA)
- Federal Railroad Administration (FRA)
- Federal Transit Administration (FTA)
- Maritime Administration (MARAD)
- National Highway Traffic Safety Administration (NHTSA)
- Office of Inspector General (OIG)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)
- Research and Innovative Technology Administration (RITA—including Volpe National Transportation System Center)
- Surface Transportation Board (STB)

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 21.

## **C. BUDGETS AND BUDGETARY ACCOUNTING**

The Department of Transportation 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 2005. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within the Department appropriations to incur obligations in support of agency programs. For FY 2005 the Department was



accountable for trust fund appropriations, general fund appropriations, revolving funds, and borrowing authority. The Department 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 with 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.

#### **E. REVENUES AND OTHER FINANCING SOURCES**

The Department 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 and dividends on invested funds, and 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**

The Department 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. The Department 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 associated with these loans, 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.



## **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 year-end include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving 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. The Department 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 stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Stewardship Reporting section of this statement.

## **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 that 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 statements. 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), the Department contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law 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 the Department 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 the allocation of trust fund receipts by the Office of Treasury's Assessment, year-end accruals of accounts and grants payable, accrued workers' compensation, and allowance for doubtful accounts receivable. Actual results may differ from these estimates.

**R. RECLASSIFICATIONS**

Certain reclassifications were made to the FY 2004 financial statement presentation to conform with that used in FY 2005.



**NOTE 2. NON-ENTITY ASSETS**  
**Dollars in Thousands**

<b>As of September 30,</b>	<b>2005</b>	<b>2004</b>
Intragovernmental		
Fund Balance with Treasury	\$ 7,066	\$ (20,029)
Accounts Receivable	2,931	—
Other	—	104
Total Intragovernmental	\$ 9,997	\$ (19,925)
Accounts Receivable	1,637	1,872
Total Non-Entity Assets	\$ 11,634	\$ (18,053)
Total Entity Assets	65,956,912	68,304,062
Total Assets	\$ 65,968,546	\$ 68,286,009



### NOTE 3. FUND BALANCE WITH TREASURY

Dollars in Thousands

As of September 30,	2005	2004
Fund Balances		
Trust Funds	\$ 4,992,309	\$ 5,641,157
Revolving Funds	609,041	565,957
Appropriated Funds	22,713,473	22,940,005
Other Fund Types	826,019	574,231
Total Fund Balances	<u>\$ 29,140,842</u>	<u>\$ 29,721,350</u>
Status of Fund Balance With Treasury		
Unobligated		
Available	\$ 8,171,205	\$ 7,919,946
Unavailable	1,461,669	1,192,028
Obligated Balance Not Yet Disbursed	19,145,967	20,609,376
Non-Budgetary Fund Balance With Treasury	362,001	—
Total Status of Fund Balance With Treasury	<u>\$ 29,140,842</u>	<u>\$ 29,721,350</u>

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.



## NOTE 4. INVESTMENTS

Dollars in Thousands

### As of September 30, 2005

	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
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

### As of September 30, 2004

Intragovernmental Securities					
Marketable	\$ 88,269	\$ (1,015)	\$ 87,254	\$ 674	\$ 87,928
Non-Marketable					
Par Value	20,103,444	—	20,103,444	—	20,103,444
Market-Based	351,488	(342)	351,146	—	351,146
Subtotal	20,543,201	(1,357)	20,541,844	674	20,542,518
Accrued Interest	75,706	—	75,706	—	75,706
Total Intragovernmental	\$ 20,618,907	\$ (1,357)	\$ 20,617,550	\$ 674	\$ 20,618,224

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.



**NOTE 5. ACCOUNTS RECEIVABLE**  
Dollars in Thousands

	Gross Amount Due	Allowance for Uncollectable Amounts	FY 2005 Net Amount Due	FY 2004 Net Amount Due
<b>Intragovernmental</b>				
Accounts Receivable	\$ 358,878	\$ 21	\$ 358,857	\$ 189,800
Total Intragovernmental	358,878	21	358,857	189,800
<b>Public</b>				
Accounts Receivable	\$ 222,861	\$ 78,407	\$ 144,454	\$ 338,925
Accrued Interest	113	—	113	127
Total Public	222,974	78,407	144,567	339,052
 Total Receivables	 \$ 581,852	 \$ 78,428	 \$ 503,424	 \$ 528,852

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.



**NOTE 6. OTHER ASSETS**  
**Dollars in Thousands**

	FY 2005		FY 2004
<b>Intragovernmental</b>			
Advances and Prepayments	\$ 95,627	\$	224,038
Undistributed Assets and Payments	—		3,932
Other	719		1,036
Total Intragovernmental	\$ 96,346	\$	229,006
<b>Public</b>			
Advances to the States	\$ 95,861	\$	98,557
Other Advances and Prepayments	62,486		149,397
Other	2,536		669
Total Public	\$ 160,883	\$	248,623

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 Liquidating Fund (Title XI)

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.

**LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET**

**FY 2005**

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Foreclosed Allowance	Value of Assets Related to Loans Receivable
<b>Direct Loan Programs</b>					
<b>Prior to FY 1992 Allowance for Loss method</b>					
(1) Railroad Rehab. Improvement	\$ 26,078	\$ —	\$ —	\$ —	\$ 26,078
<b>Direct Loan Programs (After FY 1991)</b>					
(1) Railroad Rehab. Improvement	\$ 398,197	\$ 6,453	\$ —	\$ (10,242)	\$ 394,408
(3) TIFIA Loan	289,876	7,099	—	(22,903)	274,072
Subtotal	688,073	13,552	—	(33,145)	668,480

**FY 2004**

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Foreclosed Allowance	Value of Assets Related to Loans Receivable
<b>Direct Loan Programs</b>					
<b>Prior to FY 1992 Allowance for Loss method</b>					
(1) Railroad Rehab. Improvement	\$ 30,593	\$ 981	\$ —	\$ —	\$ 31,574
<b>Direct Loan Programs (After FY 1991)</b>					
(1) Railroad Rehab. Improvement	\$ 333,873	\$ 4,539	\$ —	\$ (24,382)	\$ 314,030
(3) TIFIA Loan	190,162	7,738	—	(9,114)	188,786
Subtotal	524,035	12,277	—	(33,495)	502,816

**TOTAL AMOUNT OF DIRECT LOANS DISBURSED (POST-1991)**

Direct Loan Programs	FY 2005	FY 2004
(1) Railroad Rehab. Improvement	\$ 85,808	\$ 222,619
(3) TIFIA Loan	102,087	87,541
Subtotal	\$ 187,895	\$ 310,160



**NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)**  
**Dollars in Thousands**

**SUBSIDY EXPENSE FOR DIRECT LOANS BY PROGRAM AND COMPONENT**

**FY 2005**

**Subsidy Expense for New Direct Loans Disbursed**

	<b>Interest Differential</b>	<b>Defaults</b>	<b>Fees &amp; Other Collections</b>	<b>Modifications / Re-Estimates</b>	<b>Total</b>
<b>Direct Loan Programs</b>					
(1) Railroad Rehab. Improvement	\$ —	\$ —	\$ —	\$ 14,585	\$ 14,585
(3) TIFIA Loans	—	6,926	—	2,884	9,810
Subtotal	\$ —	\$ 6,926	\$ —	\$ 17,469	\$ 24,395

**FY 2004**

**Direct Loan Programs**

(1) Railroad Rehab. Improvement	\$ —	\$ —	\$ —	\$ (16,333)	\$ (16,333)
(3) TIFIA Loans	—	462	—	—	462
Subtotal	\$ —	\$ 462	\$ —	\$ (16,333)	\$ (15,871)

**BUDGET SUBSIDY RATES FOR DIRECT LOANS FOR THE CURRENT YEAR COHORT**

**FY 2005**

	<b>Interest Differential</b>	<b>Defaults</b>	<b>Fees &amp; Other Collections</b>	<b>Other</b>	<b>Total</b>
<b>Direct Loan Programs</b>					
(1) Railroad Rehab. Improvement	0.00%	0.00%	0.00%	0.00%	0.00%
(3) TIFIA Loans	0.00%	5.51%	0.00%	0.00%	5.51%
Subtotal	0.00%	5.51%	0.00%	0.00%	5.51%

**SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)**

**Beginning Balance, Changes, and Ending Balance**

	<b>FY 2005</b>		<b>FY 2004</b>	
<b>Beginning Balance of the Subsidy Cost Allowance</b>	\$	33,496	\$	(138,048)
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component				
Fees and Other Collections		(1,238)		(18,333)
Other Subsidy Costs		—		1,238
Total of the Above Subsidy Expense Components	\$	(1,238)	\$	(17,095)
<b>Adjustments</b>				
Subsidy Allowance Amortization		(15,650)		204,972
<b>Ending Balance of the Subsidy Cost Allowance Before Reestimates</b>	\$	16,608	\$	49,829
Add or Subtract Subsidy Reestimates by Component				
Interest Rate Reestimate		140		(16,333)
Technical/Default Reestimate		17,329		—
Total of the Above Reestimate Components	\$	17,469	\$	(16,333)
<b>Ending Balance of the Subsidy Cost Allowance</b>	\$	<b>34,077</b>	\$	<b>33,496</b>



## NOTE 7. 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	Foreclosed Allowance	Value of Assets Related to Loans Receivable
<b>FY 2005</b>					
(4) Federal Ship Financing Fund (Title XI)	\$ 87,357	\$ 2,617	\$ 19,004	\$ (43,088)	\$ 65,890
<b>FY 2004</b>					
(4) Federal Ship Financing Fund (Title XI)	\$ 431,967	\$ 5,876	\$ 7,000	\$ (375,146)	\$ 69,697

### GUARANTEED LOANS OUTSTANDING

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) TIFIA Loans	\$ —	\$ —
(4) Federal Ship Financing Fund (Title XI)	3,107,642	3,107,642
(5) OST Minority Business Resource Center	8,600	6,450
(6) Federal Ship (Title XI) Liquidating Fund	13,302	13,302
Subtotal	\$ 3,129,544	\$ 3,127,394

### NEW GUARANTEED LOANS DISBURSED

<b>FY 2005</b>		
(3) TIFIA Loans	\$ —	\$ —
(4) Federal Ship Financing Fund (Title XI)	11,969	11,969
(5) OST Minority Business Resource Center	6,200	4,650
Subtotal	\$ 18,169	\$ 16,619
<b>FY 2004</b>		
(3) TIFIA Loans	\$ —	\$ —
(4) Federal Ship Financing Fund (Title XI)	176,369	176,369
(5) OST Minority Business Resource Center	6,961	5,221
Subtotal	\$ 183,330	\$ 181,590

### TOTAL LIABILITIES FOR LOAN GUARANTEES (PRESENT VALUE METHOD)

	FY 2005	FY 2004
<b>Loan Guarantee Programs</b>		
(4) Federal Ship Financing Fund (Title XI)	\$ 392,870	\$ 378,061
(5) OST Minority Business Resource Center	581	551
Total	\$ 393,451	\$ 378,612



## NOTE 7. 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

	Defaults Net	Fees & Other Collections	Other Subsidy Costs	Modifications / Re-Estimates	Total
<b>FY 2005</b>					
(3) TIFIA Loans	\$ —	\$ —	\$ —	\$ —	\$ —
(4) Federal Ship Financing Fund (Title XI)	(876)	5,793	9,582	—	14,499
(5) OST Minority Business Resource	131	—	—	(136)	(5)
Subtotal	\$ (745)	\$ 5,793	\$ 9,582	\$ (136)	\$ 14,494

#### FY 2004

(3) TIFIA Loans	\$ —	\$ —	\$ —	\$ —	\$ —
(4) Federal Ship Financing Fund (Title XI)	3,690	(27,774)	—	(45,097)	(69,181)
(5) OST Minority Business Resource	(181)	—	—	166	(15)
Subtotal	\$ 3,509	\$ (27,774)	\$ —	\$ (44,931)	\$ (69,196)

### BUDGET SUBSIDY RATES FOR LOAN GUARANTEES FOR THE CURRENT YEAR COHORT

#### FY 2005

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 Financing Fund (Title XI)	0.00%	5.00%	0.00%	0.00%	5.00%
(5) OST Minority Business Resource	0.00%	2.08%	0.00%	0.00%	2.08%
Subtotal	0.00%	7.08%	0.00%	0.00%	7.08%



**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)**

	FY 2005	FY 2004
<b>Beginning Balance of the Loan Guarantee Liability</b>	\$ 378,612	\$ 293,276
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
Default Costs (net of recoveries)	(745)	(3,509)
Fees and Other Collections	5,793	27,774
Other Subsidy Costs	9,582	—
Total of the Above Subsidy Expense Components	\$ 14,630	\$ 24,265
<b>Adjustments</b>		
Fees Received	(6,068)	—
Interest Supplements Paid	(12,000)	—
Interest Accumulation on the Liability Balance	18,413	16,140
<b>Ending Balance of the Loan Guarantee Liability Before Reestimates</b>	\$ 393,587	\$ 333,681
Add or Subtract Subsidy Reestimates by Component		
Technical/Default Reestimate	(136)	44,931
Total of the Above Reestimate Components	\$ (136)	\$ 44,931
<b>Ending Balance of the Loan Guarantee Liability</b>	<u>\$ 393,451</u>	<u>\$ 378,612</u>

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 2005 Net	FY 2004 Net
<b>Inventory</b>				
Inventory Held for Current Sale	\$ 87,928	\$ —	\$ 87,928	\$ 78,396
Excess, Obsolete and Unserviceable Inventory	18,301	6,339	11,962	12,962
Inventory Held for Repair	414,809	86,148	328,661	321,511
Other	13,632	—	13,632	13,632
Total Inventory	\$ 534,670	\$ 92,487	\$ 442,183	\$ 426,501
<b>Operating Materials and Supplies</b>				
Items Held for Use	\$ 451,334	\$ 21,295	\$ 430,039	\$ 403,634
Items Held for Reserve for Future Use	66,472	—	66,472	69,644
Excess, Obsolete and Unserviceable Items	71,862	71,862	—	11,619
Items Held for Repair	4,724	3,779	945	2,115
Total Operating Materials & Supplies	\$ 594,392	\$ 96,936	\$ 497,456	\$ 487,012
Total Inventory and Related Property			\$ 939,639	\$ 913,513

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.



## NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT

Dollars in Thousands

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation	FY 2005 Net Book Value	FY 2004 Net Book Value
Land and Improvements		\$ 103,176	\$ 294	\$ 102,882	\$ 97,332
Buildings and Structures	Various	4,244,680	2,160,573	2,084,107	2,108,539
Furniture and Fixtures	Various	124,981	84,243	40,738	28,656
Equipment	Various	14,959,696	7,304,412	7,655,284	7,121,918
ADP Software	Various	123,933	96,474	27,459	51,772
Electronics	6-10 years	738	730	8	14
Assets Under Capital Lease	Various	125,923	80,732	45,191	54,116
Leasehold Improvements	Various	55,014	23,441	31,573	33,874
Aircraft	11-20 years	401,614	263,143	138,471	150,309
Ships and Vessels	Over 20 years	1,738,934	1,117,017	621,917	693,760
Small Boats	Various	24,888	24,239	649	953
Other Vehicles	1-5 years	27	27	—	—
Construction in Progress		4,565,239	—	4,565,239	5,037,358
Property Not in Use		7,706	3,006	4,700	11,335
Other Miscellaneous Property		9,373	2,199	7,174	5,423
Total		\$ 26,485,922	\$ 11,160,530	\$ 15,325,392	\$ 15,395,359

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 Supplemental Stewardship Information.



## NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Dollars in Thousands

	FY 2005	FY 2004
Intragovernmental		
Debt	\$ —	\$ 363,583
Other Liabilities	477,063	569,782
Total Intragovernmental	\$ 477,063	\$ 933,365
Accounts Payable	\$ 44	\$ 44
Federal Employee and Veterans' Benefits Payable	1,007,303	1,018,541
Environmental and Disposal Liabilities	1,003,585	1,135,163
Other Liabilities	1,011,512	980,690
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 3,499,507</b>	<b>\$ 4,067,803</b>
Total Liabilities Covered by Budgetary Resources	9,372,831	9,340,146
<b>Total Liabilities</b>	<b>\$ 12,872,338</b>	<b>\$ 13,407,949</b>



**NOTE 11. DEBT**  
**Dollars in Thousands**

	<b>FY 2004</b>	<b>Net Change</b>	<b>FY 2005</b>
	<b>Ending Balance</b>	<b>During</b>	<b>Ending Balance</b>
		<b>Fiscal Year</b>	
Intragovernmental Debt			
Debt to the Treasury	\$ 1,147,529	\$ (197,876)	\$ 949,653
Debt to the Federal Financing Bank	3,077	(194)	2,883
Total Intragovernmental	<u>\$ 1,150,606</u>	<u>\$ (198,070)</u>	<u>\$ 952,536</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), for MARAD Title XI guaranteed loans, and for the FAA Aircraft Purchase Loan Guarantee Program.



## NOTE 12. OTHER LIABILITIES

Dollars in Thousands

### FY 2005

	Non-Current	Current	FY 2005 Total
<b>Intragovernmental</b>			
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	\$ 273,070	\$ 3,105,494	\$ 3,378,564
<b>Public</b>			
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	\$ 536,831	\$ 1,104,585	\$ 1,641,416

### FY 2004

	Non-Current	Current	FY 2004 Total
<b>Intragovernmental</b>			
Advances and Prepayments	\$ 2,635,418	\$ 238,309	\$ 2,873,727
Accrued Pay and Benefits	1,243	40,112	41,355
Undisbursed Loans	166,915	148	167,063
FECA Billings	121,895	96,248	218,143
Uncleared Disbursements and Collections	—	1,002	1,002
Deposit Funds	—	6,233	6,233
Other Accrued Liabilities	356,460	4,322	360,782
Total Intragovernmental	\$ 3,281,931	\$ 386,374	\$ 3,668,305
<b>Public</b>			
Other Accrued Unbilled Payments	\$ —	\$ 60,705	\$ 60,705
Accrued Pay and Benefits	557,084	216,800	773,884
Legal Claims	215	26,190	26,405
Deferred Credits	51,518	—	51,518
Capital Leases	46,909	13,663	60,572
Advances and Prepayments	1,534	37,105	38,639
Uncleared Disbursements and Collections	229	(3,771)	(3,542)
Deposit Funds	—	16,933	16,933
Other Accrued Liabilities	144,347	119,632	263,979
Total Public	\$ 801,836	\$ 487,257	\$ 1,289,093

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.



**NOTE 13. GRANT ACCRUAL**  
**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 20, 2005 and 2004 are summarized as follows:

	<b>FY 2005</b>		<b>FY 2004</b>	
Highway Trust Fund	\$	2,274,780	\$	2,195,580
Federal Transit Administration		1,281,550		1,541,381
Federal Aviation Administration		507,590		435,879
Federal Highway Administration (non-trust fund)		17,908		—
Federal Railroad Administration		4,900		7,600
Total Grant Accrual	\$	4,086,728	\$	4,180,440



**NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES**

Dollars in Thousands

	FY 2005	FY 2004
Public		
Environmental Cleanup Liabilities		
FAA Environmental Remediation	\$ 596,536	\$ 366,762
FAA Environmental Cleanup and Decommissioning	—	239,499
MARAD Environmental Cleanup (PCB, Lead, Oil)	407,049	528,902
Total Public	<u>\$ 1,003,585</u>	<u>\$ 1,135,163</u>

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.



## NOTE 15. CONTINGENCIES, COMMITMENTS, AND OTHER DISCLOSURES

### CONTINGENCIES

**Hurricane Katrina and Rita Disaster Relief.** In September 2005, Hurricanes Katrina and Rita 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. Congress may be providing supplemental appropriations to aid in the rebuilding efforts. As of September 30, 2005 DOT obligated \$290 million of which \$161 million will be reimbursed to the DOT from FEMA. For FY 2006, DOT has obligated \$233 million of which \$126 million will be reimbursed to DOT from FEMA.

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, 2005 and 2004, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at \$65.1 million and \$76.7 million, respectively. FAA 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 30, 2005 and 2004, FHWA has pre-authorized \$40 billion and \$36 billion, respectively, under these arrangements; however, no liability is reflected in the Highway Trust Fund financial statements at September 30, 2005 and 2004, for these arrangements.

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 June 30, 2005, approximately \$2.183 billion 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 June 30, 2005, for these agreements.

**Contract Options and Negotiations.** As of September 30, 2005 and 2004, FAA had contract options of \$10 billion and \$10.9 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 1,433 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, 2005 and gave the Secretary of Transportation discretion to further extend coverage through December 31, 2005. It also mandated provision of hull loss and passenger and third party war risk liability insurance for those policies. There are 77 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 2005 and FY 2004, FAA recognized insurance premium revenue of \$157.5 million and \$145.6 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."

Typically, the maximum liability for both hull loss and liability, per aircraft, is \$1.75 billion. No claims for losses were pending as of September 30, 2005, or 2004. 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 funded.

**Environmental.** FAA is a party to two major environmental remediation projects in which the extent of the liability is unknown. A study is in process to determine the magnitude and scope of the remediation required at the two sites. Of the total environmental liability reported as of September 30, 2005, and 2004, the amount related to these two sites is \$50.3 million and \$49.3 million, respectively. This liability includes FAA's share of the known remediation cost and the cost to complete the study.

## 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% with the exception of noise program implementation, which is 80%. For remaining airports (small primary, relievers, and general aviation airports), FAA's share of eligible costs is 90%.

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, 2005, FAA issued letters of intent covering FY 1988 through FY 2015 totaling \$4.7 billion. As of September 30, 2005, FAA had obligated \$3.6 billion of this total amount leaving \$1.2 billion unobligated.



Through September 30, 2004, FAA issued letters of intent covering FY 1988 through FY 2014 totaling \$4.7 billion. As of September 30, 2004, FAA had obligated \$3.3 billion of this total amount, leaving \$1.4 billion unobligated.

## **OTHER DISCLOSURES**

**Overflight User Fees.** FAA aviation overflight user fees were the subject of litigation for several years. As a result, FAA suspended these billings in April 2003 and had no collections during fiscal year 2004. The litigation ended in the latter part of FY 2004, and FAA resumed billing in FY 2005. Aviation overflight user fee revenue was \$109.7 million in FY 2005. Also, in FY 2005, the FAA Administrator appointed an Aviation Rulemaking Committee. The Committee is studying FAA's fee-setting procedures with a view to making recommendations in FY 2006 as to how procedures might be improved and the fees updated. Depending on the outcome of the Committee's deliberations and the Administrator's assessment of its recommendations, the fee structure may change accordingly.



**NOTE 16. NET COST BY PROGRAM**  
**Dollars in Thousands**

	FY 2005	FY 2004
<b>PROGRAM COSTS</b>		
<b>SURFACE</b>		
Highway Surface Transportation	\$ 7,496,099	\$ 7,256,287
Mass Transit	8,007,313	8,195,431
National Highway System	7,149,319	7,116,070
Interstate Maintenance	4,109,000	3,933,214
Bridge Program	3,986,213	3,498,203
Highway Minimum Guarantee	2,302,346	2,516,100
Other Highway Trust Fund Programs	1,523,654	1,572,855
Other Highway Programs	399,239	217,537
High Priority Projects	1,102,491	1,183,664
Federal Railroad Administration Grants	1,267,104	1,187,760
Congestion Mitigation and Air Quality	810,589	937,166
Highway Safety Programs	463,792	780,926
Appalachian Development Highway	291,269	261,943
DOT Allocated Highway Programs	700,362	23,144
Department of Interior Allocated Highway Programs	98,252	401,112
Federal Lands Highways	314,338	221,599
Federal Motor Carrier Safety	381,217	396,829
Highway Research and Development	566,411	816,813
Pipeline and Hazardous Materials Safety Administration	121,542	120,869
Research and Innovative Technology Administration	8,424	35,810
Rail Safety and Operations	139,509	117,490
Highway Planning	140,420	142,232
Highway Emergency Relief	800,782	177,015
Other Rail Programs	10,816	31,014
Rail Research and Development	46,112	24,978
Next Generation High Speed Rail	19,357	36,213
Alaska Railroad	31,831	22,599
Surface Transportation Board	21,609	20,478
Alameda Corridor	—	41,728
<b>Total Surface Program Costs</b>	<b>\$ 42,309,410</b>	<b>\$ 41,287,079</b>
<b>AIR</b>		
Air Traffic Services	\$ 8,931,418	\$ 8,079,011
Airports	3,711,927	2,977,068
Aviation Security	1,075,118	—
Regulation and Certification	—	939,728
Other Federal Aviation Administration Programs	296,560	185,660
Commercial Space	14,073	12,527
<b>Total Air Program Costs</b>	<b>\$ 14,029,096</b>	<b>\$ 12,193,994</b>



## NOTE 16. NET COST BY PROGRAM (CONT.)

Dollars in Thousands

	FY 2005	FY 2004
<b>MARITIME</b>		
Maritime Operations and Training	\$ 54,872	\$ (7,845)
Maritime Guaranteed Loan	(14,403)	10,793
Maritime Security Program	98,484	98,580
Maritime Ocean Freight Differential Program	105,503	147,558
Maritime Vessel Operations Revolving Fund	26,788	(18,066)
Maritime Operating Differential Subsidy	517	194
Maritime Operating Ship Disposal	14,332	—
Other Maritime Programs	(7,179)	5,947
<b>Total Maritime Program Costs</b>	<u>\$ 278,914</u>	<u>\$ 237,161</u>
<b>CROSS-CUTTING</b>		
Office of the Secretary Working Capital Fund	\$ 3,999	\$ (2,274)
Volpe National Transportation Systems Center	4,729	3,020
<b>Total Cross-Cutting Program Costs</b>	<u>\$ 8,728</u>	<u>\$ 746</u>

In order to provide more accurate reporting, FHWA changed the manner in which it allocated costs to the Highway Trust Fund programs in FY 2004. Such changes involved the method of categorizing projects within programs and a revision to the allocation of the grant accrual to each program. The “Other Highway Trust Fund Programs” category is comprised of small miscellaneous projects.



**NOTE 17. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION**  
**Dollars in Thousands**

**FY 2005**

	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Gross Cost and Earned Revenue by Budget Functional Classification			
054 Defense-Related Activities	\$ 99,048	\$ —	\$ 99,048
401 Ground Transportation	42,345,414	165,970	42,179,444
402 Air Transportation	14,618,959	589,863	14,029,096
403 Water Transportation	636,167	456,301	179,866
407 Other Transportation	778,127	576,559	201,568
808 Other General Government	195,199	21,327	173,872
Total	<u>\$ 58,672,914</u>	<u>\$ 1,810,020</u>	<u>\$ 56,862,894</u>

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification			
401 Ground Transportation	\$ 581,361	\$ 10,041	\$ 571,320
402 Air Transportation	1,999,237	133,073	1,866,164
403 Water Transportation	150,505	448,796	(298,291)
407 Other Transportation	102,500	587,398	(484,898)
Total	<u>\$ 2,833,603</u>	<u>\$ 1,179,308</u>	<u>\$ 1,654,295</u>

**FY 2004**

	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Gross Cost and Earned Revenue by Budget Functional Classification			
054 Defense-Related Activities	\$ 99,119	\$ —	\$ 99,119
401 Ground Transportation	41,479,699	313,489	41,166,210
402 Air Transportation	12,506,942	312,948	12,193,994
403 Water Transportation	399,930	261,888	138,042
407 Other Transportation	857,669	677,027	180,642
808 Other General Government	283,540	7,334	276,206
Total	<u>\$ 55,626,899</u>	<u>\$ 1,572,686</u>	<u>\$ 54,054,213</u>

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification			
401 Ground Transportation	\$ 553,081	\$ (1,075)	\$ 554,156
402 Air Transportation	2,380,081	84,246	2,295,835
403 Water Transportation	22,047	260,710	(238,663)
407 Other Transportation	99,526	670,378	(570,852)
808 Other General Government	110,076	7,334	102,742
Total	<u>\$ 3,164,811</u>	<u>\$ 1,021,593</u>	<u>\$ 2,143,218</u>



**NOTE 18. STATEMENT OF CHANGES IN NET POSITION**  
Dollars in Thousands

**PRIOR PERIOD ADJUSTMENTS**

Prior Period Adjustments for FY 2005 and FY 2004 are primarily due to MARAD for correction of an error for the Ocean Freight Differential appropriation.

**NON-EXCHANGE REVENUE**

	FY 2005	FY 2004
<b>Highway Trust Fund</b>		
Receipts		
Excise Taxes and Other Non-Exchange Revenue (transferred from the general fund)		
Gasoline	\$ 23,420,989	\$ 18,244,158
Diesel and Special Motor Fuels	9,551,359	8,935,465
Trucks	4,549,657	3,237,017
Gasohol	1,797,493	5,716,127
Fines and Penalties	14,070	16,457
IMPT Revenue	—	25
<b>Total Taxes</b>	<u>\$ 39,333,568</u>	<u>\$ 36,149,249</u>
Less: Transfers to Land and Water Conservation Fund		
Transfers to General Fund	(1,000)	(1,000)
Transfers to Aquatic Reserve	(113,994)	(111,350)
<b>Gross Taxes</b>	<u>(320,127)</u>	<u>(311,639)</u>
	<u>\$ 38,898,447</u>	<u>\$ 35,725,260</u>
Less: Refunds of Taxes (reimbursed to general fund)		
Gasoline	(308,508)	(305,286)
Gasohol	(17,063)	(27,751)
Diesel	(639,083)	(625,821)
Special Motor Fuel	(4,454)	(1,342)
Gas to make Gasohol	(11,500)	(22,865)
Diesel Fuel Bus Use	(26,246)	(31,423)
<b>Total Refunds of Taxes</b>	<u>\$ (1,006,854)</u>	<u>\$ (1,014,488)</u>
<b>Total Excise Taxes</b>	<u>\$ 37,891,593</u>	<u>\$ 34,710,772</u>
Other Non-Exchange Revenue	10,035	13,556
<b>Net Non-Exchange Revenue</b>	<u>\$ 37,901,628</u>	<u>\$ 34,724,328</u>



## NOTE 18. STATEMENT OF CHANGES IN NET POSITION (CONT.)

Dollars in Thousands

	FY 2005	FY 2004
<b>Federal Aviation Administration</b>		
Taxes and Other Non-Exchange Revenue		
Passenger Ticket	\$ 7,007,134	\$ 6,554,599
International Departure	1,922,368	1,455,529
Fuel (Air)	926,860	774,150
Waybill	460,563	498,871
Investment Income	439,793	446,956
Gasoline	43,934	—
Tax Refunds and Credits	(100,628)	(55,596)
<b>Net Non-Exchange Revenue</b>	<b>\$ 10,700,024</b>	<b>\$ 9,674,509</b>
Other Miscellaneous Net Non-Exchange Revenue	1,179	(1,462)
<b>Total Non-Exchange Revenue</b>	<b>\$ 48,602,831</b>	<b>\$ 44,397,375</b>

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, 2005, plus an estimate of tax collections expected for quarters ended June 30, 2005 and September 30, 2005. Actual tax collection data for the two quarters ended June 30, 2005 and September 30, 2005 will not be available from the IRS until December 2005 and March 2006, respectively.

### MOTOR VEHICLE TAX EVASION (MTFE) ISSUES

Federal Highway Administration is addressing actions to be taken about the possible effects of anticipated future demands, events and trends related to MFTE, generally accepted to cost the trust fund approximately \$1 billion or more annually. MFTE-related monies have been spent by the Internal Revenue Service (IRS) to improve MFTE enforcement and determine the necessary program management changes needed. Working with the IRS, FHWA will develop a written oversight plan to identify future actions to oversee the development and implementation of highway use tax evasion activity. During fiscal year 2005, expenditures for the Highway Trust Fund (HTF) exceeded revenues by approximately \$6.4 billion. The HTF equity (Corpus) available as of September 30, 2005 is \$10.8 billion. However, Congress has authorized appropriations in excess of current available trust fund assets that amounts to \$.9 billion after considering amounts already transferred to the HTF agencies. FHWA is continuing to analyze the impact that SAFETEA-LU will have on the trust fund.



**NOTE 19. STATEMENT OF BUDGETARY RESOURCES**  
**Dollars in Thousands**

	FY 2005	FY 2004 (Restated)
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:	\$ 69,765,896	\$ 67,244,353
Available Contract Authority as of end of fiscal year	\$ 38,783,649	\$ 31,532,182
Available Borrowing Authority as of end of fiscal year	\$ 20,607	\$ —
Adjustments during fiscal year to Beginning Balance of Budgetary Resources		
Rescissions	\$ (9,068)	\$ (496)
Prior Year Recoveries	519,964	92,160
Temporarily Not Available	(60,947)	(199)
Cancelled Authority	(5,190)	1,965
Permanently Not Available	(762,764)	276,691
Other Adjustments	43,401	(39,040)
Total Adjustments to Budgetary Resources	<u>\$ (274,604)</u>	<u>\$ 331,081</u>

Significant adjustments were needed to the amounts previously reported on the Statement of Budgetary Resources at September 30, 2004 for the Federal Highway Administration's (FHWA) Highway Trust Fund (HTF). The error was discovered by the management after the publication of its financial statements in November, 2004. The adjustments principally related to a SF 132 *Apportionment and Reapportionment Schedule* received in October 2004 relating to FY 2004 activity. Accordingly, adjustments have been made to correct these errors resulting in a net increase in "Total Budgetary Resources" and "Total Status of Budgetary Resources" of \$2.97 billion. In addition an error was discovered in unobligated balances and budget authority temporarily not available pursuant to public law which had been brought forward on FHWA's Apportionment and Reapportionment Schedule since at least FY 2002. This correction resulted in a net decrease to "Total Budgetary Resources" and "Total Status of Budgetary Resources" of \$2.54 billion at September 30, 2004. A new SF 132 has been issued, including corrected balances to reflect the proper amount of carried forward budget authority, and approved by OMB.

Significant adjustments were also needed to the amounts previously reported on the Statement of Budgetary Resources at September 30, 2004 for the FHWA's Non-Budgetary Financing Accounts for the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Program. The error was discovered by management after the publication of its financial statements in November, 2004. The adjustments principally related to a journal entry that obligated balances and reduced unapportioned authority and borrowing authority as of September 30, 2004. This correction resulted in a net increase to "Total Budgetary Resources" and "Total Status of Budgetary Resources" of \$.2 billion

The next table on the following page details specific line items being restated on the Combined Statement of Budgetary Resources.



## NOTE 19. STATEMENT OF BUDGETARY RESOURCES (CONT.)

Dollars in Thousands

	2004 Originally Stated	Effect of Restatement	2004 As Restated
<b>Budgetary Resources (Selected Components)</b>			
Borrowing Authority	\$ 1,923,602	\$ 172,661	\$ 2,096,263
Contract Authority	43,489,033	2,742,508	46,231,541
Net Transfers	(216,487)	241,722	25,235
Unobligated balance – beginning of period	38,336,603	(2,543,098)	35,793,505
Permanently Not Available	(45,323,853)	(15,028)	(45,338,881)
<b>Status of Budgetary Resources (Selected Components)</b>			
Obligations Incurred – Direct	\$ 64,756,645	\$ (965,192)	\$ 63,791,453
Unobligated balance available	14,840,959	241,722	15,082,681
Unobligated balance not available	23,391,134	1,322,235	24,713,369

### 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.

The Federal-Aid Highway Act of 1956, as amended by subsequent legislation, established the Highway Trust Fund (HTF) as a mechanism for financing the accelerated highway program. It is a user-supported fund, with the revenues of the HTF identified for financing highways, and the taxes dedicated to the HTF paid by the users of highways. The HTF Corpus is a utility account that receives no budgetary resources. Excise and user taxes are collected by the Treasury and deposited to the HTF Corpus. Deposits not needed immediately for payments are invested by the Treasury's Bureau of Public Debt (BPD) in non-interest bearing public debt securities. As funds are needed for payments, HTF Corpus investments are liquidated and funds are transferred to FHWA for payment of obligations. Given the nature of the HTF Corpus activity, the budgetary resources relating to "HTF Corpus" account is not reflected in the DOT Statement of Budgetary Resources (SBR) at September 30, 2004; however, such budgetary resources are reflected in the "Budget of the United States Government".

There are other differences between information required by SFFAS No. 7 and the amounts in the amounts described as actual "actual" FY 2004 "Budget of the United States Government" aggregating approximately \$1 billion for which management is researching with Treasury. Adjustments were posted to the unobligated balance carried forward at the beginning of FY 2004 as part of the restatement of the FY 2004 Budgetary SBR. This adjustment resulted in differences of \$2.5 billion to the unobligated balance at the beginning of period and \$2.3 billion to the unobligated balances end of period that were less than what was reported in the 2004 actual column of the FY 2006 Budget of the United States Government. In addition, material differences exists between the fiscal year 2004 Statement of Budgetary Resources and the fiscal year 2004 President's Budget "Actual" column for borrowing authority, unobligated balances not available, obligated balances end of period and outlays of approximately \$ 1.2 billion, \$ 1.3 billion and \$.2 billion, respectively.



## **NOTE 19. STATEMENT OF BUDGETARY RESOURCES (CONT.)**

Certain errors related to the preparation of FACTS II reporting for the period ending September 30, 2004 resulted in erroneous reporting of balances in the FY 2004 actual column of the President's Budget that have resulted in material differences from the DOT consolidated financial statements. The reporting errors were confined to the FACTS II reporting and did not result in any material adjustments to the FY 2005 unobligated balance carried forward line on the FY 2005 SBR with the exception of amounts related to the restatement of the 2004 SBR as described in the above table.

For FY 2006, the enacted budget of the United States has not been finalized. The President's Budget of the United States for FY 2007 will not be published until February 2006, 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 2005 in the FY 2007 Budget of the United States. The information will be published on OMB's website located at [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb).



## NOTE 20. INCIDENTAL CUSTODIAL COLLECTIONS

Dollars in Thousands

<b>Dollars in Thousands</b>	<b>FY 2005</b>	<b>FY 2004</b>
<b>Revenue Activity</b>		
Sources of Cash Collections		
Miscellaneous Receipts	\$ 20,758	\$ 19,157
Fines, Penalties, and Forfeitures	—	11,022
Total Cash Collections	\$ 20,758	\$ 30,179
<b>Total Custodial Revenue</b>	<b>\$ 20,758</b>	<b>\$ 30,179</b>
Disposition of Collections		
Transferred to Treasury (General Fund)	\$ 20,758	\$ 30,179
<b>Net Custodial Revenue Activity</b>	<b>\$ —</b>	<b>\$ —</b>



**NOTE 21. SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION**  
**Dollars in Thousands**

**Condensed Information:**

	FY 2005	FY 2004
Cash and Short-Term Time Deposits	\$ 15,594	\$ 14,084
Long-Term Time Deposits	882	1,210
Accounts Receivable	79	82
Inventories	249	246
Property, Plant and Equipment	76,835	78,329
Deferred Charges	2,716	2,234
Other Assets	602	538
<b>TOTAL ASSETS</b>	<u>\$ 96,957</u>	<u>\$ 96,723</u>
Current Liabilities	\$ 2,820	\$ 2,428
Actuarial Liabilities	2,716	2,234
<b>TOTAL LIABILITIES</b>	<u>\$ 5,536</u>	<u>\$ 4,662</u>
Invested Capital	\$ 91,818	\$ 93,313
Cumulative Results of Operations	(397)	(1,252)
<b>TOTAL NET POSITION</b>	<u>\$ 91,421</u>	<u>\$ 92,061</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 96,957</u>	<u>\$ 96,723</u>





**Deferred Maintenance:**

<u>DOT Entity</u>	<u>Major Class of Asset</u>	<u>Method of Measurement</u>	<u>Asset Condition*</u>	<u>Cost to Return to Acceptable Condition**</u>
FAA	Buildings	Condition Assessment Survey	4 & 5	\$ 63,875
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	19,984
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	3	9,800
	Real Property, Buildings U.S. Merchant Marine Academy, NY	Condition Assessment Survey	3	32,502
	Real Property, Structure James River Reserve Fleet, VA	Condition Assessment Survey	3	1,420
	Real Property, Structure Beaumont Reserve Fleet	Condition Assessment Survey	3	4,075
	Real Property, Structure Suisun Bay Reserve Fleet, CA	Condition Assessment Survey	3	2,985
			Total	\$ <u>134,641</u>

**\*Asset Condition Rating Scale:**

- 1 - Excellent
- 2 - Good
- 3 - Fair
- 4 - Poor
- 5 - Very Poor

**\*\*Acceptable Condition is**

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.

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.



**Intragovernmental Balances by Trading Partner:**

Intragovernmental Assets by Trading Partner:

(Dollars in Thousands)

<u>Trading Partner</u>	<u>Fund Balance with Treasury</u>	<u>Investments</u>	<u>Accounts Receivable</u>	<u>Other Assets</u>
Government Printing Office (04)	\$ -	\$ -	\$ -	\$ 147
U.S. Capital Police (09)	-	-	32	-
Executive Office of the President (11)	-	-	119	-
Department of Agriculture (12)	-	-	51	-
Department of Commerce (13)	-	-	534	-
Department of Interior (14)	-	-	996	-
Department of Justice (15)	-	-	453	-
U.S. Postal Service (18)	-	-	349	328
Department of State (19)	-	-	14	722
Department of Treasury (20)	29,140,842	19,000,999	212	18,850
Office of Personnel Management (24)	-	-	6	200
Social Security Administration (28)	-	-	(57)	-
Smithsonian Institution (33)	-	-	9	-
General Services Administration (47)	-	-	2,015	-
National Science Foundation (49)	-	-	14	-
Central Intelligence Agency (56)	-	-	1,459	100
National Labor Relations Board (63)	-	-	3	-
Tennessee Valley Authority (64)	-	-	5	-
Environmental Protection Agency (68)	-	-	129	13
Department of Homeland Security (70)	-	-	4,210	-
Agency for International Development (72)	-	-	(906)	-
Department of Health & Human Serv.(75)	-	-	3,935	-
Natl. Aero. and Space Admin. (80)	-	-	3,183	-
Department of Energy (89)	-	-	309	782
Department of Education (91)	-	-	(296)	-
Department of Defense (97)	-	-	77,331	7,858
Other Miscellaneous Agencies (95)	-	-	264,748	67,346
<b>Total</b>	<b>\$ 29,140,842</b>	<b>\$ 19,000,999</b>	<b>\$ 358,857</b>	<b>\$ 96,346</b>
<b>Total Intragovernmental Assets</b>	<b>\$ 48,597,044</b>			



Intragovernmental Liabilities by Trading Partner:

(Dollars in Thousands)

<u>Trading Partner</u>	<u>Accounts Payable</u>	<u>Debt</u>	<u>Other Liabilities</u>
Library of Congress (03)	\$ 20	\$ -	\$ 30
Government Printing Office (04)	(49)	-	188
General Accounting Office (05)	(3)	-	32
U.S. Capital Police (09)	-	-	3,449
Department of Agriculture (12)	81	-	231,914
Department of Commerce (13)	6,126	-	(7,794)
Department of Interior (14)	79,977	-	6,349
Department of Justice (15)	305	-	642
Department of Labor (16)	63	-	211,281
U.S. Postal Service (18)	691	-	(31)
Department of State (19)	-	-	(2,044)
Department of Treasury (20)	35,145	952,536	64,720
Office of Personnel Management (24)	777	-	68,329
Social Security Administration (28)	-	-	(249)
Federal Trade Commission (29)	-	-	(80)
U.S. Nuclear Regulatory Comm. (31)	-	-	86
Department of Veterans Affairs (36)	44	-	-
General Services Administration (47)	12,326	-	8,716
Federal Deposit Insurance Corp (51)	-	-	208
Central Intelligence Agency (56)	-	-	282
National Foundation of Arts (59)	-	-	11
Consumer Product Safety Comm (61)	-	-	28
National Labor Relations Board (63)	-	-	3
Tennessee Valley Authority (64)	(173)	-	8,473
Environmental Protection Agency (68)	(77)	-	1,022
Department of Homeland Security (70)	76	-	2,638,767
Department of Health & Human Serv.(75)	162	-	8,995
Natl. Aero. and Space Admin. (80)	2,599	-	7,010
Department of Housing and Urban Dev. (86)	-	-	2,378
National Archives and Records Administ (88)	140	-	-
Department of Energy (89)	(261)	-	9,443
Department of Education (91)	-	-	(1,816)
Department of Defense (97)	34,918	-	114,733
Treasury General Fund (99)	-	-	15
Other Miscellaneous Agencies (95)	9,823	-	3,474
<b>Total</b>	<b>\$ 182,710</b>	<b>\$ 952,536</b>	<b>\$ 3,378,564</b>
<b>Total Intragovernmental Liabilities</b>	<b>\$ 4,513,810</b>		



Intragovernmental Earned Revenues and Related Costs:

(Dollars in Thousands)

<u>Trading Partner</u>	<u>Intragovernmental Earned Revenue</u>
Library of Congress (03)	\$ 3,180
Government Printing Office (04)	28
General Accounting Office (05)	92
U.S. Capital Police (09)	17,893
Department of Agriculture (12)	6,857
Department of Commerce (13)	6,812
Department of Interior (14)	8,577
Department of Justice (15)	17,890
Department of Labor (16)	3,450
U.S. Postal Service (18)	1,283
Department of State (19)	6,643
Department of Treasury (20)	58,794
Office of Personnel Management (24)	1,296
Federal Retirement Thrift Investment (26)	81
Social Security Administration (28)	6,213
Federal Trade Comm (29)	709
U.S. Nuclear Regulatory Comm. (31)	10
Smithsonian Institution (33)	574
Department of Veterans Affairs (36)	18,028
U.S. Equal Employment Comm (45)	566
General Services Administration (47)	11,619
National Science Foundation (49)	63
Securities and Exchange Comm. (50)	5,122
Federal Deposit Insurance Comm (51)	1,340
Federal Labor Relations Authority (54)	132
Central Intelligence Agency (56)	1,608
National Foundation of Arts (59)	237
Consumer Product Safety Comm (61)	88
National Labor Relations (63)	1,020
Federal Maritime Comm (65)	72
Environmental Protection Agency (68)	20,276
Department of Homeland Security (70)	293,552
Agency for International Development (72)	1,271
Small Business Administration (73)	880
Department of Health & Human Serv.(75)	939
Natl. Aero. and Space Admin. (80)	14,507
Department of Housing and Urban Dev. (86)	6,556
National Archives and Records (88)	606
Department of Energy (89)	2,745
Department of Education (91)	3,707
Department of Defense (97)	662,869
Other Miscellaneous Agencies (95)	<u>(8,877)</u>
 Total	 <u>\$ 1,179,308</u>



Intragovernmental Earned Revenues and Related Costs:

(Dollars in Thousands)

<u>Trading Partner</u>	<u>Intragovernmental Earned Revenue</u>
<u>Budget Functional Classification</u>	<u>Gross Cost to Generate Intragovernmental Earned Revenue</u>
401 Ground Transportation	\$ 581,361
402 Air Transportation	1,999,237
403 Water Transportation	150,505
407 Other Transportation	94,116
808 Other General Government	<u>8,384</u>
Total	<u>\$ 2,833,603</u>

Intragovernmental Non-Exchange Revenue:

(Dollars in Thousands)

<u>Trading Partner</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
Department of Transportation (69)	\$ 69,534,141	\$ 69,516,329
Total	<u>\$ 69,534,141</u>	<u>\$ 69,516,329</u>
Total Intragovernmental Non-Exchange Revenue	<u>\$ 17,812</u>	



**HERITAGE ASSETS SUMMARY**  
**ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2005**  
**NUMBER OF PHYSICAL UNITS**

<u>Heritage Assets:</u>	Units as of 09/30/04	<u>Additions</u>	<u>Withdrawals</u>	Units as of 09/30/05
Personal Property:				
Collections				
Artifacts	38	-	-	38
Museum	456	-	-	456
Other Collections	98	2	-	100
Total Collections	592	2	-	594
Total Personal Property Heritage Assets	592	2	-	594

<u>Heritage Assets:</u>	Units as of 09/30/04	<u>Additions</u>	<u>Withdrawals</u>	Units as of 09/30/05
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.



**NON FEDERAL PHYSICAL PROPERTY  
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2005  
TRANSPORTATION INVESTMENTS  
(Dollars in thousands)**

<u>Surface Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>Federal Highway Administration</b>					
Federal Aid Highways (HTF)	\$ 25,876,082	\$ 29,377,231	\$ 29,258,796	\$ 29,207,012	\$ 29,750,120
Other Highway Trust Fund Programs	85,807	211,883	243,874	300,493	445,083
General Fund Programs	144,159	31,616	73,046	962,370	330,790
Appalachian Development System	23,801	146,306	128,480	263,430	425,810
Federal Motor Carrier	<u>125,261</u>	<u>149,091</u>	<u>159,628</u>	<u>299,450</u>	<u>195,740</u>
<b>Federal Transit Administration</b>					
Discretionary Grants	\$ 721,774	\$ 495,322	\$ 291,889	\$ 160,655	\$ 119,277
Formula Grants	3,978,247	4,283,634	4,390,965	4,723,674	4,521,288
Capital Investment Grants	1,902,425	2,371,521	2,632,841 <sup>1</sup>	2,788,920	3,375,206
Washington Metro	115,856	89,227	11,252	12,409	1,719
Interstate Transfer Grants	<u>2,716</u>	<u>8,155</u>	<u>9,459</u>	<u>1,479</u>	<u>1,411</u>
<b>Surface Transportation Nonfederal Physical Property Investments</b>	<b>\$ 32,976,128</b>	<b>\$ 37,163,986</b>	<b>\$ 37,200,230</b>	<b>\$ 38,719,892</b>	<b>\$ 39,166,444</b>

<sup>(1)</sup> Outlays are not net of Federal Emergency Management Administration (FEMA) collection of \$2.75 billion.

<u>Air Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>Federal Aviation Administration</b>					
Airport Improvement Program	\$ 2,178,576	\$ 2,933,542	\$ 2,786,717	\$ 2,977,300	\$ 3,712,423
<b>Air Transportation Nonfederal Physical Property Investments</b>	<b>\$ 2,178,576</b>	<b>\$ 2,933,542</b>	<b>\$ 2,786,717</b>	<b>\$ 2,977,300</b>	<b>\$ 3,712,423</b>
<b>Total Nonfederal Physical Property Investments</b>	<b>\$ 35,154,704</b>	<b>\$ 40,097,528</b>	<b>\$ 39,986,947</b>	<b>\$ 41,697,192</b>	<b>\$ 42,878,867</b>

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, 2005**  
**(Dollars in thousands)**

<u>Surface Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>Federal Highway Administration</b>					
National Highway Institute Training	\$ 3,202	\$ 9,146	\$ 8,539	\$ 4,069	\$ 11,844
<b>Federal Motor Carrier Safety Administration</b>					
California Highway Patrol			926	192	41
Idaho Video	243	199	593	344	208
Massachusetts Training Academy	-	25	175	9	53
Minnesota Crash Investigation	-	18	57	21	-
<b>Federal Transit Administration</b>					
National Transit Institute Training	\$ 3,550	\$ 3,946	\$ 4,292	\$ 4,667	\$ 3,318
<b>National Highway Safety Administration</b>					
Section 403 Highway Safety Programs	\$ 56,722	\$ 83,389	\$ 49,013	\$ 53,964	\$ 110,981
Highway Traffic Safety Grants	<u>207,255</u>	<u>229,145</u>	<u>210,469</u>	<u>205,509</u>	<u>216,702</u>
<b>Pipeline and Hazardous Materials Safety Administration</b>					
Hazardous Materials (Hazmat) Training	\$ 7,771	\$ 7,763	\$ 7,782	\$ 7,780	\$ 8,065
<b>Surface Transportation Human Capital Investments</b>					
	<u>\$ 278,743</u>	<u>\$ 333,631</u>	<u>\$ 281,846</u>	<u>\$ 276,555</u>	<u>\$ 351,212</u>
<u>Maritime Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>Maritime Administration</b>					
State Maritime Academies Training <sup>(3)</sup>	\$ 8,257	\$ 8,257	\$ 8,363	\$ 9,208	\$ 9,215
Additional Maritime Training	<u>463</u>	<u>463</u>	<u>463</u>	<u>388</u>	<u>328</u>
<b>Maritime Transportation Human Capital Investments</b>					
	<u>\$ 8,720</u>	<u>\$ 8,720</u>	<u>\$ 8,826</u>	<u>\$ 9,596</u>	<u>\$ 9,543</u>
<b>Total Human Capital Investments</b>	<u>\$ 287,463</u>	<u>\$ 342,351</u>	<u>\$ 290,672</u>	<u>\$ 286,151</u>	<u>\$ 360,755</u>

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 increase CMV 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 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.

<sup>(2)</sup> FY 2001 and FY 2002 outlay amounts are based on the enacted budget authority for FY 1999, FY 2000, and FY 2001 and on the approved outlay rates for the National Transit Institute (5%, 50%, 40%, and 5%).

<sup>(3)</sup> Does not include funding for the Student Incentive Payment (SIP) Program which produces graduates who are obligated to serve in a reserve component of the United States armed forces.



**RESEARCH AND DEVELOPMENT INVESTMENTS  
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2005**

(Dollars in thousands)

<b><u>Surface Transportation:</u></b>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>Federal Highway Administration</b>					
Intelligent Transportation Systems	\$ 103,980	\$ 124,950	\$ 126,256	\$ 146,852	\$ 183,634
Other Applied Research and Development	118,425	183,142	115,368	142,557	114,315
<b>Federal Railroad Administration</b>					
Railroad Research and Development Program	\$ 6,717	\$ 9,600	\$ 2,402	\$ 9,342	\$ 6,032
<b>Federal Transit Administration</b>					
Applied Research and Development					
Transit Planning and Research	1,931	1,931 <sup>4</sup>	3,895	3,483	2,546
Transit University Transportation Centers	3,492	8,168 <sup>5</sup>	-	-	-
Discretionary/Capital Investment Grants	-	-	-	-	-
<b>Office of the Secretary</b>					
Applied Research and Development					
Emergency Transportation	244	137	650	8	-
<b>Pipeline and Hazardous Materials Safety Administration</b>					
Applied Research and Development					
Pipeline Safety	\$ 1,404	\$ 4,000	\$ 5,523	\$ 6,375	\$ 10,810
Hazardous Materials	1,366	233	1,755	1,489	1,638
<b>Research and Innovative Technology Administration</b>					
Applied Research and Development					
Research and Technology	\$ 3,318	\$ 1,608	\$ 1,454	\$ 1,134	\$ 1,564
<b>Surface Transportation Research and Development Investments</b>					
	<u>\$ 240,877</u>	<u>\$ 333,769</u>	<u>\$ 257,303</u>	<u>\$ 311,240</u>	<u>\$ 320,539</u>
<sup>(4)</sup> FY 2002 updated with Transit Cooperative Research Program estimate based on actual outlays.					
<sup>(5)</sup> Updated based on actual research and development related outlays.					
<b><u>Air Transportation:</u></b>					
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>Federal Aviation Administration</b>					
Research and Development Plant	\$ 10,130	\$ 3,020	\$ 2,903	\$ 4,230	\$ 5,287
Applied Research	120,395	59,150	29,406	91,743	103,659
Development	3,419	603	251	478	547
Administration	46,988	44,480	31,669	28,643	29,163
<b>Air Transportation Research and Development Investments</b>					
	<u>\$ 180,932</u>	<u>\$ 107,253</u>	<u>\$ 64,229</u>	<u>\$ 125,094</u>	<u>\$ 138,656</u>
<b>Total Research and Development Investments</b>					
	<u>\$ 421,809</u>	<u>\$ 441,022</u>	<u>\$ 321,532</u>	<u>\$ 436,334</u>	<u>\$ 459,195</u>



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.

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** (FAA) 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.



## 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](http://www.bts.gov/programs/statistical_policy_and_research/source_and_accuracy_compendium/index.html).

### Details on DOT Safety Measures

#### Highway Fatality Rate

(NHTSA – Fatality Analysis Reporting System (FARS), FHWA – Traffic Volume Trends (TVT))

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 Washington, D.C.  VMT represent the total number of vehicle miles traveled by motor vehicles on public roadways within the 50 States and Washington, D.C.
Sources:	Motor vehicle traffic fatality data are obtained from the National Highway Traffic Safety Administration's Fatality Analysis Reporting System (FARS). The FARS database is based on police crash reports and other State data.  VMT data for 2005 are estimated based on preliminary 2004 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 2004 and prior years are from the HPMS system based on State samples of road segments.
Statistical Issues:	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



	<p>denominator has far more variability.</p> <p>The TVT data used for the 2005 VMT are an early estimate from the 2004 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 2004 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 3 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 2004. The fatality estimates used to calculate the 2005 rates shown in this report were forecasted using the most recent data from 1997 to 2003. Inputs were monthly fatality counts from FARS from 1997 to 2003. NHTSA's first official estimates for 2005, the Early Projections, will be completed in spring 2006. Differences between the official Early Projection estimates and those in this report are to be expected.</p> <p>VMT data for 2004 are preliminary estimates provided by the Federal Highway Administration (FHWA). VMT data used to calculate the 2005 rates shown in this report are projected assuming an increase rate of 1.5 percent (based on previous increases in VMT) from the 2004 VMT estimate. The final measure of VMT for CY 2005 from the HPMS system will not be available until October 2006.</p>
Reliability:	<p>The measure informs and guides NHTSA 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

(FMCSA, NHTSA – Fatality Analysis Reporting System (FARS), FHWA – Traffic Volume Trends (TVT))

Measure:	Fatalities involving large trucks per 100 million truck VMT. (CY)
Scope:	The measure includes all fatalities (e.g., drivers and occupants of passenger cars, motorcycles, large trucks, or pedestrians) associated with crashes involving



	<p>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 Washington, D.C.</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 Washington, D.C.</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 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.</p>
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 2004. For 2005, the FARS data for crashes involving large trucks are not available. The value used for the 2004 rate is projected from 1997-2004 trend data. The actual fatality count for 2005 will be available in October 2006.</p> <p>The TVMT is complete through 2003. For 2004 and 2005, it is projected using the historical trend with adjustments for observed change in the total VMT in 2003. The final TVMT estimate for 2004 will be available in December 2005, and the final TVMT estimate for 2005 will be available in December 2006.</p>
Reliability:	<p>The measure informs and guides FMCSA 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.</p>

**Air Carrier Fatal Accident Rate**

Measure:	U.S. commercial fatal aviation accidents per 100,000 (Last 3 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.
Sources:	<p>Fatal aviation accidents: The data on commercial and general aviation fatalities come from the National Transportation Safety Board's <a href="#">Aviation Accident Database</a>. Aviation accident investigators under the 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.</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). 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. Due to reporting procedures in place, it is unlikely that calculation of future fiscal year departure data will be markedly improved. Lacking complete historical data on a monthly basis and independent sources of verification increases the risk of error in the activity data.</p>
Reliability:	<p>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. National Transportation Safety Board (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>



### 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. <i>General aviation</i> 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 commercial and general aviation fatalities come from the National Transportation Safety Board's <a href="#">Aviation Accident Database</a> . Aviation accident investigators under the auspices of the National Transportation Safety Board 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. It would be preferable to use fatal accident rates rather than fatal accidents as the performance measure. However, general aviation flight hours are based on an annual survey conducted by the FAA. Response to the survey is voluntary. The accuracy of the flight hours collected is suspect and there is no readily available way to verify or validate the data. For this reason, the General Aviation community is unwilling to use a rate measure until the validity and reliability of the survey data can be assured. Results are considered preliminary. NTSB continues to review accident results from FY 2004.
Reliability:	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.

### Train Accidents Rate

Measure:	Rail-related accidents and incidents per million train-miles. (FY)
Scope:	The 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>A train <i>accident</i> 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, <a href="#">Rail Equipment Accident/Incident Report</a>. The reporting threshold for 2005 is \$6,700.</p> <p>A train <i>incident</i> is any event involving the movement of on-track equipment that results in a reportable casualty but does not cause reportable damage above the current threshold established for train accidents.</p> <p>Operational data, including Train Miles, is reported on the form FRA F6180.55, <a href="#">Railroad Injury Illness Summary</a>.</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 \$6,700). 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% (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:	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.

### Transit Fatality Rate

Measure:	Transit fatalities per 100 million passenger-miles traveled. (CY)
Scope:	Transit fatality data includes passengers, revenue facility occupants, trespassers, employees, other transit workers (contractors), and others. A transit fatality is a death within 30 days after the incident, which occurs under the collision,



	<p>derailment, personal casualty (not otherwise classified), fire, or bus going off the road categories of National Transit Database (NTD) reporting. Previous to 2002, transit involved parties were defined as patrons, employees, and others (the safety data was collected on a fiscal as opposed calendar year basis). Fatalities for the performance measurement use only transit agency Directly Operated (DO) mode data. Purchased Transportation (PT) data is 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 (buses, heavy and light railcars, commuter railcars, ferries, paratransit vans, vanpools, etc.) 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 is used exclusively for commuter rail (CR) safety data. NTD and RAIRS data are an input to FTA's Transit Safety &amp; Security Statistics &amp; Analysis program (formerly known as Safety Management Information Statistics [SAMIS]).</p>
Sources:	<p>The Transit Safety &amp; Security Statistics &amp; 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 &amp; Security Statistics &amp; Analysis Annual Report</p> <p>Transit passenger miles: Transit Safety &amp; Security Statistics &amp; Analysis Annual Report</p>
Statistical Issues:	<p>The fatality counts in FTA's Transit Safety &amp; Security Statistics &amp; 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 and rail routes, transit authorities use a FTA-approved sampling technique. Passenger-miles are the only data element that is sampled in the NTD.</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 Corp.).
Completeness:	<p>The information for this measure comes from the FTA's Transit Safety &amp; Security Statistics &amp; 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> <p>The 2005 measure is an extrapolation of partial-year data, particularly of passenger-miles traveled.</p>
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 incidents for natural gas and hazardous liquid pipelines. (CY)
Scope:	This measure is based on reported hazardous liquid and natural gas accidents that meet Federal reporting criteria as defined in 49 CFR 191.1 and 191.15 for natural gas pipeline incidents and in 49 CFR 195.50 for hazardous liquid pipelines.
Source:	Office of Pipeline Safety (OPS) Incident and Accident Reports
Statistical Issues:	Reports are required to be submitted by the responsible operators within 30 days of an incident or face penalties for non-compliance. OPS 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). Compliance is very high and most incidents that meet reporting requirements are submitted. OPS is developing a Best Management Practice to ensure quality of the incident data. A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined.
Completeness:	The reported estimates are based upon incident data reported in January through June 2005. In reporting pipeline safety, there is both a safety and environmental measure. There may be a 60-day lag in reporting and compiling information in the database for analysis. Operators have 30 days to report



	<p>incidents. Traditionally, there are more incidents in the summer than the winter. Preliminary estimates are based on data available as of middle of August, with 6 months of data through the end of June. The CY 2005 estimate is based on a straight line extrapolation of that data (i.e., multiplying the cumulative incidents reported through June by 12/6 or doubling the number available from January through June).</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>
Reliability:	PHMSA uses these data in prioritizing its inspections and safety reviews, and for more long-term strategic management of its pipeline safety program.

#### Serious Hazardous Materials Incidents

Measure:	Number of serious hazardous materials transportation incidents. (CY)
Scope:	Serious reported hazardous materials incidents were initially defined by PHMSA to be those that result in a fatality or major injury (for most purposes, an injury resulting in hospitalization) due to a hazardous material, closure of a major transportation artery or facility, or evacuation of six or more persons due to the presence of a hazardous material, or a vehicle accident or derailment resulting in the release of a hazardous material. The definition includes those incidents resulting in 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, or the exposure of hazardous material to fire; plus any release of radioactive materials from Type B packaging, Risk Group 3 or 4 infectious substance, 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. This measure tracks only transportation-related releases of hazardous materials that are in commerce. Volume of spills is not tracked, as this does not necessarily indicate risk.
Sources:	Hazardous Material Information System (HMIS) – Office of Hazardous Materials Safety (OHM) on Form DOT F 5800.1.
Statistical Issues:	Data are collected by the carrier involved in each reportable incident and submitted to PHMSA's Office of Hazardous Materials Safety (OHM) on Form DOT F 5800.1. Carriers are required by regulation to report incidents and face significant penalties for failing to do so. Incident reports are received continuously by OHM. Carriers are required to submit incident reports to



	<p>PHMSA within 30 days of an incident. Once received by OHM, 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>Although the number of incidents may be underreported, such recording error is probably small in comparison to the annual variation due to chance.</p>
Completeness:	<p>PHMSA continues to receive reports from calendar year 2005. By the end of September 2005 actual incident data was received through August 31, 2005. PHMSA is projecting the remainder of the calendar year using the actual number of incidents that occurred during September, October, November, and December of 2004 – the previous calendar year. This methodology for projecting the CY 2005 estimate is expected to be within 2-4% of the final estimate which becomes available during the second quarter of CY 2006.</p>
Reliability:	<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>

#### Details on DOT Mobility Measures

##### **Highway Infrastructure Condition**

Measure:	Percentage 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 <i>quarter-car</i> vehicle suspension experienced while traveling over a pavement. 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 <i>Field Manual</i> . 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:	Data up to 2003 are final estimates. The 2004 measure is not available, as States report highway performance data to FHWA as late as October in the following calendar year. FY 2004 data are not complete. Even with complete FY 2004 data, projections must be made for FY 2005.
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 <i>HPMS Field Manual</i> . 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. Definitions:  1. Urban area: Developed area with a density of greater than 1000 persons per square mile.  2. Congested travel: Traveling below the posted speed limit(s).
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 the of TTI's methodology is available at <a href="http://mobility.tamu.edu/ums/report/methodology_appB.pdf">http://mobility.tamu.edu/ums/report/methodology_appB.pdf</a> .



Completeness:	The 2003 and prior measures are final. The 2004 measure is preliminary, as partial 2004 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., 2005 actual numbers will not be available from HPMS until October 2006. The 2005 measure is a projection based on recent year trends.
Reliability:	<p>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 <i>HPMS Field Manual</i>. 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.</p> <p>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.</p>

### Transit Ridership

Measure:	Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels. (CY)
Scope:	<p>The metric is 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>
Sources:	<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 is collected from the 150 largest transit systems.</p> <p>Employment: Bureau of Labor Statistics Current Employment Statistics (CES) Survey.</p>
Statistical	The sources of uncertainty include coverage errors and auditing issues. These



<p>Issues:</p>	<p>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 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.</p> <p>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. The sources of uncertainty include coverage errors and auditing issues. Until 2002, reports were required only on an annual basis.</p> <p>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 are reporting on a monthly basis. However, the 150 is dynamic, not static. Because much of transit is contracted out, or purchased transportation, 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. Another common example is Dallas Area Rapid Transit (DART). DART dropped their large bus contract and provided the service in-house. The monthly data is being reported, but it looks like one reporter didn't report. Further, in the past, for the sake of an accurate comparison between years, the FTA procedure has been to eliminate the entire agency when only one mode has a reporting gap for a single month. That means, if one of Boston's vanpool contractors did not report one month, FTA would eliminate all of Boston's data entirely. Boston has heavy rail, light rail, bus, ferry, demand response, etc. In 2006, we will only drop the mode not reported. All these factors overstated the number of agencies that did not report. Through June 2005 data had been reported on a monthly basis for all modes for the full year of 2004 and 2005 by 123 of the largest 150 transit operators. Operators reporting data represent 88 % of nationwide transit utilization; all 150 operators represent 94 % of nationwide transit utilization.</p> <p>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 nonsampling 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>
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<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>In order to improve the timeliness of the data reported, and to make the period being reported more comparable across areas, in the future, the measure will utilize data on transit unlinked passenger trips (used as a surrogate for passenger-miles) from the new monthly National Transit Database that was initiated in 2002. This data is to be available for the largest 150 transit operators, which account for about 94 % of all transit ridership. Thus, for 2005, the indicator will compare transit ridership for the urbanized areas containing the 150 largest transit agencies (normalized for employment levels) for the year ending in September 2005 with the year ending in September 2004. Data on employment is 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 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>	<ol style="list-style-type: none"> <li>1. Percentage of bus fleets that are compliant with the Americans with Disabilities Act (ADA). (CY)</li> <li>2. Percent of key rail stations that are compliant with the Americans with Disabilities Act (ADA). (CY)</li> </ol>
<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</p>



	<p>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>
Sources:	<p>Compliant bus fleets: National Transportation Database (NTD).</p> <p>Compliant rail stations: Rail Station status reports to the FTA.</p>
Statistical Issues:	<p>Data is 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>
Completeness:	<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 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>
Reliability:	<p>All data in the NTD is 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 is 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:	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.
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 % 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 % of the JARC grantees have reported this data for FY 2004 and similar or better results are expected for FY 2005. 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 2005 has two elements. Phase I will use existing data collected for FY 2004 to project employment sites reached, based on expenditure level for FY 2005. Phase 2 will involve projections based on actual FY 2004 and FY 2005 cumulative data that will be available in early 2006. Phase 2 involves the collection of 2005 data collected from grantees. If data collected is incomplete, then projections will be made for grantees not reporting, based on data collected in FY 2004 / FY 2005.</p>
Reliability:	Oversight contractors review the data and contact grantees to ascertain methodologies on a sample basis, or when the information warrants review.



### Aviation Delay

Measure:	Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays (FY)
Scope:	<p>NAS On-Time Arrival is the percentage of all flights arriving at the 35 OEP (Operational Evolution Plan) 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 adjusted sum 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 OEP 35 airports is compared to their flight plan scheduled time of arrival. 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 National Aviation System (NAS) and the FAA, and counted as a delayed flight.</p>
Sources:	The ASPM database, maintained by the FAA's Office of Aviation Policy and Plans, and supplemented by DOT's ASQP causation data, contains the data for on-time arrivals. 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 55 airports. The 35 OEP airports are a sub-set of these 55 airports.
Statistical Issues:	None, all flight data to/from the 35 OEP airports are reported.
Completeness:	The FY 2005 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:	Flight plan data is extracted from carrier records supplied under ASPM, which contains flight data. Summary data are compared and supplemented with data filed monthly with DOT under 14 CFR Part 234, 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:	<p>1. Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses. (FY)</p> <p>2. Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses. (FY)</p>
Scope:	<p>Includes contracts awarded by DOT Operating Administrations through direct procurement. It does not include FAA contracts exempt from the Small Business Act.</p>
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 General 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 reverifying 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:	<p>The Federal Procurement Data System (FPDS) is prescribed by regulations as the official data collection mechanism for DOT acquisitions.</p>
Reliability:	<p>There is extensive regulatory coverage to ensure data reliability. The system is</p>



	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).
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**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 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.  Historically, the SLSDC has reported this performance metric for its entire navigation season (late March to late December). Unfortunately due to reporting timelines, system availability data is only reported through September in this report.
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 Bilateral and Multilateral agreements completed.</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>Global. The purpose of a BASA is to promote aviation safety and environmental quality; and to enhance cooperation and increase efficiency in matters related to civil aviation. By building a network of competent civil aviation authorities and concluding agreements with additional countries and/or regional authorities, the FAA can increase safety globally. Improved global understanding of U.S. safety regulations, processes, and procedures leads to better international regulatory oversight. Since the BASA is based on recognition of comparability of the U.S. and foreign systems for approval and surveillance of aviation industry, the BASA allows the FAA to rely upon capabilities and technical expertise of other civil aviation authorities in particular areas of aviation safety. This minimizes duplication of efforts and opens new lines of communication between authorities. FAA can then better focus on U.S. safety priorities and rely on competent civil aviation authorities for those activities taking place overseas.</p>
Sources:	FAA.
Statistical Issues:	None.
Completeness:	Signed BASA. This is achieved when an executive agreement and at least one implementation procedures is concluded with a given country or regional authority.
Reliability:	None.

### Reduced Barriers to Trade in Transportation

Measure:	<p>The 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.</p>
Scope:	<p>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 2005, there were 69 open skies agreements. This measurement includes the annual increase in population for the countries where open skies</p>



	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, 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.

#### Enhanced International Competitiveness of U.S. Transport Providers

Measure:	The number of international negotiations conducted annually to remove market-distorting barriers to trade in 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 2005, there were 69 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.

### Details on DOT Security Measures

#### **Strategic Mobility**

Measure:	Percentage of DOD-required shipping capacity complete with crews available within mobilization timelines. (FY)
Scope:	This measure is based on the material availability of over 50 ships in the Maritime Administration's Ready Reserve Force (RRF) and over 120 ships enrolled in the Voluntary Intermodal Sealift Agreement (VISA) program, which includes 47 ships enrolled in the Maritime Security Program (MSP). A second factor pertinent to this measure is the availability of sufficient licensed and unlicensed mariners to operate the available ships. 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. While other Government (primarily Military Sealift Command) owned or controlled sealift type vessels are not included in this measure, they draw their crews from the same pool of mariners. Accordingly, the availability measure is adjusted to reflect expected requirements during the early stages of a military crisis.
Sources:	Ship availability data is from MARAD's Office of Sealift Support (MSP/VISA ships) and the Office of Ship Operations (RRF ships). Mariner availability data is compiled and measured based on data obtained from the U.S. Coast Guard Mariner Licensing and Documentation data, MARAD's Office of Sealift Support estimates of the size of the sailing workforce and their availability for duty during a mobilization, and Department of Defense requirements.
Statistical Issues:	None.
Completeness:	Data are complete.
Reliability:	MARAD's data is reasonably reliable and useful in managing its reserve fleet readiness program.



### DOD-Designated Port Facilities

Measure:	Percentage of DOD-designated commercial strategic ports for military use that are available for military use within DOD established readiness timelines.
Scope:	The measure consists of the total number of DOD-designated commercial strategic ports for military use that are forecast as able to meet DOD-readiness requirements on 48-hour notice, 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 NPRN partners. 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.
Sources:	Data consists of the responses received from representatives of the port authorities for those commercial ports designated by the Department of Defense as strategic ports. Forecasts are requested on a monthly basis. One hundred percent of the strategic ports provide availability forecasts. The MARAD Office of National Security Plans maintains continuing dialog with respondents.
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
Scope:	The Office of Intelligence, Security, and Emergency Response (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.
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"> <li>1. Does the Secretary’s Crisis Management Center (CMC) have adequate resources, such as communications, technology, and fully ready technical staff? (10 points)</li> <li>2. Have the CMC workers been trained and participated in at least two exercises per year? (10 points)</li> </ol> <p>Function 2 – U. S. Disaster Response (20 points)</p> <ol style="list-style-type: none"> <li>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)</li> <li>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)</li> <li>3. Has the National Response Plan (NRP) Transportation Annex been updated in the past 2 years? (3 points)</li> <li>4. Within the past 2 years, have all ten regions updated their NRP Transportation Annexes? (3 points)</li> <li>5. Have DOT and DOD sufficiently coordinated their transportation functions? (3 points)</li> </ol> <p>Function 3 – Training and Exercises (20 points)</p> <ol style="list-style-type: none"> <li>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)</li> </ol> <p>Function 4 – Continuity of Operations (COOP) (20 points)</p> <ol style="list-style-type: none"> <li>1. Is DOT’s primary COOP site fully functional? (10 points)</li> <li>2. Is the OST COOP plan updated at least once every two years? (3 points)</li> <li>3. Have the Operating Administrations COOP Plans been updated in the last 2 years? (4 points)</li> <li>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)</li> </ol> <p>Function 5 – Continuity of Government (COG) (10 points)</p> <ol style="list-style-type: none"> <li>1. Does DOT have a complete National Emergency Management Team (NEMT)? (5 points)</li> <li>2. Have the NEMT team members received at least 1 training/exercise session during the year? (5 points)</li> </ol> <p>Function 6 – International Response (10 points)</p> <ol style="list-style-type: none"> <li>1. Has DOT, as a U.S. representative to NATO, participated in at least 4 key NATO meetings and 2 exercises annually? (8 points)</li> <li>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)</li> </ol>



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 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 DOT. In particular, there is no uniform definition of what should be reported as acres mitigated. The FHWA has provided guidance to the States as to which mitigation activities are to be reported.
Completeness:	Data are compiled by State DOTs 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) of the CWA) 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 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 this goal of wetland replacement.



### DOT Facility Cleanup

Measure:	Percentage of DOT facilities categorized as No Further Remedial Action 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 State Implementation Plans (SIPs).

#### Hazardous Liquid Materials Spilled

Measure:	Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines. (CY)
Scope:	This measure is based on reports each operator files using PHMSA F 7000-1 for an accident that meets the criteria in 49 CFR §195.50. An accident report is required for each failure in a pipeline system subject to this part in which there is a release of the hazardous liquid or carbon dioxide transported resulting in any of the following: (a) Explosion or fire not intentionally set by the operator. (b) Release of 5 gallons (19 liters) or more of hazardous liquid or carbon dioxide, except that no report is required for a release of less than 5 barrels (0.8 cubic meters) resulting from a pipeline maintenance activity if the release is: (1) Not otherwise reportable under this section; (2) Not one described in Sec. 195.52(a)(4); (3) Confined to company property or pipeline right-of-way; and (4) Cleaned up promptly; (c) Death of any person; (d) Personal injury necessitating hospitalization; (e) Estimated property damage, including cost of clean-up and recovery, value of lost product, and damage to the property of the operator or others, or both, exceeding \$50,000.
Sources:	Office of Pipeline Safety (OPS) Accident Report for Hazardous Liquid Pipeline Systems F 7000-1
Statistical Issues:	Spill data are collected by the pipeline operator involved in each reportable incident and submitted to PHMSA's Office of Pipeline Safety (OPS) on Form



	<p>PHMSA F 7000-1. Pipeline operators are required by regulation to report incidents and face significant penalties for failing to do so. Pipeline operators are required to submit incident reports to DOT within 30 days of the incident. Any accident discovered by OPS to be reportable and for which an accident report was not submitted is referred to the Office of Pipeline Safety's Enforcement, which ensures compliance with the reporting requirement.</p> <p>Post-1985 ton-mile data are calculated using a base figure reported in a 1982 USDOT study entitled <i>Liquid Pipeline Director</i> and then combined with data from the Association of Oil Pipe Lines and the Oil Pipeline Research Institute. Lack of additional information 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>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 OPS 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 OPS has noted in the past that the variability of this metric warrants close study. OPS has moved this year to "non-HVL (highly volatile liquids)" only for the environmental metric as HVLs evaporate on release and don't impact the environment in the usual way that other liquid petroleum products do. In previous years OPS had included HVLs in the metric and the variability was even more pronounced.</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. OPS 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>
Completeness:	The data for this measure fluctuate year to year. PHMSA is studying the spill data to determine the nature of this fluctuation and improve this measure. The 2005 measure is projected by extrapolating partial year (January-June) reported data.
Reliability:	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.

#### Aircraft Noise Exposure

Measure:	Percent reduction in number of people within the U.S. who are exposed to
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	significant aircraft noise levels (Day/Night Average Sound Level (DNL) 65 decibels or more) from the three-year average for 2000 to 2002.
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:	This measure is derived from model estimates that are subject to errors in model specification.
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 benefits of Federally-funded mitigation, such as buyout, are accounted.</p> <p>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 3-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 FY 2000- FY 2002 base time periods includes these events and is the same 3-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 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 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 <i>growth</i> 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.</p>



	The change will also make the Government Performance Review Act (GPRA) goal consistent with the FAA Flight Plan goal.
Reliability:	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.

**Details on DOT Organizational Excellence Measures**

**DOT Major System Acquisition Performance**

Measure:	For major DOT systems, the percentage of cost, schedule, and 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.
Statistical Issues:	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% threshold would be considered not meeting the established fiscal year performance goal.
Completeness:	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, A-109, and A-130, Federal Acquisition Regulations, and Departmental orders implementing those directives and regulations.
Reliability:	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.



**Major DOT Infrastructure Project Cost and Schedule Performance**

Measure:	<p>1. Achieve 95% of schedule milestones for major Federally-funded transportation infrastructure projects, or miss those milestones by less than 10%. (FY)</p> <p>2. Achieve 95% of cost estimates for major Federally-funded infrastructure projects, or miss them by less than 10%. (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>
Sources:	<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>
Statistical Issues:	<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</p>



	<p>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 % 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. In FY 2005, all of the three major runway projects met the performance target for completion.</p> <p>Cost performance now will be 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 % higher than projected costs in the cost schedule. For the three current major projects, the baseline of scheduled costs is \$3.4 billion. The source of this baseline cost is the most recent LOI amendment for each project, which reflects unanticipated cost overruns and project scope changes that are beyond the control of the airport sponsor. This includes costs directly or indirectly related to litigation, additional mitigation costs and material and supply cost increases due to contracting delays. Based on this measure, two of three major runway projects met the cost performance target in FY 2005.</p>
Completeness:	<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</p>



	<p>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:	Percentage 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. \$0 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 "\$0" 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.
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**Environmental Justice**

Measure:	Number of environmental justice (EJ) cases that remain unresolved after one year. (FY)
Scope:	Data will cover complaints filed with DOT under Title VI of the Civil Rights Act of 1964 and that have had environmental justice elements, such as allegations of substantially adverse environmental or health impact on a minority or low-income community by a transportation project. Case resolutions are actions that end or administratively close out complaints. These include such actions as determinations of no jurisdiction, withdrawals by complainants, resolutions achieved through alternative dispute resolution, findings of no violation, and negotiated settlements after discrimination findings under Title VI.
Sources:	Data are collected from the entire population of interest. Data for External Complaint Tracking System (XTRAK) will cover all complaints filed with DOT that involve allegations of discrimination by an entity that received DOT funding, or in situations where DOT has statutory enforcement authority. Valid bases for allegations of discrimination include: age, color, disability, ethnicity, National origin, race, religion, and sex.  Upon receipt of information alleging discrimination, data will be entered by the Departmental Office of Civil Rights (DOCR) staff and DOT Civil Rights office personnel. Data will be entered continuously by DOCR as cases are filed and as the responsible DOT Civil Rights office processes the case. XTRAK includes information on all external administrative civil rights complaints filed with DOT.
Statistical Issues:	None.
Completeness:	This indicator does not measure the impact of DOT's efforts to prevent the conditions that give rise to complaints. It does provide an initial measure of response timeliness, which is important to the public. The measure was expanded in 2000 to include the percentage of cases that remain unresolved after one year as a further indicator of the timeliness of resolution. All environmental justice cases by definition relate to the concerns of a community of low-income and/or minority people. In addition, the number of cases indicates the pervasiveness of community perception of significantly adverse environmental and health concerns.  It should be noted that environmental justice complaints can include allegations of discrimination on the basis of low income, which is not covered by Federal civil rights statutes. Thus, although most EJ complaints are also under Title VI of



	<p>the Civil Rights Act of 1964, not all are. Finally, there is no firm definition of what constitutes an EJ complaint, and thus, views can differ on what should be entered into XTRAK as an EJ complaint.</p> <p>The measure is current with no missing data.</p>
Reliability:	<p>Performance data are used by the DOCR and other DOT OAs in strategic management of this program.</p>



## IPIA Reporting Details

- I. Describe your agency’s risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.

The Department of Transportation (DOT) engaged AOC Solutions, Inc to review its programs and activities and identify those that may be susceptible to significant improper payments. DOT identified ten programs with the highest potential for improper payments based on the highest 2004 fiscal year expenditures, which comprised the majority of FY 2004 DOT expenditures.

The following programs were identified as most susceptible to improper payments based on DOT’s assessment of their full program inventory. These programs have the greatest potential risk for significant improper payments.

Operating Administration	Program
Federal Highway Administration	Federal Aid Highway Program - State Project * Federal Lands Highway Program - Contracts
Federal Aviation Administration	Operations Facilities and Equipment Airport Improvement Program *
Federal Transit Administration	Capital Investment Grants * Formula Grants *
Office of the Secretary of Transportation	Working Capital Fund DOT Payroll**
Federal Railroad Administration	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

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 statistical improper payment review based on the OMB guidelines.

- II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

AOC Solutions performed a risk analysis of each of the ten programs in order to determine the appropriate sample size of payments to review based on the program’s relative risk rating. Each criteria factor was scaled from high to low and had a numerical score assigned to each level. Programs were assessed on each criteria factor and scores were summed to achieve a total risk



score. The table below shows the final risk ratings of each of the ten programs reviewed, along with the risk rating of each program from the FY 2003 review for comparison.

OA	Program	FY 2003 Risk Rating	FY 2004 Risk Rating
DOT	Payroll	Moderate	Moderate
OST	Working Capital Fund	Moderate	Low
FRA	Grants	Low	Low
FHWA	Federal Aid Grants	Moderate	Moderate
FHWA	Federal Lands	Moderate	Moderate
FTA	Formula Grants	Moderate	Low
FTA	Capital Investment Grants	Moderate	Low
FAA	Airport Improvement Program (Grants)	Moderate	Moderate
FAA	Operations (excluding Payroll)	High	Moderate
FAA	Facilities and Equipment	High	Moderate

Program risk ratings for FY 2004 either improved or remained the same as FY 2003 ratings. Improvements were noted in Working Capital Fund, FTA Formula Grants and Capital Investment Grants, and FAA Operations and Facilities and Equipment programs due to improvements in established controls and program oversight.

Most notably, FAA converted from DAFIS to the Delphi financial system, which provides increased system controls over payments. In addition, FAA initialized the formation of an internal control division to direct the activities related to internal controls and compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*. This division provides oversight and leads development, implementation and operation of internal control activities.

A stratified sampling design which took into account payment amounts as well as the assessed risk of each program was used in the review. The sampling plan was designed with a 90% confidence level, which indicates a 90% likelihood that the true population value is within the results of the sample value.

Once the system extracts were received, payments per program were rank ordered and placed into bounded strata from lowest to highest dollar value. Once the program's population of payments was stratified, the number of samples to be selected were distributed among the strata, with proportionally more samples assigned to higher dollar value strata, following the *Probability Proportional to Size* (PPS) selection technique.

**III. Describe the Corrective Action Plans for:**

- A. Reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.**

AOC Solutions did not identify any improper payments exceeding both 2.5% of program payments and \$10 million during the FY 2005 review. The results of this study match those of the review done in FY 2004 by KPMG. Concurrently, our recovery audit work has shown there to be no chronic areas of weakness. With these results to date, no corrective actions have been necessary.

If a significant or chronic improper payment problems is discovered the Department will develop a corrective action plan and reduction targets.



**B. Grant-making agencies with risk susceptible grant programs, discuss what your agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.**

The test procedures applied during the reviews covered payments made by DOT to grantee entities under the Federal Highway Administration Federal Aid Program; the Federal Aviation Administration Airport Improvement Program; the Federal Railroad Administration Grant Program; and the Federal Transit Administration Formula Grant and Capital Investment Grant Programs. However, test procedures did not address subsequent flow down payments made by grantees to vendors. States and other non-Federal entities administer these grant programs and, accordingly, much of the activity subject to testing for improper payments is accounted for at these entities. DOT does not have records of grantee-level payment activities available for testing. Therefore, test procedures used for this review did not cover these activities.

To address the foregoing limitation, DOT devised an innovative research and development (R&D) strategy that was implemented at the Federal Highway Administration's Highway and Construction (Federal Aid) grant program. This strategy involved using a proof of concept research project to develop and test a methodology to satisfy the testing, estimation, and remediation requirements of IPIA for grant programs, particularly those involving construction projects.

DOT completed the project successfully in the summer of 2005. The result of this study as noted above is a methodology and testing procedures that will be used at the grantee level. The Department is now in the process of extending the methodology nationwide.

- IV. **The table below is required for each reporting agency. Please note the following changes from prior year reporting: (1) all risk susceptible programs must be listed in this chart whether or not an error measurement is being reported; (2) where no measurement is provided, agency should indicate the date by which a measurement is expected; (3) if the Current Year (CY) is the baseline measurement year, indicate by either footnote or by "n/a" in the Prior Year (PY) column; (4) if any of the dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, separate the two amounts to the extent possible; (5) include outlay estimates for CY +1, +2, and +3; and (6) agencies are expected to report on CY activity, and if not feasible, then PY activity is acceptable.**

\* Future year outlay estimates (CY+1, +2 and +3) should match the outlay estimates for those years as reported in the most recent President's Budget.



**Improper Payment Reduction Outlook**

OA	Program	2003 Outlays <sup>(2)</sup>	2003 Percentage	2003 Dollar Amount <sup>(3)</sup>	2004 Outlays <sup>(2)</sup>	2004 Percentage	2004 Dollar Amount <sup>(3)</sup>	2005 Outlays <sup>(2)</sup>	2005 Percentage	2005 Dollar Amount <sup>(3)</sup>	2006 Outlays <sup>(2)</sup>	2006 Percentage	2006 Dollar Amount <sup>(3)</sup>	2007 Outlays <sup>(2)</sup>	2007 Percentage	2007 Dollar Amount <sup>(3)</sup>
Federal Aviation Administration	Airport Improvement Program <sup>(1)</sup>	\$2,641	0.00%	(903)	\$2,917	0.00%	\$0	\$2,996	0.00%	\$0	\$3,215	0.00%	\$0	\$3,215	0.00%	\$0
	Facilities & Equipment	\$2,520	Not Reported	\$2 (\$2,491)	\$2,481	0.00%	\$0	\$2,701	0.00%	\$0	\$2,376	0.00%	\$0	\$2,376	0.00%	\$0
	Operations	\$3,270	Not Reported	\$22,000 (\$5,831)	\$2,805	1.60%	\$7,309	\$3,278	0.00%	\$0	\$3,539	0.00%	\$0	\$3,539	0.00%	\$0
Federal Transit Administration	Formula Grants <sup>(4)</sup>	\$4,394	0.00%	\$0	\$4,724	0.00%	\$0	\$4,521	0.00%	\$0	\$2,328	0.00%	\$0	\$2,328	0.00%	\$0
	Capital Investment Grants <sup>(1)</sup>	\$2,635	0.00%	\$0	\$2,788	0.00%	\$0	\$3,375	0.00%	\$0	\$2,512	0.00%	\$0	\$2,512	0.00%	\$0
Federal Highway Administration	Federal Aid <sup>(1)</sup>	\$29,585	0.00%	\$0	\$29,514	0.00%	\$0	\$31,217	0.00%	\$0	\$33,922	0.00%	\$0	\$33,922	0.00%	\$0
	Federal Lands	\$631	Not Reported	\$150 (\$12)	\$653	0.00%	\$0	\$750	0.00%	\$0	\$959	0.00%	\$0	\$959	0.00%	\$0
Federal Railroad Administration	Grants	\$1,021	Not Reported	\$556	\$1,302	0.00%	\$0	\$1,296	0.00%	\$0	\$375	0.00%	\$0	\$375	0.00%	\$0
Office of the Secretary DOT	Working Capital Fund	\$439	Not Reported	\$751 (\$20,290)	\$365	0.00%	\$0	\$332	0.00%	\$0	\$392	0.00%	\$0	\$392	0.00%	\$0
	Payroll	\$5,380 <sup>(4)</sup>	Not Reported	\$0	\$6,903	0.00%	\$0	\$6,641	0.00%	\$0	\$6,376	0.00%	\$0	\$6,376	0.00%	\$0

(1) Identified as a Section 57 Program

(2) Outlays are in Millions

(3) Improper Payment Dollar amount is Actual

(4) FAA Payroll only



V. **Discuss your agency’s recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition, complete the table below.**

In 2002, the Department of Transportation engaged PRG-Schultz to provide Recovery Audit services. Since that time, PRG has been working with the Department to identify overpayments and areas of weakness. The recovery auditor has access to our financial system to review payment records and has seamlessly been integrated into our business process with minimal cost to the government.

To date, the recovery audit has found no chronic problems within DOT’s processes and procedures. The chart below describes the findings for DOT’s recovery audit.

<b>Department of Transportation                      Recovery Audit Program                      Summary Results 2000 - 2004</b>				
Agency	Estimated Amount to Audit	Amount Reviewed	Amount Identified and Recovered	Error Rate
FHWA	\$ 693,000,000.00	\$ 561,330,000.00	\$ 55,952.40	0.010%
FAA	\$ 1,925,000,000.00	\$ 1,655,500,000.00	\$ 2,424,616.23	0.146%
FTA	\$ 171,875,000.00	\$ 154,000,000.00	\$ 68,155.00	0.044%
NHTSA	\$ 71,500,000.00	\$ 54,340,000.00	\$ 0	0.000%
OIG	\$ 6,875,000.00	\$ 5,500,000.00	\$ 0	0.000%
FMCSA	\$ 6,187,500.00	\$ 4,752,000.00	\$ 0	0.000%
VOLPE	\$ 5,500,000.00	\$ 4,400,000.00	\$ 0	0.000%
OST-WCF	\$ 103,125,000.00	\$ 82,500,000.00	\$ 14,224.00	0.017%
FRA	\$ 71,500,000.00	\$ 57,200,000.00	\$ 8,341.36	0.015%
RSPA	\$ 4,812,500.00	\$ 3,850,000.00	\$ 0	0.000%
MARAD	\$ 3,437,500.00	\$ 2,750,000.00	\$ 0	0.000%
OST	\$ 1,375,000.00	\$ 1,100,000.00	\$ 0	0.000%
BTS	\$ 687,500.00	\$ 550,000.00	\$ 92,695.21	16.854%
<b>Totals</b>	<b>\$ 3,064,875,000.00</b>	<b>\$ 2,587,772,000.00</b>	<b>\$ 2,663,984.20</b>	<b>0.10%</b>



**VI. Describe the steps the agency has taken and plans to take to ensure that agency managers are held accountable for reducing and recovering improper payments.**

DOT management has taken a strong role in ensuring that agency managers are held accountable for reducing and recovery 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 Department outlining the work of the recovery audits.

To date there have been no significant amount of 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.

**VII.**

**A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.**

The Department of Transportation currently has all of the information systems and infrastructure needed to ensure the propriety of payments at the Federal level. This is shown through the results of our improper payment review of our top ten programs as well as our recovery audit work that has been completed.

**B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2006 budget submission to Congress to obtain the necessary information systems and infrastructure.**

As noted earlier, the Department devised and executed a research and development strategy for effectively addressing the grants program review limitations. While the research project is complete, the Department is now trying to determine the infrastructure needed to take this strategy nationwide. As the plan nationwide plan is devised the project may require additional infrastructures.

**VIII. Describe any 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.**

Test procedures applied during the review covered payments made by DOT to grantee entities under the Federal Highway Administration Federal Aid Program; the Federal Aviation Administration Airport Improvement Program; the Federal Railroad Administration Grant Program; and the Federal Transit Administration Formula Grant and Capital Investment Grant Programs. However, test procedures did not address subsequent flow down payments made by grantees to vendors. States and other non-Federal entities administer these grant programs and, accordingly, much of the activity subject to testing for improper payments is accounted for at



these entities. DOT does not have records of grantee-level payment activities available for testing. Therefore, test procedures used for this review did not cover these activities.

To address the foregoing limitation, DOT devised an innovative research and development (R&D) strategy that was implemented at the Federal Highway Administration's Highway and Construction (Federal Aid) grant program. This strategy involved using a proof of concept research project to develop and test a methodology to satisfy the testing, estimation, and remediation requirements of IPIA for grant programs, particularly those involving construction projects. DOT completed the project successfully in the summer of 2005 and is in the process of extending the methodology nationwide. The results of this project are provided in a separate report.

To address the limitations in non-construction programs, DOT is currently working with the Federal Transit Administration and the Federal Aviation Administration to expand existing oversight programs to meet IPIA requirements. DOT anticipates completing this process in FY 2006 for full implementation in FY 2007.

**IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.**

In the aftermath of Hurricanes Katrina and Rita, the Department of Transportation (DOT) has been spending millions of dollars on relief efforts. Depending on supplemental appropriations, DOT expects to spend billions of dollars to rebuild the transportation infrastructure in Alabama, Louisiana, Texas and Mississippi. With this concentrated and accelerated spending, there is an inherently higher risk of erroneous payments. To help eliminate or reduce the level of erroneous payments and to enhance internal controls for future relief efforts, DOT has decided to concentrate FY 2006 testing in the hurricane regions. The Department's four largest grant programs; Federal Highways - Highway Planning and Construction Program; Federal Transit Administration - Capital Grants and Investment Grants; and Federal Aviation Administration - Airport Improvement Program.

Testing will take place on a partially "real-time" basis. As funds are expended, we will ensure that projects are meeting their contractual obligations. This will aid the Department in preventing improper payments funded with the hurricane relief money. It would also allow the Department to test established controls and would assist us in enhancing or developing additional controls to prevent or detect identified problems.

As an outcome of this testing, DOT will issue an interim report for our FY 2006 Performance and Accountability Report (PAR) which will include (1) the amounts and causes of improper payments for each grant program, and (2) control procedures that can be used to prevent or detect improper payments in National emergency situations such as hurricanes, terrorist attacks, etc.

In addition to improper payment testing in the hurricane affected regions, DOT will also take the following actions to expand our overall Improper Payments Information Act (IPIA) program in FY 2006:

1. Actively seek participants to implement our IPIA research project in FHWA's Highway Planning and Construction Program. We hope to get a significant number of State DOTs to volunteer to implement our IPIA methodology.



2. Develop long term plans for incorporating IPIA testing into FHWA, FTA and FAA grants management programs. To save time and money, it will be most beneficial to all parties involved if the IPIA program is incorporated into existing programs. Our goal is that beginning in FY 2007 we will have IPIA requirements integrated with other grants management and oversight programs.



**FY 2005 OMB "PART" (Program Assessment Rating Tool)  
PROGRAM FOR DOT**

Summaries from the FY 2005 PART evaluation cycle are shown below:

<b>Program Name</b>	FAA Operations (Air Traffic Services)
<b>Strategic Goal(s) Effected</b>	Safety
<b>Score</b>	65% Adequate
<b>Major Findings/ Recommendations</b>	OMB downgraded the program in the areas of strategic and performance planning (lack of quantified long term goals and efficiency measures). Although FAA has been meeting its overall aviation fatal accident goal, it has not been as effective in meeting program performance measures such as preventing runway incursions or controller operational errors.
<b>Actions Planned/Taken</b>	Cost efficiency measures have been developed as well as targets established for the 2006 President's Budget. Measures have been briefed to the GAO and DOT IG as well as reported publicly in the 2004 ATO Annual Performance Report. Targets are being formulated and will be set by the end of September 2005.
<b>Program Name</b>	FAA Research, Engineering & Development (RD&E)
<b>Strategic Goal(s) Effected</b>	Safety, Mobility
<b>Score</b>	93% Effective
<b>Major Findings/ Recommendations</b>	The program received high marks in all evaluation areas. This program received the highest scores ever achieved by a DOT program.
<b>Actions Planned/Taken</b>	Delphi financial reports are used in conjunction with CAS reports within ATO Planning and ATO Finance as part of the RE&D funds management and tracking.
<b>Program Name</b>	FHWA Highway Infrastructure Investments
<b>Strategic Goal(s) Effected</b>	Organizational Excellence
<b>Score</b>	FY 2004 Score was 82%; FY 2005 Score = 70% Moderately Effective
<b>Major Findings/ Recommendations</b>	The OMB review emphasized stewardship and oversight, bringing FHWA administrative funds into this review which resulted in a score reduction of 12 points.
<b>Actions Planned/Taken</b>	FHWA has prepared a plan for improving program and project oversight of States. Directed more resources to comprehensive evaluation activities, particularly at the State project level. Devise efficiency measures to show that program delivery is cost-effective. With the passage of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act, A Legacy for Users (SAFETEA-LU), proposed budget and legislative changes will allow FHWA to more effectively and efficiently meet its performance goals.
<b>Program Name</b>	FHWA - Federal Lands Highways Program
<b>Strategic Goal(s) Effected</b>	Environmental Stewardship
<b>Score</b>	82% Moderately Effective



<b>Major Findings/Recommendations</b>	OMB noted that the evaluation score reflected good business planning and an internal efficiency measures.
<b>Actions Planned/Taken</b>	A team with FHWA and National Park Service employees was established to develop guidance to facilitate the implementation of the Memorandum of Agreement (MOA) concerning the delivery of a larger Park Roads and Parkway Program. The Team identified eleven issues that are critical to the delivery of the program. Several groups are currently working on many of these issues and it has been proposed that additional teams be established to address the remaining issues. The ultimate goal is to develop a comprehensive delivery plan and performance measures.
<b>Program Name</b>	FRA - Railroad Safety Program
<b>Strategic Goal(s) Effected</b>	Safety
<b>Score</b>	80% Moderately Effective
<b>Major Findings/Recommendations</b>	The program received relatively good scores across the board with no major deficiencies noted.
<b>Actions Planned/Taken</b>	FRA has developed a schedule for hiring independent reviewers to evaluate elements of the safety program on a five-year rolling basis. FRA plans to request funding from OMB for independent evaluation in FY 2007 budget.
<b>Program Name</b>	FTA - New Starts
<b>Strategic Goal(s) Effected</b>	Organization Excellence
<b>Score</b>	83% Moderately Effective
<b>Major Findings/Recommendations</b>	The program received relatively good scores across the board with no major deficiencies noted.
<b>Actions Planned/Taken</b>	1. Provide a performance-based budget justification for the New Starts program. 2. As FTA uses new performance targets to measure performance, the 2006 budget will better reflect how funding impacts performance.
<b>Program Name</b>	Research and Special Programs Administration (now PHMSA) - HAZMAT Emergency Preparedness Grants
<b>Strategic Goal(s) Effected</b>	Safety
<b>Score</b>	83% Moderately Effective
<b>Major Findings/Recommendations</b>	OMB noted that the Hazmat Emergency Preparedness grant program was effective and efficiently run. However, OMB downgraded the program for not having long term performance goals specific to the grant program.
<b>Actions Planned/Taken</b>	PHMSA has completed the preliminary work to begin assessing the alignment between activities and DOT goals. A comprehensive program evaluation is schedule to be conducted in FY 2007.
<b>Program Name</b>	FMCSA Safety Grants
<b>Strategic Goal(s) Effected</b>	Safety, Security
<b>Score</b>	FY 2004 score 61%; FY 2005 score 72%
<b>Major Findings/Recommendations</b>	Improved score was a result of a positive performance trend toward meeting the long term performance targets.



<p><b>Actions Planned/Taken</b></p>	<p>FMCSA Division Administrators have completed and are now implementing their first annual Division Safety Plans. Division Safety Plans identify state-specific priority safety initiatives addressing Division safety goals that derive from agency goals. The Division Safety Plans, in consonance with MCSAP grants, strengthen the link between state Commercial Vehicle Safety Plans (CVSP) and National highway safety objectives.</p> <p>Accountability for agency operational targets in the performance budget is cascaded from headquarters Program Managers to Field Administrators and Division Administrators, and results are reported in the DOT PAR. Division Administrators also track and report quarterly on progress toward Division Safety Plan initiatives and milestones.</p> <p>FMCSA has aligned the agency performance budget request and program priorities consistent with the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).</p>
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**Department of Transportation Direct Obligations**  
**Period ended Sept 30, 2005**

**Federal Aviation Administration**

Operations	12,653,317,588
Facilities & Equipment	2,640,788,510
Research Engineering and Development	128,828,452
Airport Improvement Program	3,672,787,428
<b>FAA Total</b>	<b>19,095,721,978</b>

**Federal Highway Administration**

Federal Aid Highways	33,185,209,833
Miscellaneous Highway Trust Funds	82,012,431
Appalachian Development Highway System, General Fund	77,856,035
Appalachian Development Highway System, Highway Trust Fund	492,777
Miscellaneous Appropriations	27,442,077
<b>FHWA Total</b>	<b>33,373,013,153</b>

**Federal Motor Carrier Safety Administration**

Motor Carrier Safety Administrative Expenses	252,924,625
National Motor Carrier Safety Program	188,132,670
<b>FMCSA Total</b>	<b>441,057,295</b>

**National Highway Traffic Safety Administration**

Operations and Research (General)	3,763,857
Operation and Research Trust Fund	210,975,855
Highway Safety Grants	22,320,000
National Driver Register	3,646,503
<b>NHTSA Total</b>	<b>240,706,215</b>

**Federal Transit Administration**

Administrative Expenses	75,759,652
Formula Grants	4,436,489,389
Capital Investment Grants	3,263,375,812
Job Access & Reverse Commute	126,501,641
University Transportation Research	13,741,718
Transit Planning and Research	194,090,223
Washington Metropolitan Area Transit Authority	646,579
Discretionary Grants	31,045,274
<b>FTA Total</b>	<b>8,141,650,288</b>



**Department of Transportation Direct Obligations**  
**Period ended Sept 30, 2005**

**Federal Railroad Administration**

Safety and Operations	133,999,726
Research and Development	30,698,015
National Passenger Railroad Corporation (Amtrak)	1,227,092,187
Alaska Railroad Rehabilitation	24,800,000
Next Generation High Speed Rail	14,559,478
<b>FRA Total</b>	<b>1,431,149,406</b>

**Research & Innovative Technology Administration**

Research and Development	3,687,863
Bureau of Transportation Statistics Allocation	26,778,144
<b>RITA Total</b>	<b>30,466,007</b>

**Pipeline & Hazardous Materials Safety Administration**

Administrative Expenses	0
Hazardous Materials Safety	0
Research and Special Projects	42,638,336
Pipeline Safety	71,887,106
Emergency Preparedness Grants	14,188,561
<b>PHMSA Total</b>	<b>128,714,003</b>

**Maritime Administration**

Ship Disposal	17,251,057
Operations and Training	115,289,878
Title XI Administration	4,725,888
Maritime Guaranteed Loan Program	40,481,917
War Risk Insurance	50,000
Vessel Operations Revolving Fund	603,496
Ready Reserve Force	1,513,652
Maritime Security Program	100,451,595
<b>MARAD Total</b>	<b>280,367,483</b>

**St. Lawrence Seaway Development Corporation**

Operations and Maintenance	17,341,844
<b>SLSDC Total</b>	<b>17,341,844</b>



**Department of Transportation Direct Obligations  
Period ended Sept 30, 2005**

<b>Office of the Secretary</b>	
Salaries & Expenses	82,087,179
Office of Civil Rights	8,408,243
Transportation Planning, Research & Development	20,996,869
Minority Business Outreach	2,640,725
Minority Business Resource Center	521,864
Essential Air Service	102,841,987
Compensation for Air Carriers	15,330
New Headquarters Building	43,355,413
<b>OST Total</b>	<b>260,867,610</b>
<b>Office of the Inspector General</b>	
Salaries and Expenses	57,558,375
<b>OIG Total</b>	<b>57,558,375</b>
<b>Surface Transportation Board</b>	
Salaries and Expenses	20,012,955
<b>STB Total</b>	<b>20,012,955</b>
<b>DOT Total</b>	<b>63,518,626,612</b>



## TOP MANAGEMENT CHALLENGES

*Department of Transportation*

*Report Number: PT-2006-007*

*Date Issued: November 15, 2005*



U.S. Department of  
Transportation  
Office of the Secretary  
of Transportation  
Office of Inspector General

# Memorandum

Subject: INFORMATION: DOT's FY 2006 Top  
Management Challenges  
Report Number PT-2006-007

Date: November 15, 2005

From: Kenneth M. Mead  
Inspector General

Reply to  
Attn. of: J-1

To: The Secretary  
Deputy Secretary

The Office of Inspector General (OIG) has identified nine top management challenges for the Department of Transportation (DOT) for fiscal year (FY) 2006. 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 2006 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 2005.

- **Working With Other Agencies To Respond to Disasters and Address Transportation Security**
  - *Responding to Hurricane Katrina and Other National Disasters*
  - *Addressing Transportation Security*
- **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*
  - *Enhancing Fraud Prevention Capabilities and Taking Aggressive Action Against Those Who Perpetrate Fraud, Including Motor Fuel Tax Evasion*
  - *Tough Decisions Ahead in Choosing Between Competing Transit Needs*



- **Building on Recent Initiatives To Further Strengthen Surface Safety Programs**
  - *Addressing Highway Safety Problems Where Serious Injuries and Fatalities Persist*
  - *Preventing Fraud in the Commercial Driver's License Program*
  - *Strengthening Rail Safety Program Oversight and Enforcement*
- **Reforming Intercity Passenger Rail To Improve Performance**
  - *Amtrak Has Little Incentive To Improve Cost-Effectiveness but Must Do More To Operate Efficiently and Improve Performance*
  - *States Need a Larger Voice in Determining Service Requirements*
  - *Adequate and Stable Federal Funding Is Essential*
- **Mitigating Flight Delays and Relieving Congestion—Actions Needed To Meet Demand**
  - *Taking Appropriate Action Against Growing Aviation Delays*
  - *Keeping Planned Infrastructure and Airspace Projects on Schedule To Relieve Congestion and Delays*
  - *Exploring Alternatives for Managing Capacity Where Infrastructure and Airspace Redesign Initiatives Are Not Feasible*
- **Reauthorizing Aviation Programs—Establishing Requirements and Controlling Costs Are Prerequisites for Examining FAA Financing Options**
  - *Controlling 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*
  - *Getting Control of Support Services Contracts*
  - *Establishing Requirements for the Next Generation Air Traffic Management System*
  - *Addressing the Expected Surge in Air Traffic Controller Attrition and Negotiating an Affordable and Equitable Bargaining Agreement*
  - *Completing the Cost Accounting System To Control Costs and Improve Operations*
- **Aviation Safety—Developing Effective Oversight Programs for Air Carrier Operations, Repair Station Maintenance, and Operational Errors**
  - *Implementing a Risk-Based Approach to Air Carrier and Repair Station Oversight*
  - *Ensuring Reporting of Operational Errors*
- **Improving Information Technology Investment and Computer Security**
  - *Clarifying the Departmental Investment Review Board's Role in Assisting the Secretary To Maximize the Value and Manage the Risk of Major Information Technology Investments*
  - *Eliminating Redundant IT Infrastructure Outside of DOT Headquarters To Reduce Operating Costs*



- *Better Securing Air Traffic Control Systems*
- *Correcting Weaknesses in the Federal Railroad Administration Network and Enhancing Business Contingency Plans for Critical DOT Systems*
- **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*
  - *Enforcing the Requirements Established To Mitigate Risks of Noncompliant Loans and Pursuing Remedies To Cure Defaults*

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. Working With Other Agencies To Respond to Disasters and Address Transportation Security**

The Department of Transportation (DOT) has always played a significant role in helping states to rebuild infrastructure damaged or destroyed by natural disasters by providing technical assistance and funds through emergency relief programs. The attacks of September 11, 2001, along with the recent destruction in the Gulf Coast region caused by Hurricanes Katrina and Rita, exposed the vulnerabilities of our Nation's citizens and critical transportation and energy infrastructure to catastrophic events. What has become clear as a result of these events is the continuing need for a well-defined, well-coordinated, interagency approach to preparing for, responding to, and recovering from such devastating events. As DOT addresses the daunting rebuilding tasks, it will need to work closely with other agencies, such as the Departments of Homeland Security (DHS) and Defense to:

- Ensure that missions are performed in a well-coordinated and cost-effective manner to protect reconstruction funding from fraud, waste, and abuse. History has shown that in the aftermath of crises, substantial infusions of funding for recovery efforts are often accompanied by fraud perpetrated by parasitic elements who exploit weaknesses in Government oversight.
- Address security issues within the U.S. transportation system and protect users from criminal and terrorist acts.

### ***Responding to Hurricane Katrina and Other National Disasters***

While the Federal Emergency Management Agency (FEMA) within DHS has been assigned the primary responsibility for responding to Hurricane Katrina and other national disasters, coordinating Federal operations is a shared responsibility. Under the National Response Plan adopted in December 2004, some 32 Federal agencies and non-profit groups agreed to participate in concerted response efforts to aid areas affected by terrorist attacks, major disasters, and other emergencies of national significance.

Under the National Response Plan, DOT is the lead agency for transportation (Emergency Support Function-1) and a support agency for 11 other critical NRP functions. In the aftermath of Hurricane Katrina, DOT deployed personnel and support to the affected region as part of the national response. This included moving over 14,000 truckloads of goods, such as disaster meals, water, ice, and generators and transporting people via air and bus to safe locations across the country. DHS Secretary Chertoff characterized the airlift organized by the Department between September 3<sup>rd</sup> and 11<sup>th</sup> as the largest domestic civilian airlift in U.S. history. Additionally, the Department supported efforts to establish command and control



facilities using its National Defense Reserve Fleet and worked to repair the infrastructure at airports, roadways, ports, and pipelines. The Office of Inspector General (OIG) provided a law enforcement presence in the affected region, protecting DOT personnel and assets at airports and aboard the Reserve Fleet vessels.

DOT support will continue during the unprecedented recovery and rebuilding effort that will be needed. Effective oversight of Hurricane Katrina response and recovery funds will be important to ensure that all elements of DOT, across all transportation modes, perform their disaster response and recovery missions in the most cost-effective manner. To that end, the OIG will work to ensure that the Operating Administrations provide proper stewardship over the resources devoted to the recovery effort. Specifically, the OIG will:

- Verify that expenditures of Federal funds on transportation services and programs are being appropriately tracked by the Operating Administrations as required by the Assistant Secretary for Budget and Programs and Chief Financial Officer;
- Proactively ensure that Operating Administrations and state transportation departments exercise adequate oversight of Department expenditures and put systems in place to make certain that funds are appropriately spent;
- Audit select projects, grants, and contracts;
- Conduct fraud awareness and prevention activities to alert Federal, state, and local government agencies; and
- Investigate allegations of fraud involving transportation-funded projects, to include presenting cases to the Department of Justice for prosecution, participating in resulting prosecutions, and ensuring that the Operating Administrations and states take appropriate suspension and debarment actions.

Our preliminary risk assessment to determine if the accounting, tracking, and financial reporting of the costs of Hurricanes Katrina, Ophelia, and Rita were consistent with specific guidance provided by the Department noted that the Operating Administrations were working to establish procedures and controls to implement this guidance. Also, good controls seemed to have been established to track the Mission Assignments assigned to the Department by FEMA. We expressed concern about the adequacy of controls over funds used to support transportation-related emergency response activities provided by the Federal Aviation Administration (FAA) Southern Region. In addition, we observed that procedures and controls to track all administrative costs, as well as costs incurred prior to receiving Department guidance, had not been fully developed. Department officials agreed to address our concerns promptly, even before we issued our preliminary assessment, and stated that the Operating Administrations were working to determine all costs incurred and documenting these costs. We will verify the actions taken as



part of our ongoing oversight efforts of the Department's response to Hurricanes Katrina and Rita as announced on October 6, 2005.

### ***Addressing Transportation Security***

Aside from its disaster relief efforts, DOT also has the responsibility of working with other agencies to secure the U.S. transportation system and protect its users from criminal and terrorist acts. In our report of DOT's Top Management Challenges for FY 2005, we discussed the growing interdependency among Federal agencies in this area. 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.

DOT and DHS have signed a Memorandum of Understanding (MOU) to improve their cooperation and coordination in promoting the safe, secure, and efficient movement of people and goods throughout the U.S. transportation system. Finalizing the MOU was the first of many critical steps accomplished by DOT in what is a very dynamic process, but much more remains to be sorted out between the two departments.

There are MOU annexes and agreements covering various transportation modes, such as rail security, that have not been finalized but are necessary to clearly identify the roles and responsibilities of DHS and DOT for transportation security-related subjects such as research and development, emergency communication, and the oversight and enforcement jurisdiction of Transportation Security Administration (TSA) and Federal Railroad Administration inspectors. Further, when DOT and DHS finalize an annex or agreement clearly defining the roles and responsibilities of each agency, they must follow through and execute the terms of the annex or agreement.

For example, the Public Transportation Security annex, signed on September 8, 2005, by the Federal Transit Administration, TSA, and the Office of State and Local Government Coordination and Preparedness, will require vigilance to ensure that all the provisions of the annex are carried out to their fullest extent. Vigilance is also required to ensure the annex meets Congress' directives under the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). The Act directs DOT and DHS to develop security standards applicable to public transportation and regulations for providing grants to assist transit agencies in enhancing system security.

***For further information, the following report can be seen on the OIG web site at <http://www.oig.dot.gov>:***

- *New Approaches Needed in Managing FAA's Hazardous Materials Program*



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## 2. Getting the Most for Every Taxpayer Dollar Invested in Highway and Transit Projects

Stewardship of taxpayer dollars has been a constant hallmark and theme of Secretary Mineta, and year after year in our Management Challenge Reports we have pointed to the need to make improvements in this area. This year, we see positive signs from the Federal Highway Administration (FHWA) with its commitment to increase oversight of transportation dollars, and we urge that sustained attention be given to this area. We continue to see examples of ineffective management of highway funds, such as the identification of over \$1.2 billion in Federal highway aid obligations sitting idle during the last 7 years and transportation program fraud that continues to deny states much-needed funds for infrastructure improvements. The Department of Transportation (DOT) also faces continuing challenges with the ever-increasing demand both for new transit systems and for repair and maintenance of older systems.

Department leaders have sent a very clear message demanding effective oversight of public funds entrusted to FHWA, and there have been signs of improvement in the Department's oversight capability and efficiency, but there is still significant progress that must be made. The Department should ensure that it sustains this improvement, and, where oversight has failed, both Department employees and grantees must face the consequences. State and local government agencies share responsibility for stewardship of infrastructure improvement projects, and this task is during a time when Highway Trust Fund (HTF) revenues are falling short of an overwhelming demand for infrastructure funding. It is imperative that FHWA, along with state and local government entities, have management control systems in place to reduce the incidences of waste, fraud, and abuse; to detect them; and to respond forcefully when they occur. A 1-percent improvement in the efficiency with which states managed the \$700 billion investment in highway projects over the last 6 years would have yielded an additional \$7 billion for infrastructure improvements—enough to fund 8 of the 23 active major projects.

We see three key issues that need to be addressed:

- 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.
- Enhancing fraud prevention capabilities and taking aggressive action against those who perpetrate fraud, including the evasion of motor fuel taxes.
- Tough decisions between competing transit needs.



***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***

Secretary Mineta stated in March 2005 that FHWA needs to make “revolutionary” changes in how it conducts stewardship and oversight of Federal-aid funds. We agree, and our past reviews have disclosed that stronger FHWA stewardship and oversight of how Federal funds are invested is essential. Prior to her departure, former Administrator Peters had begun developing several new policies, procedures, and practices to improve FHWA oversight. Successfully implementing these initiatives will require a fundamental change in the way FHWA conducts business—FHWA needs to accelerate the shift of its role from being a supportive partner to the states to one of providing independent oversight of state activities.

The cornerstone of FHWA’s plan to improve its oversight must be to aggressively implement its new Financial Integrity Review and Evaluation (FIRE) program. The FIRE oversight program, developed in response to a material weakness reported in the 2004 Highway Trust Fund financial statements, is intended to improve controls and ensure that funds are safeguarded against fraud, waste, and abuse. FIRE is an important program that supports FHWA’s annual certification of internal and financial controls for these financial statements through reviews of financial processes and transactions. The program includes, in part, a risk assessment of the grant financial management process and reviews of Federal-aid billing transactions to determine whether items billed to FHWA represent eligible costs, funds are properly obligated and effectively used, and findings reported by the Office of Inspector General (OIG) and the Government Accountability Office are adequately resolved. FHWA should identify sufficient resources to aggressively implement the program and write its employees’ performance objectives to derive the greatest benefits possible from this program.

Specifically, FHWA needs to:

- **Ensure major project cost estimates and schedule milestones are credible.** Concerns over FHWA’s reviews of state-prepared project cost estimates and finance plans came to our attention in 1999 when we found that FHWA had failed to recognize that Boston’s Central Artery/Tunnel project managers and the Massachusetts Turnpike Authority had hidden about \$1.4 billion in project cost increases. More recently, the California San Francisco-Oakland Bay Bridge East Span project experienced a near doubling in its cost estimate from \$2.6 billion to \$5.1 billion, and the Texas Katy Freeway Reconstruction project rose 56 percent from \$1.7 billion to \$2.7 billion. We found that FHWA Division personnel had not exercised the due diligence necessary to ensure that these project cost estimates were reasonable. Instead, Division personnel largely relied on the certification from those state departments of transportation that the cost numbers



were valid, which they were not. FHWA needs to ensure that an independent and rigorous review of project finance plans is accomplished before approval, as opposed to relying on state representations.

- **Free up idle funds for other infrastructure expansion and preservation projects.** During our fifth review in 8 years of inactive obligations in 14 states, we found \$258 million of obligations that were no longer needed. We statistically projected that an additional \$403 million of unneeded obligations continued to sit idle nationwide. FHWA needs to make a concerted effort to ensure the projected \$403 million of unneeded obligations is identified and de-obligated. FHWA is committed to strengthening its oversight of inactive obligations and is working to resolve this longstanding problem. Our ongoing work indicates some success in these efforts as we found that in 14 states FHWA had de-obligated \$239 million. FHWA also provided us with additional information showing that a total of \$757 million will be de-obligated nationwide.
- **Develop a process to effectively detect improper payments and stop wasteful spending by grantees.** In FY 2004, the Department identified several grant programs as being susceptible to improper payments, including the Federal Aid Highway Program. The Department also initiated a pilot project to identify improper payments; however, the pilot project was too limited. Meanwhile, OIG investigators continue to identify instances of improper payments. For example, in May 2005, as a result of an OIG investigation, a Connecticut concrete contractor agreed to pay \$499,000 to the Department for supplying materials not meeting specifications. Grants awarded to the National Crash Analysis Center at George Washington University are another example of FHWA's failure to detect improper payments. FHWA's lack of oversight and the University's lack of management controls contributed to the success of a fraud scheme at the Crash Analysis Center that cost the Department \$900,000 over 4 years. The fraudulent expenditures cited have since been returned to the Agency. In response to this case, FHWA is reorganizing and redesigning its procedures to improve oversight of research agreements. This includes creating a new division within the Office of Acquisition Management devoted to the award and administration of cooperative agreements with all universities and other recipients. With the huge increases in DOT funding due to the passage of legislation<sup>1</sup> in August 2005 reauthorizing the highway program, there is a compelling need for FHWA to provide better oversight and accountability of Federal payments to uphold the public trust.
- **Clean up bad data and generate reliable financial statements.** In 2004, we reported a material weakness in FHWA's financial statement preparation and

<sup>1</sup> "Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users" (SAFETEA-LU), Public Law 109-59 (119 Stat. 1144).



analysis. Although FHWA has made some progress correcting these deficiencies, the consequences of these weaknesses became evident in December 2004 when FHWA disclosed a material error that resulted in a \$2.966 billion understatement of previously reported budgetary resources that required the financial statements to be restated. Substantial improvements still need to be made to avoid another material weakness in this area.

- **Make certain Statewide Transportation Improvement Programs (STIPs) do not make misleading promises of what can realistically be accomplished.** A few states have significantly reduced or delayed planned highway projects because adequate funds were not available. For example, in response to OIG concerns, an FHWA Headquarters team reviewed Puerto Rico's STIP process and found that insufficient funds had been identified to accomplish programmed projects. The review concluded that the STIP was not financially constrained and the process had been ineffective since 1993. These STIPs are required to be fiscally constrained. Consequently, FHWA needs to ensure they present truthful and credible information.
- **Redouble efforts to develop a multi-disciplinary workforce.** As of June 2005, financial specialists occupied less than 4 percent of the permanent positions at FHWA Divisions and Headquarters, the same as 3 years ago. This year, the Government Accountability Office reported<sup>2</sup> that FHWA's progress toward developing a more multi-disciplinary approach to oversight was limited by its failure to incorporate this approach into its human capital planning efforts. This was despite instructions from Congress in 2003 to develop a more multi-disciplinary workforce to perform oversight activities. Improving FHWA's financial analysis capability is critical because the failure to properly oversee states' project management practices can lead to increased project costs. Today's highway project oversight requires more employees with professional expertise in financing, cost-estimating, program analysis, and schedule management. Yet, our reviews have shown weaknesses in how FHWA has implemented its oversight, particularly in regards to financial management, indicating a need to improve skills in this area. FHWA needs to aggressively identify the skill sets needed to meet its stewardship and oversight responsibilities and act to meet this need.

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

Contract and grant fraud continues to be a priority for the OIG, making up approximately 40 percent of our active case load. These investigations often involve bribery and corruption, bid-rigging, false claims, labor and materials overbilling, disadvantaged business enterprise fraud, and product substitution. During FY 2005,

<sup>2</sup> GAO Report Number GAO-05-173, Federal-Aid Highways: FHWA Needs a Comprehensive Approach to Improving Project Oversight," January 2005.



our increased focus on contract and grant fraud investigations has yielded 52 indictments, 42 convictions, and over \$84 million in total monetary recoveries. For example, in 2005, two Wisconsin transportation contractors were sentenced for their part in rigging bids on approximately \$100 million in DOT-funded contracts. The OIG investigation determined the two companies received over \$62 million in illegal Federal contract work. The defendants and their companies were ordered to pay over \$3 million in fines and restitution. The State of Wisconsin and FHWA debarred the companies and individuals involved.

The previously mentioned embezzlement scheme at the George Washington University is an example of Federal grant fraud that went undetected for too long. In June 2005, a University engineering professor who was the principal investigator for the DOT-funded National Crash Analysis Center was sentenced to serving 38 months in jail and paying restitution for stealing over \$900,000 in FHWA grants between 2000 and 2004. The embezzlement was uncovered only after a University official identified a potential conflict of interest involving the professor's plan to contract under the FHWA grant agreement with a firm he controlled and partly owned. The success of this 4-year fraud scheme depended upon the University's lack of adequate internal controls over its administration of the FHWA grant agreement, as well as inattention by FHWA.

Our investigations have consistently demonstrated that many fraud schemes depend on (1) employees not performing basic oversight responsibilities, (2) lax internal controls, and (3) inadequate procedures to track costs and services rendered. But, to its credit, the Department is taking seriously its responsibility to aggressively combat fraud. Specifically, over the past year the Department issued new, uniform guidance for suspension and debarment of contractors who were either indicted or convicted of fraud. The Department, however, must ensure the modal administrations follow the guidance and take aggressive action against those who perpetrate fraud.

In addition to contract and grant fraud, which unnecessarily increases costs, fuel fraud represents a drain on the HTF's main source of revenue. FHWA estimates that over 90 percent of HTF revenues will be derived from fuel taxes over the next 10 years.<sup>3</sup> In FY 2004, motor fuel excise taxes totaled nearly \$36 billion. The Internal Revenue Service estimates that \$1 billion in HTF revenue is being lost each year due to the mixing of motor fuel with other products to increase the fuel volume and reduce the effective tax rate—this is just one of many fraud scams. Unless fuel fraud is significantly curtailed, the real prospect exists that there will not be sufficient funds available to support the activities authorized in the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

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<sup>3</sup> Other HTF revenues are generated from truck-related taxes on tires, truck and trailer sales, and heavy vehicle use.



During FY 2005, we increased our collaboration with local, state, and Federal stakeholders responsible for state motor fuel excise tax enforcement. We are working closely with Washington State police officials in the investigation of two employees of a Washington State fuel delivery company who devised a scheme to steal pre-taxed motor fuel from a pipeline company's terminal rack using a misappropriated maintenance code. A loss of at least \$500,000 in Federal and state fuel taxes resulted from the theft of an estimated 1.2 million gallons of fuel, which was sold at market or below market prices at gas stations in Idaho, Washington, and Oregon.

Any loss of Federal fuel taxes represents a commensurate loss of revenues to the HTF. The overall impact of fuel tax evasion losses to the HTF is amplified because HTF revenues are not keeping up with funding requirements. Concurrently, demands on highway capacity have reached unprecedented levels, and replacement and rehabilitation costs for existing infrastructure have greatly increased. When fuel taxes are not paid, states fall short in needed dollars for the construction and upkeep of our Nation's roads and bridges. To help address these issues, the Department should emphasize to the Internal Revenue Service that the motor fuel tax evasion compliance and enforcement strategy needs to be strengthened to help ensure all taxes are collected and remitted. Ultimately, the Internal Revenue Service is responsible for ensuring that an effective fuel tax evasion strategy is developed and implemented.

#### ***Tough Decisions Ahead in Choosing Between Competing Transit Needs***

The Federal Transit Administration's (FTA) New Starts program relies on full funding grant agreements, which are long-term funding commitments that help meet the financial requirements of large transit projects. Because FTA awards relatively few of these agreements each year and funding to support the pipeline of New Starts projects is limited, it is crucial that only the most promising projects be selected as candidates for funding. As of the most recent New Starts Annual Report, there were 18 New Starts projects with full funding grant agreements and another 31 in the pipeline that were collectively seeking \$14.6 billion in Federal funding. Funding available through SAFETEA-LU, along with available contingent commitment authority, will provide approximately \$10.3 billion for these projects. In other words, fully one-third of the construction projects that have been requested through the New Starts program may not receive Federal funding.

Although not all projects in the pipeline will advance to full funding grant agreements, this gap between the funds being sought and the available commitment authority is likely to increase. For example, costs for the Charlotte South Corridor Light Rail Transit increased in 2004 from \$385 million to \$426 million primarily because of increases in the cost of concrete and steel for the track bed and vehicle maintenance building. The estimated total cost for this project has increased almost 29 percent over its 2001 cost of \$331.1 million.



While many are seeking funding of new transit systems, aging transit systems are experiencing financial difficulties. Many transit systems neither generate enough revenue to operate their day-to-day service nor provide operators with enough capital to refurbish and maintain their infrastructure. Cities such as Chicago and Washington, DC, rely on subsidies from state and local jurisdictions to cover budget deficits from operations, leaving these systems without enough revenue for capital maintenance and refurbishment. As more new systems are built, the competition for rail modernization funding and operating assistance will become more intense. The Department will need to focus on the problems of these aging systems in large cities to prevent the loss of vital transportation services. Otherwise, transit system shutdowns—like those threatened in Philadelphia and Pittsburgh in 2004—could occur. Action will be needed to ensure that these transit agencies do not face many of the problems that Amtrak faces, such as the ever-increasing and unfulfilled need for huge capital investments to improve its infrastructure to a state of good repair.

***For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:***

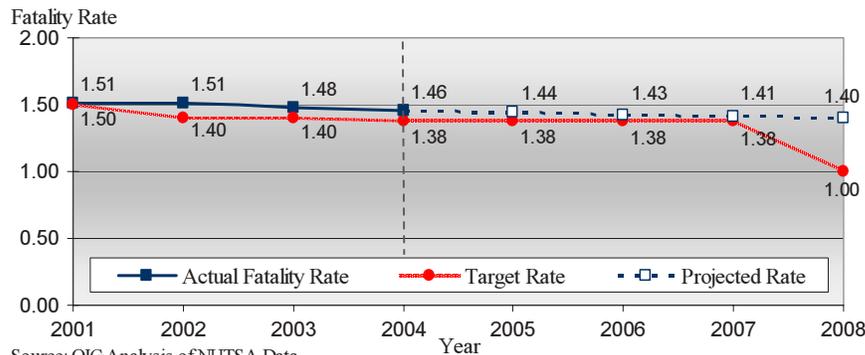
- *Impact of Water Leaks on the Central Artery/Tunnel Project and Remaining Risks*
- *FHWA's Need To Capture Aggregate Cost and Schedule Data To Improve Its Oversight of Federal-Aid Funds*
- *Water Leaks Within the I-93 Tunnels of the Central Artery Project*
- *Managing Risk in the Federal-Aid Highway Program*
- *Highway Trust Fund FY 2004 Financial Statements*
- *DOT Consolidated Financial Statements for Fiscal Years 2004 and 2003*
- *Audit of the Tren Urbano Rail Transit Project*
- *Finance Plan for the Central Artery/Tunnel Project*
- *The Rating and Evaluation of New Starts Transit Systems*
- *DOT FY 2005 Budget and Management Challenges*
- *Opportunities To Control Costs and Improve the Effectiveness of Department of Transportation Programs*
- *Controlling Costs and Improving the Effectiveness of Federal Highway Administration and Federal Transit Administration Programs*
- *Audit of Actions To Prevent Fraud on Cooperative Agreements With Universities*



### 3. Building on Recent Initiatives To Further Strengthen Surface Safety Programs

The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), enacted August 10, 2005, includes significant funding increases and initiatives in highway, commercial vehicle, and rail safety programs. It includes a highway safety improvement program that provides funding for infrastructure improvements for highway safety and at highway-rail grade crossings. DOT has set an ambitious goal of reducing the rate of highway fatalities from 1.46 fatalities per 100 million vehicle miles traveled to 1.0 fatalities by 2008. Meeting this goal appears unrealistic at this time as it would require significant acceleration in past improvements to meet the precipitous drop targeted after year 2007 (see Figure 3-1). The Department should explain how it will meet the targeted decline in annual fatality rate from 2007 to 2008 (nearly 28 percent), which, if met, would more than double the largest year-to-year rate decline going back 30 years.

**Figure 3-1. Actual Fatality Rates When Projected to 2008 Lag Targeted Rates\***



Source: OIG Analysis of NHTSA Data

\* Fatality rates are shown as the number of fatalities per 100 million vehicle miles traveled.

DOT must use the tools provided in SAFETEA-LU to build on past initiatives. Key steps are to:

- Address highway safety problems where serious injuries and fatalities persist,
- Prevent fraud in the Commercial Driver’s License (CDL) program, and
- Strengthen Rail Safety Program oversight and enforcement.



### ***Addressing Highway Safety Problems Where Serious Injuries and Fatalities Persist***

SAFETEA-LU provides state incentives, managed by the National Highway Traffic Safety Administration (NHTSA), addressing three persistent challenges—reducing alcohol-impaired driving fatalities, promoting greater seat belt use, and abating the increase in motorcycle fatalities.

- **More Focus on States With the Greatest Number of Alcohol-Impaired Driving Fatalities.** SAFETEA-LU will now allow NHTSA to direct grant funding to 10 states with the most fatalities related to impaired drivers, an action we previously supported in congressional testimony.
- **Use of SAFETEA-LU Authority To Aggressively Promote Greater Seat Belt Use in States.** NHTSA has been effective in promoting seat belt use—steadily increasing the usage rate to a high of 82 percent in 2004. However, only 21 states and the District of Columbia have a primary seat belt law. SAFETEA-LU provides incentives to states to pass either a primary seat belt law or maintain or increase seat belt use. These incentives provide a potent force for the new NHTSA Administrator to use in aggressively promoting changes in seat-belt use.
- **Help States Address the Steady Increase in Motorcycle Fatalities.** Motorcycle fatalities have increased for the last 7 years. Research shows that increased use of motorcycle helmets could save lives, but the helmet usage rate for motorcyclists in the United States dropped to 48 percent in 2005, after remaining unchanged at 58 percent for the 3 previous years. Only 20 states and the District of Columbia require helmets for all motorcycle riders. Making use of the SAFETEA-LU safety incentive grants, NHTSA could promote a reduction in the number of motorcycle deaths.

### ***Preventing Fraud in the Commercial Driver's License Program***

Curbing CDL fraud is important to highway safety as it helps ensure that only drivers with the requisite skills drive large trucks and other commercial vehicles. Over the last 5 years, we have investigated and prosecuted CDL fraud schemes in 23 states and found over 8,000 CDLs that were issued to drivers through corrupt examiners, mostly third-party examiners working on behalf of the state to test CDL applicants. Our work has paired us with the Department of Justice and other Federal and state law enforcement agencies to root out CDL fraud schemes and has been supported by the Federal Motor Carrier Safety Administration (FMCSA). Yet, problems persist. For example:

- In July and August 2005, two former employees of the Colorado Department of Motor Vehicles, working with a “middleman,” pled guilty to fraud for facilitating the unlawful sale of CDLs and Colorado State driver's licenses to undocumented



aliens. The investigation disclosed that these individuals were involved in a scheme to sell at least 100 Colorado State driver's licenses and 20 CDLs.

- In June 2005, three employees of a firm providing legal documents preparation and language translation services entered guilty pleas for assisting Illinois residents in obtaining false proof of residency and providing the answers to the CDL written test through a corrupt language translator at the test site. It is estimated that more than 600 fraudulent licenses were issued in this scheme. Tragically, a defendant in a related case who possessed a fraudulent Wisconsin CDL caused a fatal truck crash, killing a family of four.
- In April 2005, a third party tester for the Louisiana Department of Public Safety pled guilty to making false statements fraudulently certifying the test scores required to obtain CDLs. The investigation disclosed that the defendant accepted bribes in exchange for falsely certifying passing test scores for 12 applicants. The Louisiana Department of Commercial Motor Vehicles subsequently identified and retested 60 CDL holders tested by the defendant. All of the drivers failed the retest and their CDLs were revoked.

FMCSA has initiated improvements to the CDL program, but it will need to implement SAFETEA-LU provisions on learner's permits, background checks, and information systems modernization to further strengthen the program. Improvement should include ensuring that states track the status and disposition of suspect CDL holders, and require the retesting of drivers when appropriate. Based on information we obtained from the states on 15,032 suspect CDL holders, from 1998 to 2003, we were not able to determine whether actions, such as retesting or removal of CDL privileges, had been taken against 6,739 (45 percent) of these individuals.

### ***Strengthening Rail Safety Program Oversight and Enforcement***

Over the last 10 years, the Federal Railroad Administration (FRA) has made significant strides in reducing collisions and fatalities at highway-rail grade crossings (grade crossings). Nevertheless, grade crossing collisions increased from 2,976 in 2003 to 3,059 in 2004 (3 percent) and fatalities increased from 333 in 2003 to 368 in 2004 (11 percent). Furthermore, train accidents increased from 2,994 in 2003 to 3,292 in 2004 (10 percent) and fatalities jumped from 4 in 2003 to 13 in 2004, a 225 percent increase. Our February 2005 review of safety and enforcement data showed that safety problems have long persisted for four of the nation's largest railroads, despite the increase in civil penalties FRA has assessed against them. In total, FRA's civil penalty settlement amounts for all railroads increased by 180 percent, from \$3.8 million in 2000 to \$10.6 million in 2004.

To its credit, FRA implemented a reconciliation process in July 2004 to enforce reporting of fatal grade crossing collisions to the National Response Center, began implementation of a National Inspection Plan in April 2005 to strengthen its compliance program, and issued a safety advisory in May 2005 promoting grade



crossing safety. However, given the rise in the types of accidents and fatalities discussed above, coupled with the upward trend in train and highway traffic, it is critical that FRA's program oversight and enforcement efforts are carefully targeted to address those rail safety problems that are most likely to result in accidents and fatalities.

FRA should:

- Improve its oversight of grade crossing accident reporting, accident investigations, and enforcement of safety regulations. Improved oversight is needed because the Federal Government investigated very few crossing collisions from 2000 to 2004, and FRA recommended only a few crossing warning signal violations for enforcement actions, despite the many critical safety defects it identified.
- Use its newly issued rail safety action plan as the linchpin for further reducing rail-related accidents and fatalities by increasing enforcement, focusing inspection resources on areas of greatest safety concerns such as the most frequent and highest risk causes of accidents, and using accident and inspection data to target compliance problems.

***For further information, the following reports and testimonies can be seen 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*
- *Review of NHTSA's Progress in Implementing Strategies To Increase the Use of Seat Belts*
- *Progress and Challenges in Implementing the TREAD Act*
- *NHTSA Office of Defects Investigation*
- *Background Checks for Holders of Commercial Drivers Licenses With Hazardous Materials Endorsements*
- *Follow-up Audit of the Implementation of the North American Free Trade Agreement's Cross-Border Trucking Provisions*
- *Investment Review Board Deliberations on the Motor Carrier Management Information System*
- *Improvements Needed in the Motor Carrier Safety Status Measurement System*
- *Improving the Testing and Licensing of Commercial Drivers*
- *Highway-Railroad Grade Crossing Safety Issues*
- *FRA Safety-Related Findings and Recommendations*
- *Report on the Audit of the Highway-Rail Grade Crossing Safety Program*
- *FRA Oversight of Use of Slow Orders and Track Reclassification*



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#### **4. Reforming Intercity Passenger Rail To Improve Performance**

Intercity passenger rail service is an important component of a balanced transportation system, but Amtrak's current model is broken. Amtrak continues to incur unsustainably large operating losses, provide poor on-time performance, and bear increasing levels of deferred infrastructure and fleet investment on its system. From fiscal year (FY) 1997 to FY 2004, annual operating losses rose from \$797 million to \$1.3 billion, and Amtrak's debt grew from \$1.7 billion to \$4.6 billion. Although ridership increased to 25.1 million in FY 2004, passenger revenues were 2.8 percent below the level achieved in 2002. Amtrak has an estimated \$5 billion backlog of infrastructure repairs, and on-time performance continues to fall—from 77 percent in FY 2002 to 71 percent in FY 2004.

Reauthorization is an opportunity for true reform to reduce costs, repair neglected infrastructure, improve service, and redesign routes to better serve the public. Reauthorization should focus on improving mobility in corridors (routes of less than 500 miles) around the country—not just in the Northeast Corridor—and in restructuring long-distance services (routes of greater than 500 miles) to complement corridor services.

This will require new relationships and new partnerships among the Federal Government, the states, Amtrak, and the freight railroads. It will involve giving states much greater authority and control over intercity passenger rail decisions, along with a responsibility to provide state funds. It is imperative that the Department of Transportation work with Congress to create a new model for passenger rail transportation that provides essential mobility with greater efficiency, reliability, and cost-effectiveness.

Three key steps in providing this new direction are to:

- Require Amtrak to do more to reduce cost, although it has little incentive to improve cost-effectiveness;
- Give states a larger voice in determining service requirements; and
- Establish adequate and stable Federal funding.

##### ***Amtrak Has Little Incentive To Improve Cost-Effectiveness but Must Do More To Operate Efficiently and Improve Performance***

Amtrak, as the sole provider of intercity passenger rail service, has few incentives, other than the threat of budget cuts or elimination, for cost control or delivery of services in a cost-effective way. Amtrak has not achieved significant cost savings since its last reauthorization. Cash losses have merely kept pace with inflation, rising



an average 2.1 percent per year. In short, there has been little or no efficiency gain. Funding these losses leads to the bigger question of whether or not Federal dollars for intercity passenger rail are being used as efficiently and wisely as possible.

In our recent analysis of Amtrak's long-distance services, our goal was to determine whether cost savings could be achieved without eliminating any routes, station stops, or frequencies. We estimated that changes in services on those routes could save between \$375 million and \$790 million (depending upon the variability of maintenance labor costs) in net operating costs and \$395 million in avoidable planned capital expenditures from FY 2005 to FY 2009. Our report identified labor, maintenance, and equipment costs that could be reduced.

We are awaiting Amtrak's implementation of pilot programs related to our recommendations, as promised in the Amtrak Board of Directors' response to the report. The Government Accountability Office and the Amtrak Inspector General also have issued reports and testimony that highlighted wasteful practices in Amtrak's food and beverage services. Recently, in response to a request from a congressional committee, our office initiated an audit to review the costs and expenditures associated with legal services performed for Amtrak.

#### ***States Need a Larger Voice in Determining Service Requirements***

The current model for providing intercity passenger service does not give states enough say in selecting the best mix of service for their needs—what cities are served, schedules, frequency of service, and what amenities should be provided. Those decisions are made by Amtrak, and they are not always in the best interests of the states.

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 under our proposal, as 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 of Transportation, based on congressional direction and in partnership with the states.

#### ***Adequate and Stable Federal Funding Is Essential***

None of the corridors around the country, including the Northeast Corridor (NEC), can provide the type of mobility needed without significant up-front investment. In the NEC 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. A number of other issues that have proven contentious in the past must also be addressed. These include what to do about Amtrak's legacy debt, its governance, and its assets, including management and ownership of the NEC.

Some proposals for reforming intercity passenger rail service advocate eliminating the monopoly Amtrak now holds. 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 operations and for infrastructure repair; make significant cuts to net 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>:*

- *Reauthorization of Intercity Passenger Rail and Amtrak (September 21, 2005)*
- *Analysis of Cost Savings on Amtrak's Long-Distance Services*
- *Intercity Passenger Rail and Amtrak*
- *Reauthorization of Intercity Passenger Rail and Amtrak (April 21, 2005)*
- *Assessment of Amtrak's 2003 and 2004 Financial Performance and Requirements*



## 5. Mitigating Flight Delays and Relieving Congestion— Actions Needed To Meet Demand

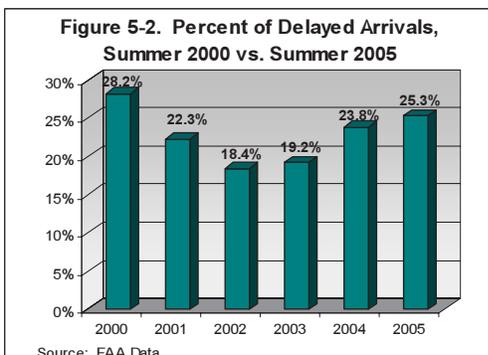
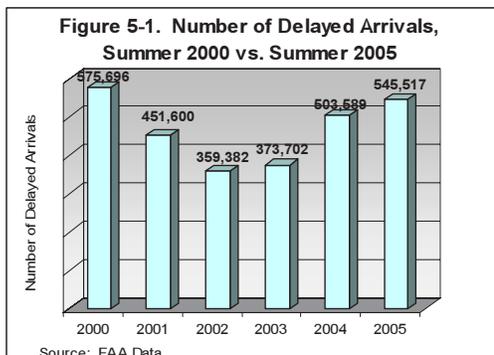
After a few years of relative reprieve from aviation congestion, traffic and delays are once again returning, with the Federal Aviation Administration’s (FAA) Air Route Traffic Control Centers reporting 2005 year-to-date operations that exceed 2000 levels by more than 3 percent. This growth in operations has brought an increase in the number of aviation delays, with the incidence, rate, and length of delays this past summer approaching 2000 levels, which was generally regarded as the worst summer of aviation delays.

The Department of Transportation’s challenge in addressing delay growth is three-fold:

- Taking appropriate action against growing aviation delays,
- Keeping planned infrastructure and airspace redesign projects on schedule while effectively implementing short-term initiatives to relieve congestion and delays, and
- Exploring alternatives for managing capacity where new initiatives are not feasible.

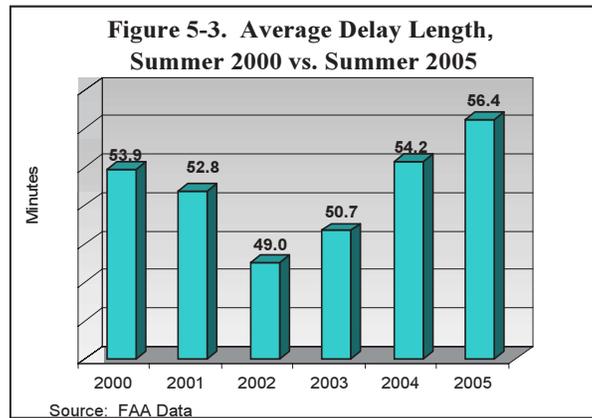
### *Taking Appropriate Action Against Growing Aviation Delays*

As the following figures illustrate, the number of arrival delays in the summer months of 2005 (June, July, and August) was within 5 percent of the number of arrival delays in the same period in 2000 and represented an 8 percent increase over the number of delays in 2004. The rate of delay in 2005 (25.3 percent) is also gaining on the summer of 2000, when 28.2 percent of arrivals were delayed. The average length of delays during the summer of 2005 (56.4 minutes) was actually 5 percent greater than the average delay length in 2000 (53.9 minutes) (see Figure 5-3).





Delays were particularly disruptive this summer at several key airports. Of the top 15 delayed airports during the summer of 2005, 11 were also among the top 15 airports during the summer of 2000. Italicized entries in Table 5-1 identify the new airports in the ranking in 2005. At the four most delayed airports, more than one of every three flights arrived late. The average delays at these 15 airports exceeded 48 minutes, with 5 airports exceeding an hour. LaGuardia had the longest average delays of just over 70 minutes.



**Table 5-1. Top Fifteen Delayed Airports: Summer 2005**

Rank	Airport	Percent Delayed	Average Minutes
1	Newark (EWR)	37.02	68.81
2	Atlanta (ATL)	35.41	62.98
3	NY-Kennedy (JFK)	35.28	58.01
4	West Palm Beach (PBI)	33.39	53.88
5	LaGuardia (LGA)	31.58	70.03
6	Philadelphia (PHL)	31.43	66.26
7	Miami (MIA)	30.79	58.16
8	Louisville (SDF)	30.41	47.59
9	Boston (BOS)	29.97	59.59
10	Bradley (BDL)	28.58	55.83
11	Washington-Dulles (IAD)	28.40	60.11
12	Indianapolis (IND)	28.18	55.45
13	Fort Lauderdale (FLL)	27.59	54.43
14	Dallas-Love Field (DAL)	27.49	48.93
15	Baltimore (BWI)	27.46	56.21

As we learned during the painful delay-ridden years in 1999 and 2000, congestion and delays are strong drivers of customer service issues. As delays are again returning, we have initiated work at the request of Representative John Mica, Chairman of the House Committee on Transportation and Infrastructure, to review airline customer service commitments and, in particular, the Department’s role in ensuring that airlines are treating their customers consistently within existing laws and regulations.



The Department has had some success in intervening to mitigate delays before they reach a crisis situation. Most notably, delays appear to be improving at Chicago-O'Hare, an airport that has been plagued by congestion for more than 30 years. In the summer of 2000, O'Hare ranked first in the list of most delayed airports, with more than 40 percent of flights arriving late. This past summer, O'Hare ranked 30<sup>th</sup> out of 53 airports, with a delay rate of 24.3 percent.

The improvement appears to be, at least in part, a result of the Department's administrative actions in 2004 to cap hourly operations at O'Hare at a level consistent with available capacity. The controls on landing slots and schedules have brought some short-term relief, but, in the long run, controls do not accommodate demand and can stifle competition.

The Department's challenge will be to develop a toolbox of relief measures, including construction, technological improvements, procedural changes, administrative controls, and market-based solutions, that can be used as appropriate given the severity of conditions and the physical and practical constraints of the affected airports. The importance of FAA's efforts to develop and define the next generation air traffic management system and corresponding funding requirements are included in our views on the challenges facing FAA with respect to the upcoming reauthorization process.

#### ***Keeping Planned Infrastructure and Airspace Projects on Schedule To Relieve Congestion and Delays***

While new technologies can help enhance airport arrival rates, new runways provide the most increases in capacity. New runways have been built at the Phoenix, Detroit, Miami, Denver, Houston, Orlando, and Cleveland Airports. Without a doubt, congestion would be much worse without the new capacity in the system.

Between now and 2008, eight additional runway projects (six new runways, a major extension of an existing one, and a significant reconfiguration of another) are expected to come on-line. These include projects at the Atlanta, Boston, and Philadelphia Airports. There are over 10 other new runway projects in various planning stages, including major efforts at Chicago O'Hare, but completion dates are not yet firm. The Department and FAA will need to make sure that, among other issues, navigation equipment and airspace modifications are in place when these projects are commissioned.

Airspace redesign efforts are also critical to enhance the flow of air travel in both the short- and long-term. In May 2005, we reported that FAA's management of redesign efforts was fragmented and diffused—projects had been delayed 3 years or more, thereby postponing capacity improvements. We recommended that FAA prioritize efforts, establish criteria for assessing a project's system-wide impacts, and revamp



how resources are used. FAA is taking steps to address these concerns—the key will be sustained management attention and follow-through.

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

As delays return, FAA and some airports are considering a variety of administrative and market-based solutions (e.g., slot auctions, schedule caps, congestion pricing) that allow some variable pricing of access to control congestion and delays. FAA has used administrative actions twice to reduce delays at O’Hare and is considering continuing with this approach until the O’Hare Modernization effort is complete. At LaGuardia, where slot controls expire in 2007, new runway construction is not an option; tools to manage demand will likely be needed to prevent what could be crippling delays. Market-based solutions have merit but entail difficult policy questions (i.e., who sets the rates and who collects the funds).

***For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:***

- *Aviation Industry Performance: Trends in Demand and Capacity, Aviation System Performance, Airline Finances, and Service to Small Airports*
- *Chicago’s O’Hare Modernization Program*
- *Outlook for Aviation Delays in the Summer of 2005 and Actions Needed To Mitigate Congestion in the Short- and Long-Term*
- *Airspace Redesign Efforts Are Critical To Enhance Capacity but Need Major Improvements*
- *Review of December 2004 Holiday Air Travel Disruptions*

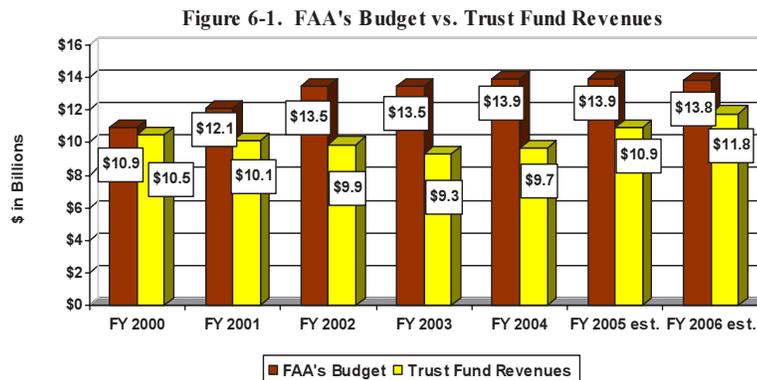


## 6. Reauthorizing Aviation Programs—Establishing Requirements and Controlling Costs Are Prerequisites for Examining FAA Financing Options

A major focus of the Federal Aviation Administration (FAA) over the next year will be preparing to reauthorize a wide range of aviation programs and exploring alternative financing mechanisms. The current authorization and various taxes expire in 2007, and FAA has begun seeking views on alternative financing options. However, before decisions about various financing mechanisms—such as adjustments to existing taxes, user fees, or borrowing authority—can be made, a clear understanding of the financial requirements (for new and existing efforts) and of ways to control costs is needed.

For decades, the Aviation Trust Fund has provided FAA with a dedicated stream of revenue for airport improvements, capital projects, and operations. However, there has been a decline in expected revenues coming into the Trust Fund. In 2001, FAA estimated that Trust Fund revenues in 2005 would be about \$14.5 billion. That estimate has now been reduced to \$10.9 billion, a reduction of \$3.6 billion (nearly 25 percent) from the 2001 estimate.

FAA’s budget has remained essentially flat at just under \$14 billion since fiscal year (FY) 2004. The Agency is in the situation where increasing operating costs are crowding out its capital and airport accounts. Also, there are increasing demands on the Trust Fund and other revenue sources, including the General Fund. In FY 2006, FAA’s budget is expected to exceed estimated Trust Fund revenues by \$2.0 billion, as shown in Figure 6-1.





Historically, the General Fund has made up the difference between the Trust Fund contribution and FAA's budget. There are some exceptions, including FY 2000, when the Trust Fund paid for FAA's entire budget. For the last 10 years, (FY 1996 to FY 2005), the General Fund contributed on average about 21 percent of FAA's budget. Over the past 3 years (FY 2003 to FY 2005), the General Fund has contributed about \$3 billion annually to FAA's budget. However, FAA's FY 2006 budget request estimated the General Fund contribution to be \$1.6 billion, or 11 percent of the Agency's budget request. The size of the General Fund contribution will be a central issue in the upcoming debate about how to finance FAA.

The challenges facing FAA include:

- Controlling costs with major acquisitions by delivering new systems that work, are on time, and are within budget and making decisions on the scope of billion-dollar projects that have been delayed for years;
- Getting control of support service contracts, reducing associated costs, and following through on the implementation of new procedures;
- Establishing requirements for the next generation air traffic management system;
- Addressing the expected surge in controller attrition and negotiating an affordable and equitable bargaining agreement; and
- Completing a cost-accounting system to reduce costs and improve operations.

***Controlling Major Acquisition 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***

FAA needs reliable cost and schedule estimates for its major acquisitions. It will be important for FAA to deliver new systems without incurring additional cost growth or schedule delays. FAA needs to make decisions whether to continue, modify, or discontinue multi-billion programs like the Standard Terminal Automation Replacement System (STARS) and FAA's Telecommunications Infrastructure (FTI) projects.

- STARS was expected to replace computers and controller workstations at FAA's terminal facilities. In 1996, FAA estimated that STARS would be completed in FY 2005 at a cost of \$940 million for 172 systems, but it is no longer the same program. Facing costs of over \$2 billion, FAA limited STARS deployments in 2004 to just 50 sites at a cost \$1.46 billion. FAA subsequently reduced the number of sites to 47. In June 2005, FAA approved acquiring new equipment for nine more terminal facilities—five small sites and four large sites with aging displays. FAA intends to deploy STARS at the five small sites but pursue a competitive procurement for the four sites with aging displays. Final decisions about over 100 sites have not been made, efforts to replace aging and failing



displays at large sites have not been accelerated, and the cost and timeframes to complete terminal modernization remain unknown.

- FTI is expected to replace most of FAA's existing telecommunications services and was expected to save the Agency millions annually beginning in FY 2005. However, FTI capital costs have grown from \$205 million to \$310 million, or 51 percent, and operating costs (i.e., telecommunications services) are now estimated to be more than \$2.1 billion. According to FAA officials, cost growth is attributable to, among other things, expanded FTI requirements, improved security, and a more comprehensive estimate of transition efforts. FTI equipment has been installed at fewer than 700 of 4,500 sites, and only about 6 percent of the 25,000 existing services and circuits to be replaced are now operating with new equipment. Overall, the vast majority of the new equipment is not yet operational. Moreover, the underlying assumptions about program costs and expected savings that drove the investment in FTI are no longer valid because of delays in installing new equipment. FTI is a high-risk effort, and FAA needs to develop an executable plan to complete the effort without further cost increases or schedule delays.

#### ***Getting Control of Support Services Contracts***

Every year, FAA uses contractors to provide more than \$1.3 billion of support services. Of particular and urgent concern is FAA's use of three large multiple-award contracts for support services that use pre-qualified vendors and, in some instances, pre-negotiated labor rates.

Our audit of one multiple-award program administered by the Aeronautical Center in Oklahoma City identified vulnerabilities for these contracts, including inadequate scope management, revolving employment where FAA employees have recently left FAA for employment with the contractors, lack of competition awarding the contracts, contract performance issues, and failing to use cost estimates as well as audits.

We provided FAA with specific steps it needed to implement to strengthen controls over support service contracts. FAA agreed that action needed to be taken quickly. FAA issued guidance indicating that the Chief Financial Officer would exercise greater oversight over support services contracts. This included establishing an independent cadre of personnel with significant acquisition and financial controls experience to advise the Chief Financial Officer in reviews of acquisitions of support services. We will be following up to ensure that all planned actions to improve controls over support service contracts have been implemented. Until FAA establishes necessary procedures to implement its planned corrective actions, the potential for cost overruns and improper payments on these contracts will still exist.



### ***Establishing Requirements for the Next Generation Air Traffic Management System***

Because much of FAA's current capital budget focuses on keeping things running (i.e., sustainment), attention has focused on FAA's new Joint Program and Development Office and what it can deliver. The office is mandated to coordinate research among Federal agencies and develop a vision for the next generation air traffic management system in the 2025 time frame. FAA is in the process of determining what "interim capabilities" it will pursue, as well as funding the requirements. It will be important for FAA to give Congress an understanding of how much money will be needed (in both the short- and long-term) and for what purposes, as was promised by DOT officials earlier this year.

### ***Addressing the Expected Surge in Air Traffic Controller Attrition and Negotiating an Affordable and Equitable Bargaining Agreement***

Over the next 10 years, FAA estimates that approximately 73 percent of the organization's nearly 15,000 controllers will become eligible to retire. FAA anticipates a need to train and hire 12,500 new controllers over the same period to meet anticipated needs. This must be done within a tightly constrained budget.

At the direction of Congress, FAA issued the first in a series of annual reports in December 2004 that addresses the expected surge in controller attrition. In our opinion, the report is a good first step in that it lays out the magnitude of the issues and establishes broad measures for meeting the challenge. However, there are several issues that need to be specifically addressed in the next report to Congress.

FAA has not identified the annual and total costs for hiring and training the number of controllers it says it needs over the next 10 years. Although FAA has submitted some of the cost details of its staffing plan in its FY 2006 Budget Submission, the Agency provided no details for FY 2007 and beyond, when the costs of the staffing plan may increase significantly. In addition, FAA's plan does not address staffing needs by location. Without accurate facility-level planning, FAA runs the risk of placing too many or too few controllers at key locations. FAA has committed to evaluate its facility staffing standards and provide details by the end of this calendar year.

Another cost-driver for FAA will be negotiating a new collective bargaining agreement with the National Air Traffic Controllers Association, the union representing FAA's largest workforce. The current contract, which has been extended for 2 years, expired in September 2005. Unlike the previous agreement, which required an estimated \$1 billion in additional funding over its original 5-year term, FAA needs to ensure that the new agreement is cost effective and does not crowd out other programs, such as its safety inspector workforce. In addition, FAA needs to ensure that productivity initiatives are in place and measurable. It is unlikely that



FAA can achieve significant reductions in its operating costs without substantial improvements to controller workforce productivity.

***Completing the Cost Accounting System To Control Costs and Improve Operations***

FAA has made significant advances by substantially completing the portion of its cost-accounting system for the Air Traffic Organization in FY 2004. Also, FAA completed labor-distribution systems for all personnel in August 2005 and plans to have a fully operational system in place by September 30, 2006.

With a number of further refinements we have recommended, FAA should have sufficiently accurate data for establishing alternative financing mechanisms, including user fees. Additional refinements include finding an acceptable method of assigning about \$800 million in miscellaneous service-level costs (including depreciation) to facilities and strengthening controls over its labor-distribution system. FAA faces challenges in completing its cost-accounting system: (1) deploying the system to its Safety and Airports line of business (which represents about one-third of its operational costs), (2) integrating the system with its labor-distribution system for controllers, and (3) linking the system with performance measures.

Another critical issue for FAA in exploring financing options is allocating its costs to airspace users. While a cost-accounting system will provide decision makers with information on FAA's costs at the national and facility level, it will not allocate these costs to diverse airspace users (i.e., passenger airlines, cargo airlines, or general aviation). FAA has an ongoing study using cost accounting and activity data to allocate costs for providing air traffic services and has sought industry comment on methods for doing so. Allocating FAA costs involves difficult policy decisions regarding, among other things, use of congested airspace, marginal use of the system, and aircraft size.

***For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:***

- *Key Issues for the Federal Aviation Administration's FY 2005 Budget*
- *Observations on Bringing More Fiscal Discipline and Accountability to FAA's Air Traffic Control Modernization Program*
- *FAA Needs To Reevaluate STARS Costs and Consider Other Alternatives*
- *Terminal Modernization: FAA Needs To Address Its Small, Medium, and Large Sites Based on Cost, Time, and Capability*
- *Next Steps for the Air Traffic Organization*
- *Perspectives on the Aviation Trust Fund and Financing the Federal Aviation Administration*



- *Status of FAA's Major Acquisitions: Cost Growth and Schedule Delays Continue To Stall Air Traffic Modernization*
- *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*



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## 7. Aviation Safety—Developing Effective Oversight Programs for Air Carrier Operations, Repair Station Maintenance, and Operational Errors

The Federal Aviation Administration’s (FAA) primary mission is safety, and, to its credit, the Agency is making progress toward a risk-based safety oversight system to focus limited inspection resources. The U.S. aviation industry has maintained an impressive safety record. However, financial uncertainty, competition from low-cost carriers, and rebounding air traffic all contribute to a very different and still evolving aviation environment. Large U.S. air carriers are working aggressively to move away from high cost structures by reducing in-house staff and increasing the use of outside repair facilities. The transition to increased use of outside repair facilities is not the issue—it is that maintenance, wherever it is done, requires oversight. FAA must ensure it is channeling its oversight toward the organizations actually performing the maintenance. At the same time, FAA needs to work more aggressively to reduce instances where aircraft fly too close together in what are called operational errors.

Key challenges for FAA are:

- Following through on its commitments to advance risk-based systems for air carrier operations and work performed by external repair facilities, and
- Continuing its efforts to identify and reduce operational errors.

### *Implementing a Risk-Based Approach to Air Carrier and Repair Station Oversight*

FAA continues to face challenges in advancing its efforts to implement risk-based oversight systems. Facing a rapidly changing aviation industry and its own challenging budget, FAA needs effective systems that will enable it to target its inspection resources to areas of higher risk. To its credit, FAA has implemented risk-based, data-driven approaches for oversight of air carriers: the Air Transportation Oversight System (ATOS), used for oversight of 17 air carriers, and the Surveillance and Evaluation Program, used for oversight of the remaining 110 commercial air carriers. FAA is also working to implement a similar risk-based system for oversight of repair stations. However, our reviews have shown that FAA still has a substantial amount of work ahead to refine and effectively implement these oversight systems.

**Air Carrier Oversight.** FAA inspectors were not able to use its risk-based oversight systems to respond effectively to the changes network carriers were making to reduce costs and compete with low-cost carriers. For example, FAA inspectors did not complete 26 percent of their planned inspections when air carriers were at the height of streamlining operations and reducing costs. This is neither an adequate response to



these changes nor reflective of a more agile approach, given that more than half of the inspections that were not completed were in areas where inspectors had identified risks. Improvements are still needed in the processes FAA inspectors use to identify risks in air carriers' systems, prioritize inspections, and shift inspections to areas of greater risks.

To improve its oversight of air carriers, FAA has committed to:

- Strengthen national assistance to field offices and improve field office managers' oversight of risk assessment and inspection planning processes;
- Develop procedures to ensure inspectors are continually monitoring the effects of industry changes, such as financial distress;
- Ensure that inspections are prioritized so high-risk areas are inspected before lower-risk areas and that inspectors are able to effectively change inspection plans when new risks are identified.

We realize that FAA is facing budgetary challenges, so our work also highlighted the need for FAA to make enough efficiency gains to ensure it can commit adequate resources to air carrier oversight. This will remain important as the airline industry continues to make significant changes in operations, to work to resolve financial challenges, and to navigate through bankruptcy. FAA's practice of shifting resources for increased surveillance at bankrupt carriers may not be a viable option, given that three of the major air carriers are now in bankruptcy. The current state of the industry makes it imperative that FAA improve its risk-based oversight system so inspectors focus their efforts on areas of greatest risk.

**Repair Station Oversight.** Outsourcing aircraft maintenance has been a prominent aspect of air carrier efforts to restructure their operations and reduce costs. Providing oversight of air carrier outsourcing, or use of external repair facilities, has been particularly challenging for FAA. We reported in July 2003 that FAA needed to improve the processes it used to monitor domestic and foreign repair station operations. FAA initially planned to implement all of the recommendations we made for improving this program by August 2005, but it has completed only one of nine promised actions. FAA now indicates all recommended actions will not be fully implemented until the beginning of fiscal year (FY) 2007.

A key part of the work that remains is completion of FAA's plan to implement a new risk-based system for oversight of domestic repair stations. FAA has developed the framework for the system but still needs to train the inspectors and develop new computer software that will provide inspectors with data analysis capabilities. FAA needs to expedite improvements to its process for oversight of repair stations, especially given the continued trend of air carriers shifting maintenance to outside repair facilities. Air carriers now outsource 53 percent of their maintenance expense, compared to just 37 percent in 1996.



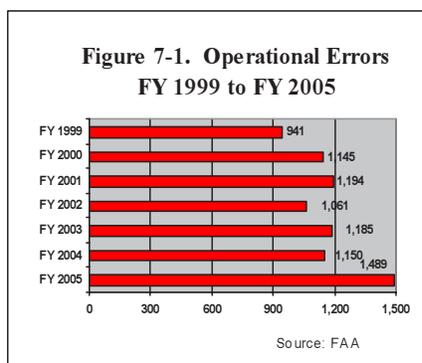
A portion of this maintenance outsourcing consists of maintenance work performed by repair facilities that have not been certificated by FAA, meaning FAA has not verified that they have the staff, facilities, or equipment to perform the work. At the request of Representative James Oberstar, we conducted a review of air carriers' use of non-certificated repair facilities. We found that non-certificated repair facilities perform some of the same maintenance functions that certificated facilities perform, such as flight control repairs and scheduled maintenance tasks. However, these facilities are not included in FAA's risk-based oversight system for air carriers or its planned oversight system for repair stations. Ultimately, FAA is responsible for oversight of air carrier maintenance, regardless of who performs it. Therefore, FAA may need to place emphasis in this area to better assess air carriers use of non-certificated repair facilities. We recently issued a draft report to FAA on this matter.

FAA must follow through on its commitments to advance its risk-based systems for oversight of air carriers and repair stations, particularly in light of the magnitude of changes in the aviation industry and the pace at which they are occurring. Aircraft maintenance, no matter where it is performed, requires oversight. FAA must ensure it is shifting its resources toward the organizations actually performing the maintenance.

***Ensuring Reporting of Operational Errors***

A primary indicator of system safety is the number of operational errors (when air traffic controllers allow planes to come too close together in the air). Reducing these incidents is a key performance goal for FAA and one that continues to require heightened attention at all levels of the Agency.

This past year, there was an increase in the number of operational errors reported—1,489<sup>4</sup> (up from 1,150 in FY 2004), which is the highest number of errors reported in the past 6 years (see Figure 7-1). In addition, of the 1,489 errors reported, 73 were classified as serious incidents (those rated as “high” severity), compared to 40 serious incidents reported in FY 2004. While that increase is 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 determined that only 20 of FAA's 524 air traffic control facilities (both FAA- and contractor-operated) have an automated system that identifies when operational errors occur. At its towers and terminal radar approach

<sup>4</sup> Based on preliminary data.



control (TRACON) facilities, FAA depends on a system of self-reporting operational errors.

Recent investigations by our office and FAA at two locations found multiple instances of unreported operational errors. For example, in response to a hotline allegation at the Dallas/Fort Worth TRACON, we identified multiple operational errors that had not been reported. Prior to our investigation, the facility reported just two operational errors during the 6-month period from January 1 to June 24, 2004. During our investigation, we identified five unreported operational errors that occurred during May and June alone. After instituting appropriate use of playback tools<sup>5</sup> in June 2004, the facility reported 36 operational errors during the next 6 months.

At the New York TRACON, FAA initiated an internal investigation in response to a rash of allegations that operational errors were increasing. That review identified 147 unreported operational errors during a 2-month period. A number of these errors were serious and indicated the need for immediate corrective action. Managers at the facility took immediate actions to improve operations, including re-training all personnel and redesigning certain facility-specific air traffic procedures.

This past year, FAA has taken actions to improve the reporting of operational errors. In response to our September 2004 report, FAA recently 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. Clearly, these actions are steps in the right direction, but FAA will need to remain committed to following through on those efforts—the number of unreported errors identified just at New York TRACON underscores the need for top management attention to this issue.

***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*

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<sup>5</sup> Playback tools are software programs and other electronic instruments for recreating air traffic incidents by replaying recorded radar and voice data.



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## 8. Improving Information Technology Investment and Computer Security

The Department of Transportation (DOT) is responsible for one of the largest information technology (IT) investment portfolios among civilian agencies, with almost 500 computer systems supporting key mission areas at a cost of about \$2.7 billion annually. Over 80 percent of the investments are in air traffic control modernization. During fiscal year (FY) 2005, the Department enhanced the quality of systems security reviews to better ensure the integrity, confidentiality, and availability of system-dependent operations. The departmental Investment Review Board (IRB) also continued its oversight of major IT investments but with mixed results. Last year, we reported that corrective actions were needed to enhance air traffic control systems security protection and correct known problems in the Operating Administrations' business contingency plans. The Department has yet to complete these corrective actions. We also found security weaknesses in a DOT network that made the Department vulnerable to attacks from the Internet. The major challenges facing DOT in the IT investment and computer security areas include:

- Clarifying the departmental Board's role in assisting the Secretary to maximize the value and manage the risk of major IT investments,
- Eliminating redundant IT infrastructures outside of DOT Headquarters to reduce operating costs,
- Better securing operational air traffic control systems, and
- Correcting weaknesses in the Federal Railroad Administration network and enhancing business contingency plans for critical DOT systems.

### *Clarifying the Departmental Investment Review Board's Role in Assisting the Secretary To Maximize the Value and Manage the Risk of Major Information Technology Investments*

This year, the IRB reviewed investment projects managed by various Operating Administrations, including the Federal Aviation Administration (FAA). While projects managed by most Operating Administrations have benefited from the Board's oversight, the Board has had little positive impact on complicated air traffic control projects, which are still experiencing significant cost increases and schedule delays. We reviewed 16 FAA major acquisitions and found that 9 projects had experienced schedule delays of 2 to 12 years, and 11 projects had experienced cost growth of about \$5.6 billion. The bulk of the cost growth occurred before the establishment of the new Air Traffic Organization and had been building for some time without being recognized. Some major investment projects have experienced persistent cost and



schedule problems, such as the Wide Area Augmentation System and the Standard Terminal Automation Replacement System.

Nine years after Congress passed acquisition reform for FAA, exempting it from compliance with Federal acquisition regulations, air traffic control modernization projects are still experiencing performance problems, along with the cost increases and schedule delays. Further, FAA's acquisition process has stayed on the Government Accountability Office's high-risk list since 1995. Meanwhile, FAA continues to initiate new, costly, and complex IT modernization projects. This year, two new multibillion-dollar FAA investment projects—FAA Telecommunication Infrastructure (FTI) and En Route Automation Modernization (ERAM)—went forward to the Office of Management and Budget (OMB) without reliable cost and schedule data and other project information. OMB rejected the budget submissions and asked the Board to reexamine business cases for these investment projects.

We are concerned that the Board's review of FAA's major IT investment projects is not providing value-added services as intended and is facing the risk of becoming a paperwork exercise that provides little substantive value to the Secretary. There are two basic reasons for this:

- First, there is a lack of clarity about the Board's role in reviewing major FAA investment projects. The Clinger-Cohen Act of 1996 requires the Secretary to implement a process for "maximizing the value and assessing and managing the risks of the information technology acquisitions of the executive agency." The Board was created as part of this process and is tasked with advising the Secretary regarding whether to continue, modify, or terminate major IT investments within the Department. However, FAA has frequently cited its independent acquisition authority, based on provisions in the Department's Appropriations Act for Fiscal Year 1996, to argue that the Board should play only a limited role in overseeing FAA investments. The provision in the Appropriations Act exempted FAA from compliance with the Federal acquisition regulations and key Federal procurement laws to help facilitate implementation of a timelier and more cost-effective acquisition process.

The issue that needs to be resolved is whether FAA's exemption from compliance with the Federal procurement regulations also applies to management oversight required by the Clinger-Cohen Act. Until this issue is resolved, it is our opinion that the Board's continued "review" of FAA's multibillion-dollar investment projects will not result in "maximizing the value and assessing and managing the risks of the information technology acquisitions," and will impede the Secretary's ability to fulfill his Clinger-Cohen Act requirements.

- Second, to be effective, the Board needs to perform more substantive, in-depth, and analytical reviews of progress, problems, and risks associated with these



complicated investments. The current level of support available to the Board is not sufficient to allow the members to make responsible decisions about these investments. The Board relies on the pre-IRB “prep group” process, which is composed of Operating Administration representatives who perform a cursory review of each others’ investment projects. This prep group is led by an Associate Chief Information Officer with the support of one mid-level staff person, who came on board only 4 months ago. Obtaining adequate support to research potential project cost, schedule, and performance shortfalls is essential if the Board is to perform oversight to maximize the value and manage the risks of major IT investments in the Department.

#### ***Eliminating Redundant IT Infrastructures Outside of DOT Headquarters To Reduce Operating Costs***

Last year, DOT identified opportunities for cost savings by consolidating systems used to support common business operations across the Operating Administrations, such as office IT infrastructure (e.g., desktop computers, local area networks, e-mail), financial management, and grants management. While most initiatives are still under evaluation, the Department has made progress in consolidating the 10 separate IT operating environments at Headquarters into a single, common operating environment. Initially, the Department estimated an 18- to 26-percent reduction in costs from the consolidation, based on industry averages. This would translate into multimillion-dollar annual savings for the Headquarters consolidation effort. However, based on a recent study, the Department lowered the estimated cost savings to about \$2 million over a period of several years. To achieve worthwhile savings, DOT needs to consolidate the fragmented IT infrastructures outside of Headquarters. For example, four Operating Administrations with field offices co-located in San Francisco use separate networks to connect to Headquarters. Integrating these fragmented networks could result in immediate and substantial cost savings to the Department.

#### ***Better Securing Operational Air Traffic Control Systems***

Last year, FAA committed to taking aggressive corrective actions to better protect air traffic control systems but did not start to initiate these corrective actions in earnest until this April. As a result, FAA’s overall progress in this area was insufficient. In FY 2005, the Government Accountability Office also identified the need to enhance both computer security protection in air traffic control systems and physical security protection at air traffic control facilities.

FAA had committed to completing security reviews of all operational air traffic control systems—at en route, approach control, and airport terminal facilities—between FY 2005 and FY 2007. During FY 2005, according to FAA, it conducted security reviews at all en route centers. However, these reviews were incomplete for the following reasons:



- More than 30 computer systems are used to support en route (high-altitude) air traffic services. However, FAA officials collected systems security information on only about half of these systems.
- FAA is still in the process of analyzing the information collected; it has not yet determined what remediation work is needed to secure the systems reviewed.
- FAA officials did not perform any independent testing at en route centers. Testing is key to identifying potential security breaches and is required for reviewing high-risk systems, according to minimum Government security standards.

This year, FAA conducted a tabletop exercise and identified a cost-effective strategy to restore essential en route air service in case of prolonged service disruptions. However, FAA is years away from completing the planned actions necessary to implement the strategy. We recognize that FAA faces critical decisions in balancing its priorities in today's tight budget environment, yet it needs to assign a priority to implementing the selected contingency plan during FY 2006 to meet the President's requirements for protecting the Nation's critical infrastructure.

The President designated the air traffic control system as part of the critical national infrastructure due to the important role of commercial aviation in fostering and sustaining the national economy and ensuring the safety and mobility of citizens. FAA's current business continuity plan has worked well in the past in dealing with temporary, less severe service disruptions. However, it is not adequate to deal with prolonged service disruptions at a major facility such as an en route center, which would severely disrupt air traffic, causing significant economic losses and subjecting travelers to delays and inconvenience.

It is also important that FAA coordinate the implementation of the selected contingency plan with other modernization projects—ERAM and FTI—at en route facilities. These modernization projects have been under development for several years, and one is scheduled for completion in 2007. To be cost effective, FAA needs to assign a priority to identifying continuity plan requirements that need to be included in ERAM or FTI implementation. As Government experts have pointed out, retrofitting requirements into a completed project costs significantly more than accommodating them when the project is under development.

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

This year, we reviewed security over the Federal Railroad Administration's network, which has a direct connection to the Internet. We found this network vulnerable to unauthorized access and attack from both outside and inside the Department. We were able to gain unauthorized access to individual computers on the network from the Internet and obtained sensitive information, such as draft safety inspection reports,



proposed penalties for safety violations, and travel vouchers containing employee Social Security Numbers and credit card numbers. These individual computers, however, do not host FRA financial and human resources systems. Given the interconnectivity of Department networks, vulnerabilities in one network can put other DOT systems at risk. DOT management is taking actions to remediate the security weaknesses identified.

In FY 2003, we reported cases in which the recovery processing sites for critical information systems were within 10, 15, or 25 miles of the primary sites. Such proximity made DOT vulnerable to losing both sites to the same disaster. We recommended, and the Department agreed, to develop guidance on the minimum geographic distance between primary and backup sites, but it has yet to be developed. Further, none of the several Operating Administrations that we identified as having this problem have moved their backup sites to a more remote location to reduce the risk of losing all processing capabilities to a single disaster.

*For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:*

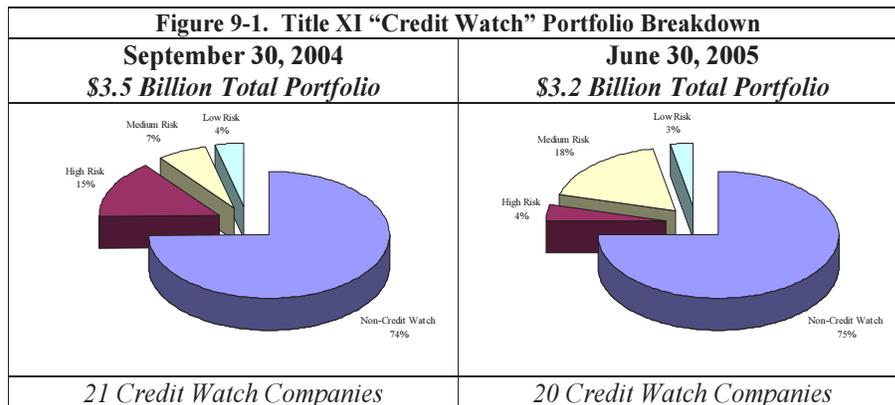
- *DOT Information Security Program (October 7, 2005)*
- *DOT Information Security Program (October 1, 2004)*
- *DOT Information Security Program (September 25, 2003)*
- *DOT Information Security Program (September 27, 2002)*
- *DOT Information Security Program (September 7, 2001)*
- *Security and Controls Over the Federal Railroad Systems Network*
- *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*
- *DOT's Implementation of the Federal Implementation of the Federal Information Security Management Act*
- *Quality Control Review of the Report on Controls Over the Delphi Financial Management System, DOT*
- *Office of the Chief Information Officer's Budget, DOT*
- *Consolidated DOT Financial Statements for Fiscal Years 2004 and 2003*



## 9. Ensuring That Reforms Are Implemented in the Maritime Administration’s Title XI Loan Guarantee Program

As of June 30, 2005, the Maritime Administration’s (MARAD) consolidated Title XI loan guarantee program portfolio was valued at \$3.2 billion, with another \$618 million in pending loan guarantee applications. The loan guarantees are designed to assist private companies in obtaining financing for the construction of ships or the modernization of U.S. shipyards—with the Government holding a mortgage on the equipment or facilities financed.

Over 25 percent (\$800 million) of the portfolio remains on “Credit Watch,” which means it is at an elevated risk of default and is being monitored more extensively by MARAD. However, the number of companies considered at the greatest risk has been reduced and reductions have also been experienced in the total exposure and number of companies on the Credit Watch list since the issuance of our last audit report on September 28, 2004 (see Figure 9-1).



There is a natural tension that exists between the dual missions of the Title XI program. On the one hand, MARAD is charged with supporting the domestic shipbuilding industry. On the other hand, MARAD is responsible for protecting the taxpayers’ dollars. However, the reforms that we have recommended, such as timely financial monitoring and tracking of the portfolio and seeking compensating measures to address the increased risk associated with any waivers or modifications, are not inconsistent with the dual missions of the Agency but are fundamental to proper management and oversight of any credit program. Nonetheless, MARAD has made progress in implementing the new policies and procedures that we have recommended to provide better oversight of the program.



Given the amount of funds at risk, however, it is essential that MARAD continue to be vigilant and closely manage and monitor the loan guarantee portfolio by:

- Completing the development of its computerized Title XI loan guarantee tracking system and
- Fully enforcing the reserve requirements established to mitigate the risks of noncompliant loans and pursuing remedies to cure any outstanding defaults.

Over the past 2½ years, we have issued two audit reports on the Title XI Loan Guarantee Program. Our March 2003 report responded to a request from Congress following several large loan defaults that had occurred in the previous 5 years. Those loan defaults resulted in payouts of approximately \$490 million. One company alone, American Classic Voyages Co., accounted for \$330 million of that amount. Our audit identified a number of areas where MARAD could improve its Title XI program practices, limit the risk of default, and prevent future losses to the Federal Government.

Our September 2004 report was a follow-up to the 2003 audit and was initiated as a result of the Emergency Wartime Supplemental Appropriation bill that Congress passed on April 16, 2003.<sup>6</sup> The bill provided \$25 million for the costs of new Title XI loan guarantees that were to remain available until September 30, 2005. However, Congress prohibited MARAD from obligating or expending those funds "...until the Department of Transportation Inspector General certifies to the House and Senate Committees on Appropriations that the recommendations of report CR-2003-031<sup>7</sup> have been implemented to his satisfaction."

During our follow-up audit, we found that MARAD had developed policies and procedures that addressed each of the recommendations from our March 2003 audit report. However, in verifying the development of these policies and procedures, we found additional issues that needed to be addressed to limit the risk of default and reduce future losses of Government funds.

Our certification of the program in the follow-up audit report was contingent upon an action plan created by MARAD with steps and milestones to address the additional recommendations. In accordance with its action plan, MARAD must complete the following tasks to be better positioned to protect Federal Funds.

### ***Completing the Development of the Title XI Loan Guarantee Tracking System***

Until MARAD is able to fully implement a computerized tracking system for its portfolio, it will be unable to efficiently realize its goal. MARAD's rudimentary

<sup>6</sup> "Making Emergency Wartime Supplemental Appropriations for the Fiscal Year 2003," Public Law 108-11.

<sup>7</sup> OIG Report Number CR-2003-031, "Title XI Loan Guarantee Program," March 27, 2003.



financial monitoring system is inadequate to effectively manage its \$3.2 billion portfolio. Therefore, developing a computerized database system is essential for MARAD to efficiently and promptly assess the financial condition of the companies in its portfolio and to track trends in these companies' finances and operations.

Pursuant to our recommendation, MARAD obtained congressional approval to use up to \$2 million of the \$25 million appropriated in the April 2003 Emergency Wartime Supplemental Appropriation to develop a comprehensive computer-based financial monitoring system. The plan to develop, acquire, and implement a new monitoring system is on track, and the "alternative analysis" phase is nearing completion. This involves an investigation into whether any pre-existing tools can be "piggybacked" to reduce the ultimate cost of the system. MARAD expects to complete this phase of the process by the end of calendar year 2005. MARAD will be implementing the system during calendar year 2006 with full implementation anticipated by the end of 2006.

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

MARAD was not sufficiently enforcing the reserve requirements established to mitigate the risks of noncompliant loans. The Title XI Reserve Fund and Financial Agreement, a key instrument in the Title XI closing documentation, establishes financial tests and covenants that the borrowers are required to meet. The Reserve Fund established in this agreement is a type of escrow account that borrowers pay into each year they do not meet certain financial tests. Paying into the Fund provides borrowers additional security over the life of the loan guarantee in case they run into financial difficulty.

In response to our recommendation, MARAD performed an accounting of each company's Reserve Fund requirements and continues to negotiate with those companies that remain in default. While this effort has been somewhat successful, several outstanding defaults remain, requiring MARAD's continued enforcement.

We continue to closely monitor the steps MARAD is taking in response to our recommendations. MARAD has worked to get satisfactory procedures in place, but the proof of its efforts will be in the follow through and implementation regarding specific loan guarantee applications.

***For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:***

- *Title XI Loan Guarantee Program (March 27, 2003)*
- *Title XI Loan Guarantee Program (June 5, 2003)*
- *Title XI Loan Guarantee Program (September 28, 2004)*



**EXHIBIT. COMPARISON OF FY 2006 AND FY 2005 TOP MANAGEMENT CHALLENGES**

Items in FY 2006 Report	Items in FY 2005 Report
<ul style="list-style-type: none"> <li>Working With Other Agencies To Respond to Disasters and Address Transportation Security</li> </ul>	None
<ul style="list-style-type: none"> <li>Getting the Most for Every Taxpayer Dollar Invested in Highway and Transit Projects</li> </ul>	<ul style="list-style-type: none"> <li>Getting the Most Value From Investments in Highway and Transit Infrastructure Projects</li> <li>Strengthening Financial Management To Protect Federal Funds</li> <li>Holding the Line on Programs Conducive to Fraud</li> </ul>
<ul style="list-style-type: none"> <li>Building on Recent Initiatives To Further Strengthen Surface Safety Programs</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring That Surface Safety Programs Lead to More Lives Saved</li> <li>Holding the Line on Programs Conducive to Fraud</li> </ul>
<ul style="list-style-type: none"> <li>Reforming Intercity Passenger Rail Service To Improve Performance</li> </ul>	<ul style="list-style-type: none"> <li>Restructuring the Intercity Passenger Rail System To Match Fiscal Capacity</li> </ul>
<ul style="list-style-type: none"> <li>Mitigating Flight Delays and Relieving Congestion—Actions Needed To Meet Demand</li> </ul>	<ul style="list-style-type: none"> <li>Increasing Aviation Capacity and Mitigating Delays</li> </ul>
<ul style="list-style-type: none"> <li>Reauthorizing Aviation Programs—Establishing Requirements and Controlling Costs Are Prerequisites for Examining FAA Financing Options</li> </ul>	<ul style="list-style-type: none"> <li>Delivering Air Traffic Control Services and Fielding New Air Traffic Control Equipment While Controlling Costs in a Fixed Budget Environment</li> <li>Strengthening Financial Management to Protect Federal Funds</li> </ul>
<ul style="list-style-type: none"> <li>Aviation Safety—Developing Effective Oversight Programs for Air Carrier Operations, Repair Station Maintenance, and Operational Errors</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring Safety in a Changing Aviation Environment</li> </ul>
<ul style="list-style-type: none"> <li>Improving Information Technology Investment and Computer Security</li> </ul>	<ul style="list-style-type: none"> <li>Improving Cost Effectiveness of \$2.7 Billion in Information Technology Investments and Continuing To Enhance Computer Security</li> </ul>
<ul style="list-style-type: none"> <li>Ensuring That Reforms Are Implemented in the Maritime Administration’s Title XI Loan Guarantee Program</li> </ul>	<ul style="list-style-type: none"> <li>Management Attention Needed To Strengthen Oversight of Title XI Loan Guarantees</li> </ul>

Exhibit. Comparison of FY 2006 and FY 2005 Top Management Challenges



U.S. Department of  
Transportation  
Office of the Secretary  
of Transportation

# Memorandum

**ACTION:** Departmental Comments on the OIG Draft

Subject: Report – Top Management Challenges, Department of  
Transportation

Date: November 1, 2005

From:  Phyllis Scheinberg  
Assistant Secretary for Budget and  
Programs/Chief Financial Officer

Reply to  
Attn. of:

To: Kenneth Mead  
Inspector General

We appreciate the opportunity to review and comment on the Office of Inspector General’s (OIG) Management Challenges Report for the Department of Transportation (DOT). We value the perspective offered by the OIG and your efforts to help management ensure DOT’s programs are on track and our operations are effective, efficient and financially sound. We are gratified to note that DOT is taking meaningful action in response to each of the management challenges recognized in the draft report. We provide the following discussion, which offers some highlights of those actions, to be included in the final OIG Management Challenges report. Separately we have offered detailed comments related to specific and technical issues in the draft report.

### **DOT Provided Expeditious, Effective Relief to Hurricane Victims**

DOT quickly and effectively marshaled resources to aid the victims of the Hurricanes affecting our Nation’s Gulf Coast this year. Fulfilling the Department’s role to help move people and goods in emergency situations, DOT moved record numbers of individuals in the Nation’s largest domestic airlift. On land, DOT oversaw the formation of an emergency bus fleet rivaling the size of the Greyhound fleet, in a matter of days. The Department continues its efforts to assist by helping arrange transportation services needed to move vital food, water and supplies necessary for relief and recovery efforts. All these actions were performed using existing, competitively bid, proven contracting mechanisms that were put in place in preparation for such a need. Recognizing the potential for abuse, DOT moved quickly to implement special enhanced oversight mechanisms, in line with Office of Management and Budget (OMB) directives, to further ensure that our critical emergency response activities were not targets for abuse.

### **Security and Continuity of Operations Are a Key Focus**

DOT continues to build an unprecedented level of cooperation with the Department of Homeland Security (DHS). With the primary framework established by a Memorandum of

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Understanding (MOU) between DOT and the DHS, each of our operating administrations, as appropriate, are working to implement more specific, function-based agreements, or annexes to the MOU. The annexes will ensure each organization explicitly understands its security related responsibilities and how they will be fulfilled in coordination with the Transportation Security Administration and other DHS organizations. These specific annexes have been implemented in key areas, including aviation security, transit security, and hazardous materials and we continue to aggressively pursue final agreement on a few remaining matters. Once the agreements are implemented, we work closely with DHS to keep them up to date and effective. For example, when FAA identified an opportunity to enhance communications with TSA regarding hazardous materials left at airport gates, the annex was revised to incorporate more effective electronic information exchange mechanisms which are now being implemented.

Another key aspect of security for the Department is ensuring its continuity of operations (COOP) and its ability to support interagency disaster and security efforts. DOT's COOP planning has received extensive, detailed review by the Government Accountability Office (GAO), which enabled us to continue efforts to refine and improve the Department's capabilities. The recent Gulf Coast hurricanes reinforced DOT's understanding of the need for focusing not only Federal, but also regional, state, and field office continuity of operations so that regardless of the nature of the emergency, vital transportation services can continue.

#### **Efforts in Place to Maintain and Enhance Federal Funds Stewardship**

The Department expects and demands nothing less than full accountability over the use of precious taxpayer funds, and works hard to ensure that its programs overseeing expenditures are effective and efficient. For example, the Federal Transit Administration's New Starts program has been recognized by the GAO as "a model the Federal government could use for approving other transportation projects." Efforts are in progress to further enhance the Federal Highway Administration's capabilities for ensuring that funds are similarly well spent, consistent with the overall statutory framework for the Federal-aid highway program, which leaves considerable decision-making authority in the hands of the states. FHWA is more fully incorporating financial stewardship initiatives into its traditional focus on sound engineering and project management.

#### **Continued Progress Improving Surface Transportation Safety**

Over the last year, DOT saw continued progress in meeting and exceeding its surface transportation safety goals. The highway fatality rate dropped to the lowest level since record keeping began 30 years ago. Similarly, total rail-related accidents and fatalities also declined. Nonetheless, we recognize much work remains to continue progress and to bring accident and fatality rates even lower. For example, to reduce the number of highway-rail grade crossing accidents, FRA has developed measures to detect failures by railroads to provide immediate notification of certain serious incidents and has embarked on a strict enforcement policy for failure to report crossing accidents. The Federal Motor Carrier Safety

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Administration has also stepped up activity to improve motor carrier safety through education, inspection and enforcement. Further, the National Highway Traffic Safety Administration is using all means available by statute, to further increase highway safety by encouraging manufacturers to produce safer vehicles, reducing alcohol related crashes, and increasing safety belt use.

#### **DOT is a Proponent of Amtrak Reform**

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. Working with the Congress, the President submitted legislative proposals that would significantly change Amtrak's operational structure, create a system driven by sound economics, introduce carefully managed competition to provide higher quality rail services at reasonable prices, and establish a long-term partnership between the states and the Federal Government to support intercity passenger rail service. We continue our efforts with the Congress to bring about real and effective Amtrak reform. At another level, DOT, through its membership on the Amtrak Board of Directors serves as a proponent of strong and effective management oversight and works to reinvigorate the role of the Board in ensuring that Amtrak functions as effectively and efficiently as possible.

#### **DOT Initiatives Address Flight Delays**

DOT has worked aggressively to reduce flight delays by expanding infrastructure where possible and also implementing strong measures to better allocate existing capacity where expansion is not an option. In pursuing these initiatives, we seek to ensure efficient utilization of increasingly scarce aviation resources, provide for airline competition, and maximize passenger movement through the system in a safe and customer-oriented manner. Throughout DOT's efforts we have been careful to seek and accommodate the perspectives of system users. We continue to work with key stakeholders to explore new and innovative solutions, evaluate the impact of alternative actions, and identify the most practical and effective means available to ensure that our airspace is managed in a way that makes it as productive as possible, while maintaining the highest levels of aviation safety.

#### **Aviation Reauthorization Offers an Opportunity for New Thinking in Aviation Funding**

We agree with the OIG that aviation trust fund revenues are shrinking while the demands and costs to the system continue to increase. New approaches are needed to fund the aviation system. The Department is working aggressively with stakeholders to explore options, understand the implications of alternative solutions, and seek to identify a path that will keep this Nation's aviation system second to none. We also agree that the FAA must closely examine its own cost structure with the intention of identifying and implementing actions to reduce costs. Air Traffic Control Systems must be developed on time, within budget and

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meet or exceed performance expectations. FAA has been strengthening its capabilities to manage to these results, and progress is being achieved.

#### **Aviation Safety Continues at Exceptionally Strong Levels**

DOT, FAA, and the airline industry last year achieved the lowest airline fatal accident rate in the history of aviation. Further, for the third consecutive year, runway incursions are down. FAA's aviation safety inspectors are using risk-based systems to guide their activities. Risk management techniques are also being extended to aviation repair station oversight, which will be using revised inspector guidance, new training, and improved data for an enhanced comprehensive repair station surveillance program.

#### **Actions Continue to Address IT Security, Investment and Enterprise Architecture**

DOT continues to strengthen its IT infrastructure by addressing computer security issues, improving computer acquisition oversight, and updating its enterprise architecture. DOT has certified and accredited 96 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. The Department implemented a continuous vulnerability scanning program as part of its compliance review process. DOT has also improved its oversight of IT investment with participation in the capital planning process expanded across all OAs. During the year, DOT released an updated iteration of our modernization blueprint including as-is and to-be enterprise architecture for the DOT common IT infrastructure in a framework aligned with OMB guidance. Finally, the Department continues working with OMB on a number of governmentwide endeavors, significantly improving its exhibit 300s and recently completing a plan that will reduce the risk associated with FAA Air Traffic Control Modernization, with the ultimate intention of gaining agreement to have GAO remove it from its high risk list.

#### **Title XI Loan Guarantee Program is Functioning Effectively**

With oversight from OIG and DOT's Credit Council, MARAD has worked to refine the Title XI loan guarantee program. MARAD now systematically monitors its loan portfolio and the creditworthiness of the companies making use of program funding. The number of companies now considered at the greatest risk have been reduced and creditworthiness overall has improved. MARAD has achieved progress implementing new policies and procedures to provide better oversight of the program and has not experienced any defaults during the last three fiscal years. This year, MARAD will implement a computer based system that will further facilitate its monitoring efforts.

In conclusion, many of these categories, such as aviation and surface transportation safety will likely remain management challenges for DOT in future years as demands on the transportation system and traffic continue to increase; there will always be a need for

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vigilance in regard to transportation safety. Similarly, there will always been a need for careful oversight in the stewardship of funds and transportation security activities and programs. In other, more specific challenges, such as the MARAD's Title XI program, we believe considerable progress has been achieved and will continue to be made with the expectation that these issues will not appear in future OIG reports on DOT's management challenges.

#### Appendix. OST Comments



## ACKNOWLEDGMENTS

We would like to recognize the following people among many, for their contribution to the FY 2005 Performance and Accountability Report. In particular, we acknowledge the efforts of Sarah Hosemann, Gretchen DePasquale, Kristine Leiphart, and Michael Soto, as principal writers, and Teresa Lampkin as the principal analyst for the financial statements.

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Sarah Hosemann		Scott Poyer	

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