United States Department of Transportation

Performance and Accountability Report for Fiscal Year 2007

Mary E. Peters, Secretary of Transportation

CONTENTS

MESSAGE FROM THE SECRETARY

When I was sworn in as Secretary of Transportation in October 2006, I convened the Department's senior management team to review the challenges we had to face together over the coming year. I advised them that we were not going to shy away from the tough issues, but instead face challenges head-on. I also encouraged them to take a fresh look at our transportation policies in order to find creative ways to make it safer, easier, and more efficient to move people and products across our vast networks.

The agenda I laid out was simple and straightforward we must work to find the best way to tackle today's most pressing transportation challenges, including improving safety, improving system performance and reliability, and finding 21st century solutions to 21st century problems. Finally, I asked them to join me in committing to achieve real results. These are the outcomes that the American people will judge us by — results that they can see improving their quality of life and making their communities more productive and prosperous.

IMPROVE SAFETY

The United States has attained an unparalleled safety record in our airspace in recent years, and the number of fatalities on our Nation's roads fell last year to the lowest rate ever recorded. We are proud that our transportation systems are safer than they have ever been before, but much work remains if we are to continue to lower the number of highway fatalities and reduce accidents that occur in commercial and general aviation.

To enhance our efforts to improve highway safety, the Department has begun to focus on the key areas that contribute to the highway fatality rate. We have developed new measures to track fatalities among occupants of passenger vehicles, non-occupants such as pedestrians and cyclists, victims of large truck and bus crashes and motorcycle riders. A stronger focus on the subsets of crash victims will provide greater insight on where we ought to be directing our safety resources. We intend to report on these new measures in the Fiscal Year 2008 Performance and Accountability Report.

We are also putting technology to work to improve highway safety. By September 1, 2011, all new passenger vehicles will be equipped with Electronic Stability Control, a new safety standard that has the potential to save up to 9,600 lives annually. Additionally, the Federal Motor Carrier Safety Administration (FMCSA) is testing a technology suite in tractor trailers that will monitor truckers' driving behavior in order to deter unsafe driving practices.

Both the Federal Highway Administration (FHWA) and FMCSA are pursuing broad, large-scale improvements in safety; one is directed outward at the States and other is directed inward, toward the agency. FHWA worked with all 50 States and the District of Columbia to develop Strategic Highway Safety Plans. With these plans, States have a roadmap for the improvements they need to make to address their specific safety challenges. Through the Comprehensive Safety Analysis 2010, FMCSA is examining its internal activities and developing an efficient new operational model to use its resources more effectively to address motor carrier safety.

The Federal Aviation Administration (FAA) is likewise taking a multi-faceted approach to safety. The Aviation Safety organization within the FAA is committed to a systems-based approach to safety; in 2006 it received ISO 9000 certification, meeting quality management standards that are recognized and respected worldwide. The FAA is also looking anew at how human error creeps into both air traffic controller and pilot performance, and is addressing this issue in its Safety unit and the Air Traffic Control organization, as well as through its research programs. FAA continues to invest in technology and equipment, such as Airport Surface Detection Equipment, Model X (ASDE-X), to improve safety on the ground and in the air.

IMPROVE SYSTEM PERFORMANCE AND RELIABILITY

To ensure the mobility that is critical to our Nation's continued economic prosperity, we must address mounting congestion in the sky and on our highways. Last year the Department rolled out its National Strategy to Reduce Congestion on America's Transportation Network in 2006, and this year we have taken innovative and concrete steps to provide Americans with immediate congestion relief in surface transportation through Urban Partnerships with five metropolitan areas: Miami, Minneapolis, New York City, San Francisco and Seattle.

The Department and its Urban Partners have agreed to pursue four strategies with a combined track record of effectiveness in reducing traffic congestion, collectively referred to as the "Four Ts": tolling, transit, telecommuting, and technology and operations. And through the Corridors of the Future Program, DOT provided support for six multi-modal investment proposals that adopt innovative financing models as a means to add capacity and reduce congestion on some of our most critical trade corridors.

We are also pursuing ground-breaking approaches to improving aviation mobility. Four years ago, Congress authorized the creation of the Joint Planning and Development Office (JPDO) to manage a public/private partnership to bring the Next Generation Air Transportation System (NextGen) on line by 2025. Six Federal agencies support the efforts of the JPDO: the Departments of Transportation (including the FAA), Defense, Homeland Security and Commerce, NASA, and

the White House Office of Science and Technology Policy. When implemented, the satellite-based NextGen system will fundamentally transform the way the United States controls aviation traffic. In the interim the FAA is also making significant operational improvements by redesigning the airspace for particularly congested areas like New York, funding new runways, and developing area navigation routes that will allow aircraft to fly point-to-point operations that are not restricted by the location of radar.

INCREASE GLOBAL CONNECTIVITY

The globalization of the American economy requires more efficient and cost effective movement of passengers and cargo throughout international transportation systems, and the Department has been in the forefront of reducing barriers to worldwide mobility. In the past, transatlantic travel between the United States and the European Union (EU) — which constitutes 60 percent of all international travel — has been restricted by bilateral agreements. In April, the United States and the EU signed an historic Open Skies agreement that lifts restrictions on the number of flights, aircraft, and routes between the two, making more flights available and lowering costs.

And in July, the United States and China signed an agreement to open up airways and double the number of daily flights allowed between the two countries over the next five years. The agreement also allows for new cargo flights operating to and from the United States and China. By increasing competition, allowing more flight options, and reducing costly stops and layovers, these new direct routes are expected to lower fares and increase convenience for both business and leisure passengers to travel to China. Estimates predict that this accord will generate as much as $5 billion in passenger and cargo revenues for the airline industry alone over the next six years and will produce as much as $8 billion in new economic activity in the United States.

MINNEAPOLIS BRIDGE COLLAPSE

In the midst of all the year's successes, we must not forget the tragedy in Minneapolis this summer when the I-35W Bridge collapsed during rush hour. Officials from FHWA were on the bridge site within 30 minutes of the report that it collapsed and worked closely with the National Transportation Safety Board (NTSB) as they conducted a thorough investigation. In response to the tragedy, FHWA issued two technical advisories: one strongly encouraging States to re-inspect all steel-deck truss bridges and follow up on any critical finds, and another advising States to ensure that the construction equipment loads and stockpiled raw materials placed on a structure do not exceed its load limit. We await the NTSB findings along with a program audit by the DOT Office of Inspector General, which may result in additional recommended improvements to the Bridge program to deliver the highest levels of bridge safety.

PROGRAM AND FINANCIAL PERFORMANCE

Our FY 2007 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. DOT has a clean audit. We will continue to make improvements throughout FY 2008.

CONCLUSION

Our achievements from the past year inform, but do not limit, our direction. The employees at the Department of Transportation have the talent, creativity and innovative spirit to continue to produce tangible results for the American people, making our communities more prosperous and improving our quality of life. By focusing on real results, we find ourselves on the brink of new and exciting programs that will further our ability to provide a safe, effective, and efficient transportation system for all Americans.

November 15, 2007

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

The Department of Transportation (DOT) made great strides in enhancing our budget, performance and financial management programs during Fiscal Year (FY) 2007. At DOT, the Office of the Assistant Secretary for Budget and Programs/CFO is a full partner in setting the mission and strategies for the Department and plays a key role in ensuring effective and efficient use of DOT resources to further the Nation's transportation goals. We supported a variety of DOT strategic initiatives and programs through innovative financing arrangements, including selecting five new Urban Partnership Agreements using previously earmarked discretionary funds, providing strong support for the Congestion Management and Corridors for the Future programs, developing innovative approaches for incorporating private sector investment into the public transportation infrastructure, and making major advances towards the Federal Aviation Administration's Next Generation program for a new Air Traffic Control system.

From an organizational perspective, we continued to elevate CFO positions in the Operating Administrations (OAs) and initiated a major long-term strategic planning effort for our systems and services. We also conducted another successful annual CFO Workshop for our budget, performance and finance staff. In addition, during 2007 DOT moved 5,500 employees on schedule and under budget into our new "green" headquarters building, which is helping revitalize the Anacostia River waterfront area of Southeast Washington, D.C.

DOT'S PAR RATED #1 IN ALL THREE CATEGORIES

DOT is very proud that our FY 2006 Performance and Accountability Report (PAR) was rated #1 by the prestigious Mercatus Center of George Mason University in all three major categories: Overall Excellence, Leadership and Transparency. We were especially pleased that Mercatus described our PAR as "easy to read" – no small accomplishment for this kind of a report.

PERFORMANCE IMPROVEMENT INITIATIVE

DOT continues to be recognized for our leadership in OMB's performance improvement initiative (formerly called Budget-Performance Integration). We've been rated "green" for the last 14 quarters and received the 2006 President's Quality Award for our outstanding Budget-Performance Integration program.

EXCELLENCE IN FINANCIAL MANAGEMENT

DOT is proud to receive a clean audit opinion this year. We have received clean financial audit opinions for six of the last seven years. Each year, we develop, implement and track detailed correction action plans to ensure we resolve all audit findings as we continue to improve our financial management business processes, internal controls and financial systems.

DOT is the only cabinet level agency to finish converting all of its component agencies to a state-of-the-art financial system that uses non-customized commercial-off-the-shelf software running on a cost-effective single production instance. Our financial system, which we call Delphi, currently has 4,000 users.

DOT continued to upgrade and enhance our financial systems this year. In May, we successfully upgraded the software for our Delphi core accounting system, which produces financial statements overnight at month- and year-end and anytime on demand. This year we also upgraded the server hardware and technology for our CASTLE Time and Attendance / Labor Distribution system, which improved system performance by 65 percent. In addition, we developed a new solution that uses Service Oriented Architecture technology to integrate our procurement management system with our Delphi financial system; implementation begins in FY 2008.

To enhance data quality, we established 14 reconciliations that are conducted monthly by our OAs. We also developed a website to share their results and our continued progress on the Office of Management and Budget's financial performance measures with all DOT organizations. To facilitate the efficient management of interagency agreements, this year we developed and implemented a Common Reimbursable Agreement Number that automates the elimination of reimbursable agreements from our consolidated financial statements.

FEDERAL SHARED SERVICE PROVIDER

DOT continues to operate as one of four government-wide Centers of Excellence for financial management. As a Federal Shared Service Provider, we offer financial systems and accounting services to other agencies and give them the benefits of best industry practices and significant economies of scale. Customers get the advantages of DOT's experience and capital investment at low cost and low risk. DOT's Center, called the Enterprise Services Center (ESC), is located at the Mike Monroney Aeronautical Center in Oklahoma City.

In a 2006 competitive process, the Government Accountability Office (GAO) selected DOT's Delphi financial system for their own use. We see GAO's selection of DOT's Delphi system as a real feather in our cap. After a year of planning, set-up and configuration, data conversion, and a unique parallel testing process, in October 2007 GAO went live on DOT's Delphi financial system with the PRISM procurement system integrated with Delphi. DOT's other external customers include the National Endowment for the Arts, the Commodity Futures Trading Commission, and the Institute for Museum and Library Services.

Three of our external customers have also contracted with DOT's ESC to provide them with our high quality accounting services, including accounts receivable, accounts payable, supplier table maintenance, monthly closing and reconciliation, and financial reporting. DOT continues to market our outstanding financial system and accounting services to other Federal agencies in support of the Financial Management Line of Business of the President's Management Agenda.

CONSOLIDATING ACCOUNTING OPERATIONS

DOT has consolidated accounting operations at the ESC for all OAs. During FY 2007, we moved accounting operations for the last two OAs (the Federal Transit Administration and the Maritime Administration) to the ESC. Consolidating accounting services provides significant economies of scale and supports further streamlining and standardizing of our processes and implementing best practices throughout DOT.

INTERNAL CONTROL PROGRAM

During FY 2007, DOT implemented the second year of our 2-year Internal Control program to meet the updated requirements of OMB Circular A-123, Management's Responsibility for Internal Control. This year we reviewed, documented, assessed risk and extensively tested the second group of our key business processes (the first group was tested last year). As with all findings from our financial audits, we have developed and are implementing corrective action plans to resolve all Internal Control findings, too. Our auditors have determined that our Internal Control program was in compliance with OMB requirements.

DOT has established an Internal Control Senior Assessment Team to guide this program. To avoid duplication of effort, we have integrated our Internal Control program with our CFO audits, our Federal Managers Financial Integrity Act program, and our innovative Improper Payments Information Act (IPIA) program. This year our IPIA program sampled 1,500 highway projects across the country to develop a nationwide improper payment rate. We also developed improper payment rates for key transit and aviation programs. Together these efforts upgraded our progress score on the President's Management Agenda goal for Improper Payments.

DOT is currently planning our follow-on A-123 program to review, test and enhance our Internal Controls over the next 3 years.

E-TRAVEL PROGRAM

DOT continues to be #1 in the Federal government in e-Travel, with more transactions flowing through a new e-travel system than any other cabinet department. All DOT organizations have implemented our new e-travel system. We have developed and implemented a sophisticated automated interface from the e-travel system to our Delphi financial system that includes real-time funds checking. At the same time, DOT remained vigilant and successfully kept our travel card delinquency rate well below one percent.

MANAGERIAL COST ACCOUNTING

DOT was recognized this year by the GAO as a government leader in cost accounting, which helps program managers analyze and manage their program's costs accurately and timely. The FAA has completed implementing its Cost Accounting System (CAS) for all its sub-organizations and has implemented labor distribution reporting for all 45,000 employees. The Federal Highway Administration has developed a new cost accounting capability for its Federal Lands Highway Program, and the Federal Transit Administration is using Labor Distribution Reporting to assign salary and benefit costs to its programs. The Volpe National Transportation Systems Center and the DOT Working Capital Fund also use robust cost accounting systems. DOT's web-based CASTLE Time and Attendance/Labor Distribution System automatically interfaces labor costs to our Delphi financial system to support cost accounting. Our financial management strategic planning / business transformation initiative will guide our continuing efforts to integrate program and accounting data and to expand cost accounting throughout DOT.

CONCLUSION

FY 2007 has been another productive year in our efforts to enhance and integrate our budget, performance and financial management programs. Looking back, we see that DOT is far ahead of where we were only a few short years ago. Building on our accomplishments, we will continue to develop and implement CFO initiatives so that we can better demonstrate the financial and program results the American people expect and deserve and fully support the Department's strategic goals to create a safer and more efficient transportation system for the Nation.

Phyllis F. Scheinberg

Assistant Secretary for Budget and Programs/Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT THIS REPORT

The Department of Transportation's (DOT) Performance and Accountability Report (PAR) for Fiscal Year 2007 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 Management Reform Act of 1994
- ✧ Government Performance and Results Act of 1993
- ✧ Chief Financial Officers Act of 1990

These requirements 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 controls, 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 2007 Performance and Accountability Report are available by writing to:

U.S. Department of Transportation
Office of the Assistant Secretary for Budget and Programs/Chief Financial Officer
Room W95-330
1200 New Jersey Avenue, SE
Washington, D.C. 20590

You may also view this Report online at 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 2007; a brief analysis of financial performance; a brief description of systems, controls, and legal compliance; and information on the Department's progress in implementing the President's Management Agenda. The MD&A also addresses the management challenges identified by the Department's Inspector General and a summary of the Inspector General's audit report.

THE PERFORMANCE REPORT

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

THE FINANCIAL REPORT

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

DOT MISSION AND VALUES

MISSION

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

VALUES

PROFESSIONALISM

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

TEAMWORK

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

CUSTOMER FOCUS

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

ORGANIZATION

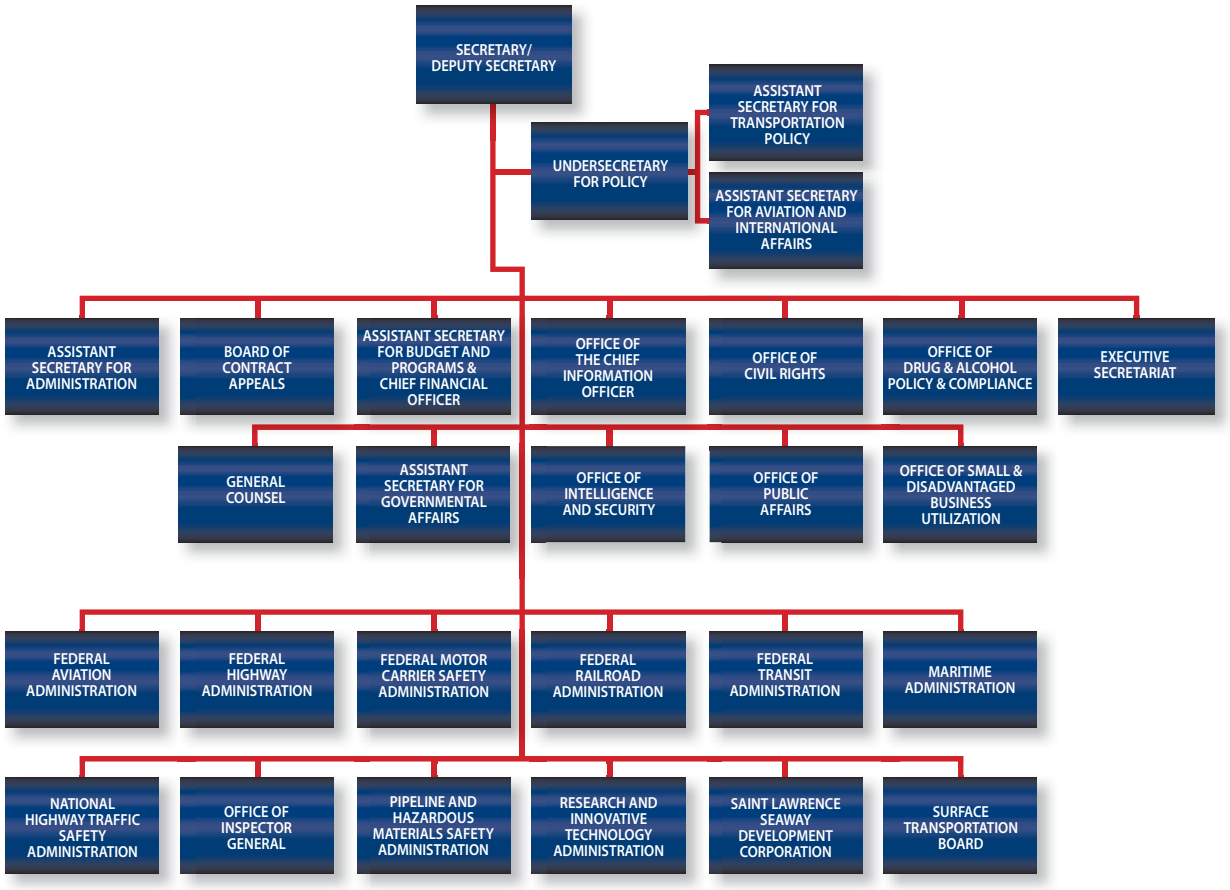
HISTORY

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

HOW WE ARE ORGANIZED

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

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



OVERVIEW OF LEGISLATIVE AUTHORITIES

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

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

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

Federal Highway Administration. The mission of the Federal Highway Administration (FHWA) is to improve mobility on our Nation's highways through national leadership, innovation, and program delivery.

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 by promoting safe and secure commercial motor vehicle operation through education, regulation, enforcement, and innovative research and technology.

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

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

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

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

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

Pipeline and Hazardous Materials Safety Administration. The mission of the Pipeline and Hazardous Materials Safety Administration (PHMSA) is to protect people and the environment from the risks inherent in transportation of hazardous materials—by pipeline and other modes of transportation. In doing so, PHMSA also protects the public's interest in reliable delivery of energy resources and other critical materials.

Research and Innovative Technology Administration. The Research and Innovative Technology Administration (RITA) is dedicated to ensuring the effectiveness of the Department of Transportation's investment in research and technology. Innovations that will improve our mobility, promote economic growth, and ultimately deliver a better integrated transportation system.

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

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

PERFORMANCE HIGHLIGHTS

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

This Administration is working to ensure that our transportation system has the capacity to accommodate the needs of a growing and prosperous America. Below, we present the highlights of our fiscal year (FY) 2007 results in our five strategic areas: safety, mobility, global connectivity, environmental stewardship and security. We also present our internal organizational achievements that enhance DOT's performance as a results-driven Federal agency.

SAFETY

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

The number of people who died on the Nation's roads fell last year, leading to the lowest highway fatality rate ever recorded and the largest drop in total deaths in 15 years. In 2006, 42,642 people died in traffic crashes, a drop of 868 deaths compared to 2005. This two percent decline in traffic deaths contributed to the historic low fatality rate of 1.42 fatalities per 100 million vehicle miles traveled (VMT). This decline is the largest in terms of both number and percentage since 1992. Preliminary 2007 data indicates that the fatality rate will decrease to 1.40 fatalities per 100 million VMT. DOT is firmly committed to meeting the Department's longstanding overall highway fatality rate goal of 1.0 fatalities per 100 million VMT by 2011. New performance targets have been established in key areas that encompass all areas of motor vehicle crashes. This will enable the Department's efforts to focus on the critical areas responsible for the slow rate of decline in the overall highway fatality rate, stagnant impaired driving fatalities, and ever increasing motorcycle rider fatalities. These key focus areas include passenger vehicle occupants, non-occupants (pedestrians, cyclists, etc.), motorcycle riders, and large trucks and buses. They were chosen in part to cover the breadth of all road users. The Department will begin to report on these focus areas in the FY 2008 PAR.

In response to the tragic collapse of the I-35W Bridge in Minneapolis, MN, FHWA issued two technical advisories. The first strongly encouraged States to re-inspect all steel deck truss bridges and to follow-up on any critical findings, and the second advised States to ensure that the construction equipment loads and stockpiled raw materials placed on a structure do not overload its members.

The Department understands that future National Transportation Safety Board findings along with a program audit by the DOT Office of Inspector General may result in additional recommended improvements to the FHWA Bridge program.

Wisconsin Department of Transportation bridge inspectors Jim Kast, right, and Matt Murphy inspect the support structure of the Highway 51 bridge over the Rock River, just south of Edgerton, Wis., Wednesday, Aug. 8, 2007. The structure, one of about 16 deck truss bridges in the state, is generally similar to the Interstate 35W bridge that collapsed in Minnesota on August 1, 2007. This bridge was scheduled for a regular inspection next month but the special inspection is considered a precautionary measure. (AP Photo/The Gazette, Bill Olmsted)

Although FAA did not meet its commercial aviation safety measure, this remains one of the safest periods in aviation history for both commercial and general aviation. Over the last five years, nearly three billion airline passengers reached their destination safely. As the stewards of aviation safety in the U.S., FAA and its industry partners have built a system that operates nearly 32,000 scheduled commercial flights daily and has reduced the risks of flying to all-time lows. FAA's efforts during the past ten years have also resulted in reduced general aviation fatal accidents and Alaska fatal accidents. Both measures are at their lowest recorded levels in history.

Rail and transit safety continue to meet their safety targets. Based on preliminary estimates, DOT expects to better the FY 2007 target of 16.70 rail-related accidents/incidents per million train miles, limiting accidents/incidents to 15.03 per million train miles. Much of FRA's success can be attributed to its use of data and sophisticated technologies to more effectively and efficiently alert and direct FRA safety inspectors and other resources to potential track safety anomalies. This advanced notice enables FRA resources to proactively manage safety concerns. Additionally, FRA has built substantial partnerships with State and local agencies to address accidents and casualties at highway-rail grade crossings and from trespassing. Although the transit fatality rate increased slightly in FY 2007, safety performance continues to meet expectations. The transit fatality rate increased from 0.344 fatalities per 100 million passenger miles traveled in FY 2006 to 0.378 in FY 2007. Strong growth in transit ridership and the continued expansion of transit service significantly increased the number of transit passenger miles in FY 2007 over FY 2006.

A Union Pacific freight train crosses an intersection in Pine Bluffs, Wyoming, Tuesday, April 10 2007. A freight train traveling at top speed often needs a mile or more to stop after applying its brakes. The train was carrying about 150 passengers who had signed up for a presentation on train safety that was given during the ride. (AP Photo/ The Wyoming Tribune Eagle, Gregory Hoenig)

The Department continues its effort to lower the number of serious incidents—those presenting the greatest risk to people—from the transportation of hazardous materials across all modes of transportation. Overall, we have cut the risk by about one third over the past twenty years.

MOBILITY

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

Over two million people a day travel on our Nation's airlines and more than one-third of the value of all goods is moved by air. Air travel exceeded pre-9/11 levels in FY 2006, and is on track to reach more than one billion passengers by 2015. This increased passenger traffic along with adverse weather conditions resulted in the flying public experiencing increased delays in their travel plans during FY 2007. Not surprising, the FAA fell short of the FY 2007 on-time target of 87.40 percent,

achieving a rate of only 86.50 percent. To manage the increased air traffic, FAA continued to focus on easing congestion in seven metropolitan areas; improving overall capacity at the Nation's top 35 airports; building new runways; and increasing traffic coordination and communication by using new technologies. Airspace redesign is one of the key components in optimizing the U.S. airspace and allowing for increased capacity. To help reduce delays and create more efficient routings, significant changes were made to crowded en-route and terminal airspace in Atlanta, Southern California, and the Cincinnati/Northern Kentucky International Airport. In addition, a new runway at Boston-Logan International Airport and a relocated runway at Los Angeles International Airport opened during FY 2007.

An airline passenger watches for flight delays on monitors at LaGuardia Airport in New York, Friday, June 8, 2007. U.S. airline delays are at their highest level in at least 13 years, and analysts say fliers can expect continued delays. The Department of Transportation on Monday, Aug. 6, 2007 said the industry's on-time performance in the first six months of the year was its worst since 1995, the earliest period for which the agency has comparable data. In June, nearly a third of domestic flights on major U.S. airlines were late. (AP Photo/Frank Franklin II, File)

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 2007, DOT met one of its two performance targets measuring compliance with the Americans with Disabilities Act (ADA). An estimated 97 percent of bus fleets continue to be ADA compliant either being lift-equipped or having low floors to accommodate wheelchairs and people with limited mobility. However, it is estimated that only 92.3 percent of key rail stations are ADA compliant, slightly missing the FY 2007 target of 93 percent. FTA is developing an action plan and working with station operators to address this issue.

The pavement condition on the Nation's highways improved in FY 2007, but not enough to meet the Department's performance target. The estimated percentage of travel on the National Highway System exhibiting "good"-rated ride quality was 55 percent, missing the target by 1.0 percent. FHWA has found that more improvement is needed in key States that have the most influence on the nationwide results in order to meet the ride quality standard.

Congested travel was below the target level with a projection of 31.8 percent for urban-area travel occurring in congested conditions. The results from 2004 to 2006 suggest that the overall rate of growth nationwide in traffic congestion appears to be slowing. However, traffic congestion is still a significant problem, particularly in urban areas. The FHWA continued to promote operational and technological solutions to provide traveler information, improve traffic incident management, enhance mobility in the vicinity of work zones, improve traffic signal timing, and relieve traffic congestion at bottlenecks.

Congested traffic fills New York's Park Avenue, Thursday June 7, 2007. New York Mayor Michael Bloomberg's plan to ease Manhattan traffic through congestion pricing got a boost from U.S. Secretary of Transportation Mary Peters, who announced that New York was one of five metropolitan areas across the country selected to participate in the Urban Partnerships Program - a new Federal initiative that provides funding to fight traffic gridlock. (AP Photo/Richard Drew)

DOT selected five metropolitan areas across the country as the first communities to participate in a new federal initiative to fight traffic gridlock. The Department's Urban Partnership program aims to reduce traffic congestion using approaches like congestion pricing, transit, tolling, and teleworking. Funding has been provided to the cities of Miami, Minneapolis, New York City, San Francisco, and the Seattle area (King County) to implement transportation solutions that take advantage of new technologies to keep traffic moving, and promote flexible work schedules and telecommuting to ease traditional rush hours.

GLOBAL CONNECTIVITY

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

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

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

On April 30, 2007, after more than four years of negotiations, the United States and the European Union (EU) achieved a historic pact on Open Skies. Beginning on March 30, 2008, the agreement will deregulate air traffic on both sides of the Atlantic, a market that represents about 60 percent of international travel. The Agreement would replace existing bilateral agreements between the United States and EU member states and establish an Open Skies Plus framework between the United States and all 27 EU member states. As a result of newly implemented open skies agreements, DOT increased the number of potential air transportation customers to 3.83 billion, a 27 percent increase over FY 2006. Open skies agreements have made it possible for the airline industry to provide the opportunity for better quality, lower priced, and more competitive air service in thousands of international city-pairs to an increasing portion of the world's population.

Bilateral Aviation Safety Agreements (BASA) promotes aviation safety and environmental quality, enhances cooperation, and increases efficiency in civil aviation safety matters. These agreements improve global understanding of U.S. safety regulations, processes, and procedures, which leads to better international regulatory oversight. In FY 2007, FAA achieved its performance target, negotiating agreements with Singapore, Japan, and Mexico.

The Saint Lawrence Seaway is the international shipping gateway to the Great Lakes, with almost 50 percent of Seaway traffic traveling to and from overseas ports, especially in Europe, the Middle East and Africa. The Great Lakes Seaway System offers access and competitive costs with other routes and modes to the interior of the country, so it is critical that the locks maintained by the Saint Lawrence Seaway Development Corporation (SLSDC) be open and navigable continuously during the navigation season. Once again SLSDC met its target, making the Seaway available for shipping 99.4 percent of the season.

ENVIRONMENT

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

For the second year in a row, the number of areas in a transportation emissions conformity lapse was well below the target. During 2002 when this measure was adopted, approximately six areas were in conformity lapse in any given month. A number of changes to the conformity provisions were implemented in 2005 to streamline and provide more flexibility to the conformity process. The

number of areas in a lapse was zero at the end of FY 2006, lowering the 12-month moving average number of areas in a conformity lapse to 1.3. In FY 2007, we sustained this effort and lowered the number of areas in a lapse to zero.

The Maritime Administration (MARAD) has more than 115 obsolete and deteriorating ships awaiting disposal that pose potentially costly environmental threats to the waterways near where they are stored. In FY 2007, MARAD removed 25 obsolete ships from the three fleet sites, twelve more than the 2007 target. 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, In 2007, dismantling was completed on 18 ships, exceeding the target by three ships. These ships were removed from the fleet sites during the current and preceding fiscal years.

We continue to drive down the potentially harmful releases of hazardous liquids from pipelines. We are projecting that we will beat the target for FY 2007 by up to 50 percent. We believe that the improved performance over the past two years reflects the success of our integrity management program—pipeline operators are finding and fixing defects before they become failures.

SECURITY

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

The Department of Defense (DOD) relies on the U.S. commercial transportation industry as well as government-owned ships to deliver equipment and supplies throughout the world in order to maximize defense logistics capabilities and minimize cost. In addition to the availability of commercial U.S.-flag vessels, MARAD has 44 government-owned Ready Reserve Force vessels available to satisfy DOD's surge sealift requirements, a decrease of four vessels from FY 2006. MARAD, in conjunction with DOD, also negotiates an agreement with each DOD-designated commercial strategic port specifying which facilities will be needed to conduct a military deployment. These ports are expected to make their facilities available to the military within 48 hours of written notice. DOT met both the shipping capacity performance target of 94 percent availability within mobilization timelines, and achieved 100 percent readiness within established timelines for its target for commercial strategic port availability.

ORGANIZATIONAL EXCELLENCE

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

Secretary Peters' management strategy for achieving organizational improvement includes full implementation of the President's Management Agenda (PMA). The PMA contains five core, mutually reinforcing initiatives that the DOT team is integrating into its corporate culture in striving for continuous management improvement. The five core PMA initiatives are in the areas of strategic management of human capital, competitive sourcing, financial performance, performance improvement, and e-government. Our latest ratings from the Office of Management and Budget concerning the status of each core initiative resulted in the Department receiving two "green" ratings; two "yellow" ratings; and one "red" rating.

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. Departmental management is responsible for the integrity and objectivity of the financial information presented in the financial statements.

The financial statements and financial data presented in this Report have been prepared from the accounting records of the DOT in conformity with generally accepted accounting principles (GAAP). For Federal entities, these GAAP standards are 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 $61.8 billion at the end of FY 2007. This represents a 3.6 percent decrease over the previous year's total assets of $64.1 billion (restated). The Department's assets reflected in the Consolidated Balance Sheet are summarized in the following table.

Assets by Type (Dollars in Thousands)		**2007**	**%**		**2006 Restated**	**%**
Fund Balance with Treasury	$	23,392,470	37.8	$	27,692,908	42.2
Investments		21,218,168	34.3		19,824,151	30.9
General Property, Plant & Equipment		14,683,890	23.7		14,501,762	22.6
Inventory and Related Property, Net		785,760	1.3		897,494	1.4
Direct Loans and Guarantees, Net		889,885	1.4		618,179	1.0
Accounts Receivable		623,810	1.0		315,987	0.5
Cash and Other Assets		237,855	0.4		261,091	0.4
Total Assets	**$**	**61,831,838**	**100.0**	**$**	**64,111,572**	**100.0**

LIABILITIES

The Department had total liabilities of $14.1 billion at the end of FY 2007. This represents a 7.4 percent increase from the previous year's total liabilities of $13.1 billion (restated), which is reported on the Consolidated Balance Sheet and summarized in the following table.

Liabilities by Type (Dollars in Thousands)		2007	%		Restated 2006	%
Grant Accrual	$	5,526,288	39.3	$	4,975,556	37.9
Other Liabilities		4,727,489	33.6		4,622,073	35.3
Accounts Payable		1,591,693	11.3		1,375,459	10.5
Environmental and Disposal Liabilities		852,366	6.1		953,635	7.3
Debt		1,040,761	7.4		839,357	6.4
Loan Guarantees		336,626	2.3		345,864	2.6
Total Liabilities	**$**	**14,075,223**	**100.0**	**$**	**13,111,944**	**100.0**

NET POSITION

The Department's Net Position at the end of FY 2007 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position is $47.8 billion, a 6.4 percent decrease from the previous fiscal year. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

RESULTS OF OPERATIONS

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

NET COSTS

The Department's total net cost of operations for FY 2007 was $63.1 billion.

Net Costs (Dollars in Thousands)		2007	%		2006 Restated	%
Surface Transportation	$	47,385,306	75.05	$	45,955,838	75.59
Air Transportation		14,814,454	23.46		14,135,417	22.97
Maritime Transportation		570,727	0.90		457,525	0.74
Costs Not Assigned to Programs		388,392	0.62		390,463	0.63
Less Earned Revenues Not Attributed to Programs		30,295	0.05		30,985	0.05
Cross-Cutting Programs		11,448	0.02		7,355	0.01
Net Cost of Operations	**$**	**63,140,032**	**100.0**	**$**	**60,915,613**	**100.00**

Surface and air costs represent 98.5 percent of the Department's net cost of operations. Surface transportation program costs represent the largest investment for the Department at 75.1 percent of the Department's net cost of operations. Air transportation is the next largest investment for the Department at 23.5 percent of the Department's net cost of operations.

RESOURCES

BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Department for the year and their status at fiscal year-end. For the 2007 fiscal year, the Department had total budgetary resources of $122.7 billion, compared to the FY 2006 levels of $112.5 billion.

Budget Authority of $118.7 billion – which primarily consists of $62.6 billion of appropriations received and $56.1 billion of borrowing and contract authority – comprise 96.7 percent of the total budgetary resources. The Department incurred obligations of $75.8 billion for the 2007 fiscal year, a 15.5 percent increase over the $65.6 billion of obligations incurred during 2006. Outlays reflect the actual cash disbursed against the Department's obligations.

HERITAGE ASSETS AND STEWARDSHIP LAND INFORMATION

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

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

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

The Department holds transportation investments (Stewardship Land) through grant programs such as the Federal Aid Highways, mass transit capital investment assistance, and project grants for airport planning and development.

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

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

These 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.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

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

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

The Secretary of Transportation has issued a qualified Statement of Assurance for FY 2007. A copy of the Statement of Assurance is included in this section under Management Assurances. The Department evaluated its management control systems and financial management systems for the fiscal year ending September 30, 2007. This evaluation provided reasonable assurance and formed the basis of the Secretary's Statement of Assurance that the objectives of the FMFIA were achieved in FY 2007.

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.

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.

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.

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

CRITERIA FOR REPORTING MATERIAL WEAKNESSES AND NONCONFORMANCES

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

Criteria for Reporting a Material Weakness

1. Significant weakness of the safeguards (controls) against waste, loss, unauthorized use or misappropriation of funds, property, or other assets.
2. Violates statutory authority, or results in a conflict of interest.
3. Deprives the public of significant services, or seriously affects safety or the environment.
4. Impairs significantly the fulfillment of the agency's mission.
5. Would result in significant adverse effects on the credibility of the agency.

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

Criteria for Reporting a Material Nonconformance

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

SUMMARY OF FY 2007 FMFIA MATERIAL WEAKNESSES

STATUS OF INTERNAL CONTROLS (FMFIA SECTION 2)

DOT has two material weaknesses under Section 2 – Timely Processing of Transactions and Accounting for Property, Plant and Equipment (PP&E), including the Construction in Progress (CIP) Account at the Federal Aviation Administration (FAA) and Weaknesses in the Stewardship and Oversight of Federal-Aid Projects Administered by Local Program Agencies (LPA). The Timely Processing of Transactions and Accounting for PP&E, including the CIP Account material weakness is a repeat material weakness from last year and has been updated to include issues surrounding

PP&E. The Weaknesses in Stewardship and Oversight of Federal-aid Projects Administered by LPAs is a new material weakness identified by the Federal Highway Administration (FHWA). During FY 2007, the Department resolved the Financial Management, Reporting, and Oversight at the Highway Trust Fund (HTF) which was reported last year.

Timely Processing of Transactions and Accounting for PP&E, including the CIP Account. Last year we reported that the FAA did not have effective policies and procedures in place over CIP accounting, including maintaining supporting documentation for the capitalization of fixed assets. During FY 2007, the FAA executed an extensive corrective action plan, involving a complete review of the CIP balance reported by the FAA at September 30, 2006.

For FY 2007, we are updating the material weakness to include issues surrounding PP&E. FAA has not fully complied with standardized policies and procedures, including policies on unit costs, overhead burden calculations and allocation, and procedures for entry of transactions in the fixed asset subsidiary ledger, to ensure that CIP and related PP&E balances are accurate, complete, and recorded timely throughout the year. In addition, the FAA has not completed the design and full implementation of internal controls around the standardized policies and procedures that will allow management to provide reasonable assurance that internal controls over the CIP and related processes are properly designed and operating effectively.

Weaknesses in Stewardship and Oversight of Federal-Aid Projects Administered by LPAs. During FY 2006 and FY 2007, FHWA assembled an LPA Review Team to review 39 projects administered by 35 different local agencies. The findings revealed that current oversight activities, as a whole, may be inconsistent from State to State and ineffective for ensuring that Federal-aid requirements are met on LPA-administered projects. There were no indications of fraud, waste, or abuse; however, the review identified program weaknesses that allow shortcomings in the eligibility determinations in compliance with established Federal laws and regulations.

STATUS OF FINANCIAL MANAGEMENT SYSTEMS (FMFIA SECTION 4)

DOT reported again this year that the Department was not in substantial compliance with OMB Circular A-127. During FY 2006, we reported that the FAA was not in compliance with Federal accounting standards due to their inability to provide representation that the CIP balance and activity was fairly stated and in accordance with applicable accounting standards, as of and for the year ended, September 30, 2006. The non-compliance with Federal accounting standards still exists for FY 2007 due to the FAA's inability to account for transactions and present balances in its periodic financial statements in accordance with applicable accounting standards, as of and for the year ended, September 30, 2007.

Corrective Action Plans addressing material weaknesses and nonconformances are located in the Other Accompanying Information section.

APPENDIX A, INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

During FY 2006, DOT began an OMB-approved two-year implementation of Appendix A and identified 12 key business processes that are material to financial reporting. Of these 12 processes, six were documented and tested in FY 2006. During FY 2007, the Department added an additional business process to document and test. The remaining seven key business processes were documented and tested during FY 2007. DOT is reporting a limitation of scope for its assurance statement on internal controls over financial reporting due to its two-year implementation of Appendix A.

Based on the results of this evaluation, DOT is reporting one material weakness in its internal control over financial reporting as of June 30, 2007. The material weakness is the Timely Processing of Transactions and Accounting for PP&E, including the CIP Account.

MANAGEMENT ASSURANCES – OMB CIRCULAR A-123

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

November 9, 2007

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to report on the effectiveness of the internal controls and financial systems for the U.S. Department of Transportation (DOT) during Fiscal Year (FY) 2007. This report is based on our successful implementation of Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, which provides guidance for meeting the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

The FMFIA holds Federal managers responsible for establishing and maintaining effective internal controls and financial systems. All DOT organizations are subject to Sections 2 and 4 of the FMFIA except the Saint Lawrence Seaway Development Corporation, which reports separately under the Government Corporations Control Act.

The DOT is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of two material weaknesses reported under Section 2 and one non-conformance reported under Section 4.

During FY 2007, DOT conducted its assessment of internal controls and compliance with applicable laws and regulations in accordance with OMB Circular A-123. Based on this evaluation, DOT identified two material weaknesses and one "non-compliance" with laws and regulations as of September 30, 2007. Other than the exceptions noted below, DOT's internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

The Department is pleased to report that the second Section 2 material weakness reported in FY 2006, Financial Management, Reporting, and Oversight of the Highway Trust Fund (HTF), was resolved during FY 2007.

Section 2. Material weaknesses are defined as deficiencies in the design or operation of internal controls that do not reduce to a relatively low level the risk that significant errors, fraud, or noncompliance could occur and not be detected by employees in the normal course of performing their duties. We are reporting two material weaknesses:

1. Timely Processing of Transactions and Accounting for PP&E, including the CIP Account. Last year we reported that the Federal Aviation Administration (FAA) did not have effective policies and procedures in place over CIP accounting, including maintaining supporting documentation for the capitalization of fixed assets. During FY 2007 the FAA completed extensive corrective actions including an in-depth project by project review of the CIP balance reported at September 30, 2006.

For FY 2007 we are updating this material weakness to include not fully complying with standardized PP&E policies on unit costs, overhead burden calculations and allocations, as well as procedures for entering transactions to ensure that CIP and PP&E balances are accurate, complete and recorded promptly. We are in the process of completing the implementation of enhanced internal controls for CIP that will enable management to provide reasonable assurance that internal controls over CIP are properly designed and operating effectively.

2. Weaknesses in the Stewardship and Oversight of Federal-Aid Projects Administered by Local Program Agencies (LPAs). During FY 2006 and FY 2007, the Federal Highway Administration (FHWA) assembled a review team to review 39 projects administered by 35 different local agencies. While there were no indications of waste, fraud or abuse, the review identified inconsistent oversight activities among the States. LPA oversight needs to be enhanced to ensure that LPA-administered projects meet all Federal-aid requirements.

The FHWA has taken immediate measures to address this material weakness, including designating Local Project Oversight Coordinators to provide increased oversight and focus, to evaluate State DOT LPA processes and procedures, to analyze whether additional process reviews are necessary, and to enhance LPA project oversight with the State DOTs. During FY 2008, FHWA will be implementing additional corrective actions to improve LPA project oversight and to resolve the control weaknesses identified during the review.

Section 4. Nonconformances in internal controls represent deficiencies in the design or operation of internal controls that could adversely affect the DOT consolidated financial statements. We are reporting one material nonconformance:

1. Compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. During FY 2006, we reported that the FAA was not in compliance with Federal accounting standards because their CIP balance was not fairly stated in accordance with applicable accounting standards. This non-compliance still existed for FY 2007 because the FAA has not yet completed implementing their Corrective Action Plan.

OMB Circular A-123, Appendix A. During FY 2007, DOT conducted an assessment of the effectiveness of internal controls over financial reporting, including safeguarding assets and complying with applicable laws and regulations.

DOT has identified 13 key business processes that are material to financial reporting and documented and tested seven of them in FY 2007; the remaining processes were tested in FY 2006. Due to the two-year implementation of Appendix A as approved by OMB, DOT is reporting a scope limitation for its assurance statement on internal control over financial reporting. Based on the results of this evaluation, DOT is reporting one material weakness in its internal control over financial reporting as of June 20, 2007: the Timely Processing of Transactions and Accounting for PP&E, including the CIP Account.

DOT has made substantial progress in enhancing its internal controls and financial management program. Additional enhancements are planned and underway in FY 2008.

Respectfully,

Mary E. Peters

Mary E. Peters

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 2007, DOT reported that the Department was not in compliance with FFMIA due to the FAA not complying with Federal accounting standards because their Construction in Progress balance was not fairly stated in accordance with applicable accounting standards. FAA management was unable to provide representation that the balances in the financial statements were in accordance with applicable accounting standards.

FFMIA OF 1996 FINANCIAL MANAGEMENT SYSTEMS STRATEGY

DOT uses Oracle Federal Financials software as its agency-wide financial management and accounting system of record (called Delphi). DOT was the first – and remains the only – cabinet agency to migrate all of its Operating Administrations (OAs) to a Financial Systems Integration Office-certified, commercial-off-the-shelf based financial system running on a cost-effective single production instance of the software. Using the DOT developed Financial Statement Solution enhancement, the Department is able to produce regulatory Financial Statements overnight from the core accounting system. This improves accuracy, effectiveness, efficiency and enables DOT to meet OMB, Treasury and other Federal reporting requirements on schedule.

In FY 2007, DOT moved to a more standardized quarterly release schedule for installing Delphi patches, enhancements and upgrades. The Office of Financial Management (OFM) Financial Systems Team and the Enterprise Services Center (ESC) Delphi Team worked with customers to identify, develop, test and coordinate five separate release deliverables. This standard release schedule assured more complete testing of patches and enhancements and greatly improved communication and understanding of changes made to the system. Communication was facilitated with timely and effective "Go To" on-line web-based meetings between the OAs, ESC and OFM.

In December 2006, DOT upgraded the Delphi database to Oracle Release 9.2.0.7. In May 2007, DOT successfully upgraded its Oracle Applications software to version 11.5.10. This upgrade was quite significant: 197 patches were applied, approximately 170,000 jobs were executed and nearly 200 resources at the Enterprise Services Center were involved. Although the complexity of the Delphi 11.5.10 upgrade required extra effort on the part of the many, including the Delphi Security team, this was the most efficient and effective upgrade to Delphi in the system's seven year history. System down time and impact to customers was significantly reduced from previous upgrades.

These upgrades offer assurance that the Delphi Financial Application Software Modules are maintained at a level that ensures supportability by Oracle. The upgrade also adds some increased functionality for the Delphi support staff, reduces risks associated with technical enhancements, resolves some outstanding customer requests, provides customers with additional secure processing tools and allows Delphi to move toward future enhancements.

DOT has implemented our FFMIA corrective action plan through several initiatives. First, DOT has taken great strides in consolidating and eliminating redundant financial systems including FedWire, the Federal Reserve payment system used for FHWA grants. The Department now processes payments on daily basis through our Delphi system directly to the Treasury. Second, DOT is sunsetting the Volpe Center's labor distribution system and replacing it with web-enabled CASTLE Time & Attendance and labor distribution system. Third, DOT prepared and implemented a written policy to address monthly journal voucher processing, budgetary and proprietary reconciliation problems and inadequate analysis of abnormal account balances.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Federal Information Security Management Act (FISMA) requires Federal agencies to identify and provide security protection commensurate with the risk and magnitude of harm resulting from the loss of, misuse of, unauthorized access to, disclosure of, disruption to, or modification of information collected or maintained by or on behalf of an agency. The Department 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 2007, the departmental IT budget totaled approximately $2.6 billion.

During FY 2007, all Operating Administrations except the Federal Aviation Administration (FAA), the Federal Railroad Administration (FRA), and the Surface Transportation Board were relocated to a new Headquarters. As part of the Headquarters relocation, the Department consolidated individual Operating Administrations' network infrastructures (e-mail, desktop computing, and local area networks) into a common IT infrastructure—one of the IT consolidation target projects identified by the Department in FY 2003.

For FY 2007, the Department is reporting a total of 429 computer systems—3 more than last year, of which 60 percent are FAA systems. Among the systems the Department maintains and operates is the air traffic control system, which the President has designated part of the critical national infrastructure. Other systems owned by the Department include safety-sensitive surface transportation systems and financial systems that are used to manage and disburse over $50 billion in Federal funds each year.

FY 2007 was a particularly challenging year for the Department in managing its IT resources. In addition to establishing a common IT infrastructure for the new Headquarters building, we had to review, test, and certify security protection in more than half of its information systems to meet the recertification requirements. The Department completed most of the scheduled security recertification reviews. However, the overall effectiveness of its information security program declined this year because management had to divert resources and attention to resolving Headquarters move-related issues. Specifically, management did not meet Government security standards to protect information systems and did not take sufficient action to correct identified security deficiencies. In addition, commercial software products used in departmental systems were not configured in accordance with security standards and security incidents were incompletely and/or inaccurately reported.

In the FY 2006 FISMA report, the OIG stated that the Department faced several challenges in implementing and monitoring security controls to meet Government standards. This year, we found continued deficiencies in risk categorization of sensitive systems and implementation of security upgrades required to meet Government standards. In addition, security recertification review of the expanded IT infrastructure at the new Headquarters has not been completed. As a result, management has no assurance that application systems are operating securely on this infrastructure.

The full FY 2007 FISMA report can be found at www.oig.dot.gov.

SAS-70 REPORT ON DOT'S FINANCIAL MANAGEMENT SYSTEM

The SAS-70 report summarizes the results of a review of system security controls over the DOT Enterprise Services Center's (ESC) Delphi Financial Management System. This is the third year that a SAS-70 audit has been conducted on DOT's Delphi financial system. The ESC provides accounting and financial management systems and services for DOT and other Federal agencies. Delphi is hosted, operated and maintained by Federal Aviation Administration employees at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma, under the overall direction of the Departmental Chief Financial Officer.

ESC is one of four Federal Shared Service Providers designated by the Office of Management and Budget to provide financial management systems and services to other government agencies. ESC supports other Federal entities, including the National Endowment for the Arts, the Commodity Futures Trading Commission, the Institute of Museum and Library Services, and the Government Accountability Office. The Office of Management and Budget requires Shared Service Providers to provide client agencies with an independent audit report in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement of Auditing Standards (SAS) 70.

This year's SAS-70 audit of Delphi was conducted by Clifton Gunderson, LLP, of Calverton, Maryland. The DOT Office of Inspector General performed a Quality Control Review of the SAS-70 audit work to ensure that it complied with applicable standards.

The Clifton Gunderson SAS-70 audit report dated June 28, 2007 concluded that management's description of controls for the Delphi Financial Management System presents fairly, in all material respects, the controls that had been placed in operation as of May 31, 2007. Clifton Gunderson recommended several enhancements to strengthen Delphi controls further; DOT has already implemented many of these recommendations and is implementing the remaining corrective actions. The operational environment enabled auditors to rely on Delphi system controls in conducting this year's financial statement audits.

FOLLOW UP REVIEW

Since the issuance of its June 28, 2007 report, Clifton Gunderson completed a follow-up review covering the period from June 1, 2007 through September 30, 2007 fiscal year end. The purpose of this follow-up review was to determine whether any significant changes had been made to Delphi's operating environment. The follow-up review documented the corrective actions that have been implemented to strengthen Delphi controls in accordance with the SAS-70 recommendations. The full OIG report can be found on their web site at www.oig.dot.gov.

IMPROPER PAYMENTS INFORMATION ACT OF 2002

In FY 2007, the Department continued implementing the Improper Payments Information Act of 2002 (IPIA), which requires that agencies: (1) review programs and identify those susceptible to significant improper payments; (2) report to Congress on the amount and causes of improper payments; and, (3) develop approaches for reducing such payments.

In FY 2007, the Department successfully completed its review of the Federal Highway Administration (FHWA) Federal-aid Highway Program, Federal Aviation Administration (FAA) Airport Improvement Program, and the Federal Transit Administration (FTA) Formula Grants Program. In addition, the Department developed and tested a model for determining the amount of improper payments in the FTA, Capital Investment Grant Program.

In FY 2007, the Department re-engaged AOC Solutions, Inc. to develop the nationwide sampling plan, collect the results from the application of test procedures, and provide a nationwide estimate of improper payments for Federal-aid Highway Program, Airport Improvement Program, and Formula Grants Program. With respect to the Formula Grants Program, the sampling plan, test procedures, and test results only apply to approximately one-third of Formula Grantee grantees covered by the FTA's Formula Grant Triennial Review Program. Statute 49 U.S.C. 5307 prescribes a triennial review of all Formula Grant grantees. OMB Circular A-123, Attachment C, paragraph F provides for alternative approaches, including determining the amount of improper payments for components, such as those addressed in the foregoing statute.

In addition, AOC developed and tested a model for determining the amount of improper payments in the FTA Capital Investment Grant Program. The Department will apply the model on a nationwide basis to the Capital Investment Program in FY 2008.

The samples designed to execute the model are of sufficient size to yield an estimate with a 90 percent confidence interval within +/- 2.5 percent points around the estimate of the percentage of erroneous payments, as prescribed by OMB. The results of these efforts are discussed below.

FHWA FEDERAL-AID HIGHWAY PROGRAM

The Department developed and executed a sampling plan to test project payments and estimate the amount of improper payments nationwide. The FHWA executed the nationwide testing program using personnel from the FHWA division offices and covered Federal payments to grantees over the twelve-month period March 1, 2006 through February 28, 2007.

The sampling plan involved a multi-staged statistical approach that included the selection of 53 Federal payments, 40 state payments, and then 230 testable line items from those payments for testing. The 2007 sample size is significantly less than the 2006 sample size because of a change in objectives. In 2006, the Department wanted to ensure all 50 states and two territories received sample items for testing. This required a substantially larger sample that would have been required had the Department not required that all states and territories receive sample items. In 2007, the sample was designed to support a nationwide estimate of

improper payments and was not designed to provide sample items to all States and territories. The States that did not appear in the IPIA sample received sample items for Financial Integrity Review and Evaluation (FIRE) program testing.

The test procedures applied to the line items were designed to test a range of administrative and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct Federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $45,568 were found in the sample of 230 tested items. The projection of this result to the population of program payments for the twelve-month period results in an improper payment estimate of $55.2 million +/- $0.5 million. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from factors such as unallowable charges, insufficient supporting documentation, incorrect calculations, and duplicate payments. The FHWA has implemented its FIRE Program to monitor State and territory payments and provide a mechanism for assisting these entities with effectively addressing operational issues that result or could result in improper payments.

FTA FORMULA GRANTS PROGRAM

FY 2007 was the first year of nationwide coverage of the FTA Formula Grants Program. In FY 2006, the FTA developed and tested a model used for use in IPIA testing in 2007. The FTA developed and executed a sampling plan to determine the amount and cause of improper payments in the Formula Grants Program and to assist FTA in incorporating the IPIA test procedures in its statutorily required Triennial Review Program.

FTA executed the nationwide testing program for grantees covered by the 2007 Triennial Review Program using contractor personnel. The review covered the twelve-month period March 1, 2006 through February 28, 2007.

The sampling plan involved a multi-staged statistical approach that included the selection of 60 Federal payments, 30 transportation authorities' payments, and then 169 testable line items from those payments for testing. The test procedures applied to the line items were designed to test a range of administrative and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $2,326.16 were found in the sample of 169 tested items. The projection of this result to the population of program payments for the twelve-month period results in an improper payment

estimate of $4.32 million +/- $0.09 million. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from factors such as miscalculated federal participation share and lack of supporting documentation.

FTA CAPITAL INVESTMENT GRANTS PROGRAM

In FY 2007, FTA developed and tested an improper payment test model at one recipient of Capital Investment Grants Program funding. The FTA patterned the model on the model developed for the FTA Formula Grants Program in 2006.

The test model involved developing test workbooks with test criteria and procedures. The sampling plan involved a multi-staged statistical approach that included the selection of 17 Federal payments, 49 grantee payments, and then 83 testable line items from those payments for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/ prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $361,691.73 were found in the sample of 83 tested items. The projection of this result to the population of program payments for the twelve-month period results in an improper payment estimate of $0.55 million +/- $0.39 million. This projection applies only to the single grantee and does not apply nationwide. The improper payments reported resulted from draw-downs in excess of Federal participation share.

The FTA will apply the model on a nationwide basis in FY 2008 in order to meet the requirements of the IPIA

FAA AIRPORT IMPROVEMENT PROGRAM (AIP)

The FAA developed and executed a sampling plan to determine the amount and cause of improper payments in the Airport Improvement Program. The FAA review covered the twelve-month period March 1, 2006 through February 28, 2007.

The sampling plan involved a multi-staged statistical approach that included the selection of 50 Federal payments, 30 sponsor payments, and then 95 testable line items from those payments for testing. The test procedures applied to the line items were designed to test a range of administrative and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/ prices for specified materials and whether material quality tests indicated that materials met contractual requirements. The review found administrative and contractual compliance as addressed in the test model and no improper payments.

SCORECARD ON THE PRESIDENT'S MANAGEMENT AGENDA

HUMAN CAPITAL INITIATIVE

GOAL: Develop a Department-wide human capital workforce strategy to address future workforce gaps, eliminate skill gaps in critical occupations, develop performance-based incentives for the workforce, ensure citizen-centered, delayered, 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 2007 STATUS: ● GREEN

FY 2007 PROGRESS: ● GREEN

HOW DOT IS MEETING PMA CHALLENGES: DOT's Human Capital Plan focuses on long-term management of the DOT workforce and is aligned with the Office of Personnel Management (OPM)/ Office of Management and Budget (OMB) Standards for Success. DOT accomplishments in FY 2007 included the following:

- ✧ Issued Human Capital Strategic Plan with Operational Plan;
- ✧ Issued the Human Resources Accountability Report;
- ✧ Issued workforce plan update;
- ✧ Received full certification status for Senior Executive Service personnel for calendar years 2007 and 2008 by OPM and OMB;
- ✧ Completed backfile conversion for Electronic Official Personnel Folder (eOPF) application and established procedures for employee access;
- ✧ Issued additional strategies to support increased participation in telework with senior level input;
- ✧ Submitted hiring timeline report using new 70 percent target for hiring and notification timeliness;
- ✧ Closed targeted competency gaps in leadership and human resources;
- ✧ Submitted Competency gap targets and staffing projections for DOT-specific Mission Critical Occupations with resource tables and competency profile tables;
- ✧ Reported hiring process improvement strategy;
- ✧ Submitted strategy for accomplishing the required annual employee survey; and,
- ✧ Provided update on Federal Human Capital Survey Action Plans.

COMPETITIVE SOURCING INITIATIVE

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

FY 2007 STATUS: YELLOW

FY 2007 PROGRESS: YELLOW

HOW DOT IS MEETING PMA CHALLENGES**:** In FY 2007, DOT was rated "yellow" for competitive sourcing. DOT accomplishments in FY 2007 included the following:

- ✧ Completed 23 competitions involving about 2,700 full time equivalents;
- ✧ Estimated savings of about $95,000 per competed full-time equivalent;
- ✧ Garnered anticipated savings of over $2.2 billion (over a ten year period);
- ✧ Completed the largest single competition to date (FAA Flight Service Stations);
- ✧ Achieved improved operational performance through innovative work processes and establishment of quality standards;
- ✧ Implemented post-competition accountability and Most Efficient Organization independent validation for five completed competitions to verify actual savings and performance improvements;
- ✧ Initiated the Workforce Analysis Pilot Project to deliberately link competitive sourcing and human capital planning (as required by the President's Management Agenda); and,
- ✧ Shared lessons learned within the Department and with other Federal agencies.

DOT's drop to yellow in status and progress was mainly due to limited competitions planned for fiscal years 2008-2009.

IMPROVED FINANCIAL MANAGEMENT INITIATIVE

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

FY 2007 STATUS: RED

FY 2007 PROGRESS: GREEN

HOW DOT IS MEETING PMA CHALLENGES**:** During FY 2007, DOT accomplished the following work, which has enhanced the timeliness, quality, efficiency and effectiveness of our financial reporting and accounting and financial operations.

- ✧ In December 2006, DOT rolled out a new department-wide initiative designed to help the Operating Administrations (OAs) recognize and reconcile longstanding data issues in their financial systems. This initiative addresses fourteen areas of concern and defines corrective actions. The "Fab 14" raises OA awareness and accountability to correct inaccurate and incomplete data.
- ✧ In August 2007, the Enterprise Services Center rolled out a web-based site to enable DOT users to review and monitor our new "Fab 14" metrics on line. The site will also include all OMB Financial Performance Metrics.
- ✧ DOT successfully upgraded our Delphi financial management system to Oracle Financials release 11.5.10 in May 2007. Delphi's Financial Statement Solution continues to produce financial statements overnight from the core accounting system.
- ✧ DOT is continuing short-term planning for further Delphi upgrades to Oracle database and technology and to servers later in 2007 and 2008. We have also initiated a major long-term strategic financial management planning effort that will include future Delphi upgrades, including Oracle release 12.FSIO and the Common Government-wide Accounting Code (CGAC).
- ✧ We are re-engineering interfaces for additional feeder systems using the new Service Oriented Architecture (SOA). The benefits are more cost effective operation and maintenance of interfaces with better data quality and reduced reconciliation.
- ✧ More OAs are implementing Labor Distribution Reporting (LDR) in CASTLE, our web-based Time & Attendance and Labor Distribution Reporting system. Currently serving the FAA, FRA, FTA and FHWA, CASTLE is key to supporting DOT's managerial cost accounting program. Additional OAs will implement LDR in CASTLE by early 2008.
- ✧ DOT has also made significant progress in consolidating operational accounting services at the DOT's Enterprise Services Center in Oklahoma City. Accounting services have already been migrated for all but two Operating Administrations *plus* FAA's Headquarters and nine regional accounting offices. This consolidation supports standardizing and streamlining business processes across the Department. The remaining phases will be completed in early FY 2008.

E-GOVERNMENT INITIATIVE

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

FY 2007 STATUS: ● YELLOW

FY 2007 PROGRESS: ● YELLOW

HOW DOT IS MEETING PMA CHALLENGES: During FY 2007, the Department's efforts in the E-Government initiative resulted in several important successes in that DOT met established requirements and milestones and made further improvements in enterprise architecture (EA), privacy, capital planning and security as follows:

- ✧ Completed all OMB E-Government Implementation Plan milestones;
- ✧ Achieved an EA Assessment Rating of Green from the Office of Management and Budget's Federal Enterprise Architecture Program Management Office;
- ✧ Established a Departmental segment architecture strategy and developed a Grants Segment Architecture;
- ✧ Completed all OMB Enterprise Architecture (EA) milestones and continues to improve the effectiveness of the DOT EA program;
- ✧ Remediated 37 of the 38 business cases that were on the OMB Management Watch List;
- ✧ Completed system of record notices for 90 percent of applicable systems with personally identifiable information;
- ✧ Made significant strides in the incorporation of encryption technology to further provide for the safeguarding of Personally Identifiable Information and other forms of sensitive information and data on removable storage and processing devices; and
- ✧ Negotiated an enterprise licensing agreement with Microsoft that reduced the average costs for their desktop products by over 25 percent.

PERFORMANCE IMPROVEMENT INITIATIVE

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

FY 2007 STATUS: ● GREEN

FY 2007 PROGRESS: ● GREEN

HOW DOT IS MEETING PMA CHALLENGES**:** In FY 2007, DOT achieved its goals in this area and maintained a green score by completing the following:

- ✧ Received the President's Award for Management Excellence in Budget Performance Integration;
- ✧ Submitted a budget request to OMB that clearly articulated the performance impact of implementing a budget at the target level and that was supported by sound and thorough analysis and performance data; and,

- ✧ Each modal administration provided marginal cost of performance information in their FY 2009 OMB budget submission in accordance with OST guidance.

ELIMINATING IMPROPER PAYMENTS INITIATIVE

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

FY 2007 STATUS: ● YELLOW

FY 2007 PROGRESS: ● GREEN

HOW DOT IS MEETING PMA CHALLENGES**:** During FY 2007, DOT took significant additional steps towards implementing the Improper Payments Information Act of 2002. DOT's efforts this year focused on four program areas in three of our largest Operating Administrations: FHWA Highway Planning and Construction Program, FTA Formula Grants, FTA Capital Investment Grants Program and FAA Airport Improvement Program. Efforts included:

FHWA Planning and Construction Program:

- ✧ Completed nationwide testing of grantee payments; and,
- ✧ Projected improper payments of $55 million out of total program payments of $33.3 billion — an improper payment rate of 0.2%.

FTA Formula Grants:

- ✧ Completed nationwide testing of grantee payments for grantees subject to statutorily prescribed Triennial Review program; and,
- ✧ Projected improper payments of $4.3 million for grantees subject to the 2007 Triennial Review out of total program payments of $1.2 billion to these grantees — an improper payment rate of 0.3%.

FTA Capital Investment Grants Program:

- ✧ Developed and tested an improper payment testing model at a single grantee for use in nationwide testing; and,
- ✧ Projected an improper payment rate and amount for this grantee.

FAA Airport Improvement Program:

- ✧ Completed nationwide testing of grantee payments; and,
- ✧ Found no improper payments out of total program payments of $3.9 billion.

REAL PROPERTY INITIATIVE

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

FY 2007 STATUS: YELLOW

FY 2007 PROGRESS: GREEN

HOW DOT IS MEETING PMA CHALLENGES: DOT continues to make strong progress under this initiative. The Real Estate Management System used by DOT is a single-point inventory, contains the required performance metrics, and is compatible with the government-wide real property database. To date, we have:

- ✧ Established Department-wide draft performance measure targets and goals;
- ✧ Established a three-year timeline for real property management to support capital improvements, acquisitions, and disposition actions;
- ✧ Disposed of 1,602 real property assets, ranking the Department 4th among all Federal agencies;
- ✧ Completed the Department's first-ever inventory of real property assets at the constructed asset level; and,
- ✧ Developed a system framework for real property management to establish operating standards and guidelines for all Operating Administrations.

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

MANAGERIAL COST ACCOUNTING (MCA)

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

DOT initiated MCA with the Federal Aviation Administration (FAA), which was directed to develop a cost system in order to establish both unit costs of services and as a means of sustaining defensible charges for reimbursable services. FAA has four lines of business and has implemented MCA across all four. Through an executive dashboard, it links costs to performance goals. Costs are tracked through three systems that interact: Delphi (DOT's financial and accounting system of record) FAA's Cost Accounting System (a People Soft System implemented largely to track projects and tasks) and DOT's Consolidated Automated System for Time and Labor Entry (CASTLE which is both a time and attendance and labor distribution reporting system).

The Federal Highway Administration (FHWA), Federal Transit Administration (FTA) and Federal Railroad Administration (FRA) have each developed an internal system for taking labor distribution files from CASTLE and costs from Delphi for rolling up cost information. FTA and FHWA have utilized a third party, activity based costing system. FRA has utilized Budget Program Activity Codes to track costs related to projects and draws reports from Delphi.

The Maritime Administration (MARAD) and Pipeline and Hazardous Materials Safety Administration (PHMSA) have begun developing systems utilizing the Delphi Projects Module. One unique issue faced by MARAD is a substantial reimbursable effort with its Reserve Fleet. Being able to track reimbursable activities and connect them with the correct interagency agreement has not been possible to date except through bookkeeping adjustments. DOT has begun developing a strategy to rewrite its payroll interface for posting salary and benefit costs to its accounting system, which will enhance both payroll posting and tracking interagency costs and payments.

As we gear up for a major system upgrade to Delphi and as we implement the OMB-mandated Common Government-wide Accounting Code structure, we expect to re-engineer many DOT business processes including standardized use of the accounting string. These efforts as well as the work we will be doing as part of the Financial Management Business Transformation Initiative will facilitate a standardized approach to MCA across DOT and enhanced integration with our performance measurement program.

DOT'S FINANCIAL MANAGEMENT BUSINESS TRANSFORMATION INITIATIVE

The DOT financial management community faces considerable challenges in the next five to seven years. External mandates from the Office of Management and Budget and the Department of Treasury, coupled with a significant upgrade planned for the Department's accounting system, are factors driving DOT to alter significantly the way we conduct financial management practices. We look at these external drivers as an opportunity to improve our way of conducting business. For example, different Operating Administrations (OAs) use different processes to conduct similar business. OAs use various reporting tools to communicate similar financial information, and use the Department's standard Accounting Code Structure (ACS) slightly differently to meet their program management needs. As a result, we are unable to take full advantage of the economies of scale available through the consolidated accounting operations at the Enterprise Services Center. Additionally, it is not always easy to roll up financial program information Department-wide.

In order to meet the external challenges of the future while further improving our internal financial management operations, the Office of Financial Management is sponsoring a Department-wide Financial Management Business Transformation (FMBT) effort. The purpose of the FMBT is to improve information sharing, standardize and streamline business processes, and implement OMB's Common Government Accounting Code structure upon receiving guidance from OMB. We are committed to managing our internal improvement efforts in an organized and structured manner, allowing adequate time for planning and resource allocation and focusing on communication with our stakeholder community. The FMBT will be managed by a governance structure comprised of representatives from all stakeholder communities, and the work required to achieve this vision will be executed using standard project management principles. Our vision is to be the government leader in Financial Management utilizing quality people, processes and technology in delivering a single integrated solution to support DOT's mission by incorporating streamlined business processes while ensuring financial integrity.

INSPECTOR GENERAL'S FY 2007 TOP MANAGEMENT CHALLENGES

DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL APPROACH

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

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

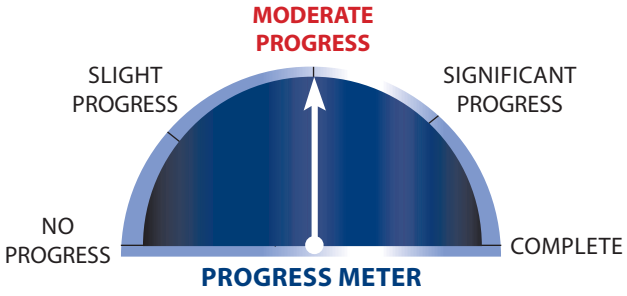
As required by OMB Circular A-136, the OIG's report briefly assesses DOT's progress in addressing the challenges identified. To track management challenges identified from year to year, the OIG provides an exhibit to the report that compares the current list of management challenges with the list published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

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

1. Management Challenge: Defining, Developing, And Implementing Strategies To Improve Congested Conditions On The Nation's Highways, Ports, Airways, And Borders.

- **Leading Stakeholders**

The current surface transportation policy and funding model has proven incapable of adequately reducing highway congestion. While highway spending at all levels of government has increased 100 percent since 1980, the hours of delay during peak travel periods has increased almost 200 percent over the same time period.



The Department currently has little inherent ability to counteract our nation's mushrooming urban congestion problem. The massive explosion of earmarks and special interest programs (over forty separate highway programs in SAFETEA-LU, the governing surface transportation legislation) and stovepiped highway and transit programs greatly limits the Department's discretion to invest in performance-based congestion reduction strategies.

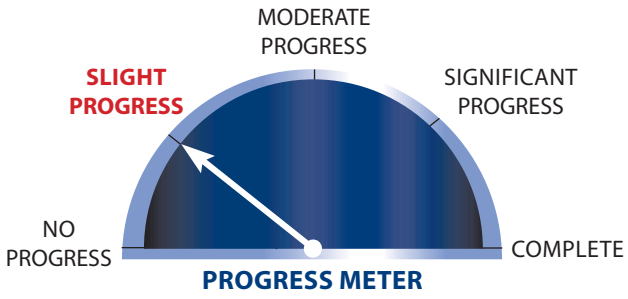
In an effort to change the existing paradigm, the Secretary of Transportation introduced a new Congestion Initiative designed to illustrate to stakeholders that there are viable alternatives to the current model that focus less on process and more on results. As a result, under the 2007 Urban Partnership competition, 29 metropolitan areas submitted comprehensive congestion reduction plans that included transit, tolling, technology and telework elements. Five of these cities—New York, San Francisco, Seattle, Miami and Minneapolis—were awarded in excess of $800 million in highway, transit and ITS grants to expeditiously implement their plans. New York City's submission includes the nation's first substantive city-wide congestion pricing proposal.

The greatest lesson learned to date is that properly focused discretionary Federal resources can provide extremely powerful incentives for State and local leaders to confront congestion challenges in a different way. In the aftermath of the 2007 Urban Partnership announcements, other major cities such as Los Angeles and Washington have demonstrated a greater interest in implementing pricing strategies. To the extent it receives future additional discretionary resources; the Department intends to maintain its focus on a small number of large-scale congestion reducing demonstration projects.

The Department's senior leadership continues to meet regularly with opinion leaders and State and local elected officials to explain our policies. The Department has sponsored two major outreach sessions with State legislators that focused on innovative financing for new operational and technology opportunities. At the staff level, the Department has hosted a series of technical workshops around the country for State and local officials interested in congestion pricing and the

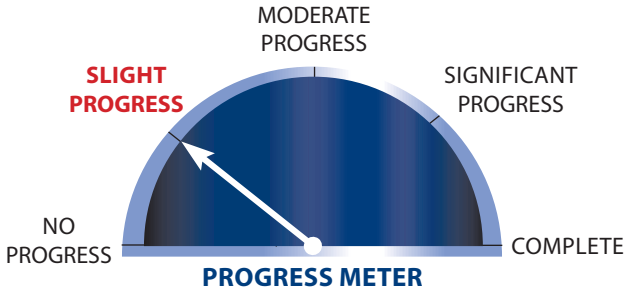
proper utilization of cost-benefit analysis in the project selection process. As a result, a national consensus is incrementally building towards innovative financing and better prioritization of spending and moving away from the status quo approach to surface transportation funding.

- **Overcoming Organizational Structures that Inhibit Intermodal Tradeoffs**



The close collaboration of the various modes under the Urban Partnership Program is a very positive early signal of how Operating Administrations can break down stovepipes in the administration of diverse discretionary programs. That collaboration also spilled over to the State and local level where highway authorities and transit authorities were forced to coordinate — at an unprecedented level in some cases — in their applications for Federal funding. The model developed to facilitate the Department's Congestion Initiative should be used to inform programmatic changes in the next reauthorization legislation.

- **Funding Future Infrastructure Needs Will be a Challenge**

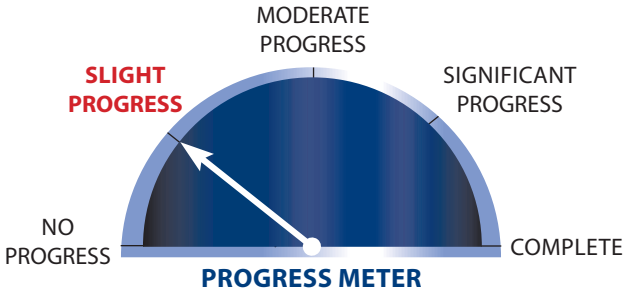


With respect to funding future infrastructure needs, the country is at a clear crossroads. At the same time that the constraints on Federal resources have increased, opportunities to access alternative financing have never been greater. A significant volume of private capital is now available specifically to fund American infrastructure, and technology has advanced to the point that charging systems that do not rely on indirect taxes are administratively feasible and available for deployment. The Department will continue to promote the concept of private investment in infrastructure and endorse the direct pricing of roads in order to maximize available transportation funds.

The aviation system's financial structure is similarly challenged, and the Administration submitted a comprehensive reform proposal to Congress in Spring 2007. The proposal would shift dependence away from ticket taxes and move toward a true user fee system in which the charges levied on users approximate the true costs of providing various air traffic control services. This proposal would supply greater incentives to improve the efficient utilization of the existing system and provide a sustainable funding mechanism to transition to the next generation air traffic control system. It is clear that without major financial reforms, the US aviation system will not perform as well as international counterparts that have embraced such reforms.

- **Proposals for Market-Based Solutions to Better Utilize Existing Capacity Raise Important Policy Issues**

The Department's two highest policy priorities for 2007—the FAA Reauthorization proposal and the Congestion Initiative's Urban Partnership program—are both based on the concept of value pricing. Promotion of these policy priorities through public and stakeholder outreach has focused on the inherent benefits of direct user fees and the intrinsic liabilities associated with the current, indirect funding mechanisms.



In February 2007, the Administration submitted to Congress the *Next Generation Air Transportation System Financing Reform Act of 2007* and the Administration is currently working with Congress to ensure timely passage of legislation to reauthorize FAA programs and revenue sources. An important part of FAA's reauthorization proposal includes a new financing system. FAA's reauthorization legislation contains proposals designed to reduce congestion, accelerate the transition to the Next Generation Air Transportation System (NextGen), and otherwise improve the efficiency and oversight of the system. Under the proposal, equity and efficiency will be enhanced.

This new system will tie payments that National Air Space (NAS) users make for air traffic control services more closely to the costs they impose on the NAS. By tying costs to the benefits and services, there will be incentives for more efficient use of the air traffic control system. The Administration's proposal also includes language to permit the use of market-based mechanisms at New York's LaGuardia Airport, as well as other congested airports when certain conditions are met.

One illustration of FAA using market-based solutions to better use capacity is at LaGuardia Airport. In August 2006, FAA issued a Notice of Proposed Rulemaking (NPRM), subject to Congressional approval, that anticipates the use of market-based mechanisms at LaGuardia in the future. Additionally, under the reauthorization proposal, if the Secretary of Transportation and FAA Administrator determine that market-based mechanisms, such as auctions or congestion pricing, are appropriate to promote the efficient movement of traffic at LaGuardia, then the Port Authority of New York and New Jersey may implement market measures at the airport. If the Port Authority does not implement such actions within one year of the Secretary's determination, the Secretary may implement market measures at LaGuardia.

To address traffic congestion in cities willing to pursue comprehensive, bold, and innovative congestion pricing strategies, the FHWA assisted in formulating Urban Partnerships. The Agency embarked on implementing a comprehensive agenda to capture lessons learned from the Urban Partners and facilitate peer exchange in order to ensure the eventual widespread deployment of congestion pricing applications. For example, the FHWA initiated an effort to identify High Occupancy Vehicle (HOV) facilities that are appropriate for conversion to High Occupancy Toll (HOT) lanes, of which there are currently five in operation nationwide. HOT lanes combine HOV

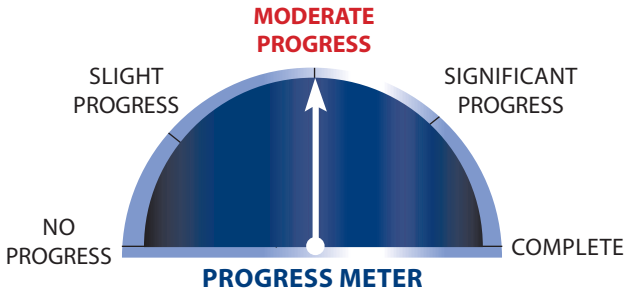
and pricing strategies by allowing single occupancy vehicles to gain access to HOV lanes by paying a toll. The lanes are "managed" through pricing to maintain free flow conditions even during the height of rush hours.

As these new pricing strategies are implemented, the Department recognizes the need to educate the public on the rationale and benefits of such strategies. FAA will continue to lead a public outreach campaign to educate stakeholders on pricing strategies, such as congestion pricing and auctions. In support of FAA's efforts, the National Center for Excellence for Aviations Operations Research organized a public workshop in June 2007 to discuss the next steps in the consideration of the use of market-based mechanisms at LaGuardia airport. FHWA developed a program for educating transportation professionals, elected officials, and the public on the broad array of issues associated with road pricing. The program includes pricing workshops that were given at locations around the country; webinars on select topics; published materials ranging from articles to a *Primer on Congestion Pricing*; assistance to jurisdictions in obtaining tolling authority; research activities that address the costs and benefits, as well as opportunities for mitigating the costs of congestion pricing; and making available a cadre of in-house experts on subjects ranging from the economics of congestion pricing to the technology required for congestion pricing.

The Department is also committed to monitoring the effects of new regulations, as well as their potential impact on market-based pricing strategies on constituents. For example, the NPRM for LaGuardia encourages the continuation of air service to small communities and proposes a fixed number of operating authorizations for service to smaller airports. FAA envisions these small community allocations would remain in place, even if FAA were granted authority to conduct a market-based mechanism at LaGuardia.

- **Keeping Short- and Long-Term Aviation Capacity Enhancing Initiatives On Schedule to Relieve Congestion and Delays**

The Next Generation Air Transportation System (NextGen) is a wide ranging, multi-agency initiative to transform the National Airspace System (NAS) to meet future demands and avoid gridlock in the sky and in the airports. The *Operational Evolution Partnership* (OEP), *OEP Version 1.0*, is FAA's plan for implementing NextGen.



The FAA published the new *OEP Version 1.0* in June 2007. It is an expansion of the original OEP established in 2001. The forecasted and actual benefits of the plan's activities are measured annually, and a team chaired by FAA's Deputy Administrator, ensure each program is implemented on schedule. Through the OEP, FAA along with its aviation partners, committed to increasing the capacity of the NAS by 30 percent. Analysis shows that the OEP will achieve its original goal by 2013.

As FAA's NextGen implementation plan, the OEP will also focus on producing more than 60 new operational capabilities between today and 2025. These new capabilities will transform our current air transportation system from ground-based surveillance and navigation to new and more dynamic satellite-based systems. Technologies and activities that support this transformation are currently part of the FAA's investment portfolio and represent a step beyond our legacy modernization programs. These new capabilities and the highly interdependent technologies that support them will change the way the system operates, reduce congestion, and improve the passenger experience.

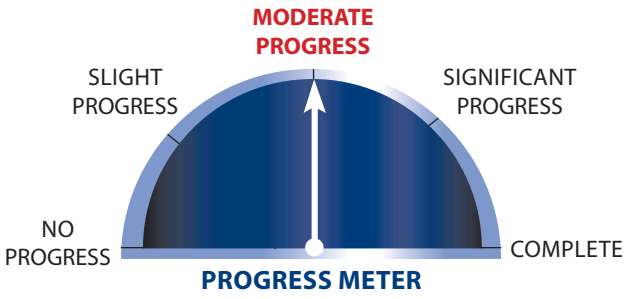
The 35 airports included in the OEP account for about 75 percent of all passenger enplanements. Much of the current delay to air traffic can be traced to inadequate throughput—measured as arrival and departure rates—at these airports. The construction of new airfield infrastructure such as new runways and taxiways and major runway extensions are currently the most effective method of increasing throughput. Since FY 2000, 13 new runways have opened at the 35 OEP airports. This translates into a capacity to accommodate 1.6 million more operations every year.

Currently, eight OEP airports have ten airfield projects under construction—three new runways, two airfield reconfigurations, one runway extension, one end-around taxiways, and one center field taxiway. These 10 projects are core OEP airports projects that will be commissioned through 2010. The two new taxiways will provide a means to improve safety and decrease delays at busy airports. When commissioned, these ten projects will have the potential to accommodate about 400,000 more annual operations and will improve the safety and efficiency of eight airports.

2. Management Challenge: FAA Reauthorization – Reaching Consensus On A Financing Mechanism To Fund FAA And Establishing Funding Requirements

- **Deciding on a Financing Mechanism that Promotes a More Efficient Use of the Air Traffic Control System and is Considered Equitable by All Users**

In February 2007, the Administration submitted to Congress the *Next Generation Air Transportation System Financing Reform Act of 2007*. The Administration is working with Congress to ensure timely passage of legislation to reauthorize FAA programs and revenue sources.



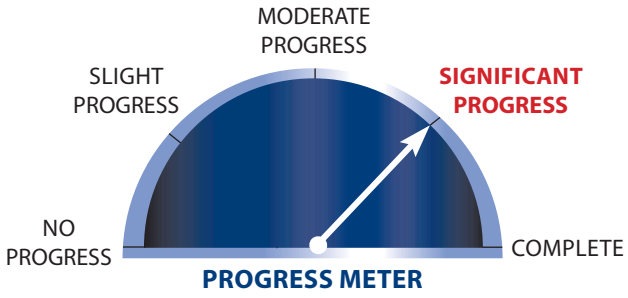
In developing the proposal, the Administration conducted extensive reviews of FAA costs and activities, including analyses of cost drivers in order to allocate costs to user groups appropriately. This enabled the Administration to propose a set of user fees for commercial operators and fuel taxes for general aviation that more accurately reflect

their respective use of the aviation system. The Administration's proposal reflects expected spending requirements in the outyears and ties the rates of taxes and fees to those forecasts, based on cost allocation.

The combination of funding sources in the Administration's reauthorization proposal will help improve the stability, fairness, and rationality of FAA funding without imposing a "one size fits all" solution. Both the user fees that commercial users would pay and the fuel taxes for general aviation are based on each user group's share of the air traffic control costs.

The proposal provides incentives to use resources efficiently, reduces cross-subsidization among user groups, and can adjust to account for the investment costs of the Next Generation Air Transportation System (NextGen) in the near-term and the efficiencies that NextGen will generate in the long-term. The reauthorization proposal achieves these benefits through a hybrid financing structure that is cost-based, yet allows each user group to pay through its preferred funding mechanism.

- **Determining the Next Generation Air Transportation System's (NextGen) Funding Requirements, Quantifying Expected Benefits, and Developing a Roadmap for Industry to Follow**



The current national airspace system (NAS) is reaching its limits and is increasingly unable to effectively respond to the ever-growing demand for increased capacity. NextGen is our Nation's response to the challenges faced by the aviation community. An undertaking as substantial and long-term as NextGen requires a highly deliberate and integrated planning process that, in the near-term, results in products that inform the architectural design, policy, and investment decision-making required to launch and implement NextGen.

The Joint Planning and Development Office (JPDO) made progress in 2007 to develop and mature foundational products with cooperation and collaboration across government. The JPDO delivered the NextGen *Concept of Operations (ConOps), Version 2.0* and the *NextGen Enterprise Architecture Version 1.0,* in June 2007. Together, both products detail the operational and technical performance requirements critical to the planning and implementation of NextGen. A third complementary product, the *NextGen Integrated Work Plan* (IWP) was released in July 2007. The IWP lays out the initial plan for transitioning from the current state to NextGen, considering policy, research and development, and investment needs and illustrates when NextGen operational improvements will need to be achieved to deliver critical NextGen capabilities. The IWP's comprehensive nature

contains implications for both government and industry. Accordingly, stakeholders have been involved in its review and have engaged with the JPDO from both planning and implementation perspectives.

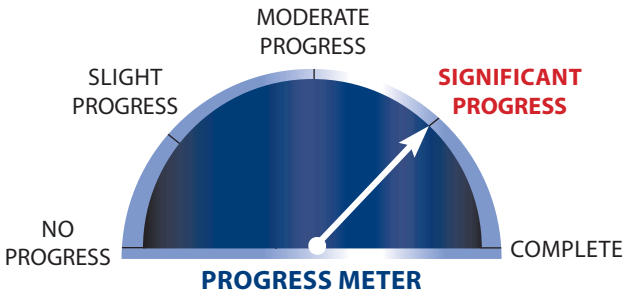
One of the JPDO's primary responsibilities is to inform policy makers on the resources necessary to realize NextGen. These resources include research and development (R&D) and capital investments, as well as the funding to support and sustain NextGen. To that effect, the *NextGen R&D Plan* (FY 2009-13) was released at the end of FY 2007. It highlights the NextGen R&D requirements and associated partner agency and stakeholder responsibilities for executing the R&D activities specified in the Plan. Research and development activities are important for mid- and long-term NextGen operational capabilities.

The JPDO also developed a NextGen Exhibit 300 that focuses on the portfolio of investments that are critical to initiating NextGen in the near-term so that cross-cutting capabilities and benefits can be realized in the mid-term. The NextGen ConOps and Enterprise Architecture set the context for the NextGen requirements and inform investment analysis and decision-making.

The JPDO has started to understand and project the costs and benefits of NextGen. An estimated $4.6 billion will be required to fund NextGen research, development, and implementation activities through 2012. Current NextGen spending estimates for the mid- and long-term range from $8 - $10 billion through 2017, and $15 – $22 billion through 2025. Cost estimates for equipping aircraft with NextGen technologies range between $14 – $20 billion through 2025. Estimates vary depending on the bundling of the technologies and the pace at which the current aircraft fleet is replaced. Next year, the JPDO plans on developing life-cycle costs for the required infrastructure beyond the initial five year period.

- **Continuing Efforts to Address the Expected Surge in Air Traffic Controller Attrition**

The FAA developed the 2006 Controller Workforce Plan to guide its activities as the agency hires an estimated 15,000 Air Traffic Controllers through the year 2016. After reviewing the 2006 plan, the OIG expressed concern that the plan did not account for staffing needs by location or the costs associated with training new controllers.



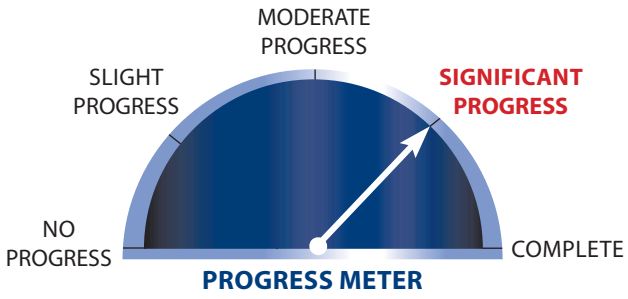
To address this challenge, FAA updated its comprehensive workforce plan in March 2007. The *2007 Controller Workforce Plan* now provides staffing ranges for each of FAA's 314 facilities. The ranges take into account not just the staffing standards generated from industrial engineering techniques, but also historical productivity, peer performance, and service and field unit input. Current staffing levels are dynamic and can be impacted by airport construction, controller training, and other

issues. Future staffing levels are a function of traffic forecasts, hours of operation, attrition forecasts, and other variables. The FAA continues to pay close attention to staffing at each facility and adjusts staffing levels accordingly.

The OIG also expressed concern that the *2006 Controller Workforce Plan* did not identify the annual developmental training costs associated with the hiring of new controllers. The *2007 Controller Workforce Plan* includes an estimate for total salary, premium pay, and benefit costs annually for all developmental controllers. Since developmental controllers in training perform actual controller work as they become certified, these salaries are included in the personnel costs of FAA's budget request.

- **Using the Cost Accounting System to Control Costs and Improve Operations**

The FAA's Cost Accounting System (CAS) is an accounting system designed to report the total cost of delivering FAA products and services. CAS calculates all FAA costs by projects and tasks. In 2007 FAA made a concerted effort and significant progress in improving the reliability of its cost data and in allocating those costs to NAS users.



FAA requires employees, managers, and supervisors ensure accurate, consistent and complete entry of labor distribution reporting data in accordance with the Labor Distribution Reporting (LDR) Policy, FAA Order 2700.37. Per this order, FAA managers and supervisors are primarily responsible for ensuring the compliance and integrity of LDR data entry. In addition, LDR quality assurance resources and timekeepers help by providing added focus, guidance and support for ensuring data integrity. The Order states, in part, "The FAA will collect paid hours worked by each employee, manager, and executive against identified projects and activities. No manager may excuse employees from compliance with this LDR policy."

In FY 2007, FAA targeted 92.5 percent of labor hours to be charged to valid projects and activities. Corporately, FAA achieved a final rate of 95 percent. Further, FAA's Air Traffic Organization made a significant effort to record its labor and achieved a rate of 97 percent. This labor distribution compliance rate is routinely reported on a monthly basis in an executive scorecard to the Administrator. Also, as part of the monthly executive scorecard, FAA introduced a new reporting requirement where each line of business must report back to the Chief Financial Officer within 90 days on how cost accounting data are being used to manage costs. In FY 2008, the corporate goal will be 95 percent and FAA is well-positioned to meet this goal.

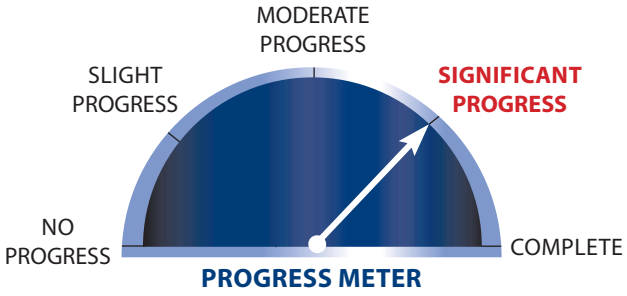
To ensure cost data are current, FAA now establishes new project codes when there is a management need to track the cost of a project or activity. This is an ongoing activity to better understand the cost

of FAA operations. Customers are routinely consulted to incorporate system change requests into future CAS releases and improve its managerial cost reporting.

Improving the accuracy and timeliness of capitalization costs was a major effort in 2007. This has a direct impact on the reliability and timely recording of operating cost data because all agency expenditures are either classified as operating or capital. The FAA conducted an intensive review of its Construction in Progress (CIP) balance and introduced policy/procedural changes, along with training, to ensure the agency keeps capitalization efforts current. In addition, FAA instituted several metrics to keep management informed on the status of its capitalization workload. The agency continues to implement financial metrics to ensure improved overall financial performance.

3. Management Challenge: Responding To Natural Disasters And Emergencies – Assisting Citizens And Facilitating Transportation Infrastructure Reconstruction

- **Clarifying Roles and Responsibilities Given Expanded Mission Requirements**



Under the National Response Plan, DOT is the lead agency for coordinating transportation support (Emergency Support Function-1) following a disaster. DOT also serves as a support agency for 11 other critical functions. For example, DOT works with state and local transportation departments and industry partners after disasters to assess transportation infrastructure damage and analyze associated impacts on transportation operations, nationally and regionally, and to report changes as they occur. DOT also has statutory roles related to preparedness for, response to, and recovery from emergencies, such as through the Federal Highway Administration's Emergency Relief program.

DOT has worked very closely with Department of Homeland Security (DHS) to clarify respective roles and responsibilities. The clarifications will be included in revisions to the National Response Plan, the Federal Emergency Management Agency (FEMA) Hurricane Contingency Plan, and other operating practices and procedures.

Some of the clarification has been the result of the reassignment of responsibilities related to disasters and other emergencies. DOT has taken a more active role working with State and local transportation officials in planning for disasters. We are collaboratively assessing transportation infrastructures and systems for vulnerabilities and identifying critical elements. DOT is also working with State and local officials in identifying response options to local transportation failures. This includes developing alternatives in response to situations such as the bridge collapses in Oakland,

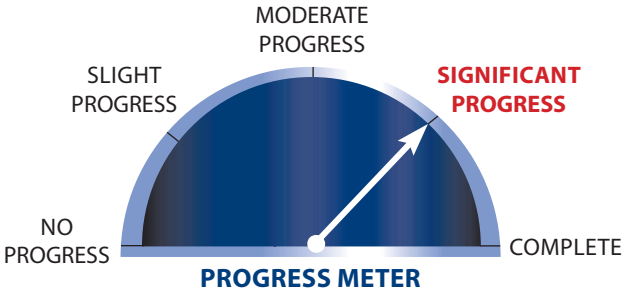
California and Minneapolis, Minnesota, and in planning for alternatives in response to other potential disruptions to the transportation system such as hurricanes, earthquakes, and terrorist attacks.

While we have taken on a more significant pre-disaster and post-disaster planning role, the role of procuring and managing transport services is being transferred from DOT to FEMA via a Memorandum of Understanding (MOU). DHS views the acquisition and management of transport services as key to FEMA's Logistics Management capability and is integrating it into its overall Logistics function. The transition between the two Departments is taking place in two phases: transportation services for evacuation of the general population transitioned June 1, 2007; transportation services for responders, equipment, and goods transfer effective January 1, 2008.

DOT is assisting FEMA in creating this new functionality through providing materials, training, and advice. The MOU contains language that requires DOT and DHS to work to actively and rapidly communicate the role transition to their own field offices and to stakeholders nationwide. DOT has already assisted DHS by briefing DOT field personnel in detail, and by briefing key leaders and staff of FEMA's field offices. While the role transition will reduce the number of locations that DOT is likely to be tasked to provide staffing, DOT has continued to develop, through training, exercises, and practical experience a cadre of response personnel sufficient to carry out the Department's requirements following any disaster. The changed role should also result in more clearly defined missions and chains of command, and lines of communication for effective intra- and inter-agency coordination.

- **Ensuring Continued Vigilance in Protecting Taxpayer Funds spent for Relief and Recovery Efforts**

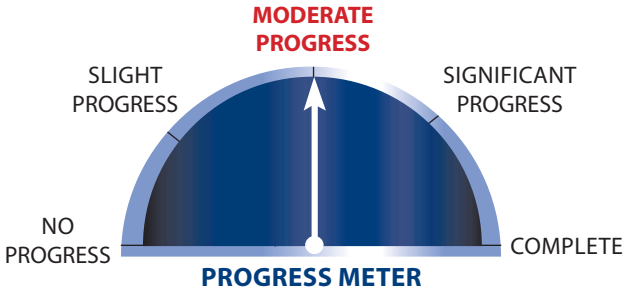
Since the 2005 Gulf Coast hurricanes, the Department continues to be proactive in ensuring that funding for future recovery efforts are spent wisely and in accordance with the law. Two years after the hurricanes struck the Gulf Coast, the Department continues to have bi-monthly meetings with the Chief Financial Officers of each Operating Administration to discuss procurement and financial management procedures related to emergency response.



DOT has also worked to comply with every recommendation made by the OIG and by the GAO that relates to disaster response/recovery fiscal and procurement matters managed by DOT. One of the most visible of these has been acquisition of funding from FEMA for a closeout audit by the Defense Contract Audit Agency of the $800 million Landstar Express America emergency transportation services contract administered by Federal Aviation Administration.

4. Management Challenge: Strengthening Efforts To Save Lives By Improving Surface Safety Programs

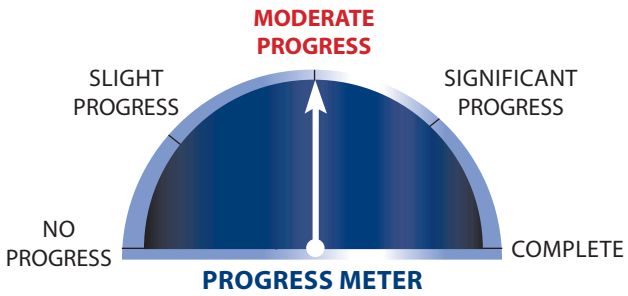
- Promoting Improved Performance Measures and Enhanced State Accountability to Maximize Efforts to Reduce Fatalities Caused by Impaired Driving



Analysis of NHTSA's efforts to counter alcohol-impaired driving found that NHTSA must ensure that States establish and report better performance measures to assess implementation of key strategies for effectively using funding to counter impaired driving. State performance plans generally contain measures on activities, such as the number of sobriety checkpoints conducted, or the overall performance goal of reducing the alcohol-impaired fatality rate. However, the plans usually do not address performance of key strategies, such as sustained enforcement of laws, effective prosecution, and full application of available sanctions. Better information is needed on the degree to which States are implementing these key strategies. For example, NHTSA communicated to the States one possible way to quantify sustained enforcement, but none of the States included this measure in their annual plans or performance reports to NHTSA.

In continuing to combat impaired driving, NHTSA made $125 million available in FY 2007 to the 50 States, the District of Columbia and Puerto Rico for alcohol-impaired driving countermeasure laws or programs, such as administrative license revocation laws and graduated licensing programs, or to meet certain performance criteria based on their alcohol-related fatality rates. Within this program, the ten States with the highest impaired driving fatality rates received extra funding. NHTSA worked closely with these ten States to facilitate implementation of effective programs, including periodic and sustained high-visibility enforcement efforts and media campaigns. NHTSA implemented the new national advertising campaign delivering the message "Drunk Driving: Over the Limit: Under Arrest." As part of this campaign, States conduct impaired driving enforcement crackdowns during the Labor Day and December holiday seasons. In FY 2007, NHTSA also further enhanced its impaired driving program, with continued emphasis on assisting high-risk populations (e.g., underage drinkers, 21 to 34 year-olds, individuals with high blood alcohol levels and repeat offenders).

- **Building on Successful Efforts to Better Enforce Motor Carrier Safety Regulations**



FMCSA recognizes that improvement needs to be made concerning imposing maximum fines on motor carriers that chronically violate serious safety regulations. FMCSA has worked with OIG and the Government Accountability Office concerning recommendations made during FY 2007 emphasizing the requirements of Section 222 of the Motor Carrier Safety Improvement Act of 1999. FMCSA will publish a proposed rulemaking and internal policies in FY 2008 updating these procedures for handling repeated and patterned violators.

Fundamental ground work is being laid to correct problems associated with the data quality of FMCSA's Motor Carrier Management Information System census file and the Agency is considering a number of initiatives to encourage the motor carriers to update their registration data. Each census record contains the following information:

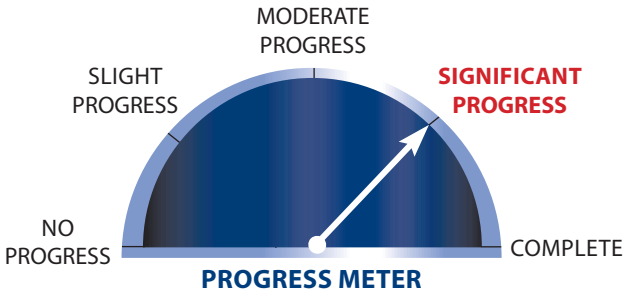
- ✧ Census Information: Entity Identifying Data - name, address, etc;
- ✧ Business/ Operation Data: Operation Classification and type of business;
- ✧ Cargo Classification: Types of cargo and hazardous materials carried;
- ✧ Equipment and Driver Data: Number of trucks owned, term-leased or trip-leased, number of drivers;
- ✧ Carrier Review Data: Latest review date, accident rate, safety rating.

Specifically, an inventory of data quality issues related to the census file has been identified. A working group of business and technical experts has been assembled to address data quality problems and will provide recommendations to improve the census file and its quality. Some preliminary findings suggest that recommendations may include: changes to the existing registration processes, the development of improved instructions and training materials to carriers, an outreach program to carriers on the importance of updating and ramifications of not updating their census data, the redesign of the technical data collection and management systems, and modification to Federal regulations and enforcement policies.

There has been a significant level of effort in the form of training and technical assistance provided to States to improve the quality of crash data reported by the State to FMCSA. Specifically, State police crash reports in 32 States have been re-evaluated and recommendations have been made to the States to improve these forms with respect to data required by FMCSA. Training for the collection of commercial motor vehicle crash data has been conducted in 10 States. This training has been tailored to accommodate State specific needs such as the inclusion of instructions on how to collect the data in the States electronic data collection system. Training materials developed for the electronic

data collection disclosed weaknesses in the electronic capture systems and FMCSA has made recommendations on how to improve the electronic system to allow for more complete and accurate data collection as well. Specialized train-the-trainer materials have been developed and incorporated into State training academies. In California alone over 600 officers have been trained through the FMCSA-developed train-the-trainer program.

- **Ensuring the Integrity and Future Modernization of the Commercial Driver's License Program**



FMCSA pursued several approaches to prevent fraud in State Commercial Driver's License (CDL) programs. During FY 2007, the Agency completed comprehensive compliance reviews of 15 State CDL programs. These reviews are conducted to ensure that States have the proper statutes and administrative procedures to manage their CDL programs and that State computer systems and licensing procedures are being implemented in compliance with the Federal requirements. Findings and recommendations from the compliance reviews have been provided to the States so they can make the necessary improvements to driver licensing testing and issuance procedures in order to reduce their susceptibility to fraud.

FMCSA has completed a demonstration test of a software application intended for detecting and deterring fraud perpetrated by third-party and State motor vehicle administration examiners. The testing of prototype software, called the Commercial Drivers CDL Skills Test Information Management System, was completed in partnership with the American Association of Motor Vehicle Administrators (AAMVA), and the States of Alaska, Arizona, New Mexico, and South Dakota.

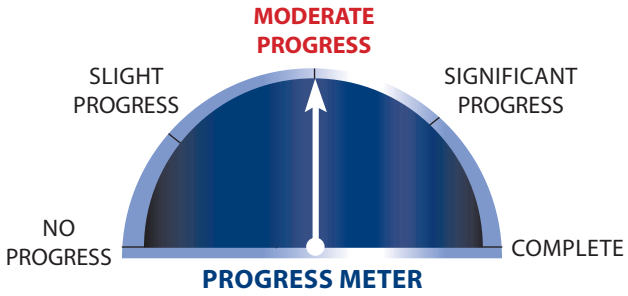
FMCSA awarded $22.7 million in grants to States in FY 2007 to support improvements in State CDL programs and address deficiencies identified in compliance reviews and Inspector General and Government Accountability Office audits. These grants also went to improving the accuracy, speed and completeness of driver history information exchanged among the various components of the system – including law enforcement, prosecutors, the courts, employers and State driver licensing agencies – both within the States and between States.

FMCSA has also awarded a Commercial Drivers License Information System (CDLIS) Modernization Grant to the AAMVA for $7 million to facilitate the modernization of CDLIS to ensure that it: 1) complies with Federal information technology security standards; 2) provides for electronic exchange of all data including posting convictions; 3) contains self-auditing features to

ensure data quality; and 4) integrates the CDL and medical certificate. The CDLIS modernization grant supports improvements to the CDLIS central facility and assists the States in upgrading their CDL computer systems to be compatible with the new central site.

FMCSA is in the process of completing efforts related to the SAFETEA-LU mandated CDL task force consisting of State motor vehicle administrators, and representatives from the motor carrier industry, labor organizations, judicial system and safety advocacy organizations. The task force met four times in FY 2007 and discussed issues and problems affecting their respective constituencies. The task force members agreed that the existing CDL program is a highly effective highway safety program that needs incremental improvements rather than major modifications or restructuring. The task force will issue a report to Congress in early FY 2008.

- **Enhancing Railroad Safety Through Improved Oversight of Grade-Crossing Reporting and Better Identification of Trends.**



As reported previously to the Office of Inspector General (OIG), FRA has routinely validated the completeness and accuracy of its grade crossing collision database against the National Response Center (NRC) data since the late 1990s. Between 2004 and 2006, our monthly NRC audit process identified a single instance where a crossing collision was reported to the NRC but not to the FRA. This audit process compares the NRC rail data against approximately 3,000 FRA crossing collision reports. The offending railroad attributed the oversight to an administrative error and submitted a late report after they were notified by FRA. The matter was also referred to the appropriate FRA region for enforcement.

FRA established a reconciliation process to ensure that fatal grade crossing collisions are promptly reported to the NRC. This "reverse" audit process was instituted in 2004, and since that time, the number of initial discrepancies (potential failures to provide telephonic notification to the NRC) has reduced drastically from 61 cases in 2004 to 16 in 2006. This is a clear indication that the reconciliation process has had a positive impact on railroads' compliance with applicable regulations.

FRA has completed the comparison of information on grade crossing collisions provided by the railroads to the information provided by local law enforcement and State regulatory agencies. The report is in the final stages of review within FRA and it is expected that the report will be released before the end of 2007.

Although FRA is still completing the report of that pilot study, the following tentative conclusions have been reached:

✧ For the great majority of police reports, matching forms 6180.57 were filed;

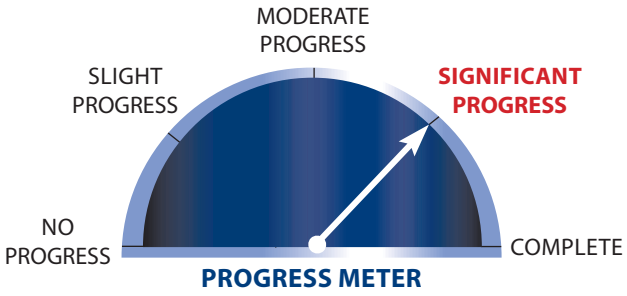
- ✧ There appears to be no pattern of discrepancies evident from the reports (e.g., no indication that railroads have misrepresented the events in question); and,
- ✧ In general, the 6180.57 forms provided more useful detail, although in some cases, police report narratives provide additional insight on motorist behavior.

To facilitate the targeting of resources, in October 2005, FRA began to phase in the implementation of its National Inspection Plan (NIP). The Plan is intended to make better use of data and direct safety inspectors to high-risk areas. FRA implemented the NIP for three inspection disciplines (Operating Practices, Track, and Motive Power and Equipment) at the beginning of FY 2006. Full implementation was achieved in March 2006, when two more disciplines (Hazmat and Signal and Train Control) were added to the plan.

The NIP complements the aggressive and ambitious National Rail Safety Action Plan (NRSAP), originally introduced in 2005. The NRSAP involves five strategic initiatives, including the improvement of hazmat safety and emergency response capability, and the reduction of human factor accidents—which are still the leading cause of train accidents, accounting for 36 percent of the total in 2006.

5. Management Challenge: Aviation Safety – Performing Oversight That Effectively Utilizes Inspection Resources And Maintaining Aviation System Safety

- **Advancing Risk Based Oversight Systems**



The FAA continues to improve its risk-based oversight system. A fully usable manual risk assessment/risk-based oversight system for repair stations was implemented in September 2005. This oversight system, which was automated in FY 2006, provides for continuous assessment and prioritization of each repair station and non-certificated repair facility. In October 2006, the bulletin "Air Carriers Outsource Maintenance Provider Oversight Responsibilities" was issued providing guidance to principal inspectors assigned to 14 CFR Parts 121 and 135 air carriers who outsource some or all of their maintenance to other persons including non-certificated repair facilities. These instructions were for additional oversight of each air carrier's outsourced maintenance arrangements and were issued in conjunction with a new guidance Order 8300.10, *Airworthiness Inspector's Handbook.*

The FAA is on schedule to have all of the current 120 air carriers, regulated by 14 CFR Part 121, transitioned to the Air Transportation Oversight System (ATOS) by the end of 2007. ATOS improves the Certification and Surveillance processes for air carriers and it assesses the safety of air carrier

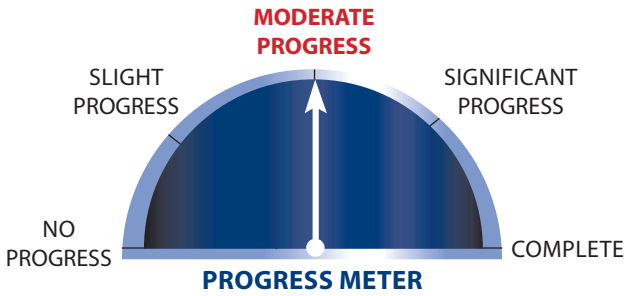
operating systems using system safety principles, safety attributes, risk management, and structured system engineering practices.

ATOS has been redesigned to provide the flexibility necessary to manage the multitude of tasks necessary to evaluate the operations of small and large air carriers and their diverse operating environments. The redesign allows inspectors to identify risks in each air carrier's operation and, on that basis, target resources to stay abreast of the rapid changes occurring in the industry. The new process and software has been tested at three key sites – United Airlines, Colgan Air, and Aerodynamics – and is now being adopted throughout the system. The FAA offices are also being staffed and reconfigured to efficiently use inspector resources in conjunction with these conversions. All ATOS users will receive training on the new process and software.

In April 2007, Notice 8000.362 became effective, requiring principal inspectors to evaluate the air carrier's outsourced maintenance programs to ensure work performed by certificated and non-certificated repair facilities is accomplished within the scope of the contract and in compliance with the air carrier's maintenance instruction for continued airworthiness. The notice also requires evaluation of the air carrier's oversight, authorization and training procedures for non-certificate repair facilities.

The FAA is currently revising Operations Specification D-91, requiring air carriers to list all certificated and non-certificated repair facilities performing outsourced maintenance and will publish the final rule by the mandated date of August 16, 2008. Redesigning ATOS, implementing a risk-based oversight system, and publishing additional guidance in 2006 and 2007 allow for effective oversight without limiting the work done at non-certificated repair facilities.

- **Maintaining a Sufficient Inspector Workforce**



The FAA is developing short and long-term strategies to address safety workforce staffing. In May 2007, FAA's Aviation Safety Organization (AVS) provided to Congress a 10-year *Aviation Safety Workforce Plan*. This plan ensures an adequate safety staff is maintained to address oversight needs and addresses inspector attrition and anticipated changes in the aviation industry. The workforce plans also address the competencies and skills required for staying abreast of new technologies and to successfully perform in a Safety Management System (SMS) work environment.

The FAA closely monitors retirements and takes steps to hire the next generation of safety inspectors. We also evaluate inspector staffing levels to ensure the Flight Standards Service and Aircraft Certification Service can sustain sufficient oversight as a result of potential attrition within the workforce.

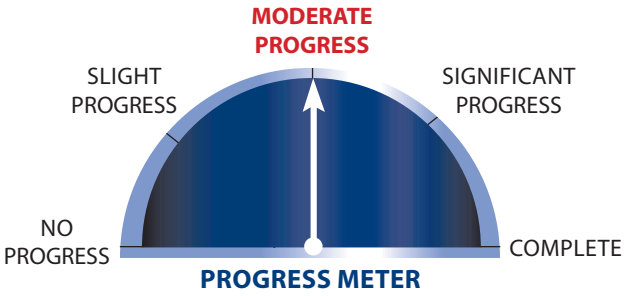
In January 2007 FAA received a copy of the *Aviation Safety Inspector Staffing Standards Study* prepared by the National Research Council of the National Academies of Science. In response to the recommendations in this study, FAA tasked an independent contractor to conduct a phased approach to the design, development, and implementation of a new automated, demand-driven, staffing model. The contractor will conduct a baseline analysis of the aviation safety inspector workforce and identify productivity measures. Specifically, the contractor will develop a staffing model that will have the capability to perform "what if" scenarios that build on customer demands and changing employee skill sets and can support an evolving safety management system culture of the future. The project design, development and training are estimated to be completed in the next 24 months.

By the end of 2007, increased inspector resources will allow the FAA to transition all Part 121 air carriers to the Air Transportation Oversight System. This risk-based, commercial aviation safety oversight system is increasing the effectiveness of the FAA safety oversight efforts by developing safety surveillance plans for air carriers based on data analysis. The FY 2008 President's Budget would provide an additional 241 new safety positions in AVS, including 90 new inspectors for increased oversight and surveillance activities.

Currently, the most significant impact on the workforce is the evolution of the risk-based system and increased oversight of designees. While these challenges do not demand significantly more or fewer inspectors, they do demand a different skill set. The overall management strategy to meet future oversight requirements focuses on three areas – train current AVS inspectors to help manage the transition to a SMS; change the AVS culture to accept the transition to an SMS; and hire the right people with the right skills to work in the future aviation environment.

The FAA has also established recruitment plans to fill our most critical occupations. The agency is working with technical schools to fill entry-level positions. It has ongoing efforts with minority- and women-focused technical publications and associations to ensure positive publicity for FAA and AVS, as well as to enhance recruiting opportunities. By the end of 2007, increased inspector resources will allow FAA to transition all Part 121 air carriers to the ATOS. This risk-based, commercial aviation safety oversight system is increasing the effectiveness of the FAA safety oversight efforts by developing safety surveillance plans for air carriers based on data analysis. We currently have a large pool of qualified aviation safety inspectors available for recruiting. We anticipate that even with the new skill set requirements there will be enough candidates to select the needed inspectors in the future.

- **Reducing the Risk of Accidents on the Ground and in the Air**



Runway incursions occur in the airport runway environment when an aircraft, vehicle, or person on the ground creates a loss of required separation with an aircraft. Runway incursions present a serious risk to aviation and have resulted in collisions and fatalities. Reducing the risks of runway collisions and incursions is a top priority of the Federal Aviation Administration (FAA). In order to reduce the severity, number, and rate of runway incursions, the FAA continues to mitigate the errors that contribute to collision risks. The agency has been aggressively addressing the issue and has made progress reducing the most serious incidents, particularly those involving commercial aircraft. In FY 2007, the estimated rate of runway incursions was 0.302 per million operations. The number of serious runway incursions has been reduced by more than 50 percent within the last five years.

The FAA continues to conduct Runway Safety Action Team (RSAT) meetings, pilot seminars, flight instructor refresher courses, commercial flight instructor and designated pilot examiner refresher courses and airport safety meetings. The purpose of an RSAT meeting is to emphasize the importance of runway safety and communication among users. Preventative measures to reduce runway incursions include: training on airport infrastructure for new controllers, runway training on airport signage and markings, adherence to proper phraseology, read-back/ hear-back requirements for controllers and pilots to ensure understanding of directions, review of hot spots, quality assurance reviews and the review and audit of tapes.

In FY 2007, FAA installed ASDE-X at Louisville International Airport and Charlotte Douglas Airport. Ongoing activities to reduce the risk of runway incursions included improvements to air traffic controller, pilot and vehicle driver awareness, as well as to airport infrastructure and technology enhancements.

In August 2007, in response to a recent rise in runway incidents, the agency sponsored a high-level meeting with 40 aviation industry leaders to brainstorm remedies for reducing runway incursions. The meeting focused on identifying short-term steps that could be implemented within 30-60 days. The recommendations center on improved procedures, increased training for airline personnel, and more rapid deployment of technology that could reduce runway incursions.

In the longer term, the agency will be looking towards technological solutions, including the deployment of runway status lights in conjunction with ASDE-X. The agency will also be taking a close look at the performance of two lower-cost ground surveillance systems currently being tested and evaluated in Spokane. Both systems provide cost effective alternatives to ASDE-X and can be installed in less than a week. While not as sophisticated as ASDE-X, they provide incremental situational awareness for controllers.

Separation in the air, whether it is from other aircraft, terrain, obstructions, or restricted airspace, is a critical aspect of air safety. Air traffic controllers employ rules and procedures that define separation standards for this environment. An operational error (OE) occurs when there is a loss of separation between aircraft or aircraft and other objects. Reducing the risk of operational errors is one of FAA's top priorities as traffic continues to increase.

The FAA's Air Traffic Organization (ATO) is developing and implementing an automated software application that will depict Air Traffic Control (ATC) separation conformance in both the terminal and en-route environments nationwide. The Traffic Analysis and Review Program (TARP) will apply separation logic to targets; identify where applicable separation standards are not being maintained; and highlight incidents for further investigation. This will be accomplished by utilizing TARP replay features to review radar and voice data to analyze potential operational errors.

In June 2007, ATO completed its *Automated Safety Initial Performance Implementation Plan* for all applicable en-route and terminal facilities. The development of a next generation safety performance measurement tool for the en-route environment was completed in 2007. This course of action will ensure FAA has a meaningful baseline of operational errors and allow consistent reporting of operational errors.

The FAA has historically tried to understand and mitigate the incidence of OEs, focusing on the critical component of the system—the closest person to the air traffic situation and the last point of prevention—the air traffic controller. We focused attention on implementing a coordinated system of investigations to identify causal factors, fielding automation to identify and re-create events, developing metrics to categorize OE severity, and sponsoring unique performance enhancement programs.

Specifically, during FY 2007, FAA improved how the severity of operational errors is calculated. We began implementation of a new system to classify OEs and instituted a 10 percent performance tolerance on separation minima to better understand and measure our safety performance. These changes allow us to take full advantage of advances in technology that now permit for separation measurements to a hundredth of a mile (60 feet) and allow us to capture more events that approach the edges of the separation standards.

The new measurement process, referred to as the Separation Conformance (SC), measures the severity of the outcome of the OE as a result of the percent of required separation that was maintained. When the SC is measured in combination with the number of operations, it creates a reliable rate-based measure of safety.

Further, the new measurement system minimizes the number of criteria used to determine OE severity, minimizes subjectivity, and allows for better analysis of same category events—all of which enhance safety conclusions. With these changes, we now measure the proximity between two aircraft which better characterizes the actual risk of collision. The FAA is currently testing the new severity tool which will be implemented in FY 2008.

Also in 2007, FAA modified the evaluation process by which it audits and performs assessments of ATC facilities in order to reduce operational errors and focus on system risks. The FAA reviews radar and voice data tools as part of its Air Traffic Safety Quality Assurance Order, as well as disseminates initial evaluations and audit data derived from the Facility Safety Assessment System to ATO Terminal and ATO en-route facilities.

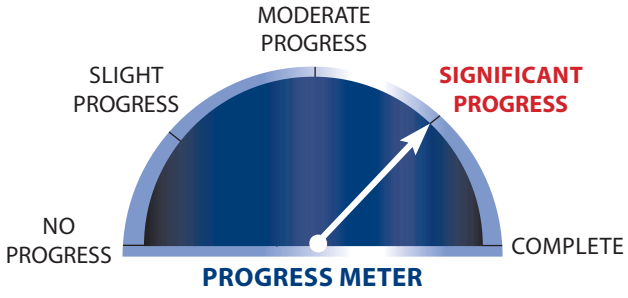
To enhance air traffic supervisor and controller discussion of serious events during team briefings, safety clips are developed using actual air traffic control incidents. These clips use video reenactments, replays of radar/voice, references, and narration of safety enhancement messages. Targeted subject matter is derived from areas such as daily reviews of operational errors and operational deviations, collisions, facility evaluations, and customer feedback. These safety awareness tools promote and support a safety culture by: 1) helping controllers visualize an event that actually happened; 2) aiding the development of strategies based on intuitive and experiential expertise for use in similar situations; 3) creating an objective examination of air traffic events and the service that FAA provides to its customers; and 4) continuously assessing individual, team, facility, and organization performance.

The ATO's Safety Services Unit continues to offer its one-day training course, Crew Resource Management (CRM), designed to help the air traffic controller detect and correct controller and pilot mistakes before they result in operational errors or pilot deviations. CRM is an operationally-relevant, one-day workshop that focuses on teamwork and individual performance such as situational awareness and safety vigilance. The course also focuses on threat and error management, vulnerabilities and countermeasures. Based on initial feedback, FAA continues to refine the current CRM training and Cadre courses.

6. Management Challenge: Making The Most Of Federal Resources That Sustain Surface Transportation Infrastructure Improvements By Continuing To Emphasize Project Oversight.

- **Initiatives to Improve the Oversight of Highway Trust Funds Need to be Implemented Effectively to Insure That Projects are Completed On Time, Within Budget, and Free From Fraud**

The FHWA continued to implement the Financial Integrity Review and Evaluation (FIRE) program to improve its compliance with the *Federal Managers' Financial Integrity Act* (FMFIA) and improve grant oversight. Also, FHWA re-implemented an improved version of Delphi's Projects Module that resolved an area of nonconformance involving Federal Lands Highway Program transaction processing

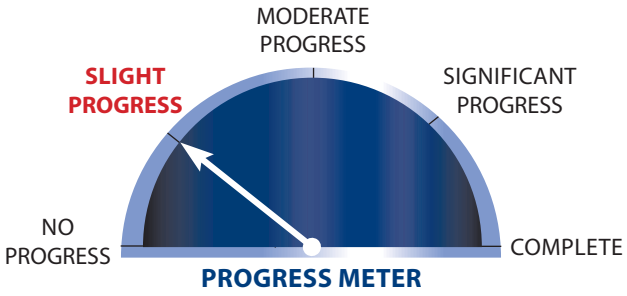


and reconciliations. The FHWA is currently in the process of conducting agency-wide testing of its financial and cost controls for a twelve month period. The results of this testing will be provided by the end of 2007. In addition, the Agency established a grants management council to help oversee and ensure alignment of FHWA's grant-related programs and supporting financial processes.

FHWA took aggressive steps to validate State cost estimates and thoroughly address potential risks. FHWA issued Major Project Guidance in January 2007 that stresses the importance of developing reliable cost estimates. FHWA conducted risk-based cost estimate validations for seven major projects and will continue the cost estimate validations during FY 2008. A pilot test was completed for a new training course designed to address Major Project cost estimating needs and requirements. The course focuses on raising awareness of the significance of cost estimates throughout the project continuum and the need to accurately and thoroughly identify risks involved.

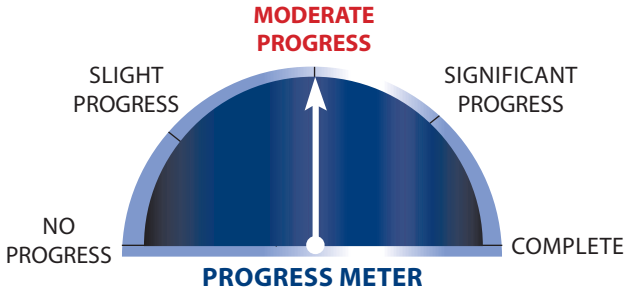
FHWA delivered a specific training program focused on critical risk identification. In response to this suggestion from the OIG, FHWA established a core competency framework for Major Project Oversight Managers. In addition, 34 participants including 13 current Managers completed a project management certificate training program that FHWA developed for employees who are currently responsible for supporting or managing stewardship and oversight for existing Major Projects. Members of the FHWA Major Projects Team involved in oversight activities or individuals preparing to be Major Project Oversight Managers in the near future also attended the training program.

- **FHWA's Oversight Must Include Actions to Ensure That Highway Tunnels are Safe for the Driving Public.**



FHWA has begun developing an Advance Notice of Proposed Rule Making in which the Agency will outline its requirements to be included in National Tunnel Inspection Standards. If implemented, this program will require States to inventory and inspect tunnels on an established frequency. The most pressing safety challenge for tunnel facilities is dealing with fires, either accidental or intentional. FHWA's approach to bridge and tunnel security is to look for cost effective solutions that can be integrated into an infrastructure owners' planning, design, operation and maintenance, recognizing that owners and operators have many competing agendas. FHWA also completed an international scan on tunnel safety and security and issued a report outlining several measures that could be incorporated into new and existing tunnels to improve their safety and operation.

- **FTA Must Continue to Exercise Vigilant Oversight to Ensure Large and Complex Transit Infrastructure Projects are Completed On Time and Within Budget**

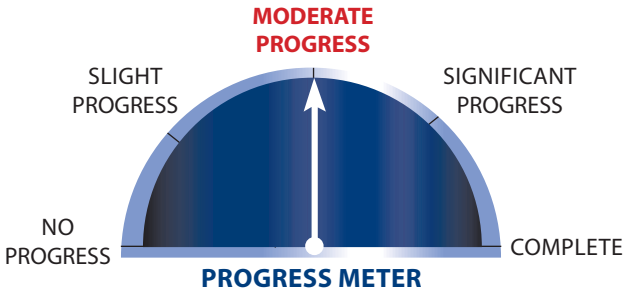


FTA continues to aggressively implement a program of project management oversight for its transit infrastructure projects, including the use of outside project and financial management oversight consultants. FTA uses a risk-based approach for the oversight of its Federal projects—a best practice. FTA fine-tuned its risk-informed assessments of transit projects and hired an independent management consulting firm to evaluate this approach to project management oversight. FTA's project management oversight contractors are charged with regularly monitoring each project and providing feedback to Federal officials should any problems arise. The oversight contractors hired for each project are charged with conducting risk assessments, reviewing scope, cost, schedule, project contingency, and assessing each grantee's plans for the project. FTA fully analyzes the results of the project management oversight contractors' reports; takes action, where appropriate; and exercises its own oversight role in addition to the contractors' work.

FTA's initiatives have improved oversight for its grantees' projects. On July 13, 2006, we testified to Congress that effective day-to-day oversight of these large and complex transportation projects is critical, and that FTA should use all of its oversight tools effectively. Vigilant oversight will be particularly important because FTA must continue to oversee the federally funded transit infrastructure projects throughout the Nation, while at the same time overseeing several large and complex initiatives collectively costing about $16 billion. Examples of these initiatives are the Lower Manhattan Recovery Projects (four FTA projects and one FHWA project with a Federal commitment of $4.4 billion), the New York/Second Avenue Subway Minimum Operable Segment (estimated to cost $4.7 billion), and the Long Island Rail Road East Side Access (estimated to cost $7.3 billion). The projects in New York City and the concurrent construction activity there can be expected to create significant competition for materials and labor. FTA will need the right mix of oversight resources to effectively manage costs, schedules, and quality issues during the construction of each of these large infrastructure projects.

7. Management Challenge: Achieving Reform Of Intercity Passenger Rail

- **Amtrak Must Do More to Improve Cost-Effectiveness, Operate Efficiently, and Improve Performance**



At the urging of FRA, Amtrak has taken many steps to address these areas over the past year. Amtrak's Management and Board of Directors have a roadmap of the corporation's Strategic Reform Initiatives. Amtrak tracks progress toward implementing these changes by estimating the savings and/or revenue generated. An update is presented to the Board of Directors at every regular meeting. The "bottom line" result is that revenues are up, expense growth has been limited, Amtrak's debt has been reduced, and the company is significantly more financially stable than it was five years ago.

Additionally, FRA expanded the capabilities of its Intercity Passenger Rail Analysis Division with financial, accounting, transportation planning, and engineering expertise. FRA's enhanced on-site staff capacity has facilitated FRA's review of Amtrak Management's proposals and approaches through multiple prisms. Furthermore, the Division has undertaken multiple initiatives to improve FRA management's understanding of the nuances of Amtrak's operational and corporate performance. For example, these initiatives include (1) specification and analysis of the most detailed on-time performance data ever provided by Amtrak to the FRA, and (2) new concepts for the presentation and interpretation of traffic, revenue, expense, and corporate result data.

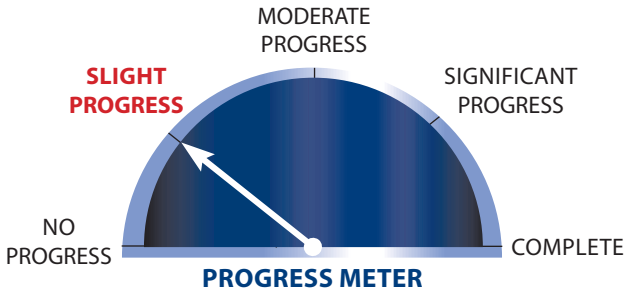
FRA has undertaken an intensive review of Amtrak's capital-related acquisitions. Specifically, FRA conducts quarterly reviews of Amtrak's entire capital program, with civil and mechanical engineers scrutinizing infrastructure and equipment programs; as well as reviews of reprogramming proposals, with a goal of improving efficiency and cost-effectiveness.

DOT is working with Amtrak on several aspects of improving financial reporting and financial management practices. DOT continues to collaborate with Amtrak on the development of a managerial cost accounting plan. Amtrak's plan, which is still being negotiated, contains the following major elements:

- ✧ Integrated financial systems project;
- ✧ Activity analysis pilot project;
- ✧ Strategic framework; and,
- ✧ Route accounting system upgrade and related FRA cost accounting methodology development project.

Additionally, through the Department's Volpe National Transportation Systems Center (Volpe Center), FRA is developing a new avoidable cost methodology. This new methodology will be reflected in a new cost allocation model Amtrak plans to implement in FY 2008. The new model will significantly improve the transparency and accuracy of Amtrak's financial reporting by route and business line.

- **Amtrak Needs a New Model for Providing Passenger Rail Transportation**



The FY 2008 budget included a request for the creation of a Federal/State Capital program to support the needs of intercity passenger rail service. This new grant program considers the fact that most publicly supported transportation in the U.S. is undertaken through a partnership between the Federal government and the States. This model, which has worked well for generations for highways, transit and airports, places the States at the forefront of planning and decision-making. States are uniquely qualified to understand their mobility needs and connectivity requirements through statewide and metropolitan area intermodal and multimodal transportation planning funded, in part, by the U.S. Department of Transportation.

DOT believes that this model will also work for intercity passenger rail. Several States have chosen to invest in intercity passenger rail service provided by Amtrak as part of strategies to meet their passenger mobility needs. Over the past 10 years, ridership on intercity passenger rail routes that benefit from State support has grown by 88 percent. Over that same time period, ridership on all Amtrak routes not supported by States has increased by only 22 percent.

State involvement in planning and decision-making for intercity passenger rail service identifies where mobility requirements justify public investment. An excellent example can be found in Washington State, which has invested in intercity passenger rail from Portland, OR, through Seattle, to Vancouver, B.C. in order to relieve highway travel on the congested I-5 corridor. Similarly, the state of Illinois has made financial commitments that have effectively doubled the number of State-supported trains operated by Amtrak on three routes.

Past experience shows active State engagement in planning and decision-making helps assure that infrastructure components, such as stations, provide connectivity to other forms of transportation, which support intermodalism within the State. For example, in North Carolina, the State has undertaken the redevelopment of its intercity passenger rail stations and transformed them into multi-modal transportation centers serving the mobility needs of the surrounding communities.

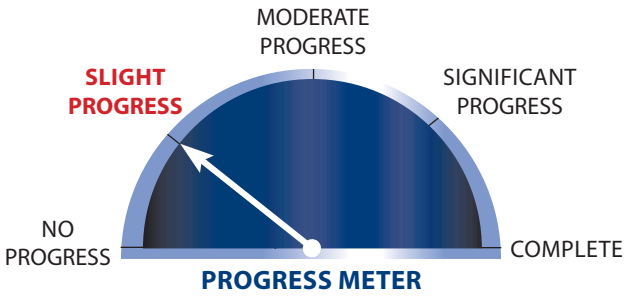
State participation in financing intercity passenger rail service provides added incentives for Amtrak to seek ways to enhance quality of service, partnership, and goodwill. In Vermont, where the State offered higher State operating subsidies for current service, Amtrak was willing to restructure services to drive down operating costs, while increasing train frequencies for Vermont citizens.

This grant proposal aligns with Amtrak's strategic reform initiative, as Amtrak seeks to build on its recent experience with the States as it is proactively seeking to create a stronger role for the States in designing and supporting State priorities. The Administration supports this aspect of Amtrak's internal reform. In discussions with interested States, the DOT has found that the greatest single impediment to implementing this initiative is the lack of a Federal/State partnership, similar to that which exists for highways and transit, for investing in the capital needs of intercity passenger rail. This partnership will play a critical role in the evolution of intercity passenger rail.

8. Management Challenge: Improving Acquisition And Contract Management To Reduce Costs And Eliminate Improper Payments.

- **Institutionalizing the Use of Defense Contract Audit Agency Contract Audit Services**

The Office of the Senior Procurement Executive (OSPE) has been working closely with the Office of the Inspector General (OIG) and the Chiefs of the Contracting Office (COCO) of the Operating Administrations to improve and institutionalize the use of Defense Contract Audit Agency (DCAA) services.



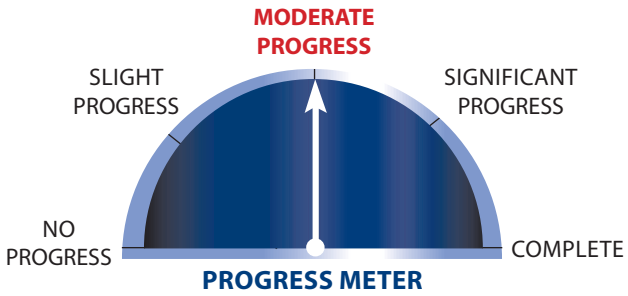
As noted in a recently issued OIG report on the subject, the Senior Procurement Executive has issued policy which establishes appropriate requirements for use of audits. Therefore, the focus has recently been on improving implementation of that policy.

Most recently OSPE developed a methodology whereby DCAA and the Operating Administrations work together to identify cost-type contracts most suitable for audits and better estimate the necessary audit hours in an annual audit plan. This plan was first developed during this current fiscal year. Based on the lessons learned, OSPE has worked with the Operating Administrations to improve that plan for FY 2008. Discussions with the OA COCO's revealed that not all cost contracts identified by DCAA were of sufficient complexity to warrant auditor assistance. Therefore, rather than using the DCAA-provided list, in many cases, the COCO's opted to identify for themselves the contracts to be included in their FY 2008 audit plan. Once those audit plans are submitted, the OAs will begin

submitting quarterly status reports against their audit plans. The status reports will address audit hours used, resolved and unresolved questioned costs, and whether justifications have been placed in the contract file where audits were not required.

- **Strengthening Financial Management Oversight of Institutions Performing Research Under DOT Cooperative Agreements and Grants**

The Inspector General identified three examples where additional oversight of cooperative agreements was needed; one each in RITA, FTA and FHWA. Departmental actions taken to address these examples are summarized below.



RITA — In response to an Inspector General report regarding a University Transportation Center grantee using ineligible sources of grant match, RITA took a number of steps to correct this issue. The university identified an alternative eligible source of matching funding. RITA also brought this issue to the attention of the Department of Health and Human Services, which has audit responsibilities for federal grants at this university. The university has also established internal management processes to ensure that problems like this do not happen in the future.

RITA staff also periodically remind the grant recipients about the necessity of adhering to OMB guidelines on matching fund requirements. In addition, the University Transportation Research Center Program Office has developed a site visit plan that will ensure that most of the grantee universities — and all the Centers with large grants — will have periodic site visits.

FTA — FTA has undertaken a three part strategy to address improved research program oversight, most of which is awarded as cooperative agreements.

Immediate Action

Sixteen projects were evaluated to determine the level of risk; nine of the projects were recommended for more in-depth review. These reviews are still underway and should be completed by November 16, 2007. In addition, FTA is working to include appropriate questions on its oversight assessment questionnaire to capture issues related to research/cooperative agreements. For the first time, all research recipients will be evaluated during the oversight assessment in preparation for the FY 2008 reviews. Lastly, a contractor was hired to provide two training sessions on oversight of grants/ cooperative agreements for FTA headquarters personnel.

FTA is also expanding the capabilities of its OTrak system (FTA's database for tracking findings and corrective actions) to include quarterly assessments of its research projects. Using OTrak will permit these reviews to be conducted for all research projects and allow more systematic follow-up on

findings from quarterly reviews. The project plan to update OTrak was approved on May 30, 2007 with an expected readiness date of July 2008. Also FTA's FY 2008 Budget to Congress included a proposed statutory takedown from the National Research Program and other programs for oversight.

Intermediate Action

In February, 2007, FTA established a team to review its Research Order and Circulars. The team is waiting on recommendations from a Booz-Allen review of FTA's research/cooperative agreement oversight procedures before taking further action. In addition, a research recipient workshop was held on April 17, 2007, with approximately 60 recipients. The workshop focused on project management and financial requirements. FTA intends to hold this event annually.

Long-term Action

FTA will form a team of oversight contractors working from recommendations made by Booz-Allen and working with its offices to develop an oversight tool appropriate for FTA's research program/ cooperative agreements. Booz-Allen has met with FTA staff to examine procedures used for project management and oversight of research projects. Specific recommendations for improvement are presently in development.

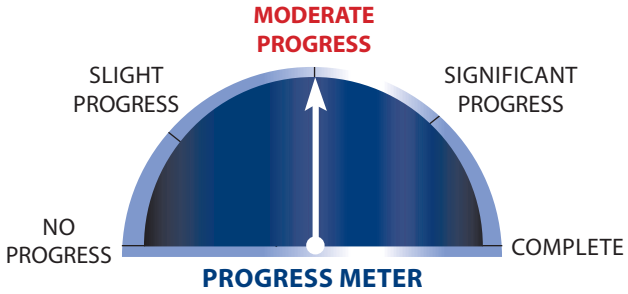
FHWA — FHWA made significant progress in its stewardship of its grants and cooperative agreements. Following through on actions outlined in FHWA's *Assistance Agreement Process Review – Final Report and Recommendations,* the FHWA completed the following actions during FY 2007:

- ✧ Development and delivery of a series of Agreement Officer Technical Representative (AOTR) Training Modules. A total of 123 AOTRs received this training during the year and many others received copies of the materials.
- ✧ Publication and dissemination of a comprehensive *Assistance Agreement Procedures Manual* that provides specific guidance for all steps in the assistance agreement process from acquisition vehicle selection through award, monitoring, and close-out. A separate section devoted to concerns of AOTRs is included in the manual, which was written under contract by a recognized leader in the assistance agreement field with significant input from FHWA staff.
- ✧ Development of revised file organization and guidelines for acquisition staff. FHWA commissioned an internal team to review and recommend updated file tabs and guidelines for file organization to be followed by acquisition staff. Grant and cooperative agreement files were included in this review. The team has submitted its final report with a new organization recommended for implementation in FY 2008.

Other actions are also underway to further improve staff's knowledge and capabilities to provide oversight. These include an update to FHWA policy guidance for grant and cooperative awards through revision of FHWA Order 4410.1, and the development of an *AOTR Quick Reference Guide* that augments the *Assistance Agreement Procedures Manual* by providing an AOTR with concise

instructions and frequently asked questions related to agreement monitoring from a technical perspective. FHWA will continue to look for ways to improve the effectiveness and efficiency of its grant and cooperative agreement activities, as well as other acquisition areas as opportunities emerge and needs evolve.

- **Promoting More Vigilance and Enhanced Oversight of FAA's Acquisition and Contract Management Practices**



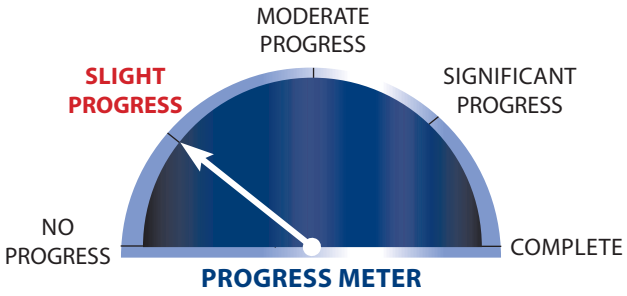
FAA's Contract Oversight function was established within the Contract Oversight Group in the Fall of 2006. The new function provides oversight and evaluation of contract operations within the FAA. In February 2007 FAA's Acquisition Executive established the National Acquisition Evaluation Program (NAEP), formerly known as the National Program Evaluation. The mission of NAEP is to improve acquisition and contract management; enhance the quality of financial documentation, reduce acquisition cost; eliminate improper payments; and curtail waste, fraud and abuse of funds.

An Acquisition Management System (AMS) policy change establishing NAEP was developed, approved by the Administrator, and incorporated into the AMS in July 2007. The AMS change states, "The National Acquisition Evaluation Program provides oversight of FAA acquisition management through the evaluation of contracts, programs, and acquisition management practices. The goal is to ensure consistent implementation of AMS policy and guidance by FAA offices and to identify innovative processes or opportunities for improvements. Recommendations based on findings are tracked to closure to promote continuous process improvement and procurement integrity."

In March 2007 the NAEP Team, composed of representatives from all contracting organizations within FAA, was formed. The NAEP team developed Standard Operating Procedures (SOPs) for evaluation teams to use in conducting contract evaluations. The SOP provides more detailed guidance on how contract and program evaluations are to be performed. Also, the SOPs specify the required contents of an evaluation report, including the development of specific recommendations for contract and acquisition management improvements, and a requirement that the recommendations are addressed, mitigation strategies are developed, and planned improvement activities are tracked to closure. The team also developed an Evaluation Work Plan which proposed contract evaluations that are to be conducted over the next three years. The list of proposed evaluations was developed using the recommendations provided by the Department's Inspector General in the audit of FAA's *RESULTS National Contracting Service Report* issued in September 2006, as well as recommendations from senior level managers.

In May 2007, a comprehensive evaluation of the Alaska Region's contracting activities was conducted, in conjunction with the ARC Procurement Evaluation Program, to uncover problems in contract management and to obtain commitments from contract management to address the problems. The results of the evaluation are documented and filed for follow-up activities. The follow-up activities will be monitored and tracked to ensure completion. In June 2007 the NAEP Team began to develop its first evaluation report on the results of a yearly assessment of the consistency between the hiring of contractor personnel as compared to the labor categories and rates contained in support services contracts. The annual report will be issued in November 2007.

- **Ensuring that Department Employees Maintain High Ethical Standards**



Integrity/ethics is considered a core general business competency for acquisition personnel. In order to achieve the government-wide Federal Acquisition Certification, acquisition workforce members must complete the mandatory training courses. These training courses address all the general business competencies including integrity and ethics. Also, the Department conducts an annual ethics training program for employees, including acquisition workforce members, as required by the Office of Government Ethics.

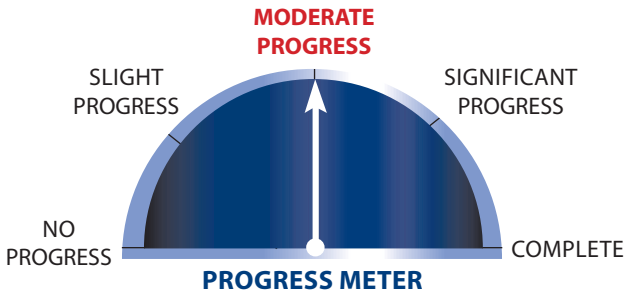
Starting in FY 2008, DOT will provide supplemental training, in addition to required annual ethics training, for members of the acquisition workforce and other employees involved in the acquisition process. Supplemental training will cover key ethics issues of direct importance to acquisition workforce members, e.g., seeking future employment with a contractor, post employment restrictions, gifts from contractors, relationships with former private employers, other impartiality concerns relating to interaction with contractor personnel, as well as various miscellaneous matters, e.g., "moonlighting" for an agency contractor. Trainers will include both ethics and acquisition officials from departmental as well as modal organizations. DOT is in the process of identifying the acquisition workforce, including contracting officials, Contracting Officers Technical Representatives (COTR's) and program/project managers. Once this process is complete in early calendar year 2008, DOT will be able to target the supplemental training to the appropriate staff and make it mandatory for certification or recertification.

In addition to training, it is important that DOT have in place the appropriate internal controls to prevent and/or detect inappropriate conduct involving procurements and contracts. To that end, DOT is in the process of developing a risk management program which will define a set of processes across the Department to enhance internal controls for acquisition. This risk management program is based on the acquisition framework developed by the Government Accountability Office (GAO) and is consistent with internal control principles and practices. The GAO framework covers such areas as organizational leadership and alignment, policies and processes, human capital,

and knowledge and information management. DOT's program implementing the framework will feature a series of reviews including self assessments, operational status reviews of procurement operations, and periodic on-site reviews. The risk management program also incorporates other key elements for strengthening acquisition business practices such as an enhanced competition advocate function, use of Earned Value Management, and performance based acquisition. DOT plans to begin implementation of this program during FY 2008.

Because FAA has statutory acquisition independence, the risk management program does not, as a legal matter, apply to FAA's acquisition function. FAA acquisition personnel will not be included in the supplemental training program. We plan to share both programs with the FAA, and to recommend that they undertake similar initiatives.

- **Enforcing Suspensions and Debarments More Rigorously**

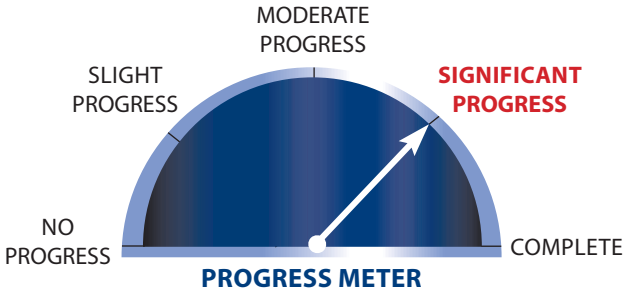


The Department continues to strengthen its processes and procedures to exclude companies and individuals from award of Federal financial assistance and contracts when they have defrauded the government. In an effort to ensure timelier processing and reporting of suspension and debarment (S&D) actions, a centralized database for reporting S&D actions is being created. All users will be able to electronically list and track their S&D actions as they are received from the OIG. The OIG has the capability of electronically viewing the status of actions within each OA and has the ability to create reports for the Department's S&D actions. We expect the system to be available for the annual report due in February 2008.

Additionally, an internal suspension and debarment community on DOT's intranet has been established within the agency. This community which is accessible from the agency home page, lists and shares best practices on managing suspension and debarment activities.

9. Management Challenge: Protecting, Monitoring, And Streamlining Information Technology Resources

- Enhancing Air Traffic Control Systems Security Through Resource Commitment and Progress Measurement



In FY 2007, FAA met the statutory requirement to recertify its information technology (IT) systems on their three-year anniversaries or upon major system change. Specifically, FAA recertified 100 percent of its 84 IT systems, including the air traffic control systems. FAA's remaining systems will undergo annual self-assessments as prescribed by the National Institute of Standards and Technology (NIST). The FAA also revised the Certification and Accreditation Handbook to reflect NIST guidelines and standards, and remediated 25 of the 60 high-risk vulnerabilities to date. The FAA also continues to strengthen security protections of air traffic control (ATC) systems by conducting ATC field facility reviews. In FY 2007, ten facility reviews were completed.

In FY 2007, FAA's transitioned the *Business Continuity Plan* (BCP) from planning to implementation. The purpose of the BCP is to contemplate and address potential prolonged service disruptions at en-route centers. BCP implementation is being executed by a multi-service, multi-disciplinary engineering team.

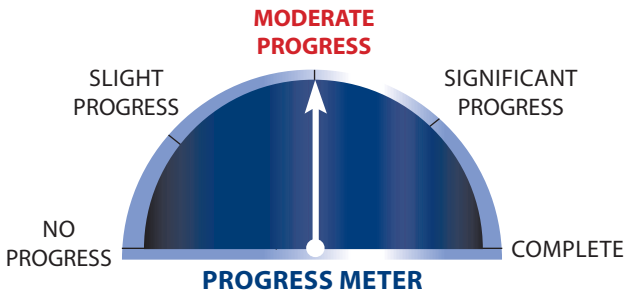
Additionally, FAA established the Business Continuity Program Office to address long-term outages. The Business Continuity Board of Directors was established and consists of Executive Directors from every FAA stakeholder service unit. The Board meets monthly to ensure adequate resources, resolve disputes, and maintain the BCP program scope and schedule. There are nine working groups to address BCP technical capabilities, procedures, documentation, and staffing concerns.

Primary infrastructure is already in place to provide BCP services. Enroute BCP operational requirements are being validated with field Air Route Traffic Control Centers. The FAA will provide all mission essential services for any affected facility with a goal to reconstitute operations at 80 percent of previous capacity within a 3 week period. To address contingency operations at all operational facilities, in the event of short-term outages, FAA has published Order 1900.47B. This order calls for tabletop exercises to involve FAA's Command Center as well as all major terminal and en-route facilities.

The operations community has direct involvement in solution implementation. Initial capability demonstrations for data communications including both radar and flight data are also underway. Voice communications infrastructure including the Voice Switching and Control System (VSCS), VSCS Training and Backup Switch, and Radio Control Equipment are being configured and installed to support both air-to-ground and ground-to-ground voice communications.

As the OIG notes, in October 2006, FAA's Chief Information Officer (CIO) and the Air Traffic Organization were planning to evaluate security differences between ATC systems in the terminal and tower environments. Specifically, FAA had planned to visit a significant number of facilities to audit security differences between systems in the field relative to laboratory conditions. After thorough study, FAA has concluded that the return-on-investment would not support the expected cost, which would have exceeded $2.5 million. This decision was also supported by results of similar efforts at en-route facilities. At en-route centers, there was less than a 10-percent variance.

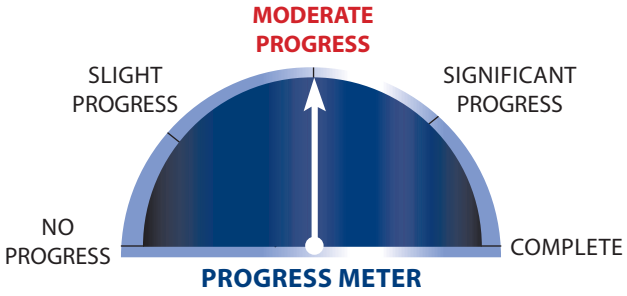
- **Meeting New Security Standards While Recertifying Systems Security**



The Department made significant progress recertifying its IT systems; to date, 210 of the 230 systems identified, approximately 91 percent, have either completed, or expect to complete recertification in FY 2007. The DOT CIO developed several policy documents to specifically address system certifications during FY 2007 and the move to the new DOT Headquarters building. In response to the Inspector General's FY 2006 FISMA audit report, the CIO required that each Operating Administration (OA) and OST office develop detailed and funded implementation plans and schedules to address the recertification workload expected during FY 2007.

The Department also agreed with the Inspector General's concern regarding the application of new security standards at the time these recertifications are performed. By the end of FY 2007, the Department will issue policy and guidance for determining risk levels of information systems. Based on the determination of system risk level, the application of security controls is then determined. The OAs and OST offices have been instructed that they must apply the direction and guidance outlined in NIST Special Publication 800-53 Rev. 1, *Recommended Security Controls for Federal Information Systems* in selecting system security controls that apply to their systems. The OAs would then apply the new security controls when they perform their recertifications and address the risk level for their systems.

- **Securing the Consolidated IT Infrastructure and Eliminating Operating Administrations' Fragmented Systems Backup/Recovery Sites**

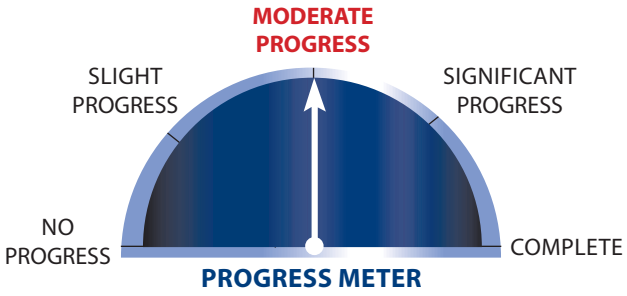


In the past, each Operating Administration managed its own IT infrastructure (e.g., desktop computers, local area networks, and e-mail). These duplicative IT operations were expensive to maintain and had inconsistent security protections—both physical and logical. Since they were interconnected, security weaknesses in one Operating Administration's infrastructure could endanger others: in other words, the agencies' IT security was only as strong as the weakest link. As part of the move to the new Headquarters, the Department seized the opportunity to consolidate these IT infrastructure operations and completed that activity in FY 2006.

In FY 2007, DOT strengthened the security of the consolidated IT infrastructure by bringing the Campus Area Network on line. In addition, Operating Administrations' mission-specific server infrastructure was relocated to a contractor-operated hosting facility that was certified and accredited. The Common Operating Environment as well as the Campus Area Network is currently undergoing re-certifications to ensure that all necessary security controls and system interconnection agreements are in place to ensure continued strengthening of the security infrastructure.

As one of the components of the next phase of consolidation, the Department still needs to identify a consolidated backup/recovery site at a sufficient geographic distance from the new Headquarters building and conduct contingency testing for all Operating Administration systems operating on the consolidated IT infrastructure. Further, the CIO will direct that the Operating Administrations not make additional investments to equip their individual backup/recovery sites until decisions have been made for the consolidated backup/recovery site.

- **Working With Operating Administrations to Strengthen Oversight of IT Investment and to Streamline Duplicative IT Systems.**



While the Department has made the decision to delegate the oversight on specific IT investments to the operating administration review boards, each review board is required to annually review each major IT investment, looking at cost, schedule and performance goals. The Department has and will continue to monitor high risk programs monthly. In general, the variances that we have seen for cost and schedule

are within the 10 percent tolerance level. Over the next year, the Department plans to benchmark technical performance metrics with other agencies to determine the best approach to monitor technical performance to improve overall program management.

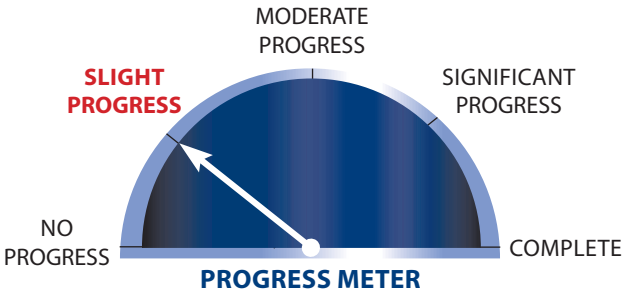
The Department is making progress in improving its EVM oversight. DOT has become an active member of a joint Civilian Agency/Industry Working Group addressing significant open issues facing the entire federal civilian sector regarding EVM implementation. The CIO has recently completed the initial draft of EVM policy, which attempts to ensure that all Operating Administrations are performing EVM consistently across the Department. We expect to have the policy finalized by early 2008.

During 2007, DOT strengthened its ability to identify duplicative common systems by defining all agency programs and activities according to common business areas and services, or segments. In addition, the Department mapped all DOT IT investments (major and non major) to a DOT segment to facilitate the alignment of targeted resources based on business strategies and needs.

During 2008, the Department plans to collaborate with DOT business stakeholders to validate current business activities; identify milestones for streamlining over the next 3 – 5 years; and reflect results in the DOT Transition Strategy for certain prioritized segments. These activities will provide valuable information to agency executives and program managers as they make decisions on IT projects.

10. Management Challenge: Strengthening DOT's Coordination Of Research, Development, And Technology (RD&T) Activities And Funding

- **Ensuring Effective Coordination of DOT's Research, Development and Technology Activities**



RITA has secured an enhanced leadership role in RD&T coordination for the Department in specific cross-modal opportunities. In 2007, RITA assumed responsibility for the Position, Navigation, & Timing (PNT) program with the first priority of determining the transportation needs of PNT on behalf of the Department. A *Federal Register* notice for public comment on the future of NDGPS was issued August 1, 2007, and plans were set in motion to collect information from Operating Administrations for analysis and preparation of a decision package for the National Space-Based PNT Executive Committee in the first half of FY 2008.

RITA also assumed leadership for the Climate Change & Environmental Forecasting Center on behalf of the Department. During 2007, RITA worked with an expert from the Environmental Protection Agency (EPA) to assist with redefining the direction of the Climate Change & Environmental Forecasting Center. Recommendations to improve overall DOT coordination and to reduce RD&T overlap of climate change and related initiatives being pursued through the Climate Change Center will be offered and an action plan established.

In 2007, RITA's oversight and coordination program completed its first Program Assessment Rating Tool (PART) evaluation. Although RITA received a Results Not Demonstrated rating, significant progress was made in refining and articulating the intent of the program. A Result Not Demonstrated rating is given when a program doesn't have established short- and long-term performance measures. As a result of this evaluation, several annual program measures were developed for consideration by RITA's Planning Council for future implementation which will lead to the first DOT-wide RD&T coordination measures.

RITA also continued to coordinate all RD&T budget information through the annual budget process. Each operating administration provides budgetary information according to RITA's guidance on all RD&T activities proposed through the Department's budget process. That information is identified in a single budget tab in order to compile and view the Department's RD&T portfolio comprehensively and according to Departmental goals.

RITA has concluded that the best way to counter the limiting effects of earmarks on management of the entire DOT RD&T portfolio is development of an objective data source that can help inform stakeholders of the state of projects in relation to others. In 2007, RITA developed a statement of work to guide development of a DOT-wide RD&T database. RITA plans to work with the Operating Administrations to collect basic information about the RD&T projects that make up the DOT portfolio of RD&T investment. The process by which information will be collected and reviewed will be completed in the first quarter of FY 2008.

PERFORMANCE REPORT

PERFORMANCE FRAMEWORK

INTRODUCTION

The 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 goals 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 goals; 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 goals. It describes in detail one fiscal year's resources and programmatic effort within a strategic context. The performance budget also aligns each dollar requested to one of our strategic objectives.
- ✧ This **DOT Performance and Accountability Report** provides a public accounting of our FY 2007 performance results.

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

- ✧ Organizational Accountability Contracts – Prepared at the beginning of each fiscal year, these agreements between the Secretary of Transportation and each modal

Administrator document expected levels of organizational performance for the upcoming year.

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

The following graphic (figure 1) describes how DOT plans, measures, manages, and reports on performance:

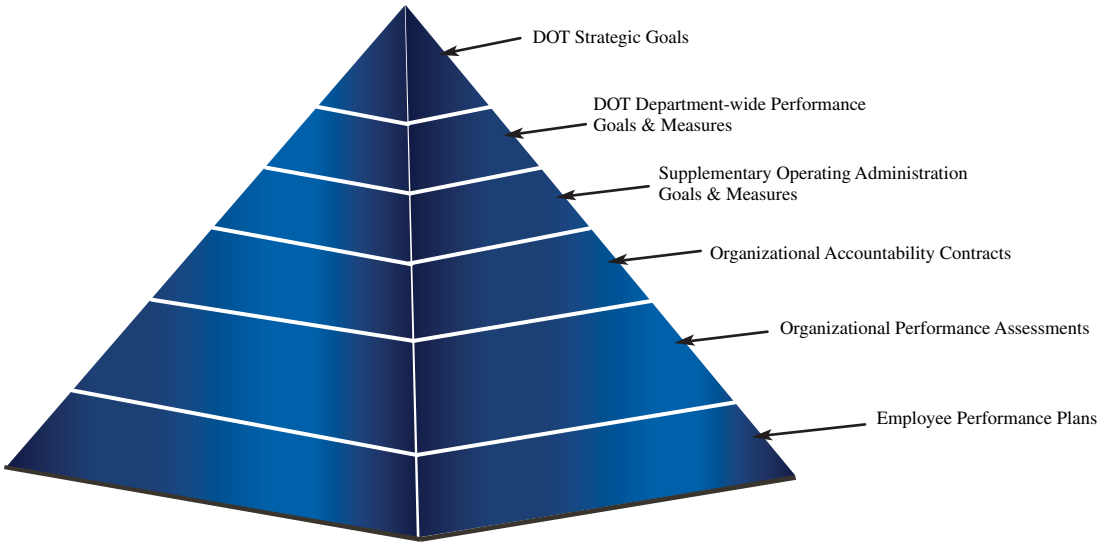


Figure 1

HOW DOT WORKS TO ACHIEVE ITS STRATEGIC AND PERFORMANCE GOALS

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

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

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

FY 2007 PERFORMANCE REPORT

Our FY 2007 Results: A Reader's Guide

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

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

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

TERMINOLOGY

We use the following terminology throughout the report:

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

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

Performance Goal Area – 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.

Figure 2 shows the different levels of information and how they are presented.

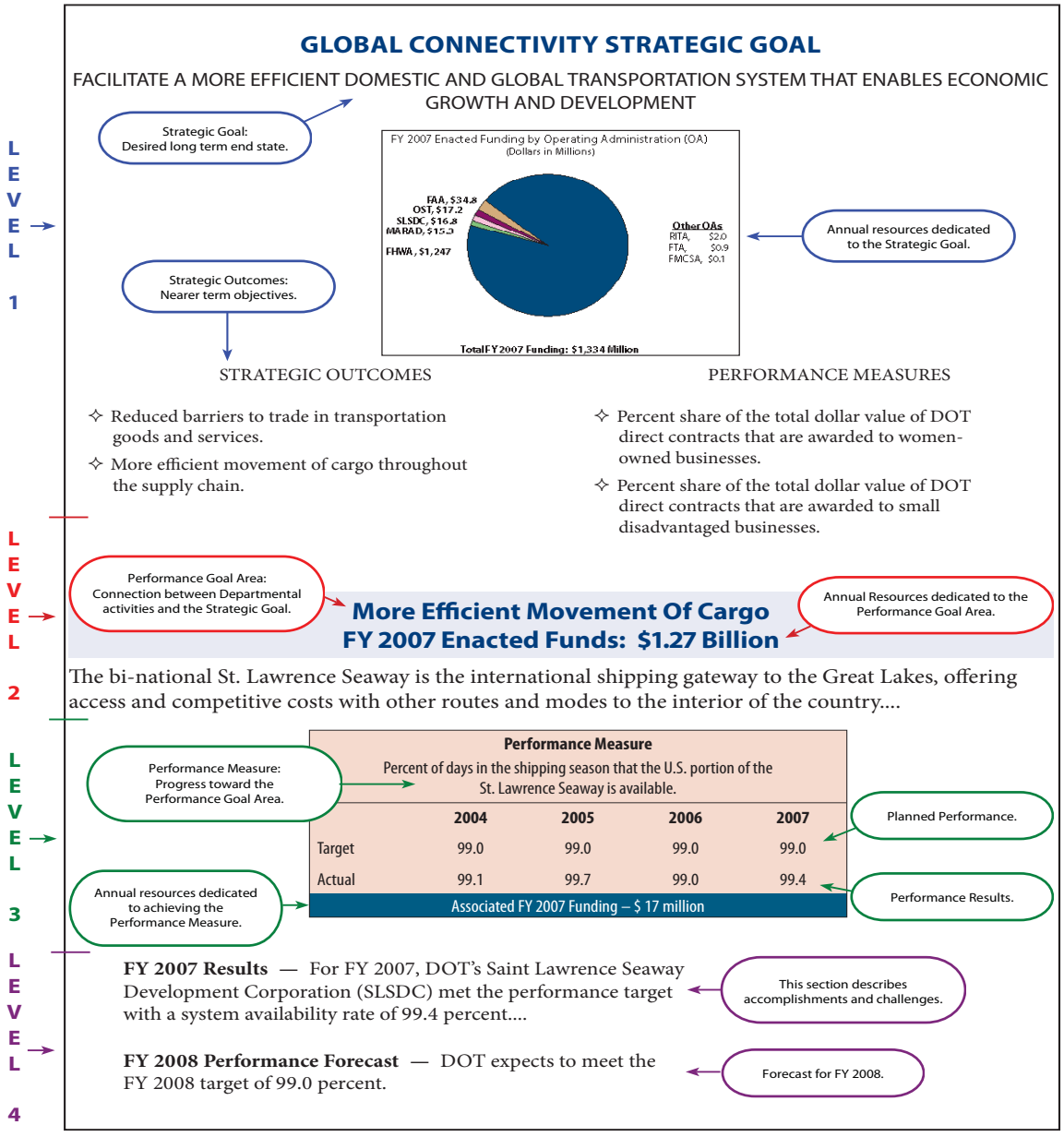


Figure 2

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.

Enhanced Transparency — Over the past few years, the Department has tracked and presented the funding levels associated with each of its Strategic Goals (Level 1 in figure 2) to allow the reader to gain a sense of how resources are being allocated across the Department. In the FY 2006 PAR, DOT presented funding levels for each performance goal area (Level 2 in figure 2), providing an additional layer of detail on the Department's funding allocations.

This year, the Department will further increase its transparency by presenting funding information at the performance measure level (Level 3 in figure 2). We are not yet able to provide data from our cost accounting system on actual funds expended by performance measure, so the associated FY 2007 funds identified for each measure reflect the Department's planned spending on a particular activity. The dollar amounts associated with performance measures at Level 3 may not add up to the funds associated with a performance goal area at Level 2, because only a portion of all DOT activities are reflected and tracked in this report. While the financial information provided is not an accounting report of funds expended, it does give the reader an overall picture of how the Department uses its appropriations. We look forward to implementing future improvements to our cost accounting system allowing us to provide even more detail in the years to come.

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

Preliminary vs. final results — Reporting FY 2007 results by November 2007 has been challenging where we rely on third party reporting. Often we have only preliminary or estimated results based on partial-year data and must wait for final data to properly verify and validate our results. In some cases where data is provided solely as an annual value and is not available in time for this report, we rely on historical trend information and program expertise to generate a projected result. We have been careful to point out where we have assessed our performance on a preliminary or projected basis. Preliminary estimates or projected results will be adjusted after final compilation or verification and validation. In all cases where results have changed from last year's report, we indicate that by placing an "(r)" with the number, indicating a revision.

DOT contributions to common governmental outcomes — DOT's performance is aligned with its legislative mandates, but in some cases there are no "bright lines" separating DOT from other agencies. For instance, in DOT's Security Strategic Goal, we make very important contributions

in accordance with our mandates and appropriations, but we do so alongside the Departments of Defense, Homeland Security, State, Justice, Commerce, and Energy. Similarly, other agencies make significant contributions to the nation's transportation system.

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

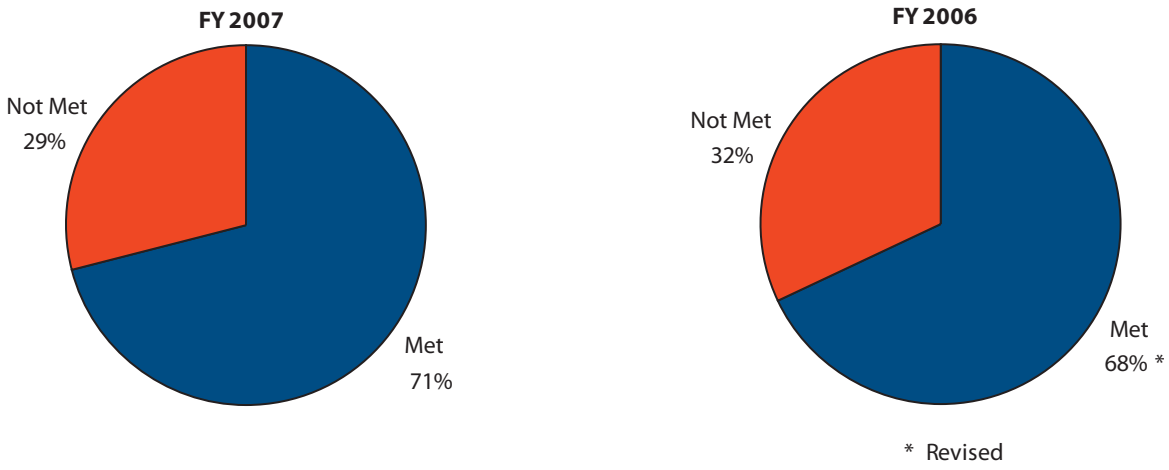
Summary performance table — One of the ways that DOT interprets its progress towards achieving its strategic goals is to compare single year results to historical trends. We have provided a tabular summary of long-term performance for each of the Strategic Goals to provide context for the FY 2007 achievements.

Looking forward — In September 2006, DOT published its new Strategic Plan for FY 2006–2011. Next year, the FY 2008 DOT Performance and Accountability Report will reflect the new strategic plan with its modified set of strategic goals and a new mix of performance measures. Where possible, we have noted upcoming changes to performance measures in this year's report.

SUMMARY PERFORMANCE TABLES

OVERALL DOT PERFORMANCE SUMMARY

Percentage of Performance Targets Met or Not Met



* Revised

SAFETY PERFORMANCE SUMMARY

Performance Measure	2001	2002	2003	2004	2005	2006	2007 Actual	2007 Target	Met/ Not Met
Highway fatalities per 100 million vehicle-miles traveled (VMT)	1.51	1.51	1.48	1.44 (r)	1.46 (r)	1.42 (r)	1.40 # 1/	1.38	×
Fatalities involving large trucks per 100 million truck VMT	2.45	2.30	2.31	2.29	2.35 (r)	2.24 (r)	2.24 #	1.75	×
U.S. commercial fatal aviation accidents per 100,000 departures (Last 3-years' average)	0.037	0.026	0.024	0.021	0.017	0.020 *	0.022 *	0.010	×
Number of fatal general aviation accidents	359	348	366	340	354	299 (r) *	314 *	331	✓
Rail-related accidents and incidents per million-train miles	23.44	20.04	19.40	19.02 (r)	17.90 (r)	16.94 (r)	15.02 *	16.70	✓
Transit fatalities per 100 million passenger-miles traveled	0.482	0.473	0.461	0.467	0.428	0.344	0.286 *	0.473	✓
Number of incidents for natural gas and hazardous liquid pipelines	341	330	370	443 (r)	490	386 (r)	388 *	362	×
Number of serious hazardous materials transportation incidents	588	466 (r)	472	492 (r)	530 (r)	494 (r)	455 *	466	✓

1/ While based on historical data, the 2007 fatality rate projection is dependent on the continuation of both individual and market behavior regarding vehicle-miles traveled, seat belt use and motorcycle rider and alcohol related fatalities. The assumptions inherent in these projections, together with the normal levels of uncertainty inherent in statistical evaluations, may influence the accuracy of the projection.

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

MOBILITY PERFORMANCE SUMMARY

Performance Measure	2001	2002	2003	2004	2005	2006	2007 Actual	2007 Target	Met/ Not Met
Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride	49.0	49.3	50.0	52.0	52.0 (r)	54.0 (r)	55 *	56.0	×
Percent of total annual urban-area travel occurring in congested conditions	30.6	30.7	31.0	31.6	31.8	31.6 (r)	31.6 *	32.5	✓
Average percent change in transit boardings per transit market (150 largest transit agencies) 1/	4.3	0.2	0.7	0.7	1.9	2.1	2.0 *	1.5	✓
Percent bus fleets compliant with the ADA	85	90	93	96 (r)	96 (r)	98 (r)	98 *	97	✓
Percent of key rail stations compliant with the ADA	67	77	82	82	91	92	92.3 *	93	×
Number of employment sites (in thousands) that are made accessible by Job Access and Reverse Commute transportation services 2/	28.4	52.1	73.7	82.8	95.4	91.2 (r) *	95.4 *	50	✓
Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays	76.5	82.2	82.3	79.07	88.1 (r)	88.36	86.32 *	87.40	×

1/ Beginning in FY 2007, the average percent change in transit boardings will no longer be adjusted for changes in employment.

2/ Starting in FY 2006, the administration of FTA's JARC program changed from a separate nationally-administered competitive program into a state-administered formula program as enacted in SAFETEA-LU. Data is being collected on new measure to determine a baseline for identifying future performance targets.

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

ADA – Americans with Disabilities Act

GLOBAL CONNECTIVITY PERFORMANCE SUMMARY

Performance Measure	2001	2002	2003	2004	2005	2006	2007 Actual	2007 Target	Met/ Not Met
Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses	3.7	3.8	4.2	3.8	6.6	6.7	6.0 *	5.1	✓
Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses	17.4	16.2	15.8	15.6	12.7	15.0 (r)	14.5 *	14.5	✓
Percent of days in shipping season that the U.S. portion of the St. Lawrence Seaway is available	98.1	98.7	98.9	99.1	99.7	99.0	99.4	99.0	✓
Number of new or expanded bilateral aviation safety agreements implemented	N/A	N/A	N/A	3	2	4	3	3	✓
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	10	10	23 *	12	✓
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	N/A	N/A	1.48	1.72	2.97	3.01	3.02 *	3.83	✓

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

ENVIRONMENTAL STEWARDSHIP PERFORMANCE SUMMARY

Performance Measure	2001	2002	2003	2004	2005	2006	2007 Actual	2007 Target	Met/ Not Met
Number of exemplary ecosystem initiatives undertaken (target/results are cumulative from year to year)	N/A	5	8	15	23	43	50	50	✓
Percent DOT facilities characterized as No Further Remedial Action Planned under the Superfund Amendments and Reauthorization Act	91	91	94	93	92	92	93	93	✓
12-month moving average of the number of areas in a transportation emissions conformity lapse	6.0	6.0	6.0	6.3	5.8	1.3	0.0 *	6.0	✓
Tons of hazardous liquid materials spilled per million ton-miles shipped by pipeline	0.0026	0.0047 (r)	0.0073 (r)	0.0081 (r)	0.0085 (r)	0.0034 (r)	0.0028 *	0.0057	✓
Percent reduction in the number of people in the U.S. who are exposed to significant aircraft noise levels	N/A	N/A	-15	-28	-29	-28 (r)	-27 #	-8	✓

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

SECURITY PERFORMANCE SUMMARY

Performance Measure	2001	2002	2003	2004	2005	2006	2007 Actual	2007 Target	Met/ Not Met
Percentage of DOD-required shipping capacity complete with crews available within mobilization timelines	97	94	96	94	95	93	97	94	✓
Percentage of DOD-designated commercial ports available for military use within DOD established readiness timelines	92	92	86	93	87	100	100	93	✓
Transportation Capability Assessment for Readiness Index Score	N/A	N/A	59	67	65	72	70	75	×

N/A Not Applicable; ✓ Met; × Not Met

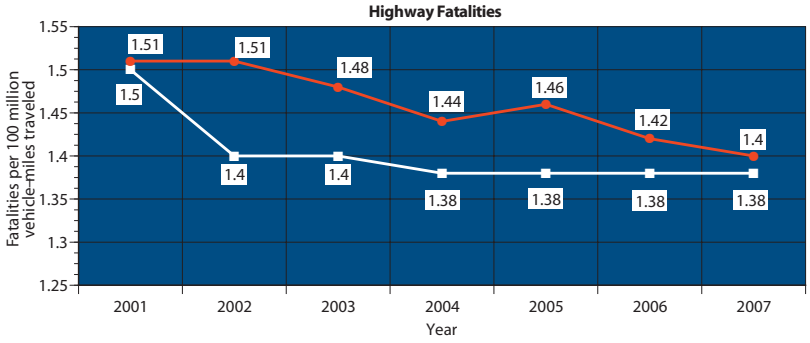
ORGANIZATIONAL EXCELLENCE PERFORMANCE SUMMARY

Performance Measure	2001	2002	2003	2004	2005	2006	2007 Actual	2007 Target	Met/ Not Met
For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met	N/A	89.5	88	100	97	100	100	87.5	✓
For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met	N/A	74	77	91.5	92	97.4	97	87.5	✓
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	85	88	95	95	91	88	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	85	88	74	79	82	84	95	×
Percentage of transit grants obligated within 60 days after submission of a completed application	51	67	83	91	91	94	94 *	80	✓

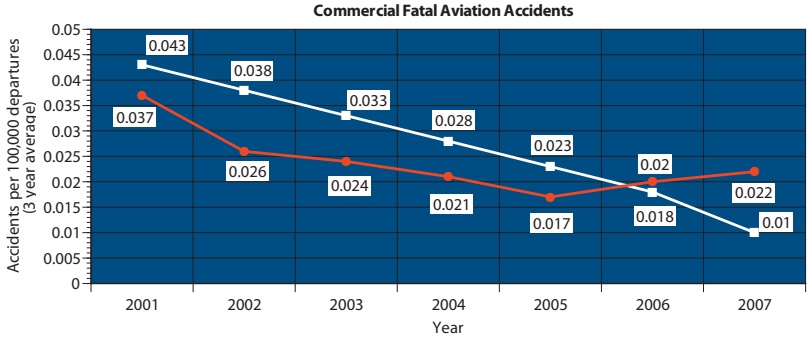
* Preliminary Estimate; N/A Not Applicable; ✓ Met; × Not Met

HIGHLIGHTS OF MAJOR TRENDS

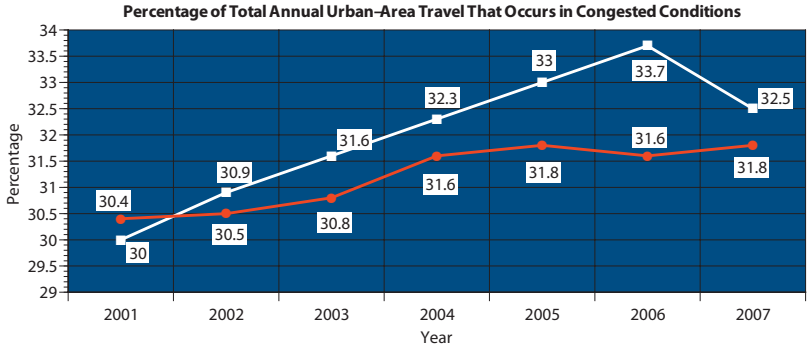
While all of our performance measures track important activities, we are particularly concerned about trends in four areas: highway fatalities, accidents in commercial aviation, urban area congestion, and aviation congestion. The general public sees our effect on those four issues more clearly than on any of the others, where our activities may only be evident to members of specific industries.



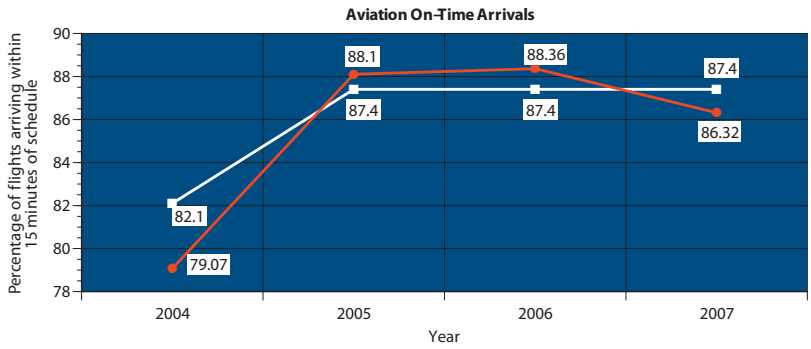
Over the last several years, DOT has been able to reduce the number of highway fatalities, but we have been unable to meet our performance target. We set an ambitious goal for ourselves several years ago: to reduce the highway fatality rate to no more than 1.0 per 100 million vehicle miles traveled by 2008. We have made progress, dropping the rate from 1.7 in 1996 to 1.4 in 2007, but it is clear that we have reached a plateau. We need to approach the issue differently. Beginning in FY 2008, we will report on the sub-elements of the highway fatality statistics in an effort to understand more clearly where we should apply our resources.



In 1997, FAA committed to reducing fatal accidents in commercial aviation by 80 percent within 10 years. From 1994 to 1996, there were on average six commercial fatal accidents a year, with an average of 266 deaths. In the last three years, the U.S. averaged two fatal accidents per year, with an average loss of life of 28 per year. Air travel is now the safest that it has ever been, but we were only able to achieve a 63 percent drop in accidents. FAA is taking a system wide, risk management approach to safety that will help the agency maintain this gain and drive the accident and fatality rate down even further.



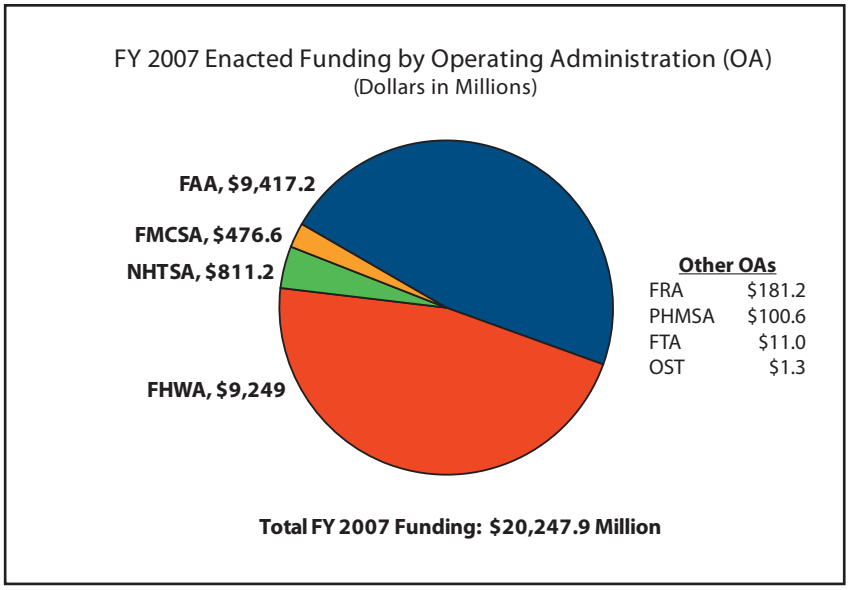
Urban area congestion is increasing. The current population of the United States now exceeds 300 million people and with over 220 million vehicles on the roads and the population projected to pass the 400 million before 2050, congestion can be expected to remain a major challenge if cars and trucks remain the dominant mode of travel. In May 2006, DOT announced a major initiative to reduce transportation congestion, outlining its approach in The National Strategy to Address Congestion. The lessons learned from the Congestion Initiative will be a critical component in identifying future strategies for fighting traffic congestion.



As it is in surface transportation, congestion is a growing issue in aviation. Currently, the U.S. air transportation system handles roughly 50,000 flights over a 24-hour period. By 2025, air traffic is projected to increase two-to-three fold, equating to 100,000-150,000 flights every 24 hours. We acknowledge that the current U.S. air transportation system will not be able to meet these air traffic demands. FAA is working with other Federal agencies to develop the Next Generation Air Transportation System (NextGen). NextGen will leverage new technologies, such as satellite-based navigation, surveillance and networking to transform the air traffic control system.

SAFETY STRATEGIC GOAL

ENHANCE 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-years' average).
- ✧ Number of fatal general aviation accidents.
- ✧ Rail-related accidents and incidents per million train miles.
- ✧ Transit fatalities per 100 million passenger-miles traveled.
- ✧ Number of natural gas pipeline incidents and hazardous liquid pipeline accidents.
- ✧ Number of serious hazardous materials transportation incidents.

Highway Safety
FY 2007 Enacted Funds: $10.52 Billion

Highway crashes account for 99 percent of all transportation-related fatalities and injuries, and are the leading cause of death for Americans age 2 through 34. Alcohol is still the single biggest contributing factor in fatal crashes. Fatalities in alcohol-related crashes in 2006 (latest data available) remained essentially the same as in 2005. Eighteen percent of Americans (about 55 million people) still do not use seat belts all of the time when driving motor vehicles. Motor vehicle crashes have placed a considerable burden on the nation's health care system and have had significant economic effects. The cost to the economy of all motor vehicle crashes is approximately $230.6 billion (in 2000 dollars), or 2.3 percent of the U.S. gross domestic product. Three Operating Administrations - the Federal Highway Administration, the National Highway Traffic Safety Administration, and the Federal Motor Carrier Safety Administration - contribute to the accomplishment of the Department's highway safety goal by focusing on safer roads, safer vehicles, and safer driver behavior.

NHTSA — The 2006 annual assessment of motor vehicle traffic crash fatalities and injuries shows that the number of people killed in the United States in motor vehicle traffic crashes declined from 43,510 in 2005 to 42,642, the lowest level in five years. This decline is the largest in terms of both number and percentage since 1992. Alcohol-related fatalities in crashes where the highest blood alcohol concentration (BAC) was .08 grams per deciliter (g/dL) or greater (.08+) increased by only 0.1 percent, while the .08+ fatality rate decreased by .01 from the 2005 rate to .50 fatalities per 100 million vehicle-miles traveled (VMT) due to the increase in exposure. Fatalities declined for passenger car occupants, light-truck occupants, and non-occupants (pedestrians, cyclists, etc.). Passenger car occupant fatalities dropped for the fourth year in a row, while light-truck occupant fatalities dropped for the first time in 15 years. Motorcycle rider fatalities, however, continued their nine-year increase, reaching 4,810 in 2006. Motorcycle rider fatalities now account for 11 percent of total fatalities, exceeding the number of pedestrian fatalities for the first time since NHTSA began collecting fatal motor vehicle crash data in 1975. In addition to fatalities, NHTSA tracks injuries. The 2006 data show that the number of people injured in motor vehicle traffic crashes declined for the seventh year in a row. In 2006, fewer than 2.6 million people were injured compared to nearly 2.7 million in 2005, with the number of people injured declining in all categories except among motorcycle riders. The largest percentage decline was found among large-truck and pickup truck occupants.

FHWA — The FHWA safety-related programs yielded multiple benefits for communities in the U.S., including a reduction in the number of crashes and improvements in system conditions and operations. FHWA continued to concentrate efforts on reducing the number of fatalities in three types of crashes: roadway departures; crashes at or near intersections; and collisions involving pedestrians. According to preliminary Fatality Analysis Reporting System (FARS) estimates, roadway departure fatalities declined in 2006 to 24,806 from 25,388 in 2005. Fatalities from intersection-

related and pedestrian-related crashes in 2006 were 8,797 and 4,784, respectively. Both figures represent a slight decrease from 2005 when there were 9,188 intersection-related and 4,892 for pedestrian-related fatalities.

FMCSA — Between 1997 and 2006, fatalities from large truck and bus crashes have declined seven percent from 5,709 in 1997 to 5,309 in 2006 (latest data available). The majority of fatal commercial motor vehicle crashes involve other vehicles. In 2006, 75 percent of fatalities involving large truck and bus crashes were occupants of other vehicles, primarily passenger vehicle occupants and motorcycle riders. Of the remaining fatalities, 16 percent were occupants of commercial motor vehicles and 10 percent were pedestrians and bicyclists.

Results from FMCSA's Large Truck Crash Causation Study have shown that the driver plays the greatest role in large truck crashes. In crashes between large trucks and passenger vehicles, the critical reason for the crash was assigned to the driver of the large truck 44 percent of the time. The most common reasons for crashes cited in the study are recognition errors (driver distraction or inadequate road surveillance) and poor driving decisions (driving too fast for conditions, following other vehicles too closely, etc).

The study found several other factors that contribute to accidents, including brake problems, roadway conditions (weather or road design), drivers' use of over-the-counter medications, driver illness, and shifting cargo.

2007 Results — Although the fatality rate is at historic lows, preliminary data indicates that DOT will not meet the FY 2007 target. In recent years, the Department has focused on highway safety as a top Departmental priority. Working with key partners and stakeholders, this approach has been successful. However, highway fatalities and injuries for 2006 show that much more needs to be done to improve safety on our roads.

Performance Measure				
Highway fatalities per 100 million vehicle-miles traveled (VMT).				
	2004	**2005**	**2006**	**2007**
Target	1.38	1.38	1.38	1.38
Actual	1.44 (r)	1.46 (r)	1.42 (r)	1.40 #
(r) Revised; # Projection				
Associated FY 2007 Funding – $ 10.06 billion				

To continue making our roads safer, a working group was established to identify new strategies and technologies that will reduce highway fatalities. New performance targets have been established in key areas to focus the Department's efforts on the critical factors responsible for the overall highway fatality rate. These key focus areas include passenger vehicle occupants, non-occupants (pedestrians, cyclists, etc.), motorcycle riders, and large trucks and buses. They were chosen in part to cover the breadth of all road users. These measures will be reported on in the FY 2008 PAR.

FY 2008 Performance Forecast — It is unlikely that the target will be met in FY 2008. DOT has set an ambitious goal of reducing the rate of highway fatalities to no more than 1.37 per 100 million VMT by FY 2008.

2007 Results — DOT did not meet the target. Preliminary data for 2007 shows that the projected large truck fatality rate is 2.24 fatalities per 100 million truck-VMT, while the target was no more than 1.75 fatalities per 100 million-truck VMT. This constitutes an estimated shortfall of 0.49 fatalities per 100 million truck VMT, based on the projected mileage and fatalities for 2007.

Performance Measure				
Fatalities involving large trucks per 100 million truck VMT.				
	2004	**2005**	**2006**	**2007**
Target	2.07	1.96	1.85	1.75
Actual	2.29	2.35 (r)	2.24 (r)	2.24 #
(r) Revised; # Projection				
Associated FY 2007 Funding – $ 459 million				

While reaching the lowest incidence of truck crashes and fatalities in decades, FMCSA is committed towards achieving its established goals and further improving highway safety. FMCSA launched a major initiative in FY 2005 to reexamine and reengineer core safety activities called the Comprehensive Safety Analysis 2010 (CSA 2010). In FY 2007, FMCSA launched important research and development cycles for the CSA 2010 concepts, and in FY 2008 the Agency will begin initial testing and evaluation of the CSA 2010 projects through implementation tests of the operational model in multiple States. In FY 2007, FMCSA renewed its focus on the role of drivers in preventing crashes by increasing the number of driver inspections and focusing on programs such as PEDAL (Plain English Driver Assistance Literature), which communicates Federal motor carrier regulations to drivers in an easy-to-understand format. Research shows that influencing driver behavior is the biggest factor in crash prevention. For future gains in safety, this is an important area for the Agency to watch.

FY 2008 Performance Forecast — It is unlikely that the target will be met in FY 2008.

In-Depth Accomplishments Promoting Highway Safety

NHTSA IN-DEPTH

SEAT BELTS

In 2007, according to NHTSA's National Occupant Protection Use Survey, the national seat belt use rate was 82 percent, up from the 81 percent achieved in 2006, the highest nationwide rate ever recorded. Seat belt use is statistically lower in States with secondary belt enforcement laws than in States with primary laws, and lower in rural areas than in urban or suburban areas. States that have secondary enforcement laws require a law enforcement officer to pull someone over for a

different violation and only then are they able to write an additional citation for a seat belt violation. States that have primary seat belt laws don't have this restriction. In 2007, States that allowed more stringent enforcement of their belt use laws ("primary" States) reached 87 percent belt use, a two percent increase over 2006. On average, States that have primary seat belt laws experience usage rates that are 14 percentage points higher than States that do not have primary laws. States that implement primary laws together with statewide high-visibility law enforcement programs that combine enforcement activities with paid media and news coverage may achieve increases of 20 points or more.

In May 2007, NHTSA conducted the national "Click It or Ticket" (CIOT) campaign, releasing national advertisements focusing on the enforcement of seat belt laws and encouraging States to conduct high-visibility seat belt law enforcement operations along with State-level advertising. To extend the benefit of CIOT, the agency conducted demonstration projects to evaluate the effect of conducting multiple law enforcement mobilizations during the year. In addition, NHTSA conducted demonstrations of strategies for increasing seat belt use among high-risk populations such as night-

Bergen County police officer Jeff Roberts, center, tells an unidentified taxi driver to pull over because he is not wearing a seat belt during a "Click It or Ticket" checkpoint stop near the entrance to the George Washington Bridge in Fort Lee, N.J., Monday, May 21, 2007. The checkpoint was one of three set up in New Jersey Monday to handout seat belt safety pamphlets and give out $46 tickets to those motorists not wearing seat belts. (AP Photo/Mike Derer)

time drivers, drivers in rural areas, pick-up truck occupants, 8-15 year olds and teens. Likewise, NHTSA teamed up with new partners which have access to these populations, such as NASCAR Disney-Pixar, and rural media outlets to try to raise their lower-than-average seat belt use rates. This year's CIOT campaign was accompanied in nine States by an additional campaign, "Buckle Up in Your Truck," to encourage improved seat belt usage in pickup trucks.

The results from the National Survey of the Use of Booster Seats found that 41 percent of four through seven year olds were restrained in booster seats in 2006. NHTSA continued support for the national training and certification program that has prepared more than 30,000 local child passenger safety technicians to provide guidance to parents on the correct selection and use of child restraint systems.

In July 2007, to assess the feasibility, necessity and economic impact of seat belts on school buses, NHTSA conducted a day-long public meeting with State and local governments, education officials, school bus manufacturers, safety advocates and consumer organizations. School buses remain the safest means of transporting students to school and school-related activities by means of compartmentalization, a combination of flexible, energy-absorbent, high seat backs and narrow spacing between each row. The Department and NHTSA held the meeting to determine whether there are sensible and attainable ways to provide even greater protection for children in school buses.

IMPAIRED DRIVERS

In 2006, the number of alcohol-related fatalities remained essentially the same as in 2005, claiming 17,602 lives. Males comprised 81 percent of fatally injured drivers with blood alcohol content above the legal limit; 43 percent of fatally injured drivers (both men and women) were between the ages of 21 and 34. Based on the *Traffic Volume Trends* estimated increase in VMT for 2006, the .08+ BAC alcohol fatality rate decreased from 0.51 fatalities per 100 million VMT in 2005, to 0.50 per 100 million VMT in 2006, achieving the 2006 target for this supporting performance measure.

Administrator Nicole Nason with the National Highway Traffic Safety Administration speaks during a news conference, Wednesday, Aug. 22, 2007, in Washington. Administrator Nason discussed the agency's efforts to combat impaired driving, providing statistics on fatality rates where drivers exceeded the legal blood alcohol content (BAC) limit. (AP Photo/Haraz N. Ghanbari)

In continuing to combat this problem, in FY 2007, NHTSA further enhanced its impaired driving program by placing greater emphasis on assisting high-risk populations, such as

underage drinkers, 21 to 34 year olds, individuals with high BAC levels and repeat offenders. Under the Impaired Driving Countermeasures Incentive Program, in FY 2007, NHTSA made available $125 million to the 50 States, the District of Columbia and Puerto Rico if they have prescribed alcohol-impaired driving countermeasure laws or programs, such as administrative license revocation laws and underage drinking programs, or if they met certain performance criteria based on their alcohol-related fatality rates. The ten States with the highest impaired driving fatality rates received extra funding under this new SAFETEA-LU Section 410 funding program. NHTSA worked closely with these ten States to facilitate implementation of effective programs, such as periodic sustained high-visibility enforcement efforts, combined with media campaigns, DWI Courts, and judicial and prosecutorial education programs. NHTSA continued the new national advertising campaign delivering the message "Drunk Driving: Over the Limit; Under Arrest." As part of this campaign, States conduct impaired driving enforcement crackdowns during the Labor Day and December holiday seasons.

In August 2007, NHTSA held a public meeting with judges, court personnel, treatment professionals and others to examine the benefits of the expanded use of ignition interlocks as a means to further reduce deaths and injuries from impaired driving. Meeting participants recommended increased education concerning interlock programs directed at judges and court professionals, especially those from smaller courts that collectively handle large numbers of DWI cases across the Nation. Other recommendations addressed the need for guidance concerning key interlock program elements, and demonstrations of strategies for overcoming program challenges such as financial viability, coordination among affected State agencies, and linkages between the court and alcohol addiction treatment functions.

SAFER VEHICLES

On April 6, 2007, NHTSA issued a final rule to establish a new Federal Motor Vehicle Safety Standard 126 that will require Electronic Stability Control (ESC) systems by September 1, 2011, on passenger cars, multipurpose vehicles, trucks, and buses with a gross vehicle weight rating of 10,000 pounds or less. ESC is a technology that has the potential to save many lives by assisting the driver in maintaining control in critical driving situations. On July 30, 2007, the agency published a statistical analysis of the effectiveness of ESC systems in vehicles currently on the road (NHTSA Report Number DOT HS 810 794). These ESC systems have reduced fatal single vehicle crashes by 63 percent for light trucks and vans (LTVs) and 36 percent for passenger cars. Rollover involvements in fatal crashes were decreased by 70 percent in passenger cars and 88 percent in LTVs. This report may be accessed at: http://dmses.dot.gov/docimages/p102/479883.pdf.

In FY 2007, the agency began initial research to understand the performance capabilities and potential safety benefits of heavy vehicle ESC systems and completed brake research needed to support the Federal Motor Vehicle Safety Standard (FMVSS) 121 (Air Brake Systems) rulemaking. Additionally, NHTSA initiated the development of requirements, assessment metrics and test procedures for heavy vehicle (tractor semi-trailer) ESC systems in support of future rulemaking proposals.

Mary Peters, Secretary of Transportation, sits in a 2007 Saturn Aura equipped with electronic stability control, at the New York International Auto Show on Thursday, April 5, 2007. During a news conference, Secretary Peters announced all new passenger cars sold in the United States will be required to have electronic stability control by 2012. (AP Photo/Mark Lennihan)

In accordance with Section 10307 of SAFETEA-LU, the agency implemented a new regulation, effective November 13, 2006, that requires the placement of New Car Assessment Program (NCAP) safety ratings on vehicles (Stars on Cars) manufactured on or after September 1, 2007, at the point of sale. The agency conducted crash testing on approximately 70 different vehicles to provide front, side and/or rollover safety ratings. These tests on new model year 2007 vehicles account for approximately 36 percent of the new model vehicles in the fleet.

In 2001, the agency introduced rollover resistance ratings to the NCAP program. That year, over half of the vehicles rated received one, two or three star ratings for rollover resistance. Seven years later, 79 percent of the vehicles received a four or five star rating and none of the vehicles rated received a one or two star rating. Including rollover resistance ratings for vehicles has greatly improved the safety of vehicles available today.

Information on NHTSA's NCAP ratings, defect investigations and safety recalls can be found on www.safercar.gov, the NHTSA Web-based portal dedicated to the promotion of NCAP safety ratings and other vehicle safety-related topics.

MOTORCYCLES

Motorcycle rider fatalities have increased each year since reaching a historic low of 2,116 fatalities in 1997. In 2006, motorcycle rider fatalities increased for the ninth year in a row to 4,810, up from 4,576 in 2005. This is a 5.1 percent increase in just one year. Motorcycle fatalities account for 11 percent of the 42,642 total fatalities in motor vehicle crashes in 2006.

Data from 2006 (latest data available) shows that motorcycle rider fatalities increased for most age groups, particularly among the 20-29 and 50-59 age groups. However, motorcycle fatalities for riders in the under-20 age group declined by 13 percent. Speed continued to be a major contributing factor in motorcycle crashes, especially among the younger riders. The number of motorcycle riders killed in alcohol-related crashes increased by 10 percent. This situation is further compounded by the continued climb in new unit motorcycle sales in 2005 (latest data available from Motorcycle Industry Council), rising above the one million mark and reaching levels not seen since the 1970s. On a positive note, in June 2007, 58 percent of motorcyclists used DOT-compliant helmets, a seven percentage point increase from the 2006 rate. During FY 2007, NHTSA and the States began implementing the 2006 Motorcycle Safety Plan which incorporates the 2005 SAFETEA-LU mandates and new initiatives, implementing additional safety programs to try to reduce the escalating motorcycle fatality and injury rates. The 2006 Motorcycle Safety Plan can be found at: http://www.nhtsa.dot.gov/people/injury/pedbimot/motorcycle/MotorcycleSafety.pdf.

Gov. Mitch Daniels prepares to get on his motorcycle before leaving the Statehouse in Indianapolis, Friday, Aug. 17, 2007. Daniels was joined by leaders of motorcycling organizations from across the state for a ride to promote motorcycle safety and awareness. (AP Photo/Darron Cummings)

With motorcycle safety a significant concern, in FY 2007 NHTSA took several steps to address the issue. The agency distributed the *Implementation Guide for the National Agenda for Motorcycle Safety* to assist States and communities in creating programs to improve motorcycle safety; incorporated motorcycle operators in High Visibility Enforcement (HVE) impaired-driving crackdowns; completed the *Study to Determine Motorcyclist Impairment at Different BAC Levels*, and completed the *Riders Helping Riders* instructional program to encourage motorcyclists to intervene to prevent drinking and riding by their peers.

During FY 2008, NHTSA will transmit a report to Congress on the findings of a study of educational and other activities targeted at reducing impaired riding as mandated by Section 2003 (g) of SAFETEA-LU. NHTSA will develop and distribute communication campaigns to increase the

awareness of motorcyclists and to reach older motorcyclists, begin the development of national standards for motorcycle rider training, and continue to incorporate motorcycle operators in HVE impaired-driving crackdowns, as well as complete and distribute updated motorcycle licensing guidance to State Motor Vehicle Administrators to reduce the number of improperly licensed drivers involved in fatal crashes. Additionally, NHTSA will initiate the development of national standards for novice motorcycle rider training, and evaluate general deterrence demonstrations for impaired motorcycle operation. During FY 2008, the Agency will develop a Notice of Proposed Rulemaking (NPRM) to improve motorcycle helmet requirements, as well as vehicle safety approaches to reduce the number of fatalities associated with motorcycle crashes.

A red light flashes on each corner of this stop sign at the intersections of Ohio 49 and Ohio 707 in rural Mercer County, Ohio, on Sept. 26, 2006. The flashing lights on the stop sign allow it to be seen from greater distances, even in daylight. The intersection had been the scene of numerous accidents. To improve traffic safety without busting their budgets, states are installing the cable barriers, painting distance dots on roads to discourage tailgating and placing stop signs that light up like Christmas trees at dangerous intersections. (AP Photo/Al Behrman)

FHWA IN-DEPTH

FHWA continued to promote highway safety through the implementation of comprehensive, integrated and data-driven safety programs at the Federal, State and local levels, including State and non-State owned roadway systems. FHWA worked with States to improve data coverage and data quality, develop and apply a Strategic Highway Safety Plan (SHSP), and implement effective projects and programs to save lives and reduce injuries. As a result of FHWA efforts, all 50 States plus the District of Columbia developed an approved Plan during FY 2007. The development of an SHSP provides States the flexibility to use funds for newly eligible activities and enables them to use up to 10 percent of Highway Safety Improvement Program (HSIP) funds for non-infrastructure safety efforts. Four states took advantage of the flexible HSIP funding. With the new HSIP and continued implementation of existing programs, the current downward trend in the fatality rate is expected to continue.

FHWA provides training to state and local governments that can be instrumental in meeting the local jurisdictions' highway safety needs. For example, Douglas County, Georgia, officials developed a *Safety Action Plan* to identify areas of concern and set priorities for using available funding to make safety improvements. The Plan has been particularly helpful as the County pursued funding opportunities through the Georgia DOT program for off-system safety projects. Douglas County officials credit the training they received from FHWA workshops on Low Cost Safety Improvements, Intersection Safety, and Road Safety Audits as providing them the information they needed to

advance safety by better identifying high crash locations and improving safety at those locations with low cost improvements. Among the improvements are enhanced signing and pavement markings such as dual Stop signs and Intersection Ahead warning signs, improved shoulders, roadside vegetation and tree removal, rumble strips, illuminated street name signs, and LED traffic signal displays for better visibility. Douglas County developed crash reduction factors based on techniques taught at FHWA workshops for specific treatments to help determine the potential benefits of countermeasures and establish priorities for their implementation. County officials stated that having crash reduction factors has made it easier to get funding resources for safety by enabling them to effectively communicate the benefits of the proposed treatments.

FMCSA IN-DEPTH

COMPLIANCE AND ENFORCEMENT

FMCSA continues to place a high priority on enforcement and operational compliance activities. FMCSA's field staff completed over 10,000 safety compliance reviews, over 2,300 conditional carrier reviews, over 4,600 new entrant safety audits, nearly 100,000 southern border vehicle/driver

The U.S. Secretary of Transportation Mary E. Peters, center, accompanied by Mexican Secretary of Communications and Transportation Luis Tellez, second from left, watches a truck inspection in the city of Apodaca, northern Mexico, Thursday, Feb. 22, 2007. U.S. safety inspectors will be allowed to examine trucks on Mexican soil before they cross the border into the United States under a program announced by Secretary Peters that could end a seven-year trade dispute in order to remove the last barrier to the long-delayed opening of U.S. highways to Mexican truckers. (AP Photo/Monica Rueda)

inspections (53,000 driver and 46,000 vehicle), and nearly 1,000 border safety audits. In addition, the Agency completed about 1,000 motorcoach compliance reviews, over 13,000 motorcoach-only inspections, and nearly 15,000 border motorcoach inspections (including both Federal and State). FMCSA also worked with State partners to ensure their completion of nearly 6,000 compliance reviews, over 24,000 new entrant audits, over 100 motorcoach compliance reviews, over 9,000 motorcoach inspections, 500 border motorcoach inspections, over half a million southern border vehicle/driver inspections, and over 3 million roadside inspections of large trucks and buses.

EDUCATION AND OUTREACH

FMCSA, in partnership with NHTSA, extended a demonstration project known as TACT (Ticketing Aggressive Cars and Trucks) to four additional states for testing and evaluation. The project demonstrates the effectiveness of using high visibility enforcement, education, media and evaluation to raise public awareness to reduce fatalities resulting from other vehicles cutting off, tailgating and speeding near and around large trucks. The results of the initial project, completed in FY 2006, showed that drivers of passenger vehicles understood the message and learned how to drive more responsibly around trucks.

RESEARCH, TECHNOLOGY AND SAFETY INFORMATION

FMCSA's Research and Technology programs continue to provide advances and innovations to improve commercial motor vehicle safety. The Agency completed the first phase of a study on Onboard Monitoring Systems (OBMS) for commercial motor vehicle safety in May 2007. FMCSA worked on this study with the California Department of Transportation and the University of California Partners for Advanced Transit and Highways program. This study developed a prototype technology suite for installation in a truck tractor, which monitors a set of safe driver behaviors. The driver behaviors measured include hard breaking events, speed, hard steering events, following distance, lane keeping performance, roll over warning, safety belt use, and the use of turn signals. The suite provides feedback directly to the driver or in a "rolled-up" report for the carrier's management. The purpose is to provide feedback to improve driving performance. This project was nominated for the 2007 "Best of Intelligent Transportation System Awards." The next phase of the study is a field operational test which is scheduled to start before the end of 2007.

Aviation Safety
FY 2007 Enacted Funds: $9.42 Billion

This remains one of the safest periods in aviation history for both commercial and general aviation. Over the last five years, nearly three billion airline passengers reached their destination safely. As the stewards of aviation safety in the U.S., FAA and its industry partners have built a system that operates nearly 32,000 scheduled commercial flights daily and has reduced the risks of flying to all-time lows.

FAA's efforts during the past ten years have resulted in reduced general aviation (GA) fatal accidents and Alaska fatal accidents. Both measures are at their lowest recorded levels in history. When looking at the GA fatal accidents trend line of the last ten years, we have continued to trend in the right direction. However, since GA accidents tend to fluctuate from year to year, the downward trend is not smooth.

2007 Results — DOT did not meet the target for the commercial aviation fatal accident rate. By the end of FY 2007, we had achieved a rate of 0.022 fatal accidents per 100,000 departures – a 57 percent drop in fatal accidents from 1997.

Performance Measure U.S. commercial fatal aviation accidents per 100,000 departures (last 3-years' average).				
	2004	**2005**	**2006**	**2007**
Target	.028	.023	.018	.010
Actual	.021	.017	.020 *	.022 *
* Preliminary estimate				
Associated FY 2007 Funding – $ 7.84 billion				

While FAA continues to aggressively pursue increased aviation safety, our ability to take corrective action to achieve our target both this year and next is severely limited. Even if, for the first time, no commercial air carrier fatal accidents occurred during this fiscal year and the next, we would not achieve the target. This is because the current fatal accident measure is expressed in terms of fatal accidents per 100,000 departures. With this measure all fatal accidents, as defined by the National Transportation Safety Board (NTSB) criteria, are weighted equally. The result is that an accident with a single fatality is viewed in the same way as an accident involving hundreds of passengers.

For this reason, FAA is introducing a new performance metric for commercial air carrier safety — fatalities per 100 million persons on-board. This new metric is more relevant to the flying public, as it better measures the individual risk, as low as it is, to fly. All fatalities, including passengers, crewmembers, ramp workers, and ground fatalities, will be considered equally. And the proposed long-term target is no less challenging than the previous goal – the agency aims to cut this risk in half by 2025. To make this vision a reality, FAA will continue to work in partnership with industry.

FY 2008 Performance Forecast — DOT will not meet the FY 2008 commercial fatal accident performance target.

2007 Results — FAA met the target this year for reducing general aviation (GA) fatal accidents. Although most people are familiar with FAA's role in commercial aviation, they may not be aware that it also oversees the safety of almost 300,000 general aviation aircraft in the United States. These aircraft include single-seat home-built airplanes, rotorcraft (helicopters), balloons, and highly

Performance Measure Number of fatal general aviation accidents.				
	2004	**2005**	**2006**	**2007**
Target	349	343	337	331
Actual	340	354	299 (r)*	314 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 1.57 billion				

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.

Upland Police Department's Sgt. John Poole and the city's building inspector, Luis Teixeira, investigate the wreckage of a small plane that crashed atop a garage trying to land at Cable Airport, Monday, June 4, 2007, in Upland, California. The crash slightly injured the pilot and two passengers, authorities said. (AP Photo/Inland Valley Daily Bulletin, Mediha Fejzagic DiMartino) (LA Times, Ventura County Star & Riverside Press-Enterprise)

Since FAA began using GA fatal accidents as a performance target six years ago, the target has been exceeded just once. In FY 2007, GA fatal accidents once again decreased from the previous year. Rotorcraft, including Emergency Medical Service (EMS) flights, showed a sharp decrease from 2006.

FAA worked with various members of the GA community during FY 2007, including aeromedical evacuation, charter services, and others to promote education and training on instrument check guidance, and effective pilot/instructor mentoring programs. The sustained improvement in GA safety reflects the cooperative efforts undertaken with the GA and nonscheduled Part 135 community through the Joint Steering Committee, with several projects on training, information systems, and metrics.

Elsewhere, the FAA has undertaken targeted efforts to reduce accidents among air tour operators, EMS helicopter operators, and energy operators in the Gulf of Mexico. In addition, FAA has certificated new avionics packages, continued to implement the Wide Area Augmentation System to improve safety while landing during limited-visibility operations, and has implemented the FAA/Industry Training Standards program, which is a partnership with academia and the broader GA community to ensure pilots' ability to manage risk in technologically advanced aircraft.

FY 2008 Performance Forecast — DOT expects to meet the FY 2008 general aviation safety performance target.

In-Depth Accomplishments Promoting Aviation Safety

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

In addition, in recent years, FAA has focused on reducing aviation risks in Alaska, particularly those associated with GA. Aviation plays a vital role in Alaska, but the state's topography and weather present unique safety challenges to pilots.

RUNWAY ACCIDENTS

Reducing the risk of runway incursions is one of FAA's top priorities. 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.

An American Airlines jet, top, lands Monday, April 2, 2007 on a rebuilt runway at Los Angeles International Airport. This southernmost runway, one of a parallel pair of runways on the airport's south side, was closed in July and rebuilt 55 feet away to create room for a new center aisle between the two. It was part of a $333 million airport renovation project designed to reduce close calls involving planes landing, taking off and taxiing. The airport historically has had among the nation's highest rates of runway incursions, when a plane or vehicle on the ground gets too close to a plane that is landing or taking off. (AP Photo/Nick Ut)

The agency has been aggressively addressing the issue and has made progress reducing the most serious incidents, particularly those involving commercial aircraft. In FY 2007, FAA met the performance target of 0.530 per million operations by achieving an estimated rate of runway incursions of 0.429 per million operations. Runway incursions have dropped to one incursion for every 2.7 million operations, a 24 percent decrease from last year. Further, the number of serious runway incursions has been reduced by more than 50 percent from five years ago.

Further, in FY 2007, we continued the Runway Status Lights program which reduces the likelihood of runway incidents. Runway status lights act as stoplights on runways and taxiways, assigning priority to aircraft with the right of way. The lights are located along the centerline of a runway or taxiway and light up red when a runway is in use, notifying the pilot of a taxiing aircraft to either stop prior to crossing the runway, or yield to the aircraft landing or taking off.

The Airport Surface Detection Equipment Model X (ASDE-X), a new runway safety tool that combats the risk of runway incidents on runways and taxiways, was installed at Louisville International Airport and Charlotte Douglas Airport. ASDE-X enables air traffic controllers to detect potential runway conflicts by providing detailed coverage of movement on runways and taxiways. By collecting data from a variety of sources, ASDE-X is able to track vehicles and aircraft on the airport movement area and obtain identification information from aircraft transponders. Controllers in the tower see this information presented as a color display of aircraft and vehicle positions overlaid on a map of the airport's runways/taxiways and approach corridors. The system essentially creates a continuously updated map of the airport movement area that controllers can use to monitor surface traffic. It is especially helpful to controllers at night or in bad weather when visibility is poor.

In addition, while pilots have traditionally acquired information about what runway or taxiway they are on by looking out their windshield, FAA is making it easier for pilots to have an invaluable electronic tool in the cockpit. It provides a moving map display with "own ship position" — changing and improving runway safety the way GPS has changed the way we safely navigate our cars. After thoroughly reviewing safety data, including human factors research on the safety benefits of "own ship position" versus the potential safety risks, we are changing our certification process to enable this technology to be available later this year while maintaining all appropriate safety standards.

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 to an obstruction.

The performance limit for FY 2007 was set not to exceed a rate of 4.27 operational errors per million activities. The FY 2007 preliminary estimates indicate 4.11 operational errors per million activities, tracking slightly below the year-to-date projected performance limit.

During FY 2007, FAA improved how the severity of operational errors is calculated. The agency began implementation of a new system to classify operational errors and instituted a 10 percent performance tolerance on separation minima to better understand and measure its safety performance. These changes allow FAA to take full advantage of advances in technology that now permit for separation measurements to a hundredth of a mile (60 feet) and allow the agency to capture more events that approach the edges of the separation standards.

The new measurement process, referred to as the separation conformance, measures the severity of the outcome of the operational error as a result of the percent of required separation that was maintained. When the separation conformance is measured in combination with the number of operations, it creates a reliable rate-based measure of safety.

Further, the new measurement system minimizes the number of criteria used to determine operational error severity, minimizes subjectivity, and allows for better analysis of same category events—all of which enhance safety conclusions. With these changes FAA now measures the proximity between two aircraft which best characterizes the actual risk of collision.

ALASKA ACCIDENTS

There were 94 accidents in Alaska in FY 2007. Alaska experienced a total of 11 fatal accidents this year – four in Part 135 (unscheduled air carrier) and seven in general aviation.

Alaska's skyways are equivalent to the highway and road infrastructure found throughout the continental U.S., making the use of general aviation aircraft essential to everyday life. This includes but is not limited to enabling children to attend school, traveling to medical appointments, and supplying communities with groceries, fuel, and mail.

Therefore, there is urgency to modernize flight service in Alaska and FAA's *Flight Plan* focuses specifically on reducing GA accidents in Alaska. The agency's goal is to reduce Alaska accidents from the 2000 – 2002 average of 130 accidents per year to no more than 99 accidents per year by FY 2009. The FY 2007 target is 110.

Flight Service facilities in Alaska provide fundamental flight safety and operational support to Alaskan aviators. The Alaska Flight Service Modernization (AFSM) program is working to ensure Alaska's unique aviation needs are met with a level of service that is on par or superior to the level of service available in the continental U.S., Hawaii, and Puerto Rico. The goal of AFSM is to provide improved level of service and reduce operating costs by at least 25 percent over projected costs associated with current infrastructure. FAA's efforts include expanded and enhanced flight services throughout Alaska through innovative use of remote airport advisory cameras, and the delivery of information via Internet Web site hosted on kiosks located at rural airports. Continued emphasis on training through Medallion and Circle of Safety programs, as well as the introduction of new technology, has significantly improved the GA operating environment in Alaska. Pilots in Alaska can conduct required navigation performance approaches using sophisticated on-board equipment at runways that are normally not accessible in low visibility and bad weather conditions.

The Alaska Capstone Program evaluated technologies and procedures that are now incorporated into the Automatic Dependent Surveillance Broadcast (ADS-B) program. The primary benefit of ADS-B in Alaska is the delivery of GA air traffic control service at lower altitudes in areas where radar is not currently available or would be too costly to deploy. ADS-B provides the specialist with a situational awareness tool for providing pilots with real time information on aircraft, snow removal equipment and airport vehicles operating on runways, taxiways, and ramps and for aircraft operating in the vicinity of traffic patterns at selected airports. ADS-B technology can also be used to improve accuracy and timeliness of search and rescue activity when pilots encounter problems or experience an accident in remote parts of Alaska.

Rail Safety
FY 2007 Enacted Funds: $145 Million

In May 2005, the Secretary announced the Department's National Rail Safety Action Plan to improve the safety of the Nation's freight railroad operations by:

- ✧ Targeting the most frequent, highest risk causes of train accidents;
- ✧ Focusing FRA oversight and inspection resources more precisely; and,
- ✧ Accelerating research efforts that have the potential to mitigate the largest risks.

The action plan reflects a partnership between FRA, the railroads, and communities focused on improving rail safety.

Performance Measure				
Rail-related accidents and incidents per million train-miles.				
	2004	**2005**	**2006**	**2007**
Target	17.49	17.14	16.80	16.70
Actual	19.02 (r)	17.90 (r)	16.94 (r)	15.02 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 145 million				

2007 Results — FRA estimates that it will meet the FY 2007 performance target. Much of its success is attributable to better utilization of data to direct FRA safety inspectors and other resources where problems are likely to arise. Additionally, FRA has built substantial partnerships with State and local agencies through the State Rail Participation Program to address accidents and casualties at highway-rail grade crossings and from trespassing. The public benefits in several ways. First, fewer accidents mean fewer deaths and injuries. These statistics also translate into fewer health-care expenses and loss of personal property.

FY 2008 Performance Forecast — The FY 2008 target will be met.

In-Depth Accomplishments Promoting Rail Safety

In late April 2007, FRA began operating its two newest automated track inspection vehicles equipped with state-of-the-art technology to prevent train derailments by detecting subtle track flaws that are difficult to identify by regular means. The addition of the new equipment increases the FRA fleet of automated inspection vehicles to five, which when fully integrated into the federal inspection program will allow this agency to inspect nearly 100,000 track-miles each year, tripling the current capacity. In particular, the addition of these vehicles to FRA's fleet gives the Agency a greater ability to inspect a larger percentage of the Nation's rail lines, which are used to transport dangerous, hazardous materials as well as those used by passenger trains. This enhanced capability gives FRA the flexibility to conduct follow-up inspections on a timelier basis and also provides the Agency the capacity to conduct unscheduled inspections of rail lines that have been identified as presenting safety concerns.

Federal Railroad Administrator (FRA), Joseph H. Boardman, second from left, and Chief of the Track Research Division, Gary A. Carr, left, show a bank of monitors inside a state of the art rail inspection vehicle in Rensselaer, N.Y., Monday, March 19, 2007. The FRA on Monday started a two-day inspection of the tracks by a special computer equipped rail car one week after an 80-car freight train partly derailed in Oneida. (AP Photo/Stewart Cairns)

The new vehicles, known as the T19 and T20, use a variety of technologies to measure track geometry flaws such as whether two rails are level, if the width between the rails is acceptable, and if the shape of each rail meets federal standards so as to avoid derailments. The measurements are recorded in real time and at operating speed. Problem areas are identified by global positioning system location and shared immediately with the railroad so appropriate corrective actions can be taken in a timely manner. These vehicles will contribute significantly to increasing rail safety, specifically in reducing track caused accidents and incidents.

Transit Safety
FY 2007 Enacted Funds: $11 Million

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

Performance Measure

Transit fatalities per 100 million passenger-miles traveled.

	2004	2005	2006	2007
Target	.487	.482	.477	.473
Actual	.467	.428	.344	.286 *

* Preliminary estimate

Associated FY 2007 Funding – $ 5 million

2007 Results — DOT met the target for FY 2007. Strong growth in transit ridership and the continued expansion of transit service significantly increased the number of transit passenger miles traveled in FY 2007 over FY 2006. At the same time, using nine months of data from FTA's National Transit Database and six months of Commuter Rail (CR) data from the FRA Rail Accident Incident Reporting System (RAIRS), FY 2007 safety figures come in well under the target rates for fatalities and injuries.

To sustain and improve gains made in safety performance, FTA continues to work collaboratively with the public, the transportation industry, State departments of transportation, and the research and engineering communities to develop new programs to target and address safety and security concerns. FTA's strategy to keep fatality and injury rates low, in spite of significant increases in passenger miles traveled, is to implement policies and activities (such as research, training, technical assistance, information dissemination, and oversight) that encourage transit decisions, practices, programs, and operations to reduce these statistics. FTA's policies address improving and maintaining the condition of the transit infrastructure (vehicles, track and facilities), which has an impact on overall system safety and performance, and to promote system safety in the planning and design of a transit system from its inception. This approach also includes promoting emergency preparedness procedures that enhance the speed and effectiveness of responses to accidents and incidents.

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

FY 2008 Performance Forecast — DOT will meet the FY 2008 target.

In-Depth Accomplishments Promoting Transit Safety

AUDITING OF ALCOHOL AND DRUG TESTING PROGRAMS

FTA audits the drug and alcohol programs of its grantees and their contractors in order to detect and deter illicit drug use and alcohol misuse. Over 60 urban and non-urban transit agencies' drug and alcohol testing programs were extensively reviewed with on-site audits in 2007. It is estimated that the drug and alcohol testing program audits have led to the avoidance of 817 accidents, saved six lives and avoided 718 injuries during the period 1992 through 2002. Fatalities resulting from accidents in which transit employees have positive drug test results, dropped from three in 1995 (first year of mandatory testing) to one over the period of 1999 through 2004.

Pipeline Safety
FY 2007 Enacted Funds: $51 Million

While pipelines are by many measures the safest mode for transporting hazardous liquid and natural gas, their cargo is inherently dangerous. To address these hazards, the Pipeline and Hazardous Materials Safety Administration (PHMSA) has designed and implemented a strong, risk-based, program for oversight of our Nation's pipeline infrastructure. This risk-based systems approach also helps provide secure and reliable transportation of our Nation's energy resources.

To reduce the risk to the public, PHMSA identifies and evaluates risks, develops and enforces standards, provides grants to assist States in support of their pipeline safety programs, educates operators and the public, sponsors research on promising technologies, and responds to accidents/incidents. States play a critical role in the national pipeline safety program, overseeing most intrastate pipeline infrastructure, including most of the Nation's natural gas distribution pipeline mileage. States face increasing resource and technical challenges as we expand the State role in assisting with new Integrity Management (IM) and other evolving requirements. The Pipeline, Inspection, Protection, Enforcement and Safety Act of 2006 (PIPES Act) recognized the challenge and calls for increased funding to help states meet new mandatory initiatives. We recognize the importance of a strong continued focus on targeting excavation or construction-related damage—the leading cause of pipeline incidents involving death or injury, especially in natural gas distribution systems where people work and live in closest proximity to pipelines.

The pipeline safety record is good and improving. The long-term trend shows a general decline in the number of total pipeline incidents. But beginning in 2003, PHMSA saw three successive years of increasing incidents. Ten percent of the incidents in 2005 were attributable to hurricanes Rita and Katrina. The number of serious incidents has declined by half over the past 20 years, with a record low of 34 in 2006. We believe this indicator provides a better overall measure of program performance and public impacts than total reported incidents.

2007 Results — Based on preliminary data, PHMSA projects 388 total pipeline incidents in 2007, which would miss the performance target for our goal by about seven percent. However, this estimate is still 20 percent below the high in 2005 (which was affected heavily by hurricanes) and within the range of normal annual variation in the measure. Data for 2004, 2005, and 2006 are revised slightly from earlier reports because operators have submitted new reports or amended old reports.

Performance Measure				
Number of incidents for natural gas and hazardous liquid pipelines.				
	2004	**2005**	**2006**	**2007**
Target	310	295	365	362
Actual	443 (r)	490	386 (r)	388 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 51 million				

FY 2008 Performance Forecast — PHMSA has revised its performance measure beginning in FY 2008 to track the number of serious incidents for natural gas and hazardous liquid pipelines. Serious incidents are defined as those incidents involving death or injury. We expect to meet our targets for serious incidents in 2007 and 2008.

In-Depth Accomplishments Promoting Pipeline Safety

With enactment of the PIPES Act, the Administration and Congress agreed on an ambitious agenda for PHMSA's Pipeline Safety Program, emphasizing improved safety and reliability, sharpening our focus and mitigating the risk to people. The PIPES Act reflects a strong endorsement of the agency's risk–based integrity management approach. Integrity management has been the core of the agency's approach over the past several years. PHMSA is near the end of the first cycle of integrity management implementation in the hazardous liquid and natural gas transmission pipeline systems. We attribute significant reductions we see in serious incidents to the early identification and repair of 55,000 defects that, without early detection, could have grown to failure and harmed the public.

The PIPES Act directed PHMSA to extend similar protections to people living in urban and suburban areas along the Nation's 1.7 million miles of distribution pipelines, where up to 80 percent of the human consequences from all pipeline failures occur. PHMSA is issuing a notice of proposed rulemaking that will require operators of natural gas distribution systems to implement integrity management programs. In addition to safety benefits, improving the performance of distribution pipelines will also reduce the likelihood of failures that often result in congestion-causing road closures and evacuations.

PHMSA works to target excavation-related damage and other pipeline risks through effective, non-regulatory approaches. In FY 2007, we partnered with stakeholders to launch "811" as the national number to call before digging. This program will help reduce excavation damage to pipelines, increase regional partnerships, and support enforcement of call-before-you-dig requirements. We also are targeting high-risk or poor-performing operators, working closely with senior management to assist these companies in addressing safety concerns.

Hazardous Materials Safety
FY 2007 Enacted Funds: $103 Million

The Pipeline and Hazardous Materials Safety Administration (PHMSA) leads the national program to identify and evaluate safety risks, develop and enforce standards for transporting hazardous materials, educate shippers and carriers, investigate hazardous materials incidents, conduct research, and provide grants to improve emergency response to incidents. To accomplish its safety goals, PHMSA works with other DOT Operating Administrations to help them administer their hazmat safety programs effectively.

PHMSA employs an enterprise approach to leverage its limited resources with others in the hazmat community, including industry, first responders, other modal hazmat enforcement programs, and state and local emergency preparedness agencies. We build on existing local and state programs by providing funding for emergency preparedness planning and training in order to identify threats specific to a locality and to train first responders to handle incidents resulting from those threats. In addition to enhancing safety, effective response also reduces congestion by enabling highways, railroads and airports to resume normal operation in a minimum amount of time.

PHMSA focuses its safety program on those materials that present the most significant risks to public safety. Our efforts are geared toward preventing high consequence events from occurring, and mitigating those consequences when they do occur.

2007 Results — The Department expects to achieve its serious incident target this year. During 2007, PHMSA invested heavily in information systems that will allow modes to share company specific compliance information, to better identify high-risk hazmat carriers and shippers and plan interventions to limit those risks. PHMSA shares authority to enforce the hazardous materials regulations with other DOT modes—the Federal Aviation Administration, the Federal Motor Carrier Safety Administration and the Federal Railroad Administration—as well as the US Coast Guard.

Performance Measure				
Number of serious hazardous materials transportation incidents.				
	2004	**2005**	**2006**	**2007**
Target	509	503	460	466
Actual	492 (r)	530 (r)	494 (r)	455 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 103 million				

FY 2008 Performance Forecast — Based on previous years' performance, DOT expects to achieve its target for serious hazardous materials incidents in 2008. During FY 2008, PHMSA will fine-tune its risk-based decision support model. We will also accelerate our collaboration with Federal, State and local government entities, as well as non-profit emergency response organizations, to enhance safety and reduce non-recurrent congestion.

In-Depth Accomplishments Promoting Hazmat Safety

In response to a series of incidents involving over-heated batteries carried by airline passengers, we have pursued a comprehensive, multi-layered strategy to address the transportation risks presented by lithium batteries, working with representatives of the NTSB, the Consumer Product Safety Commission, manufacturers of lithium batteries and battery-powered products, airlines, airline employee organizations, testing laboratories, and the emergency response and law enforcement communities to share and disseminate information about battery-related risks and developments and to promote improvements in industry standards and best practices. We developed an aggressive campaign to educate the public about ways to safely travel with batteries and battery-powered equipment. We are leading the development of international transportation standards for lithium batteries.

To enhance the security of rail shipments of Toxic by Inhalation (TIH) materials, PHMSA and the Federal Railroad Administration (FRA) are working closely with the Transportation Security Administration (TSA) through cooperative efforts with rail shippers and carriers. DOT participates on TSA-led teams conducting rail corridor studies, which address vulnerabilities and mitigation strategies at specific locations. Based on data and information surfaced during the corridor studies, TSA, FRA, and PHMSA developed a series of voluntary security action items for implementation by rail carriers transporting TIH materials. As a part of these voluntary measures, the industry has agreed to: (1) reduce the number of hours TIH cars and trains are held in high threat urban areas; (2) enhance chain-of-custody requirements for TIH rail cars; (3) identify secure storage areas for TIH cars; and (4) limit the movement of TIH cars near public venues.

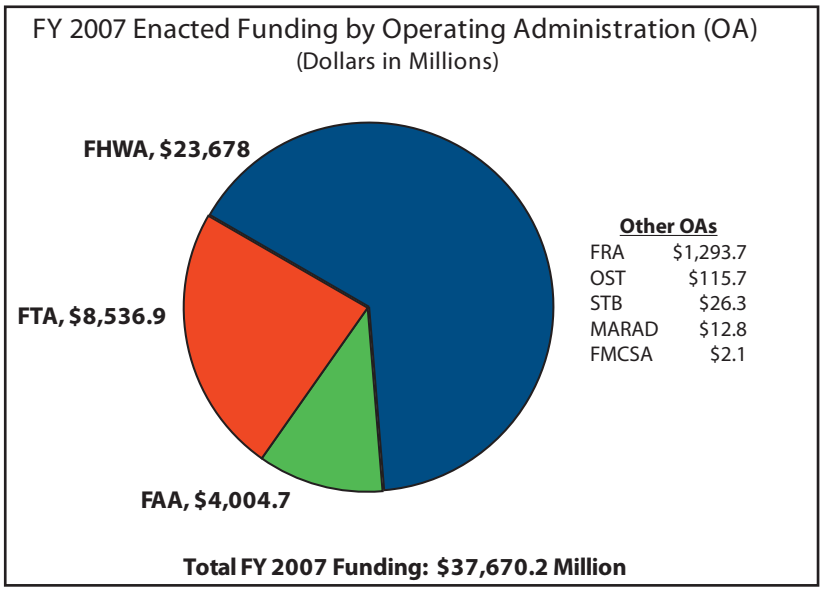
Hazmat personnel and Union Pacific Railroad workers inspect several tanker cars that derailed and overturned Sunday, Oct. 22, 2006 in downtown Gurdon, Arkansas. The derailment caused the evacuation of at least 50 residents. No injuries have been reported. (AP Photo/Steve Fellers)

On December 21, 2006, in collaboration with FRA and TSA, PHMSA published a rulemaking proposal to enhance the safety and security of rail shipments of certain high-risk hazardous materials. The proposal incorporates a risk-based, data-driven approach, requiring rail carriers to conduct and base routing decisions on individualized, route-specific assessments.

To mitigate the consequence of hazmat incidents, PHMSA developed and has maintained the Emergency Response Guidebook (ERG) for use by "first responders" – those public safety personnel first dispatched to the scene of a hazardous materials transportation incident, such as fire fighters, police, and emergency services personnel. The ERG provides first responders with a guide for initial actions to be taken in those critical first minutes after an incident to protect the public and to mitigate potential consequences. This year, PHMSA partnered with the National Library of Medicine to produce a pocket PC software version of the ERG that is available for download at no cost and which should greatly improve access to important safety information by those who need it most.

MOBILITY STRATEGIC GOAL

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

Improved Infrastructure
FY 2007 Enacted Funds: $11.78 Billion

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

2007 Results — The target was not met. The estimated percentage of travel on the NHS exhibiting good ride conditions was 55 percent, a one percent improvement over 2006. The two percent improvement — from 52 percent in 2005 to 54 percent in 2006 — could not be sustained in 2007, as the prior year increase was due primarily to substantial improvements in a few states while remaining states were only able to maintain existing conditions. The targets for 2008 to 2013 were lowered this year to better reflect expected future conditions given existing funding levels and the risings costs of materials nationwide which limit the number of projects underway.

Performance Measure Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride.				
	2004	**2005**	**2006**	**2007**
Target	53.0	54.0	55.5	56
Actual	52.0	52.0 (r)	54.0 (r)	55 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 11.78 billion				

FY 2008 Performance Forecast — The target of 56 percent of travel on the NHS network in good ride condition will be met in FY 2008 if construction material costs stabilize.

Additional Highway Infrastructure Activities

MINNEAPOLIS BRIDGE COLLAPSE

As the States work to maintain an aging infrastructure, FHWA stands ready to assist them as necessary. FHWA plays a vital role, especially when tragedy occurs. In response to the tragic collapse of the I-35W Bridge in Minneapolis, MN, FHWA Division office staff was on the site within 30 minutes of the report that the bridge collapsed. The next day, FHWA headquarters staff was at the site to assist State DOT personnel. FHWA is assisting the National Transportation Safety Board (NTSB) as they conduct a thorough investigation, which includes a structural analysis of the bridge. FHWA released $50 million of Emergency Relief (ER) program funds for clean-up and recovery work including clearing debris and rerouting traffic, and for design work on a new bridge. That amount is in addition to the $5 million in ER program funds released to Minnesota to initiate recovery operations.

In response to the tragedy, FHWA issued two technical advisories: One strongly encouraging States to re-inspect all steel deck truss bridges and follow-up on any critical finds, and another advising States to ensure that the construction equipment loads and stockpiled raw materials placed on a structure do not overload its members.

FHWA understands that the NTSB findings along with a program audit by the DOT Office of Inspector General may result in additional recommended improvements to the Bridge program, and as a result, FHWA will stand ready to implement changes to funding or program direction as necessary.

Vehicles are scattered along the broken remains of the Interstate 35W bridge, which stretches between Minneapolis and St. Paul, after it collapsed into the Mississippi River during evening rush hour Wednesday, Aug. 1, 2007, sending vehicles, tons of concrete and twisted metal crashing into the water. (AP Photo/The Minnesota Daily, Stacy Bengs)

INNOVATIONS AND NEW TECHNOLOGIES

FHWA has developed several initiatives to address highway congestion. One of the newest is Highways for LIFE (HfL). The purpose of the HfL program is "to advance *l*onger lasting highway infrastructure using *i*nnovations to accomplish the *f*ast construction of *e*fficient and safe highways and bridges" (thus spelling out "LIFE"). The purpose of the Highways for LIFE pilot program is to accelerate the adoption of innovations and new technologies, thereby improving safety and highway quality, while reducing congestion caused by construction. The HfL program is intended to bring about this cultural change in a few years rather than decades. The program is focused on using incentives for construction projects to demonstrate what is possible; fostering technology partnerships to help the highway construction industry realize the benefits of proven but under-utilized technologies; encouraging technology transfer, communication, and stakeholder involvement to build and equip the workforce and educate the public. As of June 2007, FHWA had approved funding or waivers for matching funds for innovative HfL proposals from nine states.

Since innovations can take more than a decade to deploy widely, FHWA is attempting to accelerate the deployment process for three innovations—Road Safety Audits (RSA), Prefabricated Bridge Elements and Systems (PBES), and Making Work Zones Work Better—that are collectively referred to as vanguard technologies.

Twenty States now have some form of involvement in implementing an RSA, either by conducting a pilot RSA or participating in FHWA-sponsored training. RSAs are a comprehensive and effective tool for improving the safety performance of a road while it is still in the planning or design stage, or for identifying and mitigating safety concerns on existing roads and intersections. There are many benefits to RSAs, among them: designs that reduce the number and severity of crashes and the possibility of reducing costs by identifying safety issues and correcting them before projects are built.

Prefabricated bridge elements can be manufactured either onsite or offsite under controlled conditions and brought to the construction location, ready for installation. Using prefabricated elements and systems minimizes construction-related traffic disruptions, increases work zone safety by reducing the number and exposure time of workers operating near moving traffic, reduces environmental impacts by minimizing the site access footprint, and improves the constructability of bridge designs by controlling manufacturing environments. Innovative concepts including use of high performance materials can mitigate the frequent need for maintenance and resulting traffic impacts.

Data from selected State department of transportation Web sites shows that 20 percent of the National Highway System is under construction in the summer and about seven percent during the winter months. It is estimated that over 6,400 work zones are in effect during the summer months, with a corresponding drop in capacity of over 6,100 lane-miles of freeway. Making Work Zones Work Better is a collection of more than one hundred innovations that are to be used as appropriate for the particular application. To advance practice, the FHWA developed a W*ork Zone Traffic Analysis Primer and Guidance*, set up a work zone peer to peer program to exchange information, and created focused workshops based on the particular needs of a State.

Reduced Congestion
FY 2007 Enacted Funds: $6.78 Billion

Traffic congestion on our Nation's highways now affects more trips, involves more hours of the day, and includes more of the transportation system than ever before. Congestion varies significantly day to day because demand and capacity are constantly changing at any given location. Overall, 67 percent of the peak-period travel nationwide is congested, compared to 32 percent in 1982. Travelers in 85 urban areas spent 3.7 billion hours stuck in traffic in 2003, more than a five-fold increase when compared to 1982.

2007 Results — Congested travel in urban areas was below the target level with a projection of 31.8 percent for urban-area travel occurring in congested conditions. The results from 2004 to 2006 suggest that the overall rate of growth nationwide in traffic congestion appears to be slowing. However, traffic congestion is still a significant problem, particularly in urban areas.

Performance Measure				
Percentage of total annual urban-area travel occurring in congested conditions.				
	2004	**2005**	**2006**	**2007**
Target	32.3	33.0	33.7	32.5
Actual	31.6	31.8	31.6 (r)	31.6 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 6.78 billion				

FY 2008 Performance Forecast — DOT anticipates congestion levels nationwide should remain below the performance limit of 32.3 percent in FY 2008.

In-Depth Accomplishments Promoting Reduced Congestion

A major component of the National Strategy to Reduce Congestion is the Urban Partnership Agreement (UPA), through which the Department works with certain metropolitan areas or "Urban Partners" in order to demonstrate strategies with proven effectiveness in reducing traffic congestion. Under a UPA, the Department and its Urban Partners agree to pursue four strategies with a combined track record of effectiveness in reducing traffic congestion, collectively referred to as the "Four Ts:"

- ✧ *Tolling*: Implementing a broad congestion pricing or variable toll demonstration;
- ✧ *Transit*: Creating or expanding express bus services or bus rapid transit (BRT), which will benefit from the free flow traffic conditions generated by congestion pricing or variable tolling;
- ✧ *Telecommuting*: Securing agreements from major area employers to establish or expand telecommuting and flex scheduling programs; and,
- ✧ *Technology & operations*: Utilizing cutting edge technological and operational approaches to improve system performance.

Traffic backs up on I-395 and Seminary Road in Alexandria, Virginia on Thursday Dec. 14, 2006 during the afternoon rush hour. Drivers waste nearly an entire work week each year sitting in traffic on the way to and from their jobs, according to a national study released Tuesday, Sept. 18, 2007. (AP Photo/ Jacquelyn Martin)

Five metropolitan areas were selected as the first Urban Partners: Miami, Minneapolis, New York City, San Francisco, and Seattle. FHWA embarked on a comprehensive agenda to capture lessons learned from this group and facilitate peer exchange in order to ensure the eventual widespread deployment of congestion pricing applications.

With FHWA support, a traffic signal operations self-assessment was undertaken to encourage agencies to look at how traffic signal systems are being managed within their jurisdictions. The results of the self-assessments provided input to inform the *2007 National Traffic Signal Report Card*, part of a nationwide effort to bring more attention to the need for additional investment in traffic signal operations. In collaboration with the private sector, FHWA delivered *Adaptive Control Software (ACS)-Lite,* which is designed to monitor and evaluate traffic operations and refine signal timing consistent with current traffic conditions in real time. *ACS-Lite* passed its real-world tests and was aggressively promoted.

To promote better system operation and management practices, FHWA established a *Localized Bottleneck Reduction* program to encourage the use of operational and low-cost construction strategies that will improve mobility at bottleneck locations. FHWA undertook a major effort to identify international and domestic examples of innovative strategies. In particular, all FHWA Division Offices worked with their State counterparts to identify good practice quick fixes to alleviate bottleneck congestion. These strategies were published in *Traffic Bottlenecks: a Primer – Focus on Low-Cost Operational Improvements,* which is intended to serve as a forum for peer exchange and will be regularly updated as additional information becomes available.

Transit Ridership
FY 2007 Enacted Funds: $8.12 Billion

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

According to a recent analysis, Americans wasted 4.2 billion hours and 2.9 billion gallons of fuel sitting in traffic jams. Traffic congestion now costs motorists in our Nation's top urban areas about $78 billion a year in wasted time and fuel. Transit saved $10.2 billion in congestion costs attributable to wasted fuel and time.

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

Accessible public transportation is also important to the 24 million Americans with disabilities who can use public transportation, and the growing number of senior citizens who can no longer drive.

Performance Measure Average percent change in transit boarding per transit market (150 largest transit agencies).				
	2004	**2005**	**2006**	**2007**
Target	2.0	1.0	1.0	1.5
Actual	0.7	1.9	2.1	2.0 *
* Preliminary estimate				
Associated FY 2007 Funding – $ 8.12 billion				

2007 Results — DOT met the performance target. A combination of factors contributed to the increase in ridership in 2007 including programs such as Commuter Choice, guaranteed ride home, partnerships between the transit agencies and employers and universities to provide transit passes, simplified fare structures, improved and expanded service, and more effective marketing of transit. The purchase of new transit vehicles by many transit properties has increased the amenities and rider comfort which also attracts riders. In addition to these active efforts to increase transit ridership, external factors such as the increase in the cost of gasoline and higher levels of employment have had a positive impact. The public benefits in many ways from improved transit service; through energy conservation, reduced congestion, environmental improvements, and economic stimulus.

FY 2008 Performance Forecast — DOT expects to meet the transit ridership target for FY 2008.

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:

- ✧ In March 2007, FTA formally recognized 12 transit agencies that experienced the highest growth in ridership as a result of implementing changes in their fare structures, operations, marketing, partnerships, or service coverage. The award winners are as follows:

Population Under 50,000	Population 50,000 to 200,000	Population 200,000 to 1 million	Population Over 1 million
River Cities Public Transit, Pierre, South Dakota	Transit Services of Frederick County, Frederick, Maryland	Community Transit, Everett, Washington	Sound Transit, Seattle, Washington
Black Hawk Transportation Authority, Black Hawk, Colorado	Hill Country Transit District, San Saba, Texas	Lehigh and Northampton Transportation Authority, Allentown, Pennsylvania	Peninsula Corridor Joint Powers Board, San Carlos, California
City of Durango Transit, Durango, Colorado	Portage Area Regional Transportation, Kent, Ohio	Fort Worth Transportation Authority, Fort Worth, Texas	Greater Cleveland Regional Transit Authority, Cleveland, Ohio

✧ In FY 2007, United We Ride human service transportation initiative made strides to improve transportation delivery systems for older adults, persons with disabilities, families with low-incomes, disadvantaged youth, and other populations most dependent upon public and human service transportation systems to meet their mobility needs. United We Ride and the DOT Intelligent Transportation System technologies program launched a national demonstration program to untangle the confusing web of transportation services for customers by using technology to create a single point of customer access to transportation services no matter what the trip, who provides the ride or who funds the services. Nine sites were selected to develop operational plans to implement simplified customer access systems.

Increased Accessibility
FY 2007 Enacted Funds: $529 Million

Accessible public transportation is vital to maintaining independence and mobility for people with disabilities and linking them to employment, health care and their community. Access to public transportation is essential for people who are making the transition from welfare to work, or are low-income and must rely on transit to get to work.

2007 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

Performance Measure: Percent of bus fleets compliant with the ADA.	2004	2005	2006	2007
Target	92	95	97	97
Actual	96 (r)	96 (r)	98 (r)	98 *

(r) Revised; * Preliminary estimate

Associated FY 2007 Funding – $ 51 million

many of the buses replaced were already lift-equipped. While all new buses are lift equipped or have low floors, it will be difficult to reach 100 percent compliance because many transit operators retain buses for more than twenty years.

FY 2008 Performance Forecast — DOT expects to meet the bus fleet accessibility target for FY 2008.

2007 Results — The preliminary estimate indicates DOT will just miss meeting the 2007 target.

Performance Measure: Percent of key rail stations compliant with the ADA.	2004	2005	2006	2007
Target	89	84	91	93
Actual	82	91	92	92.3 *

* Preliminary estimate

Associated FY 2007 Funding – $ 140 thousand

There are 687 key rail stations nationwide; only 53 of them remain inaccessible to people with disabilities. Over half of these are under FTA-approved time extensions up to 2020, as allowed by regulation, where extraordinarily expensive structural changes or replacement of existing facilities is needed. 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.

Billy Alton, director of the Delta Resource Center Independent Living, left, speaks with Arkansas Gov. Mike Beebe before Beebe spoke at "The Road to Freedom" rally to promote the Americans with Disabilities Act, Monday, Feb. 12, 2007, in Little Rock, Arkansas. (AP Photo/Mike Wintroath)

FTA is developing an action plan for moving forward on this goal. As a next step, FTA intends to pursue a status report with each of the eight remaining operators. This will provide a better picture of realistic goals for future years. It will be an opportunity for grantees to address hurdles in achieving these objectives. Over half of the remaining stations are in Cleveland or New York City. By focusing on these two cities, we will make substantial progress.

FY 2008 Performance Forecast — DOT will not meet its current 2008 target, which is 94 percent. DOT plans to adjust its targets for achieving full key station accessibility in FY 2008 and beyond to reflect the realities outlined above.

JOB ACCESS AND REVERSE COMMUTE SERVICES (JARC)

In areas of the country that receive JARC funds, the program successfully meets the transportation needs of low-income individuals seeking reliable transportation to employment and related support services.

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

2007 Results — DOT met the Job Access and Reverse Commute (JARC) target for the number of employment sites that are made accessible by JARC transportation services.

Performance Measure: Number of employment sites (in thousands) that are made accessible by Job Access and Reverse Commute (JARC) transportation services.				
	2004	**2005**	**2006**	**2007**
Target	50.0	50.0	50.0	50.0
Actual	82.8	95.4	91.2 (r) *	95.4 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 144 million				

The administration of FTA's JARC program was changed from a separate nationally-administered competitive program into a State-administered formula program as enacted in SAFETEA-LU. This change provided each State with the opportunity to consider and prioritize their mobility needs when planning transit. In response to this change, FTA evaluated the performance measure "Number of employment sites (000s) that are made accessible by Job Access and Reverse Commute transportation services". As a result of this exercise, FTA identified a more precise performance measure "Jobs made accessible by JARC services." Baseline information on the new measure is currently being collected and tested and will be reported in the FY 2008 PAR.

The JARC program has consistently exceeded its annual goal to reach 50,000 job sites. The new JARC performance measure will provide a more precise and effective measure of the number of employers and jobs made accessible by the JARC program. JARC program performance continues to demonstrate the effectiveness of the program in meeting the transportation needs of low-income individuals seeking reliable transportation to employment and related support services. In the most recent analyses of grantee data, it is estimated that JARC funded services provided access to approximately 95,400 employment sites and provided 14.1 million one-way trips. Riders have reported that JARC services played an important role in their lives by making jobs accessible. An overwhelming majority (93 percent) of passengers surveyed in 2002 indicated that JARC services were either "very important" (81 percent) or "important" (12 percent) to them. Two-thirds (66 percent) of the respondents indicated that they would not have been able to access their destination without the JARC service. JARC services are used most frequently to travel to and from a work site (approximately 62.5 percent of all trips.) Nearly one out of every three JARC respondents did not work prior to making use of the services. The program has also met its goal of improving collaboration between grantees and stakeholders.

FY 2008 Performance Forecast — It is anticipated that DOT will meet the FY 2008 target.

Increased Reliability
FY 2007 Enacted Funds: $4.0 Billion

The demand on our National Airspace System (NAS) has never been greater. The number of aircraft has grown, as has the diversity in the performance and type of aircraft operating, such as regional jets. With the increasing growth of low-cost carriers, the challenge to increase capacity in the NAS intensifies. Along with increased traffic, adverse weather conditions were a major contributing factor to the increase in airport delays this year.

The complexity of the future operating environment – with evolving fleet mixes, new aircraft, technology, and environmental constraints – must be approached in partnership with our customers. The preparation for these changes is already well under way. The Federal government's vision for meeting this challenge is called the Next Generation Air Transportation System (NextGen). The concept of NextGen is a wide ranging transformation of the entire national air transportation system to meet future demands and avoid gridlock in the sky and at our airports.

2007 Results — DOT did not achieve its FY 2007 NAS On-Time Arrival performance target.

Performance Measure				
Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays.				
	2004	**2005**	**2006**	**2007**
Target	82.1	87.4	87.40	87.40
Actual	79.07	88.1 (r)	88.36	86.32 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 4.0 billion				

FAA fell short of the FY 2007 target of 87.40 percent, achieving an on-time rate of only 86.32 percent. Adverse weather conditions played a significant part in airport delays; in fact, weather-related delays caused by wind, low ceilings, and low visibility increased from 2006 to 2007. Over 30 percent of operations at Boston, Newark and Chicago were conducted during moderate to severe weather conditions. Traffic management initiatives, such as ground delay programs and airspace flow programs were used to combat thunderstorms.

To help achieve this target in the future, FAA continues to evaluate new tools and technologies to improve arrival times. These include greater collaboration with stakeholders, evaluation of separation standards, implementation of improved weather information tools, and airspace redesign where beneficial. Airspace redesign is one of the key components in optimizing U.S. airspace and allowing for increased capacity. Efficient airspace operations will require redesigning routes and changing the size and shape of the airspace. This increased flexibility will help address volume, congestion, and weather in en-route airspace.

FY 2008 Performance Forecast — The FAA anticipates meeting the FY 2008 On-Time Target of 88.0 percent.

In-Depth Accomplishments Reducing Aviation Delays

While our aviation system is safer than ever, there is little question that its capacity is rapidly reaching critical mass. Eighteen of our Nation's biggest airports have regained their highest pre-9/11 commercial passenger traffic levels. The capacity of our airports, our runways, and our skies are stretched thin. By 2015, the system is expected to carry one billion passengers per year and international passenger traffic is expected to grow by 70 percent. We project that by 2014, without any changes to the system, we will see delays 62 percent higher than they are today. The FAA is taking steps right now to prevent these future delays and is making significant strides.

AVERAGE DAILY CAPACITY

Growth in air travel has generally been accomplished by increasing the number of flights. Measuring the growth of airport capacity indicates the limit at which increased service can be accommodated without affecting delay.

FAA works with local governments and airspace users to provide increased capacity in the U.S. airspace system that will reduce congestion and meet projected demand. The agency met and passed the FY 2007 target to achieve an average daily airport capacity for the 35 Operational Evolution Plan (OEP) airports of 101,562 arrivals and departures per day.

Activities and accomplishments towards achieving these goals include:

- ✧ **Airspace Redesign** — To help reduce delays and create more efficient routings, significant changes were made to crowded en-route and terminal airspace. Redesign efforts continued in the New York/New Jersey/Philadelphia, Chicago, and Houston airspace; all three of these projects are multi-phased efforts. The first phase of the Chicago airspace project was implemented in March 2007, and major interim milestones for the other two efforts were completed in 2007. Additionally, airspace reviews for Alaska and southern Nevada began in 2007. These efforts promise to improve safety and efficiency, reduce delays, and accommodate the changing fleet of aircraft and their usage patterns and capabilities.

- ✧ **Area Navigation (RNAV) Routes, Standard Instrument Departures (SIDs) and Standard Terminal Arrivals (STARs)** — Area navigation (RNAV) consists of routes and procedures that allow aircraft to fly point-to-point operations that are not restricted by the location of radar. This permits the aircraft to fly optimum routes with little controller intervention. Two tools that accommodate air growth and improve efficiency are RNAV standard instrument departures (SID) and Standard Terminal Arrivals (STARS). RNAV SID and STARS provide instrument flight procedures for departing and arriving aircraft transitioning to and from the terminal to the en-route structure, using advanced navigation technology. Using RNAV reduces pilot and controller workload and enhances the efficient and safe use of navigable airspace

within the terminal airspace environment. In the en-route structure we are developing high and low altitude RNAV routes. In FY 2007, we published 60 RNAV SID and STARS and 12 RNAV routes. RNAV is saving operators millions of dollars per year in fuel costs due to more efficient routes. We are beginning to realize capacity benefits as well. At Dallas/Fort Worth Airport RNAV allows up to 20 additional departures per hour. At Atlanta Hartsfield Airport, RNAV allows an additional 10 departures per hour.

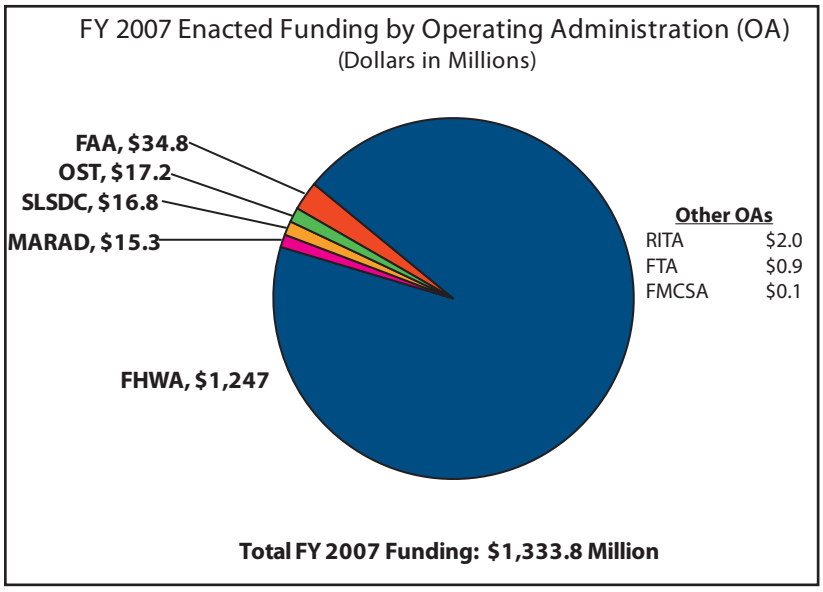
✧ **Integrated Terminal Weather System (ITWS)** — ITWS is technology that helps make air traffic flow more efficient in periods of adverse weather. As an air traffic management tool, ITWS provides air traffic managers, controllers, and airlines highly accurate, easily understood and immediately usable graphical weather information and hazard alerts on a single, integrated color display. By providing traffic managers with this accurate, immediately usable weather information, ITWS helps increase safety and capacity, improve efficiency, and reduce weather delays for airlines and the traveling public. In FY 2007, ITWS was commissioned at New York City airports and at Memphis with a terminal convective weather forecast (TCWF) capability enhancement. TCWF increases weather forecast information from 20 to 60 minutes.

✧ **New Runways** — We opened runway 14/32 at Boston-Logan International Airport in November 2006, which has shown delay reduction benefits in its first several months of operation. A runway at Los Angeles International Airport was closed for relocation last year and re-opened in April 2007. With the opening of the end around taxiway at Atlanta in April 2007, about 612 runway crossings per day were eliminated at the busiest airport in the U.S.—significantly improving safety and efficiency.

Future Airport Capacity Task (FACT) Report Update — FACT is an assessment of the future capacity of the Nation's airports and metropolitan areas. This study shows that by 2025, 14 airports and eight metropolitan areas will require additional capacity, even if currently planned improvements are built at airports throughout the system. The FACT 2 study recommends capacity in the form of supplemental airports. Specifically Atlanta, Chicago, Las Vegas, and San Diego were identified as cities needing additional capacity in the form of supplemental airports.

GLOBAL CONNECTIVITY STRATEGIC GOAL

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 aviation safety agreements implemented.
- ✧ Number of potential air transportation consumers (in billions) in international markets traveling between the U.S. and countries with Open Skies and open transborder aviation agreements.
- ✧ Number of international negotiations conducted annually to remove market distorting barriers to trade in air transportation (new measure in FY 2005).

Expanded Opportunities
FY 2007 Enacted Funds: $5.4 Million

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

2007 Results — Based on preliminary estimates, DOT met both of the small business related targets.

Performance Measure

Percent share of the total dollar value of DOT direct contracts that are awarded to woman-owned businesses.

	2004	2005	2006	2007
Target	5.1	5.1	5.1	5.1
Actual	3.8	6.6	6.7	6.0 *

* Preliminary estimate

Associated FY 2007 Funding – $ 2.7 million

Performance Measure

Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses.

	2004	2005	2006	2007
Target	14.5	14.5	14.5	14.5
Actual	15.6	12.7	15.0 (r)	14.5 *

(r) Revised; * Preliminary estimate

Associated FY 2007 Funding – $ 2.7 million

All of the OAs continue to seek new opportunities to engage the small disadvantaged business community and have done superbly in light of the fact that the Federal government has not finalized regulations to allow for set-asides to women owned businesses. DOT is one of the few Federal agencies surpassing the government-wide five percent statutory goal. The Office of Small and Disadvantaged Business Utilization (OSDBU) continues to work closely with all OAs to ensure that small businesses are afforded maximum practicable opportunities to participate in DOT direct procurement actions. OSDBU provided assistance to the OAs with their acquisition strategies, professional development and access to qualified small businesses. OSDBU also increased technical assistance and participation in outreach events.

FY 2008 Performance Forecast — DOT expects to meet the targets for both measures.

More Efficient Movement Of Cargo
FY 2007 Enacted Funds: $1.27 Billion

The bi-national St. Lawrence Seaway is the international shipping gateway to the Great Lakes, offering access and competitive costs with other routes and modes to the interior of the country. Commercial trade on the Great Lakes Seaway System annually sustains more than 150,000 U.S. jobs, $4.3 billion in personal income, $3.4 billion in transportation-related business revenue, and $1.3 billion in federal, state, and local taxes. Since 1959, more than 2.4 billion metric tons of cargo estimated at more than $350 billion has moved through the St. Lawrence Seaway to and from Canada, the United States, and nearly 50 other nations. Almost 50 percent of Seaway traffic travels to and from overseas ports, especially in Europe, the Middle East, and Africa. A recent analysis concluded that the economic impact of a shutdown of either of the two U.S. locks would range from $1.3–$2.2 million per day, depending on the length of the delay.

2007 Results — For FY 2007, DOT's Saint Lawrence Seaway Development Corporation (SLSDC) met the performance target with a system availability rate of 99.4 percent. An analysis of system non-availability during FY 2007 indicates that the most common causes were weather and vessel-related incidents.

Performance Measure Percent of days in the shipping season that the U.S. portion of the St. Lawrence Seaway is available.				
	2004	**2005**	**2006**	**2007**
Target	99.0	99.0	99.0	99.0
Actual	99.1	99.7	99.0	99.4
Associated FY 2007 Funding – $ 17 million				

Weather-related delays totaled 20 hours, 6 minutes of the total 40 hours, 28 minutes of delays or 50 percent. These weather delays are caused by poor visibility, high winds, fog, and other winter weather conditions.

Vessel incidents in FY 2007 accounted for 19 hours, 23 minutes of delays, or 48 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, which are caused by mechanical problems with a vessel.

Of the remaining factors that cause system non-availability, the SLSDC has the most control over the proper functioning of its lock equipment. During FY 2007, there were only 44 minutes of delays, or 2 percent, related to one lock equipment malfunctioning incident. Lock equipment delays represented one one-hundredth of 1 percent of the total navigation time during FY 2007.

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

FY 2008 Performance Forecast — DOT expects to meet the FY 2008 target of 99.0 percent.

Freight Travel (Measure Under Development)
FY 2007 Enacted Funds: $1.25 Billion

Freight transportation is a critical enabler of international economic activity and highways are a critical component of the freight transportation system. A doubling of international trade over the last decade placed a strain on many of the Nation's intermodal ports and gateways and contributed to an increase in traffic congestion. A further increase in freight activity on the Nation's highways is anticipated in this decade due to continued growth in international trade. Traffic congestion hinders freight movement and undermines business productivity and international trade. Development of this measure will be completed in early FY 2008 and the Department will begin reporting on this measure in the FY 2008 PAR.

2007 Results — The FY 2007 target, which was based on reducing the buffer index rating in 100 percent of the corridors under study, was not met. The annual average buffer index rating decreased in only two of five Interstate corridors under study; while the rating increased in three corridors. The largest increase was 16 percent along I-45. At the same time, the annual average travel speed for the five Interstate corridors remained constant when compared to the previous year. No corridor had a decline in average annual speed greater than 1 mph. FHWA will continue to work with partner agencies to encourage implementation of operational strategies and to execute infrastructure provisions of SAFETEA-LU related to freight projects. In 2008, comparative data will be available for 25 of the most freight significant interstate corridors.

FY 2008 Performance Forecast — It is unlikely that the FY 2008 target will be met since the current target is to reduce the buffer index rating in 100 percent of corridors under study. Using the data, we will establish a national average and revise the FY 2009 target to 50 percent or more of the 25 corridors perform better than the national average.

In-Depth Accomplishments Promoting Freight Travel

The DOT National Freight Policy provides a national framework that enables Federal, State, and local governmental organizations, along with the private sector, to coordinate their resources and efforts to improve multimodal freight mobility on the U.S. transportation network. FHWA contributed to the deployment of this policy in a variety of ways. A broad range of professional capacity building courses, seminars and workshops covering topics such as freight financing, engaging the private

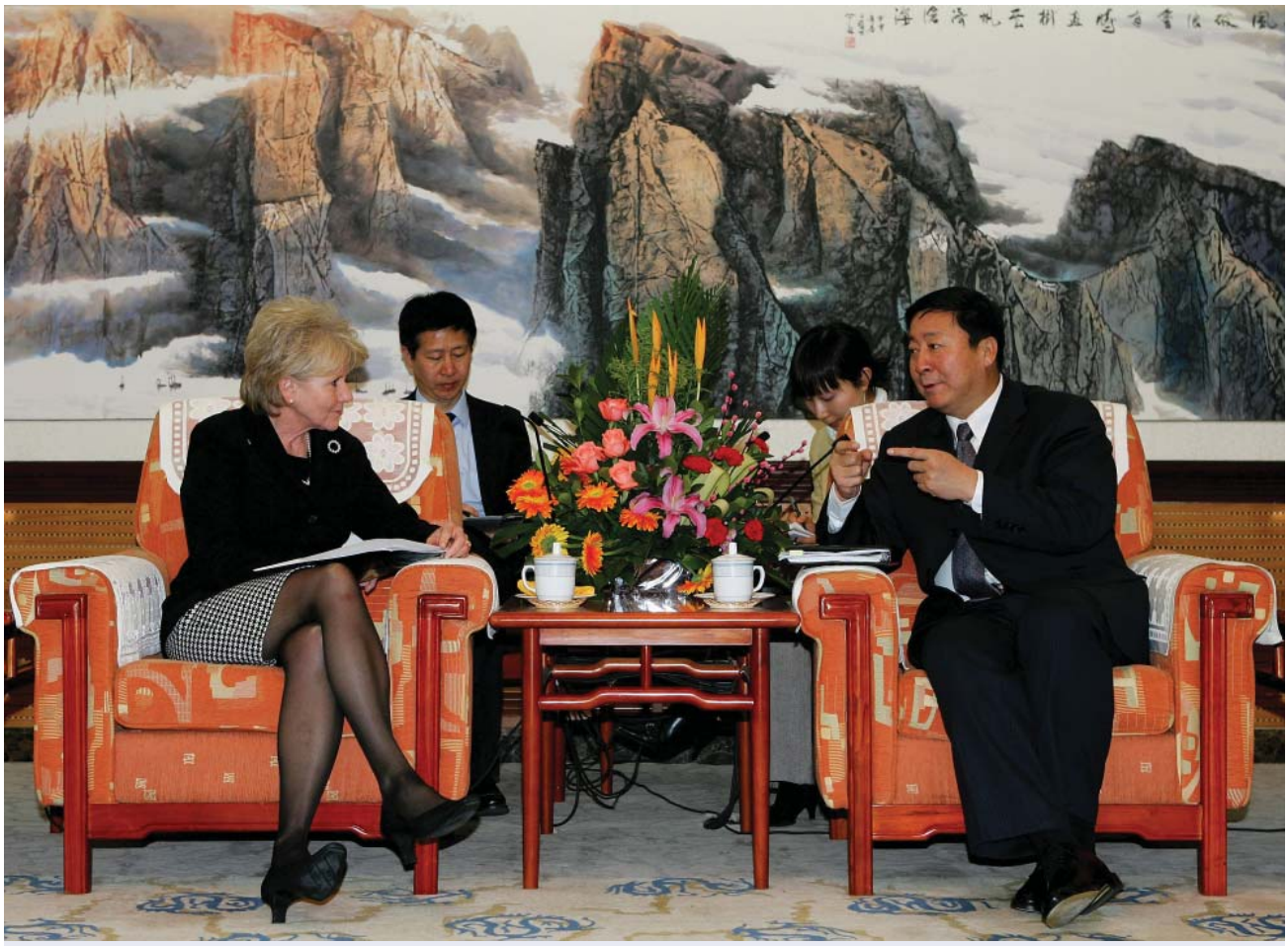
sector in transportation planning activities, and freight and the environment, were delivered. Numerous workshops designed to enable local transportation planners to integrate local data with national data to support freight investment decisions were completed with States and Metropolitan Planning Organizations (MPO). The results of these efforts, which will be catalogued as best practices, will be widely disseminated in the coming year. The Agency updated the *Quick Response Freight Manual*, a tool used extensively by transportation professionals to plan for predicted freight volumes on the transportation network.

The *Freight Analysis Framework*, an analytic tool used extensively in both the public and private sector, was recalibrated using data from the 2002 Commodity Flow Survey and integrated with key international gateway data. In addition to the recalibration, the FHWA updated the highway network with 2002 freight flows, generated forecasts of freight movement to 2035, completed current year estimate methodologies, and began comparing prior survey data with current data so an accurate trend line can be developed.

The Border Information Flow Architecture (BIFA), which maps systems and information flow between stakeholders, was widely disseminated to stakeholders. On the northern U.S. border, the Ontario Ministry of Transportation and the Michigan Department of Transportation signed a memorandum of understanding to exchange information using ITS technology. As part of the agreement, information will be shared to improve border operations in the Detroit-Windsor region and give passengers and commercial vehicle operators the timely information they need when planning their trip. The agreement was driven by Ontario's *Action Plan for the Intelligent Border Crossings*: the U.S.-Canada BIFA was a foundational element used to develop this action plan.

Harmonized & Standardized Regulatory and Facilitation Requirements FY 2007 Enacted Funds: $36.9 Million

With the increasing globalization of aircraft manufacturing and air carrier operations, the interdependency between the U.S. and the foreign aviation sector is outpacing FAA's ability to conduct oversight throughout the globe. Since Bilateral Aviation Safety Agreements (BASA) are based on the recognition of comparability between U.S. and foreign oversight systems, they allow FAA to rely on the safety oversight capabilities and technical expertise of other civil aviation authorities, thereby minimizing duplication of efforts as well as freeing resources to support U.S. safety priorities. BASAs promote aviation safety and environmental quality, enhance cooperation, and increase efficiency in civil aviation matters. By building a network of competent civil aviation authorities and concluding agreements with additional countries and/or regional authorities, FAA increases safety globally.



Minister of the Civil Aviation Authority of China (CAAC) Yang Yuanyuan, right, meets with U.S. Secretary of Transportation Mary E. Peters on Friday April 13, 2007 in Beijing, China. Peters, on her visiting from April 12 to 14 in Beijing, said the United States is discussing a deal with China to liberalize air travel and hopes for a framework "open skies" agreement. (AP Photo/Guang Niu/POOL)

Performance Measure				
Number of new or expanded bilateral aviation safety agreements implemented.				
	2004	**2005**	**2006**	**2007**
Target	2	2	2	3
Actual	3	2	4	3
Associated FY 2007 Funding – $ 35 million				

2007 Results — In FY 2007, FAA achieved its performance target and concluded three new or expanded Bilateral Aviation Safety Agreements (BASAs). These agreements lay the essential groundwork for cooperation between the United States and the respective target country's aviation authority and facilitate an increase in the ability to exchange aviation products and services. This year, the U.S. negotiated agreements with Singapore, Japan, and Mexico.

FAA is collaborating with partners in Europe, Asia, and the Americas to negotiate executive agreements and associated implementation procedures that will improve the safety of the international aviation environment for U.S. travelers.

FY 2008 Performance Forecast — In FY 2008 FAA expects to meet its target of two bilateral safety agreements concluded.

Reduced Barriers To Trade
FY 2007 Enacted Funds: $5.0 Million

The Office of the Assistant Secretary for Aviation and International Affairs carries a broad portfolio of responsibilities covering domestic and international aviation, international trade, and a range of other international cooperation and facilitation issues. The Office contributes directly to DOT's global connectivity strategic goal by: 1) increasing economic growth and trade; 2) advancing America's economic growth and competitiveness domestically and internationally by negotiating liberalized aviation agreements worldwide and ensuring the benefits of a deregulated, competitive domestic airline industry; and 3) working with international organizations to foster the development of transportation infrastructure globally.

Performance Measure

Number of international negotiations conducted annually to remove market-distorting barriers to trade in air transportation.

	2004	2005	2006	2007
Target	N/A	10	10	12
Actual	N/A	10	10	23 *

* Preliminary estimate

Associated FY 2007 Funding – $ 4.1 million

2007 Results — DOT met the target for 2007. On April 30, 2007, after more than four years of negotiations, the United States and the European Community and its member states have achieved a historic pact on Open Skies. Beginning on March 30, 2008, the agreement will open up transatlantic air transportation, a market that represents about 60 percent of international travel. The agreement would replace existing bilateral agreements between the United States and the member states. The benefits to this agreement are numerous and include allowing every U.S. and European Union (EU) airline to:

- ✧ Fly between every city in the EU and every city in the United States;
- ✧ Operate without restriction on the number of flights, aircraft, and routes; and,
- ✧ Set fares according to market demand.

The agreement is welcomed news for the more than 25 million passengers who will enjoy new transatlantic flights at lower prices, according to EU estimates.

FY 2008 Performance Forecast DOT expects to meet the target for FY 2008.

Enhanced Competitive Environment For Passenger Travel
FY 2007 Enacted Funds: $21.3 Million

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.

2007 Results — DOT met the target for FY 2007. DOT has successfully negotiated over 80 Open-Skies agreements, including several important new agreements in FY 2007. Having 3.8 billion people under the Open Skies umbrella will provide more economical and abundant options for the traveling and shipping public world-wide.

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.

	2004	2005	2006	2007
Target	1.51	1.53	2.99	3.05
Actual	1.72	2.97	3.01	3.83 *

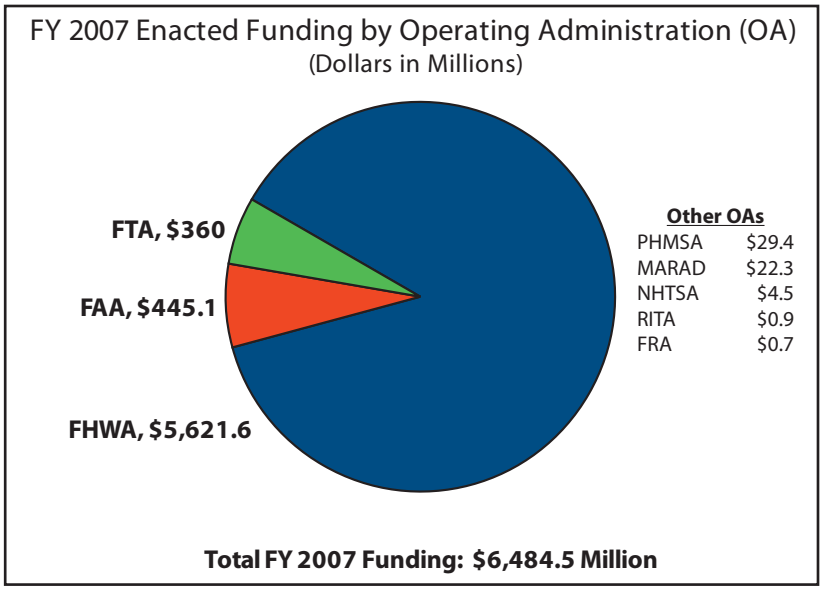
* Preliminary estimate

Associated FY 2007 Funding – $ 2.0 million

FY 2008 Performance Forecast — DOT expects to meet the FY 2008 target.

ENVIRONMENTAL STEWARDSHIP STRATEGIC GOAL

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

- ✧ Number of exemplary ecosystem initiatives undertaken
- ✧ Percent DOT facilities characterized as No Further Remedial Action under the Superfund Amendments and Reauthorization Act.
- ✧ 12-month moving average of the number of areas in a transportation emissions conformity lapse.
- ✧ Tons of hazardous liquid materials spilled per million ton-miles shipped by pipeline.
- ✧ Percent reduction in the number of people within the U.S. who are exposed to significant aircraft noise levels.

Reduce Pollution And Other Environmental Effects
FY 2007 Enacted Funds: $6.39 Billion

EXEMPLARY ECOSYSTEM INITIATIVES (EEI)

FHWA promotes environmental stewardship practices by recognizing Exemplary Ecosystem Initiatives (EEI), which are actions or measures that will help sustain or restore natural systems and their functions and values using an ecosystem or landscape context. Examples of an EEI 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 benefits of adopting Context Sensitive Solution (CSS) concepts throughout all aspects of planning and project development are being promoted to advance solutions that enhance and protect ecosystems as well as enhance communities, historic preservation, active living, beautification, and acquisition or relocation.

2007 Results — The target was met. FHWA designated seven additional EEIs during 2007, bringing the cumulative total to 50 initiatives in 32 states. The target was increased last year after the Agency designated 20 EEIs in one year, exceeding the previously established target by a wide margin. An EEI not only provides recognition for innovative conservation and mitigation efforts, but also serves as best practices for states to follow. These initiatives provide public and non-governmental organizations with actual examples of the environmental accomplishments related to the highway program.

Performance Measure Number of exemplary ecosystem initiatives undertaken (target/results are cumulative from year to year).				
	2004	**2005**	**2006**	**2007**
Target	10	17	24	50
Actual	15	23	43	50
Associated FY 2007 Funding – $ 2.76 billion				

FY 2008 Performance Forecast — Because the original 2007 target was exceeded earlier than anticipated, in 2006, the FHWA has replaced the EEI with a new measure for Exemplary Human Environment Initiatives (EHEI). The FHWA expects to meet the target of 10 EHEIs in FY 2008.

In-Depth Accomplishments Promoting Environmental Stewardship

FHWA continued outreach efforts for *Eco-Logical: an Ecosystem Approach to Developing Infrastructure Projects*. In addition to developing training, the Agency is funding grants for pilot projects that advance *Eco-Logical* and integrated planning concepts. The response from the public, other federal agencies, and states and non-governmental organizations to a solicitation for proposals was robust and FHWA expects to make grant awards in the coming year. In addition, the

FHWA delivered a new training course entitled, *Managing Road Impacts on Stream Ecosystems: an Interdisciplinary Approach*. This course promotes a more environmentally sensitive approach to design by emphasizing a landscape approach to stream restoration and highway project development.

In partnership with the American Association of State Highway and Transportation Officials (AASHTO), FHWA sponsored the development of a national multi-year action plan to advance the implementation of context sensitive solutions. In addition, the agency conducted an in-depth assessment of implementation in every state, which led to targeted strategies and action plans to assist in overcoming obstacles to the effective institutionalization of these practices. The assessment provides a basis for developing expanded criteria, assessment tools, and other resources to validate progress implementing CSS during the coming year.

FHWA awarded funding to the AASHTO for a Center for Environmental Excellence. The Center hosts a comprehensive Web site, captures best practices through concise practitioner guides, conducts targeted problem solving workshops, and manages a program of technical assistance on a variety of environmental topics.

DOT FACILITY CLEANUP

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

2007 Results — DOT met the FY 2007 target. There are 72 DOT sites on the EPA Hazardous Waste Compliance Docket and all but five of them have attained No Further Remedial Action Planned (NFRAP) status. The latest site to reach that status is FAA's Jackson Homer Beacon Site. FAA is the custodian of the five remaining sites, which are:

Performance Measure Percent DOT facilities characterized as No Further Remedial Action Planned under the Superfund Amendments and Reauthorization Act.				
	2004	2005	2006	2007
Target	92	93	93	93
Actual	93	92	92	93
Associated FY 2007 Funding – $ 675 thousand				

1. Ronald Reagan National Airport (DCA);
2. Kirksville Air Route Surveillance Radar (ARSR), AFS F-64 (Kirksville AFS);
3. Mike Monroney Aeronautical Center (MMAC);
4. William J. Hughes Technical Center (ACT), and
5. Omaha Ex AF Station Z-71 (Omaha).

To ensure that site contamination will be properly removed and that NFRAP status will be achieved, FAA's Environmental and Occupational Safety and Health Services Group provides funding and oversight support, and has initiated Environmental Cleanup Program tasks focused on these sites. It has short-term actions (1-5 years) to achieve NFRAP status for the Kirksville AFS, and the Omaha Ex AF Station, while longer-term actions (5-20 years) will be necessary to achieve NFRAP status for the MMAC, DCA and ACT.

FY 2008 Performance Forecast — DOT anticipates meeting the FY 2008 target.

SHIP DISPOSAL

The Maritime Administration conducts a Ship Disposal Program to help achieve DOT's Environmental Stewardship strategic goal to promote transportation solutions that enhance communities and protect the natural and built environment. Successful pursuit of this program also helps lead to achievement of the Department's desired outcome for reduced pollution and other adverse environmental effects from transportation and transportation facilities.

A launch takes a crew of workers out to do checks and maintenance on ships anchored at the Suisun Bay Reserve Fleet in Suisun Bay, California, Friday, June 29, 2007. From a busy bridge in the suburbs east of San Francisco, commuters catch a daily glimpse of one of the country's stranger graveyards. Moored in ghostly ranks in the brackish water below, the Suisun Bay Reserve Fleet looks from a distance like a fierce phalanx ready for battle - a proud reminder of the San Francisco Bay area's naval heritage.
(AP Photo/Eric Risberg)

The Maritime Administration is the U.S. government's disposal agent for merchant-type vessels 1,500 gross tons or more and has custody of a fleet of over 115 obsolete ships owned by the Federal government that are available for disposal. These obsolete ships are located at the James River Reserve Fleet site in Virginia, the Suisun Bay Reserve Fleet site in California and the Beaumont Reserve Fleet site in Texas. Steady progress in the disposal of the obsolete ships must be maintained to minimize the risk to the surrounding environment due to the presence of hazardous materials on board the ships.

Early in 2007, conflicting Federal and state environmental laws and regulations caused the Maritime Administrator to temporarily suspend ship disposals. The U.S. Coast Guard was requiring hull cleaning to reduce the risk of transferring potential invasive aquatic species prior to the movement of non-retention ships from one geographic area to another. However, the in-water hull

cleaning process led to concerns that metals contained in ship hull coatings might be released during the cleaning process. The Department shares public concern about the potential impact on the environment of hull cleaning and is committed to protecting the environment around the fleet sites.

The Maritime Administration and the Commonwealth of Virginia and the State of Texas recently agreed on a hull cleaning method and the ship disposal program has resumed in those states. The agency is still engaged in discussions with the State of California regarding their concerns with the hull cleaning process and potential solutions. Various enhanced hull cleaning options are being studied on how to better protect the environment during hull cleaning operations. If tests of the enhanced methods are successful, the agency will ask the State of California to endorse the method and allow the resumption of ship disposal activities in that state.

Despite these challenges, the Maritime Administration removed 20 obsolete ships from the three fleet sites, seven more than the 2007 target. 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. In 2007, dismantling was completed on 20 ships, exceeding the target by five ships. These ships were removed from the fleet sites during the current and preceding fiscal years. The rate of dismantling is dependent on a number of external factors, including weather, contractor resource availability and the contractor's ability to quickly and properly arrange for disposal of hazardous materials. The Maritime Administration also entered into additional disposal contracts that will result in the dismantling/recycling of 23 additional ships in subsequent years, exceeding the target by 10 ships.

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. Motor vehicle emissions were reduced by 55 percent over the past two decades, in spite of a 48 percent increase in the number of registered vehicles and 82 percent increase in the volume of travel miles on our Nation's highways between 1980 and 2001. Areas that exceed, or have previously exceeded, certain NAAQS — designated as air quality non-attainment or maintenance areas - are required to meet transportation conformity requirements in the *Clean Air Act*. Failure to meet the conformity requirements will place an area in a conformity lapse, which creates a situation in which only limited types of Federally-funded infrastructure projects can proceed.

Performance Measure				
12-month moving average of the number of areas in a transportation emissions conformity lapse.				
	2004	2005	2006	2007
Target	6	6	6	6
Actual	6.3	5.8	1.3	0.0 *
* Preliminary estimate				
Associated FY 2007 Funding – $ 2.76 billion				

2007 Results — The number of areas in a conformity lapse in FY 2007 was zero, thus lowering the 12 month moving average to 0.0. This result exceeded the performance target. A number of changes to the conformity provisions were implemented in 2005 to streamline and provide more flexibility to the conformity process. In the implementation of the changes, the FHWA and the U.S. Environmental Protection Agency (EPA) conducted numerous workshops, training sessions, and other outreach activities to raise awareness of and to prepare State DOTs, air agencies, and Metropolitan Planning Organizations to meet the requirements. In addition, FHWA and EPA both issued guidance documents to ensure that the States transitioned smoothly to the new conformity requirements. State and local agencies took the initiative to coordinate the process well in advance of conformity determinations. Because of the advanced preparations, most of the locales that had been non-attainment and maintenance areas were able to meet the *Clean Air Act* goals, thus enabling projects to proceed.

FY 2008 Performance Forecast — The FHWA expects that the FY 2008 target of six or less areas in conformity lapse will be met.

PIPELINE SPILLS OF HAZARDOUS LIQUIDS

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

The Pipeline and Hazardous Materials Safety Administration's (PHMSA) first priority is the continued safe operation and reliability of all pipelines. PHMSA has taken a proactive approach to protecting the environment by designing and implementing a strong risk-based systems approach to protect the safety, security, and reliability of the Nation's pipeline infrastructure.

PHMSA continues to significantly reduce the environmental impact of non-volatile hazardous liquid spills, reaching a six-year low in 2007.

2007 Results — PHMSA is projecting that it will better the 2007 performance target by as much as 50 percent.

Performance Measure: Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines.				
	2004	**2005**	**2006**	**2007**
Target	.0068	.0064	.0060	.0057
Actual	.0081 (r)	.0085 (r)	.0034 (r)	.0028 *
(r) Revised; * Preliminary estimate				
Associated FY 2007 Funding – $ 29 million				

In December 2000, PHMSA issued the hazardous liquid integrity management (IM) regulations, which will require operators to assess, evaluate, repair and validate the integrity of hazardous liquid pipelines that could affect High Consequence Areas (HCAs). The agency began collecting detailed IM related repair information in 2005 and now has two years of data. At the end of 2006, the total number of pipeline segment miles that could affect HCAs (including environmentally sensitive areas) was approximately 71,000 miles, of which about 35,000 miles were inspected in 2005 and 2006.

The IM strategy is a long-term program investment. The expected environmental benefits of the IM approach in terms of reduction in number and consequences of hazardous liquid accidents in HCAs should be even more apparent over time. Since the inception of the IM regulations, almost 4,000 conditions that needed immediate attention have been repaired or mitigated. In 2005 and 2006 alone, over 10,000 other conditions were repaired on a scheduled basis and 32,000 additional conditions were repaired beyond those required by the hazardous liquid IM regulations.

FY 2008 Performance Forecast — In 2008, PHMSA will begin reporting on a new environmental measure – hazardous liquid pipeline spills in high consequence areas. PHMSA expects to meet its targets for this measure.

In-Depth Accomplishments to Prevent Hazardous Materials Spills

PHMSA recognizes the strategic importance of Alaska's oil and gas production and transportation systems to the Nation's energy supply; in FY 2007 the agency expanded Alaska operations to help address serious technical challenges associated with declining oil field production. The agency is working with other federal and state agencies to take a "system of systems" approach to integrate, strengthen and prioritize oversight activities of the Alaska oil and gas production and transportation system. Activities include: planning for the new Alaska Gas Pipeline project, signing a letter of intent with the Alaska Department of Natural Resources to coordinate risk assessment and oversight activities, working with Alaska's new Petroleum System Integrity Office to develop a detailed work plan to assess and review operators' quality assurance programs, and increasing our personnel in Alaska working with the Joint Pipeline Office on development of a unified plan for oversight of the Trans-Alaska Pipeline System infrastructure and operations.

A new oil transit pipeline runs across the tundra to a flow station at the Prudhoe Bay oil field on Alaska's North Slope Saturday, June 16, 2007. The line will replace the corroded pipeline that leaked and caused the nation's largest producing oil field to shutdown in 2006. Nearly one year after BP PLC shut down most of its operations because of leaks to a transit line, the company says new accountability and maintenance practices are in place and a $250 million upgrade is on schedule for completion next year. (AP Photo/Al Grillo)

As a next step in the extension of IM requirements throughout pipeline systems, PHMSA issued a supplemental notice of proposed rulemaking for applying pipeline safety requirements, including integrity management, to rural low-stress lines. This action is consistent with past Congressional requirements and new requirements in the PIPES Act. The proposed rule is phase one of a two phase approach that will extend pipeline safety requirements to previously unregulated rural low-stress pipelines. The first phase applies to higher risk, larger diameter hazardous liquid lines in rural areas. The second phase will focus on all remaining unregulated rural low-stress pipelines.

PHMSA leverages its resources to focus on new research technologies to support energy reliability and independence. PHMSA will accelerate research to better understand and manage technical issues associated with transporting new alternative fuels. In August 2007, PHMSA issued a notice outlining its jurisdiction over the transportation of ethanol and other biofuels by pipeline and explaining that the agency is stepping up efforts to support the President's energy agenda by

eliminating barriers to the safe and reliable transportation of these materials. We are building the capability of first responders to address pipeline incidents involving alternative energy and other new emerging technologies.

AIRCRAFT NOISE EXPOSURE

The FAA is working to increase the capacity of the national air transportation system to keep pace with demand for air travel. Public concern and sensitivity to aircraft noise around airports continues to grow even as more Americans value and depend on air transportation. Aircraft noise is an undesired by-product of mobility, and FAA acts to reduce the public's exposure to significant 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. Noise and land use compatibility projects, funded under the Airport Improvement Program (AIP), complemented aircraft source noise reduction. While the new international aircraft noise standard will continue the introduction of quieter aircraft into operations, this will be a gradual process. AIP-funded noise compatibility projects and noise abatement flight procedures will be the principal means employed by FAA to mitigate significant aircraft noise exposure in the near future.

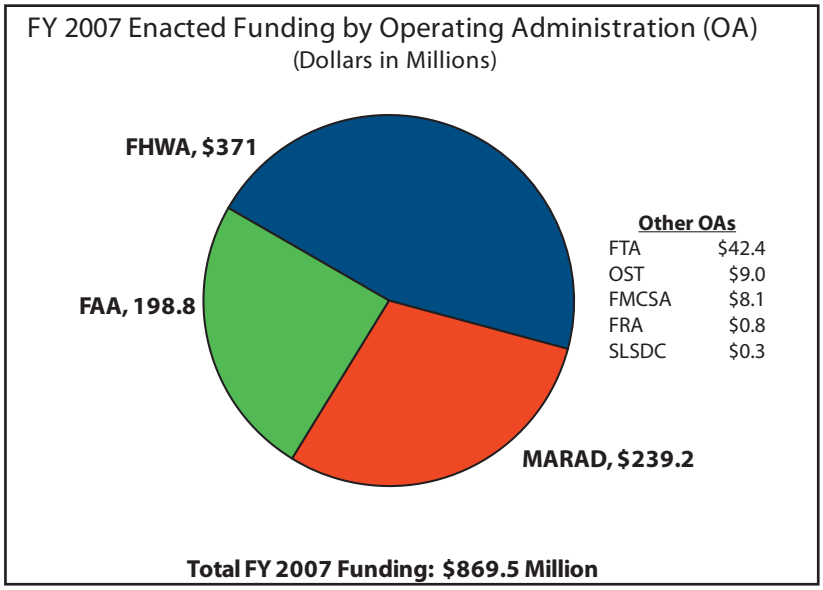
Performance Measure: Percent reduction in the number of people in the U.S. who are exposed to significant aircraft noise levels.				
	2004	**2005**	**2006**	**2007**
Target	-2	-3	-4	-8
Actual	-28	-29	-28 (r)	-27 #
(r) Revised; # Projection from trends				
Associated FY 2007 Funding – $ 455 million				

2007 Results — DOT met the performance target. The target is calculated using a three year moving average from the base average year from 2000 to 2002. The FAA increased the noise exposure target after reviewing historical reductions and taking into account recent trends that remain well below the previous noise target. The significant reduction in noise exposure since the base year average 2000 to 2002 has been driven by air carrier fleet and operational changes that took place in the aftermath of September 11, 2001. It was expected that a return to more typical fleet compositions and a return to air traffic growth would narrow the "positive gap." However, the return of fleet composition and air traffic to pre 9/11 levels has not occurred at the pace expected. In addition to noise trends, the new noise target reflects the relocation of people away from areas of significant noise exposure through grant funding. The target is also influenced by market forces that drive changes in commercial aircraft fleets and operations.

FY 2008 Performance Forecast — DOT will meet the target in FY 2008.

SECURITY STRATEGIC GOAL

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



STRATEGIC OUTCOMES

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

PERFORMANCE MEASURES

- ✧ Percent of DOD-required shipping capacity complete with crews available within mobilization timelines.
- ✧ Percent of DOD-designated commercial ports available for military use within DOD established readiness timelines.
- ✧ Transportation Capability Assessment for Readiness Index Score.

Strategic Mobility
FY 2007 Enacted Funds: $239 Million

The Department of Defense (DOD) relies on the U.S. commercial transportation industry as well as government-owned ships to deliver equipment and supplies throughout the world in order to maximize defense logistics capabilities and minimize cost. The availability of shipping capacity is determined by a number of different factors: availability of commercial vessels, availability of government-owned sealift vessels, availability of qualified mariners to crew these vessels, and the availability of war risk insurance coverage for vessels entering a war zone. All of these factors must be managed properly in order to support DOD's mobilization requirements.

The Department's Maritime Security Program (MSP) ensures that the United States will have U.S.-flag commercial vessels along with their intermodal assets to support DOD operations. DOD also uses Voluntary Intermodal Sealift Agreements (VISA) with commercial carriers to pre-plan the availability of militarily useful U.S.-flag merchant vessels for emergency sealift support. All ships enrolled in VISAs commit certain percentages of their vessel capacity and use of their related intermodal transportation resources to DOD.

U.S. Secretary of Transportation Mary E. Peters addresses the Merchant Marine Academy graduation ceremony, Monday, June 18, 2007 in Kings Point, New York. (AP Photo/Mary Altaffer)

The DOT-owned Ready Reserve Force (RRF) is also a very important component of the Department's ability to provide sealift capacity in times of emergency to DOD. These ships also serve as an important asset supporting the Department's emergency preparedness and disaster response activities. The RRF is composed of 44 ships with special capabilities that can carry or offload heavy and oversized military cargoes which regular U.S.-flag commercial cargo ships cannot carry. RRF ships meet approximately half of the U.S. Transportation Command's surge (or initial) sealift requirement during a mobilization.

Ship capacity, both commercial and government-owned, is only one part of the mobilization equation. These ships must be operated by skilled crews. The Maritime Administration supports the training of new merchant marine officers by operating the U.S. Merchant Marine Academy (USMMA) and by providing funding and training vessels to support the six State Maritime Schools (SMS). The

USMMA and SMSs are the principal source of new unlimited license merchant marine officers. Licensed mariners are needed by DOD during national emergencies not only for crewing purposes, but also to provide shore- side support for sealift operations.

In order to enter war zones, commercial vessels require specific war risk insurance binders. The Maritime Administration issues these binders because regular commercial marine insurance will not cover losses resulting from war or warlike actions. Without this program, the DOD could not rely on commercial ships for sealift during an emergency.

DOT, through the Maritime Administration, is also responsible for establishing DOD's prioritized use of facilities at 15 U.S. commercial strategic ports during DOD mobilizations to ensure the safe, secure, and smooth flow of military cargo through the commercial U.S. transportation system while minimizing commercial cargo disruptions.

Performance Measure				
Percentage of DOD-required shipping capacity complete with crews available within mobilization timelines.				
	2004	**2005**	**2006**	**2007**
Target	94	94	94	94
Actual	94	95	93	97
Associated FY 2007 Funding – $ 238 million				

2007 Results — DOT exceeded the 2007 performance target. The Maritime Administration achieved these results through the successful pursuit of a number of activities. Most significantly, to assure sufficient availability of U.S. ships, the Maritime Administration maintained full enrollment in the Maritime Security Program, stable enrollment in the Voluntary Intermodal Sealift Agreement program and Ready Reserve Force readiness levels. The Maritime Administration successfully operated the War Risk Insurance program, which ensured U.S. commercial ships could enter the Middle East war zones to sustain U.S. activities in Iraq and Afghanistan.

In the interest of ensuring that sufficient numbers of highly qualified new mariners enter the U.S. workforce, Maritime Administration supported training activities resulted in the graduation of 187 U.S. citizen, unlimited license ship officers from the USMMA in June 2007 and 479 from the six State Maritime Schools.

Taken together, the above activities as well as those undertaken to assure the availability of strategic ports (discussed below), ensure the smooth and secure movement of deploying DOD personnel and material from origin to destination and support the Department's ability to rapidly support response and recovery efforts for domestic and international emergencies.

FY 2008 Performance Forecast — The Maritime Administration expects to meet the FY 2008 target.

Performance Measure				
Percentage of DOD-designated commercial parts available for military use within DOD established readiness timelines.				
	2004	**2005**	**2006**	**2007**
Target	92	93	93	93
Actual	93	87	100	100
Associated FY 2007 Funding – $ 874 thousand				

2007 Results — DOT exceeded the 2007 performance target. A number of activities during 2007 led to this result. The Maritime Administration participated in joint military mobilization and security exercises as well as strengthened the cooperative partnerships that ensure effective emergency planning and coordination with a variety of organizations. The Agency also administered an Intelligent Transportation System Deployment Integration program with PAR Government Systems Corporation that demonstrated container and chassis satellite tracking technology using the PAR Cargo Watch System. PAR technology has evolved from cellular to satellite technology and into the cold food supply chain market. PAR successfully tracked 51 USTRANSCOM containers of ammunition and explosives from Korea to U.S. ammunition depots.

FY 2008 Performance Forecast — The Maritime Administration expects to meet the FY 2008 target.

Transportation Readiness
FY 2007 Enacted Funds: $9.0 Million

The past year marked an increase in the workload of intelligence operations and clarifications in the role for disaster preparedness and response for the DOT Office of Intelligence, Security, and Emergency Response. One new intelligence initiative has been information sharing and DOT has made significant progress in this initiative at the Federal Bureau of Investigations (FBI) National Joint Terrorism Task Force. The DOT representative to the National Joint Terrorism Task Force provides information to the other task force members and obtains information that impacts DOT, transportation infrastructure, transportation systems and their operations.

Along with its work in intelligence, DOT continued to ensure readiness to undertake its role as defined in the National Response Plan. DOT is the lead agency for coordinating transportation response and support following a disaster and has taken a more active role working with State and local transportation officials in planning for disasters. We are collaboratively assessing transportation infrastructure and systems for vulnerabilities and identifying critical elements. DOT is also working with State and local officials in identifying response options to local transportation failures.

Performance Measure				
Transportation Capability Assessment for Readiness Index Score.				
	2004	**2005**	**2006**	**2007**
Target	N/A	71	72	75
Actual	67	65	72	70
Associated FY 2007 Funding – $ 9 million				

2007 Results — In addition to responses to threats and emergencies, the Department measures internal preparedness using the Transportation Capability Assessment for Readiness (TCAR) score. It assesses six functional areas to obtain the overall TCAR score. These areas include monitoring operations, emergency response, training and exercises, continuity of operations, continuity of government, and international civil emergency planning. DOT was unable to meet its target of 75.

FY 2008 Performance Forecast — In 2008, the Department is planning to expand intelligence support to Operating Administrations, expand our policy development role and work with state and local governments to ensure preparedness and better planning for emergency response operations. We are developing new performance measures for the new Security, Preparedness and Response Strategic Goal—"Balance Transportation security requirements with the safety, mobility, and economic needs of the Nation and be prepared to respond to emergencies that affect the viability of the transportation sector." During Fiscal Year 2008, we will conduct a trial performance period to field test and calibrate the performance measures.

In-Depth Accomplishments Promoting Transportation Readiness

Over the past year the responsibilities and workload of the Intelligence Division have increased dramatically. The division focused on expanding interagency analytic contacts within the Intelligence Community and by working with intelligence partners, particularly the National Counterterrorism Center and the FBI, in providing information and analysis, which has been used in various products produced by the Interagency Intelligence Committee on Terrorism as well as National Terrorism Bulletins and briefings.

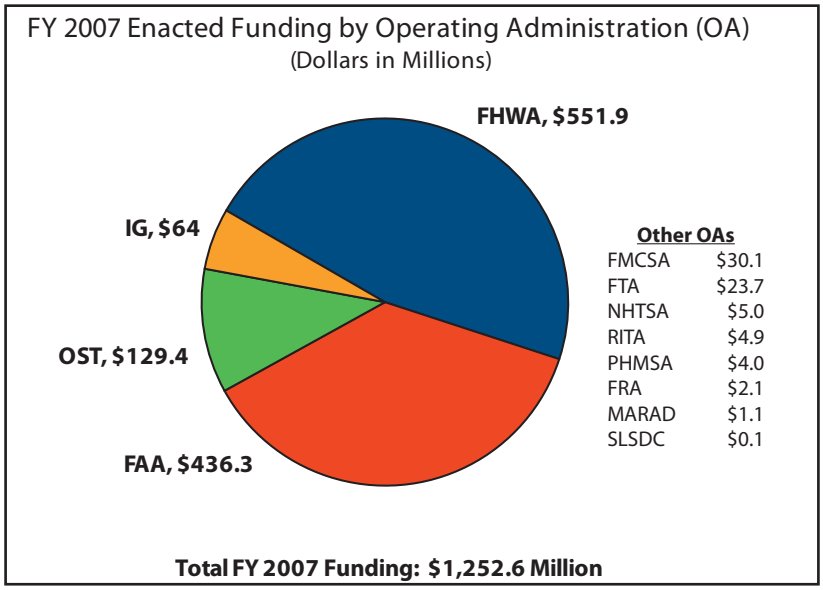
Operational response activities by DOT were at a more normal level than had been experienced in either 2005 or 2006. For a second year, DOT staffed the Joint Field Office in Baton Rouge through the summer to facilitate evacuation planning for south Louisiana.

The Secretaries of DOT and the Department of Homeland Security agreed to transition the transportation contracting function to FEMA by the end of 2007. DOT assisted FEMA by negotiating and transferring the evacuation bus contract, and assisted FEMA in establishing its own contract with Amtrak and its own contracting function.

DOT participated in several major national exercises, including the Ardent Sentry, Rubicon and Pinnacle Exercises. These exercises engaged both senior and operational staff. For example, more than 150 DOT personnel, including the Secretary, Deputy Secretary, and nine other Assistant Secretaries or heads of Operating Administrations, participated in the Pinnacle exercise.

ORGANIZATIONAL EXCELLENCE STRATEGIC GOAL

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

President's Management Agenda
FY 2007 Enacted Funds: $878 Million

Secretary Peters' central management strategy for achieving organizational improvement is full implementation of the President's Management Agenda (PMA). The PMA contains five 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 performance improvement goals; and,
- ✧ 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 continually assesses and improves critical competencies, thoughtfully restructuring organizations as needed to foster performance.

FY 2007 ACCOMPLISHMENTS

The DOT Office of Human Resources pursued a number of human capital initiatives throughout the year. The following are some of the highlights in FY 2007.

WORKFORCE PLANNING

DOT acquired access to the Workforce Analysis Support System (WASS) and Civilian Forecasting System (CIVFORS) and trained Operating Administrations (OA) on their use to answer sophisticated questions about the workforce or specific demographics within it and to forecast future trends and needs that improved the linkage between the corporate recruitment program and workforce planning. The workforce planning process at DOT relies on empirically-based and systematic identification and assessment of trends and projections regarding losses, gains, and risk areas, as well as a menu of options for addressing employee turnover at each OA. This data helps drive decisions and policies in areas such as quality of work life programs, retention incentives, training/development plans, recruiting strategies, and outsourcing.

During the last year, DOT has significantly refined its approaches to competency mapping, assessment, and improvement. DOT acquired a Competency Assessment and Management Tool (CAMT) to perform web-based assessments. We performed/facilitated competency assessments for DOT leaders, Information Technology, HR, Acquisition, Engineers, and several OA specific

occupations, including Financial Management Specialists in the Federal Highway Administration and Rail Safety Inspectors in the Federal Railroad Administration. We conducted training for OA staff in competency measurement and management.

LEADERSHIP AND SUCCESSION MANAGEMENT

DOT developed a competency model for DOT leaders at three defined levels and conducted three rounds of competency assessments. The competency that showed the greatest need for improvement in most OAs was conflict management, and the HR community worked with DOT's Office of Civil Rights (DOCR) and DOT's Center for Alternative Dispute Resolution (CADR) as well as external partners to increase both the amount of training given and the emphasis on skills improvement in this area. Scores in most OAs showed significant improvement upon retesting.

DOT hosted training on succession management for all OAs and subsequent training from the Corporate Leadership Council. The Department also updated its succession planning model and implementation plan to incorporate OPM guidance; led OAs through a process to identify at-risk high leverage positions and design bench strength strategies; strengthened the Senior Executive System (SES) pay for performance system and received full certification status; issued new policy on supervisory and management probation with input from leader focus groups; and instituted mandatory training for leaders in performance management.

PERFORMANCE CULTURE

As part of the SES performance management system, Heads of Operating Administrations work with the Office of the Assistant Secretary for Budget and Programs to complete an annual organizational assessment. Organizational assessments, which affect senior executives' pay increases and bonuses, evaluate the organization's measurable results against established criteria, such as the President's Management Agenda, DOT's Strategic Plan, and agency goals. The assessments encompass organizational performance data that is reported annually to OMB in the Performance Accountability Report, the Program Assessment Rating Tool, and the Government Performance and Results Act report.

COMPETITIVE SOURCING

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

FY 2007 ACCOMPLISHMENTS

In FY 2007, DOT received the President's Quality Award for Competitive Sourcing for its efforts since 2002. To receive this award, The DOT Team has:

- ✧ completed 23 competitions involving about 2,700 full time equivalents;
- ✧ estimated savings of about $95,000 per competed full-time equivalent;
- ✧ garnered anticipated savings of over $2.2 billion (over a ten year period);

- ✧ completed the largest single competition in the Federal government to date (FAA Flight Service Stations);
- ✧ achieved improved operational performance through innovative work processes and establishment of quality standards;
- ✧ implemented post-competition accountability and Most Efficient Organization independent validation for five completed competitions to verify actual savings and performance improvements;
- ✧ initiated the Workforce Analysis Pilot Project to deliberately link competitive sourcing and human capital planning (as required by the President's Management Agenda); and,
- ✧ shared lessons learned within the Department and with other Federal agencies.

However, DOT drops to yellow in status and progress on the OMB red-yellow-green scorecard system due to limited competitions planned for fiscal years 2008-2009.

IMPROVED FINANCIAL PERFORMANCE

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

FY 2007 ACCOMPLISHMENTS

MANAGERIAL COST ACCOUNTING

Managerial cost accounting (MCA) identifies, tracks, and analyzes the total costs attributable to a particular task, job, or program. DOT OAs are working aggressively to implement managerial cost accounting systems in order to provide their managers with cost information to make better-informed decisions. DOT initiated MCA with the Federal Aviation Administration (FAA), which was directed to develop a cost system in order to establish: 1) unit costs of services, and 2) as a means of sustaining defensible charges for reimbursable services. Through an executive dashboard, FAA's MCA system links costs to performance goals. Costs are tracked through three systems that interact: Delphi (DOT's financial and accounting system of record) FAA's Cost Accounting System (a People Soft System implemented largely to track projects and tasks) and DOT's Consolidated Automated System for Time and Labor Entry (CASTLE which is both a time and attendance and labor distribution reporting system).

The Federal Highway Administration (FHWA), Federal Transit Administration (FTA) and Federal Railroad Administration (FRA) have each developed an internal system for taking labor distribution files from CASTLE and costs from Delphi for rolling up cost information. FTA and FHWA have utilized a third party, activity based costing system. FRA has utilized Budget Program Activity Codes to track costs related to projects and draws reports from Delphi.

The Maritime Administration (MARAD) and Pipeline and Hazardous Materials Safety Administration have begun developing systems utilizing the Delphi Projects Module. One unique issue faced by MARAD is a substantial reimbursable effort with its Reserve Fleet. Being able to track reimbursable activities and connect them with the correct interagency agreement has not been possible to date except through bookkeeping adjustments. However, DOT has begun developing a strategy to rewrite its payroll interface for posting salary and benefit costs to its accounting system, which will enhance both payroll posting and tracking interagency costs and payments.

IMPROVING FINANCIAL AND ACCOUNTING PROCESSES AND OPERATIONS

Consolidating Accounting Operations — During FY 2007, DOT continued transitioning all accounting operations to the Enterprise Services Center (ESC) in Oklahoma City. The full consolidation of activities at the ESC reduces redundant processes, eliminates stovepipes and gains efficiencies. With all accounting operations staff centrally located, communication will improve and accounting standards and financial policies can be applied consistently. Additionally, having all accounting operations performed at the ESC allows better management of resources during times of increased accounting activity and simplifies training on financial system updates and other accounting changes. Further, as a consolidated unit, the ESC can showcase its ability to effectively serve internal customers and potential external customers, positioning it to better compete for accounting services among all government agencies.

Enhancing DOT's Reimbursable Policy — In 2007, DOT made substantial progress in fine-tuning the Department-wide reimbursable policy and business process. This is a critical part of DOT's efforts to streamline and standardize business practices and to strengthen internal controls across DOT. The inability to link provider and receiver agreements has hampered DOT's attempts to reconcile its reimbursable transactions with other government agencies. Beginning on October 1, 2007, all DOT OAs will use a Common Reimbursable Agreement Number (CRAN) on all reimbursable documents. Using a standard number and process greatly improves the OAs' ability to match up provider and receive information and eliminates the need for DOT's reimbursable agreement portal. The portal was a DOT-developed, labor-intensive workaround, which allowed the provider and receiver of services to reconcile revenues.

MEASURING IMPROVEMENTS IN FINANCIAL PROCESSES

The Fab 14 — Beginning in FY 2007, the DOT Office of Financial Management (OFM) rolled out a new department-wide initiative designed to help the Operating Administrations (OAs) recognize and reconcile longstanding data issues in their financial systems. OFM identified fourteen areas

of concern and defined corrective actions. This initiative, called the "Fab 14" raises OA awareness and accountability to correct inaccurate and incomplete data. In order to report progress, DOT developed an in-house, web-based tool that reports data on a monthly basis.

Chief Financial Officer (CFO) Council's Financial Management Indicators — The CFO Council's Financial Management Indicators Metric Tracking System (MTS) is a performance measurement system that captures key financial management indicators across the Federal Government. MTS uses a red/yellow/green scale to indicate how well an agency is doing. The tool's intent is to provide government managers, Congress and other stakeholders, information to assess the financial management health of the Federal government as a whole and for each individual agency. Tracking performance indicators helps to guide financial management reforms and targets resources to areas where DOT needs better stewardship. DOT began FY 2007 as "green" on all but two of the CFO Council metrics and plans to reach "green" on all CFO metrics by March 2008.

DELPHI SYSTEM UPGRADE

DOT uses Oracle Federal Financials software (named Delphi) as its agency-wide financial management and accounting system of record. In May 2007, DOT successfully upgraded its Oracle software to a version 11.5.10. The upgrade offers assurance that the Delphi Financial Application Software Modules are maintained at a level that ensures supportability by Oracle. The upgrade also adds some increased functionality for the Delphi support staff, reduces risks associated with technical enhancements, resolves some outstanding customer requests, provides customers with additional secure processing tools and allows Delphi to move toward future enhancements.

CASTLE (CONSOLIDATED AUTOMATED SYSTEM FOR TIME AND LABOR)

CASTLE is DOT's web-enabled, server-based consolidated automated system for time and attendance and labor distribution entry. With several major enhancements completed in FY 2007, CASTLE has experienced both functional and customer-related benefits. These benefits include:

- ✧ customers experiencing significantly faster timecard processing speed;
- ✧ full disaster recovery capability allowing minimal downtime in the event of a system outage; and,
- ✧ faster processing of the Time & Attendance file to our payroll servicing agency, allowing employee's records to be updated quicker, and reducing helpdesk calls and issues relating to lag between the two processes.

Future upgrades and enhancements will address integration of labor distribution and time and attendance data entry, further protection of Sensitive Personally Identifiable Information and revisions coming from DOT implementing the Common Government-wide Accounting Code structure.

EXPANDED ELECTRONIC GOVERNMENT

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

FY 2007 ACCOMPLISHMENTS

The Department continues to actively participate in many of the Administration's government-wide E-Government initiatives, such as, Enterprise Human Resource Integration (EHRI), E-Authentication, E-Travel and others. The results allow DOT employees access to enterprise or government-wide systems and the general public with one stop access to government information. For example, DOT:

- ✧ Implemented the EHRI electronic Official Personnel File initiative Department-wide which will eventually eliminate the need to maintain hardcopy records once back file conversion is completed in FY 2008;
- ✧ Implemented a secure, standard E-Authentication mechanism for ten systems in DOT; and,
- ✧ Implemented a standard travel management system Department-wide that allows employees to do on-line travel reservations, authorizations and vouchers.

During FY 2007, the Department's efforts in E-Government included several important successes in that DOT met established requirements and milestones and made further improvements in enterprise architecture, privacy, capital planning and security. DOT continued to integrate its enterprise architecture into existing business processes by defining a Departmental segment architecture strategy, developing the first of many segment architectures, implementing a DOT federated enterprise architecture repository to enable information sharing and establishing a Data Architecture Group to address cross-Departmental data issues. In addition, DOT conducted independent reviews of its FY 2009 business cases and provided significant comments to the OAs to help strengthen their business cases.

During the spring of 2007, DOT saw the successful completion of the move of the IT infrastructure and the Common Operating Environment (COE) to the new headquarters building and to an off-site hosting facility. This effort also reduced application server hosting facilities from eleven (excluding FAA) to three.

PERFORMANCE IMPROVEMENT INITIATIVE

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

FY 2007 ACCOMPLISHMENTS

In December 2006, OPM awarded DOT the President's Quality Award for Management Excellence in Budget and Performance Integration. The Department has advanced its practice of performance management in many ways since the President's Management Agenda was introduced in 2002. The Operating Administrations (OA) now submit integrated performance management budgets to OMB and Congress, which link policy initiatives with the funding requested. Each budget contains marginal cost analyses for requested increases in program funding, demonstrating to reviewers how performance will be affected by funding changes. All DOT programs, covering approximately $65 billion in funding, have been assessed using the Program Assessment Rating Tool devised by OMB and a minimal number have received the lowest rating, Results Not Demonstrated. SES performance awards now rest, in part, on how well the executive's agency has done in achieving its performance goals. Performance management has become a part of DOT's corporate culture at many different levels.

ELIMINATING IMPROPER PAYMENTS

The President's Management Agenda (PMA) strives to instill first class financial management practices in departments and agencies throughout the Executive Branch. Such efforts ensure that taxpayer dollars are spent wisely and efficiently, appropriately accounted for, and protected from fraud or misuse. To advance these important objectives, the Administration has made the elimination of improper payments a major focus of the PMA. An improper payment occurs when Federal funds go to the wrong recipient, the recipient receives the incorrect amount of funds, or the recipient uses the funds in an improper manner.

FY 2007 ACCOMPLISHMENTS

In FY 2007, the Department continued implementing the Improper Payments Information Act of 2002 (IPIA), which requires that agencies (1) review programs and identify those susceptible to significant improper payments (2) report to Congress on the amount and causes of improper payments and (3) develop approaches for reducing such payments.

In FY 2007, the Department successfully completed its review of the Federal Highway Administration (FHWA) Federal-aid Highway Program, Federal Aviation Administration (FAA) Airport Improvement Program, and the Federal Transit Administration (FTA) Formula Grants Program. In addition, the Department developed and tested a model for determining the amount of improper payments in the FTA Capital Investment Grant Program. The Department will apply the model on a nationwide basis in FY 2008.

In FY 2007, the Department re-engaged AOC Solutions, Inc. to develop the nationwide sampling plan, collect the results from the application of test procedures, and provide a nationwide estimate of improper payments for Federal-aid Highway Program, Airport Improvement Program, and Formula Grants Program. The Department developed and executed a sampling plan to test project payments and estimate the amount of improper payments nationwide.

All three Operating Administrations covered Federal payments to grantees over the twelve-month period March 1, 2006, through February 28, 2007.

The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

FHWA FEDERAL-AID HIGHWAY PROGRAM

In FHWA, the sampling plan involved a multi-staged statistical approach that included the selection of 53 Federal payments, 40 state payments, and then 230 testable line items from those payments for testing. The 2007 sample size is significantly less than the 2006 sample size because of a change in objectives. In 2007, the sample was designed to support a nationwide estimate of improper payments and was not designed to provide sample items to all states and territories. The states that did not appear in the IPIA sample received sample items for FIRE testing.

Improper payments totaling $45,568 were found in the sample of 230 tested items. The projection of this result to the population of program payments for the twelve-month period results in an improper payment estimate of $55.2 million +/- $0.5 million. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from factors such as unallowable charges, insufficient supporting documentation, incorrect calculations, and duplicate payments. The FHWA has implemented its FIRE Program to monitor State and Territory payments and provide a mechanism for assisting these entities with effectively addressing operational issues that result or could result in improper payments.

FTA FORMULA GRANTS PROGRAM

The sampling plan involved a multi-staged statistical approach that included the selection of 60 Federal payments, 30 transportation authorities' payments, and then 169 testable line items from those payments for testing.

Improper payments totaling $2,326.16 were found in the sample of 169 tested items. The projection of this result to the population of program payments for the twelve-month period results in an improper payment estimate of $2.77 million +/- $0.03 million. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from factors such as miscalculated federal participation share and lack of supporting documentation.

FAA AIRPORT IMPROVEMENT PROGRAM (AIP)

The sampling plan involved a multi-staged statistical approach that included the selection of 50 Federal payments, 30 sponsor payments, and then 95 testable line items from those payments for testing.

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

FEDERAL REAL PROPERTY ASSET MANAGEMENT

It is the policy of the United States to promote the efficient and economical use of America's real property assets and to ensure management accountability for implementing Federal real property management reforms. Based on this policy, executive branch departments and agencies shall recognize the importance of real property resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action.

FY 2007 ACCOMPLISHMENTS

The FAA, on behalf of the Department, continued to provide inventory information and performance measures to the Federal Real Property Council. The data included metrics for the approximately 69,500 DOT real property assets and reported performance information on the following elements for each real property asset:

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

The data and performance measures are maintained in the Real Estate Management System application that serves as the single-point inventory database for DOT real property assets. During the first quarter of FY 2007, the Department established its first-ever full inventory of real property assets and transmitted the data to the Federal Real Property Profile for inclusion in the full federal real property inventory database.

In accordance with the Department's Asset Management Plan and the Three-Year Timeline for Real Property, each of the Operating Administrations has participated in periodic reviews of the real property asset data. The Senior Real Property Officers throughout the Department have identified properties for disposition based on the mode's asset inventory and the Department's decision-making process and have also participated in reviews of both GSA and non-GSA leases. In addition to disposal activities, each Operating Administration has developed a priority investment list for their asset portfolios.

RESEARCH, DEVELOPMENT, AND TECHNOLOGY (RD&T)

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

FY 2007 ACCOMPLISHMENTS

The inter-modal RD&T Program Review Working Group, chaired by RITA, conducts annual reviews of the research programs of the modal administrations. At these reviews, modal administrations demonstrate how they are implementing the Department's *RD&T Strategic Plan*, applying the Administration's research and development investment criteria, and employing best practices in the management of their RD&T activities. The reviews also encourage collaboration and help prevent unnecessary duplication of effort across modes.

The Department continued its outreach to stakeholders by involving them in the entire Research and Technology (R&T) process from agenda setting and planning, through the conduct of research, technology and innovation deployment, implementation, and customer feedback. Specific mechanisms for stakeholder engagement include the Transportation Research Board (TRB) Research & Technology Coordinating Committee (RTCC), and other groups formed to provide advice on specific designated programs. For example, the TRB Pavement Technology Committee was established to provide advice on R&T in the areas of concrete pavements, asphalt pavements, and pavement materials.

Acquisition Management
FY 2007 Enacted Funds: $279 Million

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

2007 Results — DOT met these measures, which consists entirely of FAA projects. FAA tracked 67 milestones against 37 acquisition programs for this performance measure and met all variances for cost and schedule.

Performance Measure: For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met.				
	2004	**2005**	**2006**	**2007**
Target	80	80	85	87.5
Actual	100	97	100	100
Associated FY 2007 Funding – $ 56 million				

One of the most important steps in controlling costs is to ensure that capital programs are effectively managed. The FAA major capital programs are on track to meet established targets. These programs provide navigation, surveillance, computer processing capabilities, tools for air traffic controllers, telecommunications infrastructure and weather information to make the National Airspace System run smoother.

Performance Measure: For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met.				
	2004	**2005**	**2006**	**2007**
Target	80	80	85	87.5
Actual	91.5	92	97.4	97
Associated FY 2007 Funding – $ 223 million				

FY 2008 Performance Forecast — DOT anticipates meeting the performance targets in FY 2008.

Financial Stewardship
FY 2007 Enacted Funds: $98.3 Million

DOT needs to ensure that infrastructure improvements are delivered on time and within budget. Infrastructure projects are not static, at any point conditions may change, which impact either the cost of the project or the delivery date. Monitoring cost, schedule, and performance of infrastructure

projects is critical to identify problems and initiate action to mitigate risks. Three Operating Administrations have projects included in the following infrastructure project performance measures: FTA, FAA, and FHWA.

2007 Results — DOT missed the target for both performance measures. Twenty-two of the Department's 25 major infrastructure projects were on schedule and twenty-one were on budget.

Performance Measure: For major Federally funded infrastructure projects, percentage that meet schedule milestones established in project or contract agreements or miss them by less than 10 percent.				
	2004	**2005**	**2006**	**2007**
Target	95	95	95	95
Actual	95	95	91	88
Associated FY 2007 Funding – $ 47.9 million				

Performance Measure: For major Federally funded infrastructure projects, percentage that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent.				
	2004	**2005**	**2006**	**2007**
Target	95	95	95	95
Actual	74	79	82	84
Associated FY 2007 Funding – $ 47.9 million				

FHWA met the target for both the schedule milestones and cost estimates for 15 of its 18 major projects. The three projects that exceeded schedule milestones were approved prior to FY 2002. The three projects that exceeded their initial cost estimates were approved prior to FY 2004. FHWA took aggressive steps to validate State cost estimates and thoroughly address potential risks. FHWA issued major project guidance that stresses the importance of developing reliable cost estimates. The agency conducted risk-based cost estimate validations for seven major projects and will continue the cost estimate validations during the coming year. A pilot test was completed for a new training course designed to address major project cost estimating needs and requirements. The course focuses on raising awareness of the significance of cost estimates throughout the project continuum and the need to accurately and thoroughly identify risks involved.

FTA met the target for schedule milestones and cost estimates for all five of its mega projects, which are defined as active New Starts projects with Full Funding Grant Agreements (FFGA) that exceed $1 billion. The five projects are: New York East Side Access; Dallas Northwest/Southeast; Phoenix Light Rail; Denver Southeast Corridor Project; and, the Seattle Central Link Light Rail.

FAA has major runway projects at Seattle-Tacoma and Chicago O'Hare. The Seattle-Tacoma runway is on schedule to open in 2008. Phase 1 of the Chicago O'Hare Modernization Program (OMP), consisting of one new runway construction, relocation of an existing runway, and one runway extension, is on schedule for completion in 2009. For the two current major projects, Chicago OMP Phase 1 and the ongoing Seattle projects, the baseline of scheduled costs is $3.2 billion. In FY 2007, the Seattle Runway project remains at its cost target as it moves into the final phases of construction.

It is estimated that the OMP is $400 million over its original estimate, which is a 15 percent increase. FAA had anticipated a 15 percent cost increase in its evaluation of the OMP Phase 1, because of the rise in the cost of materials and land.

FY 2008 Performance Forecast — DOT has adopted new measures for monitoring cost estimates and schedule milestones on major projects that are based on a comparison of status in the current year to the prior year. The new target is 2 percent or less growth in schedules and costs in 90 percent or more of all major projects with a Financial Plan. DOT anticipates that it will meet the new targets.

2007 Results — FTA met the target for FY 2007. The amount of time to process grants was reduced from an average of 67 days in 2001 to 29 days in 2007. Higher FTA program funding and the number of new programs have increased the workload and number of awards being processed through FTA's Transportation Electronic Award and Management (TEAM) system. In FY 2007, total FTA grant projects were estimated at 2,500 with associated obligations of over $10 billion. The improvements in the timeliness of grant processing have resulted in improved customer service. FTA has continued to build on and refine initiatives implemented in previous years to improve grant processing time, including:

Performance Measure

Percentage of transit grants obligated within 60 days after submission of a completed application.

	2004	2005	2006	2007
Target	80	80	80	80
Actual	91	91	94	94 *

* Preliminary estimate

Associated FY 2007 Funding – $ 2.54 million

- ✧ Implementing an electronic Grants Notification System for grants that are over $1 million and processed for release by Congress;
- ✧ Opening the Transportation Electronic Award and Management (TEAM) system for grant obligation earlier in fiscal year 2007 as a result of monthly reconciliation of TEAM data during FY 2006;
- ✧ Developing a new functionality in TEAM to improve Earmark processing and tracking;
- ✧ Continuing to work with the Department of Labor (DOL) to streamline procedure for certifying grants;
- ✧ Continuing the expedited notification of certification by the DOL; and,
- ✧ Resolving mid-year problems with electronic notification to DOL resulting from new computer security firewall protections.

FY 2008 Performance Forecast — FTA anticipates meeting the FY 2008 target.

PERFORMANCE DATA COMPLETENESS AND RELIABILITY

Performance measurement is dependent on the availability of useful data that will indicate level of performance and helps progress toward achieving organizational goals. Because all data are imperfect in some fashion, pursuing perfect data may consume public resources without creating appreciable value. For this reason, there must be an approach that provides sufficient accuracy and timeliness but at a reasonable cost. This section of the report provides information on how DOT uses performance data, assesses limitations of the data, and plans to improve DOT's data.

IN GENERAL

In an attempt to bring consistency and quality to its performance reporting, DOT has implemented some general rules regarding the data it uses and how it is evaluated.

Annual Data — Whenever available, the data in this document are reported on a Federal Government fiscal year basis. However, there are instances where fiscal year data are not available so calendar year data are used instead. This often occurs when data are collected and reported to DOT by external sources and a calendar year reporting requirement is specified in the implementing regulation.

Completeness of Data for Annual Results — If available, the results for the most recent year in the report are listed as Actual in the shaded box for each performance measure. However, given the November 15 deadline for submission of the Performance and Accountability Report, not all data have been compiled and finalized for the entire year. When an actual value is not available for the current year, either an estimate or a projection is provided instead. In general, estimates are based on partial-year data that are extrapolated to cover a full 12-month period. Historical trend information, supplemented by program expertise, is then applied to estimate the remaining months of performance for which actual data is unavailable. The result is identified as a preliminary estimate in the report. If partial-year data are not available, then past trend information is analyzed and supplemented by program knowledge to develop a projected value for the annual performance measure. The result is identified as a projection in the report. As data are finalized, the projections and preliminary estimates are replaced by actual results, with resulting changes denoted by an (r). Results are also amended as errors and omissions are identified in the data verification process, as updated information is provided by the reporting sources, or because of legal or other action that changes a previously-reported value.

Reliability of Measurement Data — DOT performance data are generally reliable (useful to program managers and policy makers). But because performance results in a given year are influenced by multiple factors, some of which are beyond DOT's control, and some of which are due to random chance, there may be considerable variation from year to year. A better "picture" of performance may be gained by looking at results over time to determine if there is a trend.

Virtually all data have errors. We have compiled Source and Accuracy Statements for each of the DOT data programs used in this report, which can be found at http://www.bts.gov/programs/statistical_policy_and_research/source_and_accuracy_compendium/index.html. The Source and Accuracy Statements give more detail on the methods used to collect the data, sources of variation and bias in the data, and methods used to verify and validate the data.

Assessing and, where possible, eliminating sources of error in DOT data collection programs has always been an important task for data program managers. As part of their ongoing work, managers of Departmental data programs use quality control techniques to identify where errors can be introduced into the data collection system. Program managers also use computerized edit checks and range checks to minimize errors that may be introduced into the data of their respective programs. In addition, quality measurement techniques are employed to measure the effects of unanticipated errors. These include verification of data collection and coding, as well as coverage, response and non-response error studies to measure the extent of human error affecting the data. As sources of error are identified, data collection is improved. Quality control is an ongoing and continuous effort to improve data accuracy and availability.

The data used in measuring performance come from a wide variety of sources. Much of it originates from sources outside of the Department and, therefore, outside of the direct control of the Department. The data often come from administrative records or from sample surveys. While DOT may not have a strong voice in improving the quality of outside data, the Department takes all available information about the limitations and known biases in outside data into account when using the data.

To help the OAs address these issues, the Bureau of Transportation Statistics (BTS) is developing a statistical policy framework where the OAs will work together to identify and implement the current statistical best practices in all aspects of their data collection programs. This project is consistent with the data capacity discussions found in the DOT Strategic Plan.

See *Other Accompanying Information* in the Financial Report for detailed explanations of completeness and reliability for each performance measure.

DATA LIMITATIONS

DOT Data Source Limitations — Timeliness is the most significant limitation for DOT performance measurement data. Some DOT data are not collected annually. For example, the National Household Travel Survey and the Commodity Flow Survey each collect data every five years. Data that are collected each year (or more frequently) require time to analyze, confirm and report results. For example, Highway Performance Monitoring System vehicle-miles traveled (VMT) data require several months of post-collection processing, making final results unavailable for this performance report.

Other performance measurement data limitations are identified in the previously mentioned Source and Accuracy Statements for DOT data programs. These statements contain descriptions of data collection program design, estimates of sampling errors (if applicable), and discussions of non-sampling errors. Non-sampling errors include under-coverage, item and unit non-response, interviewer and respondent response errors, processing errors, and errors made in data analysis.

Estimating and Projection Techniques Used — As discussed under completeness, many of the FY 2007 measures must be projected from either partial-year data or historical trends. The projections based on partial-year data from FY 2007 are more likely to reflect changes effected by current DOT policies and programs. The measures projected from FY 2006 and prior historical data reflect continuing trends from ongoing programs, but do not reflect the effects of changes implemented in FY 2007.

External Data Source Limitations — Data that originate from external or third-party sources are not directly controlled by DOT. These data often come from administrative records or from sample surveys. Timeliness is also a significant limitation. For example, many DOT internal data programs rely on data provided by State DOTs. DOT partners closely with the States, but does not have direct control over these programs.

DOT PROGRAM EVALUATIONS

Performance measures show if intended outcomes are occurring and assess any trends. Program evaluation uses analytic techniques to assess the extent to which our programs are contributing to those outcomes and trends. As required by the Government Performance and Results Act of 1993, the Department's *FY 2006 - 2011 Strategic Plan* includes an updated list of new program evaluations planned for those fiscal years. This appendix provides a summary of DOT's program evaluation efforts and a report on program evaluations scheduled for completion in FY 2007.

TYPES OF PROGRAM EVALUATIONS

Program evaluation is an assessment, through objective measurement and systematic analysis, of the manner and extent to which programs achieve intended outcomes. Evaluations are of the following types:

- *Impact Evaluations* use empirical data to compare measurable program outcomes with what would have happened in the absence of the program. These represent the highest standard of program evaluations and are often the most difficult and expensive to construct and interpret.
- *Outcome Evaluations* assess the extent to which programs achieve their outcome-oriented objectives. Outcome evaluations will use quantitative methods to assess program effectiveness, but fall short of the rigorous causal analysis of impact evaluations.
- *Process Evaluations* assess the extent to which a program is operating as intended. While a true process evaluation will use objective measurement and analysis, it falls short of assessing the causal links between intervention and outcome.
- *Cost-Benefit and Cost-Effectiveness Analyses* compare a program's outputs or outcomes with the costs to produce them. This type of analysis conforms with program evaluation when applied systematically to existing programs and when measurable outputs and outcomes are monetized.

PROGRAM EVALUATION MANAGEMENT

DOT staff, contractors, academic institutions, the Office of the Inspector General (OIG), or the Government Accountability Office (GAO) may conduct program evaluations. Program evaluation efforts are designed to ensure that the finished evaluations are useful regardless of who conducts the evaluation or the methodology used.

The programs selected for evaluations are vetted through the Department's strategic planning process. Each Operating 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 continue their own program evaluations independent of this schedule, as deemed appropriate.

FY 2007 PROGRAM EVALUATION SUMMARIES

A summary of DOT program evaluations scheduled for completion in FY 2007 follows.

Retrospective Assessment Of Benefits And Impacts Of The Pipeline Safety Operator Qualification Regulations

Operator error has long been a significant factor in pipeline incidents and accidents. After three major incidents in the 1980s, the National Transportation Safety Board recommended development of qualification requirements for pipeline personnel carrying out safety duties. Congress directed regulatory action in subsequent legislation, and PHMSA finalized a rule in 1999.

Related Strategic Goals: Safety, Environmental Stewardship

The purpose of this outcome evaluation was to determine the benefits and impacts of the personnel qualification regulations issued in 1999. Information was collected through program operations and incident reports and two public meetings to explore progress in implementing the program.

The evaluation found several deficiencies in operator programs during the initial phase of implementation, but also a number of solutions emerging from: the pipeline industry itself, professional standards organizations, and State/federal inspectors and program managers. PHMSA and State pipeline safety agencies completed the initial inspection of Operator Qualification (OQ) programs for all federally-regulated operators and most State-regulated operators. The results of this initial inspection led to development of a national consensus standard to improve operators' programs and to the development of a model plan to assist small operators in complying with the 1999 rule. After the new standard for OQ programs was finalized and implemented, operators reported improved operational ability and safety, improved operating and maintenance procedures, and increased awareness of requirements. While evaluators observed some reduction in the number of incidents and accidents attributed to operator error, it is too early to attribute performance trends solely to the new operator qualification program standard.

This evaluation was completed in December 2006, and a report was provided to Congress in January 2007. The report recommended continuing inspections of OQ programs, monitoring the safety performance of operators and trends in accidents/incidents, clarifying the OQ regulations, and consideration of regulatory changes. As a result, PHMSA has expanded the Frequently Asked Questions published on the agency's Web site, participated with State partners in the first American Society of Mechanical Engineers' committee meeting to review the new standard and begun efforts toward developing new standards focused on new construction.

Assess The Current PHMSA Information Technology (IT) Program To Identify Overlapping And Redundant IT Investments, Systems And Services.

This evaluation will identify current and future business and technology performance gaps that inhibit PHMSA's ability to efficiently, effectively, and reliably execute mission activities.

Related Strategic Goals: Safety, Environmental Stewardship, Organizational Excellence

The primary goal of this process evaluation is to better align the Information Technology (IT) portfolio with PHMSA's business model in order to provide the greatest value while reducing redundancies and costs and creating a more efficient IT services delivery program. We have conducted a significant amount of pre-program review activities in preparation for the IT evaluation. These activities include the development of a draft PHMSA Strategic Plan, identification of the PHMSA IT portfolio, mapping of IT systems to PHMSA lines of business, and the identification of related costs. These pre-program activities have already led to the discovery of redundant IT systems and reinforced our assumption that the current solutions are not meeting business expectations and/or not providing maximum business value.

On September 12, 2007, PHMSA awarded a contract to a third party vendor to assist in completing the evaluation effort. The evaluation will use the following approach:

1. Discovery - Review of business (i.e., strategic plan, performance plans, business plans) and IT documentation to better understand the "As Is" (current state) environment and a framework for the "To Be" (future state) model based on the strengthened PHMSA vision, strategies, and goals.

2. Build the Conceptual "To Be" Business Model - With the information gathered from the discovery phase, a conceptual "To Be" Business Model will be developed. The model will be organized by lines of business and provide information on business processes, data requirements and dependencies, application and database relationships, and technology platforms. PHMSA will leverage best practice data from other organizations of similar size, scope, and complexity to assist in building the model, identifying benefits, and projected costs savings.

3. Gap Analysis - Upon Senior Leadership Approval of the "To Be" Business Model, a gap analysis will be executed. The gap analysis aims to identify misalignments in the business, data, application, and technology layers between the "As Is" and preferred "To Be" business models. It is highly anticipated that business process reengineering recommendations will be an output, in addition to changes in the current IT portfolio. Upon completion of the gap analysis, PHMSA will better understand what investments are aligned and those that are misaligned with the business model, as well as other recommendations that will improve efficiency

and reduce redundancies. Recommendations will be made to the leadership team (Investment Review Board) on which investments should be continued, modified, or terminated.

4. Transition Plan - Develop the blueprint and sequencing objectives to get from the "As Is" to the "To Be" State.

The expected completion date for this evaluation is in early 2008. Results from the evaluation will be reported in next year's PAR.

Safer Skies Program

In 1997, the White House Commission on Aviation Safety and Security issued a challenge to the FAA and the aviation industry – to reduce the air carrier fatal accident rate by 80 percent in ten years. This challenge became known as the Safer Skies program.

The purpose of this program evaluation is to determine how successful the Safer Skies program, which FAA began in 1998, was in increasing aviation safety. This outcome evaluation looked at the three main areas of emphasis for Safer Skies – Commercial Aviation, General Aviation and Cabin Safety. These areas focused on improved data and analysis, as well as improved human factors in operations and maintenance.

Related Strategic Goal: Safety

The results of this outcome evaluation, for each of the evaluation's focus areas, were as follows:

Commercial Aviation – In reviewing Commercial Air Carrier Fatal Accidents, the ten-year target called for an 80 percent reduction in the commercial air carrier fatal accident rate. Although we did not achieve the target set ten years ago, by the end of FY 2007, FAA has achieved a rate of 0.022 fatal accidents per 100,000 departures – a 57 percent drop. While we did not make this ambitious target, this is a significant reduction.

General Aviation Fatal Accidents – A review of the data from the three years prior to the development of Safer Skies (1994-1996) shows an average of 418 fatal general aviation accidents per year. From 2004 to 2006, the data indicate an average of 353 fatal general aviation accidents per year – approximately a 16 percent decrease.

Cabin Safety Commercial Fatalities – The three years prior to the development of Safer Skies (1994-1996) saw an average of 269 deaths per year, with 45 average deaths per fatal accident. A review of the FYs 2005 – 2007 fatality data indicates an average of 29 deaths per year, with 11 average deaths per fatal accident. This is a reduction of 89 percent and 76 percent, respectively.

The transformation of the aviation industry in both complexity and size has dramatically changed. This should also be reflected in how FAA conducts surveillance and measures progress. To date, "diagnostic surveillance," looking at the causes of accidents after the fact, has been effective. However, this method of surveillance will result in an unacceptable level of fatal accidents as traffic doubles or triples by 2025. The results of the evaluation yielded two recommendations for FAA — modify the commercial fatal accident rate to address fatalities and develop a system safety approach.

The Aviation Safety organization developed a new commercial air carrier fatal accident rate performance measure (Fatalities per 100 million enplanements) and is in the process of developing a Safety Management System policy for FAA in FY 2008.

Maritime Security Program

The Maritime Administration planned to have an independent auditor conduct an impact assessment of the Maritime Security Program in FY 2007. However, funding was not available for this project, and as a result, a decision was made to defer the evaluation. The Maritime Administration plans to complete this evaluation in FY 2008. Results from this evaluation will be reported in the FY 2008 DOT Performance and Accountability Report.

Evaluation Of National Mobilizations

NHTSA has encouraged States to aggressively enforce laws affecting the safety of motorists on the Nation's highways. These laws include mandating the use of seat belts in motor vehicles and discouraging drivers from operating a motor vehicle while impaired. As part of this enforcement effort, the "Click It Or Ticket" (CIOT) campaign was established to promote seat belt use and the "Drunk Driving: Over the Limit; Under Arrest" campaign was established to discourage impaired driving.

Related Strategic Goal: Safety

The purpose of this outcome evaluation is to evaluate high visibility national enforcement efforts and the resulting impact on driver's behaviors. The evaluation considered the use of paid advertisements focusing on seat belt enforcement, measured motorists' awareness of seat belt campaigns, and ultimately measured the change in seat belt use rate and the reduction in alcohol related fatalities.

- ✧ May 2005 National Seat Belt Mobilization: The May 2005 National CIOT Mobilization was the largest publicity and enforcement program to date to increase seat belt use. Approximately $10 million was spent for a national media campaign. Forty-one percent of law enforcement agencies across 48 States, the

District of Columbia, and Puerto Rico reported their participation. Seat belt use increased in 35 of 47 States and territories and reached a record high of 82.4 percent nationally, up from 80 percent in 2004. Additional information can be found on the NHTSA Web site at: http://www.nhtsa.dot.gov/staticfiles/DOT/NHTSA/Communication%20&%20Consumer%20Information/Traffic%20Tech%20Publications/Associated%20Files/tt330.pdf.

Bergen County police officer Jeff Roberts, right, hands a seat belt safety pamphlet to a driver during a "Click It or Ticket" checkpoint stop near the entrance to the George Washington Bridge in Fort Lee, N.J., Monday, May 21, 2007. The checkpoint was one of three set up in New Jersey Monday to raise awareness of seat belt safety and give out $46 tickets to those motorists not wearing seat belts. (AP Photo/Mike Derer)

✧ 2005 Regional Seat Belt Demonstration Programs Focus on Rural Areas and Pickup Trucks: NHTSA conducted three regional demonstration programs in 18 States just before and during the 2005 May mobilization. Two focused on increasing seat belt use in pickup trucks and one focused on increasing seat belt use in rural areas. States in the Great Lake Region (region 5) that used the full model of enforcement and enforcement-centered media had more success in the rural areas than the States that did not. The South Central States (region 6) posted a three-point gain in seat belt use in pickup trucks from 2004 to 2005, better than the national average, and reduced the car/pickup truck disparity in belt usage. This had no consequence on

the overall belt use rate in all vehicles in this region. A copy of the report can be found at: http://www.nhtsa.dot.gov/buckleup/CIOT2005_effectiveness/index.html.

- ✧ 2003-2005 National High Visibility Impaired Driving Campaign: The National Impaired Driving Crackdown program used high-visibility enforcement coupled with enforcement-oriented media to create general deterrence with efforts focused on a number of States with especially high numbers or rates of alcohol-related traffic fatalities. During the three-year study period, the trend in alcohol-related fatalities declined, and the declines were more pronounced for the campaign's target audience of male drivers, ages 18 to 34. Though the observed declines were not significant, they could be considered promising, since they are headed in the right direction and immediately follow a period of increased alcohol-related fatalities. It appears that more substantial benefits will require a much higher level of law enforcement intensity than was present during the campaign, as well as a frequency of more than once a year. Awareness about both enforcement activities and media messages increased following each crackdown, but did not carry over from campaign to campaign. Conducting more frequent waves of enforcement and publicity may be more successful in building a cumulative effect. A copy of the report (DOT HS 810 789: Evaluation of the National Impaired Driving High-Visibility Enforcement Campaign: 2003 - 2005) can be found on the NHTSA Web site at: www.nhtsa.dot.gov/portal/nhtsa_static_file_downloader.jsp?file=/staticfiles/DOT/NHTSA/Traffic%20Injury%20Control/Articles/Associated%20Files/YDYDYL_2001-05.pdf.

NHTSA is in the process of conducting an evaluation of the 2006 national mobilization effort and is preparing a separate report on the May national seat belt mobilization and the Fall impaired driving crackdown. They will be completed and published in the Fall of 2008.

Evaluation Of The Compliance Review (CR) Impact Assessment Model

A Compliance Review (CR) is an onsite examination of a motor carrier's operations to determine the carrier's safety fitness. FMCSA, in cooperation with the Volpe National Transportation Systems Center, has developed an analytic model to measure the effectiveness of the CR in terms of crashes avoided, injuries avoided and lives saved. This tool provides FMCSA management with the information it needs to address the requirements of the Government Performance and Results Act (GPRA) of 1993, which obligates Federal agencies to measure the effectiveness of their programs as part of the budget cycle process. It also provides FMCSA and State safety program managers with a quantitative basis for optimizing the allocation of field safety resources. This analytic tool is known as the CR Effectiveness Model.

Related Strategic Goal: Safety

The CR Effectiveness Model shows the direct impact of compliance reviews on motor carrier safety, but not the "deterrent" effects (i.e., the effect on a carrier's behavior due to the potential of having a CR). The model is based entirely on "before and after" changes in the safety performance of motor carriers that received CRs. The model compares a motor carrier's crash rate in the 12-month period after a CR, to its crash rate in the 12-month period prior to that review. To make this comparison, the model uses: (1) crash data reported by the States, and (2) power unit data reported by carriers or obtained during CRs.

This impact evaluation focused on CRs conducted in 2004 to identify the extent to which the model could be used to identify the associated benefits. In 2004, 10,671 CRs were conducted. The analytical model was able to assess the impact of 8,042 of these reviews (some compliance reviews were removed from the model because the motor carrier receiving the CR was not active 12 months after the CR, had zero power units, or had crash and power unit data that did not pass edit checks designed to screen out erroneous data). Based on this assessment, it is estimated that during the period from 2004 to 2005, 2,720 crashes were avoided, 1,889 injuries were avoided and 107 lives were saved as result of performing compliance reviews in 2004.

Evaluation Of The Roadside Inspection/Traffic Enforcement Analytical Model

FMCSA and its State partners conduct roadside inspections and traffic enforcements of large trucks and buses to ensure that the vehicles and drivers are operating safely within the Federal Motor Carrier Safety Regulations. FMCSA, in cooperation with the Volpe National Transportation Systems Center, has developed an analytic model to measure the effectiveness of roadside inspections and traffic enforcements in terms of crashes avoided, injuries avoided and lives saved. This tool provides FMCSA management with the information it needs to address the requirements of the Government Performance and Results Act (GPRA) of 1993, which obligates Federal agencies to measure the effectiveness of their programs as part of the budget cycle process. It also provides FMCSA and State safety program managers with a quantitative basis for optimizing the allocation of field safety resources. This analytic tool is known as the Intervention Model.

Related Strategic Goal: Safety

The Intervention Model is based on the premise that the two programs—Roadside Inspection and Traffic Enforcement—directly and indirectly contribute to a reduction in crashes. The model includes two components that are used for measuring these different effects, the direct effect model component and the indirect effect model component. Direct effects are based on the assumption that vehicle and/or driver defects discovered and then corrected at the roadside reduce the probability that these vehicles/drivers will be involved in subsequent crashes. In order

to measure the direct effects of the intervention, the model assigns crash risk probabilities to each of the violations found at the roadside. The model then calculates direct-effect-prevented crashes according to the number and type of violations detected and corrected during the intervention.

Indirect effects are the by-products of the carriers' increased awareness of FMCSA programs and the consequences that the programs could impose if steps are not taken to ensure and/or maintain higher levels of safety. In order to measure indirect effects, which are essentially changes in behavior involving driver preparation, practices and vehicle maintenance, the model calculates motor carrier responses to exposure to the programs, and the resulting reduction in potentially crash-causing violations.

Most recently, the model was implemented to measure program effectiveness during the 2005 activity year using March 31, 2006, data extracted from the Motor Carrier Management Information System (MCMIS). The number of inspections and the model results are shown below for 2005.

Number of Inspections		
Calendar Year	**2004**	**2005**
Roadside Inspections	2,211,875	2,194,567
Traffic Enforcements	803,032	827,719
Total Interventions	**3,014,907**	**3,022,286**

2005 Traffic Enforcement Activity Level Results			
	Crashes Avoided	**Injuries Avoided**	**Lives Saved**
Traffic Enforcement Activity	3,416	2,369	127
Roadside Inspection Activity	3,216	2,230	120
Combined Activity	2,583	1,791	96
Total	**9,215**	**6,390**	**343**

Review Of FRA's Research, Development And Demonstration Programs

The FRA Research, Development and Demonstration (RD&D) Program directly supports DOT's regulatory safety mission. The purpose of the program is to facilitate FRA's efforts to enhance the safety and efficiency of the Nation's rail system. In FY 1998, Congress directed FRA to expand its collaborative efforts with the Transportation Research Board (TRB) and to review its Research and Development (R&D) program. The purpose of the TRB review was to validate how FRA's R&D

program activities supported the agency's safety mission and to identify opportunities to improve overall program performance. TRB continues to provide FRA with an annual review of its R&D program, which helps inform agency leadership on the progress of its R&D activities.

Related Strategic Goal: Safety, Organizational Excellence

The TRB conducted peer reviews of FRA's research, development, and demonstration programs, and in doing so, focused on three major issues: safety, capacity, and efficiency. The review encompassed both freight and passenger rail activities and was conducted during a three-day workshop, which included interviews of FRA staff, presentations from FRA program managers, discussions and debate by industry and subject matter experts, and various other data gathering methods.

TRB's overall findings were positive. The Board concluded that ongoing research being pursued by FRA should continue and not be given a lower priority solely because of proposed new research. The committee did conclude that there are a number of additional research areas that should be explored, including:

- ✧ development of interoperability standards for positive train control;
- ✧ research towards performance based standards;
- ✧ research related to rail capacity issues; and,
- ✧ consolidating findings and research results related to energy and environmental research projects.

Federal Railroad Administrator Joseph Boardman speaks during a news conference at the CSX rail yard in Atlanta, Thursday, March 2, 2006. Boardman said, human factors are the leading cause of train accidents and the agency is researching railroad worker fatigue and is working to analyze close calls, incidents that nearly cause train accidents. (AP Photo/John Bazemore)

TRB also made four recommendations designed to improve FRA's management of the R&D program. FRA is in the process of developing a response to these recommendations, which would include an action plan to address the recommendations where appropriate.

Railroad Safety Enforcement

The Safety Assurance and Compliance Program (SACP) was initiated in the mid-1990s to identify and resolve systemic safety issues on large multi-regional railroad systems through a "macro" approach (i.e., examining the railroad system, all at one time). SACP is credited with resolving

hundreds of safety issues, many of which were very complex. Over time, however, SACP grew in several different directions and was criticized, internally and externally, for a variety of perceived shortcomings.

On July 29, 2005, the Associate Administrator for Safety issued a directive implementing a new element of the FRA safety program, Railroad System Oversight (RSO), to replace SACP. The SACP had served as a critical part of Railroad Safety Enforcement, so this directive reflected a significant modification of FRA's safety program.

Fundamental changes in the safety oversight process for large railroad systems were implemented as a result of this initiative. In all, these changes were designed to improve communication, efficiency, use of FRA resources, and to focus better on those issues and concerns of greatest importance to the FRA safety program.

Related Strategic Goal: Safety

This outcome evaluation of RSO, one year after its implementation, will assess the effectiveness of the program and determine if the anticipated operational improvements (e.g., improved resource utilization, better organizational communication) were achieved.

The evaluation will include the following activities:

- ✧ Review RSO activities since implementation in September 2005 to identify safety activities; e.g., issues resolved, safety initiatives;
- ✧ Perform a comparative analysis between current RSO operation and the implementation directive signed by the Associate Administrator for Safety;
- ✧ Interview RSO supervisor and managers, FRA headquarters and regional managers, and railroad and labor organization representatives to determine levels of communication, integration with safety functions, and overall "customer" satisfaction;
- ✧ Analyze RSO activities and evaluate effectiveness of RSO managers in identifying, resolving, and/or communicating safety issues for resolution;
- ✧ Review, compare, and evaluate RSO record keeping and reporting activities; and,
- ✧ Analyze internal FRA performance data RSO provides to headquarters and regions to evaluate consistency, timeliness, and usefulness to headquarters and the regions.

We are currently conducting an evaluation of the Rail Safety Oversight group. The evaluation will be completed in November 2007 and evaluation results will be reported in the DOT FY 2008 Performance and Accountability Report.

Side Impact Protection And Side Air Bags

Side impacts rank second only to frontal impacts as a cause of occupant fatalities in cars, light trucks, and vans. In 2003, over 9,000 fatalities, approximately 29 percent of all occupant fatalities in cars and light trucks occurred in crashes initiated by a side impact. Since the 1970's, NHTSA, the manufacturers, and others in the safety community have worked hard to reduce the fatality risk in side impacts, especially of the most vulnerable occupant, the "nearside" occupant: the driver in a left-side impact and the right-front passenger in a right-side impact.

Related Strategic Goal: Safety

In recent years, four tangible improvements in side impact protection have been implemented and were evaluated in this outcome evaluation:

- ✧ Upgrading the side structure in passenger cars
- ✧ Installation of energy absorbing padding within the door structure
- ✧ Torso air bags that provide a cushion between the occupant's torso and the vehicle side structure
- ✧ Head-protection air bags that cushion head impacts with the vehicle's side structure

Effect of side air bags for nearside occupants:

Torso air bags plus head-protection air bags reduce the fatality risk of nearside front seat occupants in single- and multi-vehicle crashes by 24 percent. Torso bags alone reduce the fatality risk by an estimated 12 percent. Through 2005, there were few vehicles equipped with head-protection air bags only (no torso bags), not enough for a separate statistical analysis. However, the results suggest that torso and head-protection air bags are both effective in nearside impacts and make approximately equal contributions to fatality reduction. Overall torso and head-protection air bags could have saved an estimated 1791 lives in calendar year 2003 if every passenger car, light truck, and van had been so equipped. In September 2007, NHTSA announced new upgraded side impact safety requirements for all passenger vehicles, which is expected to save over 300 lives and prevent nearly 400 serious injuries every year. The new standard requires auto manufacturers – for the first time ever – to provide head protection in side-impact crashes, as well as enhance other protections for passengers involved in such crashes.

This undated photo provided by the Insurance Institute for Highway Safety shows a side impact test on a 2006 Ford Five Hundred vehicle with optional side airbags. (AP Photo/ Insurance Institute for Highway Safety)

Combined effect of improved structure, padding and side airbags:

Side impact protection could have saved an estimated 2,934 lives (nearside and far side occupants) in calendar year 2003 if every car on the road had been equipped with side air bags (head and torso), improved side structure and padding, and every light truck and van had been equipped with side air bags. The associated reduction in fatality risk for the combined effect is 42 percent in two-door passenger cars, 30 percent in four-door cars, and 15 percent in light trucks and vans. The complete NHTSA report can be found at http://dmses.dot.gov/docimages/p89/460665.pdf.

SafeStat Program

Safety Status Measurement System (SafeStat) is an automated analysis system developed for the Federal Motor Carrier Safety Administration (FMCSA). The system combines current and historical safety performance data to measure the relative safety fitness of interstate commercial motor carriers. SafeStat enables FMCSA to quantify and monitor the safety status of motor carriers and guides the deployment of resources to focus on carriers posing the greatest safety risk.

Related Strategic Goal: Safety

GAO and the DOT Office of Inspector General (OIG) conducted process evaluations of SafeStat and made several recommendations to FMCSA to improve the system. The reports issued by GAO and OIG were largely positive and indicate that FMCSA does a good job in identifying carriers that pose high crash risks thereby ensuring the thoroughness and consistency of compliance reviews (CRs).

GAO's assessments found that FMCSA could more effectively address fatalities due to crashes involving a commercial motor vehicle if it better targeted CRs to those carriers that pose the greatest crash risks. OIG's assessment found that although improvements have been made to the data relied upon in SafeStat; problems still exist with the reporting of crash data.

In June 2007, GAO published an audit report titled, "Motor Carrier Safety: A Statistical Approach Will Better Identify Commercial Carriers That Pose High Crash Risks Than Does the Current Federal Approach" (Report No. GAO-07-585), and recommended that FMCSA apply a negative binomial regression model to enhance the current SafeStat methodology. FMCSA believes that the approach looks promising but is concerned that using the binomial regression model may result in less emphasis on safety regulatory areas. FMCSA agreed to consider amending current policies to place increased CR priority on certain motor carriers that are identified by SafeStat as deficient in the area of prior crashes.

In August 2007, GAO published audit findings in a report titled, "Motor Carrier Safety: Federal Safety Agency Identifies Many High-Risk Carriers but Does Not Assess Maximum Fines as Often as Required by Law" (Report No. GAO-07-584), and recommended that FMCSA improve its targeting of carriers that posed high crash risks by prioritizing CRs for carriers with very poor scores (such as the worst five percent) in the accident safety evaluation area, so that these carriers will be selected for CRs regardless of their scores in the other areas. GAO recommended this approach should FMCSA decide not to implement the negative binomial regression model, as recommended in the report issued in June 2007. FMCSA agreed to implement GAO's recommended approach. In the longer term, FMCSA, under the CSA 2010 initiative, is moving towards new methods for better targeting its safety compliance resources which promises further improvement in identifying high-risk motor carriers.

In June 2007, OIG issued correspondence to Representative Thomas Petri regarding the quality of the underlying data used by SafeStat. The review, conducted at Representative Petri's request, found that, although improvements have been made, problems still exist with the reporting of crash data to FMCSA. While States are reporting more commercial motor vehicle crashes to FMCSA, OIG found anomalies that caused OIG to question the completeness of the non-fatal crash reporting. OIG recommended that FMCSA implement a new, more reliable estimate that would allow evaluation of non-fatal crash reporting, both nationally and state-by-state, before the Department makes all SafeStat scores available to the public. FMCSA acknowledged the need to develop a new, more reliable estimate and has begun work to implement the estimate.

Alternative Inspection Regimes

The primary goal of the FMCSA is to ensure the safe operation of interstate motor carriers and hazardous materials shippers. A program evaluation was conducted to assess the safety effectiveness, program and process efficiency, and cost effectiveness of alternative inspection regimes for FMCSA's Motor Carrier Compliance Review (CR) Program. The alternative inspection regimes study evaluated four intervention tactics: educational initiatives, warning letters, off-site investigations, and focused on-site investigations. These four interventions are among the broad array of progressive interventions being considered by the Comprehensive Safety Analysis (CSA) 2010 program.

Related Strategic Goal: Safety

Currently the Agency's CR program can only inspect a small percentage of the motor carrier industry. One of CSA 2010's goals is to increase the Agency's influence over the safety behavior of motor carriers (measured in terms of education, visits, an array of disciplinary treatments, and warnings). Each of the four interventions were analyzed using quantitative data (when available) and qualitative data. The warning letter intervention showed the greatest promise of safety improvement. The educational initiative, which used the new entrant program as a proxy, helped

support the belief that education has a positive impact on safety improvement. FMCSA obtained data from other agencies to evaluate the impact of educational initiatives and discovered that those that employed this tactic were convinced that education improved safety, though they lacked clear performance data to support their claims. Other agencies were also assessed to support the effectiveness of employing off-site investigations (evaluating data gathered using sophisticated information systems which record/monitor safety behavior without visiting the motor carrier site); the qualitative data also supported using this tactic. Finally, qualitative data indicated that focused reviews provided safety improvements and cost savings. As a result of our investigation of alternative inspection regimes, the study recommended that the CSA 2010 team proceed with the current model which includes educational initiatives, warning letters, off-site investigations, and focused reviews.

Costs, Benefits, And Efficiencies Of Public-Private Partnerships For Fixed Guideway Capital Projects

This evaluation was conducted by the Federal Transit Administration to comply with the requirements of public law 49 U.S.C. 5309(c)(6), to assess the costs, benefits, and efficiencies of public-private partnerships (PPP) for fixed guideway transit capital projects.

Related Strategic Goal: Mobility; Organizational Excellence

The scope of the evaluation includes the results of a comprehensive review of available literature on PPPs and the results of large-scale transit projects developed as PPPs within the continental U.S. since the year 2000. The evaluation considered performance factors that determine a sponsor's satisfaction with a PPP, including facets such as total project costs, project delivery timeframe, overall cost-effectiveness and service delivery.

The methodology used included a literature review of PPPs in surface transportation, specific transit experience with PPPs both in the United States and other developed countries, as well as profiles and interviews with transit project sponsors using PPPs in the United States since 2000.

The results of the evaluation were that many transit agencies are considering PPPs to leverage public resources, lower costs, improve services, and transfer risks associated with fixed guideway development, financing, operations, and maintenance. They are also considering PPPs for capital replacement, expansion and program management. Transit PPPs are likely to attract growing private sector interest including transit-oriented development, joint development, and multimodal development. These additional PPP approaches can help transit agencies increase revenues, reduce project costs, or both by tapping into the resources of economic development on a proactive basis. Multimodal PPPs enable transit agencies to combine their resources with resources from other modes that have joint needs for related infrastructure improvements, such as highways, railroads, or airports.

The evaluation found that in certain instances, the increased involvement of the private sector may not prevent a project from experiencing cost or schedule overruns or quality problems. While the involvement of the private sector in a transit capital project can help improve the cost-effectiveness and timeliness of project delivery and provide other benefits in terms of risk transfer and access to financial markets, it is not a guarantee of successful delivery. Greater involvement by the private sector does not make a transit project of dubious feasibility automatically become feasible.

Recommendations resulting from this evaluation include:

- ✧ State and local transit agencies contemplating the use of PPPs should pursue additional procurement and contracting authority for project delivery, finance, and operations;
- ✧ States should pursue statutes that grant transit agencies the necessary flexibility to contract out for operation and maintenance services;
- ✧ Transit sponsors of new fixed guideway or multimodal projects should seek joint development agreements during the early conceptual planning stages to capture maximum value from the increased accessibility provided to private developer property near planned transit stations;
- ✧ Transit agency sponsors of PPP projects should develop an appropriate sharing of responsibilities, risks, and rewards with the private sector through a transparent contractual arrangement that assigns functions and risks to the partner best able to manage them;
- ✧ Transit agency project sponsors should seek private sector partners with mutually complementary project interests and a willingness to accommodate changing conditions and opportunities consistent with the desired project outcomes and performance; and,
- ✧ Transit agency project sponsors should hold private project partners accountable for project performance in their areas of responsibility, consistent with the terms of the PPP contract agreement, through continuous contract administration involving performance monitoring and reporting.

FINANCIAL REPORT

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS FOR FY 2007 AND FY 2006

Department of Transportation

Report Number: FI-2008-011

Date Issued: November 13, 2007

Memorandum

U.S. Department of Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: ACTION: Report on Consolidated Financial Statements for Fiscal Years 2007 and 2006, DOT Report Number: FI-2008-011

Date: November 13, 2007

From: Calvin L. Scovel III
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) 2007 and 2006 (see Attachment). This year, our audit concluded that DOT's consolidated financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. The clean (unqualified) opinion signals to the public that the Department has successfully overcome last year's qualified opinion on the Construction in Progress (CIP) balance, which is a subcomponent of the Property, Plant, and Equipment line item on the Department's balance sheet.

Last year, KPMG LLP, under contract to us and under our supervision, rendered a qualified opinion on the Federal Aviation Administration's (FAA) FY 2006 financial statements because deficiencies in FAA's accounting for CIP prevented FAA from providing adequate support to verify that reported CIP balances were reliable. Since FAA's property, including CIP, represents about 95 percent of the Property, Plant, and Equipment line item on the Department's consolidated balance sheet, the Department's consolidated financial statements were similarly qualified. During FY 2007, FAA made a concerted effort to revise the CIP account balance, resulting in a clean opinion this year.

The Department's ability to regain a clean opinion on its consolidated financial statements would not have occurred without your emphasis and personal commitment to improving financial management practices, along with that of your senior leadership team, including the Acting FAA Administrator and the departmental Chief Financial Officer. During the year, you made several inquiries about FAA's CIP and financial statement audit progress. Your consistent attention

to this subject helped departmental officials stay focused on their correction efforts.

The Department has undergone annual financial statement audits since FY 1992 and received the best outcome yet in FY 2007–a clean audit opinion and only one material weakness (FAA's continued challenge in managing the property account). While the Department should be commended for this accomplishment, it must remain vigilant in sustaining good financial management operations because auditors continue to find significant deficiencies associated with financial transaction processing. These deficiencies, if not properly addressed, could turn into material weaknesses in the future. The following summarizes key challenges the Department continues to face.

Institutionalizing New CIP Processes

FAA must institutionalize the new policies and procedures it developed to process CIP transactions. FAA's process for accounting for CIP has been a longstanding concern. Auditors reported material weaknesses concerning FAA's Property, Plant, and Equipment account balances, including inaccurate and untimely CIP transaction processing, 13 times since FY 1992. Congress provides more than $2 billion to FAA to invest in modernizing air traffic control systems each year. Most modernization projects involve sophisticated technology that may take years to develop/construct from concept to deployment. CIP projects are often deployed to multiple locations at different times and require FAA to use complicated formulas to calculate incurred and projected costs. In addition, the rapid advancement of technology and changes in FAA programs sometimes cause FAA to abandon projects before deployment.

For years, FAA has relied on a labor-intensive process to adjust the CIP account balance for the annual financial statement reporting. For FY 2006, however, FAA was unable to support the $4.7 billion CIP account balance as of September 30, 2006. As a result, both FAA and the Department received a qualified audit opinion on the FY 2006 financial statements.

During FY 2007, FAA made an unprecedented effort and devoted extensive resources to cleaning up the CIP account by conducting a comprehensive project-by-project evaluation. As part of these correction efforts, FAA also revised the associated CIP business processes. These included standardizing the methodology to calculate unit costs and overhead (burdening) allocation and enhancing procedures to record transactions in the property subsidiary ledger to ensure accurate, complete, and timely recording throughout the year. However, implementing these new procedures is very challenging. As a result, these new policies and procedures were not fully used to process FY 2007 transactions.

Institutionalizing the new (To-Be) procedures throughout the Agency will help ensure that FAA properly accounts for capital investment projects and avoids devoting extensive resources to this process again in future years. This year, KPMG reported FAA's CIP-related process a continued material weakness and recommended that FAA implement proper internal controls around the new policies and procedures; continue training and strengthening communications among field, regional, and accounting offices; enhance automated system processes to reduce manual interventions; and assess its human capital needs to reduce reliance on contract staff for future implementation.

Regarding the Highway Trust Fund (HTF) financial statements, KPMG rendered an unqualified (clean) opinion this year, the ninth consecutive HTF clean opinion since FY 1999. More importantly, auditors did not identify any material weakness associated with HTF financial accounting operations and oversight, which had been a repeated material weakness since FY 2003. This signals to the public that the Department has finally developed a mature and reliable financial environment to account for HTF resources. This is especially important because, beginning in FY 2008, this stand-alone financial statement will cease to exist. HTF-related financial activities will be audited as part of the Department's consolidated financial statements.

The Department was required to prepare a stand-alone financial statement to increase the visibility of HTF financial management. The HTF finances operations in multiple DOT Operating Administrations: the Federal Highway Administration (FHWA), the Federal Transit Administration, the National Highway Traffic Safety Administration, the Federal Motor Carrier Safety Administration, the Federal Railroad Administration, and the Research and Innovative Technology Administration. In addition, 15 other agencies outside of DOT receive HTF appropriations through FHWA. Together, these agencies disbursed about $40 billion in Federal funds during FY 2007.

To account properly for resources of this magnitude and complexity, the Department implemented new policies and procedures for internal governance and coordination with outside entities. In consideration of the progress made, the Office of Management and Budget approved the Department's request and waived the requirement for stand-alone HTF financial statements in June 2007.

Facing the Highway Trust Fund Funding Crisis

While the Department made good strides in strengthening financial management oversight of HTF resource usage, it is now facing a new challenge. The HTF is the primary source for financing highway construction projects and has experienced declining revenue collection. This year, the Department of the

Treasury's mid-year evaluation increased its projection of the FY 2009 cash shortfall from $230 million to $3.8 billion for the trust fund's highway account—a 16-fold escalation. Unless addressed, this shortfall could lead to reductions in obligation limitations for Federal highway programs below the levels anticipated in the current authorization to prevent HTF insolvency.

Highway funding levels are largely determined by the amount of revenue collected from the Federal motor fuel excise tax. The Internal Revenue Service (IRS) collects between $30 billion and $40 billion annually in motor fuel tax revenues, which account for almost 90 percent of HTF receipts. To combat motor fuel excise tax evasion, Congress has appropriated tens of millions of dollars from the HTF to help IRS develop more sophisticated information systems and enhance tax examination and motor fuel excise tax evasion investigations. This tax evasion is estimated to cost the trust fund $1 billion per year.[1]

In October 2005, the Treasury Inspector General for Tax Administration reported that the IRS did not effectively implement congressional direction.[2] In response to our request, the Treasury Inspector General has agreed to perform a follow-up review of IRS' corrective actions in FY 2008 (see Exhibit A). Reducing tax evasion is critical, given the erosion of trust fund revenues and the rising need for investments in the Nation's highway infrastructure.[3] FHWA management needs to work closely with IRS to implement congressional direction and increase tax revenue collections for the HTF.

Ensuring Continued Financial Management Improvement

Generating timely, reliable, and useful financial information is no small task and requires continued senior management attention. DOT is a complex organization that is accountable for substantial resources. DOT's FY 2007 financial statements show total assets of $62 billion, liabilities of $14 billion, program costs of $63 billion, and available financial resources of more than $122 billion. In FY 2007, DOT received appropriations of $63 billion. More than $51 billion (about 82 percent) of DOT's revenue sources came from two trust funds, the HTF and the Airport and Airway Trust Fund.

Based on the amount of resources received (appropriations), the Department would rank among the top 20 corporations in America. To measure up to what is

[1] According to the IRS estimate, the Highway Trust Fund loses about $1 billion annually because fuel owners mix motor fuel with other products—a practice aimed at increasing the fuel volume to reduce the effective tax rate.

[2] "The Excise Files Information Retrieval System Has Not Been Effectively Implemented," Treasury Inspector General for Tax Administration, 2006-20-001.

[3] In January 2007, the Government Accountability Office identified financing the Nation's transportation system as a high-risk area. GAO High-Risk Series: An Update, January 2007 (GAO-07-310).

expected from large publicly-held corporations, the Department needs to sustain clean audit opinions with no material weaknesses, continue enhancing its financial management oversight, and improve the quality of its financial information throughout the year. During this audit, we identified incidents in which management postponed researching/resolving account variances by posting adjusting entries at the end of each quarter, which were reversed at the beginning of the next quarter. This practice not only results in lower quality financial information throughout the year, but also inappropriately increases the yearend workload. It must be corrected.

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 corrective actions. We appreciate the cooperation and assistance of DOT and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959; David Dobbs, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427; or Rebecca Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1488.

Attachment

**DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT
ON THE DEPARTMENT OF TRANSPORTATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEARS (FY) 2007 AND 2006**

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, 2007, and September 30, 2006. We found:

- Financial statements that are fairly presented, in all material respects, in conformity with generally accepted accounting principles.
- One material internal control weakness: timely processing of transactions and accounting for Federal Aviation Administration (FAA) property, plant, and equipment, including the Construction in Progress (CIP) account.
- Four significant deficiencies: (1) journal entries and analysis of account relationships for the Highway Trust Fund (HTF) agencies,[1] (2) controls over financial management systems, (3) DOT's information security program, and (4) reporting the FTA grant accrual.
- Four instances of noncompliance with laws and regulations: (1) the Federal Financial Management Improvement Act of 1996 (FFMIA); (2) the Anti-deficiency Act; (3) the Improper Payments Information Act of 2002; and (4) SFFAS#4, Managerial Cost Accounting Concepts and Standards.
- Financial information in the Management Discussion and Analysis materially consistent with the financial statements.
- Supplementary and stewardship information, and other accompanying information, materially 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 07-04,

[1] Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, Federal Motor Carrier Safety Administration, and Research and Innovative Technology Administration.

"Audit Requirements for Federal Financial Statements." The following sections discuss these conclusions. Our audit objectives, scope, and methodology are described in Exhibit B. We believe that our audit provides a reasonable basis for our opinion.

A. UNQUALIFIED OPINION ON FINANCIAL STATEMENTS

In our report dated November 15, 2006, we expressed a qualified opinion on the FY 2006 DOT consolidated financial statements because the FAA CIP balance presented to KPMG in August 2006 contained material errors, and FAA was not able to develop a reliable and supportable CIP balance prior to the issuance of the DOT FY 2006 Performance and Accountability Report (PAR). As discussed in footnotes 9 and 25, FAA has completed its review of the CIP balance and related transactions (reduced the September 30, 2006, CIP balance from $4.7 billion to $2.1 billion) and, as a result, DOT restated the FY 2006 consolidated financial statements to correct the error in accounting for FAA CIP. The restatement relates to the material weakness in the processing of transactions and accounting for FAA property, plant, and equipment, including the CIP account. Accordingly, our opinion on the DOT consolidated financial statements, including the FY 2006 restated financial statements, is different from that expressed in our previous report.

In our opinion, the DOT consolidated financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with generally accepted accounting principles, the DOT assets, liabilities, and net position; net costs; changes in net position; and budgetary resources; as of September 30, 2007, and September 30, 2006, and for the years then ended.

Under contract with OIG and under its supervision, KPMG audited the financial statements of FAA as of and for the years ended September 30, 2007, and September 30, 2006, and rendered an unqualified opinion on the FAA financial statements. KPMG also audited the financial statements of the HTF as of and for the years ended September 30, 2007, and September 30, 2006, and rendered an unqualified opinion on the HTF financial statements. We performed quality control reviews of the work performed by KPMG and relied on their results in performing our work on the FY 2007 and FY 2006 DOT consolidated financial statements.

As discussed in financial statement footnotes 1 and 21, the accompanying financial statements reflect actual excise tax revenues deposited in the HTF and the Airport and Airway Trust Fund for the 9 months ended June 30, 2007, and excise tax receipts estimated by the Department of the Treasury Office of Tax Analysis for the quarter ended September 30, 2007. As discussed in footnote 1,

DOT changed its method of accounting for parent/child allocation transfers in FY 2007, in accordance with OMB Circular A-136.

Also, as discussed in footnotes 1 and 24, DOT changed its method of reporting footnotes 1 and 24, DOT changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in FY 2007, in accordance with OMB Circular A-136.

As discussed in footnote 25, DOT has restated certain balances previously reported to correct errors in accounting for FAA CIP, estimating the FTA grant accrual, and reporting FTA earmarked funds.

B. CONSIDERATION OF INTERNAL CONTROLS

In planning and performing our audit, we considered DOT's internal controls over financial reporting, compliance with laws and regulations, and reliability of performance reporting. We do not express an opinion on internal controls because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB Bulletin 07-04 audit guidance, not to express an opinion on internal controls.

For the controls we tested, we found one material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our work identified four significant deficiencies in internal controls. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Our internal control work would not necessarily disclose all material weaknesses or significant deficiencies.

MATERIAL WEAKNESS

Timely Processing of Transactions and Accounting for FAA Property, Plant, and Equipment, including the CIP Account

In FY 2005, KPMG reported a material weakness related to deficiencies in FAA's ability to process transactions and reconcile account balances in a timely manner. The account most affected was the CIP component of the Property, Plant, and Equipment (PP&E) line item. In FY 2006, KPMG reported that the CIP balance presented by FAA in August 2006 contained unknown and potentially material errors, and FAA management was unable to represent to KPMG, before the issuance of the Department's Performance and Accountability Report, that the CIP balance, reported to be $4.7 billion as of September 30, 2006, was fairly stated. Accordingly, KPMG could not complete its audit of CIP balances and again identified CIP process deficiencies as a material weakness. KPMG noted that FAA lacked adequate policies, procedures, and controls to monitor its CIP activity and balances in a routine and timely fashion.

During FY 2007 FAA executed an extensive corrective action plan, including a complete review of the CIP balance reported as of September 30, 2006. FAA's review of CIP resulted in a significant restatement of the DOT FY 2006 financial statements, including a reclassification of $1.7 billion from CIP to in-use fixed assets and more than $900 million from CIP to expense. The restated CIP balance at September 30, 2006, was $2.1 billion.

In its FY 2007 audit report, KPMG again identified the processing of transactions and accounting for PP&E, including the CIP account, as a material weakness. KPMG noted that FAA had not fully complied with standardized policies and procedures on unit costs, overhead allocations, and entry of transactions in the fixed asset subsidiary ledger, to ensure CIP and related PP&E balances were accurate, complete, and recorded in a timely manner throughout the year. Substantial manual processes were necessary for FAA to account for and report CIP transactions occurring during FY 2007 and to determine the appropriate balances reported at year end. Specifically, KPMG noted:

- FAA was focused on the cleanup of FY 2006 and prior-year activity in the first two quarters of FY 2007; therefore, about 80 percent of FY 2007 capitalization activity (additions and adjustments from CIP to in-use fixed assets) were not recorded at the detailed transaction level until after March 31, 2007;

- Documentation (joint acceptance inspections, contractor acceptance inspections, delivery schedules, etc.) was not readily available from program

offices and did not consistently support management's conclusions on CIP project status; in some cases, management needed to reevaluate its initial disposition of CIP projects and adjust the general ledger and draft financial statement amounts;

- A lack of formal communications and training for program managers, engineers, and operational accountants needed to accurately account for and present capitalized balances and related expenses;

- A lack of adherence to policies and procedures to ensure the timely removal of fixed assets from the accounting system upon retirement;

- FAA processes and controls allowed errors to occur in the CIP capitalization and valuation process, such as unit costing and overhead allocation; the methodology adopted by FAA requires a high level of manual involvement to accurately account for CIP; and

- FAA has weaknesses in entity-level controls pertaining to human resources to properly account for PP&E and CIP, and relied heavily on outside contractors to compute the restatement of the FY 2006 financial statements and record FY 2007 CIP and PP&E transactions.

Accounting for FAA CIP and PP&E is very complex with many variables and inputs that affect capitalized asset values including estimates, indirect costs, projection of future spending rates, and the timing and number of asset deployments. The conditions leading to the restatement of the FY 2006 financial statements and the material weakness have built up over several years. For example, FAA converted to the Delphi accounting system in FY 2004, and during the conversion, some CIP balances were transferred at the summary level, making the identification of individual assets in CIP more difficult, causing assets to remain in CIP long after they had been placed in service. Also, FAA experienced turnover in key PP&E accounting positions, especially at the HQ level, resulting in loss of continuity and institutional knowledge. Finally, until recently, programmatic and operational personnel did not always adhere to policies and procedures to enable the timely recording of assets placed in service.

As a result, FAA had not fully implemented internal controls required by the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123, that will allow FAA management to provide reasonable assurance that controls over CIP and PP&E are properly designed and operating effectively. In addition, if FAA is unable to correct these conditions early in FY 2008, the CIP, PP&E, and

related financial statement balances may not be fairly stated at the end of FY 2008 and beyond.

KPMG made seven recommendations to correct these deficiencies. FAA agreed with the KPMG recommendations and indicated it would continue to implement corrective actions in early FY 2008.

SIGNIFICANT DEFICIENCIES

The following sections describe the significant deficiencies that we identified.

Journal Entries and Account Relationships for the HTF Agencies

Since the audit of the FY 2003 HTF financial statements, we reported that material weaknesses existed in internal controls over financial management and reporting activities in the HTF agencies. In FY 2006, KPMG reported that the HTF agencies continued to have a material weakness in financial management, reporting, and oversight. The deficiencies reported by KPMG included (1) the preparation, approval, and processing of journal entries; (2) the preparation and analysis of the HTF financial statements; (3) the analysis of abnormal account balances; (4) the analysis of proprietary and budgetary account relationships; (5) the coordination with non-DOT agencies that receive HTF appropriations through FHWA; and (6) the estimation and reporting of grant accruals.

During FY 2007, the HTF agencies implemented significant improvements in internal controls over financial management and reporting activities. The deficiencies related to the preparation and analysis of the HTF financial statements, the analysis of abnormal account balances, and accounting for parent-child allocation transfers (with non-DOT agencies) have been corrected. In its FY 2007 audit report, KPMG identified controls over journal entries and analysis of proprietary and budgetary account relationships as a significant deficiency. In addition, KPMG reported the FTA grant accrual as a separate significant deficiency.

Controls Over Journal Entries

For the 114 journal entries reviewed by KPMG at September 30, 2007, KPMG noted 34 instances related to the FHWA, the Federal Motor Carrier Safety Administration (FMCSA), and the National Highway Traffic Safety Administration (NHTSA) in which either supporting documentation was not provided or the documentation provided was insufficient to support the entry. KPMG also noted the approvers for six journal entries related to FHWA and

NHTSA were unable to explain the purpose of the entry. While all journal entries reviewed had evidence of approval by other than the preparer, KPMG noted 12 entries related to FHWA, FMCSA, and NHTSA in which they could not determine if the entry was approved before it was posted to the general ledger. Failure to follow existing policies and procedures over journal entries increases the risk that financial statements may be misstated or not properly supported.

Analysis of Proprietary and Budgetary Account Relationships

During FY 2007 the DOT Office of Financial Management developed a consistent and comprehensive set of proprietary and budgetary account relationship tests for all DOT agencies to use for the period ended June 30, 2007. During its review of account relationship tests at September 30, 2007, KPMG noted the following exceptions related to analyzing, resolving, or explaining the variances identified by the account relationship tests:

- FHWA did not analyze or resolve any of the 62 variances identified;
- FMCSA identified 26 variances, identified the cause of 18 variances, but provided no indication of the cause of the other 8 variances or when they would be resolved;
- NHTSA identified 28 variances, identified the cause of 11 variances, but provided no indication of the cause of the other 17 variances or when they would be resolved; and
- The Research and Innovative Technology Administration (RITA) identified 10 variances, identified the cause of 3 variances, but provided no indication of the cause of the other 7 variances or when they would be resolved.

KPMG reported that at the end of each quarter, journal entries were posted to balance certain proprietary and budgetary accounts without completely researching the related variance. These journal entries are reversed at the beginning of the next quarter in order to continue researching the variances.

The HTF agencies had not adequately implemented existing policies and procedures over the analysis and resolution of variances identified between proprietary and budgetary accounts. In addition, Office of the Secretary of Transportation (OST) policies and procedures did not establish a firm due date for the resolution of any variances identified. Failure to research and resolve proprietary and budgetary account variances increases the risk that financial statements may be misstated or not properly supported.

KPMG made six recommendations to improve controls over journal entries and proprietary and budgetary account relationship tests for the HTF agencies. Departmental management agreed to implement corrective actions.

Financial System Controls

Last year, we reported DOT's financial system controls as a reportable condition (significant deficiency). This included system control weaknesses in Delphi and computer security deficiencies in FAA and HTF systems that provide financial data to Delphi.

In FY 2007, DOT made significant progress in strengthening the design and implementation of controls over Delphi. Enhanced computer security and other protective measures enabled auditors to rely on Delphi financial management system controls except for logical access controls. In addition, FAA and HTF systems were enhanced in areas such as security awareness training, user access, contingency planning, physical security, segregation of duties, and others. However, DOT's move to a new Headquarters building in Washington, D.C., resulted in other security concerns. Consequently, despite progress in some areas, continued improvements are needed to remediate various control deficiencies in the Delphi, FAA, and HTF financial systems.

Computer security controls can be improved in all 12 systems reviewed during the DOT financial statement audits.

- Departmental system: Delphi Financial Management System
- FAA systems: procurement system (PRISM), cost accounting system, timekeeping system (CASTLE), grant management system (System of Accounting and Reporting)
- FHWA systems: User Profile and Access Control System, Rapid Approval and State Payment System, Fiscal Management Information System, Delphi Interface Management System
- FTA Systems: Transportation Electronic Award Management System, Electronic Clearing House Operation, and Delphi Online Transaction System.

KPMG's audit reports dated November 5, 2007, included recommendations to improve the information technology environment applicable to FAA and HTF financial systems.

The Clifton Gunderson LLP review of the controls over the Enterprise Service Center's Delphi Financial Management System, again reported weaknesses in the design and implementation of access controls related to the Delphi financial management system. Departmental management agreed to implement corrective actions needed in the Delphi, FAA, and HTF financial systems.

DOT Information Security Program

In October 2007, we issued our seventh annual report on DOT's Information Security Program. FY 2007 was a challenging year for the Department because of the Headquarters move and the need to review, test, and certify security protection for more than half of the departmental information systems. Because of this, the overall effectiveness of the Department's information security program declined. Specifically, management did not meet Government security standards to protect information systems and did not take sufficient action to correct identified security deficiencies. We also found that commercial software products used in departmental systems were not configured in accordance with security standards, and that security incidents were incompletely and/or inaccurately reported.

We made a series of recommendations to help the Department strengthen its information security program. The Department Chief Information Officer agreed that these are needed to resolve the current deficiencies.

FTA Grant Accrual

For year-end reporting, the Federal Transit Administration (FTA) calculated and recorded an estimate (liability) for the amount of work performed by its grantees (including their contractors) but not yet billed to or reimbursed by FTA. During FY 2007 FTA hired a consultant to assist in the development of grant accrual using a nonstatistical sample of surveys to 49 grantees (29 large and 20 small) that accounted for about 70 percent of active obligations. The survey requested information that would assist FTA in calculating the FY 2007 grant accrual, such as billing cycle days and grantees' audited year-end accrual amounts.

While FTA received all the completed surveys, the responses varied in terms of reliability. FTA determined that only 18 of the 49 surveys (13 large and 5 small) were reasonably accurate and suitable for use in calculating FY 2007 grant accrual. KPMG determined that the 18 surveys constituted an inadequate basis on which to calculate the accrual. FTA agreed to follow up on the remaining surveys, and was ultimately able to use 45 of the 49 surveys. KPMG also noted that documentation supporting the work performed by FTA and its consultant was initially incomplete and there was no evidence that FTA properly reviewed the work performed by its consultant.

Controls are not in place in FTA to ensure that grant accrual is based on sufficient information provided by its grantees. KPMG made two recommendations to FTA to improve controls over the development of the grant accrual and oversight of work performed by its consultant. Departmental management agreed to implement corrective actions.

C. COMPLIANCE WITH LAWS AND REGULATIONS

In planning and conducting our audit, we performed limited tests of DOT's compliance with laws and regulations, as required by OMB guidance. It was not our objective to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to testing selected provisions of laws and regulations that would have a direct and material effect on the financial statements and be reportable under Generally Accepted Government Auditing Standards or under OMB guidance. Our work disclosed the following instances of noncompliance with laws and regulations.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

Under FFMIA, we must report whether DOT's financial management systems substantially comply with Federal financial system requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level. DOT was not in compliance with FFMIA because FAA was unable to account for property, plant, and equipment transactions including the CIP account, and present balances in its periodic financial statements in accordance with generally accepted accounting principles as of and for the year ended September 30, 2007.

ANTIDEFICIENCY ACT

Title 31, United States Code, Section 1517, provides that an officer or employee of the U.S Government may not make or authorize an expenditure or obligation exceeding an amount available in an allotment. In our report on the FY 2006 DOT financial statements, we reported that FAA still needed to report to the President and Congress, a $1.9 million violation associated with the Small Community Air Service Development Program first detected by FAA in FY 2005. On September 7, 2007, DOT reported the FAA Small Community Air Service Development Program violation to the President and Congress.

On June 1, 2006, DOT also reported to the President and Congress a $3.6 million violation in RITA's Research and Development Account. While departmental

management was aware of this violation during FY 2006, it did not disclose the incident in the management representation letter prior to issuance of our audit report on the FY 2006 DOT Consolidated Financial Statements.

Also during FY 2007, the Maritime Administration (MARAD) CFO identified a potential violation at the U.S. Merchant Marine Academy that needs to be reviewed by MARAD and OST General Counsel and, if determined to be a violation, reported to the President and Congress.

IMPROPER PAYMENTS INFORMATION ACT OF 2002 (IPIA)

OMB Circular A-123, Appendix C, issued on August 10, 2006, entitled "Requirements for Effective Measurement and Remediation of Improper Payments," implements the requirements of IPIA and is effective for FY 2006 reporting. The circular defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts include overpayments and underpayments, payments made to an ineligible recipient or for an ineligible service, duplicate payments, payments for services not received.

The circular prescribes a four-step approach for use by agencies in evaluating improper payments: (1) review all programs and identify those susceptible to significant erroneous payments; (2) statistically estimate the annual amount of improper payments; (3) implement a plan to reduce erroneous payments; and (4) report estimates of the annual amount of improper payments and progress in reducing them.

In our FY 2006 report we stated that FHWA could not estimate the annual amount of improper payments made under the Federal-aid program, and that the estimate was limited to a period of 5 months—about $30 million. We also reported that FTA and FAA were still in the early stages of implementing the improper payments testing requirements. During FY 2006, FAA performed testing of grant payments made by one airport authority, and FTA tested payments made by two transit grantees.

During FY 2007 DOT reported it successfully completed its review of improper payments in 3 of the 4 DOT major grant programs; the FHWA Federal-aid Program, the FAA Airport Improvement Program, and the FTA Formula Grant Program. In addition, DOT reported it had developed and tested a model to test for improper payments in the FTA Capital Investment Program in FY 2008. However, we were not provided sufficient information by DOT and its consultant,

before the issuance of the DOT FY 2007 PAR, to determine if the sampling plan used by DOT and its consultant was statistically valid. For example, we could not determine if the sample sizes or the projection of the sample results to the program totals were based on generally accepted conventional formulas. The Department planned to initiate another round of improper payments testing in all four grant programs next year. We will continue to work with DOT and its consultant to ensure the improper payment testing performed in FY 2008 is based on valid statistical sampling techniques.

SFFAS 4, MANAGERIAL COST ACCOUNTING CONCEPTS AND STANDARDS

Statement of Federal Financial Accounting Standards (SFFAS) Number 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, requires Federal entities to establish managerial cost accounting capabilities in order to provide reliable and timely information on the full cost of Federal programs, activities, and outputs. The managerial cost accounting capabilities must include (1) accumulating and reporting costs on a regular basis for management information purposes, (2) establishing responsibility segments to match costs with outputs, (3) determining full costs of goods and services, (4) recognizing the costs of goods and services provided among Federal entities, and (5) using appropriate costing methodologies to accumulate and assign costs to outputs.

Nine Operating Administrations (OA) (FHWA, MARAD, FMCSA, FRA, NHTSA, PHMSA, RITA, OST, and STB) have not fully implemented cost accounting processes in accordance with SFFAS Number 4. Using the FY 2007 OMB Circular A-123 (Appendix A) results, the DOT CFO has recommended that each of these nine OAs continue implementing their managerial cost accounting processes.

D. CONSISTENCY OF OTHER INFORMATION

The Management Discussion and Analysis, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Accompanying Information sections of the PAR contain a wide range of data, some of which are not directly related to the financial statements. We are not required to, and we do not, express an opinion on this information. As required by OMB guidance, we inquired of management about the methods of preparing this information, and we compared this information for consistency with the DOT consolidated financial statements and other knowledge obtained during the audit of the financial

statements. Based on this work, we found no material inconsistencies with the DOT consolidated financial statements or nonconformance with OMB guidance.

E. PRIOR AUDIT COVERAGE

Our report on the DOT Consolidated Financial Statements for FY 2006 and FY 2005 expressed a qualified opinion and made no new recommendations. Exhibit C displays the status of the prior year's findings.

Since our report on the DOT Consolidated Financial Statements for FY 2006 and FY 2005 was released, we have issued 19 additional reports related to the DOT Consolidated Financial Statements. The reports are listed in Exhibit D.

The Assistant Secretary for Budgets and Programs/Chief Financial Officer provided comments on a draft of this report (see Appendix). The response agreed with the material weakness and significant deficiencies cited 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 28, 2007.

This report is intended for the information of and use by DOT, OMB, the Government Accountability Office, and Congress. The report is a matter of public record, and its distribution is not limited.

Calvin L. Scovel III
Inspector General

November 9, 2007

EXHIBIT A. LETTER TO TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. Department of Transportation
Office of the Secretary of Transportation

The Inspector General
Office of Inspector General
Washington, DC 20590

October 25, 2007

The Honorable J. Russell George
Treasury Inspector General for Tax Administration
U.S. Department of Treasury
1125 15th Street, NW
Washington, DC 20005

Dear Mr. George:

I would like to express my appreciation for your office's decision to perform a follow-up review of the Internal Revenue Service's (IRS) implementation of the Excise Files Information Retrieval System (ExFIRS). The IRS developed this system to combat motor fuel excise tax evasion. In October 2005, your office reported that the IRS had not effectively implemented ExFIRS and recommended corrective actions to help increase tax revenue collection for the Highway Trust Fund.[1]

The IRS collects between $30 billion and $40 billion annually in motor fuel tax revenues, which account for almost 90 percent of Highway Trust Fund receipts. This trust fund is the primary financial source for highway construction projects. Since fiscal year 1999, Congress has appropriated tens of millions of dollars from the Highway Trust Fund to help IRS develop ExFIRS and enhance tax examination and motor fuel excise tax evasion investigations. This tax evasion is estimated to cost the trust fund $1 billion per year.[2]

[1] "The Excise Files Information Retrieval System Has Not Been Effectively Implemented," Treasury Inspector General for Tax Administration, 2006-20-001.
[2] According to the IRS estimate, the Highway Trust Fund loses $1 billion annually because fuel owners mix motor fuel with other products—a practice aimed at increasing the fuel volume to reduce the effective tax rate.

In August 2007, my staff requested that your office do a follow-up review after we received the Department of the Treasury's mid-year evaluation of the Highway Trust Fund. Treasury increased its projection of fiscal year 2009 cash shortfalls from $230 million to $3.8 billion for the trust fund's highway account—a major escalation.

Reducing tax evasion is critical in view of the erosion of trust fund revenues and rising need for investments in the Nation's highway infrastructure.[3] Your review will provide critical insight into IRS efforts to collect more tax revenues for the Highway Trust Fund through ExFIRS.

We are particularly interested in the status of the following corrective actions to reduce motor fuel excise tax evasion.

1. *Enforcing electronic filing of motor fuel tax information.* The October 2005 report stated that the planned use of the automated matching process in ExFIRS to detect tax evasion was limited because only 70 percent of the fuel transactions were reported electronically.

2. *Revising the computer matching process to indentify potential noncompliant taxpayers.* The October 2005 report stated that the IRS deemed the matching results unreliable and that it planned to revise the matching process.

3. *Referring potential noncompliance cases for examination and actual recovery.* The October 2005 report stated that the IRS elected not to refer potential exception cases identified by computer matching for examination until electronic filing became mandated in 2006.

4. *Assessing penalties on companies that failed to file complete and accurate information documents.* The October 2005 report stated that data perfection issues would continue to pose a significant problem to ExFIRS operations. IRS, however, elected not to assess penalties on companies until after January 1, 2006.

5. *Mitigating "reporting gaps" in the movement of motor fuel.* The October 2005 report stated that while ExFIRS was designed to track all motor fuel movements into and out of approved terminals, reporting gaps hinder the effectiveness of ExFIRS to monitor fuel production and sales. For example,

[3] In January 2007, the Government Accountability Office identified financing the Nation's transportation system as a high-risk area. GAO High-Risk Series: An Update, January 2007 (GAO-07-310).

certain carriers were exempted from reporting fuel deliveries to the terminal. Also, ExFIRS would not include fuel distribution reporting at refineries, unregulated terminals, and bulk storage facilities.

6. *Enhancing coordination with the Federal Highway Administration.* The October 2005 report stated that the IRS and the Federal Highway Administration need to work more closely on ExFIRS development.

We look forward to the results of your review in these key areas. My office will be glad to assist you in coordinating with the Federal Highway Administration.

If you have any questions or would like to discuss this matter further, please contact me at (202) 366-1959 or Todd Zinser, Deputy Inspector General, at (202) 366-6767.

Sincerely,

Calvin L. Scovel III

Calvin L. Scovel III
Inspector General

cc: Administrator, Federal Highway Administration
Assistant Secretary for Budget and Programs/Chief Financial Officer

Exhibit A. Letter to Treasury Inspector General for Tax Administration

EXHIBIT B. OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives for the DOT Consolidated Financial Statements for FY 2007 and FY 2006 were to determine whether (1) the basic DOT Consolidated Financial Statements and accompanying notes were presented fairly, in all material respects, in conformity with generally accepted accounting principles; (2) DOT had adequate internal controls over financial reporting, including safeguarding assets; (3) DOT complied with laws and regulations that could have a direct and material effect on the basic DOT Consolidated Financial Statements or that had been specified by OMB, including FFMIA; (4) financial information in the Management Discussion and Analysis, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Accompanying Information was materially consistent with the information in the basic DOT Consolidated Financial Statements; and (5) internal controls were in place relating to the existence and completeness of performance measures.

DOT is responsible for (1) preparing the DOT Consolidated Financial Statements for FY 2007 and FY 2006 in conformance with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that broad control objectives of FMFIA are met; (3) ensuring that DOT financial management systems substantially comply with FFMIA requirements; and (4) complying with other applicable laws and regulations. DOT is responsible for maintaining an effective system of internal controls. The objectives of these controls are explained below.

- **Financial reporting.** Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance 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 policies identified by OMB.
- **Reliability of performance reporting.** Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of required performance information.

To fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed

the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding and performed limited tests of internal controls related to financial reporting, compliance with laws and regulations, and performance measures; and (5) tested compliance with selected provisions of certain laws, including FFMIA. We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring that programs achieve their intended results and that resources are used consistent with agency missions. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected.

The Government Accountability Office performed agreed-upon procedures at the Internal Revenue Service on the excise taxes distributed to the HTF and the Airport and Airway Trust Fund during FY 2007. The Treasury Office of Inspector General reported on the effectiveness of controls placed in operation over the Bureau of Public Debt Trust Fund Management and Federal Investments branches for the period August 1, 2006, to July 31, 2007, and attained management's assurance on the effectiveness of controls through September 30, 2007. 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, as of and for the year ended September 30, 2007.

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, 2007, and September 30, 2006. 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 deficiencies 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 07-04, "Audit Requirements for Federal Financial Statements."

Exhibit B. Objectives, Scope, And Methodology

EXHIBIT C. STATUS OF PRIOR YEAR FINDINGS

Issue	As Reported September 30, 2006	As Reported September 30, 2007
Timely Processing of and Accounting for the FAA Construction-in-Progress Transaction	Material Weakness	**Material Weakness**
HTF Agencies' Financial Management, Reporting, and Oversight Activities	Material Weakness	**Several deficiencies corrected; Journal Entries and Analysis of Account Relationships continue as Significant Deficiency; FTA Grant Accrual is reported as a separate Significant Deficiency**
Reporting of Earmarked Funds for FTA	Reportable Condition	**Corrected**
Financial System Controls	Reportable Condition	**Significant Deficiency**
DOT Information Security Program	Reportable Condition	**Significant Deficiency**
Intragovernmental Transactions	Reportable Condition	**Management Letter**
Deobligating Unneeded Funds in the HTF Agencies	Reportable Condition	**Management Letter**
FAA Grants Management	Reportable Condition	**Corrected**
Federal Financial Management Improvement Act of 1996	Noncompliance	**Noncompliance**
Antideficiency Act	Noncompliance	**Noncompliance**
Improper Payments Information Act of 2002	Noncompliance	**Noncompliance**

Exhibit C. Status of Prior Year Findings

EXHIBIT D. FINANCIAL-RELATED REPORTS

Report Title	Report Number	Date Issued
Audit of Special-Purpose Financial Statements for Fiscal Years 2006 and 2005	FI-2007-011	November 17, 2006
Oversight of Airport Improvement Program Hurricane Grants	AV-2007-014	December 13, 2006
Inspector General Review of Fiscal Year 2006 Drug Control Funds	FI-2007-029	February 1, 2007
Emergency Transportation Services Contract: Lessons Learned from the 2005 Gulf Coast Hurricanes	FI-2007-030	February 5, 2007
Opportunities to Free Up Unneeded FHWA Funds for Use in Hurricane Recovery Efforts	MH-2007-037	March 6, 2007
Value Engineering in FHWA's Federal-Aid Highway Program	MH-2007-040	March 28, 2007
FTA Procedures to Prevent Antideficiency Act Violations	FI-2007-047	May 15, 2007
More Incurred-Cost Audits of DOT Procurement Contracts Should Be Obtained	FI-2007-064	August 29, 2007
Review of Congressional Earmarks Within Department of Transportation Programs	AV-2007-066	September 7, 2007
Quality Control Review of the Report on Controls Over the Enterprise Service Center's Delphi Financial Management System	QC-2007-072	September 13, 2007
FAA's Oversight of Inactive Airport Improvement Program Grant Obligations	AV-2007-073	September 13, 2007
Growth in Highway Construction and Maintenance Costs	CR-2007-079	September 26, 2007

Exhibit D. Financial-Related Reports

Report Title	Report Number	Date Issued
Information Security Program at the Department of Transportation	FI-2008-001	October 10, 2007
Prioritization of Airport Improvement Program Funding	AV-2008-002	October 26, 2007
Quality Control Review of Audited Financial Statements for Fiscal Year 2007 and Fiscal Year 2006: Federal Aviation Administration	QC-2008-005	November 9, 2007
Quality Control Review of Audited Financial Statements for Fiscal Year 2007 and Fiscal Year 2006 Highway Trust Fund	QC-2008-006	November 9, 2007
Quality Control Review of Audited Financial Statements for Fiscal Year 2007 and Fiscal Year 2006: Saint Lawrence Seaway Development Corporation	QC-2008-007	November 9, 2007
Quality Control Review of the Audited Financial Statements for Fiscal Year 2007 and Fiscal Year 2006 FAA Franchise Fund	QC-2008-010	November 13, 2007
Top Management Challenges	PT-2008-008	November 15, 2007

Exhibit D. Financial-Related Reports

APPENDIX. ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS/CHIEF FINANCIAL OFFICER RESPONSE TO AUDIT REPORT

November 13, 2007

MEMORANDUM TO: Calvin L. Scovell, III
Inspector General

FROM: Phyllis F. Scheinberg

SUBJECT: Management Response to the Audit Report on Consolidated Financial Statements for Fiscal Years (FY) 2007 and 2006

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for FYs 2007 and 2006. We are very proud of the exceptional advancements that our Operating Administrations have made over the last year.

This year's audit concluded that DOT's consolidated financial statements are fairly presented in all material respects in conformity with generally accepted accounting principles.

We concur with the one material weaknesses and four significant deficiencies described in your report. Corrective action plans are being developed to address the findings in your report and will be forwarded to you by December 28. Our consolidated action plans will also address the findings in the audits of the Federal Aviation Administration (FAA) and the Highway Trust Fund (HTF) agencies.

This year the Department made significant progress in resolving long-standing financial management internal control issues, including the following highlights:

- The qualification on the FAA's FY 2006 audit opinion due to their Construction In Progress (CIP) account was lifted as a result of a comprehensive program of project-by-project reviews conducted by the FAA.

During FY 2008, the FAA will complete the remaining corrective actions in this area.

- The HTF agencies have eliminated the FY 2006 material weakness in financial reporting and oversight. During FY 2007 they significantly strengthened financial management processes and controls. This is the first audit year that no material weaknesses have been reported in the HTF audit. The Office of Management and Budget (OMB) has eliminated the requirement for the stand-alone HTF audit in the future; therefore, this is the last year that it will be conducted.

- Significant progress was also made on DOT's implementation of the Improper Payments Information Act (IPIA). In FY 2007, the Department developed improper payment rates for the Federal-Aid Highway Program, the Airport Improvement Program, and the Transit Formula Grants Program. The Department also developed and tested a model for determining the amount of improper payments in the Transit Capital Investment Grants Program. Per our agreement with OMB, DOT will be continuing a comprehensive IPIA program in FY 2008.

- This year the Department completed its comprehensive two-year implementation of OMB Circular A-123, *Management's Responsibility for Internal Control*. During FY 2007 DOT assessed our control environments and documented and tested the final seven key business processes. We are planning our A-123 program for FY 2008 while we continue to resolve the findings identified by our testing.

We agree with your recommendations and will use them to develop and implement corrective actions. We will continue to work closely with the Operating Administrations and the audit workgroups to ensure that the Department further improves financial management in FY 2008.

I would like to express my sincere appreciation for the cooperation and professionalism displayed by your staff and your contractors during the course of the audit. Please refer any questions to Laurie Howard, Director of Financial Management, at (202) 366-2135.

Appendix. Assistant Secretary for Budget and Programs/Chief Financial Officer Response to Audit Report

DEPARTMENT OF TRANSPORTATION

CONSOLIDATED BALANCE SHEET

As of September 30, Dollars in Thousands		2007		Restated 2006
ASSETS (Note 2)				
Intragovernmental				
Fund Balance with Treasury (Note 3)	$	23,392,470	$	27,692,908
Investments (Note 4)		21,144,083		19,824,151
Accounts Receivable, Net (Note 5)		509,692		212,616
Other Assets (Note 6)		2,453		37,946
Total Intragovernmental Assets		45,048,698		47,767,621
Cash and Other Monetary Assets		24,358		27,639
Investments (Note 4)		74,085		-
Accounts Receivable, Net (Note 5)		114,118		103,371
Direct Loan and Loan Guarantees, Net (Note 7)		889,885		618,179
Inventory and Related Property, Net (Note 8)		785,760		897,494
General Property, Plant & Equipment, Net (Note 9)		14,683,890		14,501,762
Other Assets (Note 6)		211,044		195,506
Total Assets	**$**	**61,831,838**	**$**	**64,111,572**
Stewardship Property, Plant & Equipment (Note 10)				
LIABILITIES (Note 11)				
Intragovernmental				
Accounts Payable	$	30,424	$	21,271
Debt (Note 12)		1,040,761		839,357
Other Intragovernmental Liabilities (Note 15)		3,418,078		3,212,891
Total Intragovernmental Liabilities		4,489,263		4,073,519
Accounts Payable		614,861		403,722
Loan Guarantees (Note 7)		336,626		345,864
Federal Employee and Veterans' Benefits Payable		946,408		950,466
Environmental and Disposal Liabilities (Note 13)		852,366		953,635
Grant Accrual (Note 14)		5,526,288		4,975,556
Other Liabilities (Note 15)		1,309,411		1,409,182
Total Liabilities	**$**	**14,075,223**	**$**	**13,111,944**
Contingencies and Commitments (Note 17)				
NET POSITION (Note 18)				
Unexpended Appropriations - Earmarked Funds	$	1,213,189	$	612,378
Unexpended Appropriations - Other Funds		8,563,101		7,806,902
Cumulative Results of Operations - Earmarked Funds		26,552,761		30,114,600
Cumulative Results of Operations - Other Funds		11,427,564		12,465,748
Total Net Position	**$**	**47,756,615**	**$**	**50,999,628**
Total Liabilities and Net Position	**$**	**61,831,838**	**$**	**64,111,572**

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF TRANSPORTATION
CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, Dollars in Thousands	2007	Restated 2006
PROGRAM COSTS (Notes 19 & 20)		
SURFACE TRANSPORTATION		
Gross Costs	$ 47,649,334	$ 46,351,162
Less: Earned Revenue	264,028	395,324
Net Program Costs	47,385,306	45,955,838
AIR TRANSPORTATION		
Gross Costs	$ 15,263,468	$ 14,794,760
Less: Earned Revenue	449,014	659,343
Net Program Costs	14,814,454	14,135,417
MARITIME TRANSPORTATION		
Gross Costs	$ 759,803	$ 739,789
Less: Earned Revenue	189,076	282,264
Net Program Costs	570,727	457,525
CROSS-CUTTING PROGRAMS		
Gross Costs	$ 511,524	$ 442,044
Less: Earned Revenue	500,076	434,689
Net Program Costs	11,448	7,355
Costs Not Assigned to Programs	388,392	390,463
Less: Earned Revenues Not Attributed to Programs	30,295	30,985
NET COST OF OPERATIONS	**$ 63,140,032**	**$ 60,915,613**

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF TRANSPORTATION

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, Dollars in Thousands	2007			Restated 2006		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Cumulative Results of Operations						
Beginning Balances	$ 30,114,600	$ 12,465,748	$ 42,580,348	$ 31,317,494	$ 16,327,693	$ 47,645,187
Adjustments (Note 21)						
Changes in Accounting Principles	60,461	-	60,461	-	-	-
Corrections of Errors	-	-	-	(347,773)	(1,267,448)	(1,615,221)
Beginning Balance, As Adjusted	30,175,061	12,465,748	42,640,809	30,969,721	15,060,245	46,029,966
Budgetary Financing Sources						
Other Adjustments (Rescissions, etc.)	(166,601)	166,625	24	(48,206)	-	(48,206)
Appropriations Used	2,095,506	4,156,871	6,252,377	3,982,705	3,4998,986	7,481,691
Non-Exchange Revenue (Note 21)	51,531,076	2,197	51,533,273	49,482,068	11,967	49,494,035
Donations/Forfeitures of Cash/Cash Equivalents	2,422	-	2,422	2,151	0	2,151
Transfers-In/Out Without Reimbursement	6,883	76,568	83,451	54,184	67,477	121,661
Other Budgetary Financing Sources	-	-	-	-	(263)	(263)
Other Financing Sources (Non-Exchange)						
Transfers-In/Out Without Reimbursement	(2,443,652)	2,446,463	2,811	(1,032,131)	892,660	(139,471)
Imputed Financing	506,686	98,504	605,190	460,003	102,274	562,277
Other	-	-	-	-	(7,880)	(7,880)
Total Financing Sources	51,532,320	6,947,228	58,479,548	52,900,774	4,565,221	57,465,995
Net Cost of Operations	55,154,620	7,985,412	63,140,032	53,755,895	7,159,718	60,915,613
Net Change	(3,622,300)	(1,038,184)	(4,660,484)	(855,121)	(2,594,497)	(3,449,618)
Cumulative Results of Operations	**$ 26,552,761**	**$ 11,427,564**	**$ 37,980,325**	**$ 30,114,600**	**$ 12,465,748**	**$ 42,580,348**
Unexpended Appropriations						
Beginning Balance	612,378	7,806,902	8,419,280	1,502,773	3,941,386	5,444,159
Adjustments						
Corrections of Errors	-	-	-	347,773	(4,395)	343,378
Beginning Balance, As Adjusted	612,378	7,806,902	8,419,280	1,850,546	3,936,991	5,787,537
Budgetary Financing Sources						
Appropriations Received	2,841,381	4,974,437	7,815,818	2,778,855	7,422,451	10,201,306
Appropriations Transferred-In/Out	621	(606)	15	25,365	4,117	29,482
Other Adjustments (Rescissions, etc.)	(145,134)	(60,761)	(205,895)	(59,682)	(59,738)	(119,420)
Appropriations Used	(2,096,057)	(4,156,871)	(6,252,928)	(3,982,706)	(3,496,919)	(7,479,625)
Total Budgetary Financing Sources	600,811	756,199	1,357,010	(1,238,168)	3,869,911	2,631,743
Total Unexpended Appropriations	**$ 1,213,189**	**$ 8,563,101**	**$ 9,776,290**	**$ 612,378**	**$ 7,806,902**	**$ 8,419,280**
NET POSITION	**$ 27,765,950**	**$ 19,990,665**	**$ 47,756,615**	**$ 30,726,978**	**$ 20,272,650**	**$ 50,999,628**

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, Dollars in Thousands	2007		2006	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES (Note 22)				
Unobligated Balance, Brought Forward, October 1	$ 46,566,672	$ 358,827	$ 43,793,009	$ 434,789
Recoveries of Prior Year Unpaid Obligations	658,023	207,000	709,780	728,153
Budget Authority				
Appropriations Received	62,551,786	-	60,768,943	-
Borrowing Authority	225,000	865,759	269,300	225,051
Contract Authority	55,040,320	-	51,421,012	-
Spending Authority from Offsetting Collections				
Earned				
Collected	2,212,610	167,921	2,344,798	395,477
Change in Receivables from Federal Sources	(69,617)	(3,616)	(152,036)	3,803
Change in Unfilled Customer Orders				
Advance Received	89,251	-	32,546	-
Without Advance from Federal Sources	184,966	(20,491)	397,898	(40,360)
Expenditure Transfers from Trust Funds	5,673,226	-	142,346	-
Subtotal	125,907,542	1,009,573	115,224,807	583,971
Nonexpenditure Transfers, Net	2,220	-	23,093	-
Temporarily not Available Pursuant to Public Law	(5,489)	-	(80,837)	-
Permanently Not Available	(51,763,052)	(287,959)	(47,871,478)	(1,007,732)
Total Budgetary Resources	**$ 121,365,916**	**$ 1,287,441**	**$ 111,798,374**	**$ 739,181**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	$ 72,701,475	$ 955,036	$ 62,959,622	$ 380,354
Reimbursable	2,152,731	-	2,272,080	-
Subtotal	$ 74,854,206	$ 955,036	$ 65,231,702	$ 380,354
Unobligated Balance				
Apportioned	22,742,862	4,394	23,324,733	-
Exempt from Apportionment	307,808	-	269,421	-
Subtotal	23,050,670	4,394	23,594,154	-
Unobligated Balance Not Available	23,461,040	328,011	22,972,518	358,827
Total Status of Budgetary Resources	**$ 121,365,916**	**$ 1,287,441**	**$ 111,798,374**	**$ 739,181**

The accompanying notes are an integral part of the financial statements.

DEPARTMENT OF TRANSPORTATION

COMBINED STATEMENT OF BUDGETARY RESOURCES *(CONT.)*

For the Years Ended September 30, Dollars in Thousands	2007		2006	
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts
CHANGE IN OBLIGATED BALANCE				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$ 72,330,387	$ 1,706,951	$ 70,820,273	$ 2,361,768
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(1,590,193)	(159,590)	(1,338,353)	(196,147)
Total Unpaid Obligated Balance, Net	70,740,194	1,547,361	69,481,920	2,165,621
Obligations Incurred	74,854,206	955,036	65,231,702	380,354
Gross Outlays	(69,820,935)	(437,279)	(63,011,808)	(307,018)
Obligated Balance, Transferred, Net				
Actual Transfers, Unpaid Obligations	2,250	-	-	-
Total Unpaid Obligated Balance Transferred, Net	2,250	-	-	-
Recoveries of Prior Year Unpaid Obligations, Actual	(658,023)	(207,000)	(709,780)	(728,153)
Change In Uncollected Customer Payments from Federal Sources	(117,363)	24,106	(251,840)	36,557
Obligated Balance, Net, End of Period				
Unpaid Obligations	76,707,884	2,017,708	72,330,387	1,706,951
Uncollected Customer Payments From Federal Sources	(1,707,556)	(135,484)	(1,590,193)	(159,590)
Total Unpaid Obligated Balance, Net, End Of Period	75,000,328	1,882,224	70,740,194	1,547,361
NET OUTLAYS				
Net Outlays				
Gross Outlays	69,820,935	437,279	63,011,808	307,018
Offsetting Collections	(7,973,071)	(167,921)	(2,513,482)	(395,475)
Less: Distributed Offsetting Receipts	(46,779)	-	(236,451)	-
Net Outlays	$ 61,801,085	$ 269,358	$ 60,261,875	$ (88,457)

The accompanying notes are an integral part of the financial statements.

Note 1. Significant Accounting Policies

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (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 Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. Effective FY 2007, the Statement of Financing was changed from a basic statement to a footnote disclosure and is reflected in Note 24 – Reconciliation of Net Cost of Operations to Budget. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the agency net position. Agency assets include both entity assets (those which are available for use by the agency) and non-entity assets (those which are managed by the agency but not available for use in its operations). Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the agency as a whole.

The Statement of Changes in Net Position reports beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated July 2007.

Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in Note 23 to the financial statements.

The Department is required to be in substantial compliance with all applicable accounting principles and standards established, issued, and implemented by the Federal Accounting Standards Advisory Board (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

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; international transportation agreements; conducting planning and research for the future; and helping cities and States meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data,

including various trust funds, revolving funds, appropriations and special funds of the following organizations:

- Office of The Secretary (OST - includes OST Working Capital Fund)
- Federal Aviation Administration (FAA)
- Federal Highway Administration (FHWA)
- Federal Motor Carrier Safety Administration (FMCSA)
- Federal Railroad Administration (FRA)
- National Highway Traffic Safety Administration (NHTSA)
- Maritime Administration (MARAD)
- Federal Transit Administration (FTA)
- Surface Transportation Board (STB)
- Office of Inspector General (OIG)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)
- Research and Innovative Technology Administration (RITA - includes Volpe National Transportation System Center)

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 26.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated July 2007. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 2007, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

DOT accounted for revenues and other financing sources for earmarked funds separately from other funds. This new method was adopted in accordance with the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, Identifying and Reporting Earmarked Funds, which became effective October 1, 2005. This new standard amended SFFAS No. 7, Revenue and Other Financing Sources, by: (1) elaborating the special accountability needs associated with dedicated collections; (2) separating dedicated collections into two categories – earmarked funds and fiduciary activity; and (3) defining and providing accounting and reporting guidance for earmarked funds.

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital

expenditures. Additional amounts are obtained from offsetting collections and user fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds with the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U.S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest that must be paid to borrow funds. Lockboxes have been established with financial institutions to collect payments, and these funds are transferred directly to Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

G. Receivables

Accounts receivable consist of amounts owed to the Department by other Federal agencies and the public. Federal accounts receivable are generally the result of the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Public accounts receivable are generally the result of the provision of goods and services or the levy of fines and penalties from the Department's regulatory activities. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts, which is based on historical collection experience and/or an analysis of the individual receivables.

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of reparable, 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. Securities with the Public include marketable Treasury securities that were purchased using deposit fund monies and are required to be classified as securities with the public and are not considered intragovernmental investments.

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated.

DOT currently has a capitalization threshold of $200,000 for structures and facilities and for internal use software, and $25,000 for other property, plant and equipment. Capitalization at lesser amounts is permitted. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. The straight line method is generally used to depreciate capitalized assets.

FASAB standards require DOT stewardship assets to be omitted from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Information section and the Required Supplementary Stewardship Reporting section of this statement. See Note 10 for specific required disclosures related to Stewardship Heritage Assets.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet date. 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), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law (P.L.) 99-335.

Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Employing agencies are required to recognize pensions and other post retirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefits is the responsibility of the administering agency, the Office of Personnel Management. Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

P. Comparative Data

Comparative data for the prior year have been presented for the principal financial statements and their related notes.

Q. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include (a) the allocation of trust fund receipts by the Office of Treasury's Assessment (OTA), (b) yearend accruals of accounts and grants payable, (c) accrued workers' compensation, and (d) allowance for doubtful accounts receivable.

R. Reclassifications

Certain reclassifications were made to the FY 2006 financial statement presentation to conform to that used in FY 2007. The FY 2006 Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing) was reclassified to conform to the FY 2007 presentation.

S. Parent/Child Allocations

FHWA adjusted the beginning balances of cumulative results of operations by $60.5 million due to a change in accounting principle. According to OMB Circular No. A-136, effective FY 2007 the parent must report all budgetary and proprietary activity of the child account in its financial statements, whether material to the parent or not. As a result, U.S. Army Corps of Engineers and U.S. Forest Service beginning balances are reflected in "Changes to Accounting Principles" on the Statement of Changes to Net Position. For FY 2006, two recipient agencies, U.S. Army Corps of Engineers and U.S. Forest Service, were excluded from all financial statements (except the Statement of Budgetary Resources) and related footnotes; as an exception allowed them to include the allocation activity on their financial statements if it was deemed material to the child agency.

T. Prior Period Adjustments and Restatements

Federal Aviation Administration Construction in Process (CIP)

DOT has restated certain balances within Property, Plant and Equipment (PP&E, net) as of September 30, 2006, to correct the effects of untimely recognition of expenses related to Construction in Progress (CIP) activity that did not meet FAA's capitalization requirements and the untimely capitalization of completed assets. The restatement reduces the balance of PP&E, net by $954 million and also reclassifies $1,696 million within PP&E from CIP to other PP&E categories. The effect of this correction is also reflected as a $974 million reduction to the beginning balance of cumulative results of operations on the FY 2006 Statement of Changes in Net Position and a $317.8 million decrease to Air Transportation total net costs as shown on the FY 2006 Statement of Net Cost. The restatement is also reflected in Note 24, Reconciliation of Net Cost of Operations to Budget (formally the Statement of Financing). The effect of the restatement in Note 24 agrees to the decrease in total net costs in the amount of $317.8 million.

Federal Transit Administration Grant Accrual

DOT has restated the FY2006 DOT Consolidated Financial Statements as of September 30, 2006, to correct the effects

of the grant accrual in the Mass Transit Account within FTA's programs. A review of the application of the methodology used to calculate the grant accrual revealed that, due to funding changes enacted in the Surface Transportation Act SAFTEA-LU, the grant accrual for FTA was overstated by $571 million. As a result, the balances of other funds were increased by $571 million. The restatement is reflected on the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position and is summarized in a table reflected in Note 25.

Federal Transit Administration Earmarked Funds
DOT has restated balances on the Statement of Changes in Net Position as of September 30, 2006, to correct the effects of the misclassifications of earmarked funds in the Mass Transit Account within FTA's programs. A review of the presentation of earmarked and other funds in the Statement of Changes in Net Position in accordance with FASAB 27, revealed that the amounts presented were not properly classified in accordance with the standard and the amounts reported included corrections of reporting errors from FY2005 and prior that were presented as FY2006 activity.
As a result, beginning cumulative results of operations was decreased by $343.3 million and beginning unexpended appropriations was increased by $343.3 million; the ending balances of earmarked and other funds were reduced by $9.4 million and increased by $9.4 million, respectively. The restatement is reflected on the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position and is summarized in a table reflected in Note 25.

NOTE 2. NON-ENTITY ASSETS
Dollars in Thousands

As of September 30,	FY 2007	Restated FY 2006
Intragovernmental		
Fund Balance with Treasury	$ (268)	$ 186
Accounts Receivable	75	-
Total Intragovernmental	(193)	186
Accounts Receivable	121	39
Total Non-Entity Assets	(72)	225
Total Entity Assets	61,831,910	64,111,347
Total Assets	$ 61,831,838	$ 64,111,572

DOT has restated and reduced PP&E, net as of September 30, 2006 by $954 million to reflect the correction of untimely processing of transactions related to FAA capital projects. The effects of this correction include a reduction to Construction in Progress, net in the amount of $2,593.7 million, comprised of $897.4 million non-capital transactions charged to expense and $1,696.3 million of completed assets reclassified from Construction in Progress to other general property, plant and equipment categories. Accumulated depreciation was increased by $56.6 million for the effects of this correction.

NOTE 3. FUND BALANCE WITH TREASURY

Dollars in Thousands

As of September 30,	FY 2007 TOTAL	FY 2006 TOTAL
Fund Balances		
Trust Funds	$ 5,593,882	$ 7,883,395
Revolving Funds	643,114	591,806
General Funds	16,871,467	18,930,510
Other Fund Types	284,007	287,197
Total	$ 23,392,470	$ 27,692,908
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 5,055,441	$ 4,248,737
Unavailable	1,537,890	1,403,548
Obligated Balance Not Yet Disbursed	16,465,645	21,715,828
Non-Budgetary FBWT	333,494	324,795
Total	$ 23,392,470	$ 27,692,908

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, 2007	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Intragovernmental Securities					
Marketable	$ 35,300	$ 244	$ 35,544	$ (615)	$ 34,929
Non-Marketable					
Par Value	20,135,487	-	20,135,487	-	20,135,487
Market-Based	886,403	-	886,403	-	886,403
Subtotal	$ 21,057,190	$ 244	$ 21,057,434	$ (615)	$ 21,056,819
Accrued Interest	87,264	-	87,264	-	87,264
Total Intragovernmental Securities	$ 21,144,454	$ 244	$ 21,144,698	$ (615)	$ 21,144,083
Securities with the Public					
Marketable	$ 75,252	$ 483	$ 75,735	$ (1,650)	$ 74,085
Total Securites with the Public	$ 75,252	$ 483	$ 75,735	$ (1,650)	$ 74,085
As of September 30, 2006					
Intragovernmental Securities					
Marketable	$ 152,616	$ 2,037	$ 154,653	$ (3,233)	$ 151,420
Non-Marketable					
Par Value	18,890,967	-	18,890,967	-	18,890,967
Market-Based	698,055	(1,388)	696,667	-	696,667
Subtotal	$ 19,741,638	$ 649	$ 19,742,287	$ (3,233)	$ 19,739,054
Accrued Interest	85,097		85,097		85,097
Total Intragovernmental	$ 19,826,735	$ 649	$ 19,827,384	$ (3,233)	$ 19,824,151

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. Securities with the Public include marketable Treasury securities that were purchased using deposit fund monies and are required to be classified as securites with the public and are not considered intragovernmental investments.

Marketable Federal securities can be bought and sold on the open market. Non-marketable par value Treasury securities are issued by the Bureau of Public Debt to Federal accounts and are purchased and redeemed at par exclusively through Treasury's Federal Investment Branch. Non-marketable market-based Treasury securities are also issued by the Bureau of Public Debt to Federal accounts. They are not traded on any securities exchange but mirror the prices of particular Treasury securities trading in the Government securities market. Amortization is done using the interest or straight-line method.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for Government purposes. Treasury securities are issued to the DOT as evidence of its receipts. Treasury securities are an asset to the DOT and a liability to the U.S. Treasury. Because the DOT and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

Treasury securities provide the DOT with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the DOT requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NOTE 5. ACCOUNTS RECEIVABLE
Dollars in Thousands

	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
As of September 30, 2007			
Intragovernmental			
Accounts Receivable	$ 509,692	$ -	$ 509,692
Total Intragovernmental	$ 509,692	$ -	$ 509,692
Public			
Accounts Receivable	$ 123,422	$ (9,345)	$ 114,077
Accrued Interest	41	-	41
Total Public	$ 123,463	$ (9,345)	$ 114,118
Total Receivables	$ 633,155	$ (9,345)	$ 623,810
As of September 30, 2006			
Intragovernmental			
Accounts Receivable	$ 212,616	$ -	$ 212,616
Total Intragovernmental	$ 212,616	$ -	$ 212,616
Public			
Accounts Receivable	$ 172,686	$ (69,315)	$ 103,371
Total Public	$ 172,686	$ (69,315)	$ 103,371
Total Receivables	$ 385,302	$ (69,315)	$ 315,987

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 2007	FY 2006
Intragovernmental		
Advances and Prepayments	$ 1,739	$ 37,946
Other	714	-
Total Intragovernmental	$ 2,453	$ 37,946
Public		
Advances to the States	$ 98,861	$ 98,401
Other Advances and Prepayments	112,029	96,550
Other	154	555
Total Public	$ 211,044	$ 195,506

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 (TIFIA) Loan Program
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.

Direct Loans Obligated Prior to FY 1992, Net

	FY 2007 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Direct Loans, Net
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss Method					
1. Railroad Rehab. Improvement Program	$ 17,479	$ 90	$ -	$ -	$ 17,569
Subtotal	$ 17,479	$ 90	$ -	$ -	$ 17,569
After FY 1991					
1. Railroad Rehab. Improvement Program	$ 497,166	$ -	$ -	$ 9,889	$ 507,055
3. TIFIA Loan	377,058	-	-	(39,998)	337,060
Subtotal	$ 874,224	$ -	$ -	$ (30,109)	$ 844,115

Direct Loans Obligated Prior to FY 1992, Net

	FY 2006 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Direct Loans, Net
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss Method					
1. Railroad Rehab. Improvement Program	$ 21,900	$ 82	$ -	$ -	$ 21,982
Subtotal	$ 21,900	$ 82	$ -	$ -	$ 21,982
After FY 1991					
1. Railroad Rehab. Improvement Program	$ 449,320	$ -	$ -	$ 9,471	$ 458,791
3. TIFIA Loan	117,950	-	-	(8,901)	109,049
Subtotal	$ 567,270	$ -	$ -	$ 570	$ 567,840

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Dollars in Thousands

Total Amount of Direct Loans Disbursed (Post-1991)

	FY 2007	FY 2006
Direct Loan Programs		
1. Railroad Rehab. Improvement Program	$ 99,832	$ 79,249
2. Amtrak Loans	-	-
3. TIFIA Loan	246,033	43,683
Subtotal	$ 345,865	$ 122,932

Subsidy Expense for Direct Loans by Program and Component

FY 2007	Interest Differential	Defaults	Fees and Other Collections	Modifications/ Re-Estimates	Total
Subsidy Expense for New Direct Loans Disbursed					
Direct Loan Programs					
1. Railroad Rehab Improv	$ -	$ -	$ 1,786	$ (1,745)	$ 41
3. TIFIA Loans	-	27,576	-	-	27,576
Subtotal	$ -	$ 27,576	$ 1,786	$ (1,745)	$ 27,617

FY 2006	Interest Differential	Defaults	Fees and Other Collections	Modifications/ Re-Estimates	Total
Subsidy Expense for New Direct Loans Disbursed					
Direct Loan Programs					
3. TIFIA Loans	$ -	$ 3,101	$ 218	$ (11,821)	$ (8,502)
Subtotal	$ -	$ 3,101	$ 218	$ (11,821)	$ (8,502)

Modifications and Re-estimates

FY 2007	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
1. Railroad Rehab Improv	$ -	$ -	$ 1,567	$ 1,567
3. TIFIA Loans	2,959	1,328	7,099	11,386
Subtotal	$ 2,959	$ 1,328	$ 8,666	$ 12,953

FY 2006	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
1. Railroad Rehab Improv	$ -	$ -	$ 12,473	$ 12,473
3. TIFIA Loans	-	(510)	(11,311)	(11,821)
Subtotal	$ -	$ (510)	$ 1,162	$ 652

Total Direct Loan Subsidy Expense

	FY 2007	FY 2006
Direct Loan Programs		
1. Railroad Rehab Improv	$ 1,608	$ 12,473
3. TIFIA Loans	2,959	(20,323)
Subtotal	$ 4,567	$ (7,850)

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*
Dollars in Thousands

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

	FY 2007 Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
1. Railroad Rehab Improv	0.00%	3.46%	-3.46%	0.00%	0.00%
2. Amtrak Loans	0.00%	0.00%	0.00%	0.00%	0.00%
3. TIFIA Loans	0.17%	1.09%	0.00%	0.00%	1.26%
Subtotal	0.17%	4.55%	-3.46%	0.00%	1.26%

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

Beginning Balance, Changes, and Ending Balance	FY 2007	FY 2006
Beginning Balance of the Subsidy Cost Allowance	$ (570)	$ 34,077
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting		
Years by Component		
Fees and Other Collections	-	157
Other Subsidy Costs	29,362	(4,078)
Total of the Above Subsidy Expense Components	$ 29,362	$ (3,921)
Adjustments		
Loan Modifications	3,207	-
Fees Received	(55)	-
Subsidy Allowance Amortization	(8,518)	(6,432)
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ 23,426	$ 23,724
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	6,683	(24,294)
Total of the Above Reestimate Components	$ 6,683	$ (24,294)
Ending Balance of the Subsidy Cost Allowance	$ 30,109	$ (570)

Defaulted Guaranteed Loans from Post-1991 Guarantees

	FY 2007 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
4. Fed Ship Financing Fund (Title XI)	$ 7,501	$ 200	$ 19,000	$ 1,500	$ 28,201
Total	$ 7,501	$ 200	$ 19,000	$ 1,500	$ 28,201

Defaulted Guaranteed Loans from Post-1991 Guarantees

	FY 2006 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
4. Fed Ship Financing Fund (Title XI)	$ 7,713	$ 144	$ 19,000	$ 1,500	$ 28,357
Total	$ 7,713	$ 144	$ 19,000	$ 1,500	$ 28,357

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Dollars in Thousands

Guaranteed Loans Outstanding

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
4. Fed Ship Financing Fund (Title XI)	$ 2,687,186	$ 2,936,187
5. OST Minority Business Res	3,915	2,936
6. Fed Ship Liquidating Fund (Title XI)	2,204	6,781
Subtotal	$ 2,693,305	$ 2,945,904

New Guaranteed Loans Disbursed

	FY 2007	
5. OST Minority Business Resource Center	$ 3,415	$ 2,651
Subtotal	$ 3,415	$ 2,651

	FY 2006	
4. Fed Ship Financing Fund (Title XI)	$ 139,731	$ 139,731
5. OST Minority Business Resource Center	2,515	1,886
Subtotal	$ 142,246	$ 141,617

Liability for Loan Guarantees (Present Value Method Post-1991 Guarantees):

	FY 2007 Liabilities for Post-1991 Guarantees, Present Value	FY 2006 Liabilities for Post-1991 Guarantees, Present Value
Loan Guarantee Programs		
4. Fed Ship Financing Fund (Title XI)	$ 336,410	$ 345,341
5. OST Minority Business Res	216	523
Total	$ 336,626	$ 345,864

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

FY 2007 Loan Guarantee Programs	Interest Supplements	Defaults Net	Fees and Other Collections	Other Subsidy Costs	Modifications/ Re-Estimates	Total
4. Fed Ship Financing Fund (Title XI)	$ -	$ 891	$ 774	$ 20,499	$ (31,096)	$ (8,932)
5. OST Minority Business Resource	62	-	-	-	-	62
Subtotal	$ 62	$ 891	$ 774	$ 20,499	$ (31,096)	$ (8,870)
FY 2006 Loan Guarantee Programs						
4. Fed Ship Financing Fund (Title XI)	$ -	$ (3,378)	$ (12,707)	$ 75,210	$ (106,654)	$ (47,529)
5. OST Minority Business Resource	-	(77)	-	-	-	(77)
Subtotal	$ -	$ (3,455)	$ (12,707)	$ 75,210	$ (106,654)	$ (47,606)

Modifications and Re-estimates

Loan Guarantee Programs	FY 2007 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
4. Fed Ship Financing Fund (Title XI)	$ -	$ -	$ 31,096	$ 31,096
5. OST Minority Business Resource	-	12,992	(15,208)	(2,216)
Subtotal	$ -	$ 12,992	$ 15,888	$ 28,880

	FY 2006 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
4. Fed Ship Financing Fund (Title XI)	$ -	$ -	$ (106,654)	$ (106,654)
Subtotal	$ -	$ -	$ (106,654)	$ (106,654)

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	FY 2007	FY 2006
4. Fed Ship Financing Fund (Title XI)	$ 22,164	$ (154,183)
5. OST Minority Business Resource	(2,154)	(77)
Subtotal	$ 20,010	$ (154,260)

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

	FY 2007 Interest Differential	Defaults	Fees and Other Collections	Other	Total
Loan Guarantee Programs					
4. Fed Ship Financing Fund (Title XI)	0.00%	12.05%	-4.88%	0.00%	7.17%
5. OST Minority Business Res	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal	0.00%	12.05%	-4.88%	0.00%	7.17%

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance	FY 2007	FY 2006
Beginning Balance of the Loan Guarantee Liability	$ 345,864	$ 393,451
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component:		
Default Costs (net of recoveries)	571	(3,455)
Fees and Other Collections	774	(12,707)
Other Subsidy Costs	3,299	75,210
Total of the Above Subsidy Expense Components	$ 4,643	$ 59,048
Adjustments:		
Interest Accumulation on the Liability Balance	17,216	19
Ending Balance of the Loan Guarantee Liability Before Reestimates	$ 367,724	$ 452,518
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	(31,098)	(106,654)
Total of the Above Reestimate Components	$ (31,098)	$ (106,654)
Ending Balance of the Loan Guarantee Liability	$ 336,626	$ 345,864

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 loans 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 Departmentwide.

NOTE 8. INVENTORY AND RELATED PROPERTY
Dollars in Thousands

	Cost	Allowance for Loss	Net
As of September 30, 2007			
Inventory:			
Inventory Held for Current Sale	$ 82,975	$ (6,631)	$ 76,344
Inventory Held for Repair	466,346	(95,600)	370,746
Other	35,992	(17,996)	17,996
Total Inventory	$ 585,313	$ (120,227)	$ 465,086
Operating Materials and Supplies:			
Items Held for Use	$ 233,470	$ (3,923)	$ 229,547
Items Held in Reserve for Future Use	69,998	-	69,998
Excess, Obsolete and Unserviceable Items	480	(480)	-
Items Held for Repair	38,385	(17,256)	21,129
Total Operating Materials & Supplies	$ 342,333	$ (21,659)	$ 320,674
Total Inventory and Related Property			$ 785,760
As of September 30, 2006			
Inventory:			
Inventory Held for Current Sale	$ 69,960	$ (6,031)	$ 63,929
Excess, Obsolete and Unserviceable Inventory	47,607	(5,814)	41,793
Inventory Held for Repair	376,366	(87,615)	288,751
Other	224,652	(35,774)	188,878
Total Inventory	$ 718,585	$ (135,234)	$ 583,351
Operating Materials and Supplies:			
Items Held for Use	$ 229,098	$ (3,061)	$ 226,037
Items Held in Reserve for Future Use	69,414	-	69,414
Excess, Obsolete and Unserviceable Items	758	(758)	-
Items Held for Repair	33,558	(14,866)	18,692
Total Operating Materials & Supplies	$ 332,828	$ (18,685)	$ 314,143
Total Inventory and Related Property			$ 897,494

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	Book Value
As of September 30, 2007				
Land and Improvements		$ 208,742	$ (89,679)	$ 119,063
Buildings and Structures	Various	4,823,882	(2,485,100)	2,338,782
Furniture and Fixtures	Various	-	-	-
Equipment	Various	17,664,815	(9,052,689)	8,612,126
ADP Software	Various	208,130	(180,104)	28,026
Electronics	6-10	738	(738)	-
Assets Under Capital Lease	Various	166,387	(111,373)	55,014
Leasehold Improvements	Various	67,494	(35,541)	31,953
Aircraft	11-20	401,614	(297,508)	104,106
Ships and Vessels	>20	1,656,764	(1,176,540)	480,224
Small Boats	Various	17,564	(14,712)	2,852
Construction in Progress		2,892,154	-	2,892,154
Property Not in Use		93,593	(74,003)	19,590
Other Misc. Property		1,390	(1,390)	-
Total		$ 28,203,267	$ (13,519,377)	$ 14,683,890
As of September 30, 2006 (Restated)				
Land and Improvements		$ 113,482	$ (393)	$ 113,089
Buildings and Structures	Various	4,592,936	(2,332,213)	2,260,723
Furniture and Fixtures	Various	55,112	(25,827)	29,285
Equipment	Various	17,243,773	(8,087,372)	9,156,401
ADP Software	Various	163,967	(143,688)	20,279
Electronics	6-10	2,720	(2,626)	94
Assets Under Capital Lease	Various	127,439	(89,181)	38,258
Leasehold Improvements	Various	59,933	(29,491)	30,442
Aircraft	11-20	401,614	(280,758)	120,856
Ships and Vessels	>20	1,653,368	(1,110,010)	543,358
Small Boats	Various	15,648	(14,240)	1,408
Construction in Progress		2,148,066	-	2,148,066
Property Not in Use		117,050	(86,598)	30,452
Other Misc. Property		73,097	(64,046)	9,051
Total		$ 26,768,205	$ (12,266,443)	$ 14,501,762

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 the Required Supplementary Information.

DOT has restated and reduced PP&E, net as of September 30, 2006 by $954.0 million to reflect the correction of untimely processing of transactions related to FAA capital projects. The effects of this correction include a reduction to Construction in Progress, net in the amount of $2,593.7 million, comprised of $897.7 million non-capital transactions charged to expense and $1,696.3 million of completed assets reclassified from Construction in Progress to other general property, plant and equipment categories. Accumulated depreciation was increased by $56.6 million for the effects of this correction.

NOTE 10. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

Stewardship Mission

Implied within the Maritime Administration's mission is the promotion of the nation's rich maritime heritage. One aspect of this entails the collection, maintenance and distribution of maritime artifacts removed from MARAD ships prior to their disposal. These artifacts are sought for public display in museums, aboard memorial ships, and in facilities used by government organizations and issued on a long-term loan basis for this purpose.

Washington's Union Station support's DOT's mobility mission, facilitating the movement of intercity and commuter rail passengers through the Washington DC metropolitan area.

Stewardship Policy

The Maritime Administration has established a list of artifact-type items that are typically found aboard agency-owned ships. As ships are assigned to a non-retention status in preparation for disposal, artifact items are collected, inventoried, photographed and relocated to secure shore-side storage facilities. This resulting inventory of artifacts is made available for long-term loan to qualified organizations for public display purposes. Qualified organizations have access to the artifact inventory via web-based system. The artifact loan process is also managed on-line via this system. The program also supports required National Historical Preservation Act processing prior to vessel disposal. Funding for the maintenance of heritage items is typically the responsibility of the organization requesting the loan. As all items are durable and restorable, disposal is not a consideration.

The Federal Railroad Administration has an oversight role in the management of Washington Union Station. FRA received title through legislation, and sublets the property to Union Station Venture Limited which manages the property. Net book value of multi-use heritage assets is included in general property, plant and equipment, while "physical quantity" information is included in the Heritage Assets section of Required Supplementary Information. The condition of the stewardship assets is included in the Deferred Maintenance section of the Required Supplementary Information.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Dollars in Thousands

Intragovernmental	FY 2007	Restated FY 2006
Debt	$ 1,726	$ 4,841
Other Liabilities	440,686	356,460
Total Intragovernmental	$ 442,412	$ 361,301
Federal Employee and Veterans' Benefits Payable	$ 946,408	$ 950,466
Environmental and Disposal Liabilities	852,366	953,635
Other Liabilities	782,120	922,089
Total Liabilities Not Covered by Budgetary Resources	$ 3,023,306	$ 3,187,491
Total Liabilities Covered by Budgetary Resources	11,051,917	9,924,453
Total Liabilities	$ 14,075,223	$ 13,111,944

As discussed in Notes 1.T, 14, 19, and 20, the FY 2006 grant accrual liabilities were restated. Due to funding changes enacted in the Surface Transportation Act SAFTEA-LU, the grant accrual for FTA was overstated by $571 million in the DOT consolidated financial statements. FTA's grants primarily affect local governments and transit authorities.

NOTE 12. DEBT
Dollars in Thousands

	FY 2006 Beginning Balance	FY 2006 Net Borrowing Activity	FY 2006 Ending Balance	FY 2007 Net Borrowing Activity	FY 2007 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$ 949,653	$ (112,973)	$ 836,680	$ 201,623	$ 1,038,303
Debt to the Fed Financing Bank	2,883	(206)	2,677	(219)	2,458
Total Intragovernmental Debt	$ 952,536	$ (113,179)	$ 839,357	$ 201,404	$ 1,040,761

Net Change During Fiscal Year includes new borrowing, repayments and net change in accrued payables. Debt to the Treasury and to the Federal Financing Bank is for FRA direct loans to railroads, for FHWA direct loans under the Transportation Infrastructure Finance and Innovation Act (TIFIA), and for MARAD Title XI guaranteed loans.

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Dollars in Thousands

	FY 2007	FY 2006
Public		
Environmental Cleanup Liabilities		
FAA Environmental Remediation	$ 316,748	$ 573,263
FAA Environmental Cleanup and Decommissioning	250,138	-
MARAD Environmental Cleanup (PCB, Lead, Oil)	285,480	380,372
Total Public	$ 852,366	$ 953,635

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.

NOTE 14. 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 entity 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 Administrations at September 30, 2007 and September 30, 2006 are summarized as follows:

	FY 2007	RESTATED FY 2006
Highway Trust Fund	$ 4,144,949	$ 3,556,098
Federal Transit Administration	707,996	865,851
Federal Aviation Administration	653,790	549,758
Federal Highway Administration (non-trust fund)	-	34
Federal Railroad Administration	11,896	3,815
Pipeline Hazardous Materials Safety Administration	7,657	-
Total Grant Accrual	$ 5,526,288	$ 4,975,556

DOT has restated and reduced the grant accrual as of September 30, 2006 by $571.3 million to reflect the correction of grant accrual methodology for the Federal Transit Administration. FTA's grants primarily affect local governments and transit authorities.

NOTE 15. OTHER LIABILITIES
Dollars in Thousands

	Non-Current	Current	FY 2007 Total
As of September 30, 2007			
Intragovernmental			
Advances and Prepayments	$ (79,321)	$ 2,911,830	$ 2,832,509
Accrued Pay and Benefits	2,533	83,810	86,343
FECA Billings	126,127	88,660	214,787
Uncleared Disbursements and Collections	(544)	(8,441)	(8,985)
Deferred Credits	34,972	-	34,972
Deposit Funds	(294)	(427)	(721)
Other Accrued Liabilities	228,243	30,930	259,173
Total Intragovernmental	$ 311,716	$ 3,106,362	$ 3,418,078
Public:			
Other Accrued Unbilled Payments	$ 11	$ 1,752	$ 1,763
Accrued Pay and Benefits	160,135	568,817	728,952
Legal Claims	2,431	14,205	16,636
Deferred Credits	129,891	-	129,891
Capital Leases	57,612	14,499	72,111
Advances and Prepayments	31,420	142,852	174,272
Uncleared Disbursements and Collections	3,588	128	3,716
Deposit Funds	-	844	844
Other Custodial Liability	(2)	26,796	26,794
Other Accrued Liabilities	89,833	64,599	154,432
Total Public	$ 474,919	$ 834,492	$ 1,309,411

	Non-Current	Current	FY 2006 Total
As of September 30, 2006			
Intragovernmental			
Advances and Prepayments	$ -	$ 2,797,414	$ 2,797,414
Accrued Pay and Benefits	993	52,546	53,539
FECA Billings	121,877	91,572	213,449
Uncleared Disbursements and Collections	-	(26,967)	(26,967)
Deferred Credits	-	2,199	2,199
Deposit Funds	-	(2,437)	(2,437)
Other Accrued Liabilities	164,702	10,992	175,694
Total Intragovernmental	$ 287,572	$ 2,925,319	$ 3,212,891
Public			
Other Accrued Unbilled Payments	$ -	$ 11,772	$ 11,772
Accrued Pay and Benefits	182,330	686,968	869,298
Legal Claims	3,281	8,001	11,282
Deferred Credits	115,175	74,675	189,850
Capital Leases	34,199	8,607	42,806
Advances and Prepayments	-	105,554	105,554
Uncleared Disbursements and Collections	-	6,548	6,548
Deposit Funds	(3,950)	3,139	(811)
Other Custodial Liability	-	57,902	57,902
Other Accrued Liabilities	88,991	25,990	114,981
Total Public	$ 420,026	$ 989,156	$ 1,409,182

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 16. CAPITAL LEASES
Dollars in Thousands

ENTITY AS LESSEE

Capital Leases

	FY 2007	Restated FY 2006
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$ 166,387	$ 127,439
Accumulated Amortization	(111,373)	(89,181)
Net Assets Under Capital Lease	$ 55,014	$ 38,258

Future Payments Due

Fiscal Year	Land & Buildings
Year 1 (2008)	$ 14,230
Year 2 (2009)	13,945
Year 3 (2010)	13,280
Year 4 (2011)	12,267
Year 5 (2012)	8,270
After 5 Years (2013+)	59,577
Total Future Lease Payments	$ 121,569
Less: Imputed Interest	49,458
Net Capital Lease Liability	$ 72,111

Operating Leases
Future Payments Due

Fiscal Year	Land, Buildings, Machinery & Other
Year 1 (2008)	$ 105,170
Year 2 (2009)	98,527
Year 3 (2010)	91,968
Year 4 (2011)	78,783
Year 5 (2012)	65,963
After 5 Years (2013+)	130,098
Total Future Lease Payments	$ 570,509

NOTE 17. CONTINGENCIES, COMMITMENTS, AND OTHER DISCLOSURES

Contingencies

Legal Claims

As of September 30, 2007 and 2006, DOT's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $33.1 million and $27.9 million, respectively. DOT does not have material amounts of known unasserted claims.

There are legal actions pending against the HTF Agencies in Federal courts in which claims have been asserted that may be based on action taken by the Agencies. Management intends to vigorously contest such claims. Management believes, based on information provided by legal counsel, that losses, if any, for these cases would not have a material impact on the financial statements and no loss accrual has been made for these cases outstanding as of September 30, 2007 and 2006 due to this fact.

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, 2007 and 2006, FHWA has pre-authorized $46.2 billion and $44.8 billion, respectively under these arrangements; however no liability is reflected in the Highway Trust Fund financial statements at September 30, 2007 and 2006.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. As of September 30, 2007 and September 30, 2006 approximately $3.9 billion and $2.7 billion respectively in Section 5309 New Starts funds has been committed under FFGAs, but not yet appropriated by Congress. However, no liability is reflected in the DOT financial statements at September 30, 2007 and September 30, 2006 for these agreements.

Contract Options and Negotiations

As of September 30, 2007 and 2006, FAA had contract options of $3.51 billion and $3.35 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 40 air carriers having approximately 1,643 aircraft available for Department of Defense and for 9 carriers available for 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 required FAA to extend policies in effect on July 19, 2002 and to add hull loss and passenger and third party war risk liability insurance for those policies.

Subsequent acts ending with the Revised Continuing Appropriations Resolution, 2007, P.L. 110-5, ultimately extended the mandatory provision of insurance through September 30, 2007, expanded the authority of the DOT to include war and terrorism insurance for aircraft and aircraft engine manufacturers, extended the potential $100 million third party liability limitation for air carriers through September 30, 2007, and expanded it to include aircraft and aircraft engine manufacturers. On September 1, 2007, the Secretary of Transportation extended coverage through December 31, 2007. During this year there were 77 FAA premium war-risk policies. Insured air carriers 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 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 2007 and FY 2006, FAA recognized insurance premium revenue of $171 million and $168.4 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."

FAA airline war risk insurance policies normally establish a maximum liability for claims associated with a single war risk event. The maximum liability for both hull loss and liability, per occurrence, is $4 billion. No claims for losses were pending as of September 30, 2007, or 2006. 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 in 1951, the FAA has intermittently insured air carrier operations on both a premium and non-premium basis. During its history, the Aviation Insurance Program has only paid four claims, all involving only minor dollar amounts. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.

Commitments

Grant Programs

FAA's Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security and environmental concerns. FAA's share of eligible costs for large and medium primary hub airports is 75% 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 95%.

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, 2007, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.6 billion. As of September 30, 2007, FAA had obligated $4.3 billion of this total amount leaving $1.3 billion unobligated. Through September 30, 2006, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.3 billion. As of September 30, 2006, FAA had obligated $3.8 billion of this total amount, leaving $1.5 billion unobligated.

Other Disclosures

Environmental Liabilities

MARAD faces liability primarily by virtue of the actions of its predecessor, the War Shipping Administration, for its share of liability for remediation under the Comprehensive Environmental Response Compensation Liabilities Act (CERCLA) at various sites. MARAD is currently unable to quantify its liability in this area.

NOTE 18. EARMARKED FUNDS

Highway Trust Funds

The Highway Trust Fund is comprised of the Highway Corpus Trust Fund and certain accounts of the Federal Highway Administration, Federal Motor Carrier Safety Administration, Federal Transit Administration, Federal Railroad Administration and the National Highway Traffic Safety Administration. The HTF was created in 1956 with the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. The use of the fund has also been expanded to embrace highway safety. Overall, there are 73 earmarked funds in the HTF.

Federal Aviation Administration Trust Funds

Aviation Insurance Revolving Fund (AIRF) - was authorized under public law Title 49 of the U.S. Code to provide insurance coverage for aircraft operations that are deemed essential to the foreign policy interests of the United States when commercial insurance is unavailable on reasonable terms. The AIRF is a separate fund within FAA's accounting structure and included as part of FAA's consolidated financial statements.

Aviation User Fees (AUF) - was authorized by the Federal Aviation Reauthorization Act of 1996 and Title 49 U.S. Code 45301, as amended by public law 104-264, to establish a fee schedule and collection process for air traffic control and related services provided to aircraft, other than military and civilian aircraft of the U.S. government or a foreign government, that neither take off nor land in the United States. The AUF is a separate fund within FAA's accounting structure and included as part of FAA's consolidated financial statements.

Airport and Airway Trust Fund (AATF) - was authorized by the Airport and Airway Revenue Act of 1970 to provide funding for the Federal commitment to the nations aviation system and typically includes annual funding for four distinct areas; Operations, Grant in Aid for Airports, Facilities and Equipment and Research, Engineering and Development. The activity within each area is reported by fund group within FAA's accounting structure and included as part of FAA's consolidated financial statements. The AATF is managed by the Bureau of Public Debt (BPD) for FAA and receipts are unavailable until appropriated by the U. S. Congress. AATF funds are invested in government securities by BPD which are liquidated and transferred to authorized funds as needed. The unavailable or unappropriated funds in AATF, referred to as Corpus, are also included as part of FAA's consolidated financial statements.

Earmarked funds from the Facilities and Equipment fund are used to purchase or construct property, plant and equipment (PP&E). When earmarked funds are used to purchase or construct PP&E, they are no longer available for future expenditure, have been used for their intended purpose, and therefore are classified as other funds on the balance sheet and the statement of changes in net position. The intended result of this presentation is to differentiate between earmarked funds available for future expenditure and earmarked funds previously expended on PP&E projects and therefore unavailable for future expenditure. In addition, this note presents only the earmarked funds that retain available financing sources. As such, the balances in the PP&E fund, though funded from the Facilities and Equipment earmarked fund are reported as other funds and therefore are excluded.

Federal Highway Administration Non Trust Funds

Several small miscellaneous programs comprise this portion of earmarked funds in the Federal Highway Administration.

Federal Transit Administration (Mass Transit)

In FY-2005 and prior, FTA programs were funded 80% through the Mass Transit account and 20% through Treasury General Receipt (Fund) account. During these prior years, FTA's formula programs were paid out of general fund accounts combined with financing sources transferred in without reimbursement from expenditure transfers from an

FTA conduit Trust Fund account (69X8350). The Mass Transit account for these years is considered earmarked but not reported as part of the HTF.

SAFETEA-LU legislation (P.L. 109-59) changed the way FTA programs are funded. Beginning in FY-2006, FTA formula and bus appropriation (69X8350) is funded 100% by the Mass Transit account and is reported as part of the HTF.

Maritime Administration

War Risk Insurance Fund - MARAD is authorize to insure against loss or damage from marine war risks until commercial insurance can be obtained on reasonable terms and conditions. This insurance includes war risk hull and disbursement interim insurance, war risk protection and indemnity interim insurance, second seaman's war risk interim insurance and war risk cargo insurance standby program.

Special Study, Services & Project Fund - All payments for work or services performed or to be performed under the Act shall be deposited in this separate accounts which may be used to pay directly the costs of such work or services.

Gifts and Bequests Fund - The Secretary is authorized to accept, hold, administer gifts and bequests of property, both real and personal for the purpose of aiding or facilitating the work of Department of Transportation.

Office of the Secretary

X-5423 - Emergency Air Service post 911 travel

X-8304 - Emergency Air Service post 911 travel

X-8548 -Investment at Treasury from a gift that earns interest twice a year

Pipeline and Hazardous Material Safety Administration

The funds are used to oversee, the safety, security, and environmental protection of pipeline through analysis of data, damage prevention, education and training, enforcement of regulations and standards, research and development, grants for State pipeline safety programs, and emergency planning and response to accidents. PHMSA reports this as a Special Fund. Collections are deposited to an Unappropriated Receipt Account and funds are drawn down as needed during the year up to the limitation established by Congress. The authority is established by P.L. 109-115.

Trust Fund provides funding for pipeline to provide regulations, proposed and final rulemakings, pipeline statistics, report accidents/incidents and corrective action orders. PHMSA reports this fund as a Special Fund. The authority is established by P.L. 109-115.

Emergency Preparedness Grants funds are used to establish a national registration program for shippers and carriers of hazardous materials. These fees finance emergency preparedness planning and training grants, development of a training curriculum for emergency responders, and technical assistance to States, political subdivisions, and Indian tribes. This fund is reported as a Special Fund. The authority is established by P.L. 109-115.

SOURCES OF EARMARKED FUNDS

Highway Trust Funds

The funding needed to support the HTF programs and activities are financed from excise taxes collected on specific motor fuels, truck taxes, and fines and penalties. Annual appropriations are the authority to collect these tax revenues to support programs as authorized by law. A small portion of the financing revenues are provided by offsetting collections for work performed under a reimbursable agreement. Taxes are recognized as revenues at the time they are deposited in the Highway Trust Fund Corpus account.

Aviation Insurance Revolving Fund:

FAA collects insurance premiums from participating carriers that finance a continuing cycle of operations. These revenues are inflows of resources to the government.

Aviation User Fees

FAA collects over flight user fees for providing air traffic control services. These revenues are inflows of resources to the government.

Airport and Airway Trust Fund

Funding currently comes from several aviation related excise tax collections from passenger tickets, passenger flight segments, international arrivals/departures, cargo waybills and aviation fuels. These revenues are inflows of resources to the government.

Federal Highway Administration Non Trust Funds

Source of funding is from receipts that come in from various public sources. The level of funding is not known. These receipts are the sole source of funding for Miscellaneous trust funds.

Federal Transit Administration (Mass Transit)

As FTA had a significant amount (greater than 50%) of earmarked funds in its general appropriation fund accounts, the majority of these are reported as earmarked.

Maritime Administration

War Risk Insurance Fund - Insurance premium

Special Study, Services & Project Funs - Fee for performing work or service

Gift and Bequests Fund - Donation

Office of the Secretary

X-5423 - Funding comes from FAA as a transfer of funds, 100% intergovernmental flow

X-8304 - Funding comes from the Bureau of Public Debt as a transfer of funds, 100% intragovernmental flow

X-8548 -Investment at Treasury from a gift that earns interest twice a year, 100% resources to the Government

Pipeline and Hazardous Material Safety Administration

Pipeline- Financing is a result of user fees

Trust Fund - Funds are appropriated and received from the BPD Trust fund

EP Grants - Financing is obtained from registration fees.

There were no changes in legislation as of September 30, 2007 that significantly changed the purpose of the earmarked funds or redirected a material portion of the accumulated balance.

	Highway Trust Fund	Airport & Airway Trust Fund & Other FAA Programs	Mass Transit	All Other Funds	FY 2007 Total Earmarked
Balance Sheet as of September 30, 2007					
Fund Balance with Treasury	$ 3,209,239	$ 3,526,513	$ 3,542,996	$ 420,401	$ 10,699,149
Investments, Net	12,204,544	8,904,357	-	35,818	21,144,719
Accounts Receivable, Net	46,987	3,228,518	15,646	8,213	3,299,364
Property, Plant & Equipment	95,744	2,850,676	-	40,668	2,987,088
Other	192,639	-	1,322	23,130	217,091
Total Assets	$ 15,749,153	$ 18,510,064	$ 3,559,964	$ 528,230	$ 38,347,411
Liabilities	$ 310,363	$ 5,765,678	$ 4,564	$ 150,090	$ 6,230,695
Grants Accrual	4,144,949	-	198,160	7,657	4,350,766
Unexpended Appropriations	-	1,097,039	49,232	66,918	1,213,189
Cumulative Results of Operations	11,293,841	11,647,347	3,308,008	303,565	26,552,761
Total Liabilities and Net Position	$ 15,749,153	$ 18,510,064	$ 3,559,964	$ 528,230	$ 38,347,411
Statement of Net Cost For the Period Ended September 30, 2007					
Program Costs	$ 39,942,210	$ 13,865,542	$ 1,779,049	$ 139,148	$ 55,725,949
Less Earned Revenue	108,695	459,574	56,279	49,060	673,608
Net Program Costs	39,833,515	13,405,968	1,722,770	90,088	55,052,341
Costs Not Attibutable to Programs	-	-	-	102,279	102,279
Net Cost of Operations	$ 39,833,515	$ 13,405,968	$ 1,722,770	$ 192,367	$ 55,154,620
Statement of Changes in Net Position For the Period Ended September 30, 2007					
Beginning Net Position	$ 11,871,590	$ 13,202,371	$ 5,290,939	$ 362,078	$ 30,726,978
Adjustments: Significant Accounting Changes	60,461	-	-	-	60,461
Budgetary Financing Sources	39,160,532	14,921,115	(210,929)	199,379	54,070,097
Other Financing Sources	34,773	(1,973,132)	-	1,393	(1,936,966)
Net Cost of Operations	39,833,515	13,405,968	1,722,770	192,367	55,154,620
Change in Net Position	(638,210)	(457,985)	(1,933,699)	8,405	(2,961,028)
Net Position End of Period	$ 11,293,841	$ 12,744,386	$ 3,357,240	$ 370,483	$ 27,765,950

	Highway Trust Fund	Airport & Airway Trust Fund & Other FAA Programs	Mass Transit	All Other Funds	RESTATED FY 2006 Total Earmarked
Balance Sheet as September 30, 2006					
Fund Balance with Treasury	$ 4,431,555	$ 3,243,150	$ 5,835,254	$ 445,251	$ 13,955,210
Investments, Net	10,997,655	8,674,729	-	37,413	19,709,797
Accounts Receivable, Net	38,564	2,470,079	14,889	11,824	2,535,356
Property, Plant & Equipment	101,070	-	-	4,275	105,345
Other	191,346	3,455,833	4,843	12,034	3,664,056
Total Assets	$ 15,760,190	$ 17,843,791	$ 5,854,986	$ 510,797	$ 39,969,764
Liabilities	$ 332,502	$ 4,641,420	$ 560,451	$ 148,719	$ 5,683,092
Grants Accrual	3,556,098	-	3,596	-	3,559,694
Unexpended Appropriation	-	426,474	101,455	84,449	612,378
Cumulative Results of Operations	11,871,590	12,775,897	5,189,484	277,629	30,114,600
Total Liabilities and Net Position	$ 15,760,190	$ 17,843,791	$ 5,854,986	$ 510,797	$ 39,969,764
Statement of Net Cost For the Period Ended September 30, 2006					
Program Costs	$ 37,203,191	$ 13,670,431	$ 3,687,832	$ 61,261	$ 54,622,715
Less Earned Revenue	61,846	640,182	$59,163	213,430	974,621
Net Program Costs	37,141,345	13,030,249	3,628,669	(152,169)	53,648,094
Costs Not Attibutable to Programs	-	-	-	107,801	107,801
Net Cost of Operations	$ 37,141,345	$ 13,030,249	$ 3,628,669	$ (44,368)	$ 53,755,895
Statement of Changes in Net Position For the Period Ended September 30, 2006					
Beginning Net Position	$ 10,231,428	$ 13,632,292	$ 8,828,929	$ 127,618	$ 32,820,267
Budgetary Financing Sources	38,752,831	13,201,179	90,679	190,045	52,234,734
Other Financing Sources	28,676	(600,851)	-	47	(572,128)
Net Cost of Operations	37,141,345	13,030,249	3,628,669	(44,368)	53,755,895
Change in Net Position	1,640,162	(429,921)	(3,537,990)	234,460	(2,093,289)
Net Position End of Period	$ 11,871,590	$ 13,202,371	$ 5,290,939	$ 362,078	$ 30,726,978

NOTE 19. NET COST BY PROGRAM
Dollars in Thousands

	FY 2007	Restated FY 2006
Program Costs		
Surface		
Federal Aid Highway Program	$ 34,489,150	$ 33,552,312
Mass Transit Program	8,853,727	8,857,304
Other Surface Transportation Program	4,042,429	3,546,222
Total Surface Program Costs	$ 47,385,306	$ 45,955,838
Air		
Air Traffic Organization	$ 9,680,476	$ 9,297,439
Airports	3,923,605	3,851,902
Aviation Safety	1,012,749	943,242
Other Federal Aviation Administration Programs	186,856	27,585
Commercial Space	10,768	15,249
Total Air Program Costs	$ 14,814,454	$ 14,135,417
Maritime		
Maritime Operations and Training	$ 104,865	$ 149,242
Maritime Guaranteed Loan	-	(58,940)
Maritime Security Program	-	154,700
Maritime Ocean Freight Differential Program	272,766	161,088
Maritime Vessel Operations Revolving Fund	6,344	31,144
Maritime Operating Differential Subsidy	2,595	220
Maritime Operating Ship Disposal	18,339	21,201
Other Maritime Programs	165,818	(1,130)
Total Maritime Program Costs	$ 570,727	$ 457,525
Cross-Cutting		
Office of the Secretary Working Capital Fund	$ 223	$ 5,127
Volpe National Transportation Systems Center	11,225	2,228
Total Cross-Cutting Program Costs	$ 11,448	$ 7,355

FAA has restated its FY 2006 financial statements to correct the effect of untimely processing of transactions associated with capital projects. As a result, net cost as reported on the FY 2006 Consolidated Statement of Net Cost was decreased by $317.8 million, within the Air Transportation Program.

FTA has restated and reduced their grant accrual as of September 30, 2006 by $571.3 million to reflect the correction of grant accrual methodology, thereby reducing the FY 2006 Consolidated Statement of Net Cost.

NOTE 20. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES
Dollars in Thousands

	FY 2007	Restated FY 2006
Surface Transportation		
Federal-Aid Highway Program		
Intragovernmental Costs	$ 243,314	$ 251,703
Public Costs	34,329,482	33,329,236
Total Program Costs	34,572,796	33,580,939
Intragovernmental Earned Revenue	26,824	8,263
Public Earned Revenues	56,822	20,364
Total Program Earned Revenue	83,646	28,627
Net Program Cost	$ 34,489,150	$ 33,552,312
Mass Transit Program		
Intragovernmental Costs	$ 12,037	$ 3,344
Public Costs	8,892,451	8,897,847
Total Program Costs	8,904,488	8,901,191
Intragovernmental Earned Revenue	49,783	54,301
Public Earned Revenues	978	(10,413)
Total Program Earned Revenue	50,761	43,888
Net Program Cost	$ 8,853,727	$ 8,857,303
Other Surface Transportation Programs		
Intragovernmental Costs	$ 293,537	$ 223,100
Public Costs	3,878,513	3,641,373
Total Program Costs	4,172,050	3,864,473
Intragovernmental Earned Revenue	44,554	70,354
Public Earned Revenues	85,067	247,896
Total Program Earned Revenue	129,621	318,250
Net Program Cost	$ 4,042,429	$ 3,546,223
Total Net Cost - Surface Transportation	$ 47,385,306	$ 45,955,838
Air Transportation		
Intragovernmental Costs	$ 2,274,991	$ 2,158,889
Public Costs	12,988,477	12,624,505
Total Program Costs	15,263,468	14,783,394
Intragovernmental Earned Revenue	127,256	331,294
Public Earned Revenues	321,758	316,683
Total Program Earned Revenue	449,014	647,977
Net Program Cost	$ 14,814,454	$ 14,135,417

	FY 2007	Restated FY 2006
Maritime Transportation		
Intragovernmental Costs	$ 173,064	$ 104,578
Public Costs	586,739	625,876
Total Program Costs	759,803	730,454
Intragovernmental Earned Revenue	183,089	272,108
Public Earned Revenues	5,987	821
Total Program Earned Revenue	189,076	272,929
Net Program Cost	$ 570,727	$ 457,525
Cross-Cutting Programs		
Intragovernmental Costs	$ 25,177	$ 9,812
Public Costs	486,347	457,491
Total Program Costs	511,524	467,303
Intragovernmental Earned Revenue	492,603	454,722
Public Earned Revenues	7,473	5,226
Total Program Earned Revenue	500,076	459,948
Net Program Cost	$11,448	$ 7,355
Costs Not Assigned to Programs	$ 388,392	$ 390,464
Less Earned Revenues Not Attributed to Programs	30,295	30,986
Net Cost of Operations	$ 63,140,032	$ 60,915,613

As discussed in notes 1.T, 9, 18, 19 and 24, FAA has restated its FY 2006 financial statements to correct the effect of untimely processing of transactions associated with capital projects. As a result, net cost as reported on the FY 2006 Consolidated Statement of Net Cost was decreased by $317.8 million, within the Air Transportation Program.

FTA has restated and reduced their grant accrual as of September 30, 2006 by $571.3 million to reflect the correction of grant accrual methodology thereby reducing the FY 2006 Consolidated Statement of Net Cost.

NOTE 21. STATEMENT OF CHANGES IN NET POSITION
Dollars in Thousands

Non-Exchange Revenue

Highway Trust Fund **Excise Taxes and Other NonExchange Revenue** (transferred from the general fund)	**FY 2007**	**FY 2006**
Gasoline	$ 25,418,957	$ 24,667,951
Diesel and Special Motor Fuels	9,916,020	9,906,181
Trucks	5,302,320	5,510,705
Fines and Penalties	16,869	10,961
Total Taxes	$ 40,654,166	$ 40,095,798
Less: Transfers	(468,003)	(448,313)
Gross Taxes	$ 40,186,163	$ 39,647,485
Less: Refunds of Taxes (reimbursed to general fund)	(1,047,659)	(883,155)
Total Excise Taxes	$ 39,138,504	$ 38,764,330
Other Non-Exchange Revenue	19,980	16,028
Net Non-Exchange Revenue	$ 39,158,484	$ 38,780,358
Federal Aviation Administration		
Taxes and Other Non-Exchange Revenue		
Passenger Ticket	$ 8,376,680	$ 7,423,271
International Departure	2,136,257	1,993,697
Fuel (Air)	850,454	419,439
Waybill	574,404	478,614
Investment Income	502,937	483,363
Tax Refunds and Credits	(67,229)	(112,909)
Other	64	16,234
Net Non-Exchange Revenue	$ 12,373,567	$ 10,701,709
Other Miscellaneous Net Non Exchange Revenue	1,222	11,968
Total Non-Exchange Revenue	$ 51,533,273	$ 49,494,035

The financial statements of the DOT for the Highway Trust Fund and the Airport and Airway Trust Fund reflect actual tax collections for the nine months ended June 30, 2007, plus an estimate of tax collections expected for the quarter ended September 30, 2007. Actual tax collection data for the quarter ended September 30, 2007 will not be available from the IRS until December 2007.

NOTE 22. STATEMENT OF BUDGETARY RESOURCES

Dollars in Thousands

	FY 2007	FY 2006
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of September 30, 2007:	$ 75,809,242	$ 65,612,056
Available Contract Authority as September 30,2007	$ 17,995,498	$ 21,935,692
Available Borrowing Authority as of September 30, 2007	$232,807	$30,383
Undelivered Orders as of September 30, 2007	$ 72,184,302	$ 67,588,782

The amounts reported for undelivered orders only includes balances obligated for goods and services not delivered and does not include prepayments.

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

FAA has permanent indefinite appropriations for the Facilities and Equipment, Grants in Aid and Research, Development and Engineering appropriations 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 years until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

With the exception of the following, there are no material differences between the amounts reported in the Combined Statement of Budgetary Resources (SBR) for FY 2006 and the actual amounts reported in the President's Budget of the United States for FY 2008. Budget authority on the SBR contains $3.4 billion of expired funds that is not presented in the President's budget. Also obligations incurred on the SBR includes $78 million of expired funds and $93.3 million of reimbursable and revolving funds that are not presented in the President's budget. The SBR obligated beginning balance of the year is $117 million less than the related amount reported in the President's budget while obligations incurred during the year are more by $117 million. This is the result of prior year obligations being recorded as current year business in the President's budget. The unobligated balance brought forward at the beginning of the year on the SBR is $134 million greater than the President's budget due to recording errors on the transfers between some of the HTF childrens' accounts. The budget authority for FY 2006 in the SBR is less than that in the President's budget by $16 million which is attributed to the recalculation of the FY 2004 minimum grantee program.

The FY 2009 President's Budget with actual numbers for FY 2007 will be published in February 2008.

NOTE 23. INCIDENTAL CUSTODIAL COLLECTIONS

Dollars in Thousands

	FY 2007	FY 2006
Revenue Activity		
Sources of Cash Collections:		
Miscellaneous Receipts	$ 28,332	$ 19,096
Fines, Penalties and Forfeitures	4,498	5,903
Total Cash Collections	$ 32,830	$ 24,999
Total Custodial Revenue	$ 32,830	$ 24,999
Disposition of Collections		
Transferred to Treasury (General Fund)	$ 32,830	$ 24,999
Net Custodial Revenue Activity	$ -	$ -

NOTE 24. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Dollars in Thousands

	FY 2007	Restated FY 2006
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 75,809,242	$ 65,612,056
Less: Spending Authority from Offsetting Collections and Recoveries	9,099,273	4,562,405
Obligations Net of Offsetting Collections and Recoveries	66,709,969	61,049,651
Less: Distributed Offsetting Receipts	(46,779)	(236,451)
Net Obligations	$ 66,663,190	$ 60,813,200
Other Resources		
Transfers In/Out Without Reimbursement (+/-)	$ 2,812	$ (139,471)
Imputed Financing From Costs Absorbed by Others	605,189	562,277
Other Resources (+/-)	-	(7,880)
Net Other Resources Used to Finance Activities	608,001	414,926
Total Resources Used to Finance Activities	$ 67,271,191	$ 61,228,126
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	$ 4,018,636	$ (160,786)
Resources That Fund Expenses Recognized in Prior Periods	283,949	329,220
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(115,714)	(401,841)
Other/Change in Unfilled Customer Orders	(461,855)	(318,451)
Anticipated Resources not yet realized	256,787	
Resources That Finance the Acquisition of Assets	1,395,553	1,842,344
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(40,672)	146,662
Total Resources Used to Finance Items Not Part of the Net Cost Of Operations	$ 5,336,684	$ 1,437,148
Total Resources Used to Finance the Net Cost of Operations	$ 61,934,507	$ 59,790,978

	FY 2007	Restated FY 2006
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	$ 10,696	$ 22,237
Upward/Downward Reestimates of Credit Subsidy Expense (+/-)	(1,818)	(118,923)
Increase in exchange revenue receivable from the public	(43,314)	(14,679)
Change in Other Liabilities (+/-)	25,584	10,758
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ (8,852)	$ (100,607)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,279,474	967,604
Revaluation of Assets or Liabilities (+/-)	(17,179)	(1,959)
Other Expenses and Adjustments not Otherwise Classified Above (+/-)	(47,918)	259,597
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	$ 1,214,377	$ 1,225,242
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ 1,205,525	$ 1,124,635
Net Cost of Operations	$ 63,140,032	$ 60,915,613

The reconciliation of Net Cost of Operations to Budget is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. This reconciliation first identifies total resources used by an entity during the period (budgetary and other) and then makes adjustments to the resources based upon how they were used to finance net obligations or cost. The budgetary information used to calculate net obligations (the first four lines) must be presented on a combined basis to enable a direct tie to the Statement of Budgetary Resources. The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations by setting forth the items that reconcile the two amounts. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by non-budgetary resources; (2) the budgetary and non-budgetary resources used by an agency may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the period.

NOTE 25. RESTATEMENTS
Dollars in Thousands

DOT has restated and reduced PP&E, net on the Balance Sheet as of September 30, 2006 by $954 million to reflect the correction of untimely processing of transactions related to FAA capital projects. The correction results from $2,594 million in downward reclassifications of Construction in Progress, net. Non-capital transactions of $898 million were reclassified from Construction in Progress to expense and completed assets of $1,696 million were reclassified from Construction in Progress to other general property, plant and equipment categories. Associated with the increase in completed assets, accumulated depreciation increased by $56 million.

The Federal Transit Administration has restated certain balances within the statement of changes in Net Positon, as also discussed in notes 1.T, 2, 11, 14, 18, 19, 20 and 21. A review of the presentation of earmarked and other funds in the Statement of Changes in Net Position in accordance with FASAB 27, revealed that prior year amounts presented were not properly classified in accordance with the standard and the amounts reported included corrections of reporting errors from FY2005 and prior that were presented as FY2006 activity. In addition, due to funding changes enacted in the Surface Transportation Act SAFTEA-LU, the grant accrual for FTA was overstated by $571 million in the DOT consolidated financial statements. As a result, the balances of earmarked and other funds were reduced by $9.4 million and increased by $373 million, respectively. The restatement is reflected on the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position and summarized in the chart below.

	2006	Effect of Restatement	2006 as Restated
Balance Sheet:			
General Property, Plant & Equipment, net	15,455,811	(954,049)	14,501,762
Total Assets	$ 65,065,621	$ (954,049)	$ 64,111,572
Grant Accrual	5,546,895	(571,339)	4,975,556
Total Liabilities	$ 13,683,282	$ (571,338)	$ 13,111,944
Net Position	51,382,339	(382,711)	50,999,628
Total Liabilities and Net Position	$ 65,065,621	$ (954,049)	$ 64,111,572
Statement of Net Cost:			
Net Cost of Operations	$ 61,804,745	$ (889,132)	$ 60,915,613
Statement of Changes in Net Position			
Cumulative Results of Operations			
Ending Cumulative Results of Operations - Earmarked	$ 30,053,924	$ 60,676	$ 30,114,600
Ending Cumulative Results of Operations - All Other Funds	$ 12,846,384	$ (380,636)	$ 12,465,748
Unexpended Appropriations			
Total Unexpended Appropriations - Earmarked	$682,501	$ (70,123)	$ 612,378
Total Unexpended Appropriations - All Other Funds	$ 7,799,530	$ 7,372	$ 7,806,902
Net Position			
Net Position - Earmarked	$ 30,736,425	$ (9,447)	$ 30,726,978
Net Position - All Other Funds	$ 20,645,914	$ (373,264)	$ 20,272,650

NOTE 26. SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Dollars in Thousands

Condensed Information

	FY 2007	FY 2006
Cash and Short-Term Time Deposits	$ 15,430	$ 15,967
Long-Term Time Deposits	980	392
Accounts Receivable	115	82
Inventories	253	256
Other Current Assets	6	2
Property, Plant and Equipment	74,578	76,074
Deferred Charges	3,478	3,086
Other Assets	599	516
TOTAL ASSETS	$ 95,439	$ 96,375
Current Liabilities	$ 2,577	$ 3,034
Actuarial Liabilities	3,478	3,086
TOTAL LIABILITIES	$ 6,055	$ 6,120
Invested Capital	$ 89,617	$ 91,065
Cumulative Results of Operations	(233)	(810)
TOTAL NET POSITION	$ 89,384	$ 90,255
TOTAL LIABILITIES AND NET POSITION	$ 95,439	$ 96,375

REQUIRED SUPPLEMENTARY INFORMATION

Information.

DEFERRED MAINTENANCE

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition*	Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$ 79,970
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	25,254
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	2	22,600
	Real Property, Buildings Anchorage	Condition Assessment Survey	3	14,695
	Other (Fleet Craft)	Condition Assessment Survey	3	2,520
	Other (Pier and Berthing Surveys and Studies)	Estimate	3	235
	Other (Heritage Assets)	Condition Assessment	3&4	200
			Total	$ 145,474

*Asset Condition Rating Scale:

1 - Excellent

2 - Good

3 - Fair

4 - Poor

5 - Very Poor

Asset	**Acceptable Condition is	Comments
FAA Buildings	3 - Fair	
FAA Other Structures and Facilities	3 - Fair	
MARAD Vessels, Ready Reserve Force	1 - Excellent	Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD Real Property, Buildings	3 - Fair	Buildings are safe and inhabitable.
MARAD Real Property, Structures	3 - Fair	Adequate water depth, shore power, and mooring capabilities.
MARAD Stewardship Heritage Assets	3 - Fair	

Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.

HERITAGE ASSETS SUMMARY
REQUIRED SUPPLEMENTAL INFORMATION, SEPTEMBER 30, 2007
NUMBER OF PHYSICAL UNITS

Heritage Assets

	Units as of 09/30/2006	Additions	Withdrawals	Units as of 09/30/2007
Personal Property				
Collections				
Artifacts	38	2	-	40
Museum	458	-	1	457
Other Collections	101	-	-	101
Total Collections	597	2	1	598
Total Personal Property Heritage Assets	597	2	1	598

	Units as of 09/30/2006	Additions	Withdrawals	Units as of 06/30/2007
Real Property				
Buildings and Structures	1		-	1
Total Real Property Heritage Assets	1	-	-	1

Artifacts are those of the Maritime Administration. Maritime Administration artifacts are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies.

Museum and Other Collections are owned by the Maritime Administration. They are merchant marine artifacts, composed of ships' operating equipment, obtained from obsolete ships. They are inoperative and in need of preservation and restoration. Museum items are on loan to organizations whose purpose is historic preservation, education, and remembrance, open to the public during regularly scheduled hours. Other collections are on loan to public and private entities, the display of which is incidental to maritime affairs, such as county and state buildings, port authorities, pilots associations, public and college libraries, and other organizations.

Buildings and Structures include Union Station in Washington, D.C. Union Station is an elegant and unique turn-of-the-century rail station in which one finds a wide variety of elaborate, artistic workmanship characteristic of the period. Union Station is listed on the National Register of Historic Places. The station consists of the renovated original building and a parking garage which was added by the U.S. Park Service. The Federal Railroad Administration received title to Union Station through appropriated funds and assumption of a mortgage. Mortgage payments are made by Union Station Venture Limited which manages the property. Union Station Redevelopment Corporation, a non-profit group instrumental in the renovation of the station, sublets the operation of the station to Union Station Venture Limited.

Financial information for multi-use heritage assets is presented in the principal statements and notes. The condition of the stewardship heritage assets is presented in the Deferred Maintenance section of the Required Supplementary

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

NON FEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2007
TRANSPORTATION INVESTMENTS
Dollars in Thousands

Surface Transportation:	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Federal Highway Administration					
Federal Aid Highways (HTF)	$ 29,258,796	$ 29,207,012	$ 29,750,120	$ 32,190,231	$ 32,800,748
Other Highway Trust Fund Programs	243,874	300,493	445,083	452,022	366,672
General Fund Programs	73,046	962,370	330,790	14,240	51,119
Appalachian Development System	128,480	263,430	425,810	366,816	329,161
Federal Motor Carrier	159,628	299,450	195,740	117,004	196,967
Federal Transit Administration					
Discretionary Grants	$ 291,889	$ 160,655	$ 119,277	$ 91,961	$ 11,719
Formula Grants	4,390,965	4,723,674	4,521,288	3,376,068	2,086,876
Capital Investment Grants [1]	2,632,841	2,788,920	3,375,206	3,073,294	2,662,845
Washington Metro	11,252	12,409	1,719	4,255	28,430
Interstate Transfer Grants	9,459	1,479	1,411	206	1,774
Formula and Bus Grants	N/A	N/A	N/A	1,862,772	4,193,989
Surface Transportation Nonfederal Physical Property Investments	$ 37,200,230	$ 38,719,892	$ 39,166,444	$ 41,548,869	$ 42,730,300

(1) Outlays are not net of Federal Emergency Management Agency (FEMA) collection of $2.75 billion.

Air Transportation					
Federal Aviation Administration					
Airport Improvement Program	$ 2,786,717	$ 2,977,300	$ 3,712,423	$ 3,852,141	$ 3,923,719
Air Transportation Nonfederal Physical Property Investments	$ 2,786,717	$ 2,977,300	$ 3,712,423	$ 3,852,141	$ 3,923,719
Total Nonfederal Physical Property Investments	$ 39,986,947	$ 41,697,192	$ 42,878,867	$ 45,401,010	$ 46,654,019

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, 2007
Dollars in Thousands

Surface Transportation	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Federal Highway Administration					
National Highway Institute Training	$ 8,539	$ 4,069	$ 11,844	$ 14,123	$ 4,083
Federal Motor Carrier Safety Administration					
California Highway Patrol	926	192	41	-	127
Commercial Motor Vehicle Operator Safety Grants					748
Idaho Video	593	344	208	-	-
Kentucky IT Conference				175	-
Massachusetts Training Academy	175	9	53	-	172
Minnesota Crash Investigation	57	21	-	1	-
New York Crash Reconstruction					36
Tennessee Crash Investigation					165
Federal Transit Administration (2)					
National Transit Institute Training	$ 4,292	$ 4,667	$ 3,318	$ 3,961	$ 3,879
National Highway Safety Administration					
Section 403 Highway Safety Programs	$ 49,013	$ 53,964	$ 110,981	$ 221,523	$ 235,382
Highway Traffic Safety Grants	210,469	205,509	216,702	279,244	416,241
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	$ 7,782	$ 7,780	$ 8,065	$ 7,800	$ 7,798
Surface Transportation Human Capital Investments	$ 281,846	$ 276,555	$ 351,212	$ 526,827	$ 668,631
Maritime Transportation					
Maritime Administration					
State Maritime Academies Training (3)	$ 8,363	$ 9,208	$ 9,215	$ 7,528	$ 8,978
Additional Maritime Training	463	388	328	134	555
Maritime Transportation Human Capital Investments	$ 8,826	$ 9,596	$ 9,543	$ 7,662	$ 9,533
Total Human Capital Investments	$ 290,672	$ 286,151	$ 360,755	$ 534,489	$ 678,164

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 an 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 Traffic Safety Administration's** programs authorized under the Highway Trust Fund provide resources to State and Local governments, private partners, and the public, to effect changes in driving behavior on the nation's highways to increase safety belt usage and reduce impaired driving. NHTSA provides technical assistance to all states on the full range of components of the impaired driving system as well as conducting demonstrations, training and public information/education on safety belt usage.

The **Pipeline and Hazardous Materials Safety Administration** administers Hazardous Material Training (Hazmat). The purpose of Hazmat Training is to train State and local emergency personnel on the handling of hazardous materials in the event of a hazardous material spill or storage problem.

(2) 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%).

(3) 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. Does not include funding for maintenance and repair (M&R).

RESEARCH AND DEVELOPMENT INVESTMENTS
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2007
Dollars in Thousands

Surface Transportation:	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Federal Highway Administration					
Intelligent Transportation Systems	$ 126,256	$ 146,852	$ 183,634	$ 129,219	$ 152,799
Other Applied Research and Development	115,368	142,557	114,315	105,336	74,942
Federal Railroad Administration					
Railroad Research and Development Program	$ 2,402	$ 9,342	$ 6,032	$ 11,681	$ 5,551
Federal Transit Administration					
Applied Research and Development - Transit Planning and Research (4)	3,895	3,483	2,546	6,543	3,144
Office of the Secretary					
Applied Research and Development - Emergency Transportation	650	8	-	-	-
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Pipeline Safety	$ 5,523	$ 6,375	$ 10,810	$ 12,953	$ 5,494
Hazardous Materials	1,755	1,489	1,638	2,225	1,072
Research and Innovative Technology Administration					
Applied Research and Development					
Research and Technology	$ 1,454	$ 1,134	$ 1,564	$ 1,110	$ 1,036
Surface Transportation Research and Development Investments	$ 257,303	$ 311,240	$ 320,539	$ 269,067	$ 244,038

(4) FY 2002 updated with Transit Cooperative Research Program estimate based on actual outlays.

Air Transportation					
Federal Aviation Administration					
Research and Development Plant	$ 2,903	$ 4,230	$ 5,287	$ 3,821	$ 4,217
Applied Research	29,406	91,743	103,659	106,390	104,782
Development	251	478	547	587	844
Administration	31,669	28,643	29,163	30,566	32,050
Air Transportation Research and Development Investments	$ 64,229	$ 125,094	$ 138,656	$ 141,364	$ 141,893
Total Research and Development Investments	$ 321,532	$ 436,334	$ 459,195	$ 410,431	$ 385,931

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 ground and in-flight de-icing operations; better tools to predict and warn of weather hazards, turbulence and wake vortices; aviation medicine, and human factors.

OTHER ACCOMPANYING INFORMATION

PERFORMANCE DATA COMPLETENESS AND RELIABILITY DETAILS

Each table includes a description of a performance measure and associated data provided by the agencies in charge of the measure. The Scope statement gives an overview of the data collection strategy for the underlying data behind the performance measure. The Source statement identifies the data system(s) from which the data for each measure was taken. The Statistical Issues statement has comments, provided by the Bureau of Transportation Statistics (BTS) and the agency in charge of the measure, which discuss variability of the measure and other points. The Completeness statement indicates limitations due to missing data or availability of current measures, methods used to develop projections are also provided, as appropriate. The Reliability statement gives the reader a feel for how the performance data are used in program management decision making inside DOT.

For further information about the source and accuracy (S&A) of these data, and DOT's data quality guidelines in accordance with Section 515 of the Treasury and General Government Appropriations Act for Fiscal Year 2001 (P.L. 106-554), please refer to the BTS S&A compendium available at http://www.bts.gov/programs/statistical_policy_and_research/source_and_accuracy_compendium/index.html.

Details on DOT Safety Measures

Highway Fatality Rate

Measure	Highway fatalities per 100 million vehicle-miles traveled (VMT). Calendar Year (CY) 2007
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 2007 are estimated based on preliminary 2007 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).
Statistical Issues	While based on historical data, the 2007 fatality rate projection is dependent on the continuation of both individual and market behavior regarding vehicle miles traveled, seat belt use and motorcycle rider and alcohol related fatalities. The assumptions inherent in these projections, together with the normal levels of uncertainty inherent in statistical evaluations, may influence the accuracy of the projection.

Completeness	FARS has been in use since 1975 and is generally accepted as a complete measure for describing safety on the Nation's highways. Total annual fatalities are available through CY 2006. The fatality projection used to calculate the 2007 rate shown in this report was estimated by modifying the 2006 fatality total for the subsequent phase-in of safety features in the on-road fleet, the scrapping of vehicles with existing safety features, a projected change in safety belt usage, a projected trend in motorcycle fatalities, and other safety-related considerations.
Reliability	The measure informs and guides NHTSA, FHWA, and FMCSA regarding 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.

Details on DOT Safety Measures

Large Truck-Related Fatalities

Measure	Fatalities involving large trucks per 100 million truck VMT. (CY)
Scope	The measure includes all fatalities associated with crashes involving trucks with a gross vehicle weight rating of 10,000 pounds or more. Truck Vehicle Miles of Travel (TVMT) represents the total number of vehicle miles traveled by large trucks on public roadways within the 50 States and the District of Columbia.
Sources	The number of fatalities comes from NHTSA's Fatality Analysis Reporting System (FARS) data, a census of fatal traffic crashes within the 50 States and the District of Columbia. The TVMT data are derived from the FHWA's Highway Performance Monitoring System (HPMS).
Statistical Issues	The fatality counts in FARS are generally quite accurate. The major sources of error are under reporting by some precincts and inconsistent use of the definition of a truck. 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 then actual traffic counts.
Completeness	The FARS has been in use since 1975 and is generally accepted as a complete measure for describing safety on the Nation's highways. Large truck-related fatality data are complete through 2006. For 2007, the FARS data for crashes involving large trucks are not available until October 2008. The value used for the 2007 rate is projected from recent trend data. The TVMT is complete through 2005. For 2006 and 2007, it is projected as a percentage of the total VMT projections. The final TVMT estimate for 2006 will be available in December 2007, and the final TVMT estimate for 2007 will be available in December 2008.

Reliability	The measure informs and guides FMCSA, NHTSA, and FHWA highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing large truck crashes.

Details on DOT Safety Measures

Commercial Air Carrier Fatal Accident Rate

Measure	U.S. commercial fatal aviation accidents per 100,000 departures (last three years' average). (FY)
Scope	This measure includes both scheduled and nonscheduled flights of large U.S. air carriers (14 CFR Part 121) and scheduled flights of regional operators (14 CFR Part 135). It excludes on –demand (i.e., air taxi) service and general aviation. Accidents involving passengers, crew, ground personnel, and the uninvolved public are all included.
Sources	Fatal aviation accidents: The data on commercial and general aviation fatalities come from the National Transportation Safety Board's (NTSB) Aviation Accident Database. Aviation accident investigators under the auspices of the NTSB develop the data. 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.
Statistical Issues	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. Both accidents and departures are censuses, having no sampling error. However, missing data, particularly in the departure counts, will result in bias to some degree. The fatal accident rate is small and could significantly fluctuate from year to year due to a single accident. Use of an average over three years smooths the fluctuation that may occur in any given year.
Completeness	The FAA does comparison checking of the departure data collected by BTS. However, FAA has no independent data sources against which to validate the numbers submitted to BTS. FAA compares its list of carriers to the DOT list to validate completeness and places the carriers in the appropriate category (i.e., Part 121 or Part 135).

Actual departure data for any given period of time is considered preliminary for up to 12 months after the close of the reporting period. This is due to amended reports subsequently filed by the air carriers. However, the changes to departure data rarely have an effect on the annual fatal accident rate. NTSB and FAA's Office of Accident Investigation meet regularly to validate the accident count.

To overcome reporting delays of 60 to 90 days, FAA must rely on historical data, partial internal data sources, and Official Airline Guide (OAG) scheduling information to project at least part of the fiscal year activity data. FAA uses OAG data until official BTS data is available. The air carrier fatal accident rate is not considered reliable until BTS provides preliminary numbers. Due to reporting procedures in place, it is unlikely that calculation of future fiscal year departure data will be markedly improved. Lacking complete historical data on a monthly basis and independent sources of verification increases the risk of error in the activity data.

Reliability — Results are considered preliminary based on projected activity data. FAA uses performance data extensively for program management, personnel evaluation, and accountability. Most accident investigations are a joint undertaking. NTSB has the statutory responsibility, but, in fact, most of the accident investigations related to general aviation are conducted by FAA Aviation Safety Inspectors without NTSB direct involvement. FAA's own accident investigators and other FAA employees participate in all accident investigations led by NTSB investigators.

Details on DOT Safety Measures

General Aviation Fatal Accidents

Measure	Number of fatal general aviation accidents. (FY)
Scope	The measure includes on-demand (non-scheduled FAR Part 135) and general aviation flights. General aviation includes a diverse range of aviation activities. The range of general aviation aircraft includes single-seat homebuilt aircraft, helicopters, balloons, single and multiple engine land and seaplanes including highly sophisticated extended range turbojets.
Sources	The data on general aviation fatalities come from the National Transportation Safety Board's Aviation Accident Database (NTSB). Aviation accident investigators under the auspices of the NTSB develop the data.
Statistical Issues	There is no major error in the accident counts. Random variation in air crashes results in a significant variation in the number of fatal accidents over time.
Completeness	NTSB and FAA's Office of Accident Investigations meet regularly to validate information on the number of accidents. Results are considered preliminary. NTSB continues to review accident results from FY 2006.

Numbers are final when the NTSB releases its report each March. NTSB continues to review accident results from FY 2006. So in March 2008, FY 2006 accident numbers will be finalized. However, the number is not likely to significantly change from the end of each fiscal year to when the rate is finalized.

Reliability — FAA uses performance data extensively for program management and personnel evaluation and accountability. Most accident investigations are a joint undertaking between FAA and NTSB. 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.

Details on DOT Safety Measures

Train Accidents Rate

Measure — Rail-related accidents and incidents per million train-miles (FY).

Scope — The Railroad Safety Information System (RSIS) is the principal monitoring strategy used by the FRA for the management, processing, and reporting on railroad-reported accidents/incidents; railroad inspections; highway-rail grade crossing data; and related railroad safety activities. The Railroad Accident/Incident Reporting Subsystem (RAIRS) is the repository of all FRA-mandated reports of railroad accidents, incidents, casualties, highway-rail grade crossing collisions, and operating information.

A train accident is any collision, derailment, fire, explosion, act of God, or other event involving the operation of railroad on-track equipment (standing and moving), which results in damages greater than the current reporting threshold to railroad on-track equipment, signals, track, track structures, and roadbed. Train accidents are reported on form FRA F6180.54, Rail Equipment Accident/Incident Report. The reporting threshold for 2007 is $8,200.

A train incident 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. Operational data, including train-miles, are reported on the form FRA F6180.55, Railroad Injury and Illness Summary.

Sources — FRA's Railroad Accident/Incident Reporting Subsystem.

Statistical Issues — None.

Completeness — Railroads are required by regulation (49 CFR Part 225) to file monthly reports to the FRA of all train accidents that meet a dollar threshold (currently $8,200). They are also required to file monthly operations reports of train-miles, employee-hours, and passenger train-miles.

Reports must be filed within 30 days after the close of the month. Data must be updated when the costs associated with an accident vary by more than 10 percent (higher or lower) from that initially reported.

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).

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.

Details on DOT Safety Measures

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 categories of collision, derailment, personal casualty (not otherwise classified), fire, or bus going off the road in the National Transit Database (NTD) reporting systems. Previous to 2002, transit involved parties that were defined as patrons, employees, and others (the safety data was collected on a fiscal year, as opposed calendar year basis). Fatalities for the performance measurement only use transit agency Directly Operated (DO) mode data. Purchased Transportation (PT) data are not part of this measure. Certain fatalities are excluded, as they are not considered to be directly related to the operation of transit vehicles. Those include suicides and fatalities occurring in parking facilities and stations, as well as fires in right-of-ways and stations. Also, the measure includes only the major transit modes (motor/trolleybus, light rail, heavy rail, commuter rail with vanpool, automated guideway, and demand response) and excludes ferryboat, monorail, inclined plane, cable car, and jitney.

The passenger-miles traveled on public transit vehicles (e.g., buses, heavy and light railcars, commuter railcars, ferries, paratransit vans, and vanpools) only refer to miles while in actual revenue service to the general public.

These data are reported annually by operators to the FTA National Transit Database (NTD) and to the Federal Railroad Administration's (FRA) Rail Accident and Incident Reporting System (RAIRS). FRA RAIRS data are used exclusively for commuter rail (CR) safety data. NTD and RAIRS data are an input to FTA's Transit Safety and Security Statistics and Analysis program (formerly known as Safety Management Information Statistics [SAMIS]).

Sources	The Transit Safety and Security Statistics and Analysis Annual Report, formerly SAMIS, is a compilation and analysis of transit accident, casualty, and crime statistics reported under the Federal Transit Administration's (FTA's) NTD Reporting System by transit systems that are beneficiaries of FTA Urbanized Area Formula funds. (Section 5307 grantees). 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. Transit fatalities: Transit Safety and Security Statistics and Analysis Annual Report. Transit passenger miles: Transit Safety and Security Statistics and Analysis Annual Report.
Statistical Issues	The fatality counts in FTA's Transit Safety and Security Statistics and Analysis are a census. The major source of uncertainty in the measure relates to passenger-miles traveled. Passenger-miles are an estimate derived from reported passenger trips and average trip length. Passenger-miles are the cumulative sum of the distances ridden on passenger trips. Transit authorities have accurate counts of unlinked passenger trips and fares. An unlinked trip is recorded each time a passenger boards a transit vehicle, even though the rider may be on the same journey. Transit authorities do not routinely record trip length. To calculate passenger-miles, total unlinked trips are multiplied by average trip length. To obtain an average trip length for their bus routes, transit authorities use Automatic Passenger Counters (APC's) with GPS Technology or a FTA-approved sampling technique. To obtain passenger mile data on rail systems, ferry boats, and paratransit, transit authorities often use Smart Card or other computerized tracking systems. Passenger-miles are the only data element that is sampled in the NTD. 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 (Technology Solution Providers/ General Dynamics Corporation).
Completeness	The information for this measure comes from the FTA's Transit Safety and Security Statistics and Analysis program, formerly FTA's Safety Management Information System (SAMIS), which uses data reported by transit operators to the NTD. 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. The 2007 measure is an extrapolation of partial-year data, particularly of passenger-miles traveled.
Reliability	An independent auditor and the transit agency's CEO certify that data reported to the NTD are accurate. Using data from the NTD to compile the Transit Safety & Security Statistics & Analysis program (formerly SAMIS) data, the USDOT Volpe National Transportation Systems Center compares current safety statistics with previous years, identifies any questionable trends, and seeks explanation from operators.

Details on DOT Safety Measures

Natural Gas and Hazardous Liquid Pipeline Incidents

Measure	Number of natural gas pipeline incidents and hazardous liquid pipeline accidents. (CY)

Scope

Gas pipeline incidents are reportable under 49 CFR 191.15 if they involve:

- a release of gas from a pipeline or of liquefied natural gas or gas from an LNG facility; and a death or personal injury requiring in-patient hospitalization, or estimated property damage, including cost of gas lost, of $50,000 or more;
- an event that results in an emergency shutdown of an LNG facility; and,
- an event that is significant in the judgment of the operator, even if it does not meet any other reporting criteria.

Liquid pipeline accidents are reportable under 49 CFR 195.50 if there is a release of hazardous liquid or carbon dioxide and any one of the following:

- unintentional explosion or fire;
- release of five gallons or more (except certain maintenance activities);
- death or injury requiring hospitalization; and,
- estimated property damage, including cots of cleanup and recovery, value of lost product, and other property damage exceeding $50,000.

Gas incidents include both gas transmission and gas distribution pipeline systems. Data are adjusted/normalized for time series comparisons to account for changes in reporting criteria over time. This includes screening out hazardous liquid spills of less than 50 barrels (or five barrels for highly-volatile liquids) unless the accident meets one of the other reporting criteria.

Sources

DOT/Pipeline and Hazardous Materials Safety Administration (PHMSA) Incident Data – derived from Pipeline Operator reports submitted on PHMSA Form F-7100.1 and F-7000.1.

Statistical Issues

A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined. Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal annual variation in the number of reported incidents.

Completeness

Compliance in reporting is very high and most incidents that meet reporting requirements are submitted. Operators must submit reports within 30 days of an incident or face penalties for non-compliance. The reported estimates are based upon incident data reported in January through June 2007. There may be a 60-day lag in reporting and compiling information in the database for analysis. Traditionally, there are more incidents in the summer than the winter. Preliminary estimates are based on data available as of middle of August, with six months of data through the end of June. The CY 2007 estimate is a projection using both a seasonal adjustment (using a 10-year baseline) and a separate adjustment to account for the historical filing of late reports (92.5 percent of reports for January - June were filed by this time last year).

Reliability

PHMSA routinely cross-checks incident/accident reports against other sources of data, such as the telephonic reporting system for incidents requiring immediate notification provided to the National Response Center (NRC). PHMSA is developing a Best Management Practice to ensure quality of the incident data. Data are not normalized to account for inflation. A fixed reporting threshold ($50,000) for property damage results in an increasing level of reporting over time. This threshold was set for gas pipeline incidents in 1985 and for hazardous liquid accidents in 1994.

Data are not normalized to account for the subjective judgment of the operator in filing reports for incidents that do no meet any of the quantitative reporting criteria. This may result in variations over time due to changes in industry reporting practices. The performance measure is not normalized for changes in exposure—external factors like changes in pipeline mileage that could affect the number of incidents without affecting the risk per mile of pipeline.

PHMSA uses these data in prioritizing its inspections and safety reviews, and for more long-term strategic management of its pipeline safety program.

Details on DOT Safety Measures

Serious Hazardous Materials Incidents

Measure

Number of serious hazardous materials transportation incidents. (CY)

Scope

Hazardous materials transportation incidents are reportable under 49 CFR Parts 100-185. Serious hazardous materials incidents include 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;
- the exposure of hazardous material to fire; or,
- any release of radioactive materials from Type B packaging, Risk Group 3 or 4 infectious substances, over 11.9 gallons or 88.2 pounds of a severe marine pollutant, or a bulk quantity (over 119 gallons or 882 pounds) of a hazardous material.

This measure tracks only transportation-related releases of hazardous materials that are in commerce. It includes incidents in all modes of transportation (air, truck, rail, and water) except pipelines.

Sources

Hazardous Material Information System (HMIS) maintained by DOT/Pipeline and Hazardous Materials Safety Administration—derived from reports submitted on Form DOT F 5800.1.

Statistical Issues	A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined. Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal variation in the number of reported incidents.
Completeness	Each person in physical possession of a hazardous material at the time that any of the incidents occurs (loading, unloading, and temporary storage) during transportation must submit a Hazardous Materials Incident Report on DOT Form F 5800.1 (01-2004) within 30 days of discovery of the incident. Incident reports are received continuously by PHMSA. Carriers are required to submit incident reports to PHMSA within 30 days of an incident. Once received by PHMSA, it takes approximately one month for incident reports to be processed and verified. The data are then made available in the HMIS database during the next monthly update. PHMSA continues to receive reports from calendar year 2007. By the end of September 2007 actual incident data was received through August 31, 2007. PHMSA is projecting the remainder of the calendar year using the actual number of incidents that occurred during September, October, November, and December of 2006—the previous calendar year. This methodology for projecting the CY 2007 estimate is expected to be within 2-4 percent of the final estimate, which becomes available during the second quarter of CY 2007.
Reliability	PHMSA routinely cross-checks incident data against other sources of data, including the use of a news clipping service to provide information on significant hazmat incidents that might not be reported. The performance measure is not normalized for changes in exposure — external factors like changes in the amount of hazmat shipped that could affect the number of incidents without affecting the risk per ton shipped. 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.

Details on DOT Mobility Measures

Highway Infrastructure Condition

Measure	Percent of travel on the National Highway System (NHS) meeting pavement performance standards for good rated ride. (CY)
Scope	Data include vehicle-miles traveled on the Highway Performance Monitoring System (HPMS) reported NHS sections and pavement ride quality data reported using the International Roughness Index (IRI). IRI is a quantitative measure of the accumulated response of a quarter-car vehicle suspension experienced while traveling over a pavement. An IRI of 95 inches per mile or less is necessary for a good rated ride. Vehicle-Miles of Travel (VMT) represents the total number of vehicle-miles traveled by motor vehicles on public roadways within the 50 States, Washington, D.C., and Puerto Rico.

Sources	Data for this measure are collected by the State Highway Agencies using calibrated measurement devices that meet industry set standards and reported to FHWA. Measurement procedures are included in the FHWA HPMS Field Manual. The VMT data are derived from the HPMS.
Statistical Issues	The major source of error in the percentages is the differences in data collection methodologies between the States and the differences in data collection intervals. FHWA is working on revisions to the HPMS data collection guidelines to minimize these potential errors. VMT data are also subject to sampling errors. The magnitude of error depends on how well the sites of the continuous counting stations represent nationwide traffic rates. HPMS is also subject to estimation differences between the States, even though FHWA works to minimize such differences and differing projections on growth, population, and economic conditions that impact driving behavior.
Completeness	The 2007 actual results for this measure are reported based on 2006 data, which may be incomplete as late as October 2007. Prior to 2006, actual results were reported in the prior year and a projection for the current year was made based on the prior year data.
Reliability	The HPMS data are collected by the 50 States, the District of Columbia, and Puerto Rico in cooperation with local governments. While many of the geometric data items, such as type of median, rarely change; other items, such as traffic volume, change yearly. Typically, the States maintain data inventories that are the repositories of a wide variety of data. The HPMS data items are simply extracted from these inventories, although some data are collected just to meet Agency requirements. The FHWA provides guidelines for data collection in the HPMS Field Manual. Adherence to these guidelines varies by State, depending on issues such as staff, resources, internal policies, and uses of the data at the data provider level. An annual review of reported data is conducted by the FHWA, both at the headquarters level and in the Division Offices in each State. The reported data are subjected to intense editing and comparison with previously reported data and reasonability checks. A written annual evaluation is provided to each State to document potential problems and to encourage corrective actions. Data re-submittal is requested in cases where major problems are identified.

Details on DOT Mobility Measures

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: Urban area — Developed area with a density of greater than 1,000 persons per square mile. Congested travel — Traveling below the posted speed limit(s).

Sources	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: http://mobility.tamu.edu/ums/report/methodology.stm. With sponsorship from the National Cooperative Highway Research Program of the Transportation Research Board, the methodology was significantly revised in 2006 and 2007 to take advantage of new studies and detailed data sources that have not been available in previous studies.
Completeness	The 2005 and prior measures are final. The 2006 measure is preliminary, as partial 2006 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., 2007 actual numbers will not be available from HPMS until October 2008. The 2007 measure is a projection based on recent year trends.
Reliability	The HPMS data are collected by the 50 States, the District of Columbia, and Puerto Rico in cooperation with local governments. While many of the geometric data items, such as type of median, rarely change; other items, such as traffic volume, change yearly. Typically, the States maintain data inventories that are the repositories of a wide variety of data. The HPMS data items are simply extracted from these inventories, although some data are collected just to meet Agency requirements. The FHWA provides guidelines for data collection in the HPMS Field Manual. Adherence to these guidelines varies by State, depending on issues such as staff, resources, internal policies, and uses of the data at the data provider level. 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.

Details on DOT Mobility Measures

Transit Ridership

Measure	Average percent change in transit boardings per transit market (150 largest transit agencies). (CY)

Scope	The metric is the average percent change in transit boardings. The component is transit passenger boardings within a transit market. 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).
Sources	Transit Passengers: Data derived from counts made on bus and rail routes by transit agencies that are beneficiaries of FTA Urbanized Area Formula funds, as part of their monthly National Transit Database (NTD) Reporting System submissions. Data are collected from the 150 largest transit systems.
Statistical Issues	The sources of uncertainty include coverage errors and auditing issues. These data are validated by the FTA Office of Budget and Policy, contractor staff. 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. Transit authorities have accurate counts of unlinked passenger trips and fares. An unlinked trip is recorded each time a passenger boards a transit vehicle, even though the rider may be on the same journey. As a check, trips are routinely reconciled against fare revenues. The sources of uncertainty include coverage errors and auditing issues. Until 2002, reports were required only on an annual basis.
Completeness	DOT has revised this measure to better account for the impact of ridership by counting actual monthly boardings.
Reliability	For 2007, the indicator compares transit ridership for the urbanized areas containing the 150 largest transit agencies, aggregated by mode, with the year ending June 30, 2007. An independent auditor and the transit agency's CEO certify that annual data reported to the NTD are accurate. FTA also compares data to key indicators such as vehicle revenue-miles, number of buses in service during peak periods, etc. FTA has undertaken a major initiative to increase ridership nationwide with the planned results being a reduction in congestion. This measure is built into all FTA senior executive performance standards.

Details on DOT Mobility Measures

Transportation Accessibility

Measures	1. Percentage of bus fleets compliant with the Americans with Disabilities Act (ADA). (CY) 2. Percent of key rail stations compliant with the Americans with Disabilities Act (ADA). (CY)

Scope

Accessibility for bus fleet means that vehicles are equipped with wheelchair lifts or ramps.

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.

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.

Accessibility for key rail facilities is determined by standards for ADA compliance. Transit systems were required to identify key stations. A key station is one designated as such by public entities that operate existing commuter, light, or rapid rail systems. Each public entity has determined which stations on its system have been designated as key stations through its planning and public participation process using criteria established by DOT regulations.

All new rail stations are required to be ADA compliant upon completion and must meet standards for new rail stations, not key stations. All altered stations are required to be ADA compliant upon completion and must meet standards for alterations of transportation facilities by public entities.

Sources

Compliant bus fleets: National Transit Database (NTD).

Compliant rail stations: Rail Station status reports to the FTA.

Statistical Issues

Data are obtained from a census of publicly-funded transit buses in urbanized areas. Information on the ADA key rail stations is reported to FTA by transit authorities. These data are not based on a sample.

Completeness

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.

Data reported for key station accessibility have historically excluded those stations for which time extensions had been granted under 49 CFR 37.47(c) (2) or 37.51(c) (2). There are a total of 138 such stations for which time extensions of various lengths were granted, some of them through 2020, the maximum permitted. These deadlines are now beginning to pass, and these stations can no longer be excluded from the total key station accessibility figures; the total number of time extensions from 2007 through 2020 stands at 19. The total number of key stations will therefore increase, and the percentage of compliant stations may decrease as they are added to the total key station count. Beginning in 2007, the key station accessibility figures began reporting the total number of key stations, the total number that are accessible, and the number with outstanding time extensions.

Reliability

All data in the NTD are self-reported by the transit industry. The transit agency's Chief Executive Officer and an independent auditor for the transit agency certify the accuracy of this self-reported data. The data are also compared with fleet data reported in previous years and crosschecked 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.

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.

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.

Details on DOT Mobility Measures

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.

Sources	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 90 percent of those JARC grantees expected to report.
Completeness	JARC grantees are requested to report the new employment sites reached by the transportation services initiated under their grant. Approximately 90 percent of the JARC grantees have reported this data for FY 2006 and similar or better results are expected for FY 2007. FTA projects these results to estimate the total new employment sites reached by all grantees. 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. The preliminary methodology for projecting the number of employment sites reached in FY 2007 has two elements. Phase I will use existing data collected for FY 2006 to project employment sites reached, based on expenditure level for FY 2007. Phase 2 will involve projections based on actual FY 2006 and FY 2007 cumulative data that will be available in early 2008. Phase 2 involves the collection of 2006 data collected from grantees. If data collected is incomplete, then projections will be made for grantees not reporting, based on data collected in FY 2006 / FY 2007.
Reliability	Oversight contractors review the data and contact grantees to ascertain methodologies on a sample basis, or when the information warrants review.

Details on DOT Mobility Measures

Aviation Delay

Measure	Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan (OEP) airports due to National Airspace System (NAS) related delays. (FY)
Scope	NAS On-Time Arrival is the percentage of all flights arriving at the 35 OEP airports equal to or less than 15 minutes late, based on the carrier flight plan filed with the FAA, and excluding minutes of delay attributed by air carriers to extreme weather (events such as hurricane and earthquake), carrier action, security delay, and prorated minutes for late arriving flights at the departure airport. The number of flights arriving on or before 15 minutes of flight plan arrival time is divided by the total number of completed flights.

A flight is considered on-time if it arrives no later than 15 minutes after its 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.

The time of arrival of completed passenger flights to and from the 35 OEP airports is compared to their flight plan scheduled time of arrival. For delayed flights, delay minutes attributable to extreme weather, carrier caused delay, security delay, and a prorated share of delay minutes due to a late arriving flight at the departure airport are subtracted from the total minutes of delay. If the flight is still delayed, that delay is attributed to the NAS and the FAA, and counted as a delayed flight.

Sources The ASPM database, maintained by the FAA's Office of Aviation Policy and Plans, supplemented by DOT's ASQP causation database, provides the data for this measure. By agreement with the FAA, ASPM flight data are filed by certain major air carriers for all flights to and from most large and medium hubs, and is supplemented by flight records contained in the Enhanced Traffic Management System (ETMS) and flight movement times provided by Aeronautical Radio, Inc. (AIRINC). Data are sufficient to complete ASPM data files for 75 airports. The 35 OEP airports are a sub-set of these 75 airports.

Statistical Issues ASQP data is not reported for all carriers, only 19 carriers report monthly into the ASQP reporting system.

Completeness Fiscal year data are finalized approximately 90 days after the close of the fiscal year.

Reliability The reliability of ASPM is verified on a daily basis by the execution of a number of audit checks, comparison to other published data metrics, and through the use of ASPM by over 1500 registered users. ASQP data is filed monthly with DOT under 14 CFR 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

Measures

1. Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses. (FY)
2. Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses. (FY)

Scope Includes contracts awarded by DOT Operating Administrations through direct procurement. It does not include FAA contracts exempt from the Small Business Act.

Sources	Prior to October 1, 2003, these data were 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. 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.
Statistical Issues	Until recently the reliability of the Federal Procurement Data System/Next Generation (FPDS/NG) was an issue with DOT and other federal agencies including the Government Accountability Office (GAO). The FPDS is designed to be an accurate and reliable system, as required by the Small Business Act, Section 644(g). However, it is recognized that at least through the transitional periods of FY 2003 through FY 2006, there may be issues of synchronization and data reliability between federal agencies and the FPDS/NG. DOT currently is required to scrub FPDS/NG data and resubmit it for validation. After re-verifying these data against internal sources, there are no known major errors present in the data. Business types are as identified in the Central Contractor Registration (CCR) database. However, random variation in the number of DOT contracts as well as the number of women-owned and small disadvantaged businesses each year results in some random variation in these measures from year to year.
Completeness	The Federal Procurement Data System (FPDS) is prescribed by regulations as the official data collection mechanism for DOT acquisitions.
Reliability	There is extensive regulatory coverage to ensure data reliability. The system is used to prepare many reports to Congress, the Small Business Administration, and others. Performance goals actual data, as finalized by the Small Business Administration is the only reliable basis for program evaluations as mandated by the Small Business Act, Section 644(g).

Details on DOT Global Connectivity Measures

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/early April 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.

Details on DOT Global Connectivity Measures

Bilateral Agreements

Measure	Number of new or expanded bilateral aviation safety agreements implemented. (FY) 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.

Scope	Bilateral Agreements related to aviation safety have two components: executive agreements and implementation procedures. The Executive Agreement is signed by the Department of State and the target country's Ministry of Foreign Affairs. It lays the essential groundwork for cooperation between the two governments and their respective aviation authorities. Once executed, the negotiations for the second component, the implementation procedures can proceed. Implementation procedures provide detailed operational safety and certification arrangements between the FAA and the target country's civil aviation authority. The implementation procedure is the operational portion of the bilateral agreement that allows for the reciprocal acceptance of aviation goods and services between the two countries. The target is achieved when either a new Executive Agreement is signed or a new or expanded implementation procedure is concluded with the target country or aviation authority.
Sources	The executive agreements are negotiated and maintained by the Department of State. The implementation procedures are negotiated and concluded by FAA. The official signed document is maintained at the FAA.
Statistical Issues	None.
Completeness	There are no completeness data issues associated with this measure since it is a simple count of the final signed new executive agreement or implementation procedures. This performance target is monitored monthly by tracking interim negotiation steps leading to completion of a BASA and tracking FAA internal coordination of the negotiated draft text. The final signing of executive agreements is generally out of the control of the FAA. Many sovereign nations view these agreements as treaties that require legislative approval. The FAA and U.S. Government cannot control the timing of legislatures in other countries. Therefore, the FAA will count executive agreements only when signed. The negotiation of implementation procedures is more within FAA's control. The signed document of the executive agreement constitutes evidence of completion. For implementation procedures, evidence will be either a signed procedure or some form of agreement between both parties that material negotiations are concluded, but a formal signing ceremony is pending. This can take the form of a signed agreement stating that fact, e-mail, meeting minutes, or other mutual documentation.
Reliability	No issues.

Details on DOT Global Connectivity Measures

Reduced Barriers to Trade in Transportation

Measure	Number of potential air transportation consumers (in billions) in international markets traveling between the U.S. and countries with open skies and open transborder aviation agreements (measure revised in FY 2005).

Scope	The number of potential air transportation consumers is the total population of the U.S. and countries with open skies aviation agreements with the U.S. By the end of FY 2007, there were more than 80 open skies agreements. This measurement includes the annual increase in population for the countries where open skies have been achieved, as well as the additional populations for newly negotiated open skies agreements. The estimate for the additional population is based on the median population size of the countries without open skies agreements. The measurement thus reflects the extent to which the liberalization resulting from open skies agreements, negotiated by DOT, increases travel opportunities between the U.S. and countries with previously restricted aviation agreements.
Sources	Estimate of the population of the U.S. and countries with open skies agreements with the U.S., Midyear Population, International Data Base, and U.S. Bureau of the Census (per website).
Statistical Issues	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and other issues. These qualifying notes do not significantly affect our analyses.
Completeness	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and other issues. These qualifying notes do not significantly affect our analyses.
Reliability	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and other issues. These qualifying notes do not significantly affect our analyses.

Details on DOT Global Connectivity Measures

Enhanced International Competitiveness of U.S. Transportation Providers

Measure	Number of international negotiations conducted annually to remove market-distorting barriers to trade in air transportation.
Scope	The number of international negotiations conducted annually to remove market-distorting barriers to trade in transportation is the number (or rounds) of meetings and negotiations that are conducted in an effort to reach open skies agreements, other liberalized aviation agreements, or to resolve problems. By the end of FY 2007, there were more than 80 open skies agreements, 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.

Sources	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 Global Connectivity Measures

Travel in Freight Significant Corridors

Measure	Number of freight corridors with an annual decrease in the average buffer index rating. (CY)
Scope	Travel time reliability is a key indicator of transportation system performance. The FHWA uses measured speed data to calculate a Buffer Index (BI) for each freight significant corridor. The BI is a measure of travel time reliability and variability that represents the extra time (or time cushion) that would have to be added to the average travel time to ensure on-time arrival 95 percent of the time.
Sources	Travel time data for freight significant corridors is derived using time and location data from satellite communications equipment on-board mobile commercial vehicles. A Global Positioning Satellite (GPS) device in the vehicle transmits a continuous or periodic signal to an earth orbit satellite. This technology allows commercial vehicles to serve as probes and enables direct measurement of commercial vehicle average operating speeds and travel rates and travel times. Selection of freight significant corridors and highway segments is largely based on the volume of freight moved on the segment.
Statistical Issues	The key issues are long term viability of data source, sampling size of the commercial vehicle probes, and frequency of the time and position sampling.

Completeness	FHWA is partnering with a vendor that collects automatic vehicle location probe information from a customer base, primarily interstate long-haul carriers. The data provides nationwide coverage from approximately 250,000 vehicles in the United States plus additional vehicles in Canada. Long haul carrier fleet managers arrange with the vendor to equip their vehicles with GPS probes. Carriers arrange with the vendor to have signal sent to vehicles and readings taken as often as every 15 minutes. The interval between probe readings is dependent upon the subscription and services contracted for by each individual carrier. These intervals may range from every 15 minutes to every two hours. The data transmitted are: truck ID, latitude, longitude, date and time, and interstate route. FHWA processes and manages the data provided by the vendor to derive the information for this measure.
Reliability	Probe vehicle performance systems are designed to provide travel time, speed and delay information without traditional fixed-location traffic monitoring and data collection systems. Probe–based systems enable coverage of much larger geographic areas (i.e., entire roadway networks) without the cost of building fixed-location traffic data collection systems throughout those networks. This technique takes advantage of the significant reductions in the cost of GPS devices that report current location and time information with a high degree of accuracy. When placed in vehicles and combined with electronic map information, GPS devices are the primary component of excellent vehicle location systems. Storage and analysis of the GPS location data allow for very accurate roadway performance measurement. To provide reliable roadway performance estimates, a large enough number of vehicles must be equipped with GPS to provide an unbiased measure of roadway performance, and to provide the temporal and geographic diversity desired by the performance measurement system. A significant drawback to probe vehicle-based performance monitoring is that it does not provide information about the level of roadway use (vehicle volume), but only provides information about the speeds and travel times being experienced.

Details on DOT Environmental Stewardship Measures

Exemplary Ecosystems (Environment)

Measure	Number of exemplary ecosystem initiatives. (FY)
Scope	An exemplary ecosystem initiative is an action or measure that will help sustain or restore natural systems and their functions and values, using an ecosystem or landscape context. The measure is a cumulative count of the number of exemplary ecosystem initiatives initiated. Ecosystem/habitat projects are identified as exemplary if they are unique or highly unusual in geographic scope; use cutting edge science or technology; attain a high level of environmental standards; achieve high quality of results; and/or recognized by environmental interests as being particularly valuable or noteworthy.
Sources	A State DOT and FHWA field office submits a list of ecosystem and habitat conservation initiatives for consideration to the FHWA.

Statistical Issues	The data may not represent all ecosystem and habitat conservation initiatives underway. Submittals are made at the discretion of the States and FHWA field offices.
Completeness	All identified exemplary ecosystem initiatives are included. However, there may be other potential qualifying initiatives that have not been identified.
Reliability	The identification of exemplary ecosystem initiatives may not be consistent across all States and FHWA field offices. While the criteria are carefully defined and complete, they are still subject to interpretation.

Details on DOT Environmental Stewardship Measures

DOT Facility Cleanup

Measure	Percent of DOT facilities categorized as No Further Remedial Action Planned (NFRAP) under the Superfund Amendments and Reauthorization Act (SARA). (FY)
Scope	EPA maintains a Federal Facility Hazardous Waste docket which contains information regarding Federal facilities that manage hazardous wastes or from which hazardous substances have been or may be released. DOT facilities listed on the docket are discussed in the Annual SARA report sent to Congress each year. EPA regional offices make the determination to change facility status to NFRAPs on the docket.
Sources	EPA Federal Facility Hazardous Waste docket which is issued twice a year.
Statistical Issues	None.
Completeness	The primary criterion for NFRAP is a determination that the facility does not pose a significant threat to the public health or environment. Responsibility for these facilities may be with FAA, FHWA, or FRA. NFRAP decisions may be reversed if future information reveals that additional remedial actions are warranted. The OAs' activities are controlled, to a degree, by interaction and decisions made by EPA Regional personnel. This measure is current and has no missing data.
Reliability	DOT uses this data to prioritize cleanup activities and attendant resource levels. However, there is insufficient time to complete remediation prior to the close of the FY for any sites added in the July report.

Details on DOT Environmental Stewardship Measures

Mobile Source Emissions

Measure	Twelve-month moving average number of area transportation emissions conformity lapses. (FY)

Scope	The transportation conformity process is intended to ensure that transportation plans, programs, and projects will not create new violations of the National Ambient Air Quality Standards (NAAQS), increase the frequency or severity of existing NAAQS violations, or delay the attainment of the NAAQS in designated non-attainment (or maintenance) areas.
Sources	The FHWA and FTA jointly make conformity determinations within air quality non-attainment and maintenance areas to ensure that Federal actions conform to the purpose of State Implementation Plans (SIP). With DOT concurrence, the EPA has issued regulations pertaining to the criteria and procedures for transportation conformity, which were revised based on stakeholder comment.
Statistical Issues	None.
Completeness	If conformity cannot be determined within certain time frames after amending the SIP, or if three years have passed since the last conformity determination, a conformity lapse is deemed to exist and no new non-exempt projects may advance until a new determination for the plan and Transportation Improvement Program (TIP) can be made. This affects transit as well as highway projects. During a conformity lapse, FHWA and FTA can only make approvals or grants for projects that are exempt from the conformity process (pursuant to Sections 93.126 and 93.127 of the conformity rule) such as a safety project and transportation control measures (TCM) that are included in an approved SIP. Only those project phases that have received approval of the project agreement, and transit projects that have received a full funding grant agreement, or equivalent approvals, prior to the conformity lapse may proceed. This measure is current and has no missing data.
Reliability	There are no reliability issues. FHWA and FTA jointly make conformity determinations within air quality non-attainment and maintenance areas to ensure that Federal actions conform to the purpose of the SIP.

Details on DOT Environmental Stewardship Measures

Hazardous Liquid Materials Spilled from Pipelines

Measure	Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines. (CY)
Scope	Liquid pipeline accidents (spills) are reportable under 49 CFR 195.50 if there is a release of hazardous liquid or carbon dioxide and any one of the following: 1. unintentional explosion or fire; 2. release of five gallons or more (except certain maintenance activities); 3. death or injury requiring hospitalization; or, 4. estimated property damage, including costs of cleanup and recovery, value of lost product, and other property damage exceeding $50,000.

Data are adjusted/normalized for time series comparisons to account for changes in reporting criteria over time. This includes screening out hazardous liquid spills of less than 50 barrels (or five barrels for highly-volatile liquids) unless the accident meets one of the other reporting criteria. Highly-volatile liquid (HVL) spills are not included in this performance measure. HVLs evaporate on release and don't impact the environment in the usual way that other liquid petroleum products do.

Sources

DOT/Pipeline and Hazardous Materials Safety Administration (PHMSA) Incident Data—derived from Pipeline Operator reports submitted on PHMSA Form F-7000.1. Ton-mile data are calculated using a base figure reported in a 1982 USDOT study entitled Liquid Pipeline Director and then combined with data from the Association of Oil Pipe Lines and the Oil Pipeline Research Institute.

Statistical Issues

A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined. Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal annual variation in the number of reported incidents.

The performance measure is a ratio of "Tons Net Loss" and "Ton-Miles Shipped." Uncertainty in either the numerator or the denominator can have a large effect on the overall uncertainty. Some factors of possible variance in the numerator include: 1) a few large spills can make PHMSA miss this goal, and 2) even when the total number of spills fluctuates, the net volume lost may increase. The denominator may fluctuate with the overall economy, i.e., the volume shipped increases with economic boom and decreases when the economy slows down. The environmental metric tracks a highly variable trend and PHMSA has noted in the past that the variability of this metric warrants close study.

The past long term pattern for the trend was to generally meet or miss the goal every other year as the actual performance bounced above and below the trend line regularly. PHMSA continues to lessen the overall standard deviation of the metric over time (the performance of the trend is getting statistically more sound over time). This measure also has continued a general downward trend even though it bounces above and below the trend line over time.

Completeness

Compliance in reporting is very high and most incidents that meet reporting requirements are submitted. Operators must submit reports within 30 days of an incident or face penalties for non-compliance.

The reported estimates are based upon incident data reported in January through June 2007. There may be a 60-day lag in reporting and compiling information in the database for analysis. Traditionally, there are more incidents in the summer than the winter. Preliminary estimates are based on data available as of middle of August, with six months of data through the end of June. The CY 2007 estimate is a projection using both a seasonal adjustment (using a 10-year baseline) and a separate adjustment to account for the historical filing of late reports (92.5 percent of reports for January—June were filed by this time last year).

Reliability

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.

PHMSA routinely cross-checks accident reports against other sources of data, such as the telephonic reporting system for incidents requiring immediate notification provided to the National Response Center (NRC). PHMSA is developing a Best Management Practice to ensure quality of the incident data.

Data are not normalized to account for inflation. A fixed reporting threshold ($50,000) for property damage results in an increasing level of reporting over time. This threshold was set for hazardous liquid accidents in 1994.

Data are not normalized to account for the subjective judgment of the operator in filing reports for accidents that do no meet any of the quantitative reporting criteria. This may result in variations over time due to changes in industry reporting practices.

Lack of additional information for ton-mile data raises definitional and methodological uncertainties about the data's reliability. Moreover, the three different information sources introduce data discontinuities, making time comparisons unreliable. (National Transportation System (NTS) 2002).

PHMSA uses this data in conjunction with pipeline safety data in prioritizing compliance and enforcement plans. However, beginning in FY 2008, PHMSA will begin reporting on the number of spills in high consequence areas as a new performance measure to replace the current one. This will address many of the reliability issues with the current measure.

Details on DOT Environmental Stewardship Measures

Aircraft Noise Exposure

Measure

Percent reduction in the number of people within the U.S. who are exposed to significant aircraft noise levels (Day/Night Average Sound Level (DNL) 65 decibels or more) from the three-year average for 2000 to 2002. (FY)

Scope

Residential population exposed to aircraft noise above Day-Night Sound Level of 65 decibels around U.S. airports.

Sources

In 1997, the FAA initiated a project to collect airport noise analysis databases for a large number of the world's airports. This sample database of airports would be the basis for assessing worldwide trends that would occur as the result of stringency, different land-use planning initiatives and operational procedures. The objective was to develop a tool that could be used by the Committee on Aviation Environmental Protection (CAEP) under the International Civil Aviation Organization (ICAO). Previous attempts by CAEP to globally assess aircraft noise exposure had limited success. The proposed FAA methodology had much more promise, as the number of sample databases was large and has since grown to around 200. Furthermore, a generalized methodology was included to account for airports for which noise databases did not exist. Based on the initial success of the FAA activity, the fourth meeting of CAEP (CAEP4) recommended that a task group be formed to complete the development of this tool for CAEP analysis.

This group and subsequently the model became known as MAGENTA (Model for Assessing Global Exposure form Noise of Transport Airplanes). The MAGENTA population exposure methodology has been thoroughly reviewed by this ICAO task group and was validated for several airport specific cases. MAGENTA played an important role in the setting of new international aircraft noise standards by CAEP in 2001. CAEP used MAGENTA to assess the benefits (reduction in number of people exposed to aircraft noise) of several noise stringency proposals. FY 2000 was the first year MAGENTA was used to track the aircraft noise exposure goal in the DOT Performance Plan.

A U.S. version of the global MAGENTA model, which used input data to determine the noise exposure in the U.S. on aircraft and operations specific to U.S. airports, was developed in 2002. The general, regional FESG forecast used in the CAEP version of MAGENTA was replaced by the FAA Terminal Area Forecast (TAF), which provides current and accurate information on how operations will increase on an airport specific basis.

The new U.S. version of MAGENTA also uses updated population data from the 2000 Census. The U.S. version of MAGENTA has evolved over time as more comprehensive databases were incorporated to improve the accuracy of the model. The data source for airport traffic changed from the Official Airline Guide (OAG) to the FAA Enhanced Traffic Management System (ETMS).

Unlike OAG, the ETMS database includes unscheduled air traffic, which allows for more accurate modeling of freight, general aviation, and military operations. The ETMS also provides more details on aircraft type for a more accurate distribution of aircraft fleet mix. Under the old model, unscheduled traffic was estimated and adjustments in the number of people exposed were made at the national level.

Data on the number of people relocated through the Airport Improvement Program are collected from FAA regional offices. Local traffic utilization data are collected from individual airports and updated periodically.

Statistical Issues

This measure is derived from model estimates that are subject to errors in model specification. FAA has replaced the actual number of people exposed to significant noise with the percent decrease in the number of people exposed, measured from the three-year average for calendar year 2000-2002. Moving to the three-year average stabilizes noise trends, which can fluctuate from year to year and are affected by unusual events such as the 9/11 attacks and the subsequent economic downturn. The 2000–2002 base time periods includes these events and is the same three-year period used for the emissions goal.

The move from actual numbers to percentages 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.

The growth in the number of people exposed to significant noise results from improvements in measurement, not a worsening in aviation noise trends. Planned improvements to MAGENTA will continue to increase the estimate of the number of people exposed to aircraft noise, giving the false impression that aircraft noise exposure is increasing. Changing the noise performance goal to an annual percent change in aircraft noise exposure will better show the trend in aircraft noise exposure. The change will also make the Government Performance Review Act (GPRA) goal consistent with FAA's Flight Plan goal.

Completeness

No actual count is made of the number of people exposed to aircraft noise. Aircraft type and event level are current. However, some of the databases used to establish route and runway utilization were developed from 1990 to 1997, with many of them now over seven years old. Changes in airport layout including expansions may not be reflected. The FAA continues to update these databases as they become available. The benefits of Federally-funded mitigation, such as buyout, are accounted for.

The noise studies obtained from U.S. airports have gone through a thorough public review process; either under the National Environmental Policy Act (NEPA) requirements or as part of a land use compatibility program.

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 Security Measures
Shipping Capacity

Measure	Percent of DOD-required shipping capacity, complete with crews, available within mobilization timelines. (FY)
Scope	This measure is based on the material availability of 44 ships in the Maritime Administration's Ready Reserve Force (RRF) and approximately 120 ships enrolled in the Voluntary Intermodal Sealift Agreement (VISA) program, which includes 60 ships enrolled in the Maritime Security Program (MSP). The performance measure represents the number of available ships (compared to the total number of ships in the RRF and VISA) that can be fully crewed within the established readiness timelines. Crewing of the RRF vessels is accomplished by commercial mariners employed by private sector companies under contract to the government. Currently there are more qualified mariners than jobs, even in the most under represented categories. However, due to the voluntary nature of this system, there is no guarantee that sufficient mariners will be available on time and as needed especially during a large, rapid activation.
Sources	Material availability of ships. Maritime Administration records (and information exchanged with DOD) on the readiness/availability status of each ship by the Office of Sealift Support (MSP/VISA ships) and the Office of Ship Operations (RRF ships). Typical reasons why a ship is not materially available include: the ship is in drydock, the ship is undergoing a scheduled major overhaul, or the ship is undergoing an unscheduled repair. The Maritime Administration and DOD also maintain records of the sealift ships enrolled in the MSP and VISA and their crew requirements. Availability of mariners. The Maritime Administration, through their Mariner Outreach System, extracts the number of qualified mariners from the data recorded in the U.S. Coast Guard's Merchant Mariner Licensing and Documentation (MMLD) system. The willingness and availability of these mariners to sail is then estimated using all available information including total U.S. requirements for deep sea mariners, recent sea service, and mariner surveys.
Statistical Issues	None.
Completeness	Data are complete.
Reliability	The data is reasonably reliable and useful in managing the reserve fleet readiness program.

Details on DOT Security Measures
DoD-Designated Port Facilities

Measure	Percent 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 forecast their ability to able to meet DOD-readiness requirements within 48-hours of written notice from the Maritime Administration, 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 the Maritime Administration in cooperation with other National Port Readiness Network partners. The 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	The Maritime Administration's data are derived from monthly reports submitted by the commercial strategic ports and from MARAD/DOD semi-annual port assessments.
Statistical Issues	None.
Completeness	Data are complete.
Reliability	The data is reasonably reliable according to the Bureau of Transportation Statistics and useful in managing its port readiness program.

Details on DOT Security Measures

Transportation Capability Assessment for Readiness

Measure	Transportation Capability Assessment for Readiness Index Score. (FY)
Scope	The Office of Emergency Transportation (OET) was transferred to the Office of Intelligence, Security, and Emergency Response in Fiscal Year 2005. OET measures its performance in meeting the Homeland and National Security Performance goal to "prepare the Nation's transportation system for a rapid recovery from intentional harm and natural disasters" by assessing progress in six functional areas: (1) Crisis Management Center, (2) U.S. Disaster Response, (3) Training and Exercises, (4) Continuity of Operations (COOP), (5) Continuity of Government (COG), and (6) International Response. A new performance measure is under development to capture the performance of all of the Office of Intelligence, Security, and Emergency Response.

Sources

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. The criteria are:

Function 1— Crisis Management Center (20 points)
Does the Secretary's Crisis Management Center (CMC) have adequate resources, such as communications, technology, and fully ready technical staff? (10 points)

Have the CMC workers been trained and participated in at least two exercises per year? (10 points)

Function 2—U.S. Disaster Response (20 points)
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)

Is there adequate secure communications with state and local government and the transportation community when dealing with WMD or national security crises? (5 points)

Has the National Response Plan (NRP) Transportation Annex been updated in the past 2 years? (3 points)

Within the past 2 years, have all ten regions updated their NRP Transportation Annexes? (3 points)

Have DOT and DoD sufficiently coordinated their transportation functions? (3 points)

Function 3—Training and Exercises (20 points)
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)

Function 4—Continuity of Operations (COOP) (20 points)
Is DOT's primary COOP site fully functional? (10 points)

Is the OST COOP plan updated at least once every two years? (3 points)

Have the Operating Administrations' COOP Plans been updated in the last 2 years? (4 points)

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)

Function 5—Continuity of Government (COG) (10 points)
Does DOT have a complete National Emergency Management Team (NEMT)? (5 points)

Have the NEMT team members received at least 1 training/exercise session during the year? (5 points)

Function 6—International Response (10 points)
Has DOT, as a U.S. representative to NATO, participated in at least 4 key NATO meetings and 2 exercises annually? (8 points)

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)

Statistical Issues	None.
Completeness	The measure is complete and reflects the combined score of all evaluation criteria.
Reliability	Scores are reliable to the extent that specific quantitative evaluation criteria are available for each of the questions used to rate the functions.

Details on DOT Organizational Excellence Measures

DOT Major System Acquisition Performance

Measures	1. For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met. 2. For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met.
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.
Sources	The data for acquisition programs comes from each DOT organization procuring major systems. FAA tracks and reports status of all schedule and cost performance targets using an automated database, providing a monthly Red, Yellow, or Green assessment that indicates their confidence level in meeting their established milestones. Comments are provided monthly that detail problems, issues, and corrective actions, ensure milestones and cost are maintained within the established performance target. The performance status is reported monthly to the FAA Administrator through FAA Flight Plan meetings.
Statistical Issues	The programs that are selected each fiscal year represent a cross section of programs within the Air Traffic Organization. They include programs that have an Exhibit 300 as well as what is referred to as "buy-by-the-pound" programs. The latter are typically not required to undergo a standard acquisition life cycle process. There is no bias with the selection of milestones. The milestones selected represent the program office's determination as to what effort they deem "critical" or important enough to warrant inclusion in the Acquisition Performance goal for the year. Typically there are anywhere from two to four milestones. Interim milestones are also tracked but not included in the final performance calculation.

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.

Details on DOT Organizational Excellence Measures

Major DOT Infrastructure Project Cost and Schedule Performance

Measure

1. 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. (FY)
2. 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. (FY)

Scope — 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.

Sources — FTA — FTA uses independent reviews and third-party assessment providers 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.

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.

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 Partnership.

Statistical Issues

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.

FHWA — A scheduled milestone is defined as being achieved upon completion of the project. Major Projects generally require 6-10 years from an IFP to completion. Cost estimates are prepared by comparing the costs in the most recent Annual Update to the IFP estimate. Because of the small number of Major Projects, FHWA may not meet its target if only a few projects show cost increases.

FAA — Schedule completion performance is measured for two milestones—the project design and the project construction. A project milestone is considered to meet the performance target if actual cumulative rate of completion is not more than 10 percent behind scheduled cumulative rate of completion, using the RTAP schedule as a base. For example, a 36-month schedule would allow a 3.6 month delay at any point in the schedule.

Cost performance is measured by comparing cumulative actual costs incurred at the end of each fiscal year with cumulative costs shown in the scheduled of costs submitted with the LOI application. A project will be considered to meet the cost performance target if cumulative costs are no more than 10 percent higher than projected costs in the cost schedule.

Completeness

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.

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.

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.

Reliability	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 assessment providers such as the Corps of Engineers and other oversight contractors to validate the accuracy of project budgets and schedules before grantees' are awarded Full Funding Grant Agreements. FTA continues to work to improve its rigorous oversight program and has made project cost and budget performance a core accountability of every senior manager in the agency. 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. 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.

Details on DOT Organizational Excellence Measures

Transit Grant Process Efficiency

Measure	Percent of transit grants obligated within 60 days after submission of a completed application. (FY)
Scope	FTA grants obligated during a fiscal year period for major programs: Urbanized area, non-Urbanized area, and Elderly and Persons with Disabilities formula grants; Capital grants; Job Access and Reverse Commute grants; Over-The-Road Bus grants; and Planning grants.
Sources	FTA internal databases including the Transportation Electronic Award Management (TEAM) system.
Statistical Issues	Processing time is calculated from submission date to obligation date. Zero-dollar, non-funding grant amendments are excluded from analysis.

Completeness Data are current with no missing data, since FTA uses internal databases, including the TEAM system. All grants obligated during the fiscal year for the selected programs (see Scope section) are included in the original data set. In rare cases where the submission date is omitted (which prevents processing time calculation), missing dates are researched and added to the database prior to reporting. The zero-dollar amendments are excluded because they are not representative of the grant processing action being tested.

Reliability The files that contain raw data from TEAM have been tested to ensure that all fiscal-year-to-date obligated grants are included and that data is current. Report programs screen various date fields to identify any missing or out-of-sequence dates that would skew averages; dates are corrected prior to reporting. Reconciliation reports of TEAM data are produced monthly and anomalies are explored and resolved. Detailed monthly grant processing progress reports provide management tools to the Regional Administrators, who continue to make this goal a top priority.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unqualified Restatement: Yes					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Timely Processing of Transactions and Accounting for Property, Plant & Equipment, including the Construction in Progress Account at the FAA	✓				1
Financial Management, Reporting & Oversight at the HTF	✓		✓		0
Total Material Weaknesses	2		1		1

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA, Section 2) Statement of Assurance: Qualified						
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Timely Processing of Transactions and Accounting for Property, Plant & Equipment, including the Construction in Progress Account at the FAA	✓					1
Financial Management, Reporting & Oversight at the HTF	✓		✓			0
Total Material Weaknesses	2		1			1

Effectiveness of Internal Control over Operations (FMFIA, Section 2) Statement of Assurance: Qualified						
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Weaknesses in the Stewardship and Oversight of Federal-Aid Projects Administered by Local Program Agencies		✓				1
Total Material Weaknesses		1				1

Conformance with Financial Management System Requirements (FMFIA, Section 4) Statement of Assurance: Qualified						
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Integrated Financial Management Systems	✓		✓			0
Federal Accounting Standards	✓					1
Total Non-Conformances	2		1			1

Conformance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes or No	Yes or No
1. System Requirements	Yes	Yes
2. Accounting Standards	No	No
3. USSGL at Transaction Level	Yes	Yes

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
PENDING MATERIAL WEAKNESS

HIGH RISK AREA: Timely Processing of Transactions and Accounting for Property, Plant, and Equipment, including the Construction in Progress Account & FFMIA Non-Compliance.

EXECUTIVE SUMMARY	MILESTONES	PLANNED DATES O=Original L=Last Year C=Current
How shall we fix it? FAA will revised and implement policies, procedures and controls to improve the capitalization and retirement of Property, Plant & Equipment (PP&E). **How will we know it's fixed?** 1. Policies and procedures support auditable PP&E balance. 2. Increased oversight of the capitalization process. 3. Monitoring controls indicate policies and procedures are being followed. 4. Quality review of accounts indicates project activity is conducted property.	**Planned (Near-Term)** 1. Develop and implement business process improvement for the timely capitalization and retirement of PP&E.	C - 12/2007
	2. Formalize organizational responsibility and oversight of property capitalization efforts.	C - 12/2007
	3. Identify additional preventative and detective controls and initiate changes, when necessary, to ensure proper capitalization and retirement of FAA assets.	C - 12/2007
	4. Continue to conduct training on the capitalization process.	C - 03/2008
	5. Improve quality control review procedures at headquarters and in the regions to ensure capitalized assets are complete, accurate, and properly valued during the construction and close-out of construction in progress projects.	C - 03/2008
	6. Continue to improve the process to ensure that assets placed into service are properly supporting by appropriate documentation per FAA policy.	C - 06/2008
	Completion Date: (Overall completion dates for correcting **entire** material weakness or material nonconformance).	C - 06/2008

DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ADMINISTRATION
PENDING MATERIAL WEAKNESS

HIGH RISK AREA: Weaknesses in the Stewardship and Oversight of Federal-Aid Projects Administered by Local Program Agencies (LPA).

EXECUTIVE SUMMARY	MILESTONES	PLANNED DATES O=Original L=Last Year C=Current
How shall we fix it? FHWA will work with State DOTs to identify proper stewardship and oversight functions to ensure Federal-aid requirements on met on LPA-administered projects. **How will we know it's fixed?** 1. Policies and procedures support auditable results. 2. Increased oversight of the projects administered by LPAs. 3. Monitoring controls indicate policies and procedures are being followed. 4. Quality reviews of LPA-administered projects indicate that Federal-aid requirements are being met.	**Planned (Near-Term)** 1. Initiate evaluation of State DOT's existing processes and procedures.	C - 09/2007
	2. Evaluate the need for additional process reviews and begin those reviews.	C - 09/2007
	3. Initiate discussions with the State DOT on the development or enhancement of their LPA project oversight program.	C - 09/2007
	4. Begin analyses and development of regulations that may be necessary to more formally establish a structured LPA project oversight program.	C - 09/2007
	5. Continue process reviews as needed.	C - 09/2007
	6. Submit detailed corrective action plans as appropriate to address development needs and/or corrective measures to assure the State DOT has or will have a comprehensive LPA project oversight program.	C - 01/2008
	7. Update report to the LPOC on whether the State DOT has, or is working to develop, a comprehensive LPA project oversight program.	C - 04/2008
	8. Report to the LPOC on whether the State DOT has a comprehensive LPA project oversight program.	C - 10/2008
	9. As appropriate, complete the rulemaking process to implement any needed regulations that more formally establish a structured LPA project oversight program.	C - 10/2009
	Completion Date: (Overall completion dates for correcting **entire** material weakness or material nonconformance).	C - 10/2009

IPIA REPORTING DETAILS

1. IMPROPER PAYMENT PROGRAM RISK ASSESSMENT DESCRIPTION

In prior years, the Department identified the following ten programs as being susceptible to significant improper payments. At that time, the Department identified the ten programs in the table below as having the highest potential for 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 **Bolded** programs were included in the FY 2007 nationwide IPIA review	

In accordance with Improper Payments Information Act (IPIA) requirements and OMB guidelines, during FY 2004 and 2005 six of the Programs reflected in the Table above were subject to a risk assessment and an in-depth improper payment review, including a review of payments by the Department to grantees. No improper payments exceeding both 2.5 percent of program payments and $10 million were found. The six programs were subject to a risk assessment based on the following criteria: Gross Expended Amount, Complexity of Payments, Established Internal Controls and Oversight, Type of Program Recipient, Number of Program Recipients, Volume of Payments, Probability of Growth, and Changes in the Program from the previous year. The risk criterion was used to determine the sampling size for each program. From that, each program underwent an in depth statistically based improper payment review.

Based on the FY 2004 and 2005 reviews, the Department concluded that the six programs subject to the risk assessment and improper payment test procedures were not susceptible to significant improper payments as defined by the OMB. For the remaining four programs, because of the significance of grantee payments and the fact that such payments were not tested under previous efforts due to a lack of data required for testing at the Federal level, additional testing was required. The four programs are the Federal Highway Administration (FHWA) Federal-aid Highway Program, Federal Aviation Administration (FAA) Airport Improvement Program, Federal Transit Administration (FTA) Formula Grants Program, and the FTA Capital Investment Grants Program. Because of program and funding changes, the Department was uncertain at the beginning of FY 2007

as to whether the FTA Capital Investment Grants Program was subject to improper payment testing. Subsequently, OMB advised the Department to proceed with model development for nationwide testing in FY 2008.

2. SAMPLING PROCESS AND RESULTS

In FY 2007, the Department continued implementing the IPIA, which requires that agencies: (1) review programs and identify those susceptible to significant improper payments (2) report to Congress on the amount and causes of improper payments and (3) develop approaches for reducing such payments.

In FY 2007, the Department successfully completed its review of the FHWA Federal-aid Highway Program, FAA Airport Improvement Program, and the FTA Formula Grants Program. With respect to the Formula Grants Program, as described below, successful completion pertains to approximately one-third of the grantees. In addition, the Department developed and tested a model for determining the amount of improper payments in the FTA Capital Investment Grants Program.

In FY 2007, the Department re-engaged AOC Solutions, Inc. to develop the nationwide sampling plan, collect the results from the application of test procedures, and provide a nationwide estimate of improper payments for Federal-aid Highway Program, Airport Improvement Program, and Formula Grants Program. With respect to the Formula Grants Program, the sampling plan, test procedures, and test results only apply to approximately one-third of the grantees covered by the FTA's Formula Grant Triennial Review Program. 49 U.S.C. 5307 prescribes a Triennial Review of all Formula Grant grantees. OMB Circular A-123, Attachment C, paragraph F, provides for alternative approaches, including determining the amount of improper payments for components, such as those addressed in the foregoing statute.

In addition, AOC developed and tested a model for determining the amount of improper payments in the FTA Capital Investment Grants Program. The Department will apply the model on a nationwide basis to the Capital Investment Grants Program in FY 2008.

The samples designed to execute the model are of sufficient size to yield an estimate with a 90 percent confidence interval within +/- 2.5 percent points around the estimate of the percentage of erroneous payments, as prescribed by OMB. The results of these efforts are discussed below.

FEDERAL-AID HIGHWAY PROGRAM

The Department developed and executed a sampling plan to test project payments and estimate the amount of improper payments nationwide.

The FHWA executed the nationwide testing program using personnel from the FHWA division offices and covered Federal payments to grantees over the twelve-month period March 1, 2006 through February 28, 2007.

The sampling plan involved a multi-staged statistical approach that included the selection of 53 Federal payments, 40 state payments, and then 230 testable line items from those payments for testing. The 2007 sample size is significantly less than the 2006 sample size because of a change in objectives. In 2006, the Department wanted to ensure all 50 states and two territories received sample items for testing. This required a substantially larger sample that would have been required had the Department not required that all states and territories receive sample items. In 2007, the sample was designed to support a nationwide estimate of improper payments and was not designed to provide sample items to all states and territories. The states that did not appear in the IPIA sample received sample items for FIRE testing.

The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $45,568 were found in the sample of 230 tested items. The projection of this result to the population of program payments for the twelve-month period results in an improper payment estimate of $55.2 million +/- $0.5 million. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from factors such as unallowable charges, insufficient supporting documentation, incorrect calculations, and duplicate payments. The FHWA has implemented its Financial Integrity Review and Evaluation (FIRE) program to monitor State and Territory payments and provide a mechanism for assisting these entities with effectively addressing operational issues that result or could result in improper payments.

FTA FORMULA GRANTS PROGRAM

FY 2007 was the first year of nationwide coverage of the FTA Formula Grants Program. In FY 2006, the FTA developed and tested a model used for use in IPIA testing in 2007. The FTA developed and executed a sampling plan to determine the amount and cause of improper payments in the Formula Grants Program and to assist the FTA in incorporating the IPIA test procedures in its statutorily required Triennial Review Program.

The FTA executed the nationwide testing program for grantees covered by the 2007 Triennial Review Program using contractor personnel. The review covered the twelve-month period March 1, 2006 through February 28, 2007.

The sampling plan involved a multi-staged statistical approach that included the selection of 60 Federal payments, 30 transportation authorities' payments, and then 169 testable line items from those payments for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included

determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $2,326.16 were found in the sample of 169 tested items. The projection of this result to the population of program payments for the twelve-month period results in an improper payment estimate of $2.77 million +/- $0.03 million. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from factors such as miscalculated federal participation share and lack of supporting documentation.

FTA CAPITAL INVESTMENT GRANTS PROGRAM

In FY 2007 the FTA developed and tested an improper payment test model at one recipient of Capital Investment Grants Program funding. The FTA patterned the model on the model developed for the FTA Formula Grants Program in 2006.

The test model involved developing test workbooks with test criteria and procedures. The sampling plan involved a multi-staged statistical approach that included the selection of 17 Federal payments, 49 grantee payments, and then 83 testable line items from those payments for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $361,691.73 were found in the sample of 83 tested items. The projection of this result to the population of program payments for the twelve-month period results in an improper payment estimate of $0.55 million +/- $0.39 million. This projection applies only to the single grantee and does not apply nationwide.

The improper payments reported resulted from draw-downs in excess of federal participation share.

The FTA will apply the model on a nationwide basis in FY 2008 in order to meet the requirements of the IPIA.

FAA AIRPORT IMPROVEMENT PROGRAM

The FAA developed and executed a sampling plan to determine the amount and cause of improper payments in the Airport Improvement Program. The FAA review covered the twelve-month period March 1, 2006 through February 28, 2007.

The sampling plan involved a multi-staged statistical approach that included the selection of 50 Federal payments, 30 sponsor payments, and then 95 testable line items from those payments for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

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

3. CORRECTIVE ACTION PLANS FOR REDUCING THE ESTIMATED RATE OF IMPROPER PAYMENTS.

FHWA FEDERAL-AID HIGHWAY PROGRAM

FHWA Division Offices listed the following reasons for the improper payments identified as a result of the IPIA review: Data entry errors, missing approvals, incorrect cost allocations, payments for missing field office equipment, unallowable charges, materials received not in accordance with contract terms, and source documentation not supporting payment amounts.

The Department and the FHWA will implement fully the FHWA's FIRE program in FY 2007 to monitor State and Territory payments and provide a mechanism for assisting these entities with addressing effectively operational issues that result or could result in improper payments. The Department believes that this proactive approach will establish internal control mechanisms for both preventing and detecting improper payments through effective oversight and outreach, the latter being intended to assist grantees in improving program management.

FTA FORMULA GRANTS PROGRAM

The FTA plans on adapting its statutorily required Triennial Review Program to include procedures to test for improper payments. This program will focus not only on determining the amount and causes of improper payments in the future.

In addition, the FTA will advise grantees of actions needed to ensure reimbursement requests are in accordance with grant cost sharing or matching requirements and that all transactions are supported properly prior to submission of reimbursement requests. Finally, the FTA will assess the feasibility of follow-up actions to assess the extent to which grantees covered by the 2007 review are addressing deficiencies that resulted in improper payment determinations.

FTA CAPITAL INVESTMENT GRANTS PROGRAM

Since the effort to date has been on IPIA model development and testing, the Department and the FTA have no nationwide statistics on the amount and rate of improper payments for this program. The objectives of the FY 2007 effort were to develop the model and field test it to assist the FTA in fully implementing the IPIA requirements for this program in FY 2008. The FY 2007 model

development and testing effort was not designed to provide a nationwide or program-wide estimate of improper payments. However, in FY 2008, this test model will be executed nationwide for this program.

While the FTA's efforts on the Capital Investment Grants Program were limited, the FTA will advise grantees of actions needed to ensure reimbursement requests are in accordance with grant cost sharing or matching requirements and that all transactions are supported properly prior to submission of reimbursement requests. Once the FTA completes nationwide testing in FY 2008, it will assess the feasibility of follow-up actions to assess the extent to which grantees are addressing deficiencies, if any, that result in improper payment determinations.

4. DEPARTMENT ACCOMPLISHMENTS IN GRANT PROGRAMS

The Department completed the development and testing of models for determining the amount and rate of improper payments in its major grant programs. The FHWA review of the Federal-aid Highway Program, FTA Formula Grants Program, and FAA Airport Improvement Program represented nationwide application of an innovative research and develop strategy implemented in FY 2005 and updated in FY 2006. This methodology successfully resolved a limitation of prior year efforts examining federal outlays to primary recipients. As discussed above, a methodology model that reached grantee level data in the FTA Capital Investment Grants Program was developed and field tested in FY 2007. This model will be rolled-out nationwide in 2008.

5. IMPROPER PAYMENT ESTIMATED ERROR RATES, DOLLAR ESTIMATES, AND OUTLOOK

	PY			CY[1]			CY +1			CY +2			CY +3	
Program	**Outlays**	**IP %**	**IP $**	**Outlays**	**IP %**	**IP $**	**Est. Outlays**	**IP %**	**IP $**	**Est. Outlays**	**IP %**	**IP $**	**Est. Outlays**	**IP %**	**IP $**
FHWA: Federal-aid Highway Program	32,883	.247	30.15	33,347	0.2	55.2	37,140	NA	NA	39,300	NA	NA	NA		NA
FTA: Formula Grants Program[2]	NA	NA	NA	6,281[3]	0.3	4.32	5,700	NA	NA	5,700	NA	NA	NA		NA
FTA: Capital Investment Grants Program[4]	NA	NA	NA	2,663	1.1	.6	2,800			2,800					
FAA: Airport Improvement Program	NA	NA	NA	3,874	NA	0	3,967	NA	NA	4,075	NA	NA	NA		NA

1. Dollars are in millions
2. Results for the FTA Formula Grants Program applies only to approximately one-third of the grantees as described in Section 2 above.
3. Outlays for grantees covered by 2007 IPIA testing and upon which the FTA Formula Grants program IP% is based, approximates $1.2 billion.
4. CY statistics for the Capital Investment Grants program pertain only to a single grantee and, accordingly, are not projectible nationwide.

6. RECOVERY AUDIT RESULTS

The recovery auditor, Horn and Associates, has continued working to identify overpayments and other areas of weakness. They have been granted access to our financial system to review payment records and have been tightly integrated into our existing business processes with minimal disruption or cost to the government.

To date, the recovery auditor has not uncovered any chronic problems with DOT's business processes and procedures. They are currently in the process of reviewing duplicate payments, prompt payment interest paid in error, sales tax on utility billings and open credits on statement. The chart below depicts their findings to date:

Agency Component	Amount Subject to Review for CY Reporting	Amounts Identified for Recovery	Amounts Identified/ Amounts Reviewed	Amounts Recovered CY	Amounts Recovered PY
OST	2,846512,015	65,751,781	68,961	0	0
FAA	9,528,068,552	150,219,554	4,739,975	1,111,618	45,109
FHWA	2,343,398,062	218,995,827	340,622	10,000	0
FMCSA	182,705,574	5,740,338	97,273	0	0
FRA	5,815,740,923	922,035,393	72,384	0	0
FTA	327,017,797	10,908,847	563,769	0	0
MARAD	2,014,025,448	48,528,867	568,010	0	0
NHTSA	1,857,952,895	5,920,159	68,796	68,796	0
OIG	42,465,487	415,809	0	0	0
PHMSA	28,261,569	4,021	0	0	0
RITA	19,823,586	13,337	0	0	0
STB	1,259,489	10,832	27,112	27,112	0
TOTAL	$25,007,231,396	$1,428,544,765	$6,546,901	$1,217,525	$45,109

7. DEPARTMENT PLANS FOR ENSURING MANAGERS ARE HELD ACCOUNTABLE FOR REDUCING AND RECOVERING IMPROPER PAYMENTS

Departmental management continues to take an active role in ensuring that agency managers are held accountable for reducing and recovering improper payments. The Deputy CFO has taken the lead in this 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.

On a monthly basis, the Department's top financial officers are briefed on the status of improper payment initiatives. Additionally, monthly reports are distributed to all levels of the Department outlining the work of the recovery audits.

To date, there have been no significant improper payments identified. If improper payments are found, the Office of the Secretary/Office of Financial Management will work with the organization to ensure that reduction targets and recovery rates are established.

8. INFORMATION SYSTEMS AND INFRASTRUCTURE REQUIREMENTS TO REDUCE IMPROPER PAYMENTS

The Department is completing full implementation of the IPIA and at this point has not identified a need for any additional systems and infrastructure requirements.

9. DESCRIBE THE STATUTORY OR REGULATORY BARRIERS WHICH MAY LIMIT THE AGENCIES' CORRECTIVE ACTIONS IN REDUCING IMPROPER PAYMENTS AND ACTIONS TAKEN BY THE AGENCY TO MITIGATE THE BARRIERS' EFFECTS.

The Department has not identified any statutory or regulatory barriers that limit its corrective action efforts.

TOP MANAGEMENT CHALLENGES

Department of Transportation

Report Number: PT-2008-008

Date Issued: November 15, 2007

Memorandum

U.S. Department of Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: INFORMATION: DOT's FY 2008 Top Management Challenges
Report Number PT-2008-008

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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) 2008. The traveling public's growing concerns about aging transportation infrastructure and increasing air travel delays will demand special attention from DOT in FY 2008. Key actions will include balancing funding needs to repair or replace aging systems while expanding capacity and determining requirements to advance new technologies and viable oversight structures.

The OIG's list for FY 2008 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 management challenges with those published in FY 2007.

- **Continuing To Enhance Oversight To Ensure the Safety of an Aging Surface Transportation Infrastructure and Maximize the Return on Investments in Highway and Transit Infrastructure Projects**
  - *Targeting Oversight Actions To Ensure the Safety of Tunnels and Bridges*
  - *Ensuring That Major Projects Are Completed in an Efficient and Cost-Effective Manner To Maximize the Return on Federal Infrastructure Investments*

- **Addressing Long- and Short-Term Challenges for Operating, Maintaining, and Modernizing the National Airspace System**
  - *Hiring and Training Nearly 15,000 Controllers Over the Next 10 Years*
  - *Keeping Existing Modernization Projects on Track*
  - *Reducing Cost, Schedule, and Technical Risk With NextGen*
  - *Maintaining FAA's Aging Air Traffic Control Facilities*
  - *Properly Accounting for Capital Investment Projects*
- **Developing a Plan To Address the Highway and Transit Funding Issues in the Next Reauthorization**
  - *Facing a Near-Term Funding Crisis in the Highway Trust Fund*
  - *Developing a Comprehensive Highway Funding Framework Quickly*
- **Reducing Congestion in America's Transportation System**
  - *Reducing Delays, Improving Airline Customer Service, and Meeting the Anticipated Demand for Air Travel in the Near Term*
  - *Keeping Planned Infrastructure and Airspace Projects on Schedule To Relieve Congestion and Delays*
  - *Leading Stakeholders*
  - *Developing Innovative Funding Solutions for Infrastructure Needs*
- **Improving Oversight and Strengthening Enforcement of Surface Safety Programs**
  - *Improving Motor Carrier Safety With More Complete Information on Vehicle Crashes and Stronger Enforcement Against Repeat Violators*
  - *Closely Monitoring Mexican Motor Carriers Operating Throughout the United States Under the Department's Demonstration Project*
  - *Countering Fraud in the Commercial Driver's License Program*
  - *Resolving Hours of Service Rules for Commercial Drivers*
  - *Improving State Accountability in Programs for Reducing Alcohol-Impaired Driving*
  - *Further Reducing Railroad Collisions and Fatalities Through More Safety Oversight*
- **Continuing To Make a Safe Aviation System Safer**
  - *Taking Proactive Steps To Improve Runway Safety in Light of Recent Serious Incidents*
  - *Ensuring Consistency and Accuracy in Reporting and Addressing Controller Operational Errors*
  - *Strengthening Risk-Based Oversight Systems for Air Carriers, External Repair Facilities, and Aircraft Manufacturers*
  - *Maintaining a Sufficient Number of Inspectors*
  - *Strengthening Oversight of the Airman Medical Certification Program*

- **Strengthening the Protection of Information Technology Resources, Including the Critical Air Traffic Control System**
  - *Enhancing Air Traffic Control System Security and Continuity Planning*
  - *Testing and Strengthening the Information System Security Program at DOT Headquarters*
  - *Ensuring the Timeliness of Data Recording and Protection of Personally Identifiable Information When Interfacing With Non-Federal Systems*
  - *Continuing To Enhance Oversight of Information Technology Investments*
- **Managing Acquisition and Contract Operations More Effectively To Obtain Quality Goods and Services at Reasonable Prices**
  - *Increasing Incurred-Cost Audits of Procurement Contracts To Reduce Unallowable Charges*
  - *Developing Strategies for the Future Acquisition Workforce*
  - *Fostering High Ethical Standards Throughout the Department and Its Contracting Programs To Maintain the Public Trust*
  - *Enhancing Oversight on Federal-Aid Highway Construction Projects To Prevent Abuse in Contractor Quality Control Programs*
- **Reforming Intercity Passenger Rail**
  - *Improving Amtrak's Cost-Effectiveness To Sustain Its Financial Progress*
  - *Overcoming Challenges to Improving Amtrak's On-Time Performance*
  - *Reauthorizing Amtrak To Facilitate Reform*

If you have any questions concerning this report, please contact me at (202) 366-1959. You may also contact David A. Dobbs, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427.

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1. Continuing To Enhance Oversight To Ensure the Safety of an Aging Surface Transportation Infrastructure and Maximize the Return on Investments in Highway and Transit Infrastructure Projects

Recent fatal highway incidents highlight the need for the Department to focus on the safety of the Nation's surface transportation infrastructure, particularly for aging tunnels and bridges needing costly rehabilitation, repair, or replacement. The Department also needs to maximize the Federal transportation investment by ensuring that highway and transit projects are completed in a timely and cost-effective manner. This is critical at a time when infrastructure needs are increasing and the Nation's fiscal resources are struggling to meet growing demands. Going forward, the Department will be challenged to balance the need to provide funding for projects to repair or replace aging infrastructure with funding for projects to reduce congestion with new capacity.

We see two key challenges that need continued management emphasis:

- The Federal Highway Administration (FHWA) must target its oversight actions to ensure the safety of highway tunnels and bridges.

- FHWA and the Federal Transit Administration (FTA) must ensure efficient use of Federal funds for highway and transit projects. FHWA must also promote cost-saving practices such as value engineering (VE), and FTA must provide vigilant oversight to control costs and schedules on several massive transit infrastructure projects.

Targeting Oversight Actions To Ensure the Safety of Tunnels and Bridges

Recent tragic highway incidents underscore the need for FHWA to ensure that its oversight actions target tunnels and bridges that represent high-priority safety risks so that problems are identified, evaluated, and remediated in a timely and thorough manner. In the past 18 months, two major incidents shook the traveling public's confidence in the safety of the Nation's tunnels and bridges. Specifically, in July 2006, a motorist was killed by falling ceiling panels in a tunnel of the Central Artery/Tunnel Project in Boston. In August 2007, 13 people were killed when the Interstate 35W Bridge in Minneapolis, which spanned the Mississippi River, collapsed during the evening rush hour.

Accordingly, FHWA needs to take the following actions.

Enhance the safety of the Nation's highway tunnels. On August 16, 2007, we reported[1] that FHWA will need to exercise greater oversight to ensure that the Commonwealth of Massachusetts completes the remaining phases of its Stem to Stern Safety Review—a comprehensive, project-wide review of the Central Artery/Tunnel Project—and conducts remedial work to address safety risks in a timely, thorough, and independent manner. The timely completion of this review is critical to restoring public confidence in the safety of the project's structures, particularly in light of its troubled history of schedule delays, cost increases, and construction quality problems. The magnitude of the review and the intense public concern for safety will challenge FHWA and the Department beyond their normal oversight roles. Since the Stem to Stern Safety Review is planned to last well into 2008, FHWA's oversight actions must ensure that the review remains a top priority for the Commonwealth to restore the public's confidence.

In addition, the safety problems that surfaced in the Central Artery/Tunnel Project call into question the oversight and quality control processes for constructing and maintaining the Nation's highway tunnels. Considering the known problems of the Central Artery tunnels, FHWA should develop and implement a system to ensure that states inspect and periodically report on tunnel conditions. To begin addressing these problems, FHWA officials informed us that they will issue an advance notice of proposed rulemaking by December 2007 to seek input regarding the development of national tunnel inspection standards. FHWA should aggressively move forward on this rulemaking and establish rigorous inspection standards as soon as possible.

Improve oversight of the Nation's structurally deficient bridges. The collapse of the Interstate 35W Bridge in Minneapolis underscores the importance of vigilant oversight for structurally deficient bridges (those that have major deterioration, cracks, or other deficiencies in their structural components). In September 2007, we testified[2] that nearly 72,500 bridges across the Nation were designated as "structurally deficient." According to FHWA's estimates, about $65 billion could be invested immediately to address current bridge deficiencies. However, only $21.6 billion was authorized for the Highway Bridge Program through FY 2009.

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[1] OIG Report Number MH-2007-063, "Initial Assessment of the Central Artery/Tunnel Project Stem to Stern Safety Review," August 16, 2007. OIG reports and testimonies are available on our website: www.oig.dot.gov.

[2] OIG Testimony Number CC-2007-095, "Federal Highway Administration's Oversight of Structurally Deficient Bridges," September 5, 2007. OIG Testimony Number CC-2007-101, "FHWA Can Do More in the Short Term To Improve Oversight of Structurally Deficient Bridges," September 20, 2007.

Our September 2007 testimonies stated that Federal oversight of bridge inspections and funding for bridge rehabilitation and replacement constitute significant challenges. To enhance oversight, FHWA should take the following actions:

- Develop a data-driven, risk-based approach to bridge oversight to better identify and target those structurally deficient bridges most in need of recalculation of load ratings and postings.
- Finalize and distribute the revised Bridge Program Manual to its 52 Division Offices as quickly as possible and ensure that FHWA engineers make greater use of existing bridge data as part of the annual compliance review process.
- Ensure that all 52 Division Offices conduct rigorous and thorough assessments of any potential risks associated with structurally deficient bridges, as directed in February 2007. FHWA must also define how it will respond to any specific, high-priority risks that the Division Offices identify.
- Identify and implement a process to determine the amount of Federal funds expended on structurally deficient bridges.

Ensuring That Major Projects Are Completed in an Efficient and Cost-Effective Manner To Maximize the Return on Federal Infrastructure Investments

With the increasing demand for limited Federal resources, completing highway and transit projects in a timely and cost-effective manner is more critical than ever. To maximize the return on Federal infrastructure investments, both FHWA and FTA must provide vigilant oversight of their grantees to ensure that projects are completed on time and within budget.

FHWA must reduce highway project costs by promoting the use of value engineering. One way to more effectively use Federal highway funds is to lower project costs by increasing VE usage. VE is the systematic process of review and analysis of a project during the concept and design phases. A multi-disciplined team of persons independent of the project conducts the review. VE provides an opportunity for states to obtain the most value from Federal highway funds by saving on planned construction projects. It also serves as a key tool in FHWA's stewardship of Federal funds.

Our March 2007 report on FHWA's VE program[3] identified ways for FHWA to improve states' VE programs. We found that states have missed opportunities to

[3] OIG Report Number MH-2007-040, "Value Engineering in the Federal-Aid Highway Program," March 28, 2007.

realize additional savings. For example, from FY 2001 through FY 2004, states collectively reported $4.2 billion in VE-recommended savings. However, we estimated that during the same 4-year period, states could have saved an additional $906 million ($725 million in Federal funds) by conducting all required VE studies ($117 million) and by achieving the national average of completing 44.4 percent of VE recommendations ($789 million). These savings could have been reprogrammed to other transportation projects. To increase cost savings for federally supported highway projects in the future, FHWA should improve its VE program by revising policies, strengthening oversight activities, and disseminating best practices to states.

FTA must provide vigilant oversight of transit projects to control costs and schedules. FTA has several massive infrastructure projects in various stages of design or construction. The agency must ensure that project sponsors keep these projects on schedule and within budget, particularly those projects in the Washington, D.C., Metropolitan Area and New York City. Vigilant oversight of these projects will be particularly important as FTA simultaneously oversees a large portfolio of other nationwide transit infrastructure projects. In its "Annual Report on Funding Recommendations—Proposed Allocation of Funds for Fiscal Year 2008," FTA reported 10 existing fully funded infrastructure projects (not including the Washington, D.C., and New York City projects) with total Federal funding of about $4.6 billion. FTA reported that an additional 12 projects are currently competing for full funding.

The Dulles Corridor Metrorail Project in the Washington, D.C., Metropolitan Area will challenge FTA in several respects. In July 2007, we reported[4] on key risk indicators in this project that merit the Department's close monitoring in light of a potential Federal investment of $1.475 billion (including a $900 million New Starts grant and a separate loan and line of credit). Among the risks we identified were increases in cost estimates of over $1 billion and schedule delays of about 4 years. We observed that the reported cost increases could prevent the project from meeting FTA's cost-effectiveness standards, which would make it ineligible for a New Starts grant.

After we issued our report, FTA examined the project cost estimate and identified that certain elements of the project were underestimated. FTA also found that the project did not meet cost-effectiveness standards. The project sponsors have since revised the project scope and submitted a new, lower estimate. FTA is examining the new estimate, but it could find that the project still does not meet cost-effectiveness standards. If the project goes forward, however, FTA will be challenged by the unusually complex organizational structure of the project. This

[4] OIG Report Number MH-2007-060, "Baseline Report on Major Project Monitoring of the Dulles Corridor Metrorail Project," July 27, 2007.

includes a large network of key Federal, state, local, and private sector players with a stake in the project as well as the possibility of further cost increases and schedule delays.

Further, the magnitude of ongoing major surface transportation projects in New York City with estimated costs of over $16 billion (these include about $8.5 billion in Federal funds) warrants close FTA oversight. These projects include the following:

- Lower Manhattan reconstruction and enhancement transportation projects resulting from the September 11, 2001, terrorist attacks. Federal funds of $4.55 billion are allocated for this effort.

- The East Side Access project. Proposed New Starts funding for this project is $2.63 billion.

- Phase I of the Second Avenue Subway. Proposed New Starts funding for this project is about $1.3 billion.

Controlling costs and schedules will be especially critical in the case of the Lower Manhattan recovery projects because of the Federal funding cap of $4.55 billion. Further, any costs that exceed Federal limits increase the pressure on a project sponsor to identify local funds to cover any cost overruns. Although the East Side Access and Second Avenue projects are not subject to the Federal cap, they still involve a large Federal funding commitment warranting close FTA oversight to ensure that project sponsors are exercising sound project and financial management.

For further information, the following reports and testimonies can be found on the OIG web site at http://www.oig.dot.gov:

- *Final Report on the Independence of Central Artery/Tunnel Project Inspection Contractors*
- *Initial Assessment of the Central Artery/Tunnel Project Stem To Stern Safety Review*
- *Audit of Oversight of Load Ratings and Postings on Structurally Deficient Bridges on the National Highway System*
- *Federal Highway Administration's Oversight of Structurally Deficient Bridges*
- *Value Engineering in the Federal-Aid Highway Program*
- *Baseline Report on Major Project Monitoring of the Dulles Corridor Metrorail Project*

2. Addressing Long- and Short-Term Challenges for Operating, Maintaining, and Modernizing the National Airspace System

Over the last year, Congress, the Federal Aviation Administration (FAA), and aviation stakeholders have debated important questions about how best to finance FAA, reauthorize a wide range of aviation programs, and advance the Next Generation Air Traffic Management System (NextGen). Several alternatives have been proposed; these include imposing user fees, adjusting the existing excise tax structure, and allowing the agency to borrow for long-term capital investments. While there is disagreement over how to finance FAA, there is general agreement that the agency must fundamentally change how air traffic is managed to meet forecasted air travel demands.

Congress has established a short-term FAA financing measure that reflects the status quo, but a long-term reauthorization is needed. How FAA should be financed is clearly a policy decision for the Congress. Regardless of the funding mechanism that is ultimately selected, the Department and FAA will face challenges in operating and maintaining the current system while concurrently advancing NextGen. These include (1) hiring and training enough air traffic controllers to address the surge in retirements; (2) keeping existing modernization projects on track; (3) reducing cost, schedule, and technical risks with NextGen; (4) maintaining FAA's aging air traffic control facilities; and (5) properly accounting for capital investment projects.

Hiring and Training Nearly 15,000 Controllers Over the Next 10 Years
FAA anticipates a significant surge in controller attrition as the controllers who were hired after the 1981 strike begin retiring. To address this issue, FAA must hire and train over 15,000 new controllers through the year 2016. In December 2004, FAA developed a comprehensive workforce plan and issued the first in a series of annual reports to Congress. FAA issued the first update to the plan in June 2006 and the second in March 2007.

In February, we issued the results of our review of FAA's progress in implementing its controller workforce plan.[5] Overall, we found that FAA continues to make progress in implementing a comprehensive staffing plan to address the surge in retirements. For example, we found that FAA has significantly improved its hiring process and has reduced the time and costs to train new controllers. However, further progress is still needed in the following key areas:

[5] OIG Report Number AV-2007-032, "FAA Continues To Make Progress in Implementing Its Controller Workforce Plan, but Further Efforts Are Needed in Several Key Areas," February 9, 2007.

- Completing validation of accurate facility-level staffing standards. This is a critical component because FAA has over 300 air traffic facilities with significant differences in air traffic levels and complexity.

- Establishing baseline metrics to measure the effectiveness of controller productivity initiatives. FAA must ensure that reductions in staffing are a result of increased productivity and not simply fewer controllers controlling more traffic.

- Continuing efforts to reduce the time and costs associated with on-the-job training. This is the longest and most expensive portion of new controllers' training.

We will continue to monitor FAA's progress and report on its actions to address this significant challenge. We are currently reviewing FAA's management of the controller on-the-job training process and plan to issue a report early next year.

Keeping Existing Modernization Projects on Track

FAA's major acquisitions have a long history of cost growth and schedule delays. For example, two acquisitions, the Wide Area Augmentation System (a satellite-based navigation system) and the Standard Terminal Automation Replacement System (new software and hardware for controllers who manage traffic in the vicinity of airports), have experienced cost growth in excess of $4.2 billion since their inception. Problems with FAA acquisitions are the result of overly ambitious plans, changing requirements, complex software development, and poor contract oversight.

It will be important to keep existing modernization projects on track because about 30 of these are intended to serve as platforms for NextGen. These include the $2.1 billion En Route Automation Modernization project to replace hardware and software for facilities that manage high-altitude traffic. We note that the project is within budget and is on schedule to be deployed at Salt Lake Center in 2008.

While FAA has done a better job of managing acquisitions over the last several years, some programs are still at risk for further cost growth, schedule slips, or diminishing benefits. For example, the benefits (expected cost savings) of the FAA Telecommunications Infrastructure program (an effort to replace and consolidate all telecommunications into a single system) have eroded as costs have increased and completion schedules have slipped. FAA needs to prevent cost growth, schedule slips, and performance shortfalls with ongoing projects that could delay the NextGen capabilities needed to enhance capacity.

Reducing Cost, Schedule, and Technical Risk With NextGen

Although the costs for developing and implementing NextGen remain uncertain, FAA expects to spend $4.6 billion on various NextGen initiatives between 2008 and 2012. The bulk of these funds will be spent on developmental efforts. A key project includes the Automatic Dependent Surveillance-Broadcast program—a satellite-based system that allows aircraft to broadcast their position to controllers and other properly equipped aircraft. The development and execution of NextGen is the most complex, high-risk undertaking FAA has ever attempted and will require multibillion-dollar investments from the Federal government (for new ground automation systems) and airspace users (for new avionics).

In our February 2007 report, we examined progress with FAA's Joint Planning and Development Office,[6] which is responsible for developing a vision for NextGen. We identified the range of actions needed to reduce risk with this complex, costly effort. We recommended, among other things, that FAA develop a strategy for obtaining the necessary expertise to execute NextGen initiatives and review existing modernization projects to determine required adjustments. FAA has begun addressing our concerns. FAA must also continue to address complex engineering and integration issues and develop an effective human factors program (for controllers and pilots) to ensure that anticipated changes can be safely introduced.

Maintaining FAA's Aging Air Traffic Control Facilities

FAA will be challenged to focus on NextGen initiatives while concurrently attending to its aging air traffic control facilities and related equipment (e.g., electrical power systems). FAA has 21 En Route facilities, 214 terminal facilities, and over 22,000 unstaffed facilities. According to FAA, many of these facilities are over 25 years old; some may have exceeded their useful life expectancy and may not meet current operational requirements. For example, FAA's En Route Centers are now over 40 years old. In 2007, FAA budgeted approximately $400 million, or 16 percent, of its $2.5 billion capital account for facilities. A longer term but controversial challenge for the Department and FAA is determining to what extent FAA can realign or consolidate its air traffic facilities based on new technology. FAA must develop a cost-effective strategy for maintaining its existing facilities commensurate with NextGen technologies that could potentially reduce operating costs.

[6] OIG Report Number AV-2007-031, "Joint Planning and Development Office: Actions Needed To Reduce Risks with the Next Generation Air Transportation System," February 12, 2007.

Properly Accounting for Capital Investment Projects

Congress provides more than $2 billion annually to FAA to invest in modernizing air traffic control systems. It takes many years to develop and test capital investment projects (such as the En Route Automation Modernization program) before they can be deployed for operational use. All of these investments are recorded in the Construction in Progress (CIP) account. Properly accounting for billions of dollars in capital investment has been a longstanding challenge for FAA. For years, FAA has relied on a labor-intensive process to adjust the CIP account balance for the annual financial statements reporting. For FY 2006, however, FAA was unable to support the CIP account balance which totaled $4.7 billion as of September 30, 2006. As a result, both FAA and the Department received a qualified audit opinion on the FY 2006 financial statements.

During FY 2007, FAA devoted extensive resources and management attention to cleaning up the CIP account balance to overcome the qualified opinion. As part of these correction efforts, FAA also implemented CIP business process enhancements. These included standardizing the methodology used to calculate unit costs, including overhead allocation, for asset deployment. The results were successful in overcoming the 2006 qualified opinion. However, weaknesses still remain in its implementation of the enhanced CIP business process and need to be addressed during FY 2008. To ensure the agency properly accounts for capital investment projects and avoids going back to prior period practices, FAA needs to institutionalize the enhanced CIP procedures throughout the organization.

For further information, the following reports and testimonies can be found on the OIG web site at http://www.oig.dot.gov:

- *Perspectives on FAA's FY 2007 Budget Request and the Aviation Trust Fund*
- *FAA Has Opportunities To Reduce Academy Training Time and Costs by Increasing Educational Requirements for Newly Hired Air Traffic Controllers*
- *Next Steps for the Air Traffic Organization*
- *Report on Controller Staffing: Observations on FAA's 10-Year Strategy for the Air Traffic Controller Workforce*
- *Addressing Controller Attrition: Opportunities and Challenges Facing the Federal Aviation Administration*
- *Opportunities To Improve FAA's Process for Placing and Training Air Traffic Controllers in Light of Pending Retirements*
- *Review of Staffing at FAA's Combined Radar Approach Control and Tower with Radar Facilities*
- *Joint Planning and Development Office: Actions Needed To Reduce Risks with the Next Generation Air Transportation System*

- *FAA Continues To Make Progress in Implementing its Controller Workforce Plan, But Further Efforts are Needed in Several Key Areas*
- *FAA's FY 2008 Budget Request: Key Issues Facing the Agency*
- *Actions Needed To Reduce Risk With the Next Generation Air Transportation System*
- *Inspector General Testifies Before the House Aviation Subcommittee Regarding FAA Financing Proposals*
- *Quality Control Review of Audited Financial Statements for FYs 2006 and 2005, Federal Aviation Administration*

3. Developing a Plan To Address the Highway and Transit Funding Issues in the Next Reauthorization

The Department faces two significant challenges regarding Federal highway program funding. First, it must decide how to address Highway Trust Fund (HTF) revenue shortfalls that may require near-term reductions in Federal highway spending. Second, the Department must decide at what level it will propose that highway and transit programs be funded in the upcoming surface transportation reauthorization bill, and how that funding level will be financed.

Facing a Near-Term Funding Crisis in the Highway Trust Fund

Highway funding levels are largely determined by the amount of revenue from the Federal motor fuel excise tax and other sources that are deposited into the HTF. HTF revenues for 2009 are now expected to fall far short of the levels previously anticipated. Unless addressed, this shortfall could lead to reductions in obligation limitations for Federal highway programs below the levels anticipated in the current authorization to prevent HTF insolvency. For instance, the American Association of State Highway and Transportation Officials (AASHTO) has projected a $4.3 billion Highway Account revenue shortfall in 2009 that could require an obligation reduction in the highway program of about $16 billion. The Department must help develop a consensus among the States, the highway community, and Congress as to if, and how, this shortfall in HTF revenues will be made up.

Demand for More Investment and Rapid Cost Escalation Will Increase the Pressure To Expand Highway Funding. The Department's most recent estimate[7] is that a 12-percent annual funding increase, in constant dollars, is required to maintain the Nation's highways and bridges.[8] This would require an average annual investment of about $79 billion by all levels of government and the private sector (in constant 2004 dollars), compared with the $70 billion of capital spent in 2004. Additional increases in investment would also be required above these amounts to offset the effects of inflation.

The amount needed to offset the effects of inflation in highway construction and maintenance costs has soared dramatically in recent years. As we reported in September 2007, highway construction and maintenance costs nationwide grew about three times faster from 2003 through 2006 than their fastest growth rate during any 3-year period between 1990 and 2003. These increases have

[7] 2006 Status of the Nation's Highways, Bridges and Transit: Conditions and Performance. Report to Congress. U.S. Department of Transportation.

[8] This includes both structural maintenance and the maintenance of current congestion levels in light of increased usage. It also assumes no change in costs to users.

substantially reduced the purchasing power of highway construction funds and have led some state planners to cancel or delay projects.

These increases were largely the result of escalation in the cost of commodities used in highway projects, such as steel and asphalt, and reflect structural, not transitory, economic changes. Consequently, commodity costs can be expected to remain elevated and could possibly continue to expand in the near future. If highway construction costs continue to increase at the 2006 rate, they will have increased by 37 to 60 percent during the term of the current highway bill. The next highway bill may need to provide a significant increase in funding just to maintain the current level of highway construction nationwide.

The needed Federal investment in highways could be reduced by increased implementation of congestion pricing, accelerated deployment of operational technologies (such as Intelligent Transportation System technologies), and innovation in construction methods or materials. Further, innovative financing tools can reduce the requirement for near-term Federal highway program appropriations by permitting current revenues to be leveraged and highway construction to proceed more rapidly than would otherwise be possible. However, these tools are not all without controversy, particularly public/private partnerships and high occupancy toll (HOT) lanes. Wider support for these financing techniques needs to be developed if the Department proposes to expand their use.

Developing a Comprehensive Highway Funding Framework Quickly

The current highway authorization expires at the end of FY 2009. The Department will need to determine what level of highway funding it will propose in the reauthorization in light of the growing demand for these investments and the escalating costs of meeting this demand. It will also need to determine how this level of investment should be funded. To make these determinations, the Department will need to consider changes to the existing highway funding structure as well as alternative, innovative financing mechanisms; it will also need to develop support for new financing methods.

For further information, the following report can be found on the OIG web site at http://www.oig.dot.gov:

- *Growth in Highway Construction and Maintenance Costs*
- *Quality Control Review of Audited Financial Statements for FYs 2006 and 2005, Highway Trust Fund*

4. Reducing Congestion in America's Transportation System

The Department is pursuing a national strategy to reduce congestion across all modes of transportation. Congestion limits economic growth, wastes billions of gallons of fuel, and costs billions of dollars in lost productivity each year. This will likely remain a prominent challenge for the Department for some time, particularly with regard to air travel. We are seeing record-breaking flight delays and cancellations, and forecasted air travel demands will continue to strain the capacity of the system. This year's airline customer service issues drew national attention and underscored the need for the Department's continued focus in this area. The Department must make it a top priority to reduce aviation delays and alleviate customer dissatisfaction.

While the Department has made progress on implementing several congestion-related initiatives this past year, the strategy was developed before this year's overwhelming air travel problems. The Department's accomplishments this past year in implementing its national strategy included selecting Miami, Minneapolis, New York, San Francisco, and Seattle to participate in the Urban Partnership Agreement program after an 8-month nationwide competition. These communities will demonstrate strategies with proven effectiveness in mitigating traffic congestion. The Department also selected the first six interstate highway corridors as participants in the Corridors of the Future Program: (1) I-95 from Washington, D.C., to Florida; (2) I-70 from Missouri to Ohio; (3) I-15 from California to Utah; (4) I-5 from California to Washington; (5) I-10 from California to Florida; and (6) I-69 from Texas to Michigan.

The Department's specific challenges for reducing congestion include:

- reducing aviation delays, improving customer service, and meeting near-term demand for air travel;
- keeping planned infrastructure and airspace projects on schedule to relieve congestion and delays;
- leading stakeholders that have divergent views on resolving transportation congestion; and
- meeting demands for additional resources in a tight budgetary environment.

Reducing Delays, Improving Airline Customer Service, and Meeting the Anticipated Demand for Air Travel in the Near Term

During the first 7 months of 2007, airlines' on-time performance was at the lowest percentage (72 percent) recorded in the last 10 years with nearly 28 percent of flights delayed, cancelled, or diverted. These rising flight delays are leading to more on-board tarmac delays. During the same period, over 54,000 scheduled flights—affecting nearly 3.7 million passengers—experienced taxi-in and taxi-out times of 1 to 5 hours or more. This is an increase of nearly 42 percent (from 38,076 to 54,029) as compared to the same period in 2006 (see table 4-1).

Table 4-1. Number of Flights With Long, On-Board Tarmac Delays of 1 to 5+ Hours January Through July of 2006 and 2007

Time Period	2006	2007	% Change
1-2 Hrs.	33,438	47,558	42.23
2-3 Hrs.	3,781	5,213	37.87
3-4 Hrs.	710	1,025	44.37
4-5 Hrs.	120	189	57.50
5 or > Hrs.	27	44	62.96
Total:	38,076	54,029	41.90

Source: Bureau of Transportation Statistics data

Consumer complaints are also on the rise. DOT's Air Travel Consumer Reports disclosed that for the first 7 months of 2007, complaints relating to flight problems (delays, cancellations, and missed connections) involving U.S. airlines more than doubled (1,096 to 2,468) for the same period in 2006. One-third of the Nation's air traffic passes through New York, and three-fourths of the chronic delays around the country can be traced to delays at the New York airports.

Airlines, airports, FAA, and DOT must work together to reduce delays and minimize the impact on passengers when these delays occur. Secretary Peters is committed to taking action, but the Department faces several challenges in addressing this issue. Although there is no "silver bullet," a cumulative mix of solutions could help. These include scheduling procedures, air traffic control modernization, and ground infrastructure (new runways). Complex policy questions, such as peak-hour pricing, will also complicate potential solutions.

Short- and long-term solutions to these delay problems must be pursued. It is also important to remember that the traveling public will likely face similar air travel problems in the spring and summer of 2008 and 2009 before they experience any real relief from capacity problems. The airlines and airports must do their part in the short term to effectively implement their customer service plans—including contingency plans—especially when extraordinary flight disruptions cause significant delays, cancellations, and diversions. The Department should also take

a more active role in overseeing customer service issues to ensure that airlines comply with their policies on flight problems.

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

While new technologies can help enhance arrival rates, FAA reports that new runways provide the most increases in capacity. Since 2000, new runways have been built at Detroit, Phoenix, Miami, and other airports. Without these new runways, congestion undoubtedly would have been much worse.

Seven key runway projects are currently underway, including projects at Washington Dulles and Chicago O'Hare International Airports. Table 4-2 provides information on major runway projects and expected completion dates from FAA's Operational Evolution Plan,[9] the agency's blueprint for enhancing capacity.

Table 4-2. Status of Major New Runway Projects, September 2007

Airport	Initial OEP (June 2001) Estimated Completion Date	Current Estimated Completion Date	Phase	Current Cost Estimate (in millions)
Philadelphia* (Runway 17/35)	Not in initial OEP	Jan 2009	Construction	$65
Seattle-Tacoma (Runway 16R/34L)	Nov 2006	Nov 2008	Construction	$1,129**
Washington-Dulles (Runway 1L/19R)	Not in initial OEP	Nov 2008	Construction	$356
Chicago O'Hare (Runway 9L/27R)	Not in initial OEP	Nov 2008	Construction	$455**
Chicago O'Hare* (Runway 10L/28R)	Not in initial OEP	Nov 2008	Construction	$240**
Chicago O'Hare (Runway 10C/28C)	Not in initial OEP	2012**	Construction	$1,265**
Charlotte (Runway 17/35)	June 2004	Feb 2010	Construction	$300

Sources: FAA with Airport Sponsor Updates
*Extension of existing runway.
**Update of FAA data obtained from airport sponsor.

These runway projects are expected to significantly enhance airport operations and decrease delays. The Department's challenge is to make sure the navigation

[9] FAA's Operational Evolution Partnership has been the agency's overall blueprint for enhancing capacity and includes runways, airspace changes, and new procedures. In June 2007, FAA expanded the scope of the plan beyond capacity to include commitments for the Next Generation Air Transportation System.

equipment, new procedures, and airspace modifications are in place when these projects are commissioned so that the expected benefits will be achieved.

As we have noted in the past, airspace redesign efforts are often overlooked but are important short-term initiatives. History shows that airspace changes are critical to realizing the full potential of new runways and can enhance capacity even without new infrastructure. Currently, FAA is pursuing seven airspace redesign projects throughout the Nation, including a major effort to revamp airspace in the New York/New Jersey/Philadelphia area. FAA expects this project to make better use of existing runways in the area and provide more flexibility to manage delays in severe weather. Once implemented, FAA believes the redesign effort could reduce delays by as much as 200,000 hours annually.

Leading Stakeholders

Targeted infrastructure investments can help to alleviate transportation congestion, but the Department faces a difficult challenge in convincing various stakeholders to make this a priority. The Department's role in funding or approving transportation projects varies greatly across the various modes. For example, while the Department funds and operates the air traffic control system, local and state agencies manage highway and transit priorities in their respective locales. Congress is also very active in deciding which highway and transit projects to fund. To successfully meet this challenge, the Department will need to leverage its available tools to influence stakeholder decisions on infrastructure improvement.

Developing Innovative Funding Solutions for Infrastructure Needs

The Department will need to decide on the level of Federal investment in infrastructure it can support given the current constraints of the Federal budget. The Department also needs to continue to develop innovative funding solutions for the transportation infrastructure by either identifying new sources of revenue or using existing sources more effectively. While the Department is working to reduce barriers to private sector investment, it needs to articulate its case that any divestitures of public transportation infrastructure assets are in the best interest of the taxpayers in the long term.

For further information, the following reports and testimonies can be found on the OIG web site at http://www.oig.dot.gov:

- *Airspace Redesign Efforts Are Critical To Enhance Capacity but Need Major Improvements*

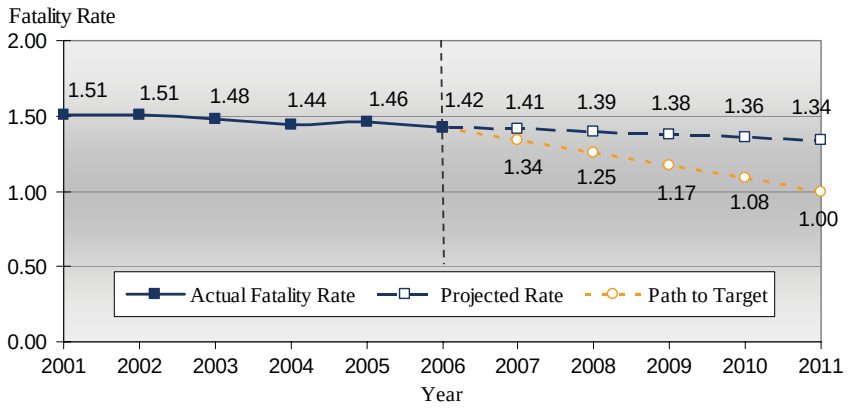
- *Aviation Industry Performance: Trends in Demand and Capacity, Aviation System Performance, Airline Finances, and Service to Small Airports (June 2005 and August 2006)*
- *Audit of Small Community Aviation Delays and Cancellations*
- *Observations on Current and Future Efforts To Modernize the National Airspace System*
- *Observations on the Progress and Actions Needed To Address the Next Generation Air Transportation System*
- *Follow-Up Review: Performance of U.S. Airlines in Implementing Selected Provision of the Airline Customer Service Commitment.*
- *Refocusing Efforts To Improve Airline Customer Service*
- *Actions Needed To Improve Airline Customer Service*
- *Actions Needed To Minimize Long, On-Board Delays*
- *Actions Needed To Improve Airline Customer Service and Minimize Long, On-Board Delays*

5. Improving Oversight and Strengthening Enforcement of Surface Safety Programs

Safety is central to the mission of the Department, and three of its Operating Administrations have extensive regulatory authority and safety programs—the Federal Motor Carrier Safety Administration (FMCSA), the National Highway Traffic Safety Administration (NHTSA), and the Federal Railroad Administration (FRA). In 2006, over 42,500 highway traffic deaths and 368 highway-rail crossing deaths occurred in the United States.

The number of fatalities declined in 2006, as did the rate of fatalities per 100 million vehicle-miles traveled (1.42). The Department's goal is to reduce the fatality rate to 1.0 by 2011; meeting this goal will clearly be a challenge. As shown in figure 5-1, we estimate a 2011 fatality rate of 1.34 based on past trends.

Figure 5-1. In the Coming Years, the Highway Fatality Rate Will Need To Fall Below Projected Rates To Meet the Target Rate by 2011*



Source: Actual fatality rates are from NHTSA's 2005 Transportation Safety Facts and 2006 Annual Assessment Report. Projected rates for 2007 through 2011 were calculated using NHTSA's forecasting methodology. The Path to Target line drops from 1.42 in 2006 to 1.00 in 2011 and assumes an equal annual decrease.
*Fatality rates are shown as the number of fatalities per 100 million vehicle-miles traveled.

Our recent audit work points to areas in which the Department can better meet the challenge of reducing transportation fatalities through enhanced oversight of safety programs and stronger enforcement.

Improving Motor Carrier Safety With More Complete Information on Vehicle Crashes and Stronger Enforcement Against Repeat Violators

While quality crash data are vital to ensuring that high-risk motor carriers are targeted for additional oversight, states are not reporting significant numbers of nonfatal crashes to FMCSA; thus, these important data are not included in the calculations that identify high-risk motor carriers. No single solution will resolve this problem, but FMCSA could help by providing additional training for those who prepare crash reports and complete independent state assessments to identify reporting issues. Although 15 independent state assessments have been completed, FMCSA should ensure that the remaining states complete assessments by the end of FY 2008, as it has promised.

FMCSA has also committed to closing a loophole in its enforcement policy that allows hundreds of motor carriers to repeatedly violate significant safety regulations without exposure to maximum penalties. As we reported in April 2006, motor carriers with limited ability to pay fines can repeatedly violate the same regulation without being penalized as a "repeat offender." FMCSA should close this enforcement loophole in FY 2008.

Closely Monitoring Mexican Motor Carriers Operating Throughout the United States Under the Department's Demonstration Project

On September 6, 2007, the Department initiated a 1-year demonstration project to permit up to 100 Mexican motor carriers to operate beyond the commercial zones along the United States–Mexico border. Our report called on FMCSA to address the need for coordinated, site-specific plans for checking trucks and drivers participating in the demonstration project each time they cross the border into the United States.

Assuming future funding for this project is approved, FMCSA will need to coordinate with the states and U.S. Customs and Border Protection to carry out the plans for these checks. These checks must ensure that all Mexican drivers participating in the project are properly licensed and that all trucks display decals denoting recent safety inspections.

Countering Fraud in the Commercial Driver's License Program

FMCSA should likewise continue to carry out its congressionally mandated enhancements to the commercial driver's license (CDL) program to ensure that only drivers with requisite skills obtain CDLs. These mandates include FMCSA's addressing our prior recommendations for countering fraud in the program. Over the past 6 years, with the support of FMCSA, we have carried out investigations with other law enforcement agencies that involved CDL fraud schemes in 26 states. These investigations have led to prosecutions in 20 states and the

identification of CDLs that were issued by corrupt state or state-approved third-party examiners.

To its credit, FMCSA has instituted a fraud component within its CDL compliance review program and is working with the states to identify vulnerabilities. FMCSA also followed through on its commitment, made in response to our 2006 audit report, to request that states track the status of drivers suspected of fraud. Nonetheless, FMCSA must take further action to implement regulatory changes being planned to tighten controls over CDL learner's permits, strengthen requirements for proving that CDL applicants are in the United States legally, and improve the ability of the states to detect and prevent fraudulent testing and licensing.

Resolving Hours of Service Rules for Commercial Drivers

In July 2007, the U.S. Court of Appeals for the D.C. Circuit vacated two provisions of the rules governing the hours of service of commercial drivers, which FMCSA issued in 2005. This was the second time in 3 years that the Court has vacated all or part of an hours-of-service rule. In 2004, the Court vacated a rule because the agency had failed to discuss driver health issues. Although the agency's treatment of that matter in the 2005 rule was challenged in the subsequent lawsuit, the Court declined to address the issue. Instead, it held that the 2005 rule had violated the Administrative Procedure Act by not providing an opportunity for comment on the methodology of a fatigue model that FMCSA used and that the agency failed to explain certain elements of that methodology. The Court, therefore, vacated the two provisions derived from the methodology in question. FMCSA asked the Court to delay its mandate for 1 year and has noted the scientific, economic, operational, and procedural complexity of hours-of-service rulemaking and the critical importance of the issue both to the trucking industry and highway safety groups. In September 2007, the court granted a 90-day stay. The agency should give high priority to resolution of this issue.

Improving State Accountability in Programs for Reducing Alcohol-Impaired Driving

In 2006, the number of alcohol-related highway traffic deaths (over 17,500) accounted for about 41 percent of all reported traffic deaths. Accordingly, no appreciable improvement in the number of highway fatalities can be achieved until alcohol-related fatalities drop dramatically. States are the linchpin in achieving this drop and ensuring that the $555 million in Federal funding authorized for state alcohol-impaired driving incentive grants are targeted toward strategies that have the most impact.

NHTSA—the lead Federal agency responsible for reducing alcohol-impaired driving—could assist in this effort by ensuring that the states include more

meaningful measures linked to key program strategies in their performance plans. NHTSA has agreed to develop intermediate performance indicators that states can use to measure performance in priority program areas. NHTSA should complete development of such indicators by FY 2009 and, afterwards, periodically assess the extent to which states have adopted them.

Further Reducing Railroad Collisions and Fatalities Through More Safety Oversight

Over the past 10 years, significant progress has been made in reducing collisions and fatalities at highway-rail grade crossings. The number of such collisions fell by 31 percent from the end of 1996 to its end-of-2006 total of just over 2,900. FRA's grade crossing safety oversight activities have contributed to this progress. However, these grade crossing collisions continue to claim over 300 lives each year.

As we testified in May 2007, FRA can do more to reduce collisions and fatalities at the Nation's grade crossings. Specifically, its challenges are to focus its oversight activities on (1) ensuring compliance with mandatory reporting requirements, (2) increasing its involvement in investigations, (3) addressing sight obstructions at crossings without automated warning devices, (4) establishing reporting requirements for its national grade-crossing inventory system, and (5) requiring states with the most dangerous crossings to develop action plans that identify specific solutions for improved safety.

Further, FRA must continue to focus its inspection and enforcement resources on the issues and locations most in need of attention. In March 2006, it implemented a new National Inspection Plan, in response to our 2005 recommendations, that called for greater use of data analysis to help target FRA's regulations and oversight activities on problem areas. The plan uses trend analysis of rail safety data to identify and track predictive indicators to assist FRA in allocating inspection and enforcement activities within a given region, by railroad and by state. It is too soon to determine how effective these measures will be in the long term, but it is a very positive step.

For additional information, the following reports and testimonies can be found on the OIG web site at http://www.oig.dot.gov:

- *Motor Carrier Safety: Oversight of High-Risk Trucking Companies*
- *Letter to Representative Petri regarding the Motor Carrier Safety Status Measurement System (SafeStat)*
- *Significant Improvement in Motor Carrier Safety Since 1999 Act but Loopholes for Repeat Violators Need Closing*

- *Issues Pertaining to the Proposed NAFTA Cross-Border Trucking Demonstration Project*
- *Follow-Up Audit on NAFTA Cross-Border Trucking Provisions*
- *Federal Motor Carrier Safety Administration Oversight of Commercial Driver's License Program*
- *Audit of NHTSA's Alcohol-Impaired Driving Traffic Safety Program*
- *FRA Can Improve Highway-Rail Grade Crossing Safety by Ensuring Compliance With Accident Reporting Requirements and Addressing Sight Obstructions*
- *Reauthorization of the Federal Railroad Safety Program*
- *Actions Needed To Further Improve Railroad Safety*
- *Opportunities To Further Improve Railroad Safety*

6. Continuing To Make a Safe Aviation System Safer

Safety is the FAA's highest priority. For more than 5 years, FAA and the U.S. aviation industry have experienced one of the safest periods in history—even as the industry was undergoing dramatic changes. However, the August 27, 2006, crash of Comair Flight 5191 served as a reminder that we must continue to do more to make a safe system safer.

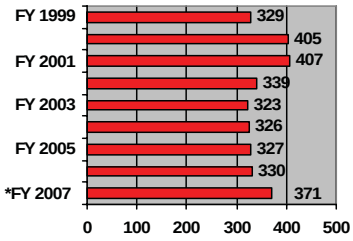
Key challenges for FAA are:

- Taking proactive steps to improve runway safety in light of recent serious incidents;
- Ensuring consistency and accuracy in reporting and addressing controller operational errors;
- Strengthening risk-based systems for external repair facilities, air carriers, and aircraft manufacturers;
- Maintaining a sufficient number of inspectors with the right skills and in the right locations to oversee a dynamically changing aviation industry; and
- Strengthening oversight of the Airman Medical Certification Program.

Taking Proactive Steps To Improve Runway Safety in Light of Recent Serious Incidents

Reducing the risk of runway incursions (potential collisions on airport surfaces) is a critical safety issue that requires proactive and ongoing effort on the part of FAA, airlines, and airport operators. In fact, the last fatal commercial aircraft accident in the United States (Comair flight 5191) was the result of a runway incident in which the pilots attempted to take off from the wrong runway.

Figure 6-1. Runway Incursions FY 1999 to FY 2007



*Preliminary Data

Source: FAA

As shown in figure 6-1, the total number of runway incursions decreased from a high of 407 in FY 2001 to a low of 323 in FY 2003. Since 2003, the number of runway incursions had leveled off until last year, when they increased to 371. Although the most serious runway incursions (category A and B events) decreased to 24 in 2007, very serious runway incursions continue to occur. For example:

- On July 19, 2007, at Chicago O'Hare International Airport, a collision was barely avoided when a United Airlines aircraft exited the wrong taxiway and taxied directly underneath the path of an arriving US Airways aircraft. Although the controller instructed the US Airways plane to go around, it overflew the nose of the United Airlines aircraft by an estimated 50 to 70 feet.

- On May 26, 2007, at San Francisco Airport, a controller mistakenly cleared a Republic regional aircraft to depart while a Skywest regional aircraft was landing on an intersecting runway. The Skywest aircraft was unable to stop short of the runway intersection and the Republic aircraft overflew it by an estimated 50 feet.

The seriousness of these incidents underscores the need for continual proactive and concerted efforts, including actions to address technological as well as programmatic solutions for improving runway safety.

A key technology for reducing runway incursions is the Airport Surface Detection Equipment–Model X (ASDE-X) program. FAA is developing ASDE-X to aid air traffic controllers in preventing ground collisions at airports and reducing runway incursions. In October, we issued a report[10] on FAA's progress in implementing this system.

We found that ASDE-X is at risk of not meeting its cost and schedule goals to commission all 35 systems for about $550 million by 2011 and may not achieve all planned safety benefits. When we testified before the Senate in May 2007, FAA had already expended about $288 million and obligated about $350 million but had only deployed 8 of 35 systems for operational use. As of August 30, 2007, FAA deployed 11 of 35 systems for operational use. Of the 11 systems, eight are located at airports with intersecting runways. However, FAA has yet to implement the planned capability to alert controllers of potential collisions on intersecting runways and taxiways at four of the eight airports requiring these key safety capabilities.

To achieve the program's goals and more effectively manage the program, FAA needs to (1) improve ASDE-X management controls to reduce the risks of further cost growth and schedule delays; (2) resolve operational performance risks with key ASDE-X safety capabilities associated with detecting potential collisions on intersecting runways and taxiways, including during inclement weather; and (3) work with the airlines and airports to provide safety enhancements that were not

[10] OIG Report Number AV-2008-004, "FAA Needs To Improve ASDE-X Management Controls To Address Cost Growth, Schedule Delays, and Safety Risks," October 31, 2007.

included in the ASDE-X program's rebaseline but are vital to reducing the risks of ground collisions caused by pilot and vehicle operator errors.

In May, we issued a report[11] on FAA's actions to address runway incursions at four major airports. Overall, we found that several national initiatives for promoting runway safety (undertaken by FAA as early as 2000) have subsequently waned as the number of incidents declined and FAA met its yearly goals for reducing runway incursions.

We identified several programmatic actions that FAA needs to take to help prevent runway incursions systemwide. They include:

- improving information sharing among users to identify root causes of pilot deviations and communicate best practices to reduce runway incursions;
- placing additional focus on controller human factors issues and training to improve individual, team, and facility performance; and
- assigning greater authority and accountability at the national level to ensure that runway safety remains a priority for all FAA lines of business.

FAA is in the process of addressing these concerns. For example, it appointed a permanent executive-level director for its Runway Safety Office in August 2007—a position that had been vacant for almost 3 years. FAA also plans to reinstate its National Plan for Runway Safety, which has not been prepared since 2002.

In August 2007, FAA also convened a meeting with airline and airport officials, and agreed to a five-point, short-term plan for improving runway safety. The plan's major focus includes:

- conducting safety reviews at airports where wrong runway departures and runway incursions are the greatest concern,
- accelerating the deployment of improved airport signage and markings at the top 75 airports ahead of the June 2008 mandated deadline, and
- reviewing cockpit procedures and air traffic clearance procedures.

The success of these positive actions will depend on ensuring that the current momentum continues and that runway safety remains a high priority for all users of the National Airspace System.

[11] OIG Report Number AV-2007-050, "Progress Has Been Made In Reducing Runway Incursions, But Recent Incidents Underscore the Need for Further Proactive Efforts," May 24, 2007.

Ensuring Consistency and Accuracy in Reporting and Addressing Controller Operational Errors

Another serious safety issue that FAA must continue to address is operational errors—when controllers fail to maintain adequate separation between aircraft. In FY 2007, there were 1,393 operational errors,[12] up slightly from 1,338 in FY 2006. In addition, the most serious operational errors increased from 41 to 43 in the last year—about 1 serious operational error every 8 days.

FAA needs to ensure that all operational errors are being consistently and accurately reported; this is a significant concern. FAA currently relies on an inaccurate system of self-reporting of operational errors; only 20 of FAA's 524 air traffic control facilities have an automated system that identifies when operational errors occur.

FAA is taking steps to correct this weakness. It is in the process of developing the Traffic Analysis and Review Program to identify operational errors when they occur at its Terminal Radar Approach Control (TRACON) facilities (those facilities that currently have no automated reporting system). FAA plans to start fielding this system in FY 2008 and estimates its completion by FY 2011.

Keeping this technology on track must remain a priority for FAA. We continue to receive allegations that operational errors are going unreported or, in some cases, intentionally misclassified. For example, as a result of a whistleblower complaint, we are currently conducting an investigation at the Dallas/Fort Worth TRACON to determine if operational errors are being inappropriately classified as pilot deviations to deflate the number of errors attributed to the facility. This investigation is ongoing, and we expect to report our results later this year.

FAA has also modified its severity rating system for operational errors to make the ratings more reflective of potential collisions. The new rating system is based solely on the proximity of the two aircraft. FAA believes this will provide a better means for measuring the risk of a collision from an operational error so it can better focus on the most serious incidents. However, FAA must remain committed to finding the cause, applying remedies or mitigations, and taking action in response to all operational errors to identify trends and prevent future such errors from occurring.

[12] FY 2007 numbers are preliminary.

Strengthening Risk-Based Oversight Systems for Air Carriers, External Repair Facilities, and Aircraft Manufacturers

In the past 9 years, FAA has made important progress in developing risk-based approaches to safety oversight of air carriers, aircraft manufacturers, and—most recently—aircraft repair stations. These systems are designed to permit inspectors to use safety data to focus their oversight on areas of higher risk. However, to meet the demands of an ever-evolving aviation industry, FAA must ensure that inspectors for air carriers transitioned to the Air Transportation Oversight System (ATOS) are properly trained in using the risk-based oversight approach; gather more complete data on the facilities air carriers use to complete critical maintenance; and modify its risk-based system for manufacturers to ensure that inspectors can effectively respond to the growth in use of both domestic and foreign suppliers.

Risk-Based Oversight System for Air Carriers: According to recent data provided by FAA, it has now implemented ATOS at 110 air carriers; however, there are 8 air carriers that still need to be converted to the new oversight system. FAA plans to complete this transition by the end of this calendar year.

In addition, ATOS requires the use of a team of inspectors with specialized expertise, not only in technical areas such as maintenance and electronics, but also in conducting risk assessments. Based on information provided to us, FAA has not developed a plan that details how this transition can be accomplished with its limited inspector resources. FAA has indicated that it is reconfiguring field offices to more efficiently use existing and newly hired inspectors in conjunction with the transition, but it has not fully addressed how it plans to ensure that these inspectors have the needed skills. FAA has reported that it is providing training for inspectors transitioned to ATOS. However, conducting risk assessments is a new skill set for FAA inspectors that may not come readily even with new hires. For the transition to be successful, FAA must ensure it has an adequate number of properly trained inspectors.

Oversight Systems for External Repair Facilities: During the past 2 years, FAA has worked to move its safety oversight for aircraft repair stations to a risk-based system; however, for this new system to be effective, FAA will have to establish a sound process for determining where critical aircraft maintenance is performed.

FAA developed new inspection guidance and air carrier processes to address this problem, but these efforts still fall short of providing FAA with the information it needs. For example, FAA developed a process for air carriers to report the top 10 critical maintenance providers used each quarter. The process is voluntary, however, and FAA inspectors are not required to validate the data air carriers

submit. Therefore, FAA cannot be assured that it is getting the accurate and timely information needed to determine where it should focus its inspections. FAA plans to issue a proposed rulemaking requiring this information; but, this process is not yet complete.

Further, FAA's new risk-based system does not include a process for oversight of critical repairs performed by non-certificated repair facilities. In 2005, we reported that over 1,400 non-certificated repair facilities were performing maintenance for U.S. air carriers and that more than 100 of these facilities were located in foreign countries. FAA's efforts to improve its oversight of non-certificated repair facilities are still underway. FAA needs to clarify its guidance so inspectors will be better equipped to identify non-certificated repair facilities that are performing critical maintenance.

Risk-Based Oversight of Aircraft Manufacturers and Their Suppliers: In FY 2003, FAA revised its oversight system for aircraft manufacturers and their suppliers to a more risk-based approach. However, FAA will need to modify this system so that inspectors can more effectively oversee manufacturing operations in the current aviation environment. The system was not designed to address the increasingly prominent role that aircraft parts and component suppliers now play in aviation. Rather than building the majority of their aircraft within their own manufacturing facilities using their own staff, manufacturers now have large sections of their aircraft built by domestic and foreign parts suppliers. For example, 1 major U.S. manufacturer uses major parts and components from close to 1,200 domestic and foreign suppliers to manufacture its aircraft. FAA needs to ensure that its risk-based system includes an assessment of the number of suppliers manufacturers now use.

Maintaining a Sufficient Number of Inspectors

The rapidly changing aviation environment makes it imperative for FAA to maintain a sufficient number of inspectors in the right locations. FAA has about 4,000 inspectors located in offices throughout the United States and in other countries. These inspectors must oversee both domestic and foreign aspects of American air carriers' maintenance and operations.

FAA expects to hire 297 aviation safety inspectors in FY 2008. During the same period, FAA expects to lose about 210 aviation safety inspectors, resulting in a net increase of 87 inspectors in FY 2008. FAA requested funding for these 87 inspectors in FY 2008, which would be an increase over FY 2007 staffing levels. However, FAA faces challenges in maintaining a sufficient staff because approximately 48 percent of the inspector workforce will be eligible to retire by 2012.

In addition, FAA must ensure adequate training for its inspectors. Using risk-based oversight systems is a foundational part of FAA's plan to meet future oversight challenges, but it requires that inspectors be skilled in risk analyses. Therefore, FAA must step up its hiring and training if it is to maintain a sufficient number of inspectors with the right skill set to provide oversight of a dynamic aviation industry.

Strengthening Oversight of the Airman Medical Certification Program

The Airman Medical Certification Program represents a key safeguard in making sure that the more than 600,000 licensed pilots in the United States are medically fit to fly. The OIG, the National Transportation Safety Board, and FAA, however, have documented hundreds of instances in which pilots failed to disclose potentially disqualifying medical conditions. These are conditions—ranging from heart problems to neurological and psychiatric disorders—that the Federal Air Surgeon has identified as able to compromise a pilot's ability to safely operate an aircraft.

Because of concerns about FAA's handling of falsified pilots' medical certificates, Congress held an oversight hearing on July 17, 2007, to better understand this fraud among pilots who hide serious medical conditions from examining physicians in order to retain medical certification for their pilots' licenses. At the hearing, FAA reiterated its commitment to ensuring the highest level of safety for the traveling public. In following through on its commitment, FAA needs to make certain it has an effective oversight and regulatory enforcement regimen with which to enforce this critical safety requirement in its licensing of pilots. This is an especially important issue, given possible regulatory changes to extend medical certificate expiration dates, which would result in fewer opportunities for physicians to evaluate pilots' medical fitness.

For further information, the following reports and testimonies can be found on the OIG web site at http://www.oig.dot.gov:

- *FAA Needs to Improve ASDE-X Management Controls To Address Cost Growth, Schedule Delays, and Safety Risks*
- *Staffing at FAA's Combined Radar Approach Control and Tower With Radar Facilities*
- *Progress Has Been Made in Reducing Runway Incursions, but Recent Incidents Underscore the Need for Further Proactive Efforts*
- *Safety Oversight of an Air Carrier Industry in Transition*
- *Letter to Representative Oberstar Regarding FAA Actions on Air Carriers' Use of Aircraft Repair Stations*
- *Controls Over the Reporting of Operational Errors*

- *Alleged Cover-Up of Operational Errors at DFW TRACON*
- *Review of Air Carriers' Use of Non-Certificated Repair Facilities*
- *Letter to Representative Oberstar Regarding FAA's Aging Airplane Safety Rule*
- *Falsification of FAA Airman Medical Certificate Applications by Disability Recipients*

7. Strengthening the Protection of Information Technology Resources, Including the Critical Air Traffic Control System

Fiscal year 2007 was a particularly challenging year for the Department in managing its information technology (IT) resources. While the Department has completed most of its scheduled security recertification reviews, the overall effectiveness of its information security program declined because management had to divert resources and attention to resolving Headquarters move-related issues. In addition to establishing a common IT infrastructure for the new Headquarters, it had to review, test, and certify security protection in more than half of its information systems to meet the recertification requirement, as well as correct security weaknesses previously identified in the critical air traffic control system. FY 2008 will require continued management attention in several areas in order to strengthen the protection of the Department's IT resources:

- Enhancing Air Traffic Control System Security and Continuity Planning
- Testing and Strengthening the Information System Security Program at DOT Headquarters
- Ensuring the Timeliness of Data Recording and Protection of Personally Identifiable Information When Interfacing With Non-Federal Systems
- Continuing To Enhance Oversight of Information Technology Investments

Enhancing Air Traffic Control System Security and Continuity Planning

The President has designated the air traffic control system as part of the Nation's critical infrastructure due to the important role that commercial aviation plays in fostering and sustaining the economy and ensuring citizens' safety and mobility. In FY 2007, under the Deputy Administrator's (now the Acting Administrator) direction, FAA undertook renewed initiatives to develop a business continuity plan (BCP) to recover the catastrophic loss of any En Route Center and to improve the quality of security reviews for air traffic control systems outside of the computer laboratory. FAA has made modest progress in both areas by developing a detailed concept of operations that thoroughly details the expected operations of the BCP and creating a methodology for selecting high-risk operational air traffic control systems for security review. However, these are multi-year efforts, for which FAA faces the following challenges:

- **Measuring the loss of each En Route Center's impact on the National Airspace System (NAS):** FAA's plan estimates restoration of 80 percent of an

affected En Route Center's capabilities within 3 weeks; however, the impact that a disabled center will have on the NAS as a whole has not been assessed. Since each center relies on adjacent centers to efficiently manage air traffic, the loss of one center could cause a ripple effect throughout the NAS. In order for FAA to better understand the overall impact, it will need to conduct an impact analysis of the effect that the loss of 20 percent of operational capability at each En Route Center would have on the entire system. This analysis will help FAA not only determine whether the current plan provides adequate coverage for the entire NAS, but also prioritize BCP development efforts—the most critical En Route Centers receiving more attention. Also, because the plan would shift functionality of the disabled center to the FAA recovery site located at its Technical Center in Atlantic City, NJ, the analysis should determine the impact that an activated recovery plan would have on the Technical Center's core mission—developing and testing systems used to support air traffic control operations and aircraft safety.

- **Resolving technical and resource concerns:** The success of the BCP hinges on FAA's ability to overcome logistical challenges. These challenges include rerouting voice communications and surveillance signals from the affected En Route Center(s) to the recovery center, ensuring that the "spare" En Route Center at the Technical Center is properly staffed in the event that it is activated, and prior coordination with the appropriate labor unions for human resource management needs. Another resource concern involves funding. FAA has budgeted $12 million for developing and implementing the continuity plan. However, this funding level was not based on sufficient analysis or cost estimates; rather, it was obtained by reallocating excess funds from current and ongoing FAA projects. FAA should complete a cost and schedule analysis to better determine estimated costs and use these figures to secure additional funding commitments, if needed.

Regarding reviews of operational air traffic control systems security, FAA developed a methodology to select high-risk systems located in the field for testing. In fact, FAA went beyond our recommendation and applied this methodology to systems other than those used for air traffic control. However, FAA did not meet its commitment to us to complete its reviews of all TRACON and tower systems by the end of FY 2007. Further, despite the improved site-selection method, FAA did not enhance its methodology to help identify software differences between the baseline systems at the Technical Center and the operational air traffic control systems in the field. This deficiency could weaken overall security protection because vulnerabilities could inadvertently be created when software changes are made to meet local (field site) operational needs, as evidenced in our previous audit reports. FAA needs to focus on identifying and testing for unauthorized software changes in field air traffic control systems.

Testing and Strengthening the Information System Security Program at DOT Headquarters

The Department will continue to face important challenges in FY 2008 as it seeks to enhance its information system security program, specifically in meeting tougher Federal government security standards, correcting identified security deficiencies, and securing its IT infrastructure—all at a time of heightened vulnerability.

Risk categorization is the key to determining the level of security protection needed for individual systems. Systems categorized as having a high-risk impact on the Department's mission must meet a more stringent security standard than moderate- or low-risk-impact systems. We have continued to find deficiencies in risk categorization and insufficient implementation of minimum security protection. For example, of about 100 systems used to direct air traffic control operations, none were reported as having high-risk impact. Systems identified by FAA as high-risk impact are primarily for administrative functions, such as the procurement system. After this was brought to management's attention, the departmental Chief Information Officer, the FAA Acting Deputy Administrator, and the FAA Chief Information Officer all agreed to collaborate with the Air Traffic Organization to ensure that air traffic control systems are individually reviewed and categorized in accordance with National Institute of Standards and Technology standards and DOT policy, as a key priority for FY 2008.

Also of concern is a reversal of the improvement we saw last year in which security deficiencies identified during certification reviews were well tracked and prioritized for correction. Management did not give the same amount of attention to correcting identified security deficiencies in FY 2007 as it did in FY 2006. The Department needs to better address the new Federal government security standards and correct its security deficiencies.

In addition, the Department has made little progress in configuring the commercial off-the-shelf software installed on DOT computers to comply with government or departmental security standards to reduce known vulnerabilities. As a result of improper configuration, DOT network computers remain vulnerable to attack. Also, with the new common IT infrastructure, the Department has significantly expanded its ability to utilize secure connections on the Internet by using virtual private network (VPN) access. However, when employees connect their home computers to Departmental networks, it creates security exposure because the home computers may not be properly secured. The Department needs to take stronger action to ensure secure configuration of commercial software and secure connections on its new IT infrastructure, particularly as it seeks to dramatically expand employees' use of telecommuting.

Ensuring the Timeliness of Data Recording and Protection of Personally Identifiable Information When Interfacing With Non-Federal Systems

The Department is responsible for maintaining the National Driver Register (NDR) information system, which contains tens of millions of profiles on drivers convicted of such offenses as driving under the influence of alcohol. State officials are required to report to the NDR drivers who receive traffic convictions, along with their personally identifiable information, such as name, date of birth, gender, height, weight, eye color, and social security number. Keeping problem drivers off the road is critical to reducing highway fatalities and injuries.[13]

Timely recording of drivers with traffic convictions in the NDR is critical to preventing problem drivers from "license shopping"—going to a different state to get a new driver's license when their current licenses are suspended or revoked. The law requires states to submit problem drivers' profiles to the NDR within 31 days of receipt of conviction information. However, only slightly more than one-third of our sample records met this requirement. Further, according to our estimate, state officials did not record 6 million problem drivers in the NDR until at least 1 year after conviction. This delayed reporting significantly impaired other states' ability to keep problem drivers from getting licenses. The Department needs to work with the states to improve the timeliness of problem drivers' profiles being sent to the NDR.

While drivers' personally identifiable information was properly secured in the NDR mainframe database, it was exposed to unauthorized access or unapproved use when outside of the mainframe computer. For example, while Federal security standards require that sensitive information be encrypted when transmitted on networks, NDR records were not. Instead, they were transmitted in clear text and thus subject to unauthorized access during transmission. This security deficiency existed partly because a non-Federal entity is responsible for managing the transmission network. This network also supports transmission of other critical transportation-related data.[14] To protect the public's personally identifiable information, the Department needs to ensure that security requirements and the associated authorities or responsibilities are properly specified and documented with its interfacing partners.

[13] There are more than 200 million licensed drivers in the United States, of whom 42 million have records in NDR. In 2006, more than 70 million people applied for driver's licenses, 9 million of whom were found to have a conviction recorded in NDR.

[14] The same network is also used to support Commercial Driver's License Information System (CDLIS) operations, for which the Department has oversight responsibility.

Continuing To Enhance Oversight of Information Technology Investments

A challenge that still confronts the Department is completing the implementation of an earned value management (EVM) system. During FY 2007, the Department revised its Investment Review Board's charter by delegating more responsibilities to individual Operating Administration review boards to oversee their specific IT investments. Regardless of the change in governance responsibility, establishing clear measurement benchmarks against which to evaluate major investment projects such as EVM is key to effective management of cost, schedule, and performance of large (multi-year) development projects. In FY 2006, only 23 percent of major Departmental IT investment projects met at least half of the Office of Management and Budget's criteria for EVM implementation. During FY 2007, the figure was 35 percent—a modest improvement. The Department needs to continue to enhance EVM implementation to ensure fiscal discipline with major investment projects, which is especially critical in today's tight economic environment.

For further information, the following reports and testimonies can be found on the OIG web site at http://www.oig.dot.gov:

- *DOT Information Security Program*
- *Volpe Center's IT Security and Resource Management Activities*
- *DOT Delphi Financial System Controls*
- *Security and Controls Over the Remote Maintenance and Management System, FAA*
- *Security and Controls Over Technical Center Computer Systems, FAA*
- *Security and Controls Over En Route Center Computer Systems, FAA*
- *Office of the Chief Information Officer's Budget, DOT*

8. Managing Acquisition and Contract Operations More Effectively To Obtain Quality Goods and Services at Reasonable Prices

With an annual procurement budget of about $5.6 billion for goods and services, the Department needs to ensure that more attention is placed on acquisition and contract operations. We continue to find weaknesses throughout DOT. Our investigations also continued to identify fraud and abuse and other ethical issues involving DOT officials and contractors.

Providing increased attention to ensuring that procurement and acquisition activities are conducted in an efficient and effective manner and that taxpayer dollars are protected from fraud and abuse is a Government-wide priority. The Department is improving its administration of contracts and grants. For example, it has begun working more closely with the Defense Contract Audit Agency (DCAA) to help identify high-risk contracts for audit. In addition, the FHWA recently issued a manual containing best practices on overseeing grants and cooperative agreements.

Last year, we completed a major initiative to help improve contract and acquisition practices throughout DOT by establishing a contract and acquisitions audit group. The team will continue to meet with senior Department contracting officials to discuss procurement issues and will increase its efforts to review procurements, contracts, and acquisition programs to enhance controls.

While DOT agencies are cooperating on eliminating problems as they arise and implementing actions to improve oversight processes, DOT must be more proactive and enhance its vigilance and oversight. We have identified several areas in which the Department must focus its attention in order to enhance its acquisition and contract management oversight:

- Increasing Incurred-Cost Audits of Procurement Contracts To Reduce Unallowable Charges
- Developing Strategies for the Future Acquisition Workforce
- Fostering High Ethical Standards Throughout the Department and Its Contracting Programs To Maintain Public Trust
- Enhancing Oversight on Federal-Aid Construction Projects To Prevent Abuse in Contractor Quality Control Programs

Increasing Incurred-Cost Audits of Procurement Contracts To Reduce Unallowable Charges

Contract audit services provided by DCAA are a valuable tool for assisting contracting officers in combating excessive prices and unallowable charges. Monetary benefits from DCAA audits not only cover audit costs but can also reduce program costs. From FY 2001 through FY 2005, DOT Operating Administrations saved over $4 for every $1 spent on these audits.

The Department is doing more to obtain these needed audits. DOT's Office of the Senior Procurement Executive has been working with DCAA, the Operating Administrations, and the Office of Inspector General to find better methods for obtaining needed audits. Additionally, responding to our recommendation, FAA revised its guidance to require that all cost-reimbursable contracts over $100 million and 15 percent of those contracts under $100 million obtain post-award audits of allowable costs incurred. At other DOT agencies, incurred-cost audits are preferred, unless sufficient justification is documented for not obtaining them. Resolution of audit recommendations must be made within a maximum of 6 months after issuance of a final report.

However, these policies need to be implemented more effectively throughout the Department. Our recent report[15], covering all DOT agencies other than FAA, discussed how many Operating Administrations did not consistently follow Departmental and Federal Acquisition Regulation guidance for obtaining incurred-cost audits. We also reported that they did not consistently take adequate action to resolve audit findings for the audits DCAA conducted. Contracting officers also need to take more consistent action in a timely manner to recover overpayments made to contractors. To illustrate, between FY 2001 and FY 2005, DCAA identified $48 million in questioned costs, of which contracting officers resolved about $36 million. However, contracting officers missed opportunities to recover the remaining $12 million in questioned contract costs. The Department agreed with the findings and recommendations contained in the report. The Department needs to follow through on its commitment, in response to our report, to obtain more incurred-cost audits and resolve questioned contract costs in a timely manner.

Developing Strategies for the Future Acquisition Workforce

Having the right people with the right skills is critical to ensuring that DOT receives the best value for the $5.6 billion it spends each year for goods and services. Like all executive agencies, DOT is required to collect, maintain, and utilize information on education, training, career development, and accession to ensure effective management of the acquisition workforce.

[15] OIG Report Number FI-2007-064, "More Incurred-Cost Audits of DOT Procurement Contracts Should Be Obtained," August 29, 2007.

As required by the Office of Management and Budget, DOT is in the process of developing a human capital strategic plan for its acquisition workforce. However, DOT is facing a considerable challenge in developing such a plan. According to a senior Department official, they are having difficulty determining which positions comprise the acquisition workforce. Additionally, DOT lacks complete data on the acquisition workforce, such as information on workforce size, knowledge and skills, attrition rates, and retirement rates. Without such critical data, the Department cannot properly identify the current condition of the workforce and decide what needs to be done to ensure that it has the right composition, mix of skills, and talent for the future.

Fostering High Ethical Standards Throughout the Department and Its Contracting Programs To Maintain the Public Trust

DOT employees in contracting-related positions represent the first—and best—line of defense in ensuring program integrity, and a challenge for the Department (as with any government agency) is to develop and maintain robust ethics programs. Contracting officers and their technical representatives, cooperative agreement and grants administrators, and managers are relied upon for the timely recognition and reporting of fraud indicators. Along with effective internal controls and oversight mechanisms, their vigilance is essential to combating fraud.

An example of effective vigilance is a recent FAA case involving an almost $2-billion multiple awards procurement program. FAA had conducted an internal review, finding evidence of a fraud scheme being perpetrated by multiple contractors. The ensuing investigation conducted by FAA and our office found that 13 of the 30 contractors had significantly overcharged FAA. Specifically, over a 3-year period, these 13 firms had billed FAA for employees at labor rates that were often considerably higher than their actual education and experience warranted, as specified by terms of the contract. As a result, FAA has recovered over $8 million in overcharges and further tightened its internal controls to guard against recurrence.

Ethical lapses by DOT employees involved in contracting also sometimes occur. For example, at one Operating Administration, a former program manager pled guilty to felony charges for accepting $160,000 in exchange for steering contracts worth about $8 million to an IT services firm headed by a former employee. In another case, an Operating Administration contracting officer and a supervisor provided confidential bid information to a foreign-owned entity to help it underbid its competitor, a U.S.-owned firm, and win a $4.3-million contract for construction of lighting system infrastructure. The two employees pled guilty to felony procurement fraud charges and are no longer employed by DOT.

In many of the cases we have investigated, DOT employees did not maintain an appropriate "arms-length" relationship with contractors and cooperative agreement recipients, presenting criminal implications for both employees and contractors alike.

The Department must continually promote and reinforce ethical standards to help guard against such breaches of integrity in its extensive contract, cooperative agreement, and grants programs. Prevention and deterrence of ethical lapses in any organization depends upon both the effectiveness of internal controls and oversight processes, and a robust ethics awareness and training program.

Agency ethics programs need to have particular emphasis placed on employees involved in awarding and administering contracts, cooperative agreements, and grants. Enhanced ethics training should include discussions of actual ethics violations and "what if" scenarios of situations to avoid. While computer-based training is beneficial, there is no substitute for personal contact between ethics officials and employees. Moreover, DOT ethics officials should periodically review the ethics programs of agency contractors to help prevent ethical breakdowns.

Enhancing Oversight on Federal-Aid Highway Construction Projects To Prevent Abuse in Contractor Quality Control Programs

A challenge facing FHWA is ensuring that taxpayers are provided the quality of products and services they pay for and expect from contractors on Federal-aid highway construction projects. To leverage scarce State oversight resources, State DOTs partner with industry and directly perform quality assurance materials testing only on a sample basis in order to validate the results of more extensive quality control testing by contractors. We, however, are seeing more cases involving fraudulent quality control testing by contractors. FHWA's stewardship reviews of State DOTs conducted between 2003 and 2006 have also identified deficiencies in many State DOT quality assurance programs.

For example, during the last year, we investigated several cases in which company employees manipulated quality control test results to falsely earn contract incentives. In one such case, a contractor had delivered about 5,700 trucks' worth of substandard concrete to the Central Artery/Tunnel Project in Boston. The contractor ultimately pled guilty to conspiracy to defraud the government and agreed to pay $50 million in restitution and fines and to establish a corporate integrity program, among other penalties. FHWA needs to exercise continued vigilance of State DOT quality assurance oversight programs to better mitigate fraud.

For additional information, the following reports can be found on the OIG web site at http://www.oig.dot.gov:

- *Oversight of Cost-Reimbursable Contracts*
- *Audit of the Actions to Prevent Fraud on Cooperative Agreements With Universities*
- *More Incurred-Cost Audits of DOT Procurement Contracts Should Be Obtained*

9. Reforming Intercity Passenger Rail

Intercity passenger rail is an integral part of our Nation's transportation system, particularly in light of growing highway and aviation congestion. However, Amtrak's[16] contribution to the transportation system may be limited by its capital funding needs, which may be difficult to meet given constrained Federal resources. Therefore, the Department must use all tools at its disposal, including seeking consensus on a reauthorization, to ensure that Amtrak reduces its operating costs and improves its operating performance, thereby freeing funds for Amtrak's capital needs and increasing Amtrak's viability as a transportation alternative.

Improving Amtrak's Cost-Effectiveness To Sustain Its Financial Progress
Amtrak projects a $1 billion operating loss in FY 2007. While Amtrak continues to implement strategic reforms to improve its cost-effectiveness, the pace of these reforms has slowed. Amtrak implemented $61 million in reforms in FY 2006, and planned to implement only $46 million in reforms in FY 2007 and $40 million in FY 2008. Since February 2007, the company reduced its projected FY 2008 savings from reforms by half.

While reforms have slowed, Amtrak faces significant and increasing financial challenges. Amtrak's recent improvements in revenues are due, in part, to factors beyond its control, such as the high cost of gasoline that contributed to increases in ridership. It is unclear whether Amtrak can sustain these revenue improvements. A labor agreement, when it is reached, will increase Amtrak's operating costs. A significant investment will be required to return Amtrak's physical infrastructure to a state of good repair, meet the Americans With Disabilities Act requirements, and replace Amtrak's aging passenger cars and locomotives.

The uncertainty and precarious nature of Amtrak's revenue structure, its inability to shed costs quickly to match revenues, and its near-term financial demands all require Amtrak to emphasize cost control and cost improvement. The Department needs to use its position as a member of the Amtrak Board of Directors and its role in approving funding for Amtrak's routes and capital projects to help maintain Amtrak's focus on improving the cost-effectiveness of its operations.

Overcoming Challenges to Improving Amtrak's On-Time Performance
On-time performance continues to plague Amtrak service, threatening its ability to sustain increased revenues and reduce operational costs. Amtrak service outside the Northeast Corridor operates on freight railways, and these railways have experienced tremendous growth in tonnage shipped over the past 5 years. This has

[16] Amtrak is the federally supported company established in 1971 to provide intercity passenger rail.

resulted in increased congestion and delays for both Amtrak and freight trains. In addition, the widespread loss of experienced dispatchers within the industry due to retirements has increased freight and passenger rail conflicts. The Department has worked with Amtrak and freight railroads in the Southeast to improve Amtrak's on-time performance. The Department will need to expand these efforts to improve Amtrak service reliability throughout its system.

Reauthorizing Amtrak To Facilitate Reform

Amtrak's efforts at reform are not a substitute for reauthorization. Its ability to achieve its stated goal of "continuous improvement" is limited within the current framework. To go beyond marginal cost and service improvements will require an authorization bill that realigns the size, operations, and governance of the intercity passenger rail system to match the levels and sources of funding available and provides Amtrak with the tools and incentives to provide cost-effective, high-quality service. The Department needs to work with Congress and other stakeholders to finally break the cycle of appropriations without authorization for Amtrak, and provide Amtrak with these needed tools and incentives.

For further information, the following reports and testimonies can be found on the OIG web site at http://www.oig.dot.gov:

- *Amtrak's Board of Directors Provides Leadership to the Corporation but Can Improve how it Carries Out Its Oversight Responsibilities*
- *First, Second, and Third Quarterly Reports on Amtrak's FY 2007 Operational Reform Savings and Financial Performance*
- *First, Second, Third, and Fourth Quarterly Reports on Amtrak's FY 2006 Operational Reform Savings and Financial Performance*
- *Intercity Passenger Rail and Amtrak*
- *Reauthorization of Intercity Passenger Rail and Amtrak*
- *Analysis of Cost Savings on Amtrak's Long-Distance Services*
- *Assessment of Amtrak's 2003 and 2004 Financial Performance and Requirements*

EXHIBIT. COMPARISON OF FY 2008 AND FY 2007 TOP MANAGEMENT CHALLENGES

Items in FY 2008 Report	Items in FY 2007 Report
• Continuing To Enhance Oversight To Ensure the Safety of an Aging Surface Transportation Infrastructure and Maximize the Return on Investments in Highway and Transit Infrastructure Projects	• Making the Most of the Federal Resources That Sustain Surface Transportation Infrastructure Improvements by Continuing To Emphasize Project Oversight
• Addressing Long- and Short-Term Challenges for Operating, Maintaining, and Modernizing the National Airspace System	• FAA Reauthorization – Reaching Consensus on a Financing Mechanism To Fund FAA and Establishing Funding Requirements
• Developing a Plan To Address the Highway and Transit Funding Issues in the Next Reauthorization	___
• Reducing Congestion in America's Transportation System	• Defining, Developing, and Implementing Strategies To Improve Congested Conditions on the Nation's Highways, Ports, Airways, and Borders
• Improving Oversight and Strengthening Enforcement of Surface Safety Programs	• Strengthening Efforts To Save Lives by Improving Surface Safety Programs
• Continuing to Make a Safe Aviation System Safer	• Aviation Safety–Performing Oversight That Effectively Utilizes Inspection Resources and Maintaining Aviation System Safety
• Strengthening the Protection of Information Technology Resources, Including the Critical Air Traffic Control System	• Protecting, Monitoring, and Streamlining Information Technology Resources
• Managing Acquisition and Contract Operations More Effectively to Obtain Quality Goods and Services at Reasonable Prices	• Improving Acquisition and Contract Management To Reduce Costs and Eliminate Improper Payments
• Reforming Intercity Passenger Rail	• Achieving Reform of Intercity Passenger Rail
___	• Responding to National Disasters and Emergencies – Assisting Citizens and Facilitating Transportation Infrastructure Reconstruction
___	• Strengthening DOT's Coordination of Research, Development, and Technology Activities and Funding

Exhibit. Comparison of FY 2008 and FY 2007 Top Management Challenges

APPENDIX. DEPARTMENT COMMENTS

Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation

Subject: **ACTION**: Departmental Comments on the OIG Draft Report – Top Management Challenges, Department of Transportation

Date: October 30, 2007

From: Phyllis F. Scheinberg
Assistant Secretary for Budget and Programs/Chief Financial Officer

Reply to Attn. of:

To: Calvin L. Scovel III
Inspector General

The U.S. continues to enjoy the world's foremost transportation system, which offers unprecedented connectivity and safety that is a bedrock of this Nation's economic prosperity. Throughout the last century, the U.S. built the most extensive highway system in the world and developed a far-reaching National Airspace System. However, today our transportation system faces significant challenges. We value the perspectives offered in the Office of Inspector General's (OIG) report on the Top Management Challenges and will make good use of the information it contains. However, several items cited reflect larger national policy issues, not simply departmental management and performance concerns. Therefore, we are taking this opportunity to offer some additional perspective on the top issues facing the Department.

Congestion and delays on the Nation's highways and airspace are now widespread and acute, affecting both passenger travel and freight movement, and ultimately the nation's economic well being. In the past 20 years, hours of delay and wasted fuel have each increased by more than 400 percent. In 2005, highway and transit congestion wasted 4.2 billion hours of time and 2.9 billion gallons of fuel. The cost for this wasted time, fuel and the lost productivity associated with it, exceeds $170 billion per year, and continues to worsen. In aviation, while we continue to enjoy the safest period in aviation history, congestion and delays continue to grow, stretching the capacity of our aviation system to the limit. This past summer saw record delays in flights across the country, up nearly 20 percent compared to just one year ago. The sum total of aircraft delays during this period was more than 15 years, with nearly half of that in the New York/New Jersey/Philadelphia region alone.

The Department will continue to address these issues to the fullest extent of its authority. We are seeking to turn these challenges from the last century into the opportunities of this

century. Addressing these longstanding policy issues will require sustained and cooperative efforts not just by the Department but also by the Congress, transportation providers and users. While your Top Management Challenges Report examines these issues through the lens of the Department, it will only be through the combined action of all parties that we can move forward with innovative solutions to reduce congestion and increase efficiency, while continuing to improve transportation safety. We view the challenges facing the transportation community as falling into three groupings: (1) reshaping transportation financing to promote efficient use of existing infrastructure and to provide cost effective new infrastructure, (2) implementing congestion management initiatives to break the gridlock growing on our Nation's highway and airspace, and (3) continuing to improve the safety of our Nation's transportation system.

Reshaping Transportation Financing is Critical to Successful Transportation Investments

The Department is at a funding crossroads, where several measures pending before the Congress have the potential to fundamentally reshape and improve our transportation future. With bold and courageous decisions, we can enjoy a future with less congestion, modernized transportation systems, and more efficient and productive use of increasingly limited taxpayer dollars. The alternative is the status quo, with increasing congestion, investment decisions made without cost benefit analysis or performance expectations, and a future of increasing costs and uncertain benefits. Three pieces of legislation are vital to shaping this future; aviation reauthorization, Amtrak reauthorization, and surface transportation reauthorization. The laws that ultimately result from these efforts have the potential to change our transportation system.

The Federal Aviation Administration (FAA) has been preparing to implement a cost-based user-funded structure that will base revenues on a specific, transparent assessment of what it costs to maintain the National Airspace System. Based on years of extensive analysis, FAA now has a viable cost allocation system. Using this capability, it is able to assess the cost users impose on the National Airspace System. While significantly more complex, this is the same basic approach that consumers experience in their use of electricity, water and natural gas. It is a model that promotes efficient use of these utilities. In contrast, our current method for funding the National Airspace System is analogous to charging households for electricity based on the size of their house, or the number of household occupants, rather than their actual utilization. Numerous bipartisan commissions have recommended cost-based funding for FAA over the last two decades, and we firmly believe that a cost-based funding structure offers the best means to efficiently make the major capital investments required for a transition to the Next Generation Air Transportation System (NextGen).

Amtrak has been operating without legislative reauthorization for over 6 years, preventing the types of fundamental reforms called for by multiple bodies of experts and this Department. The Nation currently has a flawed model for providing intercity passenger rail service that does not encourage innovation or emphasize accountability. The Administration's goal is to create sustainable, demand-driven service by,

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empowering states and localities to direct rail investment and fostering opportunities for participation by alternative rail service providers. Key aspects were first spelled out by then-Secretary of Transportation Mineta in 2002, and remain valid today. The Department awaits Congressional action to (1) create a system driven by sound economics, (2) require that Amtrak transition to a pure operating company, (3) introduce carefully managed competition to provide higher quality service at reasonable prices, (4) establish a long-term partnership between states and the federal government to support intercity passenger rail service, and (5) create an effective partnership, after a reasonable transition, to manage the capital assets of the Northeast corridor. Amtrak continues to operate without making fundamental changes, resulting in excessive expenditures that fail to meet any reasonable cost benefit. Without the statutory framework necessary to achieve increased efficiencies and improve cost benefit, the Department can act only at the margins to affect positive change on Amtrak operations.

We are now more than halfway through the existing surface transportation authorization. The Department has already begun a dialogue with the Congress and transportation stakeholders to focus future surface transportation investments using data-driven, performance-oriented techniques that offer the greatest potential transportation benefit from each dollar of investment. In contrast, today's Federal investment strategy discourages the proper pricing of transportation infrastructure, fails to sufficiently reward innovation and technology development and does not prioritize investments based on performance and benefit. We are currently spending billions of dollars more than we collect in tax revenues each year. As a result, the Highway Account of the Highway Trust Fund is projected to experience a substantial cash shortfall for the first time in 2009. The Mass Transit Account is also expected to experience a shortfall in 2011. The Nation's transportation community must work together to increase the efficiency of our transportation investments, improve benefits to the taxpayers, and reduce congestion.

Action Needed to Address the Gridlock in the Air and on our Nation's Highways

The FAA is working to expand and further improve management of available airspace capacity. Since 2000, thirteen new runways have opened at major airports providing the capacity to accommodate 1.6 million more annual operations. Even the three more runways now under construction will not be enough to accommodate the projected growth in air travel. The Department faces a significant challenge of putting necessary airport capacity in place while simultaneously addressing environmental concerns. Nowhere is this more evident than in the New York/New Jersey/Philadelphia area. FAA has worked long and hard to improve the efficiency of this key area in the National Airspace System while accommodating the environmental concerns of those living in the vicinity. This airspace redesign project offers the potential to eliminate 200,000 hours of aircraft delays per year, and reduce airline operating costs by up to $285 million per year, while reducing exhaust emissions.

We have also been taking other near-term actions to reduce air travel delays and better use existing capacity. For example, the Secretary and FAA are working with key airports and the airlines that use them to achieve a more realistic scheduling of flights and reduce

delays. In addition, FAA is constantly working to have an adequately staffed and expertly trained air traffic controller workforce. That is why FAA developed and has been implementing a comprehensive Controller Workforce Plan to address the wave of retirement-eligible controllers over the next ten years. FAA has taken proactive steps to ensure it has the right people in the right place and time. These steps include expanding the Collegiate Training Initiative, increasing recruiting through forums such as job fairs and streamlining clearance processes. FAA hired over 1,100 controllers last year, is on track to hire another 1,700 controllers this year, and will carefully monitor actual trends and the workforce plan to continue hiring the appropriate number of controllers in the future.

In the longer term, anticipated growth in the use of the National Airspace System will require a new approach to air traffic control, which FAA has embodied in the NextGen initiative. NextGen is a steady, deliberate and highly collaborative undertaking which focuses on leveraging the latest technologies, such as satellite-based navigation, surveillance, and network-centric systems. It is intended to be flexible enough to take advantage of even newer and better technologies as they emerge.

The Department is also pursuing innovative means to reduce surface transportation congestion. For example, the urban partnership program will provide over $800 million to support tolling and other congestion-relief demonstration projects in Seattle, San Francisco, Minneapolis, Miami, and New York City. New York's congestion pricing plan, if fully authorized by the state, will provide incentives for off-peak travel in Manhattan and finance substantial upgrades to the Nation's largest transit system. The other cities also plan to experiment with tolling and transit improvements that we believe can have tremendous impact. In addition, the Corridors of the Future program has identified six critical multistate corridors that together carry nearly 23% of the Nation's traffic and has begun to work with applicants on making improvements to these facilities. Elements of the program include building new capacity, adding lanes to existing roads, building truck-only lanes and bypasses, and integrating real-time traffic technology such as lane management that can match available capacity on roads to changing traffic demands. These advances offer the hope of reduced congestion, reduced emissions, and greater value to the users.

DOT Maintains a Sharp Focus on Continuously Improving Aviation and Surface Transportation Safety

While the U.S continues to enjoy the safest aviation system in the world, FAA is persistent in its drive to achieve further improvements. Fiscal year 2007 passed without a single major air carrier accident. By the end of calendar year 2007, FAA is on track to have all of the current 120 major air carriers regulated under 14 CFR part 121 transitioned to the data-driven, risk-based, Air Transportation Oversight System (ATOS). This is a significant achievement the organization has been working towards for years. In April 2007, FAA also took steps to enhance its oversight of maintenance programs to ensure that work performed by certificated and non-certificated repair facilities is accomplished within the scope of the contract and in compliance with the air carriers'

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maintenance instructions for continued airworthiness. In addition, in May 2007, FAA completed a 10-year, Aviation Safety Workforce Plan, to address safety staffing, inspector attrition, and anticipated changes in the aviation industry. Finally, FAA has established recruiting plans to fill its most critical safety occupations. Each of these actions is a noteworthy accomplishment that will assist the agency in its relentless drive to further improve safety.

Highway crashes account for 99 percent of all transportation related fatalities and injuries and are the leading cause of death for Americans between the ages of 2 and 34. Alcohol is still the single largest contributing factor in fatal crashes and about 55 million people still do not use safety belts all of the time when driving. However, some progress is being achieved. In 2006, the number of people killed in motor vehicle crashes fell 2 percent to 42,642. Fatalities resulting from large truck and bus crashes account for about 12 percent of these of these fatalities while motorcycle fatalities continue to increase, now accounting for 11 percent of the total highway fatalities. Despite progress in some areas, the number of people losing their lives on the Nations' highways remains far too high.

Numerous initiatives are underway to further improve highway safety, better target inspection and compliance resources, increase safety belt use, reduce impaired driving, and improve the safety of the vehicles we drive. The Federal Motor Carrier Safety Administration has launched a major initiative called the Comprehensive Safety Analysis 2010 to better target its inspection and compliance resources. The National Highway Safety Administration (NHTSA) continues to work with the states to increase the percentage of drivers using safety belts from the current national average of 82.4 percent. In the area of impaired driving, NHTSA further enhanced its program to focus on high risk populations. Extra funding has been provided to the ten states with the highest impaired driving fatality rates, and NHTSA is evaluating technology such as ignition interlocks, as a potential means to further reduce deaths and injuries from impaired driving. NHTSA also continues its critical work to make vehicles safer. In April of this year, NHTSA issued a final rule to require Electronic Stability Control in vehicles. Data has shown that these systems can reduce fatal single vehicle crashes by 63 percent for sport utility vehicles and 36 percent for passenger cars. Finally, NHTSA is working to identify the most effective means to address motorcycle safety problems. It recently distributed a guide to assist states and communities in creating programs to improve motorcycle safety. It incorporated motorcycle operators in high visibility enforcement programs and completed a study to determine impairment levels for motorcycle riders. In the coming year, NHTSA plans additional actions to improve motorcycle training, improve helmets, and explore vehicle safety approaches to improving safety.

Thank you for the opportunity to offer management's perspectives on the Department's Top Management Challenges. We look forward to a continued constructive exchange of ideas and information with you in each of these areas.

Appendix. Department Comments

United States Department of Transportation
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