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F O R E W O R D

This is the United States Department of Transportation's (DOT) fiscal year 2004 *Performance and Accountability Report*. It links programs to strategic performance areas, such that major program activities are traceable to a performance outcome and goal.

In accordance with the *Reports Consolidation Act of 2000*, this document integrates DOT's *Performance Report* with its consolidated financial statements and the resulting DOT Inspector General's opinion on DOT's financial statements and also includes the DOT Inspector General's 2004 report on the Department's Top Management Challenges, internal controls, and compliance with appropriate laws and regulations.

Comments on this report are welcome. The electronic version of the report is available at the Department of Transportation Web site, www.dot.gov.

Comments may be addressed to:

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Management's Discussion and Analysis

MESSAGE FROM THE SECRETARY



I am pleased to present the Fiscal Year (FY) 2004 *Performance and Accountability Report* for the Department of Transportation (DOT). In FY 2004, DOT's top priorities were keeping the traveling public safe and secure, ensuring a dependable and efficient transportation system, and enabling economic growth in the Nation.

The Department's performance goals shape our priorities so we can make efficient and effective program management and resource allocation decisions. We have established clear lines of financial accountability for meeting our performance goals. I am very proud that for four years in a row, FY 2001 to FY 2004, DOT has earned a clean opinion on our financial statements, demonstrating proper stewardship and accountability.

The Department is also committed to implementing the President's Management Agenda (PMA). The Office of Management and Budget rated DOT "green" for four of the five PMA goals.

The FY 2004 *Performance and Accountability Report* contains performance and financial data that are substantially complete and reliable. The Compliance with Legal and Regulatory Requirements section in the Executive Summary of this report contains a detailed assessment of the limits to DOT's performance data and explains how we will remedy those limitations in the future.

We are working hard to eliminate material weaknesses in our financial processes and systems to meet the requirements of the Federal Managers' Financial Integrity Act. In November 2003, DOT became the first Cabinet-level agency to finish installing a new, state-of-the-art, commercial off-the-shelf financial management system. All of the DOT Operating Administrations have provided statements of assurances in compliance with the Federal Government's standards for financial management and financial systems.

All of us at the Department are proud that DOT's FY 2003 *Performance and Accountability Report* was rated as the best in government according to the Mercatus Center of George Mason University and has consistently been ranked as one of the best for the past four years.

I look forward to continuing to work with the President and the Congress to achieve a safer and more efficient transportation system for our Nation.

A handwritten signature in black ink, which appears to read "Norman Y. Mineta". The signature is stylized and fluid.

Norman Y. Mineta
November 2004

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



This report illustrates the Department's recent achievements in financial and performance management. The Department of Transportation (DOT) strongly supports the President's Management Agenda goals to improve financial management and to integrate budget and performance information. I am very pleased to report that the Department has received an unqualified audit opinion on its financial statements for FY 2004 and has eliminated two material weaknesses from FY 2003.

The FY 2004 audit identified material weaknesses in: financial management and reporting for Highway Trust Fund agencies, financial oversight of highway and transit grants, reconciling transactions within DOT and other Federal agencies, and financial system security controls. We are committed to correct these issues quickly.

In FY 2004, DOT's financial management focus was on upgrading our accounting system and achieving a "clean" audit opinion on our financial statements. The Department has accomplished numerous improvements in our financial management:

- Issued comprehensive DOT financial management policies.
- Reduced DOT's travel credit card delinquency rate from 13 percent to one percent.
- Developed a new Financial Statement Solution (FSS) that produces financial statements from the core financial system within 24 hours after the year-end close.
- Improved the management of reimbursable agreements and intragovernmental eliminations.
- Worked to replace DOT's payroll and human resource systems under the E-payroll initiative.

Consistent with President Bush's commitment to results-oriented government, we have made substantial progress in linking expenditures to program performance in DOT's strategic areas. Several of the Operating Administrations are using new automated tools to present key financial information and performance metrics to DOT managers for day-to-day decision-making.

We are committed to achieving the high standards in the President's Management Agenda. We will continue to provide the Nation with a safe and efficient transportation system and ensure the highest level of integrity in our financial management.

Linda M. Combs
November 2004



ORGANIZATIONAL OVERVIEW

Created in 1967, the Department of Transportation (DOT) is responsible for shaping and administering policies to protect and enhance the safety, adequacy, and efficiency of the Nation's transportation system and services. Transportation is a strategic investment essential to strengthening the American economy. America needs a fully integrated domestic transportation system as well as safe and efficient connections to the rest of the world. DOT's management has defined its mission, vision, and strategic goals to help guide the Department towards more streamlined and economical operations, while focusing on systems and processes that help fully integrate the domestic transportation system.

Mission

Serve the United States by ensuring a safe transportation system that furthers our vital National interests and enhances the quality of life of the American people.

Vision

A visionary and vigilant Department of Transportation leading the way to transportation excellence and innovation in the 21st Century.

Strategic Goals

Safety—Promote public health and safety by working toward the elimination of transportation-related deaths and injuries.

Mobility—Shape an accessible, affordable, reliable transportation system for all people, goods, and regions.

Economic Growth—Support a transportation system that sustains America's economic growth.

Environment—Protect and enhance communities and the natural environment affected by transportation.

Security—Ensure the security of the transportation system for the movement of people and goods, and support the Homeland and National Security Strategies.

Organizational Excellence—Advance the Department's ability to manage for results and achieve the goals of the President's Management Agenda.

Organization

DOT employs almost 60,000 people across the country and is organized into 12 Operating Administrations (OAs) and the Office of the Inspector General. Each OA is responsible for a mode of transportation or an intermodal aspect of the transportation system. The Department also has an Office of Inspector General that works within the Department of Transportation to promote effectiveness and head off, or stop, waste, fraud, and abuse in Departmental programs. A full description of all Departmental agencies may be found on the Web at www.dot.gov.

Financial and Performance Integration Vision for the Future

The Department's strategic vision for enhancing the integration of financial and performance information includes improving decisions linking program cost and performance; enhancing the tools available to analyze and make management decisions based on cost and performance information; and implementing a standardized managerial cost accounting system. DOT is achieving financial and performance integration by several methods:

Managerial Cost Accounting. Managerial cost accounting identifies, tracks, and analyzes the total cost attributable to a particular task, job, or program. The purpose of managerial cost accounting is to provide program managers the cost information required to accurately report program

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efficiency and development of a program's future budget.

Marginal Cost of Performance. Marginal cost of performance focuses on determining how much additional funding agencies will require to improve program performance. Marginal cost of performance requires accurate cost accounting and performance data.

Dashboard. DOT's Office of Financial Management (OFM) is creating information presentation and analysis in an easy-to-use format for all levels of DOT management to use for on-going decision-making. This automated Dashboard will give program managers the ability to monitor both performance and spending regularly against established metrics.

The integration of financial and performance information will help DOT program managers at all management levels make better cost/performance resource decisions. This strategy will improve resource allocation by strategic goal and maximize the safety of the Nation's transportation system—DOT's top priority—and the number of lives saved.

Cost and Performance

The Department links costs (i.e., accruals plus outlays) to strategic performance areas at a finer-grained level of detail for performance categories in 2004. Detailed tables showing performance measures linked to costs within DOT are located in Appendix D of this report.

Furthermore, the Department has encouraged its individual Operating Administrations to refine their unique program management tools. For example, the Department is using safety data from

DOT's National Highway Traffic Safety Administration and the Federal Aviation Administration's (FAA) Air Traffic Organization (ATO) to link performance to financial information. ATO is developing a comprehensive financial/cost picture of service units to identify opportunities to control costs and increase operational efficiency. This analysis identifies the primary cost drivers at each facility. Executives and managers will use the information to find best practices to emulate, to identify which facilities are most efficient and which are under utilized, and to concentrate their efforts where costs appear to be out-of-line.

This analysis will help DOT and FAA demonstrate why some air traffic control centers have higher costs than others. With this information, FAA's managers will be able to easily compare the centers with the highest proportional labor costs (e.g., Indianapolis, Chicago, Cleveland, Atlanta) with those with the highest infrastructure costs (e.g., Anchorage, Oakland), and develop action plans based on cost drivers, resulting in improved air safety services at less cost to the taxpayer.





PERFORMANCE HIGHLIGHTS

Secretary Norman Y. Mineta is committed to ensuring that our transportation system remains safe, secure, and efficient and that it serves as the engine that drives our Nation's economy. Because economic activity and global trade are surging under the President's policies, our roads, railways, pipelines, public transit systems, airways, and waterways are experiencing unprecedented increases 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 2004 results in our five strategic areas: safety, mobility, economic growth, environment, and security. We also present our internal organizational achievements that enhance DOT's performance as a results-driven Federal agency.

Safety

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



Working together to achieve our safety goal has paid off in significant results. The highway fatality rate reported in FY 2004 was the lowest since record keeping began 29 years ago. The fatality rate per 100 million vehicle miles traveled declined to 1.48, the first time below 1.50. The total number

of fatalities also declined, reversing a six-year trend, to 42,643 fatalities. The number of crash-related injuries dropped to a historic low. A reduction in the large truck-involved fatality rate for the sixth consecutive year contributed to an estimated 1,291 lives saved in 2003. Safety belt use reached an historic high of 80 percent in 2004. In addition, all 50 States, the District of Columbia, and Puerto Rico have contributed to highway safety by lowering the legal threshold for impaired driving to 0.08 blood alcohol concentration.

In aviation, DOT achieved the lowest airline fatal accident rate in the history of aviation and has also had success reducing general aviation accidents and particularly accidents in Alaska, a challenging environment for airplanes. DOT reduced the number of serious runway incursions and the number of serious operational errors, where airplanes get too close to obstacles or other aircraft for the ten-month period October 2003–August 2004.

Total rail-related accidents/incidents declined 3.6 percent compared with the same period for 2002–2003; total rail-related casualties (deaths and injuries) fell 5.1 percent over 2002–2003; railroad employee casualties dropped 5.1 percent over 2002–2003; and railroad trespasser fatalities fell 2.2 percent over 2002–2003.

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Safety improved in transit as well. In FY 2004, transit fatalities dropped from 0.473 to 0.359 per 100 million passenger miles traveled. Through capital investment programs, older bus and rail vehicles were replaced with newer, safer vehicles and improvements were made in track and transit facility conditions.

In pipeline safety, DOT is implementing a Final Rule on Pipeline Integrity Management for Gas Pipelines in High Consequence Areas. This rule requires operators of natural gas pipelines to conduct accelerated testing, repair and reporting on the integrity of their pipelines where a failure would have the highest impact. DOT completed inspections of all large hazardous liquid pipelines using the new higher integrity management standards and observed operators repairing over 20,000 defects.

In maritime safety, ocean carriers using the St. Lawrence Seaway saved more than \$500,000 in operating costs during the FY 2004 season largely because DOT met its performance goal of conducting safety inspections of 100 percent of all ocean vessels in Montreal (208 total inspections).



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

Mobility and Economic Growth

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: *Shape an accessible, affordable, reliable transportation system for all people, goods, and regions*. Highlights of our results are presented below.

To provide a statistical framework for analyzing mobility in the United States, DOT launched a new economic indicator, the Transportation Services Index. This Index measures monthly changes in the freight and passenger travel output of services provided by transportation industries, including railroad, air, truck, and inland waterways transportation, pipeline transportation, and local mass transit.

As commercial and general aviation climb back to pre-9/11 levels, DOT has taken several significant actions to address capacity issues. DOT implemented the Growth Without Gridlock program to reduce delays and congestion; moving away from the first-come-first-served model of air traffic to issuing revised flight plans or rerouting some aircraft away from problem areas. DOT began imposing minor delays on the ground to avert massive delays across the Nation, a concept called delay triggering and implemented the Reduced Vertical Separation Minimum. This will significantly increase the routes and altitudes available to aircraft, saving time and fuel.

Continuing to deregulate where appropriate, DOT published its final rule on computer reservations systems ending twenty years of Federal regulation on the grounds that the U.S. airlines no longer control any system and that the Internet has given airlines and travel agents alternative sources of information and booking capabilities.

Mobility and accessible transportation go hand in hand. As baby boomers age, we must take steps now to ensure their mobility and access to transportation. Therefore, it is significant that DOT met the bus performance 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.

DOT also met the performance target for employment sites made accessible by Job Access and Reverse Commute (JARC) transportation services. This program successfully meets the transportation needs of low-income individuals seeking transportation to jobs and community services. In each community that received a grant, JARC transportation services have reached new employment sites, making jobs, employers, job training, and child care accessible for the program's target populations.

Supporting economic growth is a fundamental purpose of our transportation network. Transportation facilitates distribution and creates economic value for the producer. Our strategic goal, *support a transportation system that sustains America's economic growth*, concerns the efficiency of transportation, an important part of our competitive edge in global trade.

DOT negotiated several agreements which opened international air travel to market forces, meeting our performance target to provide competitive air service to 63.1 million passengers.

DOT initiated a landmark aviation agreement with China that will greatly expand opportunities for U.S.–China air services over a six-year period. The agreement allows nearly a five-fold increase in the number of weekly flights that may be operated and permits each country to name five more airlines to enter the market over the next six years. The agreement also expands route opportunities, permits virtually unlimited rights at cargo hub points established after 2007, and opens new opportunities for code sharing and charters.

The first comprehensive bilateral aviation agreement with Vietnam affords carriers of each Nation significant opportunities to begin direct services for the first time. Under the agreement, United Airlines intends to begin passenger service

to Vietnam later this year over a San Francisco-Hong Kong-Ho Chi Minh City routing.



To improve the capability of the Nation's transportation system to move current and future levels of freight traffic safely and efficiently, DOT implemented a National Freight Action Agenda containing far-reaching provisions. For example, a Freight Analysis Framework was used to develop the freight-related portions of proposed Safe, Accountable, Flexible, and Efficient Transportation Equity Act (SAFETEA) legislation and to explore options to re-route traffic on the transportation network in the event of the loss of major transportation infrastructure; a Freight Professional Development program was established consisting of training, technical assistance tools, university-based programs, and a freight resource library; and DOT began outreach to publicize this effort and to inform stakeholders on the progress of the Administration's freight programs.

In maritime navigation, DOT reported that the maximum allowable draft in the Welland Canal portion of the St. Lawrence Seaway increased to 26 feet and six inches in the 2004 navigation season for all inland vessels and ocean vessels equipped with bow thrusters. This depth was effective from Lake Ontario to Montreal. Each additional inch of sailing draft allows vessels to carry, on average, an additional 100 metric tons of cargo, increasing the efficiency of the Seaway. The St. Lawrence Seaway Development Corporation met its performance target of 99 percent of days in the shipping season the U.S. portion of the Seaway is available.

Work continued to improve the pavement condition on the Nation's highways. The goal is to reach a target of 95 percent of vehicle miles traveled on NHS pavements with an acceptable ride quality by 2008. The projected value for 2004 was 90.8 percent, primarily because a small number of states with significant total vehicles-miles travel (VMT) continue to report deteriorating pavement conditions. The travel on the NHS on facilities rated in good condition continues to show steady improvement also.

The percent of travel Nation-wide that is under congested conditions was 30.8 percent in CY 2003 and is projected to be 30.9 percent in CY 2004. The CY 2003 result was only 0.3 percent higher than in CY 2002 and below the anticipated increase for the second straight year. The results for the CY 2002–2003 period suggest that the overall rate of growth in traffic congestion Nation-wide is slowing, and is much less than recently-projected annual increases.



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: *Protect and enhance communities and the natural environment affected by transportation.* Highlights of our results in the environmental area follow.

The establishment of Executive Order (EO) 13274: Environmental Stewardship and Transportation Infrastructure Project Reviews, signed on September 18, 2002 by President George W. Bush, advanced DOT's commitment to enhancing the nation's transportation infrastructure while remaining good stewards of the environment. Secretary Norman Y. Mineta designated thirteen projects as priorities to receive accelerated environmental review this past year. One project designated was the post-9/11 transit recovery projects in Lower Manhattan.

As the lead agency, DOT is using an environmental management strategy to ensure environmental stewardship, while streamlining environmental reviews. Local sponsors have agreed to use uniform approaches for evaluating environmental effects and to use environmentally friendly design elements, construction techniques, and operating procedures to lower adverse environmental impacts.

Once again, DOT exceeded its target of protecting at least 1.5 acres of wetlands for every acre affected by Federal-aid highway projects with a ratio of 2.1 to 1 in FY 2004. Federal-aid projects Nation-wide provided 1,761 acres of compensatory mitigation. A leader in expanding the use of wetland banking and sponsoring wetland research, DOT is proud of its seven year track record of exceeding the target. In a demonstration of commitment to environmental stewardship and ecosystem conservation, DOT recognized seven new Exemplary Ecosystem Initiatives, exceeding its target of designating two additional projects in the year.

During FY 2004, on average, a high percentage of nonattainment and maintenance areas met their emissions budget goals and the transportation emissions conformity requirements of the Clean Air Act. The average number of areas in a conformity lapse at any given time was at or below six out of a total of approximately 130 designated areas, or less than five percent of the total.

DOT achieved a 14 percent decrease in the number of people exposed to significant aviation noise

from the FY 2000–2002 average. DOT removed 15 obsolete ships that posed potential environmental hazards at its three fleet sites.

Security

President Bush has directed DOT and the Department of Homeland Security to work together to design a world-class transportation security system that will prevent terrorists from ever again using transportation as a weapon against us. Our transportation system must also remain a vital link for mobilizing our armed forces for military contingencies and for supporting civilian emergency response. Examples of our achievements under our strategic goal, *ensure the security of the transportation system for the movement of people and goods, and support the National Security Strategy*, are described below.

DOT has certified and accredited over 96 percent of its information technology (IT) systems and plans to complete these activities for the remaining four percent in FY 2005. This provides management with an acceptable level of assurance that all systems either meet a minimum level of baseline requirements or have plans of action and milestones to mitigate any remaining risks. A continuous vulnerability scanning program has been implemented Department-wide.

DOT provided sealift capacity to the Department of Defense (DoD) in support of Operation Iraqi Freedom (OIF), the redeployment phase of the war using 21 Ready Reserve Force (RRF) vessels.

DOT managed port security training for over 200 port personnel throughout the Western Hemisphere through the DOT/Organization of American States-sponsored port security training program. DOT also achieved a performance target of 94 percent availability for DoD-required shipping capacity and 93 percent availability among strategic ports, a seven percent increase in port availability over last year's performance. The port is expected to be able to make its facilities available to the military within 48 hours of notification.



Organizational Excellence

Secretary Norman Y. Mineta understands that a culture of foresight and continuous improvement is essential in our ability to achieve our strategic goals. We have put this into practice as evidenced by DOT's achieving first place among 24 Federal agencies in terms of having the highest President's Management Agenda (PMA) rating (DOT was the only agency that achieved four greens on the PMA Scorecard). Similarly, DOT's *Performance and Accountability Report* for FY 2003 achieved a tie with the Department of Labor for first place as the best in government, according to an independent assessment.

DOT's Inspector General released the annual report on the Department's consolidated financial statements, for which we were issued an unqualified or clean audit opinion for the fourth consecutive year. Consolidated financial statements show how the Department is accountable for its total budgetary resources of \$128 billion provided by American taxpayers for Federal transportation activities. Individual audits were also conducted for the FAA and the Highway Trust Fund, which both received unqualified opinions.

DOT secured enactment of *Vision 100*, the four-year reauthorization of the FAA. Key provisions include:

- a pilot project to allow FAA to work collaboratively with the airlines to reduce delays at the most congested U.S. airports;

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- environmental streamlining to address capacity and improve interagency coordination;
- endorsement of FAA's Joint Planning and Development Office to develop a long term National plan for aviation; and
- provisions to streamline the passenger facility fee program and provide additional flexibilities for smaller airports.

DOT began using a quantitative risk assessment tool to ensure that New Starts transit projects meet cost, schedule and transportation benefit

expectations. This tool tracks the success of mitigation measures and assesses trends with respect to project execution, so that any necessary intervention measures can be taken as early as possible.

DOT issued guidance for required financial plans for mega-projects, which are projects at the \$1.0 billion dollar and larger level. DOT requires annual updates to track significant cost and schedule deviations from the initial financial plan, and mitigating actions taken to adjust for those deviations. DOT approves the financial plans or their annual updates for all mega-projects.

DOT FIVE-YEAR FINANCIAL MANAGEMENT PLAN FOR FY 2005–2009

DOT's Five-Year Financial Management Plan for FY 2005–2009 discusses DOT's vision for improving financial management, improvements in DOT's financial affairs in FY 2004, and goals for improving financial management in DOT during 2005–2009. Specific implementation strategies for these efforts are provided in the full text of the DOT Five-Year Financial Management Plan 2005–2009 residing in the DOT Office of Financial Management.

DOT Vision for Improving Financial Management

The DOT vision for improving financial management is to develop and implement best practices in financial management for our internal and external customers and stakeholders and to achieve the goals of the President's Management Agenda. We will provide DOT managers with a Dashboard of easy-to-access financial information and program performance metrics for day-to-day decision-making, integrate budget and performance information, consolidate and integrate financial systems, and keep the public informed via the Chief Financial Officer's Web page at <http://www.dot.gov/cfo/budgperf.htm>.

Based on DOT's experience in implementing a new, state-of-the-art, commercial off-the-shelf financial management system (using Oracle Federal Financials), DOT will compete to be designated by the Office of Management and Budget (OMB) as a Center of Excellence for Financial Management, Grants Management and Human Resources under OMB's Lines of Business (LOB) Initiative.

Key elements of DOT's vision for financial management include: disseminating accurate, timely, and useful information and reports; developing and implementing the Delphi Dashboard to provide DOT managers with financial and performance information for day-to-day decision-making; replacing expensive legacy financial systems with modern cost-effective systems; consolidating, integrating or interfacing all financial and financial-related systems and avoiding duplicate or manual data entry; consolidating financial functions and accounting

operations; and reducing the costs of financial operations and systems.

Budget and Performance Integration

Integrating budget and performance information ensures that senior DOT decision makers have the information to decide where to use their resources most efficiently and effectively. Ensuring that resources are used properly and accounted for, consistent with sound financial management principles, is critical to meeting performance goals. At DOT, we recognize that performance budgeting is the first step to improved performance, but actual performance achievement also depends on maintaining proper internal controls and solid financial management systems that provide accurate and timely data. Recent improvements to our financial systems now enable DOT to provide improved cost accounting models and accountability tools that provide reliable data for monitoring performance.

Performance Measures

Key elements of this effort include implementing managerial cost accounting across all OAs; strengthening the relationship between the marginal cost of performance, managerial cost accounting, and related financial management initiatives; and enhancing the ability to roll up cost and performance information Department-wide for presentation in the annual *Performance and Accountability Report* and budget justifications.

Improvements in DOT Financial Management in FY 2004

DOT significantly improved its financial management programs and systems during FY 2004. Major accomplishments in the area of

financial statements and audits include receiving unqualified audit opinions on the DOT financial audits for FY 2003 and FY 2004 (DOT also received clean opinions for FY 2002 and FY 2001) and resolving two of the material weaknesses identified in the FY 2003 audit.

Financial Management Systems Framework and Infrastructure

In the area of financial management policies, procedures and performance metrics, DOT has developed, updated, and issued comprehensive Financial Management Policies, and tracked and reported monthly to OMB on DOT's progress on the financial performance indicators identified by OMB.

DOT began improvements in the management of reimbursable agreements and intragovernmental eliminations throughout the Department, including developing and implementing a Web Portal for the OAs to exchange information about reimbursable agreements to support eliminations within DOT.

The Department developed plans for and began centralizing DOT Accounting Operations at the FAA Aeronautical Center in Oklahoma City for all remaining OAs, including supporting FAA in centralizing their own nine accounting offices to Oklahoma City. It also developed and began implementing new Chief Financial Officer (CFO) structures and positions within the remaining OAs.

In the area of financial systems, DOT completed implementing the Department-wide Delphi financial management system in November 2003. DOT is the first Cabinet-level agency to have all its OAs converted from a legacy accounting system to a new, state-of-the-art, Web-enabled, Treasury-compliant, commercial off-the-shelf financial management system running on a single instance of the software.

The Department successfully marketed Delphi to the National Endowment for the Arts and worked with them to set up and configure their accounting system in Delphi, which they will start using in October 2005; upgraded Delphi to the newest release of the Oracle Federal Financials application

software (release 11.5.9) in May 2004 and upgraded the back-end database to the Oracle 9i database in August 2004; launched a pilot program using Oracle Daily Business Intelligence (DBI), Oracle Balanced Scorecard, and Oracle Web Portal to present key financial information and performance metrics to DOT managers for day-to-day decision-making; developed, tested, validated and implemented a new Financial Statement Solution (FSS) in Delphi that produces financial statements directly from the core financial system; and reduced the time required for the Delphi month-end close process from three days to overnight.

In addition, DOT expanded to additional OAs the use of the Invoice Imaging and Workflow system based on MarkView software from 170 Systems, Inc., which is tightly integrated with Delphi, and completed implementation of managerial cost accounting for the Office of the Secretary of Transportation's (OST) Working Capital Fund (WCF), including costing and automated billing for reimbursable services.

DOT implemented Phase One of the Consolidated Automated System for Time and Labor Entry (CASTLE), which provides easy-to-use Web-enabled Time and Attendance (T&A) data entry. With the implementation of Phase Two in FY 2005, CASTLE will also provide for entry of labor distribution information on the same screen as the T&A data. CASTLE will be interfaced with Delphi in support of managerial cost accounting.

DOT continues to work to replace DOT's payroll and HR systems with the Federal Personnel and Payroll System (FPPS) of the Department of Interior's National Business Center in Denver, Colorado, as mandated by OMB under the e-Payroll initiative.

The Department completed implementation of the Purchase Request Information System (PRISM) procurement management system in FAA that is integrated with the Delphi financial management system.

In its travel management, DOT reduced its travel credit card delinquency rate from 13 percent to one percent in FY 2004, and worked with GSA to select a new e-Travel system for DOT and government-wide, including hosting both the pilot testing and the Independent Validation and Verification (IV&V) at DOT for all three systems awarded by GSA. DOT has selected GovTrip, Northrop Grumman's e-Travel Service, and started implementation throughout the Department.

Future Initiatives and Goals for Improving DOT Financial Management

DOT will complete its work towards consolidating and integrating its financial and financial-related systems to enhance performance and eliminate redundant systems. This ongoing effort, assigned to the DOT CFO by the DOT Investment Review Board (IRB) under the guidance of the DOT Chief Information Officer (CIO), addresses grants management, travel, procurement management, payment, credit card management, time and attendance and labor distribution reporting, accounting, budget, property management/inventory, and financial information reporting.

DOT's goal is to have a single commercially-supported procurement management system (or at most two) integrated with Delphi (Oracle Federal Financials). The integration with Delphi is critical to ensure data integrity, to eliminate duplicate manual data entry, to facilitate reengineering and streamlining DOT business processes, to avoid unnecessary data reconciliations, and to support the full implementation of managerial cost accounting throughout all DOT organizations. This integration will also further enable DOT to eliminate redundant systems.

Improved Electronic Reporting

DOT plans to continue to improve financial management reporting through greater use of the Delphi data warehouse and by expanding the use of Daily Business Intelligence, Balanced Scorecard,

and Web Portal to present financial and performance information to all organizations, programs, and managers throughout DOT on the Delphi Dashboard.

DOT will conduct a series of coordinated reviews to enhance financial business processes and systems (including conduct a functional review of Delphi and implement system and business process improvements), continue to streamline and re-engineer accounting and financial management business processes throughout DOT, and complete a series of internal control reviews for DOT accounting and financial management systems and operations.

Consolidation of Resources

Other major initiatives for the Department for the next few years include completing migration of DOT's payroll and human resources functions and systems to the Department of Interior's system; completing implementation of a labor distribution system within DOT in support of managerial cost accounting; continual review and improvement of the reimbursable agreement management process in support of intergovernmental eliminations; development and implementation of an innovative Improper Payment research initiative to test an approach for satisfying the requirements of the Improper Payments Information Act (IPIA); expansion of managerial cost accounting throughout the Department; expanding the use of Electronic Data Interchange (EDI) for vendor information; complete implementation of the new GovTrip travel management and reservation system throughout DOT; and the implementation of a new purchase credit card for DOT interfaced with Delphi in support of improving financial management controls on purchase credit cards. Specific implementation strategies for these efforts are provided in the full text of the DOT Five-Year Financial Management Plan.



FINANCIAL HIGHLIGHTS

The principal financial statements in the Financial Management and Analysis section of this report summarize the Department's financial position, net cost of operations, and changes in net position; provide information on budgetary resources and financing; and present the sources of disposition of custodial revenues for FY 2004 and FY 2003. Highlights of the financial information presented in the principal financial statements are discussed in this section.

Analysis of Financial Statements

An unqualified audit opinion indicates that the agency's information is reliable. The Office of the Inspector General (OIG) has rendered an unqualified opinion on DOT's FY 2004 financial information. DOT had two continuing and two new material weakness addressed in its related audit, resulting in a total of four material weaknesses for FY 2004. The Department continues efforts to improve its compliance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA). Additionally, DOT's management takes responsibility for the objectivity and integrity of the financial information presented in the financial statements contained in this report.

Net Cost of Operations

The net cost of DOT operations for FY 2004 was \$54 billion (\$58 billion in FY 2003), as reflected in the *Consolidated Statement of Net Cost* as of September 30, 2004. This figure was a decrease of about 7 percent compared to the FY 2003 cost of operations.

Of the \$54 billion in FY 2004 for DOT's net cost of operations, 76 percent (70 percent in FY 2003) was from surface transportation, 23 percent (21 percent in FY 2003) from air transportation, 0.4 percent (1 percent in FY 2003) from maritime transportation, 0 percent (0 percent in FY 2003) from crosscutting programs, and 0.6 percent (0.6 percent in FY 2003) from costs not assigned to any particular program.

For surface transportation, a large amount of the net cost was identified in connection with the Highway Trust Fund (\$31 billion). The majority of air transportation cost was from FAA (\$12 billion).

Program Costs

Program costs generally experienced increase in FY 2004 compared to FY 2003 in surface, air, maritime, and cross-cutting programs. From FY 2003 to FY 2004, Surface Transportation cost experienced an increase of about \$873 million, Air Transportation increased by \$195 million, and Maritime Transportation decreased by about \$602 million (FY 2003 restated).

Intra-Departmental Eliminations

The Department of Treasury is requiring that all agencies confirm and reconcile intragovernmental transactions with their trading partners, including transactions occurring within DOT or outside DOT. This includes fiduciary (investment/borrowing with Treasury, DOL Federal Employees' Compensation Act liabilities, OPM employee benefits) and non-fiduciary (that is buy/sell goods and services, reimbursables, transfers) intragovernmental transactions. Fiduciary confirmation/reconciliations are done through the Web-based confirmation system (IFCS). Non-fiduciary confirmations are done manually. Treasury strongly recommends the use of confirmation forms to confirm/reconcile non-fiduciary intragovernmental balances. DOT is requiring its Operating Administrations to report intragovernmental balances in their Treasury FACTS I reports and financial statements, which must be in agreement.

Treasury is also requiring CFO representations for the confirmation/reconciliation of intragovernmental activity and balances. These representations will provide assurances for the intragovernmental balances included in the financial statements. Additionally, the OAs will be

required to submit representations using a standard form.

Assets

Total assets for DOT are \$68 billion for FY 2004 (\$71 billion for FY 2003). The decrease in total assets in FY 2004 is largely attributable to a reduction in investments by \$4 billion. Total intragovernmental assets for DOT are \$51 billion in FY 2004 (\$55 billion in FY 2003). A large portion of this funding came from investments (\$21 billion) and fund balance with Treasury (\$30 billion).

Liabilities and Net Position

Total liabilities for FY 2004 are \$13 billion. Total intragovernmental liabilities experienced a decrease from \$5.2 billion in FY 2003 (restated) to \$4.9 billion in FY 2004. DOT's net position was \$55 billion in FY 2004 (\$58 billion in FY 2003).

Limitations on the Principal Financial Statements

The principal financial statements have been prepared to report DOT's financial position and results of operations, pursuant to the requirements of 31 USC 3515(b). The statements have been prepared from DOT's records in accordance with the generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget. They are additional to the financial reports used to monitor and control DOT's budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.



COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

The Department is committed to management excellence and recognizes the importance of strong financial management, financial systems, and internal controls to ensure accountability, integrity, and reliability. Each Operation Administration's (OA) Administrator submits an annual statement of assurance to the Office of the Secretary, on the overall assurance of management controls.

During the fiscal year that ended September 30, 2004, DOT continued its efforts to ensure that the Department has an efficient and effective system of financial programs and administrative controls. When specific internal control weaknesses were identified, the process of developing and implementing corrective action was put into action immediately.

Federal Managers' Financial Integrity Act

During FY 2004, in accordance with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and using the guidelines of the Department and of OMB, the Department reviewed our management control system. The objectives of our management control system are to provide assurance that the following occur:

- Our obligations and costs are in compliance with applicable laws.
- Our assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.
- All programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the GAO, OIG, specifically-requested studies, and observations of daily operations. These reviews ensure that our systems and controls comply with the standards established by FMFIA. Managers throughout the Department are responsible for ensuring that effective controls are implemented in their areas of responsibility. Individual assurance statements from the Administrator of each OA serve as a primary basis for the Department's assurance that our management controls are adequate. The assurance statements are based upon an evaluation of progress made in correcting any previously reported problems; new problems identified by the GAO, OIG, and other management reports; and the management environment within each OA.

Section 2. Internal Controls, Material Weaknesses

Fiscal Year	Number reported for the first time	Number that have been corrected	Number still pending
Prior Years	146	146	0
2000 Report	0	0	0
2001 Report	1	1	0
2002 Report	3	3	0
2003 Report	2	0	2
2004 Report	1	0	1

Status of FY 2004 Material Weaknesses

DOT has five material weaknesses, three for Section 2 and two for Section 4. Three of the material weaknesses are carried over from FY 2003 and two are new. The three Section 2 material weaknesses are:

Financial Management and Reporting for Highway Trust Fund Agencies. Last year we reported that Highway Trust Fund Agencies lacked the financial management procedures needed to generate reliable financial statements, and this deficiency also exists this year. As a result, the financial statements that FHWA submitted for audit contained several large, multi-billion dollar errors and omissions.

Financial Oversight of Highway and Transit Grants. FHWA and the Federal Transit Administration (FTA) must do more to ensure that grant funds are protected from fraud, waste, and abuse. In FY 2004, FHWA did not provide financial oversight on 41 of the 45 highway grant projects (valued at \$113 million) reviewed by the Office of the Inspector General (OIG). FHWA plans to begin reviewing State payment processes and testing a sample of payments during FY 2005.

Reconciling Transactions Within DOT and With Other Federal Agencies

Last year we reported that DOT did not fully reconcile its transactions within DOT and with other Federal agencies. To prepare DOT's financial statements, transactions among DOT's Operating Administrations must be tracked and eliminated to avoid overstating DOT's financial statement results. During FY 2004, DOT did not adequately track these transactions, which required management to perform extensive manual adjustments to prepare DOT's consolidated financial statements. Similarly, Federal agencies' inability to account for and eliminate transactions with other agencies is a major impediment to a clean audit opinion on the Consolidated Financial Report on the United States. DOT has begun taking steps to better account for these transactions, but at the end of September 2004, it still had not identified the other agencies associated with about

half of the \$55 billion of intragovernmental transactions processed in FY 2004 and reported to Treasury.

Federal Information Systems Management Act (FISMA)

FISMA requires Federal agencies to identify and provide security protections commensurate with the risk and magnitude of harm resulting from the loss of, misuse of, unauthorized access to, or modification of information collected or maintained by or on behalf of an agency. Because DOT maintains one of the largest portfolios of information technology (IT) investments of Federal civilian agencies, it is critical that DOT protect its systems and sensitive data. In FY 2004, DOT's information technology budget totaled about \$2.7 billion.

DOT has 12 Operating Administrations (OA) and the Office of Inspector General with 485 computer systems. DOT is also responsible for operating the air traffic control system, which has been designated as part of the Nation's critical infrastructure by the President (Homeland Security Presidential Directive 7, December 2003). DOT systems include safety-sensitive air traffic control and surface transportation systems, as well as financial systems that disburse over \$50 billion in Federal funds each year.

For the last three years, DOT has reported its information security program as a material internal control weakness under the Federal Managers' Financial Integrity Act (FMFIA). A material internal control weakness is a significant deficiency in an agency's overall information systems security program or management control structure, or within one or more information systems that (1) significantly restricts the capability of the agency to carry out its mission, or (2) compromises the security of its information, information systems, personnel, or other resources, operations, or assets. The risk is great enough that the agency head and outside agencies must be notified and immediate or near-immediate corrective action must be taken. (OMB Guidance on FY 2004 Reporting Instructions for the Federal

Information Security Management Act, M-04-25, August 23, 2004.)

During FY 2004, DOT made a concerted effort to correct weaknesses identified in previous years. The most noteworthy improvements DOT has made since we began the annual information security review in FY 2001 include:

- Increased oversight of IT investment management and security controls. During FY 2004, the departmental Investment Review Board expanded its review of OA investment projects and directed OAs to evaluate cost-saving opportunities by consolidating systems of common interests, such as grant management. The Office of the Chief Information Officer (CIO office) also performed more in-depth reviews of IT budget requests submitted by OAs than in prior years.
- Strengthened protection of DOT's network infrastructure against internal and external attacks. During FY 2004, DOT expanded its vulnerability checks to cover not only its public Web sites but also computers on OA private networks. The CIO office also issued guidelines for configuring computers in a secure manner to prevent vulnerabilities.
- Improved integrity, confidentiality, and availability of DOT program operations that depend on computer systems support. During FY 2004, DOT increased the percentage of systems completing the security certification review from 33 percent to over 90 percent.

Although DOT has made significant progress, there are some remaining issues such as the CIO office and OAs needing better coordination of IT budget requests in order to more effectively use IT funds, the quality of security certification reviews needing improvement, and DOT's air traffic control system security needing enhancement.

Information Security Program. Last year, DOT reported its information security program as a material weakness. The Inspector General's audit of FISMA (dated October 1, 2004) recognized noteworthy improvements in DOT's IT security. In recognition of this progress, the IT security material weakness from the FY 2003 financial audit has been downgraded to a reportable condition in the FY 2004 financial audit. No recommendations in the FY 2004 FISMA audit related solely to financial systems. The most noteworthy improvements made during FY 2004 include increased oversight of IT investment management and security controls, strengthened protection of DOT's network infrastructure against attacks, and enhanced security protection of individual computer systems. Continued action is needed to improve security certification reviews, configure computers according to security standards, and develop and test system contingency and continuity plans.

As identified by the Office of the Inspector General, for FISMA improvements, DOT needs better cost estimates for information technology (IT) investments, define project management and budget responsibilities for IT consolidation initiatives, review of IT investment projects, complete vulnerability checks, complete Security Certification Reviews, and assure system contingency and continuity planning.

Section 4. Systems, Non-Conformances

Fiscal Year	Number reported for the first time	Number that have been corrected	Number still pending
Prior Years	59	59	0
2000 Report	1	1	0
2001 Report	0	0	0
2002 Report	0	0	0
2003 Report	1	1	0
2004 Report	2	0	2

Status of FY 2004 Material Nonconformances

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

Material System Security Controls. Last year, the Department reported that important security controls over the Delphi financial management system needed to be improved. In FY 2004, important security measures had not been implemented, system changes were not properly tested, and contingency planning was not adequate. DOT has made significant progress to correct these problems, but for most of FY 2004 the vulnerabilities continued to exist. These deficiencies increase the risk that erroneous financial transactions could occur, either intentionally or inadvertently, resulting in material misstatements on financial statements without being detected in a timely manner by management.

FFMIA of 1996 Noncompliance Issues. DOT reported again this year that the Department was not in compliance with FFMIA. For FY 2004 this noncompliance consists of three issues: preparation of financial statements, use of a Standard General

Ledger (credit reform/loans), and Federal Accounting Standards (cost accounting).

Scorecard on the President's Management Agenda

The status column in the following table indicates where DOT progress is in meeting the President's Management Agenda (PMA). Agencies in the Federal Government receive a *green* rating by reaching the required score. Agencies must maintain achievements between evaluations to maintain a *green*.

- Indicates that the agency has met all of OMB's core criteria for the initiative.
- ▲ Indicates achievement of some but not all of OMB's core criteria for the initiative and that the agency has no red conditions.
- ◆ Indicates that at least one of the conditions identified by OMB for that initiative is in need of correction.

The progress column measures the rate at which DOT is moving toward *green*. Agencies get a *green* rating when implementation is advancing according to plan.

Scorecard on the President's Management Agenda

INITIATIVE	FY 2004 STATUS	PROGRESS	HOW DOT IS MEETING PMA CHALLENGES
<p>Human Capital: Develop a Department-wide human capital workforce strategy to address future workforce gaps, eliminate skill gaps in critical occupations, develop performance-based incentives for the workforce, ensure citizen-centered, delayed, and mission-focused organizations; strengthen leadership skills, and ensure a robust leadership pipeline; improve the measurement and evaluation of human capital strategies; and integrate e-Government and Competitive Sourcing strategies.</p>	●	●	<p>In FY 2002, DOT developed a Human Capital Plan aligned with the President's Management Agenda and the OPM/OMB Standards for Success. Following this blueprint, the Department:</p> <ul style="list-style-type: none"> • linked its strategic plan with human capital strategies, including linking 89% of individual performance plans and performance awards; • institutionalized annual workforce planning and analysis, integrating competitive sourcing; • restructured functions and organizations to improve mission focus and effectiveness; • improved the recruitment, selection, training, and evaluation of agency leaders; instituted succession planning; and conducted knowledge management pilots; • set up a framework that has increased management accountability for improved diversity and achieved measurable progress; • improved corporate recruitment in a way that integrates with other strategies; and • strengthened our ability to track and evaluate progress and continuous improvement.
<p>Competitive Sourcing: Implementation of Competitive Sourcing Plan.</p>	●	●	<p>DOT received a <i>green</i> status rating from OMB for its competitive sourcing initiative. OMB approved DOT's green competitive sourcing plan in July of 2004.</p> <p>DOT has completed competitions for 288 positions with anticipated annual savings of over \$1 million. In its approved green plan, DOT has committed to competing an additional 442 positions through the end of FY 2005 and will begin evaluation of 4000 additional positions for competition by the end of FY 2009. Additionally, the FAA is currently conducting the largest and most complex public/private competition ever, covering over 2700 positions and 58 facilities for its automated flight service station function. A final performance decision on the FAA competition is expected in March 2005.</p> <p>In developing its green plan, DOT required that OAs develop their competitive sourcing plans in conjunction with their workforce planning efforts. To further emphasize the critical relationship between the two functions, DOT has merged competitive sourcing and workforce planning under a single organization.</p> <p>DOT will initiate an Executive Steering Committee for competitive sourcing which will explore the opportunity for cross-organizational competitions throughout the Department and bring more consistency to DOT's competitive sourcing efforts throughout DOT.</p>

Scorecard on the President's Management Agenda

INITIATIVE	FY 2004 STATUS	PROGRESS	HOW DOT IS MEETING PMA CHALLENGES
<p>E-Government: Better justify and track costs and performance of information technology projects, as well as participate in government-wide initiatives that automate and simplify how the public deals with the government and reduce redundancies and increase efficiencies across government-wide.</p>	●	●	<p>Capital Planning: Participation in capital planning process expanded across departments. Over 1000 participants attended CPIC training sessions held to improve the quality of the business case analysis. DOT Departmental Investment Review Board (IRB) reviewed and approved the FY 2005 portfolio in support of the budget and Department mission and goals. IRB established a systematic quarterly review process to monitor major projects against business case baseline. Implemented an integrated CPIC and Enterprise Architecture (EA) policy and governance structure to ensure alignment between the two areas.</p> <p>IT Security: DOT has certified and accredited 90 percent of all IT systems and implemented plans to address remaining certification and accreditation weaknesses. DOT continues to conduct weekly vulnerability scanning of all public facing and e-Government Web servers. Plans are in place to expand the vulnerability scanning to internal servers as well. To date, DOT has 100 percent of systems scanned, and decreased vulnerabilities by over 90 percent.</p> <p>Enterprise Architecture (EA): Released DOT Modernization Blueprint including As-Is and To-Be architecture for the DOT common IT infrastructure. The EA Framework and Reference Models are aligned with the OMB Federal Enterprise Architecture Program Management Office Framework. OAs have completed EAs for their unique business/mission areas.</p> <p>Government-wide Initiatives: DOT participates in 18 e-Government initiatives that span four categories. The e-Government project managers work closely with Managing Partners to identify implementation requirements and detailed work plans. The OCIO tracks schedule milestones and performance issues/risks for all e-Government projects. Major schedule and performance issues are brought to the IRB for further review and action. DOT will complete implementation of a Department-wide Learning Management System in all modes except the FAA in the fourth quarter of 2004 and eliminate some of the redundant training systems in the fourth quarter of 2004 and the first quarter of 2005. DOT has implemented Quickhire in all modes except FAA. DOT Government to Business (G2B) and Government to Citizen (G2C) forms have been integrated (via hyperlinks) with the current Business Gateway Initiative Federal Forms Portal thus allowing DOT customers ready access to the forms they require.</p>

Scorecard on the President's Management Agenda

INITIATIVE	FY 2004 STATUS	PROGRESS	HOW DOT IS MEETING PMA CHALLENGES
<p>Budget/Performance Integration: 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.</p>	●	●	<p>In FY 2004, DOT achieved its goals in this area and earned a <i>green</i> score on the scorecard by completing the following:</p> <ul style="list-style-type: none"> • DOT identified efficiency measures for all programs that have been scored by the Program Assessment Rating Tool (PART) and remaining Operating Administrations (OA). • DOT selected OAs to participate in a pilot project to demonstrate the ability to estimate the marginal cost of performance for the Safety strategic objective. <p>In addition, DOT continued to refine its performance based budget justifications to better link funding with performance. DOT will continue to work on the President's Management Agenda goals and embrace them as a regular management practice.</p> <p>DOT Performance Plan and Reports. DOT's Performance and Accountability Report has consistently garnered a high standing from George Mason University's Mercatus Center, and shared Mercatus' top rating last year.</p>
<p>Improved Financial Management: Develop financial management systems capable of producing more timely and accurate information, and maintain a record of unqualified opinions on our financial statements.</p>	⬆	●	<ul style="list-style-type: none"> • DOT received its fourth unqualified audit opinion. The audit groups report no opinion drivers that would qualify the opinion. • DOT produced its FY 2004 statements by the deadline and met its target for November 15, 2004 deadline for audit completion. • DOT satisfied statutory requirements with the conversion to Delphi. • DOT demonstrated a pilot system for four safety programs that provides performance and financial information to program managers. DOT is implementing an automated Dashboard and has submitted a draft plan to OMB on expanding the dashboard. By December 2004, it will be available agency-wide. • Financial data from Delphi is available on demand and is being used throughout the Department to help manage programs on a daily basis. • DOT has requested legislative fixes for its outstanding Antideficiency Act violations.

Improper Payment Program for FY 2004 and Agency Plans for FY 2005–2007

In 2004, the Department of Transportation (DOT) engaged KPMG, LLP to conduct an improper payments review of FY 2003 payments for ten identified programs for compliance with the Improper Payments Information Act of 2002 (IPIA). The objectives of the review were to (1) assess and report the amount and causes of improper payments, (2) to give us a methodology to use for remaining DOT programs, and (3) to identify action plans for reducing improper payments for each program identified as having significant improper payments. Based on the Office of Management and Budget guidance, improper payments are considered significant if the annual improper payments in a program exceed both 2.5 percent of program payments and \$10 million.

KPMG statistically reviewed the following ten programs identified by Operating Administration (OA):

- Federal Highway Administration (FHWA)—Federal Aid (section 57 program)
- Federal Transit Administration (FTA)—Formula Grants (section 57 program)
- Federal Transit Administration—Capital Investment Grants (section 57 program)
- Federal Aviation Administration (FAA)—Airport Improvement Program (section 57 program)
- Federal Highway Administration—Federal Lands
- Department of Transportation—Payroll
- Office of the Secretary of Transportation (OST)—Working Capital Fund
- Federal Railroad Administration (FRA)—Grant Program
- Federal Aviation Administration—Operations
- Federal Aviation Administration—Facilities and Equipment

For the ten completed programs, KPMG did not find significant improper payments exceeding both 2.5 percent of program payments and \$10 million, which would require reporting for the IPIA. However, KPMG's scope was limited in three ways. First, there was an inadvertent sample population reduction in the FHWA Federal Aid program based on the extract requirements provided by FHWA. DOT and KPMG will work to identify the missing population amounts and review the additional program. Second, FAA was not able to provide sufficient data or answers to outstanding questions for the FAA Operations and FAA Facilities and Equipment programs on time. Therefore, the items with outstanding data were considered and projected as questionable transactions.

The third limitation was due to limited grant data being available for grants processed electronically based on the requirements of the Federal Financial Assistance Management Improvement Act of 1999 (PL 106-107). PL 106-107 streamlines the payment process for grants. As a result, documentation was not available to permit KPMG to test whether the payment was calculated correctly, whether discounts and credits were properly taken and if all costs were allowable. In other words, information was available to track the flow of funds from the Federal Treasury to the first-tier grant recipients, which are State Departments of Transportation in the case of the Federal Aid Highways program. However, information was not available to determine how Federal highway funds are allocated to subgrantees and if funds are used for eligible purposes under the program. For example, KPMG was able to test electronically processed grants for eligibility, award and payment approval, incurrence of cost during the funding period, payment within the award or other funding limitations, and that payment was sent to the proper recipient. It should be noted that all Federal agencies with electronically processed grants in compliance with PL 106-107 would encounter this same limitation.

To resolve the issue of limited data in support of grant payments made in compliance with

PL 106-107, DOT has devised an innovative research and development (R&D) strategy. This strategy involves using a proof of concept project to test the feasibility of using the Single Audit process to provide the information needed to determine if grant payments made in compliance with PL 106-107 meet the improper payment estimation and remediation requirements of the IPIA. This proposal has been approved by OMB, and with OMB's concurrence, DOT has executed a contract with a consultant to begin the process of this proof of concept effort.

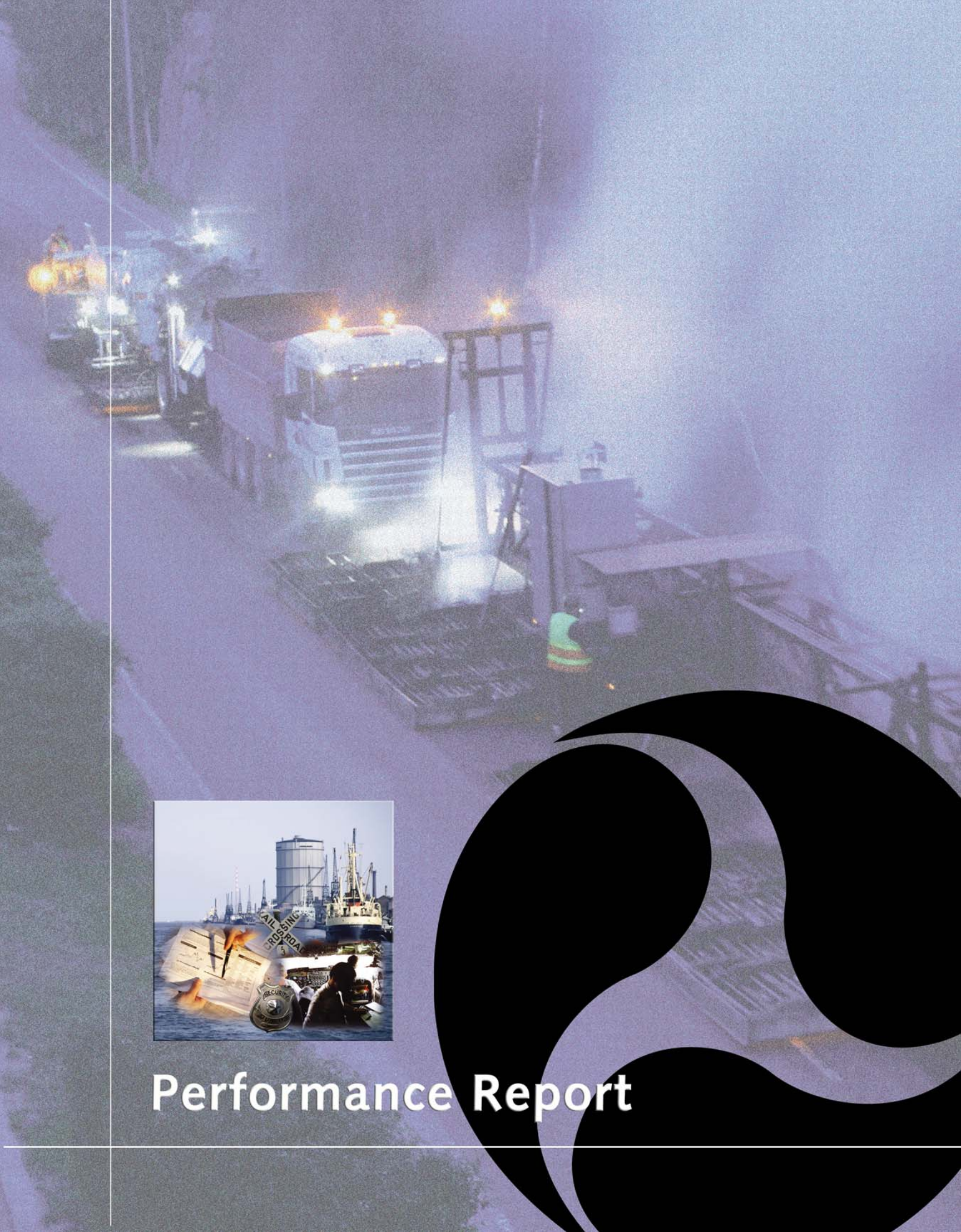
To ensure full compliance with both the letter and the spirit of IPIA, DOT has conducted an improper payment risk assessment on all DOT programs including those that clearly would not meet the OMB reporting thresholds. DOT's initial risk assessment methodology (developed by KPMG) was used by DOT to review all remaining DOT programs not included in KPMG's review of the top ten DOT programs. This clearly will meet the legislative requirement to review all programs and activities. Furthermore, to ensure senior

management review, DOT has required that all Operating Administration CFOs review and sign their program risk assessments. To date, none of the remaining DOT programs received a high-risk assessment.

DOT also has a Department-wide recovery audit program well underway since 2002. During 2004, recovery audits were expanded to include all financial transactions more than one year old. While audit recoveries have not been significant, the recovery auditor has had full access to DOT financial records and cooperation by the OAs has been outstanding.

DOT's annual goal is to refine its internal process and procedures for IPIA measurement, to review means to automate the collection and sampling strategies used in the first IPIA assessment and to execute the R&D project strategy to allow us to further improve and measure improper payments at the grant level.

IPIA reporting details can be found in Appendix B.



Performance Report



PERFORMANCE FRAMEWORK

The Department of Transportation (DOT) is committed to embodying the President's goals of a citizen-centered, results-based, market-oriented government. Transportation is a key element in our National economy. It helps maintain our standard of living, and supports our Nation's defense. Everything we do at DOT is aimed at making measurable improvements in our transportation system, the security of our Nation, and the quality of American life. In this *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 management framework is as follows:

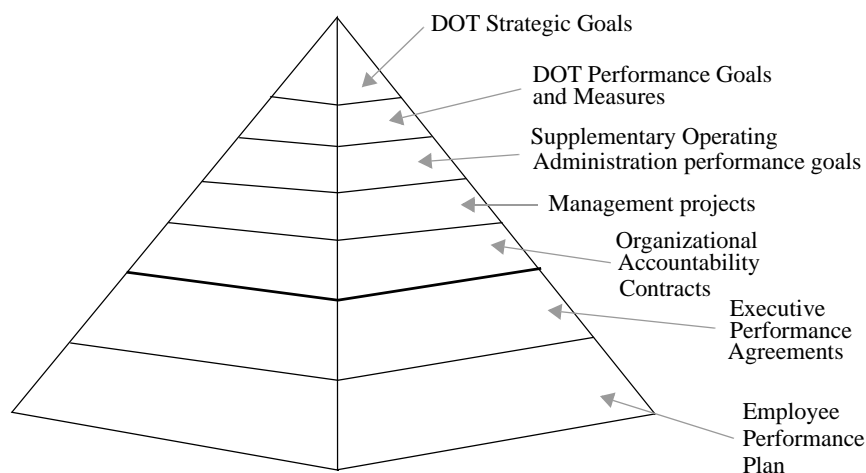
The *DOT Strategic Plan* provides a comprehensive vision for improving the Nation's complex and vital transportation system. For the next several years, it puts forth broad objectives; targets specific outcomes we want to achieve; and identifies key challenges.

The *DOT Performance Plan* operationalizes the Strategic Plan, and provides strong linkages to DOT's budget request. The Plan defines performance goals and measures used to manage progress toward our strategic objectives. It describes in detail one fiscal year's resources and programmatic effort within a strategic context.

This *DOT Performance and Accountability Report* provides a public accounting of our FY 2004 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.

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



How We Select Our Performance Goals and Measures

Performance *goals* articulated in the introductory paragraph of a goal page in the DOT Plan are aimed at achieving one or more strategic outcomes, and convey a sense of how DOT creates value for the American public. Performance measures, however, are aimed at tangible effects created by DOT program activities.

We have tailored performance measures to how DOT gets our work done (described in the next section) for each performance goal. When considered along with external factors and information provided in program evaluations, these measurements give valuable insight into the performance of DOT programs and are meant to broadly illustrate how DOT adds value to the Nation. The *FY 2004 Performance Plan* depicted a top-level, integrated system for managing for results within DOT and was not an exhaustive treatment of all DOT programs and activities. This report must also be read with each DOT Operating Administration's own performance results to gain a comprehensive picture of everything DOT accomplished in FY 2004.

Terminology

We will use the following terminology throughout the report:

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

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

Performance Goal – a performance objective, connecting effects created by departmental activities and programs, and the resulting influence on strategic outcomes

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

How DOT Works to Achieve Strategic and Organizational Goals

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

- *Direct operations and investment in DOT capital assets that provide capability*, such as air traffic control and the St. Lawrence Seaway operations.
- *Infrastructure investments and other grants*, such as investment in highway, rail, transit, airport, and Amtrak capital infrastructure, and grants for safety, job access, or other important transportation programs.
- *Innovative financial tools and credit programs*, such as those provided for by the Transportation Infrastructure Finance and Innovation Act, and the Railroad Rehabilitation and Improvement Financing Program.
- *Rulemaking*, in areas such as equipment, vehicle or operator standards; for improving safety; and for fostering competition in the transportation sector of the U.S. economy.
- *State/local organizational capacity building*, through training, best practices, peer-to-peer exchanges and other activities that strengthen the capability of State Departments of Transportation, MPOs, 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 deployment and application*, such as fostering new materials

and technologies in transportation, and transportation-related research.

- *Education and outreach*, such as consumer awareness, and campaigns to influence personal behavior.
- *Public Information*, such as that provided by the Bureau of Transportation Statistics, and each DOT Operating Administration, so that States, localities, regions, and private sector entities can better plan their activities.

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

also a significant tool by which the Federal Government encourages transportation investment, but do not represent a key tool of intervention by DOT.

The performance section of the *Performance and Accountability Report* focuses on DOT's five strategic goal areas and describes the results seen in FY 2004. Some activities are internal ones, such as financial management, procurement, and personnel, without which the Department could not operate or hope to achieve its goals. The *Organization 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.



PERFORMANCE REPORT

Our FY 2004 Results: A Reader's Guide

For each strategic and organizational goal, we present performance goals and measures that are also found in DOT's *FY 2004 Performance Plan*, along with our performance against them. For each performance goal we provide:

- a description of the challenge we face – the reason for action;
- the measure or measures we are using to judge success, and the FY 2004 targets for each;
- a discussion of other agencies who share in our efforts, or whose outcome goals we contribute to;
- the external factors that may present special challenges in achieving our goal;
- special management challenges (when related to the goal); and
- a performance forecast for FY 2005.

To present information meaningfully, we have relied on these general rules about data and data interpretation in preparing this report:

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.

Summary Performance Report: To help interpret single-year results and historical trends, we have

provided a tabular summary of long-term performance at the beginning of each strategic goal section.

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.dot.gov>. In that Web site, we also provide information to resolve the inadequacies that exist in our performance data.

Preliminary vs. Final Results: Reporting FY 2004 results by November 2004 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.

Single-Year Results vs. Historical Trends:

Federal and State programs rarely aim to influence simple things. We tackle complex national problems such as safety, pollution, and congestion. Sometimes we see progress overwhelmed by external factors, such as economic growth or recession, market shifts, or extreme weather, and sometimes we get a "helping hand" from those same factors. Always there is natural fluctuation year to year.

DOT sets annual performance targets for the outcomes it aims to influence. Targets set a mark so we can judge our progress. They also force us to think hard about what we can—and can't—do to get results. In this report, we focus on single-year results for FY 2004. There is no simple formula that ties the results in one year to the success or failure of programs. DOT's *FY 2004 Performance and Accountability Report* invites the reader to "look over our shoulder" as we improve transportation and make Americans' quality of life better.

Integrating FY 2004 Resource Expenditure Accounting With Achievement of Our Goals

A fundamental strength of DOT programs is that our activities affect multiple goal areas. By design, a dollar spent on transportation infrastructure cannot only advance mobility, but safety, National security, economic growth, and the mitigation of harmful environmental impacts. We strive for clearer linkages between expenditures and performance.

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 National 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 (GAO) 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. Where there is a DOT performance goal associated with a management challenge, we discuss the challenge as a part of our performance against that goal, and made it stand out visually by use of a text box. We also indicate where a Management Challenge relates to more than one performance goal.

SAFETY STRATEGIC OBJECTIVE:

Promote the public health and safety by working toward the elimination of transportation-related deaths and injuries.

Strategic Outcomes:

- Reduce the number of transportation-related deaths.
- Reduce transportation-related injuries.

Safety is our most important strategic objective. We strive to improve the benefits of transportation while constantly reducing the risk to the health and well being of citizens. In FY 2004, DOT safety programs continued to reduce transportation-related fatalities and injuries.

Performance Summary:

	1998	1999	2000	2001	2002	2003	2004			
							2004	Target	Met	Not Met
Highway fatalities/100 million vehicle-miles traveled (VMT)	1.58	1.55	1.53	1.51	1.51(r)	1.48(r)	1.45**	1.38		X
Fatalities involving large trucks per 100 million truck VMT	2.70	2.70	2.60	2.45	2.30(r)	2.29*	2.21#	2.07		X
U.S. commercial fatal aviation accidents/100,000 departures (Last 3 years' average)	0.046	0.051	0.037	0.037	0.026	0.024(r)	0.021*	0.028	X	
Fatal general aviation accidents	396	364	341	359	348(r)	366(r)	340*	349	X	
Rail-related accidents and incidents per million train miles	24.17	23.55	23.40	22.61	19.77	18.88(r)	17.42*	17.49	X	
Transit fatalities/100 million passenger-miles traveled	0.564	0.530	0.499	0.482	0.473	0.461(r)	0.359*	0.487	X	
Number of incidents for natural gas and hazardous liquid pipelines	389	341	381	338	323	369(r)	298*	310	X	
Serious hazardous materials incidents in transportation	456	544	576	598	471(r)	485(r)	450*	509	X	
* Preliminary estimate; (r) Revised; # Projection from trends.										
**Early estimate based on a statistical forecasting model using historical fatality and vehicle-miles traveled data. This estimate will change when the early estimate of fatality and VMT data for 2004 are available in spring 2005										

HIGHWAY SAFETY: Highway crashes cause 95 percent of all transportation-related fatalities and 99 percent of transportation injuries, and are the leading cause of death for Americans age two and every age four through 33. Alcohol is still the single biggest contributing factor to fatal crashes;

in 2003 alone, an estimated 17,013 lives (equating to 40 percent of all crash-related fatalities) were lost in alcohol-related crashes. In 2002, about 11 percent of all people killed in motor vehicle incidents are involved in a crash with a large truck, yet trucks represent only four percent of registered

vehicles and over eight percent of the vehicle-miles of travel. Twenty percent of Americans (or about 60 million people) still do not use safety belts all of the time when driving motor vehicles. The large number of crashes has placed a considerable burden on our Nation's health care system and has had significant economic effects. The cost to our economy of all motor vehicle crashes was approximately \$230 billion in 2000, or 2.3 percent of the U.S. gross domestic product.

Performance measures:

Fatalities per 100 million vehicle-miles of travel (VMT)				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	1.50	1.40	1.40	1.38
Actual:	1.51	1.51(r)	1.48(r)	1.45#
<i>(r) Revised; * preliminary estimate; # projection from trends</i>				

**** Note on data:** FY 2004 fatality rates are based on fatality forecasted by a time series ARIMA model (see data details in Appendix C for more information). Inputs were monthly fatality counts from the Fatality Analysis Reporting System from 1975 to 2003. Vehicle miles traveled data for 2003 are preliminary estimates provided by FHWA. The FY 2004 VMT projection assumes a 2.0 percent increase from 2003 VMT estimates. Final figures for these measures will be reported in next year's report.

Data and estimates of vehicle miles traveled (VMT) are provided by the Federal Highway Administration (FHWA) and can be viewed on the FHWA Web site at <http://www.fhwa.dot.gov>.

2004 Results: DOT did not meet the highway fatality rate target, and although the truck-related fatality rate continues to decline, DOT did not meet its truck-related fatality rate target for 2004 based on preliminary projections from the statistical trend. Meeting the DOT highway fatality goal depends on actions within the States, including legislatures, highway safety offices, and State, county and local law enforcement. However, as a direct result of DOT's programs, motor vehicle travel has become safer. The overall fatality rate declined from 3.35 in 1980 to an estimated 1.45 in FY 2004.

Deaths of passenger vehicle occupants decreased significantly (2.9 percent) in 2003. Occupant fatalities in passenger cars decreased by 5.4 percent, while occupant fatalities in light trucks and vans (LTVs), to include sport utility vehicles (SUVs), vans and pick up trucks increased by 1.4 percent. Occupant fatalities in SUVs increased by 10 percent. In 2003, the number of pedestrians, bicyclists, and others who were not occupants of moving motor vehicles killed in motor vehicle crashes declined by 2.1 percent. Fatalities for children 0 to 3 remained the same in 2003 with 494 deaths, still below 500 an all time low, while fatalities among children ages 4 to 7 continued to decline (1.7 percent). Fatalities for children 8 to 15 years old, however, increased 1.8 percent. Alcohol-related fatalities declined 2.9 percent, but still claimed over 17,000 lives. Motorcycle rider fatalities increased for the sixth year in a row, 73 percent since 1997.

Using a performance-based management process, the National Highway Traffic Safety Administration (NHTSA) made available \$152 million in State and community highway safety formula grants. States used this and their own funds to reduce speed-related fatalities, encourage proper use of occupant protection devices; reduce alcohol and drug impaired driving; reduce crashes between motorcycles and other vehicles; reduce school bus crashes; improve police traffic services; improve emergency medical services and trauma care systems; increase pedestrian and bicyclist safety; improve traffic record systems; and improve roadway safety. The grants also provided support for State data collection and reporting of traffic deaths and injuries.

Safety Belts

In the past four years, safety belt use has increased steadily from 71 percent in 2000 to 80 percent in 2004. The 80 percent safety belt usage will save 15,200 lives and \$50 billion in economic costs associated with traffic-related crashes, injuries, and deaths every year. 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 and suburban areas. In FY 2004, States that allowed more stringent enforcement of their belt use laws reached a milestone of 84 percent belt use.

Most passenger vehicle occupants killed in motor vehicle crashes continue to be unrestrained—and many of these result in ejection of the unrestrained person from the vehicle during a rollover event. In 2003, passenger vehicle occupant fatalities in rollover crashes declined for passenger cars and pickup trucks, but increased for vans (3.6 percent) and SUVs (6.8 percent). Even as the total number of passenger vehicle occupants killed in rollover crashes declined, 59 percent of SUV occupant fatalities still occurred in rollover crashes.

In FY 2004, NHTSA conducted one National *Click It or Ticket* campaign while encouraging States to continue to conduct periodic high-visibility safety belt law enforcement mobilizations. In addition, the agency developed program strategies to assist States in implementing continuous high-visibility enforcement operations (24 hours a day, seven days a week). NHTSA began to implement initiatives included in the *2003 Occupant Protection Integrated Project Team* (IPT) report and continued demonstration projects designed to increase safety belt use among rural populations, pick up truck drivers, teens and minorities as directed.

NHTSA made available over \$25 million in Occupant Protection Incentive Grants to 35 jurisdictions (31 States, the District of Columbia, Puerto Rico and two U.S. territories) that implemented specific occupant protection laws and programs such as a safety belt law providing for primary enforcement, or a law requiring safety belt use in each vehicle seat.

Impaired Drivers

Alcohol-related crashes and their related morbidity and mortality tolls continue to pose a significant public health challenge throughout the country. Alcohol-related fatalities per 100 million decreased slightly from 0.61 in 2002 to 0.59 in 2003 (the most current data). In 2003, NHTSA estimates that about seven percent of all police-reported crashes were alcohol-involved, amounting to 40 percent of all

fatal crashes, claiming 17,013 lives. Therefore, NHTSA continued to enhance its impaired driving program, by targeting high-risk populations (e.g., underage drinkers, 21–34 year olds, high blood alcohol concentration and repeat offenders).

NHTSA launched a *Strategic Evaluation States* (SES) initiative, involving 13 States with either high annual totals of alcohol-related fatalities or high alcohol-related fatality rates per 100 million vehicle-miles of travel. All 13 are combining sustained impaired driving enforcement campaigns with periodic high-visibility enforcement efforts combined with media campaigns delivering the message “*You Drink and Drive, You Lose.*”

NHTSA collaborated with Federal partners and the States to promote alcohol screening and brief intervention, launching a major National impaired driving prevention initiative. Finally, NHTSA provided ideas to States for more effective anti-impaired driving implementation strategies that emerged from previous demonstration programs, including those on traffic records system improvement. States conducted impaired driving enforcement crackdowns during the Christmas/ New Year’s holidays and again around Labor Day 2004.

NHTSA made available more than \$31 million in *Alcohol-Impaired Driving Countermeasures Incentive Grants* to 36 States having alcohol-impaired driving countermeasure laws or programs, such as administrative license revocation laws and graduated licensing programs, or meet certain performance criteria based on their alcohol-related fatality rates. As of September 30, 2004, 49 States, the District of Columbia and Puerto Rico received \$80.6 million in incentive grants for lowering the legal threshold for impaired driving to 0.08 percent blood alcohol concentration (BAC). As of July 2004, all 50 States, the District of Columbia and Puerto Rico had enacted 0.08 BAC laws with the passage of legislation in Delaware; however, Minnesota’s law does not become effective until August 2005. In addition, NHTSA provided discretionary grants to States to demonstrate the effectiveness of a comprehensive

approach to reducing impaired driving and to identify areas requiring improvement in a State's impaired driving control system.

Safer Vehicles

To improve tire safety, NHTSA announced the release of ratings for tires used on most of the Nation's passenger vehicles to assist consumers in purchasing new vehicles or replacement tires. Likewise, NHTSA unveiled an enhanced scoring system to provide consumers with valuable new rollover information. Now, in addition to the star rating used to rank a vehicle's likelihood of rollover in a single-vehicle crash, NHTSA also now reports the percent chance of rollover and how the vehicle ranks in its class. NHTSA re-issued a warning to users of 15-passenger vans because of an increased rollover risk under certain conditions. Similar warnings were issued in CY 2001 and CY 2002. To improve side-impact crash protection, NHTSA proposed a major regulatory upgrade for all passenger vehicles.

NHTSA will maintain or enhance the five-year vehicle recall completion rate (72 percent) through initiating early investigations and ensuring that the average completion time for a defect investigation remains at 8 months or less.

The *Defects Investigation Program* collects information, analyzes, and conducts investigations of potential vehicle safety defects that can affect the occurrence and severity of crashes. NHTSA also monitors recalls conducted by manufacturers to determine whether notification to owners, scope of vehicles or equipment covered, and remedies performed are adequate. In 2003 (latest data available), there were 476 defect recalls involving 14.9 million vehicles and over 1.58 million items of motor vehicle equipment, including tires. With the routine submission of additional manufacturer data pursuant to the requirements of the *Transportation Recall Enhancement, Accountability, and Documentation (TREAD) Act*, NHTSA, through its safety defect information system, called the *Advanced Retrieval Tire, Equipment, Motor vehicles Information System (ARTEMIS)*, the agency has access to a substantially increased

amount of early warning data that can be analyzed to determine whether a potential safety-related problem exists.

Information on NHTSA's rollover ratings, five star crash tests, defect investigations, and safety recalls can be found on the agency's newly redesigned Web site, www.safercar.gov, which was reconstructed to be more consumer-friendly.

The Federal Motor Carrier Safety Administration (FMCSA) and its State partners have reduced the fatalities rate in crashes involving large trucks and buses for six consecutive years. The fatality rate for crashes involving large trucks, which takes into account increased risk exposure due to yearly increases in Truck-Vehicle Miles Traveled (TVMT), has been reduced by 20 percent since 1996. FMCSA, together with its Federal and State partner safety programs have accounted for an estimated 1,248 lives saved in 2003.

Compliance and Enforcement

Setting regulatory standards are the cornerstones of FMCSA's compliance and enforcement mission. In FY 2004, the agency issued final rules concerning HAZMAT permitting, fuel tank design, driver training, and driver history. In addition to providing technical assistance to industry and the public, FMCSA established an electronic e-mail box for submission of questions regarding *Federal Motor Carrier Safety Regulations (FMCSRs)*. In FY 2004, FMCSA has responded to approximately 700 e-mail inquiries and has processed in excess of 3,500 phone calls concerning safety regulations.

During FY 2004, FMCSA continued to place a high priority on enforcement and compliance operational activities. FMCSA obligated \$166 million to States for motor carrier compliance and enforcement activities to compliment Federal operations. During the first nine months of FY 2004, Federal and State safety enforcement operations to ensure compliance with FMCSRs included:

- 1,288 border safety audits*
- 1,991 conditional carrier reviews*

- 18,604 new entrant safety audits*
- 8,321 safety compliance reviews*
- 232,927 border inspections*
- 2,157,933 roadside inspections*

In FY 2004, the number of States participating in the *Performance and Registration Information Safety Management System*, an initiative that links the safety records of motor carriers with their ability to register their vehicles, increased by three to a total of 35; and, enforcement operations resulted in FMCSA initiating 4,129* enforcement cases.

**Figures are for activities reported through June 30, 2004.*

Education and Outreach

FMCSA provided commercial motor vehicle (CMV) safety training for over 4,040* State and local law enforcement personnel; 386 FMCSA employees, and 5,777* Federal, State and local law enforcement personnel received training in Commercial Motor Vehicle Criminal Interdiction.

FMCSA also launched a major initiative to promote the use of safety belts by CMV drivers. The program encompasses partnership opportunities, research, education, and outreach, together with law enforcement, to educate CMV drivers about the dangers of not wearing safety belts and to encourage their use. Additionally, FMCSA published and disseminated a report on best highway practices utilized by the safest commercial motor carriers and a brochure on safety management for motor carriers that focuses on the safety management practices of the industry's safety leaders.

**Figures are for activities reported through June 30, 2004.*

Driver Identification and Qualification

In FY 2004, FMCSA issued rules covering the minimum training requirements for drivers of longer combination vehicles (LCV), minimum training for entry-level drivers, and safety performance history of new drivers.

Medical qualifications of CMV drivers remain an area of focus. During FY 2004, FMCSA completed

a Drug Test Results Study required by the *Motor Carrier Safety Improvement Act (MCSIA)*; reviewed 693* applications for vision exemptions and 99* applications for diabetes exemptions; and, amended medical standards by publishing new *Blood Pressure Guidelines*.

**Figures are for activities through June 30, 2004.*

Safety Information, Research and Technology

FMCSA's Research and Technology (R&T) Programs provide advances and innovations to improve CMV safety. To focus and prioritize our R&T activities, FMCSA completed in FY 2004 a five-year R&T Strategic Plan (2005–2009). In addition, FMCSA completed pilot testing of fatigue management technologies; published two research reports on sleep apnea and an analysis of the motor coach industry hours of service and fatigue management techniques; initiated creation of a car-truck interaction database; began a field operational test that will collect real-world CMV driving data; completed field operational testing and began initial deployment planning for forward collision avoidance, rollover avoidance, and lane departure warning systems; continued study of driver fatigue management techniques employed by safe CMV drivers; completed a best practices study of CMV training; issued a report on light vehicle-heavy vehicle interaction; issued a report on high risk CMV driver data; and continued to provide technical support to States to deploy *Commercial Motor Vehicle Information Systems and Networks (CVISN)*.

FMCSA continued the Large Truck Crash Causation Study in FY 2004, finishing data collection, completing 90 percent of crash case coding and beginning development of a data analysis plan. In addition, FMCSA completed the feasibility report for the Bus Causation Study and approved a data collection plan.

DOT/FMCSA efforts continue to implement the President's order to open the southern border to expanded commercial motor vehicle operations under NAFTA. In a unanimous decision, the United States Supreme Court helped to clear the way for implementation of three rules governing the

operation of Mexico-domiciled commercial vehicles beyond the border commercial zones by reversing a January 2003 decision of the U.S. Court of Appeals for the Ninth Circuit and holding that FMCSA was not required to prepare an Environmental Impact Statement and Clean Air Act Conformity Analysis before promulgating the rules.

FMCSA continues to develop and sustain its programs by increasingly integrating the findings and recommendations of the Government Accountability Office (GAO), DOT Inspector General (IG) and National Transportation Safety Board (NTSB) as integral components of the agency's safety strategy and operational procedures. In FY 2004, FMCSA closed five recommendations issued by the DOT IG concerning: maintaining readiness at the southern border, new entrant safety audits, training of Federal/State personnel for Mexican carriers, and two recommendations addressing data quality procedures and grants. In addition, FMCSA closed five NTSB recommendations related to: hours of service (HOS) regulations, issuing and implementing new standards for cargo tank rollover protection devices, the feasibility of regulating shippers and others who encourage HOS violations and compliance reviews on new entrant carriers.

Responding to Secretary Mineta's challenge to reduce fatalities, the FHWA gathered with State DOTs and other critical safety partners for a National safety summit in Kentucky and all participants committed to take action. As a result of DOT/FHWA leadership, over 30 States have initiated the development and implementation of a State Strategic Highway Safety Plan that includes the *4E's of Highway Safety* (engineering, education, enforcement, and emergency services).

The American Association of State Highway and Transportation Officials, Governor's Highway Safety Association, and American Association of Motor Vehicle Administrators joined Secretary Mineta by also adopting the DOT safety goal to reduce the fatality rate to 1.0 per 100 million

vehicle miles of travel by 2008. To achieve this goal, the DOT/FHWA, with these and other safety partners, developed implementation guides that include strategies and countermeasures to address specific types of highway crashes. Over 35 States are developing and implementing action plans based on these guides.

The FHWA engaged lead States to develop strategic safety plans with strong crash data systems, a State-wide goal for reducing deaths within a set period of time, and stakeholder safety teams supporting the effort. Twenty-five States have now completed or drafted strategic safety plans and 20 additional States are actively developing plans.

Efforts continued to develop technology-based systems that could significantly reduce roadway departure, intersection, and pedestrian crashes. An intersection safety test facility was established at the FHWA Turner Fairbanks Highway Research Center.

FY 2005 Performance Plan Evaluation: DOT does not anticipate meeting the targets in FY 2005.

Performance Assessment Rating Tool (PART) – Federal Motor Carrier Safety Administration (FMCSA) Grant Program – Moderately Effective

The FMCSA Grant program distributes block grants to States based on a formula. The Motor Carrier Safety Assistance Program reduces commercial motor vehicle (CMV) involved crashes, fatalities, and injuries through consistent, uniform, and effective State CMV safety programs and is in close alignment with the agency mission of saving lives and reducing injuries by preventing truck and bus crashes.

The Office of Management and Budget conducted a *Program Assessment Rating Tool* (PART) analysis and found the program moderately effective. Overall, the program is strong, but lacks State-wide commitment to work toward Federal annual or long-term goals of the program. In addition, Federal managers and program partners

are not held accountable for cost, schedule and performance results.

OMB recommended that FMCSA:

- Commits partners to working toward same long-term/annual goals and link State and Federal program goals.
- Promotes accountability of Federal managers by holding them accountable for cost, schedule, and performance results.
- Utilizes SAFETEA reauthorization proposals to effectively distribute \$227 million in grants to States to reward them for implementing CMV safety measures and reduce State fatality rates.

To address these recommendations, FMCSA now requires its State Division Administrators to submit, each fiscal year, a safety plan to coordinate, focus and align State partners with FMCSA’s long-term strategic goal of reducing the rates of crashes, injuries and fatalities involving large trucks and buses. The safety plans identify large truck safety problems within each State and develop specific strategies and activities to measurably reduce their severity. The plans also include output and outcome goals to enable Federal managers and partners to gauge and assess their success.

FMCSA has also developed an index measure of how efficient agency operations are at saving lives. FMCSA’s efficiency goal is to increase the number of lives saved as compared to the total resources expended to realize the safety benefits. The following *FMCSA Efficiency Index* table is a measure illustrating agency efficiency at saving lives for the period 1997–2003, as compared with a 1996 baseline (consistent with the agency’s and DOT’s CMV safety performance goal). The efficiency measure compares annual lives saved in large truck-related crashes with the FMCSA budget. This is accomplished by using the 1996 baseline fatality rate to project the fatalities that actually occurred for that year and then dividing the resultant projection by FMCSA’s total budget. FY 2004 marks the sixth consecutive year that

resource increases have yielded compounded safety benefits.

FMCSA Efficiency Index

Year	Actual
1997	-0.13
1998	0.88
1999	1.99
2000	2.73
2001	2.70
2002	3.02
2003	3.42*
<i>*Preliminary estimate</i>	

Performance Assessment Rating Tool (PART) – National Highway Traffic Safety Administration (NHTSA) Grant Program – Moderately Effective

The Highway Traffic Safety Grant program provides money to States, territories and Indian nations to fund a wide range of highway safety programs. State highway safety programs are funded with Occupant Protection Incentive Grants, Safety Incentive Grants for Primary Seat Belt Law, State Safety Data Grants, and Emergency Medical Services Grants, among others.

The PART assessment shows that the program is in close alignment with the agency mission of saving lives and reducing injuries by preventing vehicle crashes. OMB found that NHTSA was successful in meeting their performance goals to decrease the fatality rate and has a good relationship with States. This program received a rating of moderately effective.

OMB recommended that NHTSA:

- streamline grant programs to reduce complexity and increase grantee focus on safety performance;
- increase the direct appropriation of funds for the grant program; and
- create an accountability mechanism to link State performance and incentive grant awards.

To measure its efficiency, NHTSA will track the allocation of (U.S. Code Title 23) Section 402 formula grants within 45 days of enactment of appropriation.

The Administration's SAFETEA proposal to Congress included a streamlined grants program to reduce complexity and increase focus on safety performance.

NHTSA is implementing procedures to increase review of State grant programs to insure greater accountability for use of grant funds to improve performance. NHTSA will perform a management review of each State every three years and will perform special management reviews when State performance in specific areas, such as impaired driving and occupant protection, is below National norms and is not improving.

Management Challenge – Highway Safety (IG)

In 2002, 42,815 people were killed and more than 2.9 million were injured in traffic crashes on the Nation's highways. Fatalities reached the highest level since 1990, increasing by 1.5 percent from 2001. Although fatalities involving large truck crashes have continued to decline, one out of nine traffic fatalities in 2002 resulted from crashes involving large trucks.

FMCSA must ensure that only drivers with the requisite skills obtain and retain commercial driver's licenses (CDLs) by: curbing CDL fraud through more rigorous oversight of State testing programs and promptly implementing revisions to the CDL program passed by Congress in 1999 that strengthen the regulatory framework of the program. FMCSA must also improve tools used to select high-risk motor carriers for compliance reviews by taking aggressive steps to obtain more complete and accurate data.

NHTSA has made significant progress implementing the TREAD Act and now must fully implement its new safety defect information system. NHTSA must ensure that its screeners and investigators are able to analyze the large volume of manufacturers' information expected and appropriately use that information to determine

when to open and how to prioritize vehicle defect investigations.

DOT, NHTSA, and the States made impressive progress in FY 2003 on increasing the use of safety belts. This important initiative deserves continuing emphasis, as do programs to prevent driving under the influence of alcohol and drugs.

DOT Actions: FMCSA FY 2004 activities and initiatives to curb CDL fraud, strengthen the regulatory framework passed by Congress in 1999 and improve the tools necessary to identify high-risk motor carriers for compliance reviews by improving the accuracy and completeness of data include:

CDL Improvement:

- Published final rules establishing the minimum training qualifications for entry-level drivers and for drivers of longer combination vehicles.
- Conducted 16 compliance reviews of State CDL programs.
- Allocated \$22 million of grant funding in support of States to address compliance, fraud and security issues.
- Implemented a major initiative to identify CDL fraud testing and licensing through enhanced compliance reviews, covert monitoring of State and third-party examiners, and through Social Security Number verification.
- Strengthened oversight of annual State self-certification of CDL programs.

Data Quality Improvements:

- Continued Commercial Vehicle Analysis Reporting System (CVARS) grants, accounting for a 22 percent increase in the number of eligible crashes reported.
- Implemented the DataQs system in all 50 States and the District of Columbia. The system improves data quality by providing an online capability for carriers to challenge

State inspection and crash data used in FMCSA's database.

- Designed, developed, and implemented the State Safety Data Map, a new evaluation tool for assessing individual State data quality.
- Drafted a first-ever, comprehensive Agency-wide Data Quality Improvement Plan.
- Incorporated numerous refinements and enhancements in Motor Carrier Management Information System (MCMIS).

Pursuant to Section 12 of the TREAD Act, NHTSA published a final policy statement for Rollover Tests in November 2003. Improving defect investigations, the routine submission of additional manufacturer data pursuant to the requirements of the TREAD Act, allows NHTSA access to a substantially increased amount of early warning data that can be analyzed to determine whether a potential safety-related problem exists, giving the agency the ability to report any defects to the public in a more-timely manner. Safety belt use increased to 80 percent, an all-time high in FY 2004, exceeding the 2004 target of 79 percent. To prevent drug impaired driving, NHTSA developed training programs for law enforcement and delivered public education materials on the consequences of drug impaired driving targeted to youth.

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

Performance measures:

Fatal aviation accidents (U.S. commercial air carriers) per 100,000 departures (reported by 3-year average).				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	.043	.038	.033	.028
Actual:	.037	.026	.024(r)	.021*
<i>*Preliminary estimate; (r) Revised.</i>				

Number of fatal general aviation accidents.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	379	379	374	349
Actual:	359	348	360	340*
<i>*Preliminary estimate</i>				

2004 Results: DOT met the commercial aviation fatal accident rate and general aviation fatal accident rate targets.

Commercial Air Carrier Safety

In FY 2004, the FAA and the aviation industry recorded unprecedented success in preventing commercial air carrier fatal accidents, capping the lowest three-year accident rate in the history of U.S. civil aviation. FAA's focused safety agenda with its emphasis on using the latest technology to break the chain of events that lead to accidents, along with strong partnerships with industry, continue to keep the skies safe for commercial airspace passengers.

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

FAA also worked in FY 2004 to increase aviation safety by preventing fuel tank explosions. In addition to more than 60 directives aimed at preventing ignition sources, FAA began work on a

proposal to outfit certain large commercial jets with equipment that would virtually eliminate these accidents. The proposed systems replace oxygen in a jet's fuel tank with an inert gas, preventing the potential ignition of flammable vapors. FAA researchers have produced a lightweight system that contains no moving parts, with a cost that is relatively small compared to previous proposals.

FAA continued efforts to improve use of onboard technology that can enable pilots to navigate aircraft to any point in the world using only geographical coordinates. Required Navigation Performance (RNP) is an important step in moving the U.S. from an exclusively ground-based navigation system to one located within the aircraft itself. By providing pilots precise guidance to all runways, RNP can help prevent two major types of accidents, controlled flight into terrain and accidents that occur during the approach and landing phase of flight. In addition, RNP will enable pilots to land in weather conditions that would ordinarily require diversion to alternate airports.

In addition to these safety initiatives, FAA also engaged in hands-on preventative measures in FY 2004, such as increased security screening of cargo to root out fireworks and other hazardous materials. Those efforts aided in the detection of many undeclared hazardous materials, allowing FAA to safeguard airline passengers through increased investigation of violations of hazardous materials regulations.

General Aviation Safety

Although most people are familiar with FAA's role in commercial aviation, they may not be aware that it also oversees the safety of almost 300,000 general aviation aircraft in the United States. These aircraft include single-seat home-built airplanes, rotorcraft, balloons, and highly sophisticated extended-range turbojets. General aviation activities include student training, crop dusting, fire fighting, law enforcement, news coverage, sightseeing, industrial work, on-demand air taxi service, corporate transportation, as well as personal use and recreational flying.

FAA has continued to work proactively to meet its goal of reducing general aviation accidents. Because of the challenges weather and terrain present in Alaska and the broad use of general aviation as a means of transportation, FAA's Flight Plan focuses specifically on reducing general aviation accidents in Alaska. Two programs in particular, Circle of Safety and CAPSTONE, appear to be making a difference. Circle of Safety is a consumer education program that works with passengers and organizations to share responsibility and take a more active role in their own flight safety. CAPSTONE helps provide pilots information on their positions relative to terrain, as well as real-time weather information in the cockpit.

As another strategy for reducing fatal accidents in general aviation, FAA and industry have established the Joint Steering Committee, which brings together key people from the general aviation community and the agency. This group met for the second time in July 2004 and established a new focus: (1) analyzing recent accidents to identify emerging trends—for example, the shift in the use of aircraft more for transportation and less for recreational flying; (2) identifying specific new interventions addressing major accident cause areas, which include formal guidance measures (e.g., FAA Advisory Circulars), publishing instructional articles in magazines, and using Web-based materials and interactive training aids; and (3) achieving consensus on effective new strategies and interventions, regardless of whether the effort is carried out by the government or industry.

Runway Safety

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

The number of the most serious types of runway incursions is projected at 28, which is significantly lower than the FAA's performance limit of 40 for FY 2004. This continues a downward trend that began five years ago and achieves a 12.5 percent decrease from FY 2003.

FAA's Office of Runway Safety developed and coordinated efforts to improve runway safety including a variety of education and awareness materials focused on air traffic controllers, pilots, and airport drivers to help reduce the number of serious runway incursion incidents. Other tools, such as air traffic control memory aids, better airport surface markers, and public service announcements, have contributed to the reduction in incursions.

A new runway technology system was prepared for deployment in FY 2004 to curb the threat of runway collisions at major U.S. airports. Airport Surface Detection Equipment, Model X (ASDE-X) was first commissioned at General Mitchell International Airport in Milwaukee, Wisconsin. It is the first phase of equipment that will eventually incorporate safety data derived from multiple airport sensors to help controllers detect potential runway collisions. Enhancing the FAA's runway safety initiative, the ASDE-X equipment maps moving objects on the airport grounds or approaching by air. After its deployment in Milwaukee, FAA began preparing to place ASDE-X at 25 U.S. airports.

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 end up too close to each other or an obstruction.

FAA estimates that it will exceed the FY 2004 target of 629 for operational errors by approximately 10. To reduce operational errors,

FAA is conducting a number of efforts designed to address the main known causes of the problem. FAA studies have shown that controller awareness is the largest contributor to operational errors, primarily from the inappropriate use of displayed data. The second largest factor is the lack of an adequate plan to ensure proper separation of aircraft. Other factors include miscommunication between controllers and pilots, and adverse weather that causes pilots to deviate from or be unable to accept controllers' instructions.

FAA has begun rolling out a training program called *National Air Traffic Professionalism* (NATPRO) which couples an awareness seminar component with computer skills training to enhance a controller's ability to concentrate. NATPRO utilizes an interactive computer program to build awareness skills and increase controller's awareness of cognitive skills affecting performance. NATPRO can serve as a means for improving safety and efficiency by enhancing perception skills and improving situational awareness.

FAA will also employ better management oversight as a key to reducing operational errors. FAA is working toward increasing its operational supervisors to a level of 1,715 as mandated by the Congress. Additional supervision can help deploy staffing resources appropriately to provide adequate plans to ensure proper separation and adjust to adverse weather that can cause pilots to deviate from or be unable to accept instruction from controllers.

FAA continues to look for a better understanding of the causal factors of operational errors. FAA will continue to conduct evaluations of its 600+ air traffic control facilities in the coming years to look for specific procedural and operational situations that may be contributing to causal factors of operational errors. In addition, FAA is also developing and implementing JANUS, a tool designed specifically to identify causal factors in air traffic-related incidents. JANUS is a set of unique algorithms that accept data input from personnel were involved in an operational error.

The model will then provide an evaluation of the probable causes of these specific errors. From this science, senior leadership will have better recommendations as to what system improvements need to be made to cause decrease the number of operational errors. While JANUS is still in the development phase, it has already shown itself to be useful in understanding the variety of factors involved in operational errors.

FY 2005 Performance Plan Evaluation: DOT will meet the fatal aviation accident and general aviation accident performance targets in FY 2005.

Management Challenge – Aviation Safety (IG)

The U.S. aviation industry continues to be the safest in the world, with one commercial fatal accident occurring in FY 2004. However, FAA must adjust its safety oversight to emerging trends in the aviation industry and changing economic conditions. While air carriers have turned increasingly to outside, contracted repair stations, FAA continues to focus its inspection resources on air carrier's in-house maintenance work. The Inspector General recommended that FAA strengthen its oversight procedures of foreign aviation authorities conducting inspections on its behalf and outsourced aircraft maintenance. There was real progress in 2004 on runway incursions (potential collisions on the ground), but operational errors (when air traffic controllers allow planes to come too close together in the air) continue to increase. Corrective actions are imperative to address this ongoing safety problem.

DOT Actions: During FY 2004, DOT/FAA took several steps to address the aviation safety issues identified above.

Repair Stations

To address challenges at air carrier repair stations, FAA formed a Risk Assessment Work Group, which is developing a repair station prototype program. This program will bring together a team representing all the areas of expertise to oversee aviation certificate holders of large repair stations

or companies that own multiple repair stations and satellite repair stations.

The FAA formed the Surveillance Requirement and International Surveillance work groups to develop a new process to oversee aviation article repairs from start to finish. These workgroups focus on researching, developing and selecting risk assessment and risk analysis tools that will improve oversight of repair stations by discovering root causes of violations in order to eliminate violations before they occur. Both work groups focus on tools for the domestic and international repair station environments respectively. Each group was formed from a variety of inspectors and other technical experts from FAA's Regulation and Certification Flight Standards Service.

FAA has developed a repair station Surveillance and Evaluation Program by revising the Surveillance and Evaluation Assessment Tool to target identified risks and incorporate the system safety approach into repair station oversight.

In FY 2005, FAA will conduct followup reviews with the three foreign aviation authorities conducting inspections on its behalf and develop a procedure to verify that the authorities place adequate emphasis on FAA regulations when conducting their inspections.

Runway Incursions/Operational Errors

The FAA educated pilots through ongoing Runway Safety Educational and Awareness Programs. The Office of Runway Safety and Operational Services completed and distributed the *Runway Safety – A Pilot's Guide to Safe Surface Operations* brochure for the pilot community. The brochure emphasizes five safety areas that pilots should concentrate on to avoid making the errors that lead to runway incursions. The safety areas are: planning surface operations, taxi procedures, aircraft lights, communications and airfield markings, and signs and lights.

The FAA has concluded, from the research and analysis conducted by the Chief Scientist for Human Factors, that the operational error severity classification system should not be changed unless

additional objective measures can be developed that support the changes. The Severity Index system is based on predominantly objective facts with little room for subjective interpretation.

Performance Assessment Rating Tool (PART) – Federal Aviation Administration (FAA) Airport Improvement Program – Moderately Effective

The Airport Improvement Program (AIP) provides funding to airports for infrastructure improvements such as safety, security, and capacity projects.

The OMB PART assessment indicated the overall purpose of the program is clear and performance goals are clearly defined and achievable. The program is working to improve its overall cost effectiveness and efficiencies through greater use of automated systems and greater delegation to the regions. Dependence on the Federal Government’s assistance varies based on the airports’ location, size and financial resources. Large airports are less dependent on Federal funds because of their ability to access different revenue sources such as landing fees. The structure of the program combined with the statute can limit the program’s ability to quickly respond to new situations and events.

OMB recommended that FAA:

- examine the grant formula to channel resources to airports most in need of Federal assistance;
- align the AIP Program's budget with FAA's and DOT's performance objectives;
- create a performance measure for efficient program delivery;
- create a mechanism that captures full program costs, to better support budget decisions.

In response to those recommendations, FAA proposed in FY 2004 formula changes to channel more AIP funding to small and medium airports. The enacted FAA reauthorization, Vision 100, did not incorporate these formula changes. As enacted, however, it did include other changes to the AIP that benefit small airports. Those airports will be allowed to carry over funding, share entitlements

with other small airports, and use Federal funds for a greater range of projects. In addition, FAA has increased the Federal share of project costs from 90 to 95 percent at small hub and smaller airports through the end of FY 2007.

FAA also developed efficiency measures to track the number of labor hours spent in administration of each grant and the number of labor hours spent in administration of each \$1 million in grant awards for the program, which administers \$3 billion in total grant awards. Data collection through the Labor Distribution Reporting (LDR) system has been implemented and baselines for the measures will be developed in FY 2005.

RAIL SAFETY: In FY 2004, more than 50 percent of the rail fatalities were trespasser-related and 43 percent occurred at highway-rail grade crossings. To reduce rail fatalities, Federal Railroad Administration (FRA) is increasing safety partnerships with the rail industry, furthering its educational outreach, and rigorously emphasizing compliance with safety standards.

Performance measure:

Rail-related accidents and incidents per million train miles.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	N/A	N/A	17.49
Actual:	22.61	19.77	18.88(r)	17.42*
<i>(r) Revised; *Preliminary estimate</i>				

The original goal in the FY 2004 performance plan tracked rail accidents and highway-rail grade crossing incidents. In retrospect, the Department realized that this only measured a subset of our safety performance. Therefore the goal has been expanded to include all rail-related accidents and rail related incidents.

2004 Results: DOT met the performance target. FRA oversaw a rail industry that reduced rail-related accidents and incidents by 3.5 percent in FY 2004, while the number of train-miles and

employee-hours increased (4.5 percent and 0.5 percent, respectively).

FY 2005 Performance Plan Evaluation: DOT expects to meet the target in 2005.

Transit Safety: Public transit provides a flexible alternative to automobile and highway travel, offering a higher degree of safety as well. Currently transit is one of the safest modes of travel per passenger mile traveled. According to the National Safety Council, riding the bus is 47 times safer than car travel. By train, customers are 23 times safer than by car. 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.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	.497	.492	.492	.487
Actual:	.482	.473	.461(r)	.359*

*(r) Revised; *Preliminary estimate. The FY 2004 target for transit fatalities was adjusted from 0.492 to reflect the downward trend in the actual fatalities data for CY 2001, 2002, and 2003.*

2004 Results: DOT met the performance target. The preliminary estimates for the FY 2004 transit fatalities per 100 million miles traveled was calculated using the transit fatalities data from the National Transit Database (NTD) for the first half of 2004, and from the first quarter data from the FRA Rail Accident Reporting System (RAIRS).

In FY 2004, the Federal Transit Administration’s (FTA) strategy for further reducing the low rate of transit fatalities included FTA’s continued investments in new, safer bus and rail vehicles and

improvements to track and transit facility conditions. For new projects, safety continued to be a design consideration from project inception. FTA planning and research funds assisted States, local transit authorities, and the transit industry by providing safety technical assistance, improving compliance with the Americans with Disabilities Act’s safety requirements, and by improving technology and training programs. FTA supported the Transportation Safety Institute’s (TSI) safety and security training program, which provided 29 safety and security training courses to over 4,900 transit employees. Additionally, through its Triennial Review program, FTA provided oversight of the States’ programs for Safety Oversight of Rail Systems to ensure they are in compliance with the requirements of the State Safety Oversight Rule for Rail Fixed Guideway Systems. FTA also continued to conduct audits of alcohol and drug testing programs.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target in 2005.

Pipeline Safety: A network of 2.3 million miles of pipelines transports natural gas to more than 52 million residential and commercial customers. While pipelines are among the safest modes for transporting liquids and gases, the nature of the cargo is inherently dangerous. Pipeline failures can pose an immediate threat to people and communities. On average, excavation damage causes 30 percent of pipeline failures for all types of pipelines. Corrosion also causes on average another 17.5 percent of all pipeline failures and natural forces such as earthquakes cause nine percent of failures. Incorrect operation, construction/material defects, equipment malfunction, failed pipe, and other miscellaneous causes account for the remaining 43.5 percent of pipeline failures.

Performance measure:

Number of incidents for natural gas and hazardous liquid pipelines.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	344	327	310
Actual:	338	323	369(r)	298*

*(r) Revised; *Preliminary estimate.*

2004 Results: Based on projections, DOT met the performance target.

DOT previously focused on minimum mechanical and pipeline operating standards, but found that compliance-based pipeline safety programs can result in piecemeal risk management that can sometimes overlook subtle relationships among failure causes. DOT began to apply risk-based solutions to ensure that pipeline operators' resources are applied in priority order to those areas where an accident could have the highest consequences (e.g., populated or unusually sensitive environmental areas, or commercial waterways).

DOT's integrity management regulations require all owners or operators of hazardous liquid pipelines to take additional safeguards in populated areas, unusually environmentally sensitive areas, and commercially navigable waterways. These regulations establish rigorous new testing requirements using internal inspection, pressure testing, or other equivalent technology. Equally important, it requires operators to combine those test results with other information they have about their pipelines, and to use that information to identify and address any threats their pipelines could pose to the public or the environment. The Integrity Management Program (IMP) regulations raise the bar for pipeline safety standards more than any other regulation in the past 30 years.

The number of natural gas and hazardous liquid pipeline incidents for 2003 was slightly higher than DOT's target. The trend line, however, continues a downward slope representing an improvement in safety performance. A higher than expected

number of excavation damages to gas distribution pipelines was again the major cause of incidents this year. The Research and Special Programs Administration (RSPA) continues to work closely with the construction industry to heighten awareness of pipeline and underground utility safety.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target in 2005.

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

Performance measure:

Number of serious hazardous materials incidents in transportation.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	523	515	509
Actual:	598	471	485(r)	450*

*(r) Revised; *Preliminary estimate.*

2004 Results: Based on preliminary estimates, DOT met the performance target.

Road accidents leading to HAZMAT releases continue to dominate overall serious hazardous materials incident statistics, increasing from 85 percent of total serious incidents to 89 percent in FY 2004. Serious rail incidents accounted for approximately 14 percent of the total.

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

- Develop and maintain National standards for the safe, secure transportation of hazardous materials;

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

During FY 2004, RSPA published the *Emergency Response Guidebook 2004* (ERG2004), a guide to aid first responders in quickly identifying the specific or generic classification of the hazardous material(s) involved in an incident on any mode of transportation, and protecting themselves and the general public during the initial response phase of the incident. The ERG2004 was developed jointly by the U.S. Department of Transportation, Transport Canada, and the Secretariat of Communications and Transportation of Mexico for use by firefighters, police, and other emergency services personnel who may be the first to arrive at the scene of a transportation incident involving a hazardous material. The ERG is updated every three to four years to accommodate new products and technology.

Approximately 1.7 million copies of the ERG2004 will be distributed in the U.S. to State and local first responders through cooperative efforts with State agencies. DOT's goal is to place a Guidebook in every emergency service vehicle Nation-wide (i.e., police cars, fire trucks, and Emergency Medical

Technician vehicles). The Canadian Government is distributing 85,000 copies of the Guidebook in English, and 25,000 copies in French. DOT is providing 10,000 copies in Spanish for distribution in Mexico.

FAA implemented a prioritized risk-based shipper inspection plan. This plan incorporates HAZMAT information electronically shared with other modal administrations and deployed as a searchable database for field agents.

The vast majority of serious hazardous material incidents that occur on our Nation's roads involve commercial motor vehicles (CMV). In 2003, FMCSA and its Federal and State partners reduced serious HAZMAT incidents involving CMVs to 376, exceeding its stated goal of 430 incidents.

Compliance with Regulations

In FY 2004, FMCSA issued a final rule on HAZMAT Permitting, establishing standards and procedures for carriers of high-hazard materials. Safety enforcement operations conducted in FY 2004 to ensure compliance with Federal Hazardous Materials Regulations (FMHRs) include:

- 46 cargo tank facility reviews*
- 191 hazardous materials shipper reviews*
- 1,409 hazardous materials compliance reviews*
- 5,120 hazardous materials package inspections*
- 128,109 hazardous materials vehicle inspections*

* Figures are for activities reported through June 30, 2004.

Safety Information and Technology

FMCSA has initiated development of a hazardous material shipper prioritization algorithm to identify high-risk HAZMAT carriers, and completed identification and analysis of factors affecting cargo tank stability.

FRA has continued work to increase safety in the area of HAZMAT shipments. In FY 2004, FRA has

continued work on many initiatives in the HAZMAT area. This includes but is not limited to: focusing enforcement efforts, visiting shippers with the highest number of incidents over the six-year period, tracking Hazardous Materials Incident Reports, and tracking how many times FRA inspectors investigate an incident. FRA also partnered with TSA to address security vulnerabilities, and developed and implemented *Administrative Guidelines* to enhance inspection data quality and promote uniformity throughout all railroads. Additionally, FRA made modifications to the data collection system that enable more accurate data review by inspection personnel for the purpose of resource planning. FRA continues to investigate hazardous materials related tank car concerns, resulting in improved quality procedures at the impacted facilities, and perhaps leading to the recall of additional tank cars for further review.

FY 2005 Performance Plan Evaluation: DOT will meet the target in FY 2005.

Management Challenge – Hazardous Materials Safety and Security

The Inspector General (IG) has noted that the dual role of ensuring the safety and security of HAZMAT shipments is an enormous challenge for DOT. More than 800,000 HAZMAT shipments are made daily by air, water, rail, or highway, with more than 94 percent of the shipments transported by highway.

The IG recommends DOT centralize its cross-modal HAZMAT inspection and enforcement activities. Coordinating these efforts among modal administrations will enable the Department to leverage its limited inspection resources, thus increasing both the effectiveness and number of HAZMAT shipment inspections. DOT also needs the capacity to identify and effectively marshal its resources when several of the Department's modes are experiencing problems with the same shipper or transporter of HAZMAT.

DOT actions: The Policy Office in the Office of the Secretary was delegated responsibility for the Intermodal Hazardous Materials Program in August 2000 after the completion of the 1999 Hazardous Materials Program Evaluation (HMPE). The HMPE recommended improvement to the Department's hazardous material programs through Department-wide strategic planning and program coordination, more focused delivery, and better data. In addition, the Office of the Inspector General's (OIG) report on DOT's Top Management Challenges for FY 2004 included better coordination of the Department's hazardous materials inspection and enforcement activities as one of the priority areas for DOT to address.

Within the Policy Office, the Office of Safety, Energy, and Environment (OSEE) serves as the focal point for intermodal and cross-modal HAZMAT issues and is working to achieve a Department-wide approach to implementing the Intermodal Hazardous Materials Program. OSEE is working with the executives of the Operating Administrations responsible for hazardous materials activities. Collectively, they have noted accomplishments, targeted priority areas that need to be addressed and initiated implementation through staff-level working groups. For example, intermodal working groups are: enhancing data collection and creating a unified HAZMAT inspection and enforcement database; examining DOT's HAZMAT training needs; determining the effectiveness of HAZMAT security measures; improving HAZMAT employee training standards in the regulations; determining the effectiveness of current packaging standards; and developing memorandums of understanding between modes for enforcement and policy interpretations.

Six of the twelve HMPE recommendations and two of the areas for further analysis have been completed. An action plan reflecting priority areas to be addressed is currently being implemented. This action plan includes several tasks to improve multimodal coordination in response to the HMPE and IG recommendations.

MOBILITY AND ECONOMIC GROWTH STRATEGIC OBJECTIVES:

1. *Shape an accessible, affordable, reliable transportation system for all people, goods, and regions.*
2. *Support a transportation system that sustains America's economic growth.*

Strategic Outcomes:

- Improve the physical condition of the transportation system.
- Reduce transportation time from origin to destination for the individual transportation user.
- Increase the reliability of trip times for the individual transportation user.
- Increase access to transportation systems for the individual user.
- Reduce the cost of transportation for the individual user.
- Reduce barriers to trade that are related to transportation.
- Improve the U.S. international competitive position in transportation goods and services.
- Improve the capacity of the transportation workforce.

Mobility as much as any other factor defines us as a Nation and is intertwined with the Nation's economic growth. It connects people with work, school, community services, markets, and other people. Supporting economic growth is one of the most basic purposes of our National transportation network, which carries over 4.6 trillion passenger-miles of travel and 3.9 trillion ton-miles of freight every year, generated by more than 276 million people and six million businesses.

DOT's aim is an affordable, reliable, and accessible transportation system. To achieve reliability and accessibility, our transportation system frequently relies on common public infrastructure that is maintained on limited National resources – our land, waterways, and airspace. DOT's objective is to optimize capital investment in these public systems and manage them to maximize the benefit to all Americans. In FY 2004, DOT mobility and economic growth programs improved condition, performance, and services provided by the Nation's transportation system.

Performance Summary:

	1998	1999	2000	2001	2002	2003	2004			
							2004	Target	Met	Not Met
Percentage of travel on the NHS meeting pavement performance standards for acceptable ride.	89.8	90.5	90.9	90.9	90.6	90.8#	90.8#	93.0		X
Percent of total annual urban-area travel occurring in congested conditions.	28.3	29.0	29.3	30.4	30.5(r)	30.8	30.9#	32.3	X	

* Preliminary estimate; (r) Revised; # Projection from trends.

	1998	1999	2000	2001	2002	2003	2004			
							2004	Target	Met	Not Met
Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels.	4.7	5.0	5.0	4.3	0.2	0.7(r)	0.7*	2.0		X
Percent of flights arriving on time.	76.8	76.0	74.9	76.2	82.2	82.3	79.02*	82.1		X
Percent of days in shipping season that the U.S. sectors of the St. Lawrence Seaway are available, including the two U.S. locks in Massena, N.Y.	97.6	98.9	99.2	98.3	98.7	98.9	99.1	99.0	X	
Percent of key rail stations ADA compliant.	29	49	52	67	77	82	82	89		X
Percent bus fleets ADA compliant.	72	77	80	85	90	93	95#	92	X	
Employment sites (000s) made accessible by Job Access and Reverse Commute transportation services.	N/A	1.7	17.0	28.4	52.1	92(r)*	92*	50.0	X	
Passengers (millions) in international markets with open skies aviation agreements.	43.0	49.4	56.8	56.4	57.0(r)	58.7(r)	63.1*	62.7	X	

* Preliminary estimate; (r) Revised; # Projection from trends.

HIGHWAY INFRASTRUCTURE CONDITION: The Nation’s transportation system serves major population centers, international border crossings, intermodal transportation facilities, and major travel destinations. The condition of this system can affect wear-and-tear on vehicles, fuel consumption, travel time, congestion, and comfort, as well as public safety. Improving pavement and bridge condition is also important to the long-term structural integrity and cost effectiveness of the transportation system. The National Highway System (NHS) represents just 4 percent of total highway miles, but carries one trillion, or approximately 43 percent of, vehicle-miles traveled (VMT) annually. While steady progress has been made over the past decade, pavement condition on the NHS can still be improved. Drivers in the U.S. cross deficient bridges more than one billion times each day. While the 115,000 bridges in the NHS are

in better condition than the total U.S. inventory of approximately 590,000 bridges, a significant number are either structurally deficient or functionally obsolete.

Performance measure:

Percentage of travel on the NHS meeting pavement performance standards for acceptable ride.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	92.0	92.5	93.0
Actual:	90.9	90.6	90.8#	90.8#

Projection from trends.

2004 Results: DOT did not meet the performance target.

The percent of pavement on the NHS with acceptable ride quality, according to an

International Roughness Index (IRI) of 170 inches per mile or less, was 90.6 percent in CY 2002, primarily because a small number of States with significant total VMT reported deteriorating pavement conditions. Two of these States have reported significant and consistent deteriorating pavement conditions over the last four years. The goal is to reach a target of 95 percent of vehicle miles traveled on NHS pavements with acceptable ride quality by CY 2008. The travel on the NHS on facilities with a reported IRI of 95 inches per mile or less (good condition) increased from 49.3 percent in CY 2001 to 50.0 percent in CY 2002. This compares to 42.8 percent reported in CY 1998. FY 2003 results will be available later this year.

A series of pavement smoothness workshops were initiated focusing on the key States that most affect the pavement condition target. Site reviews of pavement production quality assurance systems were performed in four States. With the States, the FHWA also introduced a new Pavement Design Guide and conducted 19 additional workshops on various pavement and materials related technologies. Technical advisories on pavement surface texture, quality assurance, and asphalt and concrete materials design and testing were prepared. The FHWA asphalt and concrete mobile laboratory visited 15 States to offer technical assistance.

Research and development on advancing pavement materials testing, performance prediction, analysis, and recycling continued through cooperative agreements with eight universities. Under a partnership with the Foundation for Pavement Preservation and Michigan State University, the National Center for Pavement Preservation was created.

FHWA continued to implement the Accelerated Construction Technology Transfer (ACTT) program. The ACTT program was initiated in FY 2003 to reduce excessive construction time, construction related delays, and encourage innovative asset management practices. During FY 2004, 9 ACTT workshops involving Federal,

State and local transportation officials were conducted.

The FHWA Highways for LIFE team promoted this Department initiative by describing highway construction project success stories and available technologies at numerous AASHTO, industry, and FHWA meetings.

The percentage of deck area on deficient bridges on the NHS declined from 32.6 percent in CY 1998 to 30.2 percent in CY 2003. The FHWA made significant progress toward the implementation of high-performance materials to ensure more durable bridges. Forty-two States are using high performance steel and 44 States are using high-performance concrete in bridges. The FHWA helped States implement the load resistance and factor design, which provides a more reliable and uniform level of safety for bridges. At least 46 States have fully or partially implemented the Load and Resistance Factor Design (LRFD) specification for bridges, or are developing LRFD implementation plans.

The highway bridge and structure Research and ITS program activities focused on improved stewardship and management approaches, such as the development and testing of innovative technology for non-destructive evaluation and methodologies for bridge management. A systems approach to design, construction, inspection and maintenance to assure more reliable, durable bridges was emphasized. A wide variety of activities to assure bridge safety, reliability, and security continued with a particular emphasis on developing techniques to control structural corrosion and prevent other damage.

The Emergency Relief (ER) program demonstrated its value during the rapid reopening of Interstate 95 (I-95) following the catastrophic crash and fire involving a fuel tanker truck at an overpass in Bridgeport, Connecticut. Two million dollars in ER funding was made available immediately to assist the State in emergency recovery efforts. The FHWA also granted Connecticut early access to bridge construction funds that had been allocated for future projects.

FY 2005 Performance Plan Evaluation: DOT will likely not meet the target in FY 2005.

Performance Assessment Rating Tool (PART) – Federal Highway Administration (FHWA) Federal Aid Highway Program – Moderately Effective

FHWA's Highway Infrastructure program provides Federal financial and technical assistance to States to construct and maintain a National system of roads and bridges.

In the PART assessment, OMB found that the program has been generally successful in improving highway safety and maintaining mobility, but that it should also take steps to improve oversight of State management of Federal highway dollars. The program has made progress in achieving its long-term performance goals.

OMB recommends that FHWA:

- advocate amending the program's authorizing statute to establish an oversight program to monitor the effective and efficient use of funds;
- prepare a plan for improving program and project oversight of States;
- direct more resources to comprehensive evaluation activities, particularly at the State project level; and
- devise efficiency measures to show that program delivery is cost effective.

In response to those recommendations, FHWA has developed efficiency measures to track (1) the percentage of major Federally-funded infrastructure projects that meet schedule and cost estimates established in project or contract agreements, or miss them by less than 10%; and (2) the median time to complete environmental impact statements and environmental assessments for DOT-funded infrastructure projects.

FHWA has identified and implemented steps to mitigate the risks involved in a major, or mega,

project by developing a comprehensive, standard oversight approach that includes monitoring project costs, schedule, and performance. Monthly cost, schedule, and status reports are prepared for all major projects. Periodic status meetings are held with the State Transportation Agency's project management team, the DOT modal administrations, and other agencies involved in the project to discuss project costs, schedules, and quality issues. These discussions are of sufficient enough detail to allow the involved parties to recognize significant issues and develop actions designed to mitigate any adverse impacts. As an example, FHWA managers and the Boston Central Artery Tunnel project managers met during FY 2004 on a quarterly basis to discuss cost recovery issues on the project and how to achieve timely resolution to these issues.

FHWA has developed guidance for financial reporting on infrastructure projects with total costs greater than one billion dollars. Critical analysis of annual finance plans ensure that complete and consistent reporting of basic standardized financial data is being provided to the Department. The finance plans are useful in identifying emerging cost and funding shortfalls in projects. Project Management Plans that clearly define project roles, responsibilities, processes, and activities are strongly encouraged. These practices increase the likelihood that a project will be completed on time; within budget; with the highest quality; in a safe manner; and in a manner in which public trust, support, and confidence is maintained. FHWA is engaged in a number of activities that are intended to improve major project management and oversight. Specific strategies are being deployed in four key areas: optimizing internal staffing, effective recruitment, maximizing training, and stewardship and oversight initiatives. These strategies will help FHWA achieve a multi-disciplinary approach to major project management and oversight and provide for a greater emphasis on oversight of higher-level management and financial issues.

Management Challenge – Intermodal Approach to Transportation Planning and Investment (GAO)

The Government Accountability Office (GAO) has stated that enhancing intermodal transportation planning and investment decisions resulting from that planning presents a major challenge to DOT. The GAO emphasizes that the projected growth in freight volume up to 70 percent in the next 20 years, and projected growth in passenger travel up to 25 percent by 2010, will lead to increased congestion and decreased mobility. GAO called on DOT to address this challenge through an increased emphasis on intermodalism, intermodal planning and investment, and faster, more efficient modal linkages.

DOT Actions: DOT concurs with the need to enhance intermodal planning and investment decisions. During the past year, the Department has undertaken numerous initiatives to facilitate better intermodal decision-making.

The Department's proposed SAFETEA legislation proposes several items to address intermodal activities. DOT conducted several outreach sessions to all of the intermodal industry and included SAFETEA programs to: enhance an intermodal capacity building effort; launch a freight gateway and freight intermodal connector investment program through a two percent set-aside of funds; encourage Intelligent Transportation System intermodal investments; and lower the threshold for TIFIA funding from \$100 million to \$50 million, thereby allowing for smaller intermodal project financing.

DOT developed a Department-wide Freight Action Agenda, which involves all the modal administrations and focuses them and their major constituencies on taking an intermodal, integrated approach to facilitating the safe, secure and efficient movement of goods. The Action Plan contains eight initiatives. Its most important initiative is the Intermodal Freight Project Facilitation process consisting of a Freight Project Liaison Officer and a project facilitation team that

includes representation from the DOT offices. The Action Plan provides for the creation of a Freight Data Task Force to help improve the availability of freight information for the public policymakers.

The Department has also established an Intercity Bus Task Force to develop policy recommendations to improve the performance and interconnectivity our National intercity transportation network for passenger travel. The DOT task force brings a system-wide, multi-modal perspective to policy development. A particular focus is to capitalize on the intercity bus industry's potential to increase the interconnectivity of our national transportation network, and increasing public-private partnering with the industry.

The Office of the Secretary (OST) has initiated a study of *Intermodal Infrastructure and Its Economic Impacts*. In addition, OST, the Maritime Administration (MARAD) and FHWA have initiated a *Short-Sea Shipping Barriers & Opportunities Study*.

Highway Congestion: Traffic congestion on our Nation's highways has steadily increased over the past twenty years as the population of drivers, number of vehicles, and travel volume continue to increase at a faster rate than system capacity. According to the Texas Transportation Institute, drivers experience 3.5 billion hours of delay and waste about 5.7 billion gallons of fuel annually due to traffic congestion. The economic impact of congestion, including wasted fuel and time, was estimated to be about \$63 billion in CY 2002. Over 61.3 percent of the cost was experienced in the 10 metropolitan areas with the most congestion. Slowing the growth of congestion and delay aids urban travelers' mobility and productivity and curbs economic inefficiencies induced by congestion. Highly integrated Intelligent Transportation Systems (ITS) use electronic information and communications technology to extend the capacity of our existing infrastructure system, improving traffic flow and reducing bottlenecks.

Performance measure:

Percentage of total annual urban-area travel that occurs in congested conditions.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	30.0	30.9	31.6	32.3
Actual:	30.4	30.5(r)	30.8#	30.9#

(r) Revised; # Projection from trends.

2004 Results: DOT met the performance target.

The estimate of percent of congested travel was 30.8 percent in CY 2003, a figure well below the anticipated increase to 31.8 percent. The estimated result was only 0.3 percent higher than in CY 2002 and below the anticipated increase for the second straight year. The results for the CY 2002–2003 period suggest that the overall rate of growth in traffic congestion Nation-wide is slowing, and is much less than recently-projected increases of 0.7 percent annually.

Sixty-two of the original 75 metropolitan areas targeted in 1996 for deploying ITS have achieved a *medium* or *high* level of integrated ITS deployment.

The FHWA supported the completion of 153 regional ITS architectures and an additional 125 regional architectures are currently under development.

The 511-travel telephone number information service is now accessible to about 25 percent of the Nation’s population.

Forty-one States received Amber Alert planning grants designed to further include State and local transportation agencies into Amber Alert programs through which emergency alerts are issued to notify the public about abductions of children. In addition, sixteen States received Amber Alert implementation grants to install or enhance motorist information services to provide information about child abductions.

The FHWA continued to assist State Departments of Transportation in evaluating their work zone

management practices, relative to state-of-the-art procedures. Selected metropolitan areas assessed their Traffic Incident Management (TIM) programs for program and institutional issues, on-scene operational issues, and communications and technology.

The FHWA began to develop a measure of travel times on significant freight corridors and border crossings to better understand and target efforts to keep freight moving as efficiently as possible in corridors and borders.

The Freight Analysis Framework (FAF) was used to develop the freight-related portions of the proposed SAFETEA legislation and explore options to re-route traffic on the transportation network in the event of the loss of major transportation infrastructure. MARAD used the FAF extensively to evaluate the potential modal diversion of freight from highway to proposed short-sea shipping services.

In partnership with private organizations, the FHWA evaluated supply chains to the U.S. and found that information transfer of an intermodal freight exchange is an area where improvements in speed, accuracy and visibility could reap large rewards in supply chain management. The FHWA is exploring the feasibility of using a common Electronic Freight Manifest (EFM) to improve information flow efficiency and security.

The FHWA allocated funding to 108 projects under the National Corridor Planning and Development and Coordinated Border Infrastructure Grants Program to improve planning and project development in order to improve the flow of people and freight.

In coordination with the FMCSA Southern Border Improvement Grant funds were allocated to California, Arkansas, New Mexico, and Texas to improve commercial motor vehicle inspection facilities.

A Freight Professional Development (FPD) Program was established consisting of training, technical assistance tools, university-based programs, and a freight resource library.

The FHWA was instrumental in guiding two Latin America Trade and Transportation studies, involving 13 and 16 State agencies respectively, which address the transportation response of the U.S. to increased trade with Latin America.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target in FY 2005.

TRANSIT RIDERSHIP: In CY 2003, people rode public transportation systems 9.0 billion times, traveling to and from work, school, and social events. Public transit offers many benefits. It is one of the safest ways of traveling, relieves road congestion, and reduces air pollution. But achieving these benefits depends upon ridership. Federal investment in transit combined with State and private sector funds make public transportation possible for millions of Americans every day.

Performance measures:

Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for changes in employment levels.				
	<u>2001**</u>	<u>2002**</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	3.5	2.0	2.0
Actual:	4.3	0.2	0.7(r)	0.7*

*(r) revised; *Preliminary estimate; ** Figures for 2001 and 2002 represent the average change in passenger miles and are not comparable to the CY 2003 and CY 2004 data. A new measure that uses data on transit "boardings" for the largest 150 transit operators was introduced in CY 2003. These 150 operators account for about 94 percent of all transit ridership.*

2004 Results: DOT did not meet the performance target.

FTA adopted a new ridership measure in FY 2003 that allowed the agency to monitor progress on a monthly basis. Based on historical data for other ridership measures, FTA established a stretch goal of two percent per year.

To support this goal, FTA implemented several new initiatives to promote ridership, and recognized transit agencies that developed innovative and

successful programs to increase ridership. Some of the FTA accomplishments include the following:

- Individual Marketing Demonstration Program. In April 2004, FTA selected four communities to receive grants in an innovative pilot program aimed at increasing public transit ridership through targeted, customized marketing methods. The results will be made available to communities nationwide.
- FTA worked with the National Transit Institute to develop a two-day course on *Market-Based Ridership Strategies* that was piloted at the Triangle Transit Authority in Durham, North Carolina in June 2004.
- FTA is working with the Transit Cooperative Research Program on a study entitled, *Determining the Elements Needed to Create High Ridership Transit Systems* that is expected to be completed by the end of 2005.
- FTA launched a new Web site page dedicated to innovative practices from the transit industry for increasing transit ridership. The site showcases innovative practices implemented by transit agencies that have resulted in increased ridership.
- FTA included ridership as one of its executive core accountabilities used to measure performance.

FY 2005 Performance Plan Evaluation: DOT may not meet the target in FY 2005.

TRANSPORTATION ACCESSIBILITY:

Transportation is vital in maintaining independence and mobility for people with disabilities, linking them to employment, health care, and participation in the community. The President’s New Freedom Initiative seeks to create a more accessible public transportation system for individuals with disabilities. The Personal Responsibility and Work Opportunity Reconciliation Act limits the time a person can receive welfare benefits, and generally requires recipients to participate in job and training activities. For many of these people, access to

transportation is the key to making a transition from welfare to work.

Performance measures:

Percentage of bus fleets that are ADA-compliant.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	83	86	89	92
Actual:	85	90	93	95*
<i>* Preliminary estimate.</i>				

Percentage of key rail stations that are ADA-compliant.**				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	58	68	79	89
Actual:	67	77	82	82
<i>** Rail station measure does not reflect stations under a time extension as discussed below.</i>				

Number of employment sites (000s) that are made accessible by Job Access and Reverse Commute (JARC) transportation services.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	15.7	20.4	23.5	50.0
Actual:	28.4	52.1	92(r)*	92*
<i>* Preliminary estimate</i>				

2004 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. The overall rate of increase in bus accessibility has slowed somewhat since many of the buses replaced were already lift-equipped. While all new buses are lifted equipped or have low floors, it is difficult to reach 100% compliance because many transit operators retain buses for more than twenty years.

DOT did not meet the key rail station target for compliance with the ADA. There are 685 key rail stations Nation-wide designated as such by the commuter authority or light/rapid rail operator, in

cooperation with the local disability community. Of the 685 key stations, 547 were covered by a Voluntary Compliance Agreement, and are included in the stations that make up our goal. In addition, although the ADA required all key stations to be accessible by July 26, 1993, the DOT ADA regulation at 49 CFR 37.47 (c)(2), permits the FTA Administrator to grant an extension up to July 26, 2020, for stations requiring extraordinarily expensive structural modifications to bring them into compliance. Currently, there are 138 stations under FTA-approved time extensions, and these stations are not included in the goal. Although transit operators have made significant progress in meeting the goal, the remaining stations tend to be those that require the most significant amount of work. Many of these operators are discovering that the scope of work that is needed exceeds their original projections. As a result, more time will be required to complete the necessary modifications. In recognition of these realities, FTA has lowered its projections for achieving full key station accessibility beyond FY 2004.

FTA continues efforts to encourage transit agencies to meet the accessibility goal for key rail stations. Since 1995, FTA has conducted more than 700 assessments or follow-up assessments to track progress towards ADA compliance taking on-site measurements, recording specific accessibility features at stations, and simultaneously providing technical assistance. Quarterly rail station status reports and key rail station assessments have significantly increased the number of key rail stations that have come into compliance. FTA is providing the necessary technical assistance to our grantees as we work together to achieve the goals.

DOT met the FY 2004 target for employment sites that are made accessible by Job Access and Reverse Commute (JARC) transportation services. In areas that receive JARC funds, the program successfully meets the transportation needs of low-income individuals seeking reliable transportation to employment and related support services. Grantees have used JARC funds for a wide variety of services, ranging from expansion of fixed route bus systems, and demand responsive services, to

the provision of customer information. In each community that received a grant, JARC transportation services have reached new employment sites, making thousands of entry-level jobs and employers accessible for the program’s target populations. New stops have also increased access to critical employment support sites, particularly childcare and job training facilities.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target in FY 2005.

AVIATION DELAY: Commercial aviation delays cost airlines an estimated three billion per year. Passengers are directly affected by missed flight connections, missed meetings, and loss of personal time. Delays fell nearly 30 percent between FY 2000 and FY 2003, but increased nearly 40 percent between FY 2003 and FY 2004. FY 2004 delays are approximately seven percent above the level of FY 2000. Most of this increase in delay can be attributed to bad weather.

Performance measure:

Percent of on-time flights.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	77.2	78.2	82.1
Actual:	76.5	82.2	82.3	79.02*
* Preliminary estimate				

2004 Results: DOT did not meet the performance target.

As air traffic volume continued to return to pre-September 11 levels, delays have increased. To respond to this increase in delays, FAA continued to focus on easing congestion in eight metropolitan areas; improving overall capacity at the Nation’s top 35 airports, building new runways; enhancing access to reliever airports for general aviation operations; and increasing traffic coordination and communication by using new technologies.

FAA is dedicated to improving on-time arrival rates at O’Hare and throughout the country. As delays mounted across the system in FY 2004, FAA began negotiations in August with carriers serving

O’Hare International Airport in Chicago, Illinois, to reduce the number of scheduled flights and improve on-time arrival rates. O’Hare is a connecting point for thousands of airline passengers every day, and increasing delays at the already congested airport can create delays in many of the Nation’s other airports. In an effort to bring quick resolution to the problem, FAA has invoked authority provided within *Vision 100* allowing the agency to ask the commercial airlines to meet and discuss flight reductions at severely congested airports.

On-time arrival rates have long been a serious concern for FAA. As discussed in a FY 2003 report, in some FAA control towers, the equipment is more than 20 years old and is becoming increasingly difficult to maintain. In addition, the older equipment will have difficulty handling the increase in traffic projected for coming years. The *En Route Automation Modernization* (ERAM) program is aimed at modernizing the national air traffic system. ERAM will replace flight data processing and radar/surveillance data processing components of air traffic control software at all air route traffic control centers.

Finally, as part of implementing the Roadmap for Performance-Based Navigation (FY 2003–2020), FAA has begun developing criteria and guidance materials that will be used for new area navigation (RNAV) and required navigation performance (RNP). Use of RNP permits greater flexibility and standardizes airspace performance requirements. By adopting RNAV and RNP and leveraging existing and emerging cockpit capabilities, the FAA in collaboration with the aviation community will be able to improve airspace and procedures design, leading to increased capacity and improved efficiency.

The airline industry’s and FAA’s ability to keep flights on time is affected by the capacity of airports to accept flights for landing and the efficiency with which those flights can be handled.

Airport Daily Arrival Capacity

FAA exceeded its internal FY 2004 target of 51,332 arrival positions; preliminary data shows

that arrival capacity at the 35 busiest airports was 51,587 landings per day.

Long-term capacity throughout the National Air Space was increased; FAA commissioned two major new runways in Houston, Texas and Orlando, Florida in FY 2004. The Operational Evolution Plan, FAA’s long-range plan for expanding capacity in the National Air Space, identifies seven additional air carrier runways to be commissioned through 2014. Because constructing new runways is the most effective way to add ground capacity, particularly at the Nation’s larger airports, FAA is also improving the criteria for assessing the capacity of our larger airports and their ability to meet projected demand. This information, in turn, will be used to target efforts to use pavement, procedures, and technology to add capacity at airports with the greatest need and with the most potential to reduce delays Nation-wide.

FAA will also continue to develop and deploy technology that enables aircraft to safely take off and land in adverse weather. FAA continues to focus on adding runways, new terminal technologies, and improved data collection to meet its future capacity performance targets.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target for in FY 2005.

Airport Arrival Efficiency Rate

FAA missed its internal airport arrival efficiency rate target of 95.67 percent by less than one percentage point. Over the course of the year, the top 35 airports operated at 95.03 percent arrival efficiency.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target for on-time flights in FY 2005.

MARITIME NAVIGATION: More than 2 billion tons of freight worth one trillion dollars moves annually through U.S. ports and on our waterways. The St. Lawrence Seaway is the international shipping gateway to the Great Lakes, offering access and competitive costs with other routes and modes to the interior of the country. Commercial trade on the Great Lakes Seaway System annually generates

more than 150,000 U.S. jobs, \$4.3 billion in personal income, \$3.4 billion in transportation-related business revenue, and \$1.3 billion in Federal, State, and local taxes.

Performance measures:

Percentage of days in the shipping season that the U.S. portion of the St. Lawrence Seaway system is available.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	99	99	99	99
Actual:	98.1	98.7	98.9	99.1

2004 Results: For FY 2004, DOT’s Saint Lawrence Seaway Development Corporation (SLSDC) met the performance target.

An analysis of system non-availability during FY 2004 indicates that the most common cause was weather (57 hours, 29 minutes of the total 63 hours, three minutes of delays or 91 percent). These weather delays usually occur at the beginning and end of each navigation season, and are caused by poor visibility, high winds, ice, blizzards, and dense fog. The only other factor that reduced system availability in FY 2004 was vessel incidents (five hours and 34 minutes, or nine percent). Vessel incidents involve ship operations, and are usually caused by human error on the part of a vessel’s crew, but also include vessel breakdowns, which are caused by mechanical problems with a vessel.

While none of these factors is directly under the control of the SLSDC, the agency is taking steps to address these factors. For example, since 1997 the SLSDC has joined with its Canadian counterpart, the St. Lawrence Seaway Management Corporation, as well as the U.S. and Canadian Coast Guards, to institute a joint boarding program for the foreign vessels that use the Seaway. In FY 2004, the SLSDC continued this program by inspecting 100 percent of all ocean vessels in Montreal. This improved inspection regime has saved vessels, on average, four hours per transit and ensured that any safety, security, or environmental issues are addressed prior to entering U.S. waters. As a result, delays were

reduced and ocean carriers using the Seaway saved more than \$500,000 in operating costs during FY 2004.

In addition, the U.S. and Canadian Seaway agencies began enforcing mandatory Automatic Identification System (AIS) use on commercial vessels entering the waterway beginning in FY 2004. AIS technology uses data from ship-to-ship, ship-to-shore, and shore-to-ship, thereby enabling a constant two-way communication between mariners and the three Seaway vessel traffic control centers. Originally developed primarily for safety reasons, AIS has become increasingly of interest to maritime security officials in the post 9/11 environment as it offers the ability for them to track with precision any vessel carrying the transponder.

Of the remaining factors that cause system non-availability, the Corporation has the most control over the proper functioning of lock equipment. During FY 2004, there were no instances of any downtime due to malfunctioning lock equipment.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target in FY 2005.

INTERNATIONAL AIR SERVICE: Since the 1940's, international air transportation has been subject to restrictive bilateral agreements that raise prices and artificially suppresses 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 agreements have made it possible for the airline industry to provide better quality, lower-priced, more competitive service for millions of passengers in thousands of international city-pair markets.

Performance measure:

Number of passengers (in millions) in international markets with open skies aviation agreements.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	51.6	59.7	62.1	62.7
Actual:	56.4	57.0	58.7	63.1*

* Preliminary estimate

2004 Results: DOT met the performance target with an estimated 63.1 million passengers for FY 2004. DOT reached open skies agreements with Madagascar, Gabon, and Indonesia to bring to 63 the number of countries with which the U.S. has open skies agreements. During FY 2004, DOT also concluded a landmark aviation agreement for expanded air services with China and negotiated the first ever comprehensive air services agreement with Vietnam. While the liberalized agreements with China and Vietnam are not open skies agreements, they represent enormous potential growth opportunities for the future. The pact with China will more than double the number of airlines permitted to fly between the two countries and will permit a nearly five-fold increase in air services over the next six years. This increase in air services means that more airlines, businesses and travelers can take advantage of the growing trade opportunities between the two large and rapidly expanding economies. Similarly, the agreement with Vietnam will allow the first direct air services between the two countries that will help to meet current market demand and stimulate future growth in tourism and other commercial activities.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target in FY 2005.

HUMAN AND NATURAL ENVIRONMENT STRATEGIC OBJECTIVE:

Protect and enhance communities and the natural environment affected by transportation.

Strategic Outcomes:

- Improve the sustainability and livability of communities.
- Reduce the adverse effects of transportation on ecosystems and the natural environment.
- Improve the viability of ecosystems.
- Reduce the adverse effects of transportation facilities on the natural environment.
- Improve equity for low-income and minority communities concerning the benefits and burdens of transportation facilities and services.
- Reduce the amount of pollution from transportation sources.

Transportation makes our communities more livable, enhancing the quality of our lives and our society. However, transportation generates undesired consequences too, such as pollution, noise, and the use of valuable land and degradation of fishery habitat. No matter how much is done to improve the capacity and efficiency of our transportation system, we cannot consider our programs to be successful unless we also manage the effects on our environment, and ultimately our quality of life.

DOT's objective is to advance the benefits of transportation while minimizing its negative environmental impacts. In FY 2004, DOT environmental programs prevented as much harm as possible from being done to the environment by transportation projects and operations.

Performance Summary:

	1998	1999	2000	2001	2002	2003	2004			
							2004	Target	Met	Not Met
Acres of wetlands replaced for every acre affected by Federal-aid highway projects.	2.2	2.3	3.8	2.1	2.7	2.7	2.1	1.5	X	
Percent DOT facilities needed no further remedial action under Superfund Amendments and Reauthorization Act.	78	90	90	91	91	94	93	92	X	
Monthly moving average number of area transportation emissions conformity lapses.	N/A	N/A	6.0	6.0	6.0	6.0	6.0	6.0	X	
Tons of hazardous liquid materials spilled per pipeline million ton-miles shipped.	.0119	.0229	.0131	.0201	.0202(r)	.0129(r)	.0102*	.0126	X	
Number of people in U.S. (in thousands) exposed to significant aircraft noise levels.	722	585	440	411	294	276(r)	325*	400	X	

* Preliminary estimate; (r) Revised.

WETLAND PROTECTION AND RECOVERY:

Wetlands are an important natural resource. They provide natural filtration of pollutants, and they store and slow down the release of floodwaters, thereby reducing damage to downstream farms and communities. Wetlands also provide an essential habitat for biodiversity. But many of the Nation’s wetlands have been lost to development over the years, before their value was fully recognized. Highways and transportation facilities can be a significant factor affecting these ecosystems.

Performance measure:

On a program-wide basis, acres of wetlands replaced for every acre affected by Federal-aid Highway projects (where impacts are unavoidable).				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	1.5	1.5	1.5	1.5
Actual:	2.1	2.7	2.7	2.1

2004 Results: DOT met the performance target.

Federal-aid projects nationwide impacted 847 of wetlands and provided 1,761 acres of compensatory mitigation, or a ratio of 2.1 acres of compensatory wetland mitigation for each acre of impact. The FHWA coordinated wetlands programs and research initiatives with other Federal agencies including the Environmental Protection Agency (EPA) and the Department of the Interior. The FHWA, EPA, and the Army Corps of Engineers implemented guidance on how the *Transportation Equity Act for the 21st Century* (TEA-21) preference on the use of mitigation banks can be exercised under the Section 404, *Clean Water Act* permitting process, one of the first actions completed under the National Wetlands Mitigation Action Plan.

Based on criteria issued early in the year, the FHWA recognized seven new Exemplary Ecosystem Initiatives (EEI), exceeding the target of designating two additional initiatives and bringing the total number that FHWA has designated thus far to 15. An EEI is an exemplary or cutting-edge action or measure that will help sustain or restore

natural systems and their functions and values, using an ecosystem or landscape context. Examples include mitigation projects that support wildlife movement and habitat connectivity, the development of watershed-based environmental assessment and mitigation approaches, the use of wetland banking, and the use of special measures to prevent invasive species along highway rights-of-way.

Executive Order 11990, Protection of Wetlands, (42 FR 2 6961; 3 CFR, 1977 comp., p.121) directs Federal agencies to avoid to the extent possible adverse impacts associated with the destruction or modification of wetlands, and to avoid direct or indirect support of new construction in wetlands wherever there is a practicable alternative. Subsequent rulemaking clarified the requirement for wetlands replacement at a minimum ratio of 1:1. The DOT target exceeds the requirement by 50 percent.

FY 2005 Performance Plan Evaluation: DOT will meet the target in FY 2005.

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.

MARAD is the U.S. Government’s disposal agent for merchant-type vessels displacing 1,500 gross tons or more, and is required by law to dispose of all obsolete ships in the National Defense Reserve Fleet by the end of FY 2006. Due to the presence of hazardous substances such as asbestos and solid and liquid polychlorinated biphenyls (PCBs) and concerns raised by the EPA about the export of PCBs, sales for overseas disposal were halted in 1995. Additional ships will be added to the inventory as other merchant-type Federal Government vessels become obsolete.

Performance measure:

Percentage of DOT facilities needing no further remedial action under the Superfund Amendments and Reauthorization Act (SARA).				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	91	91	92	92
Actual:	91	91	94	93

2004 Results: DOT met the performance target.

Facility cleanup complies with the SARA process and with the National Oil and Hazardous Substances Pollution Contingency Plan. Working with States, local governments, and the EPA, DOT used a *worst first* prioritization system to attack the overall problem presented by DOT facilities where significant pollution problems present themselves.

FAA continued work under State agreements at several facilities and at the five facilities which EPA has identified as needing further evaluation, including the Jackson Homer Beacon Annex in Nebraska which was added to the Federal Facility Compliance Docket on July 19, 2004. A Preliminary Assessment will be conducted at the site to determine if it is actually contaminated. To reduce the likelihood of petroleum contamination from mission-critical equipment, FAA meets current EPA requirements for fuel storage tanks; continues to replace outdated fuel storage tanks at the end of their normal life cycle to prevent leakage; tests in-service tanks; and will investigate, remove or clean tanks at decommissioned facilities.

FHWA continued work at the FHWA Materials Laboratory located at the Denver Federal Center in Colorado. The Corrective Measures Work Plan, which identifies the corrective measures for site remediation as well as a schedule for implementing those corrective measures, was submitted to the State on April 13, 2004. Ongoing activities include the preparation of a Corrective Measures Performance Monitoring Plan, to be submitted in

February 2005, and a voluntary evaluation of compressed gas remediation technology for source area contamination cleanup.

During FY 2004, 15 vessels were removed from the National Defense Reserve Fleet sites for disposal. All of these removals were the result of dismantling/recycling contracts with ship disposal companies. It takes several months to complete the dismantling after a ship arrives at a contractor's disposal site. As of September 2004, disposal has been completed on a total of six ships: one from a removal in FY 2003 and five from FY 2004 removals. MARAD also entered into additional ship disposal contracts that will result in the removal of another 13 vessels in subsequent years.

FY 2005 Performance Plan Evaluation: DOT will meet the target in FY 2005.

MOBILE SOURCE EMISSIONS: The National Ambient Air Quality Standards (NAAQS) target six major pollutants as among the most serious airborne threats to human health. Transportation is a major contributor to some of the pollutants, particularly ozone, carbon monoxide and particulate matter. About two-thirds of transportation-related emissions come from on-road motor vehicles. The quality of our air is a public good, and the cost of these pollutants is not captured in the marketplace. For this reason, the Federal Government works to mitigate this negative impact.

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

Performance measure:

Monthly average number of area transportation emissions conformity lapses.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	6	6	6
Actual:	6	6	6	6

2004 Results: DOT met the performance target.

During FY 2004, the average number of areas in a conformity lapse at any given time was 6 out of a total of approximately 130 designated areas, less than 5 percent of the total.

In anticipation of the implementation of a new 8-hour ozone and particulate matter (PM) 2.5 standard to reduce ground-level ozone and fine particulate matter, the FHWA worked with the EPA and FTA to provide timely regulations and guidance to assist newly designated nonattainment areas in meeting conformity requirements under the new standards. The FHWA conducted numerous outreach activities with conformity stakeholders for the implementation of the new conformity rule. In cooperation with the Association of Metropolitan Planning Organizations (AMPO), the FHWA supported the formation of an Air Quality Subcommittee to address specific conformity issues faced by MPOs, specifically on emissions modeling issues and emerging issues related to the implementation of the new air quality standards. The FHWA also initiated a number of research studies to advance the state of the practice in the air quality and conformity analysis.

FY 2005 Performance Plan Evaluation: DOT will meet the target in FY 2005.

PIPELINE HAZMAT SPILLS: Americans expect reliable delivery of the products that fuel our vibrant economy, enable their mobility and enhance their quality of life. The recently-enacted *Pipeline Safety Act of 2002* will reinforce and strengthen initiatives and programs that RSPA already has in place to diminish risks of environmental harm from pipeline spills. Because

of the volume of liquid hazardous materials moved by pipelines, any spill into the environment is potentially a significant one.

More than 617 billion ton-miles of petroleum and other hazardous liquids move across the country through about 161,000 miles of hazardous liquid pipelines. While this is usually the least costly way to transport these bulk cargoes, it also entails some risk. DOT's performance goal is to reduce pipeline product spilled by 30 percent by 2006, from the last five years' average spill rate (0.0162 per million ton-miles shipped).

Performance measures:

Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	.0151	.0142	.0134	.0126
Actual:	.0201	.0202	.0129(r)	.0102*
<i>(r) Revised; *Preliminary estimate (inclusive of HVLs)</i>				

2004 Results: DOT met the performance target. Prevention and mitigation of pipeline spills requires improved site-specific knowledge of water and sensitive environmental areas to provide tailored actions to prevent leaks, and, if they do occur, assure that appropriate and timely response is undertaken.

DOT has begun rigorous oversight of new integrity management rules for hazardous liquid and natural gas transmission pipelines, designed to drive remaining integrity threats out of the Nation's pipeline system. In 2004, DOT extended the integrity management program oversight to gas transmission pipelines, and is working with State partners to ensure compliance with the integrity management program.

DOT plans to exclude all Highly Volatile Liquid (HVL) spills from this measure beginning in 2006, as HVLs are a small percentage of hazardous liquid materials. HVL spills vaporize without polluting land or water, and are primarily a safety, not an environmental, concern. If HVLs were excluded

from the FY 2004 measure, the preliminary estimate of results would be .0007 tons, or 1.4 pounds, of hazardous liquid materials were spilled per million ton-miles shipped by pipelines.

FY 2005 Performance Plan Evaluation: DOT will meet the target in FY 2005.

AIRCRAFT NOISE EXPOSURE: Public concern and sensitivity to aircraft noise around airports is high. In recent years, noise complaints have increased even while quieter aircraft technology has been introduced. Aircraft noise is an undesired by-product of our mobility, and the Federal Government acts to mitigate the public’s exposure to unreasonable noise levels. In the past decade, the phase-out of noisier commercial aircraft was principally responsible for the reduction in the number of people exposed to high levels of aircraft noise, although its efforts were complemented by noise compatibility projects funded under the Airport Improvement Program (AIP). While this new international aircraft noise standard will encourage the introduction of quieter aircraft into operations, AIP-funded noise compatibility projects will be the principal means employed by the Federal Government to mitigate significant aircraft noise exposure.

Performance measure:

Number of people in the U.S. (in thousands) who are exposed to significant aircraft noise levels (65 decibels or more).				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	440	440	437	400
Actual:	411	294	276(r)	325*
*Number of people in the U.S. (in thousands) who are exposed to significant aircraft noise levels (65 decibels or more). Preliminary estimate; (r) Revised.				

2004 Results: DOT met the performance target.

DOT pursues a program of aircraft noise control in cooperation with the aviation community through noise reduction at the source (development and adoption of quieter aircraft), soundproofing and buyouts of buildings near airports, operational

flight control measures, and land use planning strategies. The number of people exposed to significant noise levels was reduced by about 90 percent between CY 1975 and CY 2000. This is due primarily to the legislatively mandated transition of U.S. airplane fleets to newer generation aircraft that produce less noise. Most of the gains from quieter aircraft were achieved by FY 2000. The remaining problem must be addressed primarily through airport specific noise compatibility programs, using measures such as soundproofing and relocation of residences. FAA is authorized to provide funds for soundproofing and residential relocation, but each project must be locally sponsored and be part of a noise compatibility program prepared by the airport sponsor and approved by the FAA. This noise target is based on FAA’s historical experience and reflects the relocation of people from the DNL 65 contour through grant funding, but is also affected by market forces that drive changes in commercial aircraft fleets and operations.

The significant performance improvement over the targeted goals in noise reduction grew out of a confluence of a number of external factors: the economic downturn, the impact of September 11th on the industry, and the severe acute respiratory syndrome (SARS) outbreak. These factors produced a dramatic downturn in operations as well as a large-scale premature retirement of older Stage Three aircraft (B727s, DC-9s, and MD-80s). This combination of lower operations and the rapid reduction of the average age of the fleets operating produced the dramatic improvements in the noise exposure environment. Assuming that the industry will recover over the next few years, the dramatic level of the improvements witnessed in FY 2004 is unlikely to persist.

FAA will continue to provide funds for such noise reduction activities as the soundproofing of residences and buildings used for educational or medical purposes near airports, purchase of buffer zones around airports, residential relocation, and noise reduction planning; continue to develop noise research and assessment technologies, including information and solutions that arise from FAA’s

Center of Excellence dedicated to reducing aircraft noise and emissions; implement operational flight control measures to help reduce neighborhood exposure to aircraft noise; and examine and validate the methodologies used to assess aircraft noise exposure, including incorporation of the effects of land-use policies and residential sound insulation programs.

FAA is also undertaking a multi-year process of updating its noise model, *MAGENTA* (Model for Assessing the Global Exposure of Noise because of Transport Airplanes). These changes result from a combination of improvements in data sources and acoustic algorithms in the model. This will produce significant improvement in capability in measuring the number of people exposed to significant noise levels around US airports. FAA will adopt a new performance metric report that uses percentage change in noise exposure to make it consistent with the FAA Flight Plan. The FAA will also use the projection analysis as a tool to assist us in an ongoing assessment of our noise targets. The new

performance metric will be expressed in the following manner: Reduce the number of people exposed to significant noise by 1 percent per year through FY 2008, as measured by a three-year moving average, from the three-year average for CY 2000–2002.

FY 2005 Performance Plan Evaluation: DOT will meet the target in FY 2005.

OTHER FEDERAL PROGRAMS WITH COMMON OUTCOMES: FAA has been engaged with NASA in joint noise reduction technology research. NASA in coordination with FAA and its industry partners has formulated a new Quiet Aircraft Technology (QAT) project under the Vehicle Systems Program (VSP) to build upon the current research with a goal of reducing future subsonic transport aircraft perceived noise levels by half (10 decibels) within 10 years, and by a factor of 4 (20 decibels) within 25 years, using 1997 subsonic aircraft technology as a baseline.

NATIONAL SECURITY STRATEGIC OBJECTIVE:

Ensure the security of the transportation system for the movement of people and goods, and support the National Security Strategy.

Strategic Outcomes:

- Reduce the vulnerability of the transportation system and its users to crime and terrorism.
- Increase the capability of the transportation system to meet national defense needs.

Transportation security is equal in importance to transportation safety. DOT’s objective is to contribute to National security by providing strategic mobility, and by working in tandem with the Department of Homeland Security (DHS) to minimize the vulnerability of our transportation system to disruption, damage, or exploitation through crime or terrorism. In FY 2004, DOT homeland and National security programs continued providing strategic mobility for the Department of Defense (DoD), and continued reducing the transportation system’s vulnerability to crime and terrorism.

Performance Summary:

	1998	1999	2000	2001	2002	2003	2004	2004 Target	Met	Not Met
Percentage of DoD-required shipping capacity complete with crews available within mobilization timelines.	N/A	97	92	97	94	96	94	94	X	
Percentage of DoD-designated commercial ports available for military use within DoD established readiness timelines.	93	93	93	92	92	86	93	92	X	

Management Challenge – Aviation and Transportation Security (IG/GAO)

The IG and GAO have noted that challenges exist in effectively meeting National requirements for improving security in aviation and surface transportation. While the DHS has primary responsibility in the transportation security arena, DOT also plays a vital role. Therefore, DOT must establish an effective framework for working with the transportation industry and DHS on regulatory and programmatic security issues. A GAO report calls for a balance in implementing, regulating, funding, and overseeing programs that benefit the traveling public and highlights DOT’s primary responsibility for the safe transport of hazardous materials.

DOT Actions: DOT has taken several steps to establish and maintain effective interaction with the DHS. DOT actively participates on several critical DHS committees, such as: Commercial Operations Advisory Committee and its Maritime Transportation Security Subcommittee, the Operation Safe Commerce Executive Steering Committee, the Universal Electronic Freight Manifest Initiative, the Border Station Partnership Council, US/Mexico Bridges and Border Crossings Group, and the Trans Border Working Group. Several of the DOT Operating Administrations have provided technical advice and assistance to DHS on the effectiveness and impact of proposed security regulations, policies, or procedures from the perspective of owners and operators in the transportation industry. DOT collaborated with TSA and DHS in drafting the Transportation Sector

portion of the National Infrastructure Protection Plan (NIPP) and participated in executive and operations level security exercises. FAA works closely with both airport owners and TSA representatives in identifying security requirements and discussing appropriate funding resources. DOT has collaborated with DHS to issue hazardous material and pipeline security advisories and to develop and implement consensus security guidance, including threat assessment, response and recovery, for the pipeline sector.

In September 2004, DOT and DHS signed a Memorandum of Agreement to develop procedures by which the two departments can continue to improve their cooperation and coordination in promoting the safe, secure, and efficient movement of people and goods throughout the transportation system.

DOT Operating Administrations continue to work closely with their stakeholders to address security concerns. The FHWA keeps the members of the American Association of State Highway and Transportation Officials (AASHTO), which represents the 52 State and territorial highway and transportation departments across the country, informed on DHS activities and programs that could have an impact on State and local transportation programs. FMCSA continued its efforts to heighten the awareness of HAZMAT transporters to security threats. FMCSA conducts security sensitivity visits (SSVs) as part of its regular compliance reviews of HAZMAT carriers and instituted Enhanced Security Contacts, which are now called Security Contact Reviews (SCRs), for carriers of the most lethal HAZMAT cargoes. In addition, FMCSA has instituted security outreach operations to alert HAZMAT carriers to potential security threats and raise their overall awareness of security hazards.

Management Challenge – Computer Security (Department-wide and FAA) (IG/GAO/OMB)

The IG, GAO, and OMB have identified information system security as a critical government-wide management challenge, and in particular, have identified FAA air traffic control

information systems as needing special attention to harden them against malicious or criminal attack.

Computer security entails protection of all information technology (IT) assets as required by the Computer Security Act of 1987, the Government Information Security Reform Act (GISRA), OMB Circular A-130, and National Institute of Standards and Technology guidance.

DOT Actions: DOT has certified and accredited over 96 percent of its IT systems and plans to complete these activities for the remaining 4 percent in FY 2005. The security certification and accreditation of these systems provides DOT management with an acceptable level of assurance that all systems either meet a minimum level of baseline requirements or have plans of action and milestones to mitigate any remaining risks. A continuous vulnerability scanning program has been implemented Department-wide.

FAA made significant progress toward improving security for all FAA information systems in FY 2004. Specific actions included: establishing a stable inventory of information systems; completing certification and authorization on 96 percent of information systems by July 1, 2004; increased monitoring of FAA's information systems through intrusion detection systems; holding regular meetings with senior executives and information systems security managers to address strategic and tactical issues; and completing a number of OIG and GAO recommendations from previous audits.

The DOT OIG removed the condition of material weakness from FY 2003 and OMB scored the DOT e-Government program, which includes information system security for all Operating Administrations, as *green*.

Strategic Mobility: To maximize DoD's logistics capability and minimize its cost, defense sealift increasingly relies on the U.S. commercial sector. DoD's ability to respond to military contingencies requires adequate U.S. flag sealift resources, skilled U.S. maritime labor, and the associated maritime infrastructure. DOT helps provide for a

seamless, time-phased transition from peacetime to wartime operations while balancing the defense and commercial elements of our transportation system. The Ready Reserve Force (RRF) is a key source of strategic sealift capacity to support the rapid deployment of U.S. military forces during the early stages of a military crisis. Merchant mariners employed on commercial vessels in the U.S. domestic and international trades provide the core job skills needed to crew the RRF. The Maritime Security Program (MSP) and the Voluntary Intermodal Sealift Agreement (VISA) program ensure that the active U.S.-flag fleet is available for sealift while continuing to carry commercial freight. Merchant mariners employed on these and other vessels in the U.S. domestic and international trades provide the crew to simultaneously operate both the RRF and the commercial fleet during wartime. DOT is responsible for establishing DoD's prioritized use of ports and related intermodal facilities during DoD mobilizations, when the smooth flow of military cargo through commercial ports is critical.

Performance measures:

Percentage of DoD-required shipping capacity complete with crews available within mobilization timelines.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	93	94	94
Actual:	97	94	96	94

Percentage of DoD-designated commercial ports available for military use within DoD-established readiness timelines.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	93	92	92	92
Actual:	92	92	86	93

2004 Results: DOT met the target for DoD-required shipping capacity and exceeded the target for DoD-designated commercial ports.

In FY 2004, DOT achieved a cumulative target of 94 percent availability for DoD-required shipping capacity and 93 percent availability among strategic ports, a seven percent increase in port availability over last year's performance. DoD, in conjunction with MARAD, negotiates a Port Planning Order with each strategic port, specifying what facilities will be needed to conduct a military deployment. The port is expected to be able to make these facilities available to the military within 48 hours of notification. If a port is unable to provide the specific facilities it will report that it is not available. In some cases the port cannot be available as quickly as required or it cannot provide the specific facilities that meet the military's requirements. Performance results are measured monthly, and the overall availability of ports varies throughout the year for a variety of reasons. Overall, we met the target for FY 2004.

DOT/MARAD provided sealift capacity to the Department of Defense in support of the war in Iraq using 21 Maritime Administration RRF vessels. In addition, DOT/MARAD managed port security training for over 200 port personnel throughout the Western Hemisphere through the MARAD/Organization of American States-sponsored port security training program.

FY 2005 Performance Plan Evaluation: DOT expects to meet the 2005 targets.

ORGANIZATIONAL EXCELLENCE STRATEGIC OBJECTIVE:

Advance the Department's ability to manage for results and innovation.

Secretary Mineta's 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; strategic management of human capital; competitive sourcing; improved financial management; expanded e-Government; and budget and performance integration.

In implementing the President's Management Agenda in DOT, we aim to achieve the following organizational excellence outcomes:

- Improve organizational performance and productivity
- Improve customer and stakeholder satisfaction
- Improve employee satisfaction and effectiveness

In July 2004, DOT earned four *greens* on the President's Management Agenda 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, organized to be agile, lean, and capable of making timely decisions. As we determine our human capital requirements, DOT will thoughtfully restructure our organization.

COMPETITIVE SOURCING

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

IMPROVED FINANCIAL PERFORMANCE

Improved financial performance is a key aspect of improving the government's performance. Knowing the full cost of DOT's goods and services is a prerequisite to good program management. The Government Accountability Office and the DOT Inspector General have also identified DOT financial management as requiring focused effort to make needed improvements. Good financial stewardship, excellent and efficient procurement and acquisition systems, and improved financial performance are cornerstones of excellent DOT management.

EXPANDED ELECTRONIC GOVERNMENT

President Bush has called for an expanded electronic government that improves service to individuals, businesses, and State and local government through the use of information technologies. DOT is committed to improving transportation through market-based policies that foster competition by using electronic government resources, and increasing the range of transportation choices available to travelers and shippers. DOT is also committed to making the U.S. transportation system as efficient as possible in order to enable maximum economic growth, more efficient use of information technology to create faster, easier, and more efficient ways for citizens to transact their business with DOT and to provide input on transportation policies and programs.

BUDGET AND PERFORMANCE INTEGRATION

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

The five initiatives of the President’s Management Agenda provide the general structure for this section of the report. Embedded in this structure are the management-related performance measures that DOT has tracked since FY 2002.

Performance Summary:

	1998	1999	2000	2001	2002	2003	2004	2004 Target	Met	Not Met
For major DOT acquisitions, percentage of cost and schedule goals established in acquisition project baselines that are met.	N/A	N/A	N/A	N/A	74	78	88	80	X	
Percent share of total dollar value of DOT direct contracts awarded to women-owned businesses.	3.7	4.1	4.5	3.7	3.8	4.2	3.9*	5.1		X
Percent share of total dollar value of DOT direct contracts awarded to small disadvantaged businesses.	17.0	17.9	17.7	17.4	16.2	15.8	14.5*	14.5	X	
For major Federally funded infrastructure projects, percentage that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent.	N/A	N/A	N/A	N/A	85	88	95	95	X	
For major Federally funded infrastructure projects, percentage that meet schedule milestones established in project or contract agreements, or miss them by less than 10 percent.	N/A	N/A	N/A	N/A	85	88	74	95		X
Percentage of transit grants obligated within 60 days after submission of a completed application.	N/A	N/A	21	51	67	83	91	80	X	
Environmental justice cases unresolved after one year.	67	29	56	39	65	76	73	35		X
<i>*Preliminary estimate</i>										

Strategic Management of Human Capital

The DOT Human Capital Plan guides our efforts through FY 2005, and is fully aligned with the President's Management Agenda and the standards developed by the Office of Management and Budget, Office of Personnel Management, and the Government Accountability Office: strategic alignment, workforce planning and deployment, leadership and knowledge management, performance culture, talent, and accountability. DOT's plan contains initiatives to help the Department recruit, develop, and retain the diverse talent needed now and in the future to perform our mission and achieve our strategic objectives.

Through continued support and commitment throughout the Operating Administrations, DOT achieved a *green* status score for this element of the President's Management Agenda. Following the blueprint established in FY 2002 in the *Human Capital Plan* the Department:

- linked the Strategic Plan with human capital strategies, including linking 89 percent of individual performance plans and performance awards;
- institutionalized annual workforce planning and analysis, integrating competitive sourcing;
- restructured functions and organizations to improve mission focus and effectiveness;
- improved the recruitment, selection, training and evaluation of agency leaders, instituted succession planning, and conducted knowledge management pilots;
- set up a framework that has increased management accountability for improved diversity and achieved measurable progress; and
- improved corporate recruitment in a way that integrates with other strategies.

As the Department addressed cross-cutting human capital issues, the Operating Administrations examined their own human capital challenges. Two of them, FAA and FHWA, face particular workforce challenges in the next several years. Between FY 2005 and FY 2013, approximately 7,000 of FAA's Air Traffic Controllers will be eligible for retirement. In the FHWA, two-thirds of its eligible senior leaders and managers will be eligible to retire in the next five years. Through strategic workforce planning, the FAA is developing a plan of action to ensure the agency has a sufficient number of qualified controllers to meet capacity and air traffic needs of the future. The agency is examining workforce demographics, hiring and training practices, and proposed age change for mandatory separation of its controller workforce. FAA is positioning itself to assure its customers a smooth, transparent, and successful transition as air traffic controllers begin to retire over the next decade. Likewise, the FHWA formed a Workforce Planning Advisory Committee to develop strategies and promote the use of a Workforce and Human Capital Planning process throughout the agency. Each office completed a unit workforce plan that assesses its future needs.

Management Challenge – Strategic Human Capital Planning (GAO/OMB)

GAO has stated that the entire Federal Government faces an impending wave of retirements of long-service, highly competent Federal employees. From this arises a large-scale strategic human resource planning issue. While this exodus of talent will not happen overnight, DOT must plan now to maintain required levels of experience, competencies, and knowledge levels in the Department's civilian, military, and contract workforce. Succession planning as well as managing and maintaining adequate institutional knowledge will be crucial for DOT's ability to carry out its functions during this period of high workforce turnover.

The preceding discussion addressed this management challenge.

Competitive Sourcing

In FY 2004, DOT achieved *green* status on the President's Management Agenda scorecard for competitive sourcing. DOT completed one standard and several streamlined competitions and publicly announced one of the largest, most complex competitions ever conducted under OMB Circular A-76 for FAA's automated flight service stations. FAA has already received proposals for this competition covering 2700 positions and expects to make a performance decision no later than March 2005. DOT also received OMB approval for its Green Plan which identified competitions and/or feasibility studies for over 400 positions through the end of FY 2005 and outlined plans to evaluate another 4000 positions through the end of FY 2009.

In FY 2004, DOT continued to emphasize the use of performance-based service acquisition (PBSA) in DOT. DOT emphasized the importance of PBSA both in its annual procurement performance reviews with each Operating Administration and at meetings of the Procurement Management Council. The Volpe Center restructured a major service contract into a performance-based acquisition and the Maritime Administration issued a solicitation for its largest acquisition, the Ship Managers Program valued at two billion dollars over 10 years, as a performance-based acquisition. In FY 2004, 71 percent of eligible service contracting dollars were awarded as performance-based service acquisitions.

Financial Performance

Acquisition Management –

Performance measures:

For major DOT systems, percentage of cost and schedule goals established in acquisition project baselines that are met.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	90	80	80
Actual:	N/A	74	78	88

2004 Results: DOT met the performance target.

DOT/FAA met the FY 2004 goal with 88 percent of major system acquisitions remaining within the cost and schedule performance goal. Overall, five out of 43 programs had schedule and/or cost variances beyond established thresholds. This resulted in the final 88 percent performance variance for the acquisition goal. The use of a disciplined automated monthly reporting process allowed all levels of management detailed visibility into cost and schedule performance. This enhanced the decision process and ensured critical acquisitions remained within the established 80 percent performance parameter. Technical issues and a budget increase were the primary reason five of the programs missed the FY 2004 performance goal.

FY 2005 Performance Plan Evaluation: DOT expects to meet the target in FY 2005.

Management Challenge – Improve Fiscal Discipline at FAA (IG/GAO)

To abate growth in operating costs, FAA needs to have both its cost accounting and labor distribution systems in place and operating effectively and also needs to renegotiate those memorandums of understanding (MOUs) between FAA and its labor unions that have extensive cost implications.

The IG and the GAO recommended that FAA address fundamental problems in major acquisitions. It is critical that air traffic system modernization projects be fielded on time and on budget for continued progress to be made in reducing congestion in the Nation's air transportation system as demand for flights grows back to and beyond pre-9/11 levels. The IG noted positive signs that the FAA Administrator and the Chief Operating Officer are committed to making changes.

DOT Actions: DOT/FAA has taken several steps to address the issues identified.

Labor Issues

The FAA is implementing a new process that places strict controls on the negotiation of union agreements, such as placing labor relations professionals in charge of negotiations and

requiring a budget analysis for each negotiation. Reform continues in FY 2004 with the centralization of the Agency Labor Relations Management function in the Assistant Administrator for Human Resource Management and the design and implementation of a national Labor Relations Database. The newly-developed database provides an inventory of Memoranda of Understanding, ensuring better monitoring and management of agreements that have major cost implications for the agency.

Cost Accounting

The FAA did not meet the management challenge of having both its cost accounting and labor distribution systems fully in place for the entire FAA during the fiscal year. This goal required developing an interface from FAA's labor distribution system to Delphi and a subsequent interface from Delphi to the FAA's cost accounting system. FAA's cost accounting interface was delayed until the middle of the fiscal year and the labor distribution interface was delayed for the entire year.

The FAA cost accounting interface is now working and the FAA labor distribution interface is on target to be completed in FY 2005.

Major Acquisitions

The FAA has implemented a number of initiatives to mitigate fundamental problems in major acquisitions. They include changes in organizational structures and responsibilities, process changes, reporting capabilities and overall management discipline. Organizationally, the FAA consolidated three major FAA Lines of Business into the Air Traffic Organization (ATO). The flattening of management layers will improve productivity, decision-making, and communications.

The FAA's is improving the Acquisition Management System (AMS) to incorporate OMB's Capital Programming Process. Essential information incorporated into OMB's Exhibit 300 will be used by Senior FAA management in the decision-making process. Programs will be

segmented into smaller pieces with cost benefits identified. This process integration will result in better investment decisions and more effective management. The FAA is incorporating more stringent reporting, to include monthly and quarterly program variances, monthly performance goal status, and detailed cost expenditure reporting at all levels of management. These actions have proven effective in meeting the FY 2004 performance goals.

Small disadvantaged and women-owned business contracts –

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	5.1	5.1	5.1	5.1
Actual:	3.7	3.8	4.2	3.9*

** Preliminary estimate*

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	14.5	14.5	14.5	14.5
Actual:	17.4	16.2	15.8	14.5*

** Preliminary estimate*

2004 Results: Preliminary data indicates that DOT met the target for small disadvantaged businesses (SDB) but did not meet the target for women-owned businesses.

The women-owned business goal continues to be a challenge to DOT as there is no set-aside authority under the Federal Acquisition Regulatory system. Furthermore, the loss of the United States Coast Guard (USCG) in the DOT procurement base substantially reduced the pool of contracting opportunities. The USCG was DOT's largest procurement agency representing more than 60 percent of our procurement base. FY 2004 was the first full fiscal year without the USCG.

This drastic change in our procurement base necessitates a complete reevaluation of how we implement our small business programs. Since Congress has mandated a goal of five percent, DOT, through the Office of Small and Disadvantaged Business Utilization, will emphasize more hands-on involvement with its procuring agencies and place more emphasis on subcontracting as a means of increasing opportunities for small businesses and particularly women-owned businesses. In addition, DOT is establishing a Women's Procurement Assistance Committee. The Committee will consist of at least one representative from each of the DOT Operating Administrations' Small Business Specialists Offices. The purpose of this Committee will be to promote, coordinate and monitor the plans and programs of the Department. It will also provide forums, workshops and best practices in order to contribute to the growth of women's procurement opportunities in the Department.

FY 2005 Performance Plan Evaluation: DOT expects to meet both performance targets in FY 2005.

Management Challenge-Disadvantaged Business Enterprise Program (IG):

The Inspector General has noted that fraud involving the Disadvantaged Business Enterprise (DBE) Program has serious enforcement and compliance problems that are nationwide in scope.

This matter requires more attention and greater oversight efforts by the Department. The IG recommended the DBE program strengthen its regulations, establish terms for DBE firms, and strengthen its oversight of DBE contractors.

The Secretary's establishment of a senior level task force on DBE fraud was a good first step. However, it is important that the task force make tangible progress in strengthening the oversight of the DBE Program.

DOT Actions: The Task Force has been actively involved in developing a comprehensive strategy to improve program delivery and oversight. A working group was created to conduct a

comprehensive review of the DBE program, identify issues of concern and recommend a potential course of action. In FY 2004 the working group conducted weekly meetings, solicited input from program implementers, DOT recipients and DBE community organizations. As a result, DOT has developed a DBE Compliance Action Plan that includes a number of strategies for providing greater direction and technical assistance to its recipients.

DOT drafted new airport concession rules; some of the new provisions are a Personal Net Worth cap for DBE firm owners, requirements for DBE firms to file no change affidavits and report material changes in the firm, and requirements for airports to more actively monitor DBE businesses.

DOT also made it a priority to finalize the review and approval of State Unified Certification Program (UCP). UCPs are expected to strengthen and simplify DBE certifications by reducing the number of entities involved in the process. It is anticipated that more than 85 percent of State UCPs will be approved before the end of the calendar year.

Each Operating Administration involved in the DBE program conducted an assessment of its program delivery and developed a plan of action to address the issue, such as triennial reviews of DBE programs, State management reviews, procurement system reviews, and civil rights reviews. In addition, DOT will increase the use of information technologies to improve program management and oversight.

The Task Force will issue its final report to the Secretary by November 30, 2004. The report will include a detailed list of other recommendations and policy actions.

Financial management – For the fourth year in a row, DOT received an unqualified audit opinion on its Financial Statements.

Management Challenge – DOT and FAA Financial Systems (IG/GAO/OMB)

The IG, GAO, and OMB have recognized that converting the remaining Operating

Administrations to DOT's new, state-of-the-art, Web-enabled, commercial-off-the-shelf financial management system, called Delphi, has presented a significant management challenge. DOT also needs to develop more comprehensive cost accounting systems and labor distribution systems, and the FAA needs to enhance record keeping and valuation procedures for capitalizing property, plant, and equipment. This last requirement affects FAA's direct provision of services to the public, which depends on capital assets.

DOT Actions: In FY 2004, the Department completed implementation of the Delphi financial management system for all remaining Operating Administrations. DOT is the first Cabinet-level agency to have all its Operating Administrations converted from a legacy accounting system to a new, state-of-the-art, Web-enabled, Standard General Ledger-compliant, JFMIP-certified, commercial-off-the-shelf financial management system running on a single instance of the software. Operational issues with the Operating Administrations are still being resolved. Also in FY 2004, FAA established revised business processes, record keeping, and improved valuation procedures for capitalizing property, plant, and equipment.

Financial Stewardship—

Performance measures:

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.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	95	95	95
Actual:	N/A	85	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.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	95	95	95
Actual:	N/A	85	88	74

Percentage of transit grants obligated within 60 days after submission of a completed application.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	60	80	80
Actual:	51	67	83	91

2004 Results: DOT met its transit grant obligation timeliness and infrastructure schedule performance targets, but it did not meet the target for infrastructure project cost.

Major Infrastructure Projects

In FY 2004, FHWA approved financial plans or their annual updates for 14 major projects. FHWA also reviewed major projects reports on cost, schedule, and status and held periodic status meetings with the State Transportation Agency's project management team and other involved agencies. While scheduled milestones were met on all 12 major projects currently under construction, costs were exceeded in three of the projects.

In FY 2004, FAA provided funding for three mega projects, which are projects whose total estimated funding exceeds \$1 billion. New runways are under construction at airports in Seattle, St. Louis, and Atlanta. All three runways are on schedule and the Seattle and St. Louis projects are within cost estimates. FAA's costs for the Atlanta project are on track, but the non-Federal portion of the project has exceeded estimated costs to date by more than 10 percent. Several factors have contributed to the overrun: unanticipated costs and delays in acquiring land, changes in the mix of funding resources that necessitated additional borrowing and associated borrowing costs; and unexpected

increases in the costs of structural steel due to increased world-wide demand.

FTA has four mega projects: New Jersey Hudson-Bergen – MOS II Light Rail; San Juan Tren Urbano Heavy Rail; Denver Southeast Corridor Project; and Seattle Central Link Light Rail. Three of the projects are within 10 percent of the cost estimate of their current funding agreements. San Juan Tren Urbano, however, is 36 percent over the cost estimate. FTA has requested a recovery plan to address the cost to complete construction and the schedule. San Juan Tren Urbano has also amended its projected opening date.

Transit Grants

FTA obligated 91 percent of grants within 60 days, including some grant applications received in FY 2003 and obligated in FY 2004.

FTA continued to see marked improvements in processing time using several initiatives begun in FY 2003: improvements to the Transportation Electronic Award Management (TEAM) system used to make grants; an expedited notification of certification by the Department of Labor; and faster startup of the grant process at the beginning of the fiscal year. In addition, in FY 2004, FTA worked with the Department of Labor to develop a procedure for certifying grants in advance for the scope of the full funding anticipated in FY 2004 rather than certifying each grant amendment adding incremental funding.

FY 2005 Performance Plan Evaluation: DOT expects to meet all three performance targets in FY 2005.

Management Challenge—Protecting Taxpayer Investments in Highway and Transit Infrastructure Projects (IG)

The Inspector General (IG) has stated that the Department's ability to achieve its strategic goals of increased mobility, improved safety, and sustained economic growth undoubtedly will be challenged in the face of the Federal deficit, numerous States bracing against financial crises, and declining Highway Trust Fund revenues.

Aggressive oversight is needed to ensure that the Federal investment in highway and transit projects is well managed and protected from fraud. In addition to ensuring that funds are spent effectively, the Department must ensure that all tax dollars due to the Highway Trust Fund are received.

DOT Actions: DOT has identified and implemented steps to mitigate the risks involved in a major, or mega, project by developing a comprehensive, standard oversight approach that includes monitoring project costs, schedule, and performance. Monthly cost, schedule, and status reports are prepared for all major projects. Periodic status meetings are held with the State Transportation Department's project management team, the DOT modal administrations, and other agencies involved in the project to discuss project costs, schedules, quality issues, and the status of other items. These discussions are of sufficient enough detail to allow the involved parties to recognize significant issues and develop actions designed to mitigate any adverse impacts. As an example, FHWA managers and the Central Artery Tunnel project managers met during the past year on a quarterly basis to discuss cost recovery issues on the project and how to achieve timely resolution to these issues. In addition, FHWA conducted a risk management workshop about the Woodrow Wilson Bridge that resulted in the formulation of a risk-based Federal oversight performance plan for the project.

DOT has developed guidance for financial reporting on infrastructure projects with total costs greater than one billion dollars. Critical analysis of annual finance plans ensure that complete and consistent reporting of basic standardized financial data is being provided to the Department. The finance plans are useful in identifying emerging cost and funding shortfalls in projects. Project Management Plans that clearly define project roles, responsibilities, processes, and activities are strongly encouraged. These practices increase the likelihood that a project will be completed on time; within budget; with the highest quality; in a safe

manner; and in a manner in which public trust, support, and confidence are maintained.

FHWA issued the Construction Program Management and Inspection Guide to all Division offices. This document provides guidance on performing construction oversight at the program and project level. The Guide focuses on construction inspection practices and techniques that can be used for ensuring effective oversight, and reflects current philosophy on construction program management and stewardship.

FHWA is engaged in a number of related activities to improve major project management and oversight. Specific strategies are being deployed in four key areas: optimizing internal staffing, effective recruitment, maximizing training, and stewardship and oversight initiatives. These strategies will help FHWA achieve a multi-disciplinary approach to major project management and oversight and provide for a greater emphasis on oversight of higher-level management and financial issues.

FTA developed and began using a quantitative risk assessment tool to ensure that New Starts transit projects meet cost, schedule and transportation benefit expectations. This tool is used to track the success of mitigation measures and assess trends with respect to project execution, so that any necessary intervention measures can be taken as early as possible.

Management Challenge—Financial Accountability (IG/GAO):

The IG has noted progress in the last year in this area, but DOT still must strengthen three important financial management activities. First, DOT needs to free up millions in inactive obligations or idle funds, especially at the Federal Highway Administration. Second, improve oversight of cost-reimbursable contracts, which have few inherent protections against cost overruns. Third, complete implementation of the new *Delphi* financial management system, which will enable DOT to strengthen financial controls and generate reliable financial reports.

DOT Actions: FHWA, in coordination with the OIG, met with State Department of Transportations' (SDOTs) Financial Managers and Auditors to identify actions that can be taken to ensure the timely closing of completed projects and corresponding de-obligation of any unused funds. As a result of this meeting, many suggested activities were identified which are currently under review by FHWA to identify those that can be accomplished in the most cost and resource efficient manner. FHWA also developed a financial oversight policy that will require Division offices to work with their State DOTs on an annual basis to review all projects where there has been no billing activity for 12 months and where there still exists funding of \$500,000 and greater. The goal is to review those projects and identify those that can be closed and funds released for other projects. This new financial oversight policy will be effective in FY 2005.

DOT began improvements in the management of reimbursable agreements and intra-governmental eliminations, including developing and implementing a Web portal for the Operating Administrations to exchange information about reimbursable agreements to support eliminations within DOT.

The Department completed implementation of Delphi Financial Management System in November 2003 and in the following year has worked to address remaining issues. DOT developed a new Financial Statement Solution (FSS) in Delphi that produces financial statements from the core financial system and completed the effort to reduce the month-end close process from 3 days to an overnight process.

Management Challenge—MARAD Loan Guarantee Program (IG):

As of October 31, 2003, the MARAD's outstanding Title XI loan guarantee portfolio was \$3.8 billion. These loan guarantees are designed to assist private companies in obtaining financing for the construction of vessels or the modernization of U.S. shipyards, with the Federal Government holding a mortgage on the equipment or facilities

financed. The IG has identified a number of areas where MARAD could improve its Title XI program administration, limit the risk of default, and reduce losses to the Federal Government. The IG recommends that MARAD obtain an independent external review of Title XI loan guarantee applications; implement a more rigorous analysis of risks associated with modifications to financial requirements; improve monitoring of program participants' financial condition; and closely monitor the physical condition of guaranteed assets.

DOT Actions: MARAD has developed procedures and policies to incorporate all the recommendations. These new procedures deal with several aspects of program administration including the initial review of projects as well as portfolio and asset management. MARAD will analyze all pending projects to determine what compensating controls are appropriate as consideration for modification or waiver of financial requirements. As part of this process MARAD developed a list of compensating controls that would be considered with respect to each modification or waiver request. In response to the recommendation that the agency establish an external review process, MARAD developed criteria for determining when an external review will be needed and issued a solicitation for advisors to perform the external reviews. To improve program monitoring, MARAD has developed a financial statement review form to highlight the information on the financial statements and developed criteria to determine if a company should be monitored more closely. If greater monitoring is necessary, MARAD completes a Credit Watch report for each company to provide data on the company's condition. MARAD will receive periodic reports from vessel custodians regarding the status of defaulted vessels under custodial care.

Citizen Centered Government

Performance measure:

Percent of Environmental Justice cases unresolved after one year.				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Target:	N/A	40	35	35
Actual:	39	65	76	73

2004 Results: DOT did not meet the performance target.

Environmental justice complaints are very complex, and therefore time consuming, compared to other external civil rights complaints. Several factors contribute to the complexity of the cases; for instance, environmental justice complaints always involve classes and not single individuals; complaints almost always involve controversies relating to unsettled areas of the law; and they often involve time-consuming and legally difficult jurisdictional determinations. Some of the complaints involve longstanding controversies in local land use and may result in serious and fundamental community debates. For many of these complaints, DOT is considering Alternative Dispute Resolution.

The Departmental Office of Civil Rights (DOCR) is working on two projects to help the Operating Administrations resolve complaints more effectively and expeditiously. First, staff is revamping the External Complaints Tracking System, the Department-wide database in which information about external complaints is stored. The new system, intended to be more comprehensive and user friendly, should help Operating Administrations better track the progress of environmental justice and other complaints. Second, DOCR is developing a Complaint Resolution Manual with input from Operating Administration representatives. The manual will outline the expected steps for processing, investigating, and resolving a discrimination complaint, with the goal of promoting a more

uniform approach to complaints across the Department.

FY 2005 Performance Plan Evaluation: DOT does not expect to meet the target in FY 2005.

Expanded Electronic Government

Customer Service Focus and E-Government–

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

- made all OMB-registered FAA forms available to citizens through an FAA consolidated Web service and through the Business Gateway PMA e-Government Web site;
- created an electronic database of policies and interpretations for the FHWA's Commercial Vehicle Size and Weight Program that is searchable through a Web site which enables State personnel to access information online;
- converted State reporting procedures for FHWA enforcement actions from paper to electronic media; and
- consolidated automated staffing functions, using QuickHire software.

Information and Technology Management

During FY 2004, the Department achieved a *green* rating in the e-Government portion of the President's Management Agenda, indicating DOT made significant improvement in capital planning, security and enterprise architecture issues. In FY 2004, over 96 percent of operational information technology (IT) systems were secured. In addition, 100 percent of DOT's FY 2005 business cases were determined by OMB to be acceptable. DOT also established a Modernization Blueprint that focuses IT investments and reduced cost/schedule/performance overruns and shortfalls for major projects to less than 10 percent.

To identify potential IT security weaknesses and opportunities for consolidation for more efficient operations, each of DOT's IT systems undergoes the rigorous security certification and accreditation process. During FY 2004, the Department certified and accredited (C&A) over 90 percent of our IT Systems including 100 percent of our mission critical/major systems. This is an improvement of over 40 percent from our FY 2003 effort and represents a significant improvement in the overall security of DOT's information technology infrastructure. Results of these certifications and accreditations are being used to identify weaknesses and remediation solutions. By implementing enterprise-wide solutions, the Department will gain consistency in its remediation efforts as well as provide cost-savings for IT security solutions. Certification and accreditation provides DOT management the assurance that IT assets are able to provide more secure services to the public.

In FY 2004, the Department's Investment Review Board (IRB) focused on management of the Department's information technology portfolio, DOT Operating Administration IT investment strategies, and project management practices. Through greater IRB involvement, senior managers from across the Department have assumed an expanded role in the oversight of high-risk projects.

Management Challenge – Information Technology Management (IG):

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

Securing Critical Computer Systems: Recently, DOT made noteworthy improvements by enhancing its defense against Internet intrusions, appointing a Chief Information Officer (CIO) to lead major IT initiatives, and developing a more reliable inventory of systems. DOT, however, must further protect critical IT systems, (especially air

traffic control systems) against attack and enhance contingency planning to ensure business continuity in an emergency.

DOT actions: DOT has made significant progress. The DOT OIG recently cited DOT's progress in this area as sufficient to consider the problem as no longer a material weakness. The Department's Transportation Cyber Incident Response Center (TCIRC) serves as the focal point for monitoring and protecting the Department's critical IT assets. Using a wide variety of tools the TCIRC continuously monitors and scans the Department's IT infrastructure looking for vulnerabilities. The Office of the CIO has also established a robust continuity of operations plan that provides for the quick reconstitution of critical IT services in the event of a prolonged disruption.

The FAA made significant progress toward improving information systems security for all FAA systems in FY 2004. FAA completed certification and authorization of 96 percent of its information systems by July 1 and increased monitoring of its information systems through additional intrusion detection systems. FAA has committed to reviewing all operational traffic control systems at en route, approach control, and airport terminal facilities within three years. FAA has also agreed to implement a robust contingency plan to restore essential air service in the event of a prolonged disruption of service at an en route facility. In addition, FAA is implementing the use of smart card technologies to authenticate air traffic control system users.

Strengthen Departmental Oversight of IT Investment. In FY 2003, DOT appointed a CIO and increased the CIO's influence over IT decisions by forming a departmental Investment Review Board (the Board). The Board, which is chaired by the Deputy Secretary, and consists of the CIO, the Chief Financial Officer, the General Counsel, and the Assistant Secretary for Administration, has the authority to approve, modify, or terminate major IT investments. To ensure that the Board can improve the cost-effectiveness of DOT's \$2.7 billion annual IT

investment, it needs to: play a more proactive role in identifying high-risk modal administration IT projects for review; require the modal administrations to share more timely information on proposed IT projects; and perform more in-depth reviews of these data.

DOT Actions: In FY 2004, DOT revised its Information Technology Capital Planning and Enterprise Architecture policies, which ensures that: DOT is in compliance with legal and OMB requirements; Operating Administrations manage their portfolios of investments in a like manner; there is a consistent approach in the development of a *federated* Enterprise Architecture; and, that, as a result of a consistent approach for enterprise architecture, DOT reduces redundant systems, promotes data sharing, component re-use, and collaborative efforts within DOT and with external partners.

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

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

Because FAA's IT portfolio constitutes a significant portion of the entire DOT portfolio, it was critical to the Departmental effort that FAA also takes specific steps to strengthen its oversight of IT investment. Accordingly, in FY 2004, FAA:

- Created an IT Executive Board chaired by the FAA CIO to improve IT governance.
- Strengthened its Exhibit 300 training, development, and approval process, resulting in significant improvement to its scores over the past year, FY 2003.
- Implemented a process to monitor cost, schedule, and performance variances

quarterly, and formalized the use of Corrective Action Plans for investments with variances greater than negative 10 percent.

- Achieved one of the highest scores of any agency on the GAO IT Investment Management scorecard, and adopted their recommendations to move the agency to level three compliance with their model.
- Instituted changes to the overall acquisition management system, including the use of Exhibit 300s as the core investment decision document.

Fostering Competition –

The Department continues to promote competitive conditions in the airline industry. One approach to achieving this goal is through the collection and dissemination of airline service-related data in order to provide an incentive for airlines to compete for customers on the basis of improvements in their service. To this end, the Office of Aviation Enforcement and Proceedings issues a monthly statistical report covering various aspects of airline service, including flight delays, mishandled baggage, and denied boarding.

Although DOT provides its views on competition issues to the Justice Department, which is responsible for determining whether mergers should be challenged on antitrust grounds, DOT also has its own antitrust authority independent of the Department of Justice. Accordingly, the Department continued to review joint venture agreements, such as codeshare and frequent flyer programs to ensure that they do not adversely affect competition. In FY 2004, the Department modified its review procedures to expedite the review process and reduce burdens on airports filing the competition plans. As a result, average time to complete plan reviews declined from six months to 62 days.

With regard to airport capacity matters, the Department continues to make significant progress in working to ensure fair and adequate access to airport facilities. The Department reviews competition plans filed by medium or large hub

airports that are dominated by one or two carriers. The in-depth review process, which includes document reviews, telephone conferences, meetings, and site visits, results in airports modifying their business practices to achieve the goal of reducing gate hoarding and providing more opportunities for accommodation of new entrants. Airports achieve this goal by adopting practices such as: monitoring gate utilization; providing fair and uniform notification of gate availability; adopting fair and transparent protocols for gate assignment; and adopting procedures to ensure fair and timely dispute resolution about access, accommodation, subleasing and ground handling.

This commitment was also exemplified in the Department's issuance of a final rule on airline computer reservations systems (CRS). The rule ended twenty years of CRS regulation because changes in the CRS industry and the growth of the Internet for direct distribution to consumers made them unnecessary.

Management Challenge – Airline Consolidation and Service to Communities (GAO)

GAO has pointed out that airlines' restructuring and consolidation will significantly affect the industry's competitive landscape. Consumers will have fewer travel options and will generally face higher fares when carriers reduce the number of flights, reduce aircraft size, or drop markets altogether. Small communities in particular will face higher fares and reduced service as airlines continue to reduce their market presence. These actions will increase pressure on the primary Federal program that assists the smallest communities, the Essential Air Service (EAS) program. The number of communities that qualify for subsidized service under this program has grown recently and there are clear indications that this number and the program's costs will continue to grow.

DOT Actions: It is clear that the EAS program must be reformed or the costs will continue to escalate. More and more regional carriers are increasing the size of their fleets to larger turboprops or even regional jets. While larger

communities can support these larger aircraft, smaller communities cannot generate sufficient traffic to make the service profitable rendering more and more communities reliant upon subsidized EAS. The spread of low-fare carriers has exacerbated the situation as passengers are increasingly bypassing local airport turboprop service for often lengthy drives to airports with low-fare service.

The Administration proposed major revisions to the EAS program for FY 2004 in order to administer the program more efficiently and add flexibility to better tailor the service to the needs of specific communities. With the proposed reforms, the Department would be able to ensure that the neediest small communities maintain access to the National air transportation system. These reforms are directed at responding to the desire of small communities to participate in a more direct and substantive way in their air service issues and to become architects to design their own solutions to their transportation needs.

Communities' eligibility for inclusion in the EAS program has never been based on individual needs, but, rather, based only on whether the community was receiving scheduled air service on October 24, 1978. The Administration's proposal provides for appropriate air or ground service to access the National air transportation system for the most isolated communities. In order to encourage each community to participate in supporting its subsidized service, the Administration's most recent aviation reauthorization proposal requires communities to contribute 10, 25 or 50 percent of the total subsidy required, depending on their degree of isolation. The most remote communities (those more than 210 miles from the nearest hub airport) would be required to provide 10 percent of the EAS subsidy; those within 100 miles of a large or medium hub or 75 miles of a small hub or 50 miles of jet service would be eligible for ground service by paying 50 percent; and the remaining communities would have to pay 25 percent. With these reforms, the Department would be able to maintain the EAS program within a \$50 million budget, as proposed by the Administration.

The Administration proposed similar reforms in its proposed FAA reauthorization act in the FY 2005 budget. Congress has not adopted any of the Department's reforms.

Management Challenge – Intercity Passenger Rail (IG/GAO)

The OIG and GAO have noted that intercity passenger rail plays a vital role in surface transportation and have called upon DOT to develop alternatives to preserve commuter and intercity services in the event of cessation of Amtrak service. GAO called for DOT to provide a framework for determining the role and level of investment for intercity passenger rail. The IG stated that DOT should continue to work with the Congress to realign the size, operations, and governance of the intercity passenger rail system to match the levels of funding available from all sources for Amtrak.

DOT Actions: Secretary of Transportation Norman Y. Mineta sent to Congress the Passenger Rail Investment Reform Act. It proposes to increase management accountability and encourage responsiveness to market forces. The bill seeks to implement five principles for change vital to the survival and growth of intercity passenger rail service:

- create a system driven by sound economics;
- require that Amtrak transition to a true operating company;
- introduce carefully managed competition to provide higher quality rail services at reasonable prices;
- establish a long-term relationship between States and the Federal Government to support intercity passenger rail service and;
- create an effective partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor.

FRA and the Surface Transportation Board (STB) have developed contingency plans to permit STB to implement authority provided in section 150 of the General Provisions of the FY 2004 DOT

Appropriations Act to direct that commuter and freight service be provided in the event that Amtrak were to cease operation.

The requirement beginning in FY 2003 that Amtrak receive its Federal subsidy through a normal grant process has significantly improved the fiscal discipline at Amtrak and has enhanced Federal oversight of Amtrak's financial performance and expenditures. Amtrak is required to submit to the Secretary of Transportation and the House and Senate Committees on Appropriations a supplemental report regarding the Corporation's business plan that describes the work completed to date, any changes to the business plan, and the reasons for such changes.

In addition, FRA staff provides oversight of Amtrak's financial performance from various daily, monthly and quarterly reports. Daily cash balance reports and monthly cash forecasts through the end of each fiscal year alert FRA of any impending liquidity crisis. Financial statements and individual route performance provide a better view of the company's financial position. FRA uses monthly reports on passenger-trips and passenger-miles to assess the benefits achieved through Amtrak operations. Capital projects are monitored at an individual project level of detail on a monthly basis as to budget, schedule, and performance.

Budget and Performance Integration

Results-oriented decision-making—By clearly focusing on investments in programs that work, and by exerting efforts to make well-designed programs achieve their intended results, DOT will increase the value it creates for the American people. The chief means to accomplish our intended results is to hold executives and managers accountable for them. Accordingly, DOT has worked toward the integration of budget and performance planning.

Beginning with the FY 2004 budget cycle, DOT organized its OMB and Congressional budget submissions in such a way that the linkages between additional resources and improved performance would be more apparent. The linkages were further strengthened during the FY 2005 budget cycle when DOT restructured its budget instructions to produce performance-based budgets and to show the full costs of performance by strategic and performance goal.

For the FY 2006 budget cycle, DOT is taking performance budgeting to the next level by estimating the marginal cost of performance (i.e., what results can be achieved at different levels of funding) for selected programs. For instance, DOT will be able to estimate the reduction in rail-related accidents and incidents it expects to achieve with the increase in funds it requests. This improvement in performance links to DOT's Safety strategic objective.

Typically, a marginal cost of performance analysis would require the Department to have a fully functioning cost accounting system. While all DOT modes have implemented the Department-wide accounting system, it will be several years before cost accounting data systems are fully mature and include historical data that will allow DOT managers to integrate performance and accounting data. As a result, DOT has developed an alternative model that will enable the Department to tie resources to results and has selected several pilot programs that will be used to test this approach. The lessons learned from this initial effort will be incorporated into future budget guidance to be followed by all DOT Operating Administrations for all accounts.

As a result of these pilot programs and the development and use of performance-based budgets throughout the Department, DOT received a *green* rating for budget and performance integration from OMB.



PERFORMANCE DATA COMPLETENESS AND RELIABILITY

Performance measurement is dependent on the availability of useful data that will indicate level of performance and helps progress toward organizational goals. Because all data are imperfect in some fashion, pursuing *perfect* data may consume public resources without creating appreciable value. For this reason, there must be an approach that provides sufficient accuracy and timeliness but at a reasonable cost. This section of the Report provides information on how DOT uses performance data, assesses limitations of the data, and plans to improve DOT's data.

In General

In an attempt to bring consistency and quality to its performance reporting, DOT has implemented some general rules regarding the data it uses and how it is evaluated.

Annual Data – Whenever available, the data in this document are reported on a Federal Government fiscal year basis. However, there are instances where fiscal year data are not available so calendar year data are used instead. This often occurs when data are collected and reported to DOT by external sources and a calendar year reporting requirement is specified in the implementing regulation.

Completeness of Data for Annual Results – If available, the results for the most recent year in the Report are listed as *Actual* in the shaded box for each performance measure. However, given the November 15 deadline for submission of the *Performance and Accountability Report* not all data have been compiled and finalized for the entire year. When an actual value is not available for the current year, either an estimate or a projection is provided instead. In general, estimates are based on partial-year data that are extrapolated to cover a full 12-month period. Historical trend information, supplemented by program expertise, is then applied to estimate the remaining months of performance for which actual data is unavailable. The result is identified as a *preliminary estimate* in the Report. If partial-year data are not available, then past trend information is analyzed and supplemented by program knowledge to develop a projected value for the annual performance measure. The result is identified as a *projection* in the Report. As data are

finalized, the projections and preliminary estimates are replaced by actual results, with resulting changes denoted by an (*r*). Results are also amended as errors and omissions are identified in the data verification process, as updated information is provided by the reporting sources, or because of legal or other action that changes a previously-reported value.

Reliability of Measurement Data – DOT performance data are generally reliable (useful to program managers and policy makers). But because performance results in a given year are influenced by multiple factors, some of which are beyond DOT's control, and some of which are due to random chance, there may be considerable variation from year to year. A better "picture" of performance may be gained by looking at results over time to determine if there is a trend.

Virtually all data have errors. We have compiled Source and Accuracy Statements for each of the DOT data programs used in this report, which can be found at www.bts.gov/statpol/SAcompendium.html. The Source and Accuracy Statements give more detail on the methods used to collect the data, sources of variation and bias in the data, and methods used to verify and validate the data.

Assessing and, where possible, eliminating sources of error in DOT data collection programs has always been an important task for data program managers. As part of their ongoing work, managers of departmental data programs use quality control techniques to identify where errors can be

introduced into the data collection system. Program managers also use computerized edit checks and range checks to minimize errors that may be introduced into the data of their respective programs. In addition, quality measurement techniques are employed to measure the effects of unanticipated errors. These include verification of data collection and coding, as well as coverage, response and non-response error studies to measure the extent of human error affecting the data. As sources of error are identified, data collection is improved.

The data used in measuring performance come from a wide variety of sources. Much of it originates from sources outside the Department and, therefore, outside the direct control of the Department. The data often come from administrative records or from sample surveys. While DOT may not have a strong voice in improving the quality of outside data, the Department takes all available information about the limitations and known biases in outside data into account when using the data.

To help the Operating Administrations address these issues, the Bureau of Transportation Statistics (BTS) is developing a statistical policy framework where the Operating Administrations 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 Appendix C 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 located in the previously mentioned Source and Accuracy Statements for DOT data programs. These statements contain descriptions of data collection program design, estimates of sampling errors (if applicable), and discussions of non-sampling errors. Non-sampling errors include under-coverage, item and unit non-response, interviewer and respondent response errors, processing errors, and errors made in data analysis.

Estimating and Projection Techniques Used – As discussed under completeness, most of the FY 2004 measures must be projected from either partial-year data or historical trends. The projections based on partial-year data from FY 2004 are more likely to reflect changes effected by current DOT policies and programs. The measures projected from FY 2003 and prior historical data reflect continuing trends from ongoing programs, but do not reflect the effects of changes implemented in FY 2004.

External Data Source Limitations – Timeliness is also a significant limitation for external or third-party data. In some cases, DOT has replaced external data, where little is known about the quality of the data, with internal data. For example, DOT has used estimates of person-miles traveled (PMT) from private organizations, absent any better estimate. The 1995 Nation-wide Personal Transportation Survey and American Travel Survey give DOT data with known error properties that allow a better estimate of PMT.



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 2000–2005 Strategic Plan* included an initial list of new program evaluations planned for those fiscal years. This section provides a summary of DOT's program evaluation efforts and a report on program evaluations completed in FY 2004.

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.

The aim of this plan is to identify areas of program evaluation for:

- programs that represent significant DOT activities contributing to our strategic goals;
- programs that are cross-modal in nature, or would benefit from evaluation that is reviewed outside an Operating Administration; and
- programs where Department-wide expertise can assist in evaluation planning and review.

Program Evaluation Management

DOT staff, contractors, or academic institutions may conduct program evaluations. Internal Departmental reviews are designed to ensure that the finished evaluations are useful regardless of how they are accomplished.

The Office of Budget and Programs and the Office of the Inspector General manage the schedule of program evaluations, foster training and development of program evaluation skills, and review the quality of the program evaluation process. The Office of Budget and Programs works to ensure that the results of program evaluations are considered in the allocation of resources. The Office of the Inspector General continues its own program evaluations independent of this schedule, as deemed appropriate.

A summary of DOT program evaluations completed in FY 2004 follows.

FY 2004 PROGRAM EVALUATION SUMMARIES

BTS Data Quality Reviews

This evaluation role is provided for in the Bureau of Transportation Statistics' (BTS) enabling legislation. The evaluative effort is designed to review data programs within the Department of Transportation in order to assess the reliability of transportation data emanating from within the Department.

Related performance goal: Organizational Excellence

The primary purpose of the review function is to inform Departmental data collectors and data providers of the strengths and weaknesses in such data programs and to learn where weaknesses in data collection and analysis exist. These are essentially process evaluations in terms of examining the process by which data is collected, stored, and manipulated.

These reviews are not intended to address every DOT data program nor is there any requirement that component agencies make programmatic changes based on review findings. Relevant information about data quality is used to determine whether or not measures of program effectiveness can be used in the Departmental reporting mechanisms, such as the annual performance report now coinciding with annual budget preparations. Managers may also choose to use the findings to make improvements or enhancements to existing data programs.

The areas examined include planning and design, data collection, data preparation, data dissemination, and evaluation. The data are also accessed and examined. Data systems are assessed in relation to the quality (accuracy, reliability, and objectivity), relevance, timeliness, comparability, and utility. Particular attention is paid to compliance with the DOT *Information Dissemination Quality Guidelines* and, for BTS data programs, the BTS Statistical Standards. Reviews are accompanied by recommendations and suggestions for data quality improvements.

Evaluation of FAA Information Security

This is an evaluation of the FAA's Information System Security (ISS) Program. A key element of this program is the Security Certification and Authorization Package (SCAP), which is the focus of this evaluation.

Related performance goal: Security

The objective of the evaluation was to determine the effectiveness of the FAA's ISS Program at accomplishing security remediation measures.

Only National Airspace System (NAS) systems were addressed. The validity of the remediation measures identified in the SCAPs was not assessed. The remediation status information that was provided by FAA Headquarters, was not independently verified by examining systems in operational use.

A random sample of 30 NAS SCAPs with 285 remediations was used to determine the extent to which remediation actions documented in the SCAPs have been completed in the NAS, and determine if the SCAP process has been sufficiently defined and executed to ensure that remediation measures have been accomplished in a timely manner.

Findings:

1. Some systems, accounting for almost one-fifth of the remediations, are not slated for any mitigation activities. In most cases there was a conscious decision not to take mitigation actions on systems due for replacement. Although these systems present various security vulnerabilities on a continuing basis, they were deemed a poor choice to remediate from a return on investment perspective.
2. The recent emphasis of the FAA has been on the discovery of risks and documenting existing countermeasures by completing SCAPs. The FAA's Air Traffic Organization (ATO) is beginning to validate the

remediation status of NAS systems and to implement processes for managing and prioritizing remediation activities.

3. The reasons for not commencing planned mitigations are varied, but the number one reason cited is the lack of funding. ATO is beginning to prioritize mitigation measures in order to best allocate available funding.

Recommendations:

The FAA should (1) develop uniform classifications for the remediation status data; (2) complete and validate the remediation status data; (3) implement a remediation status tracking process; and (4) periodically evaluate the status of all remediation activities.

The FAA should update the status of SCAP remediations as part of a larger effort to best allocate mitigation funding. ATO has documented their process and is expected to complete the updates by September of 2004. Lessons learned by ATO should be applied across other FAA lines of business.

Evaluation of FMCSA Compliance Review Phase II

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

Related performance goal: Safety

This evaluation is a management study conducted for the purpose of improving the effectiveness of FMCSA's enforcement and compliance programs. This is the second phase of a two-phase study. Phase I focused on developing short-term improvements to the existing CR process. This

Phase II effort had the broader goal of developing long-term improvements to the agency's overall enforcement and compliance programs.

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

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

The findings of the evaluation indicate that there are avenues which FMCSA could explore for developing a new model for agency enforcement and compliance operations that would yield improvements in motor carrier safety. This issue will be the subject of a public outreach effort by the agency and subsequent redesign of agency safety programs and systems.

FMCSA plans to conduct combined stakeholder meeting(s) in FY 2005. The meeting(s) will provide a forum for stakeholders to share their ideas for long-term improvements to FMCSA enforcement and compliance programs. The results of this evaluation, in combination with the results of the agency's related public outreach efforts, will be used in the development and implementation of a new operational model for all agency enforcement and compliance operations.

Evaluation of FMCSA Compliance Review Impact Assessment Model

The FMCSA's CR program is a Nation-wide program in which FMCSA and State inspectors conduct on-site reviews of motor carrier compliance with the FMCSR. FMCSA expects that through enforcement of the FMCSR, and promotion of safety requirements, motor carriers will improve the safety of their operations and reduce their chances of being involved in crashes.

Related performance goal: Safety

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

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

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

*Findings:***Compliance Review Program Effectiveness:
1999–2002**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Crashes Avoided	1,200	2,200	1,600	1,656
Injuries Avoided	822	1,395	1,105	1,261
Lives Saved	51	91	67	70

FMCSA's plan is to continue to conduct this evaluation of the CR Program on an annual basis in order to monitor the effectiveness of the agency's

CR program. Completion of this evaluation is set as an annual agency milestone.

**Evaluation of FMCSA Roadside Inspection/
Traffic Enforcement**

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

Related performance goal: Safety

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

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

The methodology used to conduct this evaluation is an analytic program evaluation model called the Intervention Model, which FMCSA developed in cooperation with the Volpe National Transportation Systems Center. The Intervention Model is based on the premise that the two programs, roadside inspection and traffic enforcement, directly and

indirectly contribute to the reduction of crashes. The model includes two submodels that are used for measuring these different effects:

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

The results of this annual evaluation are as follows:

Program Effectiveness: 2001–2003[†]

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Crashes Avoided	15,138	16,387	17,151
Roadside Inspections	11,294	12,235	12,667
Traffic Enforcements	3,844	4,602	4,484
Injuries Avoided	11,646	2,716	13,062
Roadside Inspections	8,689	9,240	9,647
Traffic Enforcements	2,957	3,476	3,415
Lives Saved	738	781	722
Roadside Inspections	550	568	534
Traffic Enforcements	187	214	189

[†] Mean estimates. Higher and lower bound estimates were based on different risk assumptions, which may be found in *Intervention Model: Roadside Inspection and Traffic Enforcement Effectiveness Assessment*, September 2002.

FMCSA’s plan is to continue to conduct this evaluation on an annual basis in order to monitor the effectiveness of the agency’s RI/TE program. Completion of this evaluation is set as an annual agency milestone.

Evaluation of FHWA State Motor Fuel Data

This evaluation, conducted by consultants hired by DOT, set out to examine State motor-fuel data to reduce the risk of errors and increase the reliability of the information used to distribute Federal highway program funds to the States. State motor-fuel data reported to FHWA is used as an apportionment factor in Federal-aid Highway funds distribution. The *DOT Strategic Plan* identified the Evaluation of State Motor Fuel Data as a Management Challenge.

Related performance goal: Mobility

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

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

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

The scope of the evaluation was comprehensive with every aspect of the motor fuel reporting and attribution process in every State being evaluated. High-risk areas and FHWA internal processing were given the highest priorities.

Continuous process improvement model was the single most prominent feature of the evaluation design. Other methods included zero defect

processing, modeling, and comparison of State data sets with Treasury results.

FHWA found through a re-assessment that its basic attribution process was sound but in need of updating. It set out a multi-pronged action plan which included outreach, Smart System, and data-provider training to improve accuracy.

With one exception, FHWA and GAO have agreed that all action plan items and milestones have been met, and program completed. The exception concerns a comparison of IRS ExFIRS data set with FHWA State-reported data set (see fourth bullet of *Related performance goal: Mobility* above). FHWA is currently working with IRS to obtain their data set, and expects that a comparison of data sets for CY 2003 will be done in FY 2004.

Evaluation of FHWA Intelligent Transportation Systems (ITS) Deployment

The National ITS program oversees the deployment and use of ITS technology to improve transportation on Federal, State and local highways, including private vehicular traffic as well as transit and commercial vehicle operations. To support this program, the DOT has developed a systems architecture for ITS deployments, worked with standards organizations to ensure needed standards are created, and produced a large number of guidance documents to assist State and local officials in deploying ITS. Funding is also provided to support a number of operational tests and model deployments of ITS technology.

Related performance goal: Mobility

The ITS deployment-goal tracking program is intended to track the deployment and integration of ITS technology in major metropolitan areas. Progress in the National ITS program can be measured by tracking the number of metropolitan areas with ITS deployment of significant breadth in terms of variety of transportation functions supported and depth in terms of coverage and market penetration. Information from the tracking effort can be used to guide program efforts to address local deployment and integration shortfalls. This is accomplished by tracking deployment

outputs, including numbers of systems deployed, percentage of roadway miles under instrumentation, and percentage of vehicle fleets instrumented, as well as integration between key metropolitan agencies.

The evaluation, conducted by a DOT contractor, focused on 75 of the largest metropolitan areas as a measure of National progress. An ITS infrastructure is defined for metropolitan areas that specifies functions performed by agencies and how they interact and the evaluation scope is limited to a selection of key output measures to serve as surrogates for the complete ITS infrastructure. Integration is measured using a limited number of integration links defined between agencies, chosen to involve key levels of government, and highway and transit agencies.

Data for the evaluation were gathered through surveys of transportation agencies in the target metropolitan areas. The same agencies were surveyed over time to track progress. A score was assessed for deployment based on five key areas: freeway, arterial, transit, public safety, and traveler information. Integration is ranked based on evaluation of real-time integration between freeway, arterial, and transit agencies. The deployment and integration rankings are combined into a single ranking of high, medium, or low for each metropolitan area. The goal is achieved for a metropolitan area when it is ranked medium or high. The overall goal is for each of the 75 metropolitan areas to achieve a ranking of medium or high by CY 2005. The survey is a census, not a sample, and 100 percent return is desired. The 2004 survey update has been launched with a target response rate of 80 percent by October 1, 2004; 85 percent by December 31, 2004; and 90 percent by May 31, 2005. The response rate through July 13, 2004 is 41 percent.

Interim goals have been established for each year included in the period of the goal, and as of 2003, the most recent survey update, progress is on track to achieve the overall goal by CY 2005.

The most recent report was published in December 2003. The survey for the FY 2004

update is currently underway. A snapshot report will be issued in the first quarter of FY 2005 and draft CY 2004 results will be available in December 2004, with final results available in May 2005. The 2005 survey will be conducted in the summer of 2005. A snapshot report will be issued October 1, 2005, draft 2005 results will be available in December 2005, and final 2005 results will be published in May 2006.

Evaluation of the Effectiveness of FHWA Design-Build Contracting

Design-build is an optional contracting mechanism that allows the design and construction of highway projects to be let in a single contract to a single vendor for the purpose of saving time and money on highway construction. Authorized by the *Transportation Equity Act for the 21st Century* (TEA-21), a final rule was issued effective January 9, 2003.

Related performance goal: Mobility

Perform a comprehensive National study of design-build contracting that evaluates the suitability of this project procurement and delivery technique for States engaged in highway capital projects.

Section 1307(f) of the TEA-21 requires the FHWA to assess the impacts of design-build contracting by June 9, 2003.

Scope:

- Compare the effect of design-build contracting on project quality, project cost, and timeliness of project delivery vis-à-vis the traditional design-bid-build approach, based on the FHWA's *Special Experimental Project No. 14* (SEP-14) and other related reports.
- Determine the appropriate level of design for design-build procurements given such project criteria as nature and complexity of project, total project cost, and environmental sensitivity.
- Assess both the positive and negative impacts of design-build contracting on small

businesses, particularly small contractors and design firms.

- Assess the variation, use, and fairness of cost and non-cost factors used in the award of design-build contracts.
- Develop recommendations concerning design-build contracting procedures and implementation approaches.

Methodology:

- Focus fact finding and analysis efforts on highway and bridge capital projects, particularly those involved in the SEP-14 program.
- Include lessons learned from other types of capital projects, including other modes and industries.
- Consider perspectives of both project sponsors and stakeholders.

Two contractor firms, commissioned by FHWA's Office of Infrastructure, are conducting this study.

Evaluation of FHWA Innovative Bridge Research and Construction (IBRC) Program

The IBRC Program was established by Congress under TEA-21 Section 5103—codified under 23 U.S.C. 503(b)(3)(A)(ii) and 503 (b)(3)(B)—and was funded for six years, FY 1998–2003. It was subsequently extended into FY 2004 as a result of temporary extensions of TEA-21 and the FY 2004 appropriations act. The program is intended to demonstrate the application of innovative material technology in the construction of bridges and other structures and has two components. The larger component provides funds for repair, rehabilitation, replacement or new construction of bridges and other highway structures using innovative materials. The smaller component is intended to support research and technology transfer activities related to the program's goals. Overall, the legislation authorized funding to be available to the States for projects to demonstrate the application of innovative materials relating to repair, rehabilitation, and construction of bridges and other highway structures.

Related performance goal: Mobility

This summary provides a process evaluation, as the IBRC program is essentially a discretionary bridge construction grant program to the States. The evaluation will look at the rate of usage by the States, the program's effectiveness at delivering its stated intentions, and the feasibility/desirability of continuing it in future legislation.

This summary assesses how the IBRC program is being conducted in 2004, in accordance with the guidance provided in the statutory reference provided above.

Under the provisions of 23 U.S.C. 503(b), the Secretary of Transportation shall make grants to and enter into cooperative agreements and contracts with States to pay the Federal share of the cost of repair, rehabilitation, replacement, and new construction of bridges and other highway structures that demonstrate the application of innovative materials. Funds are available for bridge projects that meet one or more of the seven program goals listed in Section 503(b)(2) of title 23, United States Code. However, projects must be on any public roadway, including State and locally funded projects, and funds are available for costs of preliminary engineering, costs of repair, rehabilitation or construction of bridges or other structures and costs of project performance evaluation including instrumentation and performance monitoring of the structure following construction.

Specific selection criteria used in the program consider whether the project that is the subject of the grant meets the goals of the program, as described in the legislation, including:

- development of new, cost-effective innovative material highway bridge applications;
- reduction of maintenance costs and life-cycle costs of bridges, including the costs of new construction;
- replacement, or rehabilitation of deficient bridges;

- development of construction techniques to increase safety and reduce construction time and traffic congestion;
- development of engineering design criteria for innovative products and materials for use in highway bridges and structures;
- development of cost-effective and innovative techniques to separate vehicle and pedestrian traffic from railroad traffic;
- development of highway bridges and structures that will withstand natural disasters, including alternative processes for the seismic retrofit of bridges; and
- development of new nondestructive bridge evaluation technologies and techniques.

Project applications were solicited from the State transportation agencies on April 1, 2004; the submission deadline was July 15, 2004. As of the date of printing, more than 70 project applications have been submitted by the States, and another 15 to 20 are anticipated (based on preliminary information provided by the FHWA Division Offices).

The program is being conducted in accordance with the requirements described in the authorizing legislation, and the overall process is therefore considered adequate and appropriate.

FHWA's Evaluation of the Nation's Highways, Bridges and Transit (Condition and Performance Report):

The *Conditions and Performance (C&P) Report* is intended to provide Congress and other decision makers with an objective appraisal of highway, bridge and transit physical conditions, operational performance, financing mechanisms and future investment requirements.

Related performance goals: Safety, Mobility, Environment, Global Connectivity, Security, and Organizational Excellence

The *C&P Report* offers a comprehensive, factual background to support the development and evaluation of legislative, program, and budget options at all levels of government.

It also consolidates conditions, performance, and finance data provided by States, local governments, and transit operators to provide a National summary.

Executive Order 12893, *Principles for Federal Infrastructure Investments* (January 1994), directs each executive department and agency with infrastructure responsibilities to base investments on “systematic analysis of expected benefits and costs, including both quantitative and qualitative measures.”

The highway investment requirements in the *C&P Report* are developed in part from the *Highway Economic Requirements System* (HERS), which quantifies user, agency and societal costs for various types and combinations of improvements, including travel time, vehicle operating, safety, capital, maintenance, and emissions costs.

The National Bridge Investment Analysis System uses engineering and benefit/cost analysis.

Transit investment analysis is based on the *Transit Economic Requirements Model* (TERM), which consolidates engineering and cost/benefit analysis. TERM identifies the investments needed to replace and rehabilitate existing assets, improves operating performance, and expands transit systems to address the growth in travel demand and evaluates these needs to select future investments.

The Administration's *Safe, Accountable, Flexible and Efficient Transportation Equity Act* (SAFETEA) proposal included a provision moving the due date for the biennial *C&P Report* from January of odd years to July of even years. However, since new legislation has not yet passed, we will instead be targeting the statutory deadline of January 2005 for the *C&P Report*.

Evaluation of MARAD's Ship Disposal Program

MARAD's ship disposal evaluation was originally scheduled for completion in FY 2004. Due to other commitments, this evaluation has been rescheduled for completion in FY 2005.

Evaluation of the Office of Civil Rights' Equal Employment Opportunity Complaints Process

The Departmental Office of Civil Rights (DOCR) supports the Department of Transportation's human capital objectives by enforcing various civil rights laws. DOCR serves as a guardian of fair treatment for the Department's employees, employment applicants, and former employees. Equal employment opportunity (EEO) services have been made available for the aforementioned customer base since the Office's inception. In 1995 the Departmental Office of Civil Rights decentralized its formal EEO complaint processing services to provide its customers more effective EEO services. Over the last five years DOCR has begun focusing on streamlining operations to promote greater efficiency. More specifically, the parties are focusing on ensuring that the EEO services provided are done in accordance with the 180 day time frame established by the Equal Employment Opportunity Commission (EEOC).

The DOCR Compliance Operations Division administers DOT's formal EEO complaints process and has responsibility for processing and investigating EEO complaints in a timely manner. In 1999, DOCR devised its *Investigation Procedures Manual* (IPM) based on EEOC regulations and guidance. The procedures manual established an internal formal EEO process and where applicable reduced time frames allotted to complete pertinent stages of the process.

DOCR evaluated its formal EEO complaints process, developed recommendations for improving the process, and will continue to implement changes and refinements intended to reduce case processing time.

Related performance goals: Organizational Excellence

The DOCR Evaluation Team selected a process-based methodology to support DOT's requirement for evaluating complaints processing procedures and practices.

Data supporting this evaluation was collected from Federal and DOT guidance, surveys, and the data

entered into DOT's EEO automated system of record, *WebCMS*. The data assisted members of the evaluation team with determining the timeliness of processing complaints at various stages of the formal EEO process. Specifically, the data identified total investigator caseload by region, total and average processing times from file date to case closure, and average processing times between major events in the formal complaints process.

This methodology will enable DOT to obtain answers to the following specific questions about its formal EEO process:

1. What procedures and practices are currently being used in processing complaints?
2. What factors negatively impact case processing time?
3. Does the method for processing complaints differ across regional offices?
4. What is the current average processing time and how does it compare to prior periods?
5. Does the Compliance Operations staff have the appropriate resources required to complete case processing within 180 days?
6. Is the Compliance Operation Division staffed and/or structured to process cases in a timely manner?
7. Are the investigators adequately trained?
8. How well are we communicating with our customers?

The eight questions identified by the Chief of the Compliance Operation Division helped to determine factors that may be contributing toward high processing times. These questions help to identify critical challenges regarding policies and procedures, differences in processing, resources constraints, training needs, communication challenges and potential changes to organizational structure. The findings simply require change if the DOCR will meet Federal and Departmental requirements for protecting DOT's human capital.

As the team examined the data to identify factors that negatively affect case processing times, it was

discovered that the *WebCMS* tracking system contained erroneous data fields. There is a need to employ standard practices and procedures for collecting, monitoring, and maintaining information within an electronic EEO case tracking system.

Future evaluation efforts should be expanded to assess the customers' needs and satisfaction level. Future efforts may also require an examination of other external factors that affect EEO case processing times.

Recommendations:

Highlights of the many procedural recommendations include:

- Establish regional complaint processing best practices.
- Update DOT's IPM involving regional complaint processing.
- Establish a standard report and form to support one method of documenting/collecting information.
- Develop a complaint processing threshold for case workload management.
- Establish an electronic information collection process that enables employees to enter and track information in DOT's EEO tracking system with greater accuracy.

Proposed Action Plan and Milestones:

- Establish standards to support consistency and accuracy by January 2005.
- Reaffirm active communication processes by January 2005.
- Continue personal and professional development and formal training for staff (ongoing).
- Enhance timeliness through Information Technology by January 2005.
- Establish a centralized formal intake unit within the Compliance Operation Division by July 2005.



Financial Management and Analysis

TOP MANAGEMENT CHALLENGES

Department of Transportation

Report Number: PT-2005-008

Date Issued: November 15, 2004



U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: ACTION: DOT's Top Management Challenges
PT-2005-008

Date: November 15, 2004

From: Kenneth M. Mead
Inspector General

Reply to
Attn. of: J-1

To: The Secretary
The Deputy Secretary

The Office of Inspector General (OIG) has identified 10 top management challenges for the Department of Transportation (DOT) for fiscal year (FY) 2005. In considering the items for this year's list, we continue to focus on the Department's key strategic goals to improve transportation safety, capacity, and efficiency. We have also identified three emerging issues, which we believe will become increasingly important to the Department over the coming years. These issues encompass resolving shortfalls between trust fund revenues and expenditures, accomplishing DOT's missions through interdependency with other Federal agencies, and addressing staffing challenges in the area of human resource management. Further, the Department will need to adapt nimbly to changes in the airline industry's financial circumstances.

The OIG's list for FY 2005 is summarized below and presented in greater detail later in this report. This report will be incorporated into the DOT Performance and Accountability Report, as required by law. The exhibit to this report compares this year's list of management challenges with the list published in FY 2004.

- Getting the Most Value From Investments in Highway and Transit Infrastructure Projects
 - *Delivering Projects On Time and Within Budget*
 - *Ensuring the Best Value From Transit Projects*

- Delivering Air Traffic Control Services and Fielding New Air Traffic Control Equipment While Controlling Costs in a Fixed Budget Environment
 - *Funding FAA During a Period When Funding Requirements Significantly Outpace Revenue From Aviation Taxes*
 - *Addressing an Expected Surge In Controller Attrition: Where, When, and How Many*
 - *Containing Costs of Existing Projects While Effectively Managing a New Multi-Billion Dollar Project*
- Increasing Aviation Capacity and Mitigating Delays
 - *Addressing Capacity Needs in Both the Long- and Short-Term*
- Ensuring Safety in a Changing Aviation Environment
 - *Adjusting Safety Oversight to Current Trends in the Industry*
 - *Reducing Operational Errors and Runway Incursions as Traffic Rebounds*
- Ensuring That Safety Programs Lead to More Lives Saved
 - *Cutting Across Traditional Boundaries and Effectively Targeting Federal Grants to Areas Having the Greatest Potential for Saving Lives*
- Strengthening Financial Management to Protect Federal Funds
 - *Freeing Up Hundreds of Millions of Dollars in Idle Funds to Be Used More Productively on Active Projects*
 - *Exercising Greater Stewardship Over the More Than \$35 Billion Awarded Annually on Highway and Transit Projects*
 - *Consolidating or Replacing Fragmented Financial Systems Used to Process Billions of Dollars Annually*
 - *Implementing Cost Accounting Systems, Especially at FAA, to Help Executives to Improve Their Operations*
- Holding the Line on Programs Conducive to Fraud
 - *FHWA and FTA Programs Involving Highway and Transit Infrastructure*
 - *FMCSA Programs Related to Commercial Drivers' Licenses*
 - *DOT's Disadvantaged Business Enterprise Program*

- Improving Cost Effectiveness of \$2.7 Billion in Information Technology Investments and Continuing to Enhance Computer Security
 - *Departmental Oversight of IT Investments and Security: DOT Needs to Implement a Robust and Consistent Management Review Process*
 - *Departmental IT Funding and Operations: DOT Needs to Better Coordinate Budget Requests to Align IT Resources With Responsibilities*
- Restructuring the Intercity Passenger Rail System to Match Fiscal Capacity
- Management Attention Needed to Strengthen Oversight of Title XI Loan Guarantees
 - *Status of Areas Identified in March 2003 Audit Report*
 - *New Areas Requiring Management Attention*

In addition to the 10 management challenges presented, this report includes the following three emerging issues. These issues are overarching in nature, and will require Secretarial direction or cross-modal coordination.

- Ensuring Transportation Funds Are Adequate to Meet Growing Needs
 - *Anticipated Aviation Trust Fund Revenues are Less than Projected*
- Growing Interdependency Among DOT and Other Federal Agencies to Ensure Safe, Secure, and Efficient Transportation
 - *Transportation Security*
 - *Environmental Stewardship*
- Meeting Human Resource Needs Given Retirements and Changing Skill Mix
 - *Addressing an Expected Surge in Controller Attrition*
 - *Rebuilding the Federal Highway Administration's Workforce While Balancing the Changing Skill Mix*

Another area we wish to mention is the issue of the financial difficulties in the airline industry. Over the next year, high fuel prices and weakness in airline yields are likely to continue the current financial pressures on the airline industry. Three carriers are in bankruptcy today and most of the others are struggling to reduce costs and restructure their operations, even low-cost carriers. With such widespread financial problems, many of the Department's safety and infrastructure programs, which are geared to regulating and being financed by a more economically stable industry, will need to adapt nimbly to these changing industry circumstances. Of key importance are well-planned and well-executed

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maintenance and operations oversight to assure the public that financial distress does not compromise safety and setting and adhering to priorities for funding airport and airway infrastructure to ensure that scarce trust fund revenues are well spent.

If you have any questions concerning this report, please call me at (202) 366-1959 or Todd J. Zinser, Deputy Inspector General, at (202) 366-6767. You may also contact Alexis M. Stefani, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1992.

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1 Getting the Most Value From Investments in Highway and Transit Infrastructure Projects

The extended Transportation Equity Act for the 21st Century (TEA-21) reauthorization process has made unmistakably clear the overwhelming demand for transportation dollars when Highway Trust Fund revenues are falling short of what is required to meet those demands. Our work has highlighted some instances where highway and transit funds were not effectively managed, including identification of over \$800 million in Federal obligations sitting idle during the last 5 years and significant delays and cost increases on projects, such as the Springfield Interchange in Virginia and the Tren Urbano transit system in Puerto Rico.

With fewer resources to fund important transportation projects, the Department of Transportation needs to ensure that infrastructure improvements are delivered on time and within budget and that taxpayer investments are those that yield the greatest benefits for the given costs. Taking these actions is critically important, as a 1-percent improvement in the efficiency with which states managed the \$700 billion investment in highway projects over the last 6 years would have yielded an additional \$7 billion for infrastructure improvements—enough to fund 9 of 18 active major projects. At the same time, transportation program fraud continues to deny state and transit authorities of much needed funds for infrastructure improvements and, consequently, is cited as a separate top management challenge in Section 7 of this report, “Holding the Line on Programs Conducive to Fraud.”

Delivering Projects On Time and Within Budget

Our reviews of large highway and transit projects have disclosed that stronger stewardship of the over \$35 billion in Federal funds invested annually in these projects is essential. As evidenced by its reauthorization proposal and other initiatives, the Department’s senior leadership has taken positive steps toward strengthening stewardship of highway and transit funds. For example, the Federal Highway Administration (FHWA) is implementing initiatives to: (1) refocus its oversight activities based on risk assessments of state management practices and (2) establish a review program of grants payments to help ensure that Federal funds are properly managed.

These initiatives are critical to strengthening oversight of project delivery and financial stewardship, but will require a fundamental change in the way FHWA conducts business. A recent audit found that the FHWA risk-assessment process

could be strengthened to enhance the reliability and consistency of assessment results and facilitate analysis to identify program-wide risks. For example, the Texas Division Office rated work zone safety as satisfactory, although they had 14.3 percent of the Nation's work zone fatalities—the highest of any state. In contrast, the Illinois, Ohio, and Delaware Division Offices, with work zone fatalities accounting for 0.2 percent to 3.6 percent of nationwide fatalities during the same period, rated their work zone program risk higher.

Implementing FHWA's grant management initiative will also be challenging as FHWA continues to lack basic performance data on highway projects. Our review of the management information system used by FHWA to monitor the performance of more than 120,000 Federal-aid project segments disclosed that the system does not capture project cost and schedule data needed to determine whether FHWA is successfully achieving the Department's performance goals or to determine how well states are managing Federal-aid funds.

For example, the lack of project data in this system has made it difficult for FHWA to measure whether it is meeting the Department's President's Management Agenda goals of ensuring that at least 95 percent of major Federally funded infrastructure projects meet, or come within 10 percent of, cost and schedule estimates established in project or contract agreements. FHWA must rely on data calls to state departments of transportation and project officials for cost and schedule information, which is then manually maintained on a spreadsheet by FHWA.

Ensuring the Best Value From Transit Projects

The Federal Transit Administration's (FTA) New Starts program relies on full funding grant agreements, which are long-term funding commitments that help meet the financial requirements of large transit projects. Because FTA awards relatively few of these agreements each year and funding to support the pipeline of New Starts projects is limited, it is crucial that only the most promising projects are selected as candidates for funding. As of the most recent annual report, there were 27 New Starts projects with full funding grant agreements and another 37 in the pipeline that were collectively seeking \$24.3 billion in Federal funding. However, the proposed House transit reauthorization bill authorizes \$9.5 billion to fund all New Starts program expenses over 6 years and \$4.8 billion for grant agreements that extend beyond the 6 years.

Our recent testimony of FTA's rating and evaluation of New Starts transit systems stated that while FTA's current evaluation process is much better than in years past, highway congestion relief benefits are not directly accounted for in the evaluation criteria. Because congestion relief must be a critical element in justifying New Starts projects, the FY 2005 House Committee on Appropriations

Report directed FTA and FHWA to determine how congestion relief could be implemented as an evaluation procedure and rating in the New Starts process. Our audit also noted that projects are proposed for funding based on equal weightings of cost effectiveness and land use. Further, based on a review of projects that were proposed in the early 1990s and are now in operation, we found that local ridership estimates (which are an important factor in evaluating projects) were not consistently reliable. Addressing these issues would facilitate a more consistent selection of projects that provide the greatest tangible benefits.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *October 2003 Finance Plan for the Central Artery/Tunnel Project*
- *The Rating and Evaluation of New Starts Transit Systems*
- *DOT FY 2004 Budget and Management Challenges*
- *Opportunities to Control Costs and Improve the Effectiveness of Department of Transportation Programs*
- *Controlling Costs and Improving the Effectiveness of Federal Highway Administration and Federal Transit Administration Programs*

2 Delivering Air Traffic Control Services and Fielding New Air Traffic Control Equipment While Controlling Costs in a Fixed Budget Environment

A continued focus for the Federal Aviation Administration (FAA) this year will be delivering safe, efficient, and cost effective air traffic services as well as systems that been delayed for years within an extremely tight budget environment. This past year, we have seen positive signs from Administrator Blakey and her staff as they began reining in FAA's longstanding, unabated operating cost growth. However, FAA is not used to operating in this type of environment, and to instill cost control within the Agency's organizational culture will require a long-term and focused commitment on the part of management.

We see three key issues that will need to be addressed over the next several years:

- Funding FAA's budget during a period when funding requirements significantly outpace revenue from aviation taxes,
- Addressing an expected surge in controller attrition, and
- Containing costs and fielding existing modernization projects that have been delayed for years while effectively managing a new multi-billion dollar project.

Funding FAA During a Period When Funding Requirements Significantly Outpace Revenue From Aviation Taxes

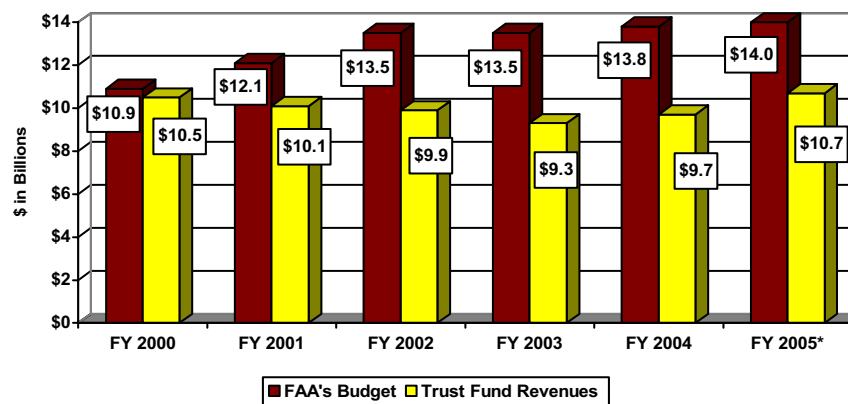
Although air traffic levels have shown improvement from the sharp declines of 2001, there still remains a substantial decline in projected Aviation Trust Fund revenues. In fiscal year (FY) 2000, the Trust Fund collected \$10.5 billion in revenue; however, in FY 2003, the Trust Fund collected only \$9.3 billion in revenue, a reduction of 12 percent. Those decreases can be attributed largely to reduced yields from the 7.5-percent ticket tax because of lower fares and lower enplanements. However, while revenues have declined, FAA's budget has increased substantially over the same time frame. Between FY 2000 and FY 2003, FAA's budget increased from \$10.9 billion to \$13.5 billion, an increase of 24 percent. In FY 2005, FAA's budget is expected to exceed Trust Fund revenues by over \$3 billion.

In FY 2000, none of FAA's budget was funded from the General Fund. In contrast, over \$3 billion (or 22 percent) of FAA's FY 2004 budget was paid for by the General Fund. As FAA increasingly turns to the General Fund to make up for revenue shortfalls, the Agency will be competing with other critical Federal

programs for dollars during a period when the Government is facing a substantial Federal deficit.

There are a handful of difficult options—none of them easy—to address the expected mismatch between funding availability and projected funding needs. First, adopt a “do-nothing approach” that would freeze budgets at levels consistent with resource projections. Second, turn to the General Fund to subsidize growing shortfalls; an option which is problematic during times of Federal deficits. The third, and perhaps most painful, option would be to reevaluate the current tax structure and determine what alternatives exist to more efficiently align users and costs through changes in the tax structure or by imposing user fees.

Figure 2-1. FAA: Agency's Budget vs. Trust Fund Revenues



Source: OIG Analysis of FAA Data.

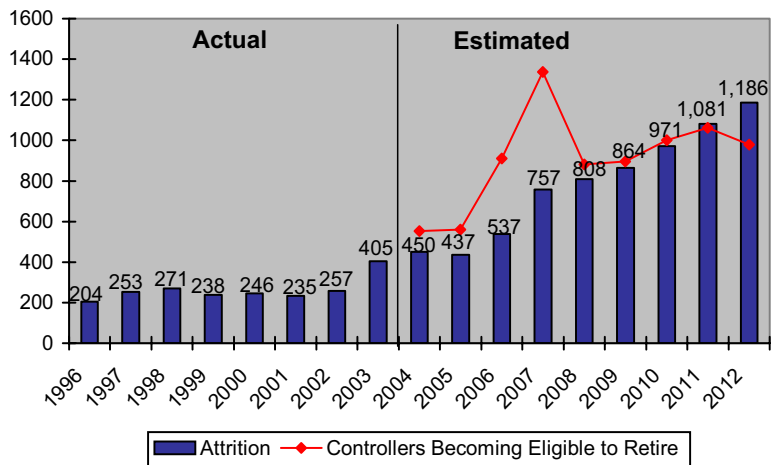
* Estimated

Addressing an Expected Surge in Controller Attrition: Where, When, and How Many

Controlling operating costs will continue to be a major focus for FAA. Although FAA has made progress in beginning the process of reining in a history of unabated cost growth in the operations account, achieving further reductions in operating costs represents a tremendous challenge as salaries and benefits make up approximately 73 percent of FAA's operating budget. Initiatives such as new air traffic systems, technological improvements, efforts to redesign the National Airspace System, consolidating locations, and actions to correct longstanding staffing imbalances all have the potential to significantly improve productivity.

An important issue this coming year will be starting negotiations with FAA’s largest union, the National Air Traffic Controllers Association, over a new contract. The current contract, which was extended, is due to expire in September 2005. Another key issue FAA will need to address is determining how many controllers it will need and where and when it will need them. FAA estimates that nearly half the controller workforce will leave the Agency between FY 2005 and FY 2012. To hire and train that many controllers within a severely constrained operating budget, FAA must identify ways to make every stage of its process for hiring, placing, and training new controllers more efficient and cost effective. Currently, it takes an average of 3 years for new controllers to become fully certified. FAA is working on a congressionally mandated plan to address controller staffing, which is due to be completed by the end of December. As part of our ongoing audit of FAA’s initiatives to address controller staffing, we will be reviewing FAA’s plan.

Figure 2-2. FAA Air Traffic Controller Attrition Compared to Retirement Eligibility*



Source: OIG Analysis of FAA Data.
 * Attrition data are as of May 2004. The number of controllers becoming eligible includes only those controllers reaching retirement eligibility in that year and does not include prior years. Retirement eligibility estimates are as of December 31, 2003.

Containing Costs of Existing Projects While Managing a New Multi-Billion Dollar Project

FAA's Facilities and Equipment account, which funds the Agency's major acquisitions, has decreased from \$2.9 billion in FY 2004 to a requested level of \$2.5 billion for FY 2005. The Agency's January 2004 Capital Investment Plan shows that funding for this account is expected to remain in the \$2.5 billion range for the next several years. FAA major acquisitions have a long history of cost growth, schedule slips, and shortfalls in performance. In fact, in FY 2003, we reported that 14 of 20 major acquisitions accounted for cost growth of over \$4.3 billion. The cost growth alone accounts for more than one year's budget for modernizing the National Airspace System.

FAA is now in the position of funding projects that have been delayed for years while starting an ambitious \$2.1 billion project called the En Route Automation Modernization effort to replace the Host, which is the central nervous system of the National Airspace System. Two projects in particular that have been chronically delayed and over budget are the Standard Terminal Automation Replacement System (STARS)—a new controller terminal computers and display system—and the Wide Area Augmentation System (WAAS)—a new satellite-based navigation system. Table 2-1 shows cost and schedule variances associated with these programs.

Table 2-1. Cost and Schedule Variances

Program	Estimated Program Costs (\$ in Millions)		Percent Cost Growth	Implementation Schedule		Implementation Delay
	Original	Current		Original	Current	
WAAS	\$892	\$3,300*	270%	1998-2001	2003-2013	12 Years
STARS	\$940	\$2,100**	123%	1998-2005	2002-2012	7 Years

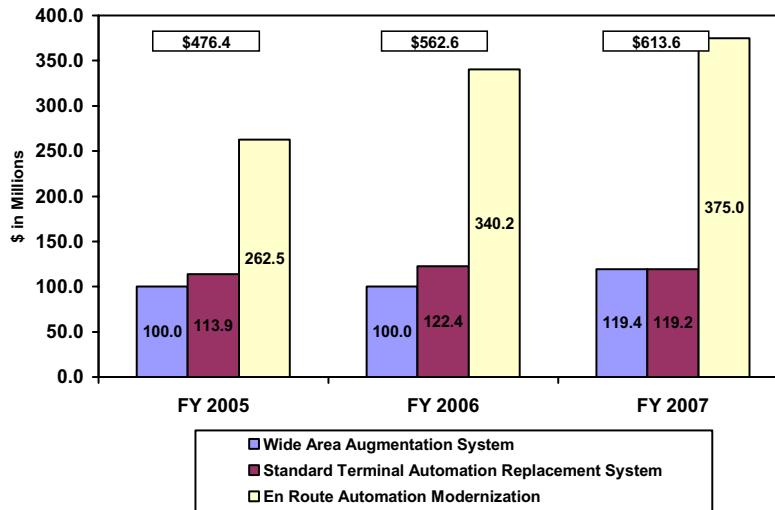
Source: OIG Analysis of FAA Data.

* This includes sunk program costs of about \$900 million.

** This is FAA's estimate of the cost to deploy STARS to all 162 operational sites and is subject to additional validation. Currently, STARS is limited to 50 sites at \$1.46 billion. These costs do not include technical refresh.

Both projects have been delayed for years by requirements changes and technical difficulties, among other things, and FAA expects to be funding both projects well into the foreseeable future. Figure 2-3 shows the impact of having to fund these two programs as well as the En Route Automation Modernization program.

Figure 2-3. FAA's Planned Investments in Three Major Acquisitions FY 2005 Through FY 2007 (\$ in Millions)



Source: OIG analysis of FAA data.

The challenges facing FAA with respect to its major acquisition programs are getting control of costs of existing projects, determining what the Agency's priorities are, and improving the overall management of its major acquisitions in a constrained budget environment. As a first step, FAA needs to develop reliable cost and schedule baselines (from start to finish) for a number of ongoing billion-dollar projects. These include STARS, the Airport Surveillance Radar-11, and the FAA Telecommunications Infrastructure effort. For each of these projects, it is not clear what the total cost will be or how long it will take to complete the project. A specific concern arising from delays with STARS is how to address urgent needs caused by aging equipment at critical sites, like Chicago.

Until the new baselines are established, FAA will not be in position to manage its overall modernization portfolio or set expectations for what can be accomplished within existing and projected funding levels. Also, our work on a wide range of projects shows that FAA can improve its overall management of major acquisitions by relying more on fixed-price contracts to control costs instead of cost-plus contracts that place the risk with the Government.

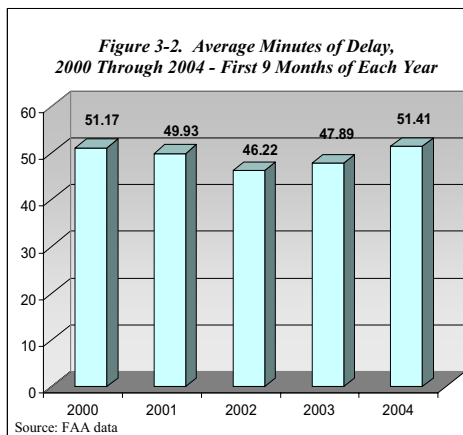
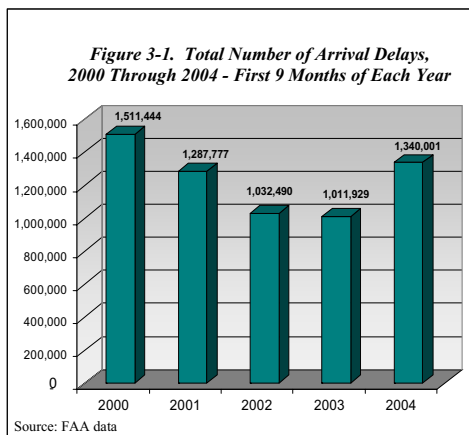
For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Key Issues for the Federal Aviation Administration's FY 2005 Budget*
- *Status Report on the Advanced Technologies and Oceanic Procedures*
- *FAA's FY 2005 Budget: Opportunities to Control Costs and Improve Effectiveness of Programs*
- *Observations on Bringing Fiscal Discipline and Accountability to FAA's Air Traffic Control Modernization Program*
- *FAA Needs to Reevaluate STARS Costs and Consider Other Alternatives*
- *Status Report on FAA's Operational Evolution Plan*
- *Addressing Controller Attrition: Opportunities and Challenges Facing the Federal Aviation Administration*
- *Opportunities to Improve FAA's Process for Placing and Training Air Traffic Controllers in Light of Pending Retirements*
- *FAA's Management of and Control Over Memorandums of Understanding*
- *Safety, Cost, and Operational Metrics of the Federal Aviation Administration's Visual Flight Rule Towers*

3 Increasing Aviation Capacity and Mitigating Delays

After a few years of relative reprieve from aviation congestion, traffic and delays are once again returning; in some markets they are approaching levels experienced in 2000, generally considered the worst period ever for aviation gridlock. We see the Department of Transportation's challenge as determining how and where traffic is likely to grow over the next decade, and planning for adequate investment in facilities, technology, and operational improvements to address both the long- and short-range needs. The Department's long-term challenge will be keeping planned technological and infrastructure projects on schedule while effectively implementing short-term initiatives to relieve congestion and delays in the interim.

Traffic is returning with the Federal Aviation Administration's (FAA) Air Route Traffic Control Centers reporting 2004 year-to-date operations that nearly equal or exceed 2000 levels. With this growth in operations has come an increase in the number of aviation delays, with the incidence, rate, and length of delays approaching 2000 levels. As the following figures illustrate, the number of arrival delays in the first 9 months of 2004 was within 11 percent of number of arrival delays in the same period in 2000, the rate of delay (22 percent) is approaching the 25 percent experienced in 2000, and the length of delays in 2004 (51.41 minutes) actually exceeds the 2000 average delays (51.17) for the first 9 months of that year.



Delays were particularly disruptive earlier this year at several key airports. At Chicago O'Hare, the number of delays in the first 5 months of 2004 was 40 percent greater than the same period in 2000; and 2004 delays also averaged 10 minutes longer (66 minutes versus 56 minutes). For the first 5 months of 2004, airports in Salt Lake City and Ft. Lauderdale also experienced delays exceeding year 2000 levels by 31 percent and 23 percent, respectively. Table 3-1 identifies the number, percentage, and length of delays for the Nation's top delayed airports in the first 9 months of both 2004 and 2000.

Table 3-1. Ranking Report for Delayed Flights

Airport	9 Months 2004				9 Months 2000				'04 vs. '00	
	Rank 2004	Arrival Delays	% Delayed	Minutes	Rank 2000	Arrival Delays	% Delayed	Minutes	Delays	Minutes
Chicago-O'Hare	1	105,297	28.91	65.48	1	100,962	31.81	58.36	4%	7.12
Atlanta	2	91,060	25.61	52.83	2	84,075	26.11	51.93	8%	0.9
Dallas-Ft. Worth	3	51,921	17.45	55.45	4	57,921	19.38	52.44	-10%	3.01
Newark	4	44,002	28.1	61.25	10	44,812	29.55	60.94	-2%	0.31
Philadelphia	5	42,335	25.94	55.55	9	46,485	30.04	54.02	-9%	1.53
Los Angeles	6	41,435	18.01	47.3	3	69,210	28.28	47.61	-40%	-0.31
Denver	7	36,608	17.67	48.14	5	53,845	29.2	49.76	-32%	-1.62
Washington-Dulles	8	36,396	24.95	56.29	12	38,954	25.96	52.28	-7%	4.01
NY-LaGuardia	9	35,717	24.48	58.55	8	47,020	35.5	60.29	-24%	-1.74
Cincinnati	10	35,069	18.55	50.18	13	35,684	22.07	45.35	-2%	4.83
Minneapolis	11	34,902	18.36	47.11	17	33,151	18.78	50.33	5%	-3.22
Houston	12	34,817	18.94	49.53	21	29,923	18.92	50.36	16%	-0.83
Phoenix	13	34,688	19.44	47.87	11	43,981	25.11	47.78	-21%	0.09
Las Vegas	14	33,415	22.89	48.41	15	35,504	26.81	48.11	-6%	0.3
Detroit	15	30,862	16.47	47.84	18	32,967	18.83	52.58	-6%	-4.74

Source: FAA

Addressing Capacity Needs in Both the Long- and Short-Term

It is generally agreed that where new construction is an option, building new runways provides the largest increase in system capacity. The Department's challenge will be to keep these projects on track while identifying short-term initiatives to manage delays such as airspace redesign, technological improvements, procedural changes, and potential administrative or market-based solutions.

However, in some markets, physical improvements, airspace redesign, or technology cannot or will not provide sufficient capacity to accommodate expected demand. One potential option in such markets is an administrative approach—where the Government makes decisions for the market. Another alternative to new construction are market-based solutions, such as peak-hour pricing or slot auctions, which use market forces to effect change. In addition to pursuing the traditional infrastructure, technology, and procedural solutions to congestion, the timing is right for the Department to explore potential market-based initiatives designed to more efficiently allocate existing capacity.

New Runways and Airspace Redesign Initiatives. FAA's modernization program will provide incremental enhancements; however, over the long term, adding new runways provides the largest increase in system capacity. In addition, improving the efficiency of existing airport capacity by redesigning airspace is also critical for taking full advantage of new runways and enhancing the flow of air travel around existing runways and airports. The Department's challenge will be to keep these projects on track.

FAA tracks new runways as part of its Operational Evolution Plan (OEP). The OEP was developed in direct response to delays and cancellations that reached intolerable levels in the summer of 2000. FAA estimates that new runways will account for the single largest factor in the projected increase in capacity promised by the OEP. Since the summer of 2000, seven new runways have been built (Phoenix, Detroit, Orlando, Denver, Miami, Houston, and Cleveland). Currently, seven more new runways are being tracked as part of the OEP and are expected to be completed within the next 4 years.

In addition to the seven new runways in FAA's OEP, Chicago O'Hare is currently planning to add one new runway, extend two existing runways, and relocate three others as part of the O'Hare Modernization Program (OMP). This program is aimed at increasing capacity and reducing significant delay problems. While initial relief is anticipated in 2007 following the opening of the new runway, it is estimated that the OMP will take until 2013 to complete. The environmental process alone is not expected to be completed until September 2005—over 3 years after the process began. This completion date could be further delayed because of anticipated legal challenges from groups opposing the OMP.

FAA's airspace redesign efforts are also critical to increase capacity and reduce delays. Currently, FAA is pursuing over 40 individual projects, including large-scale efforts to redesign airspace in the New York/New Jersey/Philadelphia area; the Los Angeles Basin; and in the Midwest around the Chicago O'Hare, Detroit, and Minneapolis Airports. Our ongoing work shows that FAA's airspace redesign projects are often delayed by 3 years or more because of changes in a project's scope, environmental issues, and problems in developing new procedures. Moreover, there is inadequate coordination between airspace redesign teams and FAA organizations that manage resources (new equipment or radio frequencies) often needed to implement airspace changes. FAA needs to get its airspace redesign efforts on track and determine what can reasonably be expected of the projects and when they can be completed.

Interim Steps and Alternatives to New Construction. Because new runways are not immediate solutions (in some cases, such as space-constrained New York-LaGuardia, they are not viable solutions), alternatives to new construction must be considered for both the short- and long-term. Since the summer of 2000, FAA and

the airlines have made a number of technological, operational, and procedural improvements that increase the efficiency of existing capacity and will help to enhance the flow of air travel in the near term.

These improvements include collaborative decision-making systems that link FAA's command center and airline operating centers to improve communications during delayed conditions. FAA has also instituted new procedures, including "delay triggers," which institute holds on traffic from feeder airports when delay conditions at the receiver airport reach 90 minutes or more. In addition, FAA's air traffic control modernization initiatives, such as new automated controller tools, are expected to provide incremental capacity improvements.

The Department has also demonstrated a willingness to intervene administratively when delays reach a critical point. Three times in the past year, the Department has negotiated voluntarily schedule reductions at Chicago-O'Hare by the two dominant carriers. The first two negotiations, while achieving net reductions in delays, did not fully realize the anticipated delay-reduction goals, and it is too soon to tell whether the third effort will be successful. Intervention of this nature by the Department entails a certain risk—the Department assumed a role (schedule planning) that has been delegated exclusively to the carriers since deregulation. Such actions, while potentially effective in the short term by preventing delays in one choke-point from cascading throughout the system, have the potential to negatively impact competition by favoring one class of carriers over another or impacting service to small communities.

The Department's challenge in the short term will be to remain flexible and proactive in implementing solutions that will adequately mitigate congestion until long-term projects can be fully completed. The Department will also need to identify those markets that realistically are not conducive to new construction as a short- or long-term solution and evaluate alternatives. For example, Federal and state approvals of the Boston-Logan Airside Improvements Planning Project stipulated that Massport commit to the development of a demand management program. Massport has proposed a revenue-neutral, peak-hour pricing plan that is currently undergoing public comment.

Before an effective market-based strategy can be successfully implemented, the Department—along with industry stakeholders—will need to address a range of complex issues. These include:

- Who has the authority to set the fees? Under what circumstances will they be set? Will there be controls on the amounts?
- Whose approval is needed for an airport authority to develop and institute a market-based strategy?

- Who gets the revenue from any fee-adjusted pricing scheme?
- What can the funds be used for?
- What would the implications be for small- and medium-sized communities?

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Airline Industry Metrics: Trends in Demand and Capacity, Aviation System Performance, Airline Finances, and Service to Small Airports; Fifth Edition (January 2004)*
- *Airline Industry Metrics: Trends in Demand and Capacity, Aviation System Performance, Airline Finances, and Service to Small Airports; Sixth Edition (August 2004)*
- *Short- and Long-Term Efforts to Mitigate Flight Delays and Congestion (May 2004)*
- *Short- and Long-Term Efforts to Mitigate Flight Delays and Congestion (June 2004)*
- *Status Report on FAA's Operational Evolution Plan*

4 Ensuring Safety in a Changing Aviation Environment

In terms of safety, the Federal Aviation Administration (FAA) and U.S. carriers have maintained a remarkable safety record. There has not been a fatal accident of a large passenger air carrier in almost 3 years. However, we have experienced an unfortunate series of commuter accidents. Larger air carriers are operating newer, more sophisticated aircraft and have established internal systems, such as Flight Operational Quality Assurance, to collect and analyze data to improve the safety of flight operations. These factors have contributed to large air carriers' remarkable safety record. However, FAA needs to remain vigilant in adjusting its oversight to trends in the industry. The significant trends that bear watching include: the deterioration of air carriers' financial condition, the growth of low-cost and regional air carriers, and the increased use of outside repair facilities for aircraft maintenance. In addition, FAA must continue its efforts to reduce runway incursions and operational errors.

Adjusting Safety Oversight to Current Trends in the Industry

FAA has a significant challenge in ensuring its safety oversight keeps pace with current trends in the aviation industry. Network air carriers have faced record-breaking monetary losses—at least \$21.8 billion in the past 3 years. Two network air carriers are in bankruptcy and one more is on the verge of bankruptcy. In addition, one low-cost air carrier has recently declared bankruptcy. However, most low-cost and regional air carriers are continuing to grow at a phenomenal rate. From 2000 to 2003, these carriers' passenger market share, based on passenger enplanements, grew from 29 to 40 percent. FAA forecasts that low-cost and regional air carriers could account for more than 50 percent of the passenger market share in 2015. To remain competitive, network carriers are making unprecedented changes to their operations, such as:

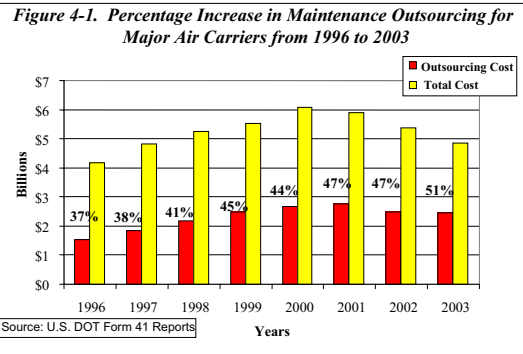
- Increasing the use of outsourced maintenance providers,
- Restructuring routes and aircraft fleets,
- Using aircraft for more hours in the day,
- Utilizing pilots and flight crews for longer hours, and
- Reducing staff significantly.

Providing oversight of air carrier outsourcing, or use of external repair facilities, has been particularly challenging for FAA. While FAA has recognized that substantial changes to its oversight of repair stations are needed, proposed changes are still under development. FAA must continue to make improvements in this

area because major air carriers now outsource 51 percent of their maintenance expense, compared to just 37 percent in 1996.

In addition, the January 2003 Air Midwest accident highlighted the fact that air carriers are also using independent mechanic

services and non-certified repair facilities to perform maintenance work that is not subject to FAA’s direct oversight. FAA must continue its efforts to develop an improved oversight program for outsourced maintenance. In addition, FAA must continue to improve its air carrier oversight systems to respond effectively to the challenges being presented by an ailing network and growing low-cost air carrier industry. FAA has made noteworthy progress in the past 6 years in moving its oversight systems toward a more data-driven, risk-based approach, but we found the systems were not mature and refined enough to allow inspectors to effectively adjust their surveillance to industry changes.



Reducing Operational Errors and Runway Incursions as Traffic Rebounds

As air traffic operations increase, there are two key areas to watch—operational errors (when air traffic controllers allow planes to come too close together in the air) and runway incursions (potential collisions on the ground). Reducing operational errors and runway incursions has been a key performance goal for FAA in the past year.

As shown in Figure 4-2, FAA reduced the number of operational errors from 1,185 during fiscal year (FY) 2003 to 1,148 during FY 2004. More importantly, FAA significantly reduced the most serious incidents. From FY 2003 to FY 2004, operational errors rated as high severity decreased 27 percent (from 55 to 40).

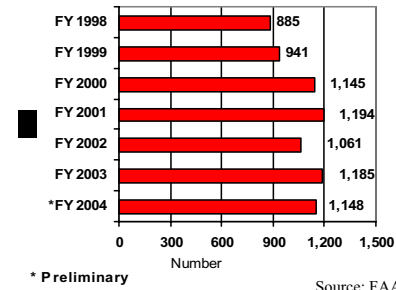
In addition, for the fourth consecutive year, FAA was successful in reducing the most serious runway incursions (those rated in FAA's two highest risk categories). These incidents decreased from 32 in FY 2003 to 28 in FY 2004.

Despite FAA's progress in reducing serious incidents, they still occur too often. In FY 2004, either one high severity operational error or one serious runway incursion occurred every 5 days.

We also have concerns regarding FAA's process for reporting operational errors. FAA has an automated system that identifies when operational errors occur at only 20 of its 524 air traffic control facilities. FAA depends on an unreliable system of self-reporting operational errors at tower and terminal radar approach control (TRACON) facilities.

We recently reported that operational errors at these facilities have not been accurately reported. We determined that in FY 2003, 22 percent of the operational errors occurring at TRACON and towers were identified as a result of reports from pilots, neighboring air traffic control facilities, or other outside sources. The statistics indicate that FAA cannot rely on a system that is based on facility personnel self-reporting operational errors. FAA needs a procedure that will provide greater assurance that substantially all operational errors are being reported. We recommended that FAA require tower and TRACON facilities to periodically review voice and radar tapes to assess whether errors are being fully reported. FAA agreed with our recommendations and plans to establish a workgroup within the Air Traffic Organization that will develop an action plan to ensure accurate and full reporting of operational errors. This coming year, it is imperative for FAA to correct this vulnerability in reporting and to make certain operational errors are accurately reported for each facility.

Figure 4-2. Operational Errors, FY 1998 to FY 2004



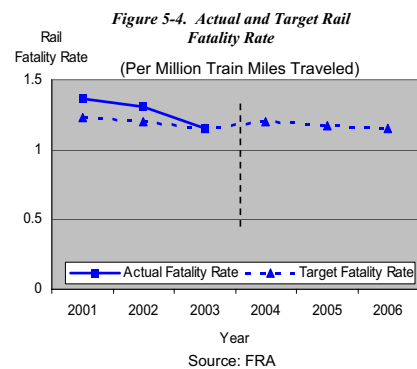
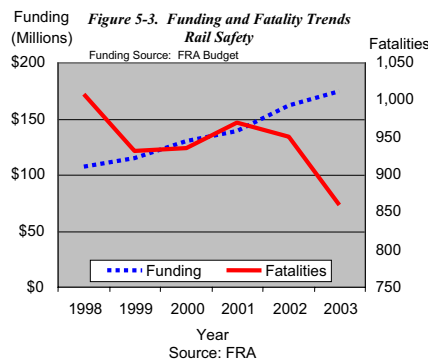
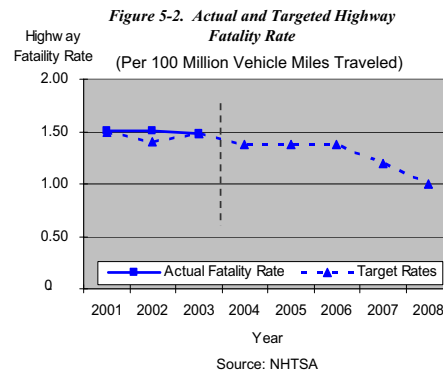
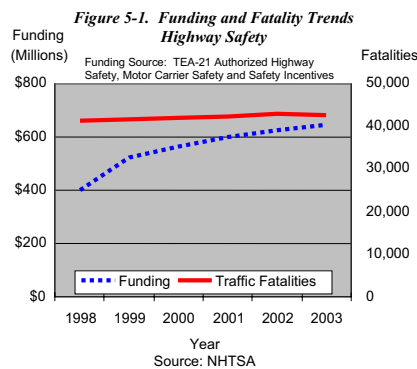
For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Controls Over the Reporting of Operational Errors*
- *Review of Air Carriers' Use of Aircraft Repair Stations*
- *Operational Errors and Runway Incursions: Progress Made, but the Number of Incidents is Still High and Presents Serious Safety Risks*
- *Air Transportation Oversight System*

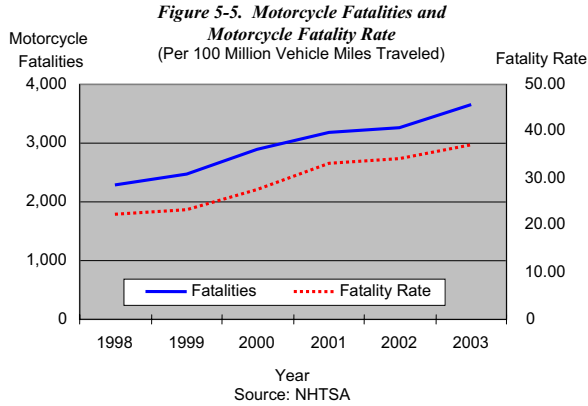
5 Ensuring That Safety Programs Lead to More Lives Saved

Highway, commercial vehicle, and rail safety initiatives all have received significant levels of funding under the Transportation Equity Act for the 21st Century (TEA-21), and these trends are expected to continue under pending reauthorization legislation. Sustained levels of funding have been matched by reductions in the overall highway and rail fatality rates. The absolute numbers of highway and rail-related fatalities have also declined; although in some categories, such as motorcycle riders, fatalities have actually increased since TEA-21 started. Overall, more than 40,000 people still die each year on the Nation’s highways and at rail crossings, and the Department of Transportation has set ambitious targets for reducing fatality rates in the future.

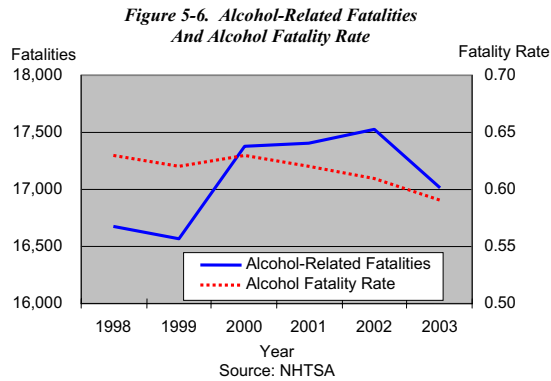
The growth in overall funding, past fatality trends, and future targets are shown below.



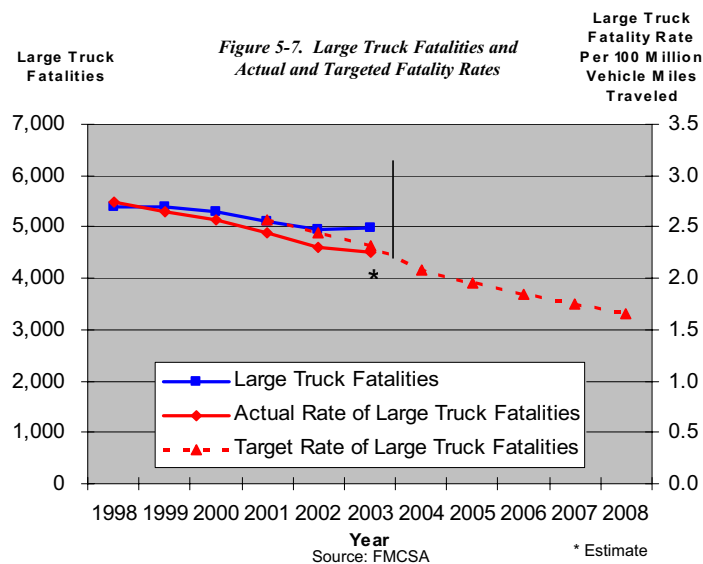
One area that has increased significantly is motorcycle fatalities, which have increased by 59 percent, or 1,367 fatalities, since 1998. The fatality rate for motorcycle riders has also increased. In the case of both highway and rail fatality rates, the Department met its targets in 2003 after not meeting the targets in 2001 and 2002.



The Department has had limited success in its efforts to reduce alcohol-impaired driving. Since 1998, total alcohol-related fatalities increased slightly to 17,013 fatalities in 2003, while the alcohol fatality rate decreased by 6 percent to .59 fatalities per 100 million vehicle miles traveled.



The Department has been successful in reducing the large truck fatality rate but further reductions are needed to meet its goals. In fiscal year (FY) 2000, the large truck fatality rate declined from 2.7 fatalities per 100 million truck miles traveled in the previous year to 2.6, a level above the target rate of 2.57. The target rate of 2.45 was achieved in FY 2001, and in FY 2002, the target rate of 2.32 was exceeded by an actual rate of 2.30. In 2003, the actual rate is estimated to have declined further to 2.25, above the target of 2.19. The number of fatalities involving large truck crashes slightly increased in 2003 from 4,939 to 4,986. To reach its 2008 performance goals for truck safety, the Department must reduce the rate of large truck fatalities even further to 1.65.



Meeting the ambitious goals for reducing highway fatality rates set by the Department will be difficult. The overall highway fatality rate must drop from 1.48 per 100 million vehicle miles traveled in 2003 to 1.38 in 2006 and to 1.0 by 2008. Assuming that vehicle miles traveled remain constant, the 1.0 rate goal would save 30,929 lives between 2004 and 2008. However, given that vehicle miles traveled have increased historically by 10 percent between 1998 and 2003, reducing the absolute number of fatalities may be difficult even if progress is made on reducing highway fatality rates.

The rail-related fatality rates currently targeted for 2004 and 2005 are higher than the actual fatality rates for 2003. After we called this to their attention, Federal Railroad Administration officials told us they will adjust this performance measure in early 2005.

Cutting Across Traditional Boundaries and Effectively Targeting Federal Grants to Areas Having the Greatest Potential for Saving Lives

Transportation experts have pointed out the difficulties in making quantum leaps in improving safety. A complex variety of factors contribute to crashes including driver behavior, vehicle defects, and road and bridge conditions. Significant safety improvements may also require the Department to cut across traditional organizational boundaries. Improvements will also depend on targeting Federal safety grants to areas having the greatest potential for saving lives and spending funds in a timely manner. Ensuring that program expenditures and levels of effort bring about corresponding reductions in crashes and fatalities will require leadership by the various modal administrations and the consideration of actions that may be controversial.

Overcoming Obstacles to Increasing Seat Belt Usage. Seat belt usage increased from 70 percent in 1998 to an estimated 80 percent in 2004, and states with primary seat belt laws—which allow a motorist to be ticketed solely for not wearing a seat belt—increased from 14 states in 1998 to 21 states in 2004. Success in seat belt usage has been achieved through the National Highway Traffic Safety Administration's (NHTSA) programs, such as "Click It or Ticket," where law enforcement agencies conduct zero-tolerance enforcement backed by advertising campaigns. However, challenges remain with increasing seat belt usage for part-time and chronic non-users and with overcoming states resistance to stronger seat belt laws. Truck drivers are another group with low seat belt usage that may be in need of additional focus.

Addressing SUV Rollover Issues. Additional attention is needed in the area of Sport Utility Vehicles (SUV). In 2003, 59 percent of SUV occupant fatalities involved a rollover, the largest percentage for any vehicle type. There was also a 7-percent increase in the number of SUV occupants killed in single SUV rollovers. NHTSA should continue efforts to improve safety standards and establish new requirements that will mitigate the impact of rollovers.

Pursuing Laws to Discourage Alcohol-Impaired Driving. Alcohol-related fatality rates decreased from .63 per 100 million vehicle miles traveled in 1998 to .59 in 2003 and all states have adopted a .08 Blood Alcohol Concentration law. Still, alcohol-related fatalities remained near 17,000 deaths per year. NHTSA should work with states to effectively use the funds available for alcohol-related programs and continue to encourage the adoption of open container and repeat offender laws.

Spotting Vehicle Defects. Without advanced analytical capabilities for its recently completed safety defect database, NHTSA will be challenged to ensure that the “early warning” information being reported is thoroughly and consistently analyzed to spot dangerous safety trends, such as the failures in Firestone tires.

Curbing CDL Fraud By Strengthening Controls. As discussed in more detail in Section 7 of this report, “Holding the Line on Programs Conducive to Fraud,” over the past 5 years we have investigated and prosecuted commercial drivers’ licenses (CDL) fraud schemes in 21 states. These investigations found over 8,000 CDLs that were issued to drivers who obtained their CDLS through corrupt state or state-approved testing processes. Curbing CDL fraud helps ensure that only drivers with the requisite skills obtain CDLs. The Federal Motor Carrier Safety Administration (FMCSA) has increased the depth of state CDL reviews, and we are working to support FMCSA’s efforts to deter and prevent CDL fraud. However, the challenge will be to improve controls at the state level over the issuance of CDLs.

Improving Safety Data. Completeness and accuracy of data on crashes and other safety events are critical to identifying high-risk motor carriers for review. We previously reported that states failed to report to FMCSA an estimated one-third of large trucks involved in crashes annually. In response, FMCSA has posted reports on the Internet showing states that are not adequately reporting crash data, removed certain data from its web site until data quality is improved, and is working with NHTSA to improve state reporting of crashes. The challenge will be to obtain consistent and complete reporting across the multitude of state jurisdictions.

Targeting Approaches to Reduce Highway-Rail Grade Crossing Fatalities and Accidents. In June 2004, we reported that for the Department to achieve the magnitude of reductions in grade crossing fatalities and accidents accomplished over the past 10 years, it will need a careful analysis of accident trends and a plan that strategically targets remaining problem areas. This will require addressing unsafe motorist behavior, targeting actions at crossings that are equipped with protective devices, and closing additional crossings. Despite the safety benefits, closures are often difficult to achieve because of local community opposition linked to concerns about emergency response time, traffic delays, neighborhood impacts, and public inconvenience.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

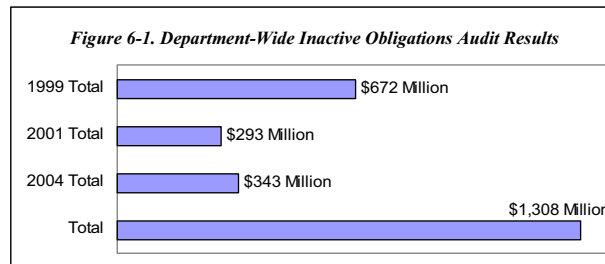
- *Review of NHTSA’s Progress in Implementing Strategies to Increase the Use of Seat Belts*

- *Follow-up Audit on NHTSA's Office of Defects Investigation*
- *Progress and Challenges in Implementing the TREAD Act*
- *NHTSA Office of Defects Investigation*
- *Improving the Testing and Licensing of Commercial Drivers*
- *Disqualifying Commercial Drivers*
- *Improvements Needed in the Motor Carrier Safety Status Measurement System*
- *Investment Review Board Deliberations on the Motor Carrier Management Information System*
- *Report on the Audit of the Highway-Rail Grade Crossing Safety Program*

6 Strengthening Financial Management to Protect Federal Funds

The Department of Transportation's (DOT) efforts to correct longstanding financial management deficiencies are evident in the progress it has made over the last several years. This year, DOT received its fourth consecutive clean financial statement opinion and met the Office of Management and Budget's (OMB) accelerated date to submit audited financial statements by November 15, 2004. All departmental Operating Administrations now use the new Delphi accounting system, and DOT is the only major Federal agency that uses a single modern accounting system. The Federal Aviation Administration (FAA) also improved its oversight of cost-reimbursable contracts to the extent that it is no longer a material weakness. Further, while the Federal Highway Administration (FHWA) still has a long way to go, it made progress in its efforts to correct weaknesses in its financial management practices. These steps improved DOT's ability to protect the billions of dollars in resources entrusted to it each year. The significant remaining challenges are listed below.

Freeing Up Hundreds of Millions of Dollars in Idle Funds to Be Used More Productively on Active Projects



In fiscal year (FY) 1999, we identified \$672 million in inactive obligations, including \$284 million in FHWA funds, that were no longer needed or valid. In FY 2001, we identified \$293 million, including \$238 million

in unneeded FHWA funds. Despite repeated audits and new DOT guidance, in FY 2004, we identified \$343 million in inactive obligations; this included \$284 million in FHWA funds. By freeing up these idle funds, they may become available to finance active projects. It is especially important to identify and use idle funds in this period of tight budget constraints.

In FY 2004, FHWA committed to implement best practices for identifying idle funds. When implemented, these actions should ensure that highway resources do not sit idle when they could be used to enhance transportation facilities.

Exercising Greater Stewardship Over the More Than \$35 Billion Awarded Annually on Highway and Transit Projects

FHWA must establish stronger financial and cost controls to better ensure that grant funds are protected from fraud, waste, and abuse. This is especially important in a time of large deficits. (See Emerging Issue section, "Ensuring Transportation Funds Are Adequate to Meet Growing Needs.") FHWA, however, currently provides little financial oversight of the billions of dollars it provides to states and municipalities each year. Over the last year, there has been a major shift in direction, and the Department now recognizes the need to improve its oversight of these resources. As a result, plans are underway to implement much improved processes to provide the needed oversight. Follow through to ensure the reforms are implemented promptly and effectively will be the key to sustained improvement in this area. The Federal Transit Administration (FTA) has systems in place to monitor resources provided to transit authorities and municipalities, but it too could do a better job of protecting Federal funds. We also continue to handle significant numbers of fraud cases. Over the last 5 years, our investigations have yielded 128 convictions and more than \$90 million in recoveries from highway and transit system fraud.

We previously reported that FHWA frequently did not perform financial management reviews of grantees. This year, we identified additional issues that raise further questions about the adequacy of FHWA's oversight. FHWA does not require its Division Offices to assess grantee financial management risks, review grantee payment processes, or spot check a sample of payments for reasonableness. To illustrate, FHWA did not provide this financial management oversight for 41 of 45 grant projects—with obligations totaling \$113 million—that we looked at this year. FHWA also reported that its payment system was modified to automatically pay grantees without any review by an FHWA official. Fourteen Division Offices made payments of about \$4 billion this year using this method. FHWA management discontinued the practice as soon as they discovered it existed.

DOT is undertaking two efforts to improve FHWA grant oversight. First, the FHWA Administrator plans to establish a new policy in FY 2005 that will require Division Offices to perform much more stringent oversight, including reviewing state payment processes and testing a sample of actual payments. This represents a good first step—a commitment and a plan. After it is approved, it will still take time to implement and, as with any major change, FHWA will face a significant challenge implementing the policy in its 52 Division Offices. When fully implemented, the new policy will go a long way to reduce the risk of losses to fraud, waste, or abuse. Second, we are working with the Office of the Secretary and OMB to establish a pilot project to estimate the extent of improper payments in the highway program.

We have testified that FTA provides more oversight of how grantees use Federal resources than FHWA, but it can still do a better job. For example, FTA uses project management oversight and financial management oversight contractors to provide early warnings of cost, schedule, and quality problems. However, the quality of this oversight can be improved, particularly in the areas of spot checking grantee cost and schedule estimates. To illustrate, in the case of Puerto Rico's Tren Urbano, costs almost doubled from \$1.25 billion to \$2.25 billion, and the project encountered a 3-year delay in opening the system to passengers. Although FTA required Tren Urbano to prepare a plan to address the issues, the plan was not adequate because it did not identify actions or establish time frames to address all safety-critical issues.

Consolidating or Replacing Fragmented Financial Systems Used to Process Billions of Dollars Annually

DOT has significantly improved financial management by deploying a new Department-wide accounting system, called Delphi. DOT must complete its efforts to improve system security and correct unreliable data that were transferred to the new system. However, DOT also needs to improve other financial management systems that provide critical information to the departmental accounting system. Those systems are used to manage billions of dollars of grants, make billions of dollars in payments, and maintain inventories of DOT-owned property throughout the country. However, the systems are fragmented, with several Operating Administrations maintaining systems to perform similar functions. They are also obsolete, since they do not meet important Federal financial management system requirements. For example, DOT received almost \$9 million to operate seven different grant management and payment systems in FY 2004. DOT will be challenged to consolidate these systems and to bring them into compliance with requirements. DOT has begun analyzing opportunities to consolidate and modernize these systems, but those efforts are in the early stages.

Implementing Cost Accounting Systems, Especially at FAA, to Help Executives to Improve Their Operations

DOT is responsible for ensuring that its annual budget of about \$58 billion is used efficiently and effectively. Cost accounting is a basic tool that the private sector uses to improve operational efficiency and control costs. The FAA Administrator has pledged to have a fully operational cost accounting system in place by September 30, 2005 for its \$14 billion budget. A reliable system to track its \$6.2 billion in annual labor budget is also critical to an effective cost accounting system. The Administrator has committed to implement a labor distribution system by June 2005. However, FAA now faces several challenges to complete

its system. FAA must revamp the system to account for recent significant organizational changes; deploy the system to two other lines of business; begin assigning actual labor costs and other unassigned service costs to specific facilities and activities; and implement financial and performance measures for activities, which are critical to achieve performance efficiencies and cost savings.

DOT's 11 other Operating Administrations have made varying progress implementing cost accounting systems. Six smaller Operating Administrations have partially implemented cost accounting systems for all or significant portions of their operations and two other Operating Administrations have implemented systems for all or significant portions of their operations, but must integrate their systems with Delphi. However, the three remaining Operating Administrations, including FHWA and FTA (which together receive more than \$35 billion for highway and transit grants annually), are currently designing their systems.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Inactive Obligations, Department of Transportation*
- *Inactive Obligations, Federal Highway Administration (September 24, 2001)*
- *Inactive Obligations, Federal Highway Administration (March 31, 2004)*
- *Inactive Obligations, Maritime Administration*
- *Consolidated Financial Statements For Fiscal Years 2001 and 2000, Department of Transportation*
- *Consolidated Financial Statements For Fiscal Years 2003 and 2002, Department of Transportation*
- *Implementing a New Financial Management System, Department of Transportation*
- *Computer Security of Delphi Financial Management System, Department of Transportation*

7 Holding the Line on Programs Conducive to Fraud

For the Department of Transportation (DOT), fraud has the serious potential for diverting critical funds from our infrastructure programs, subverting the efforts of our safety regulators, and undermining the very integrity of important public policy. We are identifying fraud prevention and detection as a management challenge this year not because the Department is more susceptible to fraud than other Federal departments, but because over the past several years, our investigative results point to three areas where fraud has a particularly insidious effect on the Department's mission: (1) Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) programs involving highway and transit infrastructure, (2) Federal Motor Carrier Safety Administration (FMSCA) programs related to commercial drivers' licenses, and (3) DOT's Disadvantaged Enterprise Program. As noted below, the Department is taking action in response to our results and recommendations. Its challenge now is to remain focused on achieving greater progress in these key areas.

FHWA and FTA Programs Involving Highway and Transit Infrastructure

Approximately \$35 billion a year is being expended for upkeep and expansion of the Nation's highway and transit infrastructure. Given today's great demand and increasingly tight budgets, getting the most for our money by aggressively ferreting out and deterring fraud is of critical importance. In our investigations, we have encountered a wide variety of fraud schemes, such as state inspectors accepting bribes in exchange for approving substandard construction or materials, bid-rigging by contractors, false claims for work not performed or for inferior material, and kickbacks between contractors. *In one recent case, a Florida highway construction contractor was debarred by the state for an unprecedented 30 years and fined \$1.5 million for submitting millions of dollars in fraudulent claims on a \$30 million resurfacing project. The fraud scheme involved exploitation of the state's claim settlement process.* Since fiscal year (FY) 1998, investigations by our office—many conducted with the help of FHWA, FTA, and other state and Federal law enforcement agencies—have resulted in the conviction of 178 individuals and companies. We are currently investigating more than 135 such schemes in 37 states.

The Department has taken steps toward improving oversight and stewardship in this area. In particular, FHWA has implemented initiatives (see Section 1) to: (1) refocus its oversight activities based on risk assessments of state management practices and (2) establish a review program of grant payments to help ensure that Federal funds are properly managed. For its part, FTA has been utilizing project

management oversight contractors to perform monitoring and oversight for FTA's major capital investments. Also, FHWA, FTA, and the Office of Inspector General (OIG) have responded to the imperative need for improved information sharing to prevent, detect, and investigate fraud by co-sponsoring three national fraud awareness conferences over the past 6 years. In addition, these agencies are launching an important, web-based initiative aimed at improving information sharing among Federal, state, and local transportation oversight providers.

An overarching challenge for the Department is to continue to strengthen oversight, promote early detection of fraud, and aggressively investigate and prosecute fraud when detected. Because unscrupulous elements in the industry treat criminal and civil fines and restitution as simply a cost of doing business, meaningful and timely debarment is an important safeguard to protect the Government. Earlier this year, the Department established a working group to examine ways to strengthen internal procedures for suspension and debarment of contractors indicted and convicted of fraud. While a draft proposal is imminent, the Department needs to adopt a final policy by the end of this year.

The Department and Congress have also identified Motor Fuel Excise Tax Evasion (MFETE) enforcement as an issue requiring greater attention. Congress has recognized that MFETE represents a significant drain on Highway Trust Fund revenues, estimating losses of up to \$1 billion annually. A more vigorous and collaborative enforcement effort by Federal and state agencies is needed to more effectively target a wide variety of emerging MFETE schemes. From 1991 to 2003, the OIG participated with FHWA, the Internal Revenue Service, the Federal Bureau of Investigation, and state agencies in approximately 40 MFETE task force investigations; this resulted in 187 indictments, 171 convictions, and \$33.7 million in recoveries. As prescribed in the Senate Appropriations Committee Report for FY 2005, the Department needs to develop a coordinated enforcement strategy with the Treasury Department and enter into a memorandum of understanding to further strengthen enforcement efforts.

FMCSA Programs Related to Commercial Drivers' Licenses

Over the past 5 years, we have participated in the investigation and prosecution of commercial drivers' license (CDL) fraud schemes in 21 states. During this period, over 75 investigations—carried out with the Federal Bureau of Investigation and other law enforcement agencies, with the strong support of FMCSA—found over 8,000 CDLs issued to drivers who obtained their CDLs through corrupt state or state-approved testing processes. These most often have involved “third-party examiners,” i.e., private individuals and companies certified by a state to test CDL applicants. Instead of properly testing applicants, we have found too many cases where, in exchange for a bribe, a third-party examiner will pass applicants without a test or will supply test answers to applicants. *In a recent OIG investigation, a*

driver who caused a fatal crash in 2003, which killed a family of five in Pennsylvania, had been tested by a third-party examiner who was convicted of fraudulently certifying CDL test results.

In last year's "Top Management Challenges" report, we recommended that the Department take greater action to prevent drivers from fraudulently obtaining CDLs. FMCSA has taken positive steps in this direction. Every year, FMCSA conducts compliance reviews in approximately 16 states to determine if states are in compliance with its regulations. Recently, FMCSA restructured its compliance review process to add a new CDL fraud component, including an assessment of state CDL fraud countermeasures.

Following up on suspect CDL holders and expanding the use of covert testing of third-party examiners are areas that need considerably greater attention. Under its current regulations, FMCSA cannot require states to retest suspect CDL holders. *A recent OIG investigation identified one Georgia third-party examiner who falsified over 600 CDL skill tests.* FMCSA recently awarded a contract for the review of the entire CDL process to identify areas susceptible to fraud, as well as ways to improve the CDL process and eliminate potential fraud before it occurs. This review will include developing a model state program, to include the critically important covert testing and retesting of suspect CDL holders. While the contractor will be working with the International Association of Chiefs of Police and the American Association of Motor Vehicle Administrators, it is important that FMCSA be closely involved in this review.

Additionally, demonstrating legal presence in the U.S. should be a requirement to obtain a CDL. In a 2002 audit report—and again in June of this year—we recommended to the Department that all CDL applicants demonstrate citizenship or legal presence. The Department plans to address this recommendation through rulemaking, but to date has not issued a proposed rule. We are concerned about the delay and urge the Department to issue a regulation as expeditiously as possible.

DOT's Disadvantaged Business Enterprise Program

Last year, we identified disadvantaged business enterprise (DBE) fraud as a top management challenge. Fraud schemes and widespread perceptions of unfairness have permeated the program and undermined the important public policy goal of promoting DBEs. OIG is currently investigating 45 DBE fraud schemes in 19 states. Fraud schemes include cases where parties fraudulently obtained DBE certification status or permitted their companies to be used as false "fronts" or "pass-throughs," whereby the DBE performs little or no work. This is primarily an issue in DOT's highway, transit, and airport construction programs. *In a recent OIG case in New York, a DBE subcontractor pled guilty to fraud associated with*

an \$8 million FHWA-funded contract. The DBE falsely claimed to have performed concrete, masonry, and paving work required under the contract, when in fact, the work was performed by a non-DBE contractor. OIG investigations have also uncovered problems with state agencies not providing adequate oversight of their programs.

In the area of airport concession contracts, we have seen a number of cases involving a perception of “pay to play.” This means that DBEs perceive pressure to contribute to political campaigns in order to be competitive for lucrative airport concession contracts. For example, as part of an investigation of the DBE program at the New Orleans International Airport, we interviewed over 134 DBE contractor representatives, with more than 60 percent expressing that it was necessary to make political contributions to successfully compete for these contracts. Even though we found only one case of an alleged quid pro quo (which we are investigating), widespread perceptions still exist. Also, there is currently no personal net worth limit as part of the eligibility requirements to qualify as an airport concession DBE. This has made the program vulnerable to charges that it benefits millionaires who have held airport concession contracts for years. Through a pending rulemaking, the Department has proposed to institute a cap on the personal net worth of those eligible to receive DBE airport concession contracts.

Early this year, the Secretary of Transportation established a senior-level working group to develop and implement strategy for enhanced compliance, enforcement, and oversight of the DBE program. Thus far, this group has formulated some recommendations for departmental action and obtained action plans from FHWA, FAA, and FTA. For instance, FHWA plans to require all Division Offices to conduct a risk assessment of each state’s compliance with essential DBE program requirements; it also requires that risk assessments be used to establish priorities and focus resources on state programs that are most vulnerable to fraud.

A challenge for the Department is to make greater, more tangible progress in strengthening the oversight of its DBE programs; this includes finalizing the rulemaking to cap the personal net worth of airport concession DBEs and the efforts of its working group. The Department needs to prescribe guidelines for a more hands-on approach to program oversight, such as elements of the methodology we utilized in our New Orleans investigation (*e.g., site visits, DBE and prime contractor interviews, application and certification file reviews, and work-site surveillance.*) Even if applied on a selective basis, such an approach would enable the Operating Administrations to better assess the compliance actions of state and local agency DBE program managers and to directly gauge the extent of regulatory compliance by participating DBEs and applicants. This type of model would also facilitate the identification of best practices, program-wide.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Remarks of Inspector General Kenneth Mead at the 2004 National Fraud Awareness Conference*
- *Controlling Costs and Improving the Effectiveness of Federal Highway Administration and Federal Transit Administration Programs*
- *Opportunities to Control Costs and Improve Effectiveness of Department of Transportation Programs*
- *Letter to Reps. Istook and Vitter on Disadvantaged Business Enterprise Fraud at New Orleans Transportation Agencies*

8 Improving Cost Effectiveness of \$2.7 Billion in Information Technology Investments and Continuing to Enhance Computer Security

The Department of Transportation (DOT) is responsible for one of the largest information technology (IT) investment portfolios among civilian agencies. It relies on hundreds of computer systems to support key missions such as air traffic control operations and distributions of billions of dollars in Federal funds. Annually, DOT invests about \$2.7 billion in IT acquisitions and operations. Over 80 percent of these investments are in air traffic control system modernization projects, many of which have experienced significant cost overruns and schedule delays. During fiscal year (FY) 2004, DOT made strides in increasing departmental oversight of major IT investments and identifying opportunities to consolidate systems in common business areas, as part of the newly developed IT capital planning and investment control process. However, these efforts are in an early stage of implementation and still present challenges to the Department.

During FY 2004, DOT also made a concerted effort to correct computer security weaknesses identified in previous years. DOT had reported its information security program as a material internal control weakness for FY 2001 through FY 2003. Based on the progress the Department has made, we are of the opinion that the DOT's information security program could instead be considered a reportable condition. However, continued improvements are still needed, especially in the area of enhancing air traffic control systems security. DOT needs to make certain that it follows through aggressively to implement planned corrective actions in order to prevent the computer security program from deteriorating into a significant deficiency next year.

Departmental Oversight of IT Investments and Security: DOT Needs to Implement a Robust and Consistent Management Review Process

The Department has established an Investment Review Board (the Board), chaired by the Deputy Secretary, to review, approve, and modify major IT investments. FY 2004 marked the first full year of the Board's operations. The Board has expanded its review beyond "cross-cutting" support systems, such as the departmental accounting system, to include Operating Administration-specific IT investments. This is a critical step because over 90 percent of the Department's IT budget is appropriated directly to the Operating Administrations. While the Board meetings serve as a good vehicle to keep departmental senior management

informed of the Operating Administrations' IT investments, more needs to be done to influence the decision-making process for these investments.

- The Board needs to perform more substantive and proactive reviews of IT investments. The Board has reviewed 10 major projects, with a total life cycle cost of \$7.5 billion, through September 2004. However, we determined that for 3 of the 10 projects, known management problems were not presented to the Board. A further review of Board meeting minutes showed that the Board raised substantive questions about the status of only 1 project; as a result, 9 of the 10 projects continued without modification. Overall, the Board is not being presented with the information it needs to make informed decisions about whether to continue, modify, or terminate projects. We also found that the Board focused its review on projects that were already considered troubled—those experiencing more than 10 percent cost increases or schedule delays. While reviewing these projects is important, the Board also needs to review “high risk” projects before they become troubled.

This is especially needed for new, costly, and complex acquisition programs, such as the Federal Aviation Administration's (FAA) En Route Automation Modernization Program. Also, projects, such as the Standard Terminal Automation Replacement System (STARS) and the Wide Area Augmentation System (WAAS), that have been re-baselined after encountering substantial cost increases and schedule delays, should remain on the Board's watch list. In September 2004, the Department enhanced its selection criteria to identify these types of projects for Board review. This is a step in the right direction.

- FAA needs to enhance computer security over its air traffic control systems. However, the Board also has a responsibility to provide oversight of FAA's progress to ensure that critical computer security weaknesses are corrected in a timely manner. While the Department has made good progress in securing computer system operations overall, we recently reported that air traffic control computer systems need to be better protected. First, FAA needs to commit to reviewing all operational air traffic control systems—at en route, approach control, and airport terminal facilities for adequate security—within 3 years. Second, FAA needs to commit to implementing a robust contingency plan to restore essential air service in the event of a prolonged disruption of service at an en route facility. In addition, FAA needs to finalize its implementation plan for using smart card technologies to authenticate air traffic control system users.

Departmental IT Funding and Operations: DOT Needs to Better Coordinate Budget Requests to Align IT Resources With Responsibilities

The departmental Chief Information Officer (CIO) office's responsibilities have changed significantly in recent years, as a result of the effort to enhance IT security and the shutdown of the former Transportation Administrative Service Center. In addition to providing IT policy directions, the CIO office is responsible for providing IT security services and maintaining common network, e-mail, and telephone systems in DOT Headquarters. The latter is reimbursed by the Operating Administrations through the Department's Working Capital Fund. However, this funding arrangement was not clearly stated in either the CIO office's or the Operating Administrations' budget submissions. Also, the CIO office is planning multiple IT consolidation initiatives in the Department. These activities have significant budget implications. The Department needs to adjust the IT budget submission practice to better align resources with responsibilities and to avoid the appearance of duplicate budget requests.

- The CIO office and Operating Administrations need to clearly describe the sources and uses of IT funds in budget submissions. The CIO office's full responsibilities and funding levels are not reflected in its budget submission. For FY 2005, the CIO office's direct budget request of \$16.7 million accounts for only about 25 percent of the resources that will be provided during the year. The remaining 75 percent, or \$50.8 million, will be reimbursed by the Operating Administrations through the Working Capital Fund. However, this shared funding responsibility was not clearly stated in the budget submissions.
- The Department needs to realign IT budget submission and project management responsibilities for proposed system consolidation projects. The Board has approved an initiative to consolidate multiple systems maintained by individual Operating Administrations in 11 common business areas for cost savings. For example, one of the initiatives is to consolidate office IT infrastructure (\$192 million in annual investments) used to support desktop computers, local area networks, and e-mail transmissions. Historically, each Operating Administration made its own investment decisions and submitted separate budget requests to fund its system operations. Consolidating systems in these common business areas presents cost saving opportunities and helps eliminate the appearance of duplicate budget requests. However, it will require a more centralized approach and adjustments to the Department's IT project management and budget submission practices.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *DOT Information Security Program*
- *Security and Controls Over FAA En Route Center Computer Systems*
- *Consolidated DOT Financial Statements for Fiscal Years 2003 and 2002*
- *Shutdown of TASC's Transportation Computer Center*

9 Restructuring the Intercity Passenger Rail System to Match Fiscal Capacity

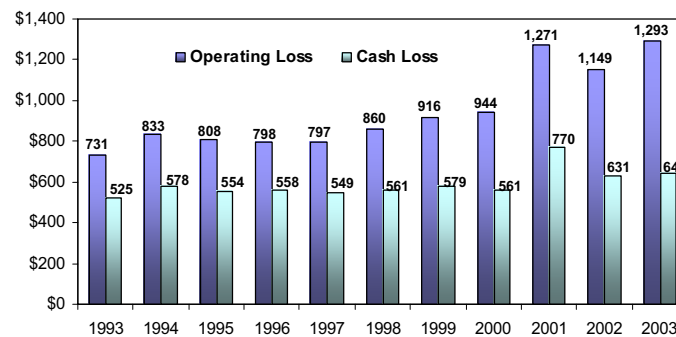
The Department of Transportation (DOT) must continue to work with Congress to break the cycle of appropriations without authorization for Amtrak and to realign the size, operations, and governance of the intercity passenger rail system to match the levels and sources of funding available. When David Gunn became president of Amtrak in 2002, he implemented a strategy of maintaining and rebuilding the existing Amtrak system. However, due to insufficient revenue from passengers, state contributions, and Federal subsidies, this approach required further deferral of needed capital investment. While this may have appeared reasonable for a short period of time, with the expectation that reauthorization would validate Amtrak's strategy and was just around the corner, after more than 2 years, this approach is no longer workable. Unsustainably large operating losses, poor on-time performance, and increasing levels of deferred infrastructure and fleet investment are a clarion call to the need for significant changes in Amtrak's strategy. Amtrak's management must find ways to reduce its need for operating subsidies and set better priorities for its capital dollars. For instance, programming millions of scarce capital dollars for fixing long-distance sleeper cars when bridges on the Northeast Corridor are beyond their functional and economic lives and must be refurbished and replaced is unacceptable.

Amtrak cannot continue to defer capital investment with the hope that reauthorization will eventually provide sufficient funding to operate the entire system. Reauthorization could take a variety of forms including: (1) a requirement to focus development on corridors where passenger rail service can make economic sense, (2) decreased funding and elimination of certain operations, (3) increased funding for further development of the existing system, (4) maintaining and funding the existing system, and (5) any combination of the above. But those are decisions for Congress and the Administration to make in the course of reauthorization.

Judging by the House and Senate marks for fiscal year (FY) 2005 for \$900 million and \$1.2 billion, respectively, and in view of the fact there is no authorization for Federal funding in 2005, it seems likely that Amtrak will receive substantially less Federal funding than its request of \$1.8 billion. This means that Amtrak's Board of Directors needs to direct Amtrak management to prepare a budget that does not increase its already substantial deferred capital requirements and provides for operation of the railroad, consistent with its likely appropriation and other available funds.

Amtrak's 2003 operating loss increased by \$144 million more than 2002 levels to \$1.3 billion, and its cash loss increased by \$13 million to an overall loss of \$644 million.¹ Through June 2004,² Amtrak's total operating and cash losses were \$945 million and \$495 million, respectively. In fact, Amtrak's cash loss has exceeded \$500 million in each of the last 10 years and is projected to do so for the foreseeable future. Figure 9-1 shows Amtrak's operating and cash losses for the period from 1993 to 2003.

Figure 9-1. Operating and Cash Losses, 1993 Through 2003 (\$ in Millions)



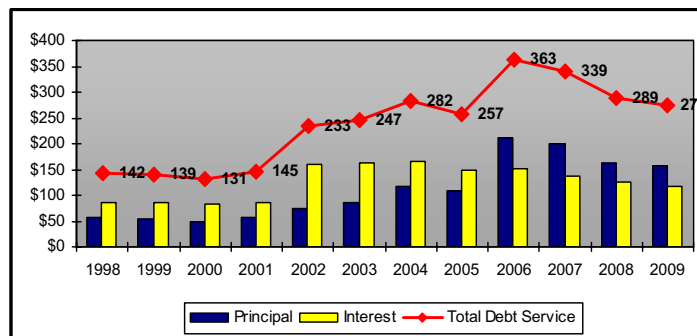
Source: Amtrak's annual financial statements.

Because Amtrak's operating and capital needs have exceeded the public resources provided, Amtrak sought external financing and is now burdened with a heavy debt load and substantial principal and interest payments that must be satisfied in the coming years. Just to service current and long-term debt and capital lease obligations of \$4.8 billion will require an average of about \$300 million per year (see Figure 9-2).

¹ The operating loss includes depreciation and other non-cash items that are subtracted to determine the cash loss.

² This assessment report covers Amtrak's financial and operating results through the first 3 quarters of fiscal year 2004. Just within the last few days, Amtrak made available its preliminary, unaudited results for the entire fiscal year 2004. Amtrak reported fiscal year 2004 operating and cash losses of \$1.3 billion and \$635 million, respectively. These results are similar to the losses reported for fiscal year 2003. We will include an analysis of Amtrak's audited 2004 results in our next report.

Figure 9-2. Amtrak's Historical and Forecast Debt Service Principal and Interest Payments, 1998 Through 2009 (\$ in Millions)



Source: Amtrak's annual financial statements.

Note: 2006 assumes repayment of the \$100 million RRIF loan and 2007 payments include early pay off of locomotive and passenger car leases, which reduce later year principal and interest payments.

The mismatch between the public resources made available to fund intercity passenger rail service, the total cost of maintaining the system that Amtrak continues to operate, and proposals to restructure the system make up the dysfunction that must be resolved in the reauthorization process of the Nation's intercity passenger rail system. Currently, Amtrak receives direct funds from ticket revenues, state operating support, and Federal subsidies. Amtrak also benefits from state capital contributions for projects on rail infrastructure, stations, and passenger equipment. For example, California's Intercity Rail Capital Program, dated March 2004, shows a total capital spending of \$107 million in 2003-2004 for rail infrastructure. Most of this amount, \$104 million, comes from state and local sources; the remaining \$3 million comes from Federal sources. In spite of these multiple sources of funds, the total funding Amtrak receives from all sources is not sufficient to maintain the current system in a state of good repair.

The Administration is willing to provide additional Federal funds if Amtrak restructures operations to focus on developing short-distance corridors (routes with end-to-end distances of less than 500 miles), targeting improvements to the services that hold the greatest potential for future passenger growth. However, continuing the stalemate in reauthorization will delay implementation of this or any other restructuring options. In addition, the lengthy delay in finding and confirming nominees to Amtrak's Board of Directors diminishes the ability of the Board to perform needed oversight and meet its corporate responsibilities as well as work with Congress and the Administration to plan for the future of the passenger rail system.

In the meantime, the current grant process established by appropriation has been positive for maintaining discipline in Amtrak's budgeting and spending within available funds, and the Department should maintain a strong oversight presence to assure this discipline continues. However, this should not be relied upon as a long-term solution.

The existing system is not sustainable at current funding levels, and corridor development cannot progress in any meaningful way until reauthorization legislation is enacted. The corridors are the sources of great potential passenger benefits. They are an undeveloped viable alternative to congested roads and airports until a consensus is reached on Amtrak's role and on the direction of the Nation's future passenger rail system, as well as the means to achieve them.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Amtrak's Loan Condition 8*
- *The Future of Intercity Passenger Rail Service and Amtrak (October 2, 2003)*
- *The Future of Intercity Passenger Rail Service and Amtrak (April 29, 2003)*

10 Management Attention Needed to Strengthen Oversight of Title XI Loan Guarantees

As of June 30, 2004, the Maritime Administration's (MARAD) consolidated Title XI loan guarantee portfolio was valued at \$3.6 billion, with another \$1.4 billion in pending loan guarantee applications. The loan guarantees are designed to assist private companies in obtaining financing for the construction of ships or the modernization of U.S. shipyards—with the Government holding a mortgage on the equipment or facilities financed.

In September 2004, we issued a follow-up audit report of the Title XI Loan Guarantee Program. We initiated this follow-up audit as a result of the Emergency Wartime Supplemental Appropriation passed by Congress on April 16, 2003.³ The bill provided \$25 million for the costs of new Title XI loan guarantees that will remain available until September 30, 2005. However, Congress prohibited MARAD from obligating or expending these funds "... until the Department of Transportation Inspector General certifies to the House and Senate Committees on Appropriations that the recommendations of report CR-2003-031⁴ have been implemented to his satisfaction."

MARAD has developed policies and procedures that address each of the five recommendations from our March 2003 audit report. However, in verifying the development of these policies and procedures, we found three new issues that need to be fixed to ensure that the full intent of the recommendations from our March 2003 report are addressed. This is of considerable importance because MARAD has determined that over 25 percent of its portfolio is at an elevated risk of default. Consequently, we made three new recommendations to enhance management of the Title XI program. Our certification of the adequacy of MARAD's implementation, as required by Congress, was contingent upon a satisfactory written response from MARAD that would include an action plan with steps and milestones to address these new recommendations. Subsequently, MARAD provided a written response that satisfactorily addressed the intent of the recommendations.

Strong leadership and staff committed to implementing the strengthened procedures are critical to realize the intended benefits and reduce the risk profile of the Title XI loan guarantee portfolio. The Department will need to monitor MARAD's progress to ensure appropriate actions are taken to mitigate risks to the

³ *Making Emergency Wartime Supplemental Appropriations for the Fiscal Year 2003*, Public Law 108-11.

⁴ OIG Report Number CR-2003-031, "Title XI Loan Guarantee Program," March 27, 2003. OIG report can be accessed on our website: www.oig.gov.

\$3.6 billion portfolio of loan guarantees outstanding as well as for new guarantees that are approved.

Establishing good procedures is just the first step; fully implementing them is another. While MARAD has worked to get satisfactory procedures in place, the proof will be in the follow through and implementation with respect to specific loan guarantee applications. Therefore, we will conduct a follow-up audit of this implementation at a date still to be determined.

Status of Areas Identified in March 2003 Audit Report

Risk Mitigation. MARAD strengthened its procedures for review and approval of new loan guarantee applications. For any waivers or modifications to the standard loan approval criteria that would increase the risk to the Government, MARAD performs a risk analysis and determines whether compensating measures are available or necessary, and then presents the results of its analysis to the Department of Transportation Credit Council.⁵ The Credit Council assesses the financial viability of the application and its consistency with departmental credit policies, Federal requirements, and departmental regulations on credit assistance. The Credit Council will provide a recommendation to the Maritime Administrator regarding the financial viability of the proposed project for consideration in approving or disapproving the application.

External Review Process. MARAD and the Credit Council are working on general guidelines that would require external reviews for applications from companies for start-up operations—for starting a new service, applying new technologies, or employing more complex finance transactions—and for large dollar transactions that represent a significant portion of the potential borrower's debt. MARAD will seek Credit Council concurrence for any application that MARAD believes *does not* require an external review.

Financial Monitoring. By far, the most difficult area for MARAD to address was the establishment of a formal process for monitoring the financial condition of its Title XI portfolio companies. MARAD re-established a "Credit Watch" process for those companies experiencing some form of financial difficulty. These borrowers had outstanding loan guarantees valued at more than \$935 million, or over 25 percent of its Title XI loan guarantee portfolio. Timely financial monitoring will continue to be a challenge for MARAD, especially as new

⁵ Department of Transportation Order 2301.1, "Establishment of the Department of Transportation Credit Council," June 10, 2004.

loan guarantees are approved and more frequent reporting requirements are imposed on borrowers. MARAD must focus its efforts on catching up with financial analyses of the borrowers in its current portfolio before expending significant resources on new loan guarantee applications.

Asset Monitoring. MARAD established a more formal process to monitor whether or not each guaranteed vessel is current with respect to its marine insurance, classification, Coast Guard inspection, and other required certifications related to its physical condition. MARAD also developed a better process for documenting the actions taken with respect to seized assets and for maximizing recoveries from their disposal. MARAD appointed a technical representative to monitor each vessel and has contracted with outside parties to ensure that the vessels receive appropriate maintenance and security measures.

New Areas Requiring Management Attention

Fully Fund Reserve Fund Requirements and Enforce Financial Agreements. MARAD was not sufficiently enforcing the reserve requirements established to mitigate the risks of noncompliant loans. MARAD has recently established a plan to review each company's Reserve Fund requirements. Once these reviews are completed, MARAD has promised to take the necessary actions, utilizing all remedies available to cure any defaults. MARAD has also promised to review each company's financial statements for any other defaults that have a substantial financial impact or increase the financial risk to MARAD and pursue remedies to those defaults.

Establish Effective Default Management. In our view, MARAD lacks sufficient expertise or resolve to effectively address troubled loans. Because of the magnitude of dollars involved and the specialized set of skills required to effectively resolve complex financial situations, in coordination with the Credit Council, MARAD is developing a detailed action plan to secure access to advisors outside MARAD with the requisite capacity and technical sophistication to negotiate solutions to distressed loans.

Acquire Suitable Financial Monitoring Software. MARAD's rudimentary financial monitoring system is inadequate to effectively manage its \$3.6 billion portfolio. Developing a computerized database system is essential for MARAD to efficiently and promptly assess the financial condition of the companies in its portfolio and to track trends in these companies' finances and operations. MARAD has been advised by the Office of the Secretary that the Department wants to implement a monitoring system that can be used by all of the Department credit programs for purposes of efficiency and consistency. MARAD has taken the initial lead on this issue and has set forth a three-phase plan for the Department to develop, acquire, and implement a new monitoring system. According to MARAD, the first phase of this project is currently underway.

For further information, the following reports and testimonies can be seen on the OIG web site at <http://www.oig.dot.gov>:

- *Title XI Loan Guarantee Program (March 27, 2003)*
- *Title XI Loan Guarantee Program (June 5, 2003)*
- *Title XI Loan Guarantee Program (September 28, 2004)*

Emerging Issue: Ensuring Transportation Funds Are Adequate to Meet Growing Needs

The aviation and highway trust funds, which are major sources of transportation funding, have historically served to account for receipts from taxes paid by users of the highway and aviation systems and to fund, in turn, some of the costs of those systems. The trust funds, which are supported by a mixture of passenger, fuel, and user taxes, are not generating sufficient revenues today to cover anticipated costs and needs. At this time, the surface transportation reauthorization, which establishes a framework for the Highway Trust Fund agencies' future budgets, has not been finalized.

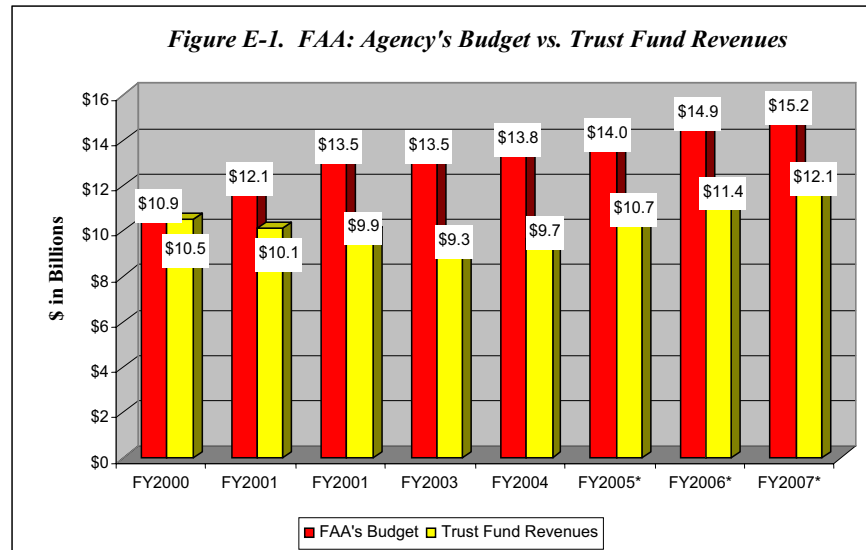
Changes in the aviation sectors have resulted in less revenue flowing into the trust fund. These include the economic downturn, and lower average airfares (\$109 in September 2004 versus \$147 in September 2000). One of the primary components of the Aviation Trust Fund is the 7.5 percent tax applied to airline tickets. The lower average base ticket prices have significantly suppressed revenues flowing into the Trust Fund.

At the same time, the costs of building, operating and maintaining the systems are continuing to rise. There are a handful of options—none of them easy—to address the expected mismatches between funding availability and projected funding needs. These options include adopting a “do-nothing” approach; turning to the General Fund, which is a problematic option during times of Federal deficits; or reevaluating the current tax structure.

The Department of Transportation's challenge in the next few years will be to evaluate whether the current aviation funding method adequately matches system costs and to determine the desirability and feasibility of alternative financing methods.

Anticipated Aviation Trust Fund Revenues are Less than Projected

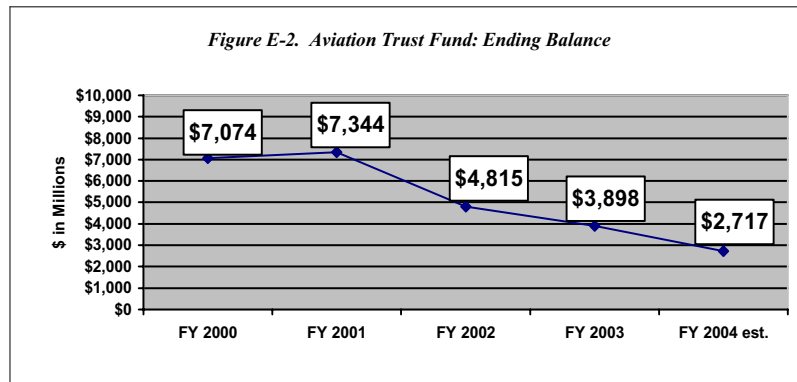
Over the past 4 years, the Aviation Trust Fund has seen its revenue drop significantly. In fiscal year (FY) 2000, the Trust Fund collected \$10.5 billion in revenue. In FY 2003, the Trust Fund collected only \$9.3 billion in revenue, a reduction of 12 percent. Those decreases can be attributed to lower ticket prices and reductions in air travel. However, while revenues have declined, the Federal Aviation Administration's (FAA) budget has increased substantially over the same time frame. Between FY 2000 and FY 2003, FAA's budget increased from \$10.9 billion to \$13.5 billion, an increase of approximately 24 percent. In FY 2005, FAA's budget is expected to exceed Trust Fund revenues by over \$3 billion.



Source: FAA and U.S. Treasury.

* Projected revenue and budget (Reauthorized levels).

Historically, the difference between revenues and budget has been funded through a combination of drawing down the prior surplus balance of the Trust Fund and tapping the General Fund of the Treasury. However, both options are in jeopardy in the very near term. The prior surplus balance of the Trust Fund has been drawn down extensively. In FY 2000, the surplus balance was over \$7 billion; by the end of FY 2004, the estimated surplus balance had dropped to less than \$3 billion (a 62-percent decrease).



Source: FAA and U.S. Treasury.

There are a handful of options—none of them easy—to address the expected mismatch between funding availability and projected funding needs. First, adopt a “do-nothing approach” that would freeze budgets at the levels consistent with resource projections. Second, turn to the General Fund to subsidize growing shortfalls, which would entail FAA competing with other critical Federal programs for scarce funding during a period when the Government is facing a substantial Federal deficit. The percentages of FAA’s total budget paid with general revenues have ranged from zero in FY 2000 to 22 percent in FY 2004. Even if budgets were frozen at current levels—about \$14 billion—spending down the Trust Fund balance would not be sufficient. For example, in FY 2005, Trust Fund revenues are projected to total \$10.7 billion, \$3.3 billion short of FAA’s current \$14 billion budget. With no growth allowed in FY 2005, the available trust fund balance of \$2.7 billion would fall \$600 million short of covering the balance. The third, and perhaps most painful, option would be to reevaluate the current tax structure and determine whether alternatives exist to more efficiently align users with costs through changes in the tax structure or by imposing user fees.

Emerging Issue: Growing Interdependency Among DOT and Other Federal Agencies to Ensure Safe, Secure, and Efficient Transportation

The U.S. transportation system is a vast, diverse, interconnected network of modes and is critical to our economy and national security, including military mobilization and deployment. As the backbone of the U.S. economy, transportation comprises 11 percent of the gross domestic product, approximately \$1.1 trillion annually and supports one in eight jobs.

In the past few years, there has been a growing interdependency among Federal agencies in executing their responsibilities to protect the Nation's critical transportation infrastructure, its citizens, and the environment. This is especially noticeable in the areas of *transportation security* and *environmental stewardship*.

Transportation Security

The attacks of September 11, 2001, demonstrated the vulnerabilities of the Nation's transportation system to the terrorist threat. Terrorist events around the world have also shown that transportation systems are often targets of attack; roughly one-third of terrorist attacks worldwide target transportation systems. For the Department of Transportation (DOT), the growing interdependency among Federal agencies is never more evident than with the responsibility to secure the U.S. transportation system and protect its users from criminal and terrorist acts, especially in areas such as vulnerability assessments, emergency preparedness and response, and hazardous materials oversight and enforcement activities.

Following September 11, 2001, a series of Homeland Security Presidential Directives were issued communicating presidential decisions about the homeland security policies of the United States. The Presidential Directives⁶ that address the interdependency relationship among the various executive departments and agencies are at too general a level to provide clear guidance on each department's role and responsibility to protect the Nation's critical infrastructure, including the transportation system. For example, although the Directives direct DOT and the Department of Homeland Security (DHS) to, among other things, collaborate in regulating the transportation of hazardous materials by all modes, including pipelines, and to coordinate in establishing a national program and a multi-year planning system to conduct homeland security preparedness exercises, it is not

⁶ Homeland Security Presidential Directive-1, "Organization and Operation of the Homeland Security Council," Homeland Security Presidential Directive/HSPD-7, "Critical Infrastructure Identification, Prioritization, and Protection," issued December 2003; and Homeland Security Presidential Directive/HSPD-8, "National Preparedness," issued December 2003.

clear from an operational perspective what “to collaborate” and “to coordinate” encompass.

A September 2004 Memorandum of Understanding (MOU) was signed by the two departments to improve their cooperation and coordination in promoting the safe, secure, and efficient movement of people and goods throughout the transportation systems.

Finalizing the MOU was the first of many critical steps accomplished by DOT in what is a very dynamic process, but much more remains to be sorted out between the two departments. A lack of clearly defined roles among the Federal entities at the working level could lead to duplicating or conflicting efforts, less than effective intergovernmental relationships, overuse of resources, and—most importantly—raise the potential for problems in responding to terrorism.

DOT has identified more than 100 agreements either existing or under development with DHS. The two departments need to complete their efforts in:

Sorting out security roles and responsibilities. Clearly defined roles and responsibilities between DOT and DHS are required in order to avoid duplicating or conflicting efforts, improve intergovernmental relationships, effectiveness in the use of resources, and—most importantly—effectively responding to terrorism. The delineation of roles and responsibilities between DOT and DHS cannot be overstated. For example, some transit agencies had three separate vulnerability assessments conducted by DOT and DHS. In regards to pipeline security, DOT and DHS have not decided whether an agreement is required. However, Congress has recommended that DOT's Office of Pipeline Safety create an MOU with DHS and the Federal Energy Regulatory Commission regarding pipeline safety and security. Without clearly defining each agency's responsibilities, it is unclear who would be responsible for overseeing the protection of the Nation's pipeline infrastructure, especially in the event of a terrorist attack.

Breaking the bottlenecks where negotiations on agreements are being delayed. There are several extremely important agreements that have not been finalized and some that need to be initiated. If the agreements will involve funding agreements or use of resources, such as inspectors, DOT and DHS need to sort out which agency pays for what, how much it will cost, and what the terms will be. For example, DOT and DHS are still negotiating agreements for rail and transit security. These agreements must be finalized so it is clear who will fund research and development, emergency communications, and the use of Federal Railroad Administration inspectors.

Executing the conditions and terms of the agreements once they are finalized. Once DOT and DHS execute an agreement clearly defining the roles and

responsibilities of each agency, they must then follow through and execute the terms. Currently, the Federal Aviation Administration (FAA) and the Transportation Security Administration (TSA) have a Memorandum of Agreement addressing the collaborative relationship between the two agencies, including hazardous materials issues. However, some of the provisions in the Agreement have not been fully implemented. For example, in the Agreement, FAA and TSA agreed to establish procedures for a referral process when TSA finds a passenger with prohibited hazardous items in their carry-on baggage. Such items could include fireworks, tear gas, flammable gas torches, or household bleach. No system-wide referral procedures have been developed. FAA has developed an automated system to track passenger violations of hazardous materials regulations. However, instead of using FAA's system, TSA is developing its own system.

Environmental Stewardship

The growing interdependency among Federal agencies can also be found in the development of transportation infrastructure projects and environmental stewardship. These projects include new highways and transit systems, airport runways, and pipeline repairs or relocations.

Congress and the Administration felt that projects were still taking an inordinate amount of time to receive construction approval and that these delays in high priority projects create social, economic, and environmental problems. For example, the median time to process environmental documents for major highway projects in fiscal year 2004 was more than 4 years; and over the past 3 years, the median time to develop and process environmental documents for major transit projects was more than 3 years.

In response to legislation and Executive Orders, DOT Operating Administrations and the Office of the Secretary have adopted policies and procedures for streamlining environmental review processes. While improving the effectiveness of transportation project delivery, the Administration has also proposed surface transportation legislation calling for measures that would protect the environment while improving the effectiveness of project delivery. In addition, Interagency Task Forces have been established to expedite the environmental review and permitting processes. The President issued an Executive Order in May 2003 establishing the Interagency Task Force comprised of 10 Federal agencies, including DOT, which would develop and ensure implementation of a coordinated environmental review and expedite the permitting process, so that pipeline repairs could be made within the time period specified by Federal safety regulation.

Although an MOU has been signed in connection with the Executive Order, the question is whether the MOU will be effective in expediting the environmental review and permitting processes. Pipeline safety repairs and relocations are being

delayed. In one case, it took nearly 3 years and more than 40 permits before the operator was given approval to relocate the pipeline. In our opinion, the provisions in the MOU are too general to provide clear guidance on each agency's responsibility for coordinating and expediting the environmental review and pipeline repair permitting processes. Also, there are no deadlines to help foster quicker reviews and decision processes, nor are the agencies held accountable for not abiding by the provisions of the MOU. Task Force members need to work together to define the roles and responsibilities of each agency for expediting environmental reviews and permitting processes and establish deadlines to help foster quicker reviews and processes. If the participating agencies cannot effectively expedite the environmental review and permitting processes, it may be necessary for Congress to take action.

Emerging Issue: Meeting Human Resource Needs Given Retirements and Changing Skill Mix

The Department of Transportation (DOT) has made progress in its human capital initiatives and is one of few Federal agencies to obtain a “green” status score in this element of the President’s Management Agenda. However, human resources management will be a concern for DOT for many years to come, particularly with the upcoming retirement wave of air traffic controller and senior management staff. The Department is in the early stages of addressing this issue and must explore alternatives that will enable Operating Administrations to recruit and retain top talent for the DOT workforce.

DOT’s nationwide workforce of approximately 60,000 is largely tenured and experienced, and the Department benefits greatly from its employees’ consistent baseline of skills and experience. However, this benefit is accompanied by a potential risk as the average age of permanent DOT employees continues to rise, and large numbers of employees begin closing in on retirement. For example, in fiscal year (FY) 1999, the average age of a DOT employee was 44.7 years. At the end of FY 2003, the average age went up to 46.1 years, with fewer than 2,500 employees under the age of 30, Department-wide. To illustrate, approximately 11 percent of DOT employees were eligible for retirement at the end of FY 2003. In FY 2007, about 23 percent are projected to be eligible, including large numbers of supervisory staff.

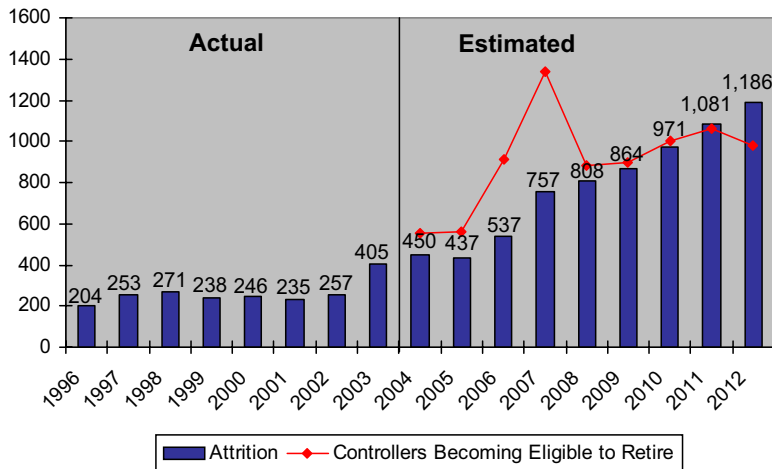
DOT’s agencies operate under United States Code Title 5; only the Federal Aviation Administration (FAA) is partially exempt. Title 5 provides for central Federal regulatory systems for human resource management, including highly structured compensation and staffing procedures. The Department of Homeland Security and the Department of Defense are leading in the development of options such as organization-specific benefits packages for retirement, greater employer contributions to benefits packages, and streamlined hiring and promotion based on skills and achievements rather than specific occupational duties or seniority.

While the attrition increase may not significantly impact every Operating Administration, some, such as FAA and the Federal Highway Administration (FHWA), are already encountering challenges. As the two examples below illustrate, these Operating Administrations are currently projecting rising attrition rates and predicting problems with the prompt replacement of experienced, mission-critical staff. Although it will be a challenge to hire and retain a sufficient quantity of quality staff, there is also an opportunity for agencies to revamp their organizations by hiring a workforce with the latest technical skills and knowledge and placing them where they are needed most.

Addressing an Expected Surge in Controller Attrition

Attrition in FAA’s air traffic controller workforce is expected to rise sharply in upcoming years as controllers hired after the 1981 Professional Air Traffic Controllers Organization controllers’ strike become eligible to retire. FAA currently estimates that nearly half (47.3 percent) of its controller workforce of 15,000 could leave the Agency between FY 2005 and FY 2012. Since new trainees currently take an average of 3 years to become fully certified controllers, FAA needs to begin identifying ways to make every stage of its process for hiring, placing, and training new controllers more efficient and cost effective. While addressing the expected surge in controller attrition represents a significant challenge, there are opportunities as well. A point worth noting is that new controllers will generally have lower base salaries than the retiring controllers they replace (the average base salary of a fully certified controller today is about \$113,000). Over time, this could help reduce FAA’s average base salary and, in turn, help reduce FAA’s operating cost growth. However, if FAA does not place new controllers where and when they are needed, the potential reductions in base salaries will be offset by lower productivity from placing too many or too few controllers at individual facilities.

Figure E-4. FAA Air Traffic Controller Attrition Compared to Retirement Eligibility*



Source: OIG Analysis of FAA Data.
 * Attrition data are as of May 2004. The number of controllers becoming eligible includes only those controllers reaching retirement eligibility in that year and does not include prior years. Retirement eligibility estimates are as of December 31, 2003.

Rebuilding the Federal Highway Administration's Workforce While Balancing the Changing Skill Mix

FHWA faces a growing set of challenges around the recruitment, retention, and management of its workforce. FHWA is facing numerous vacancies in mission-critical positions as large numbers of staff are expected to exit their positions, according to the FY 2003 through FY 2007 FHWA Workforce Plan. About 60 percent of the FHWA workforce (1,732 employees) is expected to “turnover” during these 5 years due to expected retirements, normal attrition, and vacancies created by internal promotions. Of this amount, 170 represent senior staff, which comprise 57 percent of FHWA’s managerial workforce (grades GS-15 and above). FHWA also risks losing additional staff to the Title 5-exempt agencies, and this could further drain its institutional knowledge.

However, this turnover also presents the opportunity to improve the workforce skill mix within the Agency. As of June 30, 2004, engineers held almost 40 percent of FHWA’s 2,858 permanent positions, while financial specialists held less than 4 percent. New missions, new technology, and new ways of doing business have generated the need for a workforce with a broader range of technical and management skills. For example, FHWA needs staff with financial management skills to provide guidance on innovative financing techniques for projects and to evaluate key state processes for managing Federal-aid funds. Therefore, FHWA must address the gaps in staff numbers and in the critical skills and competencies that will be needed to exercise program and project oversight, while maintaining continuity of operations and retention of experienced staff and program knowledge.

In February 2003, the House Appropriations Committee directed FHWA to develop a strategy for achieving a more multidisciplinary approach towards its oversight activities, to include identification of staff with private sector management skills, such as financing and cost estimation. In response to this direction, the FHWA Administrator agreed to develop the workforce skills needed in the planning, environmental, financial, and engineering areas related to the delivery of the Federal-aid highway program.

In FY 2004, FHWA established an Employee Multidisciplinary Development Program focused on providing both existing and entry-level staff with specialized +training in cost estimating, process reviews, project management, and other skill areas required for effective oversight. FHWA reported that as of June 30, 2004, 60 employees were participating in FHWA’s Professional Development Program. However, given the size of FHWA’s workforce and that some courses are still in development, this approach will be slow in bringing about needed changes in the skill sets and proficiency levels that are required throughout the various disciplines and functional areas within FHWA.

EXHIBIT. COMPARISON OF FY 2005 AND ⁶⁰ FY 2004 TOP MANAGEMENT CHALLENGES

Items in FY 2005 Report	Items in FY 2004 Report
<ul style="list-style-type: none"> Getting the Most Value From Investments in Highway and Transit Infrastructure Projects 	<ul style="list-style-type: none"> Protecting Taxpayer Investments in Highway and Transit Infrastructure Projects. Continue efforts to ensure that highway and transit projects are delivered on-time, within budget, and free from fraud; and aggressively fight motor fuel tax evasion, which is a drain on revenue for the Department.
<ul style="list-style-type: none"> Delivering Air Traffic Control Services and Fielding New Air Traffic Control Equipment While Controlling Costs in a Fixed Budget Environment 	<ul style="list-style-type: none"> Improve Fiscal Discipline at FAA. Controlling operations cost growth and addressing fundamental problems with major acquisitions.
<ul style="list-style-type: none"> Increasing Aviation Capacity and Mitigating Delays 	<ul style="list-style-type: none"> None
<ul style="list-style-type: none"> Ensuring Safety in a Changing Aviation Environment 	<ul style="list-style-type: none"> Aviation Safety. Ensure FAA safety oversight keeps pace with industry and economic changes while maintaining a focus on long-standing safety issues.
<ul style="list-style-type: none"> Ensuring That Surface Safety Programs Lead to More Lives Saved 	<ul style="list-style-type: none"> Highway Safety. Keep unsafe drivers and vehicles off the road by stopping states from issuing Commercial Driver Licenses to unqualified drivers, identifying high-risk motor carriers for review, and implementing the TREAD Act to facilitate proactive identification of vehicle safety defects.
<ul style="list-style-type: none"> Strengthening Financial Management to Protect Federal Funds 	<ul style="list-style-type: none"> Financial Accountability. Free up hundreds of millions of dollars in idle funds, improve oversight of billions of dollars in cost-reimbursable contracts, and fully implement the new Delphi financial management system.
<ul style="list-style-type: none"> Holding the Line on Programs Conducive to Fraud 	<ul style="list-style-type: none"> Disadvantaged Business Enterprise Program. Increase oversight of the Disadvantaged Business Enterprise Program to reduce fraud and ensure the Program benefits truly disadvantaged businesses.
<ul style="list-style-type: none"> Improving Cost Effectiveness of \$2.7 Billion in Information Technology Investments and Continuing to Enhance Computer Security 	<ul style="list-style-type: none"> Information Technology Management. Protect critical information technology (IT) systems from attack and maximize returns on DOT's \$2.7 billion in annual IT investments.
<ul style="list-style-type: none"> Restructuring the Intercity Passenger Rail System to Match Fiscal Capacity 	<ul style="list-style-type: none"> Intercity Passenger Rail. Restructure the intercity passenger rail system to match fiscal capacity.
<ul style="list-style-type: none"> Management Attention Needed to Strengthen Oversight of Title XI Loan Guarantees 	<ul style="list-style-type: none"> MARAD Loan Defaults. Minimize financial loss to the Government from MARAD's \$3.7 billion Title XI Loan Guarantee Program.
<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Hazardous Materials Safety and Security. Strengthening the oversight of Hazardous Materials (HAZMAT) shipments by increasing cross-modal inspection and enforcement activities.


EXHIBIT. Comparison of FY 2005 and FY 2004 Top Management Challenges



U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: **ACTION:** Report on Consolidated Financial Statements for Fiscal Years 2004 and 2003, DOT FI-2005-009 Date: November 15, 2004

From: Kenneth M. Mead 
Inspector General Reply to
Attn. of: JA-20

To: The Secretary

I respectfully submit the Office of Inspector General report on the Department of Transportation (DOT) Consolidated Financial Statements for Fiscal Years (FY) 2004 and 2003 (see attachment). This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

UNQUALIFIED OPINION

This audit report concludes that DOT's Consolidated Financial Statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. This is the fourth fiscal year in a row—2001, 2002, 2003, and 2004—that DOT has achieved an unqualified or “clean” opinion. The clean audit opinion signals to users of the financial statements that they can rely on the information presented. This occurred as the Department completed its transition to a new, commercial off-the-shelf accounting system, called Delphi. According to DOT officials, DOT is the first cabinet-level agency to have implemented, Department-wide, a modern commercial off-the-shelf accounting system.

The DOT Consolidated Financial Statements for FY 2004 show year-end assets of about \$68 billion, year-end liabilities (debts) of \$13 billion, costs of operations (program costs) of \$54 billion, and total budgetary resources (available financial resources) of \$105 billion. A significant portion of DOT's budgetary resources come from two trust funds, the Highway Trust Fund (HTF) and the Airport and Airway (Aviation) Trust Fund, which are supported by a mixture of passenger,

fuel, and user taxes. Tax collections deposited into those trust funds totaled \$44.4 billion during FY 2004.

On a cautionary note, less revenue than expected has been flowing into the trust funds for several years. The reduction is due to changes in the aviation and highway sectors, including the economic downturn and lower average airfares. At the same time, the costs of building, operating, and maintaining the systems have continued to increase. Historically, shortfalls have been subsidized by the U.S. Treasury's General Fund, but with the significant Federal deficit, this option may prove increasingly difficult in the future.

The Department made progress correcting the internal control deficiencies we reported last year. The Department made sufficient progress correcting two of the material weaknesses—the Department's information security program and FAA's oversight of cost-reimbursable contracts—that we are not reporting them as material weaknesses this year.

FAA deserves credit for addressing significant challenges this year. FAA encountered difficulties when it implemented DOT's Delphi accounting system and FAA's new procurement system, called Prism, in November 2003. For the most part, FAA financial managers were able to identify problems, track financial activities that were not properly processed, and develop timely corrective action plans because they have implemented more disciplined financial management processes over the last 3 years.

HTF agencies, on the other hand, were less successful overcoming the financial management deficiencies we reported last year. Because of the severity of the problems and the limited time available to implement corrective actions, the Federal Highway Administration (FHWA) was not able to make enough progress to correct the underlying process deficiencies. The deficiencies required HTF agency executives and financial managers, as well as the Office of Financial Management to make a concerted effort to clean up bad data and generate reliable financial statements. That largely manual effort was the key to obtaining a clean opinion this year. Continued executive-level attention, backed by skilled resources to implement disciplined processes, will be critical to correct the remaining deficiencies.

I want to acknowledge the extraordinary efforts made by each of the Operating Administrations, the Assistant Secretary for Budgets and Programs/Chief Financial Officer, and KPMG LLP and Clifton Gunderson LLP (contractors we engaged to audit the Federal Aviation Administration [FAA] and the HTF financial statements). Also, this clean opinion would not have been possible without your longstanding commitment to improving financial management

practices and the priority you repeatedly placed on meeting the Office of Management and Budget's accelerated reporting date of November 15, 2004.

INTERNAL CONTROLS

FAA, the HTF agencies,¹ the Department's Office of Financial Management, and the auditors had to exert extraordinary efforts to overcome significant financial management deficiencies in order to meet the accelerated due date for audited financial statements. These deficiencies were due to weaknesses in internal controls, which are the policies, procedures, and practices that need to operate effectively to produce reliable and timely financial information. We categorized the problems we identified into four material weaknesses and four reportable conditions. Responding to a draft of this report, DOT agreed with these findings and committed to taking timely corrective action.

Material Weaknesses

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

- **Financial Management and Reporting for Highway Trust Fund Agencies.** Last year we reported that HTF agencies lacked the financial management procedures needed to generate reliable financial statements, and this deficiency also existed this year. As a result, the financial statements FHWA submitted for audit contained several large, multi-billion dollar errors and omissions. For example, FHWA incorrectly added about \$2 billion to program costs. FHWA also incorrectly reallocated costs among programs, resulting in a total of \$8 billion in changes to program line items. These errors were corrected in the published financial statements, but the repeated substantial changes demonstrated that financial management and reporting processes were not operating effectively.
- **Financial Oversight of Highway and Transit Grants.** FHWA and the Federal Transit Administration (FTA) must do more to ensure that grant funds are protected from fraud, waste, and abuse. In FY 2004, FHWA needed to improve financial oversight on 41 of the 45 highway grant projects (valued at \$113 million) that we reviewed. In June 2003, we pointed out that a random

¹ Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, Federal Motor Carrier Safety Administration, and the Bureau of Transportation Statistics.

sample of construction payments we reviewed showed that 7 percent of the payments were not adequately supported (\$7 million of the \$98 million). FHWA plans to begin reviewing state payment processes and testing a sample of payments during FY 2005. The key to achieving sustained improvements in this area will be follow-through to ensure that the reforms are implemented and that they operate effectively. While FTA has systems in place to monitor resources provided to transit authorities and municipalities, it too could do a better job of protecting Federal funds. For example, we recently found that FTA's oversight did not take action on significant irregularities in change orders on a \$2.25 billion project until they had accumulated to several hundred million dollars.

- **Reconciling Transactions Within DOT and With Other Federal Agencies.** Last year, we reported that DOT did not fully reconcile its transactions with other Federal agencies. To prepare DOT's financial statements, transactions among DOT's Operating Administrations must be tracked and eliminated to avoid overstating DOT's financial statement results. Similarly, Federal agencies' inability to account for transactions with other agencies is a major impediment to a clean audit opinion on the Financial Report of the United States Government. During FY 2004, DOT did not adequately track transactions among DOT Operating Administrations, which required management to perform extensive manual adjustments to prepare DOT's consolidated financial statements. DOT has begun taking steps to better account for transactions with other Federal agencies, but at the end of September 2004, it still had not identified the other agency associated with about half of the \$55 billion of intra-governmental transactions processed in FY 2004 and reported to Treasury.
- **Financial System Controls.** Last year, we reported that controls over the Delphi accounting system needed to be improved. Important security measures had not been implemented, system changes were not properly tested, and contingency planning was not adequate. DOT has made significant progress to correct these problems, but for most of FY 2004 the vulnerabilities continued to exist. This year, both Clifton Gunderson and KPMG identified other security issues affecting other financial systems that provide financial data to Delphi. These deficiencies increase the risk that erroneous financial transactions could occur, either intentionally or inadvertently, resulting in unreliable information being included in financial reports without being detected in a timely manner by management.

Reportable Conditions

Reportable conditions in internal controls, although not considered material weaknesses, represent significant deficiencies in the design or operation of internal controls that could adversely affect the DOT consolidated financial statements.

- **Cost-Reimbursable Contracts at FAA.** Last year we reported a material weakness in FAA's management of cost-reimbursable contracts. During FY 2004, FAA management took aggressive actions to implement better controls by identifying all cost-reimbursable contracts and closing most old completed contracts. FAA also obtained \$3 million to audit cost-reimbursable contracts and used the funds to request 185 audits. A reportable condition continues because FAA still has about \$1.5 billion associated with overage contracts that it must close. FAA is continuing to review and close these old contracts and is taking other steps to strengthen its oversight of cost-reimbursable contracts.
- **DOT's Information Security Program.** Last year, based on audits of the Department's overall information system security program, we reported DOT's information security program as a material internal control weakness. The most noteworthy improvements made during FY 2004 include increased oversight of information technology investment management and security controls, strengthened protection of DOT's network infrastructure against attacks, and enhanced security protection of individual computer systems. Continued action is needed to improve security certification reviews, configure computers according to security standards, and develop and test system contingency and continuity plans.
- **MARAD's Oversight of Title XI Loan Guarantees.** Last year, we reported that the Maritime Administration (MARAD) needed to better ensure that inventory, property, and environmental liabilities are reported properly. This year, we found that MARAD has corrected those problems. Last year we also reported that MARAD needed to improve its oversight of the Title XI loan guarantee program. During FY 2004, MARAD designed procedures to strengthen its oversight process for Title XI loan guarantees. What remains to be done is to aggressively and effectively implement the new procedures. This will be critical to ensure that MARAD's \$3.6 billion loan guarantee portfolio is properly managed. This is of considerable importance because MARAD has determined that over 25 percent of its portfolio is at an elevated risk of default.
- **Accounting for Loans in Delphi.** In FY 2003, we reported that DOT needed to improve how it accounts for the direct loans it provides to grantees in Delphi, and this condition still exists as of September 30, 2004. The Delphi accounting system does not include a process to account for expected loan

repayments from grantees, which were valued at \$604 million on September 30, 2004. Instead, DOT relied on information from outside the accounting system (such as commercial banks) to track loan transactions, and some Operating Administrations did not routinely reconcile their loan balances. This year, the Department established a task force to identify a corrective action plan.

We provided a draft of this report to the DOT Assistant Secretary for Budgets and Programs/Chief Financial Officer, who concurred with the findings and agreed to implement the recommendations. DOT and its Operating Administrations have also initiated corrective actions to address the internal control and compliance issues identified by KPMG and Clifton Gunderson in their reports.

We appreciate the cooperation and assistance of DOT, KPMG, and Clifton Gunderson representatives. If we can answer any questions, please call me at (202) 366-1959 or Ted Alves, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1496.

Attachment

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**DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT
ON THE DEPARTMENT OF TRANSPORTATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEARS 2004 AND 2003**

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, 2004, and September 30, 2003. In our audit "DOT Consolidated Financial Statements for Fiscal Years 2004 and 2003," we found:

- Financial statements that are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- Four material internal control weaknesses: financial management and reporting for Highway Trust Fund agencies,¹ oversight of highway and transit grants, reconciling transactions within DOT and with other Federal agencies, and financial system controls; and four reportable conditions: cost reimbursable contracts at the Federal Aviation Administration (FAA), DOT's information security program, the Maritime Administration's (MARAD) oversight of Title XI loan guarantees, and accounting for loans in Delphi.
- Instances of noncompliance with the Federal Financial Management Improvement Act of 1996, the Anti-Deficiency Act, the Federal Managers' Financial Integrity Act, the Single Audit Act, and the Government Performance and Results Act.
- Financial information in the Management Discussion and Analysis was materially consistent with the financial statements.
- Supplementary and stewardship information was consistent with management representations and the financial statements.

We performed our work in accordance with Government Auditing Standards and Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements." The following sections discuss these

¹ Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, Federal Motor Carrier Safety Administration, and the Bureau of Transportation Statistics.

conclusions. Our audit objectives, scope, and methodology are in Exhibit A. We believe that our audit provides a reasonable basis for our opinion.

A. UNQUALIFIED OPINION ON FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the DOT assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations as of September 30, 2004, and September 30, 2003 and for the years then ended.

Under contract with OIG and under our supervision, KPMG LLP audited the financial statements of FAA as of and for the years ended September 30, 2004, and September 30, 2003. KPMG rendered an unqualified opinion on the FAA financial statements. Also under contract with OIG and under our supervision, Clifton Gunderson LLP audited the financial statements of the Highway Trust Fund (HTF) as of and for the years ended September 30, 2004, and September 30, 2003. Clifton Gunderson rendered an unqualified opinion on the HTF financial statements. We performed a quality control review of the work performed by KPMG and Clifton Gunderson and relied on their results in performing our work on the FYs 2004 and 2003 DOT Consolidated Financial Statements.

As discussed in Note 17, the accompanying financial statements reflect actual excise tax revenues deposited in the HTF and the Airport and Airways Trust Fund through March 31, 2004, and excise tax receipts estimated by the Department of the Treasury Office of Tax Analysis for the two quarters ended June 30, 2004, and September 30, 2004.

As discussed in Note 17, DOT restated the FY 2003 Balance Sheet, Statement of Net Costs, Statement of Changes in Net Position, and Statement of Financing to properly report transactions with the Department of Agriculture related to MARAD's administration of the Cargo Preference Program. As discussed in Note 18, DOT also restated the FY 2003 Statement of Budgetary Resources to properly report its FY 2003 budget authority and unobligated balances. We audited these adjustments and concluded that they were appropriate and properly applied.

B. CONSIDERATION OF INTERNAL CONTROLS

In planning and performing our audit, we considered DOT's internal controls over financial reporting and compliance with laws and regulations. We do not express an opinion on internal controls and compliance because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB Bulletin 01-02 audit guidance, not to express an opinion on internal controls.

For the controls we tested, we found four material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance that would be material to the financial statements, may occur and not be detected promptly by employees in the normal course of performing their duties.

Our work identified four reportable conditions in internal controls. Reportable conditions in internal controls, although not considered material weaknesses, represent significant deficiencies in the design and operation of internal controls that could adversely affect the amounts reported in the DOT Consolidated Financial Statements. Our internal control work would not necessarily disclose all material weaknesses or reportable conditions.

MATERIAL WEAKNESSES

The following sections describe the material weaknesses that we identified.

HTF Agencies' Financial Management and Reporting Activities

Material deficiencies continue to exist in internal controls over financial management and reporting activities in the HTF agencies. Last year we reported that HTF agencies, in particular the Federal Highway Administration (FHWA), lacked basic accounting and financial management policies and procedures needed to generate reliable financial statements in a timely manner. Management agreed to implement a series of recommendations to correct these deficiencies and has begun doing so. However, because of the severity of the problems that existed and the limited time available to design and implement corrective actions, FHWA was not able to correct the underlying process deficiencies.

As a result, FHWA continued to encounter significant problems generating reliable financial information. To illustrate, the financial statements submitted for audit had not been fully analyzed and were not reliable. Over \$18 billion of adjustments to the financial statements were needed to correct errors and

omissions. To a large extent, these errors and omissions occurred because FHWA did not have time to implement more disciplined practices to compile financial information, reconcile conflicting or incomplete information, and analyze and review the financial statements to ensure that they were reliable. FHWA, with support from the Department's Office of Financial Management, needs to continue aggressive efforts to correct these deficiencies.

Last year we reported that HTF agencies lacked adequate accounting and financial management policies, procedures, and processes. Problems caused by those longstanding deficiencies were compounded last year because two major HTF agencies (FHWA and the Federal Motor Carrier Safety Administration) had not adequately planned or implemented their conversions to the Department's new accounting system, Delphi. HTF agencies and DOT officials recognized the significance of the deficiencies and committed to take timely corrective actions. However, because the audited financial statements were not issued until January 30, 2004 (almost 6 months into this fiscal year), HTF agencies got a late start implementing changes. The timeframe was further reduced because audited financial statements had to be completed earlier than usual this year, by November 15, 2004. As a result, while they made progress, material deficiencies still exist in financial management and reporting activities in HTF agencies, particularly in FHWA.

Even though the audit of the FY 2004 financial statements was completed by the November 15, 2004 OMB deadline, the HTF agencies expended a tremendous amount of manual effort to "clean up" their accounting records to prepare auditable financial statements as of September 30, 2004. Required accounting processes, including processes to prepare and analyze financial statements and to reconcile accounting transactions, did not operate effectively during the year. These problems were compounded at FHWA because it was still cleaning up unreliable data that had been converted to the new accounting system in February 2003.

To illustrate, FHWA did not automate its financial statement preparation process until the final quarter of FY 2004. As a result, for most of the year, the process used to generate financial statements was labor intensive and prone to error. Rather than using the accounting system to prepare financial statements, HTF agencies manually re-entered data generated by the accounting system into spreadsheets to prepare consolidated agency financial statements. This increased the risk of errors and limited resources available to analyze financial statement presentations. The new financial statement preparation process should alleviate this problem next year.

Further, FHWA was not able to correct unreliable accounting records until the end of the year. As a result, financial statements submitted for audit contained

numerous errors and FHWA had difficulties providing complete and accurate documentation to support its financial statements. For example, 4 weeks after the end of the year, and 2 weeks before audited financial statements were due to OMB, FHWA had to make a number of adjustments to financial statement accounts, increasing costs by \$760 million. FHWA also made several attempts to correct program cost estimates and properly allocate costs among its programs. In one attempt, FHWA incorrectly added about \$2 billion to program costs because it did not understand how to generate program cost numbers. In another, FHWA incorrectly reallocated costs among programs, resulting in a total of \$8 billion in changes to all program line items.

FHWA also did not significantly improve its ability to analyze and understand its financial statements. Management must take responsibility for generating reliable financial statements, understanding how different financial accounts relate to one another, and understanding how program changes affect the financial statements. Although FHWA adopted the financial statement analysis practices that Clifton Gunderson had suggested, the practices were not implemented effectively. As a result, errors that should have been detected from a close reading and analysis of the statements were not detected. For example, costs for the Federal Lands program were identified in the September 30, 2004 financial statements as \$61 million, even though costs had been reported to be \$221 million in June 2004. Reported program costs changed several times during the audit process and ultimately totaled \$222 million, indicating that the June 2004 statements were not reliable.

Clifton Gunderson made a series of recommendations to improve financial management and reporting activities in its financial statement audit report, dated November 8, 2004. DOT agreed to implement the recommendations. Therefore, we are not making additional recommendations in this report.

Financial Oversight of Highway and Transit Grants

FHWA and the Federal Transit Administration (FTA) must establish stronger financial and cost controls to better ensure that grant funds are protected from fraud, waste, and abuse. This is especially important in a time of increasing demands for transportation investments and large Federal deficits. FHWA, however, currently provides little financial oversight of the billions of dollars it provides to states and municipalities each year. Over the last year, there has been a major shift in direction, and the Department now recognizes the need to improve oversight of these resources. As a result, plans are underway to implement much improved oversight processes to provide the needed oversight. Follow-through to ensure the reforms are implemented effectively will be the key to sustained improvement in this area. FTA has systems in place to monitor resources

provided to transit authorities and municipalities, but it too could improve its oversight of Federal funds disbursed to grantees.

We previously reported that FHWA frequently did not perform financial management reviews of grantees. This year, we identified additional issues that raise further questions about the adequacy of FHWA's oversight. First, FHWA does not have an effective process to require its Division Offices to assess grantee financial management risks, and does not require them to review grantee payment controls, or spot check a sample of actual payments for reasonableness. For grant projects examined during the HTF financial statement audit, FHWA did not provide this financial management oversight for 41 of 45 projects, with obligations totaling \$113 million. This is significant because, as we pointed out in June 2003, controls over highway grant payments were not effective. We reviewed a random sample of construction payments and determined that 7 percent of the payments were not adequately supported (\$7 million of \$98 million reviewed). FHWA also reported that its electronic payment system was modified to automatically pay grantees without any review by an FHWA official. Fourteen Division Offices made payments of about \$4 billion this year using this method. FHWA management discontinued the practice as soon as they discovered it.

We have testified that FTA provides more oversight of how grantees use Federal resources than FHWA, but it too can do a better job. For example, FTA uses project management oversight and financial management oversight contractors to provide early warnings of cost, schedule, and quality problems. However, the quality of this oversight can be improved, particularly in the areas of spot-checking grantee cost and schedule estimates. To illustrate, in the case of Puerto Rico's Tren Urbano, costs almost doubled from \$1.25 billion to \$2.25 billion and the project encountered a 3-year delay in opening the system to passengers. Although FTA required Tren Urbano to prepare a plan to address the issues, the plan was not adequate because it did not identify actions or establish timeframes to address all safety-critical issues. In addition, we recently found that FTA oversight did not take action on significant irregularities in change orders on a \$2.25 billion project until they had accumulated to several hundred million dollars.

We also continue to handle significant numbers of fraud cases. Over the last 5 years, our investigations have yielded 128 convictions (29 in FY 2004 alone) and more than \$90 million in recoveries from fraud on highway and transit projects.

DOT is undertaking two efforts to improve FHWA grant oversight. The FHWA Administrator plans to establish a new policy in FY 2005 that will require its 52 Division Offices to perform much more stringent oversight, including reviewing state payment processes and testing a sample of actual payments. The policy has not been approved or implemented. It represents a good first step—a

commitment and a plan. After it is approved, it will take time to implement and, as with any major change, FHWA will face a significant challenge implementing the policy in its 52 Division Offices. When fully implemented, the new policy will go a long way to reducing the risk of losses to fraud, waste, or abuse. Second, we worked with the Office of the Secretary and OMB to establish a pilot project in one state to estimate the extent of improper payments in the Federal aid highway program. That project should provide an estimate of the amount of improper payments in the Highway program.

Reconciling Transactions Within DOT and With Other Federal Agencies

Last year, we reported that DOT had not implemented effective processes to reconcile its transactions with other Federal agencies. Although DOT has initiated improvements and made progress during FY 2004, as of September 30, 2004, it had not corrected the problem. In addition, DOT does not have an effective process to reconcile transactions among its Operating Administrations.

To prepare DOT's financial statements, transactions among DOT's Operating Administrations must be tracked and eliminated to avoid overstating DOT's financial results. Although DOT is implementing improved processes, during FY 2004, it did not adequately track these transactions. To illustrate, DOT's Operating Administrations reported to the Department's Office of Financial Management a total of \$17 million in accounts receivable, or amounts due from other Operating Administrations. The same organizations, however, reported \$582 million in accounts payable, or amounts owed to other Operating Administrations. Because these amounts should reflect all transactions within DOT, the amount due should match the amount owed. Management had to perform extensive research and make manual adjustments to balance the books in order to prepare reliable financial statements.

Similarly, Federal agencies' inability to account for and eliminate transactions with other Federal agencies is a major impediment to a clean audit opinion on the Financial Report of the United States Government. For example, when the Volpe National Transportation Systems Center performs reimbursable work for the Department of Defense, both agencies need to track the value of the work performed and report similar amounts to Treasury. Treasury then needs to eliminate the transactions from the Government-wide financial statement to avoid overstating financial results on the Financial Report of the United States Government. OMB Bulletin 01-09, "Form and Content of Agency Financial Statements," requires agencies to reconcile asset, liability, and revenue amounts with other agencies by confirming the balances with those agencies on a quarterly basis.

During FY 2004, DOT partially confirmed or reconciled transactions with other Federal agencies. A new reporting tool within the financial management system helped facilitate these reconciliations. However, at the end of September 2004, DOT still had not identified the other agency associated with about \$27 billion, or about half, of the \$55 billion of transactions with other Federal agencies that were processed and reported to Treasury in FY 2004. The large amount associated with unknown trading partners demonstrates that DOT does not yet have an effective process to reconcile and eliminate these transactions. Until DOT is able to automatically track transactions with other Federal agencies, it will not be able to make significant progress reconciling balances with those agencies.

Financial System Controls

Last year, we reported Delphi computer control weaknesses as a reportable condition. We found that important security measures such as password controls and removing terminated employees' access to systems had not been implemented or enforced, system changes were not properly tested, and contingency planning was not adequate. Based on the existence and magnitude of these vulnerabilities, we concluded that financial auditors would need to perform additional testing of financial transactions processed by Delphi. We issued 17 recommendations to correct these weaknesses.

During FY 2004, DOT made good progress in correcting Delphi computer control weaknesses. In June 2004, DOT reported that that all but five recommendations had been corrected. As of September 30, 2004 management stated that it had completed corrective actions on all but one recommendation. We have not yet validated that these corrective actions are operating effectively but plan to do so in FY 2005.

Our contractors also found computer security weaknesses in a number of systems that provide financial data to Delphi. KPMG concluded that computer security of systems supporting FAA financial management reporting needed improvement. Control weaknesses included inadequate password controls, missing security patches, inadequate system change controls, lack of separation of duties, and key security positions that were not defined.

Clifton Gunderson found that computer security over systems supporting financial management and reporting for the HTF agencies also needed improvement. Control weaknesses identified in FHWA and/or FTA financial systems include financial system certification and accreditation, risk assessments, system testing and evaluation, background checks for system contractors, user profile management, logical access controls, financial systems access for separated employees, backup tape management, and alternate processing facilities. Clifton

Gunderson also found problems with grant approval and payment edit features, and insufficient documented procedures for managing user accounts and sensitive information produced by the systems.

KPMG and Clifton Gunderson provided a series of recommendations to DOT, FAA, FHWA, and FTA for improving these areas. Management concurred with all findings and recommendations and has taken or has initiated corrective actions.

REPORTABLE CONDITIONS

Reportable conditions in internal controls, although not considered material weaknesses, represent significant deficiencies in the design or operation of internal controls that could adversely affect the DOT consolidated financial statements.

FAA Oversight of Cost-Reimbursable Contracts

Last year, we reported a material weakness with FAA's management of cost-reimbursable contracts. During FY 2004, FAA implemented a corrective action plan to strengthen its management of cost-reimbursable contracts. As a result of actions taken and controls put in place, we have downgraded the material weakness to a reportable condition. It remains a reportable condition because FAA still has about \$1.5 billion associated with overage contracts that must be closed to identify allowable costs and excess obligated balances.

As part of its corrective actions, FAA identified all completed and ongoing cost-reimbursable contracts; obtained \$3 million in funding that it used to initiate 185 requests for incurred cost audits of reimbursable contracts; established an internal control procedure to reconcile, on a quarterly basis, amounts billed by contractors to amounts recorded as contract expenses; modified performance measures for contracting officers to ensure that cost-reimbursable contracts are audited in accordance with FAA's audit policy; established a quarterly internal control procedure to verify whether contractor staff met contractual requirements; and revised procedures to ensure that officials consider cost-effective alternatives before requesting new acquisition baselines.

FAA is continuing to review and close old contracts valued at about \$1.5 billion. In addition, FAA is in the process of analyzing the results of an Activity Value Analysis of its contracting activities, which recommended additional changes in contract administration procedures. FAA will need to take actions to implement the proposed changes.

DOT Information Security Program

Last year, we reported DOT's information technology security program as a material internal control weakness for the third year in a row. In October 2004, we issued our fourth annual report on DOT's Information Security Program as required by the Federal Information Security Management Act. Based on the progress the Department has made and the current status of the security program, we are of the opinion that the DOT's information security program should be considered a reportable condition.

The most noteworthy improvements DOT has made since we began the annual information security review in FY 2001 include increased oversight of information technology investment management and security controls, strengthened protection of DOT's network infrastructure against attacks from both outside and inside of the Department, and increased percentage of computer systems completing the security certification review. For example, during FY 2004, the Department increased the number of systems having completed a security certification review from 33 percent to over 90 percent. The office of the departmental Chief Information Officer also issued guidelines for configuring computers in a secure manner to prevent vulnerabilities.

Although DOT has made significant progress, we identified security issues that require continued management attention. Specifically, DOT needs to improve the quality of security certification reviews and better ensure that planned corrective actions are implemented. Our review of 20 systems that had been certified as having adequate security protection found deficiencies in the certification review process. Deficiencies included inadequate assessments of the risks facing the system; lack of evidence that tests were performed—in one case, a test item that had been listed as passed failed when we re-tested it; incomplete presentations of remaining weaknesses to responsible senior officials; and flaws in approving systems for operations.

Because we have made recommendations in other reports to help the Department further enhance its information security protection and oversight of its multi-billion dollar annual information technology investment, we are not including recommendations in this report.

MARAD Oversight of Title XI Loan Guarantees

Last year, we reported that MARAD needed to better ensure that inventory, property, and environmental liabilities are reported properly. This year, we found that MARAD corrected those problems.

Last year we also reported that MARAD needed to improve its oversight of the Title XI loan guarantee program loan application process; borrowers; vessels and shipyards constructed under loan guarantees; and foreclosed assets. The loan guarantees are designed to assist private companies to obtain financing for constructing ships or modernizing U.S. shipyards—with the Government holding a mortgage on the equipment or facilities financed.

During FY 2004, MARAD designed procedures to strengthen its oversight process for Title XI loan guarantees but needs to do more. In particular, effective and aggressive implementation of the new procedures will be critical to ensure that its \$3.6 billion loan portfolio is properly managed. Effectively implementing these improvements is of considerable importance because MARAD has determined that over 25 percent of its portfolio is at an elevated risk of default.

In September 2004, we issued a follow-up audit report that identified three related issues that need to be fixed to ensure that MARAD's oversight is effective. First, MARAD was not sufficiently enforcing the requirements that borrowers establish and maintain specified financial reserves to mitigate the risks of noncompliant loans. Second, MARAD lacked the expertise or resolve to effectively address troubled loans. Third, MARAD's rudimentary financial monitoring system was not yet adequate to effectively manage its \$3.6 billion loan portfolio.

Establishing good procedures is just the first step; fully implementing them is the next one. While MARAD has worked to get satisfactory procedures in place, the proof will be in the follow through and implementation with respect to specific loan guarantee applications. Strong leadership and a staff committed to implementing the strengthened procedures will be critical to realize the intended benefits and reduce risks to the Title XI loan guarantee portfolio. The Department will also need to monitor MARAD's progress to assure appropriate actions are taken to mitigate risks to the existing \$3.6 billion loan guarantee portfolio and to any new loan guarantees. We plan to conduct a follow-up audit of MARAD's implementation progress.

Accounting for Loans in Delphi

In FY 2003, we reported that DOT needed to improve the accounting for loans receivable in Delphi, and this condition still existed on September 30, 2004. The new DOT accounting system, Delphi, does not include a module or subsidiary ledger system to accurately account for anticipated loan repayments from borrowers, valued at \$1 billion on September 30, 2003, and \$604 million on September 30, 2004. FHWA and the Federal Railroad Administration recorded loan activity at a summary level directly into the Delphi accounting system and relied on information from outside the accounting system (such as from

commercial banks) to maintain detailed loan transaction information. Those two Administrations also did not periodically reconcile their recorded balances to the detailed transaction level information during the year.

In FY 2003, we recommended that DOT establish a module or subsidiary system in Delphi to improve accounting for loans receivable and require FHWA and the Federal Railroad Administration to routinely reconcile loans receivable balances. DOT agreed and, in FY 2004, established a Credit Reform Workgroup to discuss how best to account for loan activity.

C. COMPLIANCE WITH LAWS AND REGULATIONS

In planning and conducting our audit, we performed limited tests of DOT's compliance with laws and regulations as required by OMB guidance. It was not our objective to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to testing selected provisions of laws and regulations that would be reportable under 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 are required to report whether DOT's financial management system substantially complies with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level. DOT's financial management system includes the core accounting system and supporting financial management systems that provide financial data to the core accounting system.

FFMIA requires agencies to produce auditable financial statements based on data from the agency's financial system on a timely basis. Given the problems HTF agencies, and FHWA in particular, encountered in generating reliable financial statements in a timely manner and the difficulties they encountered with their accounting and reporting systems, Clifton Gunderson concluded that the systems did not substantially comply with Federal financial management system requirements for the year ended September 30, 2004.

- **Preparation of Financial Statements.** The process used by HTF agencies, primarily FHWA, was not adequate to prepare reliable and timely financial

statements during the year ended September 30, 2004. In order to prepare the HTF financial statements, an extensive number of adjustments were made to the accounting records. Even though some of these adjustments are considered "normal clean-up" entries, many were the result of manually intensive analysis and reconciliations performed outside the system.

- **Use of Standard General Ledger.** Several HTF agencies did not use Delphi to capture all accounting events at the transaction level to meet OMB or Treasury reporting requirements and FHWA suspense account transactions did not follow the posting rules set forth by Treasury.
- **Federal Accounting Standards.** Some HTF agencies were not in full compliance with the Managerial Cost Accounting Concepts and Standards for the Federal Government and the related provisions of the Government Performance and Results Act. The FY 2004 HTF financial statements did not properly reflect full costs or measure the effectiveness of the agencies' programs. The HTF Statement of Net Cost was not presented by major program and was not comparable to DOT's major goals and outputs as described in its strategic and performance plans.

Clifton Gunderson also found that certain HTF financial management systems did not have adequate data processing controls, an important component of Federal system requirements. For example, Clifton Gunderson found that FHWA and FTA systems do not have sufficient financial management controls to reasonably ensure that payments to grantees are properly paid.

KPMG also found that the FAA was not in substantial compliance with FFMIA. KPMG found the FAA uses DOT's core accounting system, Delphi, to process and record financial transactions and FAA's Prism system to process procurement related activities. However, after the implementation of Delphi and Prism, FAA encountered a number of conversion-related challenges that prevented it from recording a significant number of transactions in Delphi. This situation interfered with the FAA's ability to produce accurate and complete financial and budgetary reports. KPMG also noted deficiencies in FAA's application of managerial cost accounting standards, since FAA was not able to provide accurate and timely cost information on its programs in FY 2004. In addition, KPMG found that six of FAA's key financial systems that feed financial data into Delphi do not comply substantially with some categories of FFMIA requirements. For example, four of the six feeder systems did not adhere to the Computer Security Act requirements and lacked adequate internal controls.

KPMG recommended that FAA continue to work aggressively to fully integrate its financial management systems and to produce accurate, timely, and reliable management cost reports using the Cost Accounting System. Also, DOT should

address and resolve the weaknesses noted in the six key financial systems used to compile financial statements for FAA.

ANTI-DEFICIENCY ACT

Title 31, United States Code, Section 1517 provides that an officer or employee of the U.S Government may not make or authorize an expenditure or obligation exceeding an amount available in an allotment. In our report on the FY 2003 DOT Financial Statements, we reported that a total of five instances of noncompliance had been identified in DOT. Of the five violations, the two identified for FAA were reported and resolved during FY 2004; the one potential violation identified in FHWA was researched and found to not be a violation; and the remaining two violations, first reported in 2002, have not been fully resolved.

Clifton Gunderson reported that, during FY 2004, FHWA was reviewing four potential violations, in which obligations may have exceeded budget authority by about \$600,000 as of September 30, 2004.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The FMFIA requires agencies to implement formal procedures to identify, assess, and monitor management controls to provide management with reasonable assurance that controls remain effective. Our report on the FY 2003 DOT Financial Statements concluded that the HTF agencies did not have formal procedures in place to identify, assess, and monitor management controls over their programs and resources, including their financial management systems. Management controls—which include organization, policies, procedures, and practices—are tools to help program and financial managers achieve results and safeguard the integrity of their programs.

During FY 2004, Clifton Gunderson reported that the HTF agencies, except the Federal Motor Carrier Safety Administration, have still not formalized procedures to identify, assess, and monitor management controls. In addition, we found that two other DOT agencies, the Office of the Secretary and the Research and Special Programs Administration, have not fully assessed the effectiveness of their management controls under FMFIA.

SINGLE AUDIT ACT

Our report on the FY 2003 DOT Financial Statements found that DOT has not effectively implemented certain provisions of the Single Audit Act, including tracking the receipt of reports, distributing reports on time, and ensuring that management makes timely decisions to implement report recommendations. During FY 2004, Clifton Gunderson reported that the HTF agencies began establishing procedures to monitor Single Audit Act activity and comply with provisions related to OMB requirements. However, those procedures were not fully implemented in FY 2004. Emphasis needs to be placed on ensuring that management decisions are issued within the required 6 months.

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA)

GPRA requires agencies to manage their programs in an efficient and effective manner based on reliable financial and performance information. To comply with GPRA, agencies need to have a system to track costs and allocate them to individual programs and activities. This information is needed for management to measure the efficiency and effectiveness of operations. Clifton Gunderson reported that because HTF agencies have not fully implemented managerial cost accounting systems, they were not able to present the full cost of each program in the Statement of Net Cost for FY 2004. Further, as described below, because DOT does not have systems in place to allocate costs by major program, the performance measures presented in the Management Discussion and Analysis did not provide information about cost effectiveness and were not linked to the cost of achieving targeted results or to the Statement of Net Cost.

D. CONSISTENCY OF OTHER INFORMATION

The Management Discussion and Analysis, required supplementary information (including stewardship information), and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We are not required to, and we do not, express an opinion on this information. As required by OMB guidance, we compared this information for consistency with the DOT Consolidated Financial Statements and discussed the methods of measurement and presentation with DOT officials. Based on this work, we found no material inconsistencies with the DOT Consolidated Financial Statements or nonconformances with OMB guidance. Further, because DOT does not have systems in place to allocate costs by major program, the performance measures did not provide information about cost effectiveness and were not linked to the cost of achieving targeted results or to the Statement of Net Cost.

E. PRIOR AUDIT COVERAGE

Our report on the DOT Consolidated Financial Statements for FYs 2003 and 2002 expressed an unqualified opinion and made two recommendations. They were: (1) that MARAD establish and implement procedures to improve the accounting for inventory, property, and environmental liabilities, and (2) that DOT establish a module or subsidiary ledger system in Delphi to improve the accounting for loans receivable. Our report on the DOT Consolidated Financial Statements for FYs 2002 and 2001 made one recommendation: that DOT confirm and reconcile intra-governmental balances with trading partners. As discussed in Section B, MARAD has improved its accounting for inventory, property, and environmental liabilities; but additional work is needed to implement the other recommendations.

Since we issued our report on the DOT Consolidated Financial Statements for FYs 2003 and 2002, we issued 12 reports related to the DOT Consolidated Financial Statements. The reports are listed in Exhibit B.

The Assistant Secretary for Budgets and Programs/Chief Financial Officer provided comments on a draft of the report (See Appendix). The response agreed with the material weaknesses and reportable conditions in this report and stated that corrective actions have already been initiated. Management agreed to provide a detailed action plan addressing each finding by December 15, 2004.

This report is intended for the information of and use by DOT, the Office of Management and Budget, the Government Accountability Office, and Congress. This report is a matter of public record, and its distribution is not limited.



Kenneth M. Mead
Inspector General

**EXHIBIT A. OBJECTIVES, SCOPE,
AND METHODOLOGY**

Our audit objectives for the DOT Consolidated Financial Statements for FYs 2004 and 2003 were to determine whether: (1) principal DOT Consolidated Financial Statements and accompanying notes are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; (2) DOT has adequate internal controls over financial reporting, including safeguarding assets; (3) DOT has complied with laws and regulations that could have a direct and material effect on the DOT Consolidated Financial Statements or that have been specified by OMB, including FFMIA; (4) financial information in the Management Discussion and Analysis is materially consistent with the information in the principal DOT Consolidated Financial Statements; (5) internal controls ensured the existence and completeness of reported data supporting performance measures; and (6) supplementary, stewardship, and other accompanying information is consistent with management representations and the DOT Consolidated Financial Statements.

DOT is responsible for (1) preparing the DOT Consolidated Financial Statements for FYs 2004 and 2003 in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that broad control objectives of FFMIA are met; (3) ensuring that DOT financial management systems substantially comply with FFMIA requirements; and (4) complying with other applicable laws and regulations.

We are responsible for obtaining reasonable assurance whether the DOT Consolidated Financial Statements for FY 2004 and FY 2003 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. DOT is responsible for preparing financial statements in conformity with U.S. generally accepted accounting principles and establishing and maintaining an effective system of internal controls. The objectives of these controls are explained below.

- Financial reporting. Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- Compliance with laws and regulations. Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the

financial statements and any other laws, regulations, and Government-wide policies identified by OMB audit guidance.

- Performance measures. Transactions and other supporting data are properly recorded and summarized.

We are also responsible for (1) obtaining sufficient understanding of internal controls over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the DOT Consolidated Financial Statements for FYs 2004 and 2003.

To fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding and performed limited tests of internal controls related to financial reporting, compliance with laws and regulations, and performance measures reported in the Management Discussion and Analysis; and (5) tested compliance with selected provisions of certain laws, including FFMIA.

Under contract with OIG and under our supervision, KPMG audited the financial statements of FAA as of and for the years ended September 30, 2004, and September 30, 2003. KPMG rendered an unqualified opinion on the FAA financial statements. Also under contract with OIG and under our supervision, Clifton Gunderson audited the financial statements of the HTF as of and for the years ended September 30, 2004, and September 30, 2003.² Clifton Gunderson rendered an unqualified opinion on the HTF financial statements. We reviewed the work of KPMG on the FAA financial statements and Clifton Gunderson on the HTF financial statements and determined that the work was performed in accordance with Government Auditing Standards. We relied on their work.

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 2004. The Treasury Office of Inspector General reported on the effectiveness of controls placed in operation over the Bureau of Public Debt Trust Fund Management Branch and Federal Investments Branch for the period October 1, 2003, to July 31, 2004, and attained management's assurance on the effectiveness of the controls through

² Clifton Gunderson also performed audit procedures related to Appropriated accounts and balances in the FY 2004 and FY 2003 DOT consolidated financial statement related to HTF agencies, which we relied on.

September 30, 2004. The Treasury Office of Inspector General also reported on selected schedule of assets and liabilities of the HTF and the Airport and Airway Trust Fund prepared by the Bureau of Public Debt Trust Fund Management Branch.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to ensuring that programs achieve their intended results and resources are used consistent with agency missions. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that our internal control testing may not be sufficient for other purposes and that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that compliance with controls may deteriorate.

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, 2004, and September 30, 2003. 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 Administration have been assigned the responsibility to address the weaknesses identified in this report. Management's response to the findings and recommendations in this report is contained in the Appendix.

We performed our work in accordance with Government Auditing Standards and OMB Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

EXHIBIT B. FINANCIAL-RELATED REPORTS

<u>TITLE</u>	<u>REPORT NUMBER</u>	<u>DATE ISSUED</u>
Inactive Obligations, FHWA	FI-2004-039	March 31, 2004
Cargo Preference Billing and Payment Process, MARAD	FI-2004-057	May 5, 2004
Audit of Financial Controls for Cost Accounting and Billing Practices, Volpe National Transportation Systems Center, RSPA	FI-2004-076	August 4, 2004
Independent Accountant's Report on the Application of Agreed-Upon Procedures: Selected Personnel Related Cost Items	FI-2004-096	September 28, 2004
FAA's Administration and Oversight of Regionally Issued Contracts	AV-2004-094	September 28, 2004
Title XI Loan Guarantee Program, MARAD	CR-2004-095	September 28, 2004
Audit of the Tren Urbano Rail Transit Project, Federal Transit Administration	MH-2004-098	September 29, 2004
Inactive Obligation, MARAD	FI-2004-099	September 30, 2004
Information Security Program, Department of Transportation	FI-2005-001	October 1, 2004
Quality Control Review of Audited Financial Statements for FY 2004 and FY 2003, Saint Lawrence Seaway Development Corporation	QC-2005-004	November 9, 2004
Quality Control Review of Audited Financial Statements for FY 2004 and FY 2003, Federal Aviation Administration	QC-2005-006	November 10, 2004
Quality Control Review of Audited Financial Statements for FY 2004 and FY 2003, Highway Trust Fund	QC-2005-006	November 10, 2004



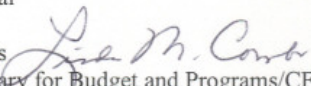
**U.S. Department of
Transportation**
Office of the Secretary
of Transportation

Assistant Secretary
for Budget and Programs
and Chief Financial Officer

400 Seventh St., S.W.
Washington, D.C. 20590

NOV 10 2004

MEMORANDUM TO: Kenneth M. Mead
Inspector General

FROM: Linda M. Combs 
Assistant Secretary for Budget and Programs/CFO

SUBJECT: Management Response – Report of the Inspector
General (IG) on the Consolidated Financial
Statements for Fiscal Years (FY) 2004 and 2003

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for FY 2004 and 2003. For the fourth consecutive year we have achieved an unqualified audit on the Consolidated Financial Statements.

We concur with the four material weaknesses and four reportable conditions contained in the report. Corrective actions have already been initiated to address these items. The Department will submit a detailed Action Plan to your Office by December 15 to address the findings contained in the report. Our Action Plan will also address the findings contained in the Audit of the Highway Trust Fund and the Audit of the Federal Aviation Administration. We generally agree with the recommendations listed in these reports and will utilize them to develop corrective action measures.

The achievement of an unqualified audit opinion was accomplished through the joint efforts of your staff, contract auditors and the financial staffs of the Operating Administrations. In several cases extraordinary efforts were required to compensate for financial management weaknesses. We will work with our Operating Administrations, and the various audit groups to ensure that the steps we are taking will result in measurable improvements in Financial Management throughout the Department.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff and your contractors during the course of the audit.

U.S. Department of Transportation
Consolidated Balance Sheet
As of September 30, 2004 and September 30, 2003
(Dollars in Thousands)

Assets (Note 2)	<u>FY 2004</u>	<u>FY 2003 (Restated)</u>
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 29,721,350	\$ 29,256,238
Investments (Note 4)	20,618,224	24,974,776
Accounts Receivable, Net (Note 5)	189,800	495,405
Other Assets (Note 6)	<u>229,006</u>	<u>117,440</u>
Total Intragovernmental Assets:	<u>50,758,380</u>	<u>54,843,859</u>
Cash and Other Monetary Assets	26,995	19,001
Accounts Receivable, Net (Note 5)	339,052	122,964
Loans Receivable and Related		
Foreclosed Property, Net (Note 7)	604,087	1,020,823
Inventory and Related Property, Net (Note 8)	913,513	909,212
General Property, Plant & Equipment, Net (Note 9)	15,395,359	14,407,761
Other Assets (Note 6)	<u>248,623</u>	<u>103,304</u>
Total Assets	<u>\$ 68,286,009</u>	<u>\$ 71,426,924</u>
Liabilities (Note 10)		
Intragovernmental:		
Accounts Payable	\$ 73,041	\$ 8,307
Debt (Note 11)	1,150,606	1,112,815
Other Intragovernmental Liabilities (Note 12)	<u>3,668,305</u>	<u>4,121,913</u>
Total Intragovernmental Liabilities:	<u>4,891,952</u>	<u>5,243,035</u>
Accounts Payable	514,148	808,457
Loan Guarantees (Note 7)	378,612	293,276
Federal Employee and Veterans'		
Benefits Payable	1,018,541	1,112,550
Environmental and Disposal Liabilities (Note 13)	1,135,163	1,344,453
Grant Accrual	4,180,440	4,166,634
Other Liabilities (Notes 12 & 14)	<u>1,289,093</u>	<u>790,766</u>
Total Liabilities	<u>\$ 13,407,949</u>	<u>\$ 13,759,171</u>
Contingencies (Note 14)		
Net Position		
Unexpended Appropriations	\$ 5,284,601	\$ 3,655,290
Cumulative Results of Operations	<u>49,593,459</u>	<u>54,012,463</u>
Total Net Position	<u>54,878,060</u>	<u>57,667,753</u>
Total Liabilities and Net Position	<u>\$ 68,286,009</u>	<u>\$ 71,426,924</u>

The accompanying notes are an integral part of these statements

U.S. Department of Transportation
Consolidated Statement of Net Cost
For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in Thousands)

Program Costs (Notes 15 & 16):	<u>FY 2004</u>	<u>FY 2003 (Restated)</u>
Surface Transportation:		
Intragovernmental Gross Costs	\$ 579,829	\$ 450,246
Less: Intragovernmental Earned Revenue	<u>48,265</u>	<u>67,444</u>
Intragovernmental Net Costs	531,564	382,802
Gross Costs with the Public	41,070,515	40,205,671
Less: Earned Revenues from the Public	<u>315,000</u>	<u>173,951</u>
Net Costs with the Public	<u>40,755,515</u>	<u>40,031,720</u>
Total Net Cost	<u>\$ 41,287,079</u>	<u>\$ 40,414,522</u>
Air Transportation:		
Intragovernmental Gross Costs	\$ 2,380,081	\$ 1,366,806
Less: Intragovernmental Earned Revenue	<u>84,246</u>	<u>10,288</u>
Intragovernmental Net Costs	2,295,835	1,356,518
Gross Costs with the Public	10,126,861	10,894,332
Less: Earned Revenues from the Public	<u>228,702</u>	<u>252,264</u>
Net Costs with the Public	<u>9,898,159</u>	<u>10,642,068</u>
Total Net Cost	<u>\$ 12,193,994</u>	<u>\$ 11,998,586</u>
Maritime Transportation:		
Intragovernmental Gross Costs	\$ 22,047	\$ 312,411
Less: Intragovernmental Earned Revenue	<u>260,710</u>	<u>469,167</u>
Intragovernmental Net Costs	(238,663)	(156,756)
Gross Costs with the Public	477,002	997,836
Less: Earned Revenues from the Public	<u>1,178</u>	<u>1,712</u>
Net Costs with the Public	<u>475,824</u>	<u>996,124</u>
Total Net Cost	<u>\$ 237,161</u>	<u>\$ 839,368</u>
Cross-Cutting Programs:		
Intragovernmental Gross Costs	\$ 54,157	\$ 52,765
Less: Intragovernmental Earned Revenue	<u>615,741</u>	<u>680,713</u>
Intragovernmental Net Costs	(561,584)	(627,948)
Gross Costs with the Public	568,543	632,224
Less: Earned Revenues from the Public	<u>6,213</u>	<u>4,105</u>
Net Costs with the Public	<u>562,330</u>	<u>628,119</u>
Total Net Cost	<u>\$ 746</u>	<u>\$ 171</u>
Costs Not Assigned to Programs	<u>\$ 347,864</u>	<u>\$ 325,363</u>
Less Earned Revenues Not Attributed to Programs	<u>12,631</u>	<u>22,388</u>
Net Cost of Continuing Operations	<u>\$ 54,054,213</u>	<u>\$ 53,555,622</u>
Transferred Operations:		
Gross Cost of Transferred Operations	\$ -	\$ 5,401,411
Less: Earned Revenue from Transferred Operations	<u>-</u>	<u>839,508</u>
Net Cost of Transferred Operations	<u>\$ -</u>	<u>\$ 4,561,903</u>
Net Cost of Operations	<u>\$ -</u>	<u>\$ 58,117,525</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in Thousands)

	<u>FY 2004</u>		<u>FY 2003 (Restated)</u>	
	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
Beginning Balances	\$ 54,730,579	\$ 3,654,525	\$ 28,622,832	\$ 14,058,364
Prior Period Adjustments (+/-) (Note 17)	<u>(794,425)</u>	<u>1,214</u>	<u>297,808</u>	<u>4,634</u>
Beginning Balances, As Adjusted	53,936,154	3,655,739	\$ 28,920,640	\$ 14,062,998
Budgetary Financing Sources:				
Appropriations Received		6,757,803		18,239,037
Appropriations Transferred-In/Out (+/-)		34,544		(10,707,856)
Other Adjustments (Rescissions, etc.) (+/-)	(338,428)	(249,022)	47,387	(227,492)
Appropriations Used	5,028,427	<u>(4,914,464)</u>	18,265,644	<u>(17,711,397)</u>
Non-Exchange Revenue (Note 17)	44,397,375		43,493,565	
Donations/Forfeitures of Cash/Cash Equivalents	1,718		7,762	
Transfers-In/Out Without Reimbursement (+/-)	17,329		267,595	
Other Budgetary Financing Sources	(420)		(455)	
Other Financing Sources:				
Donations and Forfeitures of Property	(28,961)		32,218	
Transfers-In/Out Without Reimbursement	(72,508)		20,526,148	
Imputed Financing From Costs Absorbed by Others	735,625		570,022	
Other (+/-)	<u>(28,639)</u>		<u>(538)</u>	
Total Financing Sources	49,711,518	<u>1,628,862</u>	83,209,348	<u>(10,407,708)</u>
Net Cost of Operations (+/-)	<u>54,054,213</u>		<u>58,117,525</u>	
Ending Balances	<u>\$ 49,593,459</u>	<u>\$ 5,284,601</u>	<u>\$ 54,012,463</u>	<u>\$ 3,655,290</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in Thousands)

	FY 2004		FY 2003 (Restated)	
	<u>Budgetary</u>	<u>Non-Budgetary Financing Accounts</u>	<u>Budgetary</u>	<u>Non-Budgetary Financing Accounts</u>
Budgetary Resources (Note 18):				
Budget Authority:				
Appropriations Received	\$ 58,421,517	\$ -	\$ 67,055,636	\$ 7,470
Borrowing Authority	573,912	1,349,690	169,698	72,671
Contract Authority	43,489,033	-	40,822,324	-
Net Transfers (+/-)	(216,487)	-	(8,646,843)	-
Unobligated Balance:				
Beginning of Period	38,310,149	26,454	39,877,618	173
Net Transfers, Actual (+/-)	7,545	-	(1,087,867)	348
Spending Authority From Offsetting Collections:				
Earned				
Collected	1,851,577	614,137	3,316,338	366,827
Receivable from Federal Sources	22,840	5,713	(286,001)	(14,558)
Change in Unfilled Customer Orders (+/-)				
Advance Received	36,227	-	2,729,887	-
Without Advance from Federal Sources	155,008	-	142,728	-
Transfers from Trust Funds	6,868,941	-	6,928,348	-
Subtotal	\$ 8,934,593	\$ 619,850	\$ 12,831,300	\$ 352,269
Recoveries of Prior Year Obligations	299,969	57,000	421,859	388,009
Temporarily Not Available Pursuant to Public Law	(107,734)	-	(2,293)	-
Permanently Not Available	(44,751,815)	(572,038)	(42,556,356)	(564,013)
Total Budgetary Resources	\$ 104,960,682	\$ 1,480,956	\$ 108,885,076	\$ 256,927

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in Thousands)

	<u>FY 2004</u>		<u>FY 2003 (Restated)</u>	
	<u>Budgetary</u>	<u>Non-Budgetary Financing Accounts</u>	<u>Budgetary</u>	<u>Non-Budgetary Financing Accounts</u>
Status of Budgetary Resources:				
Obligations Incurred				
Direct	\$ 63,452,365	\$ 1,304,280	\$ 68,679,911	\$ 230,473
Reimbursable	3,452,900	-	1,791,566	-
Subtotal	<u>\$ 66,905,265</u>	<u>\$ 1,304,280</u>	<u>\$ 70,471,477</u>	<u>\$ 230,473</u>
Unobligated Balance:				
Apportioned	14,256,181	27,035	14,573,793	24,030
Exempt from Apportionment	557,611	132	925,991	-
Unobligated Balance Not Available	23,241,625	149,509	22,913,815	2,424
Total Status of Budgetary Resources	<u>\$ 104,960,682</u>	<u>\$ 1,480,956</u>	<u>\$ 108,885,076</u>	<u>\$ 256,927</u>
 Relationship of Obligations to Outlays:				
Obligated Balance, Net, As of October 1	\$ 65,501,865	\$ 2,422,306	\$ 67,980,786	\$ 2,719,617
Obligated Balance Transferred, Net (+/-)	-	-	(910,755)	-
Obligated Balance, Net, End of Period:				
Accounts Receivable	(309,485)	(5,713)	(290,814)	(167,683)
Unfilled Customer Orders from Federal Sources	(910,145)	(155,879)	(765,087)	-
Undelivered Orders	64,581,547	3,440,503	61,187,358	2,608,186
Accounts Payable	5,343,808	39,558	5,346,681	-
Outlays:				
Disbursements	68,355,322	345,404	73,461,771	136,136
Collections	(13,217,481)	(614,137)	(16,710,919)	(366,827)
Subtotal	<u>\$ 55,137,841</u>	<u>\$ (268,733)</u>	<u>\$ 56,750,852</u>	<u>\$ (230,691)</u>
Less: Offsetting Receipts	662,178	94,685	692,137	46,914
Net Outlays	<u>\$ 54,475,663</u>	<u>\$ (363,418)</u>	<u>\$ 56,058,715</u>	<u>\$ (277,605)</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Financing
For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in Thousands)

Resources Used to Finance Activities:	<u>FY 2004</u>	<u>FY 2003 (Restated)</u>
Budgetary Resources Obligated:		
Obligations Incurred	\$ 68,209,545	\$ 70,701,950
Less: Spending Authority From Offsetting Collections and Recoveries	<u>9,911,412</u>	<u>13,993,437</u>
Obligations Net of Offsetting Collections and Recoveries	\$ 58,298,133	\$ 56,708,513
Less: Offsetting Receipts	<u>756,863</u>	<u>739,051</u>
Net Obligations	<u>\$ 57,541,270</u>	<u>\$ 55,969,462</u>
Other Resources:		
Donations and Forfeitures of Property	\$ (28,961)	\$ 32,218
Transfers In/Out Without Reimbursement	(72,508)	20,526,148
Imputed Financing from Costs Absorbed by Others	735,625	570,022
Other:		
Other Miscellaneous Resources	<u>(28,639)</u>	<u>(538)</u>
Net Other Resources Used to Finance Activities	<u>\$ 605,517</u>	<u>\$ 21,127,850</u>
Total Resources Used to Finance Activities	<u>\$ 58,146,787</u>	<u>\$ 77,097,312</u>
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	\$ 2,527,554	\$ 1,015,111
Resources that Fund Expenses Recognized in Prior Periods	423,023	29,261,734
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(72,899)	(485,026)
Other	41,100	(28,271)
Resources That Finance the Acquisition of Assets or Liquidation of Liabilities (+/-)	2,187,920	(5,097,351)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	<u>807,781</u>	<u>(2,210,233)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>\$ 5,914,479</u>	<u>\$ 22,455,964</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 52,232,308</u>	<u>\$ 54,641,348</u>

The accompanying notes are an integral part of these statements.

U.S. Department of Transportation
Consolidated Statement of Financing
For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in Thousands)

	<u>FY 2004</u>	<u>FY 2003 (Restated)</u>
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring/Generating Res. in Future Periods:		
Increase in Annual Leave Liability	\$ 123,231	\$ 73,897
Increase in Environmental and Disposal Liability	-	397,277
Upward/Downward Reestimates of Credit Subsidy Expense	6,000	(87,354)
Increase in Exchange Revenue Receivable from the Public	(75,457)	125,197
Other:		
Increase in Coast Guard Liabilities	-	123
Increase in FAA Liabilities	-	55,774
Other Miscellaneous Increases	543,176	1,606,337
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>\$ 596,950</u>	<u>\$ 2,171,251</u>
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	\$ 1,042,026	\$ 1,184,215
Revaluation of Assets or Liabilities	15,730	(3,532)
Other:		
Other WCF Components	170,419	139,539
Other FAA Components	(8,605)	50,967
Other Miscellaneous Components	5,385	(66,263)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>\$ 1,224,955</u>	<u>\$ 1,304,926</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	<u>\$ 1,821,905</u>	<u>\$ 3,476,177</u>
Net Cost of Operations	<u>\$ 54,054,213</u>	<u>\$ 58,117,525</u>

The accompanying notes are an integral part of these 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), as amended by the Federal Financial Management Act of 1994 (FFMA), 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 Bulletin No. 01-09, Form and Content of Agency Financial Statements, has been used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the agency net position. Agency assets include both entity assets (those which are available for use by the agency) and non-entity assets (those which are managed by the agency but not available for use in its operations). Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the agency as a whole.

The Statement of Changes in Net Position reports beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2003.

The Statement of Financing is intended to be a bridge between an entity's budgetary and financial (i.e., proprietary) accounting. The Statement of Financing illustrates the relationship between net obligations derived from an entity's budgetary accounts and net cost of operations derived from an entity's proprietary accounts by identifying and explaining key differences between the two numbers. Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in Note 19 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)
- Bureau of Transportation Statistics (BTS)
- Surface Transportation Board (STB)
- Office of Inspector General (OIG)
- Research and Special Programs Administration (RSPA—includes Volpe National Transportation System Center)

Effective March 1, 2003, the U.S. Coast Guard (USCG) and the Transportation Security Administration (TSA) were transferred from DOT to the newly created Department of Homeland Security (DHS) as mandated under Public Law (P.L.) 107-296, the Homeland Security Act of 2002. The Departmental consolidated financial statements contain their activities through the date of the transfers.

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 20.

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 2003. 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 2004, 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.

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from offsetting collections and user fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds with the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U.S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest that must be paid to borrow funds. Lockboxes have been established with financial institutions to collect payments, and these funds are transferred directly to Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

G. Receivables

Accounts receivable consist of amounts owed to the Department by other Federal agencies and the public. Federal accounts receivable are generally the result of the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Public accounts receivable are generally the result of the provision of goods and services or the levy of fines and penalties from the Department's regulatory activities. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts, which is based on historical collection experience and/or an analysis of the individual receivables.

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of repairable, excess, obsolete, and unserviceable items are made to appropriate allowance accounts.

I. Investments in U.S. Government Securities

Investments that consist of U.S. Government Securities are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated. DOT currently has a capitalization threshold of \$200,000 for structures and facilities and for internal use software, and \$25,000 for other property, plant and equipment. Capitalization at lesser amounts is permitted. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. The straight line method is generally used to depreciate capitalized assets.

FASAB standards require DOT stewardship assets to be omitted from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Stewardship Reporting section of this statement.

Effective for FY 2003, FASAB eliminated the category of National Defense Property, Plant and Equipment. This has resulted in MARAD's National Defense Reserve Fleet Vessels now being reported as General Property, Plant and Equipment on the Balance Sheet.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet data. Available budgetary resources include new budget authority, spending authority from offsetting collections, recoveries of unexpired budget authority through downward adjustments of prior-year obligations, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year, and permanent indefinite appropriations or borrowing authority. Unfunded liabilities are not considered to be covered by such

budgetary resources. An example of an unfunded liability is actuarial liabilities for future Federal Employees' Compensation Act payments. The Federal Government, acting in its sovereign capacity, can abrogate liabilities arising from other than contracts.

M. Contingencies

The criteria for recognizing contingencies for claims are (1) a past event or exchange transaction has occurred as of the date of the statements; (2) a future outflow or other sacrifice of resources is probable; and (3) the future outflow or sacrifice of resources is measurable (reasonably estimated). DOT recognizes material contingent liabilities in the form of claims, legal action, administrative proceedings and environmental suits that have been brought to the attention of legal counsel, some of which will be paid by the Treasury Judgment Fund. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

N. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Accruals for other leave (e.g., credit hours and compensatory leave) are also recorded in the financial statement. Under the OST Working Capital Fund, the liability for accrued annual leave is a funded item. To the extent current or prior-year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expended as taken.

Air Traffic Controllers covered under the Federal Employees Retirement System (FERS) are eligible, upon retirement, for a sick leave buy back option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty percent of the value of his or her accumulated sick leave as of the effective date of retirement.

O. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to 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) year-end accruals of accounts and grants payable, (c) accrued workers' compensation, and (d) allowance for doubtful accounts receivable. Actual results may differ from these estimates.

Note 2. Non-Entity Assets:

(Dollars in Thousands)

Intragovernmental:	<u>FY 2004</u>	<u>FY 2003</u>
Fund Balance with Treasury	\$ (20,029)	\$ (21,560)
Investments	-	-
Accounts Receivable	-	263
Other	104	104
	<hr/>	<hr/>
Total Intragovernmental	\$ (19,925)	\$ (21,193)
Cash and Other Monetary Assets	\$ -	\$ -
Accounts Receivable	1,872	2,057
Loans Receivable and Related Foreclosed Property	-	-
Inventory and Related Property	-	-
General Property, Plant and Equipment	-	-
Other Assets	-	-
	<hr/>	<hr/>
Total Non-Entity Assets	\$ (18,053)	\$ (19,136)
Total Entity Assets	<u>68,304,062</u>	<u>71,446,060</u>
	<hr/>	<hr/>
Total Assets	<u>\$ 68,286,009</u>	<u>\$ 71,426,924</u>

Note 3. Fund Balance with Treasury:

(Dollars in Thousands)

Fund Balances:	FY2004 <u>Total</u>	FY 2003 <u>Total</u>
Trust Funds	\$ 5,641,157	\$ 5,700,034
Revolving Funds	565,957	401,671
Appropriated Funds	22,940,005	22,323,975
Other Fund Types	<u>574,231</u>	<u>830,558</u>
Total	<u>\$ 29,721,350</u>	<u>\$ 29,256,238</u>

Status of Fund Balance with Treasury:

Unobligated Balance		
Available	\$ 7,919,946	\$ 9,292,262
Unavailable	1,192,028	1,008,107
Obligated Balance Not Yet Disbursed	<u>20,609,376</u>	<u>18,955,869</u>
Total	<u>\$ 29,721,350</u>	<u>\$ 29,256,238</u>

Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Other Fund Types include uncleared Suspense Accounts, which temporarily hold collections pending clearance to the applicable account, and Deposit Funds, which are established to record amounts held temporarily until ownership is determined.

Note 4. Investments:

(Dollars in Thousands)					
As of September 30, 2004:					
Intragovernmental Securities:	<u>Cost</u>	Amortized (Premium) <u>Discount</u>	Investments (Net)	Other <u>Adjustments</u>	Market Value <u>Disclosure</u>
Marketable	\$ 88,269	\$ (1,015)	\$ 87,254	\$ 674	\$ 87,928
Non-Marketable:					
Par Value	20,103,444	-	20,103,444	-	20,103,444
Market-Based	<u>351,488</u>	<u>(342)</u>	<u>351,146</u>	<u>-</u>	<u>351,146</u>
Subtotal	\$ 20,543,201	\$ (1,357)	\$ 20,541,844	\$ 674	\$ 20,542,518
Accrued Interest	<u>75,706</u>		<u>75,706</u>		<u>75,706</u>
Total Intragovernmental	<u>\$ 20,618,907</u>	<u>\$ (1,357)</u>	<u>\$ 20,617,550</u>	<u>\$ 674</u>	<u>\$ 20,618,224</u>

As of September 30, 2003:

Intragovernmental Securities:

Marketable	\$ 189,059	\$ (743)	\$ 188,316	\$ -	\$ 188,316
Non-Marketable:					
Par Value	10,517,891	-	10,517,891	-	10,517,891
Market-Based	<u>14,163,246</u>	<u>(506)</u>	<u>14,162,740</u>	<u>-</u>	<u>14,162,740</u>
Subtotal	\$ 24,870,196	\$ (1,249)	\$ 24,868,947	\$ -	\$ 24,868,947
Accrued Interest	<u>105,829</u>		<u>105,829</u>		<u>105,829</u>
Total Intragovernmental	<u>\$ 24,976,025</u>	<u>\$ (1,249)</u>	<u>\$ 24,974,776</u>	<u>\$ -</u>	<u>\$ 24,974,776</u>

Investments in Federal securities include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. Non-Federal securities include those issued by state and local governments, Government-sponsored enterprises, and other private corporations.

Marketable Federal securities can be bought and sold on the open market. Non-marketable par value Treasury securities are issued by the Bureau of Public Debt to Federal accounts and are purchased and redeemed at par exclusively through Treasury's Federal Investment Branch. Non-marketable market-based Treasury securities are also issued by the Bureau of Public Debt to Federal accounts. They are not traded on any securities exchange but mirror the prices of particular Treasury securities trading in the Government securities market. Amortization is done using the interest or straight-line method.

Note 5. Accounts Receivable:

(Dollars in Thousands)

	Gross Amount <u>Due</u>	Allowance for Uncollectible <u>Amounts</u>	FY 2004 Net Amount <u>Due</u>	FY 2003 Net Amount <u>Due</u>
Intragovernmental:				
Accounts Receivable	\$ 189,821	\$ 21	\$ 189,800	\$ 480,287
Accrued Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,118</u>
Total Intragovernmental	<u>\$ 189,821</u>	<u>\$ 21</u>	<u>\$ 189,800</u>	<u>\$ 495,405</u>
Public:				
Accounts Receivable	\$ 394,298	\$ 55,373	\$ 338,925	\$ 122,901
Accrued Interest	<u>127</u>	<u>-</u>	<u>127</u>	<u>63</u>
Total Public	<u>\$ 394,425</u>	<u>\$ 55,373</u>	<u>\$ 339,052</u>	<u>\$ 122,964</u>
Total Receivables	<u>\$ 584,246</u>	<u>\$ 55,394</u>	<u>\$ 528,852</u>	<u>\$ 618,369</u>

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)

Intragovernmental:

	<u>FY 2004</u>	<u>FY 2003</u>
Advances and Prepayments	\$ 224,038	\$ 117,143
Undistributed Assets and Payments	3,932	297
Other	<u>1,036</u>	<u>-</u>
Total Intragovernmental	<u>\$ 229,006</u>	<u>\$ 117,440</u>

Public:

Advances to the States	\$ 98,557	\$ 97,613
Other Advances and Prepayments	149,397	5,691
Other	<u>669</u>	<u>-</u>
Total Public	<u>\$ 248,623</u>	<u>\$ 103,304</u>

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:

DOT administers the following direct loan and/or loan guarantee programs:

- (1) Railroad Rehabilitation Improvement Program
- (2) Transportation Infrastructure Finance Innovation Act (TIFIA) Loan
- (3) Federal Ship Financing Fund (Title XI)
- (4) OST Minority Business Resource Center Guaranteed Loan Program

An analysis of loans receivable, allowance for subsidy costs, liability for loan guarantees, foreclosed property, modifications, reestimates, and administrative costs associated with the direct loans and loan guarantees is provided in the following sections:

Loans Receivable and Related Foreclosed Property, Net:

	(Dollars in Thousands)				Value of
FY 2004	Loans	Interest	Foreclosed		Assets
<u>Direct Loan Programs</u>	<u>Receivable,</u>	<u>Receivable</u>	<u>Property</u>	<u>Allowance</u>	Related to
Prior to FY 1992	<u>Gross</u>				<u>Loans</u>
					<u>Receivable</u>
(1) Railroad Rehab Improv	\$ 30,593	\$ 981	\$ -	\$ -	\$ 31,574
	-	-	-	-	-
Subtotal	<u>\$ 30,593</u>	<u>\$ 981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,574</u>
 <u>Direct Loan Programs</u>					
After FY 1991					
(1) Railroad Rehab Improv	\$ 333,873	\$ 4,539	\$ -	\$ (24,382)	\$ 314,030
(2) TIFIA Loan	190,162	7,738	-	(9,114)	188,786
Subtotal	<u>\$ 524,035</u>	<u>\$ 12,277</u>	<u>\$ -</u>	<u>\$ (33,496)</u>	<u>\$ 502,816</u>
 <u>Defaulted Guaranteed Loans</u>					
After FY 1991					
(3) Fed Ship Fin Fund	\$ 431,967	\$ 5,876	\$ 7,000	\$ (375,146)	\$ 69,697
	-	-	-	-	-
Subtotal	<u>\$ 431,967</u>	<u>\$ 5,876</u>	<u>\$ 7,000</u>	<u>\$ (375,146)</u>	<u>\$ 69,697</u>
 Total Loans Receivable	 <u>\$ 986,595</u>	 <u>\$ 19,134</u>	 <u>\$ 7,000</u>	 <u>\$ (408,642)</u>	 <u>\$ 604,087</u>

Loans Receivable and Related Foreclosed Property, Net:

	(Dollars in Thousands)				Value of
FY 2003	Loans	Interest	Foreclosed		Assets
	Receivable,	Receivable	Property	Allowance	Related to
<u>Direct Loan Programs</u>	<u>Gross</u>	<u>Receivable</u>	<u>Property</u>	<u>Allowance</u>	<u>Loans</u>
Prior to FY 1992					<u>Receivable</u>
(1) Railroad Rehab Improv	\$ 34,962	\$ 981	\$ -	\$ -	\$ 35,943
	-	-	-	-	-
Subtotal	<u>\$ 34,962</u>	<u>\$ 981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,943</u>
 <u>Direct Loan Programs</u>					
After FY 1991					
(1) Railroad Rehab Improv	\$ 111,718	\$ 2,201	\$ -	\$ 544	\$ 114,463
(2) Alameda Corridor	400,000	151,842		145,380	697,222
(3) TIFIA Loan	102,622	-	-	(9,115)	93,507
Subtotal	<u>\$ 614,340</u>	<u>\$ 154,043</u>	<u>\$ -</u>	<u>\$ 136,809</u>	<u>\$ 905,192</u>
 <u>Defaulted Guaranteed Loans</u>					
After FY 1991					
(4) Fed Ship Fin Fund	\$ 429,088	\$ 5,977	\$ 14,000	\$ (369,377)	\$ 79,688
	-	-	-	-	-
Subtotal	<u>\$ 429,088</u>	<u>\$ 5,977</u>	<u>\$ 14,000</u>	<u>\$ (369,377)</u>	<u>\$ 79,688</u>
Total Loans Receivable	<u>\$ 1,078,390</u>	<u>\$ 161,001</u>	<u>\$ 14,000</u>	<u>\$ (232,568)</u>	<u>\$ 1,020,823</u>

Liability for Loan Guarantees (Present Value Method):

	<u>FY 2004</u>	<u>FY 2003</u>
	Total	Total
	Liabilities	Liabilities
	for Loan	for Loan
<u>Loan Guarantee Programs</u>	<u>Guarantees</u>	<u>Guarantees</u>
(3) Fed Ship Fin Fund	\$ 378,061	\$ 292,740
(4) OST Minority Business Res	551	536
Total	<u>\$ 378,612</u>	<u>\$ 293,276</u>

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Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

<u>Beginning Balance, Changes, and Ending Balance</u>	<u>FY 2004</u>	<u>FY 2003</u>
Beginning Balance of the Subsidy Cost Allowance	\$ (155,038)	\$ (7,876)
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component:		
Interest Rate Differential Costs	-	-
Default Costs (net of recoveries)	-	-
Fees and Other Collections	18,333	-
Other Subsidy Costs	-	(1,238)
Total of the Above Subsidy Expense Components	<u>\$ 18,333</u>	<u>\$ (1,238)</u>
Adjustments:		
Loan Modifications	-	-
Fees Received	-	-
Foreclosed Property Acquired	-	-
Loans Written Off	-	-
Subsidy Allowance Amortization	86,876	-
Other	-	-
Ending Balance of the Subsidy Cost Allowance Before Reestimates	<u>\$ (49,829)</u>	<u>\$ (9,114)</u>
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimate	16,333	-
Technical/Default Reestimate	-	-
Total of the Above Reestimate Components	<u>\$ 16,333</u>	<u>\$ -</u>
Ending Balance of the Subsidy Cost Allowance	<u>\$ (33,496)</u>	<u>\$ (9,114)</u>

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

<u>Beginning Balance, Changes, and Ending Balance</u>	<u>FY 2004</u>	<u>FY 2003</u>
Beginning Balance of the Loan Guarantee Liability	\$ (293,276)	\$ (384,288)
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component:		
Interest Supplement Costs	-	-
Default Costs (net of recoveries)	3,509	(27,216)
Fees and Other Collections	(27,774)	(34,184)
Other Subsidy Costs	-	-
Total of the Above Subsidy Expense Components	<u>\$ (24,265)</u>	<u>\$ (61,400)</u>
Adjustments:		
Loan Guarantee Modifications	-	-
Fees Received	-	-
Interest Supplements Paid	-	-
Foreclosed Property and Loans Acquired	-	14,000
Claim Payments to Lenders	-	-
Interest Accumulation on the Liability Balance	(16,140)	(15,118)
Other	-	-
Ending Balance of the Loan Guarantee Liability Before Reestimates	<u>\$ (333,681)</u>	<u>\$ (446,806)</u>
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimate	-	-
Technical/Default Reestimate	(44,931)	153,530
Total of the Above Reestimate Components	<u>\$ (44,931)</u>	<u>\$ 153,530</u>
Ending Balance of the Loan Guarantee Liability	<u>\$ (378,612)</u>	<u>\$ (293,276)</u>

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups: (1) Pre-1992 means the direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct 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.

As of June 30, 2004, the Maritime Administration is contingently liable for guaranteed ship and shipyard improvements loans issued under the Title XI program. As of the end of the period, there were outstanding \$28 million in pre-credit reform loan guarantees and \$3.6 billion in issued loans and commitments for post-credit reform loans.

There were no default claims on the Government to date in FY 2004 for the Maritime Administration. During FY 2004 to date there were two new loan guarantees issued in the amount of \$165.6 million for the Maritime Administration.

Note 8. Inventory and Related Property:

	(Dollars in Thousands)			
	<u>Cost</u>	<u>Allowance for Loss</u>	<u>FY 2004 Net</u>	<u>FY 2003 Net</u>
Inventory:				
Inventory Held for Current Sale	\$ 78,396	\$ -	\$ 78,396	\$ 89,443
Excess, Obsolete and Unserviceable Inventory	18,801	5,839	12,962	14,042
Inventory Held for Repair	405,171	83,660	321,511	330,189
Other	<u>13,632</u>	<u>-</u>	<u>13,632</u>	<u>13,632</u>
Total Inventory	<u>\$ 516,000</u>	<u>\$ 89,499</u>	<u>\$ 426,501</u>	<u>\$ 447,306</u>
Operating Materials and Supplies:				
Items Held for Use	\$ 420,507	\$ 16,873	\$ 403,634	\$ 446,497
Items Held in Reserve for Future Use	69,644	-	69,644	-
Excess, Obsolete and Unserviceable Items	80,160	68,541	11,619	15,409
Items Held for Repair	5,738	3,623	2,115	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Materials & Supplies	<u>\$ 576,049</u>	<u>\$ 89,037</u>	<u>\$ 487,012</u>	<u>\$ 461,906</u>
Total Inventory and Related Property			<u>\$ 913,513</u>	<u>\$ 909,212</u>

All DOT inventory is in FAA and the OST Working Capital Fund. Valuation methods used include moving weighted average, standard price/specific identification, and last acquisition price.

DOT operating materials and supplies are in FAA and MARAD. Valuation methods used include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. The only restriction on use is that FAA is not permitted to donate.

Note 9. General Property, Plant and Equipment:

(Dollars in Thousands)

<u>Major Classes</u>	<u>Service Life *</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>FY 2004 Net Book Value</u>	<u>FY 2003 Net Book Value</u>
Land and Improvements		\$ 97,575	\$ 243	\$ 97,332	\$ 96,155
Buildings and Structures	Various	4,178,432	2,069,893	2,108,539	2,035,486
Furniture and Fixtures	Various	48,751	20,095	28,656	268
Equipment	Various	13,456,983	6,335,065	7,121,918	6,651,608
ADP Software	Various	119,175	67,403	51,772	106,015
Electronics	6-10	738	724	14	66
Assets Under Capital Lease	Various	125,923	71,807	54,116	62,595
Leasehold Improvements	Various	51,755	17,881	33,874	39,957
Aircraft	11-20	409,940	259,631	150,309	175,724
Ships and Vessels	>20	1,734,757	1,040,997	693,760	794,099
Small Boats	Various	24,888	23,935	953	1,420
Other Vehicles	1-5	27	27	-	22
Construction in Progress		5,037,358	-	5,037,358	4,425,855
Property Not in Use		19,202	7,867	11,335	13,913
Other Misc. Property		7,285	1,862	5,423	4,578
Total		<u>\$ 25,312,789</u>	<u>\$ 9,917,430</u>	<u>\$ 15,395,359</u>	<u>\$ 14,407,761</u>

Depreciation is computed using the straight line method. Net book value of multi-use heritage assets is now included in general property, plant and equipment, while "physical quantity" information is included in the Heritage Assets section of Required Supplemental Stewardship Information.

*** Key:****Range of Service Life**

- 1-5 - 1 to 5 years
- 6-10 - 6 to 10 years
- 11-20 - 11 to 20 years
- >20 - Over 20 years

Note 10. Liabilities Not Covered by Budgetary Resources:

(Dollars in Thousands)

Intragovernmental:

	FY 2004	FY 2003 (Restated)
Accounts Payable	\$ -	\$ 673
Debt	363,583	849,690
Other Liabilities	<u>569,782</u>	<u>1,009,065</u>
Total Intragovernmental	\$ 933,365	\$ 1,859,428
Accounts Payable	\$ 44	\$ 86
Federal Employee and Veterans' Benefits Payable	1,018,541	1,112,550
Environmental and Disposal Liabilities	1,135,163	1,344,453
Other Liabilities	<u>980,690</u>	<u>954,132</u>
Total Liabilities Not Covered by Budgetary Resources	\$ 4,067,803	\$ 5,270,649
Total Liabilities Covered by Budgetary Resources	<u>9,340,146</u>	<u>8,488,522</u>
Total Liabilities	<u>\$ 13,407,949</u>	<u>\$ 13,759,171</u>

Adjustments were needed to the amounts previously reported on the Balance Sheet at September 30, 2003. The adjustments related to a correction of an error of MARAD's Ocean Freight Differential appropriation, which resulted in an increase of \$718 million to Total Intragovernmental Liabilities.

Note 11. Debt:

(Dollars in Thousands)

Intragovernmental Debt:	FY 2003 Ending <u>Balance</u>	Net Change During <u>Fiscal Year</u>	FY 2004 Ending <u>Balance</u>
Debt to the Treasury	\$ 1,109,738	\$ 37,791	\$ 1,147,529
Debt to the Fed Financing Bank	<u>3,077</u>	<u>-</u>	<u>3,077</u>
Total Intragovernmental Debt	<u>\$ 1,112,815</u>	<u>\$ 37,791</u>	<u>\$ 1,150,606</u>

Net Change During Fiscal Year includes new borrowing, repayments and net change in accrued payables. Debt to the Treasury and to the Federal Financing Bank is for FRA direct loans to railroads, for FHWA direct loans under the Transportation Infrastructure Finance and Innovation Act (TIFIA), for MARAD Title XI guaranteed loans, and for the FAA Aircraft Purchase Loan Guarantee Program.

Note 12. Other Liabilities:

(Dollars in Thousands)

Intragovernmental:	<u>Non-Current</u>	<u>Current</u>	<u>FY 2004 Total</u>
Advances and Prepayments	\$ 2,635,418	\$ 238,309	\$ 2,873,727
Accrued Pay and Benefits	1,243	40,112	41,355
Undisbursed Loans	166,915	148	167,063
FECA Billings	121,895	96,248	218,143
Uncleared Disbursements and Collection	-	1,002	1,002
Deferred Credits	-	-	-
Deposit Funds	-	6,233	6,233
Other Accrued Liabilities	<u>356,460</u>	<u>4,322</u>	<u>360,782</u>
Total Intragovernmental	<u>\$ 3,281,931</u>	<u>\$ 386,374</u>	<u>\$ 3,668,305</u>
Public:			
Accrued Unbilled State Payments	\$ -	\$ -	\$ -
Other Accrued Unbilled Payments	-	60,705	60,705
Accrued Pay and Benefits	557,084	216,800	773,884
Legal Claims	215	26,190	26,405
Deferred Credits	51,518	-	51,518
Capital Leases	46,909	13,663	60,572
Advances and Prepayments	1,534	37,105	38,639
Uncleared Disbursements and Collection	229	(3,771)	(3,542)
Deposit Funds	-	16,933	16,933
Other Custodial Liability	-	-	-
Other Accrued Liabilities	<u>144,347</u>	<u>119,632</u>	<u>263,979</u>
Total Public	<u>\$ 801,836</u>	<u>\$ 487,257</u>	<u>\$ 1,289,093</u>

FY 2003 (Restated)

Intragovernmental:	<u>Non-Current</u>	<u>Current</u>	<u>FY 2003 Total</u>
Advances and Prepayments	\$ -	\$ 2,864,363	\$ 2,864,363
Accrued Pay and Benefits	1,209	34,332	35,541
Undisbursed Loans	-	157,743	157,743
FECA Billings	120,199	94,453	214,652
Uncleared Disbursements and Collection	-	9,188	9,188
Deferred Credits	-	19	19
Deposit Funds	-	(23,787)	(23,787)
Other Accrued Liabilities	<u>793,276</u>	<u>70,918</u>	<u>864,194</u>
Total Intragovernmental	<u>\$ 914,684</u>	<u>\$ 3,207,229</u>	<u>\$ 4,121,913</u>

Public:

Accrued Unbilled State Payments	\$ -	\$ 127,085	\$ 127,085
Other Accrued Unbilled Payments			-
Accrued Pay and Benefits	123,893	222,132	346,025
Legal Claims	54,506	25,335	79,841
Deferred Credits	-	10,017	10,017
Capital Leases	59,685	9,159	68,844
Advances and Prepayments	-	15,427	15,427
Uncleared Disbursements and Collection	-	(73,221)	(73,221)
Deposit Funds	-	(873)	(873)
Other Custodial Liability	-	-	-
Other Accrued Liabilities	<u>206,540</u>	<u>11,081</u>	<u>217,621</u>
Total Public	<u>\$ 444,624</u>	<u>\$ 346,142</u>	<u>\$ 790,766</u>

Accrued pay and benefits pertain to unpaid pay and benefits, and may be either current or non-current. Agency expenses for payments made under the Federal Employees Compensation Act (FECA) are forwarded to the Department of Labor (DOL). Funding for FECA is normally appropriated to agencies in the fiscal year two years subsequent to the actual FECA billing from DOL.

Adjustments were needed to the amounts previously reported on the Balance Sheet at September 30, 2003. The adjustments related to a correction of an error of MARAD's Ocean Freight Differential appropriation, which resulted in an increase of \$718 million to Other Intragovernmental Liabilities.

Note 13. Environmental and Disposal Liabilities:

(Dollars in Thousands)

Public:	<u>FY 2004</u>	<u>FY 2003</u>
Environmental Cleanup Liabilities:		
FAA Environmental Remediation	\$ 366,762	\$ 372,125
FAA Environmental Cleanup and Decommissioning	239,499	249,828
MARAD Environmental Cleanup (PCB, Lead, Oil)	<u>528,902</u>	<u>722,500</u>
 Total Public	 <u>\$ 1,135,163</u>	 <u>\$ 1,344,453</u>

Environmental cleanup generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). Environmental remediation includes the fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup associated with normal operations or as a result of an accident. Cost estimates for environmental and disposal liabilities are not adjusted for inflation and are subject to revision as a result of changes in technology and environmental laws and regulations.

The current law requires all non-retention ships to be disposed of by the end of FY 2006. If an extension of this requirement is not granted and/or foreign scrapping is not available, then MARAD could realize a substantial increase in this unfunded environmental liability.

Note 14. Contingencies:

Legal Claims. As of September 30, 2004 and 2003, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at \$76.7 million and \$325.5 million, respectively. FAA does not have material amounts of known unasserted claims.

Grant Programs. FAA has legal authority to issue Letters of Intent (LOIs) to enter into Airport Improvement Program (AIP) grant agreements. Through September 30, 2004, FAA issued LOIs covering FY 1988 through FY 2014 totaling \$4.7 billion. As of September 30, 2004, FAA had obligated \$3.3 billion of this total amount, leaving \$1.4 billion unobligated. As of September 30, 2003, LOIs covering FY 1988 through FY 2014 totaled \$4.5 billion. Of this amount, FAA had obligated \$3.0 billion, leaving \$1.5 billion unobligated as of September 30, 2003.

FY 2004 AIP grant authority totaled \$3.4 billion, including \$2.0 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors have claimed \$1.6 billion, and \$416 million remains available from unused or newly-enacted contract authority to those sponsors through FY 2006, or in the case of non-hub primary airport locations, through FY 2007.

In FY 2003, AIP grant authority was \$3.3 billion, including \$2.1 billion in entitlements to specific locations. Of entitlements to specific locations, the sponsors had claimed \$1.8 billion, and \$336 million remained available from unused or newly-enacted contract authority to those sponsors through FY 2005, or in the case of non-hub primary airport locations, through FY 2006.

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. At September 30, 2004, \$36 billion has been pre-authorized under these arrangements; however, no liability is reflected in the HTF financial statements at September 30, 2004 and 2003 for these arrangements.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. As of September 30, 2004 and 2003, approximately \$2.534 billion and \$2.469 billion in Section 5309 New Starts funds has been committed under FFGAs, but not yet appropriated by Congress. However, no liability is reflected in the DOT financial statements at September 30, 2004 and 2003 for these agreements.

Contract Options and Negotiations. As of September 30, 2004 and 2003, FAA had contract options of \$10.9 billion and \$32.8 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.

FAA maintains standby non-premium war-risk insurance policies for 39 carriers having approximately 1,228 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the premium insurance program was expanded by the Air Transportation Safety and System Stabilization Act to include all scheduled domestic air carriers. Under this program, FAA initially provided third

party liability war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks of September 11, 2001. Public Law 108-11 (and subsequent amendments) required FAA to extend policies in effect on July 19, 2002, until August 31, 2004 and gave the Secretary of Transportation discretion to further extend coverage through December 31, 2004. It also mandated provision of hull loss and passenger and third party war risk liability insurance for those policies. There are 77 FAA premium war-risk policies. Insured air carrier per occurrence limits for combined hull and liability coverage range from \$100 million to \$4 billion. The period of coverage in effect as of September 30, 2004 was from September 1, 2004 through December 31, 2004.

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 2004 and FY 2003, FAA recognized insurance premium revenue of \$145.6 million and \$124.0 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage. Premium revenue is reported on the Consolidated Statement of Net Cost, under "Regional and Center Operations and Other Programs."

Typically, the maximum liability for both hull loss and liability, per aircraft, is \$1.75 billion. No claims for losses were pending as of September 30, 2004, or 2003. In the past, FAA has insured a small number of air carrier operations and established a maximum liability for losing one aircraft. Since the inception of the Aviation Insurance Program dating back to 1951, only four claims, all involving minor dollar amounts, have been paid. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.

Overflight User Fees. FAA issued an interim final rule (IFR), effective on August 1, 2000, followed by a Final Rule, effective on August 20, 2001, that required certain aircraft operators to pay fees for air traffic control and related services provided by FAA to aircraft that operate in U.S.-controlled airspace but neither take off nor land in the U.S. The authority to charge these fees is contained in the Federal Aviation Reauthorization Act of 1996, as amended. Several airlines and an air carrier association challenged this IFR in the U.S. Court of Appeals. FAA issued the Final Rule while the IFR litigation was still pending. The same group of plaintiffs then brought suit against the Final Rule, and the Court combined the two cases. FAA had recognized \$19.8 million in FY 2003, before it ceased billing in light of an adverse decision in the U.S. Court of Appeals on April 8, 2003. Congress has since enacted, in the FAA Reauthorization Act signed by the President on December 12, 2003, a provision on overflight fees that affects past and future fee collections. In July 2004, the FAA Administrator issued an Administrative Order determining the disposition of all fees collected under both rules. Concurrently, a settlement was reached with the plaintiff that will allow FAA to resume collection of fees in FY 2005.

Environmental. FAA is a party to two major environmental remediation projects in which the extent of the liability is unknown. A study is in process to determine the magnitude and scope of the remediation required at the two sites. Of the total environmental liability reported as of September 30, 2004, and 2003, the amount related to these two sites is \$49.3 million and \$61.6 million, respectively. This liability includes FAA's share of the known remediation cost and the cost to complete the study.

Note 15. Net Cost by Program:

(Dollars in Thousands)

Program Costs	FY 2004	FY 2003 (Restated)
Surface		
Highway Surface Transportation	\$ 7,256,287	\$ 7,373,737
Mass Transit	8,195,431	7,444,373
National Highway System	6,767,454	6,414,436
Interstate Maintenance	3,933,214	4,032,790
Bridge Program	3,378,600	3,318,410
Highway Minimum Guarantee	2,516,100	2,832,259
Other Highway Trust Fund Programs	1,665,231	2,045,031
Other Highway Programs	217,537	197,783
High Priority Projects	1,183,664	1,328,515
Federal Railroad Administration Grants	1,187,760	1,049,776
Congestion Mitigation and Air Quality	937,166	884,383
Highway Safety Programs	780,926	630,365
Appalachian Development Highway	261,943	323,066
DOT Allocated Highway Programs	23,144	384,169
Department of Interior Allocated Highway Programs	401,112	303,821
Federal Lands Highways	221,599	369,569
Federal Motor Carrier Safety	396,829	299,038
Highway Research and Development	816,813	242,539
Woodrow Wilson Bridge	119,603	147,601
Research and Special Programs Administration	120,869	115,766
Rail Safety and Operations	117,490	127,934
Highway Planning	142,232	139,314
Highway Emergency Relief	177,015	172,029
Highway Minimum Allocation	68,288	56,441
Bureau of Transportation Statistics	35,810	35,388
Other Rail Programs	31,014	29,962
Rail Research and Development	24,978	29,548
Next Generation High Speed Rail	36,213	27,656
Alaska Railroad	22,599	23,496
Surface Transportation Board	20,478	20,887
State Infrastructure Bank	-	14,440
National Coordinated Planning & Development Border Infrastructure	187,952	-
Alameda Corridor	41,728	-
	<u>41,728</u>	<u>-</u>
 Total Surface Program Costs	 \$ <u>41,287,079</u>	 \$ <u>40,414,522</u>

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Air

Air Traffic Services	\$ 8,079,011	\$ 7,651,038
Airports	2,977,068	2,786,493
Aviation Security	-	47,250
Regulation and Certification	939,728	942,009
Research and Acquisition	-	442,922
Other Federal Aviation Administration Programs	185,660	117,149
Commercial Space	<u>12,527</u>	<u>11,725</u>
 Total Air Program Costs	 <u>\$ 12,193,994</u>	 <u>\$ 11,998,586</u>

Maritime

Maritime Operations and Training	(7,845)	\$ 520,185
Maritime Guaranteed Loan	10,793	(31,086)
Maritime Security Program	98,580	97,053
Maritime Ocean Freight Differential Program	147,558	114,033
Maritime Vessel Operations Revolving Fund	(18,066)	(4,902)
Maritime Operating Differential Subsidy	194	144,340
Other Maritime Programs	<u>5,947</u>	<u>(255)</u>
 Total Maritime Program Costs	 <u>\$ 237,161</u>	 <u>\$ 839,368</u>

Cross-Cutting

Office of the Secretary Working Capital Fund	\$ (2,274)	\$ (3,508)
Volpe National Transportation Systems Center	<u>3,020</u>	<u>3,679</u>
 Total Cross-Cutting Program Costs	 <u>\$ 746</u>	 <u>\$ 171</u>

Adjustments were needed to the amounts previously reported on the Statement of Net Cost at September 30, 2003. The adjustments related to a correction of an error of MARAD's Ocean Freight Differential appropriation, which resulted in an increase of \$143 million to Maritime Transportation's Total Intragovernmental Net Costs.

In order to provide more accurate reporting, FHWA changed the manner in which it allocated costs to the Highway Trust Fund programs in FY 2004. Such changes involved the method of categorizing projects within programs and a revision to the allocation of the grant accrual to each program. The "Other Highway Trust Fund Programs" category is comprised of small miscellaneous projects. This new methodology was not retroactively applied to the FY 2003 amounts.

Note 16. Gross Cost and Earned Revenue by Budget Functional Classification:

Gross Cost and Earned Revenue by Budget Functional Classification:

(Dollars in Thousands)

<u>Budget Functional Classification</u>	<u>Gross Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
<u>FY 2004</u>			
054 Defense-Related Activities	\$ 99,119	\$ -	\$ 99,119
401 Ground Transportation	41,479,699	313,489	41,166,210
402 Air Transportation	12,506,942	312,948	12,193,994
403 Water Transportation	399,930	261,888	138,042
407 Other Transportation	857,669	677,027	180,642
808 Other General Government	283,540	7,334	276,206
Total	<u>\$ 55,626,899</u>	<u>\$ 1,572,686</u>	<u>\$ 54,054,213</u>
<u>FY 2003 (Restated)</u>			
054 Defense-Related Activities	\$ 131,417	\$ 5	\$ 131,412
304 Pollution Control and Abatement	61,282	-	61,282
401 Ground Transportation	40,488,171	189,415	40,298,756
402 Air Transportation	15,203,104	1,060,252	14,142,852
403 Water Transportation	3,509,829	512,682	2,997,147
407 Other Transportation	988,492	740,658	247,834
808 Other General Government	256,770	18,528	238,242
Total	<u>\$ 60,639,065</u>	<u>\$ 2,521,540</u>	<u>\$ 58,117,525</u>

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification:

FY 2004

054 Defense-Related Activities	\$	-	\$	-	\$	-
401 Ground Transportation		553,081		(1,075)		554,156
402 Air Transportation		2,380,081		84,246		2,295,835
403 Water Transportation		22,047		260,710		(238,663)
407 Other Transportation		99,526		670,378		(570,852)
808 Other General Government		110,076		7,334		102,742
Total	\$	<u>3,164,811</u>	\$	<u>1,021,593</u>	\$	<u>2,143,218</u>

FY 2003 (Restated)

054 Defense-Related Activities	\$	3,016	\$	5	\$	3,011
304 Pollution Control and Abatement		11,281		-		11,281
401 Ground Transportation		417,629		15,629		402,000
402 Air Transportation		1,366,806		10,288		1,356,518
403 Water Transportation		826,240		502,141		324,099
407 Other Transportation		108,022		736,388		(628,366)
808 Other General Government		50,917		18,592		32,325
Total	\$	<u>2,783,911</u>	\$	<u>1,283,043</u>	\$	<u>1,500,868</u>

Adjustments were needed to the amounts previously reported on the Statement of Net Cost at September 30, 2003. The adjustments related to a correction of an error of MARAD's Ocean Differential appropriation, which resulted in an increase of \$143 million to Maritime Transportation's Total Intragovernmental Net Costs.

Note 17. Statement of Changes in Net Position:**Prior Period Adjustments:**

Prior Period Adjustments for FY 2004 are primarily due to MARAD's correction of an error for the Ocean Freight Differential appropriation. This restatement will reflect FY 2003 Statement of Changes in Net Position more accurately and reasonably.

Non-Exchange Revenue:**Highway Trust Fund**

(Dollars in Thousands)

Receipts

Excise Taxes and Other NonExchange Revenue (transferred from the general fund)

	<u>FY 2004</u>	<u>FY 2003</u>
Gasoline	\$ 18,244,158	\$ 21,207,711
Diesel and Special Motor Fuels	8,935,465	8,536,830
Trucks	3,237,017	3,053,139
Gasohol	5,716,127	2,740,664
Fines and Penalties	16,457	15,682
Other	-	-
FMCSA Revenue	-	(428)
IMPT Revenue	25	112
CMIA Interest	-	2,644
Total Taxes	<u>\$ 36,149,249</u>	<u>\$ 35,556,354</u>
Less: Transfers to Land and Water Conservation Fund	\$ (1,000)	(1,000)
Transfers to General Fund	(111,350)	(118,572)
Transfers to Aquatic Reserve	<u>(311,639)</u>	<u>(289,682)</u>
Gross Taxes	<u>35,725,260</u>	<u>35,147,100</u>
Less: Refunds of Taxes (reimbursed to general fund)		
Diesel Powered Vehicle	\$ -	\$ -
Gasoline	(305,286)	(318,547)
Gasohol	(27,751)	(17,448)
Diesel	(625,821)	(642,428)
Special Motor Fuel	(1,342)	(766)
Gas to make Gasohol	(22,865)	(22,309)
Diesel Fuel Bus Use	<u>(31,423)</u>	<u>(30,430)</u>
Total Refunds of Taxes	<u>\$ (1,014,488)</u>	<u>\$ (1,031,928)</u>
Total Excise Taxes	\$ 34,710,772	\$ 34,115,172
Other Non-Exchange Revenue	<u>13,556</u>	<u>-</u>
Net Non-Exchange Revenue	<u>\$ 34,724,328</u>	<u>\$ 34,115,172</u>

The IRS collects various taxes on behalf of the Highway Trust Fund. These taxes can only be withdrawn as authorized by DOT appropriations. Treasury estimates the amount collected/ revenue recognized, and adjusts such estimates for actual quarterly collections. The IRS submits certificates of actual tax collections to FHWA six months after the quarter end and, accordingly, the HTF financial statements are adjusted to reflect such actual amounts at that time. Accordingly, total tax revenue recognized for the year ended September 30, 2004 and 2003 includes the Office of Tax Analysis (OTA) estimates of \$9.0 billion at June 30, 2004 and \$8.7 billion at September 30, 2004 and \$9.2 billion at September 30, 2003.

FHWA management does not believe that the actual tax collections for the quarters ended June 30, 2004 and September 30, 2004 will be materially different than the OTA estimate of such collections for those quarters.

Federal Aviation Administration

Taxes and Other Non-Exchange Revenue:	<u>FY 2004</u>	<u>FY 2003</u>
Passenger Ticket	6,554,599	6,065,763
International Departure	1,455,529	1,517,807
Fuel (Air)	774,150	850,950
Waybill	498,871	399,396
Investment Income	446,956	570,873
Tax Refunds and Credits	<u>(55,596)</u>	<u>(44,320)</u>
Net Non-Exchange Revenue	<u>\$ 9,674,509</u>	<u>\$ 9,360,469</u>
Other Miscellaneous Net Non Exchange Revenue	<u>\$ (1,462)</u>	<u>\$ 17,924</u>
Total Non-Exchange Revenue	<u>\$ 44,397,375</u>	<u>\$ 43,493,565</u>

The IRS collects various excise taxes on behalf of FAA's Airport and Airway Trust Fund (AATF). These taxes can only be withdrawn as authorized by FAA appropriations. Twice a month, U.S. Treasury estimates the amounts collected, and adjusts the estimates by actual collections quarterly. Accordingly, the total taxes recognized in FY 2004 included OTA's estimate of \$4.7 billion for the six months ended September 30, 2004. Total taxes recognized in FY 2003 included OTA's estimate of \$2.9 billion for the quarter ending September 30, 2003.

FAA has been informed by the IRS that the estimated excise tax collections and the amount credited to the AATF for the benefit of the FAA, for the quarter ended June 30, 2004, may be understated by as much as \$275 million. FAA has not recognized the potential understatement of \$275 million since it is not enforceable until certified by the IRS. Therefore this represents a potential gain contingency at September 30, 2004. The estimated taxes and deposits to AATF will be adjusted to equal actual tax collections in December 2004.

Note 18. Statement of Budgetary Resources:(Dollars in Thousands)

	<u>FY 2004</u>	<u>FY 2003</u>
--	----------------	----------------

The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of end of fiscal year:	\$ 68,209,545	\$ 70,701,950
Available Contract Authority as of end of fiscal year:	\$ 32,731,813	\$ 31,532,182

Adjustments during fiscal year to Beginning Balance of Budgetary Resources:

Cumulative Authorizations in Excess of Obligation Limitation	\$ -	\$ (18,802)
Rescissions	(496)	1,503,704
Prior Year Recoveries	92,160	154,911
Temporarily Not Available	(199)	(2,293)
Cancelled Authority	1,965	28,782
Permanently Not Available	276,691	227,871
Offsetting Security Fee Collections	-	-
Lapsed Contract Authority	-	-
Liquidated Contract Authority	-	37,262,464
Other Adjustments	<u>(39,040)</u>	<u>(19,939)</u>
Total Adjustments to Budgetary Resources	<u>\$ 331,081</u>	<u>\$ 39,136,698</u>

Significant adjustments were needed to the amounts previously reported on the Statement of Budgetary Resources at September 30, 2003 for FAA's Airport and Airway Trust Fund and the Highway Trust Fund (HTF). The adjustments related to a change in reporting requirements from OMB, which the Bureau of Public Debt required reporting of un-invested tax collections as receipts unavailable for obligation. This change in classification results in the correction of an error in presentation and a restatement of the FY 2003 Budget Authority-Appropriations Received of \$0.8 billion for FAA and \$4.7 billion for HTF, decrease in Unobligated balance - beginning of period of \$8.7 billion and \$16.5 billion, respectively, and an offsetting reduction in Unobligated balance of \$7.9 billion and \$11.4 billion respectively.

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The following table details specific line items being restated on the Combined Statement of Budgetary Resources.

	(Dollars in Thousands)		
	2003 Originally <u>Stated</u>	Effect of <u>Restatement</u>	2003 <u>As Restated</u>
Budgetary Resources:			
Appropriations Received	\$ 61,508,409	\$ 5,547,227	\$ 67,055,636
Unobligated balance - beginning of period	64,778,217	(24,900,599)	39,877,618
Total Budgetary Resources	<u>\$ 128,238,448</u>	<u>\$ (19,353,372)</u>	<u>\$ 108,885,076</u>
Status of Budgetary Resources:			
Unobligated balance available	\$ 23,451,472	\$ (7,951,688)	\$ 15,499,784
Unobligated balance not available	34,315,499	(11,401,684)	22,913,815
Total Status of Budgetary Resources	<u>\$ 128,238,448</u>	<u>\$ (19,353,372)</u>	<u>\$ 108,885,076</u>

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 and Engineering appropriations in order to fully fund special projects that were on-going and spanned several years.

Additional Disclosures:

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

There are no material differences between the information required by SFFAS Number 7 and the amounts described as "actual" in the "Budget of the United States Government" for FY 2005, which is not final at this time.

Note 19. Incidental Custodial Collections:

Revenue Activity:

(Dollars in Thousands)

Sources of Cash Collections:

	<u>FY 2004</u>	<u>FY 2003</u>
Miscellaneous Receipts	\$ 19,157	\$ 23,748
User Fees	-	7,388
Fines, Penalties and Forfeitures	11,022	8,642
General Fund Proprietary	-	3,031
Refunds, Recoveries & Cancelled Checks & Accounts	-	3,147
USCG Registration and Filing Fees	-	335
Miscellaneous Collections	-	-
	<hr/>	<hr/>
Total Cash Collections	\$ 30,179	\$ 46,291
Accrual Adjustment	-	(1,926)
	<hr/>	<hr/>
Total Custodial Revenue	\$ 30,179	\$ 44,365

Disposition of Collections:

Transferred to Treasury (General Fund)	\$ 30,179	\$ 46,291
(Increase) Decrease in Amounts to be Transferred	-	(1,926)
Retained by DOT	-	-
	<hr/>	<hr/>
Net Custodial Revenue Activity	\$ -	\$ -

Note 20. Saint Lawrence Seaway Development Corporation:

(Dollars in Thousands)

Condensed Information:

	<u>FY 2004</u>	<u>FY 2003</u>
Cash and Short-Term Time Deposits	\$ 14,084	\$ 14,109
Long-Term Time Deposits	1,210	392
Accounts Receivable	82	63
Inventories	246	255
Property, Plant and Equipment	78,329	80,126
Deferred Charges	2,234	1,989
Other Assets	<u>538</u>	<u>563</u>
TOTAL ASSETS	<u>\$ 96,723</u>	<u>\$ 97,497</u>
Current Liabilities	\$ 2,428	\$ 1,776
Actuarial Liabilities	<u>2,234</u>	<u>1,989</u>
TOTAL LIABILITIES	<u>\$ 4,662</u>	<u>\$ 3,765</u>
Invested Capital	\$ 93,313	\$ 95,099
Cumulative Results of Operations	<u>(1,252)</u>	<u>(1,367)</u>
TOTAL NET POSITION	<u>\$ 92,061</u>	<u>\$ 93,732</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 96,723</u>	<u>\$ 97,497</u>

Deferred Maintenance:

<u>DOT Entity</u>	<u>Major Class of Asset</u>	<u>Method of Measurement</u>	<u>Asset Condition*</u>	<u>Cost to Return to Acceptable Condition**</u>
FAA	Buildings	Condition Assessment Survey	4 & 5	\$ 53,359
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	16,543
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	3	38,046
	Real Property, Buildings U.S. Merchant Marine Academy, NY	Condition Assessment Survey	3	32,176
	Real Property, Structure U.S. Merchant Marine Academy, NY	Condition Assessment Survey	3	3,377
	Real Property, Structure James River Reserve Fleet, VA	Condition Assessment Survey	3	8,750
	Real Property, Structure Beaumont Reserve Fleet	Condition Assessment Survey	3	11,550
	Real Property, Structure Suisun Bay Resesrve Fleet, CA	Condition Assessment Survey	3	<u>14,850</u>
			Total	<u>\$ 178,651</u>

*Asset Condition Rating Scale:

- 1 - Excellent
- 2 - Good
- 3 - Fair
- 4 - Poor
- 5 - Very Poor

**Acceptable Condition is

- FAA Buildings 3 - Fair
- FAA Other Structures and Facilities 3 - Fair
- MARAD Vessels, Ready Reserve Force 1 - Excellent - Ships are seaworthy and ready for mission assignments within prescribed time limits.
- MARAD Real Property, Buildings 3 - Fair - Buildings are safe and inhabitable.
- MARAD Real Property, Structures 3 - Fair - Adequate water depth, shore power, and mooring capabilities.

Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.

Intragovernmental Balances by Trading Partner:

Intragovernmental Assets by Trading Partner:		(Dollars in Thousands)		
<u>Trading Partner</u>	<u>Fund Balance with Treasury</u>	<u>Investments</u>	<u>Accounts Receivable</u>	<u>Other Assets</u>
Department of the Treasury	\$ 29,721,350	\$ 20,618,224	\$ 52,496	\$ 23,627
Department of Defense	-	-	91,151	102
Department of Transportation	-	-	-	-
Department of Homeland Security	-	-	(10,655)	-
Department of State	-	-	826	3,934
Natl. Aero. and Space Admin.	-	-	2,661	-
Department of Interior	-	-	2,530	-
Environmental Protection Agency	-	-	1,827	-
Department of Justice	-	-	686	-
General Services Administration	-	-	2,287	3
Department of Energy	-	-	2,597	782
Department of Commerce	-	-	(658)	-
Securities and Exchange Comm	-	-	1,607	-
Office of Personnel Management	-	-	6	-
U.S. Capitol Police	-	-	22	-
National Science Foundation	-	-	36	-
Central Intelligence Agency	-	-	353	-
Government Printing Office	-	-	(15)	3
Department of Agriculture	-	-	83	-
Department of Labor	-	-	90	-
Social Security Administration	-	-	103	-
Fed. Emergency Mgmt. Admin.	-	-	715	-
Department of Health & Human Serv.	-	-	13,497	-
Department of Housing & Urban Dev	-	-	-	-
Department of Education	-	-	-	-
National Transportation Safety Board	-	-	45	-
Federal Trade Commission	-	-	94	-
Other Miscellaneous Agencies	-	-	27,416	200,555
Total	<u>\$ 29,721,350</u>	<u>\$ 20,618,224</u>	<u>\$ 189,800</u>	<u>\$ 229,006</u>
Total Intragovernmental Assets	<u>\$ 50,758,380</u>			

Intragovernmental Liabilities by Trading Partner: (Dollars in Thousands)

<u>Trading Partner</u>	<u>Accounts Payable</u>	<u>Debt</u>	<u>Other Liabilities</u>
Department of the Treasury	\$ 988	\$ 1,150,606	\$ 197,111
Department of Homeland Security	19	-	2,658,689
Department of Labor	64	-	210,771
Department of Defense	24,514	-	100,337
Department of Transportation	-	-	-
Office of Personnel Management	794	-	42,503
General Services Administration	608	-	3,490
U.S. Capitol Police	-	-	6,934
Social Security Administration	-	-	(124)
Department of Commerce	294	-	668
Department of Health & Human Serv.	176	-	7,213
Natl. Aero. and Space Admin.	2,063	-	2,905
Department of Agriculture	30	-	333,773
Department of Justice	446	-	740
Department of Energy	25	-	1,809
Department of Interior	223	-	3,086
Environmental Protection Agency	-	-	688
Department of State	547	-	(2,267)
Nuclear Regulatory Commission	-	-	-
Fed. Emerg. Mgmt. Admin.	-	-	47
U.S. Postal Service	745	-	113
National Science Foundation	-	-	-
Government Printing Office	2,188	-	136
Central Intelligence Agency	-	-	-
Other Miscellaneous Agencies	<u>39,317</u>	<u>-</u>	<u>99,683</u>
Total	<u>\$ 73,041</u>	<u>\$ 1,150,606</u>	<u>\$ 3,668,305</u>
Total Intragovernmental Liabilities	<u>\$ 4,891,952</u>		

Intragovernmental Earned Revenues and Related Costs:	(Dollars in Thousands)
<u>Trading Partner</u>	<u>Intragovernmental Earned Revenue</u>
Department of Defense	\$ 578,741
Department of Transportation	-
Department of Homeland Security	131,050
Department of State	13,407
Department of the Treasury	58,908
Environmental Protection Agency	19,666
Department of Justice	21,985
Natl. Aero. and Space Admin.	19,852
Department of Health & Human Serv.	16,287
U.S. Capitol Police	13,208
Department of Veterans Affairs	16,104
General Services Administration	6,445
Securities and Exchange Comm	11,384
Department of Commerce	7,245
Department of Energy	5,556
Department of Interior	7,562
Office of Personnel Management	1,267
Department of Labor	3,914
U.S. Postal Service	1,559
Nuclear Regulatory Commission	156
National Science Foundation	137
Central Intelligence Agency	478
Social Security Administration	6,572
Department of Education	4,089
Tennessee Valley Authority	-
Department of Agriculture	8,264
Department of Housing & Urban Dev	-
National Transportation Safety Board	334
Other Miscellaneous Agencies	<u>67,423</u>
 Total	 <u>\$ 1,021,593</u>

<u>Budget Functional Classification</u>	<u>Gross Cost to Generate Intragovernmental Earned Revenue</u>
054 Defense-Related Activities	\$ -
304 Pollution Control and Abatement	-
401 Ground Transportation	553,081
402 Air Transportation	2,380,081
403 Water Transportation	22,047
407 Other Transportation	99,526
451 Community Development	-
808 Other General Government	<u>110,076</u>
Total	<u>\$ 3,164,811</u>

Intragovernmental Non-Exchange Revenue:

(Dollars in Thousands)

<u>Trading Partner</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
Department of Transportation	\$ 17,058	\$ 165,755
Department of the Treasury	-	-
Department of Homeland Security	-	-
Natl. Aero. And Space Admin	-	-
General Services Administration	-	-
Environmental Protection Agency	-	-
Department of Interior	-	-
Department of Defense	-	-
Department of Commerce	-	-
Department of Agriculture	-	-
Office of Personnel Management	-	-
Other Miscellaneous Agencies	<u>353,466</u>	<u>361,892</u>
Total	<u>\$ 370,524</u>	<u>\$ 527,647</u>

**HERITAGE ASSETS SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2004
NUMBER OF PHYSICAL UNITS**

<u>Heritage Assets:</u>	Units as of <u>09/30/03</u>	<u>Additions</u>	<u>Withdrawals</u>	Units as of <u>09/30/04</u>
Personal Property:				
Collections				
Artifacts	37	1	-	38
Museum	455	1	-	456
Other Collections	98	-	-	98
Total Collections	<u>590</u>	<u>2</u>	<u>-</u>	<u>592</u>
Total Personal Property Heritage Assets	<u>590</u>	<u>2</u>	<u>-</u>	<u>592</u>

<u>Heritage Assets:</u>	Units as of <u>09/30/03</u>	<u>Additions</u>	<u>Withdrawals</u>	Units as of <u>09/30/04</u>
Real Property:				
Buildings and Structures	1	-	-	1
Total Real Property				
Heritage Assets	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>

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.

HERITAGE ASSETS SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2004
NUMBER OF PHYSICAL UNITS
(Dollars in thousands)

<u>Surface Transportation:</u>	FY 2001	FY 2002	FY 2003	FY 2004
Federal Highway Administration				
Federal Aid Highways (HTF)	\$ 25,876,082	\$ 29,377,231	\$ 29,258,796	\$ 29,207,012
Other Highway Trust Fund Programs	85,807	211,883	243,874	300,493
General Fund Programs	144,159	31,616	73,046	962,370
Appalachian Development System	23,801	146,306	128,480	263,430
Federal Motor Carrier	125,261	149,091	159,628	299,450
Federal Transit Administration				
Discretionary Grants	\$ 721,774	\$ 495,322	\$ 291,889	\$ 160,655
Formula Grants	3,978,247	4,283,634	4,390,965	4,723,674
Capital Investment Grants	1,902,425	2,371,521	2,632,841	2,788,920
Washington Metro	115,856	89,227	11,252	12,409
Interstate Transfer Grants	2,716	8,155	9,459	1,479
Surface Transportation Nonfederal Physical Property Investments	\$ 32,976,128	\$ 37,163,986	\$ 37,200,230	\$ 38,719,892

(1) Outlays are not net of Federal Emergency Management Administration (FEMA) collection of \$2.75 billion.

<u>Air Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Federal Aviation Administration				
Airport Improvement Program	\$ 2,178,576	\$ 2,933,542	\$ 2,786,717	\$ 2,977,300
Air Transportation Nonfederal Physical Property Investments				
	\$ 2,178,576	\$ 2,933,542	\$ 2,786,717	\$ 2,977,300
Total Nonfederal Physical Property Investments	\$ 35,154,704	\$ 40,097,528	\$ 39,986,947	\$ 41,697,192

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.

HERITAGE ASSETS SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2004
NUMBER OF PHYSICAL UNITS

<u>Surface Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Federal Highway Administration				
National Highway Institute Training	\$ 3,202	\$ 9,146	\$ 8,539	\$ 4,069
Federal Motor Carrier Safety Administration				
California Highway Patrol			926	192
Idaho Video	243	199	593	344
Massachusetts Training Academy	-	25	175	9
Minnesota Crash Investigation	-	18	57	21
Federal Transit Administration				
National Transit Institute Training	\$ 3,550	\$ 3,946 ²	\$ 4,292	\$ 4,667
National Highway Safety Administration				
Section 403 Highway Safety Programs	\$ 42,000	\$ 46,000	\$ 46,000	\$ 47,000
Highway Traffic Safety Grants	<u>213,000</u>	<u>223,000</u>	<u>225,000</u>	<u>224,000</u>
Research and Special Programs Administration				
Hazardous Materials (Hazmat) Training	\$ 7,771	\$ 7,763	\$ 7,782	\$ 7,780
Surface Transportation Human Capital Investments				
	<u>\$ 269,766</u>	<u>\$ 290,097</u>	<u>\$ 293,364</u>	<u>\$ 288,082</u>

<u>Maritime Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Maritime Administration				
State Maritime Academies Training (3)	\$ 8,257	\$ 8,257	\$ 8,363	\$ 9,208
Additional Maritime Training	463	463	463	388
Maritime Transportation Human Capital Investments	<u>\$ 8,720</u>	<u>\$ 8,720</u>	<u>\$ 8,826</u>	<u>\$ 9,596</u>
Total Human Capital Investments	<u>\$ 278,486</u>	<u>\$ 298,817</u>	<u>\$ 302,190</u>	<u>\$ 297,678</u>

The National Highway Institute develops and conducts various training courses for all aspects of **Federal Highway Administration**. Students are typically from the State and local police, State highway departments, public safety and motor vehicle employees, and U.S. citizens and foreign nationals engaged in highway work of interest to the U.S. Types of courses given and developed are modern developments, technique, management, planning, environmental factors, engineering, safety, construction, and maintenance.

The California Highway Patrol educates the trucking industry for the **Federal Motor Carrier Safety Administration** about Federal 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 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 **Research and Special Programs 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.

HERITAGE ASSETS SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2004
NUMBER OF PHYSICAL UNITS

<u>Surface Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Federal Highway Administration				
Intelligent Transportation Systems	\$ 103,980	\$ 124,950	\$ 126,256	\$ 146,852
Other Applied Research and Development	118,425	183,142	115,368	142,557
Federal Transit Administration				
Applied Research and Development				
Transit Planning and Research	1,931	1,931 ⁴	3,895	3,483
Transit University Transportation Centers	3,492	8,168 ⁵	-	-
Discretionary/Capital Investment Grants	-	-	-	-
Research and Special Programs Administration				
Applied Research and Development				
Research and Technology	\$ 3,318	\$ 1,608	\$ 1,454	\$ 1,134
Pipeline Safety	1,404	4,000	5,523	6,375
Hazardous Materials	1,366	233	1,755	1,489
Emergency Transportation	244	137	650	8
Surface Transportation Research and Development Investments	<u>\$ 234,160</u>	<u>\$ 324,169</u>	<u>\$ 254,901</u>	<u>\$ 301,898</u>

(4) FY 2002 updated with Transit Cooperative Research Program estimate based on actual outlays.

(5) Updated based on actual research and development related outlays.

<u>Air Transportation:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Federal Aviation Administration				
Research and Development Plant	\$ 13,683	\$ 3,020	\$ 2,903	\$ 4,230
Applied Research	115,643	59,150	29,406	91,743
Development	4,618	603	251	478
Administration	46,988	44,480	31,669	28,643
		<u> </u>	<u> </u>	<u> </u>
Air Transportation Research and Development Investments	<u>\$ 180,932</u>	<u>\$ 107,253</u>	<u>\$ 64,229</u>	<u>\$ 125,094</u>
Total Research and Development Investments	<u>\$ 415,092</u>	<u>\$ 431,422</u>	<u>\$ 319,130</u>	<u>\$ 426,992</u>

The **Federal Highway Administration's** research and development programs are earmarks in the appropriations bills for the fiscal year. Typically these programs are related to safety, pavements, structures, and environment. Intelligent Transportation Systems were created to promote automated highways and vehicles to enhance the national highway system. The output is in accordance with the specifications within the appropriations act.

The **Federal Transit Administration** supports research and development in the following program areas:

Research and development in Transit Planning and Research supports two major areas: the National Research Program and the Transit Cooperative Research Program. The National Research Program funds the research and development of innovative transit technologies such as safety-enhancing commuter rail control systems, hybrid electric buses, and fuel cell and battery-powered propulsion systems. The Transit Cooperative Research Program focuses on issues significant to the transit industry with emphasis on local problem-solving research.

Transit University Transportation Centers, combined with funds from the Highway Trust Fund, provide continued support for research, education, and technology transfer.

Capital investment grants, which replaced discretionary grants in FY 1999, provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Capital investment grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related activities.

The **Research and Special Programs 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 Office of Emergency Transportation is involved in research and development in mapping software for the Crisis Management Center, transportation policy, and outreach efforts.

The Office of Research and Technology is involved in research and development for the University of Technology and Education.

The **Federal Aviation Administration** conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Research priorities include aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved in-flight icing and ground de-icing operations; better tools to predict and warn of weather hazards, turbulence and wake vortices; aviation medicine, and human factors.



Appendices

Appendix A

AASHTO	American Association of State Highway and Transportation Officials
ACTT	Accelerated Construction Technology Transfer
ADA	Americans with Disabilities Act
AIP	Airport Improvement Program
AIS	Automatic Identification System
AMPO	Association of Metropolitan Planning Organizations
AMS	Acquisition Management System
ARTEMIS	Advanced Retrieval Tire, Equipment, Motor Vehicles Information System
ASDE-X	Airport Surface Detection Equipment, Model X
ATO	Air Traffic Organization
BTS	Bureau of Transportation Statistics
C&A	Certified and Accredited
C&P	Conditions and Performance
CASTLE	Consolidated Automated System for Time and Labor Entry
CDL	Commercial Drivers License
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CIO	Chief Information Officer
CMV	Commercial Motor Vehicle
CR	Compliance Reviews
CRS	Computer Reservations Systems
CVARS	Commercial Vehicle Analysis Reporting System
CVISN	Commercial Motor Vehicle Information Systems and Networks
CY	Calendar Year
DBE	Disadvantaged Business Enterprise
DBI	Daily Business Intelligence

DNL	Day-Night Level
DOCR	Departmental Office of Civil Rights
DoD	Department of Defense
DOL	Department of Labor
DOT	Department of Transportation
EA	Enterprise Architecture
EAS	Essential Air Service
EDI	Electronic Data Interchange
EEI	Exemplary Ecosystem Initiatives
EEO	Equal Employment Opportunity
EEOC	Equal Employment Opportunity Commission
EFM	Electronic Freight Manifest
EO	Executive Order
EPA	Environmental Protection Agency
ER	Emergency Relief
ERAM	En Route Automation Modernization
ExFIRS	Excise Files Information Retrieval System
FAA	Federal Aviation Administration
FACTS I	Federal Agencies' Centralized Trial-Balance System
FAF	Freight Analysis Framework
FHMR	Federal Hazardous Materials Regulations
FHWA	Federal Highway Administration
FISMA	Federal Information Security Management Act
FMCSA	Federal Motor Carrier Safety Administration
FMCSR	Federal Motor Carrier Safety Regulations
FMFIA	Federal Managers' Financial Integrity Act
FPD	Freight Professional Development

FPPS	Federal Personnel & Payroll System
FR	Federal Code
FRA	Federal Railroad Administration
FSS	Financial Statement Solution
FTA	Federal Transit Administration
FY	Fiscal Year
GA	General Aviation
GAO	Government Accountability Office
GISRA	Government Information Security Reform Act
HAZMAT	Hazardous Materials
HERS	Highway Economic Requirements System
HMPE	Hazardous Materials Program Evaluation
HMR	Hazardous Materials Regulation
HOS	Hours of Service
HUL	Highly Volatile Liquid
IBRC	Innovative Bridge Research and Construction
IFAS	Interim Fixed Asset System
IFCS	Intragovernmental Fiduciary Confirmation System
IMP	Integrity Management Program
IPIA	Improper Payments Information Act
IPM	Investigation Procedures Manual
IRB	Investment Review Board
IRI	International Roughness Index
IRS	Internal Revenue Service
ISS	Information Security System
IT	Information Technology
ITS	Intelligent Transportation System

JARS	Job Access and Reverse Commute
JFMIP	Joint Financial Management Improvement Program
LCV	Longer Combination Vehicles
LRFD	Load and Resistance Factor Index
LTV	Light Trucks and Vans
MAGENTA	Model for Assessing the Global Exposure of Noise
MARAD	Maritime Administration
MCMIS	Motor Carrier Management Information System
MCSAP	Motor Carrier Safety Assistance Program
MCSIA	Motor Carrier Safety Improvement Act
MOU	Memorandum of Understanding
MPO	Metropolitan Planning Organization
MSP	Maritime Security Program
NAAQS	National Ambient Air Quality Standards
NAFTA	North American Free Trade Agreement
NAS	National Airspace System
NATPRO	National Air Traffic Professionalism
NHS	National Highway System
NHTSA	National Highway Traffic Safety Administration
NIPP	National Infrastructure Protection Plan
NTD	National Transit Database
NTSB	National Transportation Safety Board
OA	Operating Administration
OCIO	Office of the Chief Information Officer
OFM	Office of Financial Management
OHS	Department of Homeland Security
OIF	Operation Iraqi Freedom

OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSEE	Office of Safety, Energy, and Environment
OST	Office of the Secretary of Transportation
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PBSA	Performance-based Service Acquisition
PCB	Polychlorinated Biphenyls
PL	Public Law
PM	Particulate Matter
PMA	President's Management Agenda
PMT	Person-miles Traveled
QAT	Quiet Aircraft Technology
R&T	Research and Technology
RAIRS	Rail Accident Reporting System
RI	Roadside Inspections
RNAV	Area Navigation
RNP	Required Navigation Performance
RRF	Ready Reserve Force
RSPA	Research and Special Programs Administration
SAFETEA	Safe, Accountable, Flexible, and Efficient Transportation Equity Act
SARS	Severe Acute Respiratory Syndrome
SCAP	Security Certification and Authorization Package
SDB	Small Disadvantaged Businesses
SEP-14	Special Experimental Project No. 14
SES	Strategic Evaluation States

SLSDC	Saint Lawrence Seaway Development Corporation
STB	Surface Transportation Board
SUV	Sport Utility Vehicle
T&A	Time and Attendance
TCIRC	Transportation Cyber Incident Response Center
TE	Traffic Enforcement
TEA-21	Transportation Equity Act for the 21st Century
TERM	Transit Economic Requirements Model
TREAD	Transportation Recall Enhancement, Accountability, and Documentation (Act)
TSA	Transportation Security Administration
TSI	Transportation Safety Institute
TVMT	Truck-Vehicle Miles Traveled or Total Vehicle Miles Traveled
UCP	Unified Certification Program
USCG	United States Coast Guard
VISA	Voluntary Intermodal Sealift Agreement
VMT	Vehicle Miles Traveled
VSP	Vehicle Aircraft Technology
WCF	Working Capital Fund

Appendix B

IPIA Reporting Details

Section I

Describe your agency's risk assessment premise(s) and process(es) that you performed subsequent to compiling your full program inventory. List the risk-susceptible programs identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.

In the first year of implementation of the Improper Payments Information Act (IPIA), the Department of Transportation (DOT) reviewed the majority of its programs and activities to identify those that may be susceptible to significant improper payments. This improper payments risk assessment was conducted in two phases. For the first phase, the DOT engaged KPMG, LLP to research and develop an improper payment risk assessment process and methodology. DOT identified ten programs with the highest potential for improper payments based on the highest 2003 Fiscal Year expenditures, which comprised the majority of FY 2003 DOT expenditures.

The following programs were identified as most susceptible to improper payments based on DOT's assessment of their full program inventory:

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 DOT	

The ten identified programs were subject to an initial risk assessment to determine the sampling size to be used. Each program then underwent an in-depth review based on OMB guidelines.

The second risk assessment phase for the balance of the DOT programs focused on lower dollar value programs, which used a self-assessment risk based methodology. The risk self-assessment methodology was based on the KPMG-developed gross risk assessment tool with detailed criteria guidelines, which would determine which programs may have a higher improper payment risk.

Section II**Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.**

DOT engaged KPMG, LLP to conduct its improper payment review of Fiscal Year 2003 payments for the ten identified programs. KPMG acquired knowledge of the programs through research, questionnaires and interviews and based on the obtained knowledge, identified risk criteria that were used as the basis for further assessing program risk. Risk criteria included gross expended amount; complexity of payment calculations; established internal controls and oversight; type of program recipients; number of program recipients; volume of payments; probability of program growth; and changes in the program. Results of the risk assessment were utilized to create a sampling plan.

A stratified sampling design was used for testing payments based on the FY 2003 disbursement amounts and the assessed risk of the program. This sampling plan provided statistical confidence of 95 percent by measuring the actual variability of the dollar data and, through a weighted set of formulas, providing a natural measure of the relative sampling error. Use of appropriate population weights with the stratification methodology produced an unbiased estimate for the whole file. This statistical sampling design allowed for calculation of statistical projections for the amount of improper payments for each tested program and for projection of attributes across the selected population.

The sample selection of payments was random within each stratum. Allocations to each stratum were based on the dollar value of the payment using the Neyman Optimization formula with a design precision ranging from one percent to 10 percent of the estimated dollar amount, depending on the assessed risk level. For high risk, the design precision was between one percent and three percent; for moderate risk, between five percent and seven percent; and for low risk, 10 percent. A two-sided 95 percent confidence limit was achieved. The stratification design relies on dollar amount ranges to generate better precision than simple random sampling for a given sample size. The stratification ensured that all strata were mutually exclusive and collectively exhaustive, thus covering the entire population of payments.

DOT provided all payment transactions for the fiscal year 2003, for nine of the ten programs. For the tenth program, payroll, DOT provided all payment activities for three pay periods in FY 2003, randomly selected by KPMG. A total sample size of 1,030 payments was randomly selected among a minimum of three quantitative strata based on the payment amount. The table below shows the overall sample sizes by program.

OA	Program Name	Universe Amount for FY 2003	Risk for Sample Selection	Sample Size	Sample Amount
FHWA	Federal Aid	\$17,767,863,023	Moderate	100	\$174,989,140
FAA	Operations	\$1,397,734,502	High	146	\$75,421,806
OST	Payroll Operations*	\$5,380,000,000	Moderate	105	\$383,948
FTA	Formula Grants**	\$4,979,201,882	Moderate	109	\$572,140,472
FAA	Airport Improvement Program**	\$2,577,240,731	Moderate	101	\$169,251,812
FTA	Capital Investment Grants**	\$2,812,187,590	Moderate	92	\$863,021,396
FAA	Facilities and Equipment	\$1,739,830,557	High	143	\$180,390,902
FHWA	Federal Lands	\$228,844,618	Moderate	95	\$54,346,252
FRA	Grants**	\$1,182,747,878	Low	54	\$670,595,085
OST	Working Capital Fund	\$431,007,557	Moderate	85	\$108,042,526
Total Amount of Programs		\$38,496,658,337		1,030	\$2,868,583,338
* Based on FY 2003 Estimated Amount					
** Section 57 Program					

For the balance of DOT programs, each DOT Operating Administration reviewed its remaining programs following the gross risk assessment methodology developed by KPMG. Those DOT programs comprise the minority of DOT expenditures and were in many cases not subject to the reporting requirements of the IPIA. The final self-assessment reviews were certified by each Operating Administration CFO and reviewed by the Office of Financial Management in the Office of the Secretary. No other DOT programs with lower dollar values were deemed a high risk for improper payments. In many cases, the very low dollar value of the program alone would have disqualified that program as an improper payment risk.

Section III

Explain the corrective actions your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

KPMG did not identify any improper payments exceeding both 2.5 percent of program payments and \$10 million. The results to date have shown that no corrective actions have been warranted. However, KPMG's scope was limited in three ways. First, there was an inadvertent sample population reduction in the FHWA Federal Aid program based on the extract requirements provided by FHWA. DOT and KPMG will work to identify the missing population amounts and review the additional program. Second, FAA was not able to provide data or answers to outstanding questions for the FAA Operations and FAA Facilities and Equipment Programs on time. Therefore, the items with outstanding data were considered and projected as questionable transactions.

Third, for electronically-processed grants there was limited data available for KPMG to review based on the Federal Financial Assistance Management Improvement Act. To address this shortcoming, DOT has devised an innovative research and development (R&D) strategy for effectively addressing the grants program review limitations. This strategy involves using a proof of concept project to test the feasibility of using the Single Audit process to meet the improper payment estimation and remediation requirements of the Improper Payments Information Act. This proposal has been approved by OMB, and DOT has executed a contract with a consultant to begin the process of this proof of concept effort. DOT will present a R&D

project agreement to OMB after the State selection and agreement has been formalized.

In this first year of execution of the IPIA, developing process, methodology and risk assessment procedures, numerous lessons refinements and enhancements were needed. For example, standardized financial measurement points were needed to ensure accurate data were available. Extensive staff learning curves were required to educate Operating Administration financial personnel on the requirements of this newly-developed methodology. Staff misunderstandings between what was requested by the contractor and what was provided need further clarification and process improvements to resolve those discrepancies.

Section IV

The table of Improper Payment Reduction Outlook FY 2003–FY 2007.

Program	Over Payments Projection	Under Payments Projection	FY03 Outlays	FY03 IP%	FY04 IP%	FY05 IP%	FY06 IP%	FY07 IP%
Airport Improvement Program (FAA)*	\$0	(\$36,568)	\$2,577,000,000	0% **	***	***	***	***
Formula Grants (FTA)*	\$0	\$0	\$4,979,000,000	0%	***	***	***	***
Capital Investment Grants (FTA)*	\$0	\$0	\$2,812,000,000	0%	***	***	***	***
Federal Aid (FHWA)*	\$0	\$0	\$17,767,863,023	0%	***	***	***	***
* Section 57 Program								
** The FAA Airport Improvement program improper underpayment projection error was statistically insignificant.								
*** It is likely that information developed by DOT's proof of concept project will result in improved identification and measurement methods for electronically-processed grant payments. As a result, any increases in future improper payments made in connection with DOT's grant programs should be analyzed to determine if the increases were caused by improvements in identification or by internal control or process weaknesses.								

KPMG was able to test electronically-processed grants for eligibility, award and payment approval, incurrence of cost during the funding period, payment within the award or other funding limitations and that payment was sent to the proper recipient. However, KPMG encountered data limitations that will be encountered by all Federal agencies that electronically process grant payments in compliance with PL 106-107.

As a result of PL 106-107 streamlining the payment process, documentation needed to determine if the payment was calculated correctly, discounts and credits were properly taken and all costs were allowable is not maintained. Accordingly, KPMG was not able to assess compliance with these requirements.

To resolve the issue of limited data in support of grant payments made in compliance with PL 106-107, DOT has devised an innovative research and development (R&D) strategy. This strategy involves using a proof of concept project to test the feasibility of using the Single Audit process to provide the information needed to determine if grant payments made in compliance with PL 106-107 meet the improper payment estimation and remediation requirements of the IPIA.

Section V

Discuss your agency's recovery auditing effort, if applicable, including the amount of recoveries

expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences.

For the past two years the Department of Transportation has engaged PRG-Schultz to provide recovery audit services. During that time PRG-Schultz has reviewed payments made by the DOT agencies to their commercial vendors for the fiscal years 2000, 2001, and 2002. The recovery audit produced just \$216,382 (0.014 percent) in recoveries as of September 2004 out of a reviewed base of \$1,543,058,000.

The monies recovered resulted from a combination of PRG-Schultz review of vendor statements of accounts, results from proprietary duplicate payment queries, and a manual review of invoices and contracts. A review of vendor statements was facilitated by a mass mailing requesting statements of accounts from the Department's commercial vendors. The open credits identified on the statements were verified through correspondence with the vendor and research of all electronic and hard copy data available. Secondly, PRG-Schultz executed proprietary queries on each Operating Administration's financial data set to extract potential duplicate or erroneous payments. These potential duplicate or erroneous payments were researched and proven out through a review of invoices, contracts, and financial data. A manual review of contracts and invoices was conducted to round out the review.

Overall, the recoveries have been minimal relative to the Department's total commercial spend. The DOT is continuing to pursue the use of recovery audits and has expanded the scope of recovery audits to include all transactions older than one year in the recovery audit scope. To date, no internal controls or business process change recommendations have resulted from recovery audits.

The following Departmental recovery audit management report measures the recovery audit progress by each DOT Operating Administration and recovery audit errors rates as a function of overpayments recovered.

Sept. 20, 2004

DOT Recovery Audit Measurements

Agency	Estimated Amt to audit	audit scope				adjusted amt complete	overpayments recovered	error rate
		activity	% of audit	% complete	total % complete			
FHWA	\$554,400,000.00	Statements	20%	100%	20%	\$492,030,000.00	\$55,952.40	0.0114%
		Dup reports-PRG data	25%	100%	25%			
		Invoice review	30%	100%	30%			
		Contract review	15%	25%	4%			
		Trend Analysis	10%	0%	<u>10%</u> 89%			
FAA	\$1,540,000,000.00	Statements	20%	100%	20%	\$893,200,000.00	\$34,137.15	0.0038%
		Dup reports-PRG data	20%	100%	20%			
		Invoice review	10%	80%	8%			
		Contract review	40%	25%	10%			
		Trend Analysis	10%	0%	<u>0%</u> 58%			
FTA	\$137,500,000.00	Statements	20%	100%	20%	\$68,750,000.00	\$68,155.00	0.0991%
		Dup reports-PRG data	20%	100%	20%			
		Invoice review	10%	100%	10%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 50%			

Sept. 20, 2004

DOT Recovery Audit Measurements

Agency	Estimated Amt to audit	audit scope				adjusted amt complete	overpayments recovered	error rate
		activity	% of audit	% complete	total % complete			
NHTSA	\$57,200,000.00	Statements	20%	100%	20%	22,880,000.00	\$-	0.0000%
		Dup reports-PRG data	20%	100%	20%			
		Invoice review	10%	0%	0%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 40%			
OIG	\$5,500,000.00	Statements	20%	100%	20%	\$2,200,000.00	\$-	0.0000%
		Dup reports-PRG data	20%	100%	20%			
		Invoice review	10%	0%	0%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 40%			
FMCSA	\$4,950,000.00	Statements	20%	100%	20%	\$2,475,000.00	\$-	0.0000%
		Dup reports-PRG data	20%	100%	20%			
		Invoice review	10%	100%	10%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 50%			
VOLPE	\$4,400,000.00	Statements	20%	100%	20%	\$968,000.00	\$-	0.0000%
		Dup reports-PRG data	20%	10%	2%			
		Invoice review	10%	0%	0%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 22%			
OST-WCF	\$82,500,000.00	Statements	20%	100%	20%	\$29,700,000.00	\$14,224.00	0.0479%
		Dup reports-PRG data	20%	80%	16%			
		Invoice review	10%	0%	0%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 36%			
FRA	\$57,200,000.00	Statements	20%	100%	20%	\$28,600,000.00	\$8,341.36	0.0292%
		Dup reports-PRG data	20%	100%	20%			
		Invoice review	10%	100%	10%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 50%			
RSPA	\$3,850,000.00	Statements	20%	100%	20%	\$847,000.00	\$-	0.0000%
		Dup reports-PRG data	20%	10%	2%			
		Invoice review	10%	0%	0%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 22%			
MARAD	\$2,750,000.00	Statements	20%	100%	20%	\$605,000.00	\$-	0.0000%
		Dup reports-PRG data	20%	10%	2%			
		Invoice review	10%	0%	0%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 22%			
OST	\$1,100,000.00	Statements	20%	100%	20%	\$440,000.00	\$-	0.0000%
		Dup reports-PRG data	20%	100%	20%			
		Invoice review	10%	0%	0%			
		Contract review	40%	0%	0%			
		Trend Analysis	10%	0%	<u>0%</u> 40%			

Sept. 20, 2004

DOT Recovery Audit Measurements

Agency	Estimated Amt to audit	audit scope				adjusted amt complete	overpayments recovered	error rate
		activity	% of audit	% complete	total % complete			
BTS	\$550,000.00	Statements	15%	100%	15%	\$363,000.00	\$35,572.27	9.7995%
		Dup reports-PRG data	10%	10%	1%			
		Invoice review	50%	100%	50%			
		Contract review	10%	0%	0%			
		Trend Analysis	10%	0%	0%			
				66%				
DOT Totals	\$2,451,900,000.00				63%	\$1,543,058,000.00	\$216,382.18	0.0140% ** see footnote

** Error rate for DOT is based on total overpayments divided by total adjusted amount complete. It is not the sum of the error rates for each agency. Individual agencies' error rates are based on their specific overpayments in relationship to their specific audit dollar volume.

Section VI

Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

DOT has taken a very strong role in ensuring that agency managers are held accountable for reducing and recovering improper payments. The DOT CFO has taken the lead in announcing the improper payment program and follows the program closely. Each Operating Administration CFO was briefed at the agency CFO meeting and follow up meetings have included improper payments as an agenda item. Operating Administration financial managers are frequently briefed at the DOT Financial Management Council on program updates, progress and problem resolutions. Further, each Operating Administration CFO was required to certify the improper payments review results for his or her Operating Administration. The DOT CFO Office of Financial Management (OFM) provides a strong oversight and program management role in reviewing Operating Administrations' progress and resolving programmatic obstacles.

Section VII

Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

Currently the DOT possesses the information systems and other infrastructures it needs to measure improper payments. DOT is striving to improve the quality of its information by refining its internal process and measurement procedures. DOT has also devised an innovative research and development (R&D) strategy for effectively addressing the grants program review limitations. This strategy involves using a proof of concept R&D project to test the feasibility of using the Single Audit process to meet the improper payment estimation and remediation requirements of the Improper Payments Information Act. The results of this R&D project may require additional infrastructures.

Section VIII

A description of any statutory or regulatory barriers that may limit the agencies' corrective actions in reducing improper payments.

KPMG encountered difficulty in timely identifying disallowed costs charged on sampled grant payments. Federal agencies rely on two primary sources for identification of disallowed costs for grants—the Federal Audit Clearinghouse and grant closeout process. The Federal Audit Clearinghouse serves as the central

source for OMB Circular A-133 audit reports for entities receiving Federal funds in excess of \$500,000 and is responsible for initiating the distribution of entity audit reports to the grant-making Federal agencies when the audit reports reveal findings relevant to grants issued by the agency. At the time of award closeout, Federal agencies are required to obtain and review all final program and financial reports and may have additional procedures for reviewing all costs charged to the award.

The majority of sampled payments were from grants that had not been closed at the time of testing. For this reason, KPMG relied heavily on review of the audit results posted to the Clearinghouse Web site (which appear on the entity SF-SAC forms) to identify disallowed costs. KPMG found that the Clearinghouse did not allow for timely identification of disallowed costs. A majority of the entity audit results for the period covering the sampled payment were not available. KPMG contacted the Clearinghouse regarding the unavailability of entity FY 2002 and FY 2003 reports and was told that missing reports could be due to the Clearinghouse reporting requirements, which allow entities nine months after the end of the entity fiscal year to submit reporting packages. In some cases the sampled payment occurred in the Federal fiscal year ending 9/30/03 but the payment was to an entity with a fiscal year ending December 31, 2003, thus the reporting package was not due to the Clearinghouse until September 30, 2004. Another reason for unavailability is the Clearinghouse reviews all reporting packages prior to posting SF-SAC forms with audit results to the Web site. If a reporting package is incomplete or has formatting or substantive inadequacies, the package is returned to the recipient. A Clearinghouse representative stated that in some cases it may take several years for the entity to provide a reporting package that meets standards and can be uploaded to the Web site. Finally, the Clearinghouse has a backlog of reporting packages and in some cases it may take up to nine months after receipt of reporting packages to upload the audit results to the Web site.

In addition to unavailability of audit results on the Clearinghouse Web site, KPMG had difficulty obtaining copies of reports with findings in a timely manner. Review of the entity SF-SAC form allows for identification of *allowable costs/cost principles* findings for a particular grant program for the fiscal year. In order to determine if the audit report included more specific information that would allow for identification of the award or payment for which disallowed costs were charged requires reviewing the audit report. KPMG noted that it takes approximately 2.5 months from the date of request to receive report copies. This is because the request is submitted to the Clearinghouse who then coordinates with the cognizant agency to mail report copies.

Grants Streamlining

The Federal Financial Assistance Management Improvement Management of 1999 (P.L. 106-107) was designed to simplify and streamline the grants management process including the grants payment process. As part of the grants simplification and streamlining effort, P.L. 106-107 required Federal agencies to adopt payment systems that allow for recipients to request and receive grant drawdowns electronically. Both FTA and FAA grants are processed through the ECHO electronic payment system and FHWA Federal-Aid grants are processed through the payment system RASPS. Outside the extensive data in the respective grants management system, in most cases there is little supporting documentation for electronic payment making it difficult to identify improper payments. The electronic payment systems typically require the recipient to indicate the project for which the drawdown request is being made, but do not require additional information be provided to support the payment beyond the information in the grants management system. KPMG was able to test the electronically processed grants for eligibility, award and payment approval, incurrence of cost during the funding period, payment within the award or other funding limitations and that the payment was sent to the proper recipient. However, without supporting detail KPMG could not determine whether the payment was calculated correctly, discounts and credits were

properly taken and all costs were allowable. It should be noted that all Federal agencies with electronically processed grants in compliance with PL 106-107 would encounter this same limitation. Furthermore, to resolve this shortcoming, DOT has devised an innovative research and development (R&D) strategy for effectively addressing the grants program review limitations. This strategy involves using a proof of concept project to test the feasibility of using the Single Audit process to meet the improper payment estimation and remediation requirements of the IPIA. This proposal has been presented to OMB, and DOT has executed a contract with a consultant to begin the process of this proof of concept effort.

Section IX

Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified as a result of IPIA implementation.

KPMG had some difficulty obtaining accurate program payment populations. KPMG relied on the OAs to provide accounting specifications for extracts containing all fiscal year 2003 program payments. In several cases the obtained populations included payments not related to the program under review and therefore had to be further refined. Based on lessons learned implementing this new program, DOT will be refining its process and procedures, along with generating standardized measurement points.

In addition to problems encountered in obtaining accurate program populations, KPMG requested that the program populations only include payment transactions. However, KPMG found the extracts that DOT provided included reclassifications and adjustments that were not easily identifiable. Based on KPMG's review of documentation, it was determined that items were not payments and the population had to be scrubbed and sample items replaced by several OAs.

Despite the above-described difficulties, DOT completed several noteworthy events. DOT has put into place a Departmental-wide improper payments review process and methodology to review all programs. Second, DOT has devised an innovative research and development strategy for effectively addressing the grants program review limitations. This strategy involves using a proof of concept project to test the feasibility of using the Single Audit process to meet the improper payment estimation and remediation requirements of the Improper Payments Information Act. This proposal has been presented to OMB, and DOT has executed a contract with a consultant to begin the process of this proof of concept effort.

Lastly, DOT has successfully implemented a Department-wide recovery audit program which has been a model as noted by OMB. The recovery auditor has access to our financial system to review payment records and has seamlessly been integrated into our business process with minimal cost to the government.

Appendix C

Performance Measure Completeness and Reliability Details

Each table includes a description of a performance measure and associated data provided by the agencies in charge of the measure. The Scope statement gives an overview of the data collection strategy for the underlying data behind the performance measure. The Source statement identifies the data system(s) from which the data for each measure was taken. The Statistical Issues statement has comments, provided by the Bureau of Transportation Statistics (BTS) and the agency in charge of the measure, which discuss variability of the measure and other points. The Completeness statement indicates limitations due to missing data or availability of current measures, methods used to develop projections are also provided, as appropriate. The Reliability statement gives the reader a feel for how the performance data are used in program management decision making inside DOT.

For further information about the source and accuracy (S&A) of these data, and DOT's data quality guidelines in accordance with Section 515 of the Treasury and General Government Appropriations Act for Fiscal Year 2001 (P.L. 106-554), please refer to the BTS S&A compendium available at www.bts.gov/statpol/Sacompendium.html.

Details on DOT Safety Measures

Highway Fatality Rate

Measure:	Fatalities per 100 million vehicle-miles of travel (VMT) Calendar Year (CY)
Scope:	<p>The number of fatalities is the total number of motor vehicle traffic fatalities (including drivers and occupants of passenger cars, motorcycles, large trucks, or pedestrians) that occur on public roadways within the United States.</p> <p>Vehicle Miles of Travel (VMT) represent the total number of vehicle miles traveled by motor vehicles on public roadways within the 50 States and Washington, D.C.</p>
Sources:	<p>Motor vehicle traffic fatality data are obtained from NHTSA's Fatality Analysis Reporting System (FARS). The FARS database is a census of roadway fatalities, based on police crash reports and other State data.</p> <p>VMT data for 2003 are derived from FHWA's Traffic Volume Trends (TVT); a monthly report based on hourly traffic count data used to adjust the previous year's VMT data from the Highway Performance Monitoring System (HPMS). VMT data for 2002 and prior years are final estimate data from the HPMS system, based on State samples of road segments.</p>
Statistical Issues:	<p>Estimates of the number of persons killed in motor vehicle traffic crashes during 2004 are preliminary and are based on incomplete data and statistical models. NHTSA's first official estimates for 2004, the Early Assessment, will be completed in April 2005. Differences between the official Early Assessment estimate and the reported number are to be expected.</p> <p>The primary source of uncertainty in estimating the fatality rate is the denominator, or Total Vehicle Miles Traveled (TVMT). While the estimate of total fatalities is relatively accurate, the estimate of total vehicle miles is more variable. Because the VMT data provided to FHWA from each State are estimates based on a sample of road segments, the numbers have associated sampling errors. Annual field reviews conducted by each</p>

	<p>FHWA Division Office are intended to help reduce the non-sampling error. Although States provide VMT estimates on an annual basis, they are only required to update their traffic counts at all sampling sites once every three years. For sections that are not counted, States adjust the traffic count for previous years using a growth factor, which has been developed using a number of accepted methods. While FHWA closely monitors the methods used for developing Average Annual Daily Traffic (AADT) data, it is possible that some annual VMT estimates from a particular State may be based, in part, on data collected during a previous year.</p>
Completeness:	<p>The FARS has been in use for many years and is generally accepted as a complete measure for describing safety on the Nation's highways. Total annual fatalities are available through CY 2003. The fatality estimates used to calculate the 2004 rates shown in this report were forecasted using a time series ARIMA model. Inputs are monthly fatality counts from the FARS from 1975 to 2003. NHTSA's first official estimates for 2004, the Early Assessment, will be completed in April 2005. Differences between the official Early Assessment estimate and the forecasted number are to be expected.</p> <p>VMT data for 2003 are preliminary estimates provided by the Federal Highway Administration (FHWA). VMT data used to calculate the 2004 rates shown in this report are projected from the 2003 VMT estimate. The final measure of VMT for CY 2004 from the HPMS system will not be available until October 2005.</p>
Reliability:	<p>The measure informs and guides NHTSA highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing highway crashes.</p>

Large Truck-Related Fatalities

Measure:	Fatalities involving large trucks per 100 million truck VMT. (CY)
Scope:	<p>The measure includes all fatalities (e.g., drivers and occupants of passenger cars, motorcycles, large trucks, or pedestrians) associated with crashes involving trucks with a gross vehicle weight rating of 10,000 pounds or more.</p> <p>Truck Vehicle Miles of Travel (TVMT) represents the total number of vehicle miles traveled by large trucks on public roadways within the 50 States and Washington, D.C.</p>
Sources:	<p>The number of fatalities comes from NHTSA's Fatality Analysis Reporting System (FARS) data, a census of fatal traffic crashes within the 50 States and Washington, D.C. The TVMT data are derived from the FHWA's Highway Performance Monitoring System (HPMS).</p>
Statistical Issues:	<p>The fatality counts in FARS are generally quite accurate. The major sources of error are underreporting by some precincts and inconsistent use of the definition of a truck.</p> <p>Because the TVMT data provided to FHWA from each State are estimates based on a sample of road segments, the numbers have associated sampling errors. The methodology used by each of the States to estimate TVMT varies and may introduce additional non-sampling error. Although States provide TVMT estimates on an annual basis, they are only required to update their traffic counts at all sampling sites once every three years. Thus, an annual TVMT estimate from a particular State may be based, in part, on data collected during a previous year.</p>

Completeness:	<p>The Fatality Analysis Reporting System (FARS) has been in use for many years and is generally accepted as a complete measure for describing safety on the Nation’s highways. Truck-related fatality data is complete through 2003. For 2004, the FARS data for crashes involving large trucks are not available. The value used for the 2004 rate is projected from 1997–2003 trend data. The actual fatality count for 2003 will be available in October 2004.</p> <p>The TVMT is complete through 2002. For 2003 and 2004, it is projected using the historical trend with adjustments for observed change in the total VMT in 2002. The final TVMT estimate for 2003 will be available in December 2004, and the final TVMT estimate for 2004 will be available in December 2005.</p>
Reliability:	<p>The measure informs and guides FMCSA highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing truck and bus crashes.</p>

Air Carrier Fatal Accident Rate

Measure:	<p>Fatal aviation accidents (U.S. commercial air carriers) per 100,000 departures. (FY)</p>
Scope:	<p>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.</p>
Sources:	<p>Fatal aviation accidents: The data on commercial and general aviation fatalities come from the National Transportation Safety Board's Aviation Accident Database. The data are developed by aviation accident investigators under the auspices of the National Transportation Safety Board.</p> <p>Departures Performed: The data are collected by the Office of Airline Information (OAI) within the Bureau of Transportation Statistics (BTS) on Form 41, Schedule T-100—U.S. Air Carrier Traffic and Capacity Data By Nonstop Segment and On-flight Market and Form 41, Schedule T-100(f)—Foreign Air Carrier Traffic and Capacity Data by Nonstop Segment and On-flight Market.</p>
Statistical Issues:	<p>The joint government/industry group working on improving the level of safety for U.S. commercial aviation has determined that the number of departures is a better denominator measure to use for determining accident rates and the General Accounting Office recommended that FAA use departures.</p> <p>Both accidents and departures are censuses, having no sampling error. However, missing data, particularly in the departure counts, will result in bias to some degree.</p>
Completeness:	<p>The FAA does comparison checking of the departure data collected by BTS. However, FAA has no independent data sources against which to validate the numbers submitted to BTS. FAA compares its list of carriers to the DOT list to validate completeness and places the carriers in the appropriate category (i.e., Part 121 or Part 135). NTSB and FAA's Office of Accident Investigation meet regularly to validate the accident count.</p> <p>To overcome reporting delays of 60 to 90 days, FAA must rely on historical data, partial internal data sources, and Official Airline Guide (OAG) scheduling information to project at least part of the fiscal year activity data. Due to reporting procedures in place,</p>

	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.

General Aviation Fatal Accidents

Measure:	Number of fatal general aviation accidents. (FY)
Scope:	The measure includes on-demand (non-scheduled FAR Part 135) and general aviation. <i>General aviation</i> includes a diverse range of aviation activities. The range of general aviation aircraft includes single-seat homebuilt aircraft, helicopters, balloons, single and multiple engine land and seaplanes including highly sophisticated extended range turbojets.
Sources:	The data on commercial and general aviation fatalities come from the National Transportation Safety Board's Aviation Accident Database . The data are developed by aviation accident investigators under the auspices of the National Transportation Safety Board.
Statistical Issues:	There is no major error in the accident counts. Random variation in air crashes results in a significant variation in the number of fatal accidents over time.
Completeness:	NTSB and FAA's Office of Accident Investigation meet regularly to validate information on the number of accidents. It would be preferable to use fatal accident rates rather than fatal accidents as the performance measure. However, general aviation flight hours are based on an annual survey conducted by the FAA. Response to the survey is voluntary. The accuracy of the flight hours collected is suspect and there is no readily available way to verify or validate the data. For this reason, the General Aviation community is unwilling to use a rate measure until the validity and reliability of the survey data can be assured. Results are considered preliminary. NTSB continues to review accident results from FY 2003.
Reliability:	FAA uses performance data extensively for program management and personnel evaluation and accountability. Most accident investigations are a joint undertaking. NTSB has the statutory responsibility, but, in fact, most of the accident investigations related to general aviation are conducted by FAA Aviation Safety Inspectors without NTSB direct involvement. FAA's own accident investigators and other FAA employees participate in all accident investigations led by NTSB investigators.

Train Accident Rate

Measure:	Train accidents and incidents per million train-miles. (FY)
Scope:	Railroad transportation is any form of non-highway ground transportation that runs on rails or electro-magnetic guideways. Train accidents and incidents include all collisions between trains and others on track equipment and highway users on the tracks, at a public highway-rail grade crossing that is in use, at an at-grade rail crossing that is in use, on a

	bridge over a public road or waters used for commercial navigation, or within a common corridor with a railroad, that is, its operations are within 30 feet of those of any railroad.
Sources:	Train accidents: Federal Railroad Administration (FRA) Rail-Equipment Train Accident Data Base. Train miles: FRA Railroad Operations Data Base (Railroad Summary File).
Statistical Issues:	Data include all of the serious Rail-Equipment Train Accidents, most of the minor accidents including derailments, collisions, acts of God, and other events. None of the very minor accidents are recorded. Railroad operations data are also required monthly by law.
Completeness:	Railroads are required by regulation (49 CFR 225) to file monthly reports to the FRA of all Rail-Equipment Train Accidents that meet a dollar threshold (currently \$6700). 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% (higher or lower) from that initially reported. Railroad systems that do not connect with the general rail system are excluded from reporting to the FRA Casualty or Railroad Operations Databases. These include Intercity Rapid Rail (i.e., Washington, D.C. Metro, New York City subway, San Francisco BART, etc.), 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). The reported estimates are an extrapolation of 8 months of reported data from FY 2004.
Reliability:	FRA uses these 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 can result in monetary fines.

Transit Fatality Rate

Measure:	Transit fatalities per 100 million passenger-miles traveled. (CY)
Scope:	Transit fatality data includes passengers, revenue facility occupants, trespassers, employees, other transit workers (contractors), and others. A transit fatality is a death within 30 days after the incident, which occurs under the collision, derailment, personal casualty (not otherwise classified), fire, or bus going off the road categories of National Transit Database (NTD) reporting. Previous to 2002, transit involved parties were defined as patrons, employees, and others (the safety data was collected on a fiscal as opposed calendar year basis). Fatalities for the performance measurement use only transit agency Directly Operated (DO) mode data. Purchased Transportation (PT) data is not part of this measure. Certain fatalities are excluded as they are not considered to be directly related to the operation of transit vehicles. Those include suicides and fatalities occurring in parking facilities and stations, as well as fires in right-of-ways and stations. Also, the measure includes only the major

	<p>transit modes (motor/trolleybus, light rail, heavy rail, commuter rail with vanpool, automated guideway, and demand response) and excludes ferryboat, monorail, inclined plane, cable car, and jitney.</p> <p>The passenger-miles traveled on public transit vehicles (buses, heavy and light railcars, commuter railcars, ferries, paratransit vans, vanpools, etc.) only refer to miles while in actual revenue service to the general public.</p> <p>These data are reported annually by operators to the FTA National Transit Database (NTD) and to the Federal Railroad Administration’s (FRA) Rail Accident and Incident Reporting System (RAIRS). FRA RAIRS data is used exclusively for commuter rail (CR) safety data. NTD and RAIRS data are an input to FTA’s Transit Safety & Security Statistics & Analysis program (formerly SAMIS).</p>
Sources:	<p>The Transit Safety & Security Statistics & Analysis Annual Report, formerly known as Safety Management Information Statistics (SAMIS), is a compilation and analysis of transit accident, casualty, and crime statistics reported under the Federal Transit Administration’s (FTA’s) NTD Reporting System by transit systems that are beneficiaries of FTA Urbanized Area Formula funds. Starting in 2002, Commuter Rail safety data are being collected from the FRA Rail Accident Reporting System (RAIRS) in order to avoid redundant reporting to NTD.</p> <p>Transit fatalities: Transit Safety & Security Statistics & Analysis Annual Report Transit passenger miles: Transit Safety & Security Statistics & Analysis Annual Report</p>
Statistical Issues:	<p>The fatality counts in FTA’s Transit Safety & Security Statistics & Analysis are a census. The major source of uncertainty in the measure relates to passenger-miles traveled.</p> <p>Passenger-miles are an estimate derived from reported passenger trips and average trip length. Passenger-miles are the cumulative sum of the distances ridden on passenger trips. Transit authorities have accurate counts of unlinked passenger trips and fares. An unlinked trip is recorded each time a passenger boards a transit vehicle, even though the rider may be on the same journey. Transit authorities do not routinely record trip length. To calculate passenger-miles, total unlinked trips are multiplied by average trip length. To obtain an average trip length for their bus routes and rail routes, transit authorities use a FTA-approved sampling technique. Passenger-miles are the only data element that is sampled in the NTD.</p> <p>Validation based on annual trend analysis is performed on the passenger mile inputs from the transit industry. The validation is performed by statistical analysts at the NTD contractor (Veridian/General Dynamics Corp.).</p>
Completeness:	<p>The information for this measure comes from the FTA’s Transit Safety & Security Statistics & Analysis program, formerly FTA’s Safety Management Information System (SAMIS), which uses data reported by transit operators to the NTD.</p> <p>Many categories and definitions were added or changed in the new NTD in 2002, and have allowed for improvements and more timely analysis of trends and contributing factors.</p> <p>The 2004 measure is an extrapolation of partial-year data, particularly of passenger-miles traveled.</p>

Reliability:	An independent auditor and the transit agency’s CEO certify that data reported to the NTD are accurate. Using data from the NTD to compile the Transit Safety & Security Statistics & Analysis program (formerly SAMIS) data, the USDOT Volpe National Transportation Systems Center compares current safety statistics with previous years, identifies questionable trends, and seeks explanation from operators.
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Natural Gas and Hazardous Liquid Pipeline Incidents

Measure:	Incidents for natural gas and hazardous liquid pipelines. (CY)
Scope:	This measure is based on reported hazardous liquid and natural gas accidents that meet Federal reporting criteria as defined in 49 CFR 191.1 and 191.15 for natural gas transmission pipeline incidents and in 49 CFR 195.50 for hazardous liquid pipelines.
Source:	Office of Pipeline Safety (OPS) Incident and Accident Reports
Statistical Issues:	Reports are required to be submitted by the responsible operators within 30 days of an incident or face penalties for non-compliance. OPS routinely cross-checks incident/accident reports against other sources of data, such as the telephonic reporting system for incidents requiring immediate notification provided to the National Response Center (NRC). Compliance is very high and most incidents that meet reporting requirements are submitted. A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined.
Completeness:	<p>The reported estimates are based upon partially-reported data from 2004. In reporting pipeline safety, there is both a safety and environmental measure. There is a 60-day lag in reporting. Operators have 30 days to report incidents. There are more incidents in the summer than the winter. By the end of September, there were 7 months of data through the end of July. The CY 2004 estimate is based on a straight line extrapolation of that data (i.e., multiplying the cumulative incidents reported through October by 12/7ths). This estimate is adjusted that total for seasonal variability to account for the higher level of incidents in the summer months.</p> <p>Projection of the environmental measure is less precise due to the nature of pipeline spills. A single large spill (10,000 barrels or more) can easily dwarf the total for all other CY spills combined. These large spills cannot be factored into a projection model due to their magnitude and infrequent and unpredictable occurrences. Thus, projections for the remaining five months of this CY assume that there will be no large spills. In 2002, for example, the extrapolation resulted in a projection that we would meet the goal. However, in October there was a large, 33,000 barrel highly volatile liquid (HVL) spill that was not reported until it was too late to make the printed Performance Plan.</p>
Reliability:	RSPA uses these data in prioritizing its inspections and safety reviews, and for more long-term strategic management of its pipeline safety program.

Hazardous Materials Incidents

Measure:	Number of serious hazardous materials incidents in transportation. (CY)
Scope:	Serious reported hazardous materials incidents were initially defined by RSPA to be those that result in a fatality or major injury (for most purposes, an injury resulting in hospitalization) due to a hazardous material, closure of a major transportation artery or facility, or evacuation of six or more persons due to the presence of a hazardous material, or a vehicle accident or derailment resulting in the release of a hazardous material. The

	definition includes those incidents resulting in a fatality or major injury, the evacuation of 25 or more employees or responders or any number of the general public, the closure of a major transportation artery, the alteration of an aircraft flight plan or operation caused by the release of a hazardous material, or the exposure of hazardous material to fire; plus any release of radioactive materials from Type B packaging, Risk Group 3 or 4 infectious substance, over 11.9 gallons or 88.2 pounds of a severe marine pollutant, or a bulk quantity (over 119 gallons or 882 pounds) of a hazardous material. This measure tracks only transportation-related releases of hazardous materials that are in commerce. Volume of spills is not tracked, as this does not necessarily indicate risk.
Sources:	Hazardous Material Information System (HMIS)—Office of Hazardous Materials Safety (OHM) on Form DOT F 5800.1.
Statistical Issues:	Data are collected by the carrier involved in each reportable incident and submitted to DOT's Office of Hazardous Materials Safety (OHM) on Form DOT F 5800.1. Carriers are required by regulation to report incidents and face significant penalties for failing to do so. Incident reports are received continuously by OHM. Carriers are required to submit incident reports to DOT within 30 days of an incident. Once received by OHM, it takes approximately one month for incident reports to be processed and verified. The data are then made available in the HMIS database during the next monthly update. Although the number of incidents may be underreported, such recording error is probably small in comparison to the annual variation due to chance.
Completeness:	RSPA continues to receive reports from calendar year 2004. By the end of September 2004 actual incident data was received through 8/31/04. RSPA is projecting the remainder of the calendar year using the actual number of incidents that occurred during September, October, November, and December of 2003—the previous calendar year. This methodology for projecting the CY 2004 estimate is expected to be within 2-4% of the final estimate which becomes available during the second quarter of CY 2005.
Reliability:	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:	Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for acceptable ride. (CY)
Scope:	Data include vehicle-miles traveled on the HPMS reported NHS sections and pavement ride quality data reported using the International Roughness Index (IRI). IRI is a quantitative measure of the accumulated response of a <i>quarter-car</i> vehicle suspension experienced while traveling over a pavement. Vehicle-Miles of Travel (VMT) represents the total number of vehicle-miles traveled by motor vehicles on public roadways within the 50 States, Washington, D.C., and Puerto Rico.
Source:	Data for this measure is collected by the State Highway Agencies and reported to FHWA for the Highway Performance Monitoring System (HPMS). They are obtained from calibrated measurement devices that meet industry set standards. Measurement procedures are included in the HPMS Field Manual. The VMT data are derived from the FHWA's Highway Performance Monitoring System (HPMS).

Statistical Issues:	<p>The major source of error in the percentages is the sampling error due to the selection of the segments of highway tested for smoothness.</p> <p>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.</p>
Completeness:	<p>Data up to 2002 are final estimates. The 2003 measure is not available, as States report highway performance data to FHWA as late as October in the following calendar year. FY 2003 data are not complete. Even with complete FY 2003 data, projections must be made for FY 2004.</p>
Reliability:	<p>The HPMS data are collected by the 50 States, the District of Columbia, and the Commonwealth of 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 FHWA requirements. The FHWA provides guidelines for data collection in the <i>HPMS Field Manual</i>. Adherence to these guidelines varies by State, depending on issues such as staff, resources, internal policies, and uses of the data at the data provider level.</p> <p>An annual review of reported data is conducted by the FHWA, both at the headquarters level and in the Division Offices in each State. The reported data are subjected to intense editing and comparison with previously-reported data and reasonability checks. A written annual evaluation is provided to each State to document potential problems and to encourage corrective actions. Data re-submittal is requested in cases where major problems are identified.</p>

Highway Congestion

Measure:	Of total annual urban-area travel, percentage that occurs in congested conditions (CY)
Scope:	<p>Data are derived from approximately 400 urban areas. The data reflects travel conditions on freeway and principal arterial street networks. Definitions:</p> <ol style="list-style-type: none"> 1. Urban area: Developed area with a density of greater than 1000 persons per square mile. 2. Congested travel: Traveling below the posted speed limit(s).
Source:	Data collected and provided by the State Departments of Transportation from existing State or local government databases, including those of Metropolitan Planning Organizations. FHWA’s Highway Performance Monitoring System (HPMS) serves as the repository of the data. The Texas Transportation Institute utilizes HPMS data to derive the above measures.
Statistical Issues:	The methodology used to calculate performance measures has been developed by the Texas Transportation Institute and reported in their annual Mobility Study. A detailed description of TTI’s methodology is available at http://mobility.tamu.edu/ .
Completeness:	The 2002 and prior measures are final. The 2003 measure is preliminary, as partial 2003

	<p>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., 2004 actual numbers will not be available from HPMS until October 2005. The 2004 measure is a projection based on recent year trends in vehicle miles traveled (VMT).</p>
Reliability:	<p>The HPMS data are collected by the 50 States, the District of Columbia, and the Commonwealth of 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 FHWA requirements. The FHWA provides guidelines for data collection in the <i>HPMS Field Manual</i>. Adherence to these guidelines varies by State, depending on issues such as staff, resources, internal policies, and uses of the data at the data provider level.</p> <p>An annual review of reported data is conducted by the FHWA, both at the headquarters level and in the Division Offices in each State. The reported data are subjected to intense editing and comparison with previously-reported data and reasonability checks. A written annual evaluation is provided to each State to document potential problems and to encourage corrective actions. Data re-submittal is requested in cases where major problems are identified.</p>

Transit Ridership

Measure:	<p>Average percent change in transit boardings per transit market (150 largest transit agencies), adjusted for employment. (CY)</p>
Scope:	<p>The metric is average percent change in transit boardings adjusted for employment levels. The components are transit passenger boardings and employment levels within a transit market.</p> <p>The modes covered are: Motor Bus (MB), Heavy Rail (HR), Light Rail (LR), Commuter Rail (CR), Demand Response (DR), Vanpool (VP), and Automated Guideway (AG).</p> <p>Employment data are collected and reported by the Bureau of Labor Statistics.</p>
Sources	<p>Transit Passengers: Data derived from counts made on bus and rail routes by transit agencies that are beneficiaries of FTA Urbanized Area Formula funds as part of their monthly National Transit Database (NTD) Reporting System submissions. Data is collected from the 150 largest transit systems.</p> <p>Employment: Bureau of Labor Statistics Current Employment Statistics (CES) Survey.</p>
Statistical Issues:	<p>The sources of uncertainty include coverage errors and auditing issues. These data are validated by the FTA Office of Oversight’s NTD contractor staff.</p> <p>By statute, every FTA formula grant recipient in an urbanized area (defined by the Census as having a population of 50,000 or more) must report to the National Transit Database (NTD). In cities of this size, virtually every transit authority receives FTA funding, and there are only a few cities with over 50,000 persons that do not provide public transit service. Publicly-funded transit service can be directly-operated or purchased transportation.</p>

	<p>Transit authorities have accurate counts of unlinked passenger trips and fares. An unlinked trip is recorded each time a passenger boards a transit vehicle, even though the rider may be on the same journey. The sources of uncertainty include coverage errors and auditing issues. Until 2002, reports were required only on an annual basis. Beginning in 2002, monthly reports were required of the largest 150 transit operators on certain safety, service level, and service utilization statistics. It is taking some time for all transit agencies to report on a monthly basis. Through June 2004, data had been reported on a monthly basis for both 2003 and 2004 by 114 of the largest 150 transit operators. Operators reporting data represent 88 percent of nationwide transit utilization; all 150 operators represent 94 percent of nationwide transit utilization.</p> <p>Employment data are reported by Bureau of Labor Statistics. The Current Employment Statistics (CES) Survey is a monthly survey of business establishments that provides estimates of employment, hours, and earnings data by industry for the Nation as a whole, all States, and most major metropolitan areas. The CES survey is a Federal-State cooperative endeavor in which State employment security agencies prepare the data using concepts, definitions, and technical procedures prescribed by the Bureau of Labor Statistics. All estimates from a sample survey are subject to sampling and other types of errors. Survey data are also subject to nonsampling errors, such as those that can be introduced into the data collection and processing operations. Estimates not directly derived from sample surveys are subject to additional errors resulting from the special estimation processes used.</p>
<p>Completeness:</p>	<p>DOT has revised this measure to better account for the impact of economic conditions on transit use by adjusting for changes in the level of employment in each urbanized area and to improve timeliness. An increase in average transit ridership per market, adjusted for changes in employment, represents an increase in transit's share of the personal travel market.</p> <p>In order to improve the timeliness of the data reported, and to make the period being reported more comparable across areas, in the future, the measure will utilize data on transit unlinked passenger trips (used as a surrogate for passenger-miles) from the new monthly National Transit Database that was initiated in 2002. This data is to be available for the largest 150 transit operators, which account for about 94 percent of all transit ridership. Thus, for 2004, the indicator will compare transit ridership for the urbanized areas containing the 150 largest transit agencies (normalized for employment levels) for the year ending in September, 2004 with the year ending in September, 2004. Data on employment is based on monthly employment levels for metropolitan statistical areas reported by the Bureau of Labor Statistics.</p>
<p>Reliability:</p>	<p>An independent auditor and the transit agency's CEO certify that data reported to the NTD are accurate. FTA also compares data to key indicators such as vehicle revenue-miles, number of buses in service during peak periods, etc.</p> <p>FTA has undertaken a major initiative to increase ridership Nationwide. This measure has been built into all FTA senior executive performance accountabilities.</p>

Aviation Delay

Measure:	Percentage of on-time flights. (FY)
Scope:	<p>Percentage of all flights arriving at the 35 Operational Evolution Plan (OEP) airports equal to or less than 15 minutes late.</p> <p>A flight is considered on-time if it arrives no later than 15 minutes after the scheduled arrival time. This definition is used in the joint Bureau of Transportation Statistics/FAA Airline Service Quality Performance (ASQP) and Aviation System Performance Metrics (ASPM) reporting systems.</p> <p>The time of arrival of completed, scheduled passenger flights to and from the OEP 35 airports is compared to their scheduled time of arrival. The sum of flights arriving before, on, or no later than 15 minutes of scheduled arrival time is divided by the total number of completed flights.</p> <p>The FAA measures its performance in a number of ways. For years the FAA provided the number of flights delayed 15 minutes or more from carrier-filed flight plans as a measure of the FAA's ability to provide services to an accepted flight plan (OPSNET). However, carrier flight plans often did not match what was being held out to the public, and comparison of multiple-stage flight plan elapsed times to filed flight plan times could result in multiple delays being reported for a single flight. In addition, DOT collected a flight performance measure comparing actual arrival time compared to scheduled arrival time (ASQP). While designed for different purposes, the different performance measures of flight delay created confusion. With the advent of the ASPM database, the FAA can compare carrier flight plan times to scheduled times, similar to the ASQP reporting system.</p>
Sources:	The Aviation System Performance Metrics (ASPM) database, maintained by the FAA's Office of Aviation Policy and Plans, provides the data for on-time arrivals. By agreement with the FAA, ASPM flight data is filed by certain major air carriers for all flights to and from most large and medium hubs, and is supplemented by flight records contained in the Enhanced Traffic Management System (ETMS) and flight movement times provided by Aeronautical Radio, Inc. (AIRINC). Data are sufficient to complete ASPM data files for 55 airports. The 35 OEP airports are a sub-set of these 55 airports.
Statistical Issues:	None, all flight data to/from the 35 OEP airports are reported.
Completeness:	2004 data will not be finalized until about 90 days after the close of the fiscal year. Essentially the start of the next calendar year.
Reliability:	Flight schedule data is extracted from the Official Airline Guide (OAG) and compared to data from carrier records supplied under ASPM, which contains carrier computer reservation flight schedule data. Summary data are compared and supplemented with data filed monthly with DOT under 14 CFR Part 234, Airline Service Quality Performance Reports, which separately requires reporting by major air carriers on flights to and from all large hubs.

St. Lawrence Seaway System Availability

Measure:	Percentage of days in the shipping season that the U.S. sectors of the St. Lawrence Seaway are available, including the two U.S. Seaway locks in Massena, N.Y. (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
Statistical Issues:	None.
Completeness:	<p>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.</p> <p>Historically, the SLSDC has reported this performance metric for its entire navigation season (late March to late December). Unfortunately due to reporting timelines, system availability data is only reported through September in this report.</p>
Reliability:	SLSDC verifies and validates the accuracy of the data through review of 24-hour vessel traffic control computer records, radio communication between the two Seaway entities and vessel operators, and video and audiotapes of vessel incidents.

Transportation Accessibility

Measure:	<p>1. Percentage of bus fleets that are Americans with Disabilities Act (ADA) compliant. (CY)</p> <p>2. Percentage of key rail stations that are ADA compliant. (CY)</p>
Scope:	<p>Accessibility for bus fleet means that vehicles are equipped with wheelchair lifts or ramps.</p> <p>Transit buses are buses used in urbanized areas to provide public transit service to the general public. Transit buses do not include private intercity buses (e.g., Greyhound), private shuttle buses, charter buses, or school buses.</p> <p>The percentage of bus fleets that are equipped with lifts or ramps is only a partial measure of overall accessibility under the ADA as it measures only the availability of transit buses in our National fleet that can accommodate wheelchairs through the use of mechanical lifts or ramps. Accessibility for transit vehicles under the ADA includes other</p>

	<p>equipment and operational practices that are not reflected in this indicator.</p> <p>Accessibility for key rail facilities is determined by standards for ADA compliance. Transit systems were required to identify key stations. A key station is one designated as such by public entities that operate existing commuter, light, or rapid rail systems. Each public entity determines which stations on its system to designate as key by using the planning and public participation process.</p> <p>All new rail stations are required to be ADA compliant upon completion and must meet standards for new rail stations, not key stations.</p>
Sources:	<p>Compliant bus fleets: National Transportation Database (NTD).</p> <p>Compliant rail stations: Rail Station status reports to the FTA.</p>
Statistical Issues:	<p>Data is obtained from a census of publicly-funded transit buses in urbanized areas. Information on the ADA key rail stations is reported to FTA by transit authorities. These data are not based on a sample.</p>
Completeness:	<p>At a transit authority, vehicle purchases are significant capital expenditures. Vehicles purchased with FTA funds must have a useful life of 12 years. Whether a bus is purchased or leased, the equipment on the bus is recorded, including lifts and ramps. For the last 20 years, transit agencies have reported on the equipment in their bus fleets to the FTA in their annual NTD submissions. There is a census of publicly-funded transit buses in urbanized areas. It is not a sample. Urbanized areas have more than 50,000 persons, and are defined by the Census Department. By statute, every FTA formula grant recipient in an urbanized area must report to the NTD. In cities of this size, virtually every transit authority receives FTA funding. There are only a few cities of over 50,000 persons that do not provide public transit service. Publicly funded transit service can be directly operated or purchased transportation.</p>
Reliability:	<p>All data in the National Transit Data (NTD) is self-reported by the transit industry. The transit agency’s Chief Executive Officer and an independent auditor for the transit agency certify the accuracy of this self-reported data. The data is also compared with fleet data reported in previous years, and cross-checked with other related operating and financial data in the report. Fleet inventory is also reviewed as part of FTA’s Triennial Review, and a visual inspection is made at that time.</p> <p>Information on ADA key rail stations is reported to FTA by transit authorities. The FTA’s Office of Civil Rights conducts oversight assessments to verify the information on key rail station accessibility. Quarterly rail station status reports, and key rail station assessments have significantly increased the number of key rail stations that have come into compliance over the last several years.</p> <p>FTA will primarily influence the goal through Federal transit infrastructure investment, which speeds the rate at which transit operators can transition to ADA-compliant facilities and equipment, oversight, and technical assistance.</p>

Access to Jobs

Measure:	Number of employment sites that are made accessible by Job Access and Reverse Commute transportation services. (FY)
Scope:	This measure assesses one part of the Job Access and Reverse Commute (JARC) program—the number of employment sites made accessible that was 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 Job Access and Reverse Commute activities that encourage riders to use already existing sources of public transit.
Source:	FTA Grantees
Statistical Issues:	In previous years, FTA has had difficulty in getting complete information from its grantees. Changes resulting from a FTA analysis of this issue have improved grantee reporting compliance to 80 percent of those JARC grantees expected to report.
Completeness:	<p>JARC grantees are requested to report the new employment sites reached by the transportation services initiated under their grant. Approximately 80 percent of the JARC grantees have reported this data for FY 2003 and similar or better results are expected for FY 2004. FTA projects these results to estimate the total new employment sites reached by all grantees.</p> <p>The calculation methodology is based on the expenditures of selected grantees when compared to the total expenditures of all grantees during the same two-fiscal-year period. In subsequent years, FTA further proposes to supplement this approach by simplifying the data-reporting process, developing profiles of all grantees, and conducting on-site surveys to collect qualitative information about program performance from selected grantees.</p> <p>The preliminary methodology for projecting the number of employment sites reached in FY 2004 has two elements. Phase I will use existing data collected for FY 2003 to project employment sites reached, based on expenditure level. Phase 2 will involve projections based on FY 2003 and FY 2004 cumulative data that will be available in early to mid-November. Additional data will be used to project FY 2004 through the end of the FY.</p>
Reliability:	Oversight contractors review the data and contact grantees to ascertain methodologies on a sample basis, or when the information warrants review.

International Air Service

Measure:	Number of passengers (in millions) in international markets with open skies and transborder aviation agreements.
Scope:	These data are collected by DOT for all flight segments to/from a U.S. point. The data for this measure include all passengers on U.S. and foreign carrier flights to and from <i>open-skies</i> countries and Canada. This indicator reflects (barring significant, unrelated macroeconomic and political influences) the extent to which the competitive environment promoted by DOT increases travel opportunities.
Source:	U.S. air carriers file domestic and foreign data in the DOT Office of Airline Information (OAI) T-100 system. Foreign carrier data are from the T-100F database. Foreign air carriers file data for all nonstop flight segments involving a U.S. point.
Statistical Issues:	Like other counts of aviation-related activities, there are no major sources of systematic error in these data that have been quantified. However, random variation in the number and distribution of airline passengers, as well as the changes in the number of <i>open-skies</i> agreements, results in variation in the measure over time.
Completeness:	Actual data is available for FY 2004 through April 2004 only. For FY 2003, a projection was calculated using the sum of regional projections (e.g., Central America, Africa) produced by <i>power</i> modeling 12-month totals from December 2001 through April 2003. This technique underestimated actual data for FY 2003 by 3.2 percent. For FY 2004, a similar <i>linear regression</i> model of data available through April 2004 was constructed. However, there was a concern that the model would not take into consideration the double-digit growth rates that were occurring in the summer of 2004 based on data published by the International Air Transport Association (IATA). Therefore, based on the fact that modeling for FY 2003 underestimated actual data by 3.2 percent and based on the non-inclusion of double digit growth rates for the months of data missing from the FY 2004 database, we increased the actual FY 2003 data by a 7.5 percent annual growth rate based on a conservative March 2004 estimate by IATA.
Reliability:	DOT uses this performance data in managing its international aviation program, and in deciding a priority order for aviation bilateral agreement negotiations.

Details on DOT Environmental Stewardship Measures

Wetland Protection and Recovery

Measure:	On a program-wide basis, acres of wetlands replaced for every acre affected by Federal-aid Highway projects (where impacts are unavoidable) (FY)
Scope:	Measure includes acreage of wetlands associated with all Federal-aid highway projects funded during the fiscal year. To be included, wetland replacement (or investment in a wetland bank) must have begun.
Source:	State DOTs input Federal-aid related wetland degradation and replacement data into either locally-developed wetland mitigation databases or the FHWA Wetlands Management Database. FHWA compiles and reports the final data.
Statistical Issues:	The uniformity of the data is not guaranteed, since it is subject to interpretation by the State DOT. In particular, there is no uniform definition of what should be reported as acres mitigated. The FHWA has provided guidance to the States as to which mitigation activities are to be reported.
Completeness:	Data are compiled by State DOTs using local sources. A FHWA-sponsored National

	wetlands management database is under development.
Reliability:	All Federal agencies (including FHWA and other modes) must comply with National Environmental Policy Act (NEPA) and the Clean Water Act (specifically section 404(b)(1) of the CWA) regarding disruption of wetlands. These laws require agencies to identify project alternatives that would avoid or minimize impacts to wetlands as a first consideration. These alternatives are subjected to analysis under both NEPA and the Clean Water Act. Under the law, these alternatives must be chosen unless the project sponsors clearly demonstrate that they are not viable because they do not meet the project purpose and need, or will lead to other more significant environmental impacts. If, in compliance with the law, wetland disruption is unavoidable, FHWA then works to achieve this goal of wetland replacement.

DOT Facility Cleanup

Measure:	Percentage of DOT facilities categorized as No Further Remedial Action 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 Operating Administrations' activities are controlled, to a degree, by interaction and decisions made by EPA Regional personnel. This measure is current and has no missing data.
Reliability:	DOT uses this data to prioritize cleanup activities and attendant resource levels. However, there is insufficient time to complete remediation prior to the close of the FY for any sites added in the July report.

Mobile Source Emissions

Measure:	Number of areas in a transportation emission conformity lapses, 12 month moving average. (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:	FHWA and FTA jointly make conformity determinations within air quality non-attainment and maintenance areas to ensure that Federal actions conform to the purpose of State Implementation Plans (SIPs). 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 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 safety projects, and transportation control measures (TCMs) 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 (FFGA), or equivalent approvals, prior to the conformity lapse may proceed during a conformity lapse. This measure is current and has no missing data.
Reliability:	There are no reliability issues. FHWA and FTA jointly make conformity determinations within air quality non-attainment and maintenance areas to ensure that Federal actions conform to the purpose of State Implementation Plans (SIPs).

Hazardous Materials Spills

Measure:	Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines. (CY)
Scope:	<p>The Hazardous Materials Information System (HMIS) data includes spills, releases, or other incidents involving hazardous materials in commerce during the course of transportation. All modes of transportation are included except pipeline and bulk marine transportation. Data represent a census of all incidents reportable to the U.S. Department of Transportation (DOT). Federal regulations require all spills meeting the following criteria to be reported, in writing, to DOT's Office of Hazardous Materials Safety:</p> <ol style="list-style-type: none"> 1. As a direct result of hazardous materials: <ol style="list-style-type: none"> a. a person is killed or receives injuries requiring hospitalization; or b. estimated property damage exceeds \$50,000; or c. More than 50 barrels spilled. (A rulemaking proposes to lower the reporting threshold for spill amount from 50 barrels to five gallons); or d. an evacuation of the general public lasts for one or more hours; or e. a major transportation artery or facility is closed for one or more hours; or f. the operational flight pattern or routing of an aircraft is altered; or 2. Fire, breakage, spillage, or suspected contamination occurs involving shipment of radioactive materials or infectious substances; or 3. There as been a release of a marine pollutant exceeding 450 L or 400 kg; or 4. Any unintentional release of a hazardous material from a package or any quantity of hazardous waste discharged during transportation. <p>This measure tracks only releases from hazardous liquid pipelines to the environment. Natural gas pipeline releases vaporize into the atmosphere and do not have long-term</p>

	<p>significant impact on the environment, and thus are not included in this measure.</p> <p>Ton-miles shipped are derived from a database maintained by the Oil Pipeline Research Institute base on annual filings by pipeline companies with the Federal Energy Regulatory Commission (FERC). (Sources of further information on pipeline rates and data, http://www.aopl.org/pubs/interest.html, link Federal Energy Regulatory Commission.)</p>
Sources:	<p>Tons hazardous liquid materials spilled: Office of Hazardous Materials Safety (OHM) on Form DOT F 5800.1.</p> <p>Pipeline ton-miles: Post-1985 data are calculated using a base figure reported in a 1982 USDOT study entitled <i>Liquid Pipeline Director</i> and then combined with data from the Association of Oil Pipe Lines and the Oil Pipeline Research Institute. (NTS 2002)</p>
Statistical Issues:	<p>Spill data are collected by the carrier involved in each reportable incident and submitted to DOT's Office of Hazardous Materials Safety (OHM) on Form DOT F 5800.1. Carriers are required by regulation to report incidents and face significant penalties for failing to do so. Carriers are required to submit incident reports to DOT within 30 days of the incident. Any incident discovered by OHM to be reportable and for which an incident report was not submitted is referred to the Office of Hazardous Materials Enforcement, which ensures compliance with the reporting requirement. While OHM acknowledges that there is some level of under-reporting, it believes that the under reporting is limited to small, non-serious incidents. As the severity of an incident increases, it is more likely that the incident will come to OHM's attention and will ultimately be reported. These spill incidents are rare and probably not independent events.</p> <p>Post-1985 ton-mile data are calculated using a base figure reported in a 1982 USDOT study entitled <i>Liquid Pipeline Director</i> and then combined with data from the Association of Oil Pipe Lines and the Oil Pipeline Research Institute. Lack of additional information raises definitional and methodological uncertainties about the data's reliability. Moreover, the three different information sources introduce data discontinuities, making time comparisons unreliable. (NTS 2002).</p> <p>The performance measure is a ratio, so uncertainty in the denominator can have a large effect on the overall uncertainty.</p>
Completeness:	<p>The data for this measure fluctuate year to year. RSPA is studying the spill data to determine the nature of this fluctuation and improve this measure. The 2004 measure is projected by extrapolating partial year reported data.</p>
Reliability:	<p>RSPA uses this data in conjunction with pipeline safety data in prioritizing compliance and enforcement plans and in strategic management of the pipeline safety program.</p>

Aircraft Noise Exposure

Measure:	<p>Percent reduction in number of people in 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.</p>
Scope:	<p>Residential population exposed to aircraft noise above Day-Night Sound Level of 65 decibels around U.S. airports.</p>
Sources:	<p>A statistical modeling technique (the MAGENTA model) is applied using U.S.</p>

	<p>population data from the Department of Commerce, locally-developed traffic distribution (route and runway utilization), and aircraft distributions developed using the Official Airline Guide and current aircraft registration databases. The local traffic utilization data is available for the busiest U.S. airports in the form of studies developed for the FAA's Integrated Noise Model (INM). For smaller airports, a generic statistical procedure was employed.</p>
Statistical Issues:	<p>This measure is derived from model estimates that are subject to errors in model specification.</p>
Completeness:	<p>No actual count is made of the number of people exposed to aircraft noise. No military or general aviation aircraft are included in the FAA's model. Aircraft type and event level are current. However, some of the databases used to establish route and runway utilization were developed from 1990 to 1997, with many of them now over seven years old. Changes in airport layout including expansions may not be reflected. The benefits of federally-funded mitigation, such as buyout, are accounted.</p> <p>FAA has replaced the actual number of people exposed to significant noise with the percent decrease in the number of people exposed, measured from the three-year average for calendar year 2000-2002. Moving to the 3-year average stabilizes noise trends, which can fluctuate from year to year and are affected by unusual events such as the 9/11 attacks and the subsequent economic downturn. The 2000–2002 base time periods includes these events and is the same 3-year period used for the emissions goal.</p> <p>The move from actual numbers to percent helps avoid confusion over U.S. noise exposure trends caused by annual improvements to the noise exposure model. A major change to MAGENTA (Model for Assessing the Global Exposure of Noise because of Transport Airplanes) resulted in a significant improvement in the estimate of the number of people exposed to significant noise levels around US airports. Until now, the scope of the measure included scheduled commercial jet transport airplane traffic at major U.S. airports. With access to better operational data sources, the scope of the MAGENTA calculation has expanded to include unscheduled freight, general aviation, and military traffic. Last year's estimate based on the older version of MAGENTA was 289,000 people. The newer model result increased by 189,000 people due to the inclusion of the other aviation traffic from that year. Recalculation of previous year's exposure using the new model and the 3-year average shows a continued downward trend in people exposed to aircraft noise. For example, the new model estimates that the average number of people exposed in the 2000-2002 is around 375,000. It also estimates that average value for the 2001-2003 is 321,000 people. That represents a 14% reduction.</p> <p>The <i>growth</i> in the number of people exposed resulted 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 the FAA Flight Plan goal.</p>
Reliability:	<p>The Integrated Noise Model has been validated with actual acoustic measurements at both airports and other environments such as areas under aircraft at altitude. External forecasts data are from primary sources. The MAGENTA population exposure</p>

	methodology has been thoroughly reviewed by an ICAO task group and was most recently validated for a sample of airport-specific cases.
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Details on DOT Homeland and National Security Measures

Strategic Mobility

Measure:	Percentage of DoD-required shipping capacity complete with crews available within mobilization timelines. (FY)
Scope:	As of October 2004, this measure is based on the material availability of 68 ships in the Maritime Administration’s Ready Reserve Force (RRF) and 125 ships enrolled in the Voluntary Intermodal Sealift Agreement (VISA) program, which includes 47 ships enrolled in the Maritime Security Program (MSP). A second factor pertinent to this measure is the availability of sufficient licensed and unlicensed mariners to operate the available ships. The performance measure represents the number of available ships (compared to the total number of ships in the RRF and VISA) that can be fully crewed within the established readiness timelines. While other Government (primarily Military Sealift Command) owned or controlled sealift type vessels are not included in this measure, they draw their crews from the same pool of mariners. Accordingly, the availability measure is adjusted to reflect expected requirements during the early stages of a military crisis.
Sources:	Mariner availability data is compiled and measured based on data obtained from the U.S. Coast Guard Mariner Licensing and Documentation data, MARAD’s Office of Sealift Support estimates of the size of the sailing workforce and their availability for duty during a mobilization, and Department of Defense requirements.
Statistical Issues:	None.
Completeness:	2004 data is complete; nothing is considered preliminary.
Reliability:	MARAD’s data is reasonably reliable and useful in managing its reserve fleet readiness program.

DoD-Designated Port Facilities

Measure:	Percentage of DoD-designated commercial strategic ports for military use that are available for military use within DoD established readiness timelines.
Scope:	The measure consists of the total number of DoD-designated commercial strategic ports for military use that are assessed as able to meet DoD-readiness requirements on 48-hour notice, expressed as a percentage of the total number of DoD-designated commercial strategic ports. Presently there are 14 DoD-designated commercial strategic ports. Port readiness is based on monthly reports submitted by the ports and semi-annual port readiness assessments by MARAD in cooperation with other NPRN partners. The MARAD/DoD semi-annual port assessments provide data or other information on a variety of factors, including the following: the capabilities of channels, anchorages, berths, and pilots/tugboats to handle larger ships; rail access, rail restrictions, rail ramp offloading areas, and rail storage capacities; the availability of trained labor gangs and bosses; number and capabilities of available cranes; long-term leases and contracts for the port facility; distances from ports to key military installations; intermodal capabilities for handling containers; highway and rail access; number of port entry gates; available lighting for night operations; and number and capacity of covered storage areas and

	marshalling areas off the port.
Sources:	Data consists of the responses received from representatives of the port authorities for those commercial ports designated by the Department of Defense as strategic ports. Letters of inquiry are specifically addressed to senior port representatives with the most knowledge of the National Shipping Authority Port Planning Order (NSPO) issued by the Maritime Administration (MARAD). Responses are requested on a monthly basis and are due within two business days of receipt of MARAD's request. One hundred percent of the strategic ports respond. The MARAD Office of National Security Plans maintains continuing dialog between reports with respondents.
Statistical Issues:	None.
Completeness:	2004 data are current with no missing data.
Reliability:	MARAD's data is reasonably reliable according to the Bureau of Transportation Statistics and useful in managing its port readiness program.

Details on DOT Organizational Excellence Measures

DOT Major System Acquisition Performance

Measure:	For major DOT systems acquisitions, percentage of cost, schedule, and performance goals established in acquisition project baselines that are met. (FY)
Scope:	This performance measure encompasses acquisition management data for all of DOT's major systems acquisition contracts, primarily in the FAA, but also from any office procuring a major system as defined in OMB Circular A-11, and DOT's Capital Programming and Investment Control order.
Source:	Acquisition program management data from each DOT organization procuring major systems.
Statistical Issues:	Performance is measured by calculating the number of cost and schedule milestones met divided by the total cost and schedule milestones planned. This method allows each performance element (cost and schedule) within a project to be tracked separately.
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 during the annual budget preparation process, for reporting progress made in the President's budget and for making key program management decisions.

Major DOT Infrastructure Project Cost and Schedule Performance

Measure:	1. Achieve 95% of schedule milestones for major Federally-funded transportation infrastructure projects, or miss those milestones by less than 10%. (FY) 2. Achieve 95% of cost estimates for major Federally-funded infrastructure projects, or miss them by less than 10%. (FY)
Scope:	Active FTA New Starts projects with Full Funding Grant Agreements larger than

	<p>\$1 billion; FHWA projects with a total cost of \$1 billion or more, or projects approaching \$1 billion with a high level of interest by the public, Congress, or the Administration; and FAA runway projects with a total cost of \$1 billion or more.</p>
Sources:	<p>FTA: FTA uses independent reviews and third-party assessments such as the Corps of Engineers and other oversight contractors to validate the accuracy of project budgets and schedules before grantees are awarded Full Funding Grant Agreements. Project/Financial Management Oversight contractors review project budgets on a monthly basis and FTA assesses projected total project costs against baseline cost estimates and schedules.</p> <p>FHWA: The percent cost estimates and scheduled milestones for Major Projects are measured from when the Initial Financial Plan (IFP) is prepared and approved to the required Annual Project Update. The update contains the latest information about the cost and schedule for each of the Major Projects. Division Office Project Oversight Managers provide monthly status reports as a supplement to the Annual Update.</p> <p>FAA: Project cost performance for each major project is measured from cost estimates submitted by the airport sponsor to support its letter of intent (LOI) and actual expenditure data from FAA data sources (for grants) and airport sponsor submissions (for overall project cost). Project schedule performance is measured from the Runway Template Action Plan (RTAP), as specified in the National Airspace System Operational Evolution Plan.</p>
Statistical Issues:	<p>FTA: Scheduled milestone achievement is measured by the difference between the actual Revenue Operations Date and the date of the execution of the Full Funding Grant Agreement divided by the difference between the Revenue Operations Date in the Full Funding Grant Agreement and the date of execution of the Full Funding Grant Agreement. Cost estimate achievement is measured by the actual Total Project Cost divided by the Total Project Cost in the Full Funding Grant Agreement.</p> <p>FHWA: A scheduled milestone is defined as being achieved upon completion of the project. Major Projects generally require 6-10 years from an IFP to completion. Cost estimates are prepared by comparing the costs in the most recent Annual Update to the IFP estimate. Because of the small number of Major Projects, FHWA may not meet its target if only a few projects show cost increases. In FY 2004, 3 of 12 Major Projects, or 25%, exceeded the initial cost estimate by more than 10%.</p> <p>FAA: Schedule completion performance is measured for two milestones—the project design and the project construction. A project milestone is considered to meet the performance target if actual cumulative rate of completion is not more than 10 percent behind scheduled cumulative rate of completion, using the RTAP schedule as a base. For example, a 36-month schedule would allow a 3.6 month delay at any point in the schedule. In FY 2004, all of the three major runway projects met the performance target for completion.</p> <p>Cost performance now will be measured by comparing cumulative actual costs incurred at the end of each fiscal year with cumulative costs shown in the scheduled of costs submitted with the LOI application. A project will be considered to meet the cost performance target if cumulative costs are no more than 10 percent higher than projected costs in the cost schedule. For the three current major projects, the baseline of scheduled costs is \$3.4 billion. The source of this baseline cost is the most recent LOI amendment for each project, which reflects unanticipated cost overruns and project scope changes that</p>

	<p>are beyond the control of the airport sponsor. This includes costs directly or indirectly related to litigation, additional mitigation costs and material and supply cost increases due to contracting delays. Based on this measure, two of three major runway projects met the cost performance target in FY 2004.</p>
<p>Completeness:</p>	<p>FTA: This measure is current with no missing data. The information is currently tracked with an in-house MS Excel database. A Web-based database, FASTTrak, is being developed to track this type of project information in the future. The measures are calculated monthly by an FTA Headquarters Engineer, checked by the Team Leader and reviewed by the Office Director.</p> <p>FHWA: The FHWA Major Projects Team maintains the project schedules and cost estimate information in an MS Excel spreadsheet, which is updated when a Project IFP is approved and/or the Annual Update is received and accepted. The data is available and reported on a semi-annual basis.</p> <p>FAA: Federal financial commitments to airport sponsors are tracked by two automated systems, the System of Airports Reporting (SOAR) and Delphi financial system. These systems are updated immediately when a grant payment is made or a grant is amended or closed-out. The FAA relies on the airport sponsor to report actual project costs on a quarterly basis. Project design and construction milestones (scheduled and actual) are contained in the RTAP and developed by all involved FAA lines of business, the airport sponsor and airlines. The RTAP is comprised of tasks that must be considered when commissioning the runway and assigns accountability to the airport, airline, and FAA allowing early identification and resolution of issues that might impact the runway schedule.</p>
<p>Reliability:</p>	<p>FTA: Calculations of schedule achievement are based on month of this report, and not on projected Revenue Operations Date. Re-calculations of schedule and cost baselines are made to reflect amendments to the Full Funding Grant Agreements. FTA uses independent reviews and third party assessments such as the Corps of Engineers and other oversight contractors to validate the accuracy of project budgets and schedules before grantees' are awarded Full Funding Grant Agreements. FTA continues to work to improve its rigorous oversight program and has made project cost and budget performance a core accountability of every senior manager in the agency.</p> <p>FHWA: Both the IFP and the Annual Update undergo a rigorous review by the Division Office and the Major Projects Team prior to approval and acceptance.</p> <p>FAA: Reporting of Federal financial commitments to airport sponsors is done in accordance with FAA policy and guidance related to administering the Airport Improvement Program (AIP) and the authorizing statute. The FAA's AIP Branch monitors FAA regional offices for compliance with policy and guidance, including input into SOAR and Delphi, and conducts periodic regional evaluations. Actual project costs reported by the airport sponsor are verified by an annual single audit required by OMB. Such audits cover the entire financial and compliance operation of the airport sponsor's governing body. Status of the project design and construction schedule contained in the RTAP is updated quarterly, based on meetings held with the airport sponsor and airlines.</p>

Transit Grant Process Efficiency

Measure:	Percentage of transit grants obligated within 60 days after submission of a completed application. (FY)
Scope:	FTA grants obligated during a fiscal year period for major programs: Urbanized area, non-Urbanized area, and Elderly and Persons with Disabilities formula grants; Capital grants; Job Access and Reverse Commute grants; Over-The-Road Bus grants; and Planning grants.
Sources:	FTA internal databases including the Transportation Electronic Award Management (TEAM) system.
Statistical Issues:	Processing time is calculated from submission date to obligation date. \$0 dollar, non-funding grant amendments are excluded from analysis.
Completeness:	Data are current with no missing data, since FTA uses internal databases, including the Transportation Electronic Award Management (TEAM) system. All grants obligated during the fiscal year for the selected programs (see scope) are included in the original data set. In rare cases where the submission date is omitted (which prevents processing time calculation), missing dates are researched and added to the database prior to reporting. The "\$0" amendments are excluded because they are not representative of the grant processing action being tested.
Reliability:	The files that contain raw data from TEAM have been tested to ensure that all fiscal-year-to-date obligated grants are included and that data is current. Report programs screen various date fields to identify any missing or out-of-sequence dates that would skew averages; dates are corrected prior to reporting. Reconciliation reports of TEAM data are produced monthly and anomalies are explored and resolved. Detailed monthly grant processing progress reports provide management tools to the Regional Administrators, who continue to make this goal a top priority.

Disadvantaged and Women-Owned Small Businesses

Measure:	<p>1. Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses. (FY)</p> <p>2. Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses. (FY)</p>
Scope:	Includes contracts awarded by DOT Operating Administrations through direct procurement. It does not include FAA contracts exempt from the Small Business Act.
Sources:	<p>Prior to October 1, 2003, these data are derived from the USDOT Contract Information System (CIS). The CIS included all USDOT contracting activities reported to the Federal Procurement Data Center (FPDC). The new Federal Procurement Data System (FPDS) enabled the removal of all agency feeder systems government-wide. New data will come directly from FPDS.</p> <p>Data are compiled by USDOT Contracting staff from Department contract documents. Selected information is data-keyed into the FPDS computer database, which can be queried to compute the needed statistics. Data are entered into the database upon contract approval and are available for query on an as-needed basis. All USDOT contracts are enumerated.</p>

Statistical Issues:	There are no major errors present in the data. 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. Measures from the system reflected in the measure have no missing data.
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.

Environmental Justice

Measure:	Number of environmental justice (EJ) cases that remain unresolved after one year. (FY)
Scope:	Data will cover complaints filed with DOT under Title VI of the Civil Rights Act of 1964 and that have had environmental justice elements, such as allegations of substantially adverse environmental or health impact on a minority or low-income community by a transportation project. Case resolutions are actions that end or administratively close out complaints. These include such actions as determinations of no jurisdiction, withdrawals by complainants, resolutions achieved through alternative dispute resolution, findings of no violation, and negotiated settlements after discrimination findings under Title VI.
Sources:	<p>Data are collected from the entire population of interest. Data for XTRAK (External Complaint Tracking System) will cover all complaints filed with DOT that involve allegations of discrimination by an entity that received DOT funding, or in situations where DOT has statutory enforcement authority. Valid bases for allegations of discrimination include: age, color, disability, ethnicity, national origin, race, religion, and sex.</p> <p>Upon receipt of information alleging discrimination, data will be entered by the Departmental Office of Civil Rights (DOCR) staff and DOT Civil Rights office personnel. Data will be entered continuously by DOCR as cases are filed and as the responsible DOT Civil Rights office processes the case. XTRAK includes information on all external administrative civil rights complaints filed with DOT.</p>
Statistical Issues:	None.
Completeness:	<p>This indicator does not measure the impact of DOT's efforts to prevent the conditions that give rise to complaints. It does provide an initial measure of response timeliness, which is important to the public. The measure was expanded in 2000 to include the percentage of cases that remain unresolved after one year as a further indicator of the timeliness of resolution. All environmental justice cases by definition relate to the concerns of a community of low-income and/or minority people. In addition, the number of cases indicates the pervasiveness of community perception of significantly adverse environmental and health concerns.</p> <p>It should be noted that environmental justice complaints can include allegations of discrimination on the basis of low income, which is not covered by Federal civil rights statutes. Thus, although most EJ complaints are also under Title VI of the Civil Rights</p>

	<p>Act of 1964, not all are. Finally, there is no firm definition of what constitutes an EJ complaint, and thus, views can differ on what should be entered into XTRAK as an EJ complaint.</p> <p>The measure is current with no missing data.</p>
<p>Reliability:</p>	<p>Performance data are used by the DOCR and other DOT Operating Administrations in strategic management of this program.</p>

Program/Performance "Expenditure": Programs and Activities from Program Costs by Performance Areas													
OA or Office / Account & Program Activity	Outlays Plus Accruals (\$M)	Safety							Homeland Security				
		Highway Safety	Maritime Safety	Rail Safety	Transit Safety	Aviation Safety	Pipeline Safety	Hazmat Transportation Safety	Aviation Security	Coastal and Port Security	Transit and Land Border/HAZMAT Security	Strategic Mobility	Drug & Migrant Interdiction
FWHA	30,666.0	2,974.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.1	0.0
Interstate Maintenance	3,933.6	0.0											
Congestion Mitigation and Air Quality	937.2	0.0											
Surface Transportation	7,257.1	950.7											
Bridge program	3,379.0	0.0											
National Highway System	6,767.8	886.6											
Minimum Allocation	68.3	8.9											
Planning	142.4	0.0											
Federal Lands Highway	301.2	38.9											0.6
State Infrastructure Bank	0.0	0.0											
Minimum Guarantee	2,516.4	329.6											
Safety Programs	91.6	92.3											
Research and development	816.8	107.0											
Appalachian Highway System	261.5	34.3											
Other Highway Trust Funds	299.3	39.2											
Woodrow Wilson Memorial Bridge	119.6	15.7											
High Priority Projects	1,183.8	155.1											
FMCSA Programs	363.0	47.6											
Emergency Relief	177.0	0.0											
Transit Programs	160.6	21.0											
Administration	357.1	46.8											
Bureau of Transportation Statistics	36.4	4.8											
Department of Interior Allocated Programs	129.3	16.9											
Department of Transportation Allocated Programs	23.1	3.0											
Miscellaneous Highway Trust Funds	188.5	24.7											
NHTSA Programs	256.8	33.6											
Other	898.6	117.7											
Federal Highway Administration	357.1												
Program direction and coordination:	9.2												
Executive direction	1.3												
Corporate management	1.3												
Legal services	4.7												
Public affairs	0.6												
Civil rights	1.3												
General program support:	66.2												
Policy	6.5												
Research and development	9.1												
Administrative support	49.1												
Professional development	1.5												
Career development programs	0.0												
Highway programs:	33.4												
Infrastructure	6.7												
Planning and environment	11.0												
Operations	5.8												
Federal lands highway office	9.9												
Other highway programs													
Field operations and resource centers	248.3												
FWHA SUBTOTALS:	30,734.6	2,974.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	89.1	0.0

OA or Office / Account & Program Activity	Mobility & Economic Growth							Environment					Organizational Excellence
	Highway Infrastructure Condition	Transit Ridership	Transportation Accessibility	Highway Congestion	Aviation Delay	Maritime Navigation	International Air Service	Wetland Protection & Recovery	Fisheries Protection	DOT Facility Cleanup	Mobile Source Emissions	Aircraft Noise Exposure	
FHWA	21,319.9	0.0	0.0	4,459.9	0.0	0.0	0.0	308.0	0.0	1,582.4	0.0	0.0	0.9
Federal-Aid Highways													
Interstate Maintenance	3,279.2			686.0				0.0		0.0			
Congestion Mitigation and Air Quality	0.0			0.0				154.0		791.0			
Surface Transportation	4,957.3			1,037.0				50.9		261.2			
Bridge program	2,816.9			589.3				0.0		0.0			
National Highway System	4,623.1			967.1				47.4		243.6			
Minimum Allocation	46.7			9.8				0.5		2.5			
Planning	118.6			24.8				0.0		0.0			
Federal Lands Highway	205.8			43.0				2.0		10.1			0.9
State Infrastructure Bank	0.0			0.0				0.0		0.0			
Minimum Guarantee	1,719.0			359.6				17.6		90.6			
Safety Programs	0.0			0.0				0.0		0.0			0.0
Research and development	558.0			116.7				5.7		29.4			0.0
Appalachian Highway System	178.6			37.4				1.8		9.4			
Other Highway Trust Funds	204.5			42.8				2.1		10.8			
Woodrow Wilson Memorial Bridge	81.7			17.1				0.8		4.3			
High Priority Projects	808.7			169.2				8.3		42.6			
EMCSA Programs	248.0			51.9				2.5		13.1			
Emergency Relief	73.2			15.3				0.0		0.0			
Transit Programs	109.7			22.9				1.1		5.8			
Administration	243.9			51.0				2.5		12.9			
Bureau of Transportation Statistics	24.9			5.2				0.3		1.3			
Department of Interior Allocated Programs	88.3			18.5				0.9		4.7			
Department of Transportation Allocated Programs	15.8			3.3				0.2		0.8			
Miscellaneous Highway Trust Funds	128.8			26.9				1.3		6.8			
NHTSA Programs	175.4			36.7				1.8		9.2			
Other	613.8			128.4				6.3		32.3			
Federal Highway Administration													
Program direction and coordination:													
Executive direction													
Corporate management													
Legal services													
Public affairs													
Civil rights													
General program support:													
Policy													
Research and development													
Administrative support													
Professional development													
Career development programs													
Highway programs:													
Infrastructure													
Planning and environment													
Operations													
Federal lands highway office													
Other highway programs													
Field operations and resource centers													
FHWA SUBTOTALS:	21,319.9	0.0	0.0	4,459.9	0.0	0.0	0.0	308.0	0.0	1,582.4	0.0	0.0	0.9

OA or Office / Account & Program Activity	Mobility & Economic Growth							Environment					Organizational Excellence	
	Highway Infrastructure Condition	Transit Rideship	Transportation Accessibility	Highway Congestion	Aviation Delay	Maritime Navigation	International Air Service	Wetland Protection & Recovery	Fisheries Protection	DOT Facility Cleanup	Mobile Source Emissions	Aircraft Noise Exposure	Oil & Hazmat Spills	
FMCSA	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.6
Safety Operations and Programs			1.1											9.6
Administration														
Research and technology			0.2											
Motor carrier safety programs														
Motor Carrier Safety Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.8
Motor carrier grants														
Information systems														
Administration and studies														
Border Enforcement Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administration														
FMCSA SUBTOTALS:	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.4
NHTSA														
Operations and Research	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Fund														
Trust Fund														
National Driver Register	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Highway Traffic Safety Grants														
NHTSA SUBTOTALS:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Program/Performance "Expenditure": Programs and Activities from Program Costs by Performance Areas															
OA or Office / Account & Program Activity	Outlays Plus Accruals (\$M)	Safety								Homeland Security					
		Highway Safety	Maritime Safety	Rail Safety	Transit Safety	Aviation Safety	Pipeline Safety	Hazmat Transportation Safety	Coastal and Port Security	Transit and Land Border/HAZMAT Security	Strategic Mobility	Drug & Migrant Interdiction			
FRA	148.7	147.4	0.0	147.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Safety and Operations															
Salaries and expenses	147.4														
Alaska railroad liabilities	1.3														
Railroad Research and Development	47.8	1.0	0.0	44.8	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Railroad system issues	5.1														
Human factors	4.9														
Rolling stock and components	3.3														
Track and structures	8.4														
Track and train interaction	4.5														
Train control	1.2														
Grade crossings	1.9														
Hazardous materials transportation	1.4														
Train occupant protection	8.0														
R&D facilities and test equipment	2.0														
NDGPS	7.1														
Next Generation High Speed Rail	27.4	2.5	0.0	22.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
High-speed train control systems	5.3														
High-speed non-electric locomotives	9.1														
Grade crossing hazard mitigation/low-cost innovative technologies	4.9														
Track/structures technology	0.7														
Corridor planning	2.6														
MAGLEV	4.8														
Pennsylvania Station Redevelopment Project	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pennsylvania Station Redevelopment Project	0.0														
Capital Grants to the National Passenger Rail Corporation	1,173.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General capital grants	430.3														
General operating grants	743.2														
FRA SUBTOTALS:	1,397.4	150.8	0.0	214.5	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FTA	4,723.8	0.0	0.0	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	42.7	0.0	0.0	0.0
Formula Grants															
Urban formula - capital	4,358.4														
Alaska Railroad	0.3														
Clean fuels	0.0														
Elderly & disabled	124.3														
Non-urban formula	235.9														
Over the road bus	4.9														
New freedom initiative	0.0														
Capital Investment Grants	2,962.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital investment grants	2,962.0				0.6										
Transit Planning & Research	163.6	0.0	0.0	0.0	16.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0
Direct program	163.6				16.0							2.0			
University Transportation Research	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total new outlays	3.0														
Job Access & Reverse Commute Grants	83.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total new outlays	83.4														
Administrative Expenses	67.4	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Direct program	67.4				0.6							0.4			
FTA SUBTOTALS:	8,003.2	0.0	0.0	0.0	22.2	0.0	0.0	0.0	0.0	0.0	0.0	45.1	0.0	0.0	0.0

OA or Office / Account & Program Activity	Mobility & Economic Growth							Environment					Organizational Excellence	
	Highway Infrastructure Condition	Transit Ridership	Transportation Accessibility	Highway Congestion	Aviation Delay	Maritime Navigation	International Air Service	Wetland Protection & Recovery	Fisheries Protection	DOT Facility Cleanup	Mobile Source Emissions	Aircraft Noise Exposure		Oil & Hazmat Spills
FRA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3
Safety and Operations														
Salaries and expenses														
Alaska railroad liabilities														1.3
Railroad Research and Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0
Railroad system issues														
Human factors														
Rolling stock and components														
Track and structures														
Track and train interaction														
Train control														
Grade crossings														
Hazardous materials transportation														
Train occupant protection														
R&D facilities and test equipment														
NDGPS														
Next Generation High Speed Rail	0.0	0.0	0.0	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
High-speed train control systems														
High-speed non-electric locomotives														
Grade crossing hazard mitigation/low-cost innovative technologies														
Track/structures technology														
Corridor planning														
MAGLEV							1.3							
Pennsylvania Station Redevelopment Project	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pennsylvania Station Redevelopment Project														
Capital Grants to the National Passenger Rail Corporation	0.0	0.0	0.0	1,173.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General capital grants				430.3										
General operating grants				743.2										
FRA SUBTOTALS:	0.0	0.0	0.0	1,174.8	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3
FTA	0.0	4,539.5	129.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.4
Formula Grants														
Urban formula - capital		4,303.3												
Alaska Railroad		0.3												
Clean fuels			124.3											
Elderly & disabled														
Non-urban formula		235.9												
Over-the road bus			4.9											
New freedom initiative														
Capital Investment Grants	0.0	2,857.6	56.0	0.0	0.0	0.0	0.0	0.0	0.0	47.6	0.0	0.0	0.0	0.0
Capital investment grants		2,857.6	56.0							47.6				
Transit Planning & Research	0.0	135.1	7.3	0.0	0.0	0.0	0.0	0.0	0.0	2.9	0.0	0.0	0.0	0.4
Direct program		135.1	7.3							2.9				
University Transportation Research		3.0	0.0							0.0				
Total new outlays		3.0								0.0				
Job Access & Reverse Commute Grants	0.0	0.0	83.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total new outlays			83.4											
Administrative Expenses	0.0	46.7	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	18.1
Direct program		46.7	1.1							0.6				18.1
FTA SUBTOTALS:	0.0	7,581.9	277.0	0.0	0.0	0.0	0.0	0.0	0.0	51.1	0.0	0.0	0.0	25.9

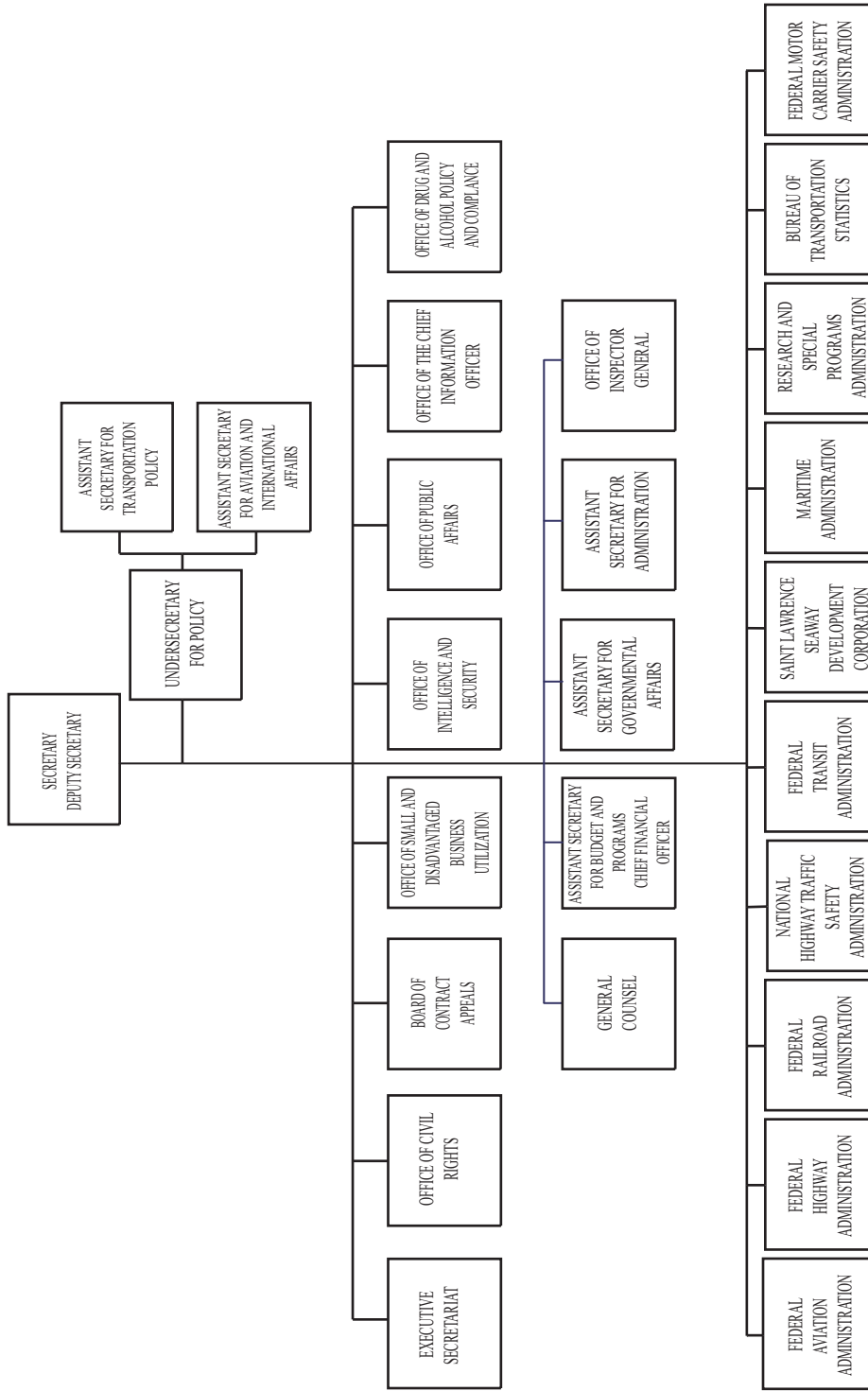
Program/Performance "Expenditure": Programs and Activities from Program Costs by Performance Areas														
OA or Office / Account & Program Activity	Outlays Plus Accruals (\$M)	Safety								Homeland Security				
		Highway Safety	Maritime Safety	Rail Safety	Transit Safety	Aviation Safety	Pipeline Safety	Hazmat Transportation Safety	Aviation Security	Coastal and Port Security	Transit and Land Border/HAZMAT Security	Strategic Mobility	Drug & Migrant Interdiction	
MARAD														
Maritime Security Program	98.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total new outlays	98.1													
Ship Disposal	19.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ship disposal	19.2													
Ocean Freight Differential	407.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ocean Freight Differential	407.0													
Operations and Training	106.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Merchant Marine Academy	55.7													
State marine schools	10.4													
MARAD Operations	40.0													
Maritime Guaranteed Loans (Title XI)	55.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative expenses	4.5													
Subsidy	30.0													
Subsidy Reestimate	20.9													
MARAD SUBTOTALS:	685.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DEPARTMENT OF TRANSPORTATION TOTALS	53,692.5	3,846.0	0.0	214.5	22.2	8,471.0	97.1	8.0	700.2	0.0	52.1	270.5	0.0	0.0
Share of Total DOT Spending Authority:	100.1%	7.2%	0.0%	0.4%	0.0%	15.8%	0.2%	0.0%	1.3%	0.0%	0.1%	0.5%	0.0%	0.0%

OA or Office / Account & Program Activity	Mobility & Economic Growth							Environment					Organizational Excellence	
	Highway Infrastructure Condition	Transit Ridership	Transportation Accessibility	Highway Congestion	Aviation Delay	Maritime Navigation	International Air Service	Wetland Protection & Recovery	Fisheries Protection	DOT Facility Cleanup	Mobile Source Emissions	Aircraft Noise Exposure	Oil & Hazmat Spills	
MARAD														
Maritime Security Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total new outlays														
Ship Disposal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.2	0.0	0.0	0.0	0.0	0.0
Ship disposal									19.2					0.0
Ocean Freight Differential	0.0	0.0	0.0	0.0	0.0	0.0	407.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ocean Freight Differential							407.0							
Operations and Training	0.0	0.0	0.0	9.7	0.0	0.0	10.6	0.0	0.0	1.7	0.0	0.0	0.0	0.9
Merchant Marine Academy														
State marine schools														
MARAD Operations				9.7			10.6			1.7				
Maritime Guaranteed Loans (Title XI)	0.0	0.0	0.0	55.4	0.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative expenses						4.5								
Subsidy														
Subsidy Reestimate														
MARAD SUBTOTALS:	0.0	0.0	0.0	65.1	0.0	4.5	417.6	0.0	19.2	1.7	0.0	0.0	0.0	0.9
DEPARTMENT OF TRANSPORTATION TOTALS	21,324.9	7,581.9	282.5	5,703.9	2,094.6	4.5	417.6	308.0	29.9	1,635.9	390.5	18.9	290.4	
Share of Total DOT Spending Authority:	39.7%	14.1%	0.5%	10.6%	3.9%	0.0%	0.8%	0.6%	0.1%	3.0%	0.7%	0.0%	0.5%	



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