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MESSAGE FROM THE SECRETARY

I am pleased to submit the U.S. Department of Transportation's Performance and Accountability Report for Fiscal Year 2008. When I was sworn in as Secretary, I pledged to find the best ways to address our most pressing transportation challenges by focusing on safety and improving system performance and reliability, all the while finding 21st century solutions to 21st century problems. I am proud to report significant progress in many areas, which you will learn more about in this report.

INCREASE SAFETY

At the Department of Transportation (DOT) we know that safety is the most important issue we address. We have made tremendous progress over the decades through a variety of solutions such as road safety improvements, auto manufacturing safety standards, commercial driver regulations, and public awareness. About 30 percent of DOT's budget is devoted to targeted safety improvement through a variety of initiatives.

Safety on our Roads

Highway fatalities account for about 95 percent of transportation fatalities each year; therefore, we devote substantial attention to targeted highway safety initiatives, such as seatbelt usage, child safety seats, motorcycle safety and rural safety.

I am proud to report that 83 percent of vehicle occupants used seatbelts during daylight hours this year, up from 82 percent in 2007. This was, in large part, due to high visibility enforcement campaigns, such as Click It or Ticket, and effective enforcement laws in 26 States. We estimate that approximately 270 lives are saved for every one percent increase in belt use.

I am also proud to report that child safety restraint use for children is at an all-time high — more than 98 percent for those less than 1 year old and 96 percent for 1 to 3 year-olds — due to the network of more than 30,000 dedicated child passenger safety technicians that DOT has helped develop over the past 10 years. When properly used, child safety restraint systems reduce fatalities by 71 percent in infants and 54 percent in toddlers. I was disappointed to learn, however, that 7 of 10 child safety seats are installed improperly, so we launched a new campaign this year that educates parents on proper installation and provides a new 5-star rating system that tells consumers which child-safety seats are easiest to install.

Our challenges in motorcycle safety require similar rider-focused solutions. In 2006, 4,810 motorcyclists were killed — an increase of 5 percent over 2005. So this fiscal year, I announced a new Departmental Action Plan to Reduce Motorcycle Fatalities and proposed legislation that would allow States the flexibility to spend available funds on helmet use education. This is a cost-effective solution that can have a more immediate impact than any new program that would require additional funding.




One other troubling safety area is that of rural roads, which carry less than half of America's traffic yet account for over half of the Nation's vehicular deaths. To address this imbalance, we launched a new Rural Safety Initiative to bring focus and a comprehensive approach to rural safety. This initiative will result in safer drivers, better and smarter roads, better trained emergency responders, and stronger partnerships to help improve safety.

Safety in the Air

We continue to meet our targets in aviation safety; however, after a series of high-profile events earlier this year raised questions about the U.S. aviation safety program, I asked an outside team of aviation and safety experts to conduct an independent review. I subsequently directed the Federal Aviation Administration (FAA) to move forward on all 13 of the safety team's recommendations in order to stay ahead of the risk factors. Already, the FAA has changed its procedures for reviewing reported findings, planned for a new automated safety data system, and developed more clear guidance to ensure that safety requirements are fully understood by both FAA field offices and the airlines.

REDUCE CONGESTION

We have seen increased mobility among Americans and now we are seeing the impacts of our very mobile society – increased congestion. Nearly 55 percent of DOT's budget goes toward congestion reduction and other mobility initiatives. Our ability to move people and goods across the domestic transportation system has become insufficient for modern transportation patterns in both passenger and cargo transport.

Congestion in Surface Transportation

Americans already lose 4.2 billion hours and 2.9 billion gallons of fuel sitting in traffic jams annually, yet highway vehicle-miles traveled (VMT) have been projected to grow substantially by 2030 making the likelihood of increased congestion probable. Therefore, I have placed considerable emphasis on congestion initiatives such as new sources of transportation financing and broad transportation reform giving state and local leaders greater flexibility to invest in their transit and highway partners.

Reliance on the Federal gas tax for financing transportation projects is not working and is actually worsening the funding problem as the price of gas rises and driving patterns change, thereby decreasing tax revenue and subsequently transportation funding. However, we have examples of state and local government shifting away from our reliance on the regressive flat fee gas tax in favor of a more equitable user fee system that charges drivers only when and where they drive.

I have proposed that we make use of efficient pricing mechanisms that can reduce the number of trips taken, alter trip routes and the time of day that trips are taken, reduce trip duration, decrease variation in travel speeds, and facilitate more pollution-efficient travel speeds. And I have proposed that we unleash the greatest new wave of investment in highways and transit this Nation has ever seen by tapping into the more than $400 billion in private-sector capital for transportation infrastructure.

I also issued a challenge to America for completely overhauling the way U.S. transportation decisions and investments are made. The proposal includes plans for fundamental changes to our Nation's surface transportation planning and management approach including:

- A fund that rewards cities willing to combine a mix of effective transit investments, dynamic pricing of highways, and new traffic technologies;
- Drastic reduction in the 100+ Federal transportation programs down to eight comprehensive, intermodal programs that focus transportation investments and cut red-tape; and
- Significant reduction in the average 13-year planning and review process it now takes to design and build new highway and transit projects.

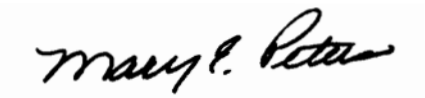
Congestion in Air Transportation

As challenging as the congestion issue is on our highways, we see similar challenges in air transportation. Almost 30 percent of flights nationally are now cancelled or substantially delayed resulting in Americans wasting $9.4 billion a year on lost time. Air travel is projected to nearly double by 2030 making this problem even worse. Fundamental changes in our air transportation system are required.

I have proposed that caps be implemented in heavily congested airports to limit the number of flights during peak hours and distribute some flights to non-peak periods. Currently, many airlines schedule more arrivals and departures into each peak hour than what runways can efficiently service, resulting in relatively predictable delays. Our proposed caps should limit these scheduling practices. I have also proposed that the rights to operate designated flights be auctioned for a five-year lease allowing us to implement market mechanisms on a small scale, gauge interest and determine a slot's true market value. The real winners will be consumers, who stand to benefit from more reliable air service that costs less in terms of both time and money by providing stronger incentives for more efficient use of resources.

But demand-based solutions represent only one facet of a comprehensive solution. We know that we are not meeting our targets for on-time performance in air travel. About 70 percent of delays are caused by weather. The trend indicates that the problem is only getting worse. By 2025, air traffic is projected to increase at least twofold placing unmanageable stress on the system. To address this challenge, over the next 20 years the Next Generation Air Traffic System (NextGen) is being deployed to improve our air traffic management procedures so that aircraft can choose more efficient routes and make quicker in-flight decisions to avoid weather and other traffic by replacing old World War II-era ground-based radar technology with satellite operations.

In conclusion, I am proud of the work we are doing at the Department of Transportation. Not only are we identifying the most significant challenges facing our Nation's transportation system, but we are also digging deeper to understand the core causal factors behind those problems to make sure we address the right things moving forward. It will take disciplined and persistent effort to continue the progress we are making in safety and to follow through on the long-term challenges we face in congestion. You will find evidence of both recent progress and long-term challenges in many areas of transportation throughout this report.



Mary E. Peters
November 17, 2008

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

As I end my career with the Federal Government, I am very pleased to note that the Department of Transportation (DOT) continues to be a leader in budget, performance and financial management. In Fiscal Year (FY) 2008 we made further progress in implementing our mission and strategies and in making effective and efficient use of DOT resources to achieve the Nation's transportation goals.

As the organizational leader for the Department's financial management, we have worked to hire well-qualified, talented financial managers throughout the Department to ensure success in overseeing the Department's finances. In March I convened the Department's financial management community to once again discuss and prepare for the challenges for the upcoming year. In light of the ever-increasing, externally-driven reporting requirements that impact the financial management community, we have emphasized the importance of training and open communication throughout the Department.

Over the past year, the Office of the Assistant Secretary for Budget and Programs and Chief Financial Officer played a key role in the development of new strategies for overseeing the Federal Highway Trust Fund and successfully managed the recent cash shortfall. We have taken a proactive approach to the issue and established a multimodal working group to prepare for the possible reoccurrence of a shortfall. We are coordinating with the Office of Management and Budget (OMB) and the Department of the Treasury and fine tuning indicators to help us determine when to implement new cash management procedures.

We continue to reinforce the Federal Aviation Administration's efforts to fund and implement the NextGen initiative to increase the capacity of the National Airspace System while maintaining the same level of safety and limiting environmental impacts. We have been supportive of the record-level transit-related dollars by ensuring that Federal dollars are appropriately leveraged along with State and local resources.

EXCELLENCE IN FINANCIAL MANAGEMENT

DOT's emphasis on improved financial management has resulted in an unqualified audit opinion this year with no material weaknesses, our seventh clean audit in the last eight years. Each year, we develop, implement and track detailed corrective action plans to ensure we resolve all audit findings, as we continue to improve our financial management business process, internal controls and financial systems.

DOT's effective financial management is highlighted by the fact that the Government Accountability Office (GAO) did not issue any major reports this year addressing DOT Financial Management and Systems. A major carryover issue from last year's audit (FAA Construction In Progress) has been aggressively addressed and the issue was reduced from a material weakness to a significant deficiency.

DOT'S PAR RATED #1 IN ALL THREE CATEGORIES

DOT is honored that our FY 2007 Performance and Accountability Report (PAR) was rated #1 for the second year in a row by the prestigious Mercatus Center at George Mason University in all three major categories: Overall Excellence, Leadership and Transparency. We were especially pleased that Mercatus described our PAR as "easy to read" – no small accomplishment for this kind of a report.

PERFORMANCE IMPROVEMENT INITIATIVE

DOT continues to be recognized for our leadership in OMB's Performance Improvement Initiative (formerly called Budget and Performance Integration). We've been rated green for the last 18 quarters for our accomplishments in both the progress and status categories.

BUDGET FORMULATION AND EXECUTION LINE OF BUSINESS

The Budget Formulation and Execution Line of Business (BFELoB) is an Electronic Government initiative to "identify opportunities for common solutions and automated tools to enhance agency budget, performance and financial information; and promote integration and standardize information exchange between budget formulation, execution, financial management and performance measurement systems, and activities across Government." As part of its BFELoB initiative, in August 2008, DOT signed a Memorandum of Understanding (MOU) with the Department of the Treasury to implement the Budget Formulation and Execution Manager (BFEM) at DOT. The initial implementation will cover three Operating Administrations: FAA, FHWA and FRA. BFEM, which was released in April 2007, is a web-based application that allows government agencies to formulate budget justifications for OMB and Congress, including the Budget In Brief. BFEM maintains historic data and will allow DOT to reduce its reliance on desktop applications to produce budget documents.

FINANCIAL MANAGEMENT BUSINESS TRANSFORMATION INITIATIVE (FMBT)

During FY 2007, my office, in partnership with the Enterprise Services Center (ESC) and the Departmental financial community, embarked on an initiative to standardize DOT business processes, develop and define requirements for an upcoming upgrade of our core financial management system, Delphi, to Oracle Federal Financials version 12i. We have also established a strategic plan to standardize the DOT financial management business model in accordance with OMB's Lines of Business Initiatives. In early 2008, the DOT financial management community established a governance structure by which this initiative would be managed. We chartered five transformation workgroups and established a Business Transformation Team (BTT) responsible for managing and coordinating the daily progress of the transformation initiatives. The FMBT has adopted the seven-phased Oracle applications implementation method as our guiding approach to this initiative. To date, the FMBT has accomplished a significant portion of Phase 1: Definition and Planning and has begun to execute Phase 2: Operational Analysis, including defining the business requirements for the new system.

IMPROVING FINANCIAL AND ACCOUNTING PROCESSES AND OPERATIONS

During FY 2008, we finalized the transition of all of DOT's accounting operations to our shared service provider, the Enterprise Services Center (ESC) in Oklahoma City. The full consolidation of accounting activities at the ESC improves communication, reduces redundant processes, gains efficiencies, and enhances internal controls through consistent application and monitoring of accounting standards and financial policies. Additionally, centralized accounting operations allows better management of resources during periods of increased

accounting activity and simplifies training for financial system updates and other accounting process changes. This change has also simplified our preparation for broader changes coming with our business transformation effort.

MEASURING IMPROVEMENTS IN FINANCIAL PROCESSES

Beginning in FY 2007, the DOT Office of Financial Management (OFM) rolled out a new department-wide initiative designed to help the Operating Administrations (OAs) recognize and reconcile longstanding data issues in their financial systems. OFM identified fourteen areas for attention and set goals for improvement. This initiative, called the FAB 14 has raised OA awareness and accountability to correct inaccurate and incomplete data by establishing performance metrics in these vulnerable areas. In FY 2008, DOT achieved improved performance on a number of these metrics such as increasing the use of electronic payments over paper checks, reducing budgetary to proprietary reconciling items, and eliminating the use of suspense accounts. One notable case of improvement has been with the Treasury Report on Receivables. Two Operating Administrations reduced their total debt eligible for referral to Treasury from over $1 million to zero in the third quarter of this fiscal year. The result is a major cleanup of pending actions that have been on hold for some time.

SYSTEMS MANAGEMENT FOR DELPHI FY 2009

DOT continues to upgrade and enhance Delphi. We successfully scheduled and accomplished six system updates, bundling technical and hardware improvements to enhance our system security, streamline business processes, and tighten our financial management internal controls.

Working together, all components of DOT's financial community have initiated a Systems Management Improvement Effort. One large component of this effort was completed in FY 2008 on the enhancement and standardization of DOT's Core Financial Management Program's (Delphi) System Change Request (SCR) and Release Management processes. These process improvements focused on analyzing and ranking SCRs, streamlining the creation and iterative development process, and improving both historical and predictive tracking abilities for the requests.

INTERNAL CONTROL AND FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA)

Over the last year, DOT instituted a three-year evaluation cycle to ensure that all key internal controls are tested regularly, in accordance with OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control requirements. As part of the three-year cycle, DOT divided its key business processes into three focus area process groups to be assessed in different years. DOT also developed a risk and materiality evaluation to identify material and/or high-risk key controls that must be tested more frequently than every three years. For FY 2008, DOT assessed the Cash Management, Credit Card Management, Procure-to-Pay, and Travel Management focus area processes for all OAs, as well as material and high-risk key controls for our material OAs.

Based on our development and implementation of corrective action plans to resolve internal control findings, DOT's Office of Inspector General has determined that our Internal Control program is in compliance with OMB requirements. In addition, DOT has enhanced its internal control program by broadening the traditional FMFIA compliance efforts to address internal controls for programs and operations. This year we

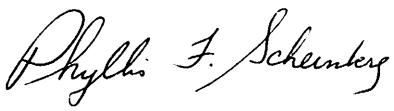
have integrated the analysis and assessment of processes across A-123 and FMFIA to better support the annual assurances required of the agency. The result has been a reduction in potentially duplicative review activities and a strengthening of the analytical basis for assurances issued by DOT executives.

FEDERAL SHARED SERVICE PROVIDER

DOT continues to operate as one of four government-wide Centers of Excellence for financial management. As a Federal Shared Service Provider through the ESC, we offer financial systems and accounting services to other agencies and provide both the benefit of best industry practices and significant economies of scale. In competitive processes during 2008, the National Credit Union Administration and the Consumer Product Safety Commission selected DOT's Delphi financial system for their own use. DOT's other external customers include the U.S. Government Accountability Office, the National Endowment for the Arts, the Commodity Futures Trading Commission, and the Institute for Museum and Library Services. Three of our external customers have also contracted with DOT's ESC to provide high-quality accounting services and we continue to market our outstanding financial system and accounting services to other Federal agencies in support of the Financial Management Line of Business of the President's Management Agenda.

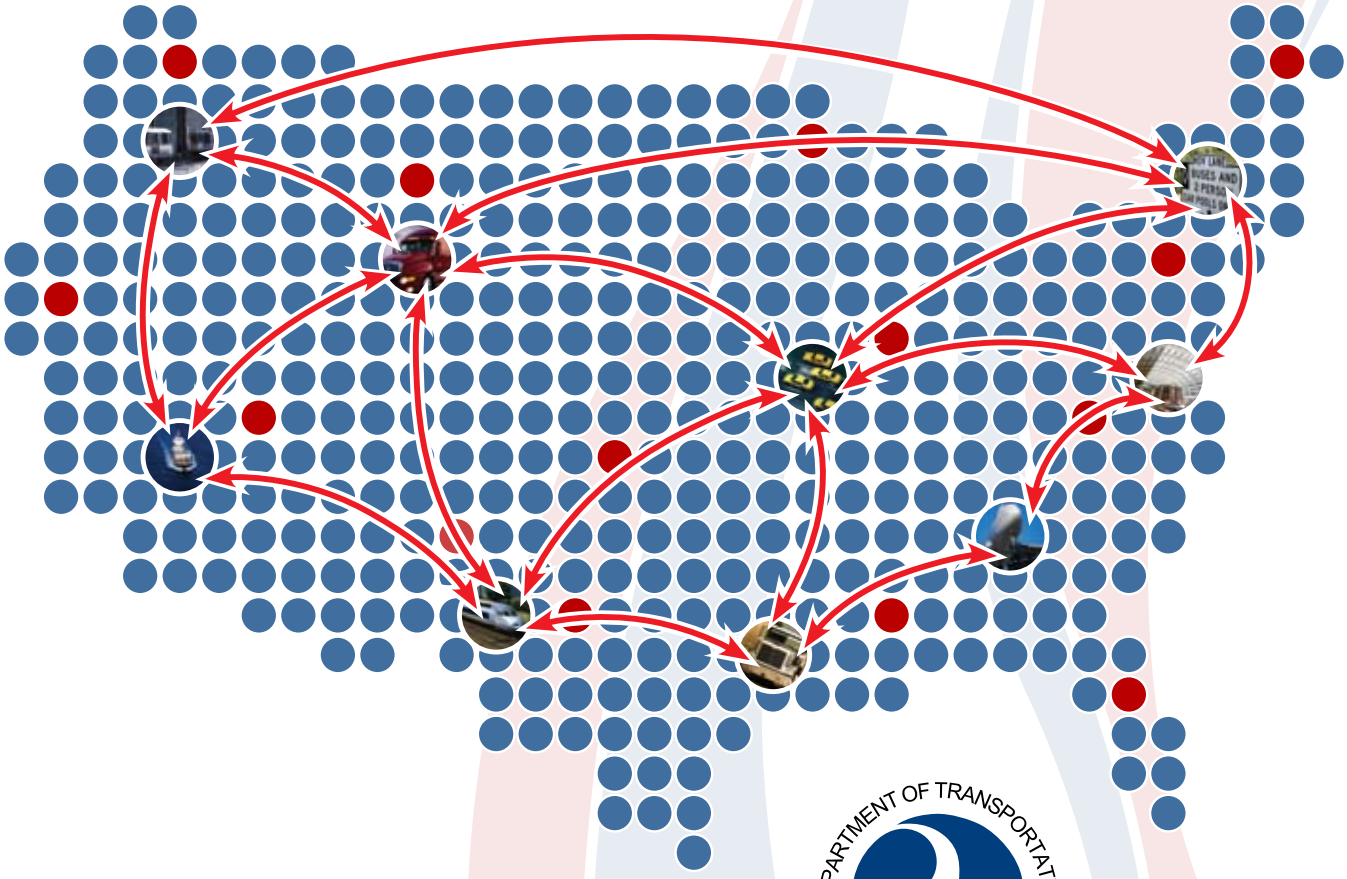
CONCLUSION

FY 2008 has been another productive year for DOT's financial community. We have continued our efforts to enhance and integrate our budget, performance and financial management programs. Looking back, I see that DOT is far ahead of where we were only a few short years ago. Building on our accomplishments, we will continue to develop and implement CFO initiatives to better demonstrate the financial and program results the American people expect and deserve. We fully support the Department's strategic goals to create a safer and more efficient transportation system for the Nation.



Phyllis F. Scheinberg
Assistant Secretary for Budget and Programs and Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS






ABOUT THIS REPORT

The Department of Transportation's (DOT or Department) Performance and Accountability Report (PAR) for Fiscal Year 2008 (Report) provides performance and financial information that enables Congress, the President, and the public to assess the performance of the Department relative to its mission and stewardship of the resources entrusted to it. This Report satisfies the reporting requirements of the following major legislation.

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

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

Additional copies of the Department of Transportation's Fiscal Year 2008 Performance and Accountability Report are available by writing to:

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

You may also view this Report online at http://www.dot.gov

HOW THIS REPORT IS ORGANIZED

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The Management's Discussion and Analysis (MD&A) section provides a summary of the entire Report. It includes an organizational overview; a summary of the most important performance results and challenges for FY 2008; a brief analysis of financial performance; a brief description of systems, controls, and legal compliance; and information on the Department's progress in implementing the President's Management Agenda. The MD&A also addresses the management challenges identified by the Department's Inspector General and a summary of the Inspector General's audit report.

THE PERFORMANCE REPORT

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

THE FINANCIAL REPORT

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




DEPARTMENT OF TRANSPORTATION MISSION AND VALUES

MISSION

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

VALUES

PROFESSIONALISM

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

TEAMWORK

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

CUSTOMER FOCUS

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

ORGANIZATION

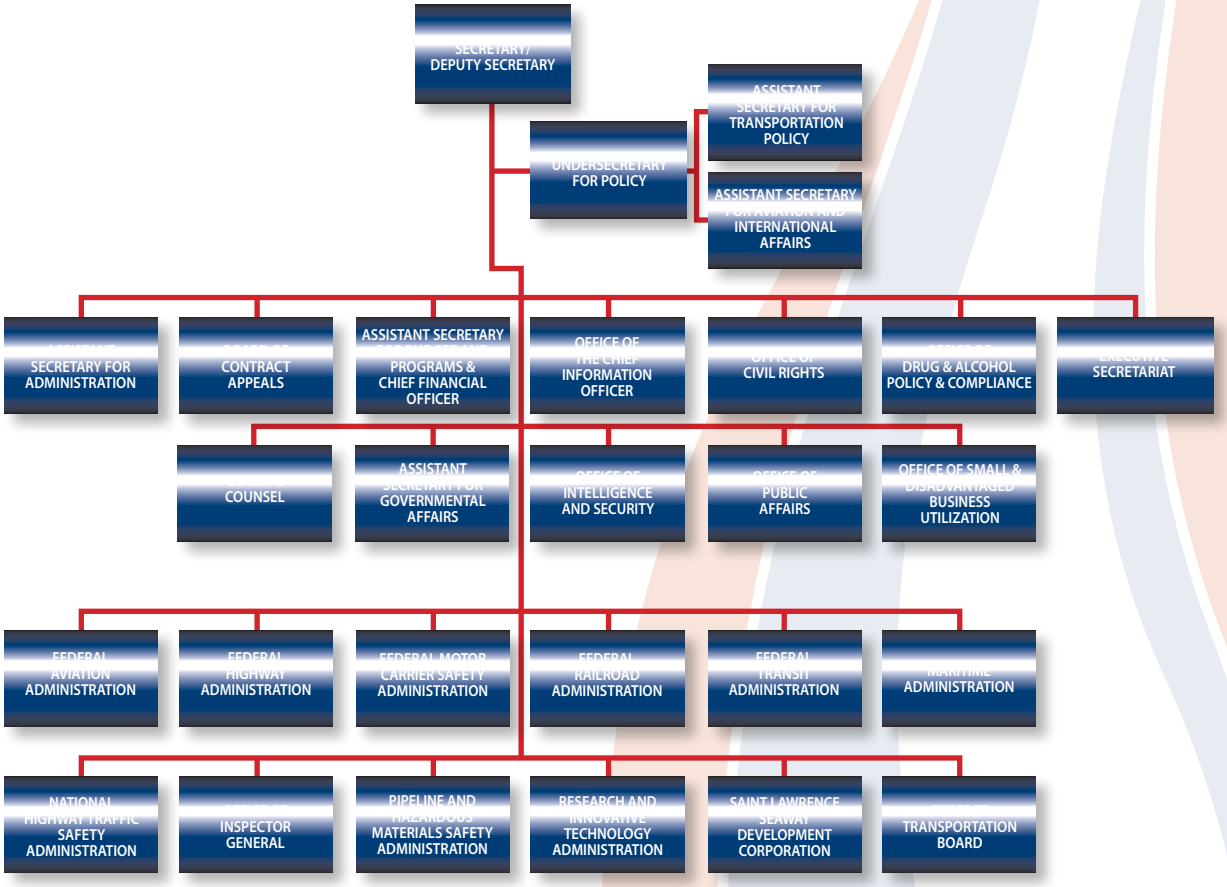
HISTORY

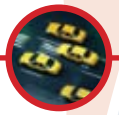
Established in 1967, DOT sets Federal transportation policy and works with State, local, and private sector partners to promote a safe, secure, efficient, and interconnected National transportation system of roads, railways, pipelines, airways, and waterways. DOT's overall objective of creating a safer,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

HOW WE ARE ORGANIZED

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

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



OVERVIEW OF LEGISLATIVE AUTHORITIES

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

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

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

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

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

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

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

Maritime Administration. The Maritime Administration's (MARAD) mission is to improve and strengthen the U.S. Marine Transportation System to meet the economic, environmental and security needs of the Nation.

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

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

Pipeline and Hazardous Materials Safety Administration. The mission of the Pipeline and Hazardous Materials Safety Administration (PHMSA) is to protect people and the environment from the risks inherent in transportation of hazardous materials—by pipeline and other modes of transportation.

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

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

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




PERFORMANCE HIGHLIGHTS

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

This Administration is working to ensure that our transportation system has the capacity to accommodate the needs of a growing and prosperous America. Below, we present the highlights of our fiscal year (FY) 2008 results in our five strategic areas: safety, reduced congestion, global connectivity, environmental stewardship and security, preparedness and response. 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 enabling the American way of life. Development of transportation systems has become a major determinant of a nation's economic success. At the same time, transportation exposes us to the risk of harm. While we have made progress in making all modes of transportation safer, the Department's top priority and central focus remains improving safety. All modes of transportation have a share in achieving our strategic safety goal: *Enhance public health and safety by working toward the elimination of transportation-related deaths and injuries.*

In the last eleven years, the Department has set two very challenging safety goals for itself. In 1997, the White House Commission on Aviation Safety and Security issued a challenge to FAA and the aviation industry to reduce the air carrier fatal accident rate by 80 percent in 10 years. In response, FAA initiated a joint Government-industry analysis of causal factors most frequently involved in aviation accidents. By 2007, aviation fatalities had declined by 57 percent.

In 1998 we announced our intention to reduce highway fatalities to 1 per 100 million vehicle-miles traveled. In the ten years that followed we made significant progress, reducing the number of highway fatalities by 1.1 percent from 41,501 in 1998 to 41,059 in 2007. Taking into account the extent of highway travel (VMT), this seemingly small reduction in the number of highway fatalities corresponds to a 13.3 percent reduction in the fatality rate, from 1.58 fatalities per 100 million (100M) VMT in 1998 to 1.37 in 2007.

Over the years we have made significant progress toward the two targets, but we have yet to meet them. We reexamined our programs and goals and decided to make some significant changes in the *FY 2006 – 2011 Strategic Plan*.

Rather than focus exclusively on the 1.0 goal in highway transportation, we have begun tracking four new measures, which reflect the spectrum of road users: passenger vehicles, motorcyclists, large trucks and buses, and non-occupants (pedestrians, cyclists, etc.). This approach will allow us to pinpoint which populations are most at risk and develop programs to address those risks. For FY 2008, we project DOT will meet the targets for three of the four measures: occupants of passenger vehicles, non-occupants, and occupants of large trucks and buses. Fatalities continue to rise, however, among motorcycle operators and passengers. We have suspected for several years that this was a point of vulnerability in highway safety and the data for the new measures are bearing this out. The Department is addressing motorcyclists and the road conditions that are hazardous for them

specifically. We have begun this process with the Transportation Action Plan to Reduce Motorcycle Fatalities. (See the report at: http://www.nhtsa.gov/staticfiles/DOT/NHTSA/Communication%20&%20Consumer%20Information/Articles/Associated%20Files/4640-report2.pdf.)

The Federal Aviation Administration has adopted a new goal: reducing the number of commercial air carrier fatalities per 100 million persons onboard by half by 2025. The new metric is more relevant because it measures the individual risk to the flying public. All fatalities, including passengers, crewmembers, ramp workers, and ground fatalities, are counted equally. FAA stayed below the target for this new metric in FY 2008. The Agency also had a successful year in general aviation; the end of April, 2008, marked a 3-year period that was the safest ever recorded in the history of General Aviation.

In September 2008, a commuter train in Los Angeles collided with a freight train, killing 25 passengers. Although this was the most serious passenger rail accident in several years, FRA still met its target for the number of rail-related accidents and incidents per million train miles. NTSB has begun an investigation to identify the cause of the accident; FRA will act on any recommendations that result.

Transit continued its long history of excellent safety, easily keeping the number of transit fatalities below .468 per 100 million passenger-miles traveled. This success is particularly notable when you realize that an increasing number of people across the country are turning to mass transit for their commute to work. In fact, passenger-miles traveled between January and June 2008 was 3.7 percent higher than the same period in 2007.

We are still finding it challenging to meet the target for the number of serious incidents for natural gas and hazardous liquid pipelines. This year's target was 40 and, based on preliminary data, we project there will be 41 serious incidents. We know that approximately three-fourths of serious incidents occur in natural gas distribution pipelines, the small diameter lines that move material from a collection point to homes and businesses. To address this issue, the Pipeline and Hazardous Materials Safety Administration (PHMSA) plans to extend the integrity management rules, which have been so effective in reducing incidents in hazardous liquid and natural gas transmission lines, to natural gas distribution systems. Implementation will begin in FY 2009, but it will be several years before we begin seeing the effects of the new risk-management approach.

The number of serious hazardous materials transportation incidents continues to decline. PHMSA works closely with other DOT agencies involved in transporting hazardous materials (FAA, FMCSA, and FRA) to address major risks.

REDUCED CONGESTION

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. Congestion in all modes of transportation, however, has increased substantially in the last decade. Whether it takes the form of commuters and trucks stalled in traffic, cargo on the docks at overwhelmed seaports, or airplanes circling crowded airports, congestion is costing America around $200 billion a year. To address this situation, the Department adopted a new strategic goal: *Reduce congestion and other impediments to using the Nation's transportation system.*

In 2006, the Secretary of Transportation announced the *National Strategy to Reduce Congestion on America's Transportation Network*. The strategy, which focuses on roads and transit systems, contains a number of initiatives to encourage variable pricing, the use of new technologies, and private sector investment in transportation infrastructure. Our goal is to reduce the rate at which congestion is increasing across the country. At 27.3 percent of travel, congestion in urban areas was below the projected level of 32.3 percent.

Pavement and bridge conditions affect congestion; the better condition the infrastructure is in, the less need for repair and rehabilitation projects that slow down the flow of traffic. This year, preliminary results suggest that slightly less than the target of 57 percent of pavement met the standards for a good ride. The percent of bridge deck area rated as either structurally deficient or functionally obsolete, however, exceeded the target. More than 29 percent of bridge deck areas needs to be replaced or repaired. The FHWA is assisting States in developing programs to repair, rehabilitate, or replace structurally deficient bridges in their inventories in order to reduce the number of structurally deficient bridges at an accelerated pace.

Transit ridership increased by 4.3 percent this year, exceeding the target of 1.5 percent. While transit agencies have increased ridership over four years with improved service and fare subsidy programs, it is fairly clear that this year's growth can be attributed to higher gas prices.

The Department seeks to increase transit ridership in general, and also to individuals with disabilities who often rely on public transportation. The Federal Transit Agency has worked with state and local transit agencies for 18 years to bring bus fleets and rail stations into compliance with the Americans with Disabilities Act. We have exceeded targets for both measurement areas once again, with 98 percent of bus fleets compliant and 95 percent of key rail stations compliant.

Aviation congestion remains a challenging issue for FAA and the Department. We missed the target for on-time arrivals for a second year; this year's target was 87.29 percent and actual performance was 87.35 percent. To help increase arrival rates, FAA evaluates new tools and technologies, redesigns airspace where helpful, adjusts separation standards between aircraft flying at high altitudes, and collaborates with airlines to manage traffic flow at specific, high-volume airports

GLOBAL CONNECTIVITY

Transportation systems within and among nations are lifelines to economic growth, less restricted trade, and greater cultural exchange. The globalization of the American economy has put pressure on our ports, borders, and airports. When combined with increasing local traffic, greater volumes of international freight and passenger traffic will result in more congestion and delay and, as a result, higher shipping and travel costs. Our strategic goal: *Facilitate an international transportation system that promotes economic growth and development* rests on two strategies: open international transportation networks and improved intermodal transportation systems.

The Department has adopted two new measures connected with efficient cargo movement: the number of freight corridors where the average speed is 55 miles per hour and the number of U.S. border crossings with an increase in operational reliability. We also continue to track the movement of vessels through the St. Lawrence Seaway. In FY 2008, all twenty-five of the freight corridors under study kept their average travel speed at 55 miles an hour, and no corridor had a decline in average speed of more than 1 mile per hour. Any decline in the average speed means it takes motor carriers longer to reach their destinations, thus increasing the cost of transportation

for the goods being carried. The target for more efficient border crossings was not met. The SLSDC narrowly missed its target of U.S. Seaway availability. We expected this gateway to the Great Lakes to be open for 99 percent of the shipping season, but the actual performance was 98.8 percent.

The Department continues to work with other countries to negotiate bilateral agreements, removing the barriers to increased service and lower fares for airline passengers. As of 2008, the Department has negotiated 90 Open Skies agreements, covering 3.94 billion potential passengers.

ENVIRONMENTAL STEWARDSHIP

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

For the third year in a row, the number of areas in a transportation emissions conformity lapse was well below the target. In fact, for the second year in a row there were no conformity lapses at all nationwide.

In FY 2008, we replaced the performance measure "Number of exemplary ecosystem initiatives initiated" with "Number of exemplary human environmental initiatives undertaken". The previous measure tracked actions that helped sustain or restore natural systems and their functions and values using an ecosystem or landscape context. We had exceeded the target by significant margins since 2004, which indicated transportation planners were increasingly aware of the environmental impact of their projects and taking steps to mitigate it. We decided to drop the measure in favor of a new, more challenging one which focuses on enhancing the human environment. This year the target was to identify 10 exemplary initiatives; FHWA received proposals for 11 projects that met the criteria.

This year, for the first time, we are presenting performance measures that indicate our success in streamlining the environmental review process. Three Operating Administrations, Federal Highways, the Federal Aviation Administration, and the Federal Transit Administration, sponsor major infrastructure projects that must comply with the National Environmental Protection Act before the projects can be started. It can take years to complete an Environmental Impact Statement (EIS). The length of time required to complete the environmental review process, referred to as the NEPA process, is a source of frustration to State and local transportation agencies. We have set ourselves challenging targets and this year's results prove how much of a challenge this effort will be. We know progress will be slow, but we are committed to streamlining the process because it will ultimately reduce the time it takes to complete major projects.

SECURITY, PREPAREDNESS AND RESPONSE

Our transportation system must remain a vital link for maintaining the country's economy, supporting civilian emergency response and mobilizing our armed forces for military contingencies. The strategic goal has been refocused to include the need for preparedness and response to natural disasters: *Balance transportation security requirements with the safety, mobility, and economic needs of the nation and be prepared to respond to emergencies that affect the viability of the transportation sector.*




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

ORGANIZATIONAL EXCELLENCE

Secretary Peters' management strategy for achieving organizational improvement includes full implementation of the President's Management Agenda (PMA). The PMA contains seven mutually reinforcing initiatives that the DOT team is integrating into its corporate culture in striving for continuous management improvement. The seven PMA initiatives are in the areas of strategic management of human capital; commercial services management; financial performance; electronic government; performance improvement; federal real property asset management; eliminating improper payments. For FY 2008, three of DOT's initiatives had green ratings and four of the initiatives had yellow ratings. A green rating means the Agency has met all the OMB requirements, whereas a yellow rating indicates that the Agency has failed to meet one or two significant requirements. An Agency that receives a red rating has met none of the major PMA requirements for the initiative in question.

FINANCIAL HIGHLIGHTS

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

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

OVERVIEW OF FINANCIAL POSITION

ASSETS

The Consolidated Balance Sheet shows the Department had total assets of $61.3 billion at the end of FY 2008. This represents a 1 percent decrease over the previous year's total assets of $61.8 billion. The largest increase of $950 million was in the increase in Direct Loans disbursements made under Transportation Infrastructure Finance Innovation Act (TIFIA) which provides credit assistance to major transportation projects.

The Department's assets reflected in the Consolidated Balance Sheet are summarized in the following table.

Assets by Type (Dollars in Thousands)		**2008**	**%**		**2007**	**%**
Fund Balance with Treasury	$	22,074,754	36.0	$	23,392,470	37.8
Investments		21,728,238	35.4		21,218,168	34.3
General Property, Plant & Equipment		14,512,568	23.6		14,683,890	23.7
Inventory and Related Property, Net		802,368	1.3		785,760	1.3
Direct Loans and Guarantees, Net		1,670,284	2.7		889,885	1.4
Accounts Receivable		303,490	.5		623,810	1.0
Cash and Other Assets		276,082	.5		237,855	0.4
Total Assets	**$**	**61,367,784**	**100.0**	**$**	**61,831,838**	**100.0**

LIABILITIES

The Department had total liabilities of $14.8 billion at the end of FY 2008. This represents a 5 percent increase from the previous year's total liabilities of $14.1 billion, which is reported on the Consolidated Balance Sheet and summarized in the following table. The largest increases were in the Debt which reflects the increase in the TIFIA loan program and; the Grant Accrual which reflects changes in grantee payment patterns.




Liabilities by Type (Dollars in Thousands)		2008	%		2007	%
Grant Accrual	$	5,810,147	39.2	$	5,526,288	39.3
Other Liabilities		4,628,380	31.2		4,727,489	33.6
Accounts Payable		1,528,335	10.3		1,591,693	11.3
Environmental and Disposal Liabilities		828,757	5.6		852,366	6.1
Debt		1,762,985	12.0		1,040,761	7.4
Loan Guarantees		258,050	1.7		336,626	2.3
Total Liabilities	**$**	**14,816,654**	**100.0**	**$**	**14,075,223**	**100.0**

NET POSITION

The Department's Net Position at the end of FY 2008 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position is $46.6 billion, a 1 percent decrease from the previous fiscal year total net position of $47.8 billion. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

RESULTS OF OPERATIONS

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

NET COSTS

The Department's total net cost of operations for FY 2008 was $66 billion.

Net Costs (Dollars in Thousands)		2008	%		2007 Restated	%
Surface Transportation	$	50,153,011	75.7	$	47,385,306	75.05
Air Transportation		15,532,121	23.4		14,814,454	23.46
Maritime Transportation		215,079	0.30		570,727	0.90
Costs Not Assigned to Programs		386,130	0.60		388,392	0.62
Less Earned Revenues Not Attributed to Programs		39,379	0.05		30,295	0.05
Cross-Cutting Programs		23,501	0.04		11,448	0.02
Net Cost of Operations	**$**	**66,270,463**	**100.00**	**$**	**63,140,032**	**100.0**

Surface and air costs represent 99.1 percent of the Department's net cost of operations. Surface transportation program costs represent the largest investment for the Department at 76 percent of the Department's net cost of operations. Air transportation is the next largest investment for the Department at 23 percent of the Department's net cost of operations. The increases in Net Cost are attributed to the Surface and Air Programs. More funding was expended to increase mobility and improve safety which are Departmental goals.

RESOURCES

BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Department for the year and their status at fiscal year-end. For the 2008 fiscal year, the Department had total budgetary resources of $133.7 billion, compared to the FY 2007 levels of $122.7 billion.

Budget Authority of $136.6 billion – which consists of $62.5 billion of appropriations received and $57 billion of borrowing and contract authority. The Department incurred obligations of $87.7 billion for the 2008 fiscal year, a 16 percent increase over the $75.8 billion of obligations incurred during 2007. Outlays reflect the actual cash disbursed against the Department's obligations. The increases in Budgetary Authority are attributed to the Surface and Air Programs. More funding was expended to increase mobility and improve safety which are Departmental goals.

HERITAGE ASSETS AND STEWARDSHIP LAND INFORMATION

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

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

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

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

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




LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

- ✧ The FMFIA requires agencies to conduct an annual evaluation of its management controls and financial systems and report the results to the President and Congress. The Secretary of Transportation then prepares an annual Statement of Assurance based on these internal evaluations.
- ✧ As a subset of the FMFIA Statement of Assurance, DOT is required to report on the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. A separate discussion on Appendix A is located at the end of this section.
- ✧ The Secretary of Transportation's has provided the President and Congress a qualified Statement of Assurance for FY 2008. The Department evaluated its management control systems and financial management systems for the fiscal year ending September 30, 2008. This evaluation provided reasonable assurance and formed the basis of the Secretary's Statement of Assurance that the objectives of the FMFIA were achieved in FY 2008.

FMFIA ANNUAL ASSURANCE PROCESS

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

Objectives of Control Mechanisms
1. Financial and other resources are safeguarded from unauthorized use or disposition.
2. Transactions are executed in accordance with authorizations.
3. Records and reports are reliable.
4. Applicable laws, regulations, and policies are observed.
5. Resources are efficiently and effectively managed.
6. Financial systems conform to government-wide standards.

- ✧ Managers within the Department, being in the best position to know and understand the nature of the problems they face, establish appropriate control mechanisms to ensure Departmental resources are sufficiently protected from fraud, waste, and abuse, and to meet the intent and requirements of the FMFIA. The head of each Operating Administration and Departmental office submits an annual statement of assurance representing the overall adequacy and effectiveness of management controls within the organization to the Department's Office of Financial Management. FMFIA material weakness and material nonconformances are also reported, citing milestones and/or accomplishments. Specific guidance for completing the end of fiscal year




assurance statement and reporting on material deficiencies is issued annually by the Department's Office of Financial Management.

CRITERIA FOR REPORTING MATERIAL WEAKNESSES AND NONCONFORMANCES

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

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

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

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

SUMMARY OF FY 2008 FMFIA MATERIAL WEAKNESSES

STATUS OF INTERNAL CONTROLS (FMFIA SECTION 2)

The DOT is reporting one material weakness, due to the non-compliance with Federal Information Security Management Act (FISMA) of 2002, and OMB requirements for security information systems and providing privacy protection of personally identifiable information (PII).

STATUS OF FINANCIAL MANAGEMENT SYSTEMS (FMFIA SECTION 4)
APPENDIX A, INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

DOT is reporting an unqualified assurance statement on internal controls over financial reporting. DOT began the first full year of the Department's Internal Control Program where it performed in-depth testing of the controls over four focus area business processes for each Operating Administration (OA). Additional testing of high-risk key controls from the remaining ten non-focus area business processes was performed for OAs whose transactions are material to the Department-wide financial statements.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

November 06, 2008

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to report on the effectiveness of the internal controls and financial systems for the U.S. Department of Transportation (DOT) during Fiscal Year (FY) 2008. This report is based on our successful implementation of Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, which provides guidance for meeting the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

The FMFIA holds Federal managers responsible for establishing and maintaining effective internal controls and financial systems. All DOT organizations are subject to Sections 2 and 4 of the FMFIA. Not included are the Saint Lawrence Seaway Development Corporation, which reports separately under the Government Corporations Control Act.

DOT is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of one material weakness reported under Section 2 regarding weaknesses in information security.

During FY 2008, DOT conducted its assessment of internal controls and compliance with applicable laws and regulations in accordance with OMB Circular A-123. Based on this evaluation, DOT identified one noncompliance with laws and regulations as of September 30, 2008. Other than the noted exception, DOT's internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control system.

The Department is pleased to report the Section 2 material weakness and Section 4 nonconformance reported in FY 2007, Timely Processing of Transactions and Accounting for PP&E, including the CIP Account, Weaknesses in the Stewardship and Oversight of Federal-Aid Projects Administered by Local Program Agencies (LPAs), and Noncompliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 as related to the financial reporting of the CIP balance, were resolved during FY 2008.

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

The DOT is reporting one material weakness, due to the noncompliance with Federal Information Security Management Act (FISMA) of 2002, and OMB requirements for security information systems and providing privacy protection of personally identifiable information (PII).

Section 4. Nonconformances in internal controls represent deficiencies in the design or operation of internal controls that could adversely affect the DOT consolidated financial statements. The DOT is reporting no nonconformances for the period from October 1, 2007, through September 30, 2008.

OMB Circular A-123, Appendix A. During FY 2008, DOT conducted an assessment of the effectiveness of internal controls over financial reporting, including safeguarding assets and complying with applicable laws and regulations. DOT management is also responsible for ensuring that proper internal controls over financial reporting are in place and are functioning effectively.

During FY 2008, DOT documented and tested entity level controls over the control environment within all of its operating administrations. We documented and tested the following focus areas: Procurement and Accounts Payable; Credit Card Management; Cash Management, and Travel Management. Additionally, DOT identified and tested key high risk areas, due to their significance to the Department's financial statements. This is also the first year that DOT conducted a full assessment of the Department's internal control over financial reporting using a comprehensive risk-base approach. Based on the results of the Appendix A evaluation, DOT is reporting an unqualified statement of assurance

DOT has made substantial progress in enhancing its internal controls and financial management program. Additional enhancements are planned and underway in FY 2009.

Respectfully,

Mary E. Peters




FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies' financial management systems provide reliable financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, financial management systems must substantially comply with three requirements — Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL). In addition, agencies must determine annually whether their systems meet these requirements. This determination is to be made no later than 120 days after the earlier of (a) the date of receipt of the agency-wide audited financial statement, or (b) the last day of the fiscal year following the year covered by such statement.

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

FFMIA OF 1996 NONCOMPLIANCE ISSUES

The Department is pleased to report the Section 4 noncompliance as related to the financial reporting of the CIP balance was resolved during FY 2008.

FFMIA OF 1996 FINANCIAL MANAGEMENT SYSTEMS STRATEGY

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

In FY 2008, DOT enhanced its standardized release schedule for installing Delphi patches, enhancements and upgrades. The Office of Financial Management (OFM) Financial Systems Team and the Enterprise Services Center (ESC) Delphi Team worked with customers to identify, develop, test and coordinate six separate release deliverables. For FY 2008 the hardware and software releases have been decoupled so that technical infrastructure and application changes are in different releases. This release schedule assured more complete testing of patches and enhancements, allowed thorough design and review of hardware upgrades and greatly improved communication and understanding of changes made to the system. The Department was especially focused on upgrades needed to keep pace with vendor support requirements. In order to successfully migrate the Delphi Oracle Database to a new operating system in Mid 2009, a new middle tier was implemented and the Discoverer and Web reporting servers were replaces with modern technology. Communication was facilitated with timely and effective "Go To" on-line web-based meetings between the OAs, ESC and OFM.

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

Throughout FY 2008 DOT has continued to refine the Delphi System Change Request (SCR) Process. The bulk of the work undertaken in FY 2008 to refine the process is being implemented in the first quarter of FY 2009. Major deliverables include, modifying the SCR Request document into a standardized Business Case Document that is used by all OAs, the Enterprise Service Center and the Office of Financial Management, Streamlining the SCR Process flow to ensure that all organizations have early visibility of all SCRs and modifying the Delphi SCR Tracking system (Kintana) to allow visibility of all SCRs scheduled for particular releases, and support the customers prioritization of business cases.




FEDERAL INFORMATION SECURITY MANAGEMENT ACT

FISMA requires Federal agencies to identify and provide security protection commensurate with the risk and magnitude of harm resulting from the loss of, misuse of, unauthorized access to, disclosure of, disruption to, or modification of information collected or maintained by or on behalf of an agency. FISMA and its predecessor, the Government Information Security Reform Act (GISRA), required that Inspectors General to evaluate agencies' information security programs and practices.

The Department has 13 Operating Administrations that, for Fiscal Year (FY) 2008, reported a total of 425 information systems, of which 62 percent belong to the Federal Aviation Administration (FAA). Among the systems the Department maintains and operates is the air traffic control system, which the President has designated as part of the critical national infrastructure. Other systems owned by the Department include safety-sensitive surface transportation systems and financial systems that are used to manage and disburse over $50 billion in Federal funds each year. In FY 2008, the departmental IT budget totaled about $2.8 billion.

This year's IG report indicates that the Department's information security program and practices are not effective. Consequently, the Department is not in compliance with FISMA and OMB requirements for security information systems and providing privacy protection of personally identifiable information (PII). Last year we reported that the overall effectiveness of DOT's information security program declined because management had to divert resources and attention to resolving Headquarters move-related issues. While we observed some operational improvements, we nonetheless continued to see a decline in the Department's program and practices. Our prior year's information security-related recommendations have not been fully implemented.

Developing a robust information security program, including implementation of our current and prior years' recommendations, requires (1) the Chief Information Officer (CIO) Office to effectively oversee Operating Administrations' implementation of departmental policies/guidance, and (2) stability in the Office of the Chief Information Security Officer (CISO). However, when compared with some of his counterparts in other Federal agencies and other appointed officials within the Department, the DOT CIO has limited influence on Operating Administrations. Unless there are management or budgeting consequences, Operating Administrations are likely to continue the practice of not effectively implementing departmental policies/guidance. As a result, the IG has made a recommendation to increase Operating Administrations' accountability.

During FY 2008, the Department's performance was also hindered by significant turnover in the Office of the CISO. Consequently, the Department has not established adequate policies or procedures to implement and maintain an effective Department-wide information security program or to address key OMB privacy requirements.

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

SAS-70 REVIEW ON DOT'S FINANCIAL MANAGEMENT SYSTEM

The SAS-70 report summarizes the results of a review of general, application, and operational controls over the DOT Enterprise Services Center (ESC). The ESC performs services including accounting; financial management; systems and implementation; media solutions; telecommunications; and data center services for DOT and other Federal organizations.

This is the fourth year that a SAS-70 audit has been conducted on DOT's Delphi financial system. The ESC provides accounting and financial management systems and services for DOT and other Federal agencies. Delphi is hosted, operated and maintained by Federal Aviation Administration employees at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma, under the overall direction of the Departmental Chief Financial Officer.

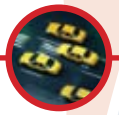
ESC is one of four Federal Shared Service Providers designated by the Office of Management and Budget to provide financial management systems and services to other government agencies. ESC supports other Federal entities, including the National Endowment for the Arts, the Commodity Futures Trading Commission,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

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

The Clifton Gunderson SAS-70 audit report dated July 31, 2008 concluded that management's description of controls for the Delphi Financial Management System presents fairly, in all material respects, the controls that had been placed in operation as of June 30, 2008. Clifton Gunderson recommended several enhancements to strengthen Delphi controls further; DOT has already implemented many of these recommendations and is implementing the remaining corrective actions. The operational environment enabled auditors to rely on Delphi system controls in conducting this year's financial statement audits.

FOLLOW UP REVIEW

Since the issuance of its July 31, 2008 report, Clifton Gunderson completed a follow-up review covering the period from June 30, 2008 through the September 30, 2008 fiscal year end. The purpose of this follow-up review was to determine whether any significant changes had been made to Delphi's operating environment. The follow-up review documented the corrective actions that have been implemented to strengthen Delphi controls in accordance with the SAS-70 recommendations. The full OIG report can be found on their web site at www.oig.dot.gov.

IMPROPER PAYMENTS INFORMATION ACT OF 2002

In FY 2008, the Department fully implemented the Improper Payments Information Act of 2002 (IPIA), which requires that agencies: (1) review programs and identify those susceptible to significant improper payments; (2) report to Congress on the amount and causes of improper payments; and, (3) develop approaches for reducing such payments.

In FY 2008, the Department successfully completed its review of the Federal Highway Administration (FHWA) Federal-aid Highway Program, Federal Aviation Administration (FAA) Airport Improvement Program, and the Federal Transit Administration (FTA) Formula Grants Program and Capital Investment Grants Program.

In FY 2008, the Department re-engaged AOC Solutions, Inc. to develop a nationwide sampling plan, collect the results from the application of test procedures, and provide a nationwide estimate of improper payments for Federal-aid Highway Program, Airport Improvement Program, Formula Grants Program, and Capital Investment Grants Program. With respect to the Formula Grants Program, as in FY 2007, in FY 2008 the sampling plan, test procedures, and test results only applied to the grantees covered by the FTA's Formula Grant Triennial Review Program, which represents approximately one-third of the grantee population. 49 U.S.C. 5307 prescribes a triennial review of all Formula Grant grantees. OMB Circular A-123, Attachment C, paragraph F provides for alternative approaches, including determining the amount of improper payments for components, such as those addressed in the foregoing statute.

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

FHWA FEDERAL-AID HIGHWAY PROGRAM

The Department developed and executed a sampling plan to test project payments and estimate the amount of improper payments nationwide. The FHWA executed the nationwide testing program using personnel from the FHWA division offices and covered Federal payments to grantees over the twelve-month period March 1, 2007 through February 29, 2008.

The IPIA sampling plan involved a multi-staged statistical approach that included the selection of 40 Federal payments totaling $109,732,056, 49 state payments totaling $30,910,426, and then 182 testable line items from supporting invoices totaling $20,733,729 for testing. As in FY 2007, the FY 2008 sample was designed to support a nationwide estimate of improper payments; it was not designed support an estimate for each state and territory grantee. States and territories that did not appear in the IPIA sample were subjected to a similar sampling process under the FHWA's Financial Integrity Review and Evaluation (FIRE) program.

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

Improper payments totaling $149,035 were found in the sample of 182 tested items. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $55.1 million +/- $4 million. The estimated improper payment rate is .17% +/- .01%. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from factors such as underpayments related to retainage not covered by contract provisions and incorrect calculations.

The FHWA has implemented its FIRE Program to monitor State and territory payments and provide a mechanism for assisting these entities with effectively addressing operational issues that result or could result in improper payments.

FTA FORMULA GRANTS PROGRAM

FY 2008 was the second year of nationwide coverage of the FTA Formula Grants Program. FTA executed the nationwide testing program for grantees covered by the 2008 Triennial Review Program using contractor personnel. The review covered the twelve-month period March 1, 2007 through February 29, 2008.

The sampling plan involved a multi-staged statistical approach that included the selection of 8 Federal payments totaling $95,650,747; 24 transportation authorities' payments totaling $29,989,649; and then 44 testable line items from supporting invoices totaling $10,657,250 for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Potential improper payments totaling $199,874 were found in the sample of 44 tested items. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $47.6 million +/- 5.3 million. The estimated potential improper payment rate is 5.63% +/- .63%. This projection meets OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments). The FTA believes this finding is inconclusive for reasons discussed below.

The potential improper payments reported are attributable primarily to the absence of documentation in support of the fringe benefit rate used to recover fringe benefits allowable under the Formula Grants Program. While such costs are allowable charges, OMB Circular A-87, Attachment E, requires that fringe benefit charges to Federal programs be supported by formal documentation and retained in accordance with the records retention provisions of the Grants Management Common Rule. The FTA believes that because as a general rule these costs are allowable, the FTA should validate the grantee's methodology prior to a final determination on payment propriety of this finding.

The FTA will advise grantees of the provisions of OMB Circular A-87 with particular attention to the requirement that fringe benefit and indirect cost rates used for cost reimbursement be documented and retained for audit and program review. Finally, the FTA will assess the feasibility of follow-up actions to assess the extent to which grantees covered by the 2009 review are addressing deficiencies that resulted in improper payment determinations.

FTA CAPITAL INVESTMENT GRANTS PROGRAM

FY 2008 was the first year in which the FTA executed a sampling plan to provide a nationwide estimate of improper payments for this program. In FY 2007 the FTA developed a model for use in estimating the amount of improper payments.




The sampling plan involved a multi-staged statistical approach that included the selection of 10 Federal payments totaling $321,661,382; 31 transportation authorities' payments totaling $35,783,951; and then 66 testable line items from those payments totaling $12,804,680 for testing. The test procedures applied to the line items were designed to test a range of administrative and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $43,672 were found in the sample of 66 tested items. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $87 million +/- $6 million. The estimated improper payment rate is 3.13% +/- .23%. This projection meets OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from draw-downs in excess of federal participation share. The grantee refunded known improper payments.

The FTA will advise grantees of actions needed to ensure reimbursement requests are in accordance with grant cost sharing or matching requirements.

FAA AIRPORT IMPROVEMENT PROGRAM (AIP)

The FAA developed and executed a sampling plan to determine the amount and cause of improper payments in the Airport Improvement Program. The FAA review covered the twelve-month period March 1, 2007 through February 29, 2008.

The sampling plan involved a multi-staged statistical approach that included the selection of 30 Federal payments to sponsors totaling $48,796,094; 30 sponsor payments to contractors totaling $37,107,109; and then 63 testable line items from contractor invoices totaling $15,390,373 for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $658.44 were found in the sample of 63 tested items. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $.973 million +/- $0.128 million. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The known improper payments are attributable to unexplained differences between payments to sponsors and payments to contractors.

The FAA will advise field personnel and sponsors of the need to establish control procedures for ensuring agreement between payments and requests for Federal reimbursement.

SCORECARD ON THE PRESIDENT'S MANAGEMENT AGENDA

The original President's Management Agenda was comprised of five government-wide and nine-agency specific goals to improvement federal management and deliver result to the American public. In the original baseline scorecard, the Department of Transportation received a score of red for human capital, competitive sourcing, financial management, and e-government. We received a yellow for budget and performance integration, now called Performance Improvement.

In the last six years the Department has made significant progress and ends FY 2008 with three green and four yellow scores across seven initiatives. For more information on activities in FY 2008, please see the Organizational Excellence chapter in the Performance Report.

These scoring indicators relate to the Department's "Status" score that reflects a collection of results in each initiative, usually in the form of "percentage complete" or other indicator of the current state. Scores for "Progress" are also provided that reflect accomplishment of recent actions and lead in to very near-term plans for continued improvement.

KEY

- A green score indicates full success in achieving the elements of the initiative
- A yellow score indicates substantial success in achieving the elements of the initiative
- A red score indicate that insufficient success has been achieved against the elements of the initiative

More information about the President's Management Agenda can be found on the White House Office of Management and Budget website at http://www.whitehouse.gov/omb/budintegration/pma_index.html.

FY 2008 Status	PRESIDENT'S MANAGEMENT AGENDA INITIATIVES	FY 2008 Progress
●	HUMAN CAPITAL INITIATIVE	●
Develop a Department-wide human capital workforce strategy to address future workforce gaps, eliminate skill gaps in critical occupations, develop performance-based incentives for the workforce, ensure citizen-centered, delayered, and mission-focused organizations; strengthen leadership skills, and ensure a robust leadership pipeline; improve the measurement and evaluation of human capital strategies; and integrate e-Government and Competitive Sourcing strategies.		
●	COMMERCIAL SERVICES MANAGEMENT	●
Improve the consistency for defining commercial and inherently governmental inventories across the Department. Identified competable activities, provided strategic direction for competitive sourcing and human capital initiatives, and developed and shared high-quality intellectual capital within the Department and other agencies.		




FY 2008 Status	PRESIDENT'S MANAGEMENT AGENDA INITIATIVES	FY 2008 Progress
🟡	**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.		
🟡	**ELECTRONIC GOVERNMENT**	🟢
To better justify and track costs and performance of information technology projects, as well as participate in government-wide initiatives that automate and simplify how the public deals with the government and reduce redundancies and increase efficiencies across government-wide.		
🟢	**PERFORMANCE IMPROVEMENT**	🟢
To better integrate budget and performance functions by integrating respective staff work; developing plans and budget with outcome goals, output targets, and resources requested in the context of past results; charging full budgetary costs of programs; and documenting program effectiveness.		
🟡	**ELIMINATING IMPROPER PAYMENTS**	🟢
Develop financial management systems capable of producing more timely and accurate information, and eliminating improper payments to DOT vendors/customers.		
🟢	**REAL PROPERTY**	🟢
Use sound real property management of real property resources for diverse transportation missions, maintaining the quality of real property assets managed, and disposing of assets that are no longer required.		

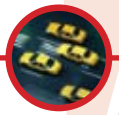
OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

DOT'S FINANCIAL MANAGEMENT BUSINESS TRANSFORMATION INITIATIVE

The Financial Management Business Transformation (FMBT) is a multi year initiative that is sponsored by the Office of Financial Management (B-30). The FMBT is planned, executed and managed as a collaborative effort across the Department's financial management community in order to achieve the goals set collectively by the financial management community in 2007. The FMBT was launched in response to multiple drivers both internal and external to the Department. Currently, many of the Operating Administrations (OAs) use multiple and redundant reports and reporting tools to communicate similar financial information, resulting in an inability to share the right information with the right people at the right time in the most cost effective manner. Additionally, many OAs use different, OA-specific guidelines to conduct similar accounting transactions. As a result, the Department is unable to take full advantage of the economies of scale available through the consolidated accounting operations at the Enterprise Service Center (ESC) and the significant improvements in functionality that will result with our next application (Oracle) upgrade. Furthermore, each OA has a different Accounting Code Structure which is not aligned with OMB's new, required Common Government Accounting Code, and we are currently unable to roll up financial information Department-wide. Finally, the Department is still cleaning up data from the first conversion to Oracle, and a data clean-up and conversion strategy are required before moving to the next Oracle platform.

During FY 2007, B-30, in partnership with ESC and the Departmental financial community, embarked on an initiative to standardize DOT business processes, develop and define requirements for future financial management system upgrades and establish a strategic plan to standardize the DOT financial management business model in accordance with OMB's Lines of Business Initiatives. The focus areas of the FMBT Program fall into five main categories, and each area has several goals:

1. Reporting and Information Sharing
    a. Achieve a fully integrated reporting environment and design an Oracle/Delphi/OA common reporting inventory
    b. Enable Department-wide roll-up of cost and performance data and improve data quality and integrity
    c. Design future systems to most effectively support internal and external customers' requirements
    d. Develop a shared reporting solution and tools to exchange data/information with common internal and external systems
    e. Refine our interface strategy by defining rules that eliminate redundancies and maximize integration
    f. Successfully respond to current and proposed OA, OMB, Treasury, and other internal/external reporting requirements
2. Business Process Reengineering
    a. Reengineer business systems and processes across the Department in order to take full advantage of future system functionality and achieve economies of scale with consolidated accounting services

b. In partnership with the DOT Office of Procurement, implement a fully integrated procurement solution

c. Develop formal policies to support optimal communication with all stakeholders of financial management information across the Department

d. Develop a formal process to guide decisions and future investments

3. Data Management
   a. Develop and implement a Department-wide Accounting Code Structure (ACS) that is aligned with OMB's Common Government Accounting Code
   b. Develop and execute data clean-up plan across all OAs
   c. Develop and execute data conversion plan across all OAs
   d. Develop and implement a Department-wide future data management strategy

4. Current System Set-Up
   a. Prepare to convert and manage the transition from the current system set-up (Oracle 11.5.10) to Oracle Financial release 12iFSIO effectively
   b. Refine the release management process
   c. Refine the system change request (SCR) process
   d. Understand Delphi's role in the Department's Enterprise Architecture (EA)
   e. Develop and implement an archiving and purging strategy for Delphi and any future system
   f. Successfully respond to current and proposed security requirements

5. Future System Set-Up
   a. Develop and manage an overarching implementation strategy for future systems that incorporates FMBT decisions and includes training and communications plans
   b. Analyze hardware requirements for the transition period to future systems and recommending a hardware solution for the future state
   c. Successfully respond to current and proposed security requirements for future systems and ensuring compliance

In 2007, the CFOs from each DOT OA agreed to come together as a single decision-making body to develop and implement a single set of requirements for the Department's new financial system. Since this time, stakeholders across the Departmental financial, procurement and IT community have shown unanimous support for this initiative, by participating in visioning conferences and decision-making forums. The end result of FY 2007 was the signing of charter documents for the FMBT governance structure and workgroups and the establishment of the Business Transformation Team (BTT), the group responsible for the day-to-day management of the FMBT.

In FY 2008, the BTT focused on establishing a governance structure by which this program will be managed; chartering five workgroups responsible for accomplishing each of the five goals listed above; and established a Business Transformation Team (BTT) responsible for managing and coordinating the daily progress of the transformation initiatives.

INSPECTOR GENERAL'S FY 2008 TOP MANAGEMENT CHALLENGES

DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL APPROACH

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

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

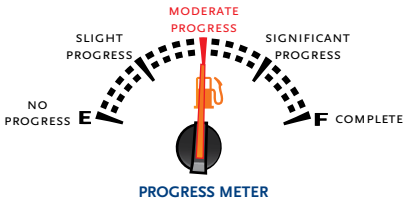
As required by OMB Circular A-136, the OIG's report briefly assesses DOT's progress in addressing the challenges identified. To track management challenges identified from year to year, the OIG provides an exhibit to the report that compares the current list of management challenges with the list published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

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

1. MANAGEMENT CHALLENGE: CONTINUING TO ENHANCE OVERSIGHT TO ENSURE THE SAFETY OF AN AGING SURFACE TRANSPORTATION INFRASTRUCTURE AND MAXIMIZE THE RETURN ON INVESTMENTS IN HIGHWAY AND TRANSIT INFRASTRUCTURE PROJECTS.

- Targeting oversight actions to ensure the safety of tunnels and bridges

Recent tragic highway incidents underscore the need for FHWA to ensure that its oversight actions target tunnels and bridges that represent high-priority safety risk so that problems are identified, evaluated, and remediated in a timely and thorough manner.



Tunnels

Currently there are no national standards regarding the design, construction, inspection, operations and maintenance of highway tunnels in the Nation. The Federal Highway Administration (FHWA) and the American Association of State Highway Transportation Officials (AASHTO) are working together to provide guidelines and manuals for inspection, maintenance and management of tunnels. As an example, FHWA completed a two-day workshop on tunnel engineering in July that provide an opportunity to gather experts in tunnel ventilation, computer modeling, tunnel operation and response, and to formulate criteria for creation of a pilot program on tunnel fires. Short-term and long-term research, deployment and education programs are needed to assure the safety, reliability and efficiency of our highway tunnels. As such, there are a number of initiatives being considered or under development. In FY 2009, FHWA will develop a pilot program for computer modeling of fires in a tunnel. FHWA will also release a Highway Tunnel Design and Construction Manual that focuses on Construction, Inspection, Operation and Maintenance.

Following the collapse of a section of a suspended ceiling in the Central Artery Tunnel in Boston, the FHWA moved quickly to conduct an investigation of the collapse and to ensure safety of existing and new tunnels. FHWA issued a Technical Advisory to provide guidance and recommendations regarding the use and in-service inspection of adhesive anchors in sustained tension applications on all Federal-aid highway projects. Over the longer term, FHWA plans to develop a National Tunnel Inspection Program. An Advanced Notice of Proposed Rule Making (ANPRM) was drafted and is awaiting final signature before being published in the Federal Register. The development of the program will likely take from three to five years to completed beginning with the rulemaking process. Following the publication of a Final Rule, a Tunnel Inspection training program will be developed. In addition, FHWA and the AASHTO-20 Tunnels Committee members are coordinating efforts to conduct a domestic scan on Tunnel Management Practices in the near future. FHWA continues to work with AASHTO to advance tunnel technologies through research and other cooperative technology transfer efforts: These continuous efforts and exchanges ensure that tunnel owners have the option to use best available practices.

Bridges

FHWA continues to provide stewardship and oversight of the National Bridge Inspection Program and the Highway Bridge Program to assure compliance with applicable laws and regulations and the use of best practices in design, construction, inspection, and evaluation of highway structures. FHWA conducted National Bridge Inspection Standards (NBIS) compliance reviews in nearly every State, and provided States with reports of findings and recommendations.

Through risk assessments and in-depth reviews, FHWA has taken steps to minimize deficiencies in bridge load rating and posting practices. The load rating and posting is important on all bridges, so the scope of our efforts is not limited to structurally deficient bridges.

Out of 52 FHWA Division Offices, 47 completed their risk assessments on bridge load rating and posting by October 2007. The remaining 5 Divisions plan to complete their assessments during 2008. Twelve Divisions identified load rating and posting as high risks. These Divisions will respond by conducting in-depth reviews of load rating and posting practices during FY 2008 or FY 2009. Through the National Highway Institute FHWA initiated the development of a training course titled the Load and Resistance Factor Rating Method, based on an improved methodology for determining the load capacity of bridges. This course will be offered to State Departments of Transportation.

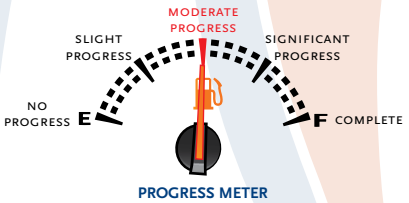
During 2008, FHWA initiated development of two additional standard NBI data reports to further assist in a data-driven approach to targeting our oversight activities. One of these reports identifies a list of bridges that may experience a change in operating rating due to a condition change that puts the bridge into a structurally deficient status. The other NBI data report, scheduled to be implemented by September 2008, will provide the Divisions a list of bridges that have been structurally deficient for the past ten years.

The revised FHWA Bridge Program Manual is still undergoing technical and legal review. It is a comprehensive document that requires an extensive multi-disciplinary review. A target date for completion will be established once the review is complete. Additional standard NBI data reports have been implemented to provide our bridge engineers with opportunities to make use of existing National Bridge Inventory data.

The FHWA Fiscal Management Information System (FMIS) was queried to determine if it is possible to develop detailed information regarding the obligation of Federal funds on structurally deficient bridges. However, the results could not be validated because of the way projects are established in FMIS. Both the FMIS and the NBI systems would have to be modified to accurately track obligation of Federal funds on structurally deficient bridges.

- **Ensuring that major projects are completed in an efficient and cost efficient manner to maximize the return on Federal infrastructure investments**

FHWA continues to play an important role in ensuring that Value Engineering (VE) is successfully integrated in the development and delivery of surface transportation programs and projects. In FY 2007, the State DOTs and the Office of Federal Lands Highway performed a total of 316 VE studies and achieved a significant cost savings of $1.972 billion on projects with an estimated construction cost of $24.81 billion. In addition, a total of $41.8 million was saved as the result of approved construction VE Change Proposals that were submitted by contractors.



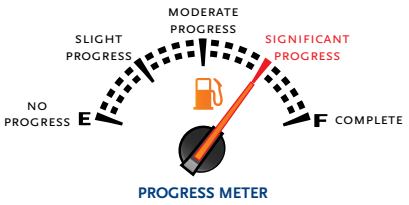
To ensure the continued enhancement of program oversight and further promotion of VE in FY 2008 and beyond, several initiatives are planned or currently underway. The FHWA's 2007 call for VE data was successfully expanded to request information on States' current best practices in their VE Programs. Collaboration with the AASHTO VE Technical Committee continues to enhance the reporting requirements, and the FHWA will integrate the results of this collaboration into the FHWA's upcoming 2008 call for VE data.

By the end of 2008, the FHWA will begin the rulemaking process to update the VE regulations. The intent of this rulemaking is to provide consistent language and terminology between the existing regulations and 23 United States Code Section 106, as amended by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and to supplement and expand the level of guidance currently provided with the regulation. The rule should promote more effective administrative practices and consistent application of the VE techniques by the states, thereby providing benefits to the delivery of the surface transportation program and increasing the potential for reducing project costs.

The OIG noted that FTA's use of independent contractors to assist in oversight is a sound approach that could be replicated in other operating administrations. The project management oversight of transit infrastructure projects is primarily performed by outside project, financial, safety and procurement oversight consultants hired by FTA. The oversight contractors regularly monitor each major capital project, closely watching quality, scope, cost and schedule using the latest risk assessment methods. The agency provides its own oversight activities in addition to reviewing the contractors' work. Vigilant oversight will be particularly important since FTA must continue to oversee Federally funded transit infrastructure projects throughout the Nation, while at the same time overseeing several large and complex New York City projects (four FTA projects and one FHWA project at World Trade Center have a Federal commitment of $4.4 billion, the $4.7 billion New York/Second Avenue Subway and the $7.3 billion Long Island Rail Road East Side Access) collectively costing about $16 billion. More recently, the oversight program has demonstrated its effectiveness on the Dulles Corridor Metrorail project, motivating the sponsor to control costs and eliminating the need for a Federal loan and line of credit.

2. MANAGEMENT CHALLENGE: ADDRESSING LONG- AND SHORT-TERM CHALLENGES FOR OPERATING, MAINTAINING, AND MODERNIZING THE NATIONAL AIRSPACE SYSTEM

- **Hiring and training nearly 15,000 controllers over the next 10 years**



One of FAA's challenges over the next ten years is hiring and training enough air traffic controllers to address the surge in retirements. The Agency has developed a strategy for this and continues to modify and improve it as needed. FAA's new hires come largely from three sources: experienced military controllers, Collegiate Training Initiative (CTI) partner schools, and the general public. This year FAA has taken action in all three areas to greatly increase the qualified applicant pool and reduce the time and cost associated with hiring and training.

FAA currently offers a recruitment bonus of up to $20,000 to previous military controllers. This allows the Agency to attract individuals with previous controller experience, which reduces time and costs associated with training. FAA also offers relocation incentives and reassignment bonuses for current controllers and retention incentives for retirement-eligible controllers.

In 2007, FAA revised the CTI evaluation process and added nine new schools, bringing the new total to 31. In addition, it opened the program again for new schools to apply between February 5 and March 7, 2008. This will expand the base of approved CTI schools even more. Final approval and announcement of the additional new schools will be in September 2008. The expansion of this program will allow FAA to attract a large pool of qualified candidates with aviation-related college degrees.

During 2007, numerous public sector job announcements were issued throughout the country, resulting in about 25,000 applications. Nationwide job announcements continue to be issued in 2008 at a rate of about one per month, ensuring a continual flow of applicants for vacant controller positions.

The FAA has improved the selection process with centralized selection and placement (CSP) panels that convene regularly throughout the year in Oklahoma City. Here the Air Traffic Organization and the Office of Human Resources review referred applications and make selections. Each CSP takes place in a week and instant coordination and communication occurs with each of the respective stakeholders. Many applications are reviewed, resulting in hundreds of selections being made at each panel. The CSP panel compresses the selection process from several months to one week.

CSP selectees are invited to a Pre-employment Processing Center (PEPC) for the remainder of their processing PEPCs are a streamlined and highly effective initiative that compresses the pre-employment application and screening process into a week-long session by bringing candidates together in a centralized location that allows FAA to: 1) conduct job interviews, 2) finalize selections, 3) collect security information to initiate the clearance process, 4) conduct medical exams, drug testing, and psychological evaluations, and 5) process human resources paperwork. Traditionally, the pre-employment processing took up to six months or more. The FAA has been able to cut time and costs in hiring by implementing the PEPCs. Ten PEPCs were held in FY 2008.

The FAA continues to make significant progress in the validation of accurate facility-level staffing standards. As part of the 2008 Controller Workforce Plan, FAA included updated staffing ranges at the facility level for all 314 terminal and en route facilities. In 2007, FAA completed its efforts to revise the standards for tower cabs and en route centers. As a result of the updated tower and en route standards, FAA was able to use data from all tower and en route facilities as input to the staffing ranges. In addition, FAA has started updates to the TRACON staffing model and anticipates completion during the fall of 2008.

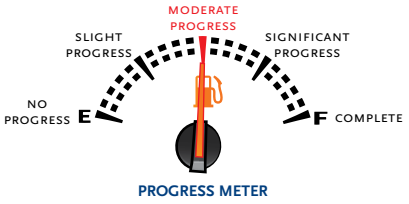
The FAA is increasingly using simulators to reduce time and costs associated with training new controllers. FAA awarded a contract for 24 Tower Simulation Systems (TSS) in December 2007. Installation of the TSS has begun in field facilities and the FAA Academy, with full installation to be completed in September 2009. The Agency has also installed additional En Route Training Simulation Systems at six Air Route Traffic Control Centers and the Academy to increase training capacity.

The Deployable Air Traffic Training System (DATTS) is the FAA's newest simulation training initiative. DATTS is a portable commercial-off-the-shelf mobile air traffic control training system, designed for deployment of 'just in time' or 'as needed' training use. DATTS expands training and closes the trainee back-log. The DATTS will be installed and tested at various field facilities and the FAA Academy in the coming months.

The FAA continues to use operations per controller as a baseline metric to measure controller productivity. This metric is tracked at the system level to provide a comprehensive view of terminal and en route operations. Due to decreasing levels of air traffic in recent years and the net increases to the controller workforce, the operations per controller metric for FY 2009 is projected to be 16 percent lower than FY 2000. This recent downward trend clearly indicates that FAA is proactively meeting the challenge of the air traffic controller retirement wave.

- **Keeping existing modernization projects on track**

FAA has created and implemented mitigation strategies to comprehensively address the need to keep modernization projects on track. Implementation of executive and management reviews and wide-ranging processes have resulted in positive, measurable, and dramatic changes in how FAA manages modernization projects.



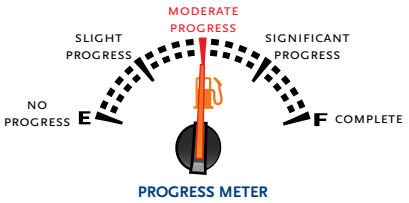
A major earned value management (EVM) effort has been initiated across the agency. For all newly approved Information Technology (IT) investments that have current year development, maintenance and enhancement funding equal to or greater than $10 million, the FAA applies the EVM project management tool. These programs are also required to track and measure program performance in accordance with Earned Value Management Systems (ANS/EIA STD-78 EVMS) guidelines. By applying this project management tool, the FAA ensures optimum project planning and control by effectively integrating the project scope of work with cost, schedule, and performance elements. The FAA is more than fifty percent of the way to full EVM implementation.

The agency is also transforming the way it manages acquisitions with the implementation of an objective measurement system to evaluate program performance. In conjunction with EVM processes, the FAA has implemented a series of 21 program reporting metrics. A comprehensive Red/Yellow/Green assessment of program performance is available through a combination of Financial, Schedule, Technical, Resources, External Interest metrics as well as the program manager's overall assessment.

FAA continues efforts to enhance its accountability and improve performance reporting. Among other initiatives, the Capital Investment Plan will now include baseline history for programs selected for acquisition performance measurement. In addition, standard operating procedures are being developed to address Program Planning, Baseline Management, and Program Performance Reporting. These processes and procedures will ensure continuity, discipline, and consistency in the way programs are planned, managed, and reviewed at all levels within FAA. In addition, Post-Implementation Reviews are routinely conducted and results reported to senior FAA management.

- **Reducing cost, schedule, and technical risk with NextGen**

The development and execution of NextGen is the most complex, high-risk undertaking FAA has ever attempted and will require multibillion dollar investments from the Federal Government and airspace users. NextGen implementation is led by the recently appointed Senior Vice President for NextGen and Operations Planning, in cooperation with the NextGen Management Board and NextGen Review Board. The Senior Vice President for NextGen and Operations Planning is supported by the NextGen Integration and Implementation Office. This office is structured to successfully implement NextGen by carefully monitoring the cost, schedule and technical risks.



During FY 2008, the NextGen Integration and Implementation Office took steps to acquire the necessary expertise to make NextGen a reality. The former Operational Evolution Partnership office and FAA's chief systems engineers were brought together into the NextGen Integration and Implementation Office and FAA initiated recruitment actions for the NextGen solution set and integration managers and support staff. In addition, FAA entered into an agreement

with the National Academy of Public Administration (NAPA) to conduct a workforce needs analysis to identify the competencies needed for all segments of our NextGen workforce and to define strategies to obtain this expertise. A final report, *Identifying the Workforce to Respond to a National Imperative – The Next Generation Air Transportation System*, was delivered in September 2008. The report contains recommendations on acquisition workforce strategies, strategies to acquire and retain acquisition workforce competencies, and NextGen implementation challenges.

The FAA's *NextGen Implementation Plan*, which details FAA's efforts to transform the National Airspace System using 21st century technologies, was published in June 2008. Even with this plan, NextGen is not without complex engineering, integration, and human factors issues. FAA continues to develop the enterprise architecture roadmap to attain the operational capabilities and improvements envisioned with NextGen. The FAA is also directing efforts to develop the critical path and risk matrix for NextGen to help mitigate engineering and integration issues, and to identify best practices in system integration for complex enterprises.

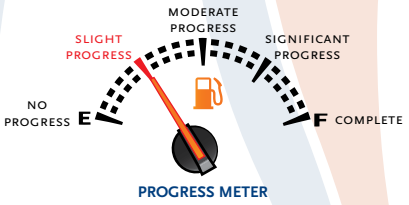
It is widely accepted that Earned Value Management (EVM) is the best project control technique for early detection of project performance variances. The FAA's Acquisition Management System (AMS) requires all organizations responsible for major capital investment programs that involve development, modernization, or enhancement to develop and implement an EVM system.

NextGen's transformational programs, such as Automatic Dependent Surveillance – Broadcast and System Wide Information Management have already implemented EVM. We expect Data Communications and NAS Voice Switch to follow suit once final investment decisions are made and approved program baselines are established. Other enabling activities within the NextGen portfolio are still in the planning stages of FAA's standard lifecycle work breakdown structure (i.e., concept development and feasibility studies, etc.), where EVM is less useful as a project control technique.

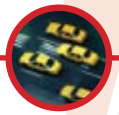
To compliment the AMS, FAA is also looking at best practices to apply research and systems analysis and a technology readiness level framework to 1) facilitate the development of new technology and applications to meet approved service needs and 2) transition mature technologies through research and systems analysis to solution implementation.

- **Maintaining FAA's aging air traffic control facilities**

Today there are over 500 terminal and en route air traffic control systems and facilities located throughout the country. Both the number and locations of the Air Traffic Control systems and facilities currently in use were driven by available technology. In preparation for the transition to the NextGen Air Transportation System, an estimated 400 legacy systems and facilities will need to be replaced or modernized.



In FY 2008, FAA spent more than $300 million for the repair, modernization, and replacement of its air traffic control facilities. These projects involve replacement of obsolete infrastructure, asbestos and mold abatement, repair of roof leaks, and plumbing improvements. Examples of these initiatives include:

- Mold remediation projects were completed at 29 facilities, including the Air Traffic Control Tower at Chicago O'Hare. An additional 18 mold remediation projects are planned for FY 2009. In FY 2009, we will complete 15 status mold inspections as part of the ARTCC duct inspection process.
- Major asbestos abatement projects at nine ARTCCs. To date, one construction contract has been awarded with the remaining projects in the engineering or procurement phases.
- Replacement of obsolete electrical and mechanical equipment as well as the installation of fire detection/protection systems in operations support and administrative areas.
- Mitigation of operational risks associated with mission critical physical plant infrastructure failure modes at all ARTCCs.
- Alignment of unmanned facility infrastructure survey data with a passenger-focused facility impact database. The database is used to establish a risk reduction methodology to deliver projects that maximize the protection of NAS capacity in the minimum time.

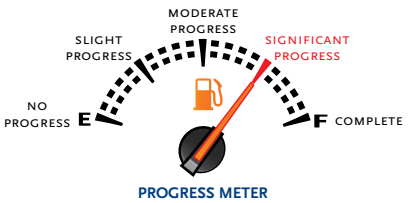
A key attribute of NextGen is a geographic independent service delivery model. Air traffic services can be provided without the constraints associated with legacy surveillance and communications infrastructure. Moving forward, FAA will begin to provide networked services allowing for greater flexibility and service resilience. With these changes, opportunities will arise that allow us to transition to a more optimal allocation of services to facilities and to remove outdated infrastructure from the NAS.

In FY 2008, FAA continued ongoing analysis of requirements for NextGen facilities. As part of the analysis, FAA is evaluating several aspects related to future operations and facilities, including the transition of new operational requirements, physical security, and workforce impact. The analysis includes consideration of existing en route and terminal facilities and how operational changes and technology advancements will change airspace assignment and facility requirements.

The analysis is being conducted as part of the Concept and Requirements Definition (CRD) phase of the Acquisition Management System process to support an Initial Investment Analysis Readiness Decision, which is anticipated in February 2009.

- **Properly accounting for capital investment projects**

Following extensive corrective actions undertaken during FY 2007, FAA continued to standardize and improve its processes for monitoring and accounting for capital investment projects. These initiatives are described in the Capitalization Program Management Plan (PMP), approved January 2008, which has been used to guide the Capitalization Program. FAA has made significant progress against the PMP. The activities identified in the PMP have been substantially completed, with ongoing clean up and routine processing tasks on target to be completed by September 30.



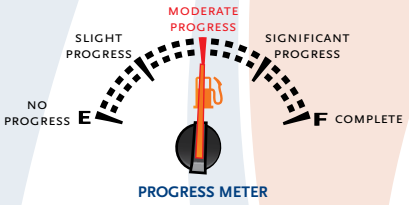
The FAA identified and implemented process improvements to existing policy, procedures, business processes, and systems. The process improvement activities addressed the auditors' Notification of Findings and Recommendations as well as the lessons learned from the intensive clean-up activities undertaken during FY 2007.

During FY 2008, the FAA developed a financial manual that documents the capitalization policies and procedures and continues to conduct staff training to further communicate policy, process and procedure changes. FAA also implemented a quality assurance review checklist and process to ensure accurate financial treatment of capital projects and related assets. A National Program Capitalization Team was established to document and communicate decisions about capital programs to ensure timely and accurate capitalization of assets. In addition, 30 positions have been added throughout the organization to enhance capitalization efforts.

The FAA continues to develop and implement process improvements, including a regional quality assurance process and standardized FAA capitalization processes in headquarters and the three regional service areas. We have implemented standardized business processes and quality reviews that have resulted in FAA processing approximately 67 percent of assets within 65 days in FY 2008. Version 2 of the Capitalization Program Management Plan (PMP 2.0) has been developed, which will guide the agency through the next phase of capitalization process improvements and standardization in FY 2009.

3. Management Challenge: Developing a Plan to Address the Highway and Transit Funding Issues in the Next Reauthorization

- Facing a near-term funding crisis in the Highway Trust Fund



Given the current constraints in the Federal budget, the Department has undertaken several initiatives to encourage more effective and efficient use of existing revenue sources and the development of additional sources of revenue. The importance of these efforts was reinforced in September as the Department instituted emergency measures to deal with an expected shortfall in the Highway Account of the Federal Highway Trust Fund (HTF). Although Congress passed legislation, which the President subsequently signed, providing the Highway Trust Fund with $8 billion from the General Fund to avoid the shortfall, these funds provide only temporary relief. The HTF will remain vulnerable to shortfalls as long as it continues to rely on fuel taxes as its primary source of revenue.

The Department has encouraged Federal, state and local lawmakers to reduce the wasteful effects of political and special purpose spending, including earmarks and to apply benefit-cost analysis and other economic measures to transportation spending to ensure that priorities are being funded. The Department has encouraged the development and deployment of technological innovations that help States and local authorities use existing infrastructure more effectively. Significantly, the Department's congestion pricing initiatives have facilitated the innovative use of advanced tolling technologies to more effectively manage congestion in metropolitan areas. Not only does better management of existing resources reduce investment needs, but pricing also creates dedicated and sustainable sources of revenue, which offer a promising alternative to declining fuel taxes. The groundbreaking Urban Partnership Agreements, for instance, emphasize utilization of tolling and pricing as a remedy to worsening urban congestion.

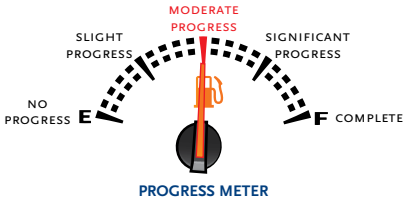



The Department has also encouraged states and local authorities to leverage existing public resources to attract substantial co-investment from the private sector. The Department has employed several programs in these efforts, including the private activity bonds program, FHWA's Transportation Infrastructure Finance and Innovation Act (TIFIA) and interstate tolling programs, and pilot programs such as the FTA's Public-Private Partnerships Program and the FHWA's Corridors of the Future program. Over the last few years, these programs have attracted billions of dollars in private co-investment for our Nation's transportation infrastructure.

The public-private partnerships (PPPs) facilitated through these programs are not divestitures of public transportation assets, but rather contractual arrangements whereby the private sector agrees to perform multiple elements of a public project, including design, construction, financing and/or long-term operations and maintenance. The public sector retains ownership of the facilities and ongoing responsibilities with respect to security, safety and other important functions. In addition, the public sector typically retains monitoring and oversight responsibilities to ensure that private operators are complying with the detailed performance specifications that are specified in the PPP contracts. Breaches by a private operator generally lead to penalties, and ultimately to the termination of the PPP contract and forfeiture by the private partner of its rights with respect to the facility. Because of the financial incentives created for the private sector to satisfy customers, and because the private sector assumes significant amounts of project risk in PPPs, including risks associated with cost overruns and schedule delays, the Department believes that taxpayers may well have less exposure to risks in a PPP than they do when the public sector employs traditional approaches to project funding and delivery. The Department is developing explanations of how risks are managed and how risks can be mitigated through careful negotiation of PPP contractual provisions.

- **Demand for more investment and rapid cost escalation will increase the pressure to expand highway funding**

The amount needed to offset the effects of inflation in highway construction and maintenance costs has soared dramatically in recent years. The increases have substantially reduced the purchasing power of highway construction funds and have led some state planners to cancel or delay projects. The Inspector General urged DOT to pursue innovative uses of funding to counter this price escalation.



Reducing recurring and non-recurring congestion, improving day-to-day operations, enhancing freight management, better emergency management, deployment of new technologies – these are all ways that FHWA works to maximize the benefit of the Federal investment in highways. In addition, DOT works actively to leverage that investment by encouraging and facilitating a broad range of financing options available within current law. SAFETEA-LU provided innovative changes to stimulate needed private investment such as eligibility for private activity bonds, additional flexibility to use tolling to finance infrastructure improvements, and broader Transportation Infrastructure Finance and Innovation Act and State Infrastructure Banks loan policies.

DOT's Urban Partnership program, an element of the Transportation Secretary's National Strategy to Reduce Congestion (Congestion Initiative), provided an incentive for a number of large metropolitan areas to undertake meaningful pricing efforts as part of a comprehensive strategy to reduce congestion. A relatively small amount of Federal funding, along with a pledge of technical assistance, was enough to encourage adoption of broad congestion pricing programs. Up to this time, most congestion pricing was small scale and limited to a specific facility.

FHWA supports efforts to move innovative methods into mainstream use, providing education, best practices and technical support.

- A tolling and pricing opportunities website provides information about the tolling and pricing programs available under Title 23 of the United States Code and invites Expressions of Interest from States and/or other public entities. The site also provides key contacts and links to resources related to tolling and pricing that can be used to support an initiative. Through this site, agencies can understand the tolling and pricing opportunities that now exist and can communicate with FHWA in order to assist them in effectively applying for tolling and pricing authority or funding.

- A Public Private Partnership (PPP) website contains information to facilitate and encourage more widespread use of PPPs. Expanding the private sector role allows the public agencies to tap private sector technical, management and financial resources in new ways to achieve certain public agency objectives such as greater cost and schedule certainty, supplementing in-house staff, innovative technology applications, specialized expertise or access to private capital.

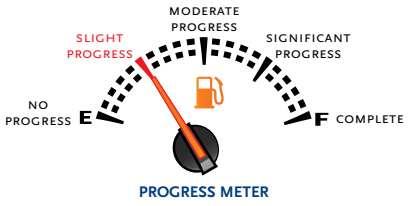
- An Innovative Finance website highlights programs to meet the increasing gap between transportation capital needs and available resources, without direct increases in Federal grant funding. During the past decade, at least $29.1 billion in innovative finance projects have been advanced, which were supported by $8.6 billion in Federal-aid funding. On average, for each Federal dollar invested in an innovative finance project, $3.40 of construction investment was enabled, which compares quite favorably to the ratio of $1.25 to $1.00 for every dollar invested in the traditional grant program. DOT continues to work actively with partners to make innovative tools such as TIFIA assistance, State Infrastructure Banks, and private activity bonds more widely accessible.

In addition to its ongoing activities under current authorities, the DOT has also developed a comprehensive proposal (Reform Proposal) for reforming the Federal surface transportation program subsequent to the expiration of the *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (SAFETEA-LU). The Reform Proposal incorporates provisions that would encourage states and metro areas to explore innovative transportation financing mechanisms. Specific provisions in this area include (1) allowing jurisdictions to toll Interstates and other major highways (while conditioning their use of toll revenues), (2) expanding the use of public private partnerships, (3) broadening the availability of TIFIA credit assistance, (4) removing the volume cap on private activity bonds and making them more flexible; and (5) allowing jurisdictions greater flexibility to create and use state infrastructure banks.

Beyond its current programs, DOT has also included provisions in its surface transportation Reform Proposal to encourage states and metro areas to explore innovative transportation financing mechanisms. Specific provisions in this area include (1) allowing jurisdictions to toll Interstates and other major highways (while conditioning their use of toll revenues), (2) expanding the use of public private partnerships, (3) broadening the availability of TIFIA credit assistance, (4) removing the volume cap on private activity bonds and making them more flexible, and (5) allowing jurisdictions greater flexibility to create and use state infrastructure banks.



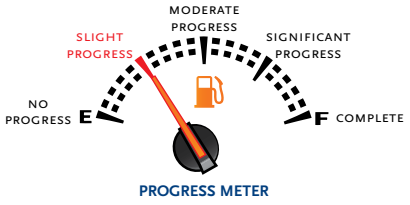

- **Developing a comprehensive Highway funding framework quickly**



In addition to its provisions regarding innovative finance, the DOT's Reform Proposal provides a comprehensive vision of a clarified Federal role in surface transportation. The Reform Proposal reflects the Administration's strongly-held beliefs on the long-term inability of the gas tax and the current Federal programmatic structure to adequately respond to America's transportation, economic, energy, and environmental policy goals. It provides an investment strategy and regulatory framework for Federal surface transportation investments and outlines programmatic, financial, and regulatory reforms that a surface transportation authorization bill might include. These reforms would focus substantial Federal funding on projects of national interest; give state and local officials greater flexibility and private-sector financing options to tackle urban congestion; ensure that government invests tax dollars effectively, and continue to focus on safety. In addition to grant programs, the proposal would encourage pricing and the leveraging of Federal funding and provide for greater accountability with more effective decision making and performance measurement.

In deference to the prerogatives of both Congress and the next Administration, the Reform Proposal does not recommend funding levels, whether in the aggregate or for individual programs. However, it does suggest approximate ratios for distribution of overall funding (regardless of its cumulative level) between various programs.

4. MANAGEMENT CHALLENGE: REDUCING CONGESTION IN AMERICA'S TRANSPORTATION SYSTEM



The Department is pursuing a national strategy to reduce congestion across all modes of transportation. Congestion limits economic growth, wastes billions of gallons or fuel, and costs billions of dollars in lost productivity each year. This will likely remain a prominent challenge for the Department for some time, particularly with regard to air travel. FAA and FHWA are the focal points in the Department for addressing these challenges.

- **Reducing delays, improving airline customer service and meeting the anticipated demand for air travel in the near term**

<u>Reducing Delays</u>

The FAA continues to work at reducing delays and meeting the anticipated demand for air travel. Implementation of the Next Generation Air Transportation System (NextGen) is the long term solution to increasing capacity of the National Airspace System. In the meantime, FAA and the Department of Transportation have implemented a number of initiatives to reduce delays in the near term.

- New York Aviation Rulemaking Committee (ARC). The ARC was formed in September 2007 to explore operational improvements, market-based mechanisms, and other options for addressing airspace congestion and flight delays in the New York metro-area. It provided recommendations

to the Secretary of Transportation in December 2007. Please find the final report summarizing the ARC discussions at: http://www.faa.gov/library/reports/media/NY%20ARC%20Final%20Report.pdf.

- John F. Kennedy (JFK) International Airport Schedule Reduction and Temporary Order. The FAA convened a scheduling reduction meeting for JFK Airport in October 2007 to address the problem of severe congestion and delays. The FAA was successful in meeting with air carriers operating at the airport and securing flight schedule reductions and the re-timing of peak period flights. As a result of this meeting, FAA issued an order in January 2008 to codify these agreements and cap operations at the airport at 81 scheduled operations per hour. The cap on operations addresses the congestion and delay that peaked in summer 2007. The order became effective in March 2008 and will expire upon the effective date of the final congestion management rule in December.

- Newark Liberty International Airport Schedule Reduction and Temporary Order. The airlines serving Newark agreed with FAA's request to reduce their schedules during peak periods and shift to operations to off-peak periods. These and other measures adopted at Newark will prevent carriers from simply shifting the congestion from JFK to Newark. The FAA issued an order codifying these schedule agreements in May 2008. The order limits scheduled operations to 81 per hour. The order became effective in June 2008 and will be replaced by the congestion management rule when it becomes effective in December.

- The JFK and Newark Orders also provided for opportunities to increase airline competition at these congested airports, though auctions at new and returned operating authorizations. The FAA expanded the slot auctions to cover a percentage of existing slots, at LaGuardia, JFK and Newark. Consumers will realize the benefits of more competition and a more national use of slots.

- New York Area Operational Improvements. Thirty percent of commercial air traffic passes through the New York airspace, where a substantial number of daily delays begin. FAA is redesigning airspace in the region, which affects airports in New York, New Jersey, and Pennsylvania, in order to improve traffic flow. The U.S. military worked with FAA to make some of its airspace available for civilian airliners during the peak holiday travel periods in FY 2008. The use of the military airspace was so successful in mitigating congestion over the Thanksgiving and Christmas holidays in 2007 and the July 4th weekend this summer that FAA is working with the Department of Defense (DOD) to ensure that military airspace will be available for civilian use during future holidays.

Improving Customer Service

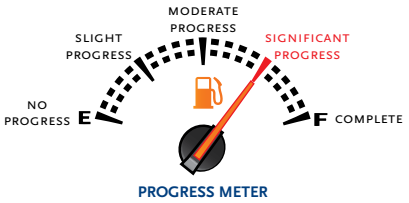
The Department took several steps in FY 2008 to ensure the airlines provided adequate customer service to their passengers, especially when flights are delayed. For instance, the Department's Aviation Enforcement Office investigated unrealistic scheduling by the large airlines, targeting chronically delayed flights. During 2007 and 2008, the numbers of such flights were dramatically reduced. In 2008 the Aviation Enforcement Office began applying a somewhat more rigorous set of criteria during its review. Even with the more rigorous criteria, there were only 71 chronically delayed flights during the second quarter of 2008 versus 129 in the second quarter of 2007.

The Department formed a Tarmac Delay Task Force to study past delays, review existing and other promising practices, and develop model contingency plans that airlines and airports can tailor to their unique operating environments to mitigate the impact of lengthy ground delays on consumers. The task force has held six meetings and the last meeting is scheduled for November 12, 2008. At the last meeting, Task Force members will vote on whether to recommend the model contingency planning document to the Secretary.

DOT published an Advance Notice of Proposed Rule Making in the Federal Register earlier this year that will enhance airline passenger protections by: (1) requiring carrier contingency plans for lengthy tarmac delays; (2) requiring carriers to respond to consumer problems, including making information available for filing a complaint with the carrier; (3) deeming scheduling a chronically delayed flight to be unfair; (4) requiring publication of delay data; (5) requiring carriers to publish complaint data; (6) requiring on-time performance reporting for international flights; and (7) requiring carriers to self-audit their customer service plan. The next step would be issuance of a Notice of Proposed Rulemaking (NPRM) seeking comments on any proposals the Department decides to advance, which will likely occur this fall.

The Aviation Enforcement Office has conducted on-site enforcement investigations of five large airlines this fiscal year to evaluate their compliance with consumer protection requirements. DOT has pursued enforcement action against carriers for failure to provide consumers, upon request, the on-time arrival percentage of a flight as required by existing rules. Cease and desist orders assessing civil penalties have been issued against four different carriers (Hawaiian, JetBlue, Delta and U.S. Airways).

- **Keeping planned infrastructure and airspace projects on schedule to relieve congestion and delays**



New runways and runway extensions provide significant capacity increases. Since fiscal year 2000, fifteen new airfield projects have opened at the 35 busiest airports. The progress of each Operational Evolution Partnership (OEP) runway and/or taxiway project is monitored by a team comprised of representatives from key FAA organizations and outside stakeholders. The team is responsible for ensuring that the runway and/or taxiway project is commissioned on schedule with all necessary equipment and airspace procedures in place to achieve the full operational capability of the airfield project. The team provides quarterly updates to the NextGen Management Board, which is chaired by the FAA Deputy Administrator. Any issues relating to the runway project are discussed, assigned to an executive to resolve, and tracked by the integration team to ensure resolution.

In June 2008, a new center taxiway was opened at Los Angeles International Airport and in September, Chicago O'Hare commissioned a 2,856-foot runway extension. Three additional runways will open at Chicago O'Hare, Washington Dulles and Seattle-Tacoma in November 2008. With these three projects, the agency and local communities will deliver to the NAS the potential to accommodate an additional 245,000 airport operations per year.

In addition, there are four other airfield projects at major airports (runways at Philadelphia and Charlotte, and taxiways at Dallas-Ft. Worth and Boston) under construction. These projects will be commissioned by 2010 and will provide the associated airports with the combined potential to accommodate an additional 80,000 annual operations, which will further reduce delays and improve efficiency.

To meet additional near-term needs, the FAA and local stakeholders will continue to pursue new airfield infrastructure to provide significant capacity, efficiency, and safety improvements. Currently, there are environmental impact studies for proposed runway extensions at Fort Lauderdale International Airport and Portland International Airport, as well as an airfield reconfiguration at Philadelphia International Airport. Houston's Bush Intercontinental Airport is expected to begin the environmental process this year to examine alternatives to increase runway capacity. Salt Lake City International Airport is expected to begin an environmental study within the next few years to examine the impact of a runway extension.

Meeting the future capacity needs of the nation's airports will require innovative approaches, as well as continued emphasis on airport expansion and technological improvements. The FAA's report, *Capacity Needs of the National Airspace System: 2007-2025* identifies fifteen metropolitan areas that will experience significant population gains and economic growth resulting in additional capacity needs by 2025. Within these fifteen metropolitan areas the FAA must promote regional planning; monitor aviation infrastructure investment; and identify additional airports with potential to accommodate future demand. The FAA and local communities are currently focusing on eight of these metropolitan areas which contain fourteen major airports. These airports are expected to have the greatest capacity shortfalls. The FAA is working with these airports to develop potential solutions to address these future capacity shortfalls and expects to have initial results by the end of 2008.

The FAA continues to monitor the progress of airspace redesign projects as near-term commitments in the NextGen Implementation Plan. In the past year, FAA has made progress on critical projects that increase routes, as well as reduce airspace complexity and restrictions, departure delays, and taxi, flying times, and distance.

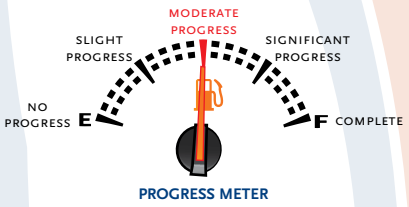
In December 2007, the first elements of the New York/New Jersey/Philadelphia Metropolitan Area Airspace Redesign were implemented. The new dispersal headings at Newark-Liberty and Philadelphia International airports have decreased departure delays by as much as twenty percent. For New York, the initial dispersal headings have provided up to 20 percent reduction in departure delays, when headings are in use, at Philadelphia and Newark.

In April 2008, five new south departure routes were opened as part of the Chicago Airspace Project. These new routes will work in conjunction with the airfield improvements at Chicago O'Hare to significantly decrease delays. In Chicago, the on-time departure improvements were observed after the new southbound routes were put in place in April 2008.

The NextGen Implementation Plan also describes new ways of designing and managing airspace that could be implemented within the next decade. The NextGen Management Board, NextGen Review Board, and NextGen Integration and Implementation Office are all focused on gaining shared commitment and moving to implementation.

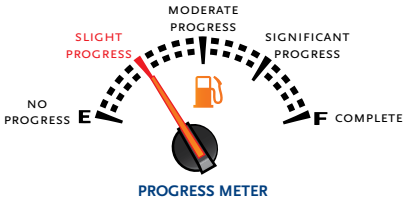
- **Leading Stakeholders**

The Department acknowledges the need to leverage its available tools to influence stakeholder decisions on infrastructure improvement. Indeed, the critical need to move from a tax-based transportation model to a user pay model and the concomitant need to have a level playing field for private and public sector investors in transportation infrastructure represent significant policy change. The Nation can no longer afford to rely almost exclusively on Federal fuel taxes to fund our transportation infrastructure.



Accordingly, the Department has repeatedly testified before Congress on all aspects of this issue, delivered speeches on the topic to key stakeholders across all modes and across the country, launched public web sites and The Secretary's blog to keep stakeholders up-to-date on recent developments and has supported its public outreach effort with a series of seminars on the topic to educate and inform DOT employees.

- **Developing innovative funding solutions for infrastructure needs**



Any sustainable response to traffic congestion must accomplish two general objectives: making efficient use of existing transportation infrastructure and adding capacity where needed. DOT has strongly endorsed the use of innovative finance – including public-private partnerships (PPPs) – accomplish both ends. There are more than 20 major PPPs in various stages of procurement in the US, including several managed lanes projects which will incorporate pricing and reduce congestion; many of these projects would likely not be financially viable under more traditional public procurement approaches.

The Department has supported innovative finance and PPPs in a number of ways. DOT's congestion pricing initiatives have facilitated the innovative use of advanced tolling technologies, which allow metropolitan areas to both more effectively manage congestion and to generate associated revenues. The Department has encouraged states and local authorities to leverage existing public resources to attract substantial co-investment from the private sector. The Department has employed several programs in these efforts, including the private activity bonds program, FHWA's TIFIA and interstate tolling programs, and pilot programs such as the FTA's Public-Private Partnerships Program and the FHWA's Corridors of the Future program. Over the last few years, these programs have attracted billions of dollars in private co-investment for our Nation's transportation infrastructure.

Beyond its current programs, DOT's surface transportation Reform Proposal would encourage states and metro areas to explore innovative transportation financing mechanisms. Specific provisions in this area include (1) allowing jurisdictions to toll Interstates and other major highways (while conditioning their use of toll revenues), (2) expanding the use of public private partnerships, (3) broadening the availability of TIFIA credit assistance, (4) removing the volume cap on private activity bonds and making them more flexible, and (5) allowing jurisdictions greater flexibility to create and use state infrastructure banks.

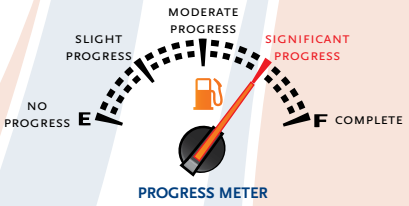
It is important to note that the public-private partnerships facilitated through DOT's existing programs and supported within the Department's Reform Proposal are not divestitures of public transportation assets, but rather contractual arrangements whereby the private sector agrees to perform multiple elements of a public project, including design, construction, financing and/or long-term operations and maintenance. The public sector retains ownership of the facilities and ongoing responsibilities with respect to security, safety and other important functions. In addition, the public sector typically retains monitoring and oversight responsibilities to ensure that private operators are complying with the detailed performance specifications that are specified in the PPP contracts. Breaches by a private operator generally lead to penalties, and ultimately to the termination of the PPP contract and forfeiture by the private partner of its rights with respect to the facility. Because of the financial incentives created for the private sector to satisfy customers, and because the private sector assumes significant amounts of project risk in PPPs, including risks associated with cost overruns and schedule delays, the Department believes that taxpayers may well have less exposure to risks in a PPP than they do when the

public sector employs traditional approaches to project funding and delivery. The Department is working on literature explaining how risks are managed in PPP programs and how PPP risks can be mitigated through careful negotiation of contractual provisions.

5. MANAGEMENT CHALLENGE: IMPROVING OVERSIGHT AND STRENGTHENING ENFORCEMENT OF SURFACE SAFETY PROGRAMS

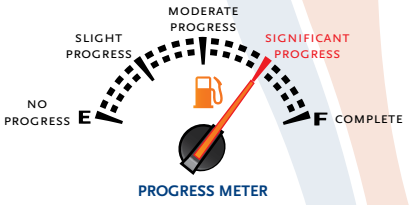
Over the last several years, Congress has provided increased funding to enhance surface transportation safety programs, particularly under the *Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users* (SAFETEA-LU). Over the last 21 years, the Department has helped reduce the rate of highway fatalities per 100 million total vehicle miles traveled by about 45 percent (from 2.51 in 1986 to 1.37 in 2007). Still, 41,059 people were killed on our Nation's highways in 2007. The Department has set an ambitious goal of reducing the highway fatality rate to 1.0 by 2011. However, finding ways to reach this goal is a significant challenge for the Department.

- **Improving motor carrier safety with more complete information on vehicle crashes and stronger enforcement against repeat violators**



The DOT IG challenged FMCSA to train the states on reporting nonfatal crashes and ensure that all states are assessed by the end of FY 2008. The FMCSA aggressively responded by performing site reviews using federal staff and contractor support to improve the number of state assessments from the 15 reported in the OIG audit to 42 state assessments completed as of June 2008. To improve the overall quality of crash statistics, FMCSA established new data upload criteria which required states to satisfy additional data quality requirements. A concerted effort of testing, piloting, and training resulted in 29 states meeting the more challenging criteria despite early projections that only 12 states would qualify. Crash data completeness improved to 98 percent, and crash reporting time decreased by 17 percent, increasing inspection and crash data accuracy. The FMCSA strengthened its repeat violator policy by requiring its inspectors to treat carriers responsible for any acute or critical violations found during subsequent compliance reviews as repeat offenders, regardless of their ability to pay fines.

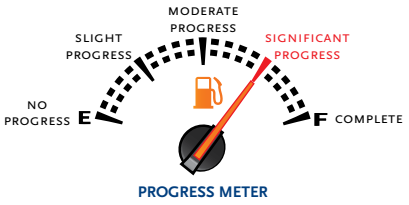
- **Closely monitoring Mexican motor carriers operating throughout the United States under the Department's demonstration project**



On September 6, 2007, the Department initiated a 1-year demonstration project to permit up to 100 Mexico-domiciled and 100 U.S. motor carriers to operate beyond the commercial zones along the United States–Mexico border. The demonstration project was subsequently extended for two additional years. The FMCSA addressed the needs with coordinated, site-specific plans for checking trucks and drivers participating in the demonstration project. This required coordinating inspections and driver checks with state partners and U.S. Customs and Border Protection, resulting in the development of 25 port-of-entry specific plans. Nearly 100 percent of the licenses of Mexican drivers crossing the border were validated to ensure that all Mexican drivers participating in the project are properly credentialed and licensed. Also, inspectors verified that each commercial motor vehicle crossing our southern border displays decals denoting

recent safety inspections. The FMCSA tracks the out of service (OOS) rates of carriers in the demonstration project, just as all U.S. carriers' OOS rates are tracked. The vehicle and driver OOS rates are a metric used by FMCSA to monitor compliance with commercial vehicle safety regulations by motor carriers operating in the United States. These rates reveal that Mexican domiciled trucks and drivers participating in the demonstration project have established compliance rates equal to or better than U.S. trucks and drivers.

- **Countering Fraud in the Commercial Driver's License program**



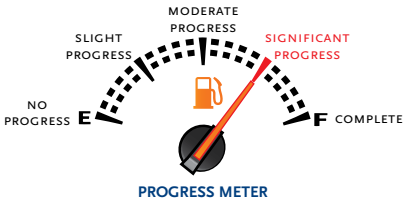
Over the past six years, the DOT IG and FMCSA carried out commercial drivers license (CDL) fraud-related investigations of corrupt third-party examiners in 26 states resulting in prosecutions in 20 states. On April 9, 2008, a notice of proposed rule making was published in the Federal Register which proposed to tighten regulatory controls over CDL learner's permits, strengthen requirements for proving that CDL applicants are in the United States legally, and improve detection and prevention of fraudulent testing and licensing.

The FMCSA performed in-depth reviews of 15 state CDL programs in 2008 to verify that testing and licensing procedures were effective, that policies and procedures complied with existing laws, and that State practices were not susceptible to fraud. Recommendations were made to the states to improve the CDL program's integrity.

The FMCSA is working closely with our state partners in multiple initiatives with CDL Program Improvement grants to reduce fraud within the national CDL program. The FMCSA awarded grant funds to multiple States to increase overt and covert monitoring of third party and State examiners. The Agency also awarded grants to automate the CDL knowledge and skills testing process, thereby reducing the risk of both applicant and examiner fraud. The automated systems, which randomly generate test questions from a large sample, minimize the opportunity for applicants to predict the specific questions they will ask. Furthermore, this process posts the knowledge test results directly to the driver record, thereby reducing the chance for examiners to fraudulently change applicant test scores.

Additionally, FMCSA has awarded grant funding to the American Association of Motor Vehicle Administrators (AAMVA) to operate the Fraud Early Warning System, which communicates potential fraud occurrences among the states. This includes information about stolen license documents, CDLs issued based on fraudulent activity, and other sensitive information. Also in partnership with AAMVA, FMCSA has initiated a Fraudulent Document Recognition (FDR) training program that will provide states with hands-on instruction and expertise in identifying potentially fraudulent identity and eligibility documents. The FDR project is funded in coordination with the National Highway Traffic Safety Administration (NHTSA).

- **Resolving hours of service rules for commercial drivers**



In response to a decision of the U.S. Court of Appeals for the District of Columbia Circuit, FMCSA published on December 17, 2007, an Interim Final Rule (IFR) regarding hours of service (HOS) for truck drivers. The IFR retains the HOS provisions allowing 11 hours of driving time within a 14-hour, non-extendable window from the start of the workday, following 10 consecutive hours off duty. The IFR also allows motor carriers and drivers to restart calculations of the weekly on-duty time limits after the driver

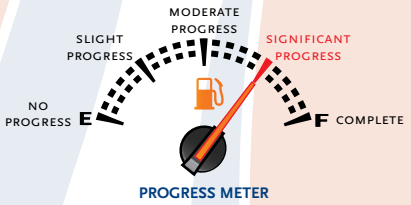
has at least 34 consecutive hours off duty. The IFR was developed after new data showed that safety levels have been maintained since the 11-hour driving limit and 34-hour restart were first implemented in 2003. The IFR specifically addressed concerns expressed by the D.C. Circuit Court in its 2007 decision. On December 19, 2007, Public Citizen, Citizens for Reliable and Safe Highways, Parents Against Tired Truckers, Advocates for Highway and Auto Safety, and the International Brotherhood of Teamsters, requested that the D.C. Circuit Court enforce its mandate, invalidate the IFR, and order the Agency to rewrite the HOS rules to limit driving time to 10 hours and eliminate the 34-hour restart. On January 23, 2008, the D.C. Circuit denied Petitioners' motion to enforce the court's orders.

In the IFR, the Agency stated, "FMCSA is fully committed to issuing a final rule in 2008" (72 FR 71247). Approximately 880 comments were received in response to the IFR. In general, industry comments were supportive of the IFR. The two HOS provisions which were, in effect, upheld by the Court (the 14-hour and sleeper-berth provisions) are not supported by the industry, but those provisions were not addressed in the IFR. Public safety advocacy groups again expressed strong opposition to the reinstated provisions because, in general, they do not believe that the reinstated provisions allow drivers adequate rest time to avoid driving while fatigued.

The FMCSA has completed its analysis of the comments received in response to the IFR, and prepared a final rule, with the intent of publishing it in 2008. The Final Rule is currently under Departmental Review.

- **Improving State accountability in programs for reducing alcohol-impaired driving**

In 2007, alcohol-related fatalities remained at 41 percent (17,036) of all traffic fatalities (41,059). Practically speaking, no significant improvement in the safety target can be achieved unless alcohol-related fatalities drop dramatically, and the States are the linchpin in achieving this drop.



NHTSA is the lead Federal agency responsible for reducing alcohol-impaired driving. SAFETEA-LU authorized $555 million in funding for State alcohol-impaired driving incentive grants. In 2007, an estimated 12,998 people were killed in alcohol-impaired driving crashes.

Evaluations of our current efforts to counter alcohol-impaired driving found that NHTSA must ensure that States establish and report better performance measures to assess how well they are using Federal funding to counter impaired driving. State performance plans generally contain measures on activities, such as the number of sobriety checkpoints conducted, or on the overall performance goal of reducing the alcohol-impaired fatality rate. However, the plans usually do not address performance of key strategies, such as sustained enforcement of laws, effective prosecution, and full application of available sanctions. Better information is needed on the degree to which States are implementing these key strategies; without it, NHTSA will not be able to determine which programs need to be strengthened.

NHTSA and the Governor's Highway Safety Association (GHSA) recently completed the development of a consensus list of State performance measures that will be used to help States and NHTSA measure progress in a variety of safety areas, including impaired driving. States will report their performance on these measures in their annual highway safety plans (HSPs) and annual reports. These reports will be used by NHTSA and States to determine if progress is being made. The consensus list includes both outcome and activity measures. These measures will be included in State FY 2010 HSPs. In addition, NHTSA and GHSA agreed to study the possibility of adding a measure involving a survey of attitude and awareness of impaired driving. Following are the State performance measures aimed at reducing impaired driving, and the proposed survey measure.

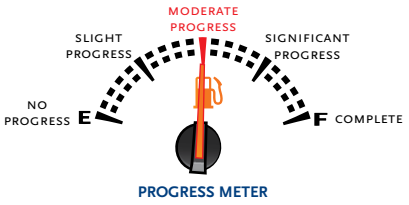
State Performance Measures

Type	Performance Measure
FY 2010 State Performance Measures	
Outcome	Number of fatalities involving a driver or motorcycle operator with a BAC of .08 and above.
Activity	Number of impaired driving arrests made during grant-funded enforcement activities.
Proposed State Measure	
Survey	Self reported attitude, awareness, and behavior regarding impaired driving, laws, penalties, and enforcement.

These measures were released in September 2008 and NHTSA will be working with the States to incorporate them into the FY 2010 Highway Safety Plans.

- **Further reducing railroad collisions and fatalities through more safety oversight**

Over the past 10 years, significant progress has been made in reducing collisions and fatalities at highway-rail grade crossings. The number of such collisions fell by 31 percent from the end of 1996 to its end-of-2006 total of just over 2,900. FRA's grade crossing safety oversight activities have contributed to this progress. However, these grade crossing collisions continue to claim over 300 lives each year. FRA pursued a number of activities in FY 2008 to address this issue.



The Agency continues to perform accident/incident reporting audits for compliance with the reporting requirements of Title 49 Code of Regulations Part 225 (49 CFR Part 225) on each of the eight Class I railroads on a recurring basis every 3 years. Each of FRA's eight regions will audit the Class II and commuter railroads within their geographical territories on a recurring basis every 5 years. (Note: the Surface Transportation Board categorizes the railroads according to their annual operating revenues. The Class Is have operating revenues in excess of $350 million; Class IIs range from $28 million to $350 million; and Class IIIs are below $28 million. Currently, there are eight Class Is and approximately 30 Class II railroads.)

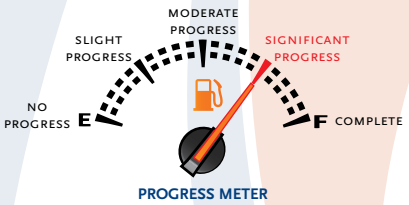
FRA investigates a number of crossing collisions annually. In May 2005, FRA issued a Safety Advisory (Safety Advisory 2005-03) to facilitate improved cooperation in the investigation of collisions at highway-rail grade crossings. This Safety Advisory reiterated the responsibility of the railroads to: properly report any accident involving grade crossing signal failure; properly maintain records relating to credible reports of grade crossing warning system malfunctions; properly preserve the data from all locomotive-mounted recording devices following highway-rail grade crossing collisions; and fully cooperate with local law enforcement authorities during their investigations of such accidents. FRA's position is that with our limited resources, we investigate collisions that meet our standard protocol, and will investigate others as circumstances warrant.

Secretary Peters submitted to Congress in February 2007 the Bush Administration's rail safety reauthorization bill, introduced by request as H.R. 1516 and S. 918. The bill was passed as H.R. 2095 in October 2008. The bill has significant safety requirements including implementation of Positive Train Control which will prevent collisions and over speed derailments. The bill reforms hours of service requirements for train and engine crews and signal maintainers that will reduce fatigue related accidents. The bill also mandates rulemakings that are likely to be significant for conductor certification and bridge inspections. Grade crossing safety will be improved through a provision that requires that the National Crossing Inventory be made current and thereby updated on a regular basis by States and railroads. Better data would help identify the Nation's most hazardous crossings and assist in finding the best strategies for further reducing casualties at crossings.

In March 2005, FRA began working with Louisiana in developing a statewide highway-rail grade crossing safety action plan. Louisiana consistently ranks among the top five States nationally with the highest number of grade crossing collisions and fatalities. The State's action plan focuses on reducing vehicle-train collisions at grade crossings where multiple incidents have occurred. In June 2008, in part as a result of efforts to create the action plan, the Louisiana Department of Transportation and Development announced an agreement with Kansas City Southern Railway Company to make safety improvements at 300 public grade crossings. Over five years, more than $16 million will be invested to upgrade warning devices, replace cross-buck signage, and close redundant crossings. FRA is now working with Texas and Illinois to develop similar State-specific action plans, which may be completed by the end of 2008. Arizona completed a rail safety and security plan in 2007 that incorporated crossing safety as well.

6. Management Challenge: Continuing to Make a Safe Aviation System Safer

- **Taking proactive steps to improve runway safety in light of recent serious incidents**



Reducing the risk of runway incursions is one of FAA's top priorities. Reducing runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage. The definition of a runway incursion was changed in October 2007 to "any occurrence at an airport involving the incorrect presence of an aircraft, vehicle or person on the protected area of a surface designated for the landing and takeoff of aircraft." This definition has also been adopted by the International Civil Aviation Organization (ICAO). Before it was developed, countries around the world used at least 20 different definitions for a runway incursion. With its adoption, the worldwide aviation community now has a single runway incursion definition, which will help in the search to determine common factors that contribute to these incidents.

Surface Safety Technology Implementation

In FY 2008, FAA continued the Runway Status Lights (RWSL) program which reduces the likelihood of runway accidents. In June 2008, FAA announced that RWSL would be installed at 22 airports by 2011.

The Airport Surface Detection Equipment Model X (ASDE-X), a runway safety tool developed to aid in preventing surface collisions and reducing critical Category A and B runway incursions is currently installed at 17 airports. Additionally, FAA is considering the use of low-cost, commercially available radar surveillance systems that would reduce the risk of runway incursions at certain small and medium-sized airports. FAA issued




a request for proposals in September 2008 inviting industry offers of candidate low-cost ground surveillance products at six additional pilot airports. Lower traffic levels and less complex operations at these airports allow ground operations to be safely conducted through visual and voice communication between controllers and pilots.

A low-cost ground surveillance system (LCGS) would further reduce the risk of ground incidents or accidents, especially during periods of low visibility. The LCGS will provide the basic infrastructure upon which additional runway safety applications such as Runway Status Lights (RWSL) and Surface Movement Guidance and Control Systems (SMGCS) can be built.

A draft of the National Runway Safety Plan has been drafted and will be published by the end of 2008.

Safety Promotion, Outreach, and Awareness

While pilots have traditionally acquired information about what runway or taxiway they are on by looking out their windshield, FAA is making it easier for pilots to have an invaluable electronic tool in the cockpit. It provides a moving map display with "own ship position"—changing and improving runway safety the way Global Positioning System (GPS) has changed the way we safely navigate our cars. Proposals to participate in the test program have been sent to industry for a program evaluation and are expected to begin during the next twelve months and continuing for several years.

FAA and industry leaders in August 2007 identified short-term steps to improve runway safety. These Call to Action initiatives focused on improved procedures, increased training for airport and airline personnel, and enhanced airport markings, lighting and signage.

- FAA has completed runway safety reviews at 20 initial 'call to action' airports based on runway incursion data and wrong runway departure data resulting in more than 100 short-term and numerous mid- and long-term initiatives. Most of the short-term initiatives identified have been completed.

- Seventy-five of the busiest airports enhanced their runway markings and the remaining smaller certificated airports must complete the marking enhancements by December 2009 or 2010, depending on their size.

- FAA issued an Advisory Circular on March 31, 2008 strongly recommending that certificated airports require annual driver training for all with access to the movement area. FAA has initiated rulemaking to require this annual driver training program at certificated airports.

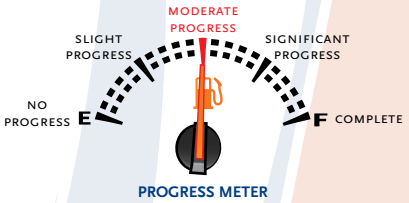
- FAA conducted a review of air traffic procedures that could contribute to runway incursions. The first procedure change, explicit taxi clearances, was implemented in May, and the second change, waiting until all runways are crossed along the taxi route before issuing the takeoff clearance was implemented on August 11, 2008. The third change, requiring specific runway crossing clearances for each runway along the taxi route, may be implemented by December 2008. These new procedures address several National Transportation Safety Board aviation safety recommendations.

- In July, at Chicago O'Hare International Airport, a voluntary reporting system for air traffic controllers was launched. The reporting system known as ATSAP (Air Traffic Safety Action Program) encourages a culture of non-retributive open communications about incidents and potential problems.

- The proposed Runway Safety Council, a joint FAA-industry group, will address root causes including human factors and accountability issues. The first meeting occurred on October 29, 2008.

- **Ensuring consistency and accuracy in reporting and addressing controller operational errors**

To address this challenge, FAA will continue to focus on the development and implementation of an automated software prototype that will depict Air Traffic Control separation conformance in the Terminal environment nationwide. The Traffic Analysis and Review Program, TARP, will apply separation logic to targets; identify where applicable separation standards are not being maintained; and highlight incidents for further investigation.



Originally TARP implementation was scheduled to be complete at all applicable terminal and en route facilities by December of 2011. However, in March FAA announced the acceleration of the TARP deployment schedule. The TARP audit tool implementation will now be complete at all applicable terminal facilities by December 2009. The en route environment currently has the Operational Error Detection Program that identifies potential losses of separation. Therefore, the TARP implementation strategy was modified to first focus on the area with the greatest need, the terminal environment.

The FAA has developed an additional tool that complements TARP, the Continuous Data Recording Player Plus (CDRPP). CDRPP has TARP-like separation detection logic, playback functions and near real-time data access. CDRPP will be used to review and automatically investigate potential losses of separation between aircraft initiated by traditional methods. The FAA will formally deploy CDRPP to all applicable terminal facilities by October 2008.

The En Route and Oceanic Services Unit will continue to remain focused on reducing risk in the National Airspace System through effective performance management. For FY 2009 En Route and Oceanic facilities will develop and implement strategies which address the primary causal factors found in their operational errors, creating a safety culture within the facility, and ensuring the quality of on-the-job training and that weather information is properly disseminated.

In addition to these initiatives En Route and Oceanic Services will continue daily monitoring of performance, and will pursue procedural development to enhance the safety of NAS operations. En Route and Oceanic Services will also continue their communication and awareness strategies, including bi-weekly quality assurance and training telephone conference calls, a weekly quality assurance newsletter, and an annual quality assurance and training conference.

To ensure consistency and accuracy in reporting and addressing controller operational errors, in FY 2008 FAA began providing briefings to operational field air traffic personnel to emphasize the joint goals of the agency towards safety and efficiency. A significant element of the briefing addresses the need and responsibility for air traffic personnel to fully report all losses of separation for both operational errors and pilot deviations. The

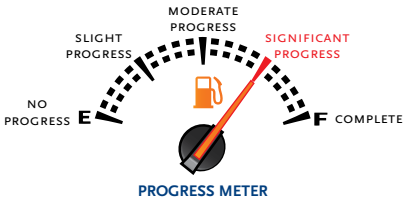



briefing includes discussion of the need to accurately capture the casual factors during investigation of every loss of separation. These briefings were presented to most large terminal facilities and some of their associated en route facilities by the end of March 2008.

The FAA is also ensuring more complete and accurate reporting of losses of separation through random audits of recorded radar data. Each month, the Air Traffic Organization's (ATO) Safety Office selects approximately fifteen terminal radar facilities and directs them to review two hours of radar data for dates and times specified by the Safety office. In addition, FAA requires approximately three of these facilities to forward their radar data for the selected periods to ATO Safety for a second, independent review of separation. En Route and Oceanic Services facilities continue to use the audit process in FAA Order 7210.56.

- **Strengthening risk-based oversight systems for air carriers, external repair facilities, and aircraft manufacturers**

The FAA continues to strengthen its risk-based oversight system and has expanded the Air Transportation Oversight System (ATOS) to 107 certificate management teams, FAA teams that oversee the nation's Title 14 Code of Federal Regulations (14 CFR) part 121 air carriers.



This system-safety and risk-based process ensures that FAA executes the agency's responsibilities to determine the continuing operational safety of Title 14 CFR part 121 air carriers. About a third of the inspector workforce is assigned to ATOS certificate management teams. The remainder of the safety oversight workforce will begin using risk-based oversight processes in 2012 when FAA deploys these systems to other certificate holders such as Title 14 CFR part 135 air carriers and part 145 repair stations.

FAA continues to train the inspector workforce in risk-based management. New risk–based training courses have been developed to teach inspectors how to use the redesigned ATOS process and tools. As of April 2008, all inspectors currently using ATOS (approximately 1,600) have taken the training. No inspector is allowed to perform ATOS work assignments until completing the training.

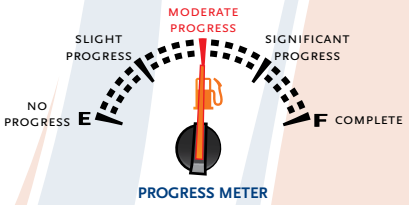
In September 2005, FAA launched the enhanced repair station and air carrier oversight system. This risk-based oversight system standardizes the approach for surveillance of certificated repair stations and noncertificated facilities contracted to perform maintenance for air carriers. It also provides for the continuous assessment and prioritization of each repair station and noncertificated repair facility and provides a method of targeting areas of high risk. While FAA has completed an update of the order which contains all of the standards and requirements safety inspectors use daily, we are continuing a review of the order for needed harmonization with the latest practices and surveillance of repair stations and air carrier outsourced maintenance providers. This revision to the order is expected to be released as completed and finalized in June 2009.

FAA continues to effectively oversee manufacturers' compliance with the aviation safety regulations. In the interest of safety and effective resource allocation, a risk management model is used to identify critical impact indicators that serve to categorize facilities according to their potential for producing nonconforming products and parts.

In June 2008, FAA revised draft guidance to manufacturers to include a process that evaluates and selects suppliers based on their capability to perform all manufacturing activities, inspections, and tests necessary to meet the specified requirements. The FAA expects this guidance to be incorporated in Advisory Circular 21-20 by September 2009. New risk indicators were also developed in June 2008 to be used by FAA manufacturing inspectors that emphasize the manufacturers' use of flight-critical parts suppliers. Risk indicators, used by FAA manufacturing inspectors to reduce the level of subjectivity in evaluating manufacturers so that inspectors' risk assessments are more consistent, were revised in January 2008.

New guidance will be published in March 2009 to require FAA manufacturing inspectors to review a manufacturer's prior audits of suppliers as part of the inspectors' analysis of risk and determination of resource targeting. Content for a revised manufacturing inspector training course was finalized in September 2008.

- **Maintaining a sufficient number of inspectors**

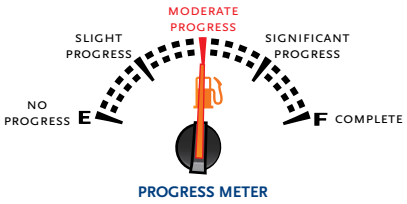


In March 2008, the Aviation Safety Organization (AVS) provided to Congress a 10-year Aviation Safety Workforce Plan. This plan ensures that an adequate safety staff is maintained to address oversight needs and addresses inspector attrition and anticipated changes in the aviation industry. The plan also addresses competencies and skills required within the AVS workforce to stay abreast of new technologies and to meet growing industry demands for service. As of August, AVS had hired a net increase of 143 positions, 85 of which are Aviation Safety Inspectors (ASI), putting us on target to meet the planned end-of-year staffing level.

The FAA has also established recruitment plans to fill our most critical occupations. The agency's Office of Human Resources Management continues to cultivate relationships and partnerships with the industry, professional organizations, and the educational communities to ensure positive publicity for the agency in order to enhance recruiting opportunities. We have implemented the newly revised qualification standards for the ASI occupation. Business and Interpersonal Competencies have been added to the Automated Staffing and Application Process for ASIs. This addition will help to determine whether applicants possess the necessary competencies and personal qualities to successfully perform the ASI duties and to support the organization's safety mission.

FAA concurred with the recommendations in the Aviation Safety Inspector Staffing Standards Study prepared by the National Research Council of the National Academies to create a new staffing model and to expand the model to include the entire safety critical workforce. For most of FY 2008, the staffing model that is inclusive of the entire AVS safety critical workforce is in the discovery phase. Based on current activities including scheduled requirements gathering, AVS will implement the Aircraft Certification inspector workforce component by December 2008 and the Flight Standards inspector workforce component by October 2009. Plans to add other workforce components to the staffing model will be determined once the requirements have been defined and established for other AVS technical workforce occupations.

- **Strengthening oversight of the Airman Medical Certification program**



The Airman Medical Certification Program is a critical safety program through which the FAA ensures that pilots are medically qualified and fit to pilot aircraft in the National Airspace System. Each year FAA processes approximately 460,000 airman medical certificate applications. After completing FAA training, physicians in private practice are designated as Aviation Medical Examiners (AME). The FAA currently has approximately 4,500 AMEs designated to examine and evaluate airmen to determine whether they meet Title 14 CFR Part 67 airman medical standards. To properly discharge the duties associated with their responsibilities, AMEs must have detailed knowledge and understanding of FAA rules, regulations, policies, and procedures related to pilot medical standards and the certification process.

Due to advancements in medicine, including improved diagnoses and treatments, and the aging pilot population, the medical cases FAA must review have become considerably more complex. As a result, the medical certification of pilots requires more analysis and time. FAA has hired additional personnel, including physicians, program analysts and program assistants, in the Regional Aerospace Medicine Divisions and at the Civil Aeromedical Institute in Oklahoma City, Oklahoma.

FAA took several steps this year to improve its oversight of aviation medical examiners. The Agency:

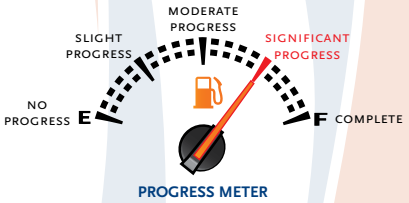
- Hired a senior program analyst to coordinate development of policies, procedures, and training;
- Hired one additional analyst in each Regional Aerospace Medicine Division;
- Developed new AME oversight policies, procedures and training; and
- Developed a schedule for conducting at least 150 site visits per year.

To address concerns raised in a recent congressional hearing about FAA handling of falsified pilot medical certificates, the Office of Aerospace Medicine revised FAA Form 8500-8, Application for Airmen Medical Certificate, to obtain more information from applicants. Applicants will be asked whether they are receiving disability benefits from the Federal Government or any other sources. If an applicant responds affirmatively to this question, examiners will follow-up with the applicant to ascertain the nature of their disability and determine whether the medical issues related to their disability may disqualify them from being a pilot. FAA began distribution of the form in September 2008.

In April 2008, FAA completed a modification of AME training to emphasize the importance of thoroughness in medical examinations, obtaining good patient histories, and of correlating the findings from those examinations and histories. The issue of falsification will also be addressed at future AME seminars and other AME training.

7. STRENGTHENING THE PROTECTION OF INFORMATION TECHNOLOGY RESOURCES, INCLUDING THE CRITICAL AIR TRAFFIC CONTROL SYSTEM

- **Enhancing air traffic control system security and continuity planning**



The National Airspace System of the United States is one of the most complex aviation systems in the world—consisting of thousands of people, procedures, facilities, and equipment—that enable safe and expeditious air travel in the U.S. and over large portions of the world's oceans. Successful operation of the NAS relies on a system that continuously tracks the position, routes of flight, and movement of aircraft. ATC control activities are geographically distributed among Air Route Traffic Control Centers (ARTCC) which are responsible for many thousands of square miles of airspace. The ARTCCs control aircraft from the time they depart terminal airspace (or in certain cases airports) to the time they arrive at another airport or terminal's airspace. Centers may also "pick up" aircraft that are already airborne and integrate them into the system. The need for protection of this information processing system cannot be overstated.

The FAA has experience dealing with partial and full outages of the information system at ARTCC. Today, in the event of a loss of a single ARTCC, adjacent Centers can assume some of the workload of the failed ARTCC through procedures and existing automation system capability. To further enhance this "backup" capability, the FAA is working to implement a system security and business continuity solution to ensure recovery of as close to 100 percent of a lost ARTCC's ability, should an outage of a single ARTCC occur. The approach is to establish a "spare" ARTCC at the FAA's William J. Hughes Technical Center (WJHTC) to assume control functions in the event of an outage in any one of the Centers. While this approach may slightly reduce the overall performance of the overall NAS, this will enable the FAA to maintain operations and capacity during the outage.

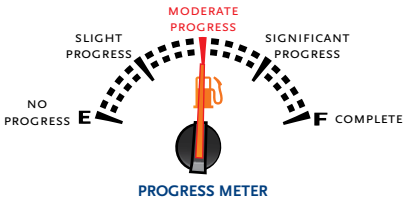
The FAA's WJHTC serves as the national scientific test facility for the FAA. The Center was assigned the task of conducting a detailed impact analysis to determine how technical services would be affected by the loss of an ARTCC and the resultant activation of a spare ARTCC. The WJHTC was at the forefront of the development of the recover strategy. Tests and demonstrations were conducted throughout 2007 and 2008. At the completion of each test and demonstration, resource concerns were identified and addressed and a business continuity solution developed.

The WJHTC has been outfitted with most of the equipment and connectivity necessary to deliver air traffic services for any of the contiguous U.S. Air Traffic Control Centers. This excess capacity will allow for the rerouting of voice communications and surveillance signals from an affected center to the spare center. Having additional capacity will greatly reduce the time and effort required to reconstruct the air/ground and surveillance communications infrastructure.

In addition to the development of the above business continuity strategy, several activities have taken place to identify and test for unauthorized software changes in fielded systems to assess the integrity of the existing NAS portfolio of systems and equipment. The FAA conducted a review of major systems, beginning with en route and oceanic/offshore operational facilities. The purpose was to determine the prevalence of undocumented system modifications to the national system baselines. Site visits have been conducted at 24 operational facilities collecting data on 16 major en route and oceanic/offshore systems. Analysis determined that there was a less than 10 percent deviation from the documented baselines. None of the modifications were of a malicious nature.

- **Testing and strengthening the information system security program at DOT Headquarters**

In FY 2008 DOT has undertaken several initiatives to test and strengthen the Departmental information systems security program specifically meeting tougher Federal Government security standards, correcting identified security deficiencies, and securing its IT infrastructure, all at a time of heightened vulnerability.



During FY 2008 the DOT Information Assurance and Privacy Management Office (IAPMO) has advanced and matured the DOT Information Assurance and Privacy Program to increase the reliability, integrity, confidentiality, availability, and non-repudiation of DOT information and information systems.

The Department has ensured that their General Support Systems and Major Applications are properly categorized, certified and accredited in accordance with National Institute of Standards and Technology (NIST) standards. DOT Operating Administrations (OAs) properly categorize their systems for confidentiality, integrity and availability and have worked to provide proper implementation of NIST required minimum security control protections consistent with risk and budget. For reporting and tracking security deficiencies or weaknesses identified during certification reviews, the Department has transitioned to the Cyber Security Asset and Management (CSAM) tool that allows the Department and OAs to prioritize, monitor, manage and remediate the Plan of Action and Milestones (POA&M) for those identified security deficiencies or weaknesses. Additionally, the Department has drafted a POA&M policy and is developing a POA&M guide that can be used with CSAM for an effective remediation framework.

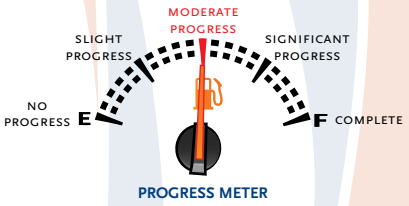
During fiscal year 2008 the Department has implemented Network Admission Control (NAC) processes and procedures to ensure that computers connected to Departmental networks are in compliance with DOT security policies (for remote users). In order for a user to connect to the network, their computer must be running an anti-virus application that is supported by the CISCO NAC and their antivirus definitions must be current.

Additional initiatives that the Department has undertaken during FY 2008 to strengthen the DOT information systems security program include:

- Consolidating all security monitoring and reporting under the Cyber Security Management Center.
- Aligning Departmental information systems security policies to Federal Information Processing Standard 200 and the National Institute of Standards and Technology Special Publication 800-53.
- Aggressively pursuing the implementation of all mandated Office of Management and Budget Information Systems Security Line of Business initiatives.
- Implementing several network hardening initiatives in 5 critical focus areas to improve access control, policy enforcement, and monitoring of DOT information systems.
- Utilizing Secure Elements Class 5 to validate for security configuration compliance for the Federal Desktop Core Configuration requirements.
- Utilizing SPAM and Anti-Virus filtering at all Secure Mail Transfer Protocol gateways.

- **Ensuring the timeliness of data recording and protection of personally identifiable information when interfacing with non-Federal systems**

In FY 2008 DOT has undertaken initiatives to ensure the protection of Personally Identifiable Information (PII) when interfacing with non-Federal systems. These efforts have focused on the compliance requirements associated with OMB M 07-16, Safeguarding Against and Responding to the Breach of Personally Identifiable Information. DOT policy requires encryption of all PII in transit.

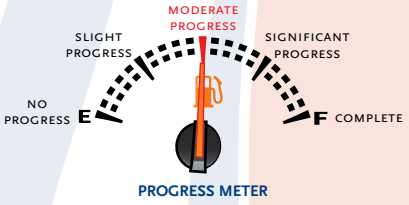


Additionally, the Department is working closely with other agencies to share ideas and resources for managing and protecting PII, increasing user awareness of responsibilities for protecting the Department's PII data assets, and incorporating Government best practices.

The Department acknowledges that protecting PII when interfacing with non-Federal systems remains a formidable challenge. Work is underway to validate system interconnections and matching agreements to ensure that the proper administrative, technical, and physical safeguards are implemented and provide adequate safeguards to protect the confidentiality, integrity, and availability of PII. The validation process will be completed by July 30, 2009.

- **Continuing to enhance oversight of information technology investments**

In early FY 2008 DOT finalized both the Earned Value Management (EVM) and IT Program Rebaselining policies. These comprehensive policies will allow DOT to benefit from additional management oversight across the IT investment portfolio since this guidance provides a framework for comprehensive planning, proper baseline maintenance, and earned value analysis which combined provide a formula for increased visibility into individual investment performance and enhances overall portfolio management.



In addition, DOT has strengthened its review of monthly performance data associated with the Department's major IT investments. This enhanced analysis provides additional management oversight specific to key data—such as variance analysis (actual vs. planned), performance trend analysis, performance forecasting, and corrective action planning—which lead to earlier recognition of potential issues making them easier, and often less costly, to correct.

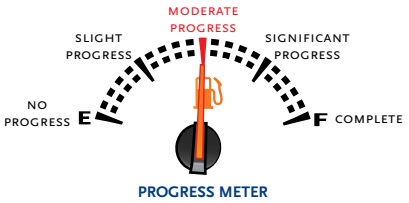
In addition, DOT piloted a Health of Investments (HOI) reporting and analysis tool to provide greater transparency and a common set of criteria for all major IT investments. HOI is designed to rank investments based on key portfolio and program management factors thereby assigning an overall health, or risk indicator.

DOT has focused in FY 2008 on improving IT governance both at the Department and Operating Administration (OA) level. Business cases for IT investments are reviewed by the applicable OA Investment Review Board (OA IRB). The Department IRB reconvened in April and is scheduled to meet on a quarterly basis. The CIO Council continues to meet on a monthly basis, while the Capital Planning and Investment Control (CPIC) subcommittee generally meets bi-monthly. The collective work of these governance boards helps to strengthen oversight of IT investments across DOT.

There is significant work underway to achieve full EVM implementation, based on the American National Standards Institute/Electronic Industries Association (ANSI/EIA) 748 compliance (across 32 program management criteria), for the Department by December 2009. A DOT EVM Plan of Action and Milestones is in place and is updated quarterly. DOT is also meeting individually with each OA to discuss EVM implementation progress within their OA. These discussions are then brought to the EVM Working Group, which meets monthly, to identify best practices and share lessons learned. In addition, the DOT CIO requires a quarterly EVM self-assessment from each OA CIO. Supplemental policies addressing operational analysis, EVM baseline planning, Baseline Change Control, and integrated baseline reviews are in various stages of development.

8. MANAGEMENT CHALLENGE: MANAGING ACQUISITION AND CONTRACT OPERATIONS MORE EFFECTIVELY TO OBTAIN QUALITY GOODS AND SERVICES AT REASONABLE PRICES

- **Increasing incurred-cost audits of procurement contracts to reduce unallowable charges**



Acquisition Policy Letter (APL) 2008-06 was issued on April 24, 2008 by the Office of the Senior Procurement Executive (OSPE) for the purpose of establishing a Departmental plan for assuring incurred-cost audits are obtained and audit report recommendations are resolved in a timely manner. The policy letter requires Operating Administration (OA) Chief Contracting Officers to (1) take action to revise their current FY 2008 contract audit plan to identify planned contract audits not implemented during FY 2007 or FY 2008 and included in FY 2009 audit plans and to resolve any pending audit finding with questioned costs by November 20, 2008. They are also required to update and resolve the list of DCAA-reported unresolved questioned costs that are more than 6 months old as of October 2006 and report any costs recovered to the OSPE. Additionally, quarterly status reports are to be submitted to address audit hours used, resolved and unresolved questioned costs, and whether justifications have been placed in the contract files where audits were not requested.

The OSPE continues to work with DCAA, the Operating Administrations, and the Office of Inspector General to find better methods for obtaining contract audit services.

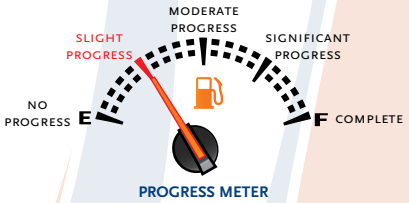
FAA was given separate contract authority in 1996 and therefore the authority to implement its own procurement policies. The agency, however, pursues acquisition policies similar to OST's on many issues, including this one. FAA continues to emphasize incurred cost audits through a centralized audit program. For FY 2008, the Agency provided $1.6 million to fund a central interagency agreement with the Defense Contract Audit Agency (DCAA) to order incurred cost type and other required audits for procurement contracts. An interagency agreement was executed in February 2008.

FAA has also established an FY 2008 performance goal to require audits of cost-reimbursable contracts of $100 million or more in value. The Contracting Oversight Team, using the PRISM database, identified 86 cost-reimbursable type contracts each with a total estimated potential value of $100 million or more. For FY 2008, FAA issued audit requests for 43 contracts, deferred audits for 15 contracts per DCAA planning, and determined audits were not required for 28 contracts, accounting for 86 contracts. Overall, FAA has issued audit requests for

155 contracts including incurred and other type audits. The Contracting Oversight Team, under the Acquisition Policy and Contracting Office, manages the central DCAA audit process and issues audit requests, maintains the audit database, and acts as a liaison with DCAA Headquarters and Branch offices.

The FAA also utilizes the National Acquisition Evaluation Program (NAEP) which provides oversight and evaluation of FAA acquisitions management practices. In FY 2008, the NAEP conducted reviews for the Southern, Southwest, Northwest, and Eastern Regional Contracts Offices, and two Headquarters Contracts Groups. The NAEP reviews include an evaluation of the appropriate use of DCAA audits for procurement contracts.

- **Developing strategies for the future acquisition workforce**



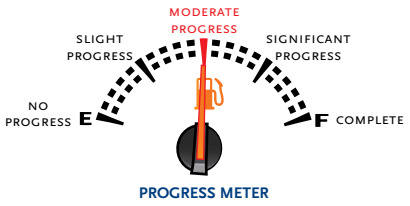
The Acquisition Workforce Career Development Program policy issued in November 2006 provides the framework for implementing OFPP Policy Letter 05-01 and establishes procedures to be used by DOT Operating Administrations in implementing this program. The Acquisition Workforce Career Development Program is applicable to those positions and career fields defined as the acquisition workforce. The DOT acquisition workforce is defined to include all positions in the General Schedule Contracting Series (GS-1102); all warranted Contracting Officers regardless of General Schedule series with authority to obligate funds above the micro-purchase threshold; all positions in the GS-1105 Purchasing Series; Contracting Officer Technical Representatives (COTRs), or equivalent positions; Project and Program Managers, as identified by the Chief Acquisition Officer (CAO); and other positions designated by the CAO as performing significant acquisition-related functions.

FAA employees are exempt from this program under P.L. 104-50. However, FAA will provide its affected employees with substantially similar training and education requirements to maintain mobility.

During 2007, DOT contracting employees participated in the government-wide Contracting Workforce Competencies Survey sponsored by the Federal Acquisition Institute. The results of the survey will be used to ensure that appropriate development opportunities are provided to the contracting workforce. A follow-up survey to include Program and Project Managers and COTRs planned for August 2008 should add to the information used in making strategic human capital decisions regarding the acquisition workforce.

The Acquisition Career Management Information System (ACMIS) is the government-wide database containing information on the Federal acquisition workforce in civilian agencies and is used to identify training needs and to support strategic human capital plans and decisions. The actual size of DOT's Acquisition Workforce is expected to become easier to gauge with the inclusion of key acquisition roles (Program and Project Managers and COTRs) into ACMIS. The challenge is that these positions do not comprise one or more specific government position classification series. These roles may be performed by professionals in many series and are frequently time-limited. That is, individuals may take on acquisition management responsibilities related to their normal duties for months or years for a specific initiative and terminate acquisition duties when the initiative is completed or the professional moves to a new position. For these and other reasons, DOT is currently refining the identification of such positions. By the end of calendar 2008, more authoritative data on these acquisition professionals should be available.

- **Fostering high ethical standards throughout the Department and its contracting programs to maintain the public trust**



This year, the Department instituted an annual training program for acquisition and grants management personnel that concentrates specifically on ethics and contracting matters. This training supplements required annual ethics training. During June and July 2008, initial training sessions were held in the Office of the Secretary (OST). Also, training sessions were provided for senior management in September 2008. In future years, annual training will include both live sessions as well as written and on-line training.

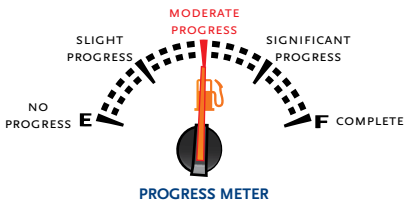
Personnel from the Operating Administrations who are tasked with training their own acquisition and financial assistance management staff attended 'train-the trainer' sessions sponsored by OST in June 2008. These individuals are conducting training sessions throughout their own organizations, including field organizations, with the goal of completing initial training by the end of calendar year 2008.

The FAA uses an integrated and comprehensive approach in the development and delivery of procurement ethics training. Training modules for 2008 included: Getting What you Pay for on Services Contracts; Organizational Conflicts of Interest; Procurement Integrity; and Personal Services. Current laws, regulations, and case studies of noncompliance are highlighted.

Live training sessions have been conducted at FAA Headquarters and the FAA Centers. DVDs of the presentations with voice over discussion will be produced for those unable to attend sessions in person. Close to 100 percent of Contracting Officers, Contract Specialists, Contracting Officers Technical Representatives (COTRs) and many other employees that deal with acquisitions have received training provided by FAA's Office of General Counsel. In total, approximately 2,100 acquisition and program personnel were trained.

The purpose of this training is to provide continuing reinforcement of ethics and contracting standards that promote the integrity of acquisition and grants management processes throughout DOT. The target audience for this training includes contracting officers, contracting officer technical representatives, program and project managers, procurement and other acquisition specialists, personnel who participate in cooperative agreement and grant matters, legal support personnel, and personnel who supervise acquisition matters.

- **Enhancing oversight on Federal-Aid Highway construction projects to prevent abuse in contractor quality control programs**



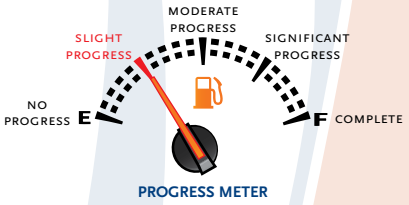
FHWA conducts assessments to better identify existing gaps that have the potential to introduce risk into the acceptance and payment process for construction and materials. Assessments completed to date include 22 detailed state highway program reviews, a national program review of quality assurance programs and a nationwide assessment to quantify the state of quality assurance systems which has been used to establish a benchmark to track our efforts to improve in this area. In addition, FHWA sponsors training through the National Highway Institute and the FHWA Resource Center. These courses are

delivered across the U.S. and focused on elements of effective quality assurance specifications. FHWA also developed advanced tools that will allow states to better evaluate and manage risks within their quality assurance programs.

9. MANAGEMENT CHALLENGE: REFORMING INTERCITY PASSENGER RAIL

- **Improving Amtrak's cost-effectiveness to sustain its financial progress**

At the urging of the FRA, Amtrak has taken many steps to address these areas over the past few years. As a result of a combination of programs focusing on diverse aspects of corporate operations and its intensive efforts at revenue management—the company is relatively more stable financially that it was five years ago. Nevertheless, Amtrak's reliance on public subsidies has grown over time, with a Federal appropriation of $1.325 billion in 2008.



Three measures sum up the extent of Amtrak's relative progress. First, between 2002 and 2007, Amtrak's passenger-miles per operating employee increased by 22 percent, far outstripping the similar productivity measure for the Class I freight railroads (revenue ton-miles per employee up 10 percent in the same period). Second, and also between 2002 and 2007, the net cash used in operating activities per passenger mile decreased by 27 percent on a constant dollar basis. As Amtrak's essential purpose is the provision of intercity passenger transportation, the corporate cash flow per passenger-mile is the purest accounting measure of the net year-by-year efficiency.

Increased FRA Oversight

FRA in recent years has markedly expanded the capabilities of its Office of Passenger and Freight Programs, which oversees Amtrak activities, related to the $1.3 billion in grant funds that the Department awards Amtrak annually. FRA reconstituted that office, recruited a new Director, established clearer lines of authority through two passenger divisions—the Intercity Passenger Rail Analysis Division and the Program Implementation Division—and augmented its staff in all disciplines. These improvements have enabled the office to conduct comprehensive, multi-disciplinary reviews of Amtrak Management's proposals and requests. It has also improved FRA's understanding of the details of Amtrak's operational and corporate performance through a number of initiatives, such as: (1) specification and analysis of the most detailed on-time performance data ever provided by Amtrak to the FRA, (2) new concepts for the presentation and interpretation of traffic, revenue, expense, and corporate result data, and (3) a new, straightforward definition of 'State of Good Repair' that provides a benchmark for Federal/State/regional long-term planning of investments in Amtrak's most important asset, the Northeast Corridor main line.

In addition, the FRA conducts quarterly reviews of Amtrak's capital program, with civil and mechanical engineers scrutinizing infrastructure and equipment programs; as well as reviews of reprogramming and advance purchase proposals, in an effort to improve efficiency and cost-effectiveness. The FY 2008 Appropriations Act provided funding to FRA for intensified oversight of the capital programs. To this end, FRA is currently developing a statement of work for detailed engineering review of salient topics in infrastructure investment.




In the crucial area of financial reporting and management practices, FRA, the Department's Volpe National Transportation Systems Center (Volpe Center), and Amtrak are jointly developing a new methodology for calculating avoidable and fully-allocated costs by route. This methodology will underpin a substantially upgraded route costing model that Amtrak can implement in FY 2009. Building on a meticulously detailed review of Amtrak's route-by-route cost accounting systems, the new model will significantly improve the transparency and accuracy of Amtrak's financial reporting by route and business line. It will also provide valuable input to possible future strategic planning and network review processes that Amtrak or the Department may undertake, and will help to refine Amtrak's ability to negotiate cost-reimbursement contracts with States for the provision of passenger services in keeping with the Administration's Principles. [1]

Improved Cost Effectiveness at Amtrak

Although it is difficult to enumerate wasteful expenditures, FRA's enhanced oversight is having positive effects as seen by the ratio improvements described above and the following:

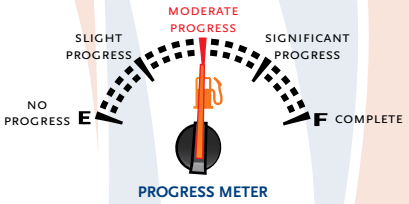
- After the FRA required and helped Amtrak to design monthly reports on the income/loss of its food service, Amtrak has devoted increased attention to food-service losses and applied better discipline regarding related costs. For instance, Amtrak has reduced many of its dining car crews. After the Federal Railroad Administrator placed a sharp focus on the need for improved on-time performance—which affects Amtrak's revenue base, operating costs, bottom line, and public image—the on-time performance of Amtrak's long-distance trains rose by 14.4 percentage points in the first nine months of FY 2008 over the same period last year.

- Largely because of FRA's insistence on cogent business and equipment plans for Amtrak's various lines of business, as a prerequisite to FRA's approval of major equipment-related investments that Amtrak plans to propose for FY 2009, Amtrak's Board has adopted a more active role with respect to strategic planning. Meanwhile, Amtrak's management has initiated a strategic planning working group, headed by the company's most experienced employee, to undertake the kind of planning that the FRA is advocating.

- Amtrak is in the process of developing a long-term fleet plan. As a result, the company has suspended expensive conversions of certain food service cars in order to better determine the type of equipment necessary to cost-effectively serve the various types of trains Amtrak operates.

1 These principles, announced by former Transportation Secretary Norman Y. Mineta in 2002, are as follows:
a. Establish a long-term partnership between States and the Federal Government to support intercity passenger rail;
b. Require that Amtrak transition to a pure operating company;
c. Create a system driven by sound economics;
d. Introduce carefully managed competition to provide higher quality rail services at reasonable prices; and
e. Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor.

- **Overcoming challenges to improving Amtrak's on-time performance**



The FRA has taken proactive steps to improve Amtrak's on-time performance (OTP). These steps are exhaustively described in FRA's three OTP reports to Congress which are available at http://www.fra.dot.gov/us/content/1996. Some report highlights include:

- As the Secretary of Transportation's representative on the Amtrak Board, FRA Administrator Joseph H. Boardman has repeatedly emphasized to the Board that OTP is essential to the Corporation's service quality, public image, traffic and revenue levels, operating economy, and financial performance.

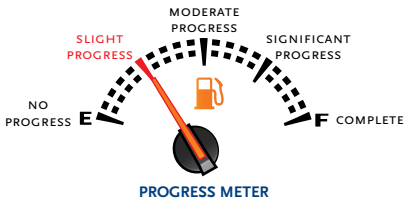
- Administrator Boardman has added Amtrak OTP to the regular agenda of his annual safety meetings with senior executives from each of the Class I Railroads. At those meetings, the Administrator emphasizes the criticality of the issue and FRA's commitment to take a more active role in monitoring progress.

- On April 16, 2008, Secretary of Transportation Mary E. Peters and Administrator Boardman held a meeting among the Class I railroads' top executives, the Amtrak CEO, and Amtrak's Board of Directors in Pueblo, Colorado. At this first-ever executive level meeting, Secretary Peters specifically requested that Amtrak and the Class Is identify one Amtrak route on each major host railroad to develop an action plan (Performance Improvement Plan or PIP) for removing delays and improving OTP. Amtrak and the freight railroads have designated specific routes for PIPs and begun the process of OTP improvement.

- As a part of the FY 2007 Grant Agreement with Amtrak, FRA required Amtrak to submit a Southeast Corridor Performance Improvement Plan to identify strategies that would enable Amtrak to reach an OTP target of over 75 percent for the Auto Train, Silver Service, Palmetto, Carolinian, and Piedmont. Amtrak and CSX presented the Southeast Corridor Performance Improvement Plan on November 8, 2007. Results thus far are encouraging. In FY 2008, CSX freight train interference delays affecting the Southeast Corridor long distance trains have fallen to about three minutes per 100 train miles. Furthermore, the Auto Train's endpoint OTP is up to 80.5 percent from 15 percent prior to the PIP, and the OTP of other long distance trains on this corridor has increased to 53.8 percent from 33 percent the previous year.

- In reporting to Congress on OTP, FRA thoroughly assessed alternative measures of performance and developed specific route-by-route goals for OTP that set a more stringent standard than that advanced by Amtrak itself.

- **Reauthorizing Amtrak to facilitate reform**



While Congress has not implemented the Administration's full proposal for reforming intercity passenger rail service in the United States, one of the key principles has been incorporated in recent law. Specifically, the FY 2008 Appropriations Act included $30 million for a Federal / State Capital program to support the needs of intercity passenger rail service. The FY 2009 President's Budget included funding for this program.

This new grant program recognizes that most publicly supported transportation in the U.S. is undertaken through a partnership between the Federal Government and the States. This model, which has worked well for generations for highways and transit and airports, places the States, and in certain cases their subdivisions, at the forefront of planning and decision-making. States best understand their mobility needs and connectivity requirements through statewide and metropolitan area intermodal and multimodal transportation planning funded, in part, by the U.S. Department of Transportation. (Integration of the improvements under this program with statewide transportation planning was required by appropriations language.)

FRA expects that this model will also work for intercity passenger rail. Several States have chosen to invest in intercity passenger rail service provided by Amtrak as part of strategies to meet their passenger mobility needs. Between 1996 and 2006, ridership on intercity passenger rail routes that benefit from State support grew by 88 percent. Over that same time period, ridership on Amtrak routes not supported by States increased by only 17 percent. State involvement in planning and decision-making for intercity passenger rail service identifies where mobility requirements justify public investment. An excellent example can be found in Washington State, which has invested in intercity passenger rail from Portland, OR, through Seattle, to Vancouver, B.C. in order to relieve highway travel on the congested I-5 corridor. Similarly, the state of Illinois has made financial commitments that have effectively doubled the number of State-supported trains operated by Amtrak on three routes.

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

In discussions with interested States, FRA has found that the greatest single impediment to implementing intercity passenger rail development is the lack of a Federal/State partnership, similar to that which exists for highways and transit, for investing in the capital needs of intercity passenger rail. This partnership will play a critical role in the future evolution of this important mode of transportation.

Government Accountability Office
High Risk Issues

Since 1990, the Government Accountability Office (GAO) has provided to Congress a report on government programs and operations that in some cases are high risk due to their greater vulnerability to fraud, waste, abuse and mismanagement. In recent years, GAO also has identified high-risk areas to focus on the need for broad-based transformations to address major economy, efficiency, or effectiveness challenges.

In January 2007, GAO presented a new high risk list to Congress, which included concerns about FAA's modernization program. According to GAO, over the years this modernization program, which includes the acquisition of new systems and facilities, has experienced cost overruns, schedule delays and performance shortfalls. GAO has reported on the root causes of these problems, including (1) immature capabilities for acquiring systems, (2) lack of an institutionalized architecture, (3) inadequate cost estimating and accounting practices, (4) an incomplete investment management process, and (5) an organizational culture that impairs modernization efforts.

FAA has been actively addressing these issues for several years and much has been done already. The following summarizes FAA's activities in FY 2008.

FAA'S ACTION PLAN FOR STRENGTHENING ITS MODERNIZATION PROGRAMS

Problem: FAA Modernization Programs were not meeting cost and schedule targets.

Goal: Improve the FAA's ability to identify, build, and field air traffic control systems in a timely and cost-effective manner through institutionalizing acquisition management best practices and meeting targets to deploy air traffic control systems.

FAA has designated six areas to focus on in addressing this issue: acquisition processes and capabilities, enterprise architecture, cost estimating/accounting, information technology investment processes, human capital, and deployment.

1. Acquisition Processes and Capabilities

Lead Organization: Air Traffic Organization, Vice President for Acquisition and Business Services

Focus area goals: Implement improved acquisition processes in the areas of measurement and analysis, verification and validation, quality assurance, risk management, contractor management, program management, and requirements on selected pilot programs. Additionally, develop and implement an approach for institutionalizing processes across the Air Traffic Organization for all new programs.

Expected Outcomes:

- Selected in-process major programs and all new acquisition programs follow a standard acquisition management process based on industry best practices.




- Institutionalize compliance assessment capability.

FY 2008 Accomplishments:

- Nov 2007: Implemented risk management, contractor management, program management, and requirements processes across eight major ATC programs.
- Dec 2007: Developed and integrated quality assurance and risk policy, process, procedures, information into the FAA standard Acquisition Management System (AMS) found on its website.
- Mar 2008: Established a compliance assessment approach and began implementation of same. Developed and integrated contractor management, measurement and analysis policy, process, and procedures information into the FAA AMS.
- Jul 2008: Document Intensive Reviews completed on five new programs.
- Sep 2008: Completed update of Verification and Validation (V&V) Protocol of Operations.

2. Enterprise Architecture

Lead Organization: Air Traffic Organization, Director, Systems Engineering and Safety

Focus area goals: Implement and enforce a complete enterprise architecture (EA), which will provide a view of how well investments are meeting the organization's business needs, as well as guiding future investments.

Expected Outcomes:

- Achieve Stage 3 of the GAO EA Maturity Model.

FY 2008 Accomplishments:

- Dec 2007: Independent validation and verification (IV&V) completed on EA. outside the National Air Space (NAS).
- Mar 2008: IV&V completed on NAS EA.
- Aug 2008: Selected and procured best in class EA tool.
- Sep 2008: Received final IV&V report for NAS EA from MITRE.

3. Cost Estimating / Accounting

Lead Organizations: Assistant Administrator for Financial Services/CFO and Air Traffic Organization, Director of Investment Planning and Analysis

Focus area goal: Improve cost estimating and cost accounting practices and obtain a clean financial audit.

Expected Outcomes:

- Publish and implement a lifecycle cost model that will be used with all major investments based on a database of historical cost estimates.
- Implement quarterly reporting on the status of programs staying within annual cost targets at Flight Plan reviews.
- Obtain a clean audit of our financial statements for fiscal year (FY) 2007 and lift the qualification of the FY-06 statements.

FY 2008 Accomplishments:

- Nov 2007: Audit report lifted the qualifications from 2006 but identified a material weakness for 2007.
- Feb 2008: Improved the timeliness of cost accounting system (CAS) reports delivered to users to within 38 days of the end of the quarter.
- Mar 2008: Improved the processes for accrual of expenses. Air Traffic Organization is performing accruals on a monthly basis.

4. IT Investment Processes

Lead Organization: Assistant Administrator for Information Services/CIO

Focus area goals: Implement and enforce stage 3 of the GAO's Information Technology Investment Maturity (ITIM) model, a summary of best practices for investing in information technology. The model allows agencies and GAO to assess to what degree of maturity (from stage 1, the lowest) to stage 5 (the highest) agencies are following these best practices. To date, no agency has been assessed at stage 3 or higher.

Expected Outcomes:

- Establish a process for the FAA's investment review board, the Joint Resources Council (JRC), and subordinate boards, to regularly review the performance of IT systems throughout their lifecycles and take corrective actions when expected performance is not being met.

FY 2008 Accomplishments:

- Nov 2007: JRC delegated responsibility for Information Technology Executive Board (ITEB) portfolio.
- Jan 2008: Documented and approved ITEB investment management process.
- Jan 2008: 'Go to Green' Tiger Team formed to produce an action plan to achieve most of the stage 3 requirements of the GAO ITIM model this year.
- Feb 2008: Completed processes for instituting the ITEB.
- Mar 2008: 'Go to Green' Plan for Stages 2 and 3 developed and approved.
- May 2008: Conducted Operational Analyses and budget verification on top 29 investments in ITEB portfolio (92 percent of portfolio dollar value).




- May 2008: JRC approved ITEB portfolio.
- Jun 2008: JRC approved Investment Selection Criteria.
- Jun 2008: Implement process of Meet Business Needs.
- Jun 2008: Capture Investment Information.
- Jul 2008: Portfolio management policy and initial portfolio criteria approved.
- Sep 2008: Selected IT investments

5. Human Capital

Lead Organization: ATO, Director, Leadership & Professional Development

Focus area goals: Overcome human capital challenges including how to develop the technical and contract management expertise needed to define, implement, and integrate FAA's numerous complex programs and systems.

Expected Outcomes:

- Contracting professionals have required training and skill sets and the FAA has sufficient bench strength to meet future needs.
- Program/Project managers are certified according to standards set by the Project Management Institute (PMI) and assigned in accordance with OMB and related agency documented policy and processes.

FY 2008 Accomplishments:

- Dec 2007: Developed an FAA Project and Program Manager Career Path and associated PM career development and certification policy.
- Jan 2008: Developed an agency strategy for recruiting, selecting & assigning program managers to capital investment projects.
- Jan 2008: Developed an audit process to evaluate organizational compliance to established program manager policy and guidance.
- Feb 2008: Received Office of Personnel Management approval to use reemployed annuitants to fill contracting vacancies.
- May 2008: Developed interim action plan to address National Academy of Public Administration's (NAPA) Phase 1 findings.
- Sep 2008: Received final NAPA report.
- Sep 2008: FAA personnel in the contracting series, contracting officer's technical representative, and program/project managers participated in the Federal Acquisition Management 2008 FAI Competency Assessment.

6. Deployment

Lead Organization: ATO, Director of Capital Expenditures Programs

Focus area goal: Improve the ability of FAA to estimate, plan, and meet target cost and schedule for major programs.

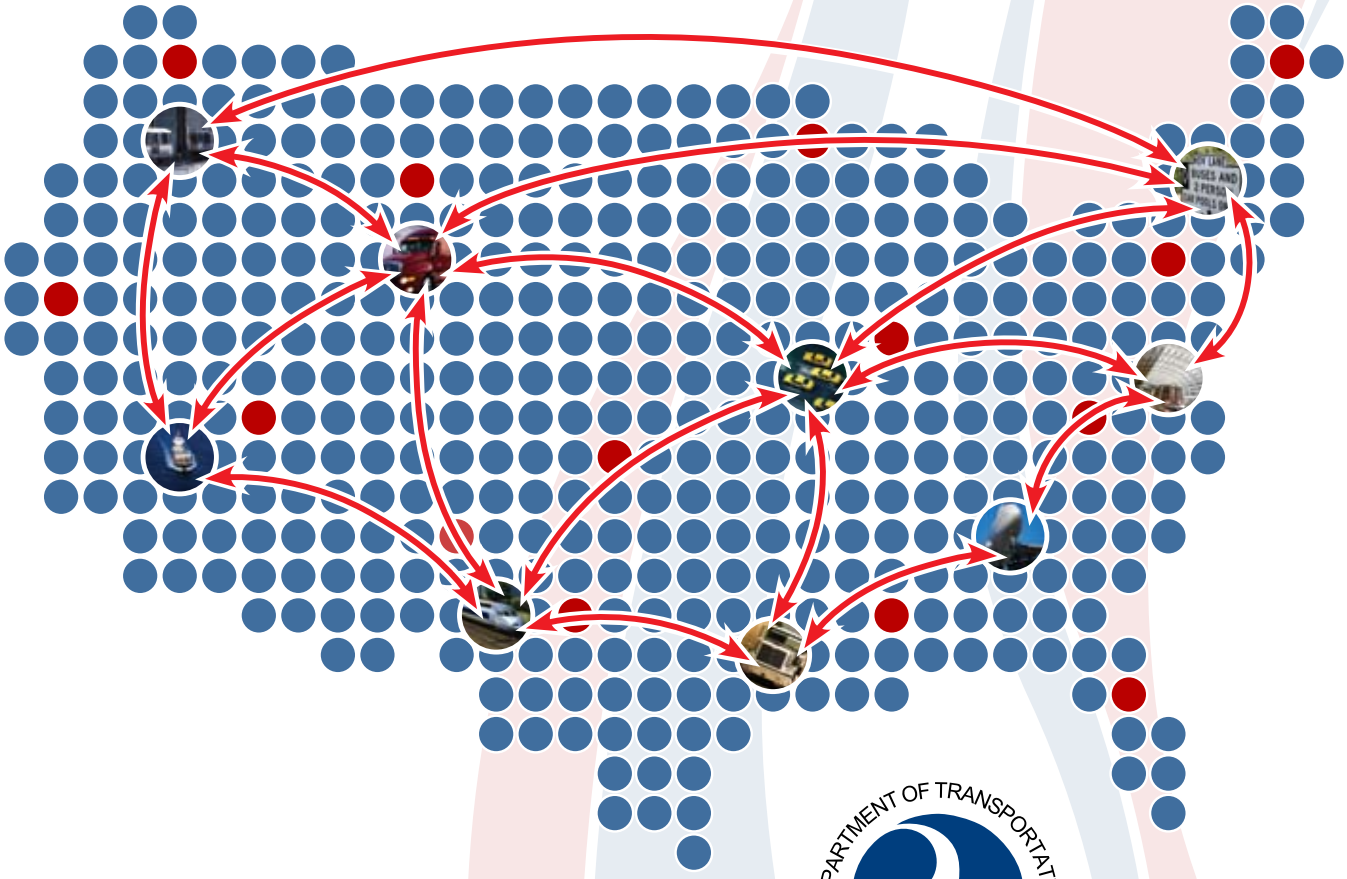
Expected Outcomes:

- Earned value management (EVM) implemented for all major acquisitions.
- Breach reporting (cost or schedule variance greater than 5 and 10 percent) implemented.

FY 2008 Accomplishments:

- Dec 2007: All major programs which were assessed in April 2005, and are still in development, are in full compliance with EVM ANSI Standards.
- Dec 2007: Developed and implemented EVM Surveillance and Certification processes.
- Dec 2007: Conducted strategic reviews on 22 of the 30 major programs.
- Jul 2008: Developed and provided GAO with deployment schedules and associated milestones for 15 agreed upon major programs.
- Sep 2008: Developed a Standard Operating Procedure (SOP) for Air Traffic Organization Program Control and Baseline Management to address Program Planning, Baseline Management, Program Performance Reporting, and Variance Analysis. SOP in the process of being vetted throughout ATO.

PERFORMANCE REPORT






PERFORMANCE FRAMEWORK

INTRODUCTION

The Department of Transportation's overarching mission is:

> To develop and administer policies and programs that contribute to providing fast, safe, efficient, and convenient transportation at the lowest cost consistent with the national objectives of general welfare, economic growth and stability, the national security, and the efficient use and conservation of the resources of the United States.

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

DOT's performance framework is as follows:

- The **DOT Strategic Plan** provides a comprehensive vision for improving the nation's complex and vital transportation system. DOT's 2006–2011 Strategic Plan outlines five strategic objectives in the areas of safety, reduced congestion, global connectivity, environmental stewardship, and security that articulate the longer term focus of the Department. In addition to the broad objectives; the plan targets specific outcomes we want to achieve, and identifies key challenges.

- The **DOT Performance Budget** operationalizes the Strategic Plan, and provides direct linkages between DOT's budget request and the results the public can expect for programs within each of our Operating Administrations. The performance budget defines the performance goals and measures used to manage progress toward our strategic objectives. It describes in detail one fiscal year's resources and programmatic effort within a strategic context. The performance budget also aligns each dollar requested to one of our strategic objectives.

- This **DOT Performance and Accountability Report** provides a public accounting of our FY 2008 performance results.

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

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

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

Employee Performance Plans – Prepared early in the fiscal year, these plans document expected levels of employee performance that clearly link to our strategic objectives through the performance framework.

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




How DOT Works to Achieve Its Strategic and Performance Goals

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

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

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

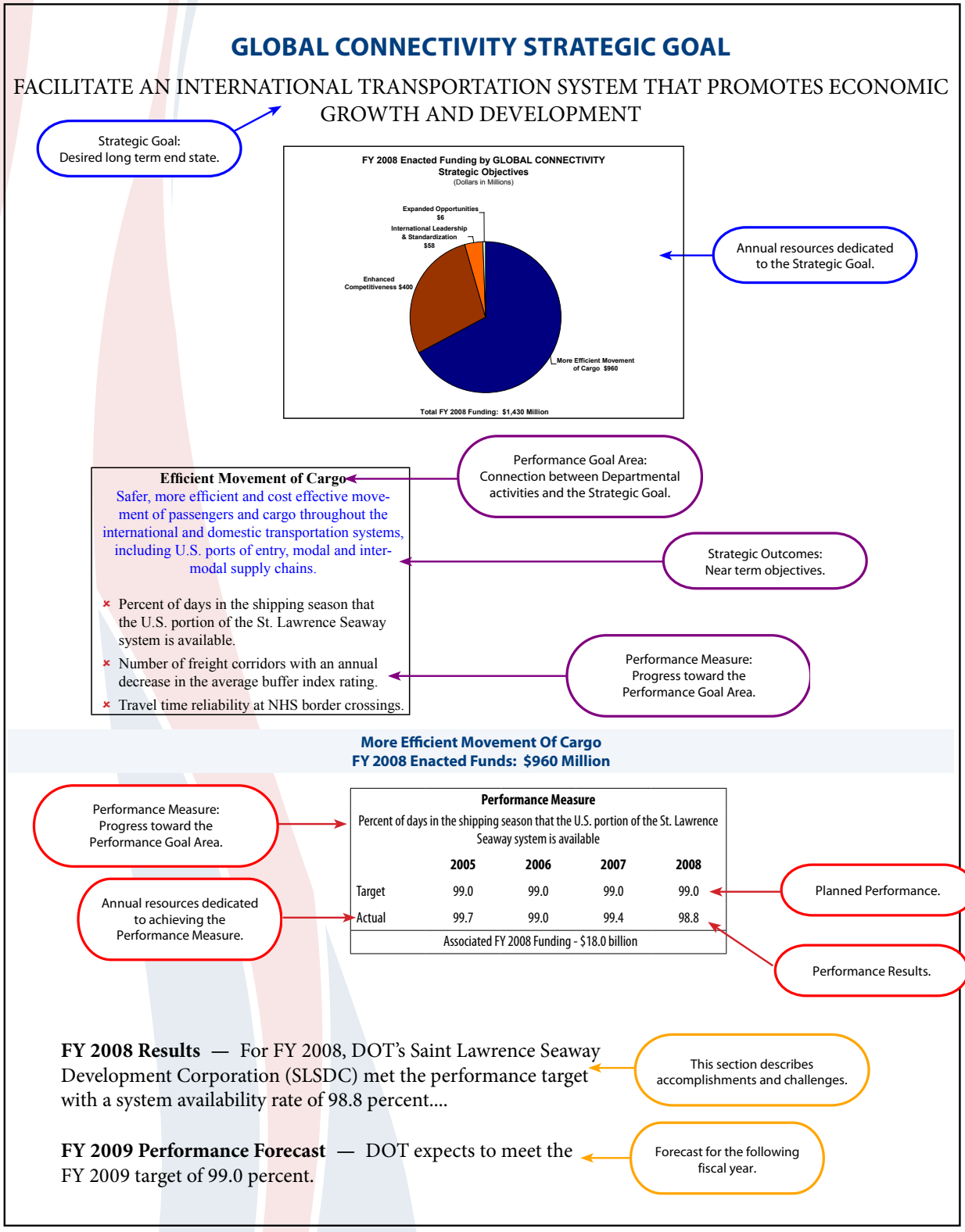
READER'S GUIDE TO DOT'S PERFORMANCE REPORT

The performance section of this report is composed of chapters for each strategic goal identified in the DOT Strategic Plan. For each strategic goal, we present four increasingly detailed levels of information, which together help the reader understand the breadth of the Department's activities.

1. Strategic Goals	Describes the Strategic Goals and Strategic Outcomes and how the Department is engaged in a national priority like transportation safety.
2. Performance Areas	Focuses on particular aspects of the priority outcomes in more manageable pieces through key performance areas.
3. Performance Measures	Shows the reader how we measure our progress toward the performance objective, the target we set for ourselves, and our success in reaching it.
4 Performance Narrative	Provides the reader additional details about our accomplishments or the challenges we faced, along with a forecast of our ability to meet the next year's target.

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

Figure 2



Level 1: Strategic Goals and Outcomes

In September 2006, DOT published its new Strategic Plan for FY 2006-2011. This Performance and Accountability Report is the first year that we are fully reporting against the goals and outcomes set forth in that plan.

Relationships between strategic goals – Very frequently programs and initiatives that are aligned with a particular strategic goals and outcomes also contribute to related goals and outcomes. This is a desirable trait that reinforces our efficient use of resources across the Department to address multiple transportation challenges with multi-faceted programs that do more than one thing.

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

Strategic Outcome – a statement from the DOT Strategic Plan, outlining nearer-term sub-sets of the goal.

Level 2: Performance Areas

The report focuses on key performance areas in ways that are meaningful both to DOT programs and the public rather than following a limiting line-by-line reporting of all Dot activities. This way the reader gets a much better view of the Department's areas of concentration.

Resource Allocation – We provide a subtotal of Departmental resources that are applied to the pursuit of each set of performance objectives in order to show the level of investment made based on budget plans. We are not yet able to provide data from our cost accounting system on actual funds expended by performance area, so the associated funds identified for each area reflect the Department's planned spending. While the financial information provided is not an accounting report of funds expended, it does give the reader an overall picture of how the Department uses its appropriations. We look forward to implementing future improvements to our cost accounting system allowing us to provide even more detail in the years to come.

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

Level 3: Performance Measures

Summary performance information - One of the ways that DOT interprets its progress towards achieving its strategic goals is to compare single year results to historical trends. We have provided a tabular summary of long-term performance for each of the Strategic Goals in the pages that follow providing 7 years worth of performance information.

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

Data completeness - An exhaustive assessment of the completeness and reliability of our performance data and detailed information on the source, scope, and limitations for the performance data in this report are provided at:

http://www.bts.gov/programs/statistical_policy_and_research/source_and_accuracy_compendium/index.html. In that website, we also provide information to resolve the inadequacies that exist in our performance data.




Preliminary vs. final results - Reporting just 2 months after the close of the fiscal year is 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.

Level 4: Performance Narrative

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.

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

SUMMARY PERFORMANCE TABLES

The following tables present the results over several years, when possible, of all the performance measures tracked in this report. The measures are grouped by strategic goal.

SAFETY PERFORMANCE SUMMARY

Performance Measure	2002	2003	2004	2005	2006	2007	2008 Actual	2008 Target	Met/ Not Met
Passenger vehicle occupant highway fatality rate per 100 million passenger vehicle-miles traveled (VMT).		1.21	1.17	1.15 (r)	1.11 (r)	1.05*	1.03#	1.06	✓
Large truck and bus fatality rate per 100 million total VMT.				0.185	0.176	0.170*	0.168*	0.171	✓
Motorcyclist fatality rate per 100,000 motorcycle registrations.	65.4	69.2	69.8	73.5	72.34 (r)	71.8*	71.3*	76	✓
Non-occupant fatality rate per 100 million VMT		0.19	0.19	0.20	0.19	0.18	0.19*	0.19	✓
Number of commercial air carrier fatalities per 100 million persons onboard							0.4*	8.7	✓
Number of fatal general aviation accidents	348	366	340	354	299	314	299*	325	✓
Rail-related accidents and incidents per million train-miles	20.04	19.40	19.02	18.03 (r)	17.42 (r)	16.56 (r)	15.74*	18.45	✓
Transit fatalities per 100 million passenger-miles traveled	0.473	0.461	0.467	0.428	0.389 (r)	0.437 (r)	0.289 *	.468	✓
Number of serious incidents for natural gas and hazardous liquid pipelines	36	61	48	41 (r)	35 (r)	47 (r)	41*	40	×
Number of serious hazardous materials transportation incidents	480 (r)	472	492	528 (r)	495 (r)	473 (r)	451*	462	✓

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




REDUCED CONGESTION PERFORMANCE SUMMARY

Performance Measure	2002	2003	2004	2005	2006	2007	2008 Actual	2008 Target	Met/ Not Met
Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride	49	50	52	52	54	57 (r)	56 *	57	×
Percentage of deck area on National Highway System (NHS) bridges rated as deficient, adjusted for average daily traffic	29.9	29.8	32.0 (r)	29.9	29.2	29.7 (r)	29.5*	22.0	×
Percentage of total annual urban-area travel occurring in congested conditions	N/A	28.5 (r)	28.6 (r)	28.6 (r)	28.4 (r)	27.8* (r)	27.3 #	32.3	✓
Average percent change in transit boardings per transit market (150 largest transit agencies)	0.2	0.7	0.7	1.9	2.1	2.5 (r)	4.3*	1.5	✓
Percent of bus fleets compliant with the ADA	90	93	96	96	98	98 (r)	98*	98	✓
Percent of key rail stations compliant with the ADA	77	82	82	91	92	94* (r)	95*	94	✓
Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays	82.2	82.3	79.07	88.10	88.36	86.96 (r)	87.29*	88.00	×

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

ADA – Americans with Disabilities Act

GLOBAL CONNECTIVITY PERFORMANCE SUMMARY

Performance Measure	2002	2003	2004	2005	2006	2007	2008 Actual	2008 Target	Met/ Not Met
Percent of days in the shipping season that the U.S. portion of the St. Lawrence Seaway system is available	98.7	98.9	99.1	99.7	99.0	99.4	98.8	99.0	×
Number of freight corridors with an annual decrease in the average buffer index rating	N/A	N/A	N/A	N/A	3	5	23*	25	×
Number of U.S. border crossings with an increase in operational reliability	N/A	N/A	N/A	N/A	N/A	5	4*	5	×
Number of new or expanded Bilateral and Multilateral agreements competed (new measure in FY 2004)	N/A	N/A	3	2	4	3	4	2	✓
Number of potential air transportation consumers (in billions) in international markets traveling between the U.S. and countries with open skies and open trans-border aviation agreements (measure revised in FY 2005)	N/A	1.48	1.72	2.97	3.01	3.83	3.94	3.85	✓
Cumulative number of technology/ information exchange agreements that promote the U.S. highway transportation industry	N/A	N/A	N/A	N/A	N/A	4	4	3	✓
Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses	3.8	4.2	3.8	6.6	8.4 (r)	10.4 (r)	7.0*	5.1	✓
Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses	16.2	15.8	15.6	12.7	16.2 (r)	18 (r)	16*	14.6	✓

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




ENVIRONMENTAL STEWARDSHIP PERFORMANCE SUMMARY

Performance Measure	2002	2003	2004	2005	2006	2007	2008 Actual	2008 Target	Met/ Not Met
12-month moving average of the number of areas in a transportation emissions conformity lapse	6.0	6.0	6.3	5.8	1.3	0.0	0.0*	6.0	✓
Number of hazardous liquid pipeline spills in high consequence areas	48	52	49	55 (r)	46 (r)	50 (r)	59*	50	×
Percent DOT facilities characterized as No Further Remedial Action Planned under the Superfund Amendments and Reauthorization Act	91	94	93	92	92	93	94	93	✓
Number of Exemplary Human Environmental Initiatives undertaken	N/A	N/A	N/A	N/A	N/A	N/A	11	10	×
Median time in months to complete environmental impact statements for DOT funded infrastructure projects	N/A	N/A	N/A	56	57	67	63.5*	60	×

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

SECURITY PERFORMANCE SUMMARY

Performance Measure	2002	2003	2004	2005	2006	2007	2008 Actual	2008 Target	Met/ Not Met
Percentage of DoD-required shipping capacity complete with crews available within mobilization timelines	94	96	94	95	93	97	97	94	✓
Percentage of DoD-designated commercial ports available for military use within DoD established readiness timelines	92	86	93	87	100	100	100	93	✓

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

ORGANIZATIONAL EXCELLENCE PERFORMANCE SUMMARY

Performance Measure	2002	2003	2004	2005	2006	2007	2008 Actual	2008 Target	Met/ Not Met
Percent of major federally funded transportation infrastructure projects with less than 2 percent annual growth for project completion milestones	N/A	N/A	73	89	89	89	79	90	×
Percent of finance plan cost estimates for major federally funded transportation infrastructure projects with less than 2 percent annual growth in project completion cost	N/A	N/A	75	81	84	83	82	90	×
For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met	89.5	88	100	97	100	100	96.08	90	✓
For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met	74	77	91.5	92	97.4	97	93.88	90	✓

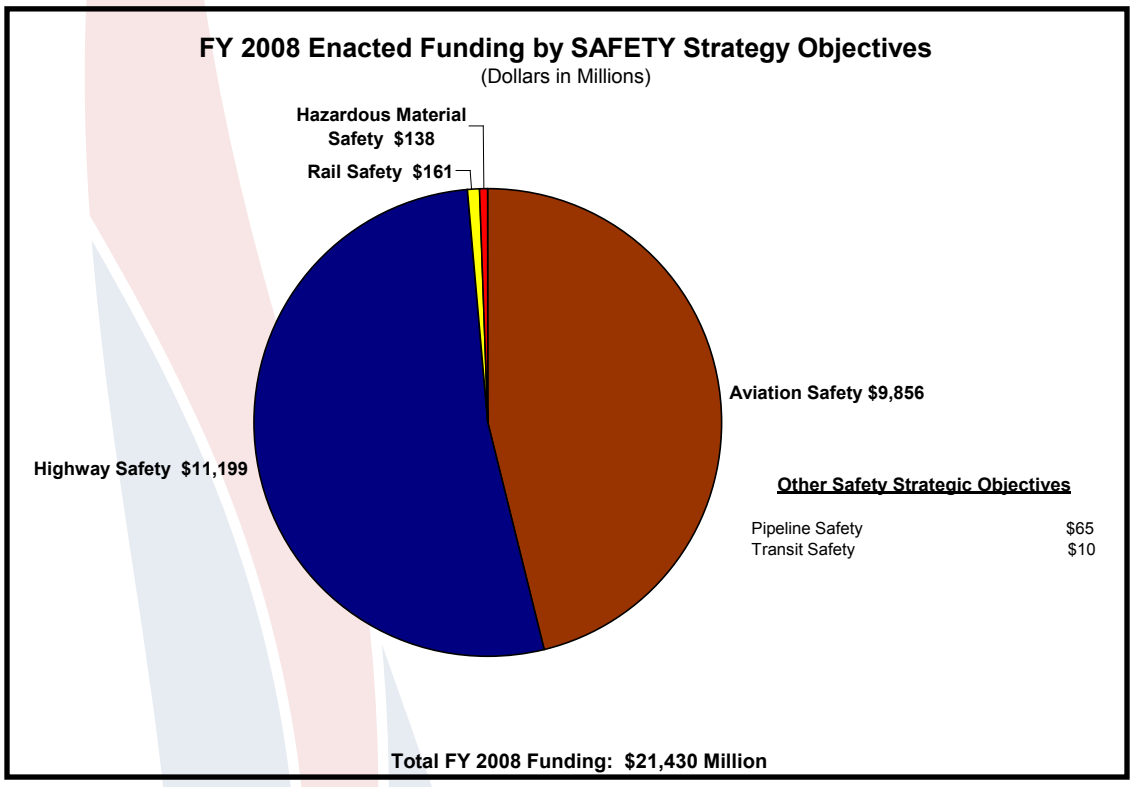
(r) Revised; * Preliminary estimate # Projection from trends; ✓ Met; × Not Met

SAFETY STRATEGIC GOAL

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

Improving safety throughout the transportation network is the premier goal of the Department of Transportation. Passage of the Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users (SAFETEA-LU) provided a renewed foundation for innovation in vehicle and infrastructure safety, partnerships with the states, and data-driven solutions to persistent safety challenges. The National Rail Safety Action Plan targets the most frequent and highest-risk causes of train accidents and accelerates research into new technologies. The Federal Aviation Administration and the Pipeline and Hazardous Materials Safety Administration are implementing risk management systems, which help them identify potential problems and develop targeted responses.

The U.S. Department of Transportation leveraged $21,430 million to promote safety in our nation's transportation system.



Key Performance Areas

Strategic outcomes from the DOT Strategic Plan are indicated in blue and FY 2008 results for key DOT performance measures are marked to indicate Met Target (✓) and Did Not Meet Target (×).

Reduction in transportation-related deaths
Reduction in transportation-related injuries

Highway Safety

- ✓ Passenger vehicle occupant highway fatality rate per 100 million passenger vehicle-miles (VMT) traveled.
- ✓ Large truck and bus fatality rate per 100 million total VMT.
- × Rate of motorcyclist fatalities per 100,000 motorcycle registrations (CY).
- ✓ Rate of non-occupant fatalities per 100 million VMT (CY).

Rail Safety

- ✓ Rail-related accidents and incidents per million train-miles.

Transit Safety

- ✓ Transit fatalities per 100 million passenger-miles traveled.

Aviation Safety

- ✓ Number of commercial air carrier fatalities per 100 million persons onboard.
- ✓ Number of fatal general aviation accidents.

Pipeline Safety

- × Number of serious incidents for natural gas and hazardous liquid pipelines.

Hazardous Materials Safety

- ✓ Number of serious hazardous materials transportation incidents.

2008 Performance Highlights

- ✧ Fatalities from large truck crashes dropped for the third consecutive year with a total decline of 8.2 percent.
- ✧ In aviation, there was less than 1 fatality for every 100 million persons on board. Fatalities aboard commercial airliners have dropped 57 percent in the last 11 years.
- ✧ The National Rail Safety Action Plan has contributed to across-the-board improvement in rail safety during the past three years with nearly a 25 percent decrease in the number of train accidents since 2004.
- ✧ Pipeline corrosion and excavation damage incidents were down 36 percent




Highway Safety
FY 2008 Enacted Funds: $11.2 Billion

Motor vehicle traffic crashes account for 99 percent of all transportation-related fatalities and injuries. In 2005, they were the leading cause of death for Americans age 3 through 6 and 8 through 34. Alcohol is the single biggest contributing factor in fatal crashes. Motor vehicle crashes place a considerable burden on the nation's health care system and have significant economic effects. The cost to the economy of all motor vehicle crashes was approximately $230.6 billion, in 2000 dollars, or 2.3 percent of the U.S. Gross Domestic Product. The FHWA, NHTSA, and FMCSA contribute to the accomplishment of the Department's highway safety goal by promoting safer roads, safer vehicles, and safer driver behavior.

The Department remains committed to reducing highway fatalities and fully supports the goal of reducing fatalities to a rate of 1.0 per 100 million vehicle miles traveled (VMT). The target date for achieving the 1.0 goal was revised from 2008 to 2011, to account for the dramatically changing nature of the challenges currently facing highway safety. In 2007, the latest year for which figures are available, the estimate of the highway fatality rate was 1.37 fatalities per 100 million VMT.

To most effectively align program and policy actions needed to meet key challenges, the Department established four fatality sub-measures—passenger vehicles, non-occupants, motorcyclists, and large-truck and bus-related fatalities—which represent the breadth of all highway users. This approach more closely examines the fatality rates of the different segments of highway users, devotes greater energy and resources, and develops new strategies combating sub-measure trends that impede progress to the overall 1.0 goal.

FY 2009 Performance Forecast. The FY 2009 target for passenger vehicles is 1.02 passenger vehicle occupant fatalities per 100 million passenger vehicle VMT. Initial travel data for 2008 suggests that the higher price of gasoline together with the combined effects of the economic downturn, the trend towards increased use of smaller cars, and towards more walking, bicycling, and motorcycle riding, as well as the use of mass transit, reflect the fact that fundamental changes in personal travel are occurring in our transportation system. These various changes will affect the outcome measures for 2008 and later years, and may make it more difficult to forecast whether targets can be met.

Passenger Vehicles

Passenger vehicle occupant fatalities constitute around 70 percent of all highway fatalities. While the total number of passenger vehicle fatalities has declined over the last five years, the Department knows that more needs to be done. Passenger safety rests on three things: safe road conditions, safe cars, and safe behavior. The Federal Highway Administration (FHWA) works with States to address road conditions that lead to crashes, while the National Highway Traffic Safety Administration (NHTSA) works with vehicle manufacturers to develop safer cars and with the driving public to promote safer driver and passenger behavior.

Performance Measure

Passenger vehicle occupant highway fatality rate per 100 million passenger vehicle miles traveled (VMT)

	2005	2006	2007	2008
Target	1.15	1.12	1.10	1.06
Actual	1.15 (r)	1.11 (r)	1.05*	1.03#

(r) Revised; *Estimate based on projected 2007 VMT; # Projection based on trends from historical data. Actual number will be different, depending on external factors such as the economy, price of fuel, actual miles driven, vehicle mix, etc.

Associated FY 2008 Funding - $7.34 billion

FY 2008 Results. The 2008 target will likely be met. During FY 2008, NHTSA made significant progress in behavioral programs to affect the passenger occupant fatality rate. The Agency led two nationwide law enforcement crackdowns to reduce impaired driving, and coordinated the annual Click It or Ticket mobilization to increase seat belt use. It developed and introduced new materials to improve the use of the Lower Anchors and Tethers for Children (LATCH) system to simplify installation of child safety seats, a new Ease of Use rating system for child safety seats, and a new teen driver safety campaign including a focus on parental responsibility. We are already seeing results from the new requirement for Electronic Stability Control (ESC) systems in passenger vehicles. ESC is a technology that has the potential to save many lives by assisting the driver in maintaining control in critical driving situations. For vehicles equipped with the technology, we estimate that these systems have reduced fatal single vehicle crashes by 63 percent for light trucks and vans (LTVs) and 36 percent for passenger cars. Rollover involvements in fatal crashes were decreased by 70 percent in passenger cars and 88 percent in LTVs. For more information, please view Statistical Analysis of the Effectiveness of Electronic Stability Control (ESC) Systems Report at: http://www.regulations.gov/fdmspublic/component/main?main=DocumentDetail&o=09000064802b4607.

When properly used, child safety restraint systems reduce fatalities by 71 percent in infants and 54 percent in toddlers. However, 7 of 10 child safety seats are installed improperly. DOT's new campaign educates parents on proper installation and provides a new 5-star rating system that tells consumers which child-safety seats are easiest to install called LATCH – Lower Anchors and Tethers for Children.

FY 2009 Performance Forecast. DOT expects to see a reduction in the number of passenger fatalities in FY 2009, but because of significant changes in Americans' driving habits due to higher gas prices, the number of vehicle miles traveled may decline. This decline could affect the ratio of fatalities per 100 million passenger vehicle-miles traveled, increasing the fatality rate even if the number of fatalities was reduced.

Promoting Passenger Safety

There are a number of FHWA and NHTSA programs that have contributed to the decline in passenger fatalities over the years. Some of the developments in FY 2008 not mentioned previously are summarized below:

- Rural Safety Initiative - Rural roads carry less than half of America's traffic yet they account for over half of the nation's vehicular deaths. The Rural Safety Initiative focuses on the four key factors that contribute to rural road deaths: human behavior, roadway environment, vehicles, and medical care after a crash. For more information please visit: http://www.dot.gov/affairs/ruralsafety/ruralsafetyinitiativeplan.htm.

- Cable median barriers – FHWA emphasized barrier installation in the medians of divided highways, especially cable median barriers which reduce cross median fatal crashes by 80 to 95 percent where used.

- Ignition Interlocks – For several years, NHTSA has advocated the use of ignition interlocks for repeat offenders. These devices can detect when an offender has been drinking and prevent a vehicle from starting, thus helping to reduce the chances that offenders might again take to the road while impaired. In the past year, six States (Arizona, Illinois, Louisiana, Nebraska, New Mexico and Washington) have passed laws that require the use of ignition interlocks for all DWI offenders.

Rural roads carry less than half of America's traffic yet account for over half of the Nation's vehicular deaths. A Rural Safety Initiative will bring focus and a comprehensive approach to rural safety promoting safer drivers, better and smarter roads, better trained emergency responders, and stronger partnerships to help improve safety.

- Click It or Ticket – The most successful seat belt campaign ever, helped achieve the current overall seat belt usage – 83 percent for 2008. NHTSA data show, however, that nighttime belt use continues to be much lower, particularly among young drivers. The campaign this year focused on the issue with the theme 'Day or Night - Buckle Up or Pay Up'. The campaign was accompanied by statewide teen and nighttime demonstration projects to encourage improved seat belt usage among these high risk populations.

Large Trucks and Buses

Just as passenger safety relies on safe road conditions, safe vehicles, and safe driver behavior, so does safety for large trucks and buses. The FMCSA conducts education and outreach to truck drivers, bus drivers and motor carrier companies. In addition, FMCSA develops, implements and enforces in-use safety regulations, and along with NHTSA, analyzes the causes of commercial motor vehicle crashes. NHTSA is responsible for developing, setting, and enforcing vehicle safety standards related to new trucks and buses as well as determining safety related defects prompting the recall of a truck or bus.

Performance Measure

Large truck and bus fatality rate
per 100 million total vehicle-miles traveled (VMT)

	2005	2006	2007	2008
Target	N/A	0.179	0.175	0.171
Actual	0.185	0.176	0.170*	0.168#

* Estimate # Projection based on trends from historical data. Actual number will be different, depending on external factors such as the economy, price of fuel, actual miles driven, vehicle mix, etc.

Associated FY 2008 Funding - $1.67 billion

FY 2008 Results — Preliminary data for 2007 (the most recent data available) show that FMCSA exceeded its target in reducing the fatality rate for commercial motor vehicles, with a rate of .170 fatalities per 100 million total vehicle miles traveled (VMT), and a decrease in total truck and bus fatalities to 5,099. Fatalities from large truck crashes have dropped for three consecutive years from 5,240 in 2005 to 4,808 in 2007; a decline of 8.2 percent. Bus related fatalities dropped 4.5 percent between FY 2006 and FY 2007. These improvements are due, in part, to increased numbers of roadside inspections and safety interventions performed by FMCSA and our state partners.

In 2007, FMCSA, NHTSA and FHWA developed new performance targets to focus the Department's efforts on the critical factors responsible for overall highway fatality rates. To this end, the FMCSA fatality rate measure was aligned with the other highway modes to measure against total VMT, rather than just measuring against the subset of truck vehicle miles traveled. The previous FMCSA performance measure for truck fatalities shows a reduction to a rate of 2.24 per 100 million truck VMT in 2006, based on the latest information available. Final information on this measurement for 2006 and preliminary information for 2007 will not be available until December 2008.

FY 2009 Performance Forecast — DOT expects to meet the target in FY 2009.

Promoting Safety for Large Trucks and Buses

Although it has reached the lowest incidence of truck and bus crashes in decades, FMCSA still has a lot of work to do to achieve the goal of no more than 0.16 large truck and bus related fatalities per 100 million total VMT by the end of 2011. To reach the next level of safety, the Agency is examining the foundation of all of its safety programs and revisiting many existing programs. The FMCSA launched a major initiative in FY 2005 to reexamine and reengineer core safety activities called the Comprehensive Safety Analysis 2010 (CSA 2010). In FY 2008, the Agency began initial testing and evaluation of the CSA 2010 projects in four States. A representative sample of interstate motor carriers from Colorado, Missouri, New Jersey, and Georgia were exposed to a new safety measurement system and progressive intervention concept. The demonstration will determine the effectiveness of the new progressive interventions. Preliminary data analysis suggests a 40 percent improvement in terms of FMCSA's ability to reach more carriers and drivers. Therefore, we expect to see improved compliance and decreased motor carrier-related crashes and fatalities as a result of this new approach.

The NHTSA published a Notice of Proposed Rulemaking (NPRM) to require lap/shoulder belts for small school buses and establish performance requirements for voluntarily installed seat belts on large school buses. NHTSA expects to publish a final rule improving the stopping distance requirements for large trucks. This rule will require trucks to be equipped with larger drum brakes or in some cases disc brakes, and is expected to reduce crashes, fatalities, and injuries due to improved braking performance. The FMCSA and NHTSA completed initial research to understand performance capabilities and potential safety benefits of stability control systems in tractor semi-trailers and single unit trucks. In addition, the FMCSA initiated a field test of an electronic vision enhancement system to reduce truck blind spots. NHTSA is fully engaged in testing motor coaches to address safety issues related to occupant protection, roof crush, fire suppression and emergency evacuation.

Motorcyclists

Motorcyclist fatalities have increased each year since reaching an historic low of 2,116 fatalities in 1997. In 2007, motorcyclist fatalities increased for the tenth year in a row to 5,154 from 4,837 in 2006. This is a 6.6 percent increase in just one year and fatalities among motorcyclists (motorcycle operators and passengers) accounted for 13 percent of the 41,059 total fatalities in motor vehicle crashes in 2007.

Performance Measure

Motorcyclist fatality rate per 100,000 motorcycle registrations

	2005	2006	2007	2008
Target	N/A	75	76	76
Actual	73.5	72.4 (r)	71.8*	71.3#

(r) Revised; *Estimate based on projected 2007 motorcycle registrations; # Projection based on trends from historical data. Actual number will be different, depending on external factors such as the economy, price of fuel, actual miles driven, vehicle mix, etc.

Associated FY 2008 Funding - $1.00 billion

The measure of motorcyclist fatalities was re-baselined in 2008, when it became a DOT sub-metric, to reflect a change of focus from fatalities per 100 million VMT to fatalities per 100,000 registrations. The targets were set below actual projected fatality rates. Between 1997 and 2006, motorcycle registrations increased by 75 percent while fatalities far outpaced the increase in registrations. Given the increase in exposure resulting from the increased use of motorcycles for transportation, reaching the target motorcycle fatality rate of only 77 fatalities per 100,000 motorcycle registrations in 2009 is an ambitious goal.

FY 2008 Results. Projections using the latest available rate data (2002-2006) indicate that the target for 2008 should be met. During FY 2008, NHTSA initiated development of national standards for novice motorcycle rider (operator) training, completed a program to educate motorcyclists on the dangers of riding impaired, updated motorcycle licensing guidance to State Motor Vehicle Administrators, and continued to incorporate motorcycle operators in High Visibility Enforcement (HVE) impaired-driving crackdowns. NHTSA also initiated a research project to train riders on visual search strategies on curves to decrease the likelihood of run-off-the-road crashes.

FY 2009 Performance Forecast. DOT expects to meet the target in FY 2009.

Promoting Motorcycle Safety

As the number of motorcycle fatalities continues to rise, the Department has targeted some of its safety programs specifically at motorcyclists. In October 2007, DOT released the Action Plan to Reduce Motorcycle Fatalities. The key initiatives are:

- Conducting the Motorcycle Crash Causes and Outcomes study
- Developing national standards for entry level motorcycle rider training
- Addressing the falsification of helmet certifications
- Distributing the brochure Roadway Safety for Motorcycles to road planners, designers, and engineers
- Creating a program to educate police on motorcycle safety
- Marketing a Share the Road campaign kit to States, local communities, and motorcycle organizations

Under a separate initiative, NHTSA continued to promote high visibility enforcement during National Impaired Driving Crackdown periods (Labor Day and the month of December) with the message 'Drunk Driving. Over the Limit. Under Arrest'. The ads were updated for the 2008 Labor Day campaign to feature a motorcycle rider, since motorcycle fatalities continue to rise and a higher percentage of impaired driving fatalities involve riders (35 percent) as compared with drivers of other motor vehicles (32 percent).

Non-Occupants

The target for non-occupant fatalities was re-baselined in 2008 when this measure became a DOT sub-metric. The non-occupant fatality rate uses overall VMT data to calculate the rate since pedestrian, bicyclist, and other non-occupant miles traveled are not available—meaning the numerator is much smaller than the denominator and changes in the rate are minuscule.

Performance Measure

Non-occupant fatality rate per 100 million VMT

	2005	2006	2007	2008
Target	0.16	0.16	0.15	0.19
Actual	0.20	0.19	0.18	0.19#

Projection based on trends from historical data. Actual number will be different, depending on external factors such as the economy, price of fuel, actual miles driven, vehicle mix, etc.

Associated FY 2008 Funding - $1.20 billion

FY 2008 Results. DOT expects to meet the FY 2008 target. We missed the target in FY 2006 and FY 2007, although we did see a decrease in the number of fatalities for pedestrians and bicyclists. To address this performance gap, NHTSA initiated research to decrease the incidence of crashes involving impaired pedestrians, tested enforcement strategies to reduce vehicle crashes involving pedestrians, and completed a comprehensive pedestrian safety demonstration program. The Agency initiated an assessment of hit-and-run crashes to identify common variables and to develop and implement countermeasures specific to that crash type, in addition to a demonstration project supporting implementation of the Community Guide to Enhanced Pedestrian Safety. NHTSA held a public meeting to address the issue of blind pedestrians around quiet cars and subsequently began development of a research plan to address the issue.

To address pedestrian-related crashes, FHWA consulted with State and local agencies targeting high crash locations in States and cities with the highest number of pedestrian fatalities. FHWA assisted in developing and implementing pedestrian safety action plans and delivered a training course, How to Develop a Pedestrian Safety Action Plan and Engineering for Pedestrian Safety, on 40 occasions in targeted areas with pedestrian safety

issues. FHWA developed two new guides (Pedestrian Safety Guide for Transit Agencies and A Resident's Guide for Creating Safe and Walkable Communities) to reach non-traditional audiences including transit agency staff and residents working to improve pedestrian safety within their communities.

NHTSA also initiated development of a law enforcement training program on pedestrian safety and developed an education program to enhance older pedestrian safety at the community level. A curriculum was developed to teach pedestrian and bicycle safety to individuals who use English as a second language.

FY 2009 Performance Forecast. DOT expects to meet the target.

Aviation Safety
FY 2008 Enacted Funds: $9.86 Billion

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

This map shows which states had an increase in traffic fatalities greater than 5 percent, increases less than 5 percent or decreases from 2006 to 2007. The results are generally positive with over half the states seeing a decrease in fatalities. These results provide DOT with the opportunity to target effective safety initiatives and campaigns. For more information see NHTSA's August 2008 Traffic Safety Facts at http://www-nrd.nhtsa.dot.gov/Pubs/811017.pdf.

FY 2008 Results. In FY 2008, FAA adopted a new safety performance metric and target for commercial air carriers. The metric, fatalities per 100 million persons carried, is more relevant because it measures the individual risk to the flying public. All fatalities, including passengers, crewmembers, ramp workers, and ground fatalities, are counted equally.

Performance Measure: Number of commercial air carrier fatalities per 100 million persons onboard	2005	2006	2007	2008
Target	N/A	N/A	N/A	8.7
Actual	N/A	N/A	N/A	0.4*

* Preliminary estimate

Associated FY 2008 Funding - $8.21 billion

We met our target with a result of 0.4 (preliminary estimate) fatalities per 100 million persons on board. Two accidents with 3 fatalities (ground and crew members) occurred in July.

While FY 2008 results were significantly better than our target of 8.7 fatalities per 100 million persons on board, the new measure remains a challenge. Aviation numbers involve years with few fatalities, interspersed with spikes in the wake of singular catastrophic accidents. As an example, our established out-year goal is 4.4 fatalities per 100 million people on board. At 4.4, a major accident in an aircraft as small as a Saab SF 34 (typically 30 to 32 passenger seats) will assure failure in the out years. Consequently, FAA established interim goals, such as the goal of 8.7 fatalities per 100 million persons on board for FY 2008, as recognition of the volatility in aviation measures as we work our way to a sustained, low fatality rate.

FY 2009 Performance Forecast. The FAA expects to meet the FY 2009 commercial air carrier fatality rate. The goal is a 50 percent reduction in fatalities by 2025. To meet this goal, the FAA will continue to work in partnership with industry.

Although most people are familiar with FAA's role in commercial aviation, they may not be aware that it also oversees the safety of approximately 300,000 general aviation (GA) aircraft in the United States. These aircraft include amateur-built aircraft, rotorcraft, balloons, and highly sophisticated 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, business use, and personal use.

FY 2008 Results. FAA has met the target this year for reducing GA fatal accidents. Since the FAA began using GA fatal accidents as a performance target seven years ago, the target has been exceeded just once. In FY 2008, GA fatal accidents once again decreased from the previous year. FAA and industry's collaborative safety initiatives continue to drive the GA fatal accident rate lower. We have consistently met our GA safety goals and successfully remained under our ceiling of 325 fatal accidents for FY 2008. The end of April 2008 marked a 3-year period that was the safest ever recorded in the history of general aviation.

Performance Measure: Number of fatal general aviation accidents	2005	2006	2007	2008
Target	343	337	331	325
Actual	354	299	314	299*

* Preliminary estimate

Associated FY 2008 Funding - $1.63 billion

During these three years, FAA continued its emphasis on enhancing general aviation safety and directed energies to creating an improved measure. The new safety metric tracks the general aviation fatal accident rate rather than the number of fatal accidents. The FAA has baselines for the new GA safety metric and goal which will be

implemented in FY 2009. The previous measure was not rate-based and did not reflect fleet activity levels and its relationship to the number of fatal accidents. The new performance measure is a true rate-based metric and tracks changes in the fatal accident rate for a fixed volume of flight hours (per 100,000 flight hours). Our goal is to reduce GA fatal accidents over the next ten years to no more than one accident per 100,000 flight hours.

FY 2009 Performance Forecast. FAA expects to meet the performance target in FY 2009.

Promoting Aviation Safety

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

In addition, in recent years, FAA has focused on reducing aviation risks in Alaska, particularly those associated with general aviation. Aviation plays a vital role in Alaska, but the state's topography, high volume of off-airport operations, and extreme weather present unique safety challenges to pilots.

RUNWAY ACCIDENTS

After a series of high-profile events earlier this year raised questions about the U.S. aviation safety program, an outside team of aviation and safety experts conducted an independent review. The review produced thirteen recommendations intended to keep the FAA ahead of multiple risk factors.

Reducing the risk of runway incursions is one of FAA's top priorities. The definition of a "runway Incursion" was changed in October 2007 to "any occurrence at an airport involving the incorrect presence of an aircraft, vehicle or person on the protected area of a surface designated for the landing and takeoff of aircraft." Reducing runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage.

FAA pursues a number of initiatives to address runway incursions, but close calls at some of the nation's busiest airports in 2007 showed that FAA and the aviation industry must take quick action to reduce the risk of runway incursions and wrong runway departures. In 2007, more than 40 aviation leaders from airlines, airports, air traffic control and pilot unions, aerospace manufacturers, and the FAA agreed to quickly implement a five point short-term plan to improve safety at U.S. airports.

The FAA Administrator asked the meeting participants to consider solutions in four areas: cockpit procedures, airport signage and markings, air traffic procedures, and technology. The table below summarizes the plan and gives the status of each recommendation to date.

Call to Action for Runway Safety	
Recommendation	**Status**
1. Within 60 days, teams of FAA, airport operators, and airlines will begin safety reviews at the airports where wrong runway departures and runway incursions are the greatest concern.	FAA completed runway safety reviews at 20 initial "call to action" airports based on runway incursion data and wrong runway departure data. The result was more than 100 short-term and numerous mid- and long-term initiatives. Most of the short-term initiatives identified are complete.
2. Within 60 days, disseminate information and training across the entire aviation industry.	All certificated airports and active air carriers were asked to provide annual recurrent training for all individuals with access to runways and taxiways. To date all 112 air carrier are in compliance and 91 percent of the airports have agreed to develop such training.
3. Within 60 days, accelerate the deployment of improved airport signage and markings at the top 75 airports, well ahead of the June 2008 mandated deadline.	FAA completed the implementation of upgraded or enhanced runway markings at the 75 medium and large airports with more than 1.5 million annual boardings before the June 30, 2008 target. On March 31, 2008, FAA extended the markings requirement to all certificated airports. The markings must be implemented by December 2009 or December 2010 depending upon the airport size. To date, 151of the 489 small certificated airports (31 percent) have completed the installations.
4. Within 60 days, review cockpit procedures and air traffic control (ATC) clearance procedures. This may include changing cockpit procedures to minimize pilot activities and distractions while an aircraft is moving on the ground and to make ATC instructions more precise.	All 112 active air carriers have reviewed their cockpit procedures. The FAA completed an analysis of air traffic control procedures and found that more explicit taxi instructions are needed. In May 2008, FAA implemented procedures for issuing more detailed taxi instructions.
5. Implement a voluntary self-reporting system for all Air Traffic Organization personnel, such as air traffic controllers and technicians.	In March 2008, FAA and the National Air Traffic Controllers Association signed an 18 month agreement to create and use an Air Traffic Safety Action Program at several designated sites. The program is designed to foster a voluntary, non-punitive environment for the open reporting of flight safety concerns by air traffic controllers.

According to the preliminary FY 2008 data, FAA met the target of no more than 0.509 runway incursions per million operations. For more information on the Call to Action and other runway safety initiatives, please visit: http://www.faa.gov/airports_airtraffic/airports/runway_safety/.




OPERATIONAL ERRORS

One of the fundamental principles of aviation safety is separation—the need to maintain a safe distance from other aircraft, terrain, obstructions, and restricted airspace. Air traffic controllers employ rules and procedures that define separation standards for this environment. An operational error (OE) occurs when controllers fail to apply or follow these procedures that enforce separation and allow aircraft to end up too close to each other or to an obstruction. Reducing the risk of operational errors is one of the FAA's top priorities as traffic continues to increase. We did not meet our FY 2008 target of limiting Category A and B (most serious) operational errors to a rate of no more than 2.15 per million activities, reaching an operational rate of 2.31 (preliminary estimate).

In FY 2008, FAA revised the way operational errors are measured. The new separation conformance measure of proximity provides a consistent comparison of events. However, the conformity measure needs further refinement for enhanced utility. Several types of events currently fall outside the conformity index, such as errors involving military flights of two aircraft and errors involving dependent Instrument Landing System (ILS) approaches. In FY 2009, we will be expanding conformity to include a greater number of events that result in operational errors.

In 2009, the FAA will continue to develop an index to describe the central tendency and variance of losses of separation. The index will allow FAA to measure performance over a period of time, similar to a stock index. This new measure will provide indicators that reflect both the risk of collision and the degree to which separation standards were maintained.

The FAA continues to focus on the development and implementation of an automated software prototype that will depict Air Traffic Control separation conformance in the Terminal environment nationwide. The Traffic Analysis and Review Program will achieve the following:

- apply separation logic to targets,
- identify where applicable separation standards are not being maintained, and
- highlight incidents needing further investigation.

ALASKA ACCIDENTS

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

Therefore, there is urgency to modernize flight service in Alaska and FAA's Flight Plan focuses specifically on reducing GA accidents in Alaska. The agency's goal is to reduce Alaska accidents from the 2000-2002 average of 130 accidents per year to no more than 99 accidents per year by FY 2009. Based on preliminary FY 2008 data, there were 108 GA accidents in Alaska, missing the FY 2008 target of 104.

In FY 2008, the FAA continued to work jointly with the Alaska aviation community through a number of organizations and safety programs such as: the Medallion Foundation, Alaska Air Carriers Association, Alaska Airman's Association, FAASTeam (FAA Safety Team), and Circle of Safety.

In addition to these training and education efforts, we're using new technology in Alaska, such as the satellite-based Capstone navigation and terrain awareness avionics. We're also installing 221 additional weather cameras throughout the state. These cameras provide a real-time depiction of what's happening throughout the state. The Alaskan pilot now has go/no go information that was previously unavailable.

E-mails and post cards were sent in March 2008, to every pilot with a current medical certificate in Alaska. The communication emphasized the Alaska accident data and encouraged flight instruction. This message continues to be delivered via tri-fold pamphlets at local events.

The FAA and Medallion executed a 'See your CFI before you fly' media blitz which began broadcasting on the radio in April 2008 and on television in May 2008. This effort targets the historical rise of accidents each year in spring after months of not flying. It encourages pilots to work with their certified flying instructors (CFIs) in a Medallion training device at no cost and/or in an aircraft. The Medallion training devices have sophisticated visuals that use satellite imaging developed under a NASA grant. Pilots who use these devices can simulate deteriorating weather and other scenarios that allow them to practice their decision-making skills.

Rail Safety
FY 2008 Enacted Funds: $161 Million

In the past 10 years, the Federal Railroad Administration (FRA) has successfully reduced the total number of rail-related accidents nationwide and the rate of accidents per million train-miles. From FY 1998 through FY 2007, total accidents have declined by 21 percent, while the rate of accidents per million train-miles has dropped by almost thirty-three percent. Significantly, this has occurred while rail traffic rose almost 18 percent. Although this is good news, FRA was concerned with the slight increase in the number of train accidents and the relatively flat accident rate over much of this same period.

Performance Measure: Rail-related accidents and incidents per million train-miles	2005	2006	2007	2008
Target	17.14	16.80	16.70	18.45
Actual	18.03 (r)	17.42 (r)	16.56 (r)	15.74*
(r) Revised; * Preliminary estimate				
Associated FY 2008 Funding - $161 million				

To address the train-accident challenge, the Department launched the *National Rail Safety Action Plan* in 2005. The plan targeted the most frequent, highest-risk causes of train accidents; focused FRA oversight and inspection resources more precisely; and accelerated research efforts that had the potential to lessen the largest risks.

FY 2008 Results. For the first nine months of FY 2008, FRA is significantly below its target for the year and is confident it will remain below the yearly goal, despite the September 2008, collision between a commuter train and a freight train in Los Angeles, which killed 25 passengers. Much of its success is attributable to the aggressive implementation of the *National Rail Safety Action Plan*; the railroads' support of FRA's safety initiatives; independent actions taken by railroads, labor unions, and rail employees to operate more safely; and the assistance of researchers and other industry stakeholders in developing and deploying new, safer technology. Additionally, FRA has built substantial partnerships with State and local agencies, through the State Rail Participation Program, to address accidents and casualties at highway-rail grade crossings and from trespassing. These activities benefit the public in several ways: fewer accidents mean fewer deaths and injuries, fewer health-care expenses, and a reduced loss of personal property.




FY 2009 Performance Forecast. FRA should meet its FY 2009 target.

Promoting Rail Safety

FRA has succeeded over the past several fiscal years in meeting or exceeding its grade-crossing goals, measured by the number of incidents that occur where roads cross railroads. To reach this level of safety, FRA has required railroads to take a number of precautions, such as

- using train horns at highway-rail crossings;
- testing warning devices regularly;
- using alerting lights on locomotives;
- applying retro-reflective material on all rolling stock; and
- trimming vegetation that could block signs.

FRA will use these types of preventive measures to help the state of Louisiana implement as part of a statewide highway-rail crossing safety action plan. Louisiana has consistently ranked among the top five states nationally with the highest number of grade crossing collisions and fatalities. The state's action plan focuses on reducing vehicle-train collisions at grade crossings where multiple incidents have occurred. As part of this effort, the Louisiana Department of Transportation and Development announced an agreement with the Kansas City Southern Railway to make safety improvements at 300 public grade crossings. Over five years, more than $16 million will be invested to upgrade warning devices, replace cross-buck signage, and close redundant crossings. FRA is currently working with Texas and Illinois to develop similar state-specific action plans.

In May 2008, FRA announced completion of the National Rail Safety Action Plan (NRSAP), noting that the plan contributed to an across-the-board improvement in rail safety during the past three years, including nearly a 25 percent decrease in the number of train accidents since 2004. Please view the report at: http://www.fra.dot.gov/downloads/PubAffairs/final_report_May_2008.pdf. As a part of the NRSAP, FRA developed a Federal rule to address top human factor causes of accidents. The final rule was issued in February 2008. The final rule covers both railroad operational testing programs and railroad operating practices related to the handling of equipment, switches, and fixed derails. The rule establishes greater accountability for implementation of sound operating rules necessary for safety. Through the first four months of FY 2008, the industry has seen a 17 percent drop in human-factors caused accidents that relate to the railroad operating rules (now regulations) that had, in the past, accounted for many accidents and injuries to railroad employees and the public. FRA is also working to ensure that emergency responders have timely access to key train hazmat information. The American Association of Railroads (AAR) amended its Operating Practices for Transportation of Hazardous Materials circular to provide that local responders be given a ranked listing of the top 25 hazardous materials transported by rail, upon their written request. CSX Transportation and Chemtrec entered into a pilot agreement, and FRA is working with AAR to encourage participation from other railroads.

Transit Safety
FY 2008 Enacted Funds: $10 Million

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

Performance Measure

Transit fatalities per 100 million passenger-miles traveled

	2005	2006	2007	2008
Target	.482	.477	.473	.468
Actual	.428	.389 (r)	.437 (r)	.289*

(r) Revised; * Preliminary estimate

Associated FY 2008 Funding - $5 million

FY 2008 Results. DOT expects to meet the target for calendar year (CY) 2008. Using six months of data from FTA's National Transit Database and four months of Commuter Rail data from the FRA Rail Accident Incident Reporting System, 2008 safety figures come in well under the target rates for fatalities and injuries. Strong growth in transit ridership and the continued expansion of transit service significantly increased the number of transit passenger miles traveled in 2008 over 2007. The increase in passenger miles traveled between January and June of 2008 was 3.7 percent higher than the same period for 2007. Approximately 26,963 million passenger miles were traveled during this period in 2008.

FY 2009 Performance Forecast. DOT will meet the CY 2009 target.

Pipeline Safety
FY 2008 Enacted Funds: $65 Million

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

Performance Measure

Number of serious incidents for natural gas and hazardous liquid pipelines

	2005	2006	2007	2008
Target	N/A	43	42	40
Actual	41(r)	35(r)	47(r)	41*

(r) Revised; * Preliminary estimate

Associated FY 2008 Funding - $65 million

To reduce the risk to the public, PHMSA identifies and evaluates risks, develops and enforces standards, provides grants to assist states in support of their pipeline safety programs, educates operators and the public, sponsors research on promising technologies, and responds to accidents/incidents. States play a very important role in helping provide oversight of the safety of the nation's pipeline infrastructure, overseeing most of the intrastate




pipeline system infrastructure, including most of the nation's natural gas distribution pipeline mileage. States face increasing resource and technical challenges as we expand the State role in assisting with new Integrity Management (IM) and other evolving requirements. The Pipeline, Inspection, Protection, Enforcement and Safety Act of 2006 (PIPES Act) recognized the challenge and calls for increased funding to help states meet new mandatory initiatives. PHMSA recognizes the importance of a strong continued focus on excavation or construction-related damage—the leading cause of serious pipeline incidents involving death or injury, especially in natural gas distribution systems where people work and live in closest proximity to pipelines.

FY 2008 Results. This year we move to the new metric of "number of serious natural gas and hazardous liquid incidents". Serious incidents are those where a fatality or injury was involved. Based on preliminary data, PHMSA projects 41 serious pipeline incidents in 2008, which would miss the performance target for our goal by 2.5 percent.

Pipeline failures tend to be low-probability high-consequence risks, where the ratio of fatalities to injuries is fairly high (1:4), and where there are often multiple injuries or fatalities (average 1.5 people hurt for every serious incident). Over the past three years, we have seen an average of 41 serious incidents each year, with an average of 17 deaths and 45 injuries requiring hospitalization. In 2008, we have already seen 3 deaths and 39 injuries reported—almost all in natural gas distribution systems.

About 20-25 percent of serious incidents occur on hazardous liquid or natural gas transmission pipelines, the large diameter pipelines that carry products from an origination point, across the country to a collection point serving a population center. In these two areas, PHMSA has already promulgated integrity management rules and requirements; proposed rules to extend integrity management requirements to distribution systems were published this year. Around seventy-five percent of all human consequences from pipeline failures occur in natural gas distribution systems, the small diameter lines that move material from a collection point to homes and businesses. PHMSA expects to improve performance of distribution pipeline systems by extending the integrity management rules from hazardous liquid and natural gas transmission pipelines—where integrity management has been in place for several years—to natural gas distribution systems. The integrity management program requires operators to identify the risks in their systems, evaluate those risks, and identify and fix flaws in their systems.

FY 2009 Performance Forecast. Even with the anticipated improvement from a risk-based approach, PHMSA expects significant challenges in meeting its target of 38 serious incidents for 2009. Integrity management systems require some time to develop and implement, and final rules remain to be published. At the same time, the number of serious incidents we have seen over 2007-2008 indicate that there is still substantial variability in performance from year-to-year, and the long-term trend indicates that we are reaching diminishing effects as the number of serious incidents has dropped by half since 20 years ago.

Promoting Pipeline Safety

With enactment of the PIPES Act of 2006, PHMSA has sharpened its focus on further mitigating the risk to people and is advancing the agency's risk–based, integrity management approach. Some of the big gains over the past year have been in reducing the number of pipeline incidents caused by corrosion and excavation. These numbers have declined significantly for both causes in all three pipeline sectors (gas transmission, gas distribution, and hazardous liquid pipelines) over the last 12 months—largely due to PHMSA's efforts in advancing integrity management and damage prevention.

Ultimately, it is the responsibility of the pipeline operator to ensure the safety of its pipelines. However, citizens can learn more about what to look for and how to respond when a potentially hazardous pipeline situation presents itself. Visit http://www.call811.com/ for information.

Excavation damage has been the leading cause of pipeline incidents involving death or injury. In 2008, PHMSA implemented the new 811 campaign for call-before-you-dig notifications, increased grants to states to support and encourage one-call activities, and increased outreach and education to the public and other utility workers about preventing excavation damage.

Corrosion damage has been targeted particularly by PHMSA's integrity management requirements and inspections. During 2008, the agency continued to work with hazardous liquid pipeline operators to advance their programs, and with gas transmission pipeline operators to build their programs (integrity management was implemented first on liquid pipeline systems).

By the end of July 2008, corrosion and excavation damage incidents were down 36 percent from the same time the previous year.

Hazardous Materials Safety
FY 2008 Enacted Funds: $138 Million

Energy products and hazardous materials underpin the American economy and our way of life. They also introduce some inherent risk to the public, the environment, and property. PHMSA is focused on protecting people and the environment from the risks inherent in transportation of hazardous materials. The agency leads the national program to identify and evaluate safety risks, develop and enforce standards for transporting hazardous materials, educate shippers and carriers, investigate hazardous materials incidents, conduct research, and provide grants to improve emergency response to incidents.

Performance Measure

Number of serious hazardous materials transportation incidents

	2005	2006	2007	2008
Target	503	460	466	462
Actual	528 (r)	495 (r)	473(r)	451*

(r) Revised; * Preliminary estimate

Associated FY 2008 Funding - $138 million

PHMSA shares authority to enforce the hazardous materials regulations with other DOT operating administrations—the Federal Aviation Administration, the Federal Motor Carrier Safety Administration and the Federal Railroad Administration—as well as the US Coast Guard. To accomplish its safety goals, PHMSA works with these agencies to help them administer their hazmat safety programs effectively. PHMSA also leverages its limited resources with others in the hazmat community, including industry, first responders, other modal hazmat enforcement programs, and state and local emergency preparedness agencies. The agency builds on existing local and state programs by providing funding for emergency preparedness planning and training in order to identify threats specific to a locality and to train first responders to handle incidents resulting from those threats.

PHMSA focuses its safety program on those materials that present the most significant risks to public safety. Efforts are geared toward preventing high consequence events from occurring, and mitigating those consequences when they do occur. In addition to enhancing safety, effective response also reduces congestion by enabling highways, railroads and airports to resume normal operation in a minimum amount of time.

FY 2008 Results. The Department expects to achieve its serious incident target this year. A review of reported serious incident trends over five years found that 87 percent involved bulk releases of hazardous materials (more than 119 gallons); 10 percent required evacuations; 7 percent closed a major transportation artery—a contributor to non-recurring congestion; 4 percent resulted in major injuries; 3 percent caused an aircraft to change its flight path; and 2 percent resulted in fatalities (note: percentages exceed 100 percent since a serious incident may have multiple consequences). This information, along with an assessment of the major risks from the transportation of hazardous materials, helped focus our investments. This general pattern continued in 2008.

FY 2009 Performance Forecast. Based on previous years' performance, DOT expects to achieve its target of 458 for serious hazardous materials incidents in 2009.

Promoting Hazmat Safety

The major risks from the transportation of hazardous materials are the potential for fire aboard an aircraft, release of toxic-by-inhalation materials in bulk, and motor carrier crashes and rollovers involving flammable liquids in bulk. The first two of these are considered low-probability high-consequence risks, while the third is the more common occurrence of the three; although it is still a small percentage of all motor carrier crashes.

Fire aboard aircraft: In response to a series of incidents involving batteries carried by airline passengers and shipped as cargo aboard aircraft, PHMSA has pursued a comprehensive strategy to address the transportation risks presented by lithium batteries. We are working with representatives of the National Transportation Safety Board, the Consumer Product Safety Commission, manufacturers of lithium batteries and battery-powered products, airlines, airline employee organizations, testing laboratories, and the emergency response and law enforcement communities to share and disseminate information about battery related risks and developments and to promote improvements in industry standards and best practices. In 2008 PHMSA hosted a public meeting of the battery safety stakeholder group and developed a renewed safety plan with support from the group. On July 31, 2008 a notice of proposed rulemaking was published proposing further safety requirements applicable to the transportation of batteries of all kinds. PHMSA and FAA are working collectively to address a number of enforcement and outreach initiatives aimed at enhancing safety. All of these efforts reduce the risk of fire aboard aircraft from the expanding use of battery technology.

Toxic-by-Inhalation (TIH) materials: To enhance the security of rail shipments of TIH materials, PHMSA and the Federal Railroad Administration (FRA) continue to work closely with the Transportation Security Administration (TSA) through cooperative efforts with rail shippers and carriers. DOT participates on TSA-led teams conducting rail corridor studies, which address vulnerabilities and mitigation strategies at specific locations. On April 16, 2008, PHMSA published an interim final rule (IFR) adopting new standards governing the routing and handling of highly hazardous rail shipments, including explosives, radioactive materials, and TIH materials. In addition, working with FRA, PHMSA published an NPRM to improve the accident survivability of railroad tank cars designed to transport TIH materials.

Motor carrier crashes involving flammable liquids in bulk: During FY 2008, PHMSA and the Federal Motor Carrier Safety Administration (FMCSA) co-sponsored a series of national summits to address the issue of tank truck rollovers—a leading cause of fatalities and serious incidents involving hazardous materials. The summits engaged a wide range of participants from industry and the research community, and developed many promising approaches to reducing the risk of rollovers. Following the summits PHMSA, FMCSA and the National Highway Transportation Safety Administration (NHTSA) partnered with the National Tank Truck Carriers (NTTC) Association to develop a multi-faceted safety action plan that includes development of driver training aids, outreach efforts and efforts to promote the use of technologies that reduce the likelihood of collisions and rollovers (e.g. electronic stability control systems, lane departure warning systems, etc.)

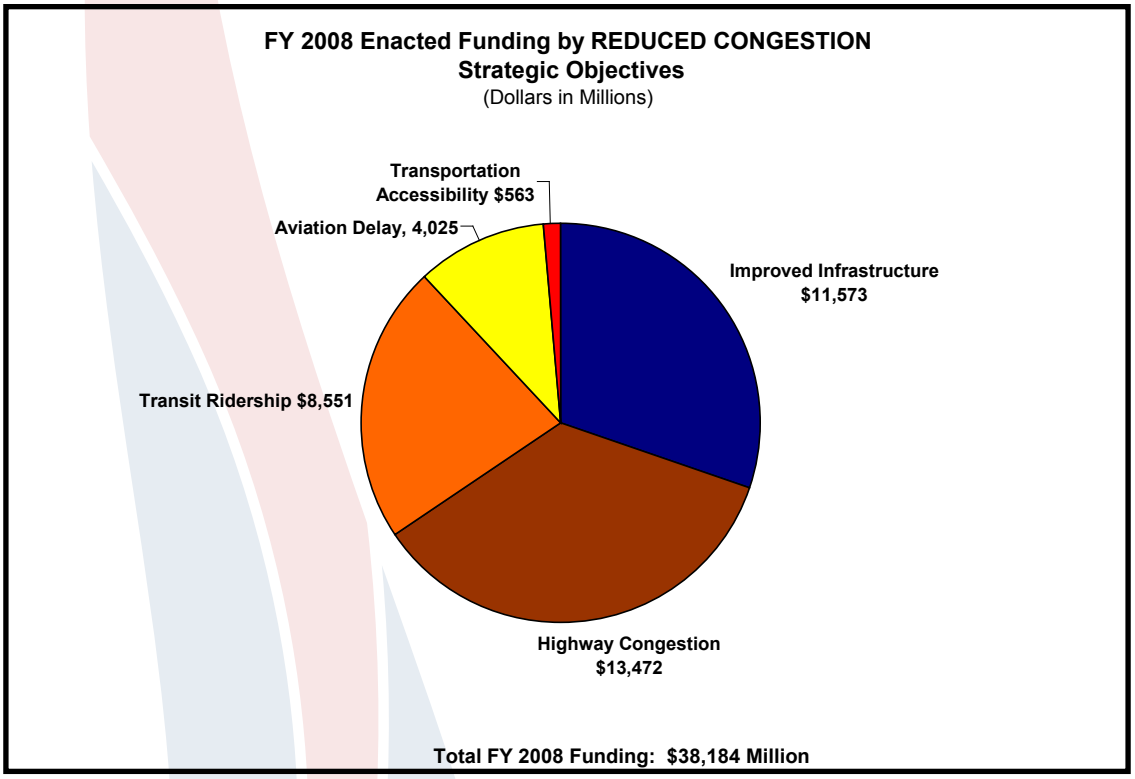
Emergency response: PHMSA published the latest version of the Emergency Response Guidebook (ERG) during FY 2008—available for the first time in electronic form for personal computers and pocket-PCs. The ERG provides first responders with a guide for initial actions to be taken in those critical first minutes after an incident to protect the public and to mitigate potential consequences. PHMSA also enhanced emergency responders' ability to mitigate incidents involving E85 and other ethanol fuel blends (which degrade the effectiveness of most firefighting foam) by adopting new identification for ethanol-blends for better hazard communication.

REDUCED CONGESTION STRATEGIC GOAL

REDUCE CONGESTION AND OTHER IMPEDIMENTS TO USING THE NATION'S TRANSPORTATION SYSTEM

Most Americans would not know that congestion is costing America an estimated $200 billion a year collectively. What individual citizens do know, however, is that their time is being wasted sitting on our nation's roadways or in our airports – time that should be spent with family, friends and in our communities. The National Strategy to Reduce Congestion has elevated congestion relief to a top priority and a number of significant changes are being explored and proposed that could fundamentally change the way we plan and pay for transportation improvements. On a parallel track, the multi-agency NextGen program plans to transform aviation over the next 20 years, making it even safer and expanding capacity by a factor of 3. Finally, DOT's comprehensive surface transportation reform proposal (Reform Proposal) recommends changes to Federal surface transportation program and policies, many of which would enable states and localities to more effectively pursue congestion reduction strategies.

The U.S. Department of Transportation leveraged $38,184 million to reduce congestion and other impediments to mobility in the U.S transportation system.



Key Performance Areas

Strategic outcomes from the DOT Strategic Plan are indicated in blue and FY 2008 results for key DOT performance measures are marked to indicate Met Target (✓) and Did Not Meet Target (×).

Highway Congestion
Reduction in urban congestion.

✓ Percentage of total annual urban-area travel occurring in congested conditions.

Transit Ridership
Reduction in urban congestion.

✓ Average percent change in transit boardings per transit market (150 largest transit agencies).

Improved Infrastructure
Longer lasting, high performance transportation infrastructure.

× Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride.

× Percentage of deck area on National Highway System (NHS) bridges rated as deficient.

Aviation Delay
Meet new and growing demands for air transportation services through 2025 and beyond.

× Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays.

Transportation Accessibility
Increased access for all Americans.

✓ Percent of bus fleets compliant with the ADA.
✓ Percent of key rail stations compliant with the ADA.

2008 Performance Highlights

✧ The percent of travel under congested conditions was estimated to be well below the FY 2008 target of 32.3 percent. The results suggest that increased adoption of strategies related to traffic incident management and work zone management plus the price of fuel have influenced travel patterns and reduced travel.

✧ Over half of the top 40 metropolitan areas have full service incident management service patrols.




Improved Infrastructure
FY 2008 Enacted Funds: $11.57 Billion

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

FY 2008 Results. The target for 2008 was developed based on predictions using the Highway Economics Requirements System (HERS) model which reflect current engineering practices, transportation funding, and increasing construction material costs. The preliminary estimate of pavement condition for FY 2008 is 56 percent. The decline in nationwide pavement condition results corresponds to a significant year-to-year decline in pavement conditions reported in California. The data for California are still under review and may change at a later date.

Performance Measure

Percentage of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride

	2005	2006	2007	2008
Target	53 (r)	54 (r)	56	57
Actual	52	54	57 (r)	56*

(r) Revised; * Preliminary estimate

Associated FY 2008 Funding - $5.78 billion

FY 2009 Performance Forecast. The 2008 target for the pavement condition measure was revised in 2007, reflecting a more predictive approach based on more sound engineering and economic models. Recent trends in funding and material cost increases will pose difficulty in meeting the 2009 and future targets.

FY 2008 Results. The FY 2008 target was not met. Factors influencing the results include limited funding levels coupled with escalating materials costs on bridge projects. The percentage of deck area on NHS bridges that are rated as deficient decreased from 32.6 percent in 1998 to 29.5 percent in 2008. A gradual downward trend is expected to continue. The impact on the deck area figures of additional funding made available in 2008 may not be apparent for several years. Bridge deficiencies are reduced primarily through a reduction in the number of structurally deficient bridges.

Performance Measure

Percent of deck area on National Highway System (NHS) bridges rated as deficient.

	2005	2006	2007	2008
Target	25.3	24.2	23.1	22.0
Actual	29.9	29.2	29.7 (r)	29.5*

* Preliminary estimate. (r)Revised

Associated FY 2008 Funding - $5.78 billion

FHWA conducted annual National Bridge Inspection System compliance reviews and met afterwards with the States as necessary to ensure that any compliance issues were resolved. More than 96 percent of the States are in compliance. FHWA will continue to work with the States with a goal of reaching 100 percent compliance through the sharing of commendable practices, peer reviews of a few individual programs, and continued bridge inspection training through the National Highway Institute.

FHWA is working with the States to ensure that the additional funding made available for years 2008 through 2010 is being used to supplement and not supplant planned bridge activities. At the end of FY 2008, nearly half of the $1 billion was made available to 13 States and $300 million was obligated to bridge activities.

FY 2009 Performance Forecast. FHWA will reexamine and reset the 10-year targets in FY 2009 to better reflect future forecasted conditions.

Repair and Reconstruction of the Minneapolis T-35W Bridge

On August 1, 2007, the center span of the I-35W interstate bridge in Minneapolis broke into sections and collapsed into the Mississippi River. Thirteen people died as a result of the collapse and over one hundred were injured. FHWA provided significant technical support to the National Transportation Safety Board (NTSB) investigation of the I-35W bridge collapse. Following the immediate reevaluation of all steel deck truss bridges, FHWA issued a Technical Advisory calling for States to check the capacity of gusset plates on all steel trusses. FHWA issued technical guidance regarding methods to check gusset plate capacity and is now working with AASHTO to improve upon the guidance.

FHWA was immediately involved in discussions with the Minnesota DOT on the design layout of the new bridge. Work began immediately on ensuring that the National Environmental Policy Act (NEPA) process was followed for the removal of the existing bridge, the traffic restoration work and the reconstruction of the bridge. The project was accelerated using a Design-Build Best-Value procurement method. The State of Minnesota chose the contractor based on the most advantageous cost and time combination presented. The FHWA validated the cost estimate for the bridge and the entire reconstruction contract using a risk-based review. Construction was completed ahead of schedule and the I-35W bridge reopened in September 2008.

HIGHWAY CONGESTION

Traffic congestion on our Nation's highways now affects more trips, involves more hours of the day, and includes more of the transportation system than ever before. Congestion varies significantly day to day because demand and capacity are constantly changing at any given location. Overall, 67 percent of the peak-period travel nationwide is congested, compared to 32 percent in 1982. Travelers in 85 urban areas spent 4.2 billion hours stuck in traffic in 2005, more than a five-fold increase when compared to 1982.

FY 2008 Results. The percent of travel under congested conditions was estimated to be 27.3 percent, which is well below the FY 2008 target of 32.3 percent. Although increased adoption of strategies related to traffic incident management and work zone management may have helped to slow the growth of congestion, it is difficult to know to what extent. External factors including the price of fuel have significantly influenced travel patterns and reduced vehicle miles traveled (VMT) sharply.

Performance Measure				
Percent of total annual urban-area travel occurring in congested conditions.				
	2005	**2006**	**2007**	**2008**
Target	33.0	33.7	32.5	32.3
Actual	28.6(r)	28.4 (r)	27.8*(r)	27.3#
(r) Revised; # Projection; * Preliminary Estimate				
Associated FY 2008 Funding - $5.78 billion				

FY 2009 Performance Forecast. The actual results for congested travel nationwide from 2005 to 2007 were revised downward in 2008 based on an improved freeway speed estimate by the Texas Transportation Institute. As a result, the annual targets for FY 2009 and subsequent years will be reexamined in 2009. FHWA expects to meet the new 2009 target.

Reducing Congestion

Initiatives designed to demonstrate the value and efficacy of congestion pricing in reducing traffic congestion are key to advancing the Transportation Secretary's Congestion Initiative. To this end, the Department initiated the Urban Partnership (UP) and Congestion Reduction Demonstration (CRD) programs and is now working with six metropolitan areas to demonstrate various pricing strategies. These UP/CRD partners have agreed to pursue integrated approaches that, while prominently featuring pricing, also include supporting technology and transit strategies. Five metropolitan areas were selected for the first Urban Partnerships: Miami, Minneapolis, New York City, San Francisco, and Seattle. After considerable debate, the New York state legislature failed to provide the necessary tolling authority for a highly innovative cordon pricing scheme in New York City. Consequently, the funds set aside for New York City were redistributed to Chicago and Los Angeles for CRD programs. The FHWA has a comprehensive agenda underway to capture lessons learned from all of the UP/CRD programs. Peer exchanges ensure the eventual widespread deployment of congestion pricing applications. Additionally, an intensive evaluation program has been established to quantify both the benefits and costs of these pricing strategies.

FHWA realized significant success in the Operations and Technology program areas that are part of the Congestion Initiative. Almost all states are now in compliance with the Work Zone Safety and Mobility Rule, with strategies for reducing crashes and congestion in work zones, and well over half of the top 40 metropolitan areas have full service incident management service patrols. Virtually all states with major bottlenecks are exploring low-cost, quick-fix operational improvements, and 48 percent of the U.S. population now has access to 511 travel information services.

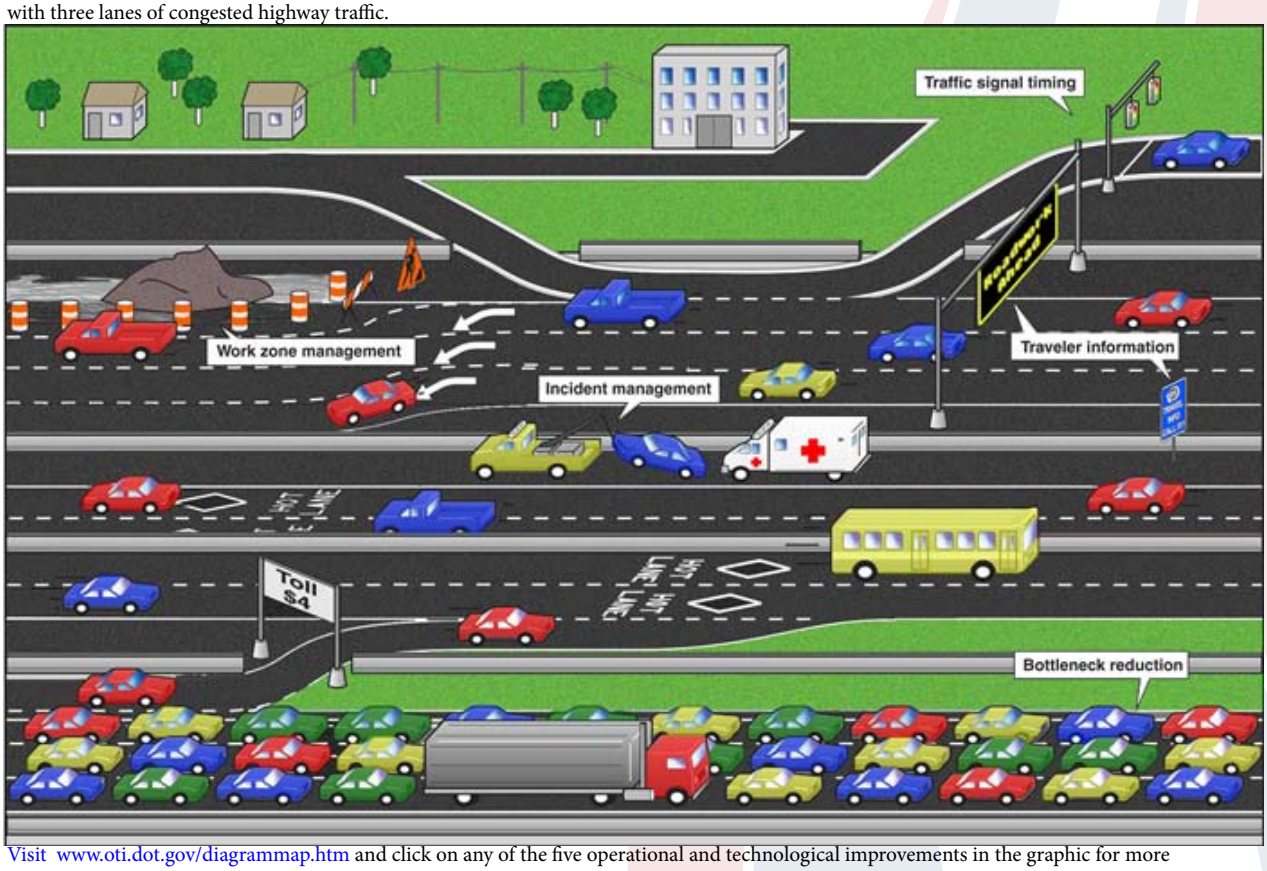
FHWA is also addressing non-reoccurring congestion related to incidents and inclement weather, which contribute 40 percent to the overall congestion problem. The Traffic Incident Management program encourages the prompt clearance of traffic incidents, i.e., crashes, stalled vehicles, spilled loads, and debris on the roadway,

through a cooperative effort of public safety, transportation and private sector partners. In October 2007, the National Traffic Incident Management Coalition (NTIMC) adopted a National Unified Goal to achieve "Responder Safety; Safe, Quick Clearance; and Prompt, Reliable, Interoperable Communications". The National Unified Goal will be achieved through actions led by the 23 NTIMC coalition partner members over the next few years. The Road Weather Management program focuses on providing highway users and operators accurate real-time information to achieve better decisions for personal trip planning and more efficient maintenance activities such as snow removal.

Several projects were launched including the Clarus Initiative. Clarus (which is Latin for clear) is an initiative to develop and demonstrate an integrated surface transportation weather observing, forecasting and data management system. The objective of Clarus is to provide information to transportation managers and users nationwide to limit the fatalities, injuries, and delays that often result from adverse weather.

In addition to its activities under current authorities, DOT has also developed a comprehensive proposal for reforming the Federal surface transportation program subsequent to the expiration of SAFETEA-LU. This Reform Proposal includes a variety of provisions that would enable states and localities to more effectively pursue congestion reduction strategies—particularly in regards to implementing variable pricing on congested roadways.

The graphic below depicts work zone management with cones and construction signs; traveler information with a dynamic message sign and 511 travel information service logo sign; incident management with a tow-truck and ambulance on the highway shoulder; and bottleneck reduction with three lanes of congested highway traffic.



Visit www.oti.dot.gov/diagrammap.htm and click on any of the five operational and technological improvements in the graphic for more information. Courtesy of US Government Accountability Office, 2007




Transit Ridership
FY 2008 Enacted Funds: $8.55 Billion

With the uncertainty of gasoline prices for the foreseeable future, public transit is an attractive alternative to the automobile. Transit agencies are handling increasing numbers of passengers; ridership growth increased by only 0.7 percent in 2003 and 2004, grew by 1.9 percent in 2005, 2.1 percent in 2006, and 2.5 percent in 2007, but expanded by 4.3 percent in 2008 . Transit is one of the safest ways of traveling, relieves road congestion, and reduces air pollution. Federal investments in transit, combined with State and private sector funds, make public transportation possible for tens of millions of Americans every day saving time, providing mobility, and reducing congestion.

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

FY 2008 Results. For 2008, the strong increase in ridership continued at a rate more than double the performance target. Although the ridership increases of the past four years may have been affected by service improvements and fare subsidy programs, the substantial correlation with the increase in gasoline prices suggests a causal relationship (see graph).

Performance Measure

Average percent change in transit boardings per transit market (150 largest transit agencies)

	2005	2006	2007	2008
Target	1.0	1.0	1.5	1.5
Actual	1.9	2.1	2.5(r)*	4.3*

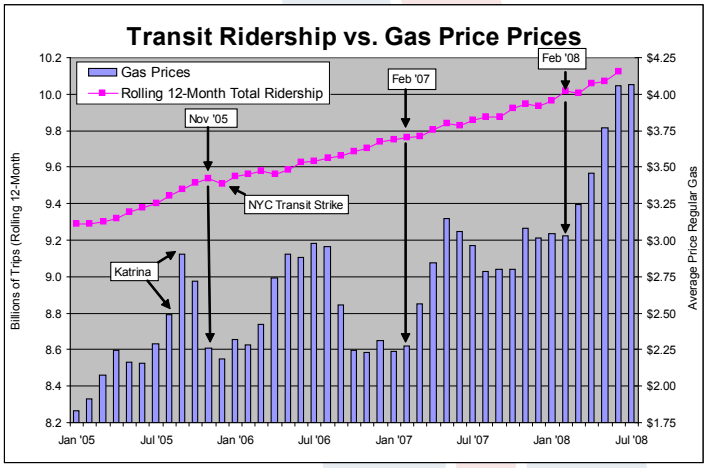
(r) Revised; * Preliminary estimate

Associated FY 2008 Funding - $8.55 billion

FY 2009 Performance Forecast. DOT anticipates it will meet the 2009 ridership target.

Promoting Transit Ridership

To support this goal, FTA continued to invest billions of dollars in the Nation's transit infrastructure to ensure transit is as safe, efficient, and cost-effective as possible, thus attracting new riders. FTA also implemented several new initiatives to promote ridership and recognize transit agencies that develop innovative and successful programs to increase ridership.



As part of the Department's Urban Partnership (UP) and Congestion Reduction Demonstration (CRD) programs, FTA is working with six metropolitan areas to implement integrated, multi-modal strategies to reduce urban traffic congestion. Each of these metro area strategies involves a combination of road and/or parking pricing, enhancements to transit service, and the deployment of innovative transportation

technologies. In each case, the Department has both provided grant funding to implement the transit projects and established an intensive evaluation program to quantify the benefits and costs of the integrated pricing-transit-technology approach.

In FY 2007 and 2008, the United We Ride human service transportation initiative made strides to improve transportation delivery systems for older adults, persons with disabilities, families with low incomes, disadvantaged youth, and other populations most dependent upon public and human service transportation systems to meet their mobility needs.

FTA's United We Ride and the USDOT's Intelligent Transportation Systems (ITS) Joint Program Office launched a national demonstration program called the Mobility Services for All Americans (MSAA) Initiative to coordinate the 62 Federal programs that provide some level of human service transportation by using ITS technology to create a single point of customer access no matter what the trip, who provides it, or who funds it. Eight demonstration sites were selected to develop operational plans for implementing simplified customer access systems.

The goal of MSAA is to improve transportation services and simplify access to employment, health care, education, and other community activities by means of ITS through extending transportation service partnerships with consumers and human service providers at the Federal, State, and local levels.

FTA reviewed 27 proposed operational concepts for simplified customer access and reservations systems and selected 8 to develop further. After 18 months developing the concepts, seven of the 8 sites presented systems to demonstrate scalable and replicable Travel Management Coordination Centers (TMCCs). The system designs were received by the USDOT in July 2008. In Phase 2, $3.25 million will be awarded for 3 or 4 demonstration sites that will be selected to deploy their TMCC designs. Many of the sites indicated that they will implement their TMCC design regardless of whether they are selected. All of the designs are quite innovative. Technical assistance will be provided to the remaining demonstration sites.

Traffic flows on roadways during peak periods improve significantly when transit alternatives are also available to increase capacity.




Transportation Accessibility
FY 2008 Enacted Funds: $563 Million

According to a recent report by the Institute of Medicine, there are some 40 million disabled Americans and this number is expected to increase as the population ages. The U.S. Census Bureau predicts that the number of Americans over 85 will increase from 5.4 million to 19 million between 2008 and 2050. The Americans with Disabilities Act (ADA) mandates that public transportation be accessible to these individuals; it is vital to maintaining independence and mobility for people with disabilities and linking them to employment, health care and their community.

FY 2008 Results. DOT met the 2008 target. Ninety eight percent of the bus fleet is compliant with the ADA. The bus fleet continues to become more accessible as older vehicles are replaced with new vehicles that are lift-equipped or have low floors to accommodate wheel chairs. The overall rate of increase in bus accessibility has slowed somewhat since many of the buses replaced were already lift-equipped.

Performance Measure

Percent of bus fleets compliant with the ADA

	2005	2006	2007	2008
Target	95	97	97	98
Actual	96	98	98	98*

* Preliminary estimate

Associated FY 2008 Funding - $111 million

FY 2009 Performance Forecast. In 2009, 98 percent of the fleet should remain ADA compliant. While all new buses are lift equipped or have low floors, it will be difficult to reach 100 percent compliance because many transit operators retain buses for more than twenty years.

FY 2008 Results. The preliminary estimate for FY 2008 indicates that the FY 2008 target will be met.

There are 681 key rail stations nationwide, designated as such by commuter, light or rapid rail operators, in cooperation with the local disability community. This revised number (down from 687 last reported in the 2007 PAR) reflects stations that have been closed or relocated. Relocated facilities are treated as new construction by DOT and are required to be fully accessible.

Performance Measure

Percent of key rail stations compliant with the ADA

	2005	2006	2007	2008
Target	84	91	93	94
Actual	91	92	94(r)*	95*

(r) Revised; * Preliminary estimate

Associated FY 2008 Funding - $150 Million

FY 2009 Performance Forecast. DOT expects to reach the FY 2009 target.

The administration of FTA's Job Access and Reverse Commute (JARC) program was changed in FY 2007 from a separate nationally-administered competitive program into a State-administered formula program as enacted in SAFETEA-LU. FTA is collecting data and establishing a baseline for a new measure "Jobs made accessible by JARC services". The enacted funding for FY 2008 for this program was $156 million.

Aviation Delay
FY 2008 Enacted Funds: $4.0 Billion

Reducing delays is one of the biggest challenges facing the FAA. Commercial airline passenger delays in the U.S. amount to approximately $10 billion in delay costs each year. The problem is exacerbated by increased traffic and congestion concentrated at several major airports, particularly in the New York metropolitan area. Although a reduction in traffic of about 10 percent is expected this fall as airlines cut schedules due to high fuel prices, the large hub airports might not see significant delay reduction, because airlines tend to maintain schedules there. Along with increased congestion, adverse weather conditions are a major contributing factor to airport delays. Approximately 70 percent of flight delays are caused by weather. In the first 6 months of FY 2008, the percentage of operations conducted in severe weather increased almost 25 percent compared to the same time period in FY 2007.

FY 2008 Results. FAA did not achieve its FY 2008 NAS (National Air Space) On-Time Arrival performance target. Adverse weather conditions played a significant part in airport delays. Over 20 percent of operations at Boston, Newark, Philadelphia and Chicago were conducted during moderate to severe weather conditions. Traffic management initiatives, such as ground delay programs and airspace flow programs, were used to combat the effect of thunderstorms and maximize system efficiency as much as possible.

Performance Measure

Percent of all flights arriving within 15 minutes of schedule at the 35 Operational Evolution Plan airports due to NAS-related delays

	2005	2006	2007	2008
Target	87.40	87.40	87.67	88.00
Actual	88.10	88.36	86.96(r)	87.29*

(r) Revised; * Preliminary estimate

Associated FY 2008 Funding - $4.0 billion

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

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

FY 2009 Performance Forecast. Given the current issues in the NAS that impact on-time performance including adverse weather, runway construction, congestion at major airports, and aviation industry economic and scheduling pressures, the FAA anticipates that it will be particularly challenging to meet the current FY 2009 on-time target of 88.22 percent. In recent years, we have seen increasing impact of these factors on the ability to meet the target, as evidenced by the last 2 years of performance.




Reducing Aviation Delays

The FAA continues to work at reducing delays and meeting the anticipated demand for air travel. Implementation of NextGen is the long term solution to increasing capacity of the National Airspace System. In the meantime, FAA and the Department of Transportation have implemented a number of initiatives to reduce delays in the near term. The top accomplishments for FY 2008 included:

- **New York Aviation Rulemaking Committee (ARC).** The ARC was formed in September 2007 to explore operational improvements, market-based mechanisms, and other options for addressing airspace congestion and flight delays in the New York metropolitan area. The ARC provided its recommendations to the Secretary of Transportation on December 17, 2007.

  Incorporating information received from the ARC into FAA and DOT efforts to address aviation congestion in the New York area resulted in the following actions:

  - Daily planning teleconferences to provide common situational awareness for customers—such as airlines, airport operators, and the military—on planned daily operations at JFK;
  - Simultaneous runway approaches which will allow 4-6 more aircraft to land during instrument meteorological conditions;
  - Briefings and trainings to show controllers that reducing excessive spacing between aircraft on final approach can help reduce delay and does not pose a safety risk;
  - Creation of another westbound departure route to mitigate westbound delays

- **O'Hare International Airport Congestion Management Rule.** In June 2008, FAA announced the 2004 caps on the number of aircraft that can land each hour at O'Hare International Airport will be allowed to expire in October 2008. This is a direct result of efforts to add capacity at O'Hare and coincides with the opening of a new runway at the airport in November 2008.

- **Release of Special Use Airspace.** The U.S. military worked with FAA to make some of its airspace available for civilian airliners over the Thanksgiving and Christmas holidays in 2007 and the Memorial Day and Fourth of July weekends this summer. The military opened up airspace off the East Coast, which helped relieve the most congested regions—from Maine to Florida. The use of the military airspace was so successful that FAA is working with the Department of Defense (DOD) to ensure military airspace will be available for civilian use during future holidays.

- **Traffic Flow Management and Route Initiatives.** Two initiatives put in place in 2007 delivered substantial benefit and were again used in 2008 to reduce delays, especially during the summer months, when aviation is most affected by weather. We expanded Airspace Flow Programs (AFPs) that manage traffic adjustments to changing weather patterns. AFPs, which act like ground delay programs for a piece of airspace, saved airlines about $68 million last summer. The Adaptive Compression tool identifies unused arrival slots at airports affected by AFPs or ground delays and immediately moves other flights into those slots. This saved airlines $27 million and more than 1 million delay minutes in its first year of operation. The Western Atlantic Route

System was redesigned to introduce 50 nautical mile separation between properly equipped aircraft—down from 90—allowing pilots flying in the western Atlantic a greater choice of routes and available altitudes.

- **Area Navigation (RNAV) Routes, Standard Instrument Departures (SIDs) and Standard Terminal Arrivals (STARs)** - Area navigation (RNAV) consists of routes and procedures that allow aircraft to fly point-to-point operations that are not restricted by the location of radar. This permits aircraft to fly optimum routes with little controller intervention. Two tools that accommodate aviation growth and improve efficiency are RNAV standard instrument departures (SIDs) and Standard Terminal Arrivals (STARs). RNAV SIDs and STARs provide instrument flight procedures for departing and arriving aircraft transitioning to and from the terminal to the en route structure, using advanced navigation technology. Using RNAV reduces pilot and controller workload and enhances the efficient and safe use of navigable airspace within the terminal airspace environment. In the en route structure, we are developing high and low altitude RNAV routes. In FY 2008, we published more than 75 RNAV SIDs and STARs and implemented more than 45 RNAV routes at specific airports. We continue to realize capacity benefits as well. For example, since the implementation of two RNAV STARs at Phoenix Sky Harbor International Airport in October 2006, there has been a 38 percent reduction in the time aircraft remain in level flight at key step-down altitudes in terminal airspace, resulting in user benefit savings estimated at $2.4 million annually, and reductions in carbon dioxide emissions estimated at 2500 metric tons annually.

- **New Runways** – Construction of airfield infrastructure (runways and taxiways) is a very effective method of increasing airport capacity, reducing delays, and improving efficiency. Los Angeles International Airport undertook a reconfiguration of their south runway and taxiway complex to enhance airfield geometry and reduce the potential for runway incursions. In April 2007 Runway 7R/25L was relocated 55 feet south of its previous location and re-opened. In addition, on June 26, 2008 a new center taxiway opened completing the south side reconfiguration. Chicago O'Hare also has a phased airfield reconfiguration underway. Phase 1 consists of three runway projects. The first project was completed on September 25, 2008 when the extension of Runway 10L/28R was opened. There are 6 other Operational Evolution Plan OEP airports that have airfield projects under construction (3 new runways, 1 runway extension, and 2 taxiways), as well as 10 other projects in the planning or environmental stages.

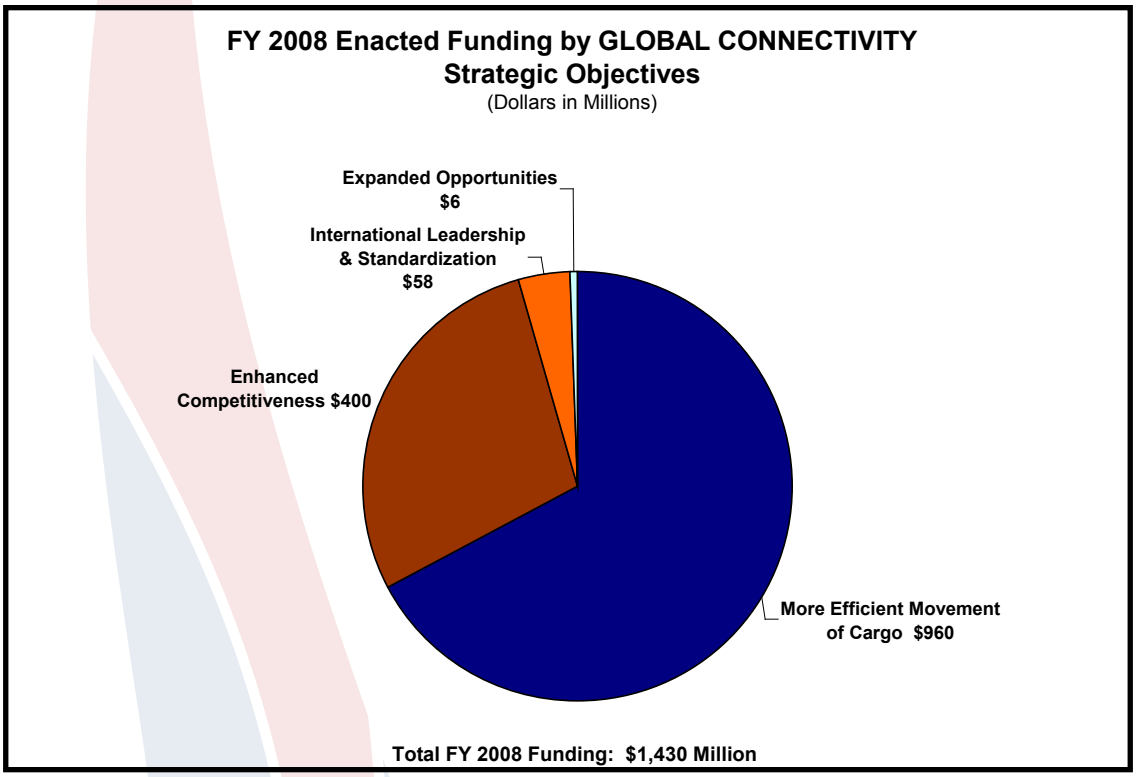
Almost 30 percent of flights nationally are cancelled or substantially delayed resulting in Americans wasting $9.4 billion a year in lost time. About 70 percent of those delays are caused by weather. While DOT certainly does not control the weather, focusing on a variety of traffic management solutions, such as limited flight schedules and modern, data-rich communications, can increase our ability to manage those weather delays and mitigate their impact on air travelers.

GLOBAL CONNECTIVITY STRATEGIC GOAL

FACILITATE AN INTERNATIONAL TRANSPORTATION SYSTEM THAT PROMOTES ECONOMIC GROWTH AND DEVELOPMENT

The transportation sector accounts for more than 10 percent of the U.S. Gross Domestic Product, behind only housing, food and health care. The transportation sector moves goods and people, employs millions of workers, generates revenue, and consumes materials and services produced by other sectors of the economy. The Department of Transportation promotes economic growth and development domestically but also works to ensure that the U.S. interests are competitive in the international market.

The U.S. Department of Transportation leveraged $1,430 million to promote competition and economic development within the U.S. and internationally.



Key Performance Areas

Strategic outcomes from the DOT Strategic Plan are indicated in blue and FY 2008 results for key DOT performance measures are marked to indicate Met Target (✓) and Did Not Meet Target (×).

Efficient Movement of Cargo

Safer, more efficient and cost effective movement of passengers and cargo throughout the international and domestic transportation systems, including U.S. ports of entry, modal and intermodal supply chains.

× Percent of days in the shipping season that the U.S. portion of the St. Lawrence Seaway system is available.

× Number of freight corridors with an annual decrease in the average buffer index rating.

× Travel time reliability at NHS border crossings.

Enhanced Competitiveness

Reduce barrier to trade in transportation goods and services. Enhanced competitiveness of U.S. transport providers and manufacturers in the global marketplace.

✓ Number of potential air transportation consumers in international markets.

✓ Cumulative number of technology/information agreements that promote the U.S. highway transportation industry.

International Leadership and Standardization

Sustained international leadership in promoting U.S. transportation policies.
Harmonized and standardized regulatory and facilitation requirements in the international arena.

✓ Number of new or expanded bilateral and multilateral aviation agreements completed.

Expanded Opportunities

Expanded opportunities for all businesses, especially small, women-owned and disadvantaged businesses.

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

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

2008 Performance Highlights

✧ DOT initiated Corridor Development Agreements addressing Federal and state commitments on financing, planning, and design, environmental process, construction, operations, and maintenance.

✧ More than $560 million was funded for state use on Coordinated Infrastructure projects in border regions to make improvements and construct highways and related safety and enforcement facilities related to international trade.

✧ DOT has successfully negotiated important new agreements with Australia, Croatia and Kenya that extended Open-Skies benefits to an additional 63 million potential aviation consumers.




More Efficient Movement Of Cargo
FY 2008 Enacted Funds: $960 Million

Maritime Trade System

The binational St. Lawrence Seaway is the international shipping gateway to the Great Lakes, connecting the heartland of North America with the world. Commercial transportation on the Great Lakes St. Lawrence Seaway System serves as competition to other maritime trade routes as well as other transportation modes, which benefits the nation in lower consumer prices of finished goods and raw materials, and helps to reduce roadway and railway congestion—each Seaway-size vessel carries roughly 25,000 metric tons, the equivalent of 870 tractor trailers.

Commercial trade on the Great Lakes Seaway System impacts 150,000 U.S. jobs, $12 million per day in wages, $9 million per day in business revenues by firms engaged in trade, and provides approximately $2.7 billion in annual transportation cost savings compared to competing rail and highway routes. Almost 50 percent of Seaway traffic travels to and from overseas ports, especially in Europe, the Middle East, and Africa.

FY 2008 Results. For FY 2008, DOT's Saint Lawrence Seaway Development Corporation (SLSDC) narrowly missed its annual performance target related to St. Lawrence Seaway availability. During the fiscal year, the SLSDC recorded an availability rate of 98.8 percent, 0.2 percent below its annual goal. An analysis of system non-availability during FY 2008 indicates that the most common causes were weather and vessel-related incidents.

Performance Measure				
Percent of days in the shipping season that the U.S. portion of the St. Lawrence Seaway system is available				
	2005	**2006**	**2007**	**2008**
Target	99.0	99.0	99.0	99.0
Actual	99.7	99.0	99.4	98.8
Associated FY 2008 Funding - $18.0 billion				

- Weather-related delays totaled 45 hours, 13 minutes of the total 84 hours, 35 minutes of delays or 54 percent. These weather delays are caused by poor visibility, high winds, fog, and other winter weather conditions that are significant enough to deem waterborne transportation unsafe.

- Vessel incidents in FY 2008 accounted for 20 hours, 38 minutes of delays, or 24 percent. Vessel incidents involve ship operations, and are usually caused by human error on the part of a vessel's crew. Incidents also include vessel breakdowns, which are caused by mechanical problems with a vessel. These vessel incidents must be cleared before transportation can resume causing a decrease in the navigation hours available on the Seaway.

Of the remaining factors that cause system non-availability, the SLSDC has the most control over the proper functioning of its lock equipment. During FY 2008, there were 11 hours, 37 minutes of delays, related to lock equipment malfunctioning incidents. Lock equipment delays represented approximately two-tenths of one percent of the total navigation time during FY 2008.

FY 2009 Performance Forecast. DOT expects to meet the FY 2009 target of 99.0 percent. Although the Seaway has enjoyed a 99 percent reliability rate over its history, similar results in the future are uncertain with an aging infrastructure that has not been adequately renewed. The Seaway is comprised of perpetual assets, which requires periodic capital reinvestment in order to continue to operate safely, reliably, and efficiently. Yet, the U.S.

Seaway infrastructure is approaching the end of its original "design" life, and without sufficient investment in these perpetual assets, it will become increasingly difficult to maintain the future availability and reliability of the U.S. section of the St. Lawrence Seaway. A recent economic analysis concluded that the economic impact of a shutdown of either of the two U.S. locks would range from $1.3-$2.3 million per day, depending on the length of the delay.

To address this concern and enable DOT to meet the performance target, the SLSDC will begin in 2009 to address the long-term infrastructure renewal needs of the U.S. section of the waterway through its Asset Renewal Program (ARP). The Seaway ARP identifies 50 necessary capital and maintenance investments to be completed over a 10-year period for the two U.S. Seaway locks, connecting channels, operational systems, and other infrastructure assets.

This environmentally friendly form of surface transportation handles a combined total of over 1.1 billion short tons of cargo, which is about 23 percent of the ton-miles of all domestic surface transportation traffic. Domestic waterborne transportation contributes $7.7 billion to the gross domestic product annually in the form of freight revenue.

Highway Freight Corridors

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

The buffer index, a measure of travel time reliability, represents the extra time freight carriers should add to their average travel time in order to ensure on-time arrival, at least 95 percent of the time, for an end-to-end trip along the corridor. The extra time is added to account for any unexpected delay. The buffer index, which is expressed as a percentage, decreases as trip reliability improves.

FY 2008 Results. The 2008 target, which was based on having 100 percent, of the corridors, performing above the national average was not met. When compared to 2007, 23 of the 25 corridors showed a decline or no change in reliability rating. Based on preliminary data, the national buffer reliability index for all 25 corridors measured was 25 percent. During this same reporting period, the average travel speed for the 25 corridors was 55 miles per hour, and no corridor had a decline in average annual speed greater than 1 mile per hour.

Performance Measure				
Number of freight corridors with an annual decrease in the average buffer index rating				
	2005	**2006**	**2007**	**2008**
Target	N/A	N/A	5	25
Actual	N/A	3	5	23*
N/A Not applicable. *Preliminary Estimate				
Associated FY 2008 Funding - $469 million				




FY 2009 Performance Forecast. Continued integration of freight professional capacity into the organizational structure of States and Metropolitan Planning Organizations (MPO) suggests a growing focus on efficient freight movement as key to overall transportation system performance. Under this scenario, the FY 2009 target will likely be met.

The **Freight Analysis Framework** (FAF) provides current and forecast data on the volume of freight and truck movements on the U.S. transportation network. The information created by FAF is used to identify significant freight corridors in need of attention, now or in the future, to maintain or improve the level of service provided by these roadways. The Freight Analysis Framework, an analytic tool used extensively in both the public and private sector, was recalibrated using data from the 2002 Commodity Flow Survey and integrated with key international gateway data. In addition, FHWA updated FAF mapping of the highway network with 2002 freight flows, generated forecasts of freight movement to 2035, completed provisional estimates for 2007, and performed analyses in support of responses to network disruptions such as the closure of I-5 in Washington due to storms.

Promoting Corridors of the Future

The Corridors of the Future Program (CFP) is making a significant contribution to the Nation's transportation system through the establishment of comprehensive, multi-jurisdictional approaches that will be vital for the competitiveness of the United States. Since the transportation system that supports the economy rarely stays within political boundaries and a large percentage of the value and tonnage of freight moves across State, regional or national boundaries, the CFP multi-jurisdictional approach allows transportation agencies to address congestion from a national/regional perspective.

In FY 2008, the DOT initiated the development of Corridor Development Agreements (CDA) that address the commitments of all Federal and State parties to the Corridor with respect to the financing, planning, and design, environmental process, construction, operations, maintenance, and other components of the Corridor. A CDA also identifies the specific objectives and priorities of the Corridor along with performance measures that would be used to evaluate success in achieving these objectives. The DOT and States finalized all seven agreements before the end of 2008. USDOT has allocated discretionary funding to a few projects along the Corridors for projects that will advance the Corridors and objectives under the CDA. In FY 2009, the coalitions will implement the initial CFP objectives and the DOT will continue to provide assistance in advancing the Corridor concept and priorities identified by the CFP coalitions.

Corridors of the Future

The U.S. Department of Transportation announced six interstate routes, which carry 22.7 percent of the nation's daily interstate travel, as the first to participate in a new federal initiative to develop multi-state corridors to help reduce congestion. The initiative is aimed at developing innovative national and regional approaches to reduce congestion and improve the efficiency of freight delivery using public and private resources. The concepts include building new roads and adding lanes to existing roads, building truck-only lanes and bypasses, and integrating real-time traffic technology such as lane management that can match available capacity on roads to changing traffic demands.

The six participating routes will receive the following funding to implement their development plans: $21.8 million for I-95 from Florida to the Canadian border; $5 million for I-70 in Illinois, Indiana, Missouri, and Ohio; $15 million for I-15 in Arizona, California, Nevada, and Utah; $15 million for I-5 in California, Oregon, and Washington; $8.6 million for I-10 from California to Florida; and $800,000 for I-69 from Texas to Michigan.

Border Crossing

Trade using surface transportation between the United States and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico was $74.1 billion, or 6.6 percent higher in June 2008 than in June 2007. Border delays and border crossing time reliability are an important concern for public agencies, travelers and those involved with or affected by international travel and trade.

FHWA currently collects travel time data for five U.S.-Canada land border crossings across Washington, North Dakota, Michigan and New York. More than 50 percent of all U.S. inbound truck traffic crossed at these five land crossings in 2007. Inbound and outbound crossing times were measured for commercial trucks moving within two miles of the border crossing area.

FY 2008 Results. Based in part on the increased level of trade between the U.S., Mexico, and Canada and the complexity of working across border organizations on projects and initiatives, DOT did not meet the FY 2008 target based on the preliminary estimate.

Performance Measure

Number of U.S. border crossings with an increase in operational reliability

	2005	2006	2007	2008
Target	N/A	N/A	N/A	5
Actual	N/A	N/A	5	4*

* Preliminary estimate

Associated FY 2008 Funding - $18.0 billion

FY 2009 Performance Forecast. The U.S. Customs and Border Protection, U.S. DOT, Canada Border Security Agency, and Transport Canada will engage in activities to jointly address border delay and congestion. Specific activities will include; wait time measurements, establishment of delay measurement and standards; sharing

of research and study results, and enhancing information sharing, communications and coordination. From these efforts, transportation agencies will have better information to disseminate to the traveling public, have improved information to support development traffic management strategies, and have better information to plan for future transportation needs.

In addition, the United States-Canada Transportation Border Working Group and U.S.-Mexico Joint Working Committee will continue to coordinate infrastructure improvements at or near the border, facilitate discussion of the role of ITS and other technology in improving the efficiency of goods and people movement across the United States-Canada border and work with border stakeholders to encourage consideration of technology and operations solutions for common border problems including traffic congestion. Under this scenario, the FY 2009 target will likely be met.

Reducing Border Crossing Delay

Through FY 2008, more than $560 million in projects was funded through the Coordinated Infrastructure program. States use these funds in a border region to make improvements to existing transportation and supporting infrastructure, and construct highways and related safety and safety enforcement facilities related to international trade. They also undertake operational improvements including those related to electronic data interchange and use of telecommunications, modify regulatory procedures, and coordinate transportation planning, programming, and border operations with Canada and Mexico.

The DOT implemented a Transportation Border Congestion Relief (TBCR) program as part of the Transportation Secretary's Congestion Initiative. The TBCR program is specifically designed to facilitate and accelerate transportation-related capacity and operational improvements at international land border crossings. In September, the DOT announced several new border congestion-relief projects including the Otay Mesa East Port of Entry in San Diego, CA, and the Cascade Gateway Expanded Cross-Border Advanced Traveler Information System in Blaine, WA.

Harmonized and Standardized Regulatory and Facilitation Requirements

FY 2008 Enacted Funds: $58 Million

New and Expanded Agreements

Bilateral Aviation Safety Agreements (BASA) promote aviation safety and environmental quality, enhance cooperation, and increase efficiency in the civil aviation system. The agreements are based on recognized comparability of U.S. and foreign systems for approval and surveillance of the aviation industry. By building a network of competent civil aviation authorities and concluding agreements with additional countries and/or regional authorities, FAA increases safety and competitiveness globally. Improved global understanding of U.S. safety regulations, processes, and procedures leads to better international regulatory oversight and evens the market by holding more international players to comparable standards.

FY 2008 Results. In FY 2008, FAA exceeded its performance target, concluding four new or expanded BASAs that will facilitate an increase in the ability to exchange aviation products and services thereby expanding opportunities for the global aviation industry.

Performance Measure				
Number of new or expanded Bilateral and Multilateral agreements competed				
	2005	2006	2007	2008
Target	2	2	3	2
Actual	2	4	3	4
Associated FY 2008 Funding - $58 million				

- We completed negotiations with South Korea for one Executive Agreement and one BASA Implementation Procedures for Airworthiness (IPA). Both documents were signed at the 2008 Singapore Air Show. The BASA IPA allows the FAA to request technical assistance from the Korean Civil Aviation Safety Authority related to South Korean suppliers to U.S. manufacturers.

- A revision to update the U.S./Canada BASA IPA was signed in June 2008. The changes include new provisions for Canadian acceptance of rebuilt U.S. engines and FAA-approved alterations data.

- An agreement between the United States and the European Community was signed in June 2008. The agreement provides for streamlined repair station certifications between the U.S. and Europe. When ratified, the agreement will also allow more European companies to apply for FAA design approvals.

FY 2009 Performance Forecast. We are currently updating the FAA Flight Plan and do not expect to conclude any new or expand existing BASA Executive Agreements or Implementation Procedures in FY 2009, and we have not set a target for this performance measure in the next fiscal year. We are continuing to lay the groundwork for future BASAs with countries experiencing aviation industry growth such as India.

Enhance Competitiveness
FY 2008 Enacted Funds: $400 Million

International Air Transportation Market

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




FY 2008 Results. DOT exceeded its performance target for FY 2008. DOT has successfully negotiated over 90 Open Skies agreements, including important new agreements in FY 2008 with Australia, Croatia and Kenya that extended Open Skies benefits to an additional sixty-three million potential aviation consumers.

Performance Measure: Number of potential air transportation consumers (in billions) in international markets traveling between the U.S. and countries with open skies and open transborder aviation agreements	2005	2006	2007	2008
Target	1.53	2.99	3.05	3.85
Actual	2.97	3.01	3.83	3.94
Associated FY 2008 Funding - $2.0 million				

FY 2009 Performance Forecast. DOT expects to meet the target of 3.99 billion potential aviation consumers for FY 2009. To accomplish this task we will continue ongoing efforts to conclude Open Skies agreements with important aviation trading partners such as Armenia, Israel, Laos and Vietnam.

Industry Agreements

Increasingly, the DOT and FHWA provide direct support for U.S. foreign policy priorities and initiatives, especially expanded opportunities and access for U.S. transportation industry. Currently, the Agency is providing technical assistance to countries such as Iraq, Kuwait, China, Brazil, and Argentina, thereby expanding opportunities for the U.S. private sector. Through the International Scanning Program in cooperation with the American Association of State Highway Transportation Officials and international partnerships, new technologies and best practices that were developed elsewhere are more quickly adopted in the U.S., thus enhancing the competitiveness of U.S. transport providers and manufacturers.

FY 2008 Results. The FY 2008 target was met. FHWA concluded agreements with Israel, Iraq, and Kuwait and facilitated an agreement between the Russian Republic of Karelia and the State of Tennessee.

Performance Measure: Cumulative number of technology/information exchange agreements that promote the U.S. highway transportation industry	2005	2006	2007	2008
Target	N/A	N/A	3	3
Actual	N/A	N/A	4	4
Associated FY 2008 Funding - $384 million				

International scans of ten countries, including Australia, Belgium, Canada, France, Japan, Korea, Portugal, Spain, Sweden, and United Kingdom were completed on high interest topics including public-private partnerships, older driver safety, and research administration.

FHWA coordinated ongoing distance learning activities for approximately 70 representatives from counterpart agencies including 30 in the Western Hemisphere and 40 in Africa. Public private partnerships (PPP) and Safety are the ongoing program focus. This international technical exchange fulfills Section 506 of the International Outreach Program.

FY 2009 Performance Forecast. The cumulative target for the entire plan has been met and no additional agreements will be targeted.

FHWA coordination and activities continued with European partners, participants in the Border Technology Exchange Program, and counterpart agencies in Korea, China, Japan, and Russia. FHWA anticipates future results during FY 2009 as these programs are ongoing.

Expanded Opportunities
FY 2008 Enacted Funds: $6.1 Million

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

FY 2008 Results. Based on preliminary estimates, DOT will meet both of the small business related targets. All of the OAs continue to seek new opportunities to engage the small disadvantaged business community. DOT is one of the few Federal agencies surpassing the government-wide five percent Women-Owned Business statutory goal. The Office of Small and Disadvantaged Business Utilization (OSDBU) continues to work closely with all OAs to ensure that small businesses are afforded maximum practicable opportunities to participate in DOT direct procurement actions. OSDBU provided assistance to the OAs with their acquisition strategies, professional development and access to qualified small businesses. OSDBU also increased technical assistance and participation in outreach events.

FY 2009 Performance Forecast. DOT expects to meet both small business targets by continuing its current efforts and leadership in the field.

Performance Measure

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

	2005	2006	2007	2008
Target	5.1	5.1	5.1	5.1
Actual	6.6	8.4(r)	10.4(r)	7.0*

(r) Revised; * Preliminary estimate

Associated FY 2008 Funding - $2.6 million

Performance Measure

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

	2005	2006	2007	2008
Target	14.5	14.5	14.5	14.5
Actual	12.7	16.2(r)	18(r)	16*

(r) Revised; * Preliminary estimate

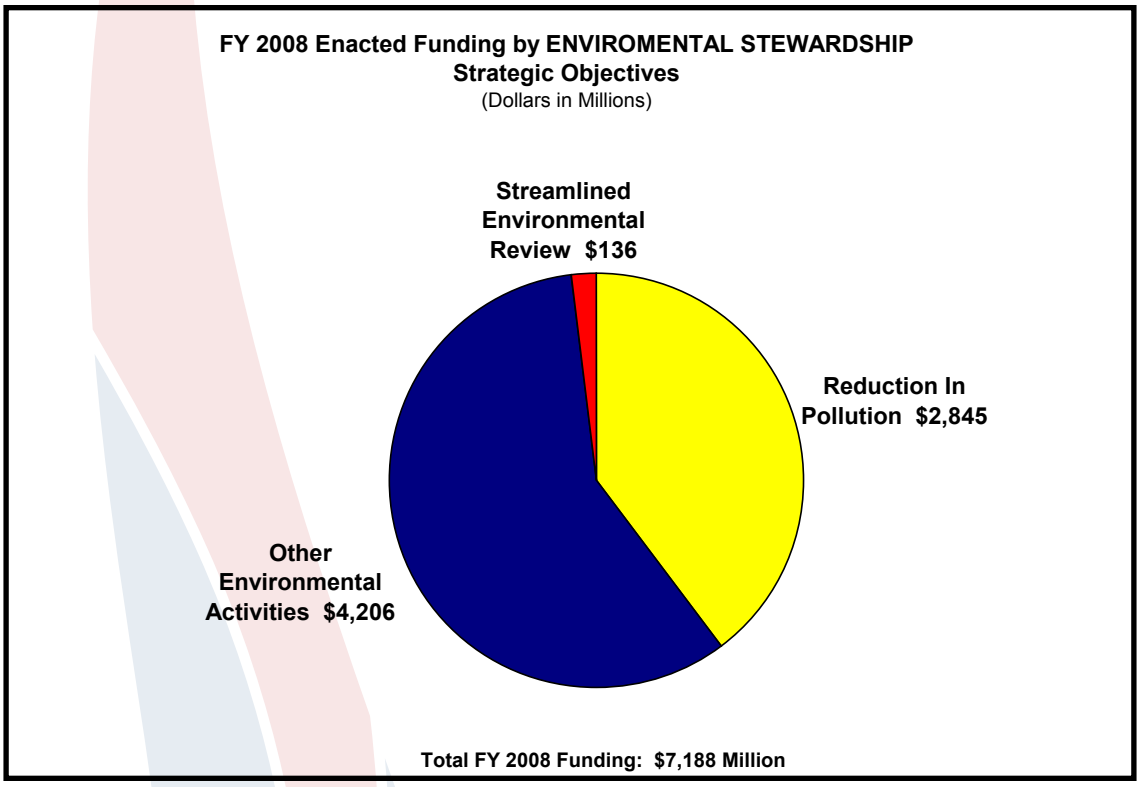
Associated FY 2008 Funding - $2.6 million

ENVIRONMENTAL STEWARDSHIP STRATEGIC GOAL

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

The transportation system has a significant impact on the environment. At the current rate of growth, transportation's share of the human-produced greenhouse gas emissions in the U.S. is projected to increase from 28 percent to 36 percent. DOT's Climate Change Center and Environmental Forecasting is a collective effort of DOT agencies to examine environmental factors in a coordinated manner while each agency continues pursuit of the issues under its purview.

The U.S. Department of Transportation leveraged $7,188 million to protect communities and their natural and built assets.



Key Performance Areas

Strategic outcomes from the DOT Strategic Plan are indicated in blue and FY 2008 results for key DOT performance measures are marked to indicate Met Target (✓) and Did Not Meet Target (×).

Reduction in Polution

Reduction in pollution and other adverse environmental effects from transportation and transportation facilities.

- ✓ Number of areas in a conformity lapse.
- × Number of hazardous liquid pipeline spills in high consequence areas.
- ✓ Percent DOT facilities characterized as NFRAP under the Superfund Amendments and Reauthorization Act.

Streamlined Environmental Review

Streamlined environmental review of transportation infrastructure projects.

- × Median time in months to complete environmental impact statements for DOT funded infrastructure projects.

Other Environmental Activities

- ✓ Number of Exemplary Human Environmental Initiatives undertaken.

2008 Performance Highlights

- ✧ For the second consecutive year there were no areas in air quality conformity lapse. The FHWA and the Enivironmental Protection Agency (EPA) cooperatively prepared state Departments of Transportation, air quality agencies, and Metropolitan Planning Organizations (MPO) to successfully meet requirements.
- ✧ DOT PHMSA issued a Final Rule expanding regulatory oversight to large diameter low-stress lines—the type of pipeline that failed on the North Slope of Alaska in 2006 with significant consequences.
- ✧ DOT has attained a 94 percent 'No Further Remedial Action Planned' status designation against 70 sites FAA sites. Only 4 sites have not yet attained NFRAP status and all of those now have either short-term or long-term plans in place for remedial action.
- ✧ Over 40 percent of 26 FHWA projects were recognized as Exemplary Human Environment Initiatives transportation projects and activities that were particularly effective and innovative in how they enhanced the human environment and improve public benefit.
- ✧ The Maritime Administration awarded 21 disposal contracts that will result in the dismantling/recycling of those ships within the next 2 years.

Reduction In Pollution
FY 2008 Enacted Funds: $2.845 Billion

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. Over the past 20 years, contributions of emissions from on road mobile sources to all emissions rapidly declined. The downward trend in on road mobile source emissions is expected to continue as a result of the introduction of cleaner engines and fuels.

Areas that exceed, or have previously exceeded, certain air quality standards - designated as air quality non-attainment or maintenance areas, respectively - are required to meet transportation conformity requirements in the Clean Air Act. Failure to meet the conformity requirements places an area in a conformity lapse, which means only limited types of Federally-funded highway and transit projects can proceed.

Performance Measure				
Number of areas in a conformity lapse				
	2005	**2006**	**2007**	**2008**
Target	6.0	6.0	6.0	6.0
Actual	5.8	1.3	0.0	0.0
Associated FY 2008 Funding - $2.1 billion				

FY 2008 Results. DOT exceeded the target. For the second consecutive year there were no areas in a conformity lapse. The EPA, with DOT concurrence, finalized a rulemaking to implement SAFETEA-LU changes. The FHWA and the EPA conducted workshops, training sessions, and other outreach activities to raise awareness and prepare State Departments of Transportation, air quality agencies, and Metropolitan Planning Organizations (MPO) to meet conformity requirements. State and local agencies coordinated the process well in advance of conformity determinations. Because of the advanced preparations, most of the locales that had been non-attainment and maintenance areas met the Clean Air Act goals, thus enabling projects to proceed.

A number of changes to the conformity provisions were implemented to streamline and provide more flexibility to the conformity process as a result of SAFETEA-LU. The introduction of a conformity lapse grace period allows an additional 12 months to address conformity issues before they enter into a lapse. Recent changes to the transportation conformity process in SAFETEA-LU provided flexibility to States and MPOs in meeting the Clean Air Act requirements. FHWA provided guidance and technical assistance to State Departments of Transportation and MPOs to ensure that the recent flexibility to the conformity process was implemented.

FY 2009 Performance Forecast. FHWA expects to meet the 2009 target. With the implementation of more stringent standards for ozone and fine particulate matter, FHWA will continue to address the impact of the regulatory changes and to maintain the number of conformity lapses at the current low level.

Partnering with State and Local Governments

FHWA worked with state and local partnering agencies to identify, fund, and implement more cost-effective emissions reduction strategies, often focusing on heavy-duty diesel emissions.

Guidance was provided to state and local partners to implement the new provisions under the Congestion Mitigation and Air Quality program.

And FHWA encouraged partners and stakeholders to better understand the science behind climate change especially in the transportation planning process, during project development, and in air quality analysis.

FHWA co-authored a study entitled, *Impact of Climate Change and Variability on Transportation Systems and Infrastructure: Gulf Coast Study, Phase One* [http://climate.dot.gov/publications/impact_of_climate_change] and conducted numerous outreach efforts to provide information and engender discussion of climate change impacts on transportation.

Pipeline Spills of Hazardous Liquids

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

PHMSA establishes safe land use standards for existing pipelines and new pipeline construction in proximity to populated areas using an enterprise approach working with local governments, real estate and development interests, insurers, pipeline operators, other Federal and state agencies, the Pipeline and Informed Planning Alliance (PIPA), and others. PIPA helps communities understand where pipelines are located, who owns and operates them, and what other information is available for community planning. As pipelines expand into communities it is vital to locate them where they pose the least potential hazard to people and the environment while also protecting pipelines from potential excavation damage, helping to ensure their crucial energy supply is protected as much as possible from disruptions from potential excavation damage, a leading cause of pipeline failures.




FY 2008 Results. Based on the preliminary data, PHMSA does not expect to meet the 2008 performance target. The increase from 2007-2008 might be attributed to multiple spills reported by pipeline operators who reported no spills in 2007. The causes for the increase, however, require further analysis.

Performance Measure				
Number of hazardous liquid pipeline spills in high consequence areas				
	2005	**2006**	**2007**	**2008**
Target	N/A	52	51	50
Actual	55(r)	46(r)	50(r)	59*
(r) Revised; * Preliminary estimate				
Associated FY 2008 Funding - $24 million				

- This year, PHMSA issued a Final Rule expanding regulatory oversight to large diameter low-stress pipe lines—the type of pipeline that failed on the North Slope of Alaska in 2006 with significant consequences. The agency will pursue regulation of smaller diameter low-stress lines in FY 2009. This action is consistent with past Congressional requirements and new requirements in the PIPES Act of 2006.

- Also in FY 2008, PHMSA issued an Advisory Bulletin seeking notification of construction of pipelines that would transport new alternative fuels such as ethanol and other biofuels. Notification provides a key entry point for the agency to examine technical issues associated with transporting new alternative fuels, and to provide safety oversight of the construction.

Alaskan Pipelines

PHMSA recognizes the strategic importance of Alaska's oil and gas production and transportation systems to the Nation's energy supply and in FY 2008 we elevated the status of our field office in Alaska to a Regional office to provide emphasis on our oversight there and continue to address technical challenges with declining oil field production and the need for planning to meet new demands. Alaska's 4,600 miles of pipelines deliver about 10 percent of America's energy products to the lower 48 states. Protecting the reliable and secure transportation of energy from Alaska is essential to the continued economic growth of our nation and meeting the President's goal of energy independence.

FY 2009 Performance Forecast. We expect it might be a significant challenge to meet the FY 2009 target of 49 spills in high consequence areas, given the results in 2008 and the small numbers we are dealing with; however, we believe with overall reductions in corrosion and excavation damages we are on track for FY 2009. And although the agency did not meet the FY 2008 target, progress continues to be made to significantly reduce the environmental impact of non-volatile hazardous liquid spills over the long term.

The agency began collecting detailed Integrity Management related repair information beginning in 2005 and with three years of collected information PHMSA is encouraged with the progress. With over 47,000 defects found and fixed over that period together with a 32 percent decrease in corrosion, the leading cause of hazardous liquid accidents, we believe this is a good indicator that the Integrity Management approach is working. At the end of 2007, the total number of pipeline segment miles that could affect High Consequence Areas (HCAs), including environmentally sensitive areas, was approximately 72,000 miles, of which about 32,000 miles were inspected in 2005-2007. Operators have repaired over 47,000 defects that without early detection and mitigation could have led to failures that harmed the public and the environment. Corrosion is the leading cause

of failures in HCAs and the agency has seen about a 32 percent decrease in those failures from the twelve month period ending July 2008 compared to the same time period in the previous year. Given this positive trend, PHMSA anticipates meeting the goal over the long term.

DOT Facility Cleanup

DOT has a special responsibility to ensure that its own facilities are compliant with environmental laws and regulations. Our activities fall into three broad categories: restoration, compliance, and pollution prevention. 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 mean preventing future clean-up activities by avoiding the generation of pollutants in our operations or facilities.

The DOT has 73 of the 2,282 Federal facilities on the EPA's Hazardous Waste Compliance Docket. The FAA and the FRA own or operate the DOT facilities included on the Hazardous Waste Compliance Docket. FAA is responsible for 70 of the 73 DOT sites listed.

FY 2008 Results. DOT met the FY 2008 target. There are 73 DOT sites on the EPA Hazardous Waste Compliance Docket and all but 4 of them have attained No Further Remedial Action Planned (NFRAP) status. DOT has attained a 94 percent NFRAP status designation against the 70 sites listed on the Docket which are FAA's responsibility. The latest site to reach that status is FAA's Omaha EX Air Force Station Z-71. EPA Region 7 provided a letter to FAA designating NFRAP status at the Omaha EX Air Force Station Z-71. FAA currently has only 4 sites listed on the Docket that have not yet attained NFRAP status.

Performance Measure Percent DOT facilities characterized as NFRAP under the Superfund Amendments and Reauthorization Act				
	2005	**2006**	**2007**	**2008**
Target	93	93	93	93
Actual	92	92	93	94
Associated FY 2008 Funding - $40 million				

1. Ronald Reagan National Airport
2. Kirksville Air Route Surveillance Radar (ARSR), AFS F-64
3. Mike Monroney Aeronautical Center
4. William J. Hughes Technical Center

FY 2009 Performance Forecast. DOT anticipates meeting the FY 2009 target. FAA provides funding and oversight for these four sites and has developed short-term actions (1-5 years) to achieve NFRAP status for the National Airport site, while longer-term actions (5-20 years) will be necessary to achieve NFRAP status for the other 3 sites.

Other Environmental Activities
FY 2008 Enacted Funds: $4.206 Billion

Human Environment

The FHWA promotes environmental stewardship practices by recognizing Exemplary Human Environment Initiatives (EHEI) in transportation projects and activities that were particularly effective and innovative in how they enhanced the human environment and improve public benefit. The EHEI measure is based on the number of projects or activities chosen for national recognition in six categories:

- Encouraging non-motorized transportation activities such as greater use of bicycling, walking (including access for persons with disabilities), and other non-motorized modes of travel.
- Enhancing the environment for human activities through infrastructure changes (e.g., historical preservation activities) that benefit human transportation and increase livability and quality of life.
- Process and procedural changes (e.g., collaborative decision making) that allow for more efficient service delivery.
- Educational and training programs that inform people about issues or changes that should be made to improve the human environment.
- Product development including Geographic Information System or travel modeling related activities that result in the creation or improvement of a tangible product or technology that improves everyday processes, and
- Other projects and activities including, but not limited to, border planning or economic development that do not fit in the other five categories.

FY 2008 Results. The FY 2008 target was met. FHWA's solicitation for EHEI projects or activities resulted in 26 EHEI submittals with 11 projects announced as EHEI recipients at the end of July 2008. In FY 2008, the FHWA adopted the EHEI measure as a replacement for the measure of Exemplary Ecosystem Initiatives (EEI). The FHWA replaced the EEI measure after performance targets were exceeded, indicating that the desired effect of promoting consideration of ecosystems into development of transportation projects and in creating a broad array of model projects on which project sponsors could draw was achieved.

Performance Measure

Number of Exemplary Human Environmental Initiatives undertaken

	2005	2006	2007	2008
Target	N/A	N/A	N/A	10
Actual	N/A	N/A	N/A	11

N/A Not applicable

Associated FY 2008 Funding - $4.2 billion

FY 2009 Performance Forecast. FHWA expects to meet the 2009 target. FHWA also focuses efforts to incorporate Context Sensitive Solutions (CSS) and Context Sensitive Designs (CSD) into all aspects of transportation planning and project development. CSS and CSD are collaborative, interdisciplinary approaches that involve all stakeholders in the development of transportation facilities that fit their physical settings and

preserve scenic, aesthetic, historic and environmental resources. CSS and CSD concepts are being promoted to advance solutions that enhance and protect ecosystems, communities, active living, beautification, and acquisition or relocation while maintaining safety and mobility.

Leveraging Expert Resources

FHWA issued grants for pilot projects that advance Eco-Logical concepts that leverage expertise outside the Department, integrates plans across agency boundaries, and endorses ecosystem-based mitigation. *Eco-Logical: an Ecosystem Approach to Developing Infrastructure Projects* [http://www.environment.fhwa.dot.gov/ecological/eco_index.asp]

FHWA awarded funding to the American Association of State Highway and Transportation Officials (AASHTO) Center for Environmental Excellence, which hosts a comprehensive Web site, captures best practices through concise practitioner guides, conducts targeted problem solving workshops, and manages a program of technical assistance on a variety of environmental topics.

Ship Disposal

The Maritime Administration is the U.S. government's disposal agent for merchant-type vessels 1,500 gross tons or more owned by the Federal Government. The Agency has custody of a fleet of approximately 100 non-retention ships that are available for disposal but not yet under contract. These obsolete ships are located at the James River Reserve Fleet site in Virginia, the Suisun Bay Reserve Fleet site in California and the Beaumont Reserve Fleet site in Texas. Steady progress in the disposal of the obsolete ships must be maintained to minimize the risk to the surrounding environment due to the presence of hazardous materials on board the ships.

FY 2008 Results. Despite the regulatory and litigation challenges faced in 2007 and 2008, the Maritime Administration awarded 21 disposal contracts that will result in the dismantling/recycling of those ships within the next 2 years. The 21 awards exceed the FY 2008 target by 11 ships. Of the 21 awards, 16 were through the sale of the obsolete ships, 4 were via fee-for-service contracts and one was through a donation to the Government of Greece for use as a museum. With the exception of the one to Greece, all of the removals are the result of dismantling/recycling contracts with domestic ship disposal companies. Proceeds from the sale of obsolete vessels provide revenue to the Government and value to the taxpayer. This has been achieved through a combination of high market steel prices and a sound sales strategy that maximizes domestic recycling industry capacity and competition.

The Maritime Administration removed a total of 25 obsolete ships from the James River and Beaumont facilities in FY 2008, 9 more than the target of 16. The total number of vessels disposed in FY 2008 was 19 ships, exceeding the target by 3 ships. The completed ships were removed from the fleet sites during the current and preceding fiscal years. It takes from several months to more than two years to dismantle a ship once it has

arrived at a recycling facility. The rate of dismantling is dependent on a number of factors, including specific vessel characteristics, weather, contractor resource availability and the contractor's ability to quickly and properly arrange for disposal of hazardous materials.

Streamlined Environmental Review
FY 2008 Enacted Funds: $136 Million

DOT establishes and pursues rigorous timeframes for all projects requiring an Environmental Impact Statement (EIS). By tracking timeframes, DOT has developed a better understanding of the key impediments to the process, enabling us to address the concerns of Congress, the States, and others. The DOT has established 60 months as the FY 2008 target for the median timeframe for completing an EIS. DOT facilitates the achievement of the objective by promoting environmental stewardship practices and integrated planning efforts, and encouraging linkages between planning and NEPA requirements.

The EIS process not only ensures that infrastructure projects comply with NEPA guidelines, but it also allows citizens and local organizations an opportunity to voice their concerns and propose alternatives. DOT embraces the public's thoughts on alternative ways to accomplish what it is proposing and to offer comments on its analysis of the environmental effects of the proposed action.

FY 2008 Results. The FY 2008 target was not met. The preliminary estimate of 63 months, based on 26 FHWA projects and 4 FRA projects with a completed EIS, was slightly above the target and 3.5 months shorter than last year's results. (FAA is developing environmental impact statements for four airports, which because the process was not complete were not included in this year's data collection.)

Performance Measure

Median time in months to complete environmental impact statements for DOT funded infrastructure projects

	2005	2006	2007	2008
Target	N/A	N/A	N/A	60
Actual	56	57	67	63.5*

* Preliminary estimate

Associated FY 2008 Funding - $68 million

FY 2009 Performance Forecast. The FY 2009 target will likely not be met. Because the number of FHWA projects contributes significantly to the overall DOT result, the effort to remove dormant projects from the list of FHWA projects under review should have a positive effect in the coming months. More importantly, FHWA, FTA, and FAA are all pursuing activities that should begin to affect median review time in the next two or three years.

- FAA employs an interagency coordinated and expedited environmental review procedure on designated infrastructure projects as provided for in Title III of Vision 100—Century of Aviation Reauthorization Act (also known as the Aviation Streamlining Approval Process Act of 2003). The procedures call for agreement on the protocols among affected agencies and deadlines for necessary actions by each individual agency including deadlines for the review of environmental analyses and the issuance of environmental opinions, licenses, permits, and approvals. Where this process has been used, not only has FAA seen a marked improvement in the time to complete the environmental review process, but here has been improvement in minimizing and resolving disputes between agencies.

- FHWA undertook a variety of actions, such as rescission of Notices of Intent for projects that have been dormant for long periods of time, and peer exchanges to identify project management practices that were employed with the environmental review process to achieve timely project delivery. FHWA actively promoted practices that minimized project delays through several on-line resources. These activities will continue to have an effect on FHWA processes in FY 2009.

- FTA has taken several steps, including redesigning its 'Managing the Environmental Process' course, offered through the National Transit Institute, to emphasize sound, cost-effective document-preparation practices. FTA has also updated relevant guidance, including sample documents, on various aspects of impact statement preparation. To encourage its grantees and their consultants to pursue the National Environmental Policy Act process efficiently and effectively, FTA has instituted an Outstanding Achievement Award for Excellence in Environmental Document Preparation. Finally, FTA has published a document entitled Keys to Efficient Development of Useful Environmental Documents for the purpose of dramatically improving the quality of environmental documentation.

The Decision-Making Process in the I-405 Corridor Program

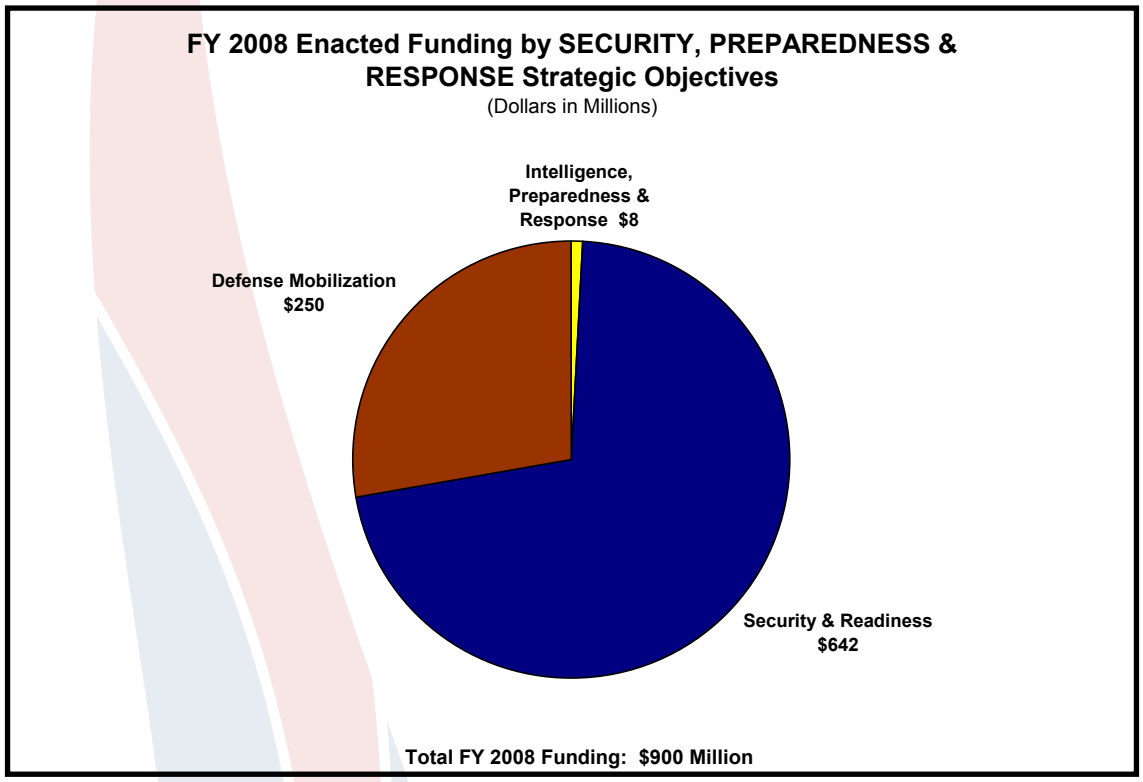
The importance of citizen involvement in transportation planning is most obvious when it comes to a proposed project's impact on the built or natural environment. While congestion and anticipated disruption and of course the ultimate benefits of the project are deeply explored, the public often becomes most engaged on issues that affect the environment. In the long-term, multi-modal I-405 Corridor project in Washington State, for example, broad environmental goals were established in response to strong environmental ethic of the community. As the process unfolded, the "preferred alternative" included projects to restore fish habitat in a number of major streams previously hurt by development, as well as inclusion of habitat protection actions as part of any new construction projects.

SECURITY, PREPAREDNESS AND REPONSE STRATEGIC GOAL

BALANCE TRANSPORTATION SECURITY REQUIREMENTS WITH THE SAFETY, MOBILITY, AND ECONOMIC NEEDS OF THE NATION AND BE PREPARED TO RESPOND TO EMERGENCIES THAT AFFECT THE VIABILITY OF THE TRANSPORTATION SECTOR

Threats may emanate from nature or from acts of terrorism, but either way, the transportation system is at once a target for damage and a critical infrastructure element for response and recovery. Working with the Department of Homeland Security and the Department of Defense as appropriate, the U.S. Department of Transportation, as well as state and local transportation departments, are significant players in security, preparedness and response..

The U.S. Department of Transportation leveraged $900 million to ensure preparedness for response to emergencies that impact the transportation system.



Key Performance Areas

Strategic outcomes from the DOT Strategic Plan are indicated in blue and FY 2008 results for key DOT performance measures are marked to indicate Met Target (✓) and Did Not Meet Target (✗).

Intelligence, Preparedness and Response

Expert transportation sector intelligence.

Preparedness for response to emergencies affecting the transportation sector.

Effective response to emergencies affecting the transportation sector.

Security and Readiness

The DOT Operating Administrations work closely with the Departments of Homeland Security and Defense and other stakeholders to ensure the security of specific modes of transportation nationwide.

Defense Mobilization

- ✓ Percentage of DOD-required shipping capacity complete with crews available within mobilization timelines.
- ✓ Percentage of DOD-required commercial ports available for military use within DOD established readiness timelines.

2008 Performance Highlights

- ✧ During FY 2008, seven more modern and efficient vessels were enrolled in the Maritime Security Program, which ensures that the United States will have commercial vessels along with their intermodal assets to support DOD operations, thereby improving readiness capabilities.
- ✧ DOT exceeded its target for the percentage of DOD-required shipping capacity complete with crews available within mobilization timelines through the continued implementation of its performance based service contract for the maintenance and operation of vessels.
- ✧ DOT exceeded the target for the percentage of DOD-required commercial ports available for military use within DOD established readiness timelines as a result of close coordination with the military and the Strategic Ports.




Defense Mobilization
FY 2008 Enacted Funds: $250 Million

The Department of Defense (DOD) relies on the U.S. commercial transportation industry as well as government-owned ships to deliver equipment and supplies throughout the world in order to maximize defense logistics capabilities and minimize cost.

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

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

- DOT's Maritime Security Program (MSP) ensures that the United States will have U.S.-flag commercial vessels along with their intermodal assets to support DOD operations.

- The Maritime Administration also supports the education and training of new merchant marine officers by operating the U.S. Merchant Marine Academy (USMMA) and by providing partial support to the six State Maritime Schools (SMS) providing training to develop an unlimited number of licensed mariners to support DOD during national emergencies.

The availability of shipping capacity is determined by a number of different factors: availability of commercial vessels, availability of government-owned sealift vessels, availability of qualified mariners to crew these vessels, and the availability of war risk insurance coverage for vessels entering a war zone. All of these factors must be managed properly in order to support DOD's mobilization requirements.

Performance Measure

Percentage of DoD-required shipping capacity complete with crews available within mobilization timelines

	2005	2006	2007	2008
Target	94	94	94	94
Actual	95	93	97	97

Associated FY 2008 Funding - $248 million

FY 2008 Results. DOT met the FY 2008 performance target. The Maritime Administration achieved these results through the successful pursuit of a number of activities. Most significantly, to assure sufficient availability of U.S. ships, the Maritime Administration maintained full enrollment in the Maritime Security Program, stable enrollment in the Voluntary Intermodal Sealift Agreement (VISA) program and Ready Reserve Force readiness levels. During FY 2008, seven more modern and efficient vessels were enrolled in the MSP to improve both MSP and VISA readiness capabilities. At the end of FY 2008, there were 125 vessels enrolled in the VISA program.

Performance-Based Contracting to Improve Performance

The Ready Reserve Force achieved above target readiness through the continued implementation of its performance based service contract. This contract maximizes the utilization of the professional services of commercial shipping companies to maintain and operate vessels. The contract is results-oriented and places great emphasis on ensuring vessels are safely maintained and operated in accordance with regulatory requirements and RRF requirements.

Improved coordination with Military Sealift Command enabled better scheduling of resources and mitigated competition between Government organizations for shipyard services to accomplish major overhauls. This enabled the RRF to maximize work performed during out of readiness periods and mitigate unscheduled repair periods. When vessels are required for operations, the Maritime Administration diligently works with our DOD partners to identify the vessel that best fits and is capable to meet mission requirements. The result has been the ability for the RRF to activate vessels on time and sustain exceptional operational reliability.

The Maritime Administration successfully operated the War Risk Insurance program for Operations Desert Shield/Desert Storm, Operation Restore Hope in Somalia, Operation Restore Democracy in Haiti and most recently for Operations Enduring Freedom and Iraqi Freedom and the continuing War on Terror.

In the interest of ensuring that sufficient numbers of highly qualified new mariners enter the U.S. workforce, Maritime Administration supported training activities resulted in the graduation of 211 licensed ship officers from the United States Merchant Marine Academy and 504 licensed officers from the six State Maritime Schools in June 2008.

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

FY 2009 Performance Forecast. The number of RRF vessels is expected to increase from 44 to 51 ships in FY 2009. However, the Maritime Administration expects this to have minimal impact on the performance forecast, and the FY 2009 target will be met.

FY 2008 Results. DOT exceeded the 2008 performance target as a result of close coordination with the military and the Strategic Ports. The Maritime Administration participated in joint military mobilization and security exercises as well as strengthened the cooperative partnerships that ensure effective emergency planning and coordination with a variety of organizations. The Maritime

Performance Measure: Percentage of DoD-required commercial ports available for military use within DoD estabilished readiness timelines	2005	2006	2007	2008
Target	93	93	93	93
Actual	87	100	100	100
Associated FY 2008 Funding - $1.3 million				




Administration is working closely with the Military Surface Deployment and Distribution Command on a study on the Strategic Ports to develop and implement a plan that will optimize the use of commercial and military Strategic Ports.

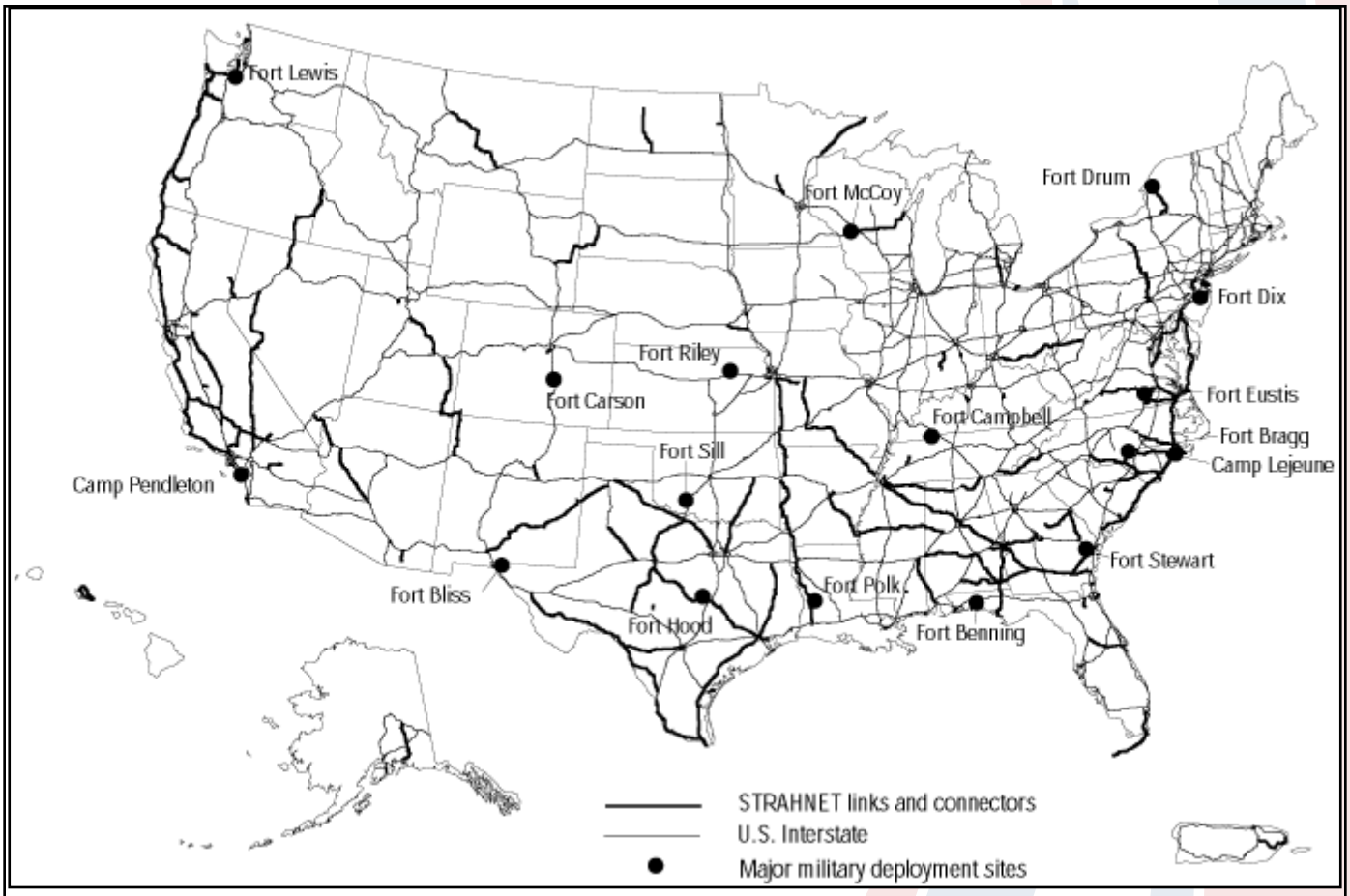
The Agency continues to develop the Agile Port Concept as a possible partial solution to increase port capacity. A fully built-out agile port system consists of a marine terminal, inland intermodal facility, dedicated freight rail corridor and an information management system that links all three components to rail, ocean carrier and port stakeholders. The system increases throughput capacity of the waterfront marine terminals by moving the cargo storage and sorting components to an inland location where land development costs are less expensive and traffic congestion impacts are reduced. The information system that links the facilities and users enables direct transshipments where containers are removed from vessels and directly sorted and transferred to rail for immediate movement to final locations without the need for inland sorting. The military has also used components of the agile port system to deploy. Changing military deployment processes to conform to agile port processes reduces the military cargo footprint in the Strategic Ports and reduces the military costs to deploy. A smaller footprint also minimizes commercial cargo disruption in the Strategic Ports. This is an important consideration as commercial ports become increasingly congested.

FY 2009 Performance Forecast. The Maritime Administration expects to meet the FY 2009 target. DOT will continue to administer an Intelligent Transportation System Deployment Integration program that demonstrated container and chassis satellite tracking technology using the Cargo Watch System. This program is to assist in commercializing their system, which addresses cargo security, fleet management and congestion mitigation. This technology has evolved from cellular to satellite technology and into the cold food supply chain market. The current technology focus is on developing two-way communications and on board computer interface for over the road reefer trailers.

Security and Readiness
FY 2008 Enacted Funds: $642 Million

Security in the Air In FY 2008, FAA continued to enhance our ability to respond to crises rapidly and effectively, including security-related threats and natural disasters, by building and improving emergency plans and preparedness tools that will enable us to sustain essential services and provide for employee well-being during crisis events. Operational coordination, communication, and command and control capabilities needed to prepare for, respond to, and recover from crises were strengthened and the use and functionality of operational and corporate crises response structures, such as specialized hurricane coordination cells and continuity of operations programs, were improved.

Security on our Highways FHWA continued to balance the need to protect critical transportation infrastructure with the safety, mobility and economic needs of the nation. During FY 2008, FHWA enabled state departments of transportation to implement critical security enhancement activities such as response to disasters, freight and border security operations, and critical infrastructure vulnerability assessments and counter measure deployment. A major ongoing program is maintaining national defense mobility using the Strategic Highway Network (STRAHNET). The STRAHNET is a 62,791-mile system of roads deemed necessary for emergency mobilization and peacetime movement of heavy armor, fuel, ammunition, repair parts, food, and other commodities to support U.S. military operations.



The Strategic Highway Network (STRAHNET) system of public highways provides access, continuity, and emergency transportation of personnel and equipment in times of peace and war. The 61,000-mile system, designated by the Federal Highway Administration in partnership with the Department of Defense, comprises about 45,400 miles of Interstate and defense highways and 15,600 miles of other public highways. STRAHNET is complemented by about 1,700 miles of connectors—additional highway routes linking more than 200 military installations and ports to the network.

FMCSA implemented a security program for motor carriers that transport hazardous materials that checks driver identification, conducts on-site security assessments, encourages carrier security sensitivity, and communicates information about hazardous materials security threats, alerts and vulnerabilities. As the agency with primary responsibility for regulating the trucking industry, FMCSA has incorporated security sensitive visits and security contact reviews into our normal operations.

Security in Public Transit Transit is a critical, high risk and high consequence national asset. Every day, transit provides mobility to 14 million passengers on transit systems that range from very small bus-only systems in rural communities to the largest urban economic and financial centers in the nation. FTA has provided employee training, emergency preparedness, and public awareness through oversight, technical assistance, and research programs. We also provided guidance and information to state and local agencies on transit preparedness in the case of an emergency. FTA also formalized a relationship with the DHS Transportation Security Administration through the execution of the DOT/DHS Memorandum of Understanding's Public Transit Annex enabling FTA to leverage its expertise and resources to maximize effective transit security coordination.




Intelligence, Preparedness and Response
FY 2008 Enacted Funds: $8.3 Million

In FY 2008, DOT continued to make strides in meeting the requirements of the Intelligence Reform and Prevention of Terrorism Act (IRPTA), Public Law 108-458 (IRPTA), which established a new paradigm for sharing information. DOT created an Information Sharing Council which established an Information Sharing Environment (ISE) for the sharing of terrorism information among all appropriate Federal, State, local, tribal entities, and the private sector through the use of policy guidelines and technologies.

Along with our work in intelligence, DOT continued to ensure readiness to undertake its role as defined in the National Response Framework, issued in 2008. In this capacity, DOT is the lead agency for coordinating transportation response and support following a disaster and has taken a more active role working with State and local transportation officials in planning for disasters. This includes development of a system of emergency actions that define alternatives, processes, and issues to be considered during various stages of national security emergencies and identification of actions that could be taken in the early stages of a national security emergency or a pending emergency to mitigate the impact or reduce significantly the lead times associated with full emergency action implementation.

In collaboration with the Department of Homeland Security (DHS), DOT has been actively involved in actions required by Public Law 110-53: Implementation of the Recommendations of the 9/11 Commission (9/11 Act). Seventy-two sections of the 9/11 Act either directly or indirectly involved DOT. Actions required in thirty-six of the seventy-two sections have been completed. The remaining sections of the Act are being addressed by DHS and DOT as appropriate. Several do not have specific due dates or deliverable requirements, but we anticipate that a majority of the remaining requirements will be completed in FY 2009. DOT's work on this Act has helped ensure that DHS and DOT modal agencies are coordinated in their efforts to protect the US public and private transportation infrastructure. Further, the Act has expanded technical and funding assistance to state, local, and tribal authorities to ensure the success of their security efforts.

FY 2008 Results. Development of the new security performance measures did not proceed as planned. Therefore, we are unable to present baselines for the new measures. However, a model for looking across DOT's operating administrations was explored and a set of measures proposed.

FY 2009 Performance Forecast. In FY 2009, DOT will examine three sets of measures: those newly proposed, those that were previously being tracked at the DOT level, and those security-related measures that are currently only being tracked in a specific agency. A framework of measures will be assembled and preliminary data collected to determine baselines for measurement at the same time DOT revises its Strategic Plan.

Promoting Transportation Sector Security Issues in the Homeland Security Context

The Homeland Security Council established a National Exercise Program (NEP) addressing the full spectrum of emergencies and crises likely to require Executive Branch coordination. The NEP Implementation Plan defines processes and responsibilities for achieving and executing that program. Exercises in the plan are broken into priorities. Tier 2 exercises are the second highest priority for participation. Tier 2 exercises are focused on integration of Federal activities in a geographic region (overseas or domestic). Tier 3 exercises are other Federal exercises for which no support is mandated.

During Fiscal Year 2008, the Department of Transportation participated in approximately 30 exercises, including Tier 1, Tier 2 and regional exercises engaging senior, operational and regional staff. One exercise revolved around a series of radiological incidents, for example. Another example was the exercise that combined a terrorism scenario with a hurricane scenario.

During these exercises, staff at the Department of Transportation exercise their responsibilities under the national response framework; examine emerging policy issues through the conduct of exercises; incorporate current threat and vulnerability assessments into the exercise objectives and planning effort; develop a corrective action process to ensure that lessons from exercises are either sustained or improved as appropriate; and achieve national effort by involving appropriate Federal, State, local, private sector, and appropriate partner nation entities.

The objectives of the program are to: 1) train U.S, Government senior officials, 2) examine and evaluate emerging national level policy issues, 3) practice efforts to prevent, prepare for, respond to and recover from terrorist attacks, major disasters, and other emergencies in an integrated fashion from the Federal level down to state, local, and private sector level, and 4) identify and correct national level issues, by not repeating the same lessons learned. These exercises contribute to the readiness of executives, managers and staff as well as point to weaknesses in the system or in protocols that are then improved.

The events of September 11, 2001, marked a distinct change in how transportation agencies plan for emergency events. Prior to then, transportation agencies focused on their role during weather-related incidents such as snowstorms, floods, and hurricanes.
Since then, however, transportation agencies have shifted their attention to the wide range of potential man-made accidents and malevolent events, including terrorist strikes that could occur without notice and that would require immediate, coordinated response efforts concurrent to accident, law enforcement, or national security investigations. One type of incident trigger—a biohazard emergency—presents transportation challenges that are potentially even greater than those posed by a large-scale evacuation. A biohazard release could simultaneously require both restricting and facilitating mobility of those affected.

The Application of Technology to Transportation Operations in Biohazard Situations project provides a more comprehensive and actionable understanding of the role of transportation during a biohazard event so that communities can better plan for, respond to, and recover from such a situation. Go to http://www.its.dot.gov/eto/docs/transops_biohazard/executive.htm for more information.




ORGANIZATIONAL EXCELLENCE STRATEGIC GOAL

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

We cannot achieve our strategic goals without leadership and continuous improvement in all the supporting functions of the Department. We actively pursue the goals of the President's Management Agenda as well as other externally- and internally-driven initiatives that improve the operations of the entire Department through each and every DOT agency.

The U.S. Department of Transportation leverages $1.20 billion to provide leadership in human resources, commercial services, financial management, performance improvement, and eGov.

Key Performance Areas

Strategic outcomes from the DOT Strategic Plan are indicated in blue and FY 2008 results for key DOT performance measures are marked to indicate Met Target (✓) and Did Not Meet Target (×).

President's Management Agenda

Achieve PMA goals.

See the PMA Scorecard in the Management Discussion and Analysis section of this document for a summary of results in all six initiatives.

Commercial Services Management

- ✓ For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met.
- ✓ For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met.

Financial Performance

- × Percentage of major federally funded transportation infrastructure projects with less than 2 percent annual growth for project completion milestones.
- × Percentage of finance plan cost estimates for major federally funded transportation infrastructure projects with less than 2 percent annual growth in project completion cost.

2008 Performance Highlights

- ✧ All five transit infrastructure projects were within budget and one is anticipated to finish $141 million (6 percent) under budget. Three transit projects are on schedule including the Denver project finished 19 months (20 percent) ahead of schedule. However the two New York projects are both 12 months behind schedule.
- ✧ Since the PMA initiative was established the Department's initiatives have resulted in more than $170 million in real property savings.

President's Management Agenda
FY 2008 Enacted Funds: $1.05 Billion

1. HUMAN CAPITAL

The human capital management agenda focuses on long-term management of the Federal workforce and fostering a citizen-centered, results-based government that is organized to be agile, lean, and focused on core competencies.

FY 2008 Accomplishments DOT has institutionalized systematic approaches to achieving strategic alignment and measurable results of agency activities supporting leadership, knowledge management, performance, diversity, talent management and compliance.

- **Electronic Training** DOT upgraded the electronic Learning Management System (eLMS), an online training and development system, to make it a more accessible and functional tool that supports planning, scheduling, delivery, tracking, and reporting of training and development activities to increase employee competencies in support of program performance.

- **Appraisal Requirements** DOT and OPM verified that 70 percent of employees are covered by appraisal programs that meet Performance Appraisal Assessment Tool requirements. The appraisal plans link to Departmental mission, goals and outcomes; hold employees accountable for results appropriate to their level of responsibility; differentiate between various levels of performance; and provide consequences based on performance.

Increased Telework Participation

Telework serves as a means to decrease air pollution, lessen energy consumption, and reduce traffic congestion in support of the Department's Reduced Congestion strategic goal. Additionally, telework improves our employees' worklife quality and serves as a workforce flexibility used as a strategic recruitment and retention tool.

DOT set a 50 percent telework-eligible participation goal, and this year all senior executive performance plans include a telework objective.

Telework also serves as a sound business practice for emergency preparedness and continuity of operations to increase workforce readiness as our employees may be called upon to respond to natural/human disasters and events. DOT leveraged the conditions of a major local event near DOT headquarters to conduct the largest telework Continuity of Operations (COOP) exercise in the history of the Federal Government. Sixty-three percent of DOT headquarters employees teleworked on a single day to test our COOP policies and operations and make improvements to the program.




2. COMMERCIAL SERVICES MANAGEMENT

DOT ensures that we are providing cost-effective services by determining which of those services are better performed by the commercial sector. During 2008, this President's Management Agenda initiative was expanded to incorporate related business process reengineering efforts that rely on disciplined management practices including those that are intended to lead to creation of a high performing organization.

FY 2008 Accomplishments DOT conducted all required FAIR Act Inventories, with a focus on accuracy and completeness, assessing each eligible Federal position to be inherently governmental or commercial in nature.

- **Competitions** Since 2002, DOT has completed 23 competitions covering 30 percent of the 9,772 FTE coded as commercial during the FY 2005 FAIR Act Inventory. Estimated savings from all organizational change efforts are $2.3 billion.
- **Independent Validations** DOT completed independent validations of competitions beginning in 2005 and results prove that DOT has achieved savings and cost avoidances of $8 million, as reported in the 2007 Annual Report to Congress.
- **Regained Scorecard Status** For the fourth quarter scorecard period, the Department regained its green status and progress rating. Achievement of green status and progress resulted from completion of 11 and initiation of two independent validations of savings efforts for competitive sourcing projects, and the announcement of management reengineering efforts for certain activities within the FAA and FHWA.

Area of Emphasis:
Transportation Infrastructure Projects

Infrastructure projects are not static; at any point conditions may change in ways that impact the cost of the project or the delivery date. Monitoring cost, schedule, and performance of infrastructure projects is critical in order to identify problems and initiate action to mitigate risk. Three DOT operating administrations oversee major infrastructure projects included in the following infrastructure project performance measures: FAA, FHWA and FTA.

FY 2008 Results. DOT did not meet either schedule or cost targets in FY 2008.

Performance Measure Percentage of major federally funded transportation infrastructure projects with less than 2 percent annual growth for project completion milestones				
	2005	**2006**	**2007**	**2008**
Target	N/A	90	90	90
Actual	89	89	89	79
Associated FY 2008 Funding - $46.3 million				

Performance Measure				
Percentage of finance plan cost estimates for major federally funded transportation infrastructure projects with less than 2 percent annual growth in project completion cost				
	2005	**2006**	**2007**	**2008**
Target	N/A	90	90	90
Actual	81	84	83	82
Associated FY 2008 Funding - $46.3 million				

Air FAA has major runway projects (those costing more than $1 billion) at Seattle-Tacoma (SEA) and Chicago O'Hare (ORD). The projects at both SEA and ORD are on schedule for completion in the first quarter of FY 2009 because they have met the preceding FY 2008 performance targets in project completion cost and milestones. The commissioning of airfield infrastructure (runways and taxiways) provides these airports with the ability to handle more arrivals and departures efficiently and reduce ground delays. Both projects are on schedule for completion and commissioning with no increases in cost in FY 2008.

Highways Of the 26 FHWA major infrastructure projects with estimated costs of more than $500 million, 21 met the completion milestones and 20 met cost milestones. Most projects that missed the completion dates were by less than one month. Of the six that missed cost schedules, three were still under budget. For the three projects exceeding their budgets, adequate contingencies were in place to account for the increases.

Transit FTA has five major projects (projects that exceed $1 billion): New York East Side Access; New York Second Avenue, Dallas Northwest/Southeast; Phoenix Light Rail and Seattle Central Link Light Rail. All five projects were within 2 percent of budget and the Seattle project is anticipated to finish $141 million (6 percent) under budget. Three of the projects are on schedule including the Denver project which finished 19 months (20 percent) ahead of schedule. However, the two New York projects are both 12 months behind schedule.

FY 2009 Performance Forecast.

Air FAA expects to meet the FY 2009 performance targets for both project completion cost and milestones. Only one sub-project of the Chicago O'Hare Modernization Program (OMP), the relocated runway, will remain unfinished as all other components of the OMP Phase 1 will be completed either late in FY 2008 or early in FY 2009. The Seattle runway will be completed in early FY 2009. Neither the Chicago nor Seattle projects are expected to grow in costs in excess of the target.

Highways SAFETEA-LU lowered the monetary threshold for classification as a FHWA Major Project from $1 billion to $500 million. Lowering the monetary threshold increases the number of active Major Projects that FHWA must monitor to 40 by the end of 2009. With more experience in managing costs and schedules for Major Projects, it is expected that the FY 2009 targets for the annual performance measure will be met. FHWA will continue to work with States to attempt to bring in all existing and newly classified Major Projects on time and within budget. But, unforeseen factors such as local labor shortages or a significant increase in the cost of materials could impact schedules and budgets.




Transit It is anticipated that FTA will meet the FY 2009 targets. FTA uses risk management as a continuous process for planning, assessment, mitigation and monitoring. The risk assessment for project cost and schedule was used as a guide to establish a project execution strategy that utilizes a contingency management plan and risk mitigation plan to monitor the projects. However, global economic changes in the cost of materials are causing project sponsors to redesign and repackage contracts to increase competitions after higher bids are received. Also, contractor competition on very large projects in the New York market has not been good because of all the new building in that area. Yet even with uncertain economic conditions, budgets are still being maintained because schedules are being extended in order to allow sufficient time to repackage contracts in response to the changing bidding climate.

3. FINANCIAL PERFORMANCE

DOT's financial stewardship is guided by its performance on key financial metrics which highlight on-going efforts to manage and upgrade fundamental financial factors such as assurances of financial controls, performance under the Federal Managers Financial Integrity Act (FMFIA), financial system upgrades and reduction of improper payments.

FY 2008 Accomplishments The Government Accountability Office and the DOT Office of Inspector General have aggressively recommended that DOT financial management focus on needed improvements. DOT has responded with several efforts that have improved financial performance throughout the Operating Administrations and the Department as a whole.

- **Elevated Scorecard Status** DOT achieved 'Yellow', elevating its PMA Scorecard during the second quarter of FY 2008. The rise in status was primarily due to DOT successfully regaining a clean audit opinion as the result of a comprehensive cleaning up of FAA's Construction in Progress data.

- **Procurement System Consolidation** In June 2008, DOT formally established a Department-wide strategy to consolidate 10 stand-alone procurement systems into a single system that would also be integrated with Delphi, the Department's financial management system. This consolidation and integration reduces system operation costs and software maintenance costs, while automating commitment accounting, eliminating duplicate manual data entry, and significantly improving information provided to financial managers for decision-making. Implementation will begin in FY 2009.

- **Internal Controls System** After 2 years of design, DOT has implemented an internal controls system in accordance with the requirements presented in OMB Circular A-123. Testing began in 2008.

- **Centralized Financial Services** DOT finalized the transition of all its accounting operations to the Enterprise Services Center (ESC) in Oklahoma City with the exception of the FAA which continues to do its own statements. With all accounting operations staff centrally located, financial policies are being applied more consistently, training on system updates is more efficient, and accounting operations are better managed during peak periods.

- **Financial Performance Metrics** DOT rolled out a new department-wide initiative designed to help the Operating Administrations recognize and reconcile longstanding data issues in their financial systems. DOT identified fourteen areas of concern and defined corrective actions using an in-house, web-based tool that reports data on a monthly basis. In FY 2008, DOT improved performance on a number of metrics such as increasing the use of electronic payments over paper checks, reduced budgetary to proprietary reconciling items, eliminated the use of suspense accounts and has reduced abnormal balances in general ledger accounts. Two operating administrations reduced their total debt eligible for referral to Treasury from over $1 million to zero in the third quarter of this fiscal year. The result was a major clean up of pending actions in receivables that had previously been on hold.

- **Financial Integrity** The requirements governing financial management integrity—OMB Circular A-123, Appendix A, Internal Control over Financial Reporting and the traditional Federal Managers Financial Integrity Act (FMFIA). In FY 2008, DOT integrated the analysis and assessment of processes across A-123 and FMFIA to better support the annual assurances required of the agency. The result has been a reduction in potentially duplicative review activities and a strengthening of the analytical basis for assurances issued by DOT executives.

Area of Emphasis: Managing Major Acquisition Projects

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

Performance Measure: For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met				
	2005	**2006**	**2007**	**2008**
Target	80	85	87.5	90
Actual	97	100	100	96.08
Associated FY 2008 Funding - $30 million				

Performance Measure: For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met				
	2005	**2006**	**2007**	**2008**
Target	80	80	85	90
Actual	92	97.4	97	93.88
Associated FY 2008 Funding - $30 million				




2008 Results. DOT met 2008 targets. FAA tracked 98 milestones against 51 acquisition programs for this performance measure and met all variances for cost and schedule. Any program with a total budget-at-completion variance of less than 10 percent from the beginning of FY 2008 to the end of FY 2008 is considered to have met the established fiscal year cost performance goal.

FY 2009 Performance Forecast. DOT anticipates meeting the performance targets in FY 2009. Beginning in FY 2009, the FAA will implement standard written criteria for selection of programs and milestones included in the agency's FY 2009 Cost and Schedule acquisition goal. The milestones selected will include major efforts or events contributing to the completion of total program acquisition baseline, or events that are of significant priority to the agency for advancing major programs.

Comprehensive Financial Reform through Business Transformation

During FY 2008, DOT initiated an effort to standardize department-wide business processes in accordance with OMB's Lines of Business Initiatives and develop and define requirements for future financial management system upgrades. The business transformation initiative falls into five main categories.

(1) **Reporting and information sharing** involves designing a common reporting inventory, the ability to roll-up cost and performance data and improve data quality and integrity, and a shared reporting solution and tools. (2) **Business process engineering** is intended to achieve economies of scale with consolidated accounting services, implement an integrated procurement solution, and develop a formal process to guide decisions and future investments. (3) **Data management** involves creation of a Department-wide Accounting Code Structure (ACS) that is aligned with the emerging Common Governmental Accounting Code, and a common data management strategy. (4) **Current system set up** involves preparations to convert to newer versions of the operating system, improvements to key financial system processes, and development of a strategy to archive and purge as appropriate elements of the current system. (5) **Future systems set up** involves creation of a comprehensive strategy that includes training and communications plans, anticipated hardware requirements, and increasing security requirements.

To date, the Department has established a governance structure to oversee this program using the CFOs from each DOT agency as a single decision-making body. A Business Transformation Team has been established to manage and coordinate the daily progress of the transformation initiatives and five workgroups have initiated work on the targeted objectives. In FY 2009, work will continue in all five areas.

4. ELECTRONIC GOVERNMENT

DOT is committed to ensuring that investment in information technology (IT) significantly improves its ability to serve the public and that IT systems are part of a comprehensive and secure information architecture. Effective implementation of e-Government initiatives makes DOT more accessible and more responsive to citizens and stakeholders while also making information dissemination more cost-effective.

FY 2008 Accomplishments

- **Enterprise Architecture** An Enterprise Architecture strategy was approved. This Transition Strategy is designed to move from the 'as-is' state to the 'to be' state over the next 3-5 years using a system of planning and investment control.
- **Project Management** Operating Administrations of DOT maintained compliance with American National Standards Institute (ANSI) standards and averaged project completions within 10 percent of budget and schedule. Concentration is on Earned Value Management for OMB-designated major investments.
- **Employee IDs** Made significant progress toward a Homeland Security requirement HSPD-12, the government-wide standard for secure and reliable forms of identification for Federal employees and contractors. Card issuance is already in progress.

Government Forms

Business Gateway provides small business and citizens with access to government information, including forms, compliance assistance resources, and tools in a single point of access. [www.business.gov] Business Gateway partner agencies deliver an outstanding level of quality and service to the small business community. There were 3,422,076 hours saved in FY 2008 as of July 2008.

The **Business.gov Toolkit** allows individuals and organizations to quickly access tools from their web site or Google home page. The '**Add This**' feature allows users to easily bookmark and share Business.gov pages via social bookmarking sites. **Enhanced Search** allows better advertisement and integration of all search options. **Embedded Video** allows users to watch key videos without leaving Business.gov. And **Interactive Maps** allows users to search for small business resources near them.

Business Gateway was the recipient of six awards for delivering mission critical services, demonstrating best practices and improving organization performance. One of these awards was the prestigious Search Engine Strategies (SES) Award in the category of "Best Use of Local Search".

The program's accomplishments were further recognized in a Government Computer News article highlighting 10 great .gov websites.

Business Gateway was the only government finalist in any of the categories and was selected over two other industry leaders.

5. PERFORMANCE IMPROVEMENT

Regular, systematic measurement and accountability for program performance compared to pre-determined targets is the means to improve DOT management. Connecting budgeting to performance management ensures that resources are properly aligned with mission and goal activities but also that the results of those activities are tied back into the annual budget planning process primarily through outcome-based measurement.




FY 2008 Accomplishments

- **Managed Performance** The Program Assessment Rating Tool (PART) measures for rating DOT programs were met or exceeded at a rate of 52 percent. Eighty-three percent of those targets actually exceeded the planned rate of performance.
- **Program Improvements** Ninety-eight percent of planned improvement actions are on track. Sixty-five percent of those on-track program improvements have already been achieved and the majority of the remaining items are scheduled for completion in FY 2009.
- **Performance and Accountability Report** Earned the top rating among all Federal agencies for DOT's FY 2007 Performance and Accountability Report from George Mason University's Mercatus Center.

Performance Improvement Team

DOT established and implemented a comprehensive performance improvement mechanism -- the Transportation Performance Improvement Council (T-PIT) – which is charged with actively identifying and making targeted improvements that advance performance management in the Department.

Creation of this integrated performance improvement mechanism is significant in that it synthesizes, for the first time, three critical success factors: (1) collaboration across all DOT agencies; (2) active participation from both high level and working level managers; and (3) a systems approach to improvement through participation from support functions and programs.

The DOT performance community will benefit from a more advanced approach to resolving performance management issues and DOT programs will benefit from the informal, applied education that takes place as a part of the council's performance management prioritization and improvement processes.

6. FEDERAL REAL PROPERTY ASSET MANAGEMENT

It is the policy of the United States to promote the efficient and economical use of America's real property assets and to ensure management accountability for implementing Federal real property management reforms. DOT recognizes the importance of real property resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action.

FY 2008 Accomplishments The entire Department, working as a team, has continued to make progress in the elimination of surplus real property, maintaining assets in the proper condition, and management of real property at the right cost.

- **Elevated Scorecard Status** During the second quarter (Q2) of FY 2008, the Department's real property initiative was rated 'Green' in PMA Status, as well as 'Green' in PMA Progress. The double 'Green' ratings were maintained in Q3 and Q4 FY 2008.

- **Disposals** In the Federal Real Property Council's June 2008 report, the Department had the highest number of property disposals for a non-DoD agency. During FY 2008, the Department was able to remove more than 2,270 real property assets from its inventory of buildings, structures, and land.

- **Innovation** The Department received FY 2008 National-level Honorable Mention recognition by GSA for exceptional real property innovation in Federal Government-wide property management initiatives.

Asset Management Review

Management of the Department's inventory has been greatly simplified through the development of a real-time, on-line dashboard application that provides real property managers with accurate data for daily decision-making.

Savings Since the PMA initiative was established the Department's initiatives have resulted in disposals of more than $170 million worth of real property assets. Savings resulting from the disposition of property have been applied toward future disposition efforts, as well as updates, upgrades, repairs, and renovations of current assets.

Disposition DOT removed more than 2,270 real property assets from its inventory of buildings, structures, and land. While a large number of the retired properties were zero-cost leases associated with the FAA's on-airport space, the value of other assets disposed of in FY 2008 exceeded $85 million. Funds realized from the disposition successes are being applied to facility modernization efforts.




PERFORMANCE DATA COMPLETENESS AND RELIABILITY

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

IN GENERAL

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

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

Completeness of Data for Annual Results — If available, the results for the most recent year in the report are listed as Actual in the shaded box for each performance measure. However, given the November 15 deadline for submission of the Performance and Accountability Report, not all data have been compiled and finalized for the entire year. When an actual value is not available for the current year, either an estimate or a projection is provided instead. In general, estimates are based on partial-year data that are extrapolated to cover a full 12-month period. Historical trend information, supplemented by program expertise, is then applied to estimate the remaining months of performance for which actual data is unavailable. The result is identified as a preliminary estimate in the report. If partial-year data are not available, then past trend information is analyzed and supplemented by program knowledge to develop a projected value for the annual performance measure. The result is identified as a projection in the report. As data are finalized, the projections and preliminary estimates are replaced by actual results, with resulting changes denoted by an (r). Results are also amended as errors and omissions are identified in the data verification process, as updated information is provided by the reporting sources, or because of legal or other action that changes a previously-reported value.

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

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

Assessing and, where possible, eliminating sources of error in DOT data collection programs has always been an important task for data program managers. As part of their ongoing work, managers of Departmental data programs use quality control techniques to identify where errors can be introduced into the data collection system. Program managers also use computerized edit checks and range checks to minimize errors that may be introduced into the data of their respective programs. In addition, quality measurement techniques are employed to measure the effects of unanticipated errors. These include verification of data collection and coding, as well as coverage, response and non-response error studies to measure the extent of human error affecting the data. As sources of error are identified, data collection is improved. Quality control is an ongoing and continuous effort to improve data accuracy and availability.

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

To help the OAs address these issues, the Bureau of Transportation Statistics (BTS) is developing a statistical policy framework where the OAs will work together to identify and implement the current statistical best practices in all aspects of their data collection programs. This project is consistent with the data capacity discussions found in the DOT Strategic Plan.

See *Other Accompanying Information* in the Financial Report for detailed explanations of completeness and reliability for each performance measure.

DATA LIMITATIONS

DOT Data Source Limitations — Timeliness is the most significant limitation for DOT performance measurement data. Some DOT data are not collected annually. For example, the National Household Travel Survey and the Commodity Flow Survey each collect data every five years. Data that are collected each year (or more frequently) require time to analyze, confirm and report results. For example, Highway Performance Monitoring System vehicle-miles traveled (VMT) data require several months of post-collection processing, making final results unavailable for this performance report.

Other performance measurement data limitations are identified in the previously mentioned Source and Accuracy Statements for DOT data programs. These statements contain descriptions of data collection program design, estimates of sampling errors (if applicable), and discussions of non-sampling errors. Non-sampling errors include under-coverage, item and unit non-response, interviewer and respondent response errors, processing errors, and errors made in data analysis.

Estimating and Projection Techniques Used — As discussed under completeness, many of the FY 2007 measures must be projected from either partial-year data or historical trends. The projections based on partial-year data from FY 2007 are more likely to reflect changes effected by current DOT policies and programs. The measures projected from FY 2006 and prior historical data reflect continuing trends from ongoing programs, but do not reflect the effects of changes implemented in FY 2007.

External Data Source Limitations — Data that originate from external or third-party sources are not directly controlled by DOT. These data often come from administrative records or from sample surveys. Timeliness is also a significant limitation. For example, many DOT internal data programs rely on data provided by State DOTs. DOT partners closely with the States, but does not have direct control over these programs.




DOT PROGRAM EVALUATIONS

Performance measures show if intended outcomes are occurring and assess any trends. Program evaluation uses analytic techniques to assess the extent to which programs contribute to those outcomes and trends. As required by the Government Performance and Results Act of 1993, the Department's *FY 2006 - 2011 Strategic Plan* includes a schedule of program evaluations by fiscal year.

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 outcome-oriented objectives. These 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 operates 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. These analyses conform to program evaluation when applied systematically to existing programs and when measurable outputs and outcomes are monetized.

PROGRAM EVALUATION MANAGEMENT

The programs selected for scheduled evaluations are vetted through the Department's strategic planning process. Each modal administration nominates programs that are then reviewed by a strategic planning executive committee to ensure: 1) adequate breadth of program evaluations across modal administrations; and 2) alignment to the strategic objectives. The OIG and the GAO pursue program evaluations independent of this schedule.

DOT Agency	Program	Type of Evaluation	Source of Evaluation	Status
SAFETY				
FAA	Operational Error	Outcome	Internal	In Progress/Results available in FY 2009
FMCSA	Motor Carrier Safety Assistance Program	Process/Cost-Effectiveness	Independent	Deferred to state by state reviews
FRA	Railroad Safety Enforcement (deferred from 2007)	Outcome	Independent	Complete/ No Recommendations
NHTSA	National Highway Safety Mobilizations	Outcome	Independent	Complete/ No Recommendations
FMCSA	Compliance Review Effectiveness	Outcome	Independent	Complete
FMCSA	Roadside Inspection and Traffic Enforcement Effectiveness	Outcome	Independent	Complete
REDUCED CONGESTION				
FHWA/ FTA	Infrastructure Investment Needs	Cost-Effectiveness	Internal	Complete/ Under Review
FAA	Aircraft Delay Reduction	Process	Independent	Complete/ No Recommendations
FTA	Job Access and Reverse Commute Formula Grants	Outcome	Independent	Complete
SECURITY, PREPAREDNESS AND RESPONSE				
MARAD	Maritime Security (deferred from 2007)	Impact	Independent	In Progress/ To be completed in FY 2009
ORGANIZATIONAL EXCELLENCE				
MARAD	Maritime Education	Impact	Independent	Deferred to FY 2009
PHMSA	Outreach and Training	Process	Internal	In Progress
FMCSA	Quality Assurance Review – Grants Financial Management	Process	Independent	Complete/ Under Review
FRA	Rail Transportation Research, Dev and Demonstration	Process	Independent	Actions Initiated
FMCSA	State Division Effectiveness	Process/Cost-Effectiveness	Independent	Complete/ Under Review
PHMSA	Information Technology (deferred from 2007)	Process	Independent	Complete




FY 2008 PROGRAM EVALUATIONS SUPPORTING SAFETY

Operational Error Program

FAA An OIG audit of the FAA's Investigating and Reporting of Operational Errors was initiated in November 2007. The objectives of the audit are to: (1) determine whether FAA has adequate policies and procedures in place to ensure the accuracy and consistency of operational error reporting and (2) review the roles and responsibilities of the Air Traffic Organization and FAA's Aviation Safety line of business in reporting and investigating operational errors.

The OIG is in the process of concluding the study and will have a final report in early FY 2009.

Motor Carrier Safety Assistance

FMCSA The FMCSA planned to perform an independent program evaluation of the Motor Carrier Safety Assistance Program (MCSAP) in FY 2008. However, FMCSA recently instituted new approaches to standardize the commercial motor vehicle safety planning process and requested time to allow these innovative processes sufficient opportunity to take effect. The Agency began a nationwide assessment of each MCSAP program grantee which involves conducting approximately 12 grantee reviews per year. With 20 reviews completed to date, FMCSA expects to have all of the reviews completed by 2011. The FMCSA intends to leverage the results from the grantee reviews and make a future determination based on need to perform a MCSAP program evaluation to assess the program's overall effectiveness related to outcomes once the individual reviews are completed.

Railroad Safety Enforcement

FRA In 2005, FRA initiated implementation of a new element of the FRA safety program, called Railroad System Oversight (RSO), to replace a prior safety program. The FRA conducted a program evaluation of the RSO since its implementation in 2005 to evaluate: the effectiveness of the RSO function; the extent to which the RSO supervisor and managers comply with the implementation directive; perceptions and satisfaction level of FRA HQ and regional managers, railroad managers, and labor organizations as to RSO effectiveness as a safety tool; and the extent to which RSO has been effective in communicating with FRA HQ and field personnel, and with railroad and labor organization representatives.

A contractor conducted interviews over two months with 58 stakeholders involved in the RSO process, including key FRA, railroad, and labor personnel. Additionally, the contractor analyzed safety data and statistical information and participated in scheduled RSO conference calls.

Findings Railroad managers and labor representatives expressed highly positive comments about the RSO and its staff. Some were emphatic about the need for FRA to maintain or expand the collaborative and liaison relationship. With one exception, both groups felt that RSO has value and a positive impact on safety. FRA regional administrators and staff directors, however, felt that RSO could be more effective and that it has the potential to be of greater value to the FRA safety program.

Of major concern noted in the interviews was the need to strengthen the communication network among RSO managers, FRA regional personnel, and staff directors. Additional findings and recommendations concerned improving overall effectiveness; tracking accomplishments and activities; greater analysis and specificity of accident/incident data; and the availability to staff directors and regional administrators of safety and compliance issues identified to headquarters by RSO managers.

Recommendations A few of FRA's RSO program recommendations that have been adopted include:

- The need for RSO staff to meet face-to-face at least annually with each regional administrator in which the assigned railroad has substantial operations and/or safety concerns.
- Assure that the top accident causes and railroad safety issue lists prepared by railroad system oversight managers for conference calls with the Deputy Associate Administrator are sent to FRA headquarters' (HQ) staff directors and regional administrators in each region where the railroad operates.
- Develop an effective method to coordinate with HQ staff directors and regional administrators, at least annually, to participate in strategic planning for safety improvement on individual railroads.

National Highway Safety Mobilizations

NHTSA NHTSA conducted a program evaluation to evaluate Click It or Ticket (CIOT) Mobilization including the use of paid advertisements focusing on seat belt enforcement, measure motorists' awareness of seat belt campaigns, and ultimately measure the change in seat belt use rate. NHTSA also evaluated the high visibility enforcement campaign to reduce impaired driving including the Labor Day and December Drunk Driving: Over the Limit; Under Arrest national crackdowns. The evaluation included review of program data, including dollars spent placing paid advertisements and enforcement activity, state reported observational surveys of safety belt use, knowledge/attitude surveys at driver licensing offices and a national telephone survey conducted in pre/post intervals to track progress.

Findings An analysis of the 2005 CIOT program and an evaluation of the national impaired driving high visibility enforcement campaign to reduce impaired driving 2003-2005 were published in the fall of 2007. Both reports are available under *Click It or Ticket* Seat *Belt Mobilization Evaluation Reports* at: http://www.nhtsa.dot.gov/portal/site/nhtsa/menuitem.3d62007aac5298598fcb6010dba046a0. The results of the 2006 programs were published in the fall of 2008 and are available at: http://www.nhtsa.dot.gov/portal/site/nhtsa/menuitem.3d62007aac5298598fcb6010dba046a0/.

The CIOT evaluations have demonstrated the positive impact of the campaign on overall belt use, and that focusing on groups less likely to use safety belts (pickup truck drivers, rural drivers) can increase their belt use. Impaired driving results are more mixed. Some states have made significant progress in reducing impaired driving fatalities, while progress has been slight in other states. The Impaired Driving evaluations show that successful states have comprehensive enforcement and media plans, and vigorous 24/7 enforcement.

The analysis of the 2007 mobilizations is in progress and reports will be published in the fall of 2009.

Recommendations Following the GAO recommendation we have tracked CIOT expenditures and the 2006 mobilization reports break out media costs for Hispanic target audiences.

Compliance Review Effectiveness

FMCSA The FMCSA uses the Compliance Review Effectiveness Model to measure the impact of compliance reviews (CR) on motor carrier safety and to provide states with macro and micro analysis of CR data for grant planning and resource deployment. Based on the individual and cumulative before and after changes in the safety performance of carriers that received CRs, the model estimates the number of crashes, injuries, and fatalities prevented as a result of performing these activities. Outputs from the CR Effectiveness Model are from calendar year (CY) 2002, CY 2003, CY 2004 and FY 2005 (methodology changed from CY to FY in 2005).

Findings Findings for FY 2005 include the total number of compliance reviews conducted (11,431), the estimated percentage reduction in average crash rate due to compliance reviews (16.3 percent), estimated crashes avoided (fatal, injury, and tow-away – 2,306), estimated injuries avoided (1,561), and estimated lives saved (92).

Recommendations FMCSA, in cooperation with RITA's Volpe National Transportation Systems Center, has developed an analytic model to measure the effectiveness of roadside inspections and traffic enforcements in terms of crashes avoided, injuries avoided, and lives saved. The model assigns a crash risk probability to each violation of the Federal Motor Carrier Safety Regulations, then determines how many times each type of violation was detected and corrected at the roadside as a result of the roadside inspection program. Based on this information, the model estimates the number of crashes, injuries, and fatalities that have been avoided each year as a result of the program. Although this evaluation does not produce official recommendations, this information does inform managers on the impact of performing roadside inspections and traffic enforcement activities, enabling informed decision-making on program adjustments and enhancements.

Roadside Inspection and Traffic Enforcement Effectiveness

FMCSA The FMCSA uses an analytic model called the Intervention Model to measure the effectiveness of roadside inspections and traffic enforcement activities in terms of crashes avoided, injuries avoided, and lives saved. The model assigns a crash risk probability to each violation of the Federal Motor Carrier Safety Regulations. It then determines how many times each type of violation was detected and corrected at the roadside as a result of the roadside inspection program. Based on this information, the model estimates the number of crashes, injuries, and fatalities that have been avoided each year as a result of the program. Outputs from the Intervention Model are from CY 2004, CY 2005 and FY 2006 (methodology changed from CY to FY in 2006).

Findings Findings for FY 2006 include program exposure or total number of roadside inspections and traffic enforcement activities. This data shows that in FY 2006, FMCSA and our state partners performed the highest number of interventions (3,273,062). It also provides FY 2006 program effectiveness for estimated number of crashes avoided (19,754), estimated injuries avoided (13,241) and estimated lives saved (748).

Recommendations FMCSA, in cooperation with RITA's Volpe National Transportation Systems Center, has developed an analytic model to measure the effectiveness of roadside inspections and traffic enforcements in terms of crashes avoided, injuries avoided, and lives saved. The model assigns a crash risk probability to each of violation of the Federal Motor Carrier Safety Regulations then determines how many times each type of violation was detected and corrected at the roadside as a result of the roadside inspection program. Based on this information, the model estimates the number of crashes, injuries, and fatalities that have been avoided

each year as a result of the program. Although this evaluation does not produce official recommendations, this information does inform managers on the impact of performing roadside inspections and traffic enforcement activities enabling informed decision-making on program adjustments and enhancements.

FY 2008 **PROGRAM EVALUATIONS SUPPORTING REDUCED CONGESTION**

Infrastructure Investment Needs (Conditions and Performance Report)

FHWA and FTA The Conditions and Performance (C&P) Report provides Congress and other decision makers an appraisal of highway, bridge and transit physical conditions, operational performance, financing mechanisms, and future investment requirements. The C&P Report consolidates conditions, performance, and finance data provided by States, local governments, and transit operators to provide a national summary.

The C&P Report is issued roughly every two years. The 2006 C&P is the most recent, though work on the 2008 C&P is well under way. The content of the report purposely remains similar in each edition to facilitate comparison of data and tracking of trends. The 2006 report was based on the 2004 National Transit Database data at the time it was written, and did not capture the effect of changes in funding levels from SAFETEA-LU.

Findings In the 2006 C&P Report, FHWA reported that combined investment by all levels of government in highway and transit infrastructure has increased sharply since TEA-21 was enacted. Highway capital spending rose 45.2 percent from $48.4 billion in 1997 to $70.3 billion in 2004. While the overall physical condition of the Nation's highway and bridge infrastructure has improved as a result, highway congestion has worsened over the past decade. In order to keep average highway user costs from rising above their 2004 levels for a period between 2005 and 2024, investment by all levels of government would need to increase to $78.8 billion annually in constant 2004 dollars, a 12.2 percent increase above actual. In order to eliminate the existing backlog of highway and bridge deficiencies, as well as address new deficiencies between 2005 and 2024 when it is cost-beneficial to do so, spending would need to increase to $131.7 billion annually.

Recommendations The C&P report presents a series of 20-year capital investment scenarios projecting the potential impacts of alternative levels of public and private investment on system performance, but does not endorse any of these scenarios, or make any specific recommendations regarding future funding levels.

> The Transit Economic Requirements Model (TERM), which is the computer model used to predict future transit funding needs for the C&P report, has been used for several special studies over the last year. The National Surface Transportation Policy and Revenue Commission Report, released in December of 2007, and the Rail Modernization Report to Congress (projected release in January of 2009) are the most important of these. Without the continuing data collection and updating of the TERM model, which takes place for the C&P report, these analysis' would not be possible.

Aircraft Delay Reduction

FAA More than one in four flights either arrived late or was canceled in 2007—making it one of the worst years for delays in the last decade. Flight delays are typically the worst at the New York metropolitan airports. The purpose of this study was to assess the effect of FAA's Aircraft Delay Reduction Program on flight delays and cancellations which have plagued the U.S. aviation system. The U.S. Government Accountability Office (GAO) conducted a study of (1) the trends in the extent and principal sources of flight delays and cancellations over the last 10 years; (2) the status of Federal Government actions to reduce flight delays and cancellations by the summer of 2008; and (3) the extent to which these actions may reduce delays and cancellations for the summer 2008 travel season. The GAO-08-934T report is available at: http://www.gao.gov/new.items/d08934t.pdf. Although GAO's scope covers the national airspace system as a whole, their work highlighted the New York region.

The study based its conclusions on an analysis of DOT data on airline on-time performance, a review of relevant documents and reports, and interviews with officials from DOT, FAA, airport operators, and airlines, as well as aviation industry experts and associations on the status and potential impact of the Federal Government's actions to reduce delays.

Findings The annual number of domestic airline flight delays and cancellations has increased about 62 percent while the annual number of scheduled flights has increased by 38 percent since 1998. In the New York area, the trend is even more pronounced. Cancellations in recent years have become more problematic as the airlines are now operating with fewer empty seats per flight.

1. Data provide an incomplete picture of the sources of flight delay. Current on-time performance data do not capture the full extent of delays or cancellations due to reporting practices by some airlines. Data also fail to capture the extent to which passengers' average travel times have increased due to the fact that DOT tracks flights not passengers, which leaves out passenger delays due to missed connections from other delays or overbooked flights.

2. Actions are being implemented to reduce delays. The GAO study commended DOT and FAA for taking steps to reduce mounting flight delays and cancellations for the 2008 summer travel season. DOT and the FAA worked with the aviation industry to develop and implement several actions—capacity enhancing initiatives, demand management policies, and air traffic procedures—to reduce congestion and delays for the summer 2008 travel season.


3. Actions may help reduce delays, but the extent of delay reduction in the summer of 2008 will likely be limited. The growing air traffic congestion and delay problem is the result of many factors, including airline practices, inadequate investment in airport and air traffic control infrastructure, and how aviation infrastructure is priced. Addressing this problem involves choices that affect the interests of passengers, airlines, airports, and local economies.

Recommendations No recommendations were made as part of this GAO evaluation – the findings and conclusions served as testimony to the U.S. Senate's Committee on Commerce, Science and Transportation, Subcommittee on Aviation Operations, Safety, and Security. However, DOT and FAA continue to work both on short-term mitigation and long-term planning.

- Short-term Solutions Solutions that mitigate the short-term impact are capacity-enhancing initiatives and demand management policies. One capacity-enhancing initiative is the New York/ New Jersey/Philadelphia Airspace Redesign which is projected to reduce flight delays by 20 percent after full implementation in 2012. Demand management policies are being pursued for the three major New York airports that will limit the number of scheduled and unscheduled flights prompting a reduction in delays by up to 41 percent depending on the airport. The proposed rules for LaGuardia, John F. Kennedy International and Newark Liberty International will become effective in December 2008 and expire in 2018.

- Long-term Solutions FAA's long-term objective is to reduce congestion by increasing capacity to accommodate demand. To address capacity in the medium to long term, DOT is working full-time to develop and implement the Next Generation Air Transportation System (NextGen) technology so the air traffic system will be able to accommodate more traffic, more efficiently.

Job Access and Reverse Commute (JARC) Formula Grant

FTA The JARC program provides grants to States and localities for improving the mobility of low-income persons seeking and maintaining employment. This evaluation summary is a combination of the findings of three evaluations of the JARC program that were funded by the Federal Transit Administration (FTA) and conducted between 2002 and 2007:

- Connecting People to Employment: An Evaluation of JARC Services (2006). View report at: http://www.fta.dot.gov/documents/DSFY06_Analysis_Final_20070928(1).doc
- The Economic Benefits of Employment Transportation (2008). View report at: http://www.utc.uic.edu/research/reports/Thakuriah_Final_Report2008.pdf
- Planning Partnerships for Low-Income Transportation. View report at: http://www.fta.dot.gov/documents/JARC_Partnership_Studies_Summary-10.doc

Findings

Program Results (1) The JARC program is meeting its mission of providing low-income persons with transportation to entry-level job opportunities. Two-thirds of the JARC users surveyed indicated they would not be able to access their destination without the service they were currently using. (2) The cost-per-ride of JARC services is comparable to other public transit services and the annual program cost of the JARC program compares favorably to other Federal grant programs designed to improve employment opportunities

for low-income persons. (3) Every $1 spent on JARC services produces a return of between $1.61 and $1.99 in net economic gains that accrue to the user. Every $1 spent on JARC services produces a return of $1.10 to the taxpaying and traveling public, as measured by (a) the value of taxes paid by JARC users; (b) welfare payments that no longer need to be made to the users; and (c) the value of congestion reduced and traffic accidents avoided that can be attributed to the JARC program.

Partnership Requirements (1) In many cases JARC energized existing planning activities and made services possible. (2) JARC partnerships have jump-started a variety of other partnerships and coordination activity. (3) Planning requirement has led to improved analysis of the regions' job access needs.

Implementation and Sustainability (1) Delays in funding and inability to find local match challenged the ability to provide service. (2) Transportation coordinators have been effective in linking former welfare clients to services. (3) Much greater outreach is needed with private companies. (4) Planning partnerships were instrumental in achieving the job access goals for their area. The planning process resulted in financial partnerships where local agencies were able to coordinate funding and provide transportation services, leading to increased efficiency.

Recommendations

- Recommendations for Policy Activities (1) Structural inequities in the transportation system should be addressed by much larger set of policy and programmatic functions, such as land use planning and economic incentives to employers, not just by transportation. (2) Special emphasis on employment transportation should continue including programs targeting persons with disabilities and incentives for matching funds. (3) Focus on the individual user and lifecycle transportation. (4) Leverage employers for funding and operations, such as encouraging the use of transit benefits.

FTA is already working to address the land use barriers by supporting the National Center on Transit Oriented Development's work to promote affordable housing near transit stations.

- Recommendations for Planning Activities (1) Combine Federal transportation-assistance programs for disadvantaged populations. (2) Provide greater guidance to states and local areas to merge statewide and regional planning requirements with the planning requirements for human services transportation. (3) Create training programs to educate partners about potential pitfalls. (4) Keep the program flexible to tailor to local needs.

FTA and Department of Labor already sponsor cooperative agreements with the Community Transportation Association of America to promote private sector involvement in the JARC program including the National Joblinks employment transportation initiative. This is a national peer-to-peer network that links local agencies with experienced practitioners familiar with the human services and workforce development environments and knowledgeable about special client transportation needs.

- Recommendations for Service Implementation (1) Improve the prospects of sustainability – establish a broader program. (2) Relax some of the requirements imposed on service providers. (3) Make resources available to publicize services. (4) Develop mechanisms to provide incentives for private sector involvement in services.

FY 2008 PROGRAM EVALUATIONS SUPPORTING SECURITY, PREPAREDNESS AND RESPONSE

Maritime Security

MARAD The Maritime Administration planned to have an independent auditor conduct an impact assessment of the Maritime Security Program (MSP) in FY 2007. However, FY 2007 funding was not available for this project, so it was deferred until FY 2008. The Maritime Administration has awarded a program evaluation contract and the evaluation will be completed in FY 2009.

FY 2008 PROGRAM EVALUATIONS SUPPORTING ORGANIZATIONAL EXCELLENCE

Maritime Education

MARAD Due to the higher than expected costs for a Maritime Security Program (MSP) program evaluation, funding was not available to conduct a program evaluation of the Maritime Education Programs in FY 2008. The Maritime Administration is deferring this evaluation, subject to availability of funds.

Outreach and Training

PHMSA PHMSA is in the process of conducting a process evaluation of its outreach/training programs—a structured assessment of the underlying logic, planning, and implementation of those efforts that leverage our resources by working with others. The general objectives are to (1) identify possible areas for improvement and/or lessons learned that might be applied in other areas, and (2) begin laying the groundwork for a planned program evaluation of the pipeline safety grants program in FY 2009. The general approach for the evaluation is to assemble documents, interview program managers, formulate/reconstruct logic models, evaluate/test the models to identify logical disconnects, determine how the programs actually work in practice, and evaluate differences between assumptions in the plan and actual implementation.

The first phase, initiated in 2008 and carrying into 2009, is an evaluability assessment—aimed at helping to determine what aspects of outreach/training would be most useful and feasible to evaluate in more detail. The second phase, commencing in 2009, is a more in-depth evaluation of selected program activities or initiatives based on the evaluability assessment.

Findings Preliminary results from Phase I will be available by the end of calendar year 2008.

Recommendations Recommendations from Phase II will be available by the end of FY 2009.

Quality Assurance Review – Grants Management

The FMCSA assessed its seven grant programs for adequacy, consistency, objectivity, efficiency and effectiveness. The evaluation team documented and analyzed policies and procedures; compared associated grant administration processes with applicable government laws and regulations; and reviewed other related work (i.e. A-123 process flowcharts and GAO reports). The purpose of this process evaluation was to assess the extent to which our grant management programs and practices are consistent, standardized, and applied in a uniform and timely manner.




Findings The overarching finding was a lack of uniform program and financial management policies and procedures, and a lack of training in specialized grant management and monitoring.

Recommendations The Agency is still reviewing the recommendations, but in most cases program managers have initiated improvements consistent with several of the following key recommendations:

- Implement initiatives to improve the grants management oversight functionality/mission
- Comply with rules regarding the use of standardized forms
- Institute new grantee training initiatives (financial management)
- Organize a national conference to facilitate the exchange of best practices
- Develop a user-friendly central repository of policy, procedures and best practices
- Finalize a comprehensive grant management manual

Of these recommendations, FMCSA has accomplished the first four and has established an initiative to achieve the last two.

Rail Transportation Research, Development and Demonstration

The Federal Railroad Administration (FRA) completed a review of the Research, Development and Demonstration (RD&D) Program associated with freight and passenger rail programs. It was conducted by a committee of the Transportation Research Board through semi-annual meetings that included presentations from FRA program managers, discussions and debate by industry and subject matter experts, and various other data gathering methods. The review covered stakeholder involvement, project evaluation process, research priorities, future committee activities, and the role of academic research in railroad engineering and transportation.

Findings A review of research priorities identified during a 2006 Workshop on research to Enhance Rail Network Performance focused on three issues – safety, capacity, and efficiency. The committee found that several areas are being addressed such as lower cost options for positive train control, use of performance-based standards, cost-benefit analysis and risk analysis for train movement risk assessment, a 5-year plan for low-cost grade-crossing improvements, and a successful close-calls database and reporting pilot to improve safety analysis.

The committee expressed support for the vision and direction of FRA's research, development, and demonstration efforts. Additionally, of note, FRA continues to make good progress in developing a more consistent and priority driven program selection process.

Recommendations

- Identify Customers and Stakeholders FRA has already made significant progress regarding the development and implementation of a formal project evaluation process that includes all the key factors identified by the committee. FRA is also restructuring its locomotive safety research and is reaching out to various stakeholders for input into future activities.


- Accelerated and Enhanced Process Work has been done by FRA to develop a revised project evaluation process that would include a mechanism for ranking research projects within FRA. That work should continue at an accelerated pace in order to establish a more robust system for selecting and evaluating research projects. This agency-level improvement will evolve in tandem with the Departmental effort of the Research Planning and Investment Coordination program operated by the Research and Innovative Technology Administration.

State Division Effectiveness

FMCSA The FMCSA conducted a study to evaluate the effectiveness of its State Divisions in meeting FMCSA safety goals and to identify weaknesses and gaps in planning efforts to meet them. The study also explored steps to eliminate these weaknesses and gaps, and to strengthen the effectiveness of the State Division activities. Additionally, this study identified potential planning and management improvements at all levels that could positively impact the safety goal and that would provide states with macro and micro analysis for grant planning and resource deployment.

The FMCSA used a comprehensive approach to collect and analyze safety and performance data as well as empirical information from managers, staff, and partners. The methodology included five elements: (1) data analysis, (2) division safety plan analysis, (3) field staff focus groups, (4) state division visits, and (5) FMCSA headquarters review team discussions.

Findings

1. The study found that overall, the State Division offices employ robust management practices that include a range of management strategies and tools to motivate, manage, and develop strong, collaborative working relationships with their state partners.
2. The State Division offices continually work to strengthen the effectiveness of their enforcement processes, such as arranging to receive real time reports from state police on commercial motor vehicle fatal crashes and targeting at-fault carriers for review.
3. The study found some shortcomings in the State Division Safety Plan (DSP), in that it lacks input and output feedback loops, which disconnects it from other key planning processes and limits its utility to the State Divisions, Service Centers, and Headquarters.

Recommendations The study provides recommendations to strengthen the DSP. The recommendations suggest a process that integrates the State Division and Headquarters planning and program development into FMCSA's strategic priorities, budget, performance plans, and performance targets. The FMCSA is currently evaluating these recommendations for incorporation into the Agency's business processes.

Information Technology

PHMSA PHMSA conducted a comprehensive Information Technology Program Review on the current IM capabilities in order to identify business and technology performance gaps that inhibit the ability of PHMSA's lines of business to execute mission objectives.

Findings

1. Organizational roles and responsibilities have not been defined for the management of enterprise-level and shared data.
2. Data and information are often not accessible through desktop tools. There are often integrity and quality challenges associated with operational data.
3. Key PHMSA business processes and services are underserved by the PHMSA IT groups.
4. IT services are provided by three independent teams reporting to separate leaders within PHMSA.
5. Enterprise-wide IT planning and IT investment management needs to be strengthened.
6. A gap exists between the data required to report on some external performance measures and the data collected within operational systems.
7. Internal organizational performance measures that describe how well PHMSA is meeting its mission need to be strengthened.

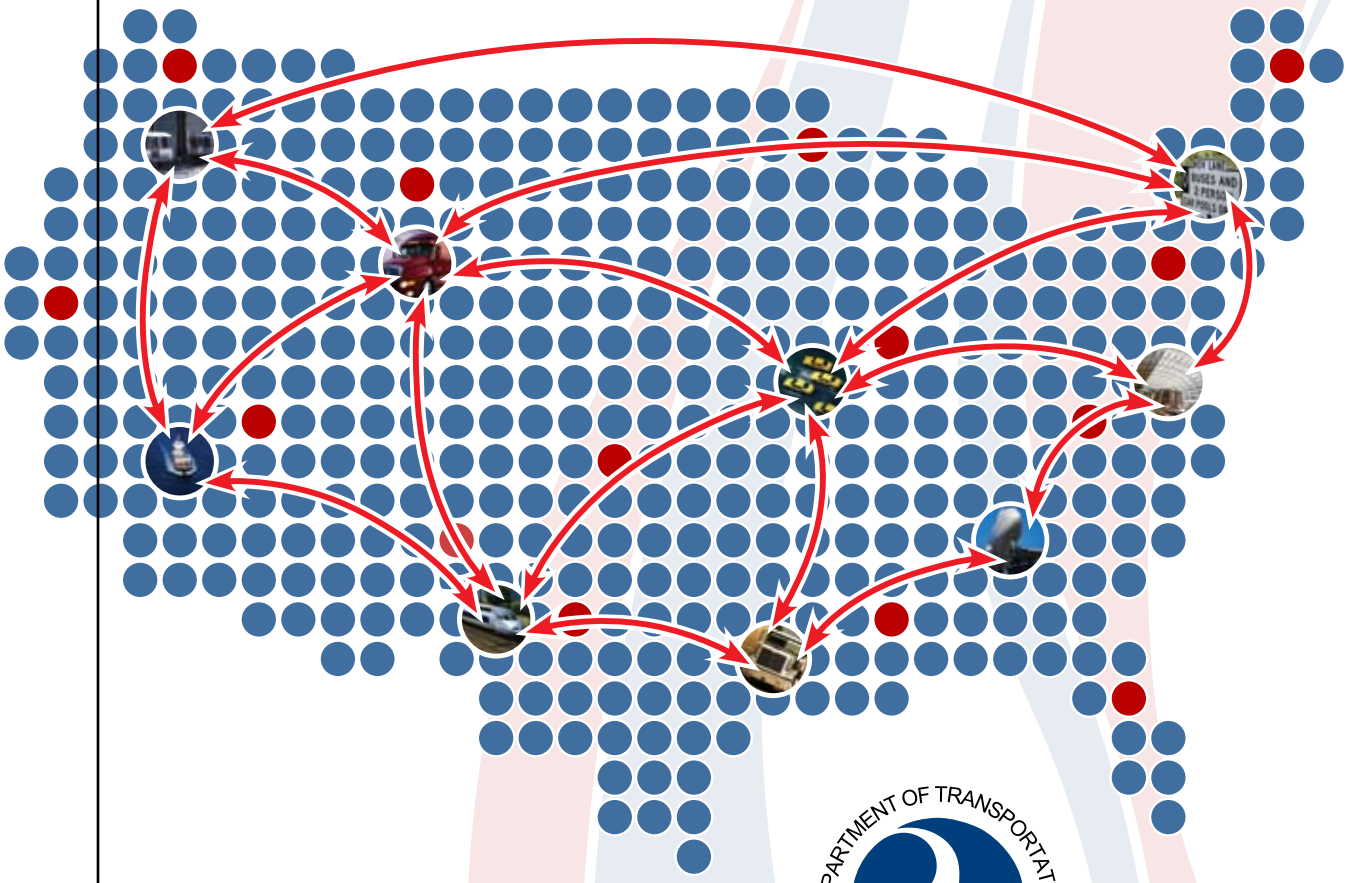
Recommendations

- Organization Develop roles and responsibilities, rules of engagement, and follow common standards and repeatable procedures.
- Governance Develop common standards, processes, and procedures that are repeatable, thereby improving PHMSA's ability to prioritize strategic investments. Develop an organization-wide standards and common data architecture. Eliminate IT development activities that continue to perpetuate stove-pipe systems and result in long time-to-deploy timeframes, increased costs, and missed expectations.
- Data Architecture and Management Institute a data architecture and management plan to include how PHMSA will define and access data, what governance controls will be in place to control changes to data, how it identifies common services and standards for data, how it will apply risk models, how it measure data, etc. This was identified as a top priority recommendation and is essential to support a data driven organization.

- Technical Architecture Establish data-marts for the Offices of Hazardous Materials Safety and Pipeline Safety that leverage business intelligence tools to enhance decision making that is based on trusted enterprise data and information. Provide the capability to mine data, dynamically generate reports, automate analysis of data, apply risk models, provide enterprise-wide consistency in analysis, and increase Program Analysts efficiencies. Establish a plug-n-play environment leveraging common and reusable components to reduce costs and increase business performance.

Contingent on the availability of funding, execution and implementation of the recommendations will take two years. The projects identified under items one and two above are being executed with existing resources. Funding and additional IT resources are required to design, develop, and implement the Data and Technical Architecture projects described above. The core capabilities being provided within the two year window are intended to provide the essential building blocks necessary to support a dynamic data driven organization.

FINANCIAL REPORT



Memorandum

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

Subject: ACTION: Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2008 and 2007, DOT
Report Number: QC-2009-009

Date: November 14, 2008

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA–20

To: The Secretary

I respectfully submit the Office of Inspector General's (OIG) Quality Control Review report on the Department of Transportation's (DOT) audited Consolidated Financial Statements for Fiscal Years (FY) 2008 and 2007.

The audit of DOT's Consolidated Financial Statements as of and for the year ended September 30, 2008, was completed by KPMG LLP, of Washington, D.C. (see Attachment), under contract to OIG. We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act, as amended; Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

KPMG concluded that the consolidated financial statements present fairly, in all material respects, the financial position of the U.S. Department of Transportation as of September 30, 2008, and its net costs, changes in net position, and budgetary resources, for the year then ended, in conformity with U.S. generally accepted accounting principles. OIG audited last year's DOT consolidated financial statements, and we also expressed an unqualified opinion on those statements.[1]

We congratulate the Department for reaching a significant milestone this year. The DOT consolidated financial statements have been audited since FY 1996, and DOT this year received the best outcome yet - an unqualified (clean) audit opinion

[1] Report on Consolidated Financial Statements for FY 2007 and FY 2006, Department of Transportation, Report Number FI-2008-011, November 13, 2007.




with no internal control material weaknesses. This signals to the public that the Department is maintaining a mature and reliable financial environment to account for its available financial resources of nearly $134 billion.

This would not have occurred without your emphasis and personal commitment to improving financial management practices, along with that of your senior leadership team, including the departmental Chief Financial Officer and the Acting Federal Aviation Administrator. This commitment enabled the Department to sustain clean audit opinions in the last 2 years and make significant progress toward improving a long-standing concern associated with the Federal Aviation Administration's (FAA) Property, Plant, and Equipment Account.

The Department must, however, remain vigilant in sustaining good financial management operations to ensure effective use of financial resources in an environment of uncertain financial markets, volatile fuel prices, rising deficits, and a softening economy. This environment presents a special challenge to the Highway Trust Fund and Aviation Trust Fund revenue receipts, which financed more than 70 percent of DOT's operating costs. The following summarizes the key financial management challenges that the Department continues to face.

Improving Financial Reporting

The Department needs to sustain clean audit opinions with no material weaknesses, continue enhancing its financial management oversight, and improve the quality of its financial information throughout the year. Several of the significant deficiencies reported by KPMG - use of journal entries, analysis of proprietary and budgetary account relationships, calculating grant accruals, eliminating intradepartmental activity, and implementing managerial cost accounting capabilities - have been reported as internal control deficiencies for several years, especially for the DOT Operating Administrations funded by the Highway Trust Fund. DOT needs to continue working to correct these internal control deficiencies to ensure that financial records accurately reflect operational results to support management decisions in today's tight financial environment. Correcting these long-standing deficiencies will also bring DOT into full compliance with Federal Financial Management Improvement Act (FFMIA) requirements.

Implementing New CIP Processes

The Department needs to ensure that FAA remains vigilant and continues to implement new policies and procedures in accounting for Property, Plant, and Equipment, especially Construction in Progress (CIP) transactions. The significant deficiency associated with accounting for FAA Property, Plant, and

Equipment, including the CIP account, was reported as a material weakness in the last three consecutive years and resulted in a qualified opinion on the DOT consolidated financial statements in FY 2006. Similarly, DOT slipped to a qualified opinion in FY 2000 because of a material weakness in accounting for FAA Property, Plant, and Equipment. On both occasions, DOT and FAA had to execute expensive corrective action plans to improve accounting for Property, Plant, and Equipment, and to get back to an unqualified audit opinion.

Effectively Managing the Highway Trust Fund Resources

The Highway Trust Fund (HTF) is the primary source for financing highway construction projects; it experienced a solvency problem during FY 2008. In August, the Department worked closely with Congress to have $8 billion transferred from the General Fund to help alleviate fund shortages. While the Department is researching alternative funding sources, it also needs to ensure effective use of available funds. As of September 30, 2008, DOT reported a total of $80 billion in outstanding obligations, most of which were associated with HTF-related grants. KPMG estimated that about $300 million of these obligations were no longer needed and should have been released (de-obligated) for other use. In today's budget environment in which highway investment needs exceed available resources, allowing unneeded obligations to sit idle leaves fewer funds available for expanding and preserving National Highway System infrastructure.

KPMG FY 2008 Audit Report

KPMG reported seven internal control significant deficiencies, none of which were believed to be material weaknesses, and four instances of potential or known noncompliance with laws and regulations:

Significant Deficiencies

1. Journal Entries and Account Relationships
2. Property, Plant, and Equipment, including the Construction in Progress Account
3. Grant Accruals
4. Exchange Revenue
5. Financial Reporting
6. Undelivered Orders
7. Information Technology Controls over Financial Systems and Applications

Noncompliance with Laws and Regulations

1. Antideficiency Act
2. Federal Financial Management Improvement Act of 1996
3. Federal Managers' Financial Integrity Act of 1982
4. Improper Payments Information Act of 2002

KPMG made 25 recommendations for corrective action; we agree with all and, therefore, are making no additional recommendations. DOT officials concurred with the significant deficiencies and potential or known instances of noncompliance, and committed to developing a detailed action plan to address the findings contained in the report no later than December 29, 2008. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow-up. Please provide us with actual amounts de-obligated as a result of actions taken in response to the "Undelivered Orders" significant deficiency by June 30, 2009.

In our opinion, the audit work performed by KPMG complied with applicable standards.

We appreciate the cooperation and assistance of DOT and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959; David Dobbs, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427; or Rebecca Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.

Attachment

#

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Secretary and Inspector General
U.S. Department of Transportation:

We have audited the accompanying consolidated balance sheet of the U.S. Department of Transportation (DOT) as of September 30, 2008, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audit, we also considered the DOT's internal controls over financial reporting and tested the DOT's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements. The accompanying consolidated financial statements of the DOT as of, and for the year ended, September 30, 2007 were audited by other auditors whose report thereon dated November 9, 2007, expressed an unqualified opinion on those statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that the U.S. Department of Transportation's consolidated financial statements as of and for the year ended September 30, 2008 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. As discussed in our opinion, the DOT changed its method of accounting for and reporting of heritage assets to adopt changes in accounting standards in fiscal year 2008, and reports certain significant estimates in its excise tax revenues.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

A. Journal Entries and Account Relationships

B. Property, Plant, and Equipment, including the Construction in Progress Account

C. Grant Accruals

D. Exchange Revenue

E. Financial Reporting

F. Undelivered Orders

G. Information Technology Controls over Financial Systems and Applications

However, none of the significant deficiencies are believed to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of actual or potential noncompliance or other matters that are




required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

H. Anti-Deficiency Act

I. Federal Financial Management Improvement Act of 1996

J. Federal Managers' Financial Integrity Act of 1982

K. Improper Payments Information Act of 2002

The following sections discuss our opinion on the DOT's fiscal year 2008 consolidated financial statements; our consideration of the DOT's internal controls over financial reporting; our tests of the DOT's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of the U.S. Department of Transportation as of September 30, 2008, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Transportation as of September 30, 2008, and its net costs, changes in net position, and budgetary resources, for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 9, the DOT changed its method of accounting for and reporting heritage assets in fiscal year 2008 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 29, *Heritage Assets and Stewardship Land*.

As discussed in Notes 1 and 20, the consolidated financial statements reflect actual excise tax revenues deposited in the Highway Trust Fund and the Airport and Airway Trust Fund through June 30, 2008 and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2008.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Other Accompanying Information section is presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the DOT's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the DOT's consolidated financial statements that is more than inconsequential will not be prevented or detected by the DOT's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the DOT's internal control.

In our fiscal year 2008 audit, we consider the deficiencies described in Exhibit I to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described in Exhibit I are material weaknesses. Exhibit III presents the status of prior year significant deficiencies.

We noted certain additional matters that we will report to management of the DOT in a separate letter.

Compliance and Other Matters

The results of certain of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed two potential and one other instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and are described in Exhibit II.

The results of our other tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibit II, where the DOT did not substantially comply with applicable Federal accounting standards.

The results of our tests of FFMIA disclosed no instances in which the DOT did not substantially comply with the Federal financial management systems requirements, and the United States Government Standard General Ledger at the transaction level.

Exhibit III presents the status of prior year instances of non-compliance.

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Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the DOT.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 consolidated financial statements of the DOT based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but




not for the purpose of expressing an opinion on the effectiveness of the DOT's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the DOT's internal control over financial reporting by obtaining an understanding of the DOT's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the DOT's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DOT's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the DOT's fiscal year 2008 consolidated financial statements are free of material misstatement, we performed tests of the DOT's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DOT. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

The DOT's response to the findings identified in our audit is presented in Exhibit IV. We did not audit the DOT's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the DOT's management, the DOT Office of Inspector General (OIG), OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2008

SIGNIFICANT DEFICIENCIES

A. Journal Entries and Account Relationships

Background/Criteria: From fiscal year (FY) 2003 until FY 2006, the DOT OIG reported that material weaknesses existed in internal controls over financial management and reporting activities in the DOT, specifically in the Highway Trust Fund (HTF) agencies. In FY 2007, the HTF agencies implemented significant improvements in internal controls over financial management and reporting activities. In the FY 2007 audit report, the DOT OIG identified deficiencies in controls, as required by the DOT Financial Management Policies Manual and other DOT guidance, over journal entries and analysis of proprietary and budgetary account relationships as a significant deficiency.

Conditions: We noted the following internal control weaknesses in the DOT's use of journal entries and analysis of proprietary and budgetary account relationships.

Use of Journal Entries

We reviewed 389 journal entries processed by the HTF agencies and 6 other operating administrations (OAs) for the year ended September 30, 2008, and we noted 67 instances in which these entries could have been avoided by following existing DOT policies and procedures. Specifically, these entries could have been entered using one of the modules within Delphi, the DOT's core accounting system, or by using standardized posting models. Further, we noted that the DOT lacks a consistent journal entry numbering scheme and journal entry nomenclature that ensures the journal entries were sequentially numbered.

Analysis of Proprietary and Budgetary Account Relationships

During our review of account relationship tests as of and for the year ended September 30, 2008 for the same agencies listed above, we noted the following exceptions related to analyzing, resolving, or explaining the variances identified by the account relationship tests:

- Some variances did not appear to be properly researched, researched timely or have timely corrective action documented and taken. While the DOT reduced the total amount of out-of-balance conditions by approximately $3.4 billion during FY 2008, there are significant variances that remain unresolved from year-to-year and quarter-to-quarter. At the end of the first, second, and third quarters of FY 2008, journal entries were posted to balance certain proprietary and budgetary accounts without completely researching the related variance. These entries were reversed at the beginning of the next quarter in order to continue the research. As of September 30, 2008, management believed the variances to be immaterial, and did not record journal entries to balance the proprietary and budgetary accounts.
- DOT's policy of obtaining analysis and support for all variances above $500 thousand is not consistently being completed in a timely manner.
- The current account relationship tool used by DOT personnel has limitations and does not allow for the accurate analysis of certain account relationships.

In July 2008, the DOT formed a dedicated team of experienced accountants to focus on improving the timeliness, accuracy, and comprehensiveness of the account reconciliations. As a result, the team's improvement efforts were only partially completed as of year-end.

Cause: The DOT Office of Financial Management developed a consistent and comprehensive set of proprietary and budgetary account relationship tests for all DOT agencies to use beginning with the quarter ended June 30, 2007. However, certain of DOT's OAs have not adequately implemented the related policies and procedures over the analysis and resolution of variances identified between proprietary and budgetary accounts. In addition, the policies and procedures did not establish a firm due date for the resolution of any variances identified.

Finally, the resources dedicated to the effort of researching and resolving differences in the proprietary and budgetary account relationships vary during the year, and increased substantially in the months prior to year-end.

Effect: Failure to research and resolve proprietary and budgetary account variances increases the risk that quarterly or the year-end financial statements may be misstated or not properly supported.

Recommendations: We recommend that the DOT:

1. Enforce existing policies and procedures to reduce the use of manual journal entries, especially in instances when the entry should have been processed through the Delphi modules or by using standardized posting models.
2. Develop effective policies and procedures to ensure that journal entries are sequentially numbered.
3. Revise the existing policies to include a firm due date for the timely resolution of variances and to require a thorough review and resolution of variances prior to posting "balancing" journal entries to the general ledger.
4. Follow the existing and revised policies and procedures to review and document the resolution of account relationship variances at the accounting fund level on a monthly basis.
5. Review each OA's analysis in order to ensure compliance with the existing policies and procedures and to ensure that transactions posted to the general ledger are accurate.

B. Property, Plant, and Equipment, including the Construction in Progress Account

Background/Criteria: The Federal Aviation Administration (FAA) constructs significant capital assets, such as radar, navigational, communications, and other technology equipment that is used to operate the United States National Airspace System. The FAA's property, plant and equipment (PP&E) portfolio totals approximately $13.8 billion, including construction in progress (CIP) of approximately $2.3 billion as of September 30, 2008. From FY 2005 through FY 2007, the DOT OIG reported that FAA had a material weakness in internal controls over the timely processing of PP&E transactions and related accounts.

Conditions: During FY 2008, we noted:

- Weaknesses in the controls over the additions and adjustment to fixed assets (excluding CIP) at the FAA regional level.
- Weaknesses in the controls over the additions to CIP at the headquarters and regional level.
- Weaknesses in the controls over FAA's quarterly PP&E accrual.
- A lack of adherence to policies and procedures by program offices to ensure the timely removal of fixed assets from the accounting system upon retirement.
- Improper expensing during FY 2008 of CIP projects.
- Improper up-front coding of a headquarters project as capital when the project met the criteria for expense coding.
- Improper classification of CIP projects as of September 30, 2008.
- Correction of asset useful life, date placed in service, and/or asset cost during FY 2008, due to input errors in the prior year.

The issues noted above resulted in actual and projected errors totaling $130 million.

Cause/Effect: Weaknesses noted during FY 2008 are the result of newly developed policies and procedures not operating effectively or not being implemented throughout the FAA. If FAA is unable to correct these conditions, the CIP, PP&E and related financial statement balances may be misstated.

Recommendations: We recommend that the DOT:

6. Continue to work with personnel in the FAA to resolve the weaknesses identified above. During our audit, we communicated seven recommendations to FAA management, including improving existing policies and procedures, ensuring supporting documentation is maintained and available, implementing a three-year rolling inventory, strengthening communication and reporting within the FAA, continuing to review the useful life and date placed in service of capitalized assets, continuing to automate transactions, and continuing training of and communication with FAA's accounting offices.

C. Grant Accruals

Background/Conditions: For year-end reporting, the DOT, specifically the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), and the FAA, calculates and records an estimated liability for the amount of work performed by its grantees (including their contractors) but not yet billed to or reimbursed by DOT. The DOT Financial Management Policies Manual requires that estimated accruals should be carefully analyzed and compared with subsequent actual numbers to ensure the accrual process is continuously refined to improve accuracy. Further, the DOT Financial Management Policies Manual requires that accruals be made as accurate as possible based on actual events.

During FY 2008, these OAs did not receive sufficient information from their grantees in order to either evaluate the accuracy and reliability of the accrual estimated as of September 30, 2007 or update their estimates for FY 2008. As a result, the grant accrual is not based on current sufficient information provided by grantees.

Cause: Personnel in these OAs do not have effective processes in place to receive the appropriate information from their grantees in order to perform appropriate analyses of the accuracy of the prior year's accruals or to update their estimates for the current year. The OAs are hampered in their efforts by the *Paperwork Reduction Act*, which limits the amount of information that agencies of the Federal government may request from state and local government entities, who are the vast majority of the DOT's grantees.

Effect: Application of a grant accrual methodology without a proper comparison of estimates to subsequent actual results and consideration of current year information may result in improperly accruing expenses and accounts payable, and the associated liability and expense reported on the Balance Sheet and Statement of Net Cost may be misstated.

Recommendations: We recommend that the DOT:

7. Enhance its internal controls over the development of its grant accrual methodology to ensure that information submitted from selected grantees used in the development of the methodology constitutes sufficient and appropriate evidence on which to base the grant accrual estimate.

8. Update its policies and procedures to obtain and review appropriate information from each of its grantees and utilize the information therein to compare to the DOT's prior year grant accrual estimate in order to refine the DOT's current year grant accrual estimate.

D. Exchange Revenue

Background/Criteria: The DOT reported approximately $1.7 billion in earned revenue in FY 2008 resulting from the sale of goods and services to other Federal agencies and to the public. The DOT Financial Management Policies Manual requires that revenues are recorded when earned and expenses are recorded when incurred (goods are received and services performed even though the receipt of the revenue or the payment of the expense may take place, in whole or part, in another accounting period).

Conditions: During FY 2008, the DOT was in the process of reviewing a number of prior year transactions based on errors in one of the accounting modules in Delphi and in the processing of certain prior year reimbursable revenue agreements. During our audit, we noted approximately 17% of the transactions sampled were recorded in the wrong fiscal year.

Cause: Partly due to the current corrective action efforts and partly due to breakdowns in internal controls, the OAs are not following existing policies and procedures requiring them to recognize revenue in the appropriate period.

Effect: The errors noted in our audit resulted in a net overstatement in FY 2008 of $17.4 million, and projected to a net revenue overstatement in FY 2008 of $268.5 million. Management did not adjust for these errors as they deemed the actual and projected overstatement to be immaterial to the financial statements taken as a whole.

Recommendations: We recommend that the DOT:

9. Continue its current cleanup efforts for prior revenue transactions, and complete such efforts as quickly as possible.
10. Ensure that existing policies are consistently followed to ensure revenue is recognized in the appropriate period.

E. Financial Reporting

Background/Criteria: Financial reporting in the Federal environment is a complicated and evolving process. In addition, the complex and varied operations of the DOT and its 13 OAs makes consolidated reporting, under standards issued by the Federal Accounting Standards Advisory Board (FASAB) and OMB, a challenge for the Department.

Conditions: During our FY 2008 audit, we noted several areas for improvement in the DOT's financial reporting process, including:

- Classification and reporting of DOT's environmental liabilities and lease expenses;
- Eliminations of intra-departmental activity; and
- Implementation of Statement of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land*.

We also noted deficiencies in the disclosure of the credit reform and loan guarantee information and in the calculation of the subsidy cost and loan guarantee allowances. Specifically, we noted the subsidy cost model for the FHWA Transportation Infrastructure Finance and Innovative Act program had not been formally evaluated or updated, and relied upon outdated data from 2002 and 2005.

Further, we noted that nine OAs are not in compliance with the requirements of SFFAS No. 4, *Managerial Cost Accounting Concepts & Standards for the Federal Government*. Specifically, we noted that a formal managerial cost accounting system that captures and reports the full costs of programmatic activity has not been implemented at those OAs. These nine OAs are the FHWA, the Maritime Administration (MARAD), the Office of the Secretary of Transportation, the National Highway Traffic Safety Administration, the Federal Railroad Administration, the Research and Innovative Technology Administration, the Federal Motor Carrier Safety Administration, the Pipeline and Hazardous Materials Safety Administration, and the Surface Transportation Board. Without a proper cost accounting system, these OAs are unable to properly track and present their costs in accordance with the requirements of SFFAS No. 4, and the DOT is unable to produce a Statement of Net Cost by its strategic goals.

Cause: The DOT has limited resources in the office of the DOT CFO, which makes compliance with FASAB standards and OMB guidance difficult.

Effect: Without sufficient resources and processes in place, the DOT's financial statements may be incomplete or misstated.

Recommendations: We recommend that the DOT:

11. Ensure sufficient resources and processes are in place to enable timely and accurate financial reporting.
12. Provide more frequent training on technical accounting topics for DOT's accountants.
13. Enhance and improve the DOT's policies and procedures over financial reporting to ensure consistent treatment of accounting transactions among the DOT's OAs, and provide more opportunities for sharing best practices among the OAs on how to account for similar transactions.
14. More fully integrate the OA's accounting service provider, the Enterprise Service Center, and the OA's accountants into the DOT CFO's quarterly and year-end compilation and financial reporting process.
15. Improve the ability of DOT's core financial system to report DOT's financial statements and notes on a consolidated and combined basis with limited manual intervention.
16. Continue its efforts to implement managerial cost accounting processes.

F. Undelivered Orders

Background/Criteria: In carrying out its mission, the DOT signs contracts or agreements for the purchase of goods and services from other Federal agencies and the public, and for the execution of grant agreements with state and local governments and other grantees. As of September 30, 2008, the DOT reported $80.3 billion in obligations. The DOT Financial Management Policies Manual requires that OAs should monitor their open obligations to ensure that existing obligations are valid.

Condition: During our audit, we noted that the DOT did not consistently de-obligate funds in a timely manner and could not support all balances recorded at June 30, 2008, resulting in an overstatement of the DOT's undelivered orders (UDOs). Further, we noted that the subsidiary ledger used by FHWA personnel to monitor and manage active grants did not agree to the amounts reported in grant obligations in Delphi. Finally, partly as a result of conversion to Delphi in 2003 and partly due to DOT's current business process, approximately $187 million of generic obligations not associated with a specific purchase order ("null undelivered orders") remain recorded. When payments or activity takes place against these items, an extensive manual effort is required by DOT personnel to research and identify the original purchase order, and then to ensure that the activity is properly recorded.

Cause: We noted that the OAs are not following existing policies and procedures requiring them to periodically review UDO balances and take action to promptly de-obligate excess funds or close-out inactive balances and completed projects. Further, the OAs do not maintain proper documentation to support all UDO balances. Finally, we noted that the OAs do not have enough personnel or adequately trained personnel to effectively assess the UDO balances in a timely manner in accordance with DOT policy.

Effect: As of June 30, 2008, we noted that the UDO balances in the sample we selected were overstated by a known error of $3.9 million, which resulted in a projected error of $340.5 million. Without properly recording obligations in Delphi, there is an increased risk of inaccuracies or errors in financial reporting. Further, we noted that FHWA personnel were using a subsidiary ledger system to monitor active grant obligations that did not agree to Delphi by approximately $143 million. Finally, the $187 million of generic obligations could be

overstated if DOT personnel incorrectly linked activity from the original purchase order to the wrong purchase order.

Recommendations: We recommend that the DOT:

17. Ensure that existing policies and procedures are consistently followed to include the periodic review of the validity of UDO balances and enhance the policies and procedures to include formal documentation of the OA's review and to ensure inactive and completed projects are de-obligated and closed-out in a timely fashion.
18. Identify and determine the specific cause of recurring differences between the subsidiary ledger used by FHWA personnel and Delphi, and develop a corrective action plan to prevent the recurrence of such differences.
19. Continue to research and reconcile the outstanding issues related to the generic obligations that remain in Delphi.

G. Information Technology Controls over Financial Systems and Applications

Background/Criteria: Last year, the DOT OIG reported a significant deficiency in the DOT's financial system controls, including system control weaknesses in Delphi and computer security deficiencies in DOT systems that provide financial data to Delphi. OMB Circular No. A-130, *Security of Federal Automated Information Resources,* emphasizes the importance of technical and operations controls as part of management controls to protect Federal systems and data commensurate with the risk and magnitude of harm resulting from the loss, misuse, or unauthorized access to or modification of information.

In FY 2008, DOT made significant progress in strengthening the design and implementation of controls over Delphi. However, we identified several areas in which system control weaknesses continue.

Conditions: Despite progress in some areas, continued improvements are needed in the DOT's general controls and in controls in the following systems:

- Departmental system: Delphi and the Delphi datacenter;
- FAA systems: System of Airports Reporting (SOAR), Purchase Request Information System Management (PRISM), Cost Accounting System (CAS), and Consolidated Automation System for Time and Labor Entry (CASTLE);
- FHWA systems: Fiscal Management Information System (FMIS); and
- FTA Systems: Transportation Electronic Award Management System (TEAMS), Electronic Clearing House Operation (ECHO), and the Delphi Online Transaction System (DOTS).

Cause: Effective policies and procedures have not been implemented to ensure that controls are in place and operating effectively in the information technology environment.

Effect: The deficiencies noted could adversely affect the DOT's ability to record, process, summarize, and report financial data consistent with the assertions of management in the DOT's consolidated financial statements. In addition, we also noted that these weaknesses impacted the DOT's ability to comply with financial management system requirements listed in OMB Circular No. A-127, *Policies and Standards for Financial Management Systems*, Section 7 – *Financial Management System Requirements*, regarding computer security act requirements, internal controls, and systems maintenance activities.

Recommendation: We recommend that the DOT:

20. Continue to improve the information technology environment applicable to the DOT applications by implementing the specific recommendations provided to management.

COMPLIANCE AND OTHER MATTERS

H. *Anti-Deficiency Act*

Background/Criteria: Title 31 U.S. Code (U.S.C.) Section 1517 states that an officer or an employee of the United States Government may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by regulations as specified by Title 31 U.S.C. Section 1514.

Condition: During FY 2007, MARAD's management identified a potential violation at the U.S. Merchant Marine Academy. During FY 2008, the DOT and representatives from the Government Accountability Office (GAO) began in-depth reviews of transactions associated with the U.S. Merchant Marine Academy. Executives within the U.S. Maritime Administration, the agency responsible for oversight of the U.S. Merchant Marine Academy, concluded that there were likely both isolated and systemic violations of the *Anti-Deficiency Act*. Although these potential violations occurred in fiscal years 2008 and prior, management's review of the potential violations has been ongoing and complicated by a lack of a unified accounting system at the U.S. Merchant Marine Academy and its affiliates. As of the date of our report, the DOT and the GAO had not completed their reviews of this matter.

Effect: The DOT is potentially not in compliance with the *Anti-Deficiency Act*.

Recommendations: We recommend that the DOT:

21. Make it a priority to work with OMB and the Congress to formally report these potential violations, in accordance with the *Anti-Deficiency Act* and the applicable implementation guidance.

22. Implement appropriate policies and procedures to correct the weaknesses identified at the U.S. Merchant Marine Academy.

I. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

Background/Criteria: FFMIA requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, accounting standards issued by the Federal Accounting Standards Advisory Board, and the U.S. Government Standard General Ledger at the transaction level. When evaluating an entity's compliance with FFMIA, OMB Bulletin No. 07-04 recommends that auditors evaluate whether an agency can: (1) prepare financial statements and other required financial budget reports using information generated by the financial management system(s); (2) provide reliable and timely financial information for managing current operations; (3) account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and do all three in a way that is consistent with generally accepted accounting standards and the U.S. Government Standard General Ledger at the transaction level.

Condition: The DOT was not in substantial compliance with FFMIA because the DOT did not substantially comply with applicable Federal accounting standards during the year, and was not able to provide reliable and timely financial information for managing current operations at intervals throughout the year. However, our audit procedures enabled us to conclude that the DOT had substantially complied with Federal accounting standards in its year-end financial statements.

This finding is based on the various significant deficiencies in internal control over financial reporting discussed in Exhibit I of this report. Specifically, we found that:

- The DOT was not able to produce meaningful managerial cost accounting reports at nine of its 13 OAs;
- Certain transaction types or processes, such as construction in progress, revenue, and obligations, were not recorded in a timely or accurate manner during the year; and
- Account relationships were not appropriately addressed until late in the year.

The DOT has been making substantial progress in its efforts to create a world-class financial reporting organization that enables the OA and DOT managers to obtain meaningful information from the core accounting system and its subsidiary ledgers throughout the year. The operations of the DOT are complex and diverse, and standardization of accounting operations is critical. The DOT's Enterprise Service Center (ESC) is recognized by the OMB as a center of excellence, and is continuing to grow as additional Federal agencies choose the DOT's ESC as their accounting service provider. The continued progress by DOT, along with the additional agencies that are choosing the DOT as a service provider, demonstrate the commitment by DOT management to correct the existing deficiencies in internal control over financial reporting.

Effect: The weaknesses in internal control, discussed above, prevent the DOT from being able to produce timely and reliable financial information for managing current operations throughout the year.

Recommendation: We recommend that the DOT:

23. Address and resolve the deficiencies in internal control, as described in Exhibit I of this report.

J. *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*

Background/Criteria: FMFIA and OMB Circular No. A-123, *Management's Responsibility for Internal Control*, requires agency managers and staff to report annually on the three objectives of internal control: the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The DOT has put in place a significant structure and process to evaluate its reliability of financial reporting and compliance with applicable laws and regulations. The DOT has demonstrated a consistent and reliable process in evaluating those areas of internal control, and is working diligently on establishing a similar structure and process to evaluate the effectiveness and efficiency of its operations.

Condition: During FY 2008, we noted that there were inconsistencies in the consideration and reporting of internal controls over the effectiveness and efficiency of operations within the DOT. Specifically, the OAs do not have a consistent process to evaluate and report program weaknesses required under FMFIA.

Effect: Without a unified DOT-wide process to evaluate the effectiveness and efficiency of internal controls over operations, the DOT and its OAs may not identify and report programmatic weaknesses on a consistent basis.

Recommendation: We recommend that the DOT:

24. Address and resolve the weakness noted above, and fully comply with FMFIA in FY 2009.

K. *Improper Payments Information Act of 2002 (IPIA)*

Background/Criteria: OMB Circular A-123, Appendix C, issued on August 10, 2006, entitled "Requirements for Effective Measurement and Remediation of Improper Payments," implements the requirements of IPIA. The circular defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts include overpayments and underpayments, payments made to an ineligible recipient or for an ineligible service, duplicate payments, and payments for services not received.

The circular prescribes a four-step approach for use by agencies in evaluating improper payments: (1) review all programs and identify those susceptible to significant erroneous payments; (2) statistically estimate the annual amount of improper payments; (3) implement a plan to reduce erroneous payments; and (4) report estimates of the annual amount of improper payments and progress in reducing them.

During FY 2008, the DOT reported that it successfully completed its review of improper payments of the FHWA's Federal-aid Highway Program, the FAA's Airport Improvement Program, the FTA's Formula Grants Program, and the FTA's Capital Investment Grants Program. The DOT found improper payments in all four grant programs, and projected the improper payments to a range of $175.3 million to $206.1 million. The improper payments found in two of the programs (the FTA's Formula Grants Program and the FTA's Capital Investment Grants Program) exceeded the OMB's definition of significant improper payments.

Condition: To evaluate the DOT's compliance with IPIA, we worked with the DOT OIG's IPIA evaluation team, including their sampling specialists. However, neither we nor the DOT OIG were provided information by DOT with sufficient time before the issuance of our report in order to determine if the sampling plan used by DOT was statistically valid. Specifically, we could not determine if the projection of sampling results to the program totals were based on generally accepted conventional formulas.

Effect: The DOT is potentially not in compliance with the *Improper Payments Information Act*.

Recommendation: We recommend that DOT:

25. Work to ensure that information is provided to the OIG and other appropriate parties with sufficient time to evaluate whether the improper payment testing performed in FY 2009 is based on valid statistical sampling techniques.


U.S. DEPARTMENT OF TRANSPORTATION **EXHIBIT III**
Independent Auditors' Report
Status of Prior Year Findings

STATUS OF PRIOR YEAR REPORTABLE CONDITIONS, AND NON-COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

Prior Year Condition	As Reported At September 30, 2007	Status As Of September 30, 2008
Timely Processing of Transactions and Accounting for FAA Property, Plant, and Equipment, including the CIP Account	**Material weakness:** The FAA lacked adequate policies, procedures, and controls to monitor its CIP activity.	Downgraded to a significant deficiency
Journal Entries and Account Relationships for the HTF Agencies	**Significant Deficiency:** The DOT has weaknesses in following policies and procedures over journal entries, and in the timely reconciliation and resolution of differences identified in the DOT's budgetary to proprietary account relationships.	Repeated as a significant deficiency
Financial System Controls	**Significant Deficiency:** Certain general controls related to the DOT's primary financial applications need to be strengthened.	Repeated as a significant deficiency
DOT Information Security Program	**Significant Deficiency:** The DOT did not meet Government security standards to protect information systems and did not take sufficient action to correct identified security deficiencies.	Closed with respect to Federal financial management systems
FTA Grant Accrual	**Significant Deficiency:** Certain controls were not in place in FTA to ensure that the FTA's grant accrual was based on sufficient information provided by its grantees.	Repeated as a significant deficiency

U.S. DEPARTMENT OF TRANSPORTATION **EXHIBIT III**
Independent Auditors' Report
Status of Prior Year Findings

Prior Year Condition	As Reported At September 30, 2007	Status As Of September 30, 2008
Non-compliance with the *Federal Financial Management Improvement Act*	**Instance of non-compliance:** The DOT did not substantially comply with the FFMIA because the FAA was unable to account for property, plant, and equipment transactions, including the CIP account, and present balances in its periodic financial statements in accordance with generally accepted accounting principles as of and for the fiscal year ended September 30, 2007.	Repeated as an instance of non-compliance
Non-compliance with the *Anti-Deficiency Act*	**Instance of non-compliance:** During FY 2007, the Maritime Administration CFO reported a potential violation at the U.S. Merchant Marine Academy.	Repeated as a potential instance of non-compliance
Non-compliance with the *Improper Payments Information Act of 2002*	**Instance of non-compliance:** During FY 2007, the DOT OIG was not provided with sufficient information by DOT before the issuance of the DOT FY 2007 PAR to determine if the sampling plan used by DOT was statistically valid.	Repeated as a potential instance of non-compliance
Non-compliance with the *SFFAS No. 4, Managerial Cost Accounting Concepts and Standards*	**Instance of non-compliance:** As of September 30, 2007, nine OAs of the DOT had not fully implemented cost accounting processes in accordance with SFFAS Number 4.	Reclassified as part of the non-compliance with FFMIA

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

1200 New Jersey Avenue. SE
Washington, DC 20590

November 12, 2008

MEMORANDUM TO: Calvin L. Scovell, III
Inspector General, US DOT

Patrick Boyce
Partner, KPMG LLP

FROM: Phyllis F. Scheinberg
Assistant Secretary for Budget and Programs/CFO

SUBJECT: Management's Response to the Audit Report on the Consolidated Financial Statements for Fiscal Years (FY) 2008 and 2007

Thank you for your audit report on the Consolidated Financial Statements for FY 2008 and 2007. I am very pleased that the Department of Transportation (DOT) earned an unqualified audit opinion. Noteworthy is the fact that, for the first time, no material weaknesses in any agency or at the consolidated department level were identified in the auditor's report on internal controls. This is validation of DOT's continued commitment to carefully protecting and managing the resources, assets, and programs entrusted to us. We take great pride in our ability to sustain strong and vigilant financial management, as demonstrated in our achievement of an unqualified audit opinion.

We concur with the seven significant deficiencies contained in your report on internal controls over financial reporting, and with the two potential and two actual instances of non-compliance found in certain provisions of applicable laws, regulations, contracts and grant agreements. The Department plans to submit a detailed action plan no later than December 29, 2008, to address the findings contained in your report.

Please convey my sincere appreciation and gratitude to everyone on your staffs for the professionalism and cooperation displayed during this audit. Our combined efforts and teamwork made the difference in successfully meeting the objectives of the financial audit process. Please refer any questions to Laurie Howard, Director of Financial Management.

U.S. DEPARTMENT OF TRANSPORTATION
CONSOLIDATED BALANCE SHEETS

As of September 30, **Dollars in Thousands**		**2008**		**2007**
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 2)	$	22,074,754	$	23,392,470
Investments, Net (Note 3)		21,699,531		21,144,083
Accounts Receivable (Note 4)		235,638		509,692
Other (Note 5)		38,915		2,453
Total Intragovernmental		44,048,838		45,048,698
Cash		54,675		24,358
Investments, Net (Note 3)		28,707		74,085
Accounts Receivable, Net (Note 4)		67,852		114,118
Direct Loan and Loan Guarantees (Note 6)		1,670,284		889,885
Inventory and Related Property, Net (Note 7)		802,368		785,760
General Property, Plant and Equipment, Net (Note 8)		14,512,568		14,683,890
Other (Note 5)		182,492		211,044
Total Assets	**$**	**61,367,784**	**$**	**61,831,838**
Stewardship Property, Plant and Equipment (Note 9)				
LIABILITIES (Note 10)				
Intragovernmental				
Accounts Payable	$	11,046	$	30,424
Debt (Note 11)		1,762,985		1,040,761
Other (Note 15)		3,263,123		3,418,078
Total Intragovernmental		5,037,154		4,489,263
Accounts Payable		532,579		614,861
Loan Guarantee Liability (Note 6)		258,050		336,626
Federal Employee Benefits Payable (Note 12)		984,710		946,408
Environmental and Disposal Liabilities (Note 13)		828,757		852,366
Grant Accrual (Note 14)		5,810,147		5,526,288
Other (Note 15)		1,365,257		1,309,411
Total Liabilities		**14,816,654**		**14,075,223**
Commitments and Contingencies (Note 17)				
NET POSITION (Note 18)				
Unexpended Appropriations - Earmarked Funds		1,010,409		1,213,189
Unexpended Appropriations - Other Funds		7,643,564		8,563,101
Cumulative Results of Operations - Earmarked Funds		25,944,043		26,552,761
Cumulative Results of Operations - Other Funds		11,953,114		11,427,564
Total Net Position		**46,551,130**		**47,756,615**
Total Liabilities and Net Position	**$**	**61,367,784**	**$**	**61,831,838**

The accompanying notes are an integral part of these financial statements.

U.S. DEPARTMENT OF TRANSPORTATION
CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, **Dollars in Thousands**	**2008**	**2007**
PROGRAM COSTS (Note 19)		
SURFACE TRANSPORTATION		
Gross Costs	$ 50,416,782	$ 47,649,334
Less: Earned Revenue	263,771	264,028
Net Program Costs	50,153,011	47,385,306
AIR TRANSPORTATION		
Gross Costs	15,913,667	15,263,468
Less: Earned Revenue	381,546	449,014
Net Program Costs	15,532,121	14,814,454
MARITIME TRANSPORTATION		
Gross Costs	706,649	759,803
Less: Earned Revenue	491,570	189,076
Net Program Costs	215,079	570,727
CROSS-CUTTING PROGRAMS		
Gross Costs	565,861	511,524
Less: Earned Revenue	542,360	500,076
Net Program Costs	23,501	11,448
Costs Not Assigned to Programs	386,130	388,392
Less: Earned Revenues Not Attributed to Programs	39,379	30,295
NET COST OF OPERATIONS	**$ 66,270,463**	**$ 63,140,032**

The accompanying notes are an integral part of these financial statements.




U.S. DEPARTMENT OF TRANSPORTATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30,	**2008**			**2007**		
Dollars in Thousands	Earmarked Funds	All Other Funds	Total	Earmarked Funds	All Other Funds	Total
Cumulative Results of Operations						
Beginning Balance	$26,552,761	$ 11,427,564	$ 37,980,325	$30,175,061	$12,465,748	$42,640,809
Budgetary Financing Sources						
Other Adjustments	(783)	756	(27)	(166,601)	166,625	24
Appropriations Used	2,582,284	14,220,954	16,803,238	2,095,506	4,156,871	6,252,377
Non-Exchange Revenue (Note 20)	48,688,029	(3,679)	48,684,350	51,531,076	2,197	51,533,273
Donations/Forfeitures of Cash/Cash Equivalents	1,557	–	1,557	2,422	–	2,422
Transfers-In/(Out) Without Reimbursement	8,035,031	(7,997,976)	37,055	6,883	76,568	83,451
Other Financing Sources (Non-Exchange)						
Transfers-In/(Out) Without Reimbursement	(1,898,408)	1,919,255	20,847	(2,443,652)	2,446,463	2,811
Imputed Financing	548,956	93,192	642,148	506,686	98,504	605,190
Other	–	(1,873)	(1,873)	–	–	–
Total Financing Sources	57,956,666	8,230,628	66,187,295	51,532,320	6,947,228	58,479,548
Net Cost of Operations	58,565,384	7,705,079	66,270,463	55,154,620	7,985,412	63,140,032
Net Change	(608,718)	525,550	(83,168)	(3,622,300)	(1,038,184)	(4,660,484)
Cumulative Results of Operations	**25,944,043**	**11,953,114**	**37,897,157**	**26,552,761**	**11,427,564**	**37,980,325**
Unexpended Appropriations						
Beginning Balance	1,213,189	8,563,101	9,776,290	612,378	7,806,902	8,419,280
Budgetary Financing Sources						
Appropriations Received	2,404,596	13,319,232	15,723,828	2,841,381	4,974,437	7,815,818
Appropriations Transferred-In/(Out)	(6)	28,006	28,000	621	(606)	15
Other Adjustments	(25,086)	(45,821)	(70,907)	(145,134)	(60,761)	(205,895)
Appropriations Used	(2,582,284)	(14,220,954)	(16,803,238)	(2,096,057)	(4,156,871)	(6,252,928)
Total Budgetary Financing Sources	(202,780)	(919,537)	(1,122,317)	600,811	756,199	1,357,010
Total Unexpended Appropriations	**1,010,409**	**7,643,564**	**8,653,973**	**1,213,189**	**8,563,101**	**9,776,290**
NET POSITION	**$26,954,452**	**$ 19,596,678**	**$ 46,551,130**	**$27,765,950**	**$19,990,665**	**$47,756,615**

The accompanying notes are an integral part of these financial statements.

U.S. DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30,	**2008**		**2007**	
Dollars in Thousands	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES (Note 21)				
Unobligated Balance, Brought Forward, October 1	$ 46,511,710	$332,405	$ 46,566,672	$ 358,827
Recoveries of Prior Year Unpaid Obligations	909,305	37,788	658,023	207,000
Budget Authority				
Appropriations Received	79,462,754	-	62,551,786	-
Borrowing Authority	215,000	950,094	225,000	865,759
Contract Authority	55,933,312	-	55,040,320	-
Spending Authority from Offsetting Collections				
Earned				
Collected	2,182,754	507,519	2,212,610	167,921
Change in Receivables from Federal Sources	(66,642)	(188)	(69,617)	(3,616)
Change in Unfilled Customer Orders				
Advance Received	216,149	-	89,251	-
Without Advance from Federal Sources	(192,676)	33,973	184,966	(20,491)
Expenditure Transfers from Trust Funds	6,447,419	-	5,673,226	-
Subtotal	144,198,070	1,491,398	125,907,542	1,009,573
Nonexpenditure Transfers, Net	2,000	-	2,220	-
Temporarily not Available Pursuant to Public Law	-	-	(5,489)	-
Permanently Not Available	(59,405,333)	(359,787)	(51,763,052)	(287,959)
Total Budgetary Resources	**$ 132,215,752**	**$ 1,501,804**	**$ 121,365,916**	**$ 1,287,441**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	$ 84,438,020	$ 1,261,574	$ 72,701,475	$ 955,036
Reimbursable	1,970,779	-	2,152,731	-
Subtotal	86,408,799	1,261,574	74,854,206	955,036
Unobligated Balance				
Apportioned	26,059,115	4,796	22,742,862	4,394
Exempt from Apportionment	299,415	-	307,808	-
Subtotal	26,358,530	4,796	23,050,670	4,394
Unobligated Balance Not Available	19,448,423	235,434	23,461,040	328,011
Total Status of Budgetary Resources	**$ 132,215,752**	**$ 1,501,804**	**$ 121,365,916**	**$ 1,287,441**

The accompanying notes are an integral part of these financial statements.




DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES *(CONT.)*

For the Years Ended September 30, **Dollars in Thousands**	**2008**		**2007**	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
CHANGE IN OBLIGATED BALANCES				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$ 76,707,884	$ 2,017,708	$ 72,330,387	$ 1,706,951
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(1,707,556)	(135,484)	(1,590,193)	(159,590)
Total Unpaid Obligated Balance, Net	75,000,328	1,882,224	70,740,194	1,547,361
Obligations Incurred	86,408,799	1,261,574	74,854,206	955,036
Gross Outlays	(82,157,078)	(1,391,414)	(69,820,935)	(437,279)
Unpaid Obligations	25,000	-	2,250	-
Recoveries of Prior Year Unpaid Obligations, Actual	(909,305)	(37,788)	(658,023)	(207,000)
Change In Uncollected Customer Payments from Federal Sources	262,920	(33,784)	(117,363)	24,106
Obligated Balance, Net, End of Period				
Unpaid Obligations	80,075,300	1,850,080	76,707,884	2,017,708
Uncollected Customer Payments From Federal Sources	(1,444,636)	(169,268)	(1,707,556)	(135,484)
Total Unpaid Obligated Balance, Net, End Of Period	$ 78,630,664	$ 1,680,812	$ 75,000,328	$ 1,882,224
NET OUTLAYS				
Net Outlays				
Gross Outlays	$ 82,157,078	$ 1,391,414	$ 69,820,935	$ 437,279
Offsetting Collections	(8,850,341)	(507,519)	(7,973,071)	(167,921)
Distributed Offsetting Receipts	(219,003)	(106,676)	(46,779)	-
Net Outlays	$ 73,087,734	$ 777,219	$ 61,801,085	$ 269,358

The accompanying notes are an integral part of these financial statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Department of Transportation (DOT or Department) serves as the focal point in the Federal Government's coordinated national transportation policy. It is responsible for helping cities and States meet their local transportation needs through financial and technical assistance, ensuring the safety of all forms of transportation; protecting the interests of consumers; promoting international transportation agreements; and conducting planning and research for the future.

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 provides the necessary services and oversight to ensure the best transportation system possible. The Department's consolidated financial statements present the financial data, including various trust funds, revolving funds, appropriations and special funds, of the following organizations:

- ✧ Office of The Secretary (OST) [includes OST Working Capital Fund]
- ✧ Federal Aviation Administration (FAA)
- ✧ Federal Highway Administration (FHWA)
- ✧ Federal Motor Carrier Safety Administration (FMCSA)
- ✧ Federal Railroad Administration (FRA)
- ✧ National Highway Traffic Safety Administration (NHTSA)
- ✧ Maritime Administration (MARAD)
- ✧ Federal Transit Administration (FTA)
- ✧ Surface Transportation Board (STB)
- ✧ Office of Inspector General (OIG)
- ✧ Pipeline and Hazardous Materials Safety Administration (PHMSA)
- ✧ Research and Innovative Technology Administration (RITA) [includes Volpe National Transportation System Center]

The Saint Lawrence Seaway Development Corporation (SLSDC) is also a DOT entity. 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 that of the Department's, SLSDC's financial data is not included in the DOT consolidated financial statements. However, condensed information about SLSDC's financial position is presented in Note 24.

B. BASIS OF PRESENTATION

The Department's consolidated financial statements have been prepared to report the financial position and results from operations of DOT, as required by the Chief Financial Officers Act of 1990 (CFO Act) and Title IV of the Government Management Reform Act of 1994 (GMRA). The statements have been prepared from the DOT books and records in accordance with Office of Management and Budget (OMB) form and content requirements for entity financial statements and DOT's accounting policies and procedures. Unless otherwise noted, all dollar amounts are presented in thousands.

The Consolidated Balance Sheets present agency assets and liabilities, and the resulting agency net position (which is the difference between the two amounts). Agency assets substantially include entity assets (those which are available for use by the agency). Non-entity assets (those which are managed by the agency but not available for use in its operations) are immaterial. Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

The Consolidated Statements of Net Cost present the gross costs of programs less earned revenue to arrive at the net cost of operations for both the programs and the agency as a whole.

The Consolidated Statements of Changes in Net Position report beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Combined Statements of Budgetary Resources provide information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated June 2008.

Since DOT custodial activity is incidental to Departmental operations and is not considered material to the consolidated financial statements taken as a whole, a Statement of Custodial Activity has not been prepared. However, sources and dispositions of collections have been disclosed in Note 22 to the consolidated 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 requirements at the transaction level.

C. BUDGETS AND BUDGETARY ACCOUNTING

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated June 2008. 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 2008 and FY 2007, the Department was accountable for trust fund appropriations, general fund appropriations, revolving fund activity and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

Programs are financed from authorizations enacted in authorizing legislation and codified in Title 23 of the United States Code (U.S.C.). The DOT receives its budget authority in the form of contract authority and direct appropriations. Contract authority permits programs to incur obligations in advance of an appropriation, offsetting collections, or receipts. Subsequently, Congress provides an appropriation for the liquidation of the contract authority to allow payments to be made for the obligations incurred. Funds apportioned by state under Titles 23 and 49 of the U.S.C., Subtitle III by the Secretary of Transportation for activities in advance of the liquidation of appropriations are available for a specific time period.

D. BASIS OF ACCOUNTING

Transactions are generally recorded on both 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. All material intra-departmental transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis, in accordance with OMB Circular A-136.

Intragovernmental transactions and balances result from exchange transactions made between DOT and another Federal government reporting entity, while those classified as "with the public" result from exchange transactions between DOT and non-federal entities. For example, if DOT purchases goods or services from the public and sells them to another Federal entity, the costs would be classified as "with the public," but the related revenues would be classified as "intragovernmental." This could occur, for example, when DOT provides goods or services to another Federal government entity on a reimbursable basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

DOT accounts for earmarked funds separately from other funds.

E. 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. Lockboxes have been established with financial institutions to collect certain payments, and these funds are transferred directly to Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

F. INVESTMENTS IN U.S. GOVERNMENT SECURITIES

Investments that consist of U.S. Government Securities are reported at cost and adjusted for 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. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury. The market value is calculated by multiplying the total number of shares by the market price on the last day of the fiscal year.

Securities with the Public include marketable Treasury securities that were purchased using deposit fund monies (Maritime Escrow Fund) and are required to be classified as securities with the public and are not considered intragovernmental investments. The funds can be utilized to cover the construction costs of vessels and serve as additional security in the event of a default on the guaranteed loan.

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 (resulting from 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 RELATED OPERATING MATERIALS AND SUPPLIES

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at year-end include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of reparable, excess, obsolete, and unserviceable items are made to appropriate allowance accounts.

I. PROPERTY AND EQUIPMENT

DOT agencies have varying methods of determining the value of general purpose 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.

DOT's heritage assets, consisting of Union Station in Washington, DC, the Nuclear Ship Savannah and collections of maritime artifacts, are considered priceless and are not capitalized in the Consolidated Balance Sheets. (See Note 9 and the Required Supplementary Information section for additional information related to DOT's heritage assets).

J. 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 or capitalized, as appropriate, when the related goods and services are received.

K. LIABILITIES

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet date. Available budgetary resources include new budget authority, spending authority from offsetting collections, recoveries of unexpired budget authority through downward adjustments of prior year obligations, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and permanent indefinite appropriations or borrowing authority. Unfunded liabilities are not considered to be covered by such budgetary resources. An example of an unfunded liability is actuarial liabilities for future Federal Employees' Compensation Act payments. The Government, acting in its sovereign capacity, can abrogate liabilities arising from other than contracts.

L. 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 estimatable). DOT recognizes material contingent liabilities in the form of claims, legal actions, 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.

M. ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. For each bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored leave, and sick leave in certain circumstances, are accrued based on latest pay rates and unused hours of leave. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements, including the National Air Traffic Controllers Association (NATCA) agreement, Article 25, Section 13. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned and not taken. Nonvested leave is expensed when used.

N. RETIREMENT PLAN

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Employing agencies are required to recognize pensions and other post retirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefit plans is the responsibility of the administering agency, the Office of Personnel Management (OPM). Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

O. FEDERAL EMPLOYEES HEALTH BENEFIT (FEHB) PROGRAM

Most Department employees are enrolled in the FEHB Program, which provides post-retirement health benefits. OPM administers this program and is responsible for the reporting of liabilities. Employer agencies and covered employees are not required to make any contributions for post-retirement health benefits. OPM calculates the U.S. Government's service cost for covered employees each fiscal year. The Department has recognized the entire service cost of these post-retirement benefits for covered employees as an imputed cost and an imputed financing source.

P. FEDERAL EMPLOYEES GROUP LIFE INSURANCE (FEGLI) PROGRAM

Most Department employees are entitled to participate in the FEGLI Program. Participating employees can obtain basic term life insurance where the employee pays two-thirds of the cost and the Department pays one-third of the cost. OPM administers this program and is responsible for the reporting of liabilities. OPM calculates the U.S. Government's service cost for the post-retirement portion of the basic life coverage each fiscal

year. Because OPM fully allocates the Department's contributions for basic life coverage to the pre-retirement portion of coverage, the Department has recognized the entire service cost of the post-retirement portion of basic life coverage as an imputed cost and an imputed financing source.

Q. FEDERAL EMPLOYEE COMPENSATION BENEFITS (FECA)

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because DOT will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future revenues will be used to reimburse DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under FECA.

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

DOT recognizes two types of environmental liabilities: unfunded environmental remediation and unfunded asset disposal liability. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The asset disposal liability includes both the cost to remove and dismantle an asset when that asset is no longer in service and the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials. DOT estimates the environmental remediation and asset disposal costs at the time a DOT-owned asset is placed in service.

Estimating the Department's environmental remediation liability requires making assumptions about future activities and is inherently uncertain. Costs for estimates of 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.

S. USE OF ESTIMATES

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include the allocation of trust fund receipts by Treasury's Office of Tax Analysis (OTA), accruals of accounts and grants payable, accrued workers' compensation, the allowance for doubtful accounts receivable, and accrued legal, contingent, environmental and disposal liabilities.

T. ALLOCATION TRANSFERS

DOT is a party to allocation transfers with other federal agencies as a transferring (parent) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent obligations and outlays incurred by the receiving entity (child) are charged to this allocation account as the delegated activity is executed on the parent entity's behalf. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived.

DOT allocates funds, as the parent, to the following non-DOT Federal agencies in accordance with applicable public laws and statutes: Bureau of Indian Affairs, Bureau of Reclamation, U.S. Forest Service, National Park Service, Bureau of Land Management, Fish and Wildlife Service, Department of the Army, Appalachian Regional Commission, Tennessee Valley Authority, U.S. Army Corps of Engineers, Internal Revenue Service, Department of Housing and Urban Development, Denali Commission, Department of Navy, and Department of Energy.

U. REVENUES AND OTHER FINANCING SOURCES

DOT receives the majority of the funding needed to support its programs through non-exchange earmarked excise tax revenues related to the Highway Trust Fund (HTF) and the Airport and Airway Trust Fund (AATF). DOT also receives annual, multi-year and no-year appropriations. Appropriations are recognized as revenues when related program and administrative expenses are incurred. 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 received from gifts of 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 is recognized as revenue on the accrual basis rather than when received.

Excise taxes collected are initially deposited to the General Fund of the U.S. Treasury. The IRS does not receive sufficient information at the time the taxes are collected to determine how these payments should be distributed to specific earmarked funds. Therefore, the U.S. Treasury makes initial semi-monthly distributions to earmarked funds based on estimates prepared by OTA. These estimates are based on historical excise tax data applied to current excise tax receipts. When actual amounts are certified by the IRS, generally four months after each quarter-end, adjustments are made to the estimated amounts and the difference is adjusted as a transfer of resources to the HTF and AATF accounts.

The DOT September 30, 2008 financial statements reflect excise taxes certified by the IRS through June 30, 2008 and excise taxes estimated by OTA for the period July 1, 2008 to September 30, 2008 as specified by SFFAS Number 7, *Accounting for Revenue and Other Financing Sources*. Actual tax collections data for the quarter ended September 30, 2008 will not be available from the IRS until January 2009. Management does not believe that the actual tax collections for the quarter ended September 30, 2008 will be materially different than the OTA estimate.

V. RECLASSIFICATIONS

Certain reclassifications were made to the FY 2007 consolidated financial statement presentation to conform to that used in FY 2008.




NOTE 2. FUND BALANCE WITH TREASURY

	FY 2008	FY 2007
Fund Balances		
Trust Funds	$ 6,283,435	$ 5,593,882
Revolving Funds	636,287	643,114
General Funds	14,831,421	16,871,467
Other Fund Types	323,611	284,007
Total	$ 22,074,754	$ 23,392,470
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 7,453,124	$ 5,055,441
Unavailable	2,380,690	1,537,890
Obligated Balance Not Yet Disbursed	12,021,987	16,465,645
Non-Budgetary Fund Balance with Treasury	218,953	333,494
Total	$ 22,074,754	$ 23,392,470

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.

The U.S. Treasury processes cash receipts and disbursements. DOT receives appropriations as budget authority, which permits it to incur obligations and make outlays (payments). In addition, DOT also receives contract authority to permit the incurrence of obligations in advance of an appropriation. The contract authority is subsequently replaced with the appropriation or the spending authority from offsetting collections to first cover and then liquidate the obligations. As a result, DOT does not have typical Fund Balance with Treasury amounts as funds remain invested in securities until needed to make payments.

NOTE 3. INVESTMENTS

As of September 30, 2008	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Intragovernmental Securities				
Marketable	$ 41,403	$ 650	$ 42,053	$ 42,594
Non-Marketable, Par Value	20,484,837	-	20,484,837	20,484,837
Non-Marketable, Market-Based	1,087,268	(533)	1,086,735	1,120,012
Subtotal	21,613,508	117	21,613,625	21,647,443
Accrued Interest	85,906	-	85,906	
Total Intragovernmental Securities	$ 21,699,414	$ 117	$ 21,699,531	$ 21,647,443
Securities with the Public				
Marketable	28,535	(250)	28,285	28,355
Subtotal	28,535	(250)	28,285	28,355
Accrued Interest	422	-	422	
Total Securites with the Public	28,957	(250)	28,707	28,355
As of September 30, 2007				
Intragovernmental Securities				
Marketable	$ 35,300	$ (371)	$ 34,929	$ 35,665
Non-Marketable, Par Value	20,135,487	-	20,135,487	20,135,487
Non-Marketable, Market-Based	886,403	-	886,403	895,914
Subtotal	21,057,190	(371)	21,056,819	21,067,066
Accrued Interest	87,264	-	87,264	
Total Intragovernmental Securities	$ 21,144,454	$ (371)	$ 21,144,083	$ 21,067,066
Securities with the Public				
Marketable	$ 75,252	$ (1,167)	$ 74,085	$ 74,205

Investments include non-marketable par value and market-based Treasury securities and marketable securities issued by the Treasury and other Federal entities. 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. Marketable Federal securities can be bought and sold on the open market.

NOTE 3. INVESTMENTS *(CONT.)*

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for Government purposes. Non-Marketable par value Treasury securities are issued to DOT as evidence of these receipts. These securities provide DOT with authority to draw upon the U.S. Treasury to make future expenditures. When DOT requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Treasury securities are an asset of DOT and a liability of the U.S. Treasury. Because the DOT and the U.S. Treasury are both a part of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

NOTE 4. ACCOUNTS RECEIVABLE

	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
As of September 30, 2008			
Intragovernmental			
Accounts Receivable	$ 235,620	$ -	$ 235,620
Accrued Interest	18	-	18
Total Intragovernmental	235,638	-	235,638
Public			
Accounts Receivable	85,141	(17,722)	67,419
Accrued Interest	896	(463)	433
Total Public	86,037	(18,185)	67,852
Total Receivables	$ 321,675	$ (18,185)	$ 303,490
As of September 30, 2007			
Intragovernmental			
Accounts Receivable	$ 509,692	$ -	$ 509,692
Public			
Accounts Receivable	123,422	(9,345)	114,077
Accrued Interest	41	-	41
Total Public	123,463	(9,345)	114,118
Total Receivables	$ 633,155	$ (9,345)	$ 623,810




NOTE 5. OTHER ASSETS

	FY 2008	FY 2007
Intragovernmental		
Advances and Prepayments	$ 38,915	$ 1,739
Other	-	714
Total Intragovernmental	$ 38,915	$ 2,453
Public		
Advances to the States for the Right of Way	$ 91,529	$ 98,861
Other Advances and Prepayments	90,646	112,029
Other	317	154
Total Public	$ 182,492	$ 211,044

Intragovernmental Other Assets are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods and services not yet received and undistributed assets and payments for which DOT is awaiting documentation. Public Other Assets are comprised of advances to States and advances to Amtrak, employees and contractors.

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups:

(1) Pre-1992 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 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 subsequent subsidy costs (which arises from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) be recognized 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 would be expected to be received from selling the loans. DOT has calculated the allowance for pre-1992 loans using the allowance for loss method.

DOT administers the following direct loan and/or loan guarantee programs:

(1) The Railroad Rehabilitation Improvement Program is used to acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of tract, bridges, yards, buildings, and shops; refinance outstanding debt incurred; and develop or establish new intermodal or railroad facilities.

(2) The Transportation Infrastructure Finance Innovation Act (TIFIA) Loan Program provides Federal credit assistance to major transportation investments of critical national importance such as highway, transit, passenger rail, certain freight facilities, and certain port projects with regional and national benefits. The TIFIA credit program is designed to fill market gaps and leverages substantial private co-investment by providing supplemental and subordinate capital.

(3) The Federal Ship Financing Fund (Title XI) offers loan guarantees to qualified shipowners and shipyards. The guarantee provides the benefit of long term financing at stable interest rates to the approved applicants.

(4) The OST Minority Business Resource Center Guaranteed Loan Program helps small businesses gain access to the financing needed to participate in transportation-related contracts.

An analysis of loans receivable, allowance for subsidy costs, liability for loan guarantees, foreclosed property, modifications and reestimates associated with direct loans and loan guarantees is provided in the following sections:




NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Direct Loans

Obligated Prior to FY 1992 (Allowance for Loss Method)

	FY 2008 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loan Programs				
1. Railroad Rehabilitation Improvement Program	$ 13,757	$ 154	$ -	$ 13,911

	FY 2008 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost(Present Value)	Value of Assets Related to Direct Loans, Net
Direct Loan Programs				
Obligated After FY 1991				
1. Railroad Rehabilitation Improvement Program	$ 289,862	$ 552	$ (2,408)	$ 288,006
2. TIFIA Loans	1,488,123	-	(158,716)	1,329,407
Total	$ 1,777,985	$ 552	$ (161,124)	$ 1,617,413

Obligated Prior to FY 1992 (Allowance for Loss Method)

	FY 2007 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loan Programs				
1. Railroad Rehabilitation Improvement Program	$ 17,479	$ 90	$ -	$ 17,569
Obligated After FY 1991				
1. Railroad Rehabilitation Improvement Program	$ 497,166	$ -	$ 9,889	$ 507,055
2. TIFIA Loans	377,058	-	(39,998)	337,060
Total	$ 874,224	$ -	$ (30,109)	$ 844,115

Total Amount of Direct Loans Disbursed (Post-1991)

	FY 2008	FY 2007
Direct Loan Programs		
1. Railroad Rehabilitation Improvement Program	$ 70,027	$ 99,832
2. TIFIA Loans	1,079,316	246,033
Total	$ 1,149,343	$ 345,865

TIFIA loan disbursements increased significantly in FY 2008 over 2007 levels, primarily due to loan disbursements for three large surface transportation system projects totaling $950 million.

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Subsidy Expense for Direct Loans by Program and Component

Subsidy Expense for New Direct Loans Disbursed

FY 2008	Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
Direct Loan Programs					
1. Railroad Rehabilitation Improvement Program	$ -	$ -	$ 1,409	$ -	$ 1,409
2. TIFIA Loans	-	118,763	-	-	118,763
Total	$ -	$ 118,763	$ 1,409	$ -	$ 120,172

FY 2007	Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
Direct Loan Programs					
1. Railroad Rehabilitation Improvement Program	$ -	$ -	$ 1,786	$ -	$ 1,786
2. TIFIA Loans	-	27,576	-	-	27,576
Total	$ -	$ 27,576	$ 1,786	$ -	$ 29,362

Modifications and Re-estimates

FY 2008	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
1. Railroad Rehabilitation Improvement Program	$ -	$ -	$ 13,801	$ 13,801
2. TIFIA Loans	-	-	11,944	11,944
Total	$ -	$ -	$ 25,745	$ 25,745

FY 2007	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
1. Railroad Rehabilitation Improvement Program	$ (1,745)	$ -	$ 1,567	$ 1,567
2. TIFIA Loans	2,959	1,328	7,099	8,427
Total	$ 1,214	$ 1,328	$ 8,666	$ 9,994

Total Direct Loan Subsidy Expense

	FY 2008	FY 2007
Direct Loan Programs		
1. Railroad Rehabilitation Improvement Program	$ 15,210	$ 1,608
2. TIFIA Loans	130,707	2,959
Total	$ 145,917	$ 4,567




NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

	FY 2008 Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
1. Railroad Rehabilitation Improvement Program	-0.95%	3.85%	-2.90%	0.00%	0.00%
2. TIFIA Loans	-0.04%	5.04%	0.00%	0.00%	5.00%
Total	-0.99%	8.89%	-2.90%	0.00%	5.00%

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

Beginning Balance, Changes, and Ending Balance	FY 2008	FY 2007
Beginning Balance of the Subsidy Cost Allowance	$ 30,109	$ (570)
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Default Costs (net of recoveries)	118,763	-
Fees and Other Collections	1,409	-
Other Subsidy Costs	-	29,362
Total of the Above Subsidy Expense Components	120,172	29,362
Adjustments		
Loan Modifications	-	3,207
Fees Received	-	(55)
Subsidy Allowance Amortization	(14,902)	(8,518)
Ending Balance of the Subsidy Cost Allowance Before Reestimates	135,379	23,426
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	25,745	6,683
Total of the Above Reestimate Components	25,745	6,683
Ending Balance of the Subsidy Cost Allowance	$ 161,124	$ 30,109

Defaulted Guaranteed Loans from Post-1991 Guarantees

Loan Guarantee Programs	FY 2008 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Default Guaranteed Loans Receivable, Net
3. Federal Ship Financing Fund (Title XI)	$ 43,680	$ 600	$ -	$ (5,320)	$ 38,960

Loan Guarantee Programs	FY 2007 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Default Guaranteed Loans Receivable, Net
3. Federal Ship Financing Fund (Title XI)	$ 7,501	$ 200	$ 19,000	$ 1,500	$ 28,201

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Guaranteed Loans Outstanding

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
3. Federal Ship Financing Fund (Title XI)	$ 2,421,273	$ 2,421,273
4. OST Minority Business Resource Center	3,350	2,513
Total	$ 2,424,623	$ 2,423,786

New Guaranteed Loans Disbursed

	2008 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
4. OST Minority Business Resource Center	$ 2,600	$ 1,950

Loan Guarantee Programs	2007 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
4. OST Minority Business Resource Center	$ 3,415	$ 2,651
Total	$ 3,415	$ 2,651

Liability for Loan Guarantees (Present Value Method Post-1991 Guarantees):

Loan Guarantee Programs	FY 2008 Liabilities for Post-1991 Guarantees, Present Value
3. Federal Ship Financing Fund (Title XI)	$ 257,929
4. OST Minority Business Resource Center	121
Total	$ 258,050

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Subsidy Expense for Loan Guarantees by Program and Component

Subsidy Expense for New Loan Guarantees Disbursed

Loan Guarantee Programs	2008 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
3. Federal Ship Financing Fund (Title XI)	$ -	$ 38,599	$ (23,108)	$ -	$ 15,491
4. OST Minority Business Resource Center	-	53	-	-	53
Total	$ -	$ 38,652	$ (23,108)	$ -	$ 15,544

Loan Guarantee Programs	2008 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
3. Federal Ship Financing Fund (Title XI)	$ -	$ 891	$ 774	$ 20,499	$ 22,164
4. OST Minority Business Resource Center	62	-	-	-	62
Total	$ 62	$ 891	$ 774	$ 20,499	$ 22,226

Modifications and Re-estimates

Loan Guarantee Programs	FY 2008 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
3. Federal Ship Financing Fund (Title XI)	$ -	$ -	$ (106,400)	$ (106,400)
4. OST Minority Business Resource Center	-	-	(153)	(153)
Total	$ -	$ -	$ (106,553)	$ (106,553)

Loan Guarantee Programs	FY 2007 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
3. Federal Ship Financing Fund (Title XI)	$ (31,096)	$ -	$ 31,096	$ 31,096
4. OST Minority Business Resource Center	-	12,992	(15,208)	(2,216)
Total	$ (31,096)	$ 12,992	$ 15,888	$ 28,880

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	FY 2008	FY 2007
3. Federal Ship Financing Fund (Title XI)	$ (90,909)	$ 22,164
4. OST Minority Business Resource Center	(100)	(2,154)
Total	$ (91,009)	$ 20,010

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

Loan Guarantee Programs	2008 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
3. Federal Ship Financing Fund (Title XI)	0.00%	9.23%	-4.88%	0.00%	4.35%
4. OST Minority Business Resource Center	0.00%	2.03%	0.00%	0.00%	2.03%
Total	0.00%	11.26%	-4.88%	0.00%	6.38%

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance	FY 2008	FY 2007
Beginning Balance of the Loan Guarantee Liability	$ 336,626	$ 345,864
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
Default Costs (net of recoveries)	38,652	571
Fees and Other Collections	(23,108)	774
Other Subsidy Costs	-	3,299
Total of the Above Subsidy Expense Components	15,544	4,644
Adjustments		
Interest Accumulation on the Liability Balance	11,910	17,216
Other	523	-
Ending Balance of the Loan Guarantee Liability Before Reestimates	364,603	367,724
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	(106,553)	(31,098)
Total of the Above Reestimate Components	(106,553)	(31,098)
Ending Balance of the Loan Guarantee Liability	$ 258,050	$ 336,626

Interest on the loans is accrued based on the terms of the loan agreement. DOT does not accrue interest on non-performing loans that have filed for bankruptcy protection. DOT management considers administrative costs to be insignificant.

The downward reestimate on the Federal Ship Financing Fund (Title XI) was a result of significant reductions in principal outstanding each year on the loan guarantees as well as the reassessment of risk levels on high risk loans. The economic assumptions of the TIFIA loan program has been revised resulting in an upward reestimate of costs over the life of the loan. The Railroad Rehabilitation Improvement Program's upward reestimate was a result of an update for change in the discount rate between time of loan obligation and disbursement and an update for actual cash flows and changes in technical assumptions.

The downturn in economy has led to volatility in financial markets which could affect loan repayments under direct and loan guarantee programs. Under the Federal Credit Reform Act, upward reestimates are automatically covered by permanent indefinite budget authority, which ensures DOT will have sufficient resources to cover any losses incurred in its existing portfolio without further action by Congress. DOT continues to evaluate the risks to affected markets in light of evolving economic conditions, but the impact of such risks on DOT's loan and loan guarantee portfolio reserves, if any, cannot be fully known at this time. The sufficiency of DOT's portfolio reserves at September 30, 2008 will largely depend on future economic and market conditions and could differ from current estimates.




NOTE 7. INVENTORY AND RELATED PROPERTY

	Cost	Allowance for Loss	Net
As of September 30, 2008			
Inventory:			
Inventory Held for Current Sale	$ 82,350	$ (96)	$ 82,254
Excess, Obsolete and Unserviceable Inventory	19,583	(19,583)	-
Inventory Held for Repair	487,117	(96,240)	390,877
Other	26,299	(10,591)	15,708
Total Inventory	$ 615,349	$ (126,510)	$ 488,839
Operating Materials and Supplies:			
Items Held for Use	$ 229,430	$ (4,856)	$ 224,574
Items Held in Reserve for Future Use	65,903	-	65,903
Excess, Obsolete and Unserviceable Items	526	(526)	-
Items Held for Repair	41,024	(17,972)	23,052
Total Operating Materials & Supplies	$ 336,883	$ (23,354)	$ 313,529
Total Inventory and Related Property			$ 802,368
As of September 30, 2007			
Inventory:			
Inventory Held for Current Sale	$ 82,975	$ (6,631)	$ 76,344
Inventory Held for Repair	466,346	(95,600)	370,746
Other	35,992	(17,996)	17,996
Total Inventory	$ 585,313	$ (120,227)	$ 465,086
Operating Materials and Supplies:			
Items Held for Use	$ 233,470	$ (3,923)	$ 229,547
Items Held in Reserve for Future Use	69,998	-	69,998
Excess, Obsolete and Unserviceable Items	480	(480)	-
Items Held for Repair	38,385	(17,256)	21,129
Total Operating Materials & Supplies	$ 342,333	$ (21,659)	$ 320,674
Total Inventory and Related Property			$ 785,760

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation	Book Value
As of September 30, 2008				
Land and Improvements	30	$ 103,056	$ (1,084)	$ 101,972
Buildings and Structures	15-40	5,054,765	(2,665,384)	2,389,381
Furniture and Fixtures	15-20	67,509	(65,050)	2,459
Equipment	15-20	18,797,474	(9,843,868)	8,953,606
ADP Software	15-20	252,778	(208,227)	44,551
Assets Under Capital Lease	6-10	166,387	(125,137)	41,250
Leasehold Improvements	40	90,392	(43,519)	46,873
Aircraft	40	401,614	(314,282)	87,332
Ships and Vessels	11-20	1,656,764	(1,241,137)	415,627
Small Boats	20	17,724	(15,180)	2,544
Construction in Progress		2,409,108	-	2,409,108
Property Not in Use		95,013	(77,148)	17,865
Total		$ 29,112,584	$ (14,600,016)	$ 14,512,568
As of September 30, 2007				
Land and Improvements	30	$ 208,742	$ (89,679)	$ 119,063
Buildings and Structures	15-40	4,823,882	(2,485,100)	2,338,782
Equipment	15-20	17,666,943	(9,054,817)	8,612,126
ADP Software	15-20	208,130	(180,104)	28,026
Assets Under Capital Lease	6-10	166,387	(111,373)	55,014
Leasehold Improvements	40	67,494	(35,541)	31,953
Aircraft	40	401,614	(297,508)	104,106
Ships and Vessels	11-20	1,656,764	(1,176,540)	480,224
Small Boats	20	17,564	(14,712)	2,852
Construction in Progress		2,892,154	-	2,892,154
Property Not in Use		93,593	(74,003)	19,590
Total		$ 28,203,267	$ (13,519,377)	$ 14,683,890




NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

PERSONAL PROPERTY HERITAGE ASSETS

Implied within the Maritime Administration's mission is the promotion of the nation's rich maritime heritage. One aspect of this entails the collection, maintenance and distribution of maritime artifacts removed from agency-owned ships prior to their disposal. As ships are assigned to a non-retention status, artifact items are collected, inventoried, photographed and relocated to secure shore-side storage facilities. This resulting inventory is made available on a long-term loan basis to qualified organizations for public display purposes.

MARAD artifacts and other collections are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies. MARAD maintains a web-based inventory system that manages the artifact loan process. The program also supports required National Historical Preservation Act processing prior to vessel disposal. Funding for the maintenance of heritage items is typically the responsibility of the organization requesting the loan. The artifacts and other collections are composed of ships' operating equipment obtained from obsolete ships. The ships are inoperative and in need of preservation and restoration. As all items are durable and restorable, disposal is not a consideration. A total of 604 units of artifacts and other collections were collected as of September 30, 2008 and 598 units were collected as of September 30, 2007.

REAL PROPERTY HERITAGE ASSETS

Washington's Union Station support's DOT's mobility mission, facilitating the movement of intercity and commuter rail passengers through the Washington DC metropolitan area. The Federal Railroad Administration (FRA) has an oversight role in the management of Washington's Union Station. FRA received title through legislation, and sublets the property to Union Station Venture Limited which manages the property.

Washington's Union Station is an elegant and unique turn-of-the-century rail station in which a wide variety of elaborate, artistic workmanship characteristic of the period is found. 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 National Park Service.

The Nuclear Ship Savannah is the world's first nuclear-powered merchant ship. It was constructed as a joint project of the Maritime Administration and the Atomic Energy Commission (AEC) as a signature element of President Eisenhower's "Atoms for Peace" program. In 1965 the AEC issued a commercial operating license and ended its participation in the joint program. The ship remains licensed and regulated by the U.S. Nuclear Regulatory Commission (successor to the AEC). The Nuclear Ship Savannah is listed on the National Register of Historic Places. The ship is a boldly-styled passenger/cargo vessel powered by a nuclear reactor.

Actions taken by the Maritime Administration since 2006 have stabilized the ship and rehabilitated portions of its interior for work-day occupancy by staff and crew. The ship is currently located in Baltimore, MD, where it is being prepared for continued "SAFSTOR" retention under the provisions of its NRC license.

NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Intragovernmental	FY 2008	FY 2007
Debt	$ -	$ 1,726
Other Liabilities (Note 15)	364,516	440,686
Total Intragovernmental	364,516	442,412
Federal Employee Benefits Payable	984,710	946,408
Environmental and Disposal Liabilities (Note 13)	828,757	852,366
Other Liabilities	864,520	782,120
Total Liabilities Not Covered by Budgetary Resources	3,042,503	3,023,306
Total Liabilities Covered by Budgetary Resources	11,774,151	11,051,917
Total Liabilities	$ 14,816,654	$ 14,075,223




NOTE 11. DEBT

	FY 2007 Beginning Balance	FY 2007 Net Borrowing	FY 2007 Ending Balance	FY 2008 Net Borrowing	FY 2008 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$ 836,680	$ 201,623	$ 1,038,303	$ 722,458	$ 1,760,761
Debt to the Fed Financing Bank	2,677	(219)	2,458	(234)	2,224
Total Intragovernmental Debt	$ 839,357	$ 201,404	$ 1,040,761	$ 722,224	$ 1,762,985

NOTE 12. FEDERAL EMPLOYEE BENEFITS PAYABLE

	2008	2007
Intragovernmental Liability for FECA (Note 15)	$ 221,586	$ 214,787
Expected Future Liability for FECA	984,710	946,408
Total Federal Employee Benefits Payable	$ 1,206,296	$ 1,161,195

The Department of Labor calculates the FECA liability for DOT as a whole. FECA liabilities include the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary resources and thus will require future appropriated funding.

The intragovernmental FECA liability represents amounts billed to DOT by the DOL for FECA payments made on DOT's behalf. Funding for the liability will be made provided by future appropriations. The intragovernmental amount is not an actuarial liability.

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

	September 30, 2008	September 30, 2007
Public		
Environmental Remediation	$ 464,081	$ 316,748
Asset Disposal	364,676	535,618
Total Public	$ 828,757	$ 852,366

Environmental remediation 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 activities associated with normal operations or the result of an accident. The increase or decrease in the annual liability is charged to the current year expense.

As of September 30, 2008 and 2007, DOT's environmental remediation liability primarily includes the removal of contaminants on the Nuclear Ship Savannah, containment of exfoliating ship paint for the non-retention ships in the National Defense Reserve Fleet (Fleet), and remediation at various sites managed by the FAA and MARAD.

DOT has not recorded a liability for potential contamination at a MARAD site in Portland, Oregon. Because the remedial investigation/feasibility study has not been completed and because MARAD is listed as one of hundreds of potentially responsible parties, it is not yet possible to reasonably estimate MARAD's portion, if any, of the remediation costs.

The National Maritime Heritage Act requires that MARAD dispose of certain merchant vessels owned by the U.S. government, including non-retention ships in the Fleet. The asset disposal liability at September 30, 2008 includes the estimated cost of disposing 187 ships. In addition, FAA records an asset disposal liability upon the decommissioning of an asset to cover preparatory costs required to meet regulatory standards allowing for the safe disposition of the asset.

NOTE 14. GRANT ACCRUAL

The grant accrual consists of an estimate of grantee expenses incurred but not yet paid by DOT. Grantees primarily include state and local governments and transit authorities.

Grant accruals by Operating Administration at September 30, 2008 and 2007 are summarized as follows:

	FY 2008	FY 2007
Federal Highway Administration	$ 3,730,005	$ 4,144,949
Federal Transit Administration	1,373,270	707,996
Federal Aviation Administration	642,041	653,790
Other	64,831	19,553
Total Grant Accrual	$ 5,810,147	$ 5,526,288




NOTE 15. OTHER LIABILITIES

	Non-Current	Current	Total
As of September 30, 2008			
Intragovernmental			
Advances and Prepayments	$ -	$ 2,786,860	$ 2,786,860
Accrued Pay and Benefits	-	79,188	79,188
FECA Billings (Note 12)	126,117	95,469	221,586
Deferred Credits	-	458	458
Other Accrued Liabilities	92,427	82,604	175,031
Total Intragovernmental	$ 218,544	$ 3,044,579	$ 3,263,123
Public			
Other Accrued Unbilled Payments	$ -	$ 50,177	$ 50,177
Advances and Prepayments	-	60,101	60,101
Accrued Pay and Benefits	48,386	698,169	746,555
Deferred Credits	-	93,676	93,676
Legal Claims	2,901	109,787	112,688
Capital Leases	49,271	12,400	61,671
Other Custodial Liability	-	17,956	17,956
Other Accrued Liabilities	197,131	25,302	222,433
Total Public	$ 297,689	$ 1,067,568	$ 1,365,257

As of September 30, 2007	Non-Current	Current	Total
Intragovernmental			
Advances and Prepayments	$ (79,321)	$ 2,911,830	$ 2,832,509
Accrued Pay and Benefits	2,533	83,810	86,343
FECA Billings (Note 12)	126,127	88,660	214,787
Deferred Credits	34,972	-	34,972
Other Accrued Liabilities	227,405	22,062	249,467
Total Intragovernmental	$ 311,716	$ 3,106,362	$ 3,418,078
Public			
Other Accrued Unbilled Payments	$ 11	$ 1,752	$ 1,763
Advances and Prepayments	31,420	142,852	174,272
Accrued Pay and Benefits	160,135	568,817	728,952
Deferred Credits	129,891	-	129,891
Legal Claims	2,431	14,205	16,636
Capital Leases	57,612	14,499	72,111
Other Custodial Liability	(2)	26,796	26,794
Other Accrued Liabilities	93,421	65,571	158,992
Total Public	$ 474,919	$ 834,492	$ 1,309,411

NOTE 16. CAPITAL LEASES

ENTITY AS LESSEE

Capital Leases

	2008	2007
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$ 166,387	$ 166,387
Accumulated Amortization	(125,137)	(111,373)
Net Assets Under Capital Lease	$ 41,250	$ 55,014

Future Payments Due

Fiscal Year		
Year 1 (2009)	$	13,502
Year 2 (2010)		12,833
Year 3 (2011)		11,816
Year 4 (2012)		8,637
Year 5 (2013)		5,709
After 5 Years (2014+)		54,240
Total Future Lease Payments	$	106,737
Less: Imputed Interest		45,066
Net Capital Lease Liability	$	61,671

The capital lease payments disclosed above relate to FAA and are authorized to be funded annually as codified in the United States Code - Title 49 - Section 40110(c)(1) which addresses general procurement authority. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.

OPERATING LEASES

Future Payments Due

Fiscal Year		Land, Buildings, Machinery & Other
Year 1 (2008)	$	208,288
Year 2 (2009)		200,604
Year 3 (2010)		177,565
Year 4 (2011)		161,468
Year 5 (2012)		108,545
After 5 Years (2013+)		670,297
Total Future Lease Payments	$	1,526,767

Operating lease expense incurred during the years ended September 30, 2008 and 2007 was $251 million and $236 million, respectively, including General Services Administration (GSA) leases that have a short termination privilege; however, DOT intends to remain in the leases. The FY 2008 lease expense and related future payments disclosed above include amounts related to DOT's new Southeast Federal Center Building located in the District's Anacostia Watershed and do not include immaterial lease amounts of DOT field offices. The operating lease amounts due after five years does not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.




NOTE 17. COMMITMENTS AND CONTINGENCIES

LEGAL CLAIMS

As of September 30, 2008 and 2007, DOT's contingent liabilities, in excess of amounts accrued, for asserted and pending legal claims reasonably possible of loss were estimated at $88.2 million and $33.1 million, respectively. DOT does not have material amounts of known unasserted claims.

GRANT PROGRAMS

FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. For the fiscal year ended September 30, 2008 and 2007, FHWA has pre-authorized $46.2 billion and $46.2 billion, respectively, under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2008 and 2007.

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 Congress appropriating New Starts funds to the project. As of September 30, 2008 and September 30, 2007, FTA had approximately $1.7 billion and $3.9 billion respectively, in funding commitments under FFGAs, which Congress had not yet appropriated. Congress must first provide the budget authority (appropriations) to allow FTA to incur obligations for these programs. Until Congress appropriates funds, FTA is not liable to grantees for any costs incurred. There is no liability related to these commitments reflected in the DOT consolidated financial statements at September 30, 2008 and 2007.

FAA's Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security and environmental concerns. FAA's share is 75 percent of the eligible costs for large and medium primary hub airports with the exception of noise program implementation, which is 80 percent of the eligible costs. For remaining airports (small primary, reliever, and general aviation airports), FAA's share is 95 percent of the eligible costs.

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2008, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.7 billion. As of September 30, 2008, FAA had obligated $4.6 billion of this total amount leaving $1.1 billion unobligated. Through September 30, 2007, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.6 billion. As of September 30, 2007, FAA had obligated $4.3 billion of this total amount, leaving $1.3 billion unobligated.

CONTRACT OPTIONS AND NEGOTIATIONS

As of September 30, 2008 and 2007, FAA had contract options of $3.7 billion and $3.5 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.

NOTE 17. COMMITMENTS AND CONTINGENCIES *(CONT.)*

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 U.S. foreign policy. FAA may issue (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

During FY 2008, FAA provided premium war-risk insurance to 77 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $4 billion. FAA also provided non-premium war-risk insurance to 38 carriers with 1,667 aircraft for Department of Defense charter operations for Central Command and standby non-premium war-risk insurance policies for 8 carriers for State Department charter operations.

As of September 30, 2008, there are no pending aviation insurance claims. There is approximately $1.1 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and State Department have agreed to pay claims to the carriers covered by non-premium insurance.

ENVIRONMENTAL LIABILITIES

MARAD is named as a defendant in a case alleging violations of the Resource Conservation and Recovery Act, the Clean Water Act, and the hazardous waste code for the State of California. Based on the nature of the lawsuit, management is currently unable to quantify its liability in this area.

As of September 30, 2008, FAA has estimated contingent liabilities, categorized as reasonably possible of $114.1 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope.

NOTE 18. EARMARKED FUNDS

DOT administers certain earmarked funds, which are specifically identified revenues, often supplemented by other financing sources, that remain available over time. No new legislation was enacted as of September 30, 2008 that significantly changed the purpose of the earmarked funds or redirected a material portion of the accumulated balance. Descriptions of the significant earmarked funds are as follows:

Highway Trust Fund

The Highway Trust Fund (HTF) is comprised of the Highway Corpus Trust Fund and certain accounts of the Federal Highway Administration, Federal Motor Carrier Safety Administration, Federal Transit Administration, Federal Railroad Administration and the National Highway Traffic Safety Administration. The HTF was created in 1956 by the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. Over the years, the use of the fund has been expanded to include mass transit and other surface transportation programs such as highway safety and motor carrier safety programs. Overall, there are 73 separate treasury symbols in the HTF.

HTF's programs and activities are primarily financed from excise taxes collected on specific motor fuels, truck taxes, and fines and penalties. The Highway Revenue Act of 1982 established two accounts within the HTF, the Highway Account and the Mass Transit Account. In September 2008, Congress appropriated an $8 billion transfer from the Treasury General Fund to the HTF Highway Account to alleviate the cash shortfall created by increases in fuel prices, and corresponding declines in gas tax revenues.

Airport and Airway Trust Fund

The Airport and Airway Trust Fund (AATF) was authorized by the Airport and Airway Revenue Act of 1970 to provide funding for the Federal commitment to the nation's aviation system and typically includes annual funding for four distinct areas within FAA: Operations; Grant in Aid for Airports; Facilities and Equipment; and Research, Engineering and Development.

Funding currently comes from several aviation related excise tax collections from passenger tickets, passenger flight segments, international arrivals/departures, cargo waybills and aviation fuels.

Mass Transit Account

In FY-2005 and prior, FTA's formula and bus grant programs were funded 80 percent by certain earmarked excise tax revenues and 20 percent from the Treasury general receipts account. These funds are considered earmarked but not reported as part of the HTF.

Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) legislation (PL 109-59) changed the way FTA programs are funded. Beginning in FY-2006, the FTA formula and bus grant programs are funded 100 percent by the HTF.

The following is a list of other earmarked funds for which the DOT has program management responsibility:

Other Earmarked Funds

Aviation Insurance Revolving Fund

Pipeline Safety

Emergency Preparedness Grant

Aviation User Fees

Essential Air Service and Rural Airport Improvement Fund

University Transportation Centers

Contributions for Highway Research Program

Cooperative Work, Forest Highways

Safety of Cross-Border Trucking Between the United States and Mexico

Payment to Air Carriers

Right of Way Revolving Fund Program Account

Alaska Pipeline Task Force, Oil Spill Liability Trust Fund

Right-of-Way Revolving Fund Trust Fund

Technical Assistance, United States Dollars Advanced from Foreign Governments

Gifts and Bequests, Maritime Administration

Special Studies, Services and Projects

Gifts and Bequests, DOT Office of the Secretary

Equipment, Supplies, etc., for Cooperating Countries




NOTE 18. EARMARKED FUNDS *(CONT.)*

	Highway Trust Fund	Airport & Airway Trust Fund	Mass Transit	Other Earmarked Funds	FY 2008 Total Earmarked
Balance Sheet as of September 30, 2008					
Assets					
Fund Balance with Treasury	$ 4,005,470	$ 848,372	$ 2,157,264	$ 3,196,326	$ 10,207,432
Investments, Net	12,811,128	7,746,547	-	1,142,277	21,699,952
Accounts Receivable, Net	27,112,794	-	-	3,918,375	31,031,169
Inventory and Related Property, Net	-	-	-	-	-
Property, Plant & Equipment	112,119	-	-	3,794	115,913
Other	380,932	-	777	2,579,181	2,960,890
Total Assets	$ 44,422,443	$ 8,594,919	$ 2,158,041	$ 10,839,953	$ 66,015,356
Liabilities and Net Position					
Accounts Payable	$ 27,125,748	$ 3,772,307	$ 2,039	$ 315,627	$ 31,215,721
AATF Amounts due to FAA	-	-	-	-	-
FECA Liabilities	856,966	-	181	1,120,534	1,977,681
Grants Accrual	3,791,266	-	135,443	644,311	4,571,020
Other Liabilities	212,999	-	3,360	1,080,123	1,296,482
Unexpended Appropriations	-	-	41,197	969,212	1,010,409
Cumulative Results of Operations	12,435,464	4,822,612	1,975,821	6,710,146	25,944,043
Total Liabilities and Net Position	$ 44,422,443	$ 8,594,919	$ 2,158,041	$ 10,839,953	$ 66,015,356
Statement of Net Cost For the Period Ended September 30, 2008					
Program Costs	$ 43,416,975	$ 13,466,390	$ 1,322,007	$ 866,911	$ 59,072,283
Less Earned Revenue	111,467	-	(15,330)	558,714	654,851
Net Program Costs	43,305,508	13,466,390	1,337,337	308,197	58,417,432
Costs Not Attibutable to Programs	-	-	-	147,952	147,952
Net Cost of Operations	$ 43,305,508	$ 13,466,390	$ 1,337,337	$ 456,149	$ 58,565,384
Statement of Changes in Net Position For the Period Ended September 30, 2008					
Beginning Net Position	$ 11,293,841	$ 6,046,786	$ 3,357,240	$ 7,068,083	$ 27,765,950
Budgetary Financing Sources	44,414,017	12,242,216	(2,885)	2,449,990	59,103,338
Other Financing Sources	33,114	-	-	(1,382,566)	(1,349,452)
Net Cost of Operations	43,305,508	13,466,390	1,337,337	456,149	58,565,384
Change in Net Position	1,141,623	(1,224,174)	(1,340,222)	611,275	(811,498)
Net Position End of Period	$ 12,435,464	$ 4,822,612	$ 2,017,018	$ 7,679,358	$ 26,954,452

NOTE 18. EARMARKED FUNDS *(CONT.)*

	Highway Trust Fund	Airport & Airway Trust Fund	Mass Transit	Other Earmarked Funds	FY 2007 Total Earmarked
Balance Sheet as of September 30, 2007					
Assets					
Fund Balance with Treasury	$ 3,209,239	$ 715,578	$ 3,542,996	$ 3,231,336	$ 10,699,149
Investments, Net	12,204,544	8,006,774	-	933,401	21,144,719
Accounts Receivable, Net	46,987	179,673	15,646	3,057,058	3,299,364
Property, Plant & Equipment	95,744	-	-	2,891,344	2,987,088
Other	192,639	-	1,322	23,130	217,091
Total Assets	$ 15,749,153	$ 8,902,025	$ 3,559,964	$ 10,136,269	$ 38,347,411
Liabilities and Net Position					
Liabilities	$ 310,363	$ 2,855,239	$ 4,564	$ 3,060,529	$ 6,230,695
Grants Accrual	4,144,949	-	198,160	7,657	4,350,766
Unexpended Appropriations	-	-	49,232	1,163,957	1,213,189
Cumulative Results of Operations	11,293,841	6,046,786	3,308,008	5,904,126	26,552,761
Total Liabilities and Net Position	$ 15,749,153	$ 8,902,025	$ 3,559,964	$ 10,136,269	$ 38,347,411
Statement of Net Cost For the Period Ended September 30, 2007					
Program Costs	$ 39,942,210	$ 12,695,908	$ 1,779,049	$ 1,308,782	$ 55,725,949
Less Earned Revenue	108,695	-	56,279	508,634	673,608
Net Program Costs	39,833,515	12,695,908	1,722,770	800,148	55,052,341
Costs Not Attibutable to Programs	-	-	-	102,279	102,279
Net Cost of Operations	$ 39,833,515	$ 12,695,908	$ 1,722,770	$ 902,427	$ 55,154,620
Statement of Changes in Net Position For the Period Ended September 30, 2007					
Beginning Net Position	$ 11,932,051	$ 6,398,812	$ 5,290,939	$ 7,165,637	$ 30,787,439
Budgetary Financing Sources	39,160,532	12,343,882	(210,929)	2,776,612	54,070,097
Other Financing Sources	34,773	-	-	(1,971,739)	(1,936,966)
Net Cost of Operations	39,833,515	12,695,908	1,722,770	902,427	55,154,620
Change in Net Position	(638,210)	(352,026)	(1,933,699)	(97,554)	(3,021,489)
Net Position End of Period	$ 11,293,841	$ 6,046,786	$ 3,357,240	$ 7,068,083	$ 27,765,950

NOTE 19. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

For the Year Ended September 30, 2008	Intragovernmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$ 261,106	$ 35,462,448	$ 35,723,554
Less Earned Revenue	4,541	63,819	68,360
Net Program Costs	256,565	35,398,629	35,655,194
Mass Transit Program			
Gross Costs	5,517	10,137,413	10,142,930
Less Earned Revenue	16,215	766	16,981
Net Program Costs	(10,698)	10,136,647	10,125,949
Other Surface Transportation Programs			
Gross Costs	307,817	4,242,481	4,550,298
Less Earned Revenue	31,350	147,080	178,430
Net Program Costs	276,467	4,095,401	4,371,868
Total Surface Transportation Program Costs	522,334	49,630,677	50,153,011
Air Transportation			
Air Traffic Organization			
Gross Costs	1,993,589	8,456,418	10,450,007
Less Earned Revenue	24,273	528	24,801
Net Program Costs	1,969,316	8,455,890	10,425,206
Airports			
Gross Costs	18,138	3,735,702	3,753,840
Less Earned Revenue	-	165	165
Net Program Costs	18,138	3,735,537	3,753,675
Aviation Safety			
Gross Costs	169,358	986,409	1,155,767
Less Earned Revenue	870	25	895
Net Program Costs	168,488	986,384	1,154,872
Commercial Space Transportation			
Gross Costs	1,693	9,564	11,257
Other Federal Aviation Administration Programs			
Gross Costs	68,719	474,077	542,796
Less Earned Revenue	2,520	353,165	355,685
Net Program Costs	66,199	120,912	187,111
Total Air Transportation Program Costs	2,223,834	13,308,287	15,532,121

NOTE 19. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES *(CONT.)*

For the Year Ended September 30, 2008	Intragovernmental	With the Public	Total
Maritime Transportation			
Gross Costs	$ 19,364	$ 687,285	$ 706,649
Less Earned Revenue	282,959	208,611	491,570
Net Program Costs	(263,595)	478,674	215,079
Cross-Cutting Programs			
Gross Costs	6,335	559,526	565,861
Less Earned Revenue	539,109	3,251	542,360
Net Program Costs	(532,774)	556,275	23,501
Costs not Assigned to Programs	129,209	256,921	386,130
Less: Earned Revenues not Attributed to Programs	39,196	183	39,379
Net Cost of Operations	$ 2,039,812	$ 64,230,651	$ 66,270,463

NOTE 19. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES *(CONT.)*

For the Year Ended September 30, 2007	Intragovernmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$ 243,314	$ 34,329,482	$ 34,572,796
Less Earned Revenue	26,824	56,822	83,646
Net Program Costs	216,490	34,272,660	34,489,150
Mass Transit Program			
Gross Costs	12,037	8,892,451	8,904,488
Less Earned Revenue	49,783	978	50,761
Net Program Costs	(37,746)	8,891,473	8,853,727
Other Surface Transportation Programs			
Gross Costs	293,537	3,878,513	4,172,050
Less Earned Revenue	44,554	85,067	129,621
Net Program Costs	248,983	3,793,446	4,042,429
Total Surface Transportation Program Costs	427,727	46,957,579	47,385,306
Air Transportation			
Air Traffic Organization			
Gross Costs	2,002,801	7,703,336	9,706,137
Less Earned Revenue	24,644	1,017	25,661
Net Program Costs	1,978,157	7,702,319	9,680,476
Airports			
Gross Costs	17,955	3,905,764	3,923,719
Less Earned Revenue	-	114	114
Net Program Costs	17,955	3,905,650	3,923,605
Aviation Safety			
Gross Costs	158,478	859,837	1,018,315
Less Earned Revenue	2,231	3,335	5,566
Net Program Costs	156,247	856,502	1,012,749
Commercial Space Transportation			
Gross Costs	94,081	510,448	604,529
Less Earned Revenue	100,381	317,292	417,673
Net Program Costs	(6,300)	193,156	186,856
Other Federal Aviation Administration Programs			
Gross Costs	1,676	9,092	10,768
Net Program Costs	1,676	9,092	10,768
Total Air Transportation Program Costs	2,147,735	12,666,719	14,814,454

NOTE 19. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES *(CONT.)*

For the Year Ended September 30, 2007	Intragovernmental	With the Public	Total
Maritime Transportation			
Gross Costs	$ 173,064	$ 586,739	$ 759,803
Less Earned Revenue	183,089	5,987	189,076
Net Program Costs	(10,025)	580,752	570,727
Cross-Cutting Programs			
Gross Costs	25,177	486,347	511,524
Less Earned Revenue	492,603	7,473	500,076
Net Program Costs	(467,426)	478,874	11,448
Costs not Assigned to Programs	270,670	117,722	388,392
Less: Earned Revenues not Attributed to Programs	14	30,281	30,295
Net Cost of Operations	$ 2,368,667	$ 60,771,365	$ 63,140,032

Surface Transportation Program costs includes those operating costs incurred by the Operating Administrations authorized by SAFETEA-LU (FHWA, NHTSA, FMCSA, and FTA), plus the FTA, to promote safety and mobility of the nation's highways and railroads and among the nation's drivers and auto manufacturers.

Air Transportation Program costs include those operating costs incurred to promote aviation safety and mobility by building, maintaining, and operating the Nation's air traffic control system; overseeing commercial and general aviation safety through regulation and inspection; and providing assistance to improve the capacity and safety of our airports.

Maritime Transportation Program Costs include those operating costs incurred to promote the development and maintenance of a U.S. merchant marine that is sufficient to carry the Nation's domestic waterborne commerce, a substantial portion of which is trade with other nations, and to serve as a naval and military auxiliary in time of war and national emergency.

Cross -cutting Program costs include those operating costs incurred to provide goods and services on a reimbursable basis for those Operating Administrations whose mission is primarily cross modal.

NOTE 20. CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

NON-EXCHANGE REVENUE

	FY 2008	FY 2007
Highway Trust Fund		
Excise Taxes and Other Non-Exchange Revenue		
Gasoline	$ 25,325,646	$ 25,418,957
Diesel and Special Motor Fuels	10,531,919	9,916,020
Trucks	2,870,560	5,302,320
Fines and Penalties	17,989	16,869
Total Taxes	38,746,114	40,654,166
Less: Transfers	(1,305,069)	(468,003)
Gross Taxes	37,441,045	40,186,163
Less: Refunds of Taxes	(1,056,512)	(1,047,659)
Total Excise Taxes	36,384,533	39,138,504
Other Non-Exchange Revenue	2,628	19,980
Net Highway Trust Fund Excise Taxes & Other Non-Exchange Revenue	36,387,161	39,158,484
Federal Aviation Administration		
Excise Taxes and Other Non-Exchange Revenue:		
Passenger Ticket	8,260,611	8,376,680
International Departure	2,462,375	2,136,257
Fuel (Air)	624,493	850,454
Waybill	521,040	574,404
Investment Income	429,572	502,937
Tax Refunds and Credits	(55,957)	(67,229)
Other	36,626	64
Net Federal Aviation Administration Excise Taxes & Other Non-Exchange Revenue	12,278,760	12,373,567
Other Miscellaneous Net Non Exchange Revenue	18,429	1,222
Total Non-Exchange Revenue	$ 48,684,350	$ 51,533,273

For the Highway Trust Fund and the Airport and Airway Trust Fund, the consolidated financial statements reflect actual tax collections for the nine months ended June 30, plus an estimate of tax collections expected for the quarter ended September 30. Actual tax collection data for the quarter ended September 30 is not available from the IRS until December of each year.


NOTE 21. COMBINED STATEMENT OF BUDGETARY RESOURCES

The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment, as defined in OMB Circular No. A-11, Part 4, Instructions on Budget Execution, are as follows:

	2008			2007		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$ 9,147,943	$ 1,009,893	$ 10,157,836	$ 8,317,117	$ 885,289	$ 9,202,406
Category B	76,467,131	727,083	77,194,214	65,307,451	816,961	66,124,412
Exempt from apportionment	87,419	230,904	318,323	261,488	220,936	482,424
Total	$ 85,702,493	$ 1,967,880	$ 87,670,373	$ 73,886,056	$ 1,923,186	$ 75,809,242

	2008	2007
Available Contract Authority at year-end	$ 26,974,765	$ 17,995,498
Available Borrowing Authority at year-end	$ 207,985	$ 232,807
Undelivered Orders at year-end	$ 75,032,596	$ 72,184,302

The amounts reported for undelivered orders only include balances obligated for goods and services not delivered and does not include prepayments.

TERMS OF BORROWING AUTHORITY USED

Under the provisions of the Federal Credit Reform Act of 1990, DOT direct loan and loan guarantee programs are authorized to borrow funds from Treasury to support its credit programs. All loan draw downs are dated October 1 of the applicable fiscal year. Interest is payable at the end of each fiscal year based on activity for that fiscal year. Principal can be repaid at any time funds become available. Repayment is effectuated by a combination of loan recoveries and upward re-estimates.

EXISTENCE, PURPOSE, AND AVAILABILITY OF PERMANENT INDEFINITE APPROPRIATIONS

DOT has permanent indefinite appropriations for the Facilities and Equipment, Grants in Aid and Research, Development and Engineering appropriations to fully fund special projects that were on-going and spanned several years.

ADDITIONAL DISCLOSURES

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

NOTE 21. COMBINED STATEMENT OF BUDGETARY RESOURCES *(CONT.)*

STATEMENT OF BUDGETARY RESOURCES VS BUDGET OF THE UNITED STATES GOVERNMENT

The reconciliation for the year ended September 30, 2007 is presented below. The reconciliation for the fiscal year ended September 30, 2008 is not presented, because the submission of the Budget of the United States (Budget) for FY 2010, which presents the execution of the FY 2008 budget, occurs after publication of these financial statements. The Department of Transportation Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2009.

For the Fiscal Year Ended September 30, 2007	(Dollars in millions)			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 122,653	$ 75,809	$ (47)	$ 62,070
Funds not Reported in the Budget				
Expired Funds	(264)	-	-	-
Recoveries of prior year obligations	(11)	-	-	-
Expenditure transfers from trust funds	(15)	-	-	-
Rescission not reflected on SBR	(7)	-	-	-
Distributed Offsetting Receipts	-	-	47	47
Other	(25)	(7)	-	1
Budget of the United States Government	$ 122,331	$ 75,802	$ -	$ 62,118

Other differences represent financial statement adjustments, timing differences and other immaterial differences between amounts reported in the Department's Statement of Budgetary Resources and the Budget of the United States.

NOTE 22. INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2008	FY 2007
Revenue Activity		
Sources of Cash Collections:		
Miscellaneous Receipts	$ 32,061	$ 28,332
Fines, Penalties and Forfeitures	17,873	4,498
Total Cash Collections	49,934	32,830
Total Custodial Revenue	49,934	32,830
Disposition of Collections		
Transferred to Treasury's (General Fund)	49,934	32,830
Net Custodial Revenue Activity	$ -	$ -

NOTE 23. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	FY 2008	FY 2007
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 87,670,373	$ 75,809,242
Less: Spending Authority from Offsetting Collections and Recoveries	10,075,399	9,099,273
Obligations Net of Offsetting Collections and Recoveries	77,594,974	66,709,969
Less: Distributed Offsetting Receipts	(325,679)	(46,779)
Net Obligations	77,269,295	66,663,190
Other Resources		
Transfers In/Out Without Reimbursement	20,847	2,812
Imputed Financing From Costs Absorbed by Others	642,148	605,189
Other	(1,873)	-
Net Other Resources Used to Finance Activities	661,122	608,001
Total Resources Used to Finance Activities	77,930,417	67,271,191
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	3,137,262	4,018,636
Resources That Fund Expenses Recognized in Prior Periods	259,382	283,949
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(513,984)	(115,714)
Other/Change in Unfilled Customer Orders	(126,464)	(461,855)
Resources That Finance the Acquisition of Assets	2,569,811	1,395,553
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	7,984,827	216,115
Total Resources Used to Finance Items Not Part of the Net Cost Of Operations	13,310,834	5,336,684
Total Resources Used to Finance the Net Cost of Operations	$ 64,619,583	$ 61,934,507
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	$ 45,281	$ 10,696
Upward/Downward Reestimates of Credit Subsidy Expense	98,889	(1,818)
Increase in exchange revenue receivable from the public	(1,600)	(43,314)
Change in Other Liabilities	210,361	25,584
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	352,931	(8,852)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,213,539	1,279,474
Revaluation of Assets or Liabilities	21,850	(17,179)
Other Expenses and Adjustments not Otherwise Classified Above	62,560	(47,918)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	1,297,949	1,214,377
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	1,650,880	1,205,525
Net Cost of Operations	$ 66,270,463	$ 63,140,032

NOTE 23. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET *(CONT.)*

The reconciliation of Net Cost of Operations to Budget is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. This reconciliation first identifies total resources used by an entity during the period (budgetary and other) and then makes adjustments to the resources based upon how they were used to finance net obligations or cost. The budgetary information used to calculate net obligations (the first four lines) must be presented on a combined basis to enable a direct tie to the Statement of Budgetary Resources. The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations by setting forth the items that reconcile the two amounts. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by non-budgetary resources; (2) the budgetary and non-budgetary resources used by an agency may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the period.

NOTE 24. REPORTING ON DOT AFFILIATED ACTIVITIES

Saint Lawrence Seaway Development Corporation

The U.S. Saint Lawrence Seaway Development Corporation (SLSDC), a wholly owned Government corporation and operating administration of the Department, is responsible for the operation and maintenance of the U.S. portion of the St. Lawrence Seaway. This responsibility includes maintaining and operating two U.S. locks, controlling vessel traffic and promoting trade development activities on the seaway.

Condensed Information:

	FY 2008	FY 2007
Cash and Short-Term Time Deposits	$ 16,176	$ 15,430
Long-Term Time Deposits	2,153	980
Accounts Receivable	108	115
Inventories	266	253
Other Current Assets	1	6
Property, Plant and Equipment	73,181	74,578
Deferred Charges	3,705	3,478
Other Assets	605	599
TOTAL ASSETS	**$ 96,195**	**$ 95,439**
Current Liabilities	2,790	$ 2,577
Actuarial Liabilities	3,705	3,478
TOTAL LIABILITIES	**6,495**	**6,055**
Invested Capital	88,219	89,617
Cumulative Results of Operations	1,481	(233)
TOTAL NET POSITION	**$ 89,700**	**$ 89,384**
TOTAL LIABILITIES AND NET POSITION	**$ 96,195**	**$ 95,439**
Operating Revenues	17,993	17,092
Operating Expenses	19,169	19,488
Operating Income (loss)	(1,176)	(2,396)
Other Financing Sources	2,890	2,973
Operating revenues and other financing sources over (under) operating expenses	**1,714**	**577**
Beginning cumulative results of operations (deficit)	(233)	(810)
Ending cumulative results of operations (deficit)	**$ 1,481**	**$ (233)**

MARAD Non-Appropriated Fund Instrumentality (NAFI)

The Non-Appropriated Fund Instrumentality (NAFI) operates as a separate fiscal entity under MARAD to provide or assist the U.S. Merchant Marine Academy in providing programs and services for students, personnel and authorized civilians from sources other than Congressional appropriations. Although considered Governmental, NAFI assets and operations are separate and distinct from those recorded in the books of Federal Government. The dollar value of NAFI activities are immaterial to that of the Department.

REQUIRED SUPPLEMENTARY INFORMATION

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DEFERRED MAINTENANCE

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition*	2008 Cost to Return to Acceptable Condition**	2007 Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$ 116,785	$ 79,970
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	124,828	25,254
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	2	4,511	22,600
	Real Property, Buildings (Anchorage)	Condition Assessment Survey	3	40	14,695
	Other (Fleet Craft)	Condition Assessment Survey	3	350	2,520
	Other (Pier and Berthing Surveys and Studies)	Estimate	3	35	235
	Other (Heritage Assets)	Condition Assessment	3&4	200	200
			Total	$ 246,749	$ 145,474

*Asset Condition Rating Scale:

1 - Excellent

2 - Good

3 - Fair

4 - Poor

5 - Very Poor

Asset	**Acceptable Condition is	Comments
FAA Buildings	3 - Fair	
FAA Other Structures and Facilities	3 - Fair	
MARAD Vessels, Ready Reserve Force	1 - Excellent	Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD Real Property, Buildings	3 - Fair	Buildings are safe and inhabitable.
MARAD Real Property, Structures	3 - Fair	Adequate water depth, shore power, and mooring capabilities.
MARAD Stewardship Heritage Assets	3 - Fair	

Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.




HERITAGE ASSETS SUMMARY
REQUIRED SUPPLEMENTARY INFORMATION, SEPTEMBER 30, 2008
NUMBER OF PHYSICAL UNITS ADDED AND WITHDRAWN

Heritage Assets

	Units as of 09/30/2007	Additions	Withdrawals	Units as of 09/30/2008
Personal Property				
Artifacts and Other Collections	598	6	-	604
Total Personal Property Heritage Assets	598	6	-	604

	Units as of 09/30/2006	Additions	Withdrawals	Units as of 09/30/2007
Artifacts and Other Collections	597	2	1	598
Total Real Property Heritage Assets	597	2	1	598

Artifacts and Other Collections are owned by the Maritime Administration. They are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies, and are composed of ship operating equipment obtained from obsolete ships.


U.S. DEPARTMENT OF TRANSPORTATION
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES BY MAJOR ACCOUNT
For the Year Ended September 30, 2008
Dollars in Thousands

	Federal-Aid	FAA	FTA	MARAD	All Other	TOTAL
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	$ 35,724,487	$ 2,753,668	$ 5,353,911	$ 427,378	$ 2,584,671	$ 46,844,115
Recoveries of Prior Year Unpaid Obligations	-	471,076	79,042	52,851	344,124	947,093
Budget Authority						
Appropriations Received	41,965,861	15,810,521	8,578,755	597,088	12,510,529	79,462,754
Borrowing Authority	-	-	-	219,000	946,094	1,165,094
Contract Authority	43,146,419	3,675,000	7,872,893	-	1,239,000	55,933,312
Spending Authority from Offsetting Collections						
Earned						
Collected	78,823	865,313	72,599	458,420	1,215,118	2,690,273
Change in Receivables from Federal Sources	(2,158)	(59,596)	(20,667)	(5,874)	21,465	(66,830)
Change in Unfilled Customer Orders						
Advance Received	278	(25,761)	(41,718)	9,539	273,811	216,149
Without Advance from Federal Sources	66,990	(2,903)	(21,666)	34,007	(235,131)	(158,703)
Expenditure Transfers from Trust Funds	-	6,397,061	-	6,500	43,858	6,447,419
Subtotal	85,256,213	26,659,635	16,440,196	1,318,680	16,014,744	145,689,468
Nonexpenditure Transfers, Net	(1,001,981)	(41,566)	989,651	7,747	48,149	2,000
Permanently Not Available	(46,138,460)	(4,697,732)	(6,990,753)	(202,232)	(1,735,943)	(59,765,120)
Total Budgetary Resources	$ 73,840,259	$ 25,145,081	$ 15,872,047	$ 1,604,424	$ 17,255,744	$ 133,717,556
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred						
Direct	$ 38,365,681	$ 21,643,568	$ 11,398,632	$ 646,991	$ 13,644,722	$ 85,699,594
Reimbursable	35,080	679,233	16,613	457,462	782,391	1,970,779
Subtotal	38,400,761	22,322,801	11,415,245	1,104,453	14,427,113	87,670,373
Unobligated Balance						
Apportioned	18,524,318	1,395,626	4,451,447	178,515	1,514,005	26,063,911
Exempt from Apportionment	-	-	-	2,944	296,471	299,415
Subtotal	18,524,318	1,395,626	4,451,447	181,459	1,810,476	26,363,326
Unobligated Balance Not Available	16,915,180	1,426,654	5,355	318,512	1,018,156	19,683,857
Total Status of Budgetary Resources	$ 73,840,259	$ 25,145,081	$ 15,872,047	$ 1,604,424	$ 17,255,745	$ 133,717,556

REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES BY MAJOR ACCOUNT
For the Year Ended September 30, 2008
Dollars in Thousands

	Federal-Aid	FAA	FTA	MARAD	All Other	TOTAL
CHANGE IN OBLIGATED BALANCES						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$ 46,367,132	$ 9,008,582	$ 16,730,015	$ 298,285	$ 6,321,578	$ 78,725,592
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(373,708)	(495,387)	(147,119)	(116,622)	(710,204)	(1,843,040)
Total Unpaid Obligated Balance, Net	45,993,424	8,513,195	16,582,896	181,663	5,611,374	76,882,552
Obligations Incurred	38,400,761	22,322,801	11,415,245	1,104,453	14,427,113	87,670,373
Gross Outlays	(35,794,527)	(21,955,876)	(10,040,658)	(980,544)	(14,776,887)	(83,548,492)
Unpaid Obligations	-	-	-	-	25,000	25,000
Recoveries of Prior Year Unpaid Obligations, Actual	-	(471,076)	(79,042)	(52,851)	(344,124)	(947,093)
Change In Uncollected Customer Payments from Federal Sources	(64,833)	62,499	46,768	(28,134)	212,836	229,136
Obligated Balance, Net, End of Period						
Unpaid Obligations	48,973,366	8,904,431	18,025,560	369,343	5,652,680	81,925,380
Uncollected Customer Payments From Federal Sources	(438,541)	(432,888)	(100,351)	(144,756)	(497,368)	(1,613,904)
Total Unpaid Obligated Balance, Net, End Of Period	$ 48,534,825	$ 8,471,543	$ 17,925,209	$ 224,587	$ 5,155,312	$ 80,311,476
NET OUTLAYS						
Net Outlays						
Gross Outlays	$ 35,794,527	$ 21,955,876	$ 10,040,658	$ 980,544	$ 14,776,887	$ 83,548,492
Offsetting Collections	(79,107)	(7,237,024)	(35,315)	(469,514)	(1,536,900)	(9,357,860)
Distributed Offsetting Receipts	-	(1,970)	(2,764)	(177,100)	(143,845)	(325,679)
Net Outlays	$ 35,715,420	$ 14,716,882	$ 10,002,579	$ 333,930	$ 13,096,142	$ 73,864,953

U.S. DEPARTMENT OF TRANSPORTATION
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES BY MAJOR ACCOUNT
For the Year Ended September 30, 2007
Dollars in Thousands

	Federal-Aid	FAA	FTA	MARAD	All Other	TOTAL
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	$ 35,318,886	$ 2,305,222	$ 6,169,750	$ 516,882	$ 2,614,759	$ 46,925,499
Recoveries of Prior Year Unpaid Obligations	-	291,059	91,235	3,240	479,489	865,023
Budget Authority						
Appropriations Received	36,042,237	15,433,314	6,407,000	585,480	4,083,755	62,551,786
Borrowing Authority	-	-	-	225,000	865,759	1,090,759
Contract Authority	42,268,565	4,292,480	7,262,775	-	1,216,500	55,040,320
Spending Authority from Offsetting Collections						
Earned						
Collected	53,933	1,024,399	105,963	390,738	805,498	2,380,531
Change in Receivables from Federal Sources	7,220	(89,887)	19,357	(2,731)	(7,193)	(73,233)
Change in Unfilled Customer Orders						
Advance Received	-	11,670	(10,110)	(6,262)	93,953	89,251
Without Advance from Federal Sources	264,529	(71,478)	(58,212)	(3,788)	33,425	164,476
Expenditure Transfers from Trust Funds	-	5,627,900	-	-	45,326	5,673,226
Subtotal	78,636,484	26,228,398	13,726,773	1,188,437	7,137,023	126,917,116
Nonexpenditure Transfers, Net	(1,096,504)	(46,331)	973,287	-	171,768	2,219
Temporarily Not Available Pursuant to Public Law	-	-	-	(4,945)	(544)	(5,489)
Permanently Not Available	(40,372,513)	(5,058,781)	(4,660,856)	(376,527)	(1,582,334)	(52,051,011)
Total Budgetary Resources	$ 72,486,353	$ 23,719,567	$ 16,300,189	$ 1,327,087	$ 8,820,161	$ 122,653,357
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred						
Direct	$ 36,533,084	$ 20,307,497	$ 10,743,441	$ 585,643	$ 5,486,846	$ 73,656,511
Reimbursable	228,781	658,402	202,835	314,065	748,649	2,152,731
Subtotal	36,761,865	20,965,899	10,946,276	899,708	6,235,495	75,809,242
Unobligated Balance						
Apportioned	14,013,972	1,347,769	5,320,503	11,746	2,053,266	22,747,256
Exempt from Apportionment	1,972	-	-	1,360	304,476	307,808
Subtotal	14,015,944	1,347,769	5,320,503	13,106	2,357,742	23,055,064
Unobligated Balance Not Available	21,708,544	1,405,899	33,410	414,273	226,925	23,789,051
Total Status of Budgetary Resources	$ 72,486,353	$ 23,719,567	$ 16,300,189	$ 1,327,087	$ 8,820,162	$ 122,653,357




REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES BY MAJOR ACCOUNT
For the Year Ended September 30, 2007
Dollars in Thousands

	Federal-Aid	FAA	FTA	MARAD	All Other	TOTAL
CHANGE IN OBLIGATED BALANCES						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$ 43,366,976	$ 9,151,262	$ 15,169,501	$ 297,867	$ 6,051,732	$ 74,037,338
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(101,959)	(656,752)	(185,974)	(123,141)	(681,957)	(1,749,783)
Total Unpaid Obligated Balance, Net	43,265,017	8,494,510	14,983,527	174,726	5,369,775	72,287,555
Obligations Incurred	36,761,865	20,965,899	10,946,276	899,708	6,235,494	75,809,242
Gross Outlays	(33,761,709)	(20,817,520)	(9,294,527)	(896,050)	(5,488,408)	(70,258,214)
Unpaid Obligations	-	-	-	-	2,250	2,250
Recoveries of Prior Year Unpaid Obligations, Actual	-	(291,059)	(91,235)	(3,240)	(479,489)	(865,023)
Change In Uncollected Customer Payments from Federal Sources	(271,749)	161,365	38,855	6,519	(28,247)	(93,257)
Obligated Balance, Net, End of Period						
Unpaid Obligations	46,367,132	9,008,582	16,730,015	298,285	6,321,578	78,725,592
Uncollected Customer Payments From Federal Sources	(373,708)	(495,387)	(147,119)	(116,622)	(710,204)	(1,843,040)
Total Unpaid Obligated Balance, Net, End Of Period	45,993,424	8,513,195	16,582,896	$181,663	$5,611,374	76,882,552
NET OUTLAYS						
Net Outlays						
Gross Outlays	$ 33,761,709	$ 20,817,520	$ 9,294,527	$ 896,050	$ 5,488,408	$ 70,258,214
Offsetting Collections	(53,933)	(6,663,969)	(95,852)	(384,476)	(942,762)	(8,140,992)
Distributed Offsetting Receipts	-	(20,941)	(9,854)	(17,638)	1,654	(46,779)
Net Outlays	$ 33,707,776	$ 14,132,610	$ 9,188,821	$ 493,936	$ 4,547,300	$ 62,070,443

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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NON FEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2008
TRANSPORTATION INVESTMENTS
DOLLARS IN THOUSANDS

Surface Transportation:	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Highway Administration					
Federal Aid Highways (HTF)	$ 29,207,012	$ 29,750,120	$ 32,190,231	$ 32,800,748	$ 34,470,595
Other Highway Trust Fund Programs	300,493	445,083	452,022	366,672	481,762
General Fund Programs	962,370	330,790	14,240	51,119	31,740
Appalachian Development System	263,430	425,810	366,816	329,161	185,316
Federal Motor Carrier	299,450	195,740	117,004	196,967	144,455
Total Federal Highway Administration	31,032,755	31,147,543	33,140,313	33,744,667	35,313,868
Federal Transit Administration					
Discretionary Grants	$ 160,655	$ 119,277	$ 91,961	$ 11,719	$ 27,174
Formula Grants	4,723,674	4,521,288	3,376,068	2,086,876	1,329,811
Capital Investment Grants	2,788,920	3,375,206	3,073,294	2,662,845	2,473,141
Washington Metro Area Transit Authority	12,409	1,719	4,255	28,430	46
Interstate Transfer Grants	1,479	1,411	206	1,774	360
Formula and Bus Grants	-	-	1,862,772	4,193,989	5,968,651
Total Federal Transit Administration	7,687,137	8,018,901	8,408,556	8,985,633	9,799,183
Total Surface Transportation Nonfederal Physical Property Investments	$ 38,719,892	$ 39,166,444	$ 41,548,869	$ 42,730,300	$ 45,113,051




NON FEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2008
TRANSPORTATION INVESTMENTS
DOLLARS IN THOUSANDS

Air Transportation:	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Aviation Administration					
Airport Improvement Program	$ 2,977,300	$ 3,712,423	$ 3,852,141	$ 3,923,719	$ 3,753,840
Total Air Transportation Nonfederal Physical Property Investments	$ 2,977,300	$ 3,712,423	$ 3,852,141	$ 3,923,719	$ 3,753,840
Total Nonfederal Physical Property Investments	$ 41,697,192	$ 42,878,867	$ 45,401,010	$ 46,654,019	$ 48,866,891

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, and Congestion Mitigation/Air Quality Improvement programs. 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 non-urban 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 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 facilities.

The Washington Metropolitan Area Transit Authority provides funding to support the construction of the Washington Metrorail System.

Interstate Transfer Grants provided Federal financing from FY 1976 through FY 1995 to allow States and localities to fund transit capital projects substituted for previously withdrawn segments of the Interstate Highway System.

The Federal Aviation Administration (FAA) makes project grants for airport planning and development under the Airport Improvement Program (AIP) to maintain a safe and efficient nationwide system of public-use airports that meet both present and future needs of civil aeronautics. FAA works to improve the infrastructure of the nation's airports, in cooperation with airport authorities, local and State governments, and metropolitan planning authorities.

HUMAN CAPITAL INVESTMENT EXPENSES
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2008
DOLLARS IN THOUSANDS

Surface Transportation	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Highway Administration					
National Highway Institute Training	$ 4,069	$ 11,844	$ 14,123	$ 4,083	$ 1,205
Federal Motor Carrier Safety Administration					
California Highway Patrol	192	41	-	127	722
Safety Grants	-	-	-	748	426
Idaho Video	344	208	-	-	302
Kentucky IT Conference	-	-	175	-	-
Massachusetts Training Academy	9	53	-	172	-
Minnesota Crash Investigation	21	-	1	-	-
New York Crash Reconstruction	-	-	-	36	180
Tennessee Crash Investigation	-	-	-	165	167
Federal Transit Administration					
National Transit Institute Training [1]	4,667	3,318	3,961	3,879	4,577
National Highway Safety Administration					
Section 403 Highway Safety Programs	53,964	110,981	221,523	235,382	162,038
Highway Traffic Safety Grants	205,509	216,702	279,244	416,241	485,721
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	7,780	8,065	7,800	7,798	13,263
Total Surface Transportation Human Capital Investments	276,555	351,212	526,827	668,631	668,601

Maritime Transportation	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Maritime Administration					
State Maritime Academies Training [1]	9,208	9,215	7,528	8,978	9,406
Additional Maritime Training	388	328	134	555	800
Total Maritime Transportation Human Capital Investments	9,596	9,543	7,662	9,533	10,206
Total Human Capital Investments	$ 286,151	$ 360,755	$ 534,489	$ 678,164	$ 678,807

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 Federal Government. Types of courses given and developed are modern developments, technique, management, planning, environmental factors, engineering, safety, construction, and maintenance.

The California Highway Patrol educates the trucking industry for the Federal Motor Carrier Safety Administration about Federal and State commercial motor vehicle/carrier inspection procedures, and to increase CMV driver awareness. The Idaho Video Program develops video training material utilized by the FMCSA National Training Center for the purpose of training State and Local law enforcement personnel. The Massachusetts Training Academy provides training to State law enforcement personnel located in the northeast region of Massachusetts. The Minnesota Crash Investigation program provides training and develops processes and protocols for commercial motor vehicle crash investigations.

The National Transit Institute of the Federal Transit Administration develops and offers training courses to improve transit planning and operations. Technology courses cover such topics as alternative fuels, turnkey project delivery systems, communications-based train controls, and integration of advanced technologies.

The National Highway Safety Administration's programs authorized under the Highway Trust Fund provide resources to State and Local governments, private partners, and the public, to effect changes in driving behavior on the nation's highways to increase safety belt usage and reduce impaired driving. NHTSA provides technical assistance to all states on the full range of components of the impaired driving system as well as conducting demonstrations, training and public information/education on safety belt usage.

The Pipeline and Hazardous Materials Safety Administration administers Hazardous Material Training (Hazmat). The purpose of Hazmat Training is to train State and local emergency personnel on the handling of hazardous materials in the event of a hazardous material spill or storage problem.

(1) Does not include funding for the Student Incentive Payment (SIP) program which produces graduates who are obligated to serve in a reserve component of the United States armed forces. Does not include funding for maintenance and repair (M&R).

RESEARCH AND DEVELOPMENT INVESTMENTS
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2008
DOLLARS IN THOUSANDS

Surface Transportation:	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Highway Administration					
Intelligent Transportation Systems	$ 146,852	$ 183,634	$ 129,219	$ 152,799	$ 128,931
Other Applied Research and Development	142,557	114,315	105,336	74,942	63,906
Federal Railroad Administration					
Railroad Research and Development Program	$ 9,342	$ 6,032	$ 11,681	$ 5,551	$ 3,049
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	$ 3,483	$ 2,546	$ 6,543	$ 3,144	$ 6,076
Office of the Secretary					
Applied Research and Development					
Emergency Transportation	$ 8	$-	$-	$-	$-
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Pipeline Safety	$ 6,375	$ 10,810	$ 12,953	$ 5,494	$ 12,762
Hazardous Materials	1,489	1,638	2,225	1,072	1,084
Research and Innovative Technology Administration					
Applied Research and Development					
Research and Technology	$ 1,134	$ 1,564	$ 1,110	$ 1,036	$ 1,036
Total Surface Transportation Research and Development Investments	$ 311,240	$ 320,539	$ 269,067	$ 244,038	$ 216,844

Air Transportation	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Aviation Administration					
Research and Development Plant	$ 4,230	$ 5,287	$ 3,821	$ 4,217	$ 3,498
Applied Research	91,743	103,659	106,390	102,782	88,114
Development	478	547	587	844	814
Administration	28,643	29,163	30,566	32,050	33,519
Total Air Transportation Research and Development Investments	$ 125,094	$ 138,656	$ 141,364	$ 139,893	$ 125,945
Total Research and Development Investments	$ 436,334	$ 459,195	$ 410,431	$ 383,931	$ 342,789

The Federal Highway Administration's research and development programs are earmarks in the appropriations bills for the fiscal year. Typically these programs are related to safety, pavements, structures, and environment. Intelligent Transportation Systems were created to promote automated highways and vehicles to enhance the national highway system. The output is in accordance with the specifications within the appropriations act.

The Federal Transit Administration supports research and development in the following program areas:




Research and development in Transit Planning and Research supports two major areas: the National Research Program and the Transit Cooperative Research Program. The National Research Program funds the research and development of innovative transit technologies such as safety-enhancing commuter rail control systems, hybrid electric buses, and fuel cell and battery-powered propulsion systems. The Transit Cooperative Research Program focuses on issues significant to the transit industry with emphasis on local problem-solving research.

Transit University Transportation Centers, combined with funds from the Highway Trust Fund, provide continued support for research, education, and technology transfer.

Capital investment grants, which replaced discretionary grants in FY 1999, provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Capital investment grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related activities.

The Office of the Secretary's Office of Emergency Transportation is involved in research and development of mapping software for the Crisis Management Center, transportation policy, and outreach efforts.

The Pipeline and Hazardous Materials Safety Administration funds research and development activities for the following organizations and activities:

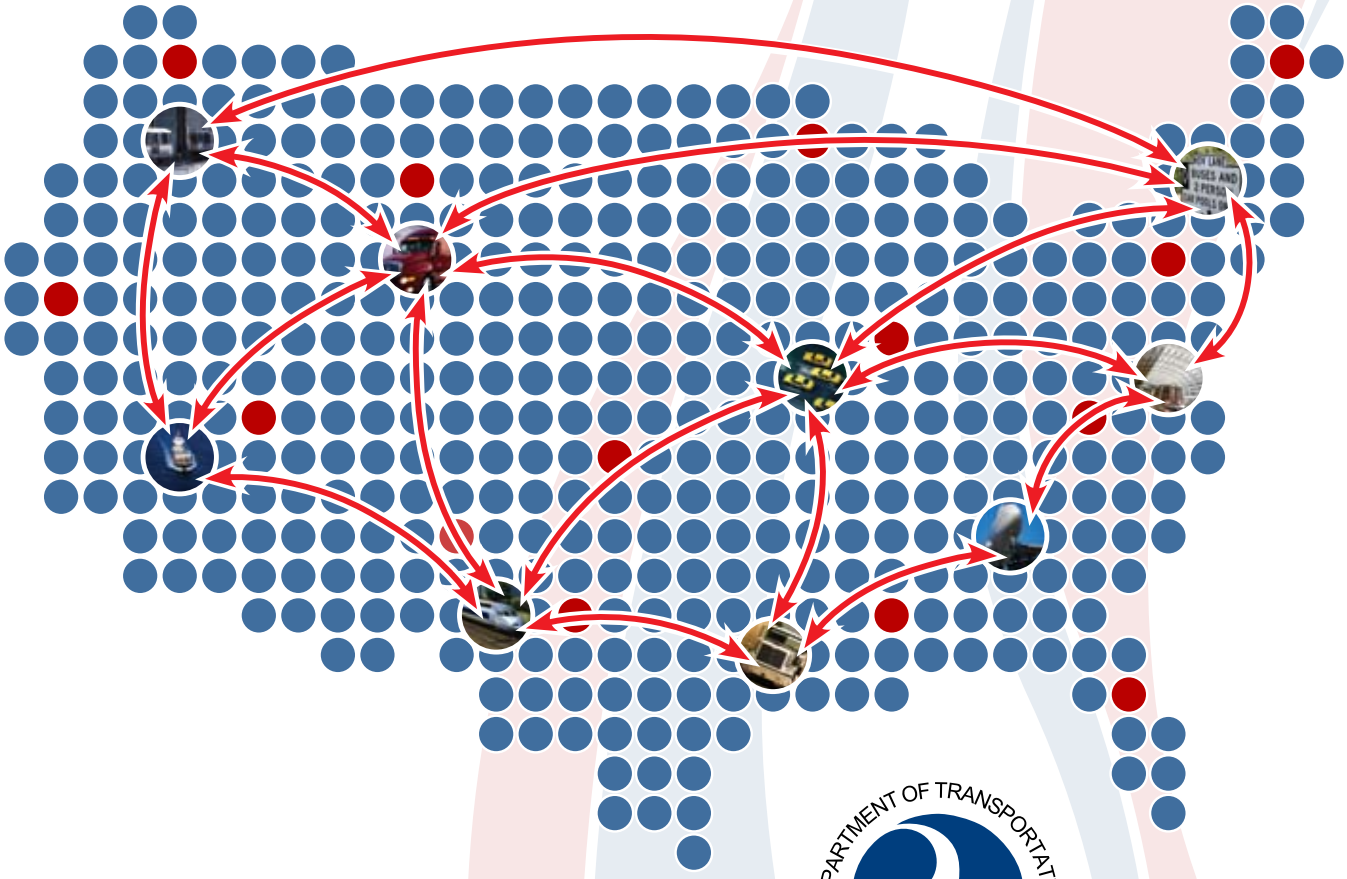
The Office of Pipeline Safety is involved in research and development in information systems, risk assessment, mapping, and non-destructive evaluation.

The Office of Hazardous Materials is involved in research, development, and analysis in regulation compliance, safety, and information systems.

The Research and Innovative Technology Administration's Office of Research and Technology is involved in research and development for the University of Technology and Education.

The Federal Aviation Administration (FAA) conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Research priorities include aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved ground and in-flight de-icing operations; better tools to predict and warn of weather hazards, turbulence and wake vortices; aviation medicine, and human factors.

OTHER ACCOMPANYING INFORMATION






PERFORMANCE DATA COMPLETENESS AND RELIABILITY DETAILS

Each table includes a description of a performance measure and associated data provided by the agencies in charge of the measure. The Scope statement gives an overview of the data collection strategy for the underlying data behind the performance measure. The Source statement identifies the data system(s) from which the data for each measure was taken. The Statistical Issues statement has comments, provided by the Bureau of Transportation Statistics (BTS) and the agency in charge of the measure, which discuss variability of the measure and other points. The Completeness statement indicates limitations due to missing data or availability of current measures, methods used to develop projections are also provided, as appropriate. The Reliability statement gives the reader a feel for how the performance data are used in program management decision making inside DOT.

For further information about the source and accuracy (S&A) of these data, and DOT's data quality guidelines in accordance with Section 515 of the Treasury and General Government Appropriations Act for Fiscal Year 2001 (P.L. 106-554), please refer to the BTS S&A compendium available at http://www.bts.gov/programs/statistical_policy_and_research/source_and_accuracy_compendium/index.html.

Details on DOT Safety Measures

Passenger Vehicle Occupant Highway Fatality Rate (NHTSA / FHWA / FMSCA)

Measure	Passenger Vehicle Occupant Highway fatalities per 100 million vehicle-miles traveled (VMT). Calendar Year (CY) 2008 An occupant is any person who is in or upon a motor vehicle in transport. This includes the driver, passengers, and persons riding on the exterior of a motor vehicle. VMT includes all vehicle miles traveled by all types of vehicles including passenger cars, motorcycles, buses, other 2-axle 4 tire vehicles (including vans, pickup trucks, and sport/utility vehicles), single unit 2-axle 6 tire or more trucks, and combination trucks.
Scope	The number of fatalities is a count of passenger occupant deaths which occur within 30 days of a crash involving motor vehicle traffic traveling on a trafficway customarily open to the public within the 50 States and Washington, D.C. VMT represent the total number of vehicle miles traveled by all motor vehicles on public roadways within the 50 States and Washington, D.C.
Sources	Motor vehicle traffic fatality data are obtained from the National Highway Traffic Safety Administration's Fatality Analysis Reporting System (FARS). The FARS database is based on police crash reports and other State data. Estimated 2008 VMT data is preliminary and comes from FHWA's Traffic Volume Trends (TVT); a monthly report based on hourly traffic count data in the Highway Performance Monitoring System (HPMS).
Statistical Issues	While based on historical data, the 2008 fatality rate projection is dependent on the continuation of both individual and market behavior regarding vehicle miles traveled, seat belt use and motorcycle rider and alcohol related fatalities. The assumptions inherent in these projections, together with the normal levels of uncertainty inherent in statistical evaluations, may influence the accuracy of the projection.
Completeness	FARS has been in use since 1975 and is generally accepted as a complete measure for describing safety on the Nation's highways. Total annual fatalities are available through CY 2007. The fatality projection used to calculate the 2008 rate shown in this report was estimated by modifying the 2007 fatality total for the subsequent phase-in of safety features in the on-road fleet, the scrapping of vehicles with existing safety features, a projected change in safety belt usage, a projected trend in motorcycle fatalities, and other safety-related considerations.

Reliability	The measure informs and guides NHTSA, FHWA, and FMCSA regarding highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing highway crashes. VMT estimates from the early months of CY 2008 are lower than for the comparable period of CY 2007. Contributing factors include, but are not limited to: high price of fuel, which my continue into the future; economic downturn; change in the mix of vehicles towards smaller and lighter cars; increased use of walking, bicycling, and motorcycle riding, as well as a greater use of mass transit. All of these factors are indications of fundamental changes in our mode of transportation that will adversely impact our ability to accurately estimate fatality and VMT projections for 2008 and beyond.

Details on DOT Safety Measures

Large Truck and Bus Fatality Rate (NHTSA / FMCSA)

Measure	Fatalities involving large trucks and buses per 100 million total VMT (CY). Large Trucks are trucks over 10,000 pounds gross vehicle weight rating (GVWR), including single unit trucks and truck tractors. A Bus is a large motor vehicle used to carry more than ten (10) passengers, including school buses, inter-city buses, and transit buses. VMT includes all vehicle miles traveled by all types of vehicles including passenger cars, motorcycles, buses, other 2-axle 4 tire vehicles (including vans, pickup trucks, and sport/utility vehicles), single unit 2-axle 6 tire or more trucks, and combination trucks.
Scope	The measure includes all fatalities associated with crashes involving trucks with a gross vehicle weight rating (GVWR) of 10,000 pounds or more. Vehicle Miles Traveled (VMT) represents the total number of vehicle miles traveled by all motor vehicles (including vehicles other than Large Trucks and Buses) on public roadways within the 50 States and the District of Columbia.
Sources	The number of fatalities comes from NHTSA's Fatality Analysis Reporting System (FARS) data, a census of fatal traffic crashes within the 50 States and the District of Columbia. Estimated 2008 VMT data is preliminary and comes from FHWA's Traffic Volume Trends (TVT); a monthly report based on hourly traffic count data in the Highway Performance Monitoring System (HPMS).
Statistical Issues	The fatality counts in FARS are generally quite accurate. The major sources of error are under reporting by some precincts and inconsistent use of the definition of a truck. Because the TVMT data provided to FHWA from each State are estimates based on a sample of road segments, the numbers have associated sampling errors. The methodology used by each of the States to estimate TVMT varies and may introduce additional non-sampling error. Although States provide TVMT estimates on an annual basis, they are only required to update their traffic counts at all sampling sites once every three years. Thus, a portion of each States' sample sites will report estimated traffic rather then actual traffic counts.
Completeness	The FARS has been in use since 1975 and is generally accepted as a complete measure for describing safety on the Nation's highways. Large truck and bus-related fatality data are complete through 2007. For 2008, the FARS data for crashes involving large trucks and buses are not available until October 2009. The value used for the 2008 rate is projected from recent trend data. The TVMT is complete through 2006. For 2007 and 2008, it is projected as a percentage of the total VMT projections. The final TVMT estimate for 2007 will be available in December 2008, and the final TVMT estimate for 2008 will be available in December 2009.




Reliability	The measure informs and guides FMCSA, NHTSA, and FHWA highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing large truck crashes. VMT estimates from the early months of CY 2008 are lower than for the comparable period of CY 2007. Contributing factors include, but are not limited to: high price of fuel, which my continue into the future; economic downturn; change in the mix of vehicles towards smaller and lighter cars; increased use of walking, bicycling, and motorcycle riding, as well as a greater use of mass transit. All of these factors are indications of fundamental changes in our mode of transportation that will adversely impact our ability to accurately estimate fatality and VMT projections for 2008 and beyond.

Details on DOT Safety Measures

Motorcycle Rider Fatalities (NHTSA / FHWA)

Measure	Motorcycle rider fatality rate per 100,000 motorcycle registrations A motor cycle is a two- or three-wheeled motor vehicle designed to transport one or two people, including motorscooters, minibikes, and mopeds.
Scope	The number of motorcycle rider fatalities is a count of motorcycle rider (driver and passenger) deaths which occur within 30 days of a crash involving motorcycle traffic traveling on a trafficway customarily open to the public within the 50 States and Washington, D.C.
Sources	Motor vehicle traffic fatality data are obtained from the National Highway Traffic Safety Administration's Fatality Analysis Reporting System (FARS). The FARS database is based on police crash reports and other State data. The States collect motor vehicle registration data and provide the data to the Federal Highway Administration (FHWA), which then provides the data to the public.
Statistical Issues	While based on historical data, the 2008 fatality rate projection is dependent on the continuation of both individual and market behavior regarding vehicle miles traveled, seat belt use and motorcycle rider and alcohol related fatalities. The assumptions inherent in these projections, together with the normal levels of uncertainty inherent in statistical evaluations, may influence the accuracy of the projection. The FHWA estimates of registered motorcycles may underestimate the number of motorcycles that are used on the roads each year. Data collected by the Motorcycle Industry Council (MIC) corroborate this possibility and have noted that not all motorcyclists register their bikes. (National Transportation Safety Board -- Safety Recommendation Date: Oct 3, 2007)

Completeness

FARS has been in use since 1975 and is generally accepted as a complete measure for describing safety on the Nation's highways. Total annual fatalities are available through CY 2007. The fatality projection used to calculate the 2008 rate shown in this report was estimated by modifying the 2007 fatality total for the subsequent phase-in of safety features in the on-road fleet, the scrapping of vehicles with existing safety features, a projected change in safety belt usage, a projected trend in motorcycle fatalities, and other safety-related considerations.

The vehicle registration date varies among the States. Although many States continue to register specific vehicle types on a calendar year basis, all States use some form of the "staggered" system to register motor vehicles. The "staggered" system permits a distribution of the renewal workload throughout all months. Most States allow pre-registration or permit "grace periods" to better distribute the annual registration workload.

In order to present vehicle registration data uniformly for all States, the information is shown as nearly as possible on a calendar-year basis. Insofar as possible, the registrations reported exclude transfers and re-registrations and any other factors that could otherwise result in duplication in the vehicle counts. Motor vehicle registrations are reported by major vehicle classes: automobiles, buses, trucks, and motorcycles.

Reliability

The measure informs and guides NHTSA, FHWA, and FMCSA regarding highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing highway crashes.

All State reported data are analyzed by FHWA for completeness, reasonableness, consistency, and compliance with data reporting instructions contained in A Guide to Reporting Highway Statistics. State reported data is adjusted if necessary to eliminate mistakes and to improve data uniformity among the States. The analysis and adjustment process is accomplished in cooperation with the States supplying the data. In some instances, corrections or revisions have been made in previously published data.

The FHWA data includes all vehicles that have been registered at any time throughout the calendar year. Data includes vehicles that were retired during the year and vehicles that were registered in more than one State. In some States, it is also possible that contrary to the FHWA reporting instructions, vehicles that have been registered twice in the same State may be reported as two vehicles. The NHTSA data includes only those vehicles that are registered as of July 1 of the given year. Therefore, they do not include vehicles registered in the last half of the calendar year or vehicles that may only be registered for a part of a year such as those for farm use.

Motorcycle registration projections into future years are problematic. Contributing factors include, but are not limited to: high price of fuel, which my continue into the future; economic downturn; change in the mix of vehicles towards smaller and lighter cars; increased use of walking, bicycling, and motorcycle riding, as well as a greater use of mass transit. All of these factors are indications of fundamental changes in our mode of transportation that will adversely impact our ability to accurately estimate fatality and VMT projections for 2008 and beyond.




Details on DOT Safety Measures

Non-occupant Fatality Rate (NHTSA / FHWA / FMCSA)

Measure	Non-occupant fatality rate per 100 million VMT. A non-occupant is any person who is not an occupant of a motor vehicle in transport and includes: pedestrians. pedalcyclists, occupants of parked motor vehicles, others such as joggers, skateboard riders, people riding on animals, and persons riding in animal-drawn conveyances. VMT includes all vehicle miles traveled by all types of vehicles including passenger cars, motorcycles, buses, other 2-axle 4 tire vehicles (including vans, pickup trucks, and sport/utility vehicles), single unit 2-axle 6 tire or more trucks, and combination trucks.
Scope	The number of fatalities is a count of occupant and non-motorist deaths which occur within 30 days of a crash involving motor vehicle traffic traveling on a trafficway customarily open to the public within the 50 States and Washington, D.C. VMT represent the total number of vehicle miles traveled by motor vehicles on public roadways within the 50 States and Washington, D.C.
Sources	Motor vehicle traffic fatality data are obtained from the National Highway Traffic Safety Administration's Fatality Analysis Reporting System (FARS). The FARS database is based on police crash reports and other State data. VMT data for 2008 are estimated based on preliminary 2008 VMT data from FHWA's Traffic Volume Trends (TVT); a monthly report based on hourly traffic count data in the Highway Performance Monitoring System (HPMS).
Statistical Issues	While based on historical data, the 2008 fatality rate projection is dependent on the continuation of both individual and market behavior regarding vehicle miles traveled, seat belt use and motorcycle rider and alcohol related fatalities. The assumptions inherent in these projections, together with the normal levels of uncertainty inherent in statistical evaluations, may influence the accuracy of the projection.
Completeness	FARS has been in use since 1975 and is generally accepted as a complete measure for describing safety on the Nation's highways. Total annual fatalities are available through CY 2007. The fatality projection used to calculate the 2008 rate shown in this report was estimated by modifying the 2007 fatality total for the subsequent phase-in of safety features in the on-road fleet, the scrapping of vehicles with existing safety features, a projected change in safety belt usage, a projected trend in motorcycle fatalities, and other safety-related considerations.
Reliability	The measure informs and guides NHTSA, FHWA, and FMCSA regarding highway safety policy, safety program planning, regulatory development, resource allocation, and operational mission performance, and tracks progress toward the goal of saving lives by preventing highway crashes. VMT estimates from the early months of CY 2008 are lower than for the comparable period of CY 2007. Contributing factors include, but are not limited to: high price of fuel, which my continue into the future; economic downturn; change in the mix of vehicles towards smaller and lighter cars; increased use of walking, bicycling, and motorcycle riding, as well as a greater use of mass transit. All of these factors are indications of fundamental changes in our mode of transportation that will adversely impact our ability to accurately estimate fatality and VMT projections for 2008 and beyond.


Details on DOT Safety Measures
Commercial Air Carrier Fatal Accident Rate (FAA)

Measure	Number of commercial air carrier fatalities per 100 million persons onboard (FY)
Scope	This measure includes both scheduled and nonscheduled flights of large U.S. air carriers (14 CFR Part 121) and scheduled flights of regional operators (14 CFR Part 135). It excludes on -demand (i.e., air taxi) service and general aviation. Accidents involving passengers, crew, ground personnel, and the uninvolved public are all included.
Sources	The data on commercial fatalities come from the National Transportation Safety Board's (NTSB's) Aviation Accident Database. Aviation accident investigators under the auspices of the NTSB develop the data. Air carriers submit data for all passengers on board to the Office of Airline Information (OAI) within the Bureau of Transportation Statistics. FAA will estimate crew on board based on the distribution of aircraft departures by make and model, plus an average of 3.5 persons on board per Part 121 cargo flight.
Statistical Issues	Both accidents and passengers on board are censuses, having no sampling error. However, crew on board will be an estimate, but crew staffing in fact varies only within a very small range for any given make-model. Departure data and enplanements for Part 121 are from the Bureau of Transportation Statistics (BTS). The crew estimate is based on fleet makeup and crew requirements per number of seats. For the current fleet, the number of crew is equal to about seven percent of all Part 121 enplanements. The average number of cargo crew on board is 3.5 per departure, based on data from subscription services such as Air Claims, a proprietary database used by insurers to obtain information such as fleet mix, accidents and claims. Cargo crews typically include two flight crew members, and occasionally another pilot or company rep, or two deadheading passengers. Part 135 data also comes from BTS and Air Claims databases, but is not as complete. AEP calls the operators where BTS data have gaps. Based on previous accident and incident reports, the average Part 135 enplanement is five per departure. Crew estimates for Part 135 are based on previous accident and incident data. Any error that might be introduced by estimating crew will be very small and will be overwhelmed by the passenger census. Also note that the fatality rate is small and could significantly fluctuate from year to year due to a single accident.
Completeness	The FAA does comparison checking of the departure data collected by BTS. This data is needed for crew estimates. 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). The number of actual persons on board data for any given period of time is considered preliminary for up to 12 months after the close of the reporting period. This is due to amended reports subsequently filed by the air carriers. Preliminary estimates are based on projections of the growth in departures developed by the Office of Policy, Planning and Environment. However, changes to the number of persons on board should rarely have an effect on the annual fatality rate. NTSB and FAA's Office of Accident Investigation meet regularly to validate the accident and fatality count. To overcome reporting delays of 60 to 90 days, FAA must rely on historical data, partial internal data sources, and Official Airline Guide (OAG) scheduling information to project at least part of the fiscal year activity data. FAA uses OAG data until official BTS data are available.
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 to determine probable cause, while FAA has separate statutory authority to investigate accidents and incidents in order to ensure that FAA meets its broader responsibilities.. FAA's own accident investigators and other FAA employees participate in all accident investigations led by NTSB investigators.




Details on DOT Safety Measures
General Aviation Fatal Accidents (FAA)

Measure	Total number of fatal general aviation accidents. (FY)
Scope	The measure includes on-demand (non-scheduled FAR Part 135) and general aviation flights. General aviation comprises a diverse range of aviation activities from single-seat homebuilt aircraft, helicopters, balloons, single and multiple engine land and seaplanes to highly sophisticated extended range turbojets. The FAA would prefer to use a fatal accident rate rather than fatal accidents as the performance measure because the use of a rate measure would take into account variation in activity levels from year to year. However, unlike commercial aviation activity that is reported regularly to the Bureau of Transportation Statistics by the carriers, general aviation flight hours are based on an annual voluntary survey conducted by the FAA. Due to the voluntary nature of the survey, the accuracy of the flight hours collected is suspect and there is no readily available way to verify the data. For these reasons, the general aviation community is unwilling to use a rate measure until the validity and reliability of the survey data can be assured. The general aviation community and the General Aviation Joint Steering Committee of the Safer Skies initiative recommend development of a data collection program that will yield more accurate and relevant data on general aviation demographics and utilization. Improved survey and data collection methodologies have been developed. As a result of these efforts, the FAA, working with the General Aviation Manufacturers Association, has made several improvements to the survey. First, the sample size has been significantly increased. Second, a reporting sheet has been created to make it much easier for organizations with large fleets to report. Third, the agency worked with the Aircraft Registry to improve the accuracy of contact information. As a result, a survey was completed in FY 2004 that, for the first time, creates a statistically valid report of general aviation activity that the GA community agrees on. The next step is to create the baseline and work with the GA community on a reasonable target for the rate.
Sources	The data on general aviation fatalities come from the National Transportation Safety Board's Aviation Accident Database (NTSB). Aviation accident investigators under the auspices of the NTSB develop the data.
Statistical Issues	There is no major error in the accident counts. Random variation in air crashes results in a significant variation in the number of fatal accidents over time.
Completeness	NTSB and FAA's Office of Accident Investigations meet regularly to validate information on the number of accidents. Initial results are considered preliminary. NTSB continues to review accident results from FY 2006 and 2007. Numbers are final when the NTSB releases its report each March. NTSB continues to review accident results from FY 2007. So in March 2009, FY 2007 accident numbers will be finalized. However, the number is not likely to significantly change from the end of each fiscal year to when the rate is finalized.
Reliability	FAA uses performance data extensively for program management and personnel evaluation and accountability. Most accident investigations are a joint undertaking between FAA and NTSB. NTSB has the statutory responsibility, but, in fact, most of the accident investigations related to general aviation are conducted by FAA Aviation Safety Inspectors without NTSB direct involvement. FAA's own accident investigators and other FAA employees participate in all accident investigations led by NTSB investigators.

Details on DOT Safety Measures
Train Accidents Rate (FRA)

Measure	Train accidents per million train-miles (FY)
Scope	The Railroad Safety Information System (RSIS) is the principal monitoring strategy used by the FRA for the management, processing, and reporting on railroad-reported accidents/incidents; railroad inspections; highway-rail grade crossing data; and related railroad safety activities. The Railroad Accident/Incident Reporting Subsystem (RAIRS) is the repository of all FRA-mandated reports of railroad accidents, incidents, casualties, highway-rail grade crossing collisions, and operating information. A train accident is any collision, derailment, fire, explosion, act of God, or other event involving the operation of railroad on-track equipment (standing and moving), which results in damages greater than the current reporting threshold to railroad on-track equipment, signals, track, track structures, and roadbed. Train accidents are reported on form FRA F6180.54, Rail Equipment Accident/Incident Report. The reporting threshold for 2008 is $8,500. A train incident is any event involving the movement of on-track equipment that results in a reportable casualty but does not cause reportable damage above the current threshold established for train accidents. Operational data, including train-miles, are reported on the form FRA F6180.55, Railroad Injury and Illness Summary.
Sources	FRA's Railroad Accident/Incident Reporting Subsystem.
Statistical Issues	None
Completeness	Railroads are required by regulation (49 CFR Part 225) to file monthly reports to the FRA of all train accidents that meet a dollar threshold (currently $8,500). They are also required to file monthly operations reports of train-miles, employee-hours, and passenger train-miles. Reports must be filed within 30 days after the close of the month. Data must be updated when the costs associated with an accident vary by more than 10 percent (higher or lower) from that initially reported. Railroad systems that do not connect with the general rail system are excluded from reporting to FRA. Examples include subway systems (e.g., Washington, D.C. Metro, New York City subway, San Francisco Bay Area Rapid Transit District), track existing inside an industrial compound, and insular rail (e.g., rail that is not connected to the general system and does not have a public highway rail crossing or go over a navigable waterway).
Reliability	FRA uses the data in prioritizing its inspections and safety reviews, and for more long-term strategic management of its rail safety program. FRA has inspectors who review the railroads' reporting records, and who have the authority to write violations if railroads are not reporting accurately. Violations may result in monetary fines.

Details on DOT Safety Measures
Transit Fatality Rate (FTA)

Measure	Transit fatalities per 100 million passenger-miles traveled. (CY)




Scope	Transit fatality data includes passengers, revenue facility occupants, trespassers, employees, other transit workers (contractors), and others. A transit fatality is a death within 30 days after the incident, which occurs under the categories of collision, derailment, personal casualty (not otherwise classified), fire, or bus going off the road in the National Transit Database (NTD) reporting systems. Previous to 2002, transit involved parties that were defined as patrons, employees, and others (the safety data was collected on a fiscal year, as opposed calendar year basis). Fatalities for the performance measurement only use transit agency Directly Operated (DO) mode data. Purchased Transportation (PT) data are not part of this measure. Certain fatalities are excluded, as they are not considered to be directly related to the operation of transit vehicles. Those include suicides and fatalities occurring in parking facilities and stations, as well as fires in right-of-ways and stations. Also, the measure includes only the major transit modes (motor/trolleybus, light rail, heavy rail, commuter rail with vanpool, automated guideway, and demand response) and excludes ferryboat, monorail, inclined plane, cable car, and jitney. The passenger-miles traveled on public transit vehicles (e.g., buses, heavy and light railcars, commuter railcars, ferries, paratransit vans, and vanpools) only refer to miles while in actual revenue service to the general public. These data are reported annually by operators to the FTA National Transit Database (NTD) and to the Federal Railroad Administration's (FRA) Rail Accident and Incident Reporting System (RAIRS). FRA RAIRS data are used exclusively for commuter rail (CR) safety data. NTD and RAIRS data are an input to FTA's Transit Safety and Security Statistics and Analysis program (formerly known as Safety Management Information Statistics [SAMIS]).
Sources	The Transit Safety and Security Statistics and Analysis Annual Report, formerly SAMIS, is a compilation and analysis of transit accident, casualty, and crime statistics reported under the Federal Transit Administration's (FTA's) NTD Reporting System by transit systems that are beneficiaries of FTA Urbanized Area Formula funds. (Section 5307 grantees). Starting in 2002, commuter rail safety data are being collected from the FRA Rail Accident Reporting System (RAIRS) in order to avoid redundant reporting to NTD. Transit fatalities: Transit Safety and Security Statistics and Analysis Annual Report. Transit passenger miles: Transit Safety and Security Statistics and Analysis Annual Report.
Statistical Issues	The fatality counts in FTA's Transit Safety and Security Statistics and Analysis are a census. The major source of uncertainty in the measure relates to passenger-miles traveled. Passenger-miles are an estimate derived from reported passenger trips and average trip length. Passenger-miles are the cumulative sum of the distances ridden on passenger trips. Transit authorities have accurate counts of unlinked passenger trips and fares. An unlinked trip is recorded each time a passenger boards a transit vehicle, even though the rider may be on the same journey. Transit authorities do not routinely record trip length. To calculate passenger-miles, total unlinked trips are multiplied by average trip length. To obtain an average trip length for their bus routes, transit authorities use Automatic Passenger Counters (APCs) with GPS Technology or a FTA-approved sampling technique. To obtain passenger mile data on rail systems, ferry boats, and paratransit, transit authorities often use Smart Card or other computerized tracking systems. Passenger-miles are the only data element that is sampled in the NTD. Validation based on annual trend analysis is performed on the passenger mile inputs from the transit industry. The validation is performed by statistical analysts at the NTD contractor (Technology Solution Providers/General Dynamics Corporation).
Completeness	The information for this measure comes from the FTA's Transit Safety and Security Statistics and Analysis program, formerly FTA's Safety Management Information System (SAMIS), which uses data reported by transit operators to the NTD. Many categories and definitions were added or changed in the new NTD in 2002, and have allowed for improvements and more timely analysis of trends and contributing factors. The 20072008 measure is an extrapolation of partial-year data, particularly of passenger-miles traveled.

Reliability	An independent auditor and the transit agency's CEO certify that data reported to the NTD are accurate. Using data from the NTD to compile the Transit Safety & Security Statistics & Analysis program (formerly SAMIS) data, the USDOT Volpe National Transportation Systems Center compares current safety statistics with previous years, identifies any questionable trends, and seeks explanation from operators.

Details on DOT Safety Measures

Natural Gas and Hazardous Liquid Pipeline Incidents (PHMSA)

Measure	Number of serious incidents for natural gas pipeline incidents and hazardous liquid pipeline accidents (CY)
Scope	Gas pipeline incidents are reportable under 49 CFR 191.15 if they involve: ✧ a release of gas from a pipeline or of liquefied natural gas or gas from an LNG facility; and a death or personal injury requiring in-patient hospitalization, or estimated property damage, including cost of gas lost, of $50,000 or more; ✧ an event that results in an emergency shutdown of an LNG facility; and, ✧ an event that is significant in the judgment of the operator, even if it does not meet any other reporting criteria. Liquid pipeline accidents are reportable under 49 CFR 195.50 if there is a release of hazardous liquid or carbon dioxide and any one of the following: ✧ unintentional explosion or fire; ✧ release of five gallons or more (except certain maintenance activities); ✧ death or injury requiring hospitalization; and, ✧ estimated property damage, including cots of cleanup and recovery, value of lost product, and other property damage exceeding $50,000. Gas incidents include both gas transmission and gas distribution pipeline systems. Data are adjusted/normalized for time series comparisons to account for changes in reporting criteria over time. This includes screening out hazardous liquid spills of less than 50 barrels (or five barrels for highly-volatile liquids) unless the accident meets one of the other reporting criteria.
Sources	DOT/Pipeline and Hazardous Materials Safety Administration (PHMSA) Incident Data - derived from Pipeline Operator reports submitted on PHMSA Form F-7100.1 and F-7000.1.
Statistical Issues	A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined. Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal annual variation in the number of reported incidents.
Completeness	Compliance in reporting is very high and most incidents that meet reporting requirements are submitted. Operators must submit reports within 30 days of an incident or face penalties for non-compliance. The reported estimates are based upon incident data reported in January through June 2008. There may be a 60-day lag in reporting and compiling information in the database for analysis. Traditionally, there are more incidents in the summer than the winter. Preliminary estimates are based on data available as of middle of August, with six months of data through the end of June. The CY 2008 estimate is a projection using both a seasonal adjustment (using a 10-year baseline) and a separate adjustment to account for the historical filing of late reports (92.5 percent of reports for January - June were filed by this time last year).




Reliability	PHMSA routinely cross-checks incident/accident reports against other sources of data, such as the telephonic reporting system for incidents requiring immediate notification provided to the National Response Center (NRC). PHMSA is developing a Best Management Practice to ensure quality of the incident data. Data are not normalized to account for inflation. A fixed reporting threshold ($50,000) for property damage results in an increasing level of reporting over time. This threshold was set for gas pipeline incidents in 1985 and for hazardous liquid accidents in 1994. Data are not normalized to account for the subjective judgment of the operator in filing reports for incidents that do no meet any of the quantitative reporting criteria. This may result in variations over time due to changes in industry reporting practices. The performance measure is not normalized for changes in exposure-external factors like changes in pipeline mileage that could affect the number of incidents without affecting the risk per mile of pipeline. PHMSA uses these data in prioritizing its inspections and safety reviews, and for more long-term strategic management of its pipeline safety program.

Details on DOT Safety Measures

Serious Hazardous Materials Incidents (PHMSA)

Measure	Number of serious hazardous materials transportation incidents. (CY)
Scope	Hazardous materials transportation incidents are reportable under 49 CFR Parts 100-185. Serious hazardous materials incidents include those incidents resulting in: ✧ a fatality or major injury; ✧ the evacuation of 25 or more employees or responders or any number of the general public; ✧ the closure of a major transportation artery, the alteration of an aircraft flight plan or operation caused by the release of a hazardous material; ✧ the exposure of hazardous material to fire; or, ✧ any release of radioactive materials from Type B packaging, Risk Group 3 or 4 infectious substances, over 11.9 gallons or 88.2 pounds of a severe marine pollutant, or a bulk quantity (over 119 gallons or 882 pounds) of a hazardous material. This measure tracks only transportation-related releases of hazardous materials that are in commerce. It includes incidents in all modes of transportation (air, truck, rail, and water) except pipelines.
Sources	Hazardous Material Information System (HMIS) maintained by DOT/Pipeline and Hazardous Materials Safety Administration-derived from reports submitted on Form DOT F 5800.1.
Statistical Issues	A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined. Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal variation in the number of reported incidents.

Completeness	Each person in physical possession of a hazardous material at the time that any of the incidents occurs (loading, unloading, and temporary storage) during transportation must submit a Hazardous Materials Incident Report on DOT Form F 5800.1 (01-2004) within 30 days of discovery of the incident. Incident reports are received continuously by PHMSA. Carriers are required to submit incident reports to PHMSA within 30 days of an incident. Once received by PHMSA, it takes approximately one month for incident reports to be processed and verified. The data are then made available in the HMIS database during the next monthly update. PHMSA continues to receive reports from calendar year 2008. By the end of September 2008 actual incident data was received through August 31, 2008. PHMSA is projecting the remainder of the calendar year using the actual number of incidents that occurred during September, October, November, and December of 2007-the previous calendar year. This methodology for projecting the CY 2008 estimate is expected to be within 2-4 percent of the final estimate, which becomes available during the second quarter of CY 2008.
Reliability	PHMSA routinely cross-checks incident data against other sources of data, including the use of a news clipping service to provide information on significant hazmat incidents that might not be reported. The performance measure is not normalized for changes in exposure - external factors like changes in the amount of hazmat shipped that could affect the number of incidents without affecting the risk per ton shipped. Annual hazmat incident data are used to track program performance, plan regulatory and outreach initiatives, and provide a statistical basis for research and analysis. The data is also used on a daily basis to target entities for enforcement efforts, and review of applications for exemption renewals.

Details on DOT Mobility Measures

Highway Infrastructure Condition (FHWA)

Measure	Percent of travel on the National Highway System (NHS) meeting pavement performance standards for "good" rated ride. (CY)
Scope	Data include vehicle-miles traveled on the Highway Performance Monitoring System (HPMS) reported NHS sections and pavement ride quality data reported using the International Roughness Index (IRI). IRI is a quantitative measure of the accumulated response of a quarter-car vehicle suspension experienced while traveling over a pavement. An IRI of 95 inches per mile or less is necessary for a good rated ride. Vehicle-Miles of Travel (VMT) represents the total number of vehicle-miles traveled by motor vehicles on public roadways within the 50 States, Washington, D.C., and Puerto Rico.
Sources	Data for this measure are collected by the State Highway Agencies using calibrated measurement devices that meet industry set standards and reported to FHWA. Measurement procedures are included in the FHWA HPMS Field Manual. The VMT data are derived from the HPMS.
Statistical Issues	The major source of error in the percentages is the differences in data collection methodologies between the States and the differences in data collection intervals. FHWA is working on revisions to the HPMS data collection guidelines to minimize these potential errors. VMT data are also subject to sampling errors. The magnitude of error depends on how well the sites of the continuous counting stations represent nationwide traffic rates. HPMS is also subject to estimation differences between the States, even though FHWA works to minimize such differences and differing projections on growth, population, and economic conditions that impact driving behavior.
Completeness	The 2008 actual results for this measure are reported based on 2007 data, which may be incomplete as late as October 2008. Prior to 2007, actual results were reported in the prior year and a projection for the current year was made based on the prior year data.




Reliability	The HPMS data are collected by the 50 States, the District of Columbia, and Puerto Rico in cooperation with local governments. While many of the geometric data items, such as type of median, rarely change; other items, such as traffic volume, change yearly. Typically, the States maintain data inventories that are the repositories of a wide variety of data. The HPMS data items are simply extracted from these inventories, although some data are collected just to meet Agency requirements. The FHWA provides guidelines for data collection in the HPMS Field Manual. Adherence to these guidelines varies by State, depending on issues such as staff, resources, internal policies, and uses of the data at the data provider level. An annual review of reported data is conducted by the FHWA, both at the headquarters level and in the Division Offices in each State. The reported data are subjected to intense editing and comparison with previously reported data and reasonability checks. A written annual evaluation is provided to each State to document potential problems and to encourage corrective actions. Data re-submittal is requested in cases where major problems are identified.

Details on DOT Mobility Measures
Highway Bridge Condition (FHWA)

Measures	Percent of deck area on National Highway System Bridges classified as deficient
Scope	The National Bridge Inspection Standards (NBIS) requires the inspection of all highway bridges located on public roads and the submission of the collected bridge inventory and inspection data to the FHWA for inclusion in the National Bridge Inventory (NBI). The FHWA maintains the NBI, which contains data on nearly 600,000 highway bridges. The information in the NBI contains 95 data items for each of the bridges as required by the Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges. From the data provided, the FHWA monitors the condition of the Nation's bridges, which includes identifying those bridges that are either Functionally Obsolete or Structurally Deficient.
Sources	The bridge information is collected by the State DOTs and other bridge owners and is provided to the FHWA at least annually. As part of the FHWA NBI, NBIS, and Highway Bridge Program monitoring and oversight responsibilities, the accuracy and reliability of the submitted NBI information is constantly evaluated through data checks and field reviews by both Headquarters and field office personnel.
Statistical Issues	As with any very large dynamic database, there is always the potential for data quality issues. However, procedures are in-place to identify and correct data issues as part of the annual submittal process. Because the performance measure relies on data associated with nearly 116,000 NHS bridges, the impact of any localized data quality problem is minimized in the overall national analysis.
Completeness	The NBI is the world's most comprehensive database of bridge information. The 2008 actual results for this measure are reported based on 2007 data, which may be incomplete as late as October 2008.
Reliability	The bridge information is collected by the State DOTs and other bridge owners and is provided to the FHWA at least annually (Note: Some States provide data quarterly). As part of the FHWA's NBI, NBIS, and Highway Bridge Replacement and Rehabilitation Program monitoring and oversight responsibilities, the accuracy and reliability of the submitted NBI information is constantly evaluated through data checks and field reviews by both Headquarters and field office personnel.

Details on DOT Mobility Measures
Highway Congestion (FHWA)

Measure	Percent of total annual urban-area travel occurring in congested conditions. (CY)

Scope	Data are derived from approximately 400 urban areas. The data reflects travel conditions on freeway and principal arterial street networks. An urban area is a developed area with a density of greater than 1,000 persons per square mile. Congested conditions exist when travel occurs below the posted speed limit(s).
Sources	Data collected and provided by the State Departments of Transportation from existing State or local government databases, including those of Metropolitan Planning Organizations. FHWA's Highway Performance Monitoring System (HPMS) serves as the repository of the data. The Texas Transportation Institute utilizes HPMS data to derive the above measures.
Statistical Issues	The methodology used to calculate performance measures has been developed by the Texas Transportation Institute (TTI) and reported in their annual Mobility Study. With sponsorship from the National Cooperative Highway Research Program of the Transportation Research Board, the methodology was significantly revised in 2007 and 2008 to take advantage of new studies and detailed data sources that have not been available in previous studies.
Completeness	The 2006 and prior measures are final. The 2007 measure is preliminary, as partial 2007 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., 2008 actual numbers will not be available from HPMS until October 2009. The 2008 measure is a projection based on recent year trends.
Reliability	The HPMS data are collected by the 50 States, the District of Columbia, and Puerto Rico in cooperation with local governments. While many of the geometric data items, such as type of median, rarely change; other items, such as traffic volume, change yearly. Typically, the States maintain data inventories that are the repositories of a wide variety of data. The HPMS data items are simply extracted from these inventories, although some data are collected just to meet Agency requirements. The FHWA provides guidelines for data collection in the HPMS Field Manual. Adherence to these guidelines varies by State, depending on issues such as staff, resources, internal policies, and uses of the data at the data provider level. An annual review of reported data is conducted by the FHWA, both at the headquarters level and in the Division Offices in each State. The reported data are subjected to intense editing and comparison with previously-reported data and reasonability checks. A written annual evaluation is provided to each State to document potential problems and to encourage corrective actions. Data re-submittal is requested in cases where major problems are identified.

Details on DOT Mobility Measures

Transit Ridership (FTA)

Measure	Average percent change in transit boardings per transit market (150 largest transit agencies). (CY)
Scope	The metric is the average percent change in transit boardings. The component is transit passenger boardings within a transit market. The modes covered are: Motor Bus (MB), Heavy Rail (HR), Light Rail (LR), Commuter Rail (CR), Demand Response (DR), Vanpool (VP), and Automated Guideway (AG).
Sources	Transit Passengers: Data derived from counts made on bus and rail routes by transit agencies that are beneficiaries of FTA Urbanized Area Formula funds, as part of their monthly National Transit Database (NTD) Reporting System submissions. Data are collected from the 150 largest transit systems

Statistical Issues	The sources of uncertainty include coverage errors and auditing issues. These data are validated by the FTA Office of Budget and Policy, contractor staff. By statute, every FTA formula grant recipient in an urbanized area (defined by the Census as having a population of 50,000 or more) must report to the National Transit Database (NTD). In cities of this size, virtually every transit authority receives FTA funding, and there are only a few cities with over 50,000 persons that do not provide public transit service. Publicly-funded transit service can be directly-operated or purchased transportation. Transit authorities have accurate counts of unlinked passenger trips and fares. An unlinked trip is recorded each time a passenger boards a transit vehicle, even though the rider may be on the same journey. As a check, trips are routinely reconciled against fare revenues. The sources of uncertainty include coverage errors and auditing issues. Until 2002, reports were required only on an annual basis.
Completeness	DOT has revised this measure to better account for the impact of ridership by counting actual monthly boardings.
Reliability	For 20072008, the indicator compares transit ridership for the urbanized areas containing the 150 largest transit agencies, aggregated by mode, with the year ending June 30, 20072008. An independent auditor and the transit agency's CEO certify that annual data reported to the NTD are accurate. FTA also compares data to key indicators such as vehicle revenue-miles, number of buses in service during peak periods, etc. FTA has undertaken a major initiative to increase ridership nationwide with the planned results being a reduction in congestion. This measure is built into all FTA senior executive performance standards.

Details on DOT Mobility Measures

Transportation Accessibility (FTA)

Measures	1. Percentage of bus fleets compliant with the Americans with Disabilities Act (ADA). (CY) 2. Percent of key rail stations compliant with the Americans with Disabilities Act (ADA). (CY)
Scope	Accessibility for bus fleet means that vehicles are equipped with wheelchair lifts or ramps. Transit buses are buses used in urbanized areas to provide public transit service to the general public. Transit buses do not include private intercity buses (e.g., Greyhound), private shuttle buses, charter buses, or school buses. The percentage of bus fleets that are equipped with lifts or ramps is only a partial measure of overall accessibility under the ADA as it measures only the availability of transit buses in our National fleet that can accommodate wheelchairs through the use of mechanical lifts or ramps. Accessibility for transit vehicles under the ADA includes other equipment and operational practices that are not reflected in this indicator. Accessibility for key rail facilities is determined by standards for ADA compliance. Transit systems were required to identify key stations. A key station is one designated as such by public entities that operate existing commuter, light, or rapid rail systems. Each public entity has determined which stations on its system have been designated as key stations through its planning and public participation process using criteria established by DOT regulations. All new rail stations are required to be ADA compliant upon completion and must meet standards for new rail stations, not key stations. All altered stations are required to be ADA compliant upon completion and must meet standards for alterations of transportation facilities by public entities.

Sources	Compliant bus fleets: National Transit Database (NTD). Compliant rail stations: Rail Station status reports to the FTA.
Statistical Issues	Data are obtained from a census of publicly-funded transit buses in urbanized areas. Information on the ADA key rail stations is reported to FTA by transit authorities. These data are not based on a sample.
Completeness	At a transit authority, vehicle purchases are significant capital expenditures. Vehicles purchased with FTA funds must have a useful life of 12 years. Whether a bus is purchased or leased, the equipment on the bus is recorded, including lifts and ramps. For the last 20 years, transit agencies have reported on the equipment in their bus fleets to the FTA in their annual NTD submissions. There is a census of publicly-funded transit buses in urbanized areas. It is not a sample. Urbanized areas have more than 50,000 persons, and are defined by the Census Department. By statute, every FTA formula grant recipient in an urbanized area must report to the NTD. In cities of this size, virtually every transit authority receives FTA funding. There are only a few cities of over 50,000 persons that do not provide public transit service. Publicly funded transit service can be directly operated or purchased transportation. Data reported for key station accessibility have historically excluded those stations for which time extensions had been granted under 49 CFR 37.47(c) (2) or 37.51(c) (2). There are a total of 138 such stations for which time extensions of various lengths were granted, some of them through 2020, the maximum permitted. These deadlines are now beginning to pass, and these stations can no longer be excluded from the total key station accessibility figures; the total number of time extensions from 20072008 through 2020 stands at 19. The total number of key stations will therefore increase, and the percentage of compliant stations may decrease as they are added to the total key station count. Beginning in 20072008, the key station accessibility figures began reporting the total number of key stations, the total number that are accessible, and the number with outstanding time extensions.
Reliability	All data in the NTD are self-reported by the transit industry. The transit agency's Chief Executive Officer and an independent auditor for the transit agency certify the accuracy of this self-reported data. The data are also compared with fleet data reported in previous years and crosschecked with other related operating and financial data in the report. Fleet inventory is also reviewed as part of FTA's Triennial Review, and a visual inspection is made at that time. Information on ADA key rail stations is reported to FTA by transit authorities. The FTA's Office of Civil Rights conducts oversight assessments to verify the information on key rail station accessibility. Quarterly rail station status reports and key rail station assessments have significantly increased the number of key rail stations that have come into compliance over the last several years. FTA will primarily influence the goal through Federal transit infrastructure investment, which speeds the rate at which transit operators can transition to ADA-compliant facilities and equipment, oversight, and technical assistance.

Details on DOT Mobility Measures

Aviation Delay (FAA)

Measure	Percentage of flights arriving no more than 15 minutes late.




Scope	A flight is considered on-time if it arrives no later than 15 minutes after its published, scheduled arrival time. This definition is used in both the DOT Airline Service Quality Performance (ASQP), and Aviation System Performance Metrics (ASPM) reporting systems. Air carriers, however, also file up-to-date flight plans for their services with the FAA that may differ from their published flight schedules. This metric measures on-time performance against the carriers filed flight plan, rather than what may be a dated published schedule. The time of arrival of completed passenger flights to and from the 35 OEP airports is compared to their flight plan scheduled time of arrival. For delayed flights, delay minutes attributable to extreme weather, carrier caused delay, security delay, and a prorated share of delay minutes due to a late arriving flight at the departure airport are subtracted from the total minutes of delay. If the flight is still delayed, it is counted as a delayed flight attributed to the National Aviation System (NAS) and the FAA.
Sources	The Aviation System Performance Metrics (ASPM) database, maintained by the FAA's Office of Aviation Policy and Plans, supplemented by DOT's Airline Service Quality Performance (ASQP) causation database, provides the data for this measure. By agreement with the FAA, ASPM flight data are filed by certain major air carriers for all flights to and from most large and medium hubs, and is supplemented by flight records contained in the Enhanced Traffic Management System (ETMS) and flight movement times provided by Aeronautical Radio, Inc. (AIRINC).
Statistical Issues	Data are not reported for all carriers, only 19 carriers report monthly into the ASQP reporting system.
Completeness	Fiscal year data are finalized approximately 90 days after the close of the fiscal year.
Reliability	The reliability of ASPM is verified on a daily basis by the execution of a number of audit checks, comparison to other published data metrics, and through the use of ASPM by over 1500 registered users. ASQP data is filed monthly with DOT under 14 CFR 234, Airline Service Quality Performance Reports, which separately requires reporting by major air carriers on flights to and from all large hubs.

Details on DOT Global Connectivity Measures

Disadvantaged and Women-Owned Small Businesses (OST S-40)

Measure	1. Percent share of the total dollar value of DOT direct contracts that are awarded to women-owned businesses. (FY) 2. Percent share of the total dollar value of DOT direct contracts that are awarded to small disadvantaged businesses. (FY)
Scope	Includes contracts awarded by DOT Operating Administrations through direct procurement. It does not include FAA contracts exempt from the Small Business Act.
Sources	Prior to October 1, 2003, these data were derived from the USDOT Contract Information System (CIS, which fed the old Federal Procurement Data System (FPDS). The CIS included all USDOT contracting activities that reported to the Federal Procurement Data Center (FPDC). Migration to the new Federal Procurement Data System on October 1, 2003 enabled the removal of agency FPDS feeder systems government-wide (including CIS). New data reports will come directly from FPDS. Data are compiled by USDOT Contracting staff from Department contract documents. Selected information is either transmitted from the operating administration contract writing systems, or manually data-keyed via the FPDS web site, into the FPDS database, which can be queried to compute needed statistics. All USDOT contracts are enumerated.

Statistical Issues	Until recently the reliability of the Federal Procurement Data System/Next Generation (FPDS/NG) was an issue with DOT and other federal agencies including the Government Accountability Office (GAO). The FPDS is designed to be an accurate and reliable system, as required by the Small Business Act, Section 644(g). However, it is recognized that at least through the transitional periods of FY 2003 through FY 2007, there may be issues of synchronization and data reliability between federal agencies and the FPDS/NG. DOT currently is required to scrub FPDS/NG data and resubmit it for validation. After re-verifying these data against internal sources, there are no known major errors present in the data. Business types are as identified in the Central Contractor Registration (CCR) database. However, random variation in the number of DOT contracts as well as the number of women-owned and small disadvantaged businesses each year results in some random variation in these measures from year to year.
Completeness	The Federal Procurement Data System (FPDS) is prescribed by regulations as the official data collection mechanism for DOT acquisitions.
Reliability	There is extensive regulatory coverage to ensure data reliability. The system is used to prepare many reports to Congress, the Small Business Administration, and others. Performance goals actual data, as finalized by the Small Business Administration is the only reliable basis for program evaluations as mandated by the Small Business Act, Section 644(g).

Details on DOT Global Connectivity Measures

St. Lawrence Seaway System Availability (SLSDC)

Measure	Percent of days in the shipping season that the U.S. portion of the St. Lawrence Seaway is available. (FY)
Scope	The availability and reliability of the U.S. sectors of the St. Lawrence Seaway, including the two U.S. Seaway locks in Massena, N.Y., are critical to continuous commercial shipping during the navigation season (late March to late December). System downtime due to any condition (weather, vessel incidents, malfunctioning equipment) causes delays to shipping, affecting international trade to and from the Great Lakes region of North America. Downtime is measured in hours/minutes of delay for weather (visibility, fog, snow, ice); vessel incidents (human error, electrical and/or mechanical failure); water level and rate of flow regulation; and lock equipment malfunction.
Sources	Saint Lawrence Seaway Development Corporation (SLSDC) Office of Lock Operations and Marine Services.
Statistical Issues	None.
Completeness	As the agency responsible for the operation and maintenance of the U.S. portion of the St. Lawrence Seaway, SLSDC's lock operations unit gathers primary data for all vessel transits through the U.S. Seaway sectors and locks, including any downtime in operations. Data is collected on site, at the U.S. locks, as vessels are transiting or as operations are suspended. This information measuring the System's reliability is compiled and delivered to SLSDC senior staff and stakeholders each month. In addition, SLSDC compiles annual System availability data for comparison purposes. Since SLSDC gathers data directly from observation, there are no limitations. Historically, the SLSDC has reported this performance metric for its entire navigation season (late March/ early April to late December). Unfortunately due to reporting timelines, system availability data is only reported through September in this report.
Reliability	SLSDC verifies and validates the accuracy of the data through review of 24-hour vessel traffic control computer records, radio communication between the two Seaway entities and vessel operators, and video and audiotapes of vessel incidents.




Details on DOT Global Connectivity Measures
Bilateral Agreements (FAA)

Measure	Number of executive agreements signed and/or implementation procedures agreements concluded.
Scope	U.S. Bilateral Agreements related to aviation safety have two components: executive agreements and implementation procedures. The executive agreement is signed by the Department of State and the target country's Ministry of Foreign Affairs. It lays the essential groundwork for cooperation between the two governments and their respective aviation authorities. The implementation procedures, the second component, provide detailed operational safety and certification arrangements between the FAA and the target country's civil aviation authority. The implementation procedure is the operational portion of the bilateral agreement that allows for acceptance of aviation goods and services between the two countries. The target is achieved when either a new Executive Agreement is signed or a new or expanded implementation procedure is signed, or all substantive issues relating to the content of the agreement are completed with the target country or regional authority. (Interim measures related to the progress of negotiations may also be tracked for internal purposes during a specific fiscal year.)
Sources	The executive agreements are negotiated and maintained by the Department of State. The implementation procedures are negotiated and concluded by FAA. The official, signed implementation procedure is maintained at FAA Headquarters.
Statistical Issues	None.
Completeness	There are no completeness data issues associated with this measure since it is a simple count of the final signed new executive agreement or implementation procedures agreement. This performance target is monitored monthly by tracking interim negotiation steps leading to completion of a BASA and tracking FAA internal coordination of the negotiated draft text. The final signing of executive agreements is generally out of the control of the FAA. Many sovereign nations view these agreements as treaties that require legislative approval. The FAA and U.S. Government cannot control the timing of legislatures in other countries. Therefore, the FAA will count executive agreements only when signed. The negotiation of implementation procedures is more within FAA's control. The signed document of the executive agreement constitutes evidence of completion. For implementation procedures, evidence will be either a signed procedure or some form of agreement between both parties that material negotiations are concluded, but a formal signing ceremony is pending. This can take the form of an e-mail, meeting minutes, or other mutual agreement between the two parties that the implementation procedures activity has been concluded.
Reliability	No issues.

Details on DOT Global Connectivity Measures
Reduced Barriers to Trade in Transportation (OST-X)

Measure	Number of potential air transportation consumers (in billions) in international markets.
Scope	The number of potential air transportation consumers is the total population of the U.S. and countries with open skies aviation agreements with the U.S. By the end of FY 2008, there were more than 90 open skies agreements. This measurement includes the annual increase in population for the countries where open skies have been achieved, as well as the additional populations for newly negotiated open skies agreements. The estimate for the additional population is based on the median population size of the countries without open skies agreements. The measurement thus reflects the extent to which the liberalization resulting from open skies agreements, negotiated by DOT, increases travel opportunities between the U.S. and countries with previously restricted aviation agreements.
Sources	Estimate of the population of the U.S. and countries with open skies agreements with the U.S., Midyear Population, International Data Base, and U.S. Bureau of the Census (per website).
Statistical Issues	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and other issues. These qualifying notes do not significantly affect our analyses.
Completeness	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and other issues. These qualifying notes do not significantly affect our analyses.
Reliability	The International Data Base of the U.S. Bureau of the Census is a reliable source of population estimates. The Bureau's website and publications provide qualifying data notes that more fully describe technical and other issues. These qualifying notes do not significantly affect our analyses.

Details on DOT Global Connectivity Measures
Enhanced International Competitiveness of U.S. Transportation Providers (OST-X)

Measure	Number of international negotiations conducted annually to remove market-distorting barriers to trade in air transportation.
Scope	The number of international negotiations conducted annually to remove market-distorting barriers to trade in transportation is the number (or rounds) of meetings and negotiations that are conducted in an effort to reach open skies agreements, other liberalized aviation agreements, or to resolve problems. By the end of FY 2008, there were more than 80 open skies agreements, and 19 liberalized (but not open skies) agreements. These numbers, however, do not represent, but understate, the number of negotiating sessions that have historically been held to complete these agreements. The measurement thus reflects an estimate of the extent of and manner by which the DOT might best apply the necessary resources to open the competitive environment and provide increased travel opportunities and economic benefits.
Sources	Estimate of the number of annual negotiating sessions that are required to achieve further international aviation liberalization. It is an internal estimate generated by the Office of the Assistant Secretary for Aviation and International Affairs based on a number of analytical, economic and geopolitical factors.
Statistical Issues	Due to geopolitical factors, the nature of international aviation negotiations can follow an unpredictable course. It is impossible to gauge or comment upon the data limitations, statistical issues, data completeness and data reliability.




Completeness	Due to geopolitical factors, the nature of international aviation negotiations can follow an unpredictable course. It is impossible to gauge or comment upon the data limitations, statistical issues, data completeness and data reliability.
Reliability	Due to geopolitical factors, the nature of international aviation negotiations can follow an unpredictable course. It is impossible to gauge or comment upon the data limitations, statistical issues, data completeness and data reliability.

Details on DOT Global Connectivity Measures

Travel in Freight Significant Corridors (FHWA)

Measure	Number of freight corridors with an annual decrease in the average buffer index rating. (CY)
Scope	Travel time reliability is a key indicator of transportation system performance. The FHWA uses measured speed data to calculate a Buffer Index (BI) for each freight significant corridor. The BI is a measure of travel time reliability and variability that represents the extra time (or time cushion) that would have to be added to the average travel time to ensure on-time arrival 95 percent of the time.
Sources	Travel time data for freight significant corridors is derived using time and location data from satellite communications equipment on-board mobile commercial vehicles. A Global Positioning Satellite (GPS) device in the vehicle transmits a continuous or periodic signal to an earth orbit satellite. This technology allows commercial vehicles to serve as probes and enables direct measurement of commercial vehicle average operating speeds and travel rates and travel times. Selection of freight significant corridors and highway segments is largely based on the volume of freight moved on the segment.
Statistical Issues	The key issues are long term viability of data source, sampling size of the commercial vehicle probes, and frequency of the time and position sampling. In FY 2008, FHWA made progress in addressing the issues of a sample size frequency of sampling. By entering into arrangements with two additional technology partners, FHWA added more than 150,000 vehicles to the sample size and enabled more precise detection of a vehicle location, direction, and speed.
Completeness	FHWA is partnering with vendors that collect automatic vehicle location probe information from a customer base, primarily interstate long-haul carriers. The data provides nationwide coverage from approximately 400,000 vehicles (trucks and trailers) in the United States, Canada and Mexico. The largest majority of the data is from fleets that have signals sent to vehicles and readings taken as often as every 15 minutes. The interval between probe readings is dependent upon the subscription and services contracted for by each individual carrier. These intervals may range from every 15 minutes to every two hours. The data transmitted are: truck ID, latitude, longitude, date and time, and interstate route. In FY 2008, FHWA enhanced the completeness of the data set by adding two additional vendors that increases the percentage of local and less than truckload carriers, increases the coverage area, and provides access to the data that more accurately pinpoints a vehicle's location, direction and speed. FHWA processes and manages the data provided by the vendors to derive the information for this measure.

Reliability	Probe vehicle performance systems are designed to provide travel time, speed and delay information without traditional fixed-location traffic monitoring and data collection systems. Probe-based systems enable coverage of much larger geographic areas (i.e., entire roadway networks) without the cost of building fixed-location traffic data collection systems throughout those networks. This technique takes advantage of the significant reductions in the cost of GPS devices that report current location and time information with a high degree of accuracy. When placed in vehicles and combined with electronic map information, GPS devices are the primary component of excellent vehicle location systems. Storage and analysis of the GPS location data allow for very accurate roadway performance measurement. To provide reliable roadway performance estimates, a large enough number of vehicles must be equipped with GPS to provide an unbiased measure of roadway performance, and to provide the temporal and geographic diversity desired by the performance measurement system. A significant drawback to probe vehicle-based performance monitoring is that it does not provide information about the level of roadway use (i.e., vehicle volume), but only provides information about the speeds and travel times being experienced.

Details on DOT Global Connectivity Measures

Border Crossing Operation Reliability (FHWA)

Measure	Number of U.S. border crossings with an increase in operational reliability.
Scope	U.S. Border Crossings with an increase in operational reliability, calculated as the average annual hours of unexpected delay, compares high-delay crossing times to average delay crossing times. The reliability measure, or Buffer Index, uses the 95th percentile crossing times to represent border crossing times during periods with the heaviest volumes and/or most limited capacity and the average crossing time to represent the expected time for commercial vehicles to cross the border.
Sources	Data is being collected at five U.S.-Canada border crossings: 1) Blaine (Pacific Highway): Blaine, WA, 2) Pembina: Pembina, ND, 3) Ambassador Bridge: Detroit, MI, 4) Peace Bridge: Buffalo, NY and 5) Champlain: Champlain, NY. Data collection is best described as an automated, large-scale probe vehicle performance monitoring system using satellite-based automated vehicle location (AVL) data. Using the satellite-based method, the specific location of vehicles is determined at regular, predetermined time intervals using latitude and longitude positioning. The locations are stamped with a time, date, and vehicle identification number. The data collected is used to compute the average crossing time. The baseline crossing time (i.e., best crossing time under ideal operating conditions) and average crossing time are used to calculate average delay at the crossings under study.To support data collection, FHWA has established a partnership with the American Transportation Research Institute (ATRI). ATRI is partnering with technology vendors and commercial carriers to gain access to the data.
Statistical Issues	The key issues are long term viability of data source, sampling size of the commercial vehicle probes, and frequency of the time and position sampling. In FY 2008, FHWA made positive progress in addressing the issues of a sample size frequency of sampling. By entering into arrangements with two additional technology partners, FHWA added more than 150,000 vehicles to the sample size and enabled more précising detection of a vehicle location, direction and speed.
Completeness	Traffic travel time information is traditionally collected with fixed-location systems (e.g. loop detectors embedded in the roads and video cameras). While the border data collection methodology provides a non-intrusive way of measuring border delay, data are not collected on the universe of commercial trucks for a particular crossing. There is continuous sampling over time, but data are collected only for commercial vehicles equipped with the technology. Also, the data collection and analysis does not account for important information about the crossings that can significantly influence travel times, such as the number of inspection and processing booths, the traffic volume, or threat level. The addition of additional vendors postures FHWA to be able to collect data on the US-Mexico border in FY 2009.




Reliability	Probe vehicle performance systems are designed to provide border crossing time and delay information without traditional fixed-location traffic monitoring and data collection systems. Probe-based systems enable coverage of much larger geographic areas (e.g. the entire Northern border) without the cost of building fixed-location traffic data collection systems throughout those networks. Storage and analysis of the GPS location data allow for very accurate border performance measurement. To provide reliable border performance estimates, a large enough number of vehicles must be equipped with GPS to provide an unbiased measure of border transportation system

Details on DOT Global Connectivity Measures

International Technology/Information Agreements (FHWA)

Measure	Number of Technology/Information Agreements that promote the U.S. Highway Transportation Industry (FHWA). To date, four agreements have been signed.
Scope	Signed memorandums of cooperation between FHWA and a foreign entity (usually a foreign government). Section 506 of Title 23 U.S.C. provides that FHWA "[E]ngage in activities…to promote U.S. highway transportation expertise, goods, and services in foreign countries to increase transfers of U.S. highway transportation technology to foreign countries."
Sources	Data are collected by the FHWA Office of International Programs.
Statistical Issues	None. Data reflect a census of administrative records.
Completeness	None.
Reliability	None.

Details on DOT Environmental Stewardship Measures

Exemplary Human Environment Initiatives (FHWA)

Measure	Number of Exemplary Human Environment Initiatives undertaken. (FY)
Scope	The FHWA seeks to recognize exemplary examples of transportation projects that either create or improve conditions for human activities. Projects are exemplary if they meet a specific documented need; are innovative; are significant; demonstrate results; offer the potential for transferability; demonstrate partnering and collaboration; provide specific benefits to human activity; are mainstreamed into transportation decision-making; and benefit more than one project category. Each year a number of Exemplary Human Environment Initiatives will be selected for nationwide recognition and promotion as models for other localities to consider for implementation.
Sources	State DOT and FHWA field offices submit a list and description of human environment initiatives for consideration to FHWA Headquarters.
Statistical Issues	The data may not represent all ecosystem and habitat conservation initiatives underway. Submittals are made at the discretion of the States and FHWA field offices.
Completeness	All identified initiatives are included. However, there may be other potential qualifying initiatives that have not been identified.
Reliability	The identification of Exemplary Human Environment Initiatives may not be consistent across all States and FHWA field offices. While the criteria are carefully defined and complete, they are still subject to interpretation.

Details on DOT Environmental Stewardship Measures
DOT Facility Cleanup (OST M-93)

Measure	Twelve-month moving average number of areas in conformity lapse. (FY)
Scope	The transportation conformity process is intended to ensure that transportation plans, programs, and projects will not create new violations of the National Ambient Air Quality Standards (NAAQS), increase the frequency or severity of existing NAAQS violations, or delay the attainment of the NAAQS in designated non-attainment (or maintenance) areas.
Sources	The FHWA and FTA jointly make conformity determinations within air quality non-attainment and maintenance areas to ensure that Federal actions conform to the purpose of State Implementation Plans (SIP). With DOT concurrence, the U.S. Environmental Protection Agency (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 24 months after certain State Implementation Plan (SIP) actions (e.g., EPA's approval of motor vehicle emissions budgets), or if four years have passed since the last conformity determination, a 12-month conformity lapse grace period will start before the consequences of a conformity lapse apply. During a conformity lapse, no new non-exempt projects may advance until a new determination for the plan and Transportation Improvement Program (TIP) can be made. This condition affects transit as well as highway projects. During a conformity lapse, FHWA and FTA can only make approvals or grants for projects that are exempt from the conformity process (pursuant to Sections 93.126 and 93.127 of the conformity rule) such as a safety project and transportation control measures that are included in an approved SIP. Only those project phases that have received approval of the project agreement, and transit projects that have received a full funding grant agreement, or equivalent approvals, prior to the conformity lapse may proceed. This measure is current and has no missing data.
Reliability	There are no reliability issues. FHWA and FTA jointly make conformity determinations within air quality non-attainment and maintenance areas to ensure that Federal actions conform to the purpose of the SIP.

Details on DOT Environmental Stewardship Measures
Hazardous Liquid Materials Spilled from Pipelines (PHMSA)

Measure	Number of hazardous liquid pipeline spills in high consequence areas. (CY)




Scope	Liquid pipeline accidents (spills) are reportable under 49 CFR 195.50 if there is a release of hazardous liquid or carbon dioxide and any one of the following: 1. unintentional explosion or fire; 2. release of five gallons or more (except certain maintenance activities); 3. death or injury requiring hospitalization; or, 4. estimated property damage, including costs of cleanup and recovery, value of lost product, and other property damage exceeding $50,000. Data are adjusted/normalized for time series comparisons to account for changes in reporting criteria over time. This includes screening out hazardous liquid spills of less than 50 barrels (or five barrels for highly-volatile liquids) unless the accident meets one of the other reporting criteria. Highly-volatile liquid (HVL) spills are not included in this performance measure. HVLs evaporate on release and don't impact the environment in the usual way that other liquid petroleum products do.
Sources	DOT/Pipeline and Hazardous Materials Safety Administration (PHMSA) Incident Data-derived from Pipeline Operator reports submitted on PHMSA Form F-7000.1. Ton-mile data are calculated using a base figure reported in a 1982 USDOT study entitled Liquid Pipeline Director and then combined with data from the Association of Oil Pipe Lines and the Oil Pipeline Research Institute.
Statistical Issues	A response percentage cannot be calculated as the actual population of reportable incidents cannot be precisely determined. Results in any single year need to be interpreted with some caution. Targets could be missed or met as a result of normal annual variation in the number of reported incidents. The performance measure is a ratio of "Tons Net Loss" and "Ton-Miles Shipped." Uncertainty in either the numerator or the denominator can have a large effect on the overall uncertainty. Some factors of possible variance in the numerator include: 1) a few large spills can make PHMSA miss this goal, and 2) even when the total number of spills fluctuates, the net volume lost may increase. The denominator may fluctuate with the overall economy, i.e., the volume shipped increases with economic boom and decreases when the economy slows down. The environmental metric tracks a highly variable trend and PHMSA has noted in the past that the variability of this metric warrants close study. The past long term pattern for the trend was to generally meet or miss the goal every other year as the actual performance bounced above and below the trend line regularly. PHMSA continues to lessen the overall standard deviation of the metric over time (the performance of the trend is getting statistically more sound over time). This measure also has continued a general downward trend even though it bounces above and below the trend line over time.
Completeness	Compliance in reporting is very high and most incidents that meet reporting requirements are submitted. Operators must submit reports within 30 days of an incident or face penalties for non-compliance. The reported estimates are based upon incident data reported in January through June 2008. There may be a 60-day lag in reporting and compiling information in the database for analysis. Traditionally, there are more incidents in the summer than the winter. Preliminary estimates are based on data available as of middle of August, with six months of data through the end of June. The CY 2008 estimate is a projection using both a seasonal adjustment (using a 10-year baseline) and a separate adjustment to account for the historical filing of late reports (92.5 percent of reports for January-June were filed by this time last year).

Reliability	Projection of the environmental measure is less precise due to the nature of pipeline spills. A single large spill (10,000 barrels or more) can easily dwarf the total for all other CY spills combined. These large spills cannot be factored into a projection model due to their magnitude and infrequent and unpredictable occurrences. Thus, projections for the remaining six months of this CY assume that the average spill volume in the past six months will remain the same in the next six months. However, any large spill of non-highly volatile hazardous liquid in the next six months can move the projection upwards. PHMSA routinely cross-checks accident reports against other sources of data, such as the telephonic reporting system for incidents requiring immediate notification provided to the National Response Center (NRC). PHMSA is developing a Best Management Practice to ensure quality of the incident data. Data are not normalized to account for inflation. A fixed reporting threshold ($50,000) for property damage results in an increasing level of reporting over time. This threshold was set for hazardous liquid accidents in 1994. Data are not normalized to account for the subjective judgment of the operator in filing reports for accidents that do no meet any of the quantitative reporting criteria. This may result in variations over time due to changes in industry reporting practices. Lack of additional information for ton-mile data raises definitional and methodological uncertainties about the data's reliability. Moreover, the three different information sources introduce data discontinuities, making time comparisons unreliable. (National Transportation System (NTS) 2002). PHMSA uses this data in conjunction with pipeline safety data in prioritizing compliance and enforcement plans. However, beginning in FY 2009, PHMSA will begin reporting on the number of spills in high consequence areas as a new performance measure to replace the current one. This will address many of the reliability issues with the current measure.

Details on DOT Environmental Stewardship Measures

Environmental Impact Statements (FHWA / FAA/ FTA)

Measure	Median elapsed time in months to complete environmental impact statements for DOT funded infrastructure projects
Scope	The purpose of an Environmental Impact Statement (EIS) is to provide full and open evaluation of environmental issues and alternatives, and to inform decision-makers and the public of reasonable alternatives that could avoid or minimize adverse impacts and enhance the quality of the environment. Environmental impact statement completion time covers the period from publication of the notice of intent to publication of the record of decision for DOT-funded infrastructure projects This is a tool for measuring the agency's performance in preparing and completing Environmental Impact Statements (EISs) for DOT funded infrastructure projects. Not only will it provide a measure of the time to complete an EIS and the intermediate steps, it will also help assess the success of environmental streamlining initiatives undertaken by the DOT operating administrations.




Sources

Data are derived from FHWA, FTA, and FAA statistical compilations. FHWA data is collected primarily through the FHWA's Environmental Document Tracking System (EDTS). The EIS processing time is tracked from the Notice of Intent (NOI) to the Record of Decision (ROD) and from the date of initiation to a FONSI for EA processing time. Frequent reports are an integral part of a national communication strategy for environmental streamlining and are absolutely essential in responding to Congressional inquiries, periodic hearings, and mandated Congressional reports. FHWA prepares more than 80 percent of environmental impact statements prepared during the fiscal year.

FAA has developed and initiated a database maintained by the FAA's Office of Environment and Energy. The database collects information on all agency EISs, data heretofore not readily available. In addition the database provides information on agency Environmental Assessments, Endangered Species Expenditures, and EIS Cooperating Agency Information that are used to provide reports to DOT, Congress, and the White House. Start and completion dates of EISs are taken from published dates associated with the Notice of Intent to Prepare an EIS (start) through Draft EIS, Final EIS, and Record of Decision (completion). Source materials are contained in the project files. The project manager for the EIS maintains the files and records.

FHWA collects data for all projects primarily through the FHWA's Environmental Document Tracking System (EDTS). The EIS processing time is tracked from the Notice of Intent (NOI) to the Record of Decision (ROD).

FTA collects its data from a regional survey performed annually. Survey information is compiled and inputted into the agency's EIS excel tracking workbook.

Statistical Issues

For FAA data, the various lines-of-business are responsible for providing and updating the data on a regular basis. In most cases the data is recorded in the database by the EIS project manager. This is the sole source of the information for the database. The most likely external factor that could impact the measurement of results would be related to the project manager's workload and the ability to record data in a timely fashion.

Note that this measure does not account for "down time" in the process—for example, inactivity due to vacillating support for a project or diminished funding sources, and time required to complete ancillary studies.

FHWA: None

FTA: A list of EISs is compiled annually for the Council on Environmental Quality. The list does not always include EISs that are developed in the regions by sponsor consultants.

Completeness

All Environmental Impact Statements (EISs) that have a Notice of Intent (NOI) are entered into the system. As the NEPA process progresses, the dates for the Draft EIS, Final EIS, and the ROD are also entered. These data are relatively complete.

For FAA, completeness and reliability of the data is the responsibility of the reporting lines-of-business. The project manager's workload can affect the timeliness of recording data and therefore the completeness of the database and accuracy of the reported performance measure. When the start and completion of each EIS is recorded then the total time to complete can be calculated and the mean time to complete can be computed for the total number of projects over the time period being considered.

Reliability

There are no reliability issues. The data is submitted by the states and Headquarters verifies those dates by the Federal Register Publication dates. This measure is reliable insofar as time to complete the "environmental process," which contemplates satisfying all—in some cases, up to 20 or more—environmental laws and permitting requirements that apply to a DOT-funded infrastructure project after subtracting "down time".

Details on DOT Security Measures

Shipping Capacity (MARAD)

Measure	Percent of DOD-required shipping capacity, complete with crews, available within mobilization timelines. (FY)
Scope	This measure is based on the material availability of 44 ships in the Maritime Administration's Ready Reserve Force (RRF) and approximately 125 ships enrolled in the Voluntary Intermodal Sealift Agreement (VISA) program, which includes 60 ships enrolled in the Maritime Security Program (MSP). The performance measure represents the number of available ships (compared to the total number of ships in the RRF and VISA) that can be fully crewed within the established readiness timelines. Crewing of the RRF vessels is accomplished by commercial mariners employed by private sector companies under contract to the government. Currently there are more qualified mariners than jobs, even in the most under represented categories. However, due to the voluntary nature of this system, there is no guarantee that sufficient mariners will be available on time and as needed especially during a large, rapid activation.
Sources	Material availability of ships. Maritime Administration records (and information exchanged with DOD) on the readiness/availability status of each ship by the Office of Sealift Support (MSP/VISA ships) and the Office of Ship Operations (RRF ships). Typical reasons why a ship is not materially available include: the ship is in drydock, the ship is undergoing a scheduled major overhaul, or the ship is undergoing an unscheduled repair. The Maritime Administration and DOD also maintain records of the sealift ships enrolled in the MSP and VISA and their crew requirements. Availability of mariners. The Maritime Administration, through their Mariner Outreach System, extracts the number of qualified mariners from the data recorded in the U.S. Coast Guard's Merchant Mariner Licensing and Documentation (MMLD) system. The willingness and availability of these mariners to sail is then estimated using all available information including total U.S. requirements for deep sea mariners, recent sea service, and mariner surveys.
Statistical Issues	None.
Completeness	Data are complete.
Reliability	The data is reasonably reliable and useful in managing the reserve fleet readiness program.

Details on DOT Security Measures
DoD-Designated Port Facilities (MARAD)

Measure	Percent of DoD-designated commercial strategic ports for military use that are available for military use within DoD established readiness timelines.
Scope	The measure consists of the total number of DOD-designated commercial strategic ports for military use that forecast their ability to able to meet DOD-readiness requirements within 48-hours of written notice from the Maritime Administration, expressed as a percentage of the total number of DOD-designated commercial strategic ports. Presently, there are 15 DOD-designated commercial strategic ports. Port readiness is based on monthly forecasts submitted by the ports and semi-annual port readiness assessments by the Maritime Administration in cooperation with other National Port Readiness Network partners. The semi-annual port assessments provide data or other information on a variety of factors, including the following: the capabilities of channels, anchorages, berths, and pilots/tugboats to handle larger ships; rail access, rail restrictions, rail ramp offloading areas, and rail storage capacities; the availability of trained labor gangs and bosses; number and capabilities of available cranes; long-term leases and contracts for the port facility; distances from ports to key military installations; intermodal capabilities for handling containers; highway and rail access; number of port entry gates; available lighting for night operations; and number and capacity of covered storage areas and marshalling areas off the port.

Sources	The Maritime Administration's data are derived from monthly reports submitted by the commercial strategic ports and from MARAD/DOD semi-annual port assessments.
Statistical Issues	None.
Completeness	Data are complete.
Reliability	The data is reasonably reliable according to the Bureau of Transportation Statistics and useful in managing its port readiness program.

Details on Organizational Excellence Measures

DOT Major System Acquisition Performance (FAA)

Measure	1. For major DOT aviation systems, percentage of cost goals established in the acquisition project baselines that are met. 2. For major DOT aviation systems, percentage of scheduled milestones established in acquisition project baselines that are met.
Scope	This performance measure encompasses acquisition management data for all of DOT's major systems acquisition contracts, primarily in the FAA, but also from any office procuring a major system as defined in OMB Circular A-11, and DOT's Capital Programming and Investment Control order.
Sources	The data for acquisition programs comes from each DOT organization procuring major systems. FAA tracks and reports status of all schedule and cost performance targets using an automated database, providing a monthly Red, Yellow, or Green assessment that indicates their confidence level in meeting their established milestones. Comments are provided monthly that detail problems, issues, and corrective actions, ensure milestones and cost are maintained within the established performance target. The performance status is reported monthly to the FAA Administrator through FAA Flight Plan meetings.
Statistical Issues	The programs that are selected each fiscal year represent a cross section of programs within the Air Traffic Organization. They include programs that have an Exhibit 300 as well as what is referred to as "buy-by-the-pound" programs. The latter are typically not required to undergo a standard acquisition life cycle process. There is no bias with the selection of milestones. The milestones selected represent the program office's determination as to what effort they deem "critical" or important enough to warrant inclusion in the Acquisition Performance goal for the year. Typically there are anywhere from two to four milestones. Interim milestones are also tracked but not included in the final performance calculation.
Completeness	This measure is current with no missing data. Each DOT organization maintains its own quality control checks for cost, schedule, and technical performance data of each major systems acquisition in accordance with OMB Circulars A-11, A-109, and A-130, Federal Acquisition Regulations, and Departmental orders implementing those directives and regulations.
Reliability	Each DOT organization having major system acquisitions uses the data during periodic acquisition program reviews, for determining resource requests. It is also used during the annual budget preparation process, for reporting progress made in the President's Budget and for making key program management decisions.


Details on DOT Organizational Excellence Measures

Major DOT Infrastructure Project Cost and Schedule Performance (FHWA / FTA / FAA)

Measure	1. Percentage of major federally funded transportation infrastructure projects with less than 2 percent annual growth for project completion milestones. (FY) 2. Percentage of finance plan cost estimates for major federally funded transportation infrastructure projects with less than 2 percent annual growth in project completion cost. (FY)
Scope	Active FTA New Starts projects with Full Funding Grant Agreements larger than $1 billion; FHWA projects with a total cost of $500 million or more, or projects approaching $500 million with a high level of interest by the public, Congress, or the Administration; and FAA runway projects with a total cost of $1 billion or more.
Sources	FTA - FTA uses independent reviews and third-party assessment providers such as the Corps of Engineers and other oversight contractors to validate the accuracy of project budgets and schedules before grantees are awarded Full Funding Grant Agreements. Project/Financial Management Oversight contractors review project budgets on a monthly basis and FTA assesses projected total project costs against baseline cost estimates and schedules. FHWA - The percent cost estimates and scheduled milestones for a FHWA Major Project are measured from when the Initial Financial Plan (IFP) is prepared and approved to the required Annual Project Update or from the previous Annual Update. The update contains the latest information about the cost and schedule for each of the Major Projects. Project Oversight Managers in FHWA Division Offices provide monthly status reports as a supplement to the Annual Update. FAA - Project cost performance for each major project is measured from cost estimates submitted by the airport sponsor to support its letter of intent (LOI) and actual expenditure data sources (for grants) and airport sponsor submissions (for overall project cost). Project schedule performance is measured from the Runway Template Action Plan (RTAP), as specified in the National Airspace System Operational Evolution Partnership.
Statistical Issues	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 annual rate of completion is not more than 2 percent behind scheduled cumulative rate of completion, using the RTAP schedule as a base. Cost performance is measured by comparing cumulative actual costs incurred at the end of each fiscal year with cumulative costs shown in the scheduled of costs submitted with the LOI application. A project will be considered to meet the cost performance target if annual costs are no more than 2 percent higher than projected costs in the cost schedule. FHWA - A scheduled milestone is defined as being achieved upon completion of the project. Major Projects generally require 6 to 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 or the last Annual Update. 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.




Completeness	FAA - Federal financial commitments to airport sponsors are tracked by two automated systems, the System of Airports Reporting (SOAR) and the Delphi financial system. These systems are updated immediately when a grant payment is made or a grant is amended or closed-out. The FAA relies on the airport sponsor to report actual project costs on a quarterly basis. Project design and construction milestones (scheduled and actual) are contained in the RTAP and developed by all involved FAA lines of business, the airport sponsor and airlines. The RTAP is comprised of tasks that must be considered when commissioning the runway and assigns accountability to the airport, airline, and FAA allowing early identification and resolution of issues that might impact the runway schedule. FHWA - The FHWA Major Projects Team maintains the project schedules and cost estimate information in a spreadsheet, which is updated when a Project IFP is approved and/or the Annual Update is received and accepted. The data is available and reported on a semi-annual basis. 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.
Reliability	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. 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. FTA - Calculations of schedule achievement are based on month of this report, and not on projected Revenue Operations Date. Re-calculations of schedule and cost baselines are made to reflect amendments to the Full Funding Grant Agreements. FTA uses independent reviews and third-party assessment providers such as the Corps of Engineers and other oversight contractors to validate the accuracy of project budgets and schedules before grantees' are awarded Full Funding Grant Agreements. FTA continues to work to improve its rigorous oversight program and has made project cost and budget performance a core accountability of every senior manager in the agency.

Details on DOT Organizational Excellence Measures

Transit Grant Process Efficiency (FTA)

Measure	Average number of days to award a grant after submission of a completed application. (FY)
Scope	FTA grants obligated during a fiscal year period for major programs: Urbanized area, non-Urbanized area, and Elderly and Persons with Disabilities formula grants; Capital grants; Job Access and Reverse Commute grants; Over-The-Road Bus grants; and Planning grants.
Sources	FTA internal databases including the Transportation Electronic Award Management (TEAM) system.
Statistical Issues	Processing time is calculated from submission date to obligation date. Zero-dollar, non-funding grant amendments are excluded from analysis.

Completeness	Data are current with no missing data, since FTA uses internal databases, including the TEAM system. All grants obligated during the fiscal year for the selected programs (see Scope section) are included in the original data set. In rare cases where the submission date is omitted (which prevents processing time calculation), missing dates are researched and added to the database prior to reporting. The zero-dollar amendments are excluded because they are not representative of the grant processing action being tested.
Reliability	The files that contain raw data from TEAM have been tested to ensure that all fiscal-year-to-date obligated grants are included and that data is current. Report programs screen various date fields to identify any missing or out-of-sequence dates that would skew averages; dates are corrected prior to reporting. Reconciliation reports of TEAM data are produced monthly and anomalies are explored and resolved. Detailed monthly grant processing progress reports provide management tools to the Regional Administrators, who continue to make this goal a top priority.




SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unqualified Restatement: No					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Timely Processing of Transactions and Accounting for Property, Plant & Equipment, including the Construction in Progress Account at the FAA	✓		✓		0
Total Material Weaknesses	1		1		0

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA, Section 2) Statement of Assurance: Unqualified						
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Timely Processing of Transactions and Accounting for Property, Plant & Equipment, including the Construction in Progress Account at the FAA	✓		✓			0
Total Material Weaknesses	1		1			0

Effectiveness of Internal Control over Operations (FMFIA, Section 2) Statement of Assurance: Qualified						
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Weaknesses in the Stewardship and Oversight of Federal-Aid Projects Administered by Local Program Agencies	✓		✓			0
FISMA Noncompliance		✓				1
Total Material Weaknesses	1	1	1			1

Conformance with Financial Management System Requirements (FMFIA, Section 4)

Statement of Assurance: Unqualified						
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Accounting Standards	✓		✓			0
Total Non-Conformances	1		1			0

Conformance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	No
1. System Requirements	Yes	Yes
2. Accounting Standards	Yes	No
3. USSGL at Transaction Level	Yes	Yes




DEPARTMENT OF TRANSPORTATION
OFFICE OF THE CHIEF INFORMATION OFFICER
PENDING MATERIAL WEAKNESS

HIGH RISK AREA: Non-compliance with Federal Information Security Management Act (FISMA) of 2002, and OMB requirements for security information systems and providing privacy protection of personally identifiable information (PII).

EXECUTIVE SUMMARY	MILESTONES	PLANNED DATES O=Original L=Last Year C=Current
How shall we fix it? Improve policy and process. Evaluate and reprioritize information assurance and privacy activities and resources. Increase the visibility of performance. Tie performance to investment and program budget. Engage senior management for corrective actions. **How will we know it's fixed?** Weekly scorecards. Monthly progress reviews and reporting. Monthly reviews with the auditors for validation of direction and progress. Quarterly reviews and reporting of compliance and progress to senior management and OMB. Monthly reporting of internal assessment and verification of technical performance.	**Year Identified:**	C - 2008
	Planned (Near-Term) 1. Improve Information Security and Privacy program policy, planning, reporting, and processes.	6/2009
	2. Enhance network security, configuration management, situational awareness, and incident response capabilities.	10/2009
	3. Ensure security awareness and privacy training for Federal and contractor employees using the Departmental network.	6/2009
	4. Improve the identification, tracking, prioritization, and management of weaknesses and system vulnerabilities.	6/2009
	5. Strengthen the security of Departmental systems through certification and accreditation, use of appropriate authentication methods, and testing of contingency plans.	10/2009
	Planned (Long-Term) Incorporate Information Assurance and Privacy performance metrics into operating administration performance standards.	10/2010

IPIA REPORTING DETAILS

1. IMPROPER PAYMENT PROGRAM RISK ASSESSMENT DESCRIPTION

In prior years, the Department identified the following ten programs as being susceptible to significant improper payments. At that time, the Department identified the ten programs in the table below as having the highest potential for improper payments.

Operating Administration	Program
Federal Highway Administration	**Federal-aid Highway Program – State Project*** Federal Lands Highway Program – Contracts
Federal Aviation Administration	Operations Facilities and Equipment **Airport Improvement Program***
Federal Transit Administration	**Capital Investment Grants*** **Formula Grants***
Office of the Secretary of Transportation	Working Capital Fund DOT Payroll**
Federal Railroad Administration	Grants
*Identified in the former Section 57 of OMB Circular A-11 **For administrative purposes, payroll was reviewed as a single program for all of DOT **Bolded** programs were included in the FY 2008 nationwide IPIA review	

In accordance with Improper Payments Information Act (IPIA) requirements and OMB guidelines, during FY 2004 and 2005 six of the Programs reflected in the Table above were subject to a risk assessment and an in-depth improper payment review, including a review of payments by the Department to grantees. No improper payments exceeding both 2.5 percent of program payments and $10 million were found. The six programs were subject to a risk assessment based on the following criteria: Gross Expended Amount, Complexity of Payments, Established Internal Controls and Oversight, Type of Program Recipient, Number of Program Recipients, Volume of Payments, Probability of Growth, and Changes in the Program from the previous year. The risk criterion was used to determine the sampling size for each program. From that, each program underwent an in depth statistically based improper payment review.

Based on the FY 2004 and 2005 reviews, the Department concluded that the six programs subject to the risk assessment and improper payment test procedures were not susceptible to significant improper payments as defined by the OMB. For the remaining four programs, because of the significance of grantee payments and the fact that such payments were not tested under previous efforts due to a lack of data required for testing at the Federal level, additional testing was required. The four programs are the Federal Highway Administration (FHWA) Federal-aid Highway Program, Federal Aviation Administration (FAA) Airport Improvement Program, Federal Transit Administration (FTA) Formula Grants Program, and the FTA Capital Investment Grants Program.

2. SAMPLING PROCESS AND RESULTS

In FY 2008, the Department completed full implementation of the IPIA, which requires that agencies: (1) review programs and identify those susceptible to significant improper payments (2) report to Congress on the amount and causes of improper payments and (3) develop approaches for reducing such payments.

The Department's FY 2008 review covered the FHWA Federal-aid Highway Program, FAA Airport Improvement Program, FTA Formula Grants Program, and the FTA Capital Investment Grants Program. With respect to the Formula Grants Program, as described below, successful completion pertains to approximately one-third of the grantees.

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

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

FEDERAL-AID HIGHWAY PROGRAM

The FHWA executed the nationwide sampling plan using personnel from the FHWA division offices and covered Federal payments to grantees over the twelve-month period March 1, 2008 through February 29, 2008.

The sampling plan involved a multi-staged statistical approach that included the selection of 40 Federal payments totaling $109,732,056, 49 state payments totaling $30,910,426, and then 182 testable line items totaling $20,733,729 for testing. Consistent with the sampling plan used in 2007, the 2008 sample was designed to support a nationwide estimate of improper payments and was not designed to provide sample items to all states and territories. The states that did not appear in the IPIA sample received sample items for FIRE testing.

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

Improper payments totaling $149,035 were found in the sample of 182 tested items. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $55.1 million +/- $4 million. The estimated improper payment rate is .17% +/- .1%. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from factors such as underpayments related to retainage not covered by contract provisions and incorrect calculations.

FTA FORMULA GRANTS PROGRAM

The FTA executed the nationwide testing program for grantees covered by the 2008 Triennial Review Program using contractor personnel. The review covered the twelve-month period March 1, 2007 through February 29, 2008.

The sampling plan involved a multi-staged statistical approach that included the selection of 8 Federal payments totaling $95,650,747, 24 transportation authorities' payments totaling $29,989,649, and then 44 testable line items from supporting invoices totaling $10,657,250 for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling$199,874 were found in the sample of 44 tested items. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $47.6 million +/- 5.3 million. The estimated improper payment rate is 5.63% +/- .63%. This projection meets OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported are attributable primarily to the absence of documentation in support of the fringe benefit rate used to recover fringe benefit costs allowable under the Formula Grants Program. While such costs are allowable charges, OMB Circular A-87, Attachment E, requires that fringe benefit charges to Federal programs be supported by formal documentation and retained in accordance with the records retention provisions of the Grants Management Common Rule.

FTA CAPITAL INVESTMENT GRANTS PROGRAM

In FY 2008 the FTA completed its first nationwide testing for this program. As with the Formula Grants Program, the sampling plan involved a multi-staged statistical approach that included the selection of 10 Federal payments totaling $321,661,382, 31 transportation authorities' payments totaling $35,783,951, and then 66 testable line items from supporting invoices totaling $12,804,680 for testing.




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

Improper payments totaling $43,672 were found in the sample of 66 tested items. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $87 million +/- $6 million. The estimated improper payment rate is 3.13% +/- .23%. This projection meets OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The improper payments reported resulted from draw-downs in excess of federal participation share. The grantee reimbursed the known overdraw.

FAA AIRPORT IMPROVEMENT PROGRAM

The FAA developed and executed a sampling plan to determine the amount and cause of improper payments in the Airport Improvement Program. The FAA review covered the twelve-month period March 1, 2007 through February 29, 2008.

The sampling plan involved a multi-staged statistical approach that included the selection of 30 Federal payments to sponsors totaling $48,796,094, 30 sponsor payments totaling $37,107,109, and then 63 testable line items from invoices totaling $15,390,373 for testing. The test procedures applied to the line items were designed to test a range of administrative elements and contractual elements. Tests of administrative elements included determining whether payments were properly approved, billed at the correct federal participation rate, and whether billings and payments were mathematically accurate. Tests of contractual elements included determining whether payments were in accordance with contract rates/prices for specified materials and whether material quality tests indicated that materials met contractual requirements.

Improper payments totaling $658.44 were found in the sample of 63 tested items. The projection of known improper payments to the population of program payments for the twelve-month period results in an improper payment estimate of $.973 million +/- $0.128 million. The estimated improper payment rate is .02 percent. This projection does not meet OMB's definition of significant improper payments ($10 million and 2.5 percent of total program payments).

The known improper payments are attributable to unexplained differences between payments to sponsors and payments to contractors.


3. CORRECTIVE ACTION PLANS FOR REDUCING THE ESTIMATED RATE OF IMPROPER PAYMENTS.

FHWA FEDERAL-AID HIGHWAY PROGRAM

FHWA Division Offices listed the following reasons for the improper payments identified as a result of the IPIA review: underpayments related to retainage not covered by contract provisions and incorrect calculations.

The Department and the FHWA will continue full implementation the FHWA's Financial Integrity Review and Evaluation Program in FY 2009 to monitor State and Territory payments and provide a mechanism for assisting these entities with addressing effectively operational issues that result or could result in improper payments. The Department believes that this proactive approach will establish internal control mechanisms for both preventing and detecting improper payments through effective oversight and outreach, the latter being intended to assist grantees in improving program management.

FTA FORMULA GRANTS PROGRAM

The FTA plans on adapting its statutorily required Triennial Review Program to include procedures to test for improper payments.

In addition, the FTA will advise grantees of the provisions of OMB Circular A-87 with particular attention to the requirement that fringe benefit and indirect cost rates used for cost reimbursement be documented and retained for audit and program review. Finally, the FTA will assess the feasibility of follow-up actions to assess the extent to which grantees covered by the 2009 review are addressing deficiencies that resulted in improper payment determinations.

FTA CAPITAL INVESTMENT GRANTS PROGRAM

The FTA will advise grantees of actions needed to ensure reimbursement requests are in accordance with grant cost sharing or matching requirements.

FAA AIRPORT IMPROVEMENT PROGRAM

The FAA will advise field personnel and sponsors of the need to establish control procedures for ensuring agreement between payments and requests for Federal reimbursement.

4. DEPARTMENT ACCOMPLISHMENTS IN GRANT PROGRAMS

The Department completed its implementation of the IPIA in its major grant programs. The FHWA review of the Federal-aid Highway Program, FAA Airport Improvement Program, FTA Formula Grants Program, and the FTA Capital Investment Grants Program represented the nationwide application of an innovative research and develop strategy implemented in FY 2005 and finalized in FY 2008. Testing over the past several years has shown that the amount and rate of improper payments are not the result of systemic problems but rather are associated with generalized operational issues at some grantees.




5. IMPROPER PAYMENT ESTIMATED ERROR RATES, DOLLAR ESTIMATES[1], AND OUTLOOK[2]

Program	PY			CY[3]			CY +1			CY +2			CY +3		
	Outlays	IP %	IP $	Outlays	IP %	IP $	Est. Outlays	IP %	IP $	Est. Outlays	IP %	IP $	Est. Outlays	IP %	IP $
FHWA: Federal-aid Highway Program	33,347	0.2	55.2	32,190	0.17	55.1	39,264	NA	NA	37,513	NA	NA	35,046	NA	NA
FTA: Formula Grants Program[4]	6,281[5]	0.3	4.32	7,298	5.63	47.6	8,557	.5	14.26	9,080	.05	1.51	8,597	.05	1.43
FTA: Capital Investment Grants Program	2,663	1.1[6]	.6	2,473	3.13	87.0	2,626	.5	13.0	2,218	.05	1.11	2,098	.05	1.05
FAA: Airport Improvement Program	3,874	NA	0	4,428	.02	.973	3,967	NA	NA	4,075	NA	NA	4,200	NA	NA

1. Dollars are in millions
2. Future (CY+1 – CY+3) improper payment rates for the FAA programs are estimated to be consistent with PY and CY rates.
3. CY outlays are for the period March 2007 through February 2008 and represent the population of Federal payments for IPIA testing.
4. Results for the FTA Formula Grants Program applies only to approximately one-third of the grantees as described in Section 2 above.
5. Outlays for grantees covered by 2008 IPIA testing and upon which the FTA Formula Grants Program IP % is based, approximates $846 million.
6. PY statistics for the Capital Investment Grants Program pertain only to a single grantee.

TOP MANAGEMENT CHALLENGES

Department of Transportation

Report Number: PT-2009-005

Date Issued: November 17, 2008

Memorandum

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

Subject: INFORMATION: DOT's Fiscal Year 2009 Top Management Challenges
Report Number PT-2009-005

Date: November 17, 2008

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-1

To: The Secretary
Deputy Secretary

The U.S. transportation system is vital to the Nation's economy and the quality of life for all Americans. Each year, the Department of Transportation (DOT) spends about $70 billion on a wide range of efforts to enhance mobility and safety. As required by law, we have identified nine top management challenges for the Department for fiscal year (FY) 2009.

The next Administration and the 111th Congress will face an array of challenges and difficult decisions with respect to transportation programs. This is particularly the case with relieving congestion, reaching agreement on long-term financing mechanisms for aviation and surface transportation programs, and addressing surface infrastructure, including aging bridges.

The Department faces these challenges in an environment of uncertain financial markets, volatile fuel prices, rising deficits, and a softening economy. These factors will impact all modes of transportation and require a careful reassessment of how Federal agencies do business and manage investment portfolios. Notwithstanding the unprecedented level of uncertainty, there are important opportunities to strategically position the Department, set priorities, and adjust strategies to maximize investments in transportation.

Improving transportation safety is—and must remain—the Department's overarching goal. Strong leadership will be a prerequisite for meeting the challenges facing the Department. The Department's top management challenges for FY 2009 are summarized below. An exhibit to this report compares this year's management challenges with those published in FY 2008.

- Enhancing Aviation Safety and Maintaining Confidence in FAA's Ability To Provide Effective Oversight of a Rapidly Changing Industry
- Enhancing Mobility and Reducing Congestion in America's Transportation System
- Developing a Plan To Address Projected Highway and Transit Funding Shortfalls
- Maximizing the Return on Current Highway and Transit Infrastructure Investments
- Operating the National Airspace System While Developing and Transitioning to the Next Generation Air Transportation System
- Protecting Against Increasing Cyber Security Risks and Enhancing the Protection of Personally Identifiable Information
- Preventing Catastrophic Failures and Obsolescence in the Nation's Aging Surface Transportation Infrastructure
- Improving Contract Operations and Maintaining Procurement Integrity
- Enhancing and Deploying Programs for Reducing the Serious Consequences of Surface Transportation Crashes

Key Focus Areas for the New Administration and the 111th Congress

Over the next several years, Congress, the Department, and stakeholders will face unique challenges. Our report highlights key, near-term areas of emphasis for each top management challenge. These areas include bolstering the integrity of the oversight of a rapidly changing airline industry; addressing congestion in the air and on the ground; and advancing a data-driven, risk-based approach to addressing nationwide bridge safety risks. We recognize that solution sets involve policy decisions for the current and future Administration as well as the next Congress. Our comments are aimed at enhancing safety, reducing risk with multibillion-dollar investments, and improving Federal oversight of transportation investments regardless of the chosen policy approach.

We remain committed to a proactive audit and investigative approach to prevent fraud, waste, and abuse in transportation programs and to our efforts to keep decision makers informed so that timely corrective actions can be taken. This report and the Department's response will be incorporated into the DOT Performance and Accountability Report as required by law (see appendix).

If you have any questions concerning this report, please contact me at (202) 366-1959. You may also contact David A. Dobbs, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427.

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1. Enhancing Aviation Safety and Maintaining Confidence in FAA's Ability To Provide Effective Oversight of a Rapidly Changing Industry

Over the last several years, the aviation industry has experienced the safest period in history. This is due in part to the Federal Aviation Administration's (FAA) oversight and the industry's efforts to advance aviation safety. However, airline consolidation and downsizing continue to dramatically change the industry, and widely publicized lapses in FAA oversight in 2008 emphasize the need for FAA to continually adapt its oversight to further enhance safety. Key challenges for FAA include:

- maintaining confidence in FAA's oversight of air carriers and certification and production of new segments of the aircraft industry;
- following through on longstanding commitments to improve oversight of external repair facilities; and
- improving runway safety by implementing new technologies, making airport-specific changes, and reinvigorating FAA initiatives.

Maintaining Confidence in FAA's Oversight of Air Carriers and Certification and Production of New Segments of the Aircraft Industry

A significant challenge for FAA will be to maintain confidence in its oversight of air carrier operations and aircraft certification and production. Our congressional testimonies in April before the House of Representatives and the Senate disclosed serious lapses in FAA's oversight at Southwest Airlines (SWA). We also testified before the House Subcommittee on Aviation in September on FAA's certification of the Eclipse Aviation EA-500 very light jet (VLJ). FAA actions in both of these instances appeared to focus primarily on promoting aviation over safety, which diminishes the public perception of FAA's ability to provide objective oversight.

The importance of these issues was underscored by the Department's recent actions to review FAA's safety oversight. In response to the safety lapses at SWA, on May 1, 2008, the Secretary of Transportation commissioned a panel to examine FAA's safety culture and its approach to safety management. In its final report, issued in September, the panel disclosed that it found FAA's safety staff was "unambiguously committed" to its safety mission but acknowledged that a remarkable degree of variation in regulatory philosophies exists among inspectors, which could create widespread inconsistencies in regulatory decision making.

Enhancing Oversight of Air Carrier Operations: In April and June, we reported that an FAA safety inspector had an overly collaborative relationship with SWA and violated FAA safety directives by permitting the air carrier to operate 46 planes without required inspections for fuselage cracks. Although FAA




identified the situation as early as April 2007, it did not attempt to determine the root cause of the safety issue nor initiate enforcement action against the carrier until November 2007. This review also identified concerns regarding FAA's failure to protect whistleblowers from retaliation. For example, after a whistleblower voiced concerns about SWA to FAA, an anonymous hotline complaint—which was never substantiated—was lodged against him, and FAA removed the whistleblower from duty for 5 months while he was under investigation. In 2007, we raised similar concerns regarding maintenance practices at Northwest Airlines, where FAA reviews of an inspector's safety concerns overlooked key findings identified by other inspectors.

Our work at SWA and other carriers has also found weaknesses in FAA's national program for risk-based oversight, the Air Transportation Oversight System (ATOS). At SWA, multiple missed ATOS inspections allowed safety directive compliance issues in SWA's maintenance program to go undetected for several years. At the time of the SWA disclosure, FAA inspectors had not completed 21 key inspections in at least 5 years.

Over the past 6 years, we have identified system-wide problems with ATOS, such as inconsistent inspection methods across FAA field offices and incomplete inspections. We recommended, among other things, that FAA strengthen its national oversight and accountability to ensure consistent and timely ATOS inspections. However, FAA still has not fully addressed this concern. We have recommended other actions to help maintain public confidence in FAA's oversight of air carriers. FAA has agreed to some of these, such as creating a national review team to conduct quality assurance reviews of FAA's air carrier oversight and implementing a process to monitor field office ATOS inspections. However, FAA has disagreed with other key recommendations, including the following:

- *Periodically rotating supervisory inspectors to ensure reliable and objective air carrier oversight.* FAA has stated that it is not financially feasible to rotate inspectors annually. Given budget constraints, FAA should consider other alternatives to ensure objective oversight. Possible alternatives include (1) incorporating assessments into its air carrier evaluation program to determine if an overly collaborative relationship exists between inspectors and the air carriers they oversee and (2) modifying its inspector training program to include additional sensitivity and integrity training for air carrier relations.

- *Establishing an independent organization to investigate safety issues identified by FAA employees.* FAA states that it has already deployed a new internal hotline for employees to resolve safety issues without fear of repercussion. However, we question the effectiveness of the hotline, which remains under the control of the Aviation Safety line of business. The serious weaknesses we identified underscore the need for an independent organization. In fact, FAA has

an independent organization to investigate employee complaints about its Air Traffic Organization. This group is staffed with former controllers and other technical experts. It recently worked with our office to conduct a high-profile investigation at the Dallas/Fort-Worth Terminal Radar Approach Control facility. The investigation substantiated serious whistleblower allegations that facility management underreported controller operational errors (when a controller fails to maintain separation between two aircraft), which created, at a minimum, the appearance of complicity.

Improving Certification and Production Oversight of New Segments of the Aircraft Industry: Another challenge for FAA will be improving its oversight of new segments of the aircraft industry. Introduction of VLJs into the National Airspace System is a key change occurring in the industry and is expected to continue over the next 2 decades. VLJs are small aircraft with advanced technologies that cost less than other business jets. In 2006, FAA certified the first VLJs, including the Eclipse EA-500. While the industry was generally excited about the introduction of this jet, some FAA employees were also concerned that it was pushed through the certification process too quickly.

A significant issue overshadowing FAA's certification of the EA-500 was the inherent risks associated with a new aircraft utilizing new technology, produced by a new manufacturer, and marketed with a new business model for its use. Because of these factors, FAA should have exercised heightened scrutiny in certifying the aircraft. Instead, our investigation found a combination of FAA actions or inactions indicating that the Agency expedited the certification processes for the EA-500 to meet a September 2006 deadline.

More importantly, because the EA-500 has advanced avionics and turbine engine technology typical of large transport aircraft combined with the light weight of smaller, private aircraft, it did not easily fit into FAA's existing certification framework. FAA chose to certify the EA-500 and other VLJs using certification requirements for general aviation aircraft rather than the more stringent certification requirements for larger transport aircraft.

A September 2008 Special Certification Review conducted by an independent FAA team concluded that the aircraft met applicable certification requirements for the four areas reviewed. However, FAA managers acknowledged that the general aviation certification requirements were inadequate to address the advanced concepts introduced on the aircraft. We understand that FAA is developing a Notice of Proposed Rulemaking (NPRM) to clarify certification requirements for VLJs. Given the issues surrounding the EA-500 certification, FAA should expedite the NPRM to allay future concerns with this expanding industry segment.




Following Through on Longstanding Commitments To Improve Oversight of External Repair Facilities

FAA continues to face challenges in identifying where critical aircraft maintenance is performed. A key issue is that FAA's risk-based oversight system does not include critical repairs performed by non-certificated repair facilities. FAA set up a system in fiscal year (FY) 2007 for air carriers and repair stations to report the volume of outsourced repairs. However, in our September 2008 report, we found that FAA's system was inadequate because it did not require mandatory air carrier reporting, an inclusive air carrier listing of *all* repair stations performing repairs to critical components, or FAA inspector validation.

We also raised concerns with FAA's guidance planned for issuance by the end of calendar year 2008. We found that the guidance, as currently drafted, does not require air carriers to report volume data for *all* repairs of critical components and inspectors to validate the data. Without this information, FAA cannot be assured that it has the precise and timely information needed to determine where it should focus its inspections. FAA is revising the guidance to address these issues.

Gathering adequate data to target inspections is important since FAA does not have a specific policy governing when inspectors should initially visit repair stations performing substantial maintenance for air carriers. Instead, FAA allows inspectors to rely on the air carriers' initial audits as a basis for approving those facilities for air carrier use. As a result, we found significant delays between FAA's initial approval of repair stations and its first inspections at those locations. For example, during a 3-year period, FAA inspectors inspected only 4 of its 15 substantial maintenance providers used by 1 air carrier. Among those uninspected was a major foreign engine repair facility that FAA inspectors did not visit until 5 years after it had received approval for carrier use—even though it had worked on 39 of the 53 engines repaired for the air carrier.

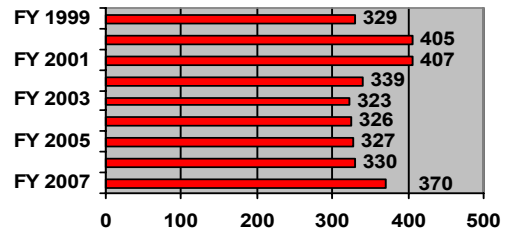
FAA needs to require its inspectors to conduct initial and follow-up on-site inspections of substantial maintenance providers to assess whether the maintenance providers comply with air carriers' procedures. In addition to their own inspections, FAA inspectors must ensure that air carriers and repair stations have strong audit systems to correct identified deficiencies, as FAA relies heavily on air carriers' oversight. In response to our report, FAA is reviewing its procedures and processes for opportunities to strengthen its guidance. However, it does not expect to complete these reviews until mid-2009.

Improving Runway Safety by Implementing New Technologies, Making Airport-Specific Changes, and Reinvigorating FAA Initiatives

Runway incidents continue to be a substantial threat to safety. The last fatal commercial aircraft accident in the United States (in 2006) occurred because the pilots of Comair flight 5191 attempted to take off from the wrong runway. A

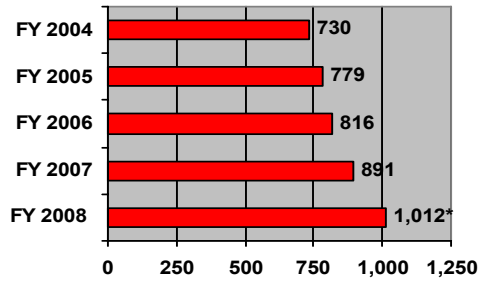
specific concern is runway incursions (any incident involving an unauthorized aircraft, vehicle, or person on a runway).[1] Since 2003, the number of runway incursions has increased again, reaching a high of 370 in FY 2007—a 13-percent increase over FY 2004 (see figure 1-1). Under FAA's new definition for categorizing runway incursions, runway incursions continue to rise even more dramatically—a 39-percent increase since FY 2004 (see figure 1-2).

Figure 1-1. Runway Incursions, Originial Definition, FY 1999 to FY 2007



Source: FAA

Figure 1-2. Runway Incursions, New Definition, FY 2004 to FY 2008



Source: FAA
*Preliminary

Many see new technology as a key runway safety solution. However, our reviews of three major FAA acquisitions[2] for improving runway safety disclosed serious concerns about what can be effectively deployed within the next several years. For example, for the Airport Surface Detection Equipment-Model X—a ground surveillance system intended to alert controllers to potential ground collisions—FAA may not meet its goal to commission all 35 systems by 2011 or achieve all planned safety benefits.

The uncertain timeline and emerging risks of FAA's runway safety technologies underscore the need for other near-term solutions. In May 2007, we reported on runway safety efforts at four airports that had experienced a surge in runway incursions: Boston, Chicago, Philadelphia, and Los Angeles. All four airports had made relatively low-cost, simple changes to their infrastructure and procedures that helped reduce the risk of runway incursions at their locations. These included improving airport lighting, signage, and runway and taxiway markings (before FAA's June 2008 deadline). In addition, the airport operators and FAA managers began tightly controlling the testing and certification of airfield drivers.

[1] Effective October 1, 2007, FAA began categorizing runway incursions using the International Civil Aviation Organization (ICAO) definition. The new definition of runway incursions includes incidents that were previously defined by FAA as "surface incidents" (where a potential conflict did not exist).

[2] Airport Surface Detection Equipment-Model X (ASDE-X), Automatic Dependent Surveillance-Broadcast (ADS-B), and Runway Status Lights.




FAA convened a task force in August 2007 to address runway safety issues. The group agreed on a short-term plan to improve runway safety, which includes conducting safety reviews at airports based on runway incursion and wrong runway departure data, improving airport signage and markings at the 75 busiest, medium- to large-sized airports, and reviewing cockpit and air traffic clearance procedures. These are the type of "airport-specific" actions that are needed; the key now will be maintaining commitment and follow through on the part of all users.

FAA must also remain focused on reinvigorating national runway safety initiatives. In response to the surge in runway incursions between FY 1999 and FY 2001, FAA took national actions to prioritize runway safety, which significantly decreased incidents between 2001 and 2003 (from 407 to 323). However, some national initiatives for promoting runway safety have subsequently waned as FAA met its overall goals for reducing runway incursions.

For example, FAA established the Runway Safety Office in 2001 to provide central oversight and accountability for runway safety initiatives throughout the Agency. However, at the time of our review, that office had not had a permanent director for almost 3 years and had undergone significant reorganization and staff reductions. FAA has since hired a director for this office and plans to reinstate its National Plan for Runway Safety to reduce runway incursions. Sustained commitment and executive-level attention will be key to the success of these initiatives.

Near-Term Focus Areas for the Transition to a New Administration

Aviation safety is and must remain FAA's top priority. Key focus areas for the short term include the following actions.

- Bolster the integrity of FAA's airline oversight by protecting whistleblowers, improving risk-based systems for targeting inspector resources, and establishing mechanisms at the national level to provide quality assurance and independent assessments of regional inspection efforts.
- Strengthen the certification process for new VLJs by clarifying certification requirements.
- Advance risk-based oversight of outsourced maintenance providers (both foreign and domestic) by developing and implementing a system for determining how much and where aircraft maintenance is performed.
- Reinvigorate efforts with strong national leadership to enhance runway safety through revised procedures and airport-specific changes at high-risk locations while waiting for new technologies to be deployed.

For further information regarding the issues identified in this chapter, please contact Lou Dixon, Assistant Inspector General for Aviation and Special Programs, at (202)-366-0500. The following related reports and testimonies can also be found on the OIG website at http://www.oig.dot.gov.

- *Review of FAA's Oversight of Airlines and Use of Regulatory Partnership Programs*
- *Testimony before the House Subcommittee on Aviation: FAA's Certification of the Eclipse EA–500 Very Light Jet*
- *FAA's Actions Taken To Address Allegations of Unsafe Maintenance Practices at Northwest Airlines*
- *Assessment of FAA's Risk-Based System for Overseeing Aircraft Manufacturers' Suppliers*
- *Review of Air Carriers' Use of Non-Certificated Repair Stations*
- *Progress Has Been Made in Reducing Runway Incursions, but Recent Incidents Underscore the Need for Further Proactive Efforts*
- *Air Carriers Outsourcing of Aircraft Maintenance*




2. Enhancing Mobility and Reducing Congestion in America's Transportation System

Congestion-related problems have impacted all modes of transportation; the Department estimates that congestion costs America almost $200 billion per year. Flight delays and cancellations have continued to be a concern in 2008, and the Nation's highways continue to experience record levels of congestion. The Department has made progress in implementing several congestion-related initiatives this past year, and it is imperative that these remain a key Federal priority across all modes. For example, the Secretary recently released a reform plan that proposes a renewed Federal focus on maintaining and improving performance on the Interstate Highway System, addressing urban congestion, giving state and local leaders greater flexibility to invest in their transit and highway priorities, and creating accountability measures to ensure investments in transportation will actually deliver results.

The Department has also taken steps to ease aviation congestion by reducing flights in the New York City area and establishing new routes through airspace redesign and air traffic control procedures. The Department is also building new runways nationwide. However, while the Department decides where to invest Federal funds to operate and expand the air traffic control system, state and local authorities select most highway and transit projects for funding. Therefore, the Department will need to work with these stakeholders to target Federal infrastructure funding to congestion relief. Specific challenges in reducing congestion include:

- reducing delays and improving airline customer service as the airlines struggle with higher fuel costs,
- keeping airport infrastructure and airspace projects on track, and
- improving intercity passenger rail's efficiency and viability as a transportation alternative.

Reducing Delays and Improving Airline Customer Service as the Airlines Struggle With Higher Fuel Costs

Reducing delays, particularly at already congested airports, and improving airline customer service are important issues facing the Nation. Peak-year 2007 trends continued into the first 6 months of 2008, with more than 1 in 4 flights (29 percent) delayed or cancelled. Not until July and August did on-time performance show a substantial improvement compared to the same months last year. On the basis of the summer improvements, year-to-date delays (through August of 2008) at the 55 airports tracked by the Federal Aviation Administration (FAA) declined 7.3 percent from the same period in 2008. During the summer of 2008, double-digit reductions in delays were experienced at 45 of the 55 airports.

Notable exceptions were Newark, where delays were up slightly; LaGuardia; John F. Kennedy (JFK); and Chicago O'Hare, where delays were down only 5.3 percent, 4.9 percent and 4.5 percent, respectively.

The decline in delays primarily stems from higher fuel costs and is expected to continue through the remainder of the year. Specifically, to offset rising fuel costs, airlines have reduced flight schedules and taken aircraft out of service, and this has provided some relief from delays. In our view, however, reducing capacity and increasing load factors can also result in more passenger inconvenience and dissatisfaction with customer service. With more seats filled, air carriers have fewer options to accommodate passengers from cancelled flights or missed connections caused by flight delays.

To explore solutions to congestion and delays in the New York City area, the Secretary formed the New York Aviation Rulemaking Committee last September. The Secretary also directed FAA to negotiate with the airlines and established temporary flight caps at JFK and Newark airports and proposed auctioning a limited number of take-off and landing opportunities (known as "slots") at JFK, LaGuardia, and Newark airports. While limiting the number of flights may reduce congestion in the short term, it is not an ideal long-term solution.

The current situation provides the Department with an important opportunity to revise its demand management policies, which are very controversial issues. Slot auctions in particular are strongly opposed by stakeholders, including the airlines and the operator of the New York area airports. Moreover, the Government Accountability Office recently concluded that FAA does not have the authority to auction arrival and departure slots.[3] The Government Accountability Office also stated that if FAA auctions slots without obtaining the necessary authority and retains and uses the proceeds, it would be in violation of the Anti-Deficiency Act. The Justice Department disagreed and found no potential for violation of the Anti-Deficiency Act. FAA issued its final rules to auction slots at the three New York airports, which will go into affect in January 2009. We believe the Department needs to further study the pros and cons of each demand management option, including who benefits and who bears the cost of implementing each option.

To improve airline customer service, the Department should continue moving forward with initiatives to improve the accountability, enforcement, and protection afforded air travelers. These initiatives include developing rulemakings to enhance passenger protection and implementing the necessary changes in the airlines' on-time performance reporting to capture all long, on-board delays and

[3] See GAO letter to Congressional Requestors, *Federal Aviation Administration—Authority to Auction Airport Arrival and Departure Slots and to Retain and Use Auction Proceeds* (September 30, 2008, B-316796).

plans to develop model contingency plans for minimizing the impact of long, on-board delays.

Keeping Airport Infrastructure and Airspace Projects On Track

The long-term solution to increasing capacity and reducing delays depends largely on expanding capacity through the Next Generation Air Transportation System (NextGen). However, NextGen is not targeted until the 2025 timeframe. While there is no "silver bullet" for addressing delays, several near-term initiatives can help relieve congestion. According to FAA, building new runways provides the largest increases in capacity. Currently, there are eight runway projects underway at seven major airports, which are expected to be complete by 2012. FAA estimates that runway projects at Washington-Dulles, Chicago O'Hare, and Seattle have the potential to accommodate an additional 300,000 operations annually. Table 2-1 provides details on the eight runway projects.

Table 2-1. Current Airfield Construction Projects

Airports	Airfield Construction Projects	Est. Completion	Cost Estimate
Philadelphia	Runway Extension	March 2009	$65 million
Seattle-Tacoma	Runway	November 2008	$1.1 billion
Washington-Dulles	Runway	November 2008	$356 million
Chicago O'Hare	Runway (9L/27R) Runway (10C/28C)	November 2008 2012	$1.7 billion
Charlotte	Runway	February 2010	$300 million
Dallas Ft. Worth	End Around Taxiway	December 2008	$79 million
Boston	Centerfield Taxiway	November 2009	$55 million

Airspace redesign efforts are critical to realizing the full benefits of runways and can also enhance capacity without new infrastructure. Currently, FAA is pursuing seven airspace redesign projects nationwide, including a major but controversial effort to revamp airspace in the New York/New Jersey/Philadelphia area. However, FAA's airspace redesign efforts still do not function as a "national" program since FAA facilities are now using their own resources to redesign airspace without coordinating with Headquarters. FAA needs to complete guidelines for managing airspace projects across the Agency's lines of business and establish realistic funding profiles for airspace projects.

Another important near-term initiative is establishing new routes that rely on equipment onboard aircraft. These new routes rely on procedures (called Area Navigation/Required Navigation Performance) that allow aircraft to fly more precise routes, which reduces fuel burn. At this stage, the challenge facing FAA is shifting from localized operations to networking city pairs, like Washington, DC,

and Chicago, IL, which will require considerable simulation modeling as well as close coordination with airspace redesign efforts and stakeholders.

Improving Intercity Passenger Rail's Efficiency and Viability as a Transportation Alternative

Intercity passenger rail is an integral part of America's transportation system, particularly in light of growing highway and aviation congestion and rising fuel prices. Amtrak, the Nation's intercity passenger rail service provider, is experiencing record revenue and ridership. However, given the constrained Federal funding environment and Amtrak's poor on-time performance, Amtrak's ability to continue to grow and reduce congestion remains uncertain.

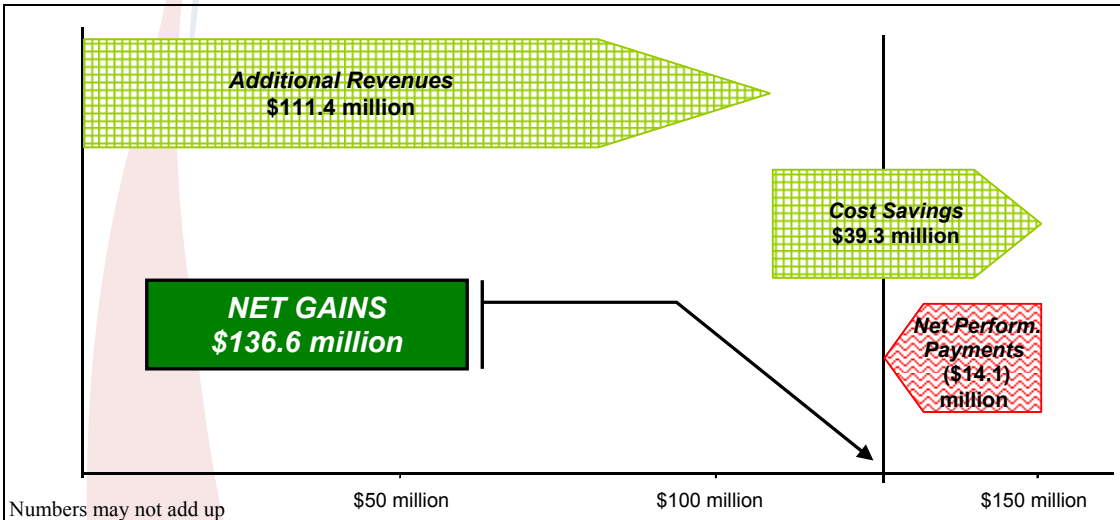
While Amtrak has recently made moderate improvement in its financial performance, its operational reform efforts have waned. Amtrak achieved $61 million in reform savings in fiscal year (FY) 2006 and $53 million in FY 2007, but it only budgeted $32 million in savings for FY 2008. As limited Federal funds are allocated to operating subsidies, it becomes more difficult to provide sufficient capital funds to improve Amtrak's performance and prepare for its long-term expansion plans. The Department needs to ensure that Amtrak continues its efforts to implement strategic reform initiatives that reduce its reliance on Federal subsidies.

Amtrak's poor on-time performance undermines the viability of intercity passenger rail as an option for travelers and weakens Amtrak's financial position by reducing its revenues and increasing its operating costs. Between FY 2003 and FY 2007, Amtrak's on-time performance off the Northeast Corridor (NEC) for long-distance routes fell from an average of only 51 percent to 42 percent; for non-NEC corridor routes, on-time performance fell from an average of 76 percent to 66 percent.

We recently reported that there are several root causes of Amtrak train delays that, if addressed, would improve Amtrak's on-time performance and financial viability. Specifically, Amtrak trains are delayed by (1) freight railroad dispatching practices, some of which deny Amtrak trains their statutory right to preference in the use of freight rail tracks and infrastructure; (2) track maintenance practices by the freight railroads and the resulting track speed restrictions; (3) insufficient track capacity; and (4) external factors beyond the freight railroad's control, such as weather.

Achieving reliable on-time performance would substantially improve Amtrak's finances. For example, an 85-percent on-time performance off the NEC in FY 2006 would have reduced Amtrak's operating loss by 30 percent, or by $136.6 million (see figure 2-1 below).

Figure 2-1. Calculation of Net Effects at 85 Percent On-Time Performance



Numbers may not add up due to rounding.

Source: OIG analysis

The Department needs to work with the freight railroads (over whose track Amtrak travels) and Amtrak to develop and implement comprehensive route management plans to improve service reliability on poor-performing Amtrak routes and seek additional funding for rail capacity expansion. The Department must also work with states that are making their own capital investments in freight rail capacity to improve the linkage between those investments and freight railroads' commitment to enhancing Amtrak train on-time performance.

Near-Term Focus Areas for the Transition to a New Administration

Given the importance of transportation to the Nation's economy and the impact of congestion, several efforts will be needed to:

- keep short-term FAA capacity initiatives on track, including new runways and airspace redesign efforts, and
- move forward with initiatives to improve the accountability, enforcement, and protection afforded air travelers.

For further information regarding the issues identified in this chapter, please contact David Tornquist, Assistant Inspector General for Rail and Maritime Program Audits and Economic Analysis, at (202)-366-9970. The following related reports and testimonies can also be found on the OIG website at http://www.oig.dot.gov.

- *FAA Short-Term Capacity Initiatives*
- *Use of the National Airspace System*
- *Aviation Industry Performance*
- *Quarterly Reports on Amtrak's FY 2008 Operational Reforms Savings and Financial Performance*
- *Analysis of the Benefits of High–Speed Rail on the Northeast Corridor*
- *Amtrak's Future Outlook and Budgetary Needs*
- *Root Causes of Amtrak Train Delays*
- *Effects of Amtrak's Poor On–Time Performance*
- *Follow-Up Review: Performance of U.S. Airlines in Implementing Selected Provisions of the Airline Customer Service Commitment*
- *Actions Needed To Improve Airline Customer Service and Minimize Long, On-Board Delays*
- *Status Report on Actions Underway To Address Flight Delays and Improve Airline Customer Service*

3. Developing a Plan To Address Projected Highway and Transit Funding Shortfalls

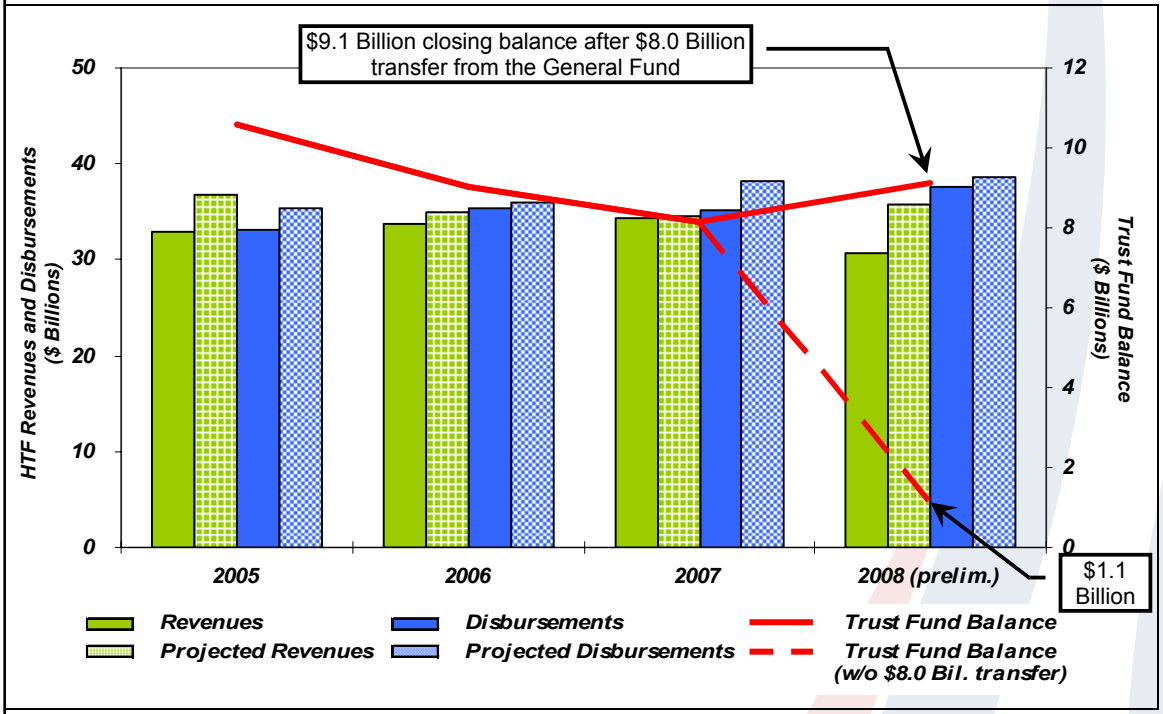
The Department faces significant challenges regarding funding for Federal highway and transit programs. In the near term, the Department must take steps to prevent recurrence of this summer's Highway Trust Fund (HTF) cash flow crisis. In the long term, it must work with Congress to enact a comprehensive funding framework that addresses revenue shortfalls in the HTF that may reduce future Federal highway spending. In addition, the Department needs to continue developing and encouraging innovative funding solutions for surface transportation infrastructure. The current surface reauthorization expires at the end of fiscal year (FY) 2009. The specific challenges the Department faces regarding highway and transit funding include:

- ensuring the highway trust fund remains solvent and
- developing a comprehensive highway funding framework for the future.

Ensuring the Highway Trust Fund Remains Solvent

To its credit, the Department recognized the urgency of a cash flow crisis in the HTF in August and requested Congress to approve legislation that would transfer $8 billion from the General Fund to the HTF. While the Department successfully managed HTF cash flow to minimize negative impacts on state departments of transportation, pending transfer of the $8 billion from the General Fund, it is uncertain how long this infusion of funds will last. The Department's ability to pay bills submitted by states for authorized costs incurred depends on the amount of funds in the HTF. That balance largely depends on Federal motor fuel excise tax receipts, which have been declining steadily in response to the unprecedented increases in fuel prices. Essentially, as fuel prices increase, motorists are cutting back on their driving, purchasing more fuel-efficient vehicles, and buying less gasoline, thereby generating fewer receipts for the HTF (see figure 3-1 below).

Figure 3-1. Highway Trust Fund – Highway Account Balance (FY 2005 – FY 2008)



Source: FHWA for actual Trust Fund revenues and disbursements and the President's Budget for projected revenues and disbursements.

Compounding the Department's near-term challenge is the fact that it does not directly control the rate at which funds are drawn from the HTF. Instead, the pace of state highway construction drives when states submit bills to the Department to be paid from the HTF. While the Department has taken steps to better manage the cash in the HTF, the potential exists for a recurrence of this summer's HTF insolvency crisis before a long-term solution can be reached. Therefore, the Department needs to maintain its focus on the HTF cash flow.

Developing a Comprehensive Highway Funding Framework for the Future

The current highway authorization expires at the end of FY 2009. The Department has issued a proposal to reform how surface transportation decisions and investments are made. However, it has yet to propose a level of highway funding for the reauthorization or a means for supporting that level of funding.

Historically, surface transportation funding has increased in successive reauthorizations:

- $155 billion authorized in the Intermodal Surface Transportation Efficiency Act[4] (ISTEA).
- $218 billion authorized in the Transportation Equity Act for the 21st Century[5] (TEA-21)—a 41 percent increase.
- $286 billion authorized in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users[6] (SAFETEA-LU)—a 31 percent increase.

Surface transportation funding levels are generally determined by projected receipts into the HTF. The projections of HTF receipts for the upcoming surface reauthorization time period are unlikely to support current funding levels, let alone increased funding levels. The growth in highway construction and maintenance costs, which we reported on last year, and the growing demand for higher levels of surface infrastructure investment raise significant questions regarding the adequacy of a funding structure that heavily relies on the 18.4 cents per gallon Federal gasoline tax. The Department must help develop a consensus among the various stakeholders and Congress on what an appropriate level of Federal surface infrastructure investment should be and how that investment should be financed.

Alternative or supplemental funding mechanisms that might be considered include increasing the current fuel tax or imposing fees on vehicle miles traveled, vehicle registration or sales, new tolls, or customs duties. Each revenue source would have a significant impact on highway users and the economy, which the Department would need to consider carefully.

Near-Term Focus Area for the Transition to a New Administration

There is a sense of urgency facing the Department because the current surface transportation reauthorization expires at the end of this fiscal year. The Department needs to monitor the solvency of the Highway Trust Fund until a long-term financing solution can be implemented.

For further information regarding the issues identified in this chapter, please contact David Tornquist, Assistant Inspector General for Rail and Maritime Program Audits and Economic Analysis, at (202)-366-9970. The following related report can also be found on the OIG website at http://www.oig.dot.gov.

Growth in Highway Construction and Maintenance Costs

[4] The Intermodal Surface Transportation Efficiency Act (ISTEA), Pub. L. No. 102-240 (1991). This law expired in 1997 and was followed by TEA-21 and SAFETEA-LU.
[5] The Transportation Equity Act for the 21st Century (TEA-21), Pub. L. No. 105-178 (1998).
[6] Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), Pub. L. No. 109-59 (2005). This law expires September 30, 2009.

4. Maximizing the Return on Current Highway and Transit Infrastructure Investments

As infrastructure needs are increasing faster than funding resources, the Department must maximize the return on its current Federal surface transportation investments. This is a critical priority because the Highway Trust Fund (HTF), which provides most of the funding for highway and transit projects, is facing insolvency earlier than expected. At the same time, the Nation's roadways are already heavily congested and demand for public transportation is growing. The Federal Highway Administration's (FHWA) and the Federal Transit Administration's (FTA) early and continuous oversight of states' project and financial management practices are key to controlling costs and schedules; avoiding construction quality problems; and preventing and detecting fraud, waste, and abuse. Considering the current tight fiscal environment at all levels of government, the Department needs to focus on:

- strengthening stewardship over the Federal Government's highway investment,
- providing strong oversight of major transit projects to maximize limited funding, and
- ensuring continued vigilance in protecting federally funded surface transportation projects from fraud.

Strengthening Stewardship Over the Federal Government's Highway Investment

To maximize the return on Federal highway funding provided to states (over $41 billion in fiscal year [FY] 2008), FHWA must continue to provide strong stewardship of major highway projects. To its credit, FHWA has enhanced its oversight of major projects and states' management practices in recent years, but sustained focus is needed to ensure that these efforts attain their goals. This task is even more imperative since HTF revenues are falling short of meeting an overwhelming demand for highway infrastructure funding.

In the past, we have reported on major oversight deficiencies on highway projects, such as Boston's Central Artery/Tunnel Project. For example, over the years, the finance plans for this project did not comply with FHWA guidance and significantly understated project costs. Moreover, our work on the Central Artery/Tunnel Project's Stem to Stern Safety Review, which was prompted by a tunnel ceiling collapse that killed a motorist, showed that major problems in construction quality may have been prevented with greater oversight at the Federal and state levels. We have learned lessons from this troubled, high-profile project.

To strengthen oversight of highway funds, Congress made several important changes in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users.[7]

- One major change involved lowering the definition of *major projects* from $1 billion to $500 million. As a result, FHWA must provide enhanced oversight to projects now defined as major projects, including a review of the required finance plan. A finance plan is an important oversight tool that provides managers and the public with information on how much a project is expected to cost, when it will be completed, whether adequate funding is committed, and whether there are risks to completing the project on time and within budget.

- Another major change involved adding a requirement for major highway projects to have project management plans as well as finance plans. Project management plans serve as a "roadmap" to help the project team deliver a project in an efficient and effective manner by clearly defining roles, responsibilities, processes, and activities.

FHWA needs to strengthen the use of these tools and remain vigilant in its oversight of major highway projects.

Providing Strong Oversight of Major Projects To Maximize Limited Transit Funding

FTA has 15 New Starts projects with approved full funding grant agreements totaling $9.2 billion[8] in various stages of design or construction across the country that are seeking Federal funding in the FY 2009 New Starts report. FTA selects relatively few projects for New Starts each year. However, demand for New Starts funding is high and will likely continue to grow if the recent surge in transit ridership continues. FTA must ensure that its New Starts evaluation process selects the most promising projects. Accordingly, FTA must maintain a rigorous evaluation process, with particular emphasis in two key areas:

- First, FTA must ensure that the capital cost estimate for each proposed project is credible and complete; this is a key element in determining whether a project is cost effective. For example, after assessing cost estimates for the Dulles Corridor Metrorail Project, which had been in the New Start pipeline for years, two independent consultants for FTA determined that the project sponsor

[7] Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), Pub. L. No. 109-59 (2005). This law expires September 30, 2009.

[8] FTA, "Annual Report on Funding Recommendations: Proposed Allocations of Funds for Fiscal Year 2009," February 2008. FTA also had 16 New Starts projects that are in the preliminary engineering or final design stages (with total requested Federal funding of $9 billion).

underestimated schedule delays; these delays increased the overall cost estimate to almost $3 billion—doubling an earlier estimate. Earlier scrutiny of cost estimates might have helped FTA avoid this situation.

To its credit, FTA is now requiring its project management oversight contractors to review cost estimates earlier in the New Starts process. FTA has also implemented a program establishing a consistent format for estimating, reporting, and managing capital costs on New Starts projects. The key to success is ensuring effective implementation across the country.

- Second, FTA must carefully evaluate whether each New Starts grantee has demonstrated stable and dependable financing sources to construct, maintain, and operate a proposed transit system or extension as well as the existing transit system.[9] This is important since the New Starts program generally provides only a maximum of 50 percent of a project's funding. In light of tight economic conditions at all levels of government, FTA must be vigilant in scrutinizing the financial plans of local project sponsors.

FTA must also provide strong oversight to keep major transit projects on schedule and within budget during construction by exercising sound project and financial management. In particular, FTA must focus on the Lower Manhattan Recovery Projects in the coming year. These high priority projects (which are separate from the New Starts program) constitute a $4.55 billion Federal investment to reconstruct and enhance New York City's transportation infrastructure after the September 11, 2001, terrorist attacks.

The Lower Manhattan Recovery Projects have experienced significant challenges, including cost estimate increases of as much as $800 million on the Permanent Port Authority-Trans Hudson Terminal Project. These projects are also being constructed in a difficult environment with large escalations in material and fuel costs and contractor shortages. The initial goal was to keep the projects as close to 100 percent Federal funding as possible and within an overall cap, which now appears unlikely.

Consequently, local grantees will need to provide the remaining funding or reduce the scope of one or more of the projects, thereby potentially diminishing the benefits that the projects would provide to travelers in New York City. In the coming year, FTA must fully exercise its oversight authority and continue to work with grantees to minimize further estimated cost increases and schedule delays and address project management problems.

[9] Local financial commitment is a major criterion that FTA uses to determine which New Starts projects are ultimately approved for a full funding grant agreement and therefore able to begin construction.




Ensuring Continued Vigilance in Protecting Federally Funded Surface Transportation Projects From Fraud

To their credit, many senior Department leaders have taken seriously their responsibility to aggressively combat fraud, waste, abuse, and other irregularities. Specifically, during the past year, the FHWA and FTA Administrators have demonstrated support for our increased fraud awareness and education outreach efforts. Despite these efforts, continued vigilance at all levels of the Department will be needed to ensure that limited transportation funding is protected from fraud. During FY 2008, our highway- and transit-related contract and grant fraud investigations yielded 75 indictments, 45 convictions, nearly $500 million in monetary recoveries, and 28 suspensions or debarments. These investigations involved schemes such as bid rigging, price fixing, product substitution, bribery and kickbacks, conflicts of interest, false statements and false claims, labor and materials overbilling, and disadvantaged business enterprise fraud.

Near-Term Focus Area for the Transition to a New Administration

To help maximize Federal infrastructure investments, we believe the Department will need to provide vigilant oversight of the $4.55 billion Lower Manhattan Recovery Projects to minimize further estimated cost increases and schedule delays.

For further information regarding the issues identified in this chapter, please contact Joseph Comé, Assistant Inspector General for Highway and Transit Audits at (202)-366-5630. The following related reports and testimonies can also be found on the OIG website at http://www.oig.dot.gov.

- *Baseline Report on Major Project Monitoring of the Dulles Corridor Metrorail Project*
- *Report on the Central Artery/Tunnel Project May 2007 Finance Plan Update*
- *Initial Assessment of the Central Artery/Tunnel Project Stem to Stern Safety Review*
- *Audit of FTA's Oversight of Pioneer Valley Transit Authority Electric Bus Cooperative Agreement*
- *Lower Manhattan Reconstruction: Lessons Learned from Large Transportation Projects*
- *Baseline Report on the Lower Manhattan Recovery Projects*

5. Operating the National Airspace System While Developing and Transitioning to the Next Generation Air Transportation System

The Federal Aviation Administration (FAA) will face challenges in balancing the needs of the current National Airspace System, which is showing signs of strain, with future training, technological, and facility requirements. However, FAA does not have a long-term financing mechanism in place, and Congress has established stop-gap measures until agreement on funding aviation programs can be reached. How FAA is funded is clearly a policy call for Congress. The specific management challenges for the Department and FAA in the coming years include:

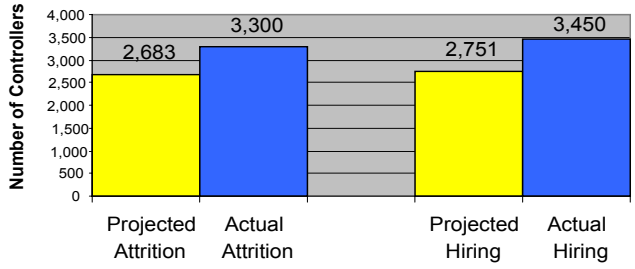
- hiring and training 17,000 new controllers through 2017,
- keeping existing projects on track and reducing risk with the Next Generation Air Transportation System (NextGen), and
- sustaining FAA's aging facilities.

Hiring and Training 17,000 New Controllers Through 2017

Over the next decade, FAA plans to hire and train nearly 17,000 controllers to replace those who were hired after the 1981 strike and are now retiring. Ensuring there are enough certified controllers at FAA's more than 300 air traffic control facilities will remain a significant watch item for the Department and Congress.

Since 2005, 3,300 controllers have left the workforce—23 percent more than FAA had projected. To keep pace, FAA accelerated its hiring efforts and has hired 3,450 new controllers—25 percent more than projected (see figure 5-1).

Figure 5-1. Controller Attrition and Hiring, Projected and Actual (FY 2005 – FY 2007)



With the surge in new hires over the last 4 years, FAA is facing a fundamental transformation in the composition of its controller workforce. While the overall size of the controller workforce remained relatively constant from April 2004[10] to June 2008, the number of controllers in training increased by nearly 68 percent and the number of fully certified professional controllers (CPC) decreased by nearly 12 percent. New controllers now represent 25 percent of the workforce (up from 15 percent in 2004). However, that percentage can vary extensively by

[10] We chose 2004 as a benchmark for comparison purposes since 2004 was the last year we audited this program and because 2004 was the year FAA first published its Controller Workforce Plan.

location—from as little as zero percent (e.g., Pittsburgh, PA, air traffic control tower) to as much as 67 percent (e.g., Rochester, MN, air traffic control tower).

A major challenge in addressing controller attrition will be training new controllers to the CPC level at their assigned locations. In June, we issued our second report on FAA's controller facility training program. FAA is taking actions at the national level to get this important program on track. For example, FAA is adding more training simulators at towers and increasing use of contractor training support—from 53 facilities in 2004 to 190 facilities in 2007. Many of FAA's efforts, however, are still in the early stages. We identified problems that we also reported in 2004—that the facility training program continues to be extremely decentralized and the efficiency and quality of the training varies from one location to another. FAA has agreed to take the following actions we recommended to improve this program:

- Establish realistic standards for how many developmental controllers facilities can accommodate.
- Continue to encourage veteran controllers to transfer to busier, higher-level facilities.
- Implement key initiatives it first proposed in 2004 to improve facility training.

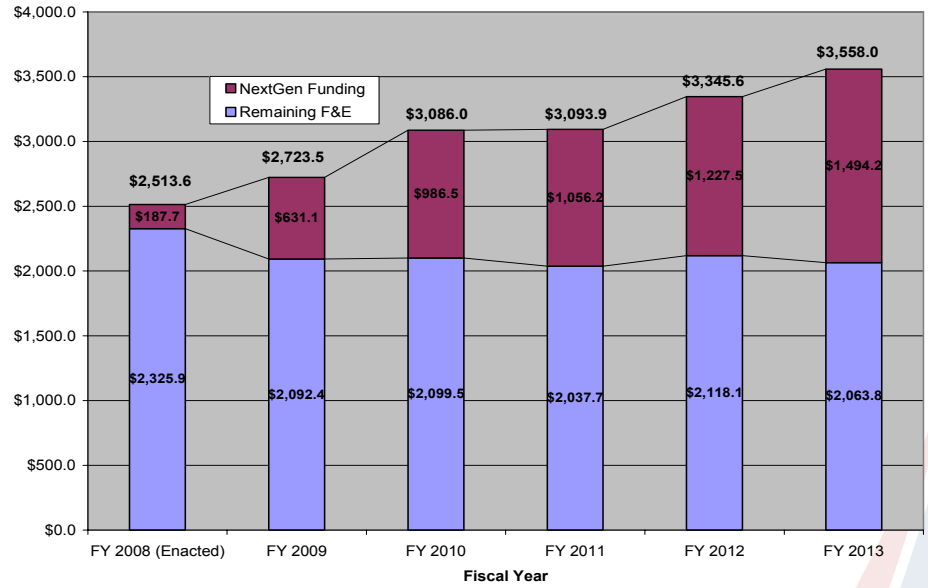
As attrition increases, FAA must also continue addressing controller human factor issues. Congress has expressed concerns regarding these issues since the influx of new controllers will need both technical and human factors (fatigue and attention) training. For example, at the request of Senator Durbin of Illinois, we are reviewing factors that could affect controller fatigue at the Chicago O'Hare Tower, Chicago Terminal Radar Approach Control, and Chicago Center.

At the request of Chairman Costello of the House Aviation Subcommittee, we are reviewing the rate and possible root causes of controller training failures (developmental controllers who fail training either at the FAA Academy or at their assigned facility). Our work on these requests is ongoing, and we plan to issue our final results early next year.

Keeping Existing Projects on Track and Reducing Risks With NextGen

FAA's capital account is now being shaped by NextGen—an enormously complex effort that will cost billions of dollars (see figure 5-2 below). FAA budget estimates show that the Agency will require $18 billion for capital efforts between fiscal year (FY) 2008 and FY 2013. This includes $5.6 billion specifically for NextGen initiatives, including demonstration projects and a satellite-based surveillance system called Automatic Dependent Surveillance-Broadcast (ADS-B).

Figure 5-2. FAA Capital Funding for FY 2008-FY 2013
(Totals in Millions)



Overall, we are not seeing the significant cost growth and schedule slips that occurred in the past with FAA's major modernization projects. This is because FAA has taken a more incremental approach to major acquisitions and has "re-baselined" a number of efforts. We recently examined progress with 18 programs valued at $17.5 billion. When comparing revised baselines, only 2 of the 18 projects we reviewed have experienced additional cost growth ($53 million) and delays (5 years). However, since inception, six of these programs have experienced cost growth close to $4.7 billion and delays of up to 12 years.

It will be important to keep existing projects on track because about 30 projects serve as platforms for NextGen initiatives. For example, core NextGen capabilities such as data link rely on enhancements to the $2.1 billion En Route Automation Modernization (ERAM) program, which provides new hardware and software for facilities that manage high-altitude traffic. Currently, the ERAM effort is on schedule; its software requirements related to NextGen are uncertain but are expected to be in the billions of dollars.

A key challenge for the Department and FAA is reducing risk with the implementation of ADS-B—a centerpiece of the NextGen portfolio. In August 2007, FAA awarded a service-based contract worth $1.8 billion for ADS-B ground infrastructure. FAA plans to implement "ADS-B Out" in the 2020 timeframe, which will require aircraft to broadcast their position to ground stations. However, the majority of capacity- and safety-related benefits are associated with




"ADS-B In," which will display information to pilots in the cockpit. ADS-B implementation faces several risks, including gaining stakeholder acceptance and aircraft equipage, addressing broadcast frequency congestion concerns, integrating with existing systems, and assessing potential security vulnerabilities in managing air traffic. Much work remains to refine cost, requirements, and expected benefits of NextGen initiatives. We have identified areas requiring sustained management attention from FAA and made the following recommendations to help the Agency reduce risk with NextGen:

- Conduct a gap analysis between the existing National Airspace System and the expected NextGen capabilities to determine funding priorities and the full range of adjustments necessary for existing capital programs until the transition to NextGen.
- Develop a mid-point architecture (a technical road map) in the 2015 timeframe that provides a way-point between the current system and NextGen.
- Assess and obtain the necessary skills with respect to contract management and systems engineering needed to manage and execute NextGen.
- Establish metrics for assessing progress with NextGen that focus on enhancing capacity, boosting productivity, and reducing operating costs.

Sustaining FAA's Extensive Network of Aging Facilities

FAA has full or partial responsibility for 420 staffed air traffic control facilities. Many FAA air traffic control facilities have exceeded their useful lives, and their physical condition continues to deteriorate. While the average facility has an expected useful life of approximately 25 to 30 years, 59 percent of FAA facilities are over 30 years old.

However, FAA still does not have adequate controls in place to ensure that the Agency's routine facility maintenance needs are sufficiently funded. Although FAA has a structured process for estimating its funding requirements for its capital account (used to fund facility replacements and large improvement projects), the same process does not exist for the Agency's operations account (used to fund recurring facility maintenance). As result, FAA currently has a backlog of over $240 million in deferred maintenance.

More importantly, FAA's newly developed processes for its capital maintenance needs are only short-term solutions that focus on sustaining the existing air traffic control infrastructure. This is because FAA has not made key decisions regarding facility consolidations and infrastructure needs—a key aspect of the transition to NextGen.

FAA requested $17 million for FY 2009 to examine various alternatives for revamping its facilities. The re-alignment or consolidation of FAA facilities is a controversial issue and a key cost driver for NextGen. Therefore, FAA must ensure that this analysis clearly addresses the technological and security prerequisites, cost drivers, benefits, and logistical concerns associated with consolidation so decision makers in Congress and the Administration will know what can reasonably be accomplished.

Near-Term Focus Areas for the Transition to a New Administration

The Department and FAA are at a crossroads with maintaining and modernizing the National Airspace System, and FAA must focus on the following efforts:

- Implementing improvements to controller training programs, including establishing realistic standards for how many developmental controllers facilities can accommodate and offering incentives to encourage veteran controllers to transfer to busier, higher-level facilities.
- Conducting a gap analysis between the existing National Airspace System and the vastly different Next Generation Air Transportation System and developing a mid-point architecture that provides a way-point between the current and NextGen systems in the 2025 timeframe.

For further information regarding the issues identified in this chapter, please contact Lou Dixon, Assistant Inspector General for Aviation and Special Programs, at (202)-366-0500. The following related reports and testimonies can also be found on the OIG website at http://www.oig.dot.gov.

- *Challenges Facing the Implementation of FAA's Automatic Dependent Surveillance - Broadcast Program*
- *Air Traffic Control Modernization: FAA Faces Challenges in Managing Ongoing Projects, Sustaining Existing Facilities, and Introducing New Capabilities*
- *Status of FAA's Efforts To Develop the Next Generation Air Transportation System*
- *Review of the Air Traffic Controller Facility Training Program*
- *Key Issues Facing the Federal Aviation Administration's Controller Workforce*
- *FAA's Fiscal Year 2009 Budget Request: Key Issues Facing the Agency*

6. Protecting Against Increasing Cyber Security Risks and Enhancing the Protection of Personally Identifiable Information

Like most Government agencies, the Department must address increased threats of sophisticated and organized attacks on departmental networks and computers. The Department must also continue to enhance security for critical national infrastructure, such as air traffic control systems. In addition, the Department continues to face challenges in protecting personally identifiable information entrusted to it. To strengthen the protection of information technology (IT) resources in fiscal year (FY) 2009, the Department will need to focus management attention on:

- implementing a robust information security program to protect data and operations,
- enhancing security protection of the air traffic control system as a critical national infrastructure, and
- enhancing the protection of personally identifiable information in its systems.

Implementing a Robust Information Security Program To Protect the Department's Data and Operations

Although the Department established an information security program in FY 2001, it has failed to incorporate information security into its management culture. The Department continues to face significant challenges in FY 2009 as it seeks to protect its data and operations while combating increasing cyber threats:

- **Strengthening Chief Information Officer (CIO) Leadership To Establish and Oversee Implementation of Security Policies:** As required by the Federal Information Security Management Act of 2002,[11] the CIO is responsible for managing the Department's information security program, including developing, implementing, and enforcing security policies. However, this office was assigned the additional responsibility of operating and maintaining the consolidated IT infrastructure to support the Operating Administrations, which has diverted management attention and resources away from its policy responsibilities. For example, the Department no longer has a designated senior official responsible for managing the information security program because that senior official position has been reassigned to the operational area.

  Further, the Department identified 52 topics that require IT security policy, but the CIO office has issued final policy on only 11 of these (21 percent). The office now has a large backlog of draft security policy related to the remaining

[11] FISMA, Pub. L. 107-296 (Nov. 25, 2002), codified at 44 USC § 3541.

41 topics. In addition, the CIO office has made little progress in enforcing the Operating Administrations' implementation of standard software configuration as required by governmental standards. As a result, the Department is behind most Federal agencies in configuring its computers to reduce vulnerabilities.

- **Increasing the Influence of the CIO:** Ineffective implementation of CIO office policies has been a longstanding problem within the Department. Unlike other Federal agencies, the Department's CIO does not have budget or performance evaluation authority over the Operating Administrations. Operating Administrations are likely to continue implementing departmental security policies ineffectively until management or budgetary consequences are clear. The Department needs to develop mechanisms to hold Operating Administration management more accountable for consistently implementing policy and security guidance.

- **Strengthening Cyber Incident Monitoring and Correction:** During FY 2008, the Department established a consolidated Cyber Security Management Center to monitor network activities in the Department and to coordinate incident reporting. The center has established a common framework to help detect cyber incidents and disseminate this information for coordinated action throughout the Department. This improved the visibility of Headquarters networks for security monitoring and better positioned the Department to combat increasing cyber security threats. However, the Department must provide full coverage of its networks for incident monitoring and ensure that incidents are reviewed and corrected in a timely manner. For example, as of June 30, 2008, there were 233 unresolved incidents, 77 of which (33 percent) had been open for more than 3 months.

Enhancing Security Protection of the Air Traffic Control System as a Critical National Infrastructure

Due to the important role of commercial aviation in fostering and sustaining the national economy and ensuring citizens' safety and mobility, the President designated air traffic control systems as part of the Nation's critical infrastructure in Homeland Security Presidential Directive (HSPD)-7. We have reported that the Department must protect air traffic control systems with a two-pronged approach to fulfill HSPD-7 requirements: preventing disruption wherever possible and minimizing disruptions when they do occur.

Implementing a business continuity plan (BCP) for en route services (which control high-altitude traffic and disseminate flight plan information to all other air traffic control facilities) and enhancing security reviews of air traffic control systems are key steps in this approach. In FY 2007 and FY 2008, the Federal Aviation Administration (FAA) made progress toward implementing a BCP for en

route services and expanded security evaluation of air traffic control systems. However, FAA's ability to handle long-term service disruptions according to the mandate of HSPD-7 remains unknown, and the methodology used to identify and test the security of air traffic control systems needs improvement.

- **Making En Route Business Continuity Capability Fully Functional:** FAA has designated a recovery site to take over the responsibilities of inoperable en route centers and has taken good steps toward preparing it, such as installing additional emergency power. FAA plans to have the recovery site ready for activation by March 2009. However, unresolved technical challenges, human integration issues, and funding uncertainty could delay the recovery site's readiness. In addition, FAA needs to assess the potential impact on air travel should it have to activate BCP operations. Mitigating the effects on the Nation's economic interests in the event that critical infrastructure is incapacitated is a key requirement of HSPD-7.

- **Improving the Methodology Used To Identify and Test the Security of Air Traffic Control Systems:** The security of the information systems that air traffic controllers rely upon is in doubt because the methodology used to identify and test system security control is inadequate. FAA's approach to certifying and accrediting these systems is to test system security controls in a laboratory environment and at selected operational sites based on risk.[12] However, there is no evidence that operational sites posing the greatest risk were the ones selected for review. Further, the review was ineffective because the review teams did not conduct independent testing; instead, they primarily relied on interviews with local system operators to determine whether security controls were implemented in operational air traffic control systems. FAA needs to enhance its reviews of operational sites and start with those that pose the greatest risk.

Enhancing the Protection of Personally Identifiable Information in DOT Systems

In recent years, the Department has made significant progress in addressing its statutory responsibility to protect personally identifiable information (PII). It has designated the CIO as Chief Privacy Officer; issued a privacy benchmark report to Congress; and established procedures for assessing the need for PII collection, use, and security. However, our tests of sampled PII systems identified the following deficiencies in how the Department implements prescribed procedures, placing these personal data at risk:

[12] FAA relies on more than 100 automated systems to direct and manage air traffic. These systems are deployed for use to hundreds of operational sites. For example, the Host Computer System is used to direct high-altitude traffic at all 20 en route centers.

- Although the departmental privacy office had evaluation documents for the 109 systems contained in its PII inventory, it could not provide completed evaluations to support that no PII is stored in the Department's other 320 systems.
- The privacy officers were unable to produce evidence that a System of Records Notice was issued for 9 of 20 sampled systems. As a result, there was no assurance that the public was properly notified of the intended use of the collected information.
- Some systems containing PII did not meet minimum security requirements, such as encrypting data during network transmission and using proper password controls to authenticate users.
- The Department has not issued policy to notify those affected by breaches of sensitive information, implemented its plan to reduce utilization of Social Security numbers, or developed policy to establish rules for handling PII, including the consequences of not following those rules.

In our opinion, the reporting structure for the Chief Privacy Officer is contributing to these deficiencies. Specifically, the Chief Privacy Officer does not report directly to the CIO but to the Chief Information Security Officer. Experts in the field note that the placement of privacy officials can greatly affect their roles—which, they say, require direct access to top management. Departmental management has agreed to reevaluate the reporting structure in FY 2009.

Near-Term Focus Areas for the Transition to a New Administration

Overall, the Department must strive to implement a mature and effective information security program and make it an integral part of the way it conducts business. In the near term, the Department needs to focus on the following issues:

- Addressing the role and authority of the Department's CIO to ensure timely issuance of information security policy and its enforcement across all Operating Administrations.
- Increasing privacy protection of PII stored on Departmental systems.

For further information regarding the issues identified in this chapter, please contact Rebecca Leng, Assistant Inspector General for Financial and Information Technology Audits at (202)-366-1496. The following related reports can also be found on the OIG website at http://www.oig.dot.gov.

- *DOT Information Security Program*
- *DOT Delphi Financial System Controls*
- *Review of DOT Privacy Policies and Procedures*
- *Audit of Security and Controls Over the National Driver Register*

7. Preventing Catastrophic Failures and Obsolescence in the Nation's Aging Surface Transportation Infrastructure

Fatal infrastructure failures in 2006 and 2007 have focused attention on obsolescence in the Nation's aging surface transportation infrastructure and the need to strengthen oversight. The Department must work with states and localities to ensure the safety of our bridges and restore or replace those that present the highest risk of catastrophic failure. This task will be challenging because, according to the American Association of State Highway and Transportation Officials, the average bridge in the United States is 43 years old, and almost one in four bridges is either structurally deficient and in need of repair or functionally obsolete and too narrow for today's traffic volumes.[13] To its credit, the Department has taken action. For example, the Federal Highway Administration (FHWA) has agreed to transition to data-driven, risk-based bridge oversight to target those bridges most in need of increased attention. This year, the Department must focus management attention on two key challenges:

- FHWA must strengthen its efforts to ensure safety for bridges and tunnels and hold states accountable for Federal funds.
- The Federal Transit Administration (FTA) must work with state and local transit agencies to identify ways to repair, rehabilitate, or replace aging transit systems.

Strengthening Efforts To Ensure Safety for Bridges and Tunnels and Hold States Accountable for Federal Funds

Recent fatal infrastructure failures underscore the significance of bridge and tunnel safety as major challenges. In 2006, ceiling panels collapsed in a tunnel in Boston's Central Artery/Tunnel Project, killing a motorist. In 2007, the catastrophic failure of the I-35W Bridge in Minneapolis killed 13 people. These tragic incidents brought renewed national attention to the safety of our bridges and tunnels. Shortly after each of these tragedies, we initiated audits to assess whether FHWA is exercising adequate oversight to help ensure public safety. FHWA must strengthen its oversight approach so that it proactively identifies safety risks, which presents an enormous oversight challenge. Specifically, of the nearly 600,000 bridges across the country, approximately 72,500 are structurally deficient.[14] Further, bridges that are classified as structurally deficient can have an array of significant problems (see figure 7-1 below).

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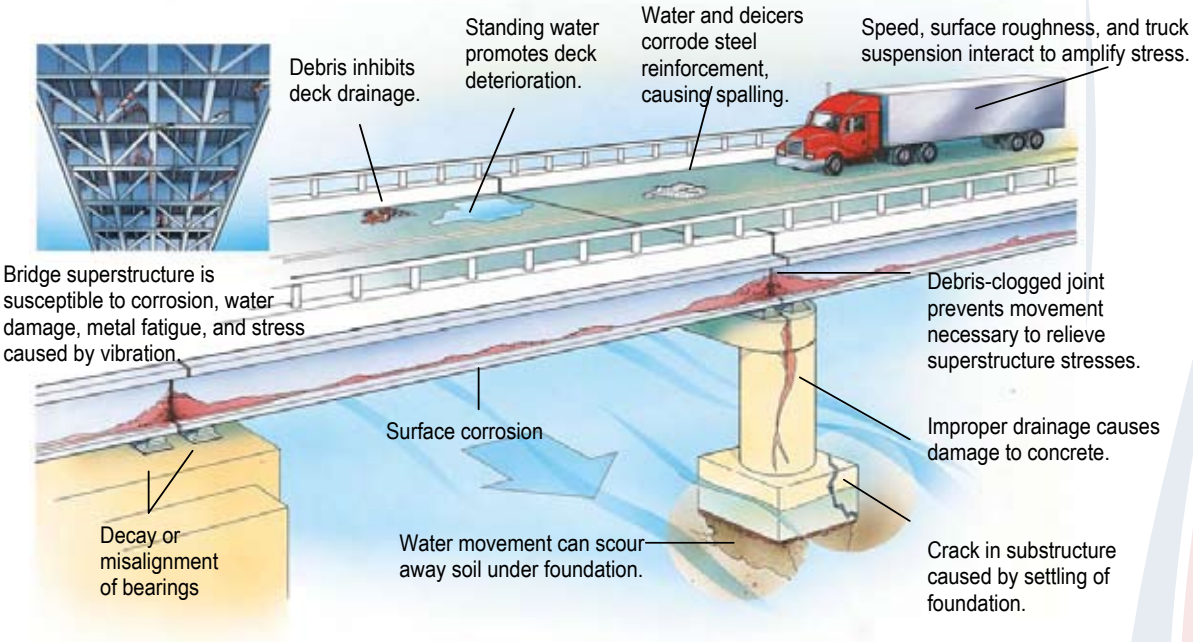
[13] American Association of State Highway and Transportation Officials, "Bridging the Gap: Restoring and Rebuilding the Nation's Bridges," July 28, 2008.

[14] The term "structurally deficient" refers to bridges with major deterioration, cracks, or other deficiencies in their structural components, including decks, girders, or foundations. In some cases, structurally deficient bridges require repair or even closure. However, most bridges classified as structurally deficient can serve traffic safely if they are properly inspected; if maximum load ratings are properly calculated; and, when necessary, the proper maximum weight limits are posted.

Figure 7-1. How Bridges Become Structurally Deficient



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To strengthen bridge safety oversight, FHWA needs to take action in three key areas:

FHWA must implement a data-driven, risk-based approach to overseeing the safety of the Nation's bridges. A major challenge for FHWA is to make sustained progress toward implementing a data-driven, risk-based approach to overseeing the Nation's bridges. Based on our past and ongoing work on bridge issues, FHWA must pursue the following efforts in this area:

- *Assess bridge safety risks systematically across the country.* FHWA's oversight does not include systematic, data-driven oversight to comprehensively address nationwide bridge safety risks.[15] FHWA Division Offices in each state conduct annual compliance reviews of bridges, but FHWA Headquarters does not routinely analyze results to identify nationwide bridge safety risks, prioritize them, and address higher priority risks.

[15] The National Bridge Inventory, maintained by FHWA, comprises data on bridges on the National Highway System, as well as bridges maintained and operated by various state and local entities.

- *Encourage greater use of bridge management systems.* FHWA agreed to support states' use of computerized bridge management systems by conducting studies and providing technical assistance and training. However, FHWA must be more proactive in encouraging states to use these systems and helping those states most in need of technical assistance so they can implement effective bridge management systems.

FHWA must improve accountability for Federal bridge funds. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users[16] authorized $21.6 billion for the Highway Bridge Program through 2009 to fund bridge replacement, rehabilitation, and systematic preventive maintenance. FHWA must ensure that this significant investment in addressing bridge needs is put to the best possible use by enhancing its ability to track states' use of these funds. We have reported that FHWA is unable to determine how much of the funding provided to states is actually spent on structurally deficient bridges because its financial management system does not differentiate between spending on structurally deficient bridges and other bridge-related expenditures. It is imperative that FHWA better measure how states are spending Federal bridge funds so it can assess the impact of Federal dollars on bridge conditions and help Congress consider what changes, if any, it wants to make to the Highway Bridge Program.

FHWA needs to establish a national tunnel inspection program. While the National Bridge Inspection Program has existed for decades, FHWA currently lacks a highway tunnel inspection program. In recent years, serious failures in construction quality on the troubled Central Artery/Tunnel Project highlighted the need for FHWA to enhance the safety of the Nation's tunnels. Accordingly, FHWA should implement a system to hold states accountable for inspecting and reporting on tunnel conditions. To its credit, FHWA has taken initial steps to do this. FHWA officials recently informed us that they plan to issue an advance notice of proposed rulemaking this fall to seek input on the development of national tunnel inspection standards. As we reported in our last two top management challenges reports to the Department, it is critical that FHWA implement this initiative as soon as possible.

Repairing, Rehabilitating, or Modernizing Aging Transit Systems

The Nation's largest transit systems are becoming increasingly obsolete as demand for public transportation is increasing.[17] Many of our transit systems are concentrated in large urban areas and are very old and in need of substantial

[16] Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), Pub. L. No. 109-59 (2005). This law expires September 30, 2009.

[17] According to the American Public Transportation Association, Americans took almost 88 million more trips on public transportation during the first 3 months of 2008 over the same period in 2007.

upgrades or repairs.[18] FTA must work with state and local transit agencies to identify ways to repair, rehabilitate, or replace their infrastructure to meet current demand, keep up with projected ridership, and prevent any catastrophic failures caused by aging or obsolete infrastructure.

Problems with maintaining the Nation's major mass transit systems will force tough decisions during the next surface transportation authorization. These include deciding the overall level of transit funding in relation to highways and determining whether to emphasize new transit expansions in growing cities or focus more resources on supporting the rehabilitation of older, existing transit systems.

Near-Term Focus Areas for the Transition to a New Administration

Addressing the Nation's aging surface transportation will require sustained attention in both the short and long term. While long-term strategies are being developed, the Department needs to focus on the following areas in the near term:

- Advance a data-driven, risk-based approach to overseeing state bridge programs and measuring the impact of Federal funding on improving the safety of the Nation's bridges.
- Follow through on plans to establish a national tunnel inspection program.

For further information regarding the issues identified in this chapter, please contact Joseph Comé, Assistant Inspector General for Highway and Transit Audits at (202)-366-5630. The following related reports and testimonies can also be found on the OIG website at http://www.oig.dot.gov.

- *Federal Highway Administration's Oversight of Structurally Deficient Bridges*
- *FHWA Can Do More in the Short Term To Improve Oversight of Structurally Deficient Bridges*
- *Report on the Central Artery/Tunnel Project May 2007 Finance Plan Update*
- *Initial Assessment of the Central Artery/Tunnel Project Stem to Stern Safety Review*
- *Audit of Oversight of Load Ratings and Postings on Structurally Deficient Bridges on the National Highway System*
- *DOT's FY 2008 Top Management Challenges*
- *DOT's FY 2007 Top Management Challenges*

[18] Approximately 70 percent of all transit trips in the United States are concentrated in 10 cities: Baltimore; Boston; Chicago; Houston; Los Angeles; New York; Philadelphia; San Francisco; Seattle; and Washington, D.C.




8. Improving Contract Operations and Maintaining Procurement Integrity

The Department spends approximately $6.8 billion annually, or about 40 percent of its discretionary budget, on contracts to obtain goods and services. Our audits and investigations continue to find oversight and control weaknesses, fraud and abuse, and other ethics issues involving Department officials and contractors. The Department has made progress this year in managing its acquisition workforce by enhancing an annual ethics training program for acquisition and grants management personnel. However, to further enhance its acquisition and contract management oversight, the Department must focus on the following areas:

- Developing and maintaining a competent acquisition workforce to support the Department's mission.
- Improving award-fee contracting processes to better achieve acquisition objectives.
- Ensuring that suspended or debarred contractors do not obtain Government contracts or assistance agreements.
- Ensuring the acquisition workforce maintains high ethical standards.

Developing and Maintaining a Competent Acquisition Workforce To Support the Department's Mission

The Office of Management and Budget required Federal agencies to develop a human capital strategic plan for its acquisition workforce. In September 2007, the Department completed a strategic plan that addressed only part of its acquisition workforce—contract officers and contract specialists. Although the strategic plan included a skills assessment of these positions and a general discussion on retention and hiring strategies, it did not include essential workforce statistics such as retirement and attrition information, accession planning, and identification of long- and short-term needs.

Additionally, the Department continues to face challenges in developing a strategic plan for the rest of its acquisition workforce. Department officials stated they are having difficulty determining the total number of other key acquisition workforce positions, such as contracting officer technical representatives and program managers. This is because the Department lacks key information on these positions, including workforce size, knowledge and skills, attrition rates, and retirement rates. Without these critical data, the Department is unable to identify employment trends and assess the current condition of the workforce to determine the ideal composition, skill mix, and talent for its future.

Improving Award-Fee Contracting Processes To Better Achieve Acquisition Objectives

Award-fee contracts are used to motivate contractors to place emphasis on certain areas within the contract—such as cost, schedule, and performance. As of June 30, 2008, the Department had 47 ongoing cost-plus-award-fee contracts with a potential value of approximately $5.5 billion, including about $271.4 million in award fees. The Department faces significant challenges in designing and justifying the use of such contracts and must provide guidance and training to its acquisition workforce to improve the use of these contracts. As part of our ongoing, Department-wide audit of cost-plus-award-fee contracts, we issued four interim reports that addressed problems in designing and justifying these contracts.

To illustrate, the National Airspace System Implementation Support II contract is valued at approximately $234 million with approximately $18.2 million in award fees. Yet, the Federal Aviation Administration's (FAA) performance evaluation plan[19] did not include clear and measurable award-fee criteria needed to adequately evaluate contractor performance.

In another example, Volpe awarded a contract for information systems and information technology support services for approximately $178 million and established an award-fee pool of approximately $8.9 million. We found that the descriptions defining adjectival ratings (used to compute the amount of award fee), such as excellent or satisfactory performance, were vague and inconsistent and did not clearly define the basis for assigning such a rating. Evaluation criteria that do not include clearly defined metrics or specific adjectival ratings could result in inflated contractor performance evaluations and, consequently, inappropriately approved award fees. In response to these reports, the Department has agreed to take action to improve these contracts.

We also found that Department procurement offices did not justify the cost effectiveness of selecting cost-plus-award-fee-type contracts, which may not always be the appropriate choice. Through an evaluation of the administrative costs versus the expected benefits, the contracting officer should be able to assess whether the benefits the Government gains through a cost-plus-award-fee contract will outweigh the additional costs of overseeing and administering the contract.

For example, in response to our report on the National Airway Systems support services contract, valued at approximately $316 million, FAA agreed to modify the contract to a cost-plus-fixed-fee type because the cost and time required to oversee, monitor, and document the award-fee process outweighed the benefits to administer the contract.

[19] The performance evaluation plan is the basis for determining the amount of award fee and includes the award-fee criteria to be considered under each area evaluated; the percentage of award fee, if any, available for each area; and the frequency of evaluation periods.




Ensuring That Suspended or Debarred Contractors Do Not Obtain Government Contracts or Assistance Agreements

Federal regulations prohibit firms and individuals without satisfactory records of integrity and business ethics from receiving contracts and assistance agreements. The Department revised its policy in June 2005, in part, to improve timely decision making of suspension and debarment actions. However, our ongoing audit work shows that the Department needs to improve the policy—and its implementation—to ensure timelier processing and reporting of suspension and debarment actions.

For example, Operating Administrations do not consistently take suspension and debarment actions in a timely manner, even though the new order requires such actions be taken within 45 days. Twenty-five of the 45 (56 percent) actions we reviewed were not processed within 45 days. For 19 of these actions, the Operating Administrations took from 10 days to more than 2 ½ years over the 45-day standard to render final decisions. The remaining six debarment actions are still awaiting a decision from the debarring officials, which currently takes from 165 to 945 days.

Federal and Departmental regulations require the Department to enter suspension and debarment actions into the Excluded Parties Listing System[20] within 5 working days of the decision. We sampled 132 actions and found that the Department did not adhere to its policy for 63 (48 percent) of those actions—13 of which took more than 100 days to be entered.

Ensuring the Greater Acquisition Workforce Maintains High Ethical Standards

Last year, we reported that the Department needed to develop and maintain a robust ethics program to promote integrity across the myriad of transportation programs. To its credit, the Department instituted an enhanced annual ethics training program earlier this year for all acquisition and grants management personnel across the Department.

This year presents a two-fold ethics challenge for the Department and its Operating Administrations. First, they must follow through to fully implement this important annual training requirement. Secondly, the Department and Operating Administrations need to increase outreach to recipients of Department funding to ensure that they and their contractors have meaningful ethics programs and sound internal controls to prevent and detect fraud involving Department funding.

[20] A web-based system maintained by the General Services Administration contains firms or individuals excluded from Federal contracts or other Federal funding such as grants.

Overall, our investigations have consistently demonstrated the need for continual reinforcement of ethical standards—with Department employees and funding recipients and their contractors—to prevent integrity breaches in the Department's extensive contract, grant, and cooperative agreement programs. This is illustrated in the following examples:

- Two FAA acquisition officials in a regional office released confidential bid information to a foreign-owned firm, enabling the company to win a $4.3 million airport construction contract. Both officials pled guilty to felony Procurement Integrity Act violations and are no longer employed by FAA. The firm was fined $1 million and also paid $750,000 in restitution to a company victimized by the scheme.
- An Ohio Department of Transportation bridge inspector accepted bribes from a painting contractor to overlook false certifications regarding the quality and quantity of work the company performed on bridge contracts valued at nearly $8 million. The inspector resigned from state employment and pled guilty to violating the Federal highway projects fraud statute (a felony). The inspector was later fined and sentenced to probation.

Near-Term Focus Area for the Transition to a New Administration

Safeguarding Federal contract dollars for transportation is critical in the uncertain financial environment. At this juncture, the Department needs to complete the strategic plan for the acquisition workforce to ensure it has the right skill mix to oversee multimillion-dollar contracts.

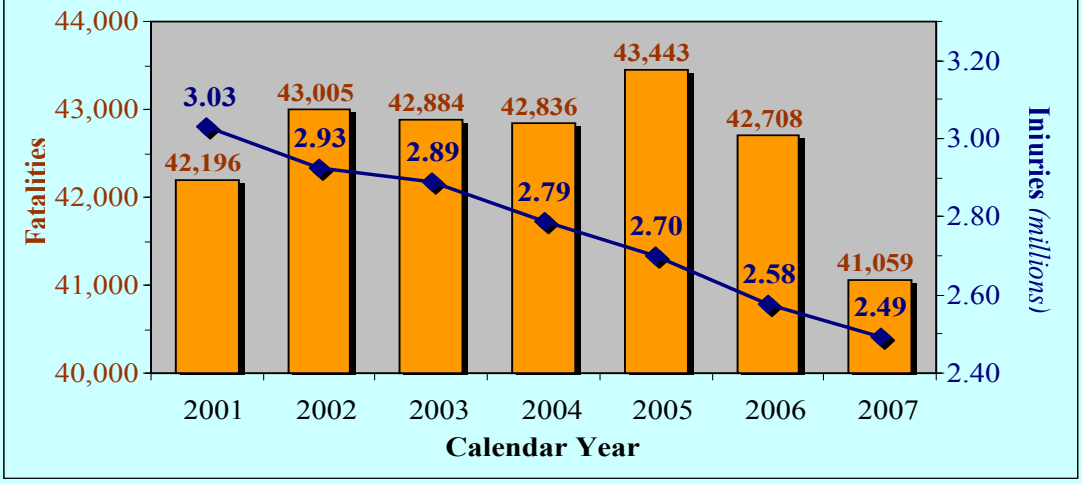
For further information regarding the issues identified in this chapter, please contact Mark Zabarsky, Assistant Inspector General for Acquisition and Procurement Audits at (202)-366-5225. The following related reports and testimonies can also be found on the OIG website at http://www.oig.dot.gov.

- *Interim Report on Award-Fee Criteria for the National Airspace System Implementation Support II Contract and Bridge Contract*
- *Interim Report on Award-Fee Criteria for the National Airway Systems Contract*
- *Interim Report on Award-Fee Criteria for the Transportation Information Project Support Contract*
- *Interim Report on Award-Fee Criteria for the System Engineering and Technical Assistance II Contract*

9. Enhancing and Deploying Programs for Reducing the Serious Consequences of Surface Transportation Crashes

Surface transportation fatalities and injuries[21] create significant public health and economic consequences. Motor vehicle traffic crashes cause more than 40,000 deaths and 2 million injuries annually in the United States (see figure 9-1) and are among the 10 leading causes of deaths in the United States. Total economic costs, including medical care, property damage, and lost productivity surpassed $230 billion in 2000—equal to more than 2 percent of the United States gross domestic product that year.[22]

Figure 9-1. U.S. Highway Fatalities and Injuries, 2001 through 2007



Source: Data from the National Highway Traffic Safety Administration

Department safety improvement programs, such as Federal motor vehicle safety standards for new cars, have contributed to major improvements in surface safety. The fatality rate in 2007 reached a historic low of 1.37 deaths per 100 million vehicle miles traveled, and the injury rate also fell. The preliminary estimate of injuries in 2007 was, for the first time, below 2.5 million, representing a decline for the eighth consecutive year and a 3.3-percent decline compared to 2006. However, the fatality rate will need to drop to 1.0 by 2011 to meet the Department's stated goal. For fiscal year 2009, the Department requested nearly $11 billion for surface safety improvement programs, 16 percent of its total budget request.

[21] Fatalities and injuries associated with passenger cars and trucks, motorcycles, school buses, commercial vehicles (i.e., trucks, trailers, buses, and motor coaches), highway-railroad crossings, and trains.

[22] Latest calculation available, NHTSA, *The Economic Impact of Motor Vehicle Crashes, 2000*, DOT HS 809 446, May 2002.

A substantial challenge for the Department is further reducing the number and rate of surface transportation fatalities. Accomplishing this is especially difficult since the Department does not directly control some of the most effective tools. States and localities have jurisdiction for critical safety activities, such as enacting and enforcing laws for seat belt and helmet usage, alcohol-impaired driving, vehicle inspection, and speed limits.

To successfully meet this challenge, the Department must establish clear Federal standards, provide analytical and empirical evidence about safety program performance, and disseminate information effectively. The Department must also demonstrate strong leadership by coordinating state and local efforts across the country and working with private sector partners, such as motor carriers, rail carriers, and motor vehicle manufacturers. Our recent work demonstrates that the Department can better meet this challenge by enhancing and deploying the following proven safety improvements:

- Promoting consistent state highway safety performance indicators to measure progress.
- Targeting unsafe motor carriers and commercial motor vehicle drivers for enforcement.
- Enhancing the Commercial Driver's License program by enforcing existing standards and adopting new standards.
- Identifying high-risk highway-rail grade crossings for safety improvements to further reduce collisions and fatalities.

Promoting Consistent State Highway Safety Performance Indicators To Measure Progress

The National Highway Traffic Safety Administration (NHTSA) is the lead Federal agency for establishing motor vehicle safety standards and reducing highway fatalities and injuries caused by driver and passenger behaviors. Each year, NHTSA distributes about $600 million in Federal formula and incentive grants for state and local programs, such as those promoting seat belt usage and reducing alcohol-impaired driving. In 2007, more than half of all vehicle fatalities were associated with not using a seatbelt, and about one-third of all crash fatalities were alcohol-related. NHTSA must balance its safety law promotion and Federal oversight responsibilities with the need for Federal, state, local, and private sector partnerships to implement safety programs.

Our audit work has shown that NHTSA can improve its ability to measure the effectiveness of Federal resources and state strategies by requiring states to use more meaningful performance indicators linked to proven strategies such as year-round sustained enforcement of alcohol-impaired driving laws. Performance




indicators would also provide states with better tools to judge their progress, allow NHTSA to compare success among states, and enhance public accountability.

Responding to our audit work, NHTSA and the Governors Highway Safety Association agreed on a minimum set of 14 performance measures for states to use for measuring their performance in priority program areas. NHTSA committed to work with the states to develop uniform definitions, protocols, and reporting requirements for each measure, especially those measures for which states do not presently collect data. NHTSA must ensure that states establish measurable goals and report progress for the measures, beginning with their fiscal year 2010 highway safety plans and annual reports.

Targeting Unsafe Motor Carriers and Commercial Motor Vehicle Drivers for Enforcement

The Federal Motor Carrier Safety Administration (FMCSA) is the lead agency for establishing and enforcing motor carrier and commercial motor vehicle driver safety requirements and standards. An ongoing challenge for FMCSA is to ensure that motor carriers and drivers operate safely on the Nation's highways. In 2007, large truck crashes killed about 4,800 people—a 4-percent reduction compared to 2006—and the fatality rate was 2.12 per 100 million vehicle miles traveled, down from 4.12 in 1988.[23] However, the most recent rate is almost 50 percent higher than the overall traffic fatality rate. Like NHTSA, however, FMCSA does not directly implement some critical safety activities but relies on state, local, and private sector partners.

FMCSA can reduce the number of large truck crash fatalities by taking stringent enforcement actions against carriers that repeatedly violate safety regulations. Our audit work found that hundreds of motor carriers repeatedly violated the safety regulations without incurring the maximum fines required by statute. Motor carriers are less likely to improve their safety performances and more likely to view fines as a cost of doing business if repeat violators are not assessed maximum fines.

In response to our audit recommendations, FMCSA agreed to enhance its controls to assess maximum fines for patterns of dangerous violations and began developing procedures to identify and notify such carriers. FMCSA initially told us it would revise its policy by May 2007, but it then delayed it to incorporate the Government Accountability Office's similar recommendations made in August 2007. FMCSA now plans to issue the revised policy by December 31, 2008. FMCSA must take action to follow through on this important commitment.

[23] Based on 2006 data, the latest available.

However, enforcement actions alone will not ensure compliance with Federal safety regulations because some individuals avoid sanctions by creating new motor carrier identities. A recent fatal crash illustrates how a carrier can circumvent an enforcement action. On June 23, 2008, FMCSA ordered a tour bus company out of service for several safety violations. On June 26, 2008, a new company with the same owners and address as the out-of-service company applied to the Department for operating authority.

On August 8, 2008—before the Department authorized the company to operate—a bus operating under the new company name crashed in Sherman, Texas, killing 17 passengers and injuring 36 others. FMCSA must improve its processes for identifying individuals who create new carrier identities after enforcement actions and prevent these "chameleon carriers" from operating on the Nation's highways.

Finally, as more foreign-owned commercial vehicles operate in the United States, FMCSA needs to ensure that Mexico-domiciled carriers, their trucks, and their drivers comply with all U.S. safety regulations. FMCSA is conducting a highly scrutinized demonstration project to evaluate the safety performance of Mexico-domiciled motor carriers that are granted long-haul authority to operate throughout the United States.

On August 4, 2008, the Department announced a 2-year extension of the demonstration project. FMCSA must work with U.S. Customs and Border Protection to implement effective quality controls to check every participating Mexico-domiciled truck and driver. FMCSA must also ensure that participation levels in the project are sufficient to provide meaningful results and take effective enforcement action against participants that violate safety laws and regulations.

Enhancing the Commercial Driver's License Program by Enforcing Existing Standards and Adopting New Standards

FMCSA must enhance the Commercial Driver's License (CDL) program by rigorously enforcing existing standards in cooperation with state and local law enforcement agencies and an industry facing record-high fuel prices and decreasing demand. Enacted in 1986 and required since 1992, the CDL program's purpose is to improve highway safety by ensuring that drivers of large trucks and buses are qualified to operate those vehicles and to remove unsafe and unqualified drivers from the highways.

Although FMCSA has improved the CDL program, it must continue rigorous enforcement of existing CDL standards. In the past 5 years, our investigations, conducted with other law enforcement agencies and FMCSA, led to the prosecution of CDL fraud schemes in 15 states. These investigations exposed schemes involving the fraudulent issuance of CDLs to individuals who obtained them through corrupt means, such as bribery of state examiners and state-

sponsored, third-party testers. As of August 2008, these investigations had generated 137 indictments and 106 convictions.

In addition to enforcing existing standards, FMCSA must strengthen the CDL program by adopting and implementing new standards. After years of discussion, FMCSA has proposed new, stronger CDL standards that will reduce the possibility that unqualified individuals can obtain CDLs. FMCSA will have to work with states to ensure sustained cooperation in implementing these new standards, because some changes may need additional state resources.

FMCSA must also work to modernize the Commercial Driver's License Information System (CDLIS), which holds records for more than 13 million drivers.[24] CDLIS is the key system for ensuring that CDL drivers cannot escape a poor driving record by moving to another state. We recommended improvements for using the income derived from the system, but FMCSA will need to require new financial reports and review the results to ensure successful implementation.

Identifying High-Risk Highway-Rail Grade Crossings for Safety Improvements To Further Reduce Collisions and Fatalities

Over the last 5 years, collisions and fatalities at highway-rail grade crossings (grade crossings) have declined. From 2003 through 2007, grade crossing collisions decreased from 3,077 to 2,749 (11 percent) and fatalities decreased from 357 to 338 (5 percent). During this period, the Federal Railroad Administration (FRA) took several actions to strengthen its Highway-Rail Grade Crossing Safety Program. For example, FRA worked with several states to develop state-specific safety action plans with initiatives for reducing collisions and fatalities. FRA also implemented procedures to improve the completeness of its grade crossing collision reporting system by conducting periodic reviews of railroads' grade crossing collision reports.

FRA can do more to further reduce grade crossing collisions and fatalities by effectively implementing the safety mandates in the Rail Safety Improvement Act of 2008,[25] which was signed by the President on October 16, 2008. This law gives FRA the authority to establish mandatory state and railroad reporting of national grade crossing inventory data that would better assist the Department in identifying high-risk dangerous grade crossings and developing risk mitigation strategies. The law also directs FRA to develop and make available to states model legislation to address sight obstructions at grade crossings with passive warning signs to improve motorists' ability to see approaching trains.

[24] As of February 2008.
[25] H.R. 2095 (2008).

Near-Term Focus Area for the Transition to a New Administration

The safety of travelers is the Department's overarching goal and number one priority. There has been progress, but additional efforts are needed to complete long-overdue revisions of policies governing repeat violators of the motor carrier safety regulations and adopt new CDL standards.

For further information regarding the issues identified in this chapter, please contact Joseph Comé, Assistant Inspector General for Highway and Transit Audits at (202)-366-5630. The following related reports and testimonies can also be found on the OIG website at http://www.oig.dot.gov.

- *Best Practices for Improving Oversight of State Highway Safety Programs*
- *Effectiveness of Federal Drunk Driving Programs*
- *Audit of the National Highway Traffic Safety Administration's Alcohol-Impaired Driving Traffic Safety Program*
- *Cross-Border Trucking Demonstration Project*
- *Interim Report on NAFTA Cross-Border Trucking Demonstration Project*
- *Issues Pertaining to the Proposed NAFTA Cross-Border Trucking Demonstration Project*
- *Follow-Up Audit of the Implementation of the North American Free Trade Agreement's (NAFTA) Cross-Border Trucking Provisions*
- *Motor Carrier Safety: Oversight of High Risk Trucking Companies*
- *Status of Safety Requirements for Cross-Border Trucking with Mexico Under NAFTA*
- *Significant Improvements in Motor Carrier Safety Program Since 1999 Act, But Loopholes for Repeat Violators Needs Closing*
- *Oversight of the Commercial Driver's License Program*
- *The Federal Railroad Administration Can Improve Highway-Railroad Grade Crossing Safety by Ensuring Compliance with Accident Reporting Requirements and Addressing Sight Obstructions*

EXHIBIT. COMPARISON OF FY 2009 AND FY 2008 TOP MANAGEMENT CHALLENGES

Items in FY 2009 Report	Items in FY 2008 Report
• Enhancing Aviation Safety and Maintaining Confidence in FAA's Ability To Provide Effective Oversight of a Rapidly Changing Industry	• Continuing To Make a Safe Aviation System Safer
• Enhancing Mobility and Reducing Congestion in America's Transportation System	• Reducing Congestion in America's Transportation System • Reforming Intercity Passenger Rail
• Developing a Plan to Address Projected Highway and Transit Funding Shortfalls	• Developing a Plan To Address the Highway and Transit Funding Issues in the Next Reauthorization
• Maximizing the Return on Current Highway and Transit Infrastructure Investments	• Continuing To Enhance Oversight To Ensure the Safety of an Aging Surface Transportation Infrastructure and To Maximize the Return on Investments in Highway and Transit Infrastructure Projects
• Operating the National Airspace System While Developing and Transitioning to the Next Generation Air Transportation System	• Addressing Long- and Short-Term Challenges for Operating, Maintaining, and Modernizing the National Airspace System
• Protecting Against Increasing Cyber Security Risks and Enhancing the Protection of Personally Identifiable Information	• Strengthening the Protection of Information Technology Resources, Including the Critical Air Traffic Control System
• Preventing Catastrophic Failures and Obsolescence in the Nation's Aging Surface Transportation Infrastructure	• Continuing To Enhance Oversight to Ensure the Safety of an Aging Surface Transportation Infrastructure and To Maximize the Return on Investments in Highway and Transit Infrastructure Projects
• Improving Contract Operations and Maintaining Procurement Integrity	• Managing Acquisition and Contract Operations More Effectively To Obtain Quality Goods and Services at Reasonable Prices
• Enhancing and Deploying Programs for Reducing the Serious Consequences of Surface Transportation Crashes	• Improving Oversight and Strengthening Enforcement of Surface Safety Programs

Exhibit. Comparison of FY 2009 and FY 2008 Top Management Challenges

APPENDIX. DEPARTMENT RESPONSE

Memorandum

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

Subject: **ACTION**: Departmental Comments on the OIG Draft Report – Top Management Challenges, Department of Transportation

Date: November 6, 2008

From: Phyllis F. Scheinberg
Assistant Secretary for Budget and Programs/Chief Financial Officer

To: Calvin L. Scovel III
Inspector General

The Office of Inspector General's Top Management Challenges identifies many of the key challenges facing the Nation's transportation systems. The United States is privileged to have a first-class transportation system in terms of both connectivity and safety. However, the Department of Transportation (DOT) now faces enormous challenges that require new and effective solutions. Many of the challenges facing the DOT, such as aging infrastructure, resource availability and funding sustainability, and increasing cyber security risks, are not unique to the DOT. We would like to offer additional perspectives on the challenges we face in the following areas: 1) safety; 2) aviation congestion; 3) market-based, data-driven, performance-oriented solutions; 4) reform of surface transportation programs; 5) financial management; 6) cash shortfall management; and 7) procurement.

Progress Achieved Improving Safety

Safety is the Department's number one priority and our progress in this area is evidence of our sustained focus on using a data-driven, risk-based approach to Federal programs and regulations. Highway safety has continued to improve as the fatality rate in 2007, the most recent year for which data are available, fell to 1.37 per 100 million vehicle miles traveled, which is the lowest rate ever recorded and the largest drop in crash-related fatalities in more than 15 years. Preliminary data show promising signs of further reductions in 2008. Continued improvements in this area are due to many factors, including the increased use of safety belts, more effective child restraint systems, increased enforcement of laws targeting alcohol-impaired driving, and continued

investment in safety oriented highway infrastructure improvements. With further progress in these areas, along with increased market penetration of crash-avoidance technologies such as electronic stability control, we can expect further improvement in the future.

The Department is also focusing its efforts on challenges in particular need of improvement, such as motorcycle safety, older drivers, and safety on rural roads. For example, motorcycle fatalities continued their nine-year upward trend, increasing another five percent in 2006. During 2008, we initiated a new Action Plan to Reduce Motorcycle Fatalities, which includes a comprehensive range of initiatives such as increasing rider and law enforcement education, better road designs, and tougher standards for labeling helmets. DOT also submitted legislation to the Congress that would enable us to better promote motorcycle helmet use. In addition, the Department recognized the demographic trend of an increasing number of older drivers and has proactively launched initiatives to address their special needs. Under the Department's rural safety initiative, we are helping States and communities develop ways to eliminate the risks drivers face on rural roads.

Strong progress also continues with aviation safety. Commercial airlines in the U.S. carry more than 750 million passengers a year and yet commercial airline crashes are rare events. The last passenger fatality to result from scheduled operations of a major U.S. carrier occurred in August 2006. Since then the U.S. air carrier system has moved 1.5 billion people with no on-board fatalities. Even with the accident rate at historic lows, the Department continued to take aggressive actions to reduce system risks. In 2008, the Federal Aviation Administration (FAA) published a major rule requiring inerting of aircraft center fuel tanks to reduce ignition risk from combustible vapors. In response to violations of airworthiness directives by a major carrier, the Secretary convened an independent review team (IRT) of safety experts to review the FAA's approach to managing risks in civil aviation, including its safety culture and implementation of safety management. Although the IRT concluded the FAA was unambiguously committed to its safety mission, the team made major recommendations to improve agency programs and safety management systems. The IRT's recommendations are now being implemented by the FAA.

Reducing the risk of runway incursions is one of the FAA's top priorities. Each year, FAA handles a massive number of air traffic operations, including over 61 million takeoffs and landings last year at airports with air traffic control towers. These operations took place at more than 500 airports and involved over 600,000 pilots and 14,000 air traffic controllers. There is no single way to reduce runway incursions given the sheer number of flights, people, and vehicles moving across airport runways and taxiways. Runway safety is a shared responsibility among pilots, controllers, and vehicle drivers. An aggressive runway safety program continues to reduce the number of serious runway incursions, and we are implementing new technologies that should bring about further improvement, particularly as we begin implementing runway status lights. Automated warning systems enhance runway safety, but education and situational awareness are the keys to preventing incursions. As a result of these combined efforts, the number of serious runway incursions dropped by more than 55 percent from fiscal

Appendix. Department Response

year 2001 through fiscal year 2007. The 24 serious incursions in fiscal year 2007 made it the safest year on record.

Action Initiated to Reduce Aviation Congestion

The Next Generation Air Transportation System (NextGen) is the FAA's plan to modernize the National Airspace System (NAS) through 2025. NextGen technologies will give pilots and air traffic controllers more detailed information and enable more direct flight routes, all while providing the highest levels of safety. Through NextGen, the FAA is planning to accommodate air traffic growth by increasing NAS capacity and efficiency while simultaneously improving safety and reducing environmental impacts. The FAA is implementing new routes and procedures that leverage emerging aircraft navigation technologies, including Performance-Based Navigation, which is helping FAA to achieve its NextGen goals.

Technology is only part of the solution for the FAA. The FAA has also taken extensive action to ensure that a sufficient number of fully trained and qualified air traffic controllers are available to accommodate expected retirements and industry growth. The FAA is on schedule in its plan to hire and train nearly 17,000 air traffic controllers over the next decade. Most recently, the FAA hired over 1,800 controllers in 2007 and over 2,100 in 2008.

The Department is also working to offer market-based solutions to reduce airport congestion, increase competition, and ultimately reduce fares to consumers. DOT recently finalized a rulemaking that would auction a small percentage of slots at New York's three most crowded airports. Given, the disproportionate impact that New York has on the rest of the nation's airspace, a successful implementation of this proposal will yield nationwide benefits. In addition, the Department continues to implement a redesign of New York's airspace to improve efficiency, as well as completing a range of other operational improvements in the New York region.

Focus on Market-Based, Data-Driven, Performance-Oriented Solutions

This Administration has changed the transportation financing debate to include market-based, data-driven, performance-oriented solutions. We have called attention to and proposed policy and programmatic reforms to address the fundamental mispricing of highways, airports and the air traffic control system. Central to those reforms is a call to use market-based pricing mechanisms to allocate existing transportation resources more efficiently, generate revenues for re-capitalization and capacity expansion, reduce wasteful spending, and mitigate adverse environmental impacts.

In addition to using market-based pricing mechanisms, utilizing private sector infrastructure markets more robustly should also play a major role in modernizing America's transportation infrastructure – from our roads and bridges, to our subways and seaports, and to our air traffic control system. Public Private Partnerships are an essential part of modern transportation financing. These partnerships can reduce project costs, accelerate project delivery, and allow States and municipalities to greatly leverage

available public resources. Among the Administration's most important transportation legacies will be the unprecedented innovation we have sparked in the very way transportation in America is financed, built, maintained and operated. The challenge we face moving forward is translating these initial innovations into a coherent national policy that will deliver fewer traffic bottlenecks in the air and on the ground, better transit services, a stronger economy, and a cleaner environment.

There is a clear role for the Federal government in helping to gain widespread acceptance of innovative and effective financing solutions across the country. This Administration believes that the Federal government should prioritize its investment resources on nationally significant projects that generate high returns for the taxpayer and focus less on process micromanagement. In addition, Federal policy should provide incentives to non-Federal officials exploring different procurement approaches that transfer more risks to non-governmental entities. Properly crafted public-private agreements can substantially reduce taxpayer exposure to cost overruns, project delays, deteriorating infrastructure quality and accountability to system users, among other protections.

The Department has led the way with innovative data-driven, performance-oriented solutions to congestion on our Nation's roads. During the last year, DOT launched major congestion reduction initiatives across all modes of transportation, for the first time seeking to coordinate discretionary grant awards on a multimodal basis within the context of a performance-based approach to reducing congestion. Federal grants awarded to innovative State and local leaders willing to pursue new congestion relief strategies hold enormous promise to reverse the precipitous decline in surface transportation performance in our major metropolitan areas.

DOT Proposes A Programmatic and Regulatory Overhaul to Federal Surface Transportation Spending

The Administration's proposal to refocus, reform, and renew our fundamental approach to the Nation's highways and transit systems will create a more effective and sustainable way to finance, operate, and maintain highways and transit systems. It also will make our highways safer and give Americans new confidence that the money they invest in transportation will actually deliver economic results instead of providing a reward for special interest constituencies. The proposal seeks to replace 102 stove-piped programs with eight consolidated, multimodal infrastructure and safety programs. This new approach to working with our State and local partners would empower those closest to the transportation issues to identify and address priorities of greatest local and regional importance. This flexible, mode-neutral approach to transportation problem solving offers new tools to address urban congestion, redoubles the Department's emphasis on safety, and focuses on making the best possible use of taxpayers' money. In addition, the proposal seeks to introduce cost-benefit analysis and a performance focus for the first time into most Federal transportation programs. We offer this visionary approach to making transportation infrastructure investments with the hope that the next Administration and the 111th Congress will give serious consideration to these ideas and approaches for congestion relief to keep America moving.

Appendix. Department Response

Financial Management

The Department continues to be a leader in budget, performance and financial management. DOT's emphasis on financial management has resulted in a renewed clean audit opinion this year with no material weaknesses, our seventh clean audit in the last eight years. The clean audit opinion is the result of countless hours of hard work by our financial managers. We are proud of the Department's exemplary efforts in this area to demonstrate the financial and program results the American people expect and deserve.

Effective Action Taken to Address Anticipated Funding Shortfall

Transportation funding is an area desperately in need of reform. The success of any programmatic reforms depends on having a coherent, effective and sustainable funding approach. This was driven home clearly by this past summer's severe cash shortage in the Highway Trust Fund (HTF). The Department had been very public with its warnings for over two years about the potential cash shortage in the HTF. The cash shortage became a reality at the end of fiscal year 2008 when increases in gasoline prices resulted in motorists driving fewer miles and consuming less fuel. Less fuel consumed resulted in lower receipts going into the HTF during the summer months when States are engaged in a majority of the year's highway construction program. As the States submitted requests for reimbursement, the cash balances in the HTF dropped precipitously.

In preparation for a potential shortfall, DOT had prepared a legal, policy, and programmatic framework for action. As a result, the Department swiftly implemented its action plan to ensure that States and other involved parties were informed and continued to receive reimbursement. In response to the crisis, Congress passed legislation, which the President subsequently signed, providing the HTF with a one-time payment of $8 billion from the General Fund.

While the recent crisis has been resolved for the time being, DOT remains concerned that we could experience another shortfall in the near future. To ensure that the Department is able to respond proactively in the event of a reoccurrence, a multimodal working group was established to create an implementation plan. The working group is: documenting lessons learned, evaluating cash management strategies, coordinating with OMB and Treasury to prepare for the next cash shortfall, conducting an in-depth analysis of outlays and earmarks to better estimate cash flow, and working to establish meaningful indicators that will help the Department determine when to implement these cash management procedures.

DOT Launches Strategic Procurement Initiatives

The Department also is working to strengthen its procurement systems. For example, the Senior Procurement Executive (SPE) initiated a three-pronged approach to make acquisition more strategic throughout DOT. First, the SPE is clarifying and formalizing procurement authority throughout DOT to effect the changes necessary to more fully

manage acquisition risk. We are also detailing the approval process for major acquisitions and strengthening organizational outreach. The SPE led the implementation of One DOT PRISM, a contract-writing system that will enhance business process reengineering, standardization and efficiencies throughout DOT. Federal Acquisition Certifications for contract specialists, contracting officers, technical representatives, and program/project managers have been implemented throughout DOT. These certifications will ensure appropriate training for key acquisition workforce members. Annual ethics training has been instituted for employees involved in procurement and grant management. Finally, DOT's Procurement Management Council has been reformed into the Strategic Acquisition Council, with the goal of making acquisition more strategic through the Department.

Thank you for the opportunity to provide additional insight on the Department's Top Management Challenges. We value the constructive comments of the Office of the Inspector General to improve the performance of the Department and its many programs.

Appendix. Department Response

U.S. DEPARTMENT OF TRANSPORTATION

SCHEDULE OF NET COST BY STRATEGIC GOAL
For the Year Ended September 30, 2008
Dollars in Thousands

The Schedule of Net Cost by Strategic Goal reports the DOT operational net cost to reflect the net cost of operations by each of the Department's six goals in its FY 2008-2012 Strategic Plan to provide the linkage between cost and performance as related to each goal. DOT programs are generally complex and incorporate significant projects within multiple Operating Administrations (OA) and organizations within the OAs. These projects are linked to multiple organizational and department–wide strategic goals. This complexity makes it difficult to track the costs related to the department-wide strategic goals. Additionally, in order to determine the costs by strategic goals, OAs would need to analyze each project and determine allocation of costs to appropriate strategic goals. Because of the complexity related to the allocations, DOT has presented their Net Cost by Strategic Goal as allocated in the 2008 Budget.

	Safety	Reduced Congestion	Global Connectivity	Environmental Stewardship	Emergency Preparedness and Response	Organizational Excellence	Total
Surface Transportation							
Federal Highway Administration	$ 8,885,221	$ 20,773,101	$ 1,113,891	$ 5,549,534	$ 369,686	$ 375,851	$ $37,067,284
Federal Transit Administration	5,167	9,757,091	-	302,266	41,727	19,698	10,125,949
Federal Railroad Administration	241,915	1,254,066	-	1,390	1,390	4,171	1,502,932
Federal Motor Carrier Safety Administration	481,883	3,942	-	-	6,898	27,592	520,315
National Highway Safety Administration	748,784	-	-	2,706	-	-	751,490
Pipeline and Hazardous Materials Safety Administration	101,879	1,803	-	19,835	6,311	3,606	133,434
Research and Innovative Technology Administration	-	9,079	-	-	-	12,711	21,790
Surface Transportation Board	-	14,261	-	-	-	15,557	29,818
Subtotal	10,464,849	31,822,423	1,113,891	5,875,731	426,012	471,896	50,153,011
Air Transportation							
Federal Aviation Administration	10,362,839	3,997,505	86,063	390,593	271,429	423,694	15,532,121
Subtotal	10,362,839	3,997,505	86,063	390,593	271,429	423,694	15,532,121
Maritime Transportation							
Maritime Administration	4,374	8,020	9,478	16,040	176,438	729	215,079
Subtotal	4,374	8,020	9,478	16,040	176,438	729	215,079
Other Programs							
Office of the Secretary	5,247	103,200	27,986	3,498	20,990	132,936	293,857
Volpe National Transportation System Center	-	1,029	-	-	-	1,441	2,470
Office of Inspector General	-	-	-	-	-	73,925	73,925
Subtotal	5,247	104,229	27,986	3,498	20,990	208,302	370,252
Total Net Cost	$ 20,837,309	$ 35,923,097	$ 1,237,418	$ 6,285,862	$ 894,869	$ 1,091,912	$ 66,270,463