# UNITED STATES DEPARTMENT OF TRANSPORTATION – HIGHWAY TRUST FUND

Consolidated Financial Statements

September 30, 2006

(With Independent Auditors' Report Thereon)

# Memorandum

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

Subject: ACTION: Quality Control Review of Audited Financial Statements for Fiscal Year 2006, Highway Trust Fund
Report Number: QC-2007-008

Date: November 14, 2006

From: Calvin L. Scovel III
Inspector General

Calvin L. Scovel III

Reply to Attn. of: JA-20

To: The Secretary

The audit of the Highway Trust Fund (HTF) Financial Statements as of and for the year ended September 30, 2006, was completed by KPMG LLP of Washington, DC (see Attachment). 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; Generally Accepted Government Auditing Standards; and Office of Management and Budget (OMB) Bulletin 06-03, "Audit Requirements for Federal Financial Statements."

On August 17, 2006, OMB granted a waiver to the Department for not having to prepare comparative financial statements for fiscal years 2006 and 2005, as a result of legislative changes to the surface transportation reauthorization law. KPMG concluded that the consolidated financial statements presented fairly, in all material respects, the financial position of HTF as of September 30, 2006, and its net costs, changes in net position, budgetary resources, and reconciliations of net costs to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States.

The report presented one material internal control weakness, three reportable conditions, and one instance of noncompliance with laws and regulations.

***Material Weakness***

1. Financial Management, Reporting, and Oversight

***Reportable Condition***

1. General Controls over Financial Management Systems

2. Undelivered Orders

3. Fund Balance with Treasury Reconciliation

***Noncompliance with Laws and Regulations***

1. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

KPMG made 21 recommendations for corrective action; we agree with them and, therefore, are making no additional recommendations. The Assistant Secretary for Budget and Programs/Chief Financial Officer concurred with the material weakness and reportable conditions; generally agreed with the recommendations; and planned to complete corrective actions. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the recommendations are subject to follow-up.

In our opinion, the audit work performed by KPMG complied with applicable standards.

We appreciate the cooperation and assistance of representatives of the HTF agencies, the Office of Financial Management, and KPMG. If we can answer any questions, please call me at (202) 366-1959 or Rebecca C. Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1496.

Attachment

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cc: Federal Highway Administrator
National Highway Traffic Safety Administrator
Federal Transit Administrator
Federal Motor Carrier Safety Administrator
Federal Railroad Administrator
Research and Innovative Technology Administrator

**UNITED STATES DEPARTMENT OF TRANSPORTATION –**
**HIGHWAY TRUST FUND**

For the Year Ended September 30, 2006

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**KPMG LLP**
2001 M Street, NW
Washington, DC 20036

# Independent Auditors' Report

Inspector General of the Department of Transportation,
Federal Highway Administrator,
National Highway Traffic Safety Administrator,
Federal Transit Administrator,
Federal Motor Carrier Safety Administrator,
Federal Railroad Administrator, and
Research and Innovative Technology Administrator:

We have audited the accompanying consolidated balance sheet of the U. S. Department of Transportation (DOT) **-** Highway Trust Fund (HTF) as of September 30, 2006 and the related consolidated statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as the 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 HTF's internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures, and tested the HTF'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.

## Summary

As stated in our opinion on the consolidated financial statements, we concluded that the HTF's consolidated financial statements as of and for the year ended September 30, 2006 are presented fairly, in all material respects, in conformity with U.S generally accepted accounting principles.

As discussed in Note 1, *Summary of Significant Accounting Policies*, the accompanying consolidated financial statements reflect actual excise tax revenues deposited in the HTF through March 31, 2006 and excise tax receipts estimated by the Department of the Treasury's Office of Tax Analysis for the quarters ended June 30, 2006 and September 30, 2006.

Also as discussed in Note 1, the HTF adopted the provisions of Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds,* effective October 1, 2005 and changed the presentation of and disclosure related to the Statement of Net Cost to more accurately present net cost by responsibility segment and major program.

Our consideration of internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures resulted in the following conditions being identified as reportable conditions:

<u>Reportable Condition Considered To Be A Material Weakness</u>

A. Financial Management, Reporting and Oversight

Other Reportable Conditions

B. General Controls over Financial Management Systems
C. Undelivered Orders
D. Fund Balance with Treasury Reconciliations

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of 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. 06-03, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed instances where the HTF's financial management systems did not substantially comply with Federal financial management information systems requirements.

The results of our tests of FFMIA disclosed no instances in which the HTF financial management systems did not substantially comply with the U.S. Government Standard General Ledger at the transaction level and applicable Federal accounting standards.

The following sections discuss our opinion on the HTF's consolidated financial statements, our consideration of the HTF's internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures; our tests of the HTF'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 Highway Trust Fund as of September 30, 2006, and the related consolidated statements of net cost, changes in net position, and financing, 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 Highway Trust Fund as of September 30, 2006 and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, *Summary of Significant Accounting Policies*, the accompanying consolidated financial statements reflect actual excise tax revenues deposited in the HTF through March 31, 2006 and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarters ended June 30, 2006 and September 30, 2006.

Also as discussed in Note 1, the HTF adopted the provisions of Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds,* effective October 1, 2005 and changed the presentation of and disclosure related to the Statement of Net Cost to more accurately present net cost by responsibility segment and major program.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles or OMB Circular No. A-136, *Financial Reporting Requirements*. 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 consolidating information on pages 88 to 93 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the HTF's components individually. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The remaining information in the Other Accompanying Information section on pages 94 to 96 is presented for purposes of additional analysis and is 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 internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the HTF's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our audit, we noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable condition presented in Exhibit I is a material weakness. Exhibit II presents the other reportable conditions. Exhibit IV presents the status of prior year reportable conditions.

We also noted certain additional matters that we will report to the management of the HTF in a separate letter dated November 6, 2006.

**Internal Controls Over Required Supplementary Stewardship Information and Performance Measures**

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the Required Supplementary Stewardship Information or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the Required Supplementary Stewardship Information and the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to Required Supplementary Stewardship Information or the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our audit, we noted no matters involving the internal control and its operation related to Required Supplementary Stewardship Information that we considered to be material weaknesses as defined above.

In our audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

**Compliance and Other Matters**

Our tests of compliance 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* and OMB Bulletin No. 06-03.

The results of our tests of FFMIA disclosed instances, described in Exhibit III, where the HTF financial management systems did not substantially comply with Federal financial management information systems requirements.

The results of our tests of FFMIA disclosed no instances in which the HTF financial management systems did not substantially comply with the U.S. Government Standard General Ledger at the transaction level and applicable Federal accounting standards.

**Responsibilities**

**Management's Responsibilities**. The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the HTF prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, contracts, and grant agreements applicable to the HTF, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

**Auditors' Responsibilities**. Our responsibility is to express an opinion on the fiscal year 2006 consolidated financial statements of the HTF based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 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 HTF'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 HTF's internal control over financial reporting by obtaining an understanding of the HTF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. 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 provide assurance on the HTF's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our audit, we considered the HTF's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of the HTF's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We limited our testing to those controls necessary to test and report on the internal control over Required Supplementary Stewardship Information in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the HTF's fiscal year 2006 consolidated financial statements are free of material misstatement, we performed tests of the HTF'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 consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in 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 HTF. 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.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether the HTF's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

**Restricted Use**

This report is intended solely for the information and use of the HTF and DOT management, DOT's Office of Inspector General, OMB, the 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 6, 2006

The material weakness identified below is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The HTF consolidated financial statements are primarily comprised of the Highway Corpus Trust Fund, held by the Department of the Treasury's Bureau of Public Debt, and certain accounts of the following operating administrations (OAs) of the DOT: Federal Highway Administration (FHWA), National Highway Traffic Safety Administration (NHTSA), Federal Transit Administration (FTA), Federal Motor Carrier Safety Administration (FMCSA), Federal Railroad Administration (FRA), and Research and Innovative Technology Administration (RITA).

## A. Financial Management, Reporting, and Oversight

### Journal Entries

***Background:*** Delphi is the official accounting system for the HTF and DOT. A significant number of accounting transactions are recorded into Delphi through the use of journal entries. These entries are to be prepared in accordance with the U.S. Government Standard General Ledger (USSGL) contained in the Department of the Treasury's Financial Manual which provides a uniform chart of accounts and technical guidance used to standardize Federal agency accounting. In order to control the journal entry process, the OAs use standardized journal entry forms which include the name of the preparer, the reason for the entry, the type of supporting documentation attached and a signature box for the approver of the journal entry.

***Conditions:*** We noted the following internal control weaknesses related to journal entries prepared during the year:

*Lack of indication of preparer:*

The OAs did not have effective processes to ensure that all journal entries were properly prepared. Specifically, of the 183 journal entries selected, we noted 12 instances where the name of the preparer was not referenced on the journal entry forms related to FHWA, FRA, RITA and NHTSA.

*Lack of proper supporting documentation:*

The OAs did not have effective processes to ensure that all journal entries were properly supported. Specifically, for the 183 journal entries selected we noted 33 instances related to all of the OAs, where either no supporting documentation was attached to the entry or the supporting documentation was insufficient to support the entry.

*Lack of proper review and approval:*

The OAs did not have effective processes to ensure that all journal entries were properly reviewed and approved prior to posting to the general ledger. Specifically, for the 183 journal entries selected, we noted 16 instances related to FHWA, FTA, FRA, RITA and NHTSA where journal entries were not properly approved prior to the entry being posted in the general ledger. In addition, the process in place throughout the majority of the fiscal year allowed journal entries to be both prepared and posted by the same individual. Although the process was modified in the last quarter of the fiscal year to require approval by an individual other than the preparer prior to posting, there are no system controls currently in place which would prevent the same individual from both preparing and posting a journal entry. Lastly, we noted numerous entries related to FHWA which were prepared and then approved subsequent to posting in the general ledger.

*Completeness of journal entries:*

The OAs did not have effective processes to ensure that all posted journal entries were properly maintained. Although, we noted that FHWA, FMCSA, FRA and NHTSA have begun to sequentially number journal entries, we noted that there is not an effective process in place to monitor and track the status of these entries. Specifically, for a selected month, we noted 9 instances where journal entries related to FHWA, FMCSA and NHSTA were either not assigned a journal entry number or the same number was used more than once. We noted that FTA does not assign unique sequential numbers to journal entries. We also noted that the journal entries related to FRA prior to April 2006 and 8 journal entries related to FHWA and NHTSA that could not be located. We also could not trace 3 journal entries related to FRA and FMCSA to their respective postings in the general ledger.

Lastly, we noted that the OAs do not assign common numbers to routine or recurring journal entries to ensure that each routine or recurring entry is prepared each month.

***Cause:*** Effective policies and procedures are not in place to ensure the propriety or completeness of journal entries. Specifically, there are not effective processes in place to ensure that journal entries are properly prepared, supported, approved and monitored. Also, system controls are not in place to ensure proper segregation of duties related to the preparation and posting of journal entries.

***Effect:*** Financial statements amounts may be misstated and/or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud, violations of appropriation laws and mismanagement of funds.

***Criteria:*** The *Federal Managers' Financial Integrity Act of 1982* requires that the internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General. GAO's *Standards for Internal Control in the Federal Government* state internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed.

***Recommendations:*** We recommend that the OAs:

- Develop effective policies and procedures that ensure the proper preparation of journal entry forms;
- Develop effective policies and procedures that will strengthen controls over the journal entry review and approval process to ensure that all journal entries are complete, accurate, properly supported and approved prior to posting in the general ledger; and
- Develop effective policies and procedures that will ensure that all routine or recurring journal entries are properly prepared and posted each month and that all journal entries are properly maintained.

**Financial Oversight and Reporting**

***Background:*** The basic principle of the President's Management Agenda calls for improving financial performance by providing timely, reliable, and useful information to management and the public. Delphi and its associated feeder systems are designed and maintained in a manner to assist responsible officials in restricting the authorization or incurrence of commitments, obligations, and expenditures to amounts available in the apportionment or allotment.

In order to ensure compliance with the President's Management Agenda and FFMIA, the DOT's Office of Financial Management began developing a consistent and comprehensive set of proprietary and budgetary account relationship tests during Fiscal Year 2006. Where necessary, corrections to the USSGL are made based on these tests to ensure that the data in Delphi is accurate, consistent, and reliable and provides the true status of each expense, revenue, and funding for each OA.

Also, the FHWA transfers some of its budget authority associated with its Federal-Aid Highway program to other Federal agencies via the allocation transfer process as specified in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*. These Federal agencies obligate and disburse this budget authority to execute Federal-Aid Highway projects. FHWA has prepared a handbook to provide guidance to the other Federal agencies to ensure transactions are correctly recorded in the respective accounting systems and establish specific reporting requirements.

Lastly, OMB Circular No. A-136, *Financial Reporting Requirements*, establishes a central point of reference for all Federal financial reporting guidance and defines the form and content for Federal agency financial statements that are required to be submitted to the Director of the OMB and the Congress pursuant to the requirements of the Chief Financial Officers Act, as amended by the Reports Consolidation Act of 2000.

***Conditions:*** We noted the following internal control weaknesses related to financial management and oversight during the year:

*Weaknesses in the consolidated financial statement preparation and analysis process:*

In Fiscal Year 2006, the HTF again revised its methodology to allocate its net costs in accordance with applicable requirements. However, we determined that the proposed allocation methodology did not report costs by major program. Accordingly, officials revised the Statement of Net Cost to present costs by the three major programs, Highway (Federal-Aid Highways), Mass Transit (Formula and Bus Grants), and Other (miscellaneous HTF funded accounts) to be compliant with the related GAAP requirements in this area.

In addition, as described in more detail below, we noted that certain proprietary activity associated with allocation transfers made to other Federal agencies was incorrectly included in the Fiscal Year 2005 consolidated financial statements.

Also, consistent with the previous year, the Fiscal Year 2006 Management's Discussion and Analysis (MD&A) initially contained information that was not relevant to the programs or operation of the HTF. In addition, the discussion of performance measures contained in the MD&A initially did not accurately summarize key performance measures or adequately disclose the use of projections, estimates and changes to prior year benchmarks. Consequently, significant revisions to the MD&A and performance measures were required to conform to OMB requirements.

*Inadequate analysis of abnormal balances:*

During Fiscal Year 2006, the OAs did not have a fully effective process to identify and resolve abnormal USSGL account balances at the Treasury Appropriation Fund Symbol (TAFS) level. Each OA has the ability to run a standard report entitled *Account Balance Exception Report* at any time. However, the OAs did not routinely produce and review the exception report, and document the reviews, and/or how they resolve the issues/exceptions identified. Further, the OAs did not assess the financial reporting impact of the issues/exceptions identified. The OAs indicated that the report was not used since it was produced at the fund code level, which represents a subdivision of a TAFS. Accordingly, during the fourth quarter of Fiscal Year 2006, the OAs began a process to analyze abnormal USSGL account balances on a monthly basis at the TAFS level.

The end of year analysis disclosed abnormal balances that had a financial reporting impact on both the current-year and prior-year financial statements. For example, two TAFS had abnormal balances in SGL 4610, *Allotments – Realized Resources*, in the amount of $5.4 million and $18.3 million respectively. As a result the amount reported on the Combined Statement of Budgetary Resources as *Unobligated Balances Apportioned* and *Unobligated Balances Exempt from Apportionment*, were misstated by $23.7 million. In another example, there was an abnormal balance in SGL account 6100, *Operating Expenses*, in the amount of $56.3 million. This abnormal balance resulted from a Fiscal Year 2006 reversal included in the HTF consolidated financial statements of a Fiscal Year 2005 accrual of $94 million which should have been reflected in the Fiscal Year 2005 HTF consolidated financial statements. As a result, the opening balance related to the Cumulative Results of Operations for the HTF was misstated by $94 million. In addition, the reversal caused the Fiscal Year 2006 HTF net cost to be understated by $94 million. Although there was not a material impact on the HTF financial statements, timely identification and resolution of abnormal balances is an essential component of effective financial reporting and oversight.

*Inadequate analysis of account relationships:*

Account relationship tests are an effective financial management tool to help ensure USSGL integrity and that erroneous and/or incorrect transactions are not processed. To be fully effective, account relationship tests must be performed at the TAFS level, as not all relationship tests apply to all types of TAFS. For example, special and trust fund TAFS do not receive appropriations, thus account relationship tests associated with appropriations are not applicable.

During Fiscal Year 2006, the OAs did not have a consistent, comprehensive process for analyzing USSGL account relationships and identifying discrepancies. FHWA had identified 21 separate account relationship tests – the first of which is automatically performed by DELPHI, and seven are only performed at year end. Of the remaining 13 tests, 12 were in place and one was under development at June 30, 2006. We noted that the 12 tests were performed at the TAFS level. FTA had identified 16 separate account relationship tests. As of June 30, 2006 these tests were only performed at the summary level and not at the individual TAFS level. The remaining OAs only performed 6 account relationship tests at a summary level. None of the OAs assessed the impact of account relationship discrepancies at year end. For the HTF, at year end, no material account relationship discrepancies existed. However, FHWA had a $90 million discrepancy between proprietary and budgetary accounts payable. NHTSA also had discrepancies between proprietary and budgetary advances to others, and proprietary and budgetary account payable.

*Inadequate controls over journal entry processing:*

The use of journal entries is generally considered to be high risk as users can enter transactions that do not comply with standard USSGL posting logic. Accordingly, the use of journal entries to process transactions should be kept to an absolute minimum. During Fiscal Year 2006, the following weaknesses associated with the processing of journal entries existed:

- Manual journal entries are used to process routine transactions such as recording and distributing budget authority, recording and reversing accruals, and cash draw downs;
- The OAs do not process reversals of incorrect transactions consistently. Specifically, the OAs have 4 different methods available for making corrections as follows:
  - Using the original posting logic and entering negative amounts;
  - Reversing the journal entries at the "batch" level as journal entries are summarized and processed as a "batch." The reversal is readily identifiable as the accounting system creates a "batch" name that indicates it is a reversal of the original "batch" name;
  - Reversing the journal entries at the "journal" level as batches can be comprised of one or more journals. The reversal is not as readily identifiable as the accounting system creates a batch name that indicates it is a reversal of the "journal" name; and
  - Creating a new journal entry that is not automatically linked to the original transaction unless the user identifies it as part of the batch name; and
- There is no process in place to assess the impact that journal entries could have on opening balances due to the effect on prior year financial statements. As a result, the DOT Office of Financial Management provided technical assistance to identify and assess journal entries processed during Fiscal Year 2006 that had an impact on prior year financial statements. The Office of Financial Management identified a total of 12 journal entries that had an effect on Fiscal Year 2006 opening balances.
- There is no standard naming and numbering convention for journal entries;

*Lack of oversight related to parent-child allocation transfers:*

During Fiscal Year 2006, FHWA took action to resolve accounting discrepancies and errors related to allocations transfers of budgetary authority made to 17 other Federal agencies outside of DOT. Specifically, FHWA developed a handbook to provide accounting guidance to these agencies regarding the proper accounting via allocation transfers. However, during Fiscal Year 2005, FHWA incorrectly included the proprietary activity of these agencies in the HTF consolidated financial statements. For Fiscal Year 2005, OMB Circular No. A-136 required that the proprietary activity associated with allocation transfers be reported in the recipient agency's financial statements unless the recipient agency decided that the activity was not material to its financial statements. FHWA did not coordinate with these recipient agencies to determine whether or not the proprietary activity was material to the recipient's financial statements. As a result, the proprietary activity was included in both the HTF and recipient agency's financial statements. Consequently, the HTF Cumulative Results of Operations' (CRO) opening balance was overstated by approximately $101.5 million. This overstatement did not constitute a material misstatement as it represented less than 1 percent of the CRO opening balance.

During Fiscal Year 2006, OMB Circular No. A-136 included changes to the reporting of proprietary activity related to allocation transfers. Effective in Fiscal Year 2007, OMB Circular

No. A-136 requires recipient agencies to discontinue reporting the proprietary activity in its financial statements. Instead, the activity will be reported in the financial statements of the agency making the transfer (i.e., FHWA). Further, OMB Circular No. A-136 indicated that early adoption was permitted provided that both agencies agreed that the recipient would not report the activity in its financial statements. Accordingly, FHWA coordinated with the recipient agencies and except for the United States Department of Agriculture's Forest Service and the United States Army Corps of Engineers, the other 15 recipient agencies agreed that FHWA should report the proprietary activity in the HTF financial statements. Although FHWA had developed a handbook to accounting guidance, FHWA does not have a process to obtain information from other Federal agencies to support HTF financial statement assertions (existence, accuracy, and completeness) related to transactions (obligations, expense, and disbursements) processed by the other Federal agencies that are included in the HTF consolidated financial statements.

***Cause:*** Policies and procedures are not in place to ensure the effectiveness of financial management and oversight. Specifically, there are not effective processes in place to ensure that:

- the consolidated financial statements, including MD&A, the note disclosures and related information, were prepared in accordance with accounting principles generally accepted in the United States of America and OMB guidance;
- the financial reporting impact of journal entries, abnormal USSGL account balances, and USSGL account relationship discrepancies are properly analyzed;
- all abnormal balances and account relationships are analyzed at the appropriate level, promptly addressed, evaluated, resolved, and documented; and
- transactions processed by child agencies are proper to support the HTF's financial statement assertions.

***Effect:*** Financial statements amounts may be misstated and or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud, violations of appropriation laws and mismanagement of funds.

***Criteria:*** The *Federal Managers' Financial Integrity Act of 1982* requires that the internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General. The Government Accountability Office's (GAO) Standards *for Internal Control in the Federal Government* state internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed.

OMB Circular No. A-136 prescribes guidance regarding the preparation of HTF's annual financial statements, including MD&A and the note disclosures. In addition, the OMB Circular No. A-136 prescribes that the MD&A should provide a clear and concise description of the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems. Furthermore, the annual report should identify those performance goals where actual performance information is missing, incomplete, preliminary, or estimated. The OMB Circular No. A-136 also states that the Statement of Net Cost classifies revenue and cost information by major program and the related supporting schedules in the notes classify revenue and cost information by sub-organization or responsibility segment and by major program. Lastly, as described above, the OMB Circular No. A-136 prescribes the proper reporting for parent-child allocation transfers.

Section 803(a) of FFMIA requires that Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

OMB Circular No. A-127, *Financial Management Systems*, paragraph 7(c) requires the application of the USSGL at the transaction level. Financial events shall be recorded by agencies throughout the financial management system applying the requirements of the USSGL at the transaction level. Application of the USSGL at the transaction level means that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the USSGL. Compliance with this standard requires:

- *Data in Financial Reports Consistent with the USSGL*. Reports produced by the systems that provide financial information, whether used internally or externally, shall provide financial data that can be traced directly to the SGL accounts.
- *Transactions Recorded Consistent with USSGL Rules*. The criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the USSGL.
- *Supporting Transaction Detail for USSGL Accounts Readily Available*. Transaction detail supporting USSGL accounts shall be available in the financial management systems and directly traceable to specific USSGL account codes.

Federal agencies should perform periodic reviews to identify abnormal USSGL account balances and account relationship discrepancies to help ensure compliance with OMB Circular No. A-127.

***Recommendations:*** We recommend that the OAs:

- Develop effective policies and procedures to ensure that the preparation of quarterly and annual financial statements, note disclosures, and related information are in compliance with accounting standards and OMB guidance;
- Develop effective policies and procedures to review and document the resolution to any abnormal balances and account relationship discrepancies that exist at the TAFS level on a monthly basis. Specifically, each OA should (a) analyze the abnormal balances and account relationship discrepancies at the TAFS level and (b) document the review and resolution for any abnormal balances and account relationship discrepancies that exist (i.e. journal entries prepared, etc.);
- Be required to report significant abnormal balances and account relationship discrepancies on a monthly basis including a status of researching and resolving the balances;
- Develop policies and procedures to determine if any journal entries processed in the current fiscal year have a prior period impact; and
- Develop effective policies and procedures to ensure that other Federal agencies that receive material amounts of the HTF budget authority via the allocation transfer process provide sufficient evidence that the transactions processed exist, are accurate and that all transactions have been reported (i.e., completeness).

## Grant Accruals

***Background:*** In Fiscal Year 2006, FHWA surveyed selected grantees to reestablish its estimate of the number of days between the time the grantees incur grant-related expenditures and the time the expenditures are reimbursed by FHWA. This number of days is referred to as the Incurred But Not Reported (IBNR) period and is a key factor used in developing the grant accrual estimate. Also, in Fiscal Year 2006, a new separate grant accrual was required for the FTA grant program that is now included in the HTF consolidated financial statements.

***Condition:*** FHWA management did not conduct a proper review of the inquiries sent by its consultant and therefore did not initially identify that the consultant limited the inquiries related to the IBNR period to begin on the day the grantee receives invoices from its contractors rather than the date the related work was accepted by the grantee's engineers. As a result, FHWA could not use the survey results as originally planned and instead had to use alternative procedures that involved confirming the accrual amount as of September 30, 2006 with each of its 52 grantees.

In addition, we noted that FTA did not properly calculate its grant accrual. Due to mathematical error and the use of improper assumptions, the originally recorded accrual of approximately $70 million was ultimately adjusted to $650 million.

***Cause:*** FHWA management did not ensure that the questions in the survey were structured to ensure the grant accrual would be correctly estimated. FTA management did not conduct a proper review of the grant accrual calculation to ensure that it was based on appropriate assumptions and was mathematically correct.

***Effect:*** The grant accrual at September 30, 2006 was initially misstated.

***Criteria:*** GAO's *Standards for Internal Controls in the Federal Government* states "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties"

In addition, *The Department of Transportation, Financial Management Policies Manual, Section 2.3.3, Preparation of Accrual Estimates* requires the following procedures in developing or documenting estimates:

- Documenting methods and assumptions for the estimate;
- Assuring the methodology is reasonable and approved by management. The methodology may include historical trend analysis, application of ratios, stratification, etc.;
- Analyzing and supporting assumptions;
- Defining data elements that are vital to the methodology;
- Testing actual data to estimates periodically;
- Identifying exceptions to the assumptions by considering any subsequent events;
- Including any known or projected program fluctuations and increase the range of historical data if large fluctuations are anticipated or occur;
- Assessing the validity of historical data;
- Determining which estimates must be process-specific;
- Demonstrating that the aggregate values below any established threshold are immaterial; and

- After month-end, comparing accruals to actual to ensure that monthly accruals are as accurate as possible.

***Recommendation:*** Given the significance of the FHWA and FTA grant accruals to the HTF consolidated financial statements, we recommend that the FHWA enhance its internal controls over the reasonableness of the grant accrual estimate to ensure that, if a survey is again used, the survey questions are appropriately comprehensive. We also recommend that FTA enhance its internal controls over its review of the grant accrual calculations to ensure that they are properly calculated.

The reportable conditions identified below are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the HTF's ability to record, process, summarize, and report financial data consistent with the assertions by management in the recording and reporting of the HTF's financial activity.

## B. General Controls over Financial Management Systems

***Background:*** The HTF relies on extensive information technology systems to administer internal controls over the preparation of financial statements. Information technology (IT) systems are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud and other illegal acts.

***Conditions:*** During the course of the audit, we noted that the HTF has made progress in improving various aspects of IT internal control weaknesses reported in Fiscal Year 2005 related to information security management. However, we noted significant issues still exist that include access control and segregation of duties previously reported, as well as additional issues noted in user account administration, physical and environmental security, certification and accreditation, and system configuration vulnerabilities in general support systems supporting HTF applications.

We have provided the following summary of systems reviewed in connection with the Fiscal Year 2006 audit of the HTF consolidated financial statements, along with a general discussion of weaknesses noted. Because of the sensitivity of the matters described below, a separate report titled *Limited Distribution Management Report* has been issued to management describing in detail, the specific deficiencies identified and recommendations to correct these deficiencies.

- **Delphi** — Delphi is referred to as the Central System for Financial Accounting and Reporting. All DOT OAs use it and it is more commonly known as the general ledger accounting system. A Statement of Auditing Standards No. 70 (SAS 70) report was prepared for Delphi by Clifton Gunderson for the period from October 1, 2005 to May 31, 2006. The SAS 70 report noted that 1 of the 10 control objectives, Logical Access, was not operating effectively.

- **Specific Feeder Systems Applications** – Grants-related activities managed and controlled by the FHWA and FTA represent over 90 percent of the financial activity reflected in the HTF consolidated financial statements. Accordingly, reliance on data being generated from FHWA and FTA systems supporting these activities are critical to record, process, summarize, and report financial data consistent with the assertions of management in the HTF consolidated financial statements. We noted deficiencies that could adversely impact the HTF's ability to consistently support management assertions. Although, management has made improvements in correcting weaknesses noted in the Fiscal Year 2005 audit, significant issues still exist requiring continued management attention. Specifically, we tested the general and application controls over the following key FHWA systems:

  - User Profile and Access Control System (UPACS);
  - Rapid Approval and State Payment System (RASPS);
  - Fiscal Management Information System (FMIS); and

- Delphi Interface Management System (DIMS).

In addition, we tested the general and application controls over the following key FTA systems:

- Transportation Electronic Award Management System (TEAM);
- Electronic House Operation System (ECHO); and
- Delphi Online Transaction System (DOTS).

Key IT internal control deficiencies were noted in the above systems relating to segregation of duties, logical and physical access controls, information security management for security awareness training and certifying/accrediting information systems, and system configuration weaknesses of general support systems impacting the HTF applications.

***Cause:*** Safeguards have not been established to prevent or detect unauthorized access related to (1) inappropriate access to production and development platforms, (2) user account administration, and (3) known security vulnerabilities related to supporting infrastructure.

***Effect:*** These deficiencies could adversely affect the HTF's ability to record, process, summarize, and report financial data consistent with the assertions of management in the HTF consolidated financial statements. In addition, we also noted that these weaknesses impact the HTF's ability to comply with the Federal Financial Management Improvement Act (FFMIA) regarding computer security act requirements and weaknesses cited in internal controls. Lastly, we noted from an application system standpoint, lack of system process and application control documentation for TEAM and ECHO applications.

***Criteria:*** OMB Circular No. A-130, *Security of Federal Automated Information Resources*, Appendix III, states "agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications". The OMB Circular No. A-130 emphasizes the importance of technical and operations controls as part of management controls to prevent and detect inappropriate or unauthorized activities.

National Institute of Standards and Technology's (NIST's) Special Publication 800-12, *An Introduction to Computer Security: The NIST Handbook* states "security monitoring is an ongoing activity that looks for vulnerabilities and security problems". The special publication also states "a periodic review of system-generated logs can detect security problems, including attempts to exceed access authority or gain system access during unusual hours". Furthermore it states "from time to time, it is necessary to review user account management on a system. Within the area of user access issues, such reviews may examine the levels of access each individual has, conformity with the concept of least privilege, whether all accounts are still active, whether management authorizations are up-to-date, whether required training has been completed, and so forth".

***Recommendation****:* We recommend that FHWA and FTA continue to work with DOT management to improve the information technology environment applicable to the HTF applications by implementing the specific recommendations provided in the aforementioned separate *Limited Distribution Management Report*.

### C. Undelivered Orders

***Background:*** An obligation is a legal reservation of funds to pay for goods or services ordered. It reflects a binding agreement for a specific purpose that is documented in writing. Undelivered orders (UDOs) reflect obligations for goods or services that have not been delivered or received. UDO balances that remain inactive for a long period of time indicate that the goods or services may no longer be required or that the liquidation of the UDO may not have been properly recorded. Inactive UDOs should be reviewed periodically in order to promptly de-obligate funds so that these funds are available for other uses.

Fiscal Management Information System (FMIS) is the front-end application that records the initial grant agreements/obligations and is reconciled to Delphi quarterly.

***Conditions:*** We noted instances of UDO balances in the general ledger that were not properly supported. Specifically, we noted numerous instances related to FHWA, FTA, and FRA where UDOs are maintained in the general ledger when funds were no longer available as needed. In addition, we noted payments made to grantees that were posted twice in Delphi. We also noted instances of invalid UDO balances due to posting errors in Delphi. Exceptions related to these issues amounting to approximately $24.8 million were corrected in Fiscal Year 2006. The uncorrected exceptions related to these issues amounted to $64.6 million as of September 30, 2006.

FHWA performed quarterly reconciliations of FMIS to Delphi during Fiscal Year 2006. We noted a net difference between FMIS and Delphi of $82 million. These differences were not analyzed at the project or detail level for the period ended September 30, 2006.

***Cause:*** Effective policies and procedures are not in place to ensure the accuracy of the UDO balance recorded in the Fiscal Year 2006 HTF consolidated financial statements.

***Effect:*** The unpaid obligation balance in the HTF consolidated financial statements may be misstated. In addition, funds may be reserved unnecessarily and unavailable for other uses.

***Criteria:*** United States Code (USC) Title 31 Section 1501 *Documentary Evidence Requirement for Government Obligations* states that "an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is in writing, in a way and form, and for a purpose authorized by law an executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided."

***Recommendation:*** We recommend that the OAs establish effective policies and procedures to review the accuracy of its reported obligations and specifically review those potentially inactive UDO balances (i.e. inactive for 12 months or more) and take prompt action to de-obligate excess funds so these funds can be available for other uses. In addition, for the quarterly reconciliations performed by FHWA, we recommend that FHWA:

- Develop formal written procedures for the reconciliation process;
- Continue to perform comprehensive reconciliations between FMIS and Delphi; and
- Identify and determine the specific causes of these recurring differences and formulate a plan to correct them.

## D. Fund Balance with Treasury (FBWT) Reconciliations

***Background:*** Per the U.S. Department of the Treasury's (Treasury) Financial Manual (TFM) Part 2, Chapter 5100, "Agencies must reconcile the SGL 1010 account balances for each fund symbol with Treasury's records (Financial Management System (FMS) 6653 / 6654) each month. Treasury issues monthly FMS 6653, 6654 and 6655 reports that assist agencies in the reconciliation of FBWT. Treasury also issues a monthly FMS 6652 Report (Statement of Differences Report) to identify differences between the OA and Treasury's deposit and disbursement data for each OA. The Treasury Reporting and Reconciliations Team (Recon Team) in Oklahoma City (OKC) performs a monthly comparison of FBWT balances between Delphi records and FMS 6653 / 6654. The Recon Team also prepares a monthly FMS 6652 comparison. The differences that result from these comparisons are provided to the OAs to review and resolve timely. If the OAs are unable to match a receipt or disbursement of cash transaction to a specific document number in Delphi, then the OAs offset the transaction with a corresponding debit or credit to SGL account 2400, *Liabilities for Deposit Funds, Clearing Accounts, and Undeposited Collections* which functions as a "suspense" account until the proper posting of the transaction can be resolved.

At month-end, a Statement of Transactions (SF-224) is automatically generated in Delphi by the Recon Team. The SF-224 is the central accounting document used by the OAs to report monthly cash activity to Treasury. Treasury relies on the SF-224 reports to identify differences between Federal agency's records and Treasury control totals. The Recon Team prepares a SF-224 vs. the general ledger (GL) comparison prior to the submission of the SF-224 to Treasury. Preliminary SF-224s are sent to the OAs via email. According to DOT policies and procedures, preliminary SF-224s are forwarded to the OAs by the Recon Team for review by the OAs prior to submission to Treasury. Official signed SF-224s and all supporting documentation is required to be maintained by a responsible OA official. In addition, signed reconciliation certification statements are also required to be signed and maintained for audit.

***Conditions:*** We noted instances related to all OAs where the FMS 6652, FMS 6653/6654/6655 and the SF-224 vs. GL differences were not properly supported. Furthermore, there is no evidence of management review by any OA of the SF-224s before they are submitted to Treasury. Differences identified by the Recon Team and submitted to the OAs are not properly followed up on in order to ensure the correction has been made. In addition, we noted instances where suspense accounts were not cleared timely.

In addition we noted numerous instances where existing DOT policies and procedures were not being followed. Specifically, we noted that the Recon Team is not forwarding preliminary SF-224s to the OAs if the variance is less than 10 percent. Based on inquiries with the OAs, it was evident that the OAs were unaware of this improper procedure. Secondly, despite a signature line reflected on the face of the SF-224, we noted that the SF-224s for all OAs did not have evidence of approval prior to submission to Treasury nor were the SF-224s maintained, with all supporting documentation, as required. Lastly, we noted that the OAs are not maintaining signed reconciliation certification statements as required by DOT policies and procedures.

We also noted that FHWA performs detailed reconciliations for all months with the exception of September. These reconciliations include the identification and resolution of significant variances between Delphi and Treasury. Due to time constraints for the month of September related to year-end reporting, differences are identified, but are not properly resolved. Journal entries are made to adjust FBWT to balances reported by Treasury at September 30, 2006. Specifically, FHWA recorded journal entries to adjust *Undelivered Orders-Obligations, Unpaid, Delivered Orders- Obligations, Paid, Fund Balance With Treasury, and Operating Expenses.* The absolute value of the entries recorded to *Undelivered Orders-Obligations Unpaid*, *Delivered Orders- Obligations, Paid* was approximately $113.8 million. The absolute value of the entries recorded to *Fund With Treasury, and Operating Expenses* was approximately $79.5 million. The net effect of these entries was to decrease *Undelivered Orders-Obligations Unpaid* by approximately $34.8 million with a corresponding increase in *Delivered Orders- Obligations, Paid* and a decrease of approximately $536 thousand in *Fund Balance With Treasury* and a corresponding increase in *Operating Expenses*. These adjustments are reversed in the subsequent month.

Lastly, we noted that certain suspense accounts were not properly closed at September 30, 2006. Specifically, NHTSA and FMCSA had suspense account balances remaining of $10.4 million and $1million, respectively.

***Cause:*** Policies and procedures are not in place to ensure that:

- Adequate research and resolution of reconciling differences noted in FBWT reconciliations were performed timely; and
- Suspense transactions were researched and cleared timely.

***Effect:*** Financial statements amounts may be misstated and or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud, violations of appropriation laws and mismanagement of funds.

***Criteria:*** *The Treasury Financial Manual, Part 2 Chapter 5100 Supplement*, states that all agencies must complete and fully document a reconciliation of FBWT monthly. The reconciliation should be signed-off by an authorized agency official as evidence that the reconciliation was properly completed and reviewed. Federal agencies must research and resolve differences reported on the monthly *Statement of Difference*s (Financial Management System (FMS) 6652). FMS notifies agencies of their deposit and disbursement differences on FMS 6652. Agencies also must resolve all differences between the balances reported on their general ledger FBWT accounts and balances reported on the *Undisbursed Appropriation Account Ledger* (FMS 6653), *Undisbursed Appropriation Account Trial Balance* (FMS 6654) and *Receipt Account Ledger* (FMS 6655). The Supplement states "An agency may not arbitrarily adjust its FBWT account. Only after clearly establishing the causes of errors and properly documenting those errors, should an agency adjust its FBWT account balance. If an agency must make material adjustments, the agency must maintain supporting documentation. This will allow correct interpretation of the error and its corresponding adjustment."

*The Department of Transportation, Financial Management Policies Manual, Section 3.4.3.d Disbursements, Section 3.04.3.e Collections*, states that the Cash Operations Team provides each OA with a reconciliation of documents by ALC. The reconciliation shows the document number, amount recorded by Treasury, amount recorded in Delphi, difference amount, the month cleared, and the necessary action to clear each difference. The OAs are responsible for clearing all FMS 6652 differences on subsequent SF-224 reports. FMS 6652 differences must be corrected no later than 30 days after the initial Treasury confirmation month. In addition, all general ledger suspense accounts must be reconciled and closed at September 30.

*The Department of Transportation, Financial Management Policies Manual, Section 3.4.3.d Disbursements, Section 3.4.3.g Clearing Accounts (Funds)*

OAs must reclassify all clearing account transactions to the correct Treasury Account Symbol (TAS) on the next *Statement of Transaction* (Standard Form (SF)-224), *Reports of Agencies for which the Treasury Disburses* reporting cycle, but no later than two months after the accomplished date.

The manual also states all reconciliation spreadsheets, working papers, reports, information, explanations, and certifications resulting from the OAs procedures and processes must be maintained by ALC and must be made available to auditors upon request. The monthly reconciliation certifications are due to the Office of Financial Management no later than the 15th of the month following the end of the reporting period. OAs are responsible for obtaining the official FMS 224 report, certifying it and maintaining all backup documentation.

***Recommendations:*** We recommend that the OAs:

- Enforce existing policies and procedures for researching and clearing differences between monthly cash transactional activity recorded by the OAs and the activity per the U.S. Department of the Treasury;
- Develop effective policies and procedures to ensure that all suspense account balances identified be researched, resolved timely, and closed at year end;
- Maintain all forms and supporting documentation in accordance with existing DOT policies and procedures; and
- Establish effective communication channels between the OAs and the Recon Team in order to ensure that all operating procedures are known and in compliance with DOT policies.

***Background:*** 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 use of the U.S. Government Standard General Ledger at the transaction level.

***Condition:*** We noted that seven of the HTF's (FHWA and FTA) key financial systems (TEAM, ECHO, DOTS, UPACS, FMIS, RASPS, and DIMS), which feed financial data into Delphi, do not comply substantially with the categories of FFMIA compliance listed in OMB Circular No. A-127, *Policies and Standards for Financial Management Systems*, Section 7 – *Financial Management System Requirements*. Specifically, we noted weaknesses in the following:

| Category of Non-Compliance | TEAM | ECHO | DOTS | UPACS | FMIS | RASPS | DIMS |
|---|---|---|---|---|---|---|---|
| Does not adhere to functional requirements | X | X | X | | | | |
| Does not adhere to Computer Security Act requirements | X | X | X | X | X | X | X |
| Inadequate systems and processing documentation | X | X | X | | | | |
| Lacks adequate internal controls | X | X | X | X | X | X | X |
| Lacks adequate training and user support | X | X | X | | | | |
| Lacks appropriate maintenance | | X | X | | | | |

***Cause:*** FHWA and FTA feeder systems are not fully integrated with the core financial accounting system, Delphi, due to feeder systems lacking common data elements or functionality consistent with Delphi.

***Effect:*** These conditions may adversely affect the HTF's ability to accurately report the results of its financial operations, in a timely manner.

***Criteria:*** *The Federal Financial Improvement Management Act of 1996, Section 803(a)* states that Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the USSGL at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

*OMB Circular No. A-127, Federal Financial Systems, Section 7(b) Integrated Financial Management Systems* states that financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. In doing so, they shall have one or more of the following characteristics:

- *Common Data Elements* - Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage and retrieval of financial information. Government-wide information standards (e.g., the U. S. Government Standard General Ledger) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.
- *Common Transaction Processing* - Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.
- *Consistent Internal Controls* - Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.
- *Efficient Transaction Entry* - Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

***Recommendation:*** We recommend that FWHA and FTA address and resolve the weaknesses noted in the seven HTF key financial systems that do not comply with the categories of FFMIA compliance.

## STATUS OF PRIOR YEAR MATERIAL WEAKNESSES, REPORTABLE CONDITIONS, AND NON-COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

| Prior Year Condition | As Reported At September 30, 2005 | Status As Of September 30, 2006 |
|---|---|---|
| **Financial Accounting Processes Do Not Fully Support Financial Management or Facilitate the Timely Preparation of Accurate Financial Statements** | **Material Weakness:**<br>• Financial Statement Preparation and Analysis Process Needs Improvement<br>• Accounting reconciliation differences were not resolved in a timely manner during the year | The issues related to suspense accounts and Fund Balance with Treasury are downgraded to a reportable condition. The remaining issues have been closed. |
| **Grants Financial Management Oversight** | **Material Weakness:**<br>Management did not have a systemic process in place to ensure that grant payments were properly supported. In addition, FHWA management did not properly monitor UDO balances to ensure they were valid. | The issue related to UDOs has been downgraded to a reportable condition. The remaining issues have been closed. |
| **Federal Lands Highway Program Transaction Processing and Reconciliation** | **Reportable Condition:**<br>Federal Lands Highway program transaction processing and reconciliations were not properly supported. | The issue has been closed. |
| **Information Technology Control Weaknesses** | **Reportable Condition:**<br>Information Technology Control Weaknesses | The issues are repeated as a reportable condition. |
| **Non-compliance with Laws and Regulations** | 1. Federal Managers Financial Integrity Act of 1982 (FMFIA)<br>2. Anti-Deficiency Act<br>3. Government Performance and Results Act of 1993 (GPRA) | The FFMIA financial systems issues are repeated as instances of non-compliance. The remaining issues have been closed. |

**U.S. Department of Transportation**
Office of the Secretary of Transportation

Assistant Secretary for Budget and Programs and Chief Financial Officer

400 Seventh St., S.W.
Washington, D.C. 20590

NOV 13 2006

MEMORANDUM TO: Pat Boyce
Partner, KPMG

FROM: Phyllis Scheinberg *Phyllis Scheinberg*
Assistant Secretary for Budget and Programs/Chief Financial Officer

SUBJECT: Management Response to FY 2006 Audit of the Highway Trust Fund

The Department of Transportation is responding to your audit report on the Highway Trust Fund (HTF) FY 2006 Financial Statements. For the eighth consecutive year we have achieved an unqualified audit opinion on the HTF Financial Statements.

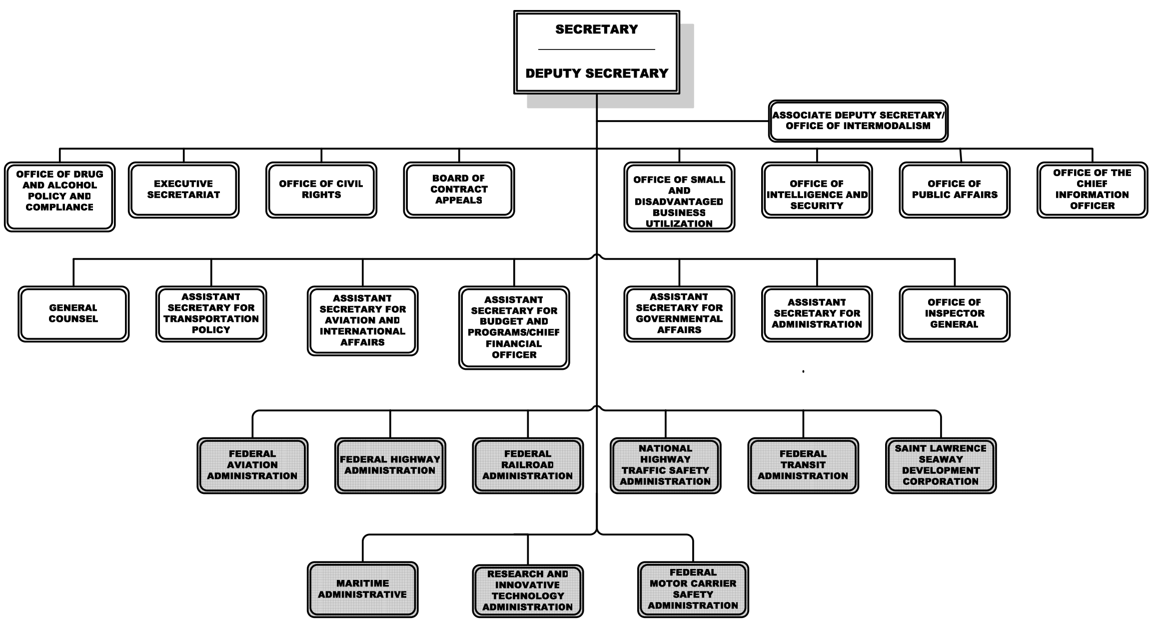
This is the first year that KPMG has audited the HTF. It should also be noted that there has been significant turnover in the staffing of one of the major agencies making up the HTF. These two facts alone made this audit one that was extremely challenging for the auditors and the HTF agencies.

Your report states your conclusion that the financial statements of the HTF are presented fairly, in all material respects, and that they are in conformance with generally accepted accounting principles. Your report also identifies one reportable condition considered to be a material weakness and three other reportable conditions. Corrective actions are being developed to address these findings.

We are in agreement that HTF agencies need to continue their drive to improving Financial Management.

## MISSION, ORGANIZATION, AND STRUCTURE

The mission of the Department of Transportation (DOT), a cabinet-level executive department of the United States government, is to develop and coordinate policies that will provide an efficient and economical national transportation system, with due regard for need, the environment, and national defense. It is the primary agency in the Federal government with the responsibility for shaping and administering policies and programs to protect and enhance the safety, adequacy, and efficiency of the transportation system and services. The Department consists of the Office of the Secretary and nine individual Operating Administrations (OA). The Department's structure is illustrated below.



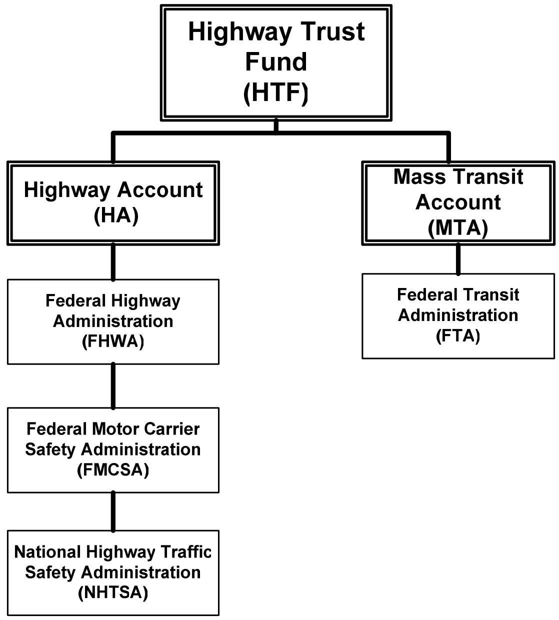

Four[1] of the nine OAs represent the principle components of the HTF reporting entity. They are (1) Federal Highway Administration (FHWA), (2) Federal Transit Administration (FTA), (3) Federal Motor Carrier Safety Administration (FMCSA), and (4) National Highway Traffic Safety Administration (NHTSA). The Highway Revenue Act of 1956 established the HTF to ensure a dependable source of financing for the National System of Interstate and Defense Highways. Initially created to support the construction of the Interstate Highway system; the HTF now funds a wide range of transportation-related projects in support of the country's changing needs. Today, the HTF contributes to the future by providing funding for the improvement of the Nation's roads. Its funds help improve transit systems and the urban traveler's mobility. The HTF funds are also used to reduce deaths and property loss from highway and other surface transportation accidents.

[1] Due to inactivity and immateriality to HTF funds, Federal Railroad Administration is now included in Other-HTF fund activities.

The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), signed by the President on August 10, 2005, is the most recent authorization act applicable to the HTF. SAFETEA-LU provides $286.4 billion in funding and contains a host of provisions designed to improve and maintain the transportation infrastructure in the United States, specifically the highways and interstate road systems. Each fiscal year (FY), Congress authorizes transfers from the HTF to fund the OAs and/or certain agency programs within the Department of Transportation (Department). The mission of the four OAs is described below.

| | |
|---|---|
| **FHWA** | To enhance mobility through innovation, leadership, and public service. The FHWA facilitates the construction, operation, and maintenance of the National Highway System (NHS), and related transportation activities that support their safe environmentally friendly and productive use. |
| **FMCSA** | To reduce crashes, injuries, and fatalities involving large trucks and buses. FMCSA focuses on highway safety related to large trucks and buses. |
| **FTA** | To provide leadership, technical assistance and financial resources for safe, technologically advanced public transportation, which enhances all citizens' mobility and accessibility, improves U.S. communities and natural environment, and strengthens the Nation's economy. |
| **NHTSA** | To save lives, prevent injuries, and reduce economic costs due to road traffic crashes through education, research, safety standards, and enforcement activity. |

The HTF is funded from excise taxes on motor fuels, tires, truck-related items, and use taxes paid by commercial users. The Department of the Treasury is responsible for depositing excise and use taxes into the HTF. The funds held by Treasury are considered the HTF Corpus and any funds not needed for expenditures are held in non-interest bearing Treasury non-marketable securities. When funds are transferred from Treasury to an HTF agency's appropriation, they are still considered part of the HTF, but are no longer a part of the Corpus. The Corpus is made up of two accounts, the Highway Account (HA) and the Mass Transit Account (MTA), which were established by the Highway Revenue Act of 1982. The HA is used to provide funding for FHWA, FMCSA, and NHTSA. The MTA is used to fund FTA. The following diagram illustrates the HTF account structure.




Prior to FY 2006, all FTA accounts were funded from two sources. FTA received approximately 80 percent of its funds from the Mass Transit Account and 20 percent from direct appropriation from Treasury. Direct appropriations to FTA from Treasury were obligated and outlayed out of the FTA's general fund accounts, which are not included in the HTF financial statements. In FY 2006, as a result of SAFETEA-LU, a larger trust fund account was created containing all of FTA's formula and bus grant-related programs. This trust fund is now 100 percent funded by the HTF, therefore included in the HTF financial statements.

Primarily, the individual OAs manage the HTF activities. The Department's Office of Budget and Program Performance provides budget oversight.

The HTF services all 50 states and 4 territories and the District of Columbia. Each OA receiving HTF funding provides financial support through grants to states and other municipal governments according to formulas established by law and/or based on competition.

## PRESIDENT'S MANAGEMENT AGENDA

In FY 2002, President George W. Bush identified his Administration's strategy for improving the management and performance of the Federal government. The President's Management Agenda (PMA) included five core government-wide goals. In additional to the five core requirements, two additional initiatives were added. They are: (1) Real Property Asset Management and (2) Eliminating Improper Payments. The Department uses strategic and performance planning to ensure the organization achieves its objectives and goals and is committed to embodying the President's goals of a citizen-centered, results based, and market-oriented government.

The Department's PMA goals for FY 2006 included:

**Department Organizational Excellence**

- Improve customer satisfaction
- Improve employee satisfaction & effectiveness
- Improve organization performance & productivity

### Strategic Management of Human Capital

This goal focuses on long-term management of the Federal workforce and fostering a citizen-centered, results-based government that is organized to be agile, lean, and capable of making timely decisions.

### Competitive Sourcing

This goal uses competitive sourcing as a key tool for achieving an efficient and effective competition between public and private sources to deliver Federal agencies' commercial work, thereby providing the highest quality and the most economical service to Americans.

### Financial Performance

Improved financial performance is key to ensuring that agencies have accurate and reliable data for budget and policy decisions. Ensuring accurate and timely payments and improving accountability to the American people through audited financial statements are other cornerstones of this goal.

### Expanded Electronic Government (E-Gov)

Expanding the use of the Internet to empower citizens will ensure that Federal programs are delivered at lower cost and can meet the high public demand for information and services. This will also make the Federal government more transparent and accountable.

### Budget and Performance Integration

This goal focuses on regular, systematic measurement and accountability for program performance compared to pre-established goals as the means for Federal agencies to focus on results rather than process.

The details of the Department's accomplishments and goals, as they relate to the PMA are discussed in this section. This section also specifically addresses Real Property Asset Management and Eliminating Improper Payment, two PMA initiatives the Department is directly responsible for accomplishing.

## PMA Goal: Strategic Management of Human Capital

The entire Federal government faces an impending wave of highly competent Federal employee retirements, which will create a large-scale strategic human resource planning issue. The Department must plan now to maintain required levels of experience, competencies, and knowledge in its workforce. Succession planning, as well as managing and maintaining adequate institutional knowledge, will be crucial for the Department's ability to carry out its functions during this period of high workforce turnover.

The Human Capital Plan was developed to guide HTF agencies' efforts on strategic alignment of the workforce, workforce planning and deployment, leadership, and knowledge management. The Plan also contains initiatives to help the Department recruit, develop, and retain the diverse talent needed to perform its mission and achieve strategic objectives now and in the future. The following chart outlines some examples of HTF related actions initiated to support the Department's Human Capital Plan as applicable.

**1) Strategic Management of Human Capital**

| Agency | FY 2006 Accomplishments and/or FY 2007 Planned Actions |
|---|---|
| FHWA | Established internal Council to identify areas of improvement:<br>▪ Created Strategic Leadership Succession Plan to examine internal/external hiring trends & competencies<br>▪ Focused on re-engineering job competencies<br>▪ Developed training plans which included:<br>    ▪ Cost Estimating, Risk Management, Project Management, and Process Review<br>    ▪ Created multidisciplinary workshops to transition Agency employees from being relegated to a reviewer's role to project oversight and financial management |
| FTA | ▪ Realigned the workload among specific offices and focused on hiring on the appropriate skill-set to meet the transit agency needs of the future<br>▪ Recruited 15 Presidential Management Fellows (PMF), five Career Residency Program Participants, and two Outstanding Scholars for key occupations throughout the Agency.<br>▪ Offered tuition loan repayment as an incentive to attract and retain highly skilled employees.<br>▪ Developed a performance accountability program within the FTA Strategic Business Plan for senior executives which measured results |

## PMA Goal: Competitive Sourcing

Competitive Sourcing is the act of exposing Government activities to competition with the private sector. The process of competition provides an imperative for the public sector to focus on continuous improvement and removing roadblocks to better performance and greater efficiency. The objective is to focus on the most effective and efficient way of accomplishing the agency's mission regardless of whether it is done by civil servants or contractors. The Department's efforts to determine whether current functions can be more efficiently performed by the private sector guides each OA's direction under this PMA initiative. Each HTF OA participated in the

Department's Federal Activities Inventory Reform (FAIR) Act assessment, which requires each Federal agency to report inventories of commercial jobs performed by Federal employee by June 30th of each year. The following chart highlights competitive sourcing accomplishments.

**2) Competitive Sourcing**

| Agency | FY 2006 Accomplishments and/or FY 2007 Planned Actions |
|---|---|
| FHWA | ▪ Launched a study to identify types of training available, who is conducting the training, and whether the training is associated with a specific position or facilitates general personal growth. Results will enable Agency managers to link the Human Capital and Competitive Sourcing initiatives with workforce planning. |
| FTA | ▪ FY 2006 FTA Human Capital and Workforce Plans identified contract management function as a core competency gap<br>▪ Approximately 35% of current staffing is provided by private sector primarily in IT support/application development and project management oversight as a result of the FAIR findings.<br>▪ FY 2005 accomplishments:<br>    ▪ Completed three public-private competitions to determine most effective and efficient way to perform commercial activities identified in the FAIR Act Inventories<br>    ▪ Reviewed the 2006 FAIR Act Inventory, in conjunction with human capital planning, to determine viable options for competitions to be carried out during FY 2006<br>    ▪ Updated Competitive Sourcing Plan to include FY 2006 projections which addressed subsequent years and responded to Office of the Secretary of Transportation (OST) Requirements |

## PMA Goal: Financial and Procurement Performance

The President's vision for improving financial performance is that Federal managers have accurate and timely information to manage costs. To meet this vision, the improved financial performance initiative strives to 1) reduce erroneous payments for each program, and 2) ensure Federal financial systems produce accurate and timely information to support operating, budget, and policy decisions. With this initiative, the Federal government looks to provide additional program services while reducing program costs and to provide improved accountability to the American people through audited financial reports.

The Office of the Inspector General (IG) has stated that the Department's ability to achieve its strategic goals of increased mobility, improved safety, and sustained economic growth undoubtedly will be challenged in the face of an unprecedented Federal deficit of about $374 billion. Aggressive oversight is needed to ensure that the over $37 billion annual Federal investment in highway and transit projects is well managed and protected from fraud. Improvements to project oversight and efficiency can have major results. The Department must also ensure successful collection of all tax dollars due to the HTF.

For FY 2006, the HTF received an unqualified opinion on its financial statements. Notwithstanding this success, the audit report identified one material weaknesses and three reportable conditions that the HTF OAs must address for future financial statement audits. During FY 2006, the HTF OAs took significant corrective actions to improve financial management and accountability. The chart below provides financial performance highlights for FY 2006.

| 3) Financial Performance | |
|---|---|
| **Agency** | **FY 2006 Accomplishments and/or FY 2007 Planned Actions** |
| FHWA | Ensured major project cost estimates and schedule milestones are credible by:<br>▪ In May, the Financial Integrity Review and Evaluation (FIRE) program initiated last year was revised to include a review of Federal-aid billing transactions that complies with the *Improper Payments Information* Act.<br>▪ Established Program Risk Management Pilot Program to test risk management framework for viability and sustainability<br>▪ Improved quality of Motor Fuel and Highway Performance Monitoring System (HPMS) data<br>▪ Effective recruitment of project managers<br>▪ Freed up idle funds for other infrastructure expansion and preservation projects<br>▪ Generated reliable financial statements<br>▪ Enhanced fraud prevention capabilities and took aggressive action against perpetrators<br>▪ Issued content and format guidance for Financial Plans for major projects<br>▪ Addressed cost and schedule oversight by building new Project Management Tracking System<br>▪ Optimized use of staff and increased training for existing and new staff<br>▪ Implementing specific stewardship and oversight initiatives |

## PMA Goal: Expanded E-Government


The E-Government Act of 2002 was implemented to increase efficiency and effectiveness within the Federal government. The Federal government can secure better services at lower cost through E-Gov and can meet high public demand for E-Gov services. This Administration's goal is to champion citizen-centered E-Gov, which will result in a major improvement in the Federal government's value to its citizens. E-Gov accomplishment can be found in the chart below.

| 4) Expanded E-Gov | |
|---|---|
| **Agency** | **FY 2006 Accomplishments and/or FY 2007 Planned Actions** |
| FHWA | ▪ Reduced manual, lengthy, paper intensive process through a web-based procurement requisitioning system |

| 4) Expanded E-Gov | |
|---|---|
| **Agency** | **FY 2006 Accomplishments and/or FY 2007 Planned Actions** |
| | ▪ Utilized Grants.gov on selected programs to issue requests and receive grants applications which reduced paperwork requirements<br>▪ Automated Staffing integrated with the Office of Personnel Management USAJOBS under the Recruitment One Stop initiative |
| FTA | ▪ Transferred grants payment Electronic Clearing House Operations (ECHO) database processor to an Oracle environment on a Web-accessible platform. This major accomplishment will ensure that financial systems applications and controls operate in a more secure and compliant environment<br>▪ Completed Certification and Accreditations of both its ECHO and DOTS mission critical systems in conjunction with the Department's IT consolidation initiative and relocation of all system applications to the new DOT headquarters building |
| NHTSA | ▪ Participated in Grant.gov<br>▪ Participated in Business Gateway for auto importation information and forms<br>▪ Participated in the new USA Services, Auto Safety Hotline, for vehicle and traffic safety information<br>▪ Contributed to the Department "Green" score in E-Gov through quarterly Earned Value Management measures for all of its major IT initiatives<br>▪ Secured, certified, and accredited 100% of all IT systems |
| FMCSA | ▪ Performed security re-certification and re-accreditation of FMCSA IT systems<br>▪ Established a new "change governance structure" to review/implement changes<br>▪ Implemented Earned Value Management and Reporting for FMCSA's major IT initiatives<br>▪ Established an executive level governance board to ensure that the systems directly support high-priority agency goals and missions<br>▪ Revised the capital planning process to incorporate the new executive governance and change management structure<br>▪ Provided technical support to the public as E-government is expanded<br>▪ Partnered with the e-authentication initiative and pilot security capabilities<br>▪ Provided Grants.gov access to States |

## PMA Goal: Budget and Performance Integration

This initiative follows through on the President's commitment to build a results-oriented government that funds effective programs and reforms or terminates ineffective programs. Through this integration, budget and performance rely on one another. Agencies are required to submit specific performance measures with budget requests. The chart below provides some of FY 2006 accomplishments in this area.

| 5) Budget and Performance Integration | |
|---|---|
| **Agency** | **FY 2006 Accomplishments and/or FY 2007 Planned Actions** |
| FHWA | ▪ Released the FY 2007 Strategic Implementation Plan in June 2006 and monitored the deployment of agency wide initiatives outlined in the FY 2006 Strategic Implementation Plan. An executive-level dashboard and other unit-level reports were employed to monitor progress in achieving key performance objectives and measures throughout the year.<br>▪ Refined the methodology developed for attributing costs to DOT strategic goals, and to more than one performance objective. These activities will provide the basis for a Managerial Cost Accounting (MCA) model.<br>▪ Developed a sample plan to meet the Improper Payments Information Act (IPIA) requirements and estimate the incidences and total dollar amount improperly dispersed for the Federal-aid highway program in FY2006. |
| FMCSA | ▪ Examine reports that integrate financial and performance information and use this information to make decisions regarding the management of Agency programs.<br>▪ Expanded and refined outcome-oriented goals and objectives and ensure that annual budget and performance documents incorporate all measures identified in the Program Assessment Rating Tool (PART) and focus on the information used by senior managers.<br>▪ Increased the number of performance appraisal plans linking to Agency mission, goals, and outcomes; effectively differentiate between various levels of performance; and provide consequence based on performance.<br>▪ Reported the full cost of achieving performance goals accurately in budget and performance documents and can accurately estimate the marginal cost of changing performance goals.<br>▪ Developed and refined an efficiency measure for all programs and used PART evaluations to direct program improvements and justify funding requests, management actions, and legislative proposals. |
| FTA | ▪ Implemented a key component of its Managerial Cost Accounting (MCA) effort by requiring agency-wide Labor Distribution Reporting (LDR).<br>▪ Participated in an extensive four-week employee training on reporting Labor Distribution Information using multiple training venues to ensure that approximately 320 headquarters and 180 Regional employees had the opportunity to participate.<br>▪ Completed modules to align the labor distribution information with the program funding and performance goals to achieve full implementation of MCA.<br>▪ Assessed its Formula Grant Program using the Office of Management and Budget's PART and plans to increase ridership and improve the condition of transit assets and accessibility to public transportation for physically challenged individuals. |
| NHTSA | ▪ Continued to provide marginal cost of performance information for new safety initiatives as part of submitting the FY 2007 Budget. |

## PMA Initiative: 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 assure management accountability for implementing Federal real property management reforms. Based on this policy, executive branch departments and agencies shall recognize the importance of real property resources through increased management attention, the establishment of clear goals and objectives, improved policies and levels of accountability, and other appropriate action.

*FY 2006 Accomplishments:* As an active participant in the Department's Real Property Planning Council, FHWA contributed to the development of a comprehensive three-year rolling timeline to ensure that a Department-wide Asset Management Plan is in-place to monitor progress towards achievement of Federal Real Property Council standards and objectives. The Agency's real property inventory data was validated and incorporated into an automated reporting module that will provide a reliable database for management decision-making. FHWA's owned property portfolio is being integrated into, and aligned with, our strategic planning and budget development processes. Efforts continue toward establishment of a set of credible measures for evaluating the effectiveness and efficiency of Agency performance in managing assigned real property assets.

### PMA Initiative: Eliminating Improper Payments

The *Improper Payments Information Act of 2002* (IPIA) contains requirements in the areas of improper payment identification and reporting. An improper payment is defined to mean any payment that should not have been made or that was made in an incorrect amount—including overpayments and underpayments—under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payment for services not received, and any payment that does not account for credit for applicable discounts. The FIRE program was revised to include a review of Federal-aid billing transactions that complies with IPIA.

FHWA implemented the improper payments testing and assessment methodology in the normal grant testing procedures. FHWA continued work to derive a nationwide improper payment rate for FY 2006.

## SYSTEMS AND CONTROLS

The Department recognizes that sustaining progress and momentum in the area of management control is essential to improving accountability among managers. Management control, while synonymous with internal control, assigns preventive and detective controls to integral components of an entity, providing management with reasonable assurances of achieving objectives. In FY 2005, two material weaknesses were identified in the area of management controls, which did not comply with sections 2 and 4 of the FMFIA. The Department has worked diligently to resolve these issues.

One material weakness remains in FY 2006 and will continue to be addressed in during FY 2007.

## The Department's Financial Process

The Department's financial processes are the foundation of its financial management and accounting operations. The effectiveness of these processes is vital to the production of timely, accurate, and reliable financial data. Each OA has worked diligently to improve upon its processes. Examples performed by FHWA are described below.

### FHWA

During FY 2006, FHWA continued to work on the improvement of its financial process to support financial management and facilitate the timely preparation of accurate financial statements. FHWA was aggressive in implementing effective policies and procedures to address areas such as journal entries, suspense account balances, recognition of allocation account activity, and Intra-governmental balances. These policies and procedures were implemented after major efforts to reconcile the appropriate activity. In FY 2006, transaction codes were created for the HTF Corpus drawdown, and for Federal Land payroll, significantly reducing the number and cumulative value of journal entries. FHWA also produced and distributed to all child allocation agencies, a comprehensive parent-child allocation account manual, *"Accounting Handbook for Recipient (Child) Accounts.*" The handbook provides an overview of trust fund accounting; how child allocation accounts operate with the parent account; guidance on policies and procedures, roles and responsibilities of the parent and child agencies; and specific accounting instructions on how to record common transactions.

FHWA applied aggressive measures to resolve outstanding suspense account transactions over 30 days old. Similar aggressive measures were taken to improve intergovernmental activity recognition

## Grants Financial Management Oversight

Federal grants are awarded as a form of financial assistance from a Federal agency to a recipient to carry out a public purpose of support or stimulation authorized by a law of the United States. A grant is not used to acquire property or services for the Federal government's direct benefit. Twenty-six Federal agencies annually offer over 1,000 grant programs. OMB leads the development of government-wide policy to assure that grants are managed properly and that Federal dollars are spent in accordance with applicable laws and regulations.

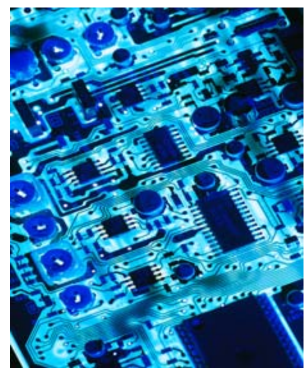
**FHWA**

FHWA developed a new program to address the weaknesses identified in the financial management oversight. During the second half of FY 2005, FHWA management released the FIRE program. The FIRE requires each division office to perform a risk assessment, or similar prioritization process, to identify appropriate oversight activities. The initial FIRE annual review plans from Division offices were incorporated with the unit performance plan. Throughout FY 2006, FHWA has reinforced the procedures by conducting training during the CFO Web conferences. The annual review plan and submission of section 2/4 certifications for FY 2006 Division offices are complete.

In addition to addressing internal controls, FHWA assembled a team to resolve grant-related unreconciled differences between the subsidiary ledgers and the general ledger. This is an ongoing effort with an anticipated completion date in FY 2007.

## The Department's Information Systems Security

The purpose of information system security is to support the goals of the Department by assuring the availability, integrity and confidentiality of information. A major part of this purpose involves investigating computing system intrusions and increasing information security awareness. Sustaining information systems security consists of analyzing financial systems used to collect, process, maintain, transmit, and report pertinent financial and accounting information. The Department recognizes that the protection of financial data is key in establishing and maintaining accurate and reliable financial management information.



**FHWA**

During FY 2006, FHWA continued to work on the reduction of security weaknesses and reported its progress through the quarterly Plan of Action and Milestones Departmental update process. FHWA continued to operate its vulnerability-scanning program, which requires that all remediation of vulnerabilities be complete before new servers are attached to the network. FHWA also conducted yearly security reviews on all its systems and performed yearly updates on all Security Plans, which included a review of the level of risk. FHWA assessed the sensitivity of its systems using the Standard for Security Categorization of Federal Information and Information Systems. FHWA continued its security patching efforts and performs routine patch scans to ensure that patches are applied.

**FMCSA**

Consistent with OST's guidance, FMCSA developed IT security plans for all of its 19 systems and completed certification and accreditation for 100 percent of its systems.

### FTA

The ECHO database processor was migrated to an Oracle environment on an internet accessible platform in June 2006.

FTA completed Certification and Accreditation of both its ECHO and Delphi On-Line Transaction System mission critical systems in conjunction with the Department's IT consolidation initiative and relocation of all system applications to the new DOT building. This accomplishment ensures that FTA is in compliance with reporting to OMB under the PMA requirements.

### NHTSA

NHTSA met the requirements of the Federal Information Security Management Act by accomplishing 100 percent Certification and Accreditation of its IT systems and a reduction of high-risk vulnerabilities to zero in a timely fashion. NHTSA also participated in the development of the Department's Enterprise "Target" architecture and modernization blueprint.

**Key Legislative and Administrative Requirements**

- ✓ Federal Managers' Financial Integrity Act (FMFIA) of 1982
- ✓ Chief Financial Officers (CFO) Act of 1990
- ✓ Government Performance and Results Act (GPRA) of 1993
- ✓ Government Management Reform Act (GMRA) of 1994
- ✓ Federal Financial Management Improvement Act (FFFIA) of 1996
- ✓ President's Management Agenda
- ✓ OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, *Statement of Assurance on Internal Control Over Financial Reporting*
- ✓ OMB Circular A-50, *Audit Follow-Up*
- ✓ OMB Circular A-127, *Financial Management Systems*
- ✓ OMB Circular A-136, Financial Reporting Requirements

## Legal Compliance

The DOT is required to comply with Federal management statutes passed by Congress, including regulations, various requirements and standards. Within the financial management arena, Congress has passed a number of legislative mandates intended to establish accountability and report ability within the Federal government. In the FY 2005 audit of the HTF financial statements, instances of non-compliance with legislative requirements were identified. The specific legislation is identified and the OA efforts to address the compliance issues are discussed in this section.

### OMB Circular A-123, Management's Responsibility for Internal Controls

A-123 is intended to strengthen the requirements for conducting management's assessment of internal control over financial reporting. It reinforces previously released legislation with requirements that clearly provide for accountability, responsibility, and visibility.

In FY 2006 the Department implemented an improved Internal Control Program, which includes the requirements OMB Circular A-123 (Appendix A). The plan reflects the required changes in internal controls for financial reporting. The A-123 Implementation Plan identified twelve key business processes.  The HTF funds documented and tested six during FY 2006.  The remaining six will be tested in FY2007.

## Federal Financial Management Improvement Act (FFMIA)

The FFMIA establishes guidance for uniform accounting standards throughout the Federal government.  It mandates that financial systems comply with Federal financial management requirements, Federal accounting standards, and the USSGL at the transaction level.

The Department's Consolidated Financial Statements for the previous 5 years (FY 2001-FY 2005) have received unqualified audit opinions from the Department's Office of the Inspector General (OIG).  The OIG has further concluded that the Department was not in full compliance with the FFMIA because material weaknesses existed for the Department's financial, accounting, and information security programs.  FFMIA builds on the foundation laid by the Chief Financial Officers (CFO) Act of 1990 by emphasizing the need for agencies to have financial management systems that can generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis.  Full compliance with FFMIA is contingent on the success of implementing Delphi and resolving outstanding implementation issues throughout the Department.  Identified below are the actions each OA has taken to correct the material weaknesses:

### FHWA

FHWA continues to refine and develop accounting policies and procedures on recording and reconciliation of financial transactions.  FHWA also established reconciliation processes to ensure data in the grant system, agrees with data in the financial management system.  FHWA began work to develop procedures to identify and reconcile all intra- and interagency transactions to include specific coding to identify these transactions in the accounting system.

### NHTSA

NHTSA has standardized and implemented new accounting policies and procedures for recording financial transactions.  These policies include regularly scheduled reconciliation meetings of significant accounts including the Grants Tracking System.  NHTSA has participated in DOT intra-OA, reimbursable agreement reconciliation meetings and successfully completed a reconciliation of these agreements.  NHTSA has standardized reimbursable agreement policies and procedures, including regular reconciliations.

## Anti-Deficiency Act

The Anti-Deficiency Act prohibits the obligation or expenditure of Federal funds in excess of the amounts appropriated by Congress or in excess of amounts permitted by regulations.  It also forbids the obligation of any funds in

advance of the official appropriation of funds and requires the head of each government agency to establish an administrative control system to ensure agency compliance. DOT understands the importance of the Anti-Deficiency Act and has taken the actions outlined below to establish a control system and help ensure compliance across the department.

### FHWA

In the previous year audit reports an anti-deficiency matter was identified whereby DOT improperly expended Treasury miscellaneous receipts in the amount of $49 million. DOT reported this violation to OMB and Congress in FY 2003. By the end of FY 2003, DOT had returned approximately $44 million to the Treasury. The remaining $5 million is largely attributed to FHWA's Federal-Aid Highway activities. FHWA returned the $5 million to the Treasury as of September 30, 2006.

## Government Performance and Results Act (GPRA)

GPRA provides guidance for improving operations, programs, and management. It requires the submission of a strategic plan for programs and activities, including performance goals and objectives to OMB. The FY 2005 audit revealed inadequate controls to ensure the proper use of HTF funds after distribution to grantees. During FY 2006 the Department implemented the following actions to address this weakness and improve polices and procedures in this area.

### FHWA

FHWA played a major role in the development of the DOT FY 2006-2011 Strategic Plan, which is required by OMB Circular A-11. The Strategic Plan provides a framework of strategic goals and outcomes that each OA adopts in developing an annual performance budget and implementation plan that includes key performance objectives, measures, and targets. FHWA is responsible for annual performance-based planning since FY 1999 and submitted its first performance budget in FY 2004. FHWA’s annual performance objectives are incorporated into the Administrator’s annual Accountability Contract with the Secretary of Transportation.

FHWA is currently producing cost by Strategic Goal data from the Managerial Cost Accounting (MCA) System. FHWA will begin to produce reports in the first quarter 2007 indicating usage and efficiency. This will show the link between the costs of business operations to overall strategic outcomes. In addition, FHWA will meet its performance objectives by:

- Providing the ability to use cost information in planning and budgeting
- Developing the ability to understand and manage costs
- Improving business process performance and the ability to manage strategic cost

The MCA system tools provided will help meet Congressional and OMB requirements (Standard of Federal Financial Accounting Standard (SFFAS) No. 4 and 30, OMB Circulars A-11, A-122 or A-110, Presidents Management Agenda (PMA)) for budget and performance integration, and impact management decision-making.

### FTA

In response to the PMA initiative for budget and performance integration and other Federal financial requirements, FTA began implementing MCA. FTA implemented a key component of its MCA effort on February 6, 2006, with agency-wide Labor Distribution Reporting (LDR). FTA undertook an extensive four-week training approach providing multiple training venues to ensure that each of the approximately 320 headquarters and 180 Regional employees had the opportunity to participate via hands-on, teleconference training and/or self-paced training—downloaded to their desktops or over the Web with EyeCron. Within the first two weeks, over 350 employees (or 70%) had been trained in Labor Distribution Reporting within CASTLE. Up to 98% of FTA employees are reporting LDR every pay period. Obtaining labor-hours by project tasks will enable FTA management to quantify the amount of resources committed to projects and programs and determine the relative utilization to help assign workload, make staffing decisions and shift program responsibilities. Modules were completed to align the labor collection with the program funds and performance goals to achieve full implementation of MCA.

FTA also completed an assessment of its Formula Grant program using the OMB PART. FTA received a PART score of 92 (out of 100), completed as part of the FY 2006 Budget. The results of the PART demonstrate that the Formula Grant program is effective in increasing ridership and improving the condition of transit assets and accessibility to public transportation for physically challenged individuals.

### FMCSA

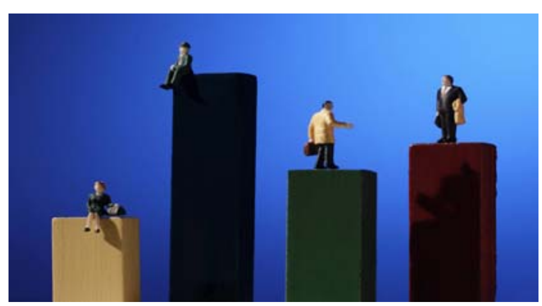
FMCSA enhanced its MCA plan, which was developed the previous year for Agency-wide implementation. The plan is linked to the performance-based budget and includes a method to measure cost by performance, measurable milestones, and firm target dates. FMCSA established a framework by which costs could be collected at a detailed level within agency strategic and performance goals. FMCSA is now in the requirements analysis phase with a goal to begin implementation during FY 2007.

### NHTSA

NHTSA is in the requirements analysis phase of costing information need, developing an implementation strategy and identifying the necessary tools to implement a system in FY 2007.

## PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The Department prepares a strategic five-year plan and an annual performance budget where it establishes its strategic objectives, outcomes, and goals. Within the HTF, the performance budget of each OA supports the Department's performance measures. Each fiscal year, the OAs establish



individual performance goals and objectives, annual measures and targets, and resources required to accomplish the goals. During the year, the OAs gauge their progress toward achieving the Department's goals and report on performance in the Department's Performance and Accountability Report (PAR).

The Department had six strategic goals in FY 2006 to provide direction to each of its OAs:

- **Safety** – Enhance the public health and safety by working toward the elimination of transportation-related deaths and injuries.
- **Mobility** – Advance accessible, efficient inter-OA transportation for the movement of people and goods.
- **Global Connectivity** – Facilitate a more efficient domestic and global transportation system that enables economic growth and development.
- **Environmental Stewardship** – Promote transportation solutions that enhance communities and protect the natural and built environment
- **Security** – Balance homeland and national security transportation requirements with the mobility needs of the Nation for personal travel and commerce.
- **Organizational Excellence** – Advance the Department's ability to manage for results and achieve the goals of the PMA.

This section documents the performance highlights of strides made by the Operating Administrations funded through the HTF towards attaining its goals. They are addressed under the FY 2006 strategic goals. Only FY 2006 data is discussed for FTA's[2] performance. A full assessment of the completeness and reliability of HTF performance data and the detailed information on the source, scope, and limitations for the performance data in this report is provided at **http://www.dot.gov/perfacc2006/perfmeascr.htm**.

FY 2006 results are estimated or projected, as the FY 2006 data is not available to date. The results were derived using FY 2005 data. Depending on the measure, the actual data will be available in twelve to eighteen months.

## SAFETY

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


### Strategic Outcomes

- Reduce transportation-related deaths.
- Reduce transportation-related injuries.

[2] FTA was funded through the HTF Corpus and direct appropriation from Treasury prior to FY 2006. As a result of SAFETEA-LU, FTA's funding structure has changed and a trust fund account exists to solely fund formula programs and bus and bus-related grants.

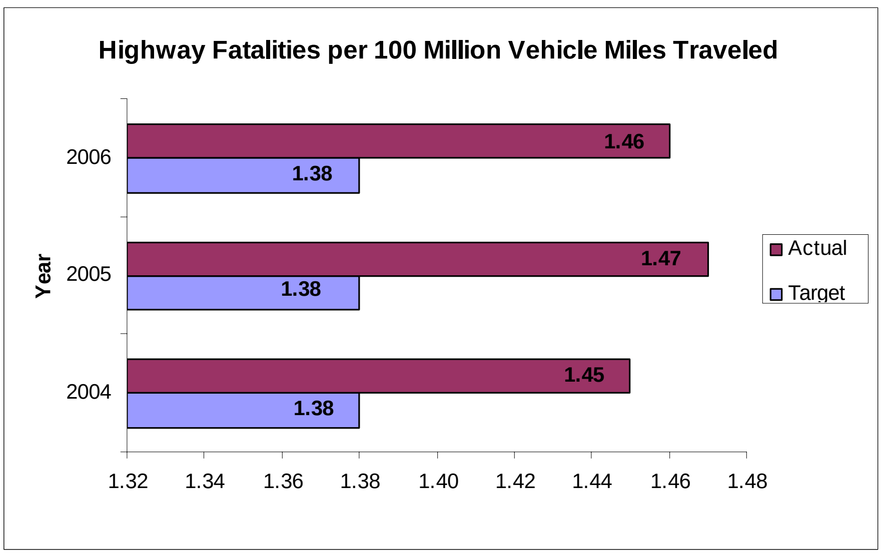
### Departmental Performance Goals

1. Reduce highway fatalities per 100 million miles traveled to no more than 1.0 in 2008, from 1.69 in 1996.
2. Reduce large truck-related fatalities per 100 million truck vehicle miles traveled (VMT) to no more than 1.65 in 2008, from 2.81 in 1996.

The Department's Safety Strategic Outcomes were divided into two major groups, Surface Transportation Safety and Aviation Safety. There are six strategies within the surface transportation safety group. The strategies applicable to the HTF are Improve Motor Vehicle and Driver Safety, Safer and Smarter Highway Infrastructure, Improve Transit Safety, and Improve Motor Carrier Safety.

### FHWA

*Highway Safety:* Highway crashes account for 95 percent of all transportation-related fatalities and 99 percent of transportation injuries, and is the leading cause of death for Americans age 4 through 34. The large number of crashes has placed a considerable burden on the nation's health care system and has had significant economic effects. The cost to the economy of all motor vehicle crashes is approximately $230.6 billion, or 2.3 percent of the U.S. gross domestic product. Highway fatalities results are reflected in the chart below.




*2006 Results:* In 2005, there was a slight rise to 43,433 traffic deaths and the fatality rate was 1.47. Early projections for 2006 are for another increase to 43,661 fatalities, but with a projected rate of 1.46 per hundred million VMT. Based on the projection, the target is not expected to be met. The Fatality Analysis Reporting System (FARS) was used to obtain this data.

The FHWA continued to concentrate efforts on reducing the number of fatalities in three types of crashes: roadway departures, crashes at or near intersections, and collisions involving pedestrians. In addition, the FHWA and its partners promoted a comprehensive approach to highway safety planning. The approach helps States improve utilization of limited resources to improve roadway safety. Twenty states have developed Strategic Highway Safety Plans (SHSP) and an additional 11 states are actively developing plans. Virtually all states are in the process of developing a SHSP in order to have an approved plan by October 1, 2007.

*2007 Performance Forecast:* It is unlikely that the target will be met. FHWA is reviewing trends and identifying the program factors that contribute to reductions in the average fatality rate, as well as reviewing highway safety practices observed in other countries to identify states that appear to be on track to achieve substantial reduction in fatalities over the next few years.

**NHTSA**

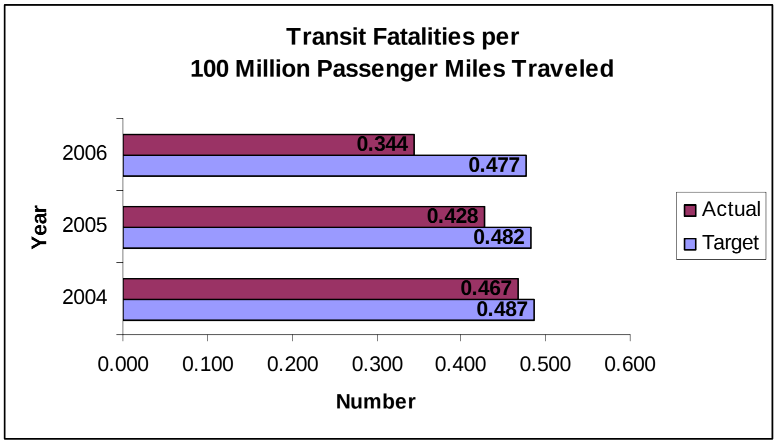
*Safety Belt Use:* Safety belt use in the United States reached a historic high of 82 percent in 2005 (latest data available). The Secretary and Administrator launched the annual *Click It or Ticket* (*CIOT*) campaign in May 2006. The campaign coincided with the Memorial Day weekend, one of the most heavily traveled holiday weekends. This year's *CIOT* Campaign was accompanied in 18 states by an additional campaign, *Buckle up in Your Truck*, to encourage improved safety belt usage in pickups.

*FY 2006 Results:* NHTSA met the goal for use of safety belts in FY 2005 (most recent data available). In the past five years, safety belt use has increased steadily from 71 percent in 2000 to 82 percent in 2005 (latest data available). In 2005, 55 percent of those killed in passenger-vehicles were not wearing safety belts. The alcohol measure for FY 2006 was revised to reflect that 85 percent of the alcohol-related fatalities involved drivers with a blood alcohol content above .08. FARS was used to obtain this data.

Although data is not yet available for child restraint use, the number of children, youth and young driver fatalities decreased in 2005. The number of fatalities declined for children of all ages, but particularly for youths aged 8 to 15. The number of crashes involving young drivers (age 16 to 20) decreased by 6.3% and the number of young drivers killed also decreased by 4.6%.

**FTA**

*Transit Safety:* Public transit provides a flexible alternative to automobile and highway travel, while offering a higher degree of safety. Currently, transit is one of the safest OAs of travel per passenger miles 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. Transit fatalities results are found in the chart below.




*FY 2006 Results:* FTA met the target for transit safety in FY 2006. This result is based on six months of data from the National Transit Database and four months of Commuter Rail data from the Federal Rail Administration Rail Accident Incident Reporting System (RAIRS). Strong growth in transit ridership and the continued expansion of transit service significantly increased the number of passenger miles in 2006 over 2005. The challenge is to continue the decrease in fatalities, even as passenger miles traveled increases. Final performance data will be available in March 2007 when 12 months of data will be available.

## MOBILITY

*Advance accessible, efficient, inter-OA transportation for the movement of people and goods.*

Mobility, as much as any other factor, defines the United States as a Nation and is intertwined with the Nation's economic growth. It connects people with work, school, community services, markets, and other people. The U.S. transportation system carries over 4.6 trillion passenger-miles of travel and 3.9 trillion ton-miles of freight every year, generated by more than 276 million people and 6 million businesses.

### Strategic Outcomes

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

### Departmental Performance Goals

1. Improve and expand the NHS to increase system efficiency and improve safety.
2. Limit annual growth of urban area travel time under congested conditions to 0.2 percent below the projected increases in congestion.

3. Increase transit ridership to improve urban and rural mobility, and reduce traffic congestion by increasing the average number of transit boardings per transit market (top 150 transit agencies) by one percent.
4. Increase public transit systems' accessibility to those with disabilities.
5. Increase the number of employment sites made accessible by public transportation services.

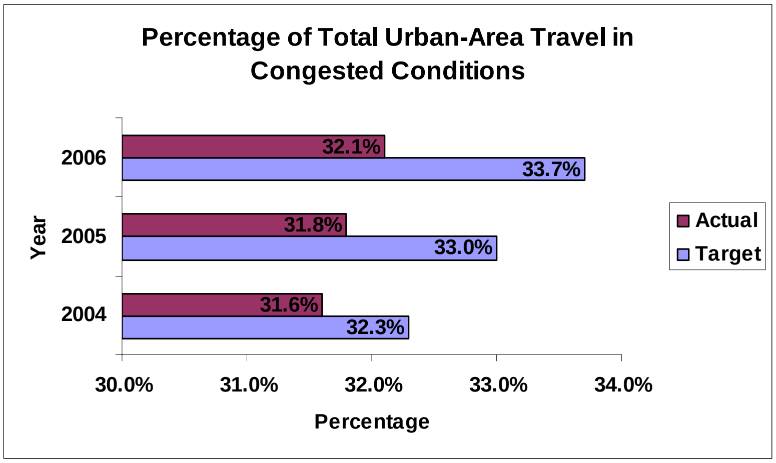
The Department's Mobility and Economic Growth strategic outcomes are divided into seven strategies. The strategies applicable to the HTF are the Highway Infrastructure, Highway Congestion, Transit Ridership, and Transportation Accessibility strategies.
Under each strategy is the administration responsible for achieving the Departmental performance goals. Mobility Performance Measures from FY 2004 through FY 2006 are provided in the chart below.

| Mobility Performance Measures | | | | | |
|---|---|---|---|---|---|
| | FY 2004 | FY 2005 | FY 2006 Target | FY 2006 Preliminary | FY 2006 Goal |
| Percentage of travel on the NHS meeting pavement performance standards for "good" rated ride | 52.0 (r) | 51.8 (r) | 55..5 | 54.2* | Not Met |
| Percent of total annual urban-area travel occurring in congested conditions | 31.6 (r) | 31.8 | 33.7 | 32.1# | Met |

(r) Revised; * Preliminary Estimate; # Projection by Bureau of Transportation Statistics (BTS)
Benchmark changed in for FY06

## FHWA

*Highway Congestion:* Traffic congestion on our nation's highways now affects more trips, more hours of the day, and more of the transportation system than ever before. Congestion varies significantly day to day because demand and capacity are constantly changing at any given location. Travelers in 85 urban areas spent 3.76 billion hours stuck in traffic in 2002, an increase from 0.72 billion in 1982. Reducing congestion and delay will improve urban travelers' mobility and productivity and curb economic inefficiencies induced by congestion.




*2006 Results:* The estimated percentage of congested travel was 32.1 percent in FY 2006, a figure above the projected level of 33.5 percent and the target of 33.7 percent. The goal is met. The rate of growth in traffic congestion nationwide appears to be slowing based on the analyses of real-time traffic data that the FHWA has collected during 2004-2006 from travel information websites and transportation management centers in selected cities.

To ensure that Intelligent Transportation Systems (ITS) technologies work together smoothly and effectively, FHWA continued to develop the technical and institutional framework needed for deployment of the nation's ITS infrastructure. FHWA supported the completion of 270 Regional ITS Architectures. FHWA continued to support the deployment of *511*, a national travel information telephone service that provides drivers with easier access to local travel conditions information. Through the American Association of State Highway and Transportation Officials (AASHTO)-led *511* coalitions, FHWA developed guidelines and provided technical assistance and information through various means including Web meetings and a National Conference. The *511*-telephone service is now accessible to about 38 percent of the Nation's population.

Encouraging public and private partnerships is a key strategy in the Transportation Secretary's *National Strategy to Reduce Congestion.* The FHWA compiled a manual of innovative ways to use public-private partnerships on highway projects under current law, including SAFETEA-LU, in order to facilitate private industry entering into partnerships with public agencies to build roads. FHWA intensified its efforts to manage facility capacity through the implementation of pricing strategies. In response to new options provided in SAFETEA-LU, a *Federal Register* notice was issued to assist public authorities in identifying the most appropriate program to meet their requirements. A *Tolling and Pricing Primer* that provides a comprehensive perspective of the Agency's tolling and pricing initiatives, including Public-Private Partnerships and Innovative Financing programs, was developed for states and other public entities.

*Emergency Relief Program:* Authorized by Congress, the Emergency Relief Program repairs or reconstructs Federal-aid highways and roads damage results from natural disasters (such as floods, hurricanes, earthquakes etc.) or catastrophic failure from external causes. In addition to the $100 million permanent authorization for the Emergency Relief program, there were two FY 2006 supplemental General Fund appropriations totaling $3.5 billion ($2.75 billion for hurricane relief in P.L. 109-148 and $702 million to address the backlog of eligible ER projects in P.L. 109-234).

*FY 2007 Performance Forecast:* FHWA continued efforts to improve the pavement condition on the Nation's highways. The goal is to reach a target of 55.5 percent of vehicle miles traveled on NHS pavements with good ride quality (International Roughness Index (IRI) of 95 inches/mile or less) by 2008. In 2006, 54.2 percent of travel on the NHS occurred on facilities with a reported IRI of 95 inches per mile or less. Congestion levels nationwide should remain below the target of 32.5 percent in 2007 and targets are attainable. The results for the period between FY 2002 and 2005 indicate that the overall rate of growth in traffic congestion nationwide is slowing, and is less than projected increases of 0.7 percent annually.

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

## GLOBAL CONNECTIVITY

*Facilitate a more efficient domestic and global transportation system that enables economic growth and development.*

### Strategic Outcomes

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

### Departmental Performance Goals

1. Increase freight travel efficiency.
2. Increase the Standardization and Harmonization of Transportation Standards and Practices.
3. Improve the efficiency and cost-effectiveness of passenger travel.

4. Increase opportunities for small-disadvantaged and women-owned businesses.

**FHWA**

*2006 Results:* The DOT and FHWA adopted the number of freight corridors with an annual decrease in their annual average buffer index rating as a measure of improvement in freight travel in significant corridors. As travel speeds become more consistent and reliable in the significant corridors, the number of corridors with declining annual buffer index ratings should increase.

The FHWA began measuring travel speeds along significant freight corridors in 2005. As illustrated below, travel speed measurements were used to calculate the average travel speed and average buffer index for five interstate corridors in which data were collected. The data collection was expanded to 25 freight corridors in 2006. The buffer index represents the extra time freight carriers should add to their average travel time in order to ensure on-time arrival, at least 95 percent of the time, for an end-to-end trip along the corridor. The extra time added accounts for any unexpected delay. The buffer index, expressed as a percentage, decreases as trip reliability improves.

**Average Travel Speed & Buffer Index on Freight Significant Corridors FY 2006**

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

*FY 2007 Performance Forecast:* It is unlikely that the 2007 target, which is based on reducing the buffer index in 100 percent of the corridors monitored in 2005, will be met. However, FHWA expects to see improvement in a majority of the corridors under study.

*Motor Fuel Tax Evasion:* Motor fuel tax evasion has become a significant concern. The HTF experiences an estimated loss of $1 billion per year due to under-reporting or non-reporting of motor vehicle taxes. In accordance with the SAFETEA-LU and American Jobs Creation Act of 2004 legislation, FHWA is working with the Internal Revenue Service (IRS) to evaluate the effectiveness of IRS' motor fuel tax evasion (MFTE) enforcement efforts. Results of a Treasury Inspector General for Tax Administration audit and FHWA development of an oversight plan will provide methods to determine the effectiveness of IRS's MFTE enforcement efforts prior to providing additional funds from the HTF. Continued use of HTF funds for MFTE enforcement by IRS is contingent on the effectiveness of IRS collecting the estimated $1 billion lost due to MFTE annually.

**FMCSA**

In 2005, FMCSA participated in testing of the Automated Commercial Environment/ International Trade Data Systems (ACE/ITDS). Through this system an Automated Truck Manifest feature will be implemented to further improve the efficiency of inspections at the Canadian and Mexican borders. Through implementing this system, FMCSA will be the first DOT agency to collaborate with the U.S. Customs and Border Protection on this Administration's Second Term and Secretarial initiative.

*North American Free Trade Agreement (NAFTA) Implementation:* FMCSA efforts continued to implement the President's order to open the southern border to expanded CMV operations under NAFTA. In a unanimous decision, the U.S. Supreme Court helped to clear the way for implementation of three rules governing the operation of Mexico-domiciled CMVs beyond the border commercial zones. This was due to the reversal of a January 2003 decision of the U.S. Court of Appeals for the Ninth Circuit, which held that FMCSA was not required to prepare an Environmental Impact Statement (EIS) and Clean Air Act Conformity Analysis before promulgating the rules.

*Consumer Information on Interstate Movers:* There are approximately 1.5 million shipments of household goods in the United States each year, roughly 600,000 of which are interstate moves. In response to increased consumer complaints, FMCSA significantly expanded and enhanced its web-based database that informs consumers of their rights and responsibilities and serves as a guide in the selection of a reputable carrier.

**FTA**

*New Starts Program:* Cost containment of major capital projects is one of FTA's four core accountabilities used to evaluate senior executives. Some of the variables that can lead to or help avoid cost overruns of these large projects include:

- Current economic bidding climate and financing terms
- High risk factors, such as environmental mitigation
- Quality of planning, project scope, and local decision-making
- Quality of project design and procurement process
- Reputation/expertise of the transit agency

As of September 2006, 95 percent of all Full Funding Grant Agreements (FFGAs) are within five percent of their baseline cost.

*Grant Processing:* FTA improved program delivery to its customers by making dramatic improvements in the timeliness of grant processing, which allowed them to meet its FY 2006 target. As of September 30, 2006, 94 percent of the 2,192 grants processed were obligated in 60 days or less. The time used to process grants decreased to 29 days in 2006.

## ENVIRONMENTAL STEWARDSHIP

*Promote transportation solutions that enhance communities and protect the natural and built environment.*

### Strategic Outcomes

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

### Departmental Performance Goals

1. Reduce adverse effects on ecosystems and improve ecosystem viability.
2. Reduce transportation pollution.

**Environmental Stewardship Performance Measures**

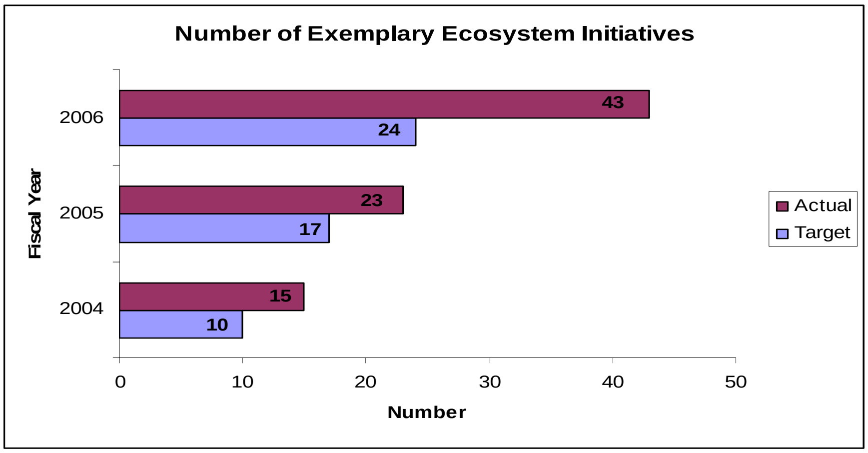
| Performance Measure | FY 2004 | FY 2005 | FY 2006 Target | FY 2006 preliminary | FY 2006 Goal Met? |
|---|---|---|---|---|---|
| Ratio of wetlands replaced for every acre affected by Federal-aid highway projects | 2.1 | 3.3 (r) | 1.5 | 2.6# | Met |
| Number of exemplary ecosystem initiatives | 15 | 23 | 24 | 43 | Met |
| 12-month moving average number of areas in a conformity lapse | 6.3 (r) | 5.8 (r) | 6.0 | 1.3* | Met |
| Median time in months for all Federal-aid Highway projects to have a completed Environmental Impact Statement (EIS) | 54 | 56 | 40 | 57 | Not Met |

(r) Revised; * Preliminary Estimate; # Projection by BTS

The Department's objective is to advance the benefits of transportation while minimizing its negative environmental impacts. In 2006, the Department's environmental programs prevented as much harm as possible from being done to the environment by transportation projects and operations.

**FHWA**

*Wetland Protection and Recovery:* Wetlands are important natural ecosystems that filter pollutants and minimize potential floodwater damage. In 1996, FHWA established a national policy on wetland protection that called for a net gain of wetlands in federally assisted projects. Over the past 10 years, considerable progress has been made throughout the country. An Exemplary Ecosystem Initiative (EEI) is an action or measure that will help sustain or restore natural systems and their functions and values, using an ecosystem or landscape context. Examples include mitigation projects that support wildlife movement and habitat connectivity, the development of watershed-based environmental assessment and mitigation approaches, the use of wetland banking, and the use of special measures to prevent invasive species along highway rights-of-way.




*2006 Results:* Federal-aid projects nationwide replaced wetlands at a ratio of 2.6 acres of compensatory wetland mitigation for every acre impacted. FHWA coordinated wetlands programs and research initiatives with other Federal agencies including the U.S. Environmental Protection Agency (EPA) and the U.S. Department of the Interior.

The FHWA met the FY 2006 goal for the number of Ecosystem Initiatives. It recognized 20 new EEI in 2006, exceeding by 13 the target of designating seven additional initiatives and bringing the total number that FHWA has designated thus far to 43. FHWA partnered with other Federal agencies and several states in developing *Ecological and Ecosystem Approach to Developing Infrastructure Projects.* This publication supports planning and mitigation of projects in a manner that protects the most critical resources in an ecosystem. These efforts enhance our ability to streamline environmental review processes and meet new needs and demands for mitigation of impacts to wetlands and other significant natural habitats, including species listed under the *Endangered Species Act,* as well as other wildlife species of special concern.

*FY 2007 Performance Forecast:* FHWA expects to exceed a revised performance target in FY 2007 for Exemplary Ecosystem Initiatives.

*Mobile Source Emission:* The National Ambient Air Quality Standards (NAAQS) target six major pollutants as among the most serious airborne threats to human health. Areas exceeding certain NAAQS, known as air-quality non-attainment areas, are required to meet transportation conformity requirements in the *Clean Air Act*. Failure to meet the requirements will put an area in a conformity lapse, during which only limited types of projects can proceed. The EPA has recently proposed new and revised NAAQS, which may subject more new non-attainment areas to conformity requirements.

On average, approximately six non-attainment and maintenance areas are in air-quality transportation conformity lapse in any given month. In FY 2006, the 12-month moving average number of areas in a conformity lapse was 1.3.

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

*Environmental Streamlining:* Project delays impede needed transportation system improvements and increase costs. Streamlining of environmental reviews and documentation is essential to mitigating time delays and implementing highway projects on a more timely and cost effective basis. The FHWA encourages states and resource agencies to establish and meet timelines for all projects with an EIS or Environmental Assessment (EA). The table below provides data related to the EIS completion.

| Median time in months required for all Federal-aid Highway projects to have a completed Environmental Impact Statement (EIS) | | | |
|---|---|---|---|
| | **FY 2004** | **FY 2005** | **FY 2006** |
| **Target** | 48 | 45 | 40 |
| **Actual** | 54 | 56 | 57 |

*FY 2006 Results:* The median time to complete an EIS for projects funded by the FHWA increased slightly from 56 months in FY 2005 to 57 months in FY 2006. The target for 2006 was not met.

*FY 2007 Performance Forecast:* Given recent trends and underlying causes of delays including a lack of funding and priority for projects, local controversy, and a combination of Federal and state environmental review delays, it is unlikely that FHWA will meet the target for median completion time for an EIS.

## SECURITY

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

Transportation security is equal in importance to transportation safety. The Department's objective is to contribute to homeland and national security by providing strategic mobility, and by working in tandem with the Department of Homeland Security to minimize the vulnerability of the U.S. transportation system to disruption, damage, or exploitation through crime or terrorism.

### Strategic Outcomes

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

### Departmental Performance Goals

1. Increase national defense capability.

Ensure sufficient contingency sealift and commercial outload ports are available to support Department of Defense mobilization requirements.

Although there were no specific performance measures assigned to the HTF OAs in support of this Strategic Objective, the following are actions the OAs took to improve the nation's transportation system security.

### FHWA

*Transportation Security:* FHWA worked closely with the Transportation Security Administration (TSA) in the development of the Transportation Sector Security Plan to ensure that highway-related security plans and standards reflect highway industry institutional knowledge and have industry support.

## FMCSA

FMCSA continues its activities to heighten the awareness and sensitivity of motor carriers transporting Hazardous Material (HAZMAT) to security threats, and to strengthen and support programs that ensure the safe and secure transport of HAZMAT. These activities include:

- Continuing to work with its state and Federal partners to expand and refine its network of contacts to communicate alerts to truck inspectors and the trucking industry.
- Training law enforcement and carriers in security awareness through its Trucks and Terrorism seminars
- Continuing to coordinate its HAZMAT permitting regulations with TSA
- Leading strike force activities in conjunction with: the U.S. Coast Guard; FRA; the U.S. Customs and Border Protection Agency; the Federal Aviation Administration; and state agencies in Chicago, IL; Wilmington, NC; Jacksonville, FL; Savannah, GA; Charleston, SC; and at Dulles Airport, VA, aimed at improving safety, security, and identifying undeclared shipments of HAZMAT.
- Enhancing data collection through extensive involvement in inter-OA efforts to create a unified HAZMAT inspection and enforcement database
- Leading a cross OA HAZMAT working group to determine the Department's HAZMAT training requirements.
- Continuing to provide training and educational material to state agencies and industry on developing security plans

## ORGANIZATIONAL EXCELLENCE

Advance the Department's ability to manage for results and achieve the goals of the PMA.

The Department continues improve the design of our organization to better achieve our strategic goals. Through strategic planning, customer focus, and the analysis of information, we create our objectives, measures, and plans. We manage our processes and human resources to implement the plans, and we measure results to gauge our progress annually.

### Strategic Outcomes

- Strategic management of human capital
- Improved financial management

### Departmental Performance Goals

1. Achieve strategic management of human capital
2. Achieve Financial Performance Goals

Samples of some OA accomplishments in the area of organizational excellence are described below.

**FHWA**

The Department implemented programs to increase hiring in mission-critical occupations. Recruiters were able to target diverse candidates with valuable competencies. OA hiring from the pool of candidates were satisfied with the additions the workforce. The program's success doubled in FY 2006.

Workforce planning was also an important initiative during FY 2006. The department recognized and closed or narrowed competency gaps fields such as IT and succession plans were mapped out for several disciplines.

The target for closing critical competency gaps in financial management through targeted hiring was met.

**FTA**

People with disabilities were placed in internships, many of whom where subsequently appointed to permanent full-time or long-term positions. FTA earned recognition from the Northern Virginia Department of Rehabilitative Services and "Employer of the Year".

FTA also completed the majority of its cost accounting implementation using a commercial-off the-shelf software package. They have provided the Executive Management Team with preliminary reports from the new system and plan to finalize the reports in November 2006.

## ANALYSIS OF FINANCIAL STATEMENTS

The table below provides the significant financial highlights of FY 2006 for the HTF (in thousands):

| End of Year HTF Financial Data | FY 2006 (Earmarked Funds) |
|---|---|
| Fund Balance With Treasury | $4,431,555 |
| Investments | 10,997,655 |
| Accounts Receivable, Net | 38,564 |
| Plant, Property and Equipment, Net | 101,070 |
| Advances and Prepayments | 191,346 |
| **Total Assets** | **$15,760,190** |
| | |
| Accounts Payable | $112,383 |
| Federal Employee Benefits | 11,974 |
| Grant Accrual | 3,556,098 |
| Other Liabilities | 208,145 |
| **Total Liabilities** | **$3,888,600** |
| | |
| **Net Position** | **$11,871,590** |
| | |
| **Total Budgetary Resources for the Year** | **$78,033,599** |
| | |
| Non-Exchange Revenues | $38,780,358 |
| | |
| Gross Costs | $37,203,191 |
| Exchange Revenues | 61,846 |
| **Total Net Costs** | **$37,141,345** |

### FY 2006 Continuing Resolutions

The Transportation Appropriations bill was passed by Congress on November 18th and signed by the President on November 30th. FHWA was under the first two continuing resolutions:

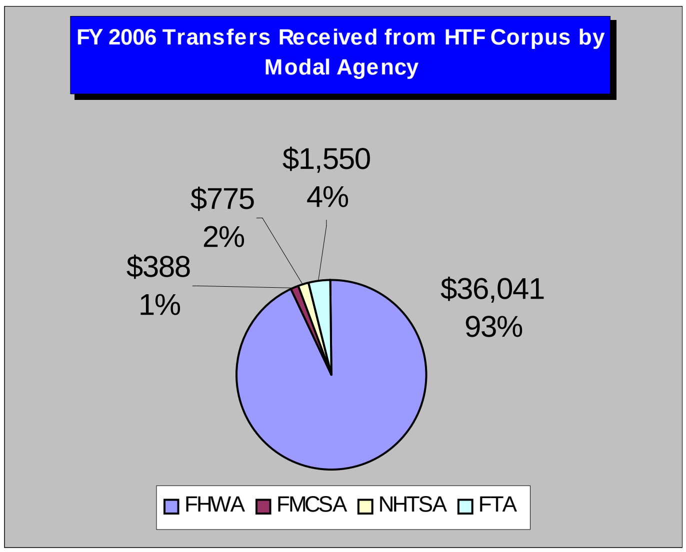
H.J. Res. 68: CR through November 18, 2005
H.J. Res. 72: CR through December 17, 2005

The HTF financial statements, which appear in the Financial Section of this Report, received an unqualified opinion issued by the independent public accounting firm of KPMG LLP. Preparing these statements is part of the HTF's goal to improve financial management and to provide accurate and reliable information that is useful for assessing performance and allocating resources. Management of each OA 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 HTF in conformity with accounting principles generally accepted in the United States of America (GAAP). The Federal Accounting Standards Advisory Board (FASAB) prescribes GAAP for Federal entities.

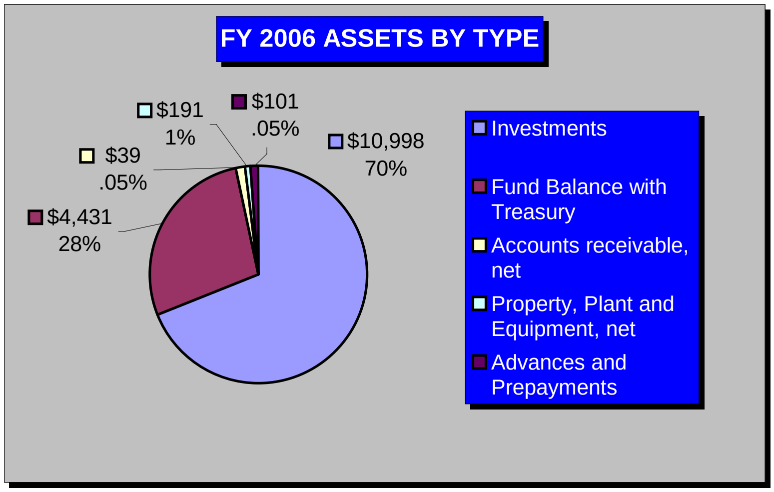
### Overview of Financial Position

The following chart depicts the percentage of dollars distributed from HTF Corpus to the Operating Agency's for FY 2006 (in millions):



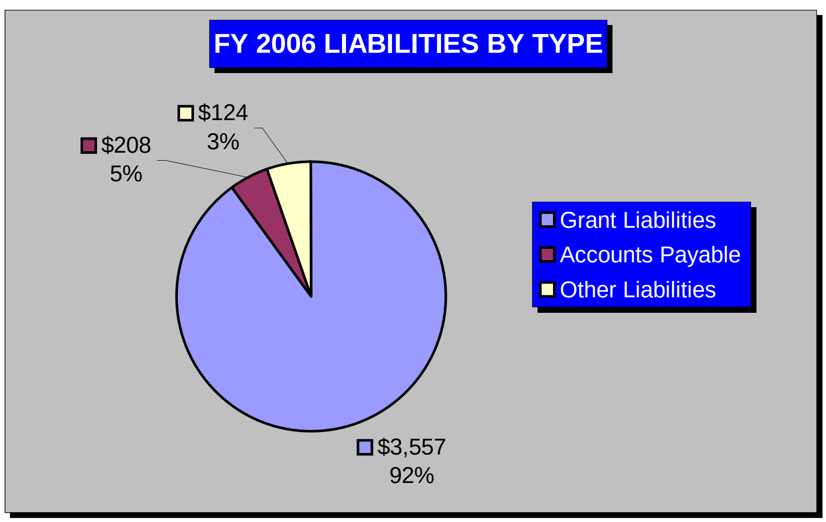

***Assets:*** The Consolidated Balance Sheet shows the HTF had total assets of $15.8 billion at the end of FY 2006. This is an increase of $3 billion (23.4 percent) from the previous year's total assets of $12.8 billion. This increase is primarily due to the result of the increase in investments ($2.7 billion). Increases in investments are generally due to continued economic growth. Growth in highway travel and increased fuel consumption is closely aligned with growth in the gross domestic product.

The HTF's assets reflected in the Consolidated Balance Sheet are summarized in the following chart *(dollars in millions):*




Investments and Fund Balance with Treasury comprise over 97% of total assets for FY's 2006. Investments consist entirely of U.S. Government non-interest bearing securities held in the HTF Corpus.

***Liabilities:*** The HTF had liabilities of $3.9 billion at the end of FY 2006, which is reported in the Consolidated Balance Sheet and summarized in the following chart *(dollars in millions):*




Liabilities increased by $1.3 billion (50 percent) from the previous year's total liabilities of $2.6 billion. This increase is primarily due to the result of the increase in grant liabilities ($1.2 billion). Grant liabilities represent an accrual for costs incurred by grantees that have not been reimbursed by the operating administrations.

***Ending Net Position:*** The HTF's Net Position at the end of FY 2006 was $11.9 billion. This was an insignificant increase from the prior year's total of $10.2 billion. This amount is reflected on the Consolidated Balance Sheet and Statement of Changes in Net Position.

***Non-Exchange Revenues:*** The HTF's non-exchange revenues at the end of FY 2006 were $38.8 billion. This was an insignificant increase from the prior year's total of $37.9 billion. This amount is reflected on the Consolidated Statement of Changes in Net Position.

***Net Costs:*** The HTF's Net Costs at the end of FY 2006 was $37.1 billion, which was an increase of $4.9 billion (15.2 percent) from the previous year's total of $32.2 billion. Due to the continuing resolutions and a delay in the reauthorization of SAFETEA-LU, the majority of the Federal-aid programs were not able to allocate a significant portion of FY 2005 funding until FY 2006. The effect of these events resulted in increased in expenditures for FY 2006.

## Limitation of Financial Statements

Management prepares the accompanying financial statements to report the financial position and results of operations for the Highway Trust Fund pursuant to the requirements of United States Code Title 31, section 3515(b).

The HTF has adopted provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, Identifying and Reporting Earmarked Funds, which became effective October 1, 2005. This new standard amended SFFAS No. 7, Revenue and Other Financing Sources, by: elaborating the special accountability needs associated with dedicated collections; separating dedicated collections into two categories --- earmarked funds and fiduciary activity; and defining and providing accounting and reporting guidance for earmarked funds. In adopting the new standard, the HTF considers all of its activities related to earmarked funds.

While these statements have been prepared from the books and records of the HTF in accordance with the formats prescribed in OMB Circular A-136, *Financial Reporting Requirements*, these statements are in addition to the financial reports used to monitor and control the budgetary resources that are prepared from the same books and records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation and ongoing operations are subject to the enactment of appropriations

## SUMMARY

This overview of the HTF is designed to inform all stakeholders of the significant efforts underway to demonstrate sound fiscal and management practices to exercise good stewardship of the taxpayer dollars entrusted to DOT. While this document focuses on overall management efforts, challenges and accomplishments, additional information can be found in the DOT Performance and Accountability Report.

**UNITED STATES DEPARTMENT OF TRANSPORTATION –**
**HIGHWAY TRUST FUND**

For the Year Ended September 30, 2006

## Table of Contents

**Department of Transportation**
**Highway Trust Fund**
**Consolidated Balance Sheet**
**As of September 30, 2006**
**(Dollars in Thousands)**

| | |
|---|---|
| **Assets:** | |
| **Intragovernmental:** | |
| Fund Balance with Treasury | $ 4,431,555 |
| Investments | 10,997,655 |
| Accounts Receivable | 30,536 |
| Advances and Prepayments (Note 3) | 72,364 |
| **Total Intragovernmental** | 15,532,110 |
| | |
| Accounts Receivable | 8,028 |
| General Property, Plant and Equipment, Net (Note 2) | 101,070 |
| Advances and Prepayments (Note 3) | 118,982 |
| | |
| **Total Assets** | $ 15,760,190 |
| | |
| **Liabilities:** | |
| **Intragovernmental:** | |
| Accounts Payable | $ 40,438 |
| Other (Note 6) | 112,096 |
| **Total Intragovernmental** | 152,534 |
| | |
| Accounts Payable | 71,945 |
| Federal Employee Benefits (Note 5) | 11,974 |
| Grant Liability | 3,556,098 |
| Other (Note 6) | 96,049 |
| **Total Liabilities (Note 4)** | 3,888,600 |
| | |
| **Net Position:** | |
| Cumulative Results of Operations - Earmarked Funds | 11,871,590 |
| | |
| **Total Liabilities and Net Position** | $ 15,760,190 |

**The accompanying notes are an integral part of these financial statements.**

**Department of Transportation**
**Highway Trust Fund**
**Consolidated Statement of Net Cost**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | |
|---|---|
| **Program Costs:** | |
| **Federal-aid Highway Program:** | |
| Gross Costs | $ 33,584,630 |
| Less: Earned Revenues | (32,318) |
| **Net Program Costs** | 33,552,312 |
| **Mass Transit Program:** | |
| Gross Costs | 2,524,944 |
| Less: Earned Revenues | (109) |
| **Net Program Costs** | 2,524,835 |
| **Other Surface Transportation Programs:** | |
| Gross Costs | 1,093,617 |
| Less: Earned Revenues | (29,419) |
| **Net Program Costs** | 1,064,198 |
| **Net Cost of Operations (Note 9)** | $ 37,141,345 |

**The accompanying notes are an integral part of these financial statements.**

**Department of Transportation**
**Highway Trust Fund**
**Consolidated Statement of Changes in Net Position**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | Cumulative Results of Operations - Earmarked Funds |
|---|---|
| **Beginning Balances** | $ 10,231,428 |
| **Budgetary Financing Sources:** | |
| Other Adjustments (Rescissions, etc.) | (48,206) |
| Nonexchange Revenue (Note 7) | 38,780,358 |
| Transfers-In/Out Without Reimbursement | 20,679 |
| **Other Financing Sources:** | |
| Imputed Financing From Costs Absorbed by Others | 28,676 |
| **Total Financing Sources** | 38,781,507 |
| **Net Cost of Operations** | 37,141,345 |
| Net Change | 1,640,162 |
| **Ending Balances** | $ 11,871,590 |

**The accompanying notes are an integral part of these financial statements.**

**Department of Transportation**
**Highway Trust Fund**
**Combined Statement of Budgetary Resources**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | | |
|---|---|---|
| **BUDGETARY RESOURCES** | | |
| Unobligated balance: | | |
| Brought Forward, October 1 | $ | 34,810,329 |
| Recoveries of Prior Year Unpaid Obligations | | 59,745 |
| Budget Authority: | | |
| Appropriations | | 38,757,933 |
| Contract Authority | | 47,282,612 |
| Spending Authority from Offsetting Collections: | | |
| Earned: | | |
| Collected | | 81,483 |
| Change in Receivable from Federal Sources | | (5,397) |
| Change in Unfilled Customer Orders | | |
| Advances Received | | (6,518) |
| Without Advance from Federal Sources | | 72,001 |
| Expenditure Transfer from Trust Funds | | 13,303 |
| Temporarily Not Available Pursuant to Public Law (Note 10) | | 9,670 |
| Permanently Not Available | | (43,041,562) |
| **Total Budgetary Resources** | $ | 78,033,599 |
| **STATUS OF BUDGETARY RESOURCES** | | |
| Obligations Incurred: | | |
| Direct | $ | 38,601,281 |
| Reimbursable | | 74,256 |
| Subtotal | | 38,675,537 |
| Unobligated Balance: | | |
| Apportioned | | 17,796,167 |
| Exempt from Apportionment | | 1,125 |
| Subtotal (Note 10) | | 17,797,292 |
| Unobligated Balance Not Available (Note 10) | | 21,560,770 |
| **Total Status of Budgetary Resources** | $ | 78,033,599 |

Continued…

**Department of Transportation**
**Highway Trust Fund**
**Combined Statement of Budgetary Resources**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | | |
|---|---|---|
| **CHANGE IN OBLIGATED BALANCES** | | |
| Obligated Balance, net: | | |
| Unpaid Obligations, Brought Forward, October 1 | $ | 45,152,621 |
| Uncollected Customer Payments from Federal Sources, Brought Forward October 1 | | (41,184) |
| Total Unpaid Obligated Balances Brought Forward, net | | 45,111,437 |
| Obligations Incurred | | 38,675,537 |
| Gross Outlays | | (35,952,133) |
| Recoveries of Prior-Year Unpaid Obligations | | (59,745) |
| Change in Uncollected Customer Payments from Federal Sources | | (66,604) |
| Obligated Balance, net, End of Period: | | |
| Unpaid Obligations | | 47,816,280 |
| Uncollected Customer Payments from Federal sources | | (107,788) |
| Total, Unpaid Obligated Balance, net, End of Period | $ | 47,708,492 |
| **NET OUTLAYS** | | |
| Net Outlays: | | |
| Gross Outlays | $ | 35,952,133 |
| Less: Offsetting Collections | | (88,268) |
| Less: Distributed Offsetting Receipts | | (36,932) |
| Net Outlays | $ | 35,826,933 |

**The accompanying notes are an integral part of these financial statements.**

**Department of Transportation**
**Highway Trust Fund**
**Consolidated Statement of Financing**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | |
|---|---|
| **Resources Used to Finance Activities:** | |
| **Budgetary Resources Obligated** | |
| Obligations Incurred | $ 38,675,537 |
| Less: Spending Authority from Offsetting Collections and Recoveries | (214,617) |
| Obligations Net of Offsetting Collections and Recoveries | 38,460,920 |
| Less: Distributed Offsetting Receipts | (36,932) |
| Net Obligations | 38,423,988 |
| **Other Resources** | |
| Imputed Financing From Costs Absorbed by Others | 28,676 |
| Total Resources Used to Finance Activities | 38,452,664 |
| **Resources Used to Finance Items Not Part of the Net Cost of Operations** | |
| Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided | 1,216,355 |
| Resources That Fund Expenses Recognized in Prior Periods | 55,599 |
| Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations: | |
| Other Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operation | (14,889) |
| Resources That Finance the Acquisition of Assets | 6,182 |
| Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations (Expenditure Transfers | 69,476 |
| Total Resources Used to Finance Items Not Part of the Net Cost Of Operations | 1,332,723 |
| Total Resources Used to Finance the Net Cost of Operations | 37,119,941 |
| **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 | 1,404 |
| Increase in Unfunded Employee Related Liabilities and Other | 14,704 |
| Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods | 16,108 |
| **Components Not Requiring or Generating Resources:** | |
| Depreciation and Amortization | 546 |
| Revaluation of Assets or Liabilities | 1,030 |
| Costs of Goods Sold and Other | 3,720 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources | 5,296 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | 21,404 |
| **Net Cost of Operations** | $ 37,141,345 |

**The accompanying notes are an integral part of these financial statements.**

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation

The financial statements of the Highway Trust Fund (HTF) are comprised of the Highway Corpus Trust Fund (Corpus), held by the U.S. Department of Treasury Bureau of Public Debt (BPD), and certain accounts of the following Operating Administrations (Agencies) of the Department of Transportation (DOT): Federal Highway Administration (FHWA), Federal Motor Carrier Safety Administration (FMCSA), Federal Transit Administration (FTA), National Highway Traffic Safety Administration (NHTSA), Pipeline and Hazardous Materials Safety Administration (PHMSA), Research and Innovative Technology Administration (RITA), Office of the Secretary of Transportation (OST), Maritime Administration (MARAD), and Federal Railroad Administration (FRA) as well as the activity of certain funds allocated to other Federal agencies as described in Note 1.S.

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources, and the reconciliation of net cost to budgetary resources.

The financial statements have been prepared from the books and records of the DOT Agencies, the U.S. Department of the Treasury, BPD, and certain other Federal agencies as described in Note 1.S. Such financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and the form and content requirements specified by the Office of Management and Budget (OMB) Circular No. A-136 - *Financial Reporting Requirements*. U.S. generally accepted accounting principles (GAAP) for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated as the official accounting standards-setting body for the U.S. Federal Government by the American Institute of Certified Public Accountants.

The statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

DOT has received a waiver from OMB to produce comparative financial statements as part of the HTF fiscal year 2006 financial statements due to the impact of certain legislation, which as described in the second paragraph of Note 1B below, resulted in a material amount of program costs reported in FY 2006 that were not reported in FY 2005.

### B. Reporting Entity

For purposes of these financial statements, the principal reporting entity is the HTF, not the performing agencies, and all assets are considered "entity assets." The financial statements report activity for all relevant HTF funds included in the DOT's surface transportation budget function category. The HTF was created in 1956 with the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. Over the years, use of the fund has been expanded to include mass transit and other surface transportation programs such as highway and motor carrier safety programs.

Prior to FY 2006, the FTA's Formula and Bus grants program, funded by the mass transit account as well as direct appropriations from the Treasury general receipts account, which was included in the non-HTF appropriation accounts of the DOT's budget and, therefore, was not included in the HTF financial statements. On August 10, 2005, the President signed into law the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). As a result of this legislation, this program is now 100 percent funded by the mass transit account, included in DOT's HTF budgetary accounts and, therefore, included in HTF's financial statements in FY 2006.

## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Budgets and Budgetary Accounting

Programs are financed from authorizations enacted in highway and transit authorizing legislation and codified in Title 23 United States Code (U.S.C.). The HTF 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 U.S.C., Subtitle III by the Secretary of Transportation for highway and transit construction activities in advance of the liquidation of appropriations are available for a specific time period.

Within HTF's bugetary accounts, the major programs consist of the Federal-aid Highway Program (FAHP) and the Mass Transit Program. The FAHP provides Federal financial assistance to the States to construct and improve the National Highway System (NHS), urban and rural roads, and bridges. Annual appropriation laws establish the level of obligations, which States can obligate against their FAHP account in any single year. The Mass Transit Program was created within the HTF effective April 1, 1983 to fund transit needs such as FTA's Formula and Bus Grants program, which is also held to the same aforementioned annual appropriation laws. Obligations are incurred based on these annual limitations under allotment control procedures and recognized appropriately under Category B apportionment categories as either direct or reimbursable. Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

### D. Basis of Accounting

Agencies use both the accrual basis and budgetary basis of accounting to record transactions. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary account balances are included in certain statements as appropriate. Budgetary accounting principles ensure that funds are obligated according to legal requirements. Balances on these statements may therefore differ from those on financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control the Agencies' use of budgetary resources.

All material intra-HTF Agency 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 No. A-136.

Intragovernmental transactions and balances result from exchange transactions made between the HTF Agencies and another Federal government reporting entity, while those classified as "with the public" result from exchange transactions between the HTF Agencies and non-Federal entities. For example, if the HTF Agencies purchase goods or services from the public and sell them to another Federal entity, the costs would be classified as "with the public," but the related revenue would be classified as "intragovernmental." This could occur, for example, when the HTF Agencies provide good or services to another Federal governement 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.

## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### D. Basis of Accounting Continued

The HTF has adopted provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds* , which became effective October 1, 2005. This new standard amended SFFAS No. 7, *Revenue and Other Financing Sources*, by: elaborating the special accountability needs associated with dedicated collections; separating dedicated collections into two categories --- earmarked funds and fiduciary activity; and defining and providing accounting and reporting guidance for earmarked funds. In adopting the new standard, the HTF considers all of its activities related to earmarked funds.

### E. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from those estimates. Estimates will be adjusted with actual amounts in the year such actual amounts are known. Significant estimates include the recognition of non-exchange revenue as described in Note 1.F and the accrual of grants payable.

### F. Revenue and Other Financing Sources

Substantially all programs and activities covered by these financial statements are financed from non-exchange revenue related to excise taxes collected on specific motor fuels and trucks. Such collections are recognized as revenue when allocated to the Corpus HTF account by the U.S. Treasury. Congress enacts annual, multi-year, and no-year appropriations of these collections to be used, within statutory limits, for operating, capital, and grant expenditures. A small portion of activities is financed from offsetting collections for reimbursable work performed under agreement with other agencies.

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 trust funds. Therefore, the U.S. Treasury makes initial semi-monthly distributions to trust funds based on estimates prepared by its Office of Tax Analysis (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 six 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 account.

The HTF's September 30, 2006 financial statements reflect excise taxes certified by the IRS through March 31, 2006 and excise taxes estimated by OTA for the period April 1 to September 30, 2006 as specified by SFFAS Number 7, *Accounting for Revenue and Other Financing Sources* . Actual tax collections data for the two quarters ended June 30, 2006 and September 30, 2006 will not be available from the IRS until December 2006 and March 2007, respectively. Management does not believe that the actual tax collections for the quarters ended June 30, 2006 and September 30, 2006 will be materially different than the OTA estimate.

The HTF recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on the HTF's behalf by the Office of Personnel Management (OPM), as well as amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the HTF.

## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### G. Funds with the U. S. Treasury and Cash

The U.S. Treasury processes cash receipts and disbursements. Most Federal agencies receive appropriations as budget authority, which permits them to incur obligations and make outlays (payments). HTF Agencies, however, receive contract authority that permits them to incur obligations in advance of an appropriation. Subsequently, the contract authority is replaced with the appropriation or the spending authority from the offsetting collections to cover the obligations and then liquidate the obligations. Therefore, HTF Agencies do not have typical Fund Balance with Treasury (FBWT) amounts as funds remain invested in securities until needed to make payments and the entire FBWT amount is considered *Obligated But Not Yet Disbursed* .

### H. Investments in U. S. Government Securities

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 general Government purposes. Treasury securities are issued to the HTF as evidence of its receipts. Treasury securities are an asset to the HTF and a liability to the U.S. Treasury. Because the HTF and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the HTF with authority to draw upon the U.S. Treasury to make future expenditures. When the HTF 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.

As provided by Section B of the Comparison of Transportation Revenue and Related Provisions of House of Representatives 2400, the Highway Trust Fund investments consist of non-marketable par value U.S. Treasury securities that are non-interest bearing.

### I. Accounts Receivable

Accounts receivable are generally reported net of an allowance for uncollectible accounts. As of September 30, 2006, the HTF has not recorded an allowance as all the receivables are deemed collectable at this time.

### J. Property and Equipment

Property and equipment purchases are valued at cost and are capitalized when the cost is $25 thousand or more with a useful life of more than two years.

Depreciation on equipment, buildings and capital improvements is computed using the straight-line method based on the useful life of the assets with one-half year's depreciation taken in the year of acquisition. Property and equipment is depreciated as follows: Equipment over the useful life, ranging from three to five years, automated data processing software for five years, and structures, facilities and capital improvements ranging for thirty years. Useful life criteria for all property is based on an Internal Revenue Service classification system.

## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### K. Liabilities

Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources are dependent on future congressional appropriations or other funding. Intragovernmental liabilities represent amounts due to other Federal entities.

### L. Accounts Payable

Accounts payable are amounts the HTF entities owe to other Federal agencies and the public. Accounts payable to Federal agencies generally consist of amounts due under inter-agency reimbursable agreements. Accounts payable to the public primarily consist of amounts incurred, but not yet claimed, by the HTF contract recipients and unpaid goods and services received by HTF Agencies.

### M. Grant Liability

The grant liability consists of an estimate of grantee expenses incurred but not yet paid by the HTF Agencies. Grantees primarily include state and local governments and transit authorities.

### N. 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 at year-end. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements. Funding will be obtained from future financing sources to the extent that current or prior year revenues are not available to fund annual and other types of vested leave earned, but not taken. Non-vested leave is expensed when used.

### O. Federal Employee Benefits

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 Agencies will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future revenues will be used for the reimbursement to 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 the FECA.

## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### P. Retirement Plans

The majority of employees whose salaries are paid from the HTF participate in the Federal Employees Retirement System (FERS). Other employees participate in the Civil Service Retirement System (CSRS). FERS went into effect pursuant to Pubic Law 99-335 on January 1, 1984. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agencies automatically contribute one percent of pay and match any employee contribution up to an additional 4 percent of pay. Employees, who participate in CSRS, make contributions equal to 7 percent of their pay that is matched by the Agencies.

For most employees hired since December 31, 1983, Agencies also contribute the employer's matching share for Social Security. Agencies do not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM).

GAAP requires that employing agencies recognize the full cost of pensions, health and life insurance benefits, during their employees' active years of service. OPM, as the administrator of the CSRS and FERS plans, the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program, must provide the "cost factors" that adjust the agency contribution rate to the full cost for the applicable benefit programs. Accordingly, an imputed financing source and corresponding imputed personnel cost are reflected in the Statements of Changes in Net Position, Net Cost, and Financing, respectively. These imputed balances do not affect the net position of HTF.

### Q. Taxes

The HTF Agencies are not subject to Federal, State or local income taxes and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

### R. Contingencies

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to a possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable. For other contingencies, a liability is recognized when similar events occur except that the future outflow or other sacrifice of resources is more likely than not.

### S. Recipient (child) allocations

HTF's funds are allocated to 17 non-DOT Federal agencies in accordance with applicable public laws and statutes. Except for the proprietary activity related to the funds allocated to the U.S. Army Corps of Engineers and U.S. Forest Service, all activity and balances related to these allocations are reported in the HTF financial statements.

**(Dollars in Thousands)**

## NOTE 2 – PROPERTY, PLANT AND EQUIPMENT

Property and Equipment at September 30, 2006 is summarized as follows:

| | Estimated Useful Life | Acquisition Cost | Accumulated Depreciation | Book Value |
|---|---|---|---|---|
| Land & Land Improvements | 30 | $ 36 | - | 36 |
| Buildings and structure | 30 | 41,061 | - | 41,061 |
| Furniture and equipment | 3-5 | 55,112 | 25,827 | 29,285 |
| Software | 5 | 682 | 248 | 434 |
| Construction in progress | N/A | 30,254 | - | 30,254 |
| **Total** | | $ 127,145 | 26,075 | 101,070 |

## NOTE 3 – OTHER ASSETS

Other assets at September 30, 2006 are summarized as follows:

| | |
|---|---|
| Intragovernmental – Advances and Prepayments | $ 72,364 |
| | |
| With the Public: | |
| Advances to States for Right-of-Way | 96,479 |
| Other Advances and Prepayments | 22,503 |
| Subtotal | 118,982 |
| | |
| **Total** | $ 191,346 |

## NOTE 4. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:

Liabilities Not Covered by Budgetary Resources as of September 30, 2006 are as follows:

| | | |
|---|---|---|
| Intragovernmental - Other Liabilities, Non-Current (Note 6) | $ | 3,404 |
| Federal Employee Benefits Payable (Note 5) | | 11,974 |
| Other Liabilities (Public) - Accrued Pay & Benefits, Non-Current (Note 6) | | 44,382 |
| Total Liabilities Not Covered by Budgetary Resources | | 59,760 |
| Total Liabilities Covered by Budgetary Resources | | 3,828,840 |
| **Total Liabilities** | $ | 3,888,600 |

## NOTE 5 - FEDERAL EMPLOYEE BENEFITS

The Department of Labor calculates the FECA liability for DOT as a whole. DOT allocates the liability amount to the HTF Agencies based upon actual worker's compensation payments to the HTF Agency employees over the preceding four years. 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 agencies by the Department of Labor for FECA payments made on the agencies' behalves. The funding for the liability will be made from a future appropriation. This intergovernmental amount is not an actuarial liability.

The total components of accrued FECA payables as of September 30, 2006 consisted of the following:

| | |
|---|---|
| Intragovernmental Liability for FECA (Note 6) | $ 3,631 |
| Expected Future Liability for FECA (Note 4) | 11,974 |
| **Total** | $ 15,605 |

**(Dollars in Thousands)**

## NOTE 6. OTHER LIABILITIES:

Other liabilities as of September 30, 2006 are summarized as follows:

**Intragovernmental:**

| | Non-Current | Current | Total |
|---|---|---|---|
| Advances and Prepayments | $ - | 103,071 | 103,071 |
| Accrued Pay and Benefits | 234 | 5,757 | 5,991 |
| Federal Employees Compensation Act (FECA) (Note 5) | 3,170 | 461 | 3,631 |
| Other | - | (597) | (597) |
| Total Intragovernmental Other Liabilities (Note 4) | $ 3,404 | 108,692 | 112,096 |

**Public:**

| | Non-Current | Current | Total |
|---|---|---|---|
| Other Accrued Unbilled Payments | $ - | 1,709 | 1,709 |
| Accrued Pay and Benefits | 44,382 | 13,306 | 57,688 |
| Advances and Prepayments | - | 18,616 | 18,616 |
| Other | - | 18,036 | 18,036 |
| Total Public Other Liabilities (Note 4) | $ 44,382 | 51,667 | 96,049 |

**(Dollars in Thousands)**

## NOTE 7 – EXCISE TAXES AND NON-EXCHANGE REVENUE

For the year ended September 30, 2006, excise taxes and associated non-exchange revenue, reported on the Statement of Changes in Net Position, was as follows:

| | | |
|---|---|---|
| Excise taxes (transferred from the general fund of the U.S. Treasury): | | |
| Diesel and special motor fuels | $ | 9,906,181 |
| Trucks | | 5,510,705 |
| Gasoline | | 24,667,951 |
| Fines and penalties | | 10,961 |
| Total taxes | | 40,095,798 |
| Less transfers | | (448,313) |
| Gross taxes | | 39,647,485 |
| Less refunds of taxes (reimbursed to the general fund of the U.S. Treasury): | | (883,155) |
| Total excise taxes | | 38,764,330 |
| Other non-exchange revenue | | 16,028 |
| **Total Excise Taxes and Non-Exchange Revenue** | $ | 38,780,358 |

## NOTE 8 – CONTINGENCIES

FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such project, at which time FHWA can accept or reject such request. For the year ended September 30, 2006, FHWA has pre-authorized $44.8 billon under these arrangements; however, no liability is reflected in the HTF financial statements at September 30, 2006.

There are legal actions pending against the HTF Agencies in Federal courts in which claims have been asserted that may be based on action taken by the Agencies. Management intends to vigorously contest such claims. Management believes, based on information provided by legal counsel, that losses, if any, for these cases would not have a material impact on the financial statements and no loss accrual has been made for these cases outstanding as of September 30, 2006 due to this fact.

**(Dollars in Thousands)**

## NOTE 9 - STATEMENT OF NET COST DISCLOSURES:

For the year ended September 30, 2006, the intragovernmental and public costs and earned revenue are summarized below by major budgetary program and responsibility segment. All net costs related to allocation transfers from FHWA to other DOT and non-DOT agencies are included below in the FHWA (Federal-aid Highway Program) due to immateriality.

| | FHWA | FTA | NHTSA | FMCSA | Total |
|---|---|---|---|---|---|
| **Federal-aid Highway Program:** | | | | | |
| Intragovernmental Gross Costs | $ 255,394 | - | - | - | 255,394 |
| Gross Costs with the Public | 33,329,236 | - | - | - | 33,329,236 |
| Total Gross Costs | 33,584,630 | - | - | - | 33,584,630 |
| Less: Intragovernmental Earned Revenue | (11,954) | - | - | - | (11,954) |
| Less: Earned Revenues from the Public | (20,364) | - | - | - | (20,364) |
| Total Earned Revenue | (32,318) | - | - | - | (32,318) |
| Total Program Net Cost of Operations | 33,552,312 | - | - | - | 33,552,312 |
| **Mass Transit Program:** | | | | | |
| Intragovernmental Gross Costs | - | 23 | - | - | 23 |
| Gross Costs with the Public | - | 2,524,921 | - | - | 2,524,921 |
| Total Gross Costs | - | 2,524,944 | - | - | 2,524,944 |
| Less: Intragovernmental Earned Revenue | - | (109) | - | - | (109) |
| Less: Earned Revenues from the Public | - | - | - | - | - |
| Total Earned Revenue | - | (109) | - | - | (109) |
| Total Program Net Cost of Operations | - | 2,524,835 | - | - | 2,524,835 |
| **Other Surface Transportation Programs:** | | | | | |
| Intragovernmental Gross Costs | 24,705 | - | 56,909 | 86,682 | 168,296 |
| Gross Costs with the Public | 132,303 | - | 439,704 | 353,314 | 925,321 |
| Total Gross Costs | 157,008 | - | 496,613 | 439,996 | 1,093,617 |
| Less: Intragovernmental Earned Revenue | (10,687) | - | (13,187) | (3,427) | (27,301) |
| Less: Earned Revenues from the Public | - | - | (9) | (2,109) | (2,118) |
| Total Earned Revenue | (10,687) | - | (13,196) | (5,536) | (29,419) |
| Total Program Net Cost of Operations | 146,321 | - | 483,417 | 434,460 | 1,064,198 |
| **Total Net Cost of Operations** | $ 33,698,633 | 2,524,835 | 483,417 | 434,460 | 37,141,345 |

**(Dollars in Thousands)**

## NOTE 10 – STATEMENT OF BUDGETARY RESOURCES DISCLOSURES:

| | |
|---|---|
| Available Contract Authority, End of Period | $ 17,797,292 |
| Unobligated balances of budgetary resources of unexpired accounts are available in subsequent years upon apportionment from OMB, and are subject to the obligation limitation contained in DOT Appropriations Acts. As a result of the obligation limitation, at September 30, 2006 this amount was not available for obligation. | $ 21,560,770 |
| Undelivered Orders, End of the Period | $ 44,060,178 |

The amounts reported for undelivered orders only includes balances obligated for goods and services not delivered and does not include prepayments.

The amount reported as Temporarily Not Available Pursuant to Public Law of $9,670 relates to the correction of certain system conversion balances. The appropriate amount was reflected in the FY2005 budget in MAX and therefore must be reported as an adjustment to the balance carried forward as reported in FACTS II in FY2006. MAX is OMB's budgetary data entry system. The Federal Agencies' Centralized Trial-Balance System (FACTS II) is a computer program that allows agencies to submit one set of accounting data. This data includes mostly budgetary information that is required for the Report on Budget Execution and Budgetary Resources (SF 133), the Year-End Closing Statement (FMS 2108), and much of the initial data that will appear in the prior year column of the Program and Financing (P&F) Schedule of the President's Budget.

The FY 2008 enacted budget of the United States has not been finalized. The President's Budget of the United States for "actuals" of FY 2006 will not be published until February 2007. Therefore, the HTF Agencies are unable to confirm if differences exist between the information required by SFFAS No. 7 and the amounts described as "actual" for FY 2006 in the FY 2008 Budget of the United States.

# REQUIRED SUPPLEMENTARY INFORMATION (RSI)

**Department of Transportation**
**Highway Trust Fund**
**Required Supplementary Information (RSI)**
**Combining Statement of Budgetary Resources by Major Budget Account**
**For The Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | 69-X-8083 (Federal-aid Highway Program) | 69-X-8350 (Mass Transit Program) | All Other Major Budget Accounts | Total |
|---|---|---|---|---|
| **BUDGETARY RESOURCES** | | | | |
| Unobligated Balance: | | | | |
| Brought Forward, October 1 | $ 34,383,061 | $ 28,661 | $ 398,607 | $ 34,810,329 |
| Recoveries of Prior Year Unpaid Obligations | - | - | 59,745 | 59,745 |
| Budget Authority: | | | | |
| Appropriations | 36,016,628 | 1,500,000 | 1,241,305 | 38,757,933 |
| Contract Authority | 39,114,181 | 6,979,931 | 1,188,500 | 47,282,612 |
| Spending Authority from Offsetting Collections | | | | |
| Earned | | | | |
| Collected | 43,643 | - | 37,840 | 81,483 |
| Change in Receivables from Federal Sources | (5,104) | - | (293) | (5,397) |
| Change in Unfilled Customer Orders | | | | |
| Advances Received | (170) | - | (6,348) | (6,518) |
| Without Advances from Federal Sources | 69,695 | - | 2,306 | 72,001 |
| Expenditure Transfer from Trust Funds: | - | 2,616 | 10,687 | 13,303 |
| Nonexpenditure Transfers, net: | (1,514,259) | 1,367,756 | 146,503 | - |
| Temporarily Not Available Pursuant to Public Law | - | - | 9,670 | 9,670 |
| Permanently Not Available: | (40,261,457) | (1,569,799) | (1,210,306) | (43,041,562) |
| **Total Budgetary Resources** | $ 67,846,218 | $ 8,309,165 | $ 1,878,216 | $ 78,033,599 |
| **STATUS OF BUDGETARY RESOURCES** | | | | |
| Obligations Incurred: | | | | |
| Direct | $ 32,466,412 | $ 4,652,431 | $ 1,482,438 | $ 38,601,281 |
| Reimbursable | 60,920 | - | 13,336 | 74,256 |
| **Subtotal** | 32,527,332 | 4,652,431 | 1,495,774 | 38,675,537 |
| Unobligated Balance | | | | |
| Apportioned | 13,885,668 | 3,628,073 | 282,426 | 17,796,167 |
| Exempt from Apportionment | 1,078 | - | 47 | 1,125 |
| **Subtotal** | 13,886,746 | 3,628,073 | 282,473 | 17,797,292 |
| Unobligated Balance Not Available: | 21,432,140 | 28,661 | 99,969 | 21,560,770 |
| **Total Status of Budgetary Resources** | $ 67,846,218 | $ 8,309,165 | $ 1,878,216 | $ 78,033,599 |
| **CHANGE IN OBLIGATED BALANCES** | | | | |
| Obligated Balance, net: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | $ 43,723,295 | $ - | $ 1,429,326 | $ 45,152,621 |
| Uncollected Customer Payments from Federal Sources, Brought Forward October 1 | (37,367) | - | (3,817) | (41,184) |
| Total Unpaid Obligated Balances Brought Forward, net | 43,685,928 | - | 1,425,509 | 45,111,437 |
| Obligations Incurred | 32,527,332 | 4,652,431 | 1,495,774 | 38,675,537 |
| Gross Outlays | (32,883,651) | (1,862,772) | (1,205,710) | (35,952,133) |
| Recoveries of Prior-Year Unpaid Obligations | - | - | (59,745) | (59,745) |
| Change in Uncollected Customer Payments from Federal Sources | (64,592) | - | (2,012) | (66,604) |
| Obligated Balance, net, End of Period: | | | | |
| Unpaid Obligations | 43,366,976 | 2,789,659 | 1,659,645 | 47,816,280 |
| Uncollected Customer Payments from Federal Sources | (101,959) | - | (5,829) | (107,788) |
| Total, Unpaid Obligated Balance, net, End of Period | $ 43,265,017 | $ 2,789,659 | $ 1,653,816 | $ 47,708,492 |
| **NET OUTLAYS** | | | | |
| Net Outlays: | | | | |
| Gross Outlays | $ 32,883,651 | $ 1,862,772 | $ 1,205,710 | $ 35,952,133 |
| Less: Offsetting Collections | (43,473) | (2,617) | (42,178) | (88,268) |
| Less: Distributed offsetting receipts | - | - | (36,932) | (36,932) |
| Net Outlays | $ 32,840,178 | $ 1,860,155 | $ 1,126,600 | $ 35,826,933 |

# REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI)

**Department of Transportation**
**Highway Trust Fund**
**Required Supplementary Stewardship Information**
**Investment in Human Capital and Development - Surface Transportation**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Federal Highway Administration (1)** | | | | | |
| National Highway Institute Training | $ 9,146 | $ 8,539 | $ 4,069 | $ 11,844 | $ 14,123 |
| **Federal Motor Carrier Safety Administration (2)** | | | | | |
| California Highway Patrol | - | 926 | 192 | 41 | - |
| Idaho Video | 199 | 593 | 344 | 208 | - |
| Massachusetts Training Academy | 25 | 175 | 9 | 53 | - |
| Kentucky Information Technology Conference | - | - | - | - | 175 |
| Minnesota Crash Investigation | 18 | 57 | 21 | - | 1 |
| **National Highway Safety Administration (3)** | | | | | |
| Section 403 Highway Safety Programs | 83,389 | 49,013 | 53,964 | 110,981 | 221,523 |
| Highway Traffic Safety Grants | 229,145 | 210,469 | 205,509 | 216,702 | 279,244 |
| **Total** | $ 321,922 | $ 269,772 | $ 264,108 | $ 339,829 | $ 515,066 |

NOTE:

(1) The National Highway Institute develops and conducts various training courses for all aspects of the Federal Highway Administration. Students are typically from the state and local police, state highway departments, public safety and motor carrier vehicle employees, and U.S. citizens and foreign nationals engaged in highway for work for interest to the United States. Types of courses given and developed are: modern developments, technique, management, and planning, environmental factors, engineering safety, construction and maintenance.

(2) The California Highway Patrol educates the trucking industry about federal and state commercial motor vehicle/carrier inspection procedures, and increase CMV driver awareness. The Idaho Video Program develops video training material utilized by FMCSA National Training Center for the purpose of training state and local law enforcement personnel. The Massachusetts Training Academy provides training to state law enforcement personnel located in the Northeast region of United States. The Minnesota Crash Investigation program provides training and develops processes and protocols for commercial motor vehicle crash investigations.

(3) NHTSA'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.

**Department of Transportation**
**Highway Trust Fund**
**Required Supplementary Stewardship Information**
**Investment In Research and Development - Surface Transportation**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Federal Highway Administration** | | | | | |
| Intelligent Transportation Systems | $ 124,950 | $ 126,256 | $ 146,852 | $ 183,634 | $ 129,219 |
| Other Applied Research and Development | 183,142 | 115,368 | 142,557 | 114,315 | 105,336 |
| **Total** | $ 308,092 | $ 241,624 | $ 289,409 | $ 297,949 | $ 234,555 |

NOTE:

FHWA'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.

**Department Of Transportation**
**Highway Trust Fund**
**Required Supplementary Stewardship Information**
**Investment in Transportation - Non-Federal Physical Property**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| **Federal Highway Administration** | | | | | |
| Federal Aid Highways | $ 29,377,231 | $ 29,258,796 | $ 29,207,012 | $ 29,750,120 | $ 32,190,231 |
| Other Highway Trust Fund | 211,883 | 243,874 | 300,493 | 445,083 | 452,022 |
| Appalachian Development System | 146,306 | 128,480 | 263,430 | 425,810 | 366,816 |
| Federal Motor Carrier Safety Administration | 149,091 | 159,628 | 299,450 | 195,740 | 117,004 |
| **Total** | $ 29,884,511 | $ 29,790,778 | $ 30,070,385 | $ 30,816,753 | $ 33,126,073 |

NOTE:
FHWA reimburses states for construction costs on projects related to the Federal Highway System of roads. The main programs in which the states participate are the National Highway System, Interstate Systems, Surface Transportation Program and Congestion Mitigation/Air Quality Improvement. The states contribution is ten percent for the Interstate System and twenty percent for other programs.

# OTHER ACCOMPANYING INFORMATION

## Department of Transportation
## Highway Trust Fund
## Consolidating Balance Sheet
## As of September 30, 2006
### (Dollars in Thousands)

| | | FHWA | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Corpus Hwy. Trust Fund | Federal-aid Highways | Other Highway Trust Funds | FTA Trust Fund | NHTSA Trust Fund | FMCSA Trust Fund | Eliminations | Total |
| **Assets:** | | | | | | | | |
| **Intragovernmental:** | | | | | | | | |
| Fund Balance with Treasury | $ 2,390,357 | $ 1,155,538 | $ 119,141 | $ 487,824 | $ 207,353 | $ 71,342 | $ - | $ 4,431,555 |
| Investments | 10,997,655 | - | - | - | - | - | - | 10,997,655 |
| Accounts Receivable | - | 12,245,729 | 513,798 | 690,050 | 464,002 | 377,136 | (14,260,179) | 30,536 |
| Advances and Prepayments | - | 40,970 | - | 127 | 20,260 | 11,007 | - | 72,364 |
| **Total Intragovernmental** | 13,388,012 | 13,442,237 | 632,939 | 1,178,001 | 691,615 | 459,485 | (14,260,179) | 15,532,110 |
| Accounts Receivable, net | - | 5,910 | - | - | 366 | 1,752 | - | 8,028 |
| General Property, Plant and Equipment, net | - | 100,398 | 505 | - | 167 | - | - | 101,070 |
| Advances and Prepayments | - | 7,042 | 96,479 | - | 15,423 | 38 | - | 118,982 |
| **Total Assets** | $ 13,388,012 | $ 13,555,587 | $ 729,923 | $ 1,178,001 | $ 707,571 | $ 461,275 | $ (14,260,179) | $ 15,760,190 |
| **Liabilities:** | | | | | | | | |
| **Intragovernmental:** | | | | | | | | |
| Accounts Payable | $ 14,260,179 | $ 27,128 | $ - | $ - | $ 13,310 | $ - | $ (14,260,179) | 40,438 |
| Other | - | 81,072 | - | - | 22,059 | 8,965 | - | 112,096 |
| **Total Intragovernmental** | 14,260,179 | 108,200 | - | - | 35,369 | 8,965 | (14,260,179) | 152,534 |
| Accounts Payable | - | 41,072 | 2,120 | 20 | 24,356 | 4,377 | - | 71,945 |
| Federal Employee Benefits | - | 9,047 | - | - | - | 2,927 | - | 11,974 |
| Grant Liability | - | 2,835,226 | 41 | 642,538 | 61,307 | 16,986 | - | 3,556,098 |
| Other | - | 87,382 | - | 15 | (3,528) | 12,180 | - | 96,049 |
| **Total Liabilities** | 14,260,179 | 3,080,927 | 2,161 | 642,573 | 117,504 | 45,435 | (14,260,179) | 3,888,600 |
| **Net Position:** | | | | | | | | |
| Cumulative Results of Operations - Earmarked Funds | (872,167) | 10,474,660 | 727,762 | 535,428 | 590,067 | 415,840 | - | 11,871,590 |
| **Total Liabilities and Net Position** | $ 13,388,012 | $ 13,555,587 | $ 729,923 | $ 1,178,001 | $ 707,571 | $ 461,275 | $ (14,260,179) | $ 15,760,190 |

The Corpus HTF negative balance in Cumulative Results of Operations is attributed to the fact that Congress has authorized appropriations in excess of current available trust fund assets.

**Department of Transportation**
**Highway Trust Fund**
**Consolidating Statement of Net Cost**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

**Program Costs:**

| | FHWA | | | | | |
|---|---|---|---|---|---|---|
| | **Federal-aid Highways** | **Other Highway Trust Funds** | **FTA Trust Fund** | **NHTSA Trust Fund** | **FMCSA Trust Fund** | **Total** |
| **Federal-Aid Highway Program:** | | | | | | |
| Gross Costs | $ 33,584,630 | $ - | $ - | $ - | $ - | $ 33,584,630 |
| Less: Earned Revenues | (32,318) | - | - | - | - | (32,318) |
| **Net Program Costs** | 33,552,312 | - | - | - | - | 33,552,312 |
| **Mass Transit Program:** | | | | | | |
| Gross Costs | - | - | 2,524,944 | - | - | 2,524,944 |
| Less: Earned Revenues | - | - | (109) | - | - | (109) |
| **Net Program Costs** | - | - | 2,524,835 | - | - | 2,524,835 |
| **Other Surface Transportation Programs:** | | | | | | |
| Gross Costs | - | 157,008 | - | 496,613 | 439,996 | 1,093,617 |
| Less: Earned Revenues | - | (10,687) | - | (13,196) | (5,536) | (29,419) |
| **Net Program Costs** | - | 146,321 | - | 483,417 | 434,460 | 1,064,198 |
| **Net Cost of Operations** | $ 33,552,312 | $ 146,321 | $ 2,524,835 | $ 483,417 | $ 434,460 | $ 37,141,345 |

## Department of Transportation
## Highway Trust Fund
## Consolidating Statement of Changes in Net Position
## For the Year Ended September 30, 2006
**(Dollars in Thousands)**

| | FHWA | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Corpus Hwy. Trust Fund** | **Federal-aid Highways** | **Other Highway Trust Funds** | **FTA Trust Fund** | **NHTSA Trust Fund** | **FMCSA Trust Fund** | **Total** |
| **Beginning Balances** | $ (888,416) | $ 9,452,647 | $ 840,084 | $ 262,238 | $ 228,495 | $ 336,380 | $ 10,231,428 |
| **Budgetary Financing Sources:** | | | | | | | |
| Other Adjustments (Rescissions, etc.) | - | (48,205) | (1) | - | - | - | (48,206) |
| Nonexchange Revenue | 38,765,469 | - | - | - | 18 | 14,871 | 38,780,358 |
| Transfers-In/Out Without Reimbursement | (38,749,220) | 34,601,075 | 34,000 | 2,798,025 | 841,799 | 495,000 | 20,679 |
| **Other Financing Sources:** | | | | | | | |
| Imputed Financing From Costs Absorbed by others | - | 21,455 | - | - | 3,172 | 4,049 | 28,676 |
| **Total Financing Sources** | 16,249 | 34,574,325 | 33,999 | 2,798,025 | 844,989 | 513,920 | 38,781,507 |
| **Net Cost of Operations** | - | 33,552,312 | 146,321 | 2,524,835 | 483,417 | 434,460 | 37,141,345 |
| Net Change | 16,249 | 1,022,013 | (112,322) | 273,190 | 361,572 | 79,460 | 1,640,162 |
| **Ending Balances** | $ (872,167) | $ 10,474,660 | $ 727,762 | $ 535,428 | $ 590,067 | $ 415,840 | $ 11,871,590 |

The Corpus HTF negative balance in Cumulative Results of Operations is attributed to the fact that Congress has authorized appropriations in excess of current available trust fund assets.

**Department of Transportation**
**Highway Trust Fund**
**Combining Statement of Budgetary Resources**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | FHWA | | | | | |
|---|---|---|---|---|---|---|
| | **Federal-aid Highways** | **Other Highway Trust Funds** | **FTA Trust Fund** | **NHTSA Trust Fund** | **FMCSA Trust Fund** | **Total** |
| **BUDGETARY RESOURCES** | | | | | | |
| Unobligated Balance: | | | | | | |
| Brought Forward, October 1 | $ 34,383,061 | $ 318,782 | $ 56,726 | $ 14,726 | $ 37,034 | $ 34,810,329 |
| Recoveries of Prior Year Unpaid Obligations | - | 30,824 | 15,373 | 3,734 | 9,814 | 59,745 |
| Budget Authority: | | | | | | |
| Appropriations | 36,016,628 | 54,129 | 1,500,000 | 692,176 | 495,000 | 38,757,933 |
| Contract Authority | 39,114,181 | - | 6,979,931 | 693,500 | 495,000 | 47,282,612 |
| Spending Authority from Offsetting Collections | | | | | | |
| Earned | | | | | | |
| Collected | 43,643 | 1,205 | 1 | 11,358 | 25,276 | 81,483 |
| Change in Receivables from Federal Sources | (5,104) | - | (20) | - | (273) | (5,397) |
| Change in Unfilled Customer Orders | | | | | | |
| Advances Received | (170) | - | - | 1,805 | (8,153) | (6,518) |
| Without Advances from Federal Sources | 69,695 | - | 20 | 2,224 | 62 | 72,001 |
| Expenditure Transfer from Trust Funds: | - | 10,687 | 2,616 | - | - | 13,303 |
| Nonexpenditure Transfers, net: | (1,514,259) | - | 1,367,756 | 146,503 | - | - |
| Temporarily Not Available Pursuant to Public Law | - | 9,670 | - | - | - | 9,670 |
| Permanently Not Available | (40,261,457) | (10,687) | (1,569,799) | (699,669) | (499,950) | (43,041,562) |
| **Total Budgetary Resources** | $ 67,846,218 | $ 414,610 | $ 8,352,604 | $ 866,357 | $ 553,810 | $ 78,033,599 |
| | | | | | | |
| **STATUS OF BUDGETARY RESOURCES** | | | | | | |
| Obligations Incurred: | | | | | | |
| Direct | $ 32,466,412 | $ 142,759 | $ 4,688,683 | $ 816,867 | $ 486,560 | $ 38,601,281 |
| Reimbursable | 60,920 | | | 13,264 | 72 | 74,256 |
| **Subtotal** | 32,527,332 | 142,759 | 4,688,683 | 830,131 | 486,632 | 38,675,537 |
| Unobligated Balance | | | | | | |
| Apportioned | 13,885,668 | 231,630 | 3,635,258 | 17,653 | 25,958 | 17,796,167 |
| Exempt from Apportionment | 1,078 | 47 | | | | 1,125 |
| **Subtotal** | 13,886,746 | 231,677 | 3,635,258 | 17,653 | 25,958 | 17,797,292 |
| Unobligated Balance Not Available | 21,432,140 | 40,174 | 28,663 | 18,573 | 41,220 | 21,560,770 |
| **Total Status of Budgetary Resources** | $ 67,846,218 | $ 414,610 | $ 8,352,604 | $ 866,357 | $ 553,810 | $ 78,033,599 |

Continued…

**Department of Transportation**
**Highway Trust Fund**
**Combining Statement of Budgetary Resources**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | FHWA Federal-aid Highways | FHWA Other Highway Trust Funds | FTA Trust Fund | NHTSA Trust Fund | FMCSA Trust Fund | Total |
|---|---|---|---|---|---|---|
| **CHANGE IN OBLIGATED BALANCES** | | | | | | |
| Obligated Balance, net: | | | | | | |
| Unpaid Obligations, Brought Forward, October 1 | $ 43,723,295 | $ 398,796 | $ 195,923 | $ 442,706 | $ 391,901 | $ 45,152,621 |
| Uncollected Customer Payments from Federal Sources, Brought Forward October 1 | (37,367) | - | (50) | - | (3,767) | (41,184) |
| Total Unpaid Obligated Balances Brought Forward, net | 43,685,928 | 398,796 | 195,873 | 442,706 | 388,134 | 45,111,437 |
| Obligations Incurred | 32,527,332 | 142,759 | 4,688,683 | 830,131 | 486,632 | 38,675,537 |
| Gross Outlays | (32,883,651) | (158,581) | (1,954,733) | (503,412) | (451,756) | (35,952,133) |
| Recoveries of Prior Year Unpaid Obligations, actual | - | (30,824) | (15,373) | (3,734) | (9,814) | (59,745) |
| Change in Uncollected Customer Payments from Federal Sources | (64,592) | - | - | (2,224) | 212 | (66,604) |
| Obligated Balance, net, End of Period | | | | | | |
| Unpaid Obligations | 43,366,976 | 352,150 | 2,914,500 | 765,691 | 416,963 | 47,816,280 |
| Uncollected Customer Payments from Federal Sources | (101,959) | - | (50) | (2,224) | (3,555) | (107,788) |
| Total, Unpaid Obligated Balance, net, End of Period | $ 43,265,017 | $ 352,150 | $ 2,914,450 | $ 763,467 | $ 413,408 | $ 47,708,492 |
| **NET OUTLAYS** | | | | | | |
| Net Outlays: | | | | | | |
| Gross Outlays | $ 32,883,651 | $ 158,581 | $ 1,954,733 | $ 503,412 | $ 451,756 | $ 35,952,133 |
| Less: Offsetting Collections | (43,473) | (11,892) | (2,617) | (13,163) | (17,123) | (88,268) |
| Less: Distributed offsetting receipts | - | - | - | (22,678) | (14,254) | (36,932) |
| Net Outlays | $ 32,840,178 | $ 146,689 | $ 1,952,116 | $ 467,571 | $ 420,379 | $ 35,826,933 |

**Department of Transportation**
**Highway Trust Fund**
**Consolidating Statement of Financing**
**For the Year Ended September 30, 2006**
**(Dollars in Thousands)**

| | FHWA | | | | | |
|---|---|---|---|---|---|---|
| | Federal-aid Highways | Other Highway Trust Funds | FMCSA Trust Fund | FTA Trust Fund | NHTSA Trust Fund | Total |
| **Resources Used to Finance Activities:** | | | | | | |
| **Budgetary Resources Obligated** | | | | | | |
| Obligations Incurred | $ 32,527,332 | $ 142,759 | $ 486,632 | $ 4,688,683 | $ 830,131 | $ 38,675,537 |
| Less: Spending Authority from Offsetting Collections and Recoveries | (108,064) | (42,716) | (26,726) | (17,990) | (19,121) | (214,617) |
| Obligations Net of Offsetting Collections and Recoveries | 32,419,268 | 100,043 | 459,906 | 4,670,693 | 811,010 | 38,460,920 |
| Less: Distributed Offsetting Receipts | - | - | (14,254) | - | (22,678) | (36,932) |
| Net Obligations | 32,419,268 | 100,043 | 445,652 | 4,670,693 | 788,332 | 38,423,988 |
| **Other Resources** | | | | | | |
| Imputed Financing From Costs Absorbed by Others | 21,455 | - | 4,049 | - | 3,172 | 28,676 |
| Net Other Resources Used to Finance Activities | 21,455 | - | 4,049 | - | 3,172 | 28,676 |
| Total Resources Used to Finance Activities | 32,440,723 | 100,043 | 449,701 | 4,670,693 | 791,504 | 38,452,664 |
| **Resources Used to Finance Items Not Part of the Net Cost of Operations** | | | | | | |
| Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided | (1,115,989) | (46,065) | 44,951 | 2,076,128 | 257,330 | 1,216,355 |
| Resources That Fund Expenses Recognized in Prior Periods | 3,047 | (2) | 1,604 | | 50,950 | 55,599 |
| Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations: | | | | | | |
| Other Budgetary Offsetting Collections That Does Not Affect Net Costs of Operations | - | - | (14,871) | - | (18) | (14,889) |
| Resources That Finance the Acquisition of Assets | 6,182 | - | - | - | - | 6,182 |
| Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations (Expenditure Transfers) | - | (254) | - | 69,730 | - | 69,476 |
| Total Resources (Provided) Used to Finance Items Not Part of the Net Cost Of Operations | (1,106,760) | (46,321) | 31,684 | 2,145,858 | 308,262 | 1,332,723 |
| Total Resources Used to Finance the Net Cost of Operations | 33,547,483 | 146,364 | 418,017 | 2,524,835 | 483,242 | 37,119,941 |
| **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 | 611 | - | 554 | - | 239 | 1,404 |
| Increase (Decrease) in Unfunded Employee Related Liabilities and Other | (1,019) | (41) | 15,764 | - | - | 14,704 |
| Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods | (408) | (41) | 16,318 | - | 239 | 16,108 |
| **Components Not Requiring or Generating Resources:** | | | | | | |
| Depreciation and Amortization | 546 | - | - | - | - | 546 |
| Revaluation of Assets or Liabilities | 1,030 | - | - | - | - | 1,030 |
| Costs of Goods Sold and Other | 3,661 | (2) | 125 | - | (64) | 3,720 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources | 5,237 | (2) | 125 | - | (64) | 5,296 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | 4,829 | (43) | 16,443 | - | 175 | 21,404 |
| **Net Cost of Operations** | $ 33,552,312 | $ 146,321 | $ 434,460 | $ 2,524,835 | $ 483,417 | $ 37,141,345 |

**Department of Transportation**
**Highway Trust Fund**
**Other Accompanying Information (OAI)**
**Schedule of Net Cost by Strategic Goal**
**For The Year Ended September 30, 2006**
**(Dollars in Thousands)**

The Schedule of Net Cost reports the HTF operational costs and revenue to reflect at the net cost of operations by each of the Department's six goals in its *FY2007-2011 Strategic Plan* . To provide the linkage between cost and performance as related to each goal.

| | FHWA | | | | | |
|---|---|---|---|---|---|---|
| | Federal-aid Highways | Other Highway Trust Funds | FTA Trust Fund | NHTSA Trust Fund | FMCSA Trust Fund | Total |
| **Safety:** | | | | | | |
| Gross Costs | $ 7,677,122 | $ 35,891 | $ - | $ 496,613 | $ 409,042 | $ 8,618,668 |
| Less: Earned Revenues | (7,388) | (2,443) | - | (13,196) | (5,149) | (28,176) |
| **Safety - Net Cost of Operations** | 7,669,734 | 33,448 | - | 483,417 | 403,893 | 8,590,492 |
| **Mobility:** | | | | | | |
| Gross Costs | 19,414,847 | 90,764 | 2,405,781 | - | - | 21,911,392 |
| Less: Earned Revenues | (18,683) | (6,178) | (109) | - | - | (24,970) |
| **Mobility - Net Cost of Operations** | 19,396,164 | 84,586 | 2,405,672 | - | - | 21,886,422 |
| **Environment:** | | | | | | |
| Gross Costs | 1,020,138 | 4,770 | 103,535 | - | - | 1,128,443 |
| Less: Earned Revenues | (982) | (325) | - | - | - | (1,307) |
| **Environment - Net Cost of Operations** | 1,019,156 | 4,445 | 103,535 | - | - | 1,127,136 |
| **Global Connectivity:** | | | | | | |
| Gross Costs | 4,397,122 | 20,556 | - | - | - | 4,417,678 |
| Less: Earned Revenues | (4,231) | (1,399) | - | - | - | (5,630) |
| **Global Connectivity - Net Cost of Operations** | 4,392,891 | 19,157 | - | - | - | 4,412,048 |
| **National Security:** | | | | | | |
| Gross Costs | 365,398 | 1,708 | 15,628 | - | 8,844 | 391,578 |
| Less: Earned Revenues | (352) | (116) | - | - | (276) | (744) |
| **National Security - Net Cost of Operations** | 365,046 | 1,592 | 15,628 | - | 8,568 | 390,834 |
| **Organizational Excellence:** | | | | | | |
| Gross Costs | 710,004 | 3,319 | - | - | 22,110 | 735,433 |
| Less: Earned Revenues | (683) | (226) | - | - | (111) | (1,020) |
| **Organizational Excellence - Net Cost of Operations** | 709,321 | 3,093 | - | - | 21,999 | 734,413 |
| **Total Net Cost of Operations** | $ 33,552,312 | $ 146,321 | $ 2,524,835 | $ 483,417 | $ 434,460 | $ 37,141,345 |

**Department of Transportation**
**Highway Trust Fund**
**Other Accompanying Information (OAI)**
**Schedule of Trading Partner Information**
**For The Year Ended September 30, 2006**
**(Dollars in Thousands)**

| Consolidated HTF | Fund Balance w/Treasury | Investments | Accounts Receivable | Other Assets | Accounts Payable | Other Liabilities | Earned Revenue | Gross Cost | Non-Exchange Revenue | Transfers-In/Out |
|---|---|---|---|---|---|---|---|---|---|---|
| Dept of the Treasury (2000) | $ 4,431,555 | $ 10,997,655 | $ - | $ - | $ (624) | $ (5,961) | $ - | $ 11,276 | $ 1,907 | $ - |
| Dept. of Transportation (6900) | - | - | 29,983 | 72,256 | 27,070 | 101,164 | 34,099 | 163,040 | - | 40,330 |
| **Other:** | | | | | | | | | | |
| Government Printing Office (0400) | - | - | - | - | (145) | (494) | - | 3,080 | - | - |
| Dept of Agriculture (1200) | - | - | - | - | 24,122 | 3 | - | 6,054 | - | (19,651) |
| Dept of Commerce (1300) | - | - | - | - | - | - | - | 1,103 | - | - |
| Dept. of Interior (1400) | - | - | - | - | 689 | 281 | - | 14,238 | - | - |
| Dept. of Justice (1500) | - | - | - | - | - | 50 | 1,517 | (3,537) | - | - |
| Dept. of Labor (1600) | - | - | - | - | - | 4,031 | 83 | 2,012 | - | - |
| Dept. of Navy (1700) | - | - | - | - | 249 | - | - | 1,923 | - | - |
| U.S. Postal Service (1800) | - | - | - | 108 | - | - | - | 475 | - | - |
| Dept. of State (1900) | - | - | 557 | - | - | - | 557 | 425 | - | - |
| U.S. Army (2100) | - | - | - | - | - | - | - | 190 | - | - |
| Office of Personnel Management (2400) | - | - | - | - | (31) | 11,297 | - | 99,397 | - | - |
| Department of Veterans Affairs (3600) | - | - | - | - | - | - | - | 179 | - | - |
| General Services Administration (4700) | - | - | 26 | - | (3,825) | 390 | 168 | 54,371 | - | - |
| National Science Foundation (4900) | - | - | - | - | - | - | - | 164 | - | - |
| U.S. Air Force (5700) | - | - | (72) | - | - | - | 191 | 1 | - | - |
| Tennessee Valley Authority (6400) | - | - | - | - | (173) | - | - | - | - | - |
| Environmental Protection Agency (6800) | - | - | (9) | - | (52) | - | - | 1,276 | - | - |
| Dept. of Homeland Security (7000) | - | - | 98 | - | - | 252 | 2,170 | 1,896 | - | - |
| Small Business Administration (7300) | - | - | - | - | - | - | - | 261 | - | - |
| Dept. of Health and Human Services (7500) | - | - | - | - | - | 516 | 551 | 771 | - | - |
| National Aeronautics Administration (8000) | - | - | - | - | (85) | - | - | 35 | - | - |
| Department of Housing & Urban | - | - | - | - | - | - | 24 | - | - | - |
| National Archives (8800) | - | - | - | - | - | - | - | 247 | - | - |
| Dept. of Energy (8900) | - | - | (21) | - | (348) | 4 | 4 | 3,090 | - | - |
| Dept. of Education (9100) | - | - | - | - | - | - | - | 200 | - | - |
| Other Independent Agencies (9500) | - | - | - | - | - | - | - | 85 | - | - |
| U.S. Army Corps of Engineers (9600) | - | - | - | - | (6,409) | - | - | 6,085 | - | - |
| Office of The Secretary of Defense (9700) | - | - | (26) | - | - | - | - | 821 | - | - |
| Treasury General Fund (9900) | - | - | - | - | - | 563 | - | 54,557 | 38,778,451 | - |
| **TOTAL** | $ 4,431,555 | $ 10,997,655 | $ 30,536 | $ 72,364 | $ 40,438 | $ 112,096 | $ 39,364 | $ 423,713 | $ 38,780,358 | $ 20,679 |

**Department of Transportation**
**Highway Trust Fund**
**Other Accompanying Information**
**For the Year Ended September 30, 2006**
**Earmarked Treasury Symbol Listing**

| Submitting OA | Treasury Symbol | Name |
|---|---|---|
| Federal Aid Highways | 14-69-X-8083-06 | Department of Interior - Bureau of Reclamation (Allocation Account) |
| | 14-69-X-8083-10 | Department of Interior - National Park Service (Allocation Account) |
| | 14-69-X-8083-11 | Department of Interior - Bureau of Land Management (Allocation Account) |
| | 14-69-X-8083-16 | Department of Interior - U.S. Fish & Wildlife Service (Allocation Account) |
| | 14-69-X-8083-20 | Department of Interior - Bureau of Indian Affairs (Allocation Account) |
| | 17-69-X-8083-00 | Department of Navy (Allocation Account) |
| | 20-69-X-8083-67 | Department of Treasury: Internal Revenue Service (Allocation Account) |
| | 21-69-X-8083-00 | Department of Army (Allocation Account) |
| | 46-69-X-8083-00 | Appalachian Regional Commission (Allocation Account) |
| | 64-69-X-8083-00 | Tennessee Valley Authority (Allocation Account) |
| | 69-69-X-8083-01 | Office of the Secretary of Transportation (Allocation Account) |
| | 69-69-X-8083-06 | National Highway Traffic Safety Administration (Allocation Account) |
| | 69-69-X-8083-07 | Federal Railroad Administration (Allocation Account) |
| | 69-69-X-8083-11 | Federal Transit Administration (Allocation Account) |
| | 69-69-X-8083-14 | Pipeline and Hazardous Materials Safety Administration (Allocation Account) |
| | 69-69-X-8083-15 | Bureau of Transportation Statistics (Allocation Account) |
| | 69-69-X-8083-17 | Maritime Administration (Allocation Account) |
| | 69-69-X-8083-26 | Federal Motor Carrier Safety Administration (Allocation Account) |
| | 69-X-8083 | Federal Aid Highways |
| | 86-69-X-8083-00 | Housing and Urban Development (Allocation Account) |
| | 95-69-X-8083-67 | Denali Commission |
| Other Highway Trust Fund | 14-69-X-8058-10 | Department of Interior - National Park Service (Allocation Account) |
| | 69-69-X-8019-06 | Highway-Related Safety Grants (NHTSA Allocation Account) |
| | 69-69-X-8058-07 | Miscellaneous Highway Project (FRA Allocation Account) |
| | 69-69-X-8058-11 | Miscellaneous Highway Project (FTA Allocation Account) |
| | 69-69-X-8058-26 | Miscellaneous Highway Project (FMCSA Allocation Account) |
| | 69-X-8001 | Intermodal Urban Demonstration Project |
| | 69-X-8002 | Carpool and Vanpool Projects |
| | 69-X-8009 | Trust Fund Share of Other Highway Programs |
| | 69-X-8014 | Baltimore-Washington Parkway Trust Fund |
| | 69-X-8017 | Highway Safety Research and Development |
| | 69-X-8019 | Highway-Related Safety Grants |
| | 69-X-8045 | Study of Improvements to Highway 8 in Wisconsin |
| | 69-X-8049 | Vehicular and Pedestrian safety Demonstration Project |
| | 69-X-8057 | Bridge Capacity Improvement |
| | 69-X-8058 | Miscellaneous Highway Project |
| | 69-X-8061 | Construction and Improvements to Halls Mill Road, New Jersey |
| | 69-X-8072 | Appalachian Development Highway System |
| | 69-X-8076 | Highway Safety and Economic Development Projects |
| | 69-X-8081 | Highway-Railroad Grade Crossing Safety Demonstration Project |
| | 69-X-8082 | Nuclear Waste Transportation Safety Demonstration Project |
| | 69-X-8087 | Highway safety Improvement Demonstration Projects |
| | 69-X-8120 | Corridor Safety Improvement Demonstration Project |
| | 69-X-8309 | Right of Way revolving Fund Program Account |
| | 69-X-8363 | Highway Demonstration Projects |
| | 69-X-8374 | Climbing Lane and Highway Demonstration Project |
| | 69-X-8375 | Alabama Highway Bypass Demonstration Project |
| | 69-X-8376 | Kentucky Bridge Demonstration Project |
| | 69-X-8377 | Virginia HOV Safety Demonstration Project |
| | 69-X-8378 | Urban Highway and Corridor and Bicycle Transportation Demonstration Projects |
| | 69-X-8380 | Pennsylvania Toll Road Demonstration Project |
| | 69-X-8381 | Pennsylvania Reconstruction Demonstration Project |
| | 69-X-8382 | Highway Projects |
| | 69-X-8386 | Mineola Grade Crossing |
| | 69-X-8390 | Metropolitan Planning Trust Fund |
| | 69-X-8402 | Right-of-Way Revolving Fund |
| National Highway Traffic Safety Administration (NHTSA) | 69-X-8016 | Operations and Research - Trust Fund |
| | 69-X-8020 | Highway Traffic Safety Grants |
| | 69-X-8362 | National Driver Register |
| Federal Transit Administration (FTA) | 69-X-8191 | Mass Transportation Capital Fund |
| | 69-X-8350 | Trust Fund Share of Expenses |
| Federal Railroad Administration (FRA) | 69-X-8552 | High-Speed Ground Transportation |
| Federal Motor Carrier Safety Administration (FMSCA) | 69-X-8048 | National Motor Carrier Safety Program |
| | 69-X-8055 | Motor Carrier Safety, Limitation on Administrative Expenses |
| | 69-X-8158 | Motor Carrier Safety Grants |
| | 69-X-8159 | Motor Carrier Safety Operations & Programs |
| | 698274 | Safety of Cross-Border Trucking Between the United States and Mexico |
| US Department of the Treasury, Bureau of Public Debt (Corpus) | 20-X-81021 | Corpus Highway Trust Fund |
| | 20-X-81022 | Corpus Mass Transit Account |