TABLE OF CONTENTS

F O R E W O R D

In accordance with the Consolidation Act of 2000, this is the United States Department of Transportation's (DOT) fiscal year 2002 *Performance and Accountability Report*. As required by law, this document integrates DOT's *Performance Report* with its consolidated Financial Statements and the resulting DOT Inspector General's opinion on DOT's statements, internal controls, and compliance with laws and regulations. It also includes the Inspector General's 2003 report on the Department's Top Management Challenges and a summary of the Department's actions in response to the Office of the Inspector General's 2002 Top Management Challenge.

All comments regarding this report are welcome. The electronic version of the report is available at the Department of Transportation website, www.dot.gov.

Comments may be addressed to:

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

MESSAGE FROM THE SECRETARY

FY 2002 was a very challenging year for the country and the Department. After the events of September 11, 2001, the President signed into law the Aviation and Transportation Security Act on November 19, 2001, that required that the Department of Transportation (DOT) establish the Transportation Security Administration (TSA). I am proud to say that DOT's and TSA's efforts in FY 2002 meant that we met the legislative deadlines specified by Congress, including completely replacing all the Nation's airport passenger screeners by November 19, 2002, and having all checked passenger bags screened by December 31, 2002.

I am extremely pleased and proud that during a year with many changes and uncertainties (including the creation of TSA), DOT was able to maintain its financial "clean opinion." I believe that a clean opinion demonstrates that we have provided proper stewardship over the resources entrusted to us by the American taxpayers. We have more work to finish to eliminate material weaknesses in our financial processes. While we have management controls in place, we must continue our progress to install a new financial system and cost accounting throughout the Department. These are critical items to enable us to meet the requirements of the Federal Managers Financial Integrity Act. This *Performance and Accountability Report* contains performance and financial data that are substantially complete and reliable. The "Management Control" section in the report contains a detailed assessment of the inadequacies in DOT's performance data, and explains how we plan to remedy those deficiencies in the future.

The Department is committed to implementing the President's Management Agenda. The Office of Management and Budget gave DOT its highest rating – "green" – for progress in all five Presidential Management goals. Specifically, DOT is moving ahead on competitive sourcing by identifying over 12,000 positions as performing commercial functions and committing to conduct reviews on 25 percent of its commercial positions by September 30, 2003. In addition, we have developed a Human Capital plan that is now being used as a model for other departments. In the area of performance, DOT is preparing to further integrate performance and budget by producing better, more quantitative budget requests that will more clearly link results with funding levels. All of us at the Department are proud that the Mercatus Center ranked DOT's *Performance Report* as one of the best in government for the past three years. In E-government, DOT is working closely with partner agencies to develop practices which improve service to our customers. Finally, DOT has already transferred nine of its 13 agencies onto a new Oracle-based financial system that meets all Federal financial requirements. These accomplishments underscore DOT's commitment to improving its overall management.

While this past year has been challenging, this year will also be challenging. TSA and the Coast Guard will be transferring to the new Department of Homeland Security. In addition, DOT will be proposing significant reauthorization proposals for its surface and aviation modes. We are confident that our continually improving financial practices and systems will successfully support us in meeting these challenges.

Norman Y. Mineta

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The Department of Transportation (DOT) is continuing its initiatives to improve financial management. We are using government-wide financial management goals, the legislation related to the Government Performance and Results Act (GPRA), DOT's Strategic Plan, and our financial management visions as a basis for action. Our focus is on upgrading our accounting system, achieving clean audit opinions on our consolidated financial statements, and effectively leveraging technology, such as the Internet, to add efficiency to our operations. The Department has numerous accomplishments that have further strengthened our financial management environment. They are:

- Implementing Delphi, DOT's new integrated financial management system.

- Offering web-based travel services, "FedTrip" and "Web T&E," which provide cheaper and easier travel arrangement for our employees and reduce travel transaction fees, while eliminating manual data entry of travel data into the accounting system.

- Continuing innovative financing techniques that supplement Federal funds with private and non-Federal public sector investment for transportation infrastructure.

- Promoting the use of electronic business practices. Our "Do-It-Yourself (DIY)" website expands the opportunities for citizens to make payments for DOT services over the Internet with a credit card and electronic checks. Our use of invoice imaging and workflow technology has covered the costs of paying vendors and has improved the quality of financial data.

- Increasing our use of the Government Small Purchase Credit Card has saved over $46 million in administrative costs in FY 2001- FY 2002.

- Having over 98 percent of employee salary payments by Electronic Fund Transfer, a one percent increase over last year.

This report illustrates the Department's recent achievements and future plans in the area of financial and performance management. We are completely committed to the Present's management goals, and I am proud of our team for their accomplishments.

Donna McLean

DEPARTMENT OF TRANSPORTATION AT A GLANCE

History and Legislation

The U.S. Department of Transportation (DOT) is a steward of the Nation's transportation system and speaks for transportation in the Federal Government. The Department of Transportation, created in 1967, develops policies and programs that contribute to a safe, efficient, and convenient transportation system at the lowest cost—essentials to meet national objectives of economic growth, stability, and security of the United States. Its creation brought under one umbrella a myriad of transportation missions and programs, some of which date back to the 1700s.

Mission

DOT's mission is to serve the United States by ensuring a safe transportation system that furthers our vital national interests and enhances the quality of life of the American people.

DOT's Strategic Objectives

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

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

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

Economic Growth and Trade: Support a transportation system that sustains America's economic growth.

Human and Natural Environment: Protect and enhance communities and the natural environment affected by transportation.

Organizational Excellence Objective: Advance the Department's ability to manage for results and innovation.

The DOT Performance Plan implements DOT's Strategic Plan through a series of performance goals and measures to assess the Department's yearly progress in achieving strategic and organizational objectives. This *FY 2002 Performance and Accountability Report* describes DOT's FY 2002 performance and financial results, linking back to DOT's FY 2002 enacted budget, and to DOT's *FY 2002 Performance Plan*.

DOT has been challenged in accounting for the secondary impacts of its programs. Programs typically influence more than one performance outcome. For example, building a new highway may affect travel time, congestion costs, emissions and land use, safety, and security. DOT will continue to improve our ability to link resources and results. DOT is committed to managerial cost accounting, as integral to improving overall departmental management. DOT is investing in improved financial and data systems to better associate dollars with activities, outputs, and outcomes.

Operating Administrations

In FY 2002, DOT employed approximately 118,447 full-time equivalent employees. There are 13 Operating Administrations (OAs) in DOT that are responsible for a mode of transportation or an intermodal aspect of the transportation system. In addition, the Office of the Secretary coordinates overall policy, program planning, budgeting, information management, human capital management, and administration. The DOT Inspector General audits the Department's programs and finances to ensure efficient and economical operations and to discover and suppress waste, fraud, and abuse. The Surface Transportation Board, while formally a part of DOT, is decisionally independent, carrying out economic regulatory programs for surface transportation carriers. The Transportation Security Oversight Board ensures that transportation security regulations are soundly based.

DOT's Operating Administrations and Service Providers FY 2002

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Bureau of Transportation Statistics (BTS)

Federal Aviation Administration (FAA)

Federal Highway Administration (FHWA)

Federal Motor Carrier Safety Administration (FMCSA)

Federal Railroad Administration (FRA)

Federal Transit Administration (FTA)

Maritime Administration (MARAD)

National Highway Traffic Safety Administration (NHTSA)

Office of the Secretary (OST)

Research & Special Programs Administration (RSPA)

Saint Lawrence Seaway Development Corporation (SLSDC)

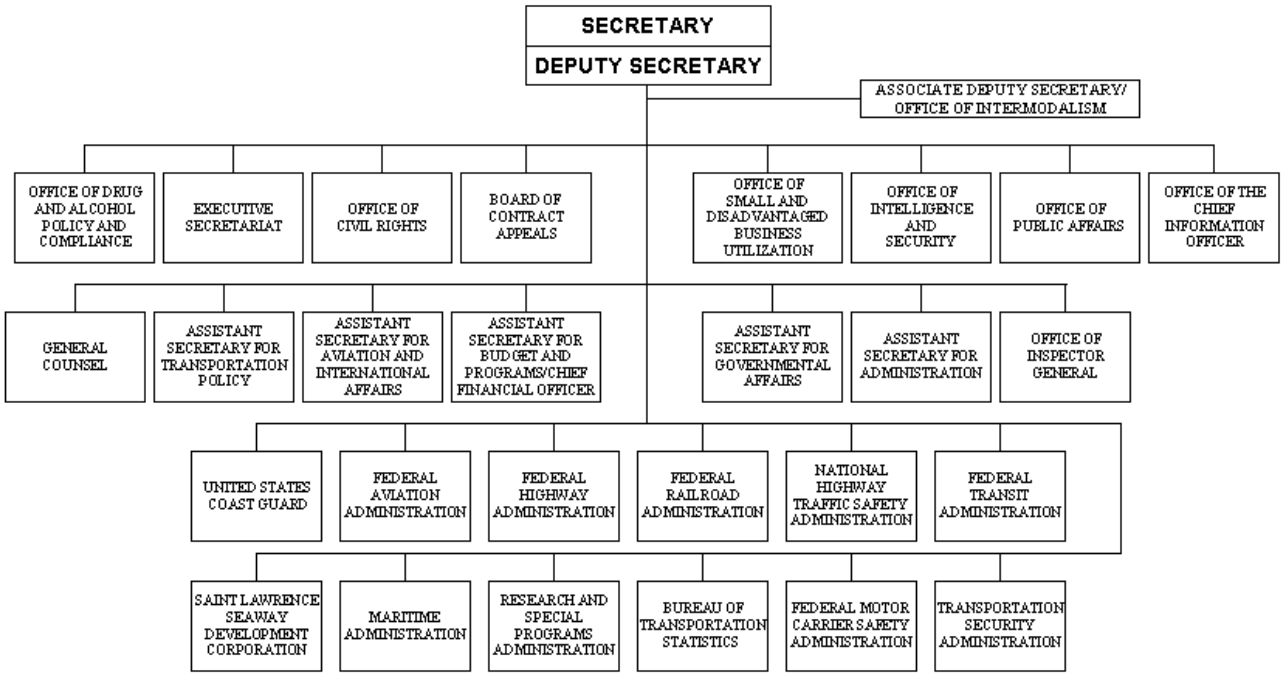
Surface Transportation Board (STB)

Transportation Security Administration (TSA)

United States Coast Guard (USCG)

FY 2002

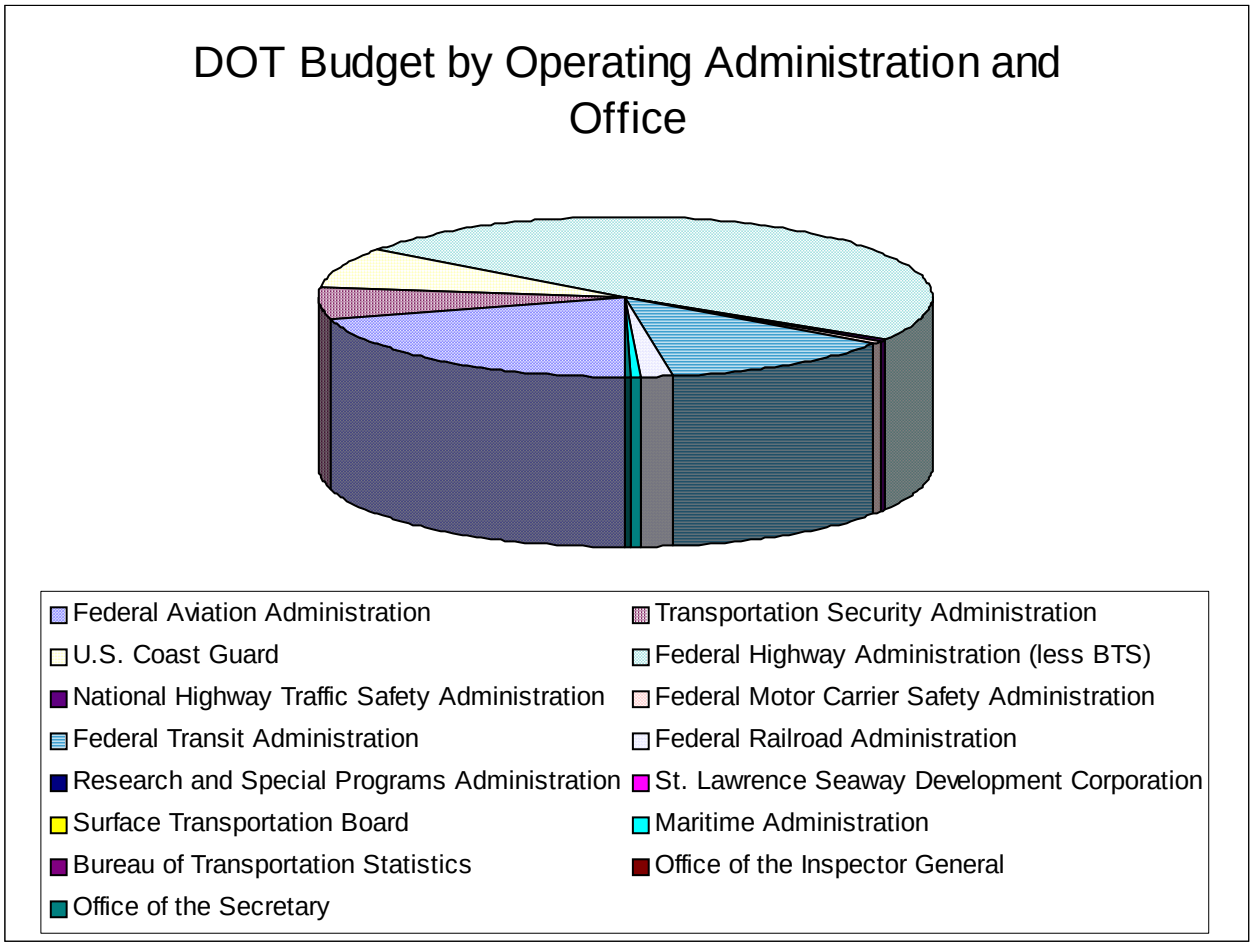
U.S. Department of Transportation



Financial Resources

DOT's Budget and Financial Management

Three types of primary revenue sources support DOT's budget: trust funds, direct receipts, and general funds. Trust funds, derived from special fees, such as motor fuel taxes and airline ticket taxes, provide more than two-thirds of the Department's funding. The two largest trust funds, the Highway Trust Fund and the Airport and Airways Trust Fund, account for most of DOT's funding and support the Department's programs for maintaining and improving transportation infrastructure and performance. Direct receipts are resources from non-Federal entities that are directly available for DOT programs. General revenue funds are obtained from the general taxes of the United States.



HIGHLIGHTS

Overview of Highlights

FY 2002 was an important year in DOT's transition to managing for results under the Government Performance and Results Act (GPRA) of 1993. DOT's Operating Administrations (OAs) identified goals to reach planned results, resources needed to accomplish the goals, and measures to gauge progress towards achieving them.

DOT's *Performance and Accountability Report* links programs to strategic performance areas, such that major program activities are traceable to a performance outcome and goal.

In addition to providing leadership to improve the Nation's transportation system, a key focus of DOT's time and resources in FY 2002 was the successful establishment of the Transportation Security Administration (TSA) following the events of September 11, 2001.

The DOT met all legislative requirements of the Aviation and Transportation Security Act (P.L. 107-71) including deploying Federal personnel by
November 19, 2002 and having all checked passenger bags screened by December 31, 2002. The U.S. Coast Guard provided security in the Nation's ports and waterways. DOT continues to provide leadership to meet the criteria in the Presidential Management Agenda while helping to enhance safety and security for the Nation. The five highlighted areas in the Presidential Management Agenda are as follows.

Presidential Management Agenda Highlights

Strategic Management of Human Capital

DOT developed a Human Capital Plan that will strategically guide our human capital planning efforts through FY 2005.

The Department is implementing policies to recruit, develop, and retain the diverse talent needed now and in the future to perform our mission and achieve DOT's strategic goals.

DOT worked on succession plans to maintain required levels of experience, competencies, and institutional knowledge in the Department's civilian, military, and contract workforce to prepare for an impending wave of retirements.

Competitive Sourcing

DOT's 2001 FAIR Act inventory identified over 12,000 FTE performing commercial activities available for competition. In 2002, DOT planned that 20 percent of all service contract dollars be performance-based.

Improved Financial Performance

For FY 2001 and FY 2002, DOT received an unqualified opinion on all of the financial statements required by OMB.

To streamline and modernize financial services, DOT is automating electronic transmission of data and information for internal processes (i.e., employee travel, internet payments, salary payments, procurement), and external processes (i.e., payments to grantees and vendors, etc.).

DOT is utilizing more web-enabled technology to improve the Department's financial systems.

As a part of implementing its new financial management system, Delphi, DOT is adopting a document imaging system that integrates scanned images of financial documents with accounting records.

Expanded Electronic Government

The Docket Management System (DMS) is an example of DOT's e-government initiative. The DMS is an electronic, image-based database designed to store and display, via the Internet, all DOT docketed information (a docket is an official public record) for easy research and retrieval. DMS also allows businesses and citizens to submit comments to DOT's dockets electronically.

DOT provides on-line information about proposed and final regulations, information on adjudicatory actions, and public

comments on proposed rules. The Dockets Office reviews all documents to make sure they meet filing requirements, registers the document into the DMS, scans and electronically saves hard copy documents received, and performs quality assurance. It saves the government over $1.3 million annually in space and personnel costs alone.

Another example of DOT's e-government initiative is the "Do-It-Yourself" (DIY) website. It provides customers the option of doing business with DOT 24 hours a day through the Internet. Virtually every function requiring payment from the public will be available on the Internet, from paying fees to applying for registrations and licenses. In FY 2002, DIY processed 38,719 payment transactions, totaling $78.5 million. This was a significant increase from FY 2001, where 18,846 transactions that totaled $ 6.1 million were collected using DIY.

DOT's Intranet Website is a third example of an e-government initiative. A Department-wide *DOTnet* website provides employees with the ability to post documents on the web, add latest information to bulletin boards, manage a central calendar for events, and provide frequently used links.

Integrating Performance and Budget

Managerial cost accounting provides opportunities for agencies to make business process improvements by linking agency outputs to strategic performance objectives. It helps integrate performance and budget, justify budget requests and have accountability in its financial management system. Managerial cost accounting can monitor an agency's cost patterns, identify drivers of those costs, manage indirect costs, track labor, as well as forecast critical costs for the agency.

At the Federal Aviation Administration (FAA), detailed cost accounting system (CAS) requirements were developed and implemented for the Air Traffic Services (ATS) line of business to assign the full cost of providing en route and oceanic services for FY 1998 and FY 1999. At the beginning of FY 2000, CAS was implemented for Flight Services, and enhancements to the capabilities provided for En Route and Oceanic Services were implemented. In 2001, FAA also enhanced the system to provide costing of Terminal Services.

US Department of Transportation
President's Management Agenda Scorecard

KEY TO FY 2002 STATUS:

The "status" column measures where DOT is in satisfying the initiative. Agencies receive a green rating by reaching the required score. Agencies must maintain scores between evaluations to maintain a green.

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

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

INITIATIVE	*FY 2002 STATUS*	*PROGRESS*	*HOW DOT IS MEETING PMA CHALLENGES*
Human Capital: Develop a DOT-wide human capital workforce strategy to address future workforce gaps, eliminate skill gaps in critical occupations, develop performance-based incentives for the workforce, remove unneeded management layers, and develop the right mix of skills in the workforce that reflect the new emphasis on E-Government and Competitive Sourcing.	◉	●	***Human Capital Plan:*** In FY 2002, DOT developed a *Human Capital Plan* that will strategically guide our human capital planning efforts through FY 2005. This Plan is fully aligned with the President's Management Agenda and the Standards for Success developed by the Office of Management and Budget, Office of Personnel Management, and the General Accounting Office that are strategic alignment, workforce planning and deployment, leadership and knowledge management, performance culture, talent, and accountability. DOT's Human Capital Plan includes specific HR initiatives that will help the Department recruit, develop, and retain the diverse talent needed now and in the future to perform our mission and achieve our strategic goals. It encompasses strategies from the *Departmental Strategic Plan* and the *Human Resources Strategic Plan*. During FY 2002, DOT continued implementing workforce planning throughout the operating administrations and will continue into FY 2003, as outlined in DOT's Human Capital Plan. As the OAs work through the workforce planning process in FY 2003 for mission critical occupations, they will gear their efforts toward creating a citizen-centered organization, using e-government and competitive sourcing, as appropriate solutions to our human capital challenges.

INITIATIVE	*FY 2002 STATUS*	*PROGRESS*	*HOW DOT IS MEETING PMA CHALLENGES*

Competitive Sourcing: Each department must submit a Strategic Competition Plan and compete "commercial reimbursable support services" on a recurring basis.			***Strategic Competition Plan*:** DOT has submitted a comprehensive *Strategic Competition Plan*. DOT is moving ahead on competitive sourcing by identifying over 12,000 positions as performing commercial functions and committing to conduct reviews on 25 percent of its commercial positions by September 30, 2003. Most of these studies have begun and are all moving ahead smartly.
Improved Financial Management: Develop financial management systems capable of producing more timely and accurate information, maintain a record of unqualified opinions on our financial statements, continue to improve accounting control over property, and develop full cost accounting capability.			***Delphi*:** In June 2002, DOT converted FTA and NHTSA from our outdated legacy accounting system to Delphi, a new Web-enabled financial system based on Oracle Financials. Delphi uses the Standard General Ledger and has a consistent Accounting Classification Structure for all DOT Operating Administrations (OA), has extensive standard, custom-developed, and ad-hoc reporting capabilities, and is significantly improving the quality and timeliness of DOT's financial statements and reports. DOT organizations are using Delphi, except for FHWA, FAA, MARAD, and FMCSA that will complete their conversions to Delphi in 2003. ***Unqualified Audit Opinion:*** After extensive hard work, DOT has received an unqualified audit opinion from the Inspector General on our financial statements for FY 2002. DOT is continuing to work to improve financial management further to ensure that we maintain a clean opinion in the future. ***Assets Accounting and Property Management System:*** As part of the overall plans to improve property management, DOT has launched a project to improve asset accounting practices. To accomplish this, TSA has been through an audit to work with the issues concerning property management. The Coast Guard successfully completed implementation of a commercial-off-the-shelf (COTS) asset accounting and property management system, Oracle Financials – Fixed Assets Module.
INITIATIVE	*FY 2002 STATUS*	*PROGRESS*	*HOW DOT IS MEETING PMA CHALLENGES*

E-Government: Better justify and track costs and performance of information technology projects, as well as participate in government-wide initiatives that automate how the public deals with the government, such as the FirstGov.gov initiative, electronic grants, standardization of data, and customer relationship management.			***Electronic Grants*:** DOT has formalized its grants management policy, which provides guidance to grant program officials on implementing the various OMB grants management circulars and DOT-issued common rules for electronic grants. ***Capital Planning:*** DOT implemented an IT Capital Planning policy and is now fully integrating this process with the budget cycle. DOT held its initial Departmental Investment Review Board, and identified areas to consolidate redundant IT projects. Additionally, DOT submitted over 80 business cases as compared to just over 20 for the FY2003 budget. DOT will continue process improvements through a year-long project manager and capital planning curriculum. ***IT Security:*** DOT has decreased GISRA weaknesses by over 40 percent, and has a plan of action to continue this progress in FY 2003. DOT increased the number of systems certified/accredited, and implemented a program to conduct weekly vulnerability scanning of all public facing and eGovernment web servers. To date, DOT has increased over 100 percent of systems scanned, decreased vulnerabilities by over 90 percent, and over $1.2M by using an enterprise-wide software license. DOT has implemented a Department-wide 24X7 Transportation Cyber Incident Response Center, in conjunction with other Federal Agencies, to leverage the economies of scale. ***Enterprise Architecture:*** DOT has completed the "As Is" architecture for crosscutting business processes and will define the "To Be" architecture for the DOT common IT infrastructure by the end of March. DOT Operating Administrations plan to complete EAs for their unique business areas by the end of FY2003. ***Government-wide Initiatives:*** DOT is an active partner in many of the government wide initiatives, including e-payroll, e-travel, e-learning, and rulemaking. In addition to the government wide initiatives, we have implemented DOT initiatives to expand services and information available to the public through such initiatives and TranStats and the St. Lawrence Seaway binational website partnership with the Canadian government.

INITIATIVE	*FY 2002 STATUS*	*PROGRESS*	*HOW DOT IS MEETING PMA CHALLENGES*
			DOT Performance Plan and Reports. DOT's

Budget/Performance Integration: Better integrate budget and performance functions by integrating respective staff work; developing plans and budget with outcome goals, output targets and resources requested in the context of past results; charging full budgetary costs of programs; and documenting program effectiveness.			*Performance Plans and Reports* have consistently garnered a high standing from George Mason University's Mercatus Center, and the General Accounting Office. The *DOT FY 2003 Performance Plan/FY 2001 Performance Report* gained Mercatus' top rating last year. DOT's Strategic Plans likewise have consistently been rated as the best in government. ***Cost Accounting System (CAS):*** In 2001, FAA enhanced the CAS to provide for costing of Terminal Services, thus completing the implementation of all four Air Traffic Services. The CAS has also been used to produce the agency's Statement of Net Cost since 1998. In 2002, FAA added six organizations to CAS, now capturing 76 percent of agency costs by product or service. To improve the accuracy of labor costs in the CAS, a sub-set of agency employees began tracking their time by project and activity in the Labor and Distribution Reporting (LDR) system. This will be expanded in the coming year. Since 1999, FAA had used the CAS to produce their annual Statement of Net Cost. In 2003, all FAA line of business employees will begin tracking their annual Statement of Net Cost. In 2003, all FAA line of business employees will begin tracking their time in LDR and the existing CAS and LDR systems will be converted to be compliant with the new Delphi system. FAA will complete its CAS implementation in the remaining lines of business in FY 2004. The Bureau of Transportation Statistics (BTS) developed a method to monitor activities by tracking non-labor spending to the project level using new accounting codes, a first step toward BTS' cost accounting. ***Tracking Operations and Labor Costs:*** The Volpe National Transportation Systems Center, part of RSPA, tracks key fiscal trends, such as obligations, labor, and acquisitions on a regular basis. Volpe prints a pocket size summary brochure that is used in management meetings to review the financial status of the agency. Volpe's staff members are able to assess their operation costs, and compare their labor and overhead costs from the past to the current fiscal year.

The next section of the Report describes the activity or financial highlights for each operating administration that help DOT meet its departmental objectives.

Federal Highway Administration (FHWA)

FHWA provides grants to States to help plan, build, maintain, and manage the Nation's highway system and bridges. It also performs research and development of highway and trucking related issues; manages the Intelligent Transportation System (ITS) program; and operates the direct Federal highway construction program for Federal lands.

Highway Trust Fund

A majority of FHWA programs and projects are authorized by the Transportation Equity Act for the 21st Century (TEA-21) and receive funds from the Highway Trust Fund (HTF).

FHWA programs are primarily "user funded" programs, supported by the Federal gasoline/diesel tax and taxes on other motor vehicle-related products (e.g., tires, trucks, trailers), and truck use taxes. The tax collections are deposited into the HTF and dedicated to financing Highway and Transit programs. About 14 percent of the HTF revenue was dedicated to Federal transit programs in FY 2001 and FY 2002. FHWA obligations for the HTF totaled $39.7 billion at the end of FY 2002. The cash balance in the HTF at the end of FY 2002 was about $22 billion.

Transportation Infrastructure Finance And Innovation Act

FHWA has innovative financing initiatives such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) to support financial investments in transportation. Since the creation of TIFIA, DOT has selected 11 projects to benefit from TIFIA at a budgetary cost of $202 million to the Federal Government and provided $37 billion in credit assistance supporting transportation investments.

Federal Aid and State Grants

Federal-aid highway funding accounts for the majority of FHWA's budget authority. It provides for construction and preservation of the approximately 46,700 mile Dwight D. Eisenhower National System of Interstate and Defense Highways, generally financed on a 90 percent Federal to 10 percent State basis. It also provides for improvements on approximately 900,000 miles of other Federal-aid arterial and collector routes, with financing generally on a 80 percent Federal to 20 percent State basis.

Federal Aviation Administration (FAA)

The FAA is charged with providing a safe, secure, and efficient aviation system that contributes to national security. FAA establishes and enforces regulations and conducts oversight inspections of the civil aviation industry. The Agency operates and maintains the complex air traffic control system and the facilities and equipment that support it. Air traffic controllers supervise more than half of the world's air traffic each day – 5,000 aircraft at any given moment and close to 7 million commercial, military, and general aviation aircraft each year. The 51,000-person, $14 billion administration also conducts research to improve safety and efficiency, and assists in the development of a nationwide system of more than 5,000 public use airports in the United States. The FAA also regulates and licenses U.S. commercial space transportation activities.

Cost Accounting System (CAS)

FAA is continuing with the development and implementation of a cost accounting system, and is developing an Interim Fixed Asset System (IFAS). FAA's cost accounting system captures investments, operating and overhead costs, revenues, and other financial measurement and reporting aspects of operations. The CAS is also used to determine the cost of Air Traffic Services and supports the calculation of overflight user fees. IFAS will receive data electronically from various property systems, further enhancing the integration of DOT's financial systems. IFAS will compute the depreciation for FAA's owned assets that meet the Department's capitalization criteria. Finally, as the Operating Administrations of the Department continue to migrate to Delphi, they will have enhanced cost accounting capabilities based on the best practices of the private sector.

Federal Transit Administration (FTA)

Public transit provides access to school, work, and community services and activities for millions of Americans. Over 95 billion trips were taken on public transit in FY 2001. FTA provides financial assistance to develop new transit systems, and to improve, maintain, and operate existing systems. Funds are provided through legislative formulas or discretionary authority. In 2002, FTA provided funding to over 600 public transit operators in 417 urbanized areas, 1,300 transit systems serving rural areas, and 4,000 agencies that provide transit service to elderly and disabled individuals. These systems operate 154,244 total transit vehicles, 10,572 miles of rail track, 2,825 rail stations, and 1,269 maintenance facilities nationwide.

New Starts

TEA-21 authorized $6.1 billion n guaranteed funding for the New Starts program through FY 2003. An additional, $3.4 billion in "contingent" or "bridge" authority was authorized, increasing the total to $9.5 billion.

Projects eligible for FTA New Starts funding include an extension of an existing or new fixed guideway system which utilizes and occupies a separate right-of-way, or rail line, for the exclusive use of mass transportation and other high occupancy vehicles, or uses a fixed catenary system and a right of way usable by other forms of transportation. This includes, but is not limited to, rapid rail, light rail, commuter rail, automated guideway transit, people movers, and exclusive facilities for buses (such as bus rapid transit) and other high occupancy vehicles.

United States Coast Guard (USCG)

The United States Coast Guard is a military, multi-missioned maritime service and one of the Nation's five Armed Services. Its mission is to protect the public, the environment, and U.S. economic interests in the Nation's ports and waterways, along the Nation's coastline, on international waters, and in any maritime region as required to support national security. The Coast Guard established a new level of maritime security operations around our Nation and beyond its borders while enhancing DOT's capabilities in maritime safety, mobility, and environmental protection.

Assets Accounting and Property Management System

The Coast Guard successfully completed implementation of a commercial off-the-shelf (COTS) asset accounting and property management system, Oracle Financials – Fixed Assets Module.

Property custodians now have more detailed information available on the location, value, status, and condition of the property under their control. Procedures have been established for performing ongoing physical inventories of capital assets for validation with system records.

By closely working with program managers and utilizing application extensions, the Coast Guard was able to implement its Oracle Fixed Assets Module in less than one year and replace several non-integrated asset systems with it.

Transportation Security Administration (TSA)

Created in FY 2002, TSA protects the Nation's transportation systems to ensure freedom of movement for people and commerce. TSA provides aviation security and coordinates security policy for the Nation's railway, highway, pipeline, and waterway systems. TSA is supported by a combination of general funds and user fees.

Financial Statements Module

As a part of implementing the Delphi system, TSA is adopting a document imaging system that integrates scanned images of financial documents with financial records in Delphi and makes the document images easily and quickly accessible over the Web. The TSA Financial Statements Module (FSM) automates the preparation of an Adjusted Trial Balance Report with an accompanying Audit Transaction Report. The FSM provides an efficient means of preparing financial statements that ensures the accuracy and integrity of data. The FSM currently consolidates data from Delphi, and prepares the Consolidated Financial Statements.

Federal Railroad Administration (FRA)

FRA was created in 1966, to promote and enforce safety throughout the U.S. railroad system, rehabilitate the Northeast Corridor rail passenger services, consolidate Federal support for rail transportation, and support research and development. FRA also educates the public on dangers associated with railroading and encourages cooperative efforts to advance safety throughout America's rail system. A rail system that in FY 2002 included over 659 different railroads, ranging from major freight railroads and Amtrak's Northeast Corridor to historic railroads of one mile to two miles in length.

Railroad Rehabilitation and Improvement Financing (RRIF)

RRIF loans help maintain and improve railroads. FRA provides direct loans or loan guarantees for the acquisition, development, improvement or rehabilitation of existing or new intermodal or rail equipment facilities. Eligible borrowers include railroads, State and local governments and government sponsored authorities. A $2.07 million 25-year direct loan was awarded to the Mount Hood Railroad, a short line railroad based in northwest Oregon. Mount Hood Railroad operates a 22-mile line extending from the City of Hood River on the Columbia River to Parkdale, Oregon. The Mount Hood Railroad provides both freight and scenic passenger services. The Oregon Department of Transportation supported Mt. Hood's RRIF application by paying the credit rule premium. As a result of the loan, a greater partnership now exists between DOT, the FRA, and the Oregon Department of Transportation that benefits the State's short line industry and the rail customers.

National Highway Traffic Safety Administration (NHTSA)

NHTSA traffic safety programs encompass a range of strategies to reduce the number of crashes and their consequences. These programs include highway safety research, demonstrations of new technologies and techniques, and outreach efforts, particularly focusing on multi-cultural education programs and high-risk groups.

Incentive Grants Against Drunk Driving

At the National Highway Transportation Safety Administration (NHTSA), program cost effectiveness is a foremost consideration in all of the activities. NHTSA's programs are designed specifically to intensify efforts in behavioral and vehicular safety initiatives.

The Transportation Equity Act for the 21st Century (TEA-21) authorized $500 million, over a six-year period, for incentive grants to encourage States to increase safety belt use rates. In 2001, safety belt use saved over 12,000 lives. However, about 25 percent of Americans still do not use safety belts when driving or riding in motor vehicles. For each percentage point increase in safety belt use, 2.8 million more people buckle up, saving approximately 265 additional lives and preventing over 6,400 additional injuries each year. Eighteen states, the District of Columbia, and Puerto Rico now have primary safety belt laws. In June 2002, the average safety belt use rate in States with primary enforcement laws was 11 percentage points higher than in States without primary enforcement laws. (Safety belt use was 80 percent in primary law States versus 69 percent in States without primary enforcement.)

TEA-21 also authorized $219.5 million, over a six-year period for NHTSA, to continue the Section 410 alcohol-impaired driving countermeasures incentive grant program. To qualify for this grant, States must either demonstrate that they have in place certain laws or programs, such as administrative license revocation laws and graduated licensing programs, or meet certain performance criteria based on their alcohol-related fatality rates. States use Section 410 grant funds to implement and enforce alcohol-impaired driving countermeasures.

Federal Motor Carrier Safety Administration (FMCSA)

The Federal Motor Carrier Safety Administration's (FMCSA) primary mission is to prevent commercial motor vehicle-related fatalities and injuries. FMCSA activities contribute to ensuring safety in motor carrier operations through strong enforcement of safety regulations, targeting high-risk carriers and commercial motor vehicle drivers; improving safety information systems and commercial motor vehicle technologies; strengthening commercial motor vehicle equipment and operating standards; and increasing safety awareness.

FMCSA and State authorities completed 10,271 compliance reviews in 2002. In addition, 30,893 motor carriers were

reached through security sensitivity visits. FMCSA initiated 3,791 enforcement actions in 2002 for claims totaling more than $21 million (an average of $5,554 per claim), issued 182 out-of-service orders, and 677 orders to cease operations.

Border Program Funds

FMCSA obligated $62.5 million in grant and operations funding to ensure safety and security activities in conjunction with opening the U.S.-Mexico border to Mexican commercial vehicles. This included deploying additional inspectors along the U.S.-Mexico border and additional safety investigators to evaluate Mexican carriers' safety.

HAZMAT Funds

In response to the events of 9/11, FMCSA obligated $19.5 million to complete over 30,890 security sensitivity visits aimed at educating carriers on appropriate HAZMAT security processes and procedures.

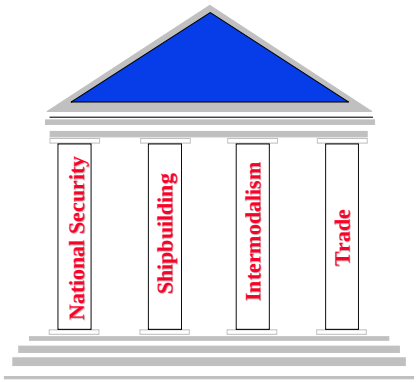
Commercial Drivers License Funds

In FY 2002, FMCSA obligated $8 million for research, training, and implementation of commercial drivers license (CDL) fraud detection and prevention techniques.

Maritime Administration (MARAD)

MARAD is the Federal Government's link to the U.S. and international maritime industry. MARAD provides education and training of merchant mariner officers at the U.S. Merchant Marine Academy and six State Maritime Schools; manages the Ready Reserve Force within the national Defense Reserve Fleet (NDRF); supports the shipbuilding and repair industry; disposes of obsolete vessels In the NDRF; undertakes emergency planning and coordination; promotes port and intermodal development; and administers maritime war risk insurance.

MARAD's Strategic Goals



Implementation of Port Security Electronic Grants System

In February 2002, MARAD, in partnership with TSA and USCG, implemented the first all electronic grants system to award competitive Port Security Grants (P.L. 107-117) with $92.3 million in emergency funding. A total of 850 project applications for Port Security Grants were submitted on-line in response to the announcement, resulting in a total award of 78 Port Security Grants in a record time of 4 months. Electronic grant administration is ongoing.

Fair and Reasonable Guideline Rates

A total of 239 fair and reasonable guideline rate determinations were made during the fiscal year, covering 3.2 million metric tons of food aid cargoes.

Office of the Secretary

(OST)

The Office of the Secretary (OST) provides policy development and central supervisory and coordinated functions necessary for overall planning and direction of the Department. OST's budget supports salaries and expenses, planning, research and development, and supports the Office of Civil Rights and the Minority Business Resource Center.

Electronic Grants

DOT has formalized the grants management policy, which provides guidance to grant program officials on implementing the various OMB grants management circulars and DOT-issued common rules. Program-specific regulations, guidance, and award conditions make reference to the various departmental grant-related rules. Most grant programs require the standard OMB grant application and reporting form, or have requirements that are substantially reduced from the standards.

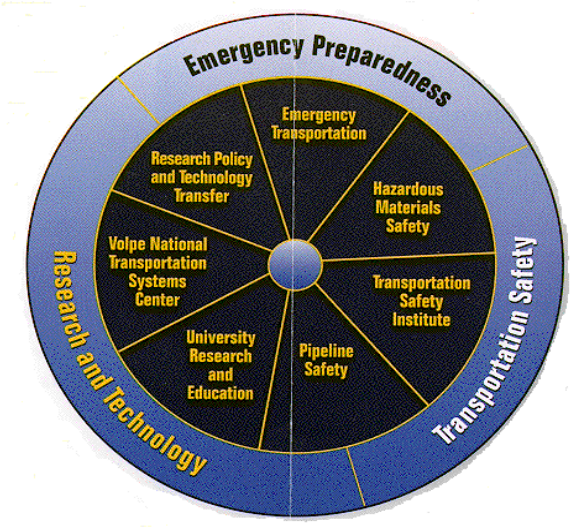
The Department continues to play a major role in the development of government-wide standards and requirements. Departmental staff members were instrumental in establishing the Inter-Agency Electronic Grants Committee (IAEGC), leading the Government-wide Grants Network, and providing key leadership positions in the Federal Grants Streamlining Program that implements Public Law 106-107, the Federal Financial Assistance Management Improvement Act of 1999. The Department was a major participant in the development of grant financial system standards by the Joint Financial Management Improvement Program (JFMIP).

DOT Building Security

Immediately following the events of September 11, 2001, OST organized to provide priority services and around-the-clock duty personnel in support of exceptional departmental requirements, particularly in support of the Office of the Secretary, the FAA, and later the Transportation Security Administration. This effort included the installation of additional emergency telecom and local area network capacity for more than 1,000 users at the GSA and Nassif Buildings. A state-of-the-art Voice Over Internet Protocol network was also established to serve more than 1,000 users in five different building locations.

Research and Special Programs Administration (RSPA)

RSPA programs make America's transportation systems more integrated, effective, and secure by conducting and fostering crosscutting research and special programs to enhance the quality of life, safety, the environment, and the well-being of all Americans. RSPA's mission can be broken down into three major programs: the pipeline and HAZMAT transportation safety, research and technology, and emergency preparedness.



Tracking Operations and Labor Costs

The Volpe National Transportation Systems Center, part of RSPA, is an innovative, fee-for-service organization for transportation and logistics expertise, providing customers with policy support and strategic planning and analysis. Volpe tracks key fiscal trends, such as obligations, labor, and acquisitions on a regular basis. Volpe prints a pocket size summary brochure that is used in management meetings to review the financial status of the agency. Volpe's staff members are able to assess their operation costs, and compare their labor and overhead costs from the past to the current fiscal year. Volpe is also able to track their labor and operations costs by the various OAs, and other Departments (e.g., DOD, DOE, EPA) to whom they provide services.

Office Of Inspector General (OIG)

The Inspector General Act of 1978, as amended (Inspector General Act, P.L. 95-452), established the OIG as an independent and objective organization within DOT with responsibility for (1) conducting and supervising objective audits and investigations of DOT's programs and operations, (2) promoting economy, effectiveness, and efficiency within DOT, and (3) preventing and detecting, fraud, waste, and abuse in the Department's programs. The OIG is charged with keeping the Secretary of Transportation and the Congress fully informed about problems in departmental programs and operations and making recommendations for improvements. OIG also has significant responsibilities under the Chief Financial Officers Act, the Government Management Reform Act, and the Government Information Security Reform Act (GISRA), as well as the Government Performance and Results Act (GPRA). OIG will fulfill these responsibilities by overseeing required audits of DOT's financial statements, assessing the adequacy of internal control systems, and identifying opportunities to achieve financial benefits and improve program performance.

OIG Audits

The Department of Transportation is required to prepare audited financial statements. In FY 2001 and FY 2002, DOT received an unqualified opinion on its financial statements, indicating that DOT's resources are properly accounted for, its financial condition fairly reported, and that steps have been taken to ensure that DOT can sustain those results in the future.

The DOT OIG also conducts performance audits of DOT programs. These performance audits examine performance and management of DOT programs with the intent to improve program operations, decision-making, and public accountability.

The OIG plan for selecting grantees for quality control reviews assures each grantee for which DOT has audit cognizance will receive at least one quality control review within a 5-year period. Other grantees selected for review were determined based on both risk and the dollar value of transportation expenditures and major program dollars.

Bureau of Transportation Statistics (BTS)

BTS' mission is to lead in developing transportation data and information of high quality, and to advance their effective use in both public and private transportation decision making.

Government Transportation Financial Statistics Report

BTS updated and provided quality control to numerous DOT publications, particularly to data and information in the *Government Transportation Financial Statistics Report*.

Cost Accounting

BTS developed a method to monitor activities by tracking non-labor spending to the project level using new accounting codes, one of the initial steps toward cost accounting in this Operating Administration. In September 2002, BTS also implemented a Labor Distribution Reporting (LDR) system. BTS formed a working group within DOT to guide the project and is planning to collaborate with the Federal Aviation Administration and their LDR system.

Surface Transportation Board (STB)

The STB was established on January 1, 1996, by the Interstate Commerce Commission Termination Act of 1995 (ICCTA). The ICCTA eliminated the Interstate Commerce Commission (ICC) and transferred certain functions formerly performed by the ICC to the STB. The STB is a three-member, bipartisan body with jurisdiction over certain regulatory matters. The mission of the STB is to promote substantive and procedural regulatory reform in the economic regulation of surface transportation, and to provide a forum for dispute resolution and facilitation of appropriate business transactions.

The STB's funding included an appropriation of $18.448 million, of which $0.95 million was provided from the collection of user fees that are credited to the appropriation as offsetting collections on a dollar-for-dollar basis. The STB annually updates and revises its user fee schedule of 114 different fee-related activities.

Saint Lawrence Seaway Development Corporation (SLSDC)

The U.S. Saint Lawrence Seaway Development Corporation (SLSDC), a wholly owned government corporation and an operating administration of the U.S. Department of Transportation (DOT), is responsible for the operations and maintenance of the U.S. portion of the St. Lawrence Seaway between Montreal and Lake Erie. This responsibility includes maintaining and operating the two U.S. Seaway locks located in Massena, N.Y., and vessel traffic control in areas of the St. Lawrence River and Lake Ontario. In addition, the SLSDC performs trade development functions designed to enhance Great Lakes St. Lawrence Seaway System utilization. Maritime commerce on the Great Lakes Seaway System annually generates more than 150,000 U.S. jobs, $4.3 billion in personal income, $3.4 billion in transportation-related business revenue, and $1.3 billion in Federal, State, and local taxes. The SLSDC coordinates its activities with its Canadian counterpart, The St. Lawrence Seaway Management Corporation (SLSMC), particularly with respect to environmental programs, operating dates, and trade development programs. The unique binational nature of the Seaway System requires 24-hour, year-round coordination between the two Seaway entities.

The SLSDC has joined with its Canadian counterpart, the St. Lawrence Seaway Management Corporation, as well as the U.S. and Canadian Coast Guards, to institute a joint boarding program for the foreign vessels that use the Seaway. In FY 2002, the SLSDC continued this program by inspecting 100 percent of all ocean vessels in Montreal. This improved inspection regime has saved vessels, on average, four hours per transit and ensured that any safety or environmental issues are addressed prior to entering U.S. waters. As a result, delays were reduced and ocean carriers using the Seaway saved more than $500,000 in operating costs during FY 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

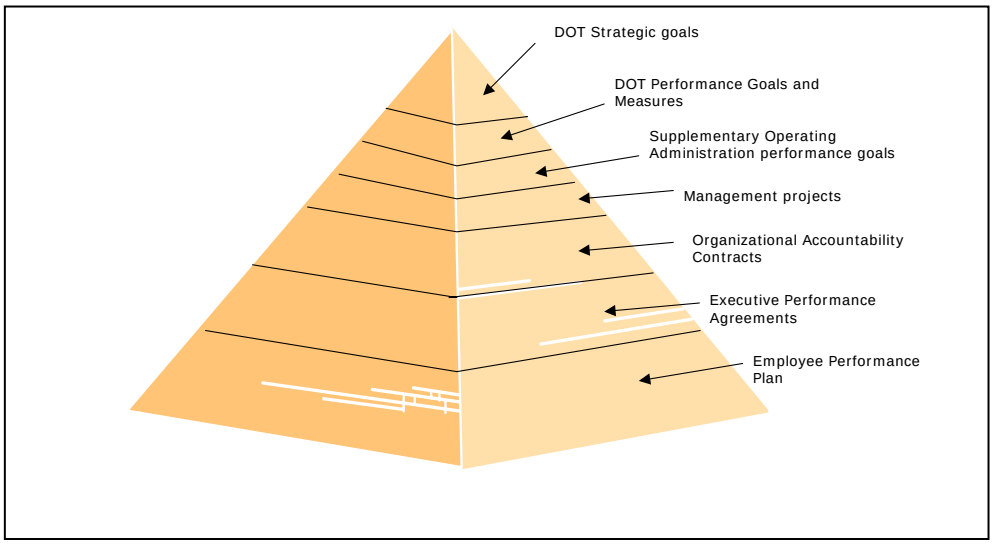
Introduction

The Department of Transportation (DOT) is committed to embodying the President's goals of a citizen-centered, results-based, market-oriented government. Transportation is a key element in our national economy - it helps maintain our standard of living, and supports our Nation's defense. Everything we do at DOT is aimed at making measurable improvements in our transportation system, the security of our Nation, and the quality of American life. In this first combined *Performance and Accountability Report* and fourth annual *Performance Report*, we hold ourselves accountable to the public for effectively bringing to bear the Department's energy and resources in improving the Nation's transportation system. We use these results to improve our strategies and resource decisions.

DOT's management framework is as follows:

- The ***DOT Strategic Plan*** provides a comprehensive vision for improving the Nation's complex and vital transportation system. For the next several years, it puts forth broad objectives; targets specific outcomes we want to achieve, and identifies key challenges.
- The ***DOT Performance Plan*** operationalizes the Strategic Plan, and provides strong linkages to DOT's budget request. The Plan defines performance goals and measures used to manage progress toward our strategic objectives. It describes in detail one fiscal year's resources and programmatic effort within a strategic context.
- The ***DOT Performance Report*** provides accountability against our FY 2002 performance goals.
- ***Accountability Agreements*** for DOT organizations, executives, and employees embed the philosophy of managing for performance into the Department's culture and daily practices.

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



How We Select Our Performance Goals and Measures

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

We have tailored performance measures to how DOT gets our work done (described in the next section) for each performance goal. When considered along with external factors and information provided in program evaluations, these measurements give valuable insight into the performance of DOT programs, and are meant to broadly illustrate how DOT adds value to the Nation. The *FY 2002 Performance Plan* depicted a top-level, integrated system for managing for results within DOT, and was not an exhaustive treatment of all DOT programs and activities. This report in conjunction with DOT's *FY 2002 Performance Plan* must be read with each DOT Operating Administrations' own performance results to gain a comprehensive picture of everything DOT accomplished in FY 2002.

Terminology

We will use the following terminology throughout the report:

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

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

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

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

How DOT Works to Achieve Strategic and Organizational Goals

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

- *Direct operations and investment in DOT capital assets that provide capability*, such as air traffic control, airline passenger security screening, and Coast Guard's vessel traffic services, maritime search and rescue, and military operations.
- *Infrastructure investments and other grants*, such as investment in highway, rail, transit, airport, and Amtrak capital infrastructure improvement, and grants for safety, job access, or other important transportation programs.
- *Innovative financial tools and credit programs,* such as those provided for by the Transportation Infrastructure Finance and Innovation Act, and the Railroad Rehabilitation and Improvement Financing Program.
- *Rulemaking*, in areas such as equipment, vehicle or operator standards; for improving safety; and for fostering competition in the transportation sector of the U.S. economy.
- *Enforcement* to ensure compliance, including inspections, investigations, and penalty action.
- *Technology development and application*, such as fostering new materials and technologies in transportation, and transportation related research.
- *Education and outreach,* such as consumer awareness, and campaigns to influence personal behavior.
- *Public Information*, such as that provided by the Bureau of Transportation Statistics, and each DOT operating administration, so that States, localities, regions, and private sector entities can better plan their activities.

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

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

The performance report focuses on DOT's five strategic goal areas and describes the results we saw in FY 2002. Some activities are internal ones – like financial management, procurement, and personnel -- without which the Department could not operate or hope to achieve its goals. The Organization Excellence chapter of the report focuses on overall DOT efforts to achieve our part of the President's Management Agenda, ensuring that we are a citizen-centered, results-oriented Cabinet agency, depending on market-based transportation solutions.

PERFORMANCE REPORT

Our 2002 Results: A Reader's Guide

For each strategic and organizational goal, we present performance goals and measures in the *FY 2002 Performance and Accountability Report*, along with our performance against them. For each performance goal we provide:

- a description of the challenge we face – the reason for action;
- the measure or measures we are using to judge success, and the FY 1999-2002 targets for each;
- a discussion of other agencies who share in our efforts, or whose outcome goals we contribute to;
- the external factors that may present special challenges in achieving our goal;
- special management challenges (when related to the goal); and
- a performance forecast for FY 2003.

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

The Relationship between DOT's Activities and Observed Results: The relationship between resources and results can be complex, and a mix of current and prior-year resources and activity almost always influences any performance result. For example, direct service program results, such as Coast Guard drug and migrant interdiction, are influenced both by external forces and prior-year acquisition activities. Other results, such as highway congestion or transit ridership, are predominately influenced by prior-year funding.

Fiscal Year versus Calendar Year: Most DOT results are reported on a fiscal year basis, but some are reported on a calendar year basis. We have been careful to note the calendar or fiscal year basis of result and trend measurement. Either is a satisfactory basis for measuring DOT's annual performance.

Summary Performance Report: To help interpret single year results and historical trends, we have provided a tabular summary of long-term performance at the beginning of each strategic goal section. We also have provided a table to report final FY 2001 performance information for performance measures that had projected or preliminary performance data in last year's report.

Data Completeness

An exhaustive assessment of the completeness and reliability of our performance data and detailed information on the source, scope and limitations for the performance data in this report are provided at http://www.dot.gov. In that website, we also provide information to resolve the inadequacies that exist in our performance data.

Preliminary vs. Final Results: Reporting FY 2002 results by February 2003 has been challenging where we rely on third party reporting. Often we have only preliminary or estimated results based on partial-year data and must wait for final data to properly verify and validate our results. In some cases where data is provided solely as an annual value and is not available in time for this report, we rely on historical trend information and program expertise to generate a projected result. We have been careful to point out where we have assessed our performance on a preliminary or projected basis. Preliminary estimates or projected results will be adjusted after final compilation or verification and validation. In all cases where results have changed from last year's report, we indicate that by placing an "(r)" with the number, indicating a revision.

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

DOT sets annual performance targets for the outcomes it aims to influence. Targets set a mark so we can judge our progress. They also force us to think hard about what we can – and can't – do to get results. In this report, we focus on single-year results for FY 2002. There is no simple formula that ties the results in one year to the success or failure of programs. DOT's *FY 2002 Performance and Accountability Report* invites the reader to "look over our shoulder" as we improve transportation and make Americans' quality of life better.

Integrating FY 2002 Resource Expenditure Accounting With Achievement of Our Goals

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

DOT Contributions to Common Governmental Outcomes

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

Management Challenges

The DOT Inspector General and the General Accounting Office publish reports describing a number of problems and challenges facing the Department. We take these issues seriously, and have folded our approach to meeting these challenges into our general efforts to achieve good performance outcomes. Where there is a DOT performance goal associated with a management challenge, we discuss the challenge as a part of our performance against that goal, and made it stand out visually by use of a text box. We also indicate where a Management Challenge relates to more than one performance goal.

SAFETY

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

Strategic Outcomes:

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

Safety is our most important strategic objective. We strive to improve the benefits of transportation while constantly reducing the risk to their health and well being. In FY 2002, DOT safety programs continued to reduce transportation-related fatalities and injuries.

PERFORMANCE SUMMARY:

	1996	1997	1998	1999	2000	2001	2002	2002 Target	Met	Not Met
Highway fatalities/100 million vehicle-miles traveled (VMT)	1.69	1.64	1.58	1.55	1.53	1.51	1.50*	1.4		✓
Fatalities involving large trucks	5,142	5,398	5,395	5,380	5,282(r)	5,082(r)	4,984*	4,710		✓
Fatalities involving large trucks per 100 million commercial VMT	2.8	2.8	2.7	2.7	2.6(r)	2.45	2.4*	2.2		✓
U.S. commercial fatal aviation accidents/100,000 departures (Last 3 years' average)	0.051	0.057 (r)	0.046	0.051	0.037	0.037	0.026*	0.038	✓	
Fatal general aviation accidents	382	378	396	364	341	359(r)	346*	379	✓	
Percent of all mariners in imminent danger rescued	84	84	84	87.5	82.7	84.2	84.4	85		✓
Train-accidents/million train-miles	3.64	3.54	3.77	3.89	4.13	4.22(r)	3.56	4.00	✓	
Grade crossing accidents divided by the product of million train-miles and trillion VMT	2.57	2.27	1.98	1.83	1.76(r)	1.64(r)	1.54	1.39		✓
Transit fatalities/100 million passenger-miles traveled	0.520	0.545	0.564	0.530	0.499 (r)	0.480 (r)	0.487*	0.492	✓	
Number of excavation damages to natural gas and hazardous liquid pipelines.	122	99	129	100	119	121	75*	111	✓	
Serious hazardous materials incidents in transportation	466	486	456	540(r)	565(r)	515(r)	189*	523	✓	

FY 2001 FINAL DOT PERFORMANCE REPORT

	1995	1996	1997	1998	1999	2000	2001	2001 Target	Met	Not Met
Highway injured persons/100 million VMT	143	140	131	121	120	116	109(r)	113	✓	
Injured persons involving large trucks (in thousands)	117	129	131	127	142	140	131(r)	122		✓
Percent highway fatalities alcohol-related	41	41	39	39	38	40	41	34		✓
Operational errors/100,000 activities	0.52	0.51	0.49	0.56	0.57	0.68	0.73	0.5		✓
Runway incursions	227	268	301	311	330	405	407	243		✓
Recreational boating fatalities	888	770	857	864	778	742	722(r)	749	✓	
Rail-related fatalities/million train-miles	1.71	1.55	1.57	1.48	1.31	1.30	1.36	1.23		✓
Natural gas transmission pipeline failures	4,767	4,964	4,871	4,160	4,467	2,750	2,831 (r)	4,375	✓	

* Preliminary estimate
(r) Revised

HIGHWAY SAFETY: Highway crashes cause 95 percent of all transportation-related fatalities and 99 percent of transportation injuries, and are the leading cause of death for people ages 4 through 33. About 70 million people (25 percent) still do not use safety belts when driving or riding in motor vehicles. Alcohol is the single biggest contributing factor to fatal crashes – over 17,000 annually. About 12 percent of all people killed in motor vehicle incidents are involved in a crash with a large truck, yet trucks represent only 4 percent of registered vehicles and about 7 percent of the vehicle-miles of travel. Highway crashes place a considerable burden on our health care system – reaching $230.6 billion a year, or an average of $820 for every person living in the United States.

Performance measures:

Fatalities per 100 million vehicle-miles of travel (VMT).

	1999	2000	2001	2002
Target:	1.6	1.5	1.5	1.4
Actual:	1.6	1.5	1.5	1.5#

Number and rate (per 100 million commercial VMT) of fatalities in crashes involving large trucks.

	1999	2000	2001	2002
Target:				
Number:	N/A	4,934	4,830	4,710
Rate:	N/A	N/A	N/A	2.2
Actual:				
Number:	5,380	5,282(r)	5,082(r)	4,984#
Rate:	2.7	2.6(r)	2.45	2.4#

(r) Revised; # Preliminary estimate.

Note on data: Traffic fatalities are based on States' monthly fatality counts for the first half of FY 2002 and are then annualized through an estimating process. Performance targets and results for 1999 through 2001 are on a calendar year basis, which are not materially different from FY 2002 targets and estimated results.

2002 Results: DOT did not meet the highway fatality rate target, and did not meet the truck-related fatality and fatality rate targets. Traffic fatalities totaled an estimated 42,605 in 2002, up from 42,116 in 2001. However, DOT has made substantial progress in reducing the traffic fatality rate per 100 million vehicle miles from 3.3 in 1980 to 1.5 in 2002.

NHTSA: Passenger vehicle occupant fatality rates are declining for all types of vehicles, despite a significantly rising number of vehicles being driven more miles. Fatalities among children ages 0-4 and 5-15 are decreasing. Although non-occupant injuries have been declining, non-occupant fatalities have been increasing lately, for the first time since 1995. In addition, alcohol-related fatalities and motorcycle fatalities increased.

Safety belts - The safety belt use rate is one of DOT's highest priority safety programs. Belt use in 2002 reached 75 percent, which is the highest rate yet observed and continues a relatively steady pattern of increase since use was first measured by a comprehensive national survey at 58 percent in 1994. States that allow more stringent enforcement of their belt use laws ("primary" States) reached a milestone of 80 percent belt use in 2002, and substantial gains were also seen in the Northeast and in vans and sport utility vehicles.

NHTSA focused on at-risk populations whose safety belt use rates were below the national level and conducted two "Click-It or Ticket" Campaigns emphasizing aggressive enforcement. NHTSA worked with partners and stakeholders to encourage additional States to enact primary belt laws, the strategy that has proven to most dramatically raise safety belt use and save lives.

$15 million was enacted in 2002 for Occupant Protection Incentive Grants, and grants were awarded to 29 States, the District of Columbia, Puerto Rico, and 2 Territories. For a State to be awarded such a grant they had to demonstrate their implementation of specific occupant protection laws and programs such as a safety belt law providing for primary enforcement or a law requiring use by individuals in all seating positions within the vehicle.

Impaired drivers - In combating this important traffic safety issue, NHTSA focuses on high risk drinking drivers. Its five-State alcohol demonstration program (begun in FY 1999) was expanded to include Indiana and Michigan, with their high alcohol-related fatalities. The on-going national public education campaign *"You Drink and Drive. You Lose."* in conjunction with highly publicized July and December enforcement mobilizations, communicated hard-hitting prevention messages to the public. NHTSA also focused on repeat and high blood-alcohol content offenders.

TREAD - NHTSA revised child safety seat and tire standards, and published new requirements for a child safety seat ease-of-use rating system, tire labeling, and tire pressure monitoring systems in light vehicles. NHTSA also published regulatory notices for roof crush protection, school bus safety, occupant protection in interior impact and with advanced air bags, heavy truck braking and rear impact guards, electric vehicle crash safety, bus emergency exits and windows, and accelerator controls. NHTSA published a request for comments on a vehicle safety rulemaking priorities plan.

Grants - $38 million was available for Alcohol-Impaired Driving Countermeasures Incentive Grants, and 34 States received these grants to implement and enforce alcohol-impaired driving countermeasures. To qualify for this grant, States had to either demonstrate that they had in place certain laws or programs, such as administrative license revocation laws and graduated licensing programs, or had to meet certain performance criteria based on their alcohol-related fatality rates. State highway safety program formula grants totaling $160 million was also provided using a performance-based management process. States used this and their own funds to:

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

FMCSA and its State partners have reduced fatalities in crashes involving large trucks four consecutive years, from 5,395 in 1998 to an estimated 4,984 in 2002, a 7.6 percent reduction over the four-year period. The fatality rate for crashes involving large trucks, which takes into account increased risk exposure, has been reduced by 11 percent over the same time period. The large truck-related injury trend similarly has been encouraging, being reduced from 142,000 in 1999 to 131,000 in 2002.

Grants - In 2002, $160 million in safety grants to States supported motor carrier compliance and enforcement activities, including traffic enforcement and over 2.7 million commercial motor vehicle roadside inspections.

Licensing - To improve the commercial driver's license (CDL) program, FMCSA published a rule regarding driver disqualification and license requirements and penalties as required by the Motor Carrier Safety Improvement Act of 1999, completed 17 compliance reviews of State CDL programs, and distributed over $33 million in grants to States for CDL improvements.

Enforcement and Compliance - FMCSA conducted 7,492 compliance reviews of motor carriers in FY 2002, and State authorities conducted an additional 2,756. FMCSA also issued an interim final rule for the New Entrant Safety Assurance Program, to become effective in January 2003. This rulemaking requires all new entrants to pass an FMCSA safety audit within the first 18 months of operation in order to receive permanent DOT registration.

Border Safety Enforcement - FMCSA completed all requirements contained within Section 350 of the FY 2002 DOT Appropriations Act to open the U.S. - Mexico border to Mexican commercial vehicles, and issued rules governing safety monitoring, application for operating authority, and enforcement actions. FMCSA also provided policy guidance for enforcement at the border; developed centralized data systems; enhanced border inspection facilities; and hired, trained, and equipped an additional 214 border enforcement inspectors.

FHWA's approach to minimizing crash-related fatalities and injuries is to reduce the occurrence of the most frequent types of fatal crashes. In FY 2002, an estimated 38 percent of all fatalities occurred in roadway departures, 20 percent occurred at or near intersections, and about 11 percent involved pedestrians.

To address roadway departure crashes, FHWA issued a Technical Advisory containing improved information on shoulder "rumble strip" design and installation for rural National Highway System segments. Mississippi installed and tested different rumble strip designs combined with pavement marking overlays on rural roads. Initial evaluations from this test indicated improved safety results on rainy nights from the more-visible markings and audible rumble strip warnings.

To promote pedestrian and bicyclist safety, FHWA developed an Internet-based Bicycle Safety Education Resource Center to provide safety education information for bicyclists, motorists, and those who teach children to ride. The website contains a database of training materials, a guide to help interested parties identify the training needs of their audience, and guidance to assist with the development of new safety programs.

NHTSA and FMCSA supplementary performance measures:

Injured persons per 100 million vehicle-miles of travel.

	1999	2000	2001	2002
Target:	127	116	113	111
Actual:	120	116	109(r)	N/A

Number (000s) and rate (per 100 million commercial VMT) of injured persons in crashes involving large trucks.

	1999	2000	2001	2002
Target:				
Number:	N/A	125	122	121
Rate:	N/A	N/A	N/A	56
Actual:				
Number:	142	140	131	N/A
Rate:	70	68	63	N/A

Alcohol-related fatalities per 100 million VMT

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	0.55
Actual:	0.59	0.63(r)	0.63(r)	N/A

Percentage of front occupants using safety belts.

	1999	2000	2001	2002
Target:	80	85	86	75
Actual:	67	71	73	75

(r) Revised; N/A Not available.

FY 2003 Performance Plan Evaluation: DOT will be challenged to meet the highway fatality rate target in 2003. NHTSA will encourage additional States to enact primary safety belt laws and enforce them, and will continue efforts to reduce impaired driving. FMCSA also will be challenged in achieving the 2003 fatality rate target. FMCSA will focus on enforcement and compliance activities, and extend its compliance and enforcement program to include safety audits of new motor carrier operations (New Entrants) and at the southern border.

Management Challenge – Motor Vehicle Safety (IG)

In its 2002 update on DOT's management challenges, the IG made three findings related to motor vehicle safety: (1) Despite the combined efforts of Federal, State, and local governments, safety belt use rates have remained relatively constant, ranging from 66 to 70 percent since 1993. 2002 safety belt use rates are at 75 percent nationwide, below the rate needed to attain 78 percent use by 2003; (2) Early identification of defects by NHTSA's Office of Defects Investigation (ODI) can be improved. Congress questioned the preparedness of ODI to handle information that may contain early warning signs of product defects; and (3) the TREAD Act requires NHTSA to conduct 10 rulemakings in the areas of defects, tires, rollover tests, and child restraints. Six of the 10 rulemakings must be completed in 2001 or 2002. Since the IG found that it takes DOT an average of 3.8 years to complete a rule, significant management effort will be required to issue these rules in the time frame required by the Act. These issues are continued in the IG's 2003 management challenges report.

NHTSA Actions:

Strategies to increase safety belt use and reduce alcohol-related fatalities are discussed above. To improve defects investigation, NHTSA published the TREAD §3(b) Early Warning final rule. NHTSA is improving recall initiation criteria. TREAD actions included:

- a final rule on Standards Enforcement, Defect Investigation and Noncompliance Reports Records Retention on July 10, 2002;
- work on final rules to improve tire labeling and to revise and update tire safety standards; and
- work on a rulemaking for improved child restraint safety, and creating a child restraint safety ratings program.

Management Challenge - Large Truck Safety (IG/GAO)

The IG identified major challenges in motor carrier safety at the U.S.-Mexico border, improving oversight of the commercial driver license (CDL) program, managing the security implications of open borders; strengthening oversight and reducing fraud in the CDL program; and improving U.S. motor carrier safety enforcement. As traffic materializes, FMCSA will need to assess the adequacy of its inspection resources, including those beyond the Border States. These issues continue the IG's 2003 report. GAO's concerns extend to staffing in FMCSA, truck safety data quality and causal analysis, adequacy of FMCSA's resources, and safety rulemaking.

FMCSA 2002 activities and initiatives included:

- compliance reviews for high-risk carriers;
- security sensitivity visits, hazmat compliance reviews, and hazmat package and vehicle inspections;
- the interim final rule for New Entrant Safety, requiring new entrants safety audits in the first 18 months of their operation;
- in August 2002, FMCSA issued a new rule that requires all states to place Mexican commercial vehicles out of service if they do not have U.S. operating authority;
- completing all requirements of the FY 2002 DOT Appropriations Act, §350 to open the southern border to Mexican commercial vehicles;
- policy guidance for border safety enforcement, and four rules governing safety monitoring and motor carrier operating authority;
- centralized data systems, inspection facilities, and hiring, training, and equipping 214 more border enforcement personnel;
- work on rulemakings for drivers' hours-of-service and CDL improvements;
- review of 17 State CDL programs and significant improvement of their operation;
- advanced safety technology development, and deployment;

- PRISM and CVISN deployment to more States;
- operational tests of advanced commercial vehicle safety and security technology;
- with NHTSA, investigation of almost 500 large truck crashes in the Large Truck Crash Causation Study; and
- with NHTSA and the States, a commercial motor vehicle crash data collection system (CVARS) pilot test.

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

Performance measures:

Fatal aviation accidents (U.S. commercial air carriers) per 100,000 departures (reported by 3-year average).

	1999	2000	2001	2002
Target:	.048	.045	.043	.038
Actual:	.051	.037	.037	.026#

Number of fatal general aviation accidents.

	1999	2000	2001	2002
Target:	N/A	379	379	379
Actual:	364	341	359(r)	346#

(r) Revised. # Preliminary estimate

2002 Results: DOT met the general aviation fatal accident and the commercial aviation fatal accident rate targets.

Commercial Air Carrier Safety

FAA worked with the aviation community and other governmental agencies to identify causal factors of accidents and prevent strategies in three areas – aircraft technology, pilot safety, and maintenance and fleet management practices which prevent small safety problems from growing into large ones. In 2002, FAA, in concert with the aviation industry continued to:

- implement 'Safer Skies' interventions, and monitor the progress of strategies to prevent uncontained engine failure, controlled flight into terrain, approach and landing accidents, and loss of control;
- develop and implement the Air Transportation Oversight System (ATOS), the Safety Performance Analysis System (SPAS), Flight Operations Quality Assurance (FOQA), and the Aviation Safety Action Program (ASAP) – all of which are designed to catch safety problems and keep them from becoming causes of aircraft crashes; and
- work on aging aircraft systems and fuel tank safety, including fuel tank inerting;

FAA's regulation and certification program established aviation safety standards, monitored safety performance, conducted aviation safety education and research, issued and maintained aviation certificates and licenses, and managed rulemaking.

FAA continued to implement an integrated research plan with NASA to effectively leverage combined safety research and development resources to reduce the aviation fatal accident rate.

General Aviation Safety

Improving GA safety is a joint effort with the GA community to identify problems and implement solutions. GA safety in 2002 included:

- publishing a new Advisory Circular, Controlled Flight into Terrain (CFIT) Awareness;
- issuing the Aeronautical Information Manual (AIM) and guidance for pilots on the use of advanced weather products;

- developing a personal minimums checklist involving weather scenarios and operations; and
- upgrading safety equipment such as the flight service station automation system, automated weather observation systems, and communications systems that provide weather and altimeter settings.

Together with the GA industry, FAA initiated a new program, System Safety Approach for General Aviation, to foster aviation safety and awareness. This joint effort will encourage use of new technology and will provide training and education to enhance safety.

Runway Safety

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

To help further reduce the number and rate of runway incursions, FAA:

- conducted education, training and awareness for pilots, and controllers/vehicle operators and distributed more than 250,000 program materials (brochures, videotapes, CDs and other visual aids);
- analyzed runway incursion risks by examining incursions from 1997 through 2001 and assigning those incursions to a severity category;
- published two runway safety reports;
- completed and distributed the Runway Safety Blueprint 2002–2004, which presents data collection results and analyses and defines objectives to be achieved during the next 2 years;
- conducted pilot/controller communications phraseology reviews and Air Traffic Teamwork Enhancement Training for Tower Controllers;
- developed and distributed training videotapes for airport vehicle operators and aircraft mechanics;
- published and distributed two advisory circulars for airport surface operations and, with industry, developed an advisory circular for vehicle operations; and
- conducted runway incursion “callbacks” – requests for information targeted at key factors of the runway incursion event -- through the NASA Aviation Safety Reporting System Program.

Several other efforts are helping to reduce runway incursions. The Department of Defense has developed radar-imaging software to display aircraft and other vehicular movement, which has helped reduce runway incursions at military airports. NASA and FAA are also working cooperatively on aviation safety research and technology development for runway safety and other areas. The NTSB works to investigate runway accidents and determine causal factors useful in refining our safety program design.

Operational Errors

When controllers fail to apply or follow aircraft separation standards and aircraft in flight pass too close, an operational error occurs. To give controllers better ways to determine aircraft location and reduce miscommunication between pilots and controllers, FAA:

- provided training to provide a common understanding of procedures and policies among controllers and pilots is a central strategy for reducing operational errors;
- identified factors that cause errors and implementing improvements in technology, such as the deployment of modern displays, new decision support tools, and improved communication systems; and
- used lessons learned in reducing runway incursions as a model for reducing operational errors.

In addition, FAA:

- investigated the use of the User Request Evaluation Tool (URET), a prototype conflict probe that provides controllers with more advanced notification of potential in-flight conflicts;
- investigated the initial deployment of Controller Pilot Data Link Communications to improve pilot and controller communications, thereby reducing operational errors caused by miscommunication;
- addressed and reduced repeat incidents by individuals through meaningful individual skill enhancement/remedial training. This was accomplished by better identification of causal factors, and refresher training on procedures for avoiding common types of operational errors;

- continued to conduct QAR's to identify and correct controller performance deficiencies prior to an occurrence of an operational error or deviation, and resolve performance deficiencies through corrective training; and
- with the National Air Traffic Controllers Association, developed and implemented a system to classify every operational error based on risk, and took action to train or discipline controllers based on an assessment of the cause and severity of the incident.

The FAA proposed changing separation standards to reflect the level of risk. Changes to current rules and regulations, and NTSB and other interested parties' concurrence is necessary before these new standards can be implemented.

FAA supplementary performance measures:

Number of operational errors where less than 80 percent of required separation is maintained.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	568
Actual:	570	610	674	615

Number and rate (per 100,000 operations) of highest risk runway incursions.

Target:	1999	2000	2001	2002
Number:	N/A	N/A	N/A	53
Rate:	N/A	N/A	N/A	0.08
Actual:				
Number:	69	67	53	37
Rate:	.10	.10	.08	.06

FY 2003 Performance Plan Evaluation: DOT will meet the performance targets in FY 2003.

Management Challenge – Commercial and General Aviation Safety (Operational Errors and Runway Safety) (IG/GAO)

The IG and GAO have suggested FAA to take steps to reverse the trend in known safety risks such as runway incursions and operational errors, strengthen oversight and rulemakings, and manage the aviation safety and air traffic control workforce strategically over the long term. The IG stated that safety must take priority over the impact of increased demand, new technologies and budget cuts. The IG also listed several safety issues that the FAA must address.

FAA faces many challenges in promoting aviation safety in a dynamic industry. FAA will determine the feasibility of expanding the Air Transportation Oversight System (ATOS) beyond currently covered large air carriers to smaller commercial air carriers and complete system safety and risk analysis training for all ATOS-assigned field inspectors. The FAA will continue implementation of the Continuing Analysis and Surveillance System (CASS) improvements to address deficiencies in aircraft maintenance programs at some major air carriers through development and publication of advisory circular guidance to clarify 14 CFR §121.373, CASS Requirements, and to deliver updated FAA policy, procedures, and training courses to the inspection work force.

The IG indicated that the trend in runway incursions and operational errors are critical management challenges for DOT. Runway incursion are down approximately 10 percent from last year, and the number of operational errors was down from an all-time high of almost 1,200 in FY 2001 to 1,061 in FY 2002. However, operational errors still pose a significant safety risk, with an average of three operational errors per day and one serious error every 3 days (in which a collision was barely averted). FAA is continuing to pursue a number of initiatives to solve these problems, and as the IG reports, is identifying and evaluating technologies that can be quickly put to use in high-risk airports. Though both runway incursions and operational errors are down, they continue at high levels and remain on the IG's 2003 list of top management challenges.

MARITIME SAFETY: Recreational boating is a popular activity in America, and the popularity of personal watercraft continues to be strong. There are about 78 million recreational boaters in the U.S. - and most operators involved in accidents have had no boating safety training. The number of recreational and commercial vessel users continues to increase as more Americans move to coastal areas and global and domestic waterborne trade grows. Large numbers of Americans commute to work in ferries and enjoy leisure activities at sea such as commercial cruising.

Performance measure:

Percent of all mariners in imminent danger who are rescued.

	1999	2000	2001	2002
Target:	N/A	N/A	85	85
Actual:	87.5	82.7	84.2	84.4

2002 Results: DOT did not meet the performance target.

The Coast Guard answered nearly 37,000 calls for help, saving 3,653 lives in imminent danger. Overall, in 2002, there was a slight decrease in search and rescue caseload. For the second year in a row, the results show a slight improvement over the previous year, but are still insufficient to meet the performance target. Given three years' data, the number of persons who remained missing at the termination of search and rescue efforts continues to be significant - 233 persons. Inclusion of missing persons into the performance measure would result in saving just under 80 percent of all mariners in distress, highlighting shortcomings in USCG search and response efforts. This will be remedied as the replacement communications system for maritime safety comes on line, and as USCG adds additional command center and boat stations staff, beginning in 2003.

Despite a steady increase in the number of recreational boats registered with States, recreational boating fatalities have been reduced from 1999 through 2001. The number of boating fatalities per 100,000 registered boats has decreased 34 percent over the last decade, while drowning deaths have sharply decreased, suggesting that DOT and State boating safety and life jacket outreach and awareness campaigns, and additional State laws requiring personal watercraft riders and youth on boats to wear life jackets, had an impact.

USCG supplementary performance measures:

Number of recreational boating fatalities (calendar year).

	1999	2000	2001	2002
Target:	763	763	749	742
Actual:	778	742	722(r)	707#

Fatalities per million passenger capacity aboard passenger vessels.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	2.5
Actual:	4.1	1.9	1.0	0.4

(r) Revised; # Preliminary estimate.

FY 2003 Performance Plan Evaluation: DOT cannot characterize Coast Guard performance for FY 2003, since the Coast Guard will be a part of the new Department of Homeland Security.

Management Challenge – National Distress Response System (IG)

The IG stated that Coast Guard needs to plan for the procurement of the National Distress and Response System within available capital funding. Deficiencies in the Distress and Response System have existed for at least 10 years, and the NTSB criticized Coast Guard's interim fixes as insufficient. The major task for Coast Guard is to present a specific system modernization plan that details what assets need to be acquired or modernized, how it will be done, what it will cost, and when funding will be needed. (For a discussion of DOT plans, see the Management Challenge box regarding the Coast Guard Capital Acquisition Budget in the Coastal and Port Security performance discussion.)

RAIL SAFETY: Approximately 50 percent of the rail-related fatalities were trespasser-related, and more than 45 percent occurred at highway-rail grade crossings in 2002. To reduce rail fatalities, FRA is forging safety partnerships with the rail industry, strengthening educational outreach, and rigorously emphasizing compliance with safety standards.

Performance measures:

Grade crossing accidents divided by the product of: million train-miles and trillion vehicle-miles traveled.

	1999	2000	2001	2002
Target:	2.19	1.57	1.39	1.39
Actual:	1.83	1.76(r)	1.64(r)	1.54

Train accidents per million train-miles.

	1999	2000	2001	2002
Target:	3.44	3.44	3.35	4.00
Actual:	3.89	4.13	4.22(r)	3.56

(r) Revised.

2002 Results: Based on eight months of data, DOT met the performance targets for train accidents, but did not meet the grade crossing accidents performance target. Depending on activity for the remainder of the year, DOT may meet both goals.

For 2002, train accidents were down slightly as compared with 2001 (2,597 vs. 3,330). Train miles decreased by 7.5% during that period, resulting in an increase in the train accident indicator.

Grade crossing accidents were down in 2002 at both public and private crossings, decreasing 16.6% (3,072 vs. 3,685).

For the eight-month period January-August 2002, rail-related fatalities increased over the same period in 2001 (668 vs. 655). Again, trespasser deaths are the primary cause of the rise, increasing 8.9%, from 348 to 379. Highway-rail crossing fatalities, on the other hand, dropped 13.0%, from 285 to 248.

FRA supplementary performance measure:

Rail-related fatalities per million train-miles.

	1999	2000	2001	2002
Target:	1.57	1.30	1.23	1.20
Actual:	1.31	1.30	1.36(r)	1.40

(r) Revised.

FY 2003 Performance Plan Evaluation: DOT will combine both performance measures above to better align with FRA's safety program, and DOT will be challenged to meet both targets in 2003.

TRANSIT SAFETY: Public transit provides a flexible alternative to automobile and highway travel, offering a higher degree of safety as well. Currently transit is one of the safest modes of travel per passenger mile traveled. According to the National Safety Council, riding the bus is 47 times safer than car travel. By train, customers are 23 times safer than by car. The challenge is to further reduce the rate of fatalities and injuries even as the total number of people using transit increases.

Performance measure:

Transit fatalities per 100 million passenger-miles traveled.

	1999	2000	2001	2002
Target:	.507	.502	.497	.492
Actual:	.530	.499(r)	.480(r)	.487#

(r) Revised; # Preliminary estimate.

2002 Results: DOT met the performance target.

Recent growth in light rail grade crossing fatalities in the 1998 – 2000 period has been reversed. Light rail grade crossing fatalities were down 92 percent from 12 in 2000 to 1 in 2001. In the first half of 2002, this trend continued as there were only 2 light rail grade crossing fatalities.

Of the 309 total transit-related fatalities in 2001, 43 were patrons. Of the 180 total transit-related fatalities in the first half of 2002, 33 were passengers or revenue facility occupants. Many categories and definitions have been added or changed in the new National Transit Database in 2002 and will allow for improved and more timely analysis of trends of contributing factors such as trespassing in the future.

Strategies in 2002:

- through Formula Grants, Capital Investment Grants, and the Job Access and Reverse Commute Program, FTA invested in public transit infrastructure. Most of these funds improve transit safety by replacing older bus and rail systems with newer, safer public transit vehicles and improve the condition of tracks and transit facilities. For new projects, safety is a design consideration from the beginning;
- through the Transit Planning and Research Program, FTA worked with States, local transit authorities, and the transit industry to develop technology, provide training, and supply technical assistance that advances safety. FTA also conducted research and generates valuable data on safety and security, standards programs, and transit accident causal factors, which is used by FTA, States, and local transit agencies to improve safety;
- through FTA oversight of State rail safety programs, alcohol and drug testing programs, and transit security programs. FTA also provided oversight and guidance to transit properties on the direct safety features and safety implications of becoming compliant with the Americans with Disabilities Act; and
- through resolution of NTSB Recommendations. Seven outstanding recommendations were closed with acceptable actions. The remaining three recommendations involve FTA and other modes, and FTA is working with others in the

Department to resolve them.

FTA supplementary performance measure:

Transit injured persons per 100 million passenger-miles traveled.

	1999	2000	2001	2002
Target:	123.2	121.9	120.7	109.4
Actual:	114.9	111.7	107.3	N/A

N/A Not available, since no comparable 2002 data exists due to revised definition of "transit injuries".

For 2002 the definition of what constitutes a reportable transit "injury," was changed in the new National Transit Database (the source of the transit injury data). Only an incident involving immediate medical treatment away from the scene now qualifies as a reportable transit injury. FTA made this change in consultation with the transit industry. Based on the first half of 2002, injuries using the new definition are occurring at approximately one third the rate of those occurring based on the previous definition.

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

PIPELINE SAFETY: A network of two million miles of pipelines transports natural gas to 60 million residential and commercial customers. While pipelines are among the safest modes for transporting liquids and gases, the nature of the cargo is inherently dangerous. Pipeline failures can pose an immediate threat to people and communities. Excavation damage causes 39 percent of pipeline failures for all types of pipelines. Corrosion also causes on average another 20 percent of all pipeline failures. Incorrect operation, construction/material defects, equipment malfunction, failed pipe, and other miscellaneous causes account for the remaining 41 percent of pipeline failures.

Performance measure:

Number of excavation damages to natural gas and hazardous liquid pipelines.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	111
Actual:	100	119	121	75#

 # Preliminary estimate.

2002 Results: DOT met the performance target.

Preliminary results are considerably lower than the 2002 target, most likely due to improved pipeline accident and incident data collection in 2002. RSPA categorizes outside force ruptures in more ways, leading to an apparent sharp decrease in excavation damage incidents.

For the past ten years, there were on average about 23 annual pipeline-related fatalities annually. 79 percent of fatalities occurred on natural gas distribution pipeline incidents, 12 percent on natural gas transmission pipelines, and 9 percent on hazardous liquid pipelines, with excavation damage as the leading cause of all pipeline failures.

RSPA improved operations, control, and monitoring technologies to enable better corrosion detection; validated direct assessment techniques for unpiggable pipelines; and researched better pipeline coatings. Better corrosion detection technology and direct assessment allows pipeline operators to detect pipeline defects before a release occurs. RSPA also supported efforts of the Common Ground Alliance to offer *"Dig Safely"* training sessions around the country for groups interested in implementing this important program.

RSPA supplementary performance measure:

Number of incidents for natural gas and hazardous liquid pipelines.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	330
Actual:	341	381	292	293#

 # Preliminary estimate.

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

Management Challenge – Pipeline Safety (GAO)

GAO's recommendations to RSPA for improving pipeline safety included: improving pipeline safety standards;

strengthening enforcement of pipeline safety laws and regulations; enhancing Federal-State partnerships; providing the public better information and opportunities to participate; and supporting research and development of innovative pipeline safety technologies.

RSPA has made significant progress in improving pipeline safety and in accomplishing improvements suggested by IG, GAO, and NTSB in safety standards and technologies, regulatory enforcement, public participation in safety efforts, and in improving Federal-State-private sector safety partnerships. NTSB now rates more than 85 percent of RSPA responses to their safety recommendations as "acceptable," not only an improvement from 75 percent in 2001, but one of the highest acceptable ratings of any transportation mode. In FY 2002, RSPA:

- made progress in finalizing actions required by Congressional mandates. RSPA will complete rulemakings that address all mandates by the close of calendar year 2002.
- completed reporting changes for natural gas transmission pipeline operators.
- increased oversight of accident reporting by operators and implemented revised procedures to examine accident reports submitted by pipeline operators. RSPA pursued enforcement action for reporting requirement non-compliance.
- completed training for Federal inspectors. In FY 2003, this training will be expanded to State pipeline inspectors.

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

Performance measure:

Number of serious hazardous materials incidents in transportation.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	523
Actual:	540(r)	565(r)	515(r)	189#

(r) Revised; # Preliminary estimate

Note on data: Mail security measures delayed hazmat incident reporting last year. Given the year-to-year fluctuation observed in this performance measure, it is difficult to determine whether a firm downward trend has been established. DOT expects that the number of hazmat incidents in FY 2002 will increase as all incident reports are received and analyzed.

2002 Results: DOT met the performance target.

Road accidents leading to hazmat releases continue to dominate overall serious hazardous materials incident statistics, but they decreased from 79 percent of total serious incidents to 73 percent. Serious rail incidents increased from 17 percent to 23 percent of the total.

FAA worked to reduce HAZMAT incidents as a percentage of cargo revenue ton-miles flown by focusing on improved compliance among manufacturers, distributors, retailers, and shippers before their cargo reached airports.

There was a marked reduction in serious incidents involving commercial motor vehicles in 2002. While this improvement is certainly encouraging, it may be attributable in part to market factors and/or mitigation activities in the months following the September 11, 2001 terrorist attacks, and may or may not be indicative of a new performance trend. FMCSA and DOT continue to monitor incidents, but it will be a year or so before it can be discerned whether a new performance baseline has been established.

FRA continued its integrated rail safety program, with the dual aim of reducing train accidents and HAZMAT releases. To the extent that train accidents are prevented, HAZMAT releases are also prevented. In 2001, 54 of 67 serious rail HAZMAT incidents were due to derailments, down from 63 of 95 incidents in 2000.

The Coast Guard enforced hazmat shipping regulations aboard U. S ships and foreign ships in U.S. waters as well as at port facilities. The Coast Guard operated the 24-hour National Response Center and the National Vessel Movement Center, for all reporting of hazardous materials releases, and for collecting and disseminating data on movement of vessels transporting

dangerous cargoes to ensure adequate safety and security measures are taken to prevent intentional discharges of hazardous materials.

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

HOMELAND and NATIONAL SECURITY

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

Strategic Outcomes:

- Reduce the vulnerability of the transportation system and its users to crime and terrorism.
- Increase the capability of the transportation system to meet national defense needs.
- Reduce the flow of illegal drugs entering the United States.
- Reduce the flow of migrants illegally entering the United States.
- Reduce illegal incursions into our sovereign territory.
- Increase support for United States interests in promoting regional stability.
- Reduce transportation-related dependence on foreign fuel supplies.

Transportation security is equal in importance to transportation safety. As we have witnessed, the Nation's transportation system has certain vulnerabilities, which need to be guarded against attack, and our borders are subject to illegal intrusions by smugglers of contraband or weapons of mass destruction, and by illegal migrants. DOT's objective is to contribute to homeland and national security by minimizing the vulnerability of our transportation system to disruption, damage, or exploitation through crime or terrorism. In FY 2002, DOT homeland and national security programs continued reducing the transportation system's vulnerability to crime and terrorism and enforced sovereignty over our borders.

PERFORMANCE SUMMARY:

	1996	1997	1998	1999	2000	2001	2002	2002 Target	Met	Not Met
Percent of high interest vessels screened.	N/P	N/P	N/P	N/P	N/P	N/P	N/P	N/P	✓	
Percentage of DOD-required shipping capacity complete with crews available within mobilization timelines.	N/A	N/A	N/A	97	92	97	94	93	✓	
Percentage of DOD-designated commercial ports available for military use within DOD established readiness timelines	64	57	93	93	93	92	92	92	✓	
Amount of drugs seized or destroyed at sea (metric tons).	27	94	52	79	83	79	72	75		✓
Interdict and/or deter at least 87 percent of undocumented migrants who consider attempting to enter the U.S. via maritime routes.	92	94	91	87	89	83	88	87	✓	

FY 2001 FINAL PERFORMANCE REPORT

	1995	1996	1997	1998	1999	2000	2001	2001 Target	Met	Not Met
Percent seizure rate for cocaine shipped through the transit zone	6.1	5.3	16.3	10.1	12.2	10.6	11.1	15		✓
Transportation-related petroleum consumption (in quadrillion BTUs) per trillion dollars of Real GDP in 1996 constant dollars	3.075	3.037	2.945	2.90	2.74 (r)	2.63(r)	2.55	2.76	✓	

N/A = Not Available
NP = Not published (Sensitive information protected under 49 CFR Part 1520.7(r))
* Preliminary estimate
(r) Revised

AVIATION SECURITY: The United States and its citizens remain targets for terrorist groups seeking to challenge or influence domestic and international affairs. Thus, protecting air travelers against terrorist and other criminal acts is a homeland and national security priority. After the terrorist attacks of September 11, 2001, the President signed the Aviation and Transportation Security Act (P.L. 107-71), establishing the Transportation Security Administration, and charging it with carrying out this important responsibility. Public confidence in the safety and security of air travel enables its continued growth, and tourism and world economies depend on effective aviation security measures being efficiently applied. Governments, airlines and airports must work together cooperatively to achieve our common goal - safe and secure air transportation worldwide.

2002 Results: There were no performance targets established for FY 2002.

TSA's performance highlights in FY 2002 are:

- took immediate steps to secure the cockpit against hijacking by significantly expanding the Federal Air Marshal program and reinforcing commercial aircraft cockpit doors. Administered a $100 million Federal grant program to help the U.S. airline and cargo industry finance aircraft cockpit doors modifications;
- hired 148 Federal Security Directors, who are responsible for nearly 400 airports;
- hired more than 36,000 security screeners and deployed Federal screeners to 142 airports;
- established a customer service call center, a coalition to advice TSA on passengers with disabilities, and other initiatives to promote communication and responsiveness to the flying public;
- purchased over 1,000 explosives detection systems and 3,700 explosive trace detectors for screening checked and carry-on baggage; and
- continued research and development on technologies and procedures to enhance transportation security - including CAPPS II, an advanced automated profiling system to focus screening.

FY 2003 Performance Plan Evaluation: DOT met the passenger screening Federalization deadline, and with new authority provided in the Homeland Security Act of 2002, met the baggage screening deadline, and will ensure that explosive detection technology is in full use for baggage screening as soon as possible in FY 2003.

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

The IG and GAO have previously noted that challenges exist in effectively meeting national requirements for improving security in aviation and surface transportation. After the terrorist attacks of September 11, Congress passed and the President signed the Aviation and Transportation Security Act, which created an Under Secretary of Transportation for Security, and a new DOT Operating Administration - the Transportation Security Administration.

TSA efforts for 2002 mostly focused on addressing aviation security and meeting deadlines established in the Aviation and Transportation Security Act. TSA met the unprecedented challenge to hire and train a federalized workforce to screen all passengers and their carry-on baggage by November 19, 2002, and, for the most part, to deploy the necessary equipment and federalized workforce to meet the December 31, 2002 deadline to screen all checked baggage. At the same time, TSA significantly expanded the Federal Air Marshals program with more flights being guarded now than anytime in history.

However, TSA's work is not done. Until TSA is transferred to the Department of Homeland Security in March 2003, DOT must continue to take the lead for the Government's increased aviation security responsibilities, including completing deployment of explosives detection equipment to the remaining airports where alternate screening methods are employed, and developing plans for expanding security in all modes of transportation. The primary responsibility will move with TSA to the new Department of Homeland Security.

DOT's focus in FY 2003 will be to ensure effective aviation security, to ensure an effective transition of these two DOT administrations to the new department with no loss of effectiveness, and to develop methods for working effectively with DHS on the overlapping issues of transportation security and safety. This issue continues on the IG's 2003 list of DOT top management challenges.

Public Transportation Security Initiatives

Since September 11, 2001, FTA has helped prepare the transit industry to counter terrorist threats. To date, FTA has:

- completed 37 threat and vulnerability assessments and provided feedback to individual agencies on how to improve their security systems and reduce vulnerabilities, as well as information on "best practices" to all transit agencies;
- deployed emergency response planning and technical assistance teams to the top 50-60 transit agencies to help them implement systematic security programs;
- awarded 83 grants for emergency responder and transit agency drills to test and improve security and emergency response plans;
- accelerated testing and deployment of the PROTECT system for chemical detection in subway systems;
- FTA also completed 11 short-term, quick payoff research projects identified by the transit industry;
- facilitated training and regional collaboration through security awareness courses for front line employees and supervisors, and regional forums to promote regional collaboration and coordination among fire, police, and medical emergency responders and transit; and
- developed a list of Security Program Action Items that transit agencies should incorporate into their System Security Program Plans.

Strategies for FY 2003

With the knowledge and expertise acquired, FTA is enhancing its strategies and moving forward to further enhance transit security. FTA will continue to tap the expertise of TSA, the intelligence community, the transit industry, and others to help strengthen transit security, as follows:

Reducing America's Vulnerability to Terrorism: FTA is working with the transit industry to identify critical, high-risk assets and operations, and is developing a broad range of strategies to increase security. These strategies must become an integral part of daily transit operations and will include special emphasis on training, as well as technical assistance, guidelines, best practices, and testing of available technologies for intrusion detection, surveillance, and chemical and biological substance detection. FTA will provide on-site technical assistance to the largest 60 transit agencies to assist them in updating and enhancing their security system programs. This will include implementing protocols for handling suspicious packages and chemical/biological incidents, as well as addressing the twenty priority security program initiatives that have been identified by FTA. Chem/bio guidelines have been developed and an updated transit security guidebook will be published.

Minimizing Damage and Speeding Recovery: FTA's ongoing security program will work to promote regional coordination, communication, and shared drills among transit and emergency responders. Training and emergency response preparedness are top priorities for quickly enhancing transit security. FTA will complete the regional forums and collect best practices and develop training from the full-scale emergency response drills and tabletop exercises. Security courses at Transportation Safety Institute and National Transit Institute are under review. They will be updated and a comprehensive curriculum will be defined.

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

The IG, GAO, and OMB have identified information system security as a critical government-wide management challenge, and in particular, have identified FAA air traffic control information systems as needing special attention to harden them against malicious or criminal attack.

The DOT Chief Information Officer (CIO) will lead intermodal efforts to ensure the continued security of our transportation information systems to make IT systems less vulnerable to attack and other service disruptions, including those caused by natural disasters.

The Computer Security Challenge presents itself on two fronts: 1) protection of all IT assets as required by the Computer Security Act of 1987, the Government Information Security Reform Act (GISRA), OMB Circular A-130, National Institute of Standards and Technology guidance, etc.; and, 2) specific protection of critical IT assets in accordance with Presidential Decision Directive 63 (PDD-63).

DOT established an IT Security Program requiring:

- that all DOT IT systems be assessed to identify vulnerabilities;
- that vulnerabilities be evaluated and mitigated where justified; and
- that systems be tested and certified as adequately protected.

In FY 2002

- DOT CIO developed a comprehensive Information Technology Security Performance Measurement (IT SPM) program to identify and track quantifiable results related to key IT security metrics. DOT reduced GISRA program related weaknesses by over 40 percent and reduced vulnerabilities in the primary "demilitarized zone" (DMZ) by over 70 percent a month.
- DOT instituted a robust training and awareness program, focused on developing and providing specialized training to IT security personnel. DOT provided awareness training to more than 99 percent of all employees, provided specialized training in certification and accreditation (C&A) and network security to more than 90 percent of the Agency-level Information Systems Security Officers (ISSO).
- DOT developed and began implementing a comprehensive policy for integrating IT security into the Capital Planning and Investment Control (CPIC) process, with Agency ISSOs participating as members of the CPIC Review Board. IT security policy is embedded in each phase of the CPIC and the system development life cycle through security costs estimation methodologies.
- DOT developed and executed an Incident Reporting Policy Memorandum and began reporting incidents on a weekly basis to the Federal Computer Incident Response Center (FedCIRC), the National Infrastructure Protection Center (NIPC) and other law enforcement agencies as required. DOT is implement intrusion detection systems (IDS) at critical access points throughout the DOT backbone and on NHTSA, RSPA and FAA local area networks. FAA, in particular, has made significant improvements in implementing and monitoring network and perimeter security.
- DOT published comprehensive network security guidelines and began a Web Server Vulnerability Testing Program in the DOT DMZ. Based on this program, vulnerabilities decreased from an average of more than 200 incidents a month to fewer than 30 a month for systems within the DMZ.

For FY 2003, DOT established a contract for an enterprise-wide vulnerability-scanning tool. This contract was the result of an FAA testing project and provides all DOT organizations with an effective, cross cutting cost solution for vulnerability testing.

FAA has developed a concept of operations, approach, and major milestones to address information security issues and protect information assets. FAA's approach focused on protecting the operational capability of its facilities, which requires an integrated approach to information systems, personnel, and physical security at each facility. Other efforts included authorizing and certifying computer security systems, security awareness training, vulnerability assessments, and improving intrusion detection capability, and to develop methods for working effectively with DHS on the overlapping issues of transportation security and safety. This issue continues on the IG's 2003 list of DOT top management challenges.

COASTAL AND SEAPORT SECURITY: The Department, through the Transportation Security Administration and the U.S. Coast Guard, provides an essential maritime element of homeland and national security. DOT's maritime homeland and national security functions are anchored in coordinated interagency law enforcement, coastal sea control, and port security.

Performance measure:

Percent of high interest vessels screened.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	##
Actual:	N/A	N/A	N/A	##

Not published due to sensitive security information being protected under 49 CFR Part 1520.7(r).

2002 Results: DOT met the performance target.

DOT's FY 2002 actions to ensure seaport and cargo security included:

- USCG protection of high consequence targets, including critical bridges, port facilities and other infrastructure; a permanent regulation requiring 96-hour advance notices of arrival for ships arriving in U.S. ports; tracked inbound high-interest vessels in cooperation with the Office of Naval Intelligence; and disseminated intelligence on passengers, crew, and cargoes to partner agencies; and deployed Sea Marshals and small boat escorts to ensure positive control of vessels containing critical cargoes and in sensitive areas;
- MARAD's work with maritime industry to examine and address security issues and policy and heightened security at its Ready Reserve Force fleet sites and outports;
- TSA's, MARAD's and an inter-departmental Credential Direct Action Group's examination of ways that advanced technologies, including smart cards, biometrics and public key infrastructure, could be used throughout the maritime and related industries to identify employees working in security-sensitive areas; and TSA/MARAD/ USCG's distribution of $93 million in grants to seaports for security assessments and enhanced facility and operational security; and
- SLSDC's close partnership with its Canadian counterpart and USCG to heighten security on the St. Lawrence River and ensure the protection of ocean access to Great Lakes ports.

An interagency Container Working Group established by the Secretary of Transportation and co-chaired by the Department of the Treasury, worked to address security issues surrounding the movement of marine cargo containers through the international and intermodal transportation system. The Container Working Group focused on information technology, security, business practices, and international affairs, and made recommendations to improve international container security efforts and increased use of advanced technologies to improve container profiling.

"Operation Safe Commerce," co-led by DOT, was initiated by the private sector as an attempt to make the supply chain more secure. This effort seeks to move the primary reliance away from control systems at U.S. ports of entry and toward improved controls at points of origin and along the way. It relies on using new technology such as electronic container seals to strengthen the security of cargo as it moves along the international supply chain. Efforts center on the following:

- ensuring that containers are loaded in a secure environment at the point of product origin, with 100 percent verification of their contents;
- using pressure, light, or temperature sensors to continually monitor containers throughout their overseas voyage to the point of distribution in the United States; and
- using cargo-tracking technology to track containers at all points in the supply chain, including delivery of cargo inside containers to consignees.

The three largest container port complexes (Los Angeles/Long Beach, New York/New Jersey, and Seattle/Tacoma) are involved in the Operation Safe Commerce pilot project addressing security vulnerabilities posed by containers entering the U.S. through seaports. These projects will help determine which procedures and technologies constitute the best practices in supply chain security.

DOT and other Federal agencies are working with international organizations [the International Maritime Organization (IMO), the International Organization for Standardization (ISO), the International Labor Organization (ILO), and the United Nations Subcommittee of Experts on the Transportation of Dangerous Goods] to accelerate, where possible, the deadlines for implementation of important new security requirements.

USCG continues to make progress in providing the required number of "combat ready" units to meet Combatant Commander operational requirements in wartime and peacetime. The Coast Guard contributes high endurance cutters, patrol boats, Law Enforcement Detachments, and Port Security Units to DOD Combatant Commanders' war plans. High endurance cutters met readiness requirements 84 percent of the time. Readiness degradations stemmed from equipment casualties and unit training deficiencies. This is a seven percent drop from last year, but deficiencies were manageable and quickly remedied on notification of a scheduled deployment. Patrol boats met readiness objectives 100 percent of the time. Though Port Security Units achieved acceptable readiness ratings only 25 percent of the time, recruiting incentives, increases in unit budgets and establishment of a formal training and standardization program have been established to close readiness gaps.

The challenges associated with operating an aging cutter fleet are well recognized and the Coast Guard is taking steps to ensure replacement assets are brought into action without the transition degrading current capability.

USCG supplementary performance measure:

Percentage of days that the designated number of critical defense assets (high endurance cutters, patrol boats, and port security units needed to support DOD operational plans) maintain a combat readiness rating of 2 or better.

	1999	2000	2001	2002
Target:	N/A	100	100	100
Actual:	4	51	67#	70

 # Three-quarter year data since fourth quarter data did not survive the attack on the Pentagon.

FY 2003 Performance Plan Evaluation: DOT cannot characterize Transportation Security Administration and Coast Guard performance for FY 2003, since they will be a part of the new Department of Homeland Security.

Management Challenge – Cargo Security (IG)

The IG has stated that strengthening cargo security is a major management challenge facing DOT. Ensuring robust port and maritime security is a national priority and an intermodal challenge, with impacts in America's heartland communities just as directly as the U.S. seaport cities where cargo and passenger vessels arrive and depart daily. The U.S. has more than 361 ports containing more than 3,700 passenger and cargo terminals. Current growth predictions indicate that container cargo will double in the next 20 years. The biggest cargo security challenge facing DOT is how to ensure that legitimate cargo is not unnecessarily delayed as we introduce enhanced security measures against security threats.

Management Challenge - Coast Guard Capital Acquisition Budget (IG/GAO)

The IG and GAO have stated that DOT needs to:

- stabilize Coast Guard's missions and budget requirements in light of post-9/11 priorities;
- make progress on Deepwater, while at the same time moving with dispatch on National Distress and Response System and Search and Rescue procurements;
- meet the enhanced Coast Guard port security mission, while continuing to effectively meet Coast Guard's other responsibilities; and
- ensuring the planning progress includes a realistic level of funding and using a process to assess the readiness of proposed technology.

Deepwater Capability Replacement. The Coast Guard is in the midst of the largest acquisition project in its history. On June 25, 2002, the Coast Guard awarded the Integrated Deepwater System contract to Integrated Coast Guard Systems (ICGS), a joint venture of Lockheed Martin and Northrop Grumman. In executing the contract, ICGS will modernize or replace the Coast Guard's major cutters and aircraft and their supporting communications, sensors, and logistics systems, transforming the aging current fleet into an integrated, interoperable network-centric system. This innovative, performance-based approach manages acquisition risk by using state-of-the-market technologies. The overall goal of this unique acquisition project is to develop an integrated system that maximizes operational effectiveness while minimizing total ownership costs.

The IG identified the Coast Guard Search and Rescue program's effectiveness as needing additional focus due to staffing, training and capital asset readiness problems; particularly with regard to budget and acquisition schedule estimates for replacing the National Distress System (NDS). The Coast Guard is currently undertaking the major task of modernizing the NDS. Through a six year, $611M contract with General Dynamics, the Coast Guard will upgrade the existing system to meet the safety requirements of growing marine traffic and the International Convention for the Safety of Life at Sea treaty. The acquisition project, named "Rescue 21", will expand existing capability through greater area coverage, eliminate emergency access problems, comply with Federal mandates for narrow banding, provide voice recorder replay, and add direction finding capability to improve Coast Guard emergency response. In FY 2003, Rescue 21 deployments will begin in southern New Jersey, the Eastern shore of Maryland and Virginia, the Strait of Juan de Fuca and Puget Sound, Washington; the panhandle and west coast of Florida, and south Alabama and Mississippi. Rescue 21 deployments in the continental U.S. will be completed by September 2005 with all regions completed by September 2006. Training and staffing are discussed above under the Maritime Safety performance results.

The Coast Guard's acquisition projects remain on the IG's top management challenges list for 2003.

STRATEGIC MOBILITY: To maximize DOD's logistics capability and minimize its cost, defense sealift increasingly relies on the U.S. commercial sector. DOD's ability to respond to military contingencies requires adequate U.S.-flag sealift resources, skilled U.S. maritime labor, and the associated maritime infrastructure. DOT helps provide for a seamless, time-phased transition from peacetime to wartime operations while balancing the defense and commercial elements of our transportation system. The Ready Reserve Force (RRF) is a key source of strategic sealift capacity to support the rapid deployment of U.S. military forces during the early stages of a military crisis. Merchant mariners employed on commercial vessels in the U.S. domestic and international trades provide the core job skills needed to crew the RRF. The Maritime

Security Program (MSP) and the Voluntary Intermodal Sealift Agreement (VISA) program ensure that the active U.S.-flag fleet is available for sealift while continuing to carry commercial freight. Merchant mariners employed on these and other vessels in the U.S. domestic and international trades provide the crew to simultaneously operate both the RRF and the commercial fleet during wartime. DOT is responsible for establishing DOD's prioritized use of ports and related intermodal facilities during DOD mobilizations, when the smooth flow of military cargo through commercial ports is critical.

Performance measures:

Percentage of DOD-required shipping capacity complete with crews available within mobilization timelines.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	93
Actual:	97	92	97	94

Percentage of DOD-designated commercial ports available for military use within DOD established readiness timelines.

	1999	2000	2001	2002
Target:	90	90	93	92
Actual:	93	93	92	92

2002 Results: DOT met both performance targets for DOD-required shipping capacity and for DOD-designated port availability.

MARAD also achieved its target of 99 percent RRF ship mission-capability while under Military Sealift Command control, but did not achieve its 100 percent target for timely 'no-notice' RRF ship activations (97 percent on-time activation rate). Beginning in FY 2002, on-time activation includes a requirement that activated ships successfully complete a 72-hour sea trial upon activation. MARAD is conducting additional repairs to ensure successful activations. MARAD was slightly below its 165,000 twenty-foot equivalent units (TEUs) target for the amount of available sealift capacity within the MSP/VISA fleet (164,271 TEUs).

MARAD estimates that sufficient mariners were available to crew the available shipping capacity, however, the number of mariners declined significantly since many mariners did not upgrade their licenses to meet new, more stringent standards for maritime training and certification implemented in 2002.

FY 2003 Performance Plan Evaluation: DOT will meet both performance targets in FY 2003. In November 2002, a larger vessel will replace a vessel in the MSP and provide the additional necessary TEUs.

DRUG AND MIGRANT INTERDICTION: Illegal drugs threaten our children, our communities, and the social fabric of this country. Illegal immigration also poses a serious threat to America's economic and social well being, and challenges the integrity of our borders as a sovereign Nation. Approximately 52,000 deaths occur annually in America from drug abuse and drug-related crimes, accidents, and illnesses. An untold number of illegal migrants perish each year when overloaded and un-seaworthy vessels founder at sea.

Performance Measures:

Amount of drugs seized or destroyed at sea (metric tons).

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	75
Actual:	78.7	83.2	78.6	71.9

Interdict and/or deter at least 87 percent of undocumented migrants who consider attempting to enter the U.S. via maritime routes.

	1999	2000	2001	2002
Target:	87	87	87	87
Actual:	86.7	89	82.5	88.3

2002 Results: DOT met the illegal migrant interdiction performance target, but did not meet the drug interdiction performance target.

Although the flow of cocaine toward the U.S. remains relatively high, USCG cocaine seizures dropped by about 15 percent from FY 2001. There are two reasons for this drop in performance:

- the apparent increase in the smugglers' willingness to destroy their vessels rather than face interdiction and prosecution.

For example, upon approach for boarding, smugglers scuttled two vessel strongly suspected of transporting a total of over 20 metric tons of cocaine. Had these drugs been seized, the Coast Guard would have set a new record for fiscal year total seizures.

- the Coast Guard's FY 2002 focus on coastal and seaport security required shifting some effort from drug interdiction.

USCG stopped 4,104 illegal immigrants from reaching the U.S. Most of the illegal migrants successfully interdicted and returned were from the Caribbean. Cuban migration was steady but slightly less than previous years. Haitian migrant flow was higher than last year and this is expected to persist. In the Pacific, almost 1,500 Ecuadorian migrants were interdicted in eight events. People's Republic of China (PRC) migration was slightly higher than last year, but remained low overall. Guam and the U.S. Virgin Islands will continue to remain attractive targets for future PRC migration since they are the closest points of entry along traditional migration routes.

USCG supplementary performance measure:

Percent of cocaine seized that is shipped through the transit zone (high seas between source countries and the United States).

	1999	2000	2001	2002
Target:	12.5	13.0	15.0	18.7
Actual:	12.2	10.6	11.1	10.3#

 # Preliminary estimate based on 2001 cocaine flow quantity.

FY 2003 Performance Plan Evaluation: DOT cannot characterize Coast Guard performance for FY 2003, since the Coast Guard will be a part of the new Department of Homeland Security. As requested resources for port and coastal security come on stream, the Coast Guard will be increasingly able to restore levels of effort to drug interdiction.

MOBILITY AND ECONOMIC GROWTH

STRATEGIC OBJECTIVES:

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

Strategic Outcomes:

- Improve the physical condition of the transportation system.
- Reduce transportation time from origin to destination for the individual transportation user.
- Increase the reliability of trip times for the individual transportation user.
- Increase access to transportation systems for the individual user.
- Reduce the cost of transportation for the individual user.
- Ensure the Producer Price Index for transportation services grows less rapidly than the overall PPI through the year 2005.
- Reduce barriers to trade that are related to transportation.
- Improve the U.S. international competitive position in transportation goods and services.
- Improve the capacity of the transportation workforce.
- Expand opportunities for all businesses, especially small, women-owned, and disadvantaged businesses (discussed in the Organizational Excellence chapter).

Mobility as much as any other factor defines us as a Nation, and is intertwined with the Nation's economic growth. It connects people with work, school, community services, markets, and other people. 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.

DOT's aim is an affordable, reliable and accessible transportation system. To achieve reliability and accessibility, our transportation system frequently relies on common public infrastructure that is maintained on limited national resources – our land, waterways, and airspace. DOT's objective is to optimize capital investment in these public systems and manage them to maximize the benefit to all Americans. In FY 2002, DOT mobility and economic growth programs improved condition, performance, and services provided by the Nation's transportation system.

PERFORMANCE SUMMARY:

	1996	1997	1998	1999	2000	2001	2002	2002 Target	Met	Not Met
Percentage of travel on the NHS meeting pavement performance standards for acceptable ride.	88.9	89.1	89.8	90.5	90.9	90.9(r)	91.6#	92.0		✓
Percent of total annual urban-area travel occurring in congested conditions**	26.8(r)	27.3(r)	28.3(r)	29(r)	29.3(r)	30.4(r)	31.1*	30.9(r)		✓
Cumulative average percent change in transit passenger-miles traveled per transit market.	2.3	2.5	4.7	5.0	5.0	4.3	N/A	5.3		
Percent of flights arriving on time	N/A	N/A	76.8	76.0	74.9	76.2	82.3	77.2	✓	
Commercial vessel collisions, allisions, and groundings	2,716	2,456	2,445	2,194	2,152	1,677	1,926	2,098	✓	
Percent of days in shipping season that the U.S. sectors of the St. Lawrence Seaway are available, including the two U.S. locks in Massena, N.Y.	97.0	98.0	98.5	99.2	98.7	98.3	99.1	99.0	✓	
Percent of key rail stations ADA compliant	19	26	29	49	52	67	77*	68	✓	
Percent bus fleets ADA compliant	63	68	72	77	80	85	90*	86	✓	
Employment sites (000s) made accessible by Job Access and Reverse Commute transportation services	N/A	N/A	N/A	1.7	17.0	17.8(r)	N/A	20.4***		
Passengers (millions) in international markets with open skies aviation agreements	38.4	40.7	43.0	49.4	56.8	56.4(r)	57.0*	59.7		✓

FY 2001 FINAL PERFORMANCE REPORT

Percent miles of NHS roads meeting pavement performance standards	89.6	91.1	91.8	92.1	93.0	93.5	93.7	91.9	✓	
Additional percent of annual urban-area peak period travel time attributable to congestion**	N/A	43	45	47	49	51	53(r)	52		✓
Average annual hours of extra travel time due to delays for the individual traveler in urban areas**	N/A	26.8	28.1	29.1	30.6	31.2	32(r)	31.7		✓
Gross tonnage (in thousands) of commercial vessels on order or under construction in U.S. shipyards	N/A	N/A	579	407	595	1,100	1,162	530	✓	
Students graduating with transportation-related advanced degrees from DOT-funded universities	N/A	N/A	N/A	N/A	1,086	1,154	1,108	1,203		✓

change – a more refined and accurate congestion model was used to calculate historical and current performance. 2002 target has been changed to new methodology; *** The target from the revised *FY 2002 DOT Performance Plan* was 404, but it was based on erroneous trend data. The target calculated from correct trend data is 20,400.

HIGHWAY INFRASTRUCTURE CONDITION: The National Highway System (NHS) carries 1 trillion or 43 percent of vehicle-miles traveled (VMT), but consists of only 161,117 miles of rural and urban roads—just 4 percent of total highway miles—and 115,000 bridges. The system serves major population centers, international border crossings, intermodal transportation facilities, and major travel destinations. The condition of this system can affect wear-and-tear on vehicles, fuel consumption, travel time, congestion, and comfort, as well as public safety. Improving pavement and bridge condition is also important to the long-term structural integrity and cost effectiveness of the transportation system.

Performance measure:

Percentage of travel on the NHS meeting pavement performance standards for acceptable ride.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	92.0
Actual:	90.5	90.9	90.9	91.6#

 # Projection from trends.

2002 Results: DOT did not meet the performance target.

Pavement condition overall continued to improve, but a few States with a significant portion of VMT reported a decline in acceptable ride quality.

To improve pavement condition, FHWA developed standards for pavement smoothness during pavement construction that were adopted by American Association of State Highway and Transportation Officials as a provisional standard, and also published reports on pavement smoothness for hot-mixed asphalt pavements and Portland Concrete Cement pavements that highlight best practices for measurement and construction practices. FHWA developed the Profile Viewer software to analyze pavement profile data collected with inertial profilers, and delivered a course on measuring pavement smoothness using advanced inertial profilers.

FHWA took several steps to improve the condition of our Nation's bridges. To give States more flexibility in using Highway Bridge Replacement and Rehabilitation Program funds, FHWA modified its policy to allow program funds to also be used for preventative maintenance. This policy change should enable States to slow bridge deterioration and extend useful service lives. FHWA also obtained valuable input on improving the National Bridge Inspection Standard, and an Advanced Notice of Proposed Rulemaking is being drafted. Through the Innovative Bridge Research and Construction (IBRC) program, 59 bridge replacement and repair projects were delivered using innovative structural material.

A total of 2,571 miles of the Appalachian Development Highway System were open to traffic or under construction. There were 231 miles in the final design or right-of-way acquisition phase and 224 miles in the location studies phase.

FHWA supplementary performance measures:

Percentage of deficient bridges on the NHS.

	1999	2000	2001	2002
Target:	22.8	22.5	22.3	21.9
Actual:	23.0	21.5	21.2	20.7#

Miles of the Appalachian Development Highway System (ADHS) completed.

	1999	2000	2001	2002
Target:	2,327	2,373	2,520	2,557
Actual:	2,456	2,483	2,526	2,571

 # Projected from trends.

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

Management Challenge – Highway Trust Fund Receipts/Allocation (GAO); and Trust Fund Balances and Grant Fraud (IG)

The IG's concerns extended to two areas – effective use of highway funds to improve mobility and reduce congestion; and preventing fraud and abuse in highway projects contracts. A June 2000 GAO report stated that there is little assurance that Highway Account funds distributed to the States are accurate given the information currently available. Although the Treasury Department and FHWA had taken initial actions to review and improve their estimating processes, these actions alone were not sufficient to correct the weaknesses. Therefore, to reduce the risk of errors and increase the reliability of the information used to distribute Federal highway program funds to the States, GAO made these recommendations to DOT:

- perform detailed, independent verifications of motor fuel data used in the process;
- fully document FHWA's current analysis methodology for State motor fuel data;
- conduct an independent, comprehensive review of this methodology; and
- evaluate the potential reliability of the Internal Revenue Service's ExFIRS data as a tool to validate State motor fuel data.

FHWA agreed with recommendations to improve its attribution process reliability and incorporated them into a motor fuel attribution process improvement action plan. In FY 2002, FHWA:

- developed a new data submittal tool for the States (90 percent of all States are now submitting their motor fuel data electronically using this new tool);
- started detailed review of State motor fuel data collecting and reporting processes;
- refined motor fuel attribution, beginning with calendar year 2002 data; and
- initiated an independent, comprehensive review of its methodology.

FHWA will work with States to ensure that funds are being obligated for valid highway projects and to reduce the dollar value of inactive obligations for highway infrastructure projects by 10 percent per year. This will ensure that unused funds associated with completed, cancelled, or unnecessary projects are put to good use.

FHWA will encourage efficient use and management of Federal funds, and better project funds management. FHWA assists Federal, State, and local agencies in identifying projects that are ready for advancement; is streamlining the environmental process; and encouraging the use of innovative contracting and financing such as advance construction, GARVEE bonds, State Infrastructure Banks, or tapered match.

FHWA will improve management of the Federal-aid highway program, including cost containment, while allowing the States maximum delegated authority and flexibility, as appropriate. As larger and more complex projects are completed, a balance must be achieved between addressing the needs of major projects and the vast majority of the program vested in smaller projects.

HIGHWAY CONGESTION: Delay on the Nation's highway systems is a major cost to motorists - amounting to $72 billion in 1997 in lost wages and wasted fuel. Congestion adds to the cost of production, drives prices up, and reduces funds available for investment in product development or firm expansion. Slowing the growth of congestion and delay aids urban travelers' mobility and productivity and curbs economic inefficiencies induced by congestion. Highly integrated Intelligent Transportation Systems (ITS) use electronic information and communications technology to extend the capacity of our existing infrastructure system, improving traffic flow and reducing bottlenecks.

Performance measure:

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

		1999	2000	2001	2002	
Target:	(old)	N/A	N/A	33.4	33.7	
	(revised)		N/A	N/A	30.0	30.9
Actual:	(old)	32.6	33.1	33.8(r)	--	
	(revised)	29.0	29.3	30.4	31.1#	

 # Preliminary estimate; (r) Revised

Note on data: A more refined and accurate urban highway congestion model was used to calculate historical and current performance. The 2002 target has been changed to new methodology.

2002 Results: DOT did not meet the performance target.

Trend data indicates congestion is growing in metropolitan areas of all sizes. Preliminary data for metropolitan areas with integrated ITS deployments indicates that FHWA's target of 61 cities in the medium or high deployment category will not be met.

FHWA assisted States in completing of 77 of 244 regional ITS architectures. The number of metropolitan areas with a medium or high integrated ITS infrastructure increased from 52 to 57. For areas with less well-integrated systems or no systems, FHWA continued funding and technical assistance to support integration efforts. The "511" highway information telephone number was launched in 8 metropolitan areas, and will be available in an additional 5 locations in early 2003. FHWA continued "511" system deployments through 40 planning grants and technical assistance throughout the U.S.

To improve work zone and highway incident management, FHWA:

- completed an Advance Notice of Proposed Rulemaking to require project planners and designers focus on work zone

planning early in planning cycles;

- upgraded a traffic impact analysis tool that can be used for work zone delay estimation;
- expanded collection of real-time data on travel time and travel time reliability from 10 to 22 city Transportation Management Centers across the country; and
- began operational testing on integration of data and common operational practices between public safety dispatch centers and transportation management centers.

FHWA supplementary performance measures:

Of annual urban-area peak period travel time, additional percentage of travel time attributable to congestion.

	1999	2000	2001	2002
Target:	N/A	N/A	52	53
Actual:	49	51	53(r)	55#

For the individual traveler in urban areas, average annual hours of extra travel time due to delays.

	1999	2000	2001	2002
Target:	N/A	N/A	31.7	32.2
Actual:	30.6	31.2	32.0(r)	31.9#

Number of metropolitan areas where integrated ITS infrastructure is deployed.

	1999	2000	2001	2002
Target:	N/A	51	56	61
Actual:	49	52	52	57

(r) Revised; # Projected from trends.

FY 2003 Performance Plan Evaluation: DOT will likely meet the target in FY 2003.

TRANSIT RIDERSHIP: In 2001, people rode public transportation systems 9.5 billion times, traveling to and from work, medical appointments, school and social events. Public transit offers many benefits. It is one of the safest ways of traveling, relieves road congestion, and reduces air pollution. To achieve these benefits, transit must be convenient and cost-efficient. Federal transit investment combined with State and private sector funds enable this means of transportation.

Performance measures:

Average percent change in transit passenger-miles traveled per transit market.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	5.3
Actual:	5.0	5.0	4.3	N/A

N/A Not available.

2002 Results: DOT cannot characterize its performance since no data was available.

In FY 2002, DOT changed the transit ridership measure to the average change in passenger miles traveled per market. This change was prompted by the fact that the previous measure placed excessive emphasis on increasing ridership in the Nation's very largest urban areas. The new measure was intended to focus more attention on increasing transit ridership in every community.

After a year of experience with this measure, DOT has concluded that this measure should be modified to better account for the impact of economic conditions on transit use. The revised measure will adjust for changes in the level of employment in each urbanized area. A recent study by the Mineta Institute found that change in employment is a key economic factor associated with change in transit ridership. This finding is consistent with the fact that approximately one-half of transit riders are traveling to and from work. Further, employment levels also reflect the financial capacity of local governments to support transit service levels and keep fares stable.

An increase in the average transit ridership per market, adjusted for changes in employment, represents an increase in transit's share of the personal travel market. The goal is a 2.0 percent increase per year, adjusted for changes in employment.

At present, this measure is reported based on year-to-year changes in transit ridership from the annual reports made to the

National Transit Database, based on local fiscal years. Thus, the data being reported for the year 2001 represents changes between local fiscal years ending in 2001 (e.g., July 2000 to June 2001 or January 2001 to December 2001) versus local fiscal years ending in 2000. In order to improve the timeliness of the data reported, and to make the period being reported more comparable across areas, in the future, the measure will utilize data on transit boardings from the new monthly National Transit Database that was initiated in 2002. This data is available for the largest 150 transit operators, which account for about 95 percent of all transit ridership. Thus, for 2003, the indicator will compare transit ridership for the urbanized areas containing the 150 largest transit agencies (normalized for employment levels) for the year ending in November 2003 with the year ending in November 2002. Data on employment is based on monthly employment levels for metropolitan statistical areas reported by the Bureau of Labor Statistics.

FTA supplementary performance measures:

Passenger-miles traveled (in billions) by transit.

	1999	2000	2001	2002
Target:	---	40.56	44.8	47.5
Actual:	43.3	45.1	46.3	47.1

Average condition of motor bus fleet (on a scale of 1 (poor) to 5 (excellent)). *

	1999	2000	2001	2002
Target:	N/A	3.15	3.20	3.25
Actual:	3.13	3.07(r)	3.11(r)	N/A

Average condition of rail vehicle fleet (on a scale of 1 (poor) to 5 (excellent)). *

	1999	2000	2001	2002
Target:	N/A	3.19	3.24	3.29
Actual:	3.14	3.55(r)	3.58(r)	N/A

*(r) Revised; # Preliminary estimate; * In 2001 the method for calculating condition was revised to better reflect actual conditions -- this is reflected in the revised actual numbers for 2000 and 2001.*

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

Management Challenge – Transit Grant Oversight (IG/GAO/OMB)

Oversight of transit grants is a core management responsibility of FTA, and the IG and GAO have identified ways to improve oversight. Over the past several years, FTA has worked to continuously improve its grants management by implementing better oversight activities and exercising full use of available enforcement tools to correct grantees' noncompliance with Federal regulations. As a result, FTA is reducing the risk associated with its grants program.

FTA will use its project management oversight contractors (PMOC) to provide monthly reports on all phases of construction of transit projects. Tracking project contract changes and costs, and implementing measures to control cost will remain part of the PMOC responsibilities.

DOT/FTA grants to States and localities are a key tool in achieving the benefits that increased transit use provides to individuals, communities and the Nation. Oversight of these grants to ensure that funds are spent in conformance with Federal laws and regulations is a core management responsibility of FTA. In the 1990s, the IG, GAO and OMB criticized FTA's grant oversight, and placed FTA grant assistance on a list of high-risk Federal programs. Subsequently, FTA established a systems approach to oversight through an annual risk assessment of each of its 600-plus grantees. In addition, numerous improvements were made to FTA oversight, which resulted in FTA being first Federal agency to be dropped from the list of high-risk Federal programs.

Over the last two years, FTA has worked diligently to further improve its grants management oversight by implementing a fully coordinated approach to oversight. Recently, FTA has taken several steps to strengthen the Triennial Review Program, FTA's statutory oversight program, and to provide additional assistance to grantees in meeting FTA's requirements. Grantees who will be subject to a Triennial Review in FY 2003 were offered 10 one-day regional workshops to help them better understand what is required. To ensure that grantees have the necessary information to assist them in meeting Federal standards, the number of Grants Management Seminars was expanded from three to five each year and the Grants Management Seminar Workbook was placed on the FTA public website. This document includes links to all FTA Circulars, OMB Circulars, Federal Register Notices and other laws and regulations that grantees are required to follow.

To improve grantee compliance with statutory and administrative requirements, in FY 1998 FTA established a goal to reduce by five percent per year the deficiency findings per FTA management review. Since that time, as FTA has

increased its effort to strengthen grantee performance, the number of questions asked of grantees has increased by over 20 percent. Thus, while deficiency findings have not decreased, a more rigorous oversight process has reduced the risks associated with FTA's grant assistance programs. In addition, FTA is providing more assistance to grantees in resolving these findings.

FTA no longer believes that a reduction in the average number of deficiency findings is necessarily a good indication of improved grantee performance, particularly since the grantees reviewed change from year to year. In fact, this result theoretically could be achieved by conducting less rigorous reviews, which would be counterproductive to our ultimate goal. In all oversight areas, the proper balance has to be found in streamlining reviews and reducing deficiency findings, while encouraging grantees to continue to improve their management of Federal transit funds.

AVIATION DELAY: Commercial aviation delays cost airlines an estimated $3 billion per year. Passengers are directly affected by missed flight connections, missed meetings, and loss of personal time. There are approximately 20 congested airports, each averaging over 20,000 hours of flight delay per year. Delays throughout the system are projected to increase as passenger travel demand continues to recover and rise.

Performance measures:

Percent of on-time flights.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	77.2
Actual:	76	74.9	76.2	82.3

2002 Results: DOT met the performance target.

DOT worked with the aviation community to develop an action plan for increasing on-time flight arrivals. While recognizing the role of airlines and airports, this plan focuses on:

- an examination of the success that Canada and other nations have experienced with individual air traffic control systems owned and operated by private companies;
- improved FAA business practices;
- organizational changes, including establishing a performance-based air traffic control organization; and
- market-oriented techniques to strengthen our operations and reduce system delays.

Over the long term, increased airport capacity, all-weather access to runways, and building more runways provide the best means of matching capacity to demand and reducing the possibility of delayed flights. In the near term, delay reduction depends on improved FAA service delivery, deployment of improved decision making tools such as Free Flight software, continued air traffic management system modernization to keep system reliability up, and improvements to aviation weather information systems.

Capacity Growth: In addition to grant funding for additional runways, taxiways, and aprons at airports, FAA continued or completed the following projects to increase usable capacity, flexibility, and efficiency:

- Center TRACON Automation System (CTAS), a decision support tool for air traffic controllers, which enables a more efficient arrival flow into terminal airspace and onto runways;
- User Request Evaluation Tool (URET), a conflict probe that enables controllers to more quickly approve user requests in en route airspace by identifying potential aircraft-to aircraft conflicts up to 20 minutes in advance;
- Traffic Management Advisor (TMA) at major hubs (Dallas–Ft. Worth, Los Angeles, Atlanta, Minneapolis, Oakland, Miami, and Denver);
- two major systems to improve weather reporting, processing, and dissemination - Integrated Terminal Weather System to consolidate information from several sources, which is then provided to TRACONs and airport towers and Weather and Radar Processor to provide integrated weather observations and weather radar data to FAA traffic control centers;
- improved weather sensors such as Next Generation Weather Radar, Terminal Doppler Weather Radar, the Low-Level Wind Shear Alert System and a wind shear detection channel for the terminal radar, the Automated Surface Observation System; and
- Collaborative Convective Forecast Product (CCFP), an experimental demonstration program from the National Weather Service, at the Air Traffic Control System Command Center. The CCFP provides a single convective forecast for use in coordinating a system wide approach to severe weather events.

Efficient Use of Daily Capacity: FAA tracks airport acceptance and departure rates, reflecting the arrivals and departures that can occur, based on standard air traffic management practices. Demand for arrivals or departures at an airport divided by its practical capacity, gives a utilization rate for that airport. By tracking utilization rates, FAA can evaluate the effectiveness of its delay reduction programs.

To further increase efficiency, FAA and NASA developed enhanced software tools for air traffic control. FAA and National Weather Service aviation weather research programs developed improved flight planning and collaborative decision making tools for more detailed and timely detection and forecasting of hazardous weather, icing, turbulence, oceanic convection, ceilings and visibility.

FAA Supplementary performance measures:

Airport Efficiency Rate (percent of actual arrival capacity used).

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	95.25
Actual:	N/A	94.7	94.9	96.20

Average Daily Level of Airport Arrival Capacity (thousands of landings)

	1999	2000	2001	2002
Target:	N/A	N/A	46.6	46.6
Actual:	44.7	44.7	46.6	47.0

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

Management Challenge – Aviation System Capacity and Air Traffic Control Modernization (IG/GAO)

The FAA is engaged in a comprehensive program to modernize the air traffic control system. This includes: replacement of the controller workstations and automation software; replacement of radar surveillance systems; modernization of voice communication systems; and the introduction of enhanced automation aids, data links, and improved weather systems. Modernization is necessary to accommodate air traffic growth. Given the complex nature of the equipment and the need for the highest level of reliability, there are significant management challenges associated with maintaining schedule and cost discipline, and in ensuring efficient and timely use of airport grant funds.

FAA's Operational Evolution Plan (OEP) outlines how National Airspace System capacity will be increased over time. The OEP builds upon successful Free Flight program techniques and integrates well-defined operational concepts, early deployment, spiral development, and objective, measurable results. Through the RTCA Advisory Committee, FAA is working to synchronize efforts with the aviation industry so that FAA investments yield timely benefits. Responsibility for delivery of each new capability is assigned to a single senior executive who coordinates both acquisition and operational integration performance. The FAA is working to map OEP metrics directly to organizational measures. This linkage ensures that resources are properly aligned with the FAA's commitment to increasing capacity.

It is generally accepted that new runways are the most effective way to increase capacity. In the 10 years prior to the FAA's OEP, six new runways had been completed, including runways at Dallas and Phoenix. When the OEP was first published in June 2001, it included provisions to add 15 new runways, but that was before 9/11, and before the effects of the economic slowdown became more pronounced.

As of November 2002, FAA's Airport Improvement Program (AIP) had 61 grant obligations, totaling about $72 million, with no expenditures within 18 months. FAA is working with the grantees to ensure that the grants will be activated or closed out expeditiously. The inactive grants and the unused funds will be eliminated during FY 2003.

MARITIME NAVIGATION: More than 2 billion tons of freight worth $1 trillion moves annually through U.S. ports and waterways. The St. Lawrence Seaway is the international shipping gateway to the Great Lakes, offering access and competitive costs with other routes and modes to the interior of the country. As trade increases, ensuring safe and unimpeded access to commercial and recreational vessel traffic will be increasingly important to the national economy. Navigational accidents and ice-choked shipping channels impact freight movements and increase the risk of environmental damage. Extending shipping routes in winter is crucial for many industries and for home heating oil shipments to the Northeastern U.S. where transportation alternatives do not exist.

Performance measures:

Total number of commercial vessel collisions, allisions, and groundings.

	1999	2000	2001	2002
Target:	N/A	N/A	2,204	2,098

Actual:	2,194	2,152	1,677	1,926

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

	1999	2000	2001	2002
Target:	99	99	99	99
Actual:	99.2	98.7	98.3	99.1#

 # Preliminary estimate.

2002 Results: DOT met the collisions, allisions, groundings, and the Seaway availability target.

41 percent of the events leading to diminished waterway traffic availability were groundings, 40 percent were allisions, and 18 percent were collisions. 65 percent of collisions, allisions and groundings were associated with the Nation's towing industry.

USCG Aids to Navigation, Icebreaking, and International Ice Patrol Operations: No waterways were either closed or restricted in FY 2002 due to failures of the aids to navigation system or excessive ice buildups, and no connections were drawn between aid to navigation failures and any groundings, collisions, or allisions. Significant ice did not form on the Great Lakes until mid-January when more seasonal temperatures caused rapid ice formation in the northern lakes. In the Northeast, there was little ice formation until early January. Most ice operations were centered on the upper Penobscot River in Maine and the upper Hudson River in New York.

No ships collided with icebergs. The 2002 season was a moderate ice year with several icebergs surviving long enough to drift past the southern end, or "Tail" of the Grand Banks. Over 4,700 icebergs were sighted in the patrol area, 877 of them south of latitude 48°, which is the area of greatest concern.

St. Lawrence Seaway Operations: The most common cause of system non-availability in 2002 was weather. Weather delays usually occur at the beginning and end of each navigation season, and are caused by poor visibility, high winds, ice, blizzards, and dense fog. The other major factor that reduced lock availability in 2002 was vessel incidents, usually caused by human error on the part of a vessel's crew. Vessel incidents are also caused by mechanical breakdowns. Of the remaining system non-availability causes, the SLSDC has the most control over the proper functioning of lock equipment. During 2002, only 3.2 hours of the 63.2 total hours of downtime (5 percent) were due to malfunctioning lock equipment.

To address vessel related non-availability causes, SLSDC has joined with its Canadian counterpart, the St. Lawrence Seaway Management Corporation, as well as the U.S. and Canadian Coast Guards, to institute a joint boarding program for the foreign vessels that use the Seaway. This vessel inspection program was certified as ISO 9002 compliant in 1998. In 2002, SLSDC continued this program by inspecting 100 percent of all ocean vessels in Montreal. This improved inspection regime has saved vessels, on average, four hours per transit and ensured that any safety or environmental issues are addressed prior to entering U.S. waters. As a result, delays were reduced and ocean carriers using the Seaway saved more than $500,000 in operating costs during 2002.

The SLSDC also unveiled an Automatic Identification System (AIS)-based Vessel Traffic Management System (TMS) in 2002 that is based on Global Positioning System (GPS) technology. The application of Universal AIS technology enhances the efficiency of Seaway operations, and improves the safety of navigation on the Seaway.

USCG supplementary performance measure:

Days critical waterways are closed due to ice. (2 days in an average winter; 8 days in a severe winter.)

	1999	2000	2001	2002
Target:	2-8	2-8	2-8	2-8
Actual:	0	0	7#	0

 # The winter of 2000-2001 was classified as a severe winter.

FY 2003 Performance Plan Evaluation: SLSDC will meet the target in FY 2003. DOT cannot characterize Coast Guard performance for FY 2003, since the Coast Guard will be a part of the new Department of Homeland Security.

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

Performance measures:

Percentage of bus fleets that are ADA-compliant.

	1999	2000	2001	2002
Target:	73	80	83	86
Actual:	77	80	85	90#

Percentage of key rail stations that are ADA-compliant.

	1999	2000	2001	2002
Target:	37	47	58	68
Actual:	49	52	67	77#

Number of employment sites (000s) that are made accessible by Job Access and Reverse Commute (JARC) transportation services.

	1999	2000	2001	2002
Target:	N/A	4.1	15.7	40.4
Actual:	1.7	17.0	17.8(r)	N/A

(r) Revised; # Preliminary estimate; N/A Not available; Rail station measure does not reflect stations under a time extension as discussed below.

Note on data: The FY 2002 target for work sites made accessible by Job Access and Reverse Commute grants was adjusted upward in the FY 2002 Performance Plan based on FY 2001 preliminary estimates of actual performance. Subsequent revisions to the methodology used to calculate the estimates resulted in revised actual performance numbers in FY 200l. Future performance targets will be adjusted to account for improved trend data.

2002 Results: DOT met both bus and rail station ADA compliance targets, and cannot characterize performance for the Job Access and Reverse Commute work site accessibility target since data has not yet received from JARC grantees to verify that FY 2002 program targets have been achieved. A new easier-to-use reporting system is being implemented that should improve data gathering performance.

The bus transit fleet continues to become more accessible as older vehicles are replaced with those that are lift-equipped or have low floors. The overall rate of increase in bus accessibility has slowed somewhat since many of the buses replaced were already lift-equipped.

There are a total of 685 key rail stations nationwide designated by the commuter authority or light/rapid rail operator in cooperation with the local disability community. To date, of the 685 key stations, 547 were covered by a Voluntary Compliance Agreement that expired December 31, 2001. The other 138 are currently operating under time extensions. Since 1995, FTA has assessed more than 509 stations, taking on-site measurements, recording specific accessibility features at stations, and simultaneously providing technical assistance. Quarterly rail station status reports and key rail station assessments have significantly increased the number of key rail stations that have come into compliance over the last several years.

In areas that receive JARC funds, the program successfully meets the transportation needs of low-income individuals seeking reliable transportation to employment and related support services. Grantees have used JARC funds for a wide variety of services, ranging from expansion of fixed route bus systems to the provision of customer information. In each community that has received a grant, JARC transportation services have reached new employment sites, making thousands of entry-level jobs and employers accessible for the program's target populations. New stops have also increased access to critical employment support sites, particularly childcare and job training facilities.

FY 2003 Performance Plan Evaluation: DOT will meet the targets in FY 2003.

INTERNATIONAL AIR SERVICE: Since the 1940's international air transportation has been subject to restrictive bilateral agreements that raise prices and artificially suppresses aviation growth. DOT's policy is to negotiate bilateral agreements to open international air travel to market forces, thereby removing limitations on the freedom of U.S. and foreign airlines to increase service, lower fares, and promote economic growth. These agreements have made it possible for the airline industry to provide better quality, lower priced, more competitive service for millions of passengers in thousands of international city-pair markets.

Performance measure:

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

	1999	2000	2001	2002
Target:	43.4	44.7	51.6	59.7
Actual:	49.4	56.8	56.4(r)	57.0#

 # Preliminary estimate

2002 Results: DOT did not meet the performance target.

Passenger travel diminished in FY 2002 because of 9/11's impact on air travel. However, DOT increased the number of countries with which the U.S. has "open-skies" agreements to 59, adding five new open-skies agreements (France, Sri Lanka, Uganda, Cape Verde and Jamaica). In addition, the U.S. has multilateral open-skies agreements with six other members of the Asia-Pacific Economic Cooperation (APEC) forum (Brunei, Chile, New Zealand, Peru, Samoa and Singapore); and an "open transborder" agreement with Canada.

FY 2003 Performance Plan Evaluation: DOT expects to meet the target in FY 2003. Although the European Court of Justice (ECJ) found that some elements of the U.S.s' aviation agreements with eight EU member states violated EU law, it did not nullify our agreements with those eight or the other seven EU members. Those agreements, which form the legal basis for air service between the United States and EU countries, will remain in force, and the ECJ decision will not affect our ability to meet the FY 2003 target.

HUMAN AND NATURAL ENVIRONMENT

STRATEGIC OBJECTIVE: Protect and enhance communities and the natural environment affected by transportation.

Strategic Outcomes:

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

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

DOT's objective is to advance the benefits of transportation while minimizing its negative environmental impacts. In FY 2002, DOT environmental programs prevented as much harm as possible from being done to the environment by transportation projects and operations.

PERFORMANCE SUMMARY:

	1996	1997	1998	1999	2000	2001	2002	2002 Target	Met	Not Met
Number of significant domestic fishery violations found	N/A	308	400	392	273(r)	92(r)	113	133	✓	
Acres of wetlands replaced for every acre affected by Federal-aid highway projects	2.3	2.6	2.2	2.3	3.8	2.1	2.7	1.5	✓	
Percent DOT facilities categorized as No Further Remedial Action Planned under Superfund Amendments and Reauthorization Act	75	74	78	90	90	91	91	91	✓	
Monthly average number of area transportation emissions conformity lapses	N/A	N/A	N/A	N/A	6	6	6	6	✓	
Gallons of oil spilled by maritime sources per million gallons shipped	7.2	1.6	3.1	2.6(r)	2.8(r)	3.4	0.4	2.6	✓	
Tons of hazardous liquid materials spilled per pipeline million ton-miles shipped	0.0232	0.0257	0.0119	0.0229	0.0131 (r)	0.0201	0.0109*	0.0142	✓	
Number of people in U.S. (in thousands) exposed to significant aircraft noise levels	N/A	N/A	722	585	440	411(r)	379*	440	✓	

FY 2001 FINAL PERFORMANCE REPORT

	1995	1996	1997	1998	1999	2000	2001	2001 Target	Met	Not Met
Percent change in number of species designated as overfished	N/A	N/A	N/A	N/A	N/A	-9	N/A	-1		

N/A Not available
* Preliminary estimate

FISHERY PROTECTION: The U.S. Exclusive Economic Zone covers 3.36 million square miles of ocean, providing a livelihood for commercial fishermen, a vast supply of food, and recreation. Commercial and recreational fisheries contribute about $50 billion annually to the U.S. economy. The Sustainable Fisheries Act (SFA) of 1996 mandates a reduction in the number of over-fished stocks. Responsible management and enforcement of ocean resource management regimes is of critical importance as the demand for fish protein grows.

Performance measure:

Number of significant domestic fishery violations found.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	133
Actual:	392	273(r)	92(r)	113

(r) Revised.

2002 Results: DOT met the performance target.

However, significant violations arose from FY 2001, reversing a significant downtrend. Coast Guard enforcement presence on fishing grounds diminished at the start of the fiscal year due to the need for coastal and seaport security in the aftermath of 9/11. The Coast Guard has since restored the fisheries enforcement effort and toward the end of FY 2002, saw a significant decrease in violations of fisheries protection regulations.

FY 2003 Performance Plan Evaluation: DOT cannot characterize Coast Guard performance for FY 2003, since the Coast Guard will be a part of the new Department of Homeland Security.

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

Performance measure:

On a program-wide basis, acres of wetlands replaced for every acre affected by Federal-aid Highway projects (where impacts are unavoidable).

	1999	2000	2001	2002
Target:	1.5	1.5	1.5	1.5
Actual:	2.3	3.8	2.1	2.7

2002 Results: DOT met the performance target.

Federal-aid projects nationwide impacted approximately 1,896 acres of wetland, and provided 5,118 acres of compensatory mitigation.

With other agencies, FHWA continued to conduct joint research, and develop revised standards for wetlands, highway runoff water quality, and wildlife habitat. In cooperation with AASHTO, FHWA conducted a technology scanning tour of five countries in Europe to examine ways to reduce wildlife mortality along highways. Results of the scan were developed into an implementation plan for the U.S. FHWA also developed new training courses on highway runoff water quality and stream ecosystem restoration with the National Highway Institute.

FY 2003 Performance Plan Evaluation: DOT will meet the targets in FY 2003.

DOT FACILITY CLEANUP: DOT has a special responsibility to ensure that its own facilities are compliant with environmental laws and regulations. Restoration activities involve identifying, investigating, and cleaning up contaminated sites. Compliance activities include the operation of facilities, equipment, and vessels in accordance with environmental requirements. Pollution prevention activities involve preventing future cleanup activities by avoiding the generation of pollutants in our operations or facilities. MARAD is the U.S. Government's disposal agent for merchant type vessels weighing 1,500 gross tons or more, and is required by law to dispose of obsolete ships in the National Defense Reserve Fleet

(NDRF) by the end of FY 2006. Due to the presence of hazardous substances such as asbestos and solid and liquid polychlorinated biphenyls (PCBs) and concerns raised by the EPA about the export of PCBs, sales for overseas disposal were halted in 1995. Additional ships will be added to the inventory as other merchant type Federal Government vessels become obsolete. Leaks from some of the ships in the NDRF have already occurred and the risk of environmental damage associated with the deteriorating ships continues to increase.

Performance measure:

Percentage of DOT facilities categorized as No Further Remedial Action Planned (NFRAP) under the Superfund Amendments and Reauthorization Act (SARA).

	1999	2000	2001	2002
Target:	80	82	91	91
Actual:	90	90	91	91

2002 Results: DOT met the performance target.

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

The Coast Guard continued cleanup activities at its Kodiak, Alaska and Elizabeth City, North Carolina industrial facilities. In September 2002, EPA added the Coast Guard Yard in Baltimore, Maryland to its National Priority List, and the Coast Guard will conduct cleanup activities at the Yard for the next several years.

FAA continued cleanup activities in several Alaskan locations, at the Mike Monroney Aeronautical Center in Oklahoma City, and at the William J. Hughes Technical Center in Atlantic City, New Jersey. FAA is also continuing to replace outdated underground storage tanks with newer, regulatory-compliant tanks, as well as cleaning or removing unused tanks at decommissioned facilities.

EPA removed FRA's formerly-owned and contaminated site in Anchorage, Alaska from the National Priority List in September 2002, thus concluding all FRA's SARA cleanup efforts.

FHWA continued work at one facility to meet State requirements.

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

Management Challenge – Ship Disposal (IG/GAO)

Ship disposal is a management challenge separate from DOT's goal to clean up its shore facilities. MARAD is the U.S. Government's disposal agent for merchant-type vessels of 1,500 gross tons or more. As of March 2002, 133 ships await disposal.

Since 1994, environmental concerns and hazardous material regulatory obstacles have prevented exporting ships, which had been a disposal option that maximized financial returns to the Government. Legislation in 2001 allowed MARAD to purchase scrapping services as an expedient means to remove the most deteriorated ships and provided $10 million for this purpose. Eleven obsolete vessels have been removed from the fleets for disposal through a combination of payment for scrapping services, prior year vessel sales and artificial reefing. In addition to scrapping obsolete ships, MARAD will dispose of them by any or all of the following means:

- artificial reefing (including the establishment of national remediation standards through a joint effort with the EPA and the Navy);
- soliciting for the sale of recyclable obsolete vessels having a material value to recycling companies; and
- pursuing legislative changes to expedite ship disposal or create new opportunities.

MARAD is also pursuing the following alternatives:

- export of ships for recycling (teaming with the EPA and the State Department to resolve environmental and worker health/safety issues);
- soliciting innovative proposals from industry for ship disposal solutions; and
- seeking additional funding sources and partnerships (domestic and international) for ship disposal based upon the environmental, safety and training aspects of the program.

Each of the above alternatives has the potential to realize cost savings (compared to paid ship scrapping) and increase the

number of vessel disposals. However, potential results for these alternatives cannot yet be accurately quantified. If MARAD is to meet the legislative deadline for eliminating the current inventory of obsolete ships, approximately 43 ships a year must be disposed of during the FY 2004-2006 timeframe.

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

Performance measure:

Monthly average number of area transportation emissions conformity lapses.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	6
Actual:	N/A	6	6	6

2002 Results: DOT met the performance target.

Of non-attainment and maintenance areas, 98 percent met mobile emissions budgets for ozone, 100 percent met their budget for carbon monoxide and 96.3 percent met their budget for particulate matter (PM-10). Although national mobile source emissions estimates for FY 2001 and FY 2002 are not available, emissions were 61.9 million tons in FY 2000, which was lower than the FY 2002 target of 63.1 million.

A USDOT/EPA public information initiative on transportation and air quality was expanded with the addition of a new web site, information exchange, and community partnership program. FHWA continued to support the Alliance for Clean Air and Transportation, a national alliance of more than 20 organizations supporting public education to reduce traffic congestion and improve air quality. Through the Congestion Mitigation and Air Quality Improvement (CMAQ) program, FHWA funded State and local government initiatives to reduce emissions through the use of alternative fuel vehicles, inspection and maintenance programs, and other transportation control measures.

FHWA eliminated its supplementary performance measure of tons of on-road mobile source emissions. FHWA used data from an EPA emissions trends database, which lags as much as two years behind, making the performance measure of little utility in managing ongoing performance.

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

OIL AND PIPELINE SPILLS: A large share of the U.S. economy is fueled by oil. Over half the oil used in the U.S. today is imported, and most of the imported oil is carried in tankships. Furthermore, with offshore drilling occurring further offshore, and larger cargo and tank ships plying the oceans, the task of preventing oil spills will become even more challenging. Oil spills can devastate ecosystems and can incur enormous response costs. More than 617 billion ton-miles of petroleum and other hazardous liquids move across the country through about 157,000 miles of hazardous liquid pipelines. While this is usually the least costly way to transport these bulk cargoes, it also entails some risk. Because of the volume of liquid hazardous materials moved by pipelines, any spill into the environment is potentially a significant one.

Performance measures:

Gallons spilled per million gallons shipped by maritime sources.

	1999	2000	2001	2002
Target:	4.3	4.1	4.0	2.6
Actual:	2.6(r)	2.8(r)	3.4	0.4

Tons of hazardous liquid materials spilled per million ton-miles shipped by pipelines.

	1999	2000	2001	2002
Target:	.0171	.0161	.0151	.0142
Actual:	.0229	.0131(r)	.0201	.0109#

(r) Revised; # Preliminary estimate.

2002 Results: DOT met performance targets for both maritime oil spills and pipeline hazmat spills.

A significant portion of all the oil spilled into U.S. waters continues to result from a few large spills. In FY 2002, 45 percent of the total volume of oil spilled from maritime sources resulted from three spills. Spill sources continue to shift toward

marine terminal facilities. Oil spill regulations combined with improved international standards and industry efforts have decreased cargo oil spills, but risks of bunker spills will increase over time as vessel size and waterway traffic increases. Barges continue to be a leading source of spills, with most spills resulting from equipment malfunction or human error.

As part of its pipeline safety program, RSPA improved operations, control, and monitoring technologies to enable better corrosion detection; validated direct assessment techniques for unpiggable pipelines; and researched better pipeline coatings. Better corrosion detection technology and direct assessment allows pipeline operators to detect pipeline defects before a release occurs. Improved pipeline coatings reduce corrosion damage and lessen the risk of environmental damage from pipeline failures.

RSPA further improved damage prevention and leak detection by increasing pipeline operators' use of in-line inspection tools and locating technologies to detect pipeline defects especially in unpiggable pipelines; improve remote and real-time monitoring for encroachment, unauthorized excavation, and pipeline damage; and required more use of directional drilling to avoid damage. RSPA also made educational materials available to operators, one-call centers and other interested groups, and supported efforts of the Common Ground Alliance to offer *"Dig Safely"* training sessions around the country for groups interested in implementing this important program.

FY 2003 Performance Plan Evaluation: RSPA will meet its performance target in FY 2003. DOT cannot characterize Coast Guard performance for FY 2003, since the Coast Guard will be a part of the new Department of Homeland Security.

AIRCRAFT NOISE EXPOSURE: Public concern and sensitivity to aircraft noise around airports is high. In recent years, noise complaints have increased even while quieter aircraft technology has been introduced. Aircraft noise is an undesired by-product of our mobility, and the Government acts to reduce the public's exposure to unreasonable noise levels.

Performance measure:

Number of people in the U.S. (in thousands) who are exposed to significant aircraft noise levels (65 decibels or more).

	1999	2000	2001	2002
Target:	N/A	N/A	440	440
Actual:	585	440	411(r)	379#

(r) Revised; # Preliminary estimate.

2002 Results: DOT met the performance target.

DOT pursued a program of aircraft noise control in cooperation with the aviation community through noise reduction at the source (development and adoption of quieter aircraft), soundproofing and buyouts of buildings near airports, operational flight control measures, and land use planning strategies. In 2002, FAA:

- continued to develop noise research and assessment technologies;
- implemented flight control measures to help reduce neighborhood exposure;
- continued to examine and validate methodologies used to assess aircraft noise exposure;
- developed a research plan and program for international certification noise standards for turbojet airplanes that will be more stringent than the current Stage 3 standard; and
- in cooperation with the National Park Service, assessed noise exposure and developed Air Tour Management Plans for an estimated 45 national parks.

FAA also worked with NASA to identify concepts that will reduce the noise impact of future subsonic jet airplanes by half (7 to 10 decibels), relative to 1992 technology.

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

ORGANIZATIONAL EXCELLENCE

Implementing the President's Management Agenda

STRATEGIC OBJECTIVE: Advance the Department's ability to manage for results and innovation.
In implementing the President's Management Agenda in DOT, we aim to achieve the following organizational excellence outcomes:

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

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

President Bush's management agenda focuses on long-term management of the Federal workforce and fostering a citizen-centered, results-based government; organized to be agile, lean, and capable of making timely decisions. As we determine our human capital requirements, DOT will thoughtfully restructure our organization.

COMPETITIVE SOURCING

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

FINANCIAL AND PROCUREMENT PERFORMANCE

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

EXPANDED ELECTRONIC GOVERNMENT

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

BUDGET AND PERFORMANCE INTEGRATION

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

PERFORMANCE SUMMARY

	1996	1997	1998	1999	2000	2001	2002	2002 Target	Met	Not Met
For major DOT acquisitions, percentage of cost, schedule, and performance goals established in acquisition project baselines that are met.	N/A	N/A	N/A	N/A	N/A	N/A	74	90		✓
Percent share of total dollar value of DOT direct contracts awarded to women-owned businesses.	2.4	4.0	3.7	4.1	4.5	3.7(r)	3.8*	5.1		✓
Percent share of total dollar value of DOT direct contracts awarded to small disadvantaged businesses.	19.8	19.6	17.0	17.9	17.7	17.4(r)	16.2*	14.5	✓	
For major Federally funded infrastructure projects, percentage that meet schedule milestones established in project or contract agreements, or miss them by less than 10 percent.	N/A	N/A	N/A	N/A	N/A	N/A	85	95		✓
For major Federally funded infrastructure projects, percentage that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent.	N/A	N/A	N/A	N/A	N/A	N/A	85	95		✓
Percentage of transit grants obligated within 60 days after submission of a completed application.	N/A	N/A	N/A	N/A	21	51	67	60	✓	
Environmental justice cases unresolved after one year.	50	20	67	29	56	39	65	40		✓

* Preliminary estimate

Strategic Management Of Human Capital

In FY 2002, DOT developed a Human Capital Plan to provide a strategic guide our efforts through FY 2005. This Plan is fully aligned with the President's Management Agenda and the standards developed by the Office of Management and

Budget, Office of Personnel Management, and the General Accounting Office: strategic alignment, workforce planning and deployment, leadership and knowledge management, performance culture, talent, and accountability. DOT's plan contains initiatives to help the Department recruit, develop, and retain the diverse talent needed now and in the future to perform our mission and achieve our strategic objectives. During FY 2002, DOT improved workforce planning throughout the Department and which will continue into FY 2003, as outlined in DOT's Human Capital Plan. As we utilize the workforce planning process in FY 2003 for mission critical occupations, we will focus on creating a citizen-centered, using e-government and competitive sourcing, as appropriate solutions to our human capital challenges.

FAA is redirecting a major portion of its organization - 37,300 employees - into a results-oriented Air Traffic Organization (ATO), freeing most of the FAA to manage better and modernize more efficiently.

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

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

Competitive Sourcing

DOT's 2001 Fair Act inventory identified over 12,000 FTE performing commercial functions. In FY 2002, DOT developed a plan to compete over 3,400 positions in FY 2003 or about 30 percent of the calendar year 2000 Fair Act inventory, far exceeding the President's Management Agenda goal of 15 percent by the end of FY 2003. DOT has already initiated studies for over 2,800 of these positions and FAA's study of flight service station is one of few in government that is nation-wide in scope.

Financial and Procurement Performance

Acquisition Management –

Performance measures:

For major DOT systems acquisitions, percentage of cost, schedule, and performance goals established in acquisition project baselines that are met.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	90
Actual:	N/A	N/A	N/A	74*

** Data is for cost and schedule only; full data on major systems that had been fielded and met performance expectations were not available.*

2002 Results: DOT did not meet the target.

FY 2003 Performance Plan Evaluation: DOT will meet the target in FY 2003.

Small disadvantaged and women-owned business contracts –

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

	1999	2000	2001	2002
Target:	5	5	5	5.1
Actual:	4.1	4.5	3.7(r)	3.8#

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

	1999	2000	2001	2002
Target:	14.5	14.5	14.5	14.5
Actual:	17.9	17.7	17.4(r)	16.2#

(r) Revised; # Preliminary estimate

2002 Results: DOT met the target for small disadvantaged businesses (SDB), and missed targets for acquisition performance and for women-owned businesses (WOB). SDBs received $372 million and WOBs received $88 million of DOT's direct procurements, which totaled $2.3 billion, a significant increase from the $1.9 billion base estimated for the year. Though short of the target, the SDB achievement is above the government-wide average of approximately 2.4 percent.

WOBs do not have a special set-aside authority allowing them to compete in a restricted market for Federal procurements. Therefore, WOBs must successfully compete with other small businesses for small business set-aside procurements or with all businesses for full and open procurements. To assist WOBs to successfully compete, DOT offered financial assistance, conducted outreach and training to identify potential contracting opportunities, and made more electronic marketing and contract information available to WOBs, assisting them in becoming better informed on how to do business with DOT and in accessing transportation-related contract opportunities. DOT's ongoing Bonding Assistance Program and Short Term Lending Program improved WOBs' access to financing and bonding.

FY 2003 Performance Plan Evaluation: DOT will meet the targets in FY 2003.

Financial management – Last year, DOT, FHWA, and FAA received unqualified opinions (clean audit) on all three financial statements required by statute and by OMB, and we have taken steps to ensure that we sustain those results in the years to come. In prior years, FAA did not receive unqualified opinions because of a material internal control weakness in accounting and reporting for FAA property, plant, and equipment. These assets, valued at almost $13 billion in FY 2002, account for 46 percent of FAA's total assets. To fix this problem, FAA created an Interim Fixed Asset System (IFAS) to centrally control and account for its property.

Additionally, work continued on implementing Delphi – DOT's JFMIP-compliant Department-wide financial accounting system. All Operating Administrations except FAA, FMCSA, MARAD and FHWA were using Delphi at the end of FY 2002, with the remaining DOT Operating Administrations to convert in FY 2003.

Performance-based contracting and Expanding on-line procurement – DOT's agency-wide Procurement Performance Management System policy includes a measure for Performance Based Service Contracting consistent with the 20 percent by FY 2004 goal established in the government-wide Acquisition Performance Measurement Program. In 2002, DOT intended that 20 percent of all service contract dollars would be performance based. Not including TSA, 22.1 percent of DOT's contracts were performance based; including TSA procurements, 16.6 percent were performance based.

DOT and FAA Audited Financial Statements (IG/GAO/OMB)

As indicated by the IG, GAO, and OMB, DOT needs to stress implementation of its replacement financial system, and implement cost accounting and labor distribution functions along with the replacement system. DOT's plans to introduce all activities to the Department's financial accounting has presented a significant management challenge, requiring DOT to develop more comprehensive cost accounting systems, and – most critically – to develop improved record keeping and valuation procedures for property, plant, and equipment. This last requirement remains a significant challenge for FAA, whose direct provision of services to the public involves significant capital assets. The IG continues to carry this issue in its 2003 management challenge report.

DOT is following through on the full implementation of the new Delphi accounting system and managerial cost accounting standards. The Delphi system, which was initiated in 1997, is now operational in seven of DOT's smaller Operating Administrations and staff offices. Delphi is being implemented in four of DOT's largest Operating Administrations (Federal Aviation Administration, Federal Highway Administration, Federal Motor Carrier Safety Administration, and Maritime Administration), which account for more than 80 percent of DOT's FY 2003 budget (not including TSA and Coast Guard) and represent most of the volume of transactions anticipated for Delphi operations.

Financial Stewardship-

Performance measures:

For major Federally funded infrastructure projects, percentage that meet schedule milestones established in project or contract agreements, or miss them by less than 10 percent.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	95
Actual:	N/A	N/A	N/A	85

For major Federally funded infrastructure projects, percentage that meet cost estimates established in project or contract agreements, or miss them by less than 10 percent.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	95
Actual:	N/A	N/A	N/A	85

Percentage of transit grants obligated within 60 days after submission of a completed application.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	60
Actual:	--	21	51	67

2002 Results: DOT met its transit grant obligation timeliness target, but did not meet infrastructure project cost or schedule performance targets.

FHWA identified six major transportation improvement projects with an estimated total cost of more than $1 billion - Central Artery/Tunnel (Boston), Woodrow Wilson Bridge (MD-VA-DC), San Francisco-Oakland Bay Bridge (East Span), Miami Intermodal Connector, T-Rex Project (Denver), and the Central Texas Turnpike (Austin). The costs for all of these projects, except the Central Artery/Tunnel, were within 10 percent of estimates in the initial baseline in the project financial plan. There were no schedule milestones for these projects in FY 2002.

FAA – Major runway construction projects for infrastructure (Seattle, St. Louis, and Atlanta) were all within 10 percent of milestone goals for schedule and costs.

FTA's four major projects (active New Starts projects with Full Funding Grant Agreements (FFGA) that exceed $1 billion) are: New Jersey Hudson-Bergen MOS II, San Juan Tren Urbano, Denver Southeast Corridor Project, and Bay Area Rapid Transit (BART) Extension to San Francisco Airport. Three of these projects (New Jersey Hudson-Bergen, Denver Southeast Corridor and the BART-SFO Extension) were within 10 percent of the cost estimate of the current FFGA agreements. San Juan Tren Urbano is 36 percent over the cost estimate in their current FFGA, and is currently operating under an FTA-approved recovery plan. Two of these projects (New Jersey Hudson-Bergen and Denver Southeast Corridor) were within 10 percent of the schedule milestones of the current FFGA agreements. The San Juan Tren Urbano Revenue Operations Date was recently changed from July 2001 to June 2004. BART-SFO Extension had a Revenue Operations Date of July 2001, but is now projected to be completed in April 2003.

FTA remains committed to bringing projects in on time and on budget, and is improving its rigorous oversight program, and has made project cost and budget performance, a core accountability of every senior manager in the agency. In addition, FTA is using independent reviews and third party assessments such as the Corps of Engineers and other oversight contractors to validate the accuracy of project budgets and schedules before grantees are awarded Full Funding Grant Agreements.

FTA obligated 67 percent of grants within 60 days, including grant applications received in FY 2001 and obligated in FY 2002. In January 2002, FTA determined that improvements in the timeliness of grant processing should be an important component of its efforts to be more customer-focused and results-oriented. In spite of the fact that this ambitious goal was established for the first time one-quarter into the fiscal year, FTA made dramatic improvements in the timeliness of grant processing during FY 2002. Sixty-seven percent of the 1,511 program grants FTA obligated during FY 2002 were awarded in 60 days or less after submission of a completed application. By comparison, a retrospective examination of prior year data indicated that FTA processed only 51 percent of grants within 60 days in FY 2001 and 21 percent in FY 2000.

In addition, FTA took steps to reduce the delay attributable to year-end closing activities. During FY 2002, monthly reconciliation of TEAM data was instituted. This allows a speedier year-end closing and reconciliation that will reduce delays in grant processing at the beginning of FY 2003. As a result of measures instituted in FY 2002 and management attention to the goal, we also anticipate reaching our goal for FY 2003.

FY 2003 Performance Plan Evaluation: DOT will meet the targets in FY 2003.

Management Challenge – Financial Stewardship (IG/OMB)

Contract Closeout (IG/OMB);

Management of Large Transportation Infrastructure Projects (IG/GAO/OMB)

Monitoring the cost, schedule, and performance of "mega projects" is critical to identify problems and initiate action to

mitigate risks as soon as possible. DOT has identified and initiated steps to improve its oversight of these projects by developing a comprehensive, standard oversight approach. Elements of this approach include vigorous enforcement of financial reporting requirements, designating accountable oversight managers for "mega projects", and taking timely action to protect Federal interests on projects designated as "at risk." FHWA and FTA have developed new guidance for financial reporting on infrastructure projects greater than $1 billion. Critical analysis of these plans will ensure the Department is provided complete and consistent reporting of basic standardized financial data. Fully developed finance plans have been useful in identifying emerging cost and funding shortfalls in projects.

Proper and timely administrative closure of contracts and proper management control safeguards against waste, fraud, and abuse have been identified by the IG and OMB as areas requiring improvement. Properly closed contracts ensure that the Government pays only what it owes, upon presentation of an invoice by departmental contractors, and that any excess obligated funds can be de-obligated and deployed elsewhere.

The IG has also noted that FHWA can obtain better value for each dollar invested in highway projects by refocusing its oversight efforts to ensure that major projects are delivered on time and on budget. FHWA needs to move from an engineering culture to a more multi-disciplined workforce with the management, financial, environmental, program analysis, and engineering oversight skills necessary to review modern highway projects and programs.

DOT will continue to improve institutional and personal accountability systems to ensure that large transportation infrastructure projects are adequately managed and periodically reviewed by a high-level Departmental Council.

DOT has taken the following actions:

Established project oversight by designating competent oversight managers who are personally accountable for proper Federal oversight; establishing Integrated Product Teams to assist the oversight manager. Additionally, professional certifications for Federal oversight managers will be funded, and grant recipients' project management staff will be required to have professional certifications.

Established a formal management and reporting framework by creating a DOT Executive Council to review project oversight; fostering a collaborative relationship between Federal project oversight managers and grant recipients to facilitate communications; and requiring grant recipients to submit project management plans with agreed-upon oversight provisions and which incorporate "Earned Value Management". Additionally, projects with significant deviations from cost and schedule baselines will be designated as "at risk". Grant agreements will provide financial incentives for comprehensive project management systems, and will insure that a dedicated funding source exists for independent oversight reviews.

Insured accountability by incorporating mega-project oversight into DOT Performance Plans, inviting external audits; providing proper incentives for excellent oversight performance by DOT employees.

To better ensure stewardship and accountability in the use of Federal-aid funds, FHWA issued a policy memorandum on oversight and management of major projects. As part of an FHWA implementation plan which addresses the USDOT task force recommendations on major projects, the Agency obtained an additional 12 full-time equivalent positions for stewardship and oversight of major projects, initiated a risk assessment review, and provided technical assistance on major projects in Washington and Florida. The risk assessment review study, scheduled for completion in FY 2003, will focus on how FHWA interrelates with the project management and oversight activities in the States.

FHWA staff participated in the 2002 National Fraud Conference on Highway Construction and Public Transportation, and worked closely with IG investigative staff to deliver a course on Contract Administration.

The Massachusetts Turnpike Authority completed its annual review of the Central Artery/Tunnel Project's cost and schedule. The cost estimate did not increase from last year and the total cost of the project is now estimated at $14.625 billion. A completion date of February 2005 is anticipated. In an independent estimate, FHWA determined the project costs at $14.408 billion and projected a completion date of February 2005. The difference in the two estimates is attributed to different methods used in calculating the contingency amounts.

This issue continues on the IG's 2003 list of DOT top management challenges.

Management Challenge – Amtrak Financial Viability (IG/GAO)

The 1997 Amtrak Reform and Accountability Act mandated that Amtrak develop a plan to eliminate its need for Federal operating support by FY 2003. The IG's January 2002 report on Amtrak's Financial Performance and Requirements, observed that Amtrak is no closer to operational self-sufficiency than it was in 1997. In the summer of 2002, Amtrak lost access to the short-term credit market and threatened shutdown of its entire system. This crisis was averted when the Department arranged a loan of $100 million and Congress voted to provide an additional $205 million in supplemental appropriations. Amtrak's authorization ended in December 2002 and reauthorization will be debated in the coming months. In the short run, Amtrak is likely to require at least $1 billion in Federal grant support in 2003 to preserve the current system and keep open all options for the Congress and the Administration in defining the future of passenger rail. Additional borrowing against assets—such as the 2001 mortgaging of Penn Station—would adversely affect the long-term

prospects for the railroad. Deferral of routine maintenance is starting to catch up with Amtrak. Similarly, GAO has discussed Amtrak's need for greater progress toward the goal of operating self-sufficiency.

This continues to be a challenge, since Amtrak experienced significant mechanical problems with Acela locomotives, taking them out of service for significant periods with some impact on revenues. DOT continued to work with the Administration and Congress to develop a plan for Amtrak's future. Amtrak remained in financial straits, as evidenced by the $100 million RRIF loan they required in July to sustain operations through the fiscal year.

This issue continues on the IG's 2003 list of DOT top management challenges.

Management Challenge: Reducing DOT Liabilities for Title XI Ship Construction Loan Defaults (IG)

The IG has stated that DOT should act to protect the Government's interests and seek to stop the recent increase in Title XI ship construction loan defaults.

MARAD took two steps to improve Title XI program administration. First, the responsibility for performing certain financial functions was centralized in order to provide for greater efficiency and reliability. Second, MARAD amended its regulations regarding the deposit of proceeds from Title XI obligations. The new regulations eliminate the Construction Fund so that all Title XI proceeds not reimbursed to the ship owner are now deposited solely in the Escrow Fund held at the U.S. Treasury. This action eliminates the need for certain legal opinions from the ship owner's counsel and assures MARAD that these funds will always be available to them as a security deposit. Together, these two actions help to simplify program administration, lower administrative costs and enhance the enforceability of MARAD's security interest in its collateral.

Citizen Centered Government

Performance measure:

Percent of Environmental Justice cases unresolved after one year.

	1999	2000	2001	2002
Target:	N/A	N/A	N/A	40
Actual:	29	56	39	65

2002 Results: DOT did not meet the performance target.

Environmental justice (EJ) complaints continue to be very complex, and therefore time-consuming, compared to other external civil rights complaints. DOT's lack of progress is explained by the following:

- EJ complaints always involve classes and not single individuals;
- EJ complaints almost always involve controversies relating to unsettled areas of the law; and
- EJ complaints involve time-consuming jurisdictional determinations.

DOT will take actions as explained in the following paragraph to address these issues.

FY 2003 Performance Plan Evaluation: DOT will most likely not meet the target in FY 2003. DOT's External Complaint Tracking System (XTRAK) is being revised to track complaints more closely, in a more timely way, and with a higher level of data quality. DOT's General Counsel and Director of Civil Rights are developing joint guidance to operating administration legal counsels and offices of civil rights requiring more intensive legal staff involvement in external civil rights complaints, especially EJ cases, with greater opportunities for legal sufficiency input and concurrence.

Customer Service Focus and E-Government – During FY 2002, the Department launched a new "citizen services" web site which makes it easier for the public to find information and services provided by all DOT organizations. Information on the web site is organized under specific topics such as 'aviation', 'highways and bridges', 'licenses and permits' and many more. As a result, rather than having to know which agency may have the information you're looking for and searching through the web pages of each operating administration, the public can more quickly find information of interest to them. This web site support's the Administration's efforts to improve empower citizens by making information available to the public in ways that make sense to them.

The Department continues to be an active participant in many of the Administration's government-wide E-Government initiatives, such as online rulemaking, business compliance one-stop, e-learning, e-travel and others.

For example, BTS created TransStat to make transportation statistics more accessible to the public (http://transtats.bts.gov), and for the Office of the Secretary's Dockets Management System, the managing office created a listserv. This lets the public

sign up to be notified when documents on certain topics are added to the system.

Additionally, FAA implemented a robust Section 508 Compliance program to include extensive training for 508 coordinators and website developers, website evaluation and remediation, and adoption of automated tools for website reviews. FAA also contributed funds and staff to the e-Grants program office to review statements of work, review and comment on "mandatory data elements", and review and comment on OMB postings in the Federal Register. FAA is also participating in the FedBizOps pilot project.

Information and Technology Management - Key 2002 milestones and accomplishments:

Take actions that contribute to achieving a 5 percent reduction in information collection burden hours imposed on the public from FY 2001.

- DOT was not able to reduce the information collection paperwork burden on the public. Realistically, DOT will not be able to reduce burden hours on the public as new collection mandates increase.

Provide oversight and monitoring of departmental progress in meeting the Government Paperwork Elimination Act (GPEA) requirements regarding delivering information and transacting business electronically by October 2003.

- launched the Department's web-based GPEA management system in March 2002 for reporting and monitoring progress in meeting the GPEA deadline; and
- made significant progress in implementing GPEA during the past year, going from less than 18 percent of the GPEA items completed last year to over 65 percent completed this year.

Continue development of the Department's IT Enterprise Architecture.

- completed DOT-wide data gathering to identify crosscutting business processes and supporting applications, data, and technology. This will allow us to meet our target date to complete the DOT "As Is" Enterprise Architecture (EA) by the end of November 2002;
- developed navigation and query tools to complement our EA development tool and repository. These tools will make the Department's EA accessible to all DOT employees and managers in a format that is understandable and useful; and
- completed plans for Operating Administrations to finish EAs by the end of FY 2003.

Ensure that DOT organizations make sound IT business investments supportive of strategic goals and electronic government, and effectively manage and control their IT capital investment portfolio through implementation of a structured and integrated capital planning and investment control (CPIC) process:

- implemented Secretary-approved Departmental IT Capital Planning and Investment Control (CPIC) Manual. All DOT organizations developed internal CPIC processes to implement DOT CPIC policies;
- provided training and guidance to all DOT organizations on the preparation of Business Case/OMB Exhibit 300 submissions for significant IT projects and in the use of the IT Investment Portfolio System (ITIPS) Database Tool; and
- improved FY 2004 budget submission quality by analyzing DOT organizations' portfolios and IT projects for overall adequacy of documentation, justifications, affordability, security measures, risk levels, and potential for meeting DOT strategic goals and objectives.

Review IT capital investments that are common to multiple DOT organizations to achieve operational and economic efficiencies, and advise the Secretary regarding the appropriate acquisition and use of such IT capital assets.

- established a departmental Investment Review Board (IRB), chaired by the Deputy Secretary to consider the management, technical and cost efficiencies that could be accrued by consolidating multiple, redundant, human resources, financial management and accounting systems within the Department; and
- planned for and provided guidance to DOT organizations on the consolidation of IT infrastructure projects DOT-wide, as a result of the Capital Planning Work Group (CPWG) deliberations on IT Business Cases/OMB Exhibit 300s in support of the FY 2004 budget submission. Significant operational efficiencies and cost savings should result from the IT infrastructure consolidation in the planned DOT Headquarters Building.

Fostering Competition – The Air Carrier Access Act (ACAA) and the Department's implementing regulations prohibit discrimination against disabled air travelers. In April 2000, provisions were included in AIR-21 requiring that DOT investigate each ACAA complaint that it receives and that it implement an effective ACAA outreach program.

DOT made significant progress during FY 2002 in improving access to the national air transportation system for disabled air travelers. It made significant progress in the number of investigations based on complaints from disabled air travelers that it completed and closed. Beginning in April 2000 through the end of that fiscal year, the Office of the Assistant General Counsel for Aviation Enforcement and Proceedings (C-70) received 409 ACAA complaints. Although it was able to

investigate and close 180 cases by the end of FY 2001, because such complaints are labor-intensive, the Department had a significant and growing backlog of complaints by disabled air travelers. Congress provided additional funding for FY 2002 to address the complaint backlog and provide additional assistance to disabled air travelers. While the additional staff was not available for the entire fiscal year, the Department received an additional 373 cases and it investigated and closed 489 cases during FY 2002, a significant improvement over the prior year's performance.

Importantly, the Department also began an effective outreach program to provide relevant information and technical advice to the disabled community and the airline industry about the rights and responsibilities that flow from the ACAA. In this regard, during FY 2002 the Department's Aviation Enforcement Office established a toll-free hotline, staffed seven days per week from 7 a.m. until 11 p.m., to answer questions from disabled air travelers and assist such persons with real-time solutions to any air travel problems. This office also makes available on its website information to assist air travelers with disabilities, which include its fact sheet with tips for disabled air travelers regarding the security screening process, its *New Horizons* information pamphlet, its *Plane Talk* fact sheet with general information for airline passengers with disabilities, as well as 14 CFR Part 382, the Department's rule implementing the ACAA. They also hosted a second forum during FY 2002 to provide disability community organizations, representatives of the airline industry, airport authorities, airport associations, and government officials, including officials from the FAA and the National Council on Disability, an opportunity to have an exchange of ideas and to start a dialogue that will enable all involved to work better together to understand the needs of travelers with disabilities and explore ways of making accessibility to air travel a reality for all.

Feedback from government and advocacy organizations (e.g. National Council on Disability) and members of the public suggests that DOT has been very effective in reducing discrimination by air carriers. Airlines realize that the civil rights of air travelers are a high priority at the Department because of the constant messages provided to them about nondiscrimination and the great number of ongoing enforcement investigations and actions, particularly those related to disability. Specifically, DOT settled a major disability case against Northwest Airlines with a $700,000 assessed civil penalty. This is the largest civil penalty ever assessed by the DOT for any violation, including a civil rights violation. Much of the penalty will be offset with expenditures by Northwest to improve disabled air traveler accommodations. DOT continues to actively pursue 11 other significant civil rights enforcement investigations involving disabled air travelers.

DOT also investigated and closed several informal complaints of unfair competition filed against various airlines by competitors. One informal complaint remains under active investigation. In addition, DOT completed and closed with a dismissal order its investigations into two major formal complaints by travel agency associations alleging unfair practices and unfair methods of competition on the part of more than two dozen airlines and a major online Global Distribution System. With the hiring of additional staff stemming from the increased FY 2002 budget, the Department expects to further reduce the number of pending formal actions involving unfair competition.

With regard to airport capacity matters, the Department made significant progress in working to ensure fair and adequate access to airport facilities. The Department reviewed competition plans filed by the 39 medium or large hub airports that were dominated by one or two carriers. The in-depth review process, which included document reviews, telephone conferences, meetings, and site visits, resulted in airports modifying their business practices to achieve the goal of reducing gate hoarding and providing more opportunities for accommodation of new entrants. The airports achieved this goal by adopting practices such as: monitoring gate utilization; providing fair and uniform notification of gate availability; adopting fair and transparent protocols for gate assignment; and adopting procedures to ensure fair and timely dispute resolution about access, accommodation, subleasing and ground handling.

Management Challenge – Airline Mergers, and Customer Service Commitment (IG/GAO)

As stated by the IG, airlines have committed to improving air travel by improving communication with passengers, quoting the lowest available fare, timely return of lost baggage, and taking care of passengers during extended onboard aircraft delays. Extensive flight delays, baggage not showing upon arrival, and long check-in lines remain as major sources of dissatisfaction by air passengers. Efforts to solve these problems have been frustrated by record delays, which translate into customer discontent. Until the FAA, airlines, and airports effectively address these areas, there will continue to be discontent with air travel. Additionally, as GAO has pointed out, the lack of effective competition in certain markets has contributed to high fares and poor service. Increased competition and better aviation service will entail a range of solutions by DOT, the Congress, and the private sector.

Government needs to be the watchdog of competition to ensure that competitive conditions continue to exist. In response to complaints by new entrant airlines that incumbent airlines were engaging in unfair competitive practices, DOT informally investigated major airline responses to entry by low-fare airlines. If complaints were to have a substantial basis in fact, the Justice Department would bring actions against the parties.

The Department of Justice is responsible for determining whether mergers should be challenged on competitive grounds. DOT also conducts its own analysis of merger transactions and provides its views on competitive issues to the Justice Department.

Budget and Performance Integration

Results-oriented decision-making – By clearly focusing on investments in programs that work, and by exerting efforts to make well-designed programs achieve their intended results, DOT will increase the value it creates for the American people. The chief means to accomplish our intended results is to hold executives and managers accountable for them. Accordingly, DOT thoroughly revamped its performance plan and refocused its system of individual and organizational accountability. Departmental leaders, senior executives, and flag officers are included in this system, which will increase the alignment of resource decision-making and programmatic effort with DOT's strategic purposes.

Management Challenge – Government Performance and Results Act Implementation (IG/OMB)

The IG has noted that GPRA requires Federal agencies to develop five-year strategic plans, annual performance plans and annual performance reports. The IG further noted that DOT's strategic and performance plans are among the best in the Federal Government. To continue this success, DOT needs to improve the reliability and timeliness of its performance data, and provide better linkages between budgets and performance results.

DOT has acknowledged that increasing the validity, reliability, timeliness, and comparability-over-time of performance data will be a challenging task. In its most recent strategic plan, DOT included a data improvement strategy under each strategic goal. BTS is leading the development of standards for DOT's data, training people in the collection and interpretation of transportation data, and coordinating data series among Operating Administrations. BTS continued to develop leading indicators for its strategic goals and most DOT performance measures to help anticipate trends in each of these outcomes and completed an assessment of data quality for the major DOT data collection systems.

The FY 2002 performance plan linked budgeted amounts more closely with each performance goal. Several DOT Operating Administrations will submit integrated performance-based FY 2004 budget justifications to Congress, making linkages between resources and results more clear.

PERFORMANCE DATA COMPLETENESS AND RELIABILITY

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

In General

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

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

Completeness of Data for Annual Results – If available, the results for the most recent year in the Report are listed as "Actual" in the shaded box for each performance measure. However, given the February deadline for submission of the Performance and Accountability Report, quite often data have not been compiled and finalized for the entire year. When this occurs and an actual value is not available for the current year, either an estimate or projection is provided instead. In general, estimates are based on partial year data that are extrapolated to cover a full 12-month period. Historical trend information, supplemented by program expertise, will then be applied to estimate the remaining six months of performance. The result will be identified as a "preliminary estimate" in the Report. If partial year data are not available, then past trend information will be analyzed and supplemented by program knowledge, to develop a projected value for the annual performance measure. The result will be identified as a "projection" in the Report. As data are finalized, the projections and preliminary estimates will be replaced by actual results, with resulting changes denoted by an "(r)". Results are also amended as errors and omissions are identified in the data verification process, as updated information is provided by the reporting sources, or because of legal or other action that changes a previously reported value.

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

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

Assessing and, where possible, eliminating sources of error in DOT data collection programs has always been an important task for data program managers. As part of their ongoing work, managers of departmental data programs use quality control techniques, such as flowcharting the data collection process, to identify where errors can be introduced into the data collection system. Program managers also use computerized edit checks and range checks to minimize errors that may be introduced into the data of their respective programs. In addition, quality measurement techniques are employed to measure the effects of unanticipated errors. These include verification of data collection and coding, as well as coverage, response and non-response error studies to measure the extent of human error affecting the data. As sources of error are identified, data collection is improved.

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

To help the Operating Administrations address these issues, the Bureau of Transportation Statistics (BTS) is developing a statistical policy framework where the Operating Administrations will work together to identify and implement the current statistical "best practices" in all aspects of their data collection programs. This project is consistent with the data capacity discussions found in the DOT Strategic Plan.

In 2002, a DOT intermodal working group addressing DOT data quality issues continued to:

- develop departmental statistical standards;
- update Source and Accuracy Statements for all DOT data programs to document limitations and known errors and biases;
- improve quality assurance procedures;
- evaluate sampling and non-sampling errors; and;
- develop common definitions for data across modes.

See Exhibit I for detailed explanations of completeness and reliability for each performance measure.

Data Limitations

DOT Data Source Limitations – Timeliness is the most significant limitation for DOT performance measurement data. Some DOT data are not collected annually. For example, the National Household Travel Survey and the Commodity Flow Survey each collect data every five years. Data that are collected each year (or more frequently) require time to analyze, confirm and report results. For example, Highway Performance Monitoring System vehicle-miles traveled (VMT) data require several months of post-collection processing, making final results unavailable for this performance report.

Other performance measurement data limitations are located in the previously mentioned Source and Accuracy Statements for DOT data programs. These statements contain descriptions of data collection program design, estimates of sampling errors (if applicable), and discussions of non-sampling errors. Non-sampling errors include under-coverage, item and unit non-response, interviewer and respondent response errors, processing errors, and errors made in data analysis.

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

DOT PROGRAM EVALUATIONS

Performance measures show if intended outcomes are occurring and assess any trends. Program evaluation uses analytic techniques to assess the extent to which our programs are contributing to those outcomes and trends. As required by GPRA, the Department's 2000 - 2005 Strategic Plan included an initial list of new program evaluations planned for those fiscal years. This appendix provides a summary of DOT's plan for managing program evaluations within the Department and a report on program evaluations completed in FY 2002. An updated list of program evaluations to be conducted in FY 2003 will be included in DOT's updated Strategic Plan this September.

Types of Program Evaluations

Program evaluation is an assessment, through objective measurement and systematic analysis, of the manner and extent to which programs achieve intended outcomes.

The purpose of this program evaluation plan is to improve the analytic content of evaluations Department-wide in order to manage DOT programs for results. This plan generally focuses on the following types of program evaluation:

- *Impact Evaluations* use empirical data to compare measurable program outcomes with what would have happened in the absence of the program. These represent the highest standard of program evaluations and are often the most difficult and expensive to construct and interpret.
- *Outcome Evaluations* assess the extent to which programs achieve their outcome oriented objectives. Outcome evaluations will use quantitative methods to assess program effectiveness, but fall short of the rigorous causal analysis of impact evaluations.
- *Process Evaluations* assess the extent to which a program is operating as intended. While a true process evaluation will use objective measurement and analysis, it falls short of assessing the causal links between intervention and outcome.
- *Cost-Benefit and Cost-Effectiveness Analyses* compare a program's outputs or outcomes with the costs to produce them. This type of analysis conforms with program evaluation when applied systematically to existing programs and when measurable outputs and outcomes are monetized.

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

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

Program Evaluation Management

DOT manages program evaluations through a Program Evaluation Council (PEC), comprised of representatives from each Operating Administration and select Secretarial Offices. The PEC reviews proposals for program evaluations, shares information across modes, and monitors ongoing evaluations.

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

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

A summary of DOT program evaluations completed in FY 2002 follows.

FY 2002 Program Evaluation Summaries

Evaluation of the Noise Set-Aside Portion of the FAA Airport Improvement Program (AIP)

The importance of reducing noise around airports is recognized by Congress, which provided that "non-compatible land uses around airports must be reduced and efforts to mitigate noise must be given a high priority"(49 USC Section 47101(c)). In section 47117(e), Congress directed that the Secretary of Transportation set aside 34 percent of available discretionary funding under the AIP for carrying out noise compatibility programs. Over the past 20 years, considerable effort has been expended to provide relief to noise impacted areas through funding of noise compatibility projects under the AIP.

In FY 2002, the FAA evaluated how effectively its noise set-aside grant program contributes to reducing the noise-impacted population around the Nation's airports. Data were obtained for the FY 2000 and FY 2001 noise set-aside grants from a detailed questionnaire completed by each of the regional airports division offices. The following findings resulted from the evaluation:

- Many airports throughout the country benefit from AIP noise set-aside program grants. A total of 219 noise compatibility projects, spread among 84 airports and in 37 States were supported by the approximately $522M in FY 2000 and FY 2001 AIP monies committed to the noise set-aside program.
- The FY 2000 program benefits a residential population of 13,785 and the FY 2001 program benefits a residential population of 19,043.
- Funding for the AIP noise compatibility projects is variable from year to year, making it somewhat difficult to forecast annual population benefits.
- Many of the FY 2000 and FY 2001 projects were based on noise data representative of aircraft activity during the late 1980s and the early to mid 1990s, prior to the December 1999 completion of the phase out of air carrier aircraft that use older and louder engines (i.e. Stage 2 aircraft). Because of the phase-out, it is likely that for many air carrier airports, the current (and future year) noise contours are smaller than that same airport's noise contours from the earlier time period. This most likely resulted in some of the reported population benefits occurring in areas of moderate noise impact, rather than all of them being in areas of significant noise impact, as was reported.

The evaluation concluded that the program is effective in benefiting a large number of people exposed to aircraft noise. In order to improve the accuracy of reporting on how the AIP noise set-aside program benefits a population that is impacted by significant levels of noise, starting with the FY 2003 AIP program, guidance will be issued to ensure that 100 percent of all AIP programming decisions are based on current noise contours.

Evaluation of the FAA General Aviation Safety Program Training Methodologies

In the mid-1960s, FAA launched a program aimed at reducing the number of accidents in general aviation (GA). It was called the GA Accident Prevention Program. The premise of the program was to reduce accidents and provide pilots with recurrent training after certification in the best safety practices. By 1995, the program's name changed to the Aviation Safety Program (ASP) and its mission expanded to include all aspects of aviation, including air carriers and maintenance. Although experience and past surveys, such as the Customer Satisfaction Survey in 1998, affirmed the popularity of the ASP, FAA saw a need to adapt the program to extend its benefits to more airmen and airwomen in the aviation community.

The evaluation focused on the portion of the program devoted to pilots and the current instructional methodologies used. The ASP has many instructional tools, but the one primarily used is the safety seminar, which pilots are encouraged to attend. Also, the ASP sponsors an incentive program, the Pilot Proficiency Award Program, informally known as WINGS. Besides attending seminars, WINGS participants are offered 3 hours of training in an aircraft for each of the 20 levels presently available. As an incentive, they receive lapel pins in the shape of wings to signify their accomplishment. Participation in either a single seminar or WINGS is entirely voluntary and provides the individual pilot with the opportunity to establish a recurrent training program after certification.

To gather the data for the evaluation, FAA and the Bureau of Transportation Statistics conducted a nationwide survey of pilots. Survey questionnaires were distributed to 5,400 certificated pilots randomly selected from the Civil Airman Registry, and 1,859 pilots responded to the survey, resulting in a 34 percent rate of return. The rate of return makes this sample highly representative of the pilot community as a whole.

The evaluation concluded that the ASP appeals to pilots holding all levels of certificates and they agree that program participation makes safer pilots. FAA intends a stronger outreach effort to the 53 percent of the pilot population that has not attended in the past two years. Outreach will be based on the following: Web-based training, incentive programs that include continuing education credits, partnering with individual employers, and more pilots participating in WINGS. More analysis is necessary to determine seminar topics of interest to participants by their experience and pilot certificate.

Evaluation of the FAA Runway Safety Program

The objective of the Runway Safety Program evaluation is to assess the effectiveness of FAA's internal mechanisms designed to accomplish its runway safety goals. The evaluation took place over a five-month period, and provided useful insights into the functioning of the program. Data collection, accomplished via document review and interviews, was limited to June-August 2002. The data analysis process consisted of aggregating interview data, identifying trends in sub-categories, and then finding general trends.

Data and analysis suggest that the Runway Safety Program is striving towards successfully meeting runway safety goals. The analysis suggests that the program is making significant progress and that there is extensive support for runway safety initiatives at all levels (headquarters, regions, and field) of the organization.

The evaluation team observed that the current Runway Safety Program is in the early stages of formalizing policies and procedures. Ongoing efforts will prove themselves effective in the long term.

Evaluation of the FHWA Congestion Mitigation and Air Quality Improvement (CMAQ) Program

Following TEA-21 reauthorization hearings, Congress requested that the National Academy of Sciences' Transportation Research Board (TRB) conduct a cost-effectiveness study of the CMAQ program, which is authorized and described by section 149 of title 23, United States Code. As a result, FHWA elected not to conduct a separate evaluation as originally scheduled in the DOT FY 2000 Strategic Plan. Accordingly, future program evaluation activities will incorporate the findings and recommendations of TRB Special Report No. 264, *The Congestion Mitigation and Air Quality Improvement Program: Assessing 10 Years of Experience*.

A TRB Committee of experts concluded (based on very limited objective data) that while a broad range of transportation planners, operating agency staff, air quality officials and interest groups believe the CMAQ program is valuable and support its continuation, projects aimed at reducing emissions directly through the use of technology or fuel standards have been more successful than CMAQ program strategies that rely on changes in travel behavior.

The TRB recommended:

- the CMAQ program be continued with a high priority on air quality improvement, rather than congestion mitigation;
- the CMAQ program be broadened to address all pollutants regulated under the Clean Air Act, not just the transportation-related pollutants for which the EPA has set National Ambient Air Quality Standards;
- Congress consider authorizing the use of CMAQ funds for areas in violation of standards for fine particulate matter and ozone; and
- addressing additional categories for CMAQ funds including vehicle scrappage programs, expanded eligibility for operating expenses, and land use actions.

During FY 2003, DOT will work with Congress and the States to reauthorize the CMAQ program and develop future program evaluation plans.

Evaluation of the FMCSA Compliance Review Process

The compliance review (CR) is FMCSA's essential compliance and enforcement safety intervention, and is an on-site examination of a motor carrier's operations to determine whether the motor carrier meets the safety fitness standards and is in compliance with the Federal Motor Carrier Safety Regulations (FMCSRs) and Federal Hazardous Materials Regulations (FHMRs). Phase I of this two-phase process evaluation documented the current CR process, focusing on recommendations for improving the efficiency and effectiveness. The evaluation identified process improvements, including: policy and procedural changes, training improvements, and software and carrier data system upgrades. Phase II, which commenced in 2003, will focus on alternative approaches to ensuring compliance. The Volpe National Transportation Systems Center's Compliance Review Impact Assessment Model documents the effectiveness of compliance reviews in contributing to motor carrier safety – available at http://ai.volpe.dot.gov/CarrierResearchResults/CarrierResearchResults.asp?file=HTML/FMCSA_RI_02_005.htm.

In Phase I, a FMCSA workgroup, supported by the Oak Ridge National Laboratory, documented the current CR process and examined aspects of the system affecting the efficiency and effectiveness of the FMCSA's identification, evaluation, and prosecution of carriers with poor performance. The workgroup analyzed data from existing FMCSA sources and conducted an extensive field survey. The evaluation identified process improvements, including: policy and procedural changes, training improvements, and software and carrier data system upgrades. An Implementation Plan addressing all 18 recommendations outlined by the review has been developed and is underway. Phase II, which commenced in 2003, will focus on alternative approaches to ensuring compliance.

Impact Evaluation of the Coast Guard's Maritime Safety Program

The Coast Guard is improving maritime safety programs through a risk-based decision making system. To evaluate this

more systematic approach to maritime safety, risk-based safety program decision-making is being tested through a pilot project in one Captain of the Port zone (Charleston, South Carolina). During FY 2002, the USCG field operations organization in Charleston and the USCG Research and Development Center created a baseline risk profile through a typology of all Coast Guard and private sector maritime activities, a determination of the safety hazards inherent in those activities, and an inventory of prevention and response activities used by the Coast Guard to address the hazards and manage the risk.

Results of the risk profiling effort showed that:

- for vessel and facility types, recreational vessels and commercial fishing vessels contributed most to increased safety risk;
- for mishap types, personnel injuries contributed most to increased safety risk, followed by fires/explosions and loss of vessel control; and
- vessel transiting operations had higher relative risk than loading and unloading, shore facility operations, and waterways management operations.

During FY 2003, candidate safety program activities will be chosen for analysis. The maritime safety-as-a-system evaluation will capitalize on port-specific risk profiles by assessing risk sensitivity resulting from changes in specific program safety activities. Changes in risk and program costs will be used to determine risk reduction benefits for each safety activity. Activities demonstrating a significant potential for reducing risk in comparison to cost will be identified.

Evaluation of the Coast Guard's Domestic Icebreaking Program

The Coast Guard sponsored a study conducted by the Center for Naval Analysis (CNA) to assess its capability to perform its domestic icebreaking mission and to determine an optimal force mix. Because of resource limitations, the capability study was limited to East Coast icebreaking. In addition, the CNA study examined the benefit/cost ratio of the domestic icebreaking program using a number of prior studies to assess the program's worth.

To determine the Coast Guard's icebreaking capability, a mathematical model was developed to calculate how long an icebreaking assignment should take given the length of the waterway involved, the probable thickness of ice and the vessels used. The model was populated with data and was run to calculate required icebreaking hours. These figures were compared to available assets to determine whether the Coast Guard can meet requirements or whether resource gaps exist.

CNA concluded that the Coast Guard would continue to be able to meet icebreaking demand on the East Coast during most winters. However, the study was inconclusive on the ability of the Coast Guard to meet demands in severe winters, noting that although standards of service are lower in severe winters, customer expectations may not be lower.

The economic analysis reviewed five (5) prior studies that estimated benefit/cost ratios ranging from 9:1 (almost $9 of benefit for every $1 spent) down to a ratio of almost 2.5 to 1. The study concluded a benefit/cost ratio of at least 2:1 stating that this figure represents only monetary benefits to industry on the Great Lakes and on the East Coast. The study also noted that overall benefits might be higher considering other missions conducted in ice-laden waters, including flood control and search and rescue.

Evaluation of the Coast Guard's Strategy for Interdiction Illegal Immigrants

The purpose of this study is to develop a strategic plan for the Coast Guard migrant interdiction mission. The strategic goals, objectives, and organizational foundations of Alien Migrant Interdiction Operations (AMIO) are being identified in the study. The results of the study will form the basis of the new 10-year AMIO strategic plan, tentatively named SOVEREIGN SHORES. A final report will be completed in FY 2003.

Evaluation of the Coast Guard's Process for Capturing Recreational Boating Fatality Data

This evaluation resulted in a significant correction to Boating Fatality Data deficiencies. In FY 1999, the Department of Transportation's Office of Inspector General (OIG) conducted an audit of the Coast Guard's Recreational Boating Safety (RBS) program to examine how it sets and measures its performance goal. As a result of the audit, the OIG found a discrepancy between the boating fatality data captured by the Boating Accident Report Database (BARD) and the Coast Guard's Search and Rescue Management Information System (SARMIS). The Coast Guard used the IG's analysis to improve recreational boating fatality data collection.

This evaluation reviewed and measured the effectiveness of transferring data from SARMIS to the BARD system. The evaluation examined SARMIS case data for the years 1998 through 2001 to identify SARMIS cases where Coast Guard Search and Rescue (SAR) personnel rendered assistance to a recreational vessel that involved loss of life. The evaluation also reported on the new process implemented in January 2001 that was designed to notify appropriate State agencies of recreational boating fatalities using SARMIS II. This new process provides timely casualty information to appropriate State officials in the jurisdiction where an appropriate SAR case occurred.

The study confirms that for 1998 through 2000 the BARD database underreported approximately 6 percent of the fatality cases based on SARMIS reviews. After the new process of notifying the States of potential BARD fatality cases from the SARMIS database as they occurred, the percent of under reporting of recreational boating fatalities fell to approximately 1 percent.

Evaluation of FHWA's Transportation Infrastructure Finance and Innovation (TIFIA) Program

As part of its 1998 enactment of the Transportation Equity Act for the 21st Century (TEA 21), Congress established a unique Federal credit program for large transportation projects. Sections 1501 to 1504 of TEA 21, collectively the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA), authorize the DOT to provide three forms of credit assistance – secured (direct) loans, loan guarantees and standby lines of credit – to surface transportation projects of national or regional significance. This evaluation fulfills the requirement in TEA 21 to summarize the financial performance of the projects assisted by TIFIA and to discuss alternatives for achieving the program objectives in the future.

In establishing TIFIA, Congress found that a "Federal credit program for projects of national significance can complement existing funding resources by filling market gaps, thereby leveraging substantial private co-investment." Because credit assistance requires a small fraction of the contract authority needed to provide a similar amount of grant assistance, TIFIA promotes a cost-effective use of Federal resources to encourage co-investment in transportation infrastructure. Federal grant funds that otherwise might be required to support these large projects can then be redirected toward smaller but critical infrastructure investments.

An explicit goal of the TIFIA program is to induce private investment in transportation infrastructure. Private co-investment in the TIFIA project selections totals about $3.1 billion, comprised of more than $3 billion in debt (including State and local debt held by private investors) and nearly $100 million in equity. This co-investment totals approximately 20 percent of the nearly $15.4 billion in total costs.

The broad project eligibilities and flexible financial provisions in TIFIA have enabled the DOT to assist projects in meaningful ways other than facilitating market access. Project sponsors of higher-rated credits have found that TIFIA assistance can reduce costs, coalesce support and help remove other barriers in advancing projects.

Comparing total capital investment to the total budgetary cost of Federal credit and grant assistance, the TIFIA portfolio represents nearly five dollars in total investment for each dollar of Federal investment. This Federal cost leverage ratio of 4.80 for TIFIA projects compares favorably with the leverage ratio of 1.25 for a Federal-aid project receiving 80 percent of its funding from Federal grant sources.

As current TIFIA projects move into their construction, operation and repayment phases, and as additional projects obtain TIFIA assistance, DOT will acquire better information for determining future policy for transportation infrastructure innovative financing.

Evaluation of FTA's Job Access and Reverse Commute Grant Program

The Transportation Equity Act for the 21st Century (TEA-21) established the Job Access and Reverse Commute (JARC) program, and DOT became an important partner in welfare-to-work initiatives. JARC grants to local agencies and authorities, non-profit organizations, and transit authorities, improve mobility for low-income individuals seeking employment. Reverse Commute funds are intended to increase access to suburban employment opportunities for everyone, including welfare recipients and low-income individuals. TEA-21 authorized $150 million annually for the JARC program, with no more than $10 million per year of the total being allocated for reverse commute activities. Congress provided $75 million for this program in both FY 1999 and FY 2000, $100 million in FY 2001, and $125 million in FY 2002.

Grantees have used JARC funds for a wide variety of services, ranging from expansion of fixed route bus systems to the provision of customer information. Through FY 2001, 60 percent of JARC funds had been obligated for fixed route services, 34 percent for demand response services, three percent for ridesharing, and three percent for information services.

JARC grant recipients have been highly successful in enlisting the financial participation of human services agencies. In areas that receive JARC funds, the program is successfully meeting the transportation needs of low-income individuals seeking reliable transportation to employment and related support services.

Evaluation of Phase 1 of NHTSA's "Buckle Up America" Safety Belt Program

Buckle Up America (BUA) was a Presidential initiative announced in January 1997, directing DOT to prepare a plan to increase seat belt usage nationwide. In response, the DOT's National Highway Traffic Safety Administration (NHTSA) developed a plan with current goals to increase the national seat belt use to 78 percent by 2003 and reduce child occupant fatalities by 25 percent by 2005.

Program evaluation data included multiple sources of seat observation results, Fatality analysis Reporting System data (FARS), and the collection of law enforcement citation data. Seat belt use rates increased after the inception of BUA and, in 2002, the national use rate was measured at 75 percent. Ten States, Puerto Rico and the District of Colombia had reached 80

percent belt use in 2001; 11 out of 12 were jurisdictions with a standard enforcement seat belt law. Since the inception of BUA, the number of States adopting a standard enforcement seat belt law increased by seven plus the District of Columbia. Child restraint use improved markedly for children under age five, and more children are being transported in restraints and fatalities decreased dramatically (19 percent).

Research and evaluation data also have consistently shown that intensive well-publicized enforcement produces substantial increases in belt use, in both standard and secondary law locations. Publicity has included substantial paid media to ensure that the message reaches the target audience at the time that the enforcement is about to take place. The immediate direction for Buckle Up America is clearly toward larger and more encompassing publicized enforcement efforts. During May 2002, approximately 30 States conducted intensified enforcement with paid media, most using the Click It or Ticket theme.

Although Buckle Up America is still short of its goal for nationwide 78 percent belt use by 2003, several States have achieved rates above 80 percent and several more are expected to achieve 80 percent or better as part of the May 2003 mobilization.

Evaluation of MARAD's Federally Funded Maritime Education and Training Program

The availability of mariners to crew commercial and sealift vessels simultaneously is a vital component of strategic mobility. MARAD evaluated Federally funded merchant marine officer education programs at the U.S. Merchant Marine Academy (USMMA) and State maritime academies to determine whether these programs are aligned with MARAD and DOT national security goals. MARAD examined Federally funded maritime education programs during 1987-2000 and trends in the officer labor pool from 1987 through 2002. In addition, the House Committee on Appropriations directed MARAD to evaluate specific areas of these programs in House Report 105-636.

The officer education programs contributed to the MARAD & DOT national security goals by graduating an average of 605 officers each year from 1989 to 1999. Of these, an average of 273 per year graduated with service obligations and the licenses and skills needed to crew commercial and Department of Defense (DOD) organic vessels during peacetime and mobilizations. USMMA and State academy cadets enrolled in MARAD-funded education programs are the primary source of new entrants to the officer pool. In 1999, the academies (USMMA and State) graduated a combined total of 540 licensed third mates and third engineers (260 with service obligations) from the MARAD-funded programs. During 1999, 275 shipboard jobs needed for full mobilization of DOD commercially crewed vessels were third mates or third engineers. This is equivalent to about 630 officers using normal crew rotation practices during a long-term mobilization. The licensed graduates from the USMMA and State merchant marine academies have the technical qualifications and unlimited USCG deck or engineering licenses in rough proportion to third mate/third engineer requirements in the DOD organic fleet.

MARAD estimates that in 2002, a pool of 10,300 active and inactive qualified officers with USCG licenses appropriate for deep-sea service would be available to fill the demand for approximately 9,000 officers. These offices will be needed to meet sealift requirements for DOD's most likely full mobilization scenario with concurrent full operation of the commercial fleet. Although the supply exceeds the projected demand, the "cushion" may be too small to ensure that there are sufficient officers to meet crewing requirements. If a significant proportion of the inactive mariners do not become qualified under the Standards of Training, Certification, and Watchkeeping (STCW-95), a potential shortage of immediately available mariners might result in delays in vessel activations. However, STCW-95 includes a clause allowing the USCG to waive crew certification in times of national emergency.

The Federally funded maritime education programs have provided a workforce sufficient to meet mobilization requirements for deep-sea qualified officers. MARAD, in consultation with maritime industry and labor partners, will continue to explore crewing potential supply/demand shortfalls and identify cost-effective initiatives to reduce uncertainties.

MANAGEMENT CONTROLS

The Department of Transportation (DOT) is dedicated to incorporating performance and accountability in all programs and operations. DOT is pleased that except for the material weaknesses identified in this section of the report, the objectives of Section two and four of the Federal Managers Financial Integrity Act are met in FY 2002. Strategic planning and management have been developed to ensure that DOT's programs and operations produce their intended results, and that the information is reliable, timely and accurate. The audit recommendations received by the Department are essential to its mission of having organizational excellence and accountable financial management of DOT's programs.

Federal Managers Financial Integrity Act (FMFIA)

The 1950 Budget and Accounting Procedures Act (64 Stat. 832) requires Federal managers to establish and maintain adequate systems of management control, but because of numerous instances of fraud, waste, abuse, and mismanagement, Congress passed the Federal Managers Financial Integrity Act (FMFIA) of 1982. This Act requires the Head of each Federal Agency to conduct an annual evaluation of its management controls (Section 2), financial management systems (Section 4) and report the results to the President and Congress. OMB Circulars A-123 on Management Accountability and Control, and A-127 on Financial Management Systems, furnish guidance on complying with Sections 2 and 4, respectively.

At DOT, each of the Operating Administrations (OAs) submit to OST's Office of Financial Management an annual statement of assurance representing the Administrator's informed judgment for the overall adequacy of management controls within their OA, and reporting other details. Each year, the OST Office of Financial Management updates and issues specific guidance for completing the end-of-year assurance statement and report on material deficiencies. The OAs report any significant weaknesses of safeguards (controls) against waste, loss, and misappropriation of funds or property. The OAs also report activities that violate statutory authority, result in a conflict of interest or cause adverse effects on the credibility of the agency, or significantly impair the fulfillment of the agency's mission. The Office of Financial Management consolidates the OA reporting into one overall report for the entire Department.

OMB Circular A-123 contains guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. In accordance with OMB's Circular A-127 of 1993 on Financial Management Systems, DOT is encouraging the OAs to develop, evaluate, and report on financial management systems. The Department makes sure that financial transactions are executed in accordance with authorization records; that the reports are reliable; that the applicable laws, regulations, and policies are observed; and that the resources are efficiently and effectively managed. The OAs are moving forward to automate and consolidate systems in a cost-effective manner based on requirements that meet the minimum needed for field implementation and certification.

For FMFIA, DOT had one beginning and three new Section 2 (evaluation of management controls) material weaknesses, resulting in four ending weaknesses. DOT has material weaknesses for: information technology (IT) security within the Department, contract closeout processes in the Federal Aviation Administration (FAA), administration of support screener contracts in the Transportation Security Administration (TSA), and insufficient separation of duties and other controls over financial operations at the Federal Transit Administration (FTA).

DOT's material weakness in its Information Security Program is a critical component of the overall infrastructure protection of the Department. Program policy is managed by OST's Office of the Chief Information Officer (CIO) and is integrated throughout the Department through the DOT CIO Council and the IT Security Committee of that Council. Numerous audit reports, including the recently released FI-2002-115 on DOT Information Security Program, have highlighted IT security vulnerabilities throughout DOT. These vulnerabilities could adversely affect the confidentiality, availability, and integrity of DOT IT Systems. DOT will develop and implement a coordinated approach to securing the Department's IT systems. This activity will be done by completing a Department-wide assessment and associated corrective action plan. To help with this effort, in FY2002, the CIO implemented a Performance Measurement Program that required commitment from all OAs.

TSA has a material weakness in the contract administration of the Contract Screener Program. There were not adequate procedures in place to prevent payments for inappropriate contractor charges. TSA is taking steps to negotiate and definitize contracts, obtain final cost and pricing data, establish processes to prioritize and review cost and pricing data, audit overhead rates, expand the oversight of contractors to perform site inspections, and recoup improper payments based on finalized overhead rates or payment for hours not worked.

The Department's FMFIA Report to the President and the Congress discussed the lack of adequate internal management controls over financial processes within TSA. After the report was issued, however, more information was developed to specifically identify the shortcomings of the financial management environment within TSA as a material weakness, reportable under the FMFIA. A material weakness in the controls over financial management policies and procedures resulting in inaccurate reporting on the financial statements will be reported in 2003.

On November 19, 2001, the President signed the Aviation and Transportation Security Act that created TSA. From the first day of its existence, DOT and TSA were faced with many significant challenges and short statutory milestones. TSA's books and accounts were created in the general ledger in Delphi. The Project Accounting and Fixed Assets modules of Delphi were used to immediately provide TSA with cost accounting and property management capabilities. However, because TSA's focus was to move forward as quickly as possible, internal controls over financial and other processes suffered. Policies establishing an effective internal control environment still need to be developed where necessary. Procedures and practices need to be implemented and strengthened to ensure that internal controls adequately protect against fraud, waste, abuse, mismanagement, and misappropriation.

FAA has a material weakness in the administration of close-out and payment of cost-reimbursable contracts. Serious deficiencies in the controls over the close-out of cost-reimbursable contracts resulted in poor oversight and inadequate protection against fraud, waste, and abuse. FAA is improving the procedures and processes over which cost-reimbursable contracts are awarded and monitored to ensure that all incured cost audits are complete for all *Performance years of contracts, final invoices are submitted timely by contractors, Government property is properly accounted for, contract costs are reconciled, and contract funds are appropriately and timely de-obligated.*

As of the end of FY 2002, DOT had one material nonconformance of financial systems requirements pending. The material nonconformance relates to FAA property systems that did not provide the data necessary for preparation of the DOT Consolidated Financial Statements. FAA's material nonconformance has been largely due to the manual and intensive efforts required to generate depreciation and net book values of FAA assets, and the existing method resulted in some errors. These nonintegrated and manual processes increase the risk of misstatements to the Consolidated Financial Statements.

To resolve the material nonconformance, FAA installed an Integrated Financial/Fixed Asset System (IFAS). IFAS has controls to accurately track property data for financial purposes and generates depreciation and asset net book values automatically. The software being used for both IFAS and Delphi is Oracle, thereby minimizing the impact of conversion to the new accounting system. The problem will be officially resolved when IFAS is converted and integrated with Delphi.

DOT is continuing to work with the Office of Inspector General (OIG) to ensure that these material deficiencies are effectively corrected and effectively maintain the integrity of the Department's financial management information. DOT continues to improve management and financial accountability of the Department.

Federal Financial Management Improvement Act (FFMIA)

The Department's FY 2001 and FY 2002 Consolidation Financial Statements received unqualified audit opinions from the OIG. However, the OIG determined that the Department was not in full compliance with the Federal Financial Improvement Act (FFMIA) because:

- DOT's legacy accounting system, the Departmental Accounting and Financial Information System (DAFIS), could not produce auditable financial statements;
- interface deficiencies existed between DAFIS and the FHWA Financial Management Information System, and between Delphi and the FTA's financial feeder systems;
- DAFIS did not use the U.S. Government Standard General Ledger;
- DOT has not implemented managerial cost accounting standards, and
- material weaknesses existed for DOT'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 hinges on the continued success of implementing Delphi throughout the Department.

As part of central processing, DAFIS revised and updated the Financial Statements Module to electronically process information into the Standard General Ledger and automate the preparation of the Adjusted Trial Balance for each OA within DOT. The module also contains a detailed audit trail so that all adjustments can be easily identified and audited.

In addition, FAA is continuing its implementation of a broad ranging cost accounting system and implemented IFAS (see above), further tightening the integration of DOT's financial systems. IFAS computes the depreciation for FAA's owned assets that meet or exceed the Department's capitalization criteria, and provides detailed depreciation expense data for cost accounting.

Finally, as the elements of the Department continue to migrate to Delphi, they will have enhanced cost accounting capabilities based on the best practices of the sector. Although programs within the Department that operate in a business type environment already use cost accounting processes, all Delphi users will have the software infrastructure necessary to fulfill this objective. The results of these remedial and progressive actions address the OIG findings and will bring the Departments into substantial compliance with the FFMIA, when successfully implemented.

DOT has five violations of laws or regulations whose effects should be considered for disclosure in financial statements or as a basis for recording a loss contingency, with the exception of unresolved audit recommendations.
They are: noncompliance with FFMIA, Treasury miscellaneous receipts, intragovernmenal balances, performance measures tied to cost, and inappropriate combination of programs with goals.

Consolidated Financial Statements

There are four material weaknesses affecting the Consolidated Financial Statements. The four material weaknesses include two anti-deficiency act violations, both of which occurred prior to the current Administration. The first anti-deficiency act violations is in FTA and originated 19 years ago but was recently revealed while using the new accounting system, Delphi. The second violation was immediately halted when the IG notified DOT's CFO that some funds may not be legally available to the Department. Both violations will be reported to OMB and Congress in accordance with OMB Circular A-11. Administrative changes have been implemented to avoid any recurrence. The remaining two material weaknesses include network security, FAA's deficiencies in controls over cost-reimbursable contracts, and TSA's obligation, and

In addition, there are four internal control weaknesses for financial statements: grants management system and accounting system interface deficiency, accounting for FAA property, legal liabilities, information technology system security.

Limitations of the Consolidated Financial Statements

The principal financial statements have been prepared to report DOT's financial position and results of operations, pursuant to the requirements of 31 USC 3515(b). The statements have been prepared from DOT's records in accordance with the generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget. They are additional to the financial reports used to monitor and control DOT's budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the United States, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

FINANCIAL MANAGEMENT AND ANALYSIS

In order to strengthen the integrity for the financial operations and data reliability, DOT produces audited financial statements. The principal financial statements include: the Consolidated Balance Sheets; Consolidated Statement of Net Cost of Operations; Combined Statement of Budgetary Resources; and the Consolidated Statement of Financing. These principal financial statements, in addition to the financial information in the Other Supplemental Information section of the report, summarized the financial activities of the Department.

Analysis of Financial Statements

An unqualified audit opinion reflects that the agency's information is reliable, and DOT attained an unqualified audit in FY 2002 from the Office of Inspector General (OIG). DOT had one beginning and four new material weaknesses related to the audit on the financial statements, resulting in 5 ending material weaknesses for FY 2002. The Department made efforts to comply with the requirements of the Federal Managers Financial Integrity Act (FMFIA) and regulations to improve its financial management system. DOT's management takes responsibility for the objectivity and integrity of the financial information presented in the financial statements contained in this report. Ongoing operations of the Department are subjected to enactment of appropriations. In the previous year, FY 2001, the Department obtained an unqualified audit opinion.

Total Consolidated Statements of Net Cost

The net cost of DOT operations for FY 2002 was $63 billion, as reflected in the Consolidated Statement of Net Cost as of September 30, 2002. This figure was an increase of over 5 percent compared to FY 2001 cost of operations. The increase was due to a rise in cost for surface and air transportation. However, the cost of maritime transportation decreased by 44 percent or $5.5 billion in FY 2002 compared to FY 2001. From the $63 billion for DOT's net cost of operations, 63 percent was from surface transportation, 21 percent from air transportation, 11 percent from maritime transportation, about 0.2 percent from crosscutting programs, and four percent from costs not assigned to any particular program.

For surface transportation, a large amount of the net cost was from the highway trust fund ($32 billion of $47 billion). The majority of air transportation cost was from FAA ($12 billion). The U.S. Coast
Guards accounted for about $6.8 billion out of $7.2 billion in maritime transportation costs.

Assets

Total assets for DOT is $84 billion for FY 2002. The decrease in FY 2002 is largely attributable to a reduction in investments by almost $6 billion. Total intragovernmental assets for DOT are $62 billion. A large amount of this funding came from investments ($31 billlion) and fund balance with Treasury (about $30 billion).

Among general properties, plant and equipments (PP&E) for DOT, the total acquisition value is $32 billion, most of this being equipment ($12 billion), buildings and structures ($6 billion), ships and vessels ($6 billion), construction in progress ($5 billion), and aircraft ($1 billion).

Liabilities and Net Position

Total liabilities for FY 2002 is $42 billion, a slight increase over FY 2001 figures. The Federal Employees' Compensation Act liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred but not reported claims. The Coast Guard Military Retirement System is funded through annual appropriations. In FY 2002, the value of the projected plans and benefits for the Coast Guard's pension was $18 billion, and their Military Health Care was $11 billion. A large portion of DOT's liabilities was accounted by the US Coast Guard's pension in FY 2002. The total Federal employee and veteran benefits for FY 2002 were $30 billion. Total intragovernmental liabilities experienced a decrease from $2.4 billion in FY 2001 to $2.2 billion in
FY 2002. Of the $42 billion for DOT's net position, 33 percent was from unexpended appropriations.

Program Costs

Program costs generally experienced an increase in FY 2002 compared to FY 2001 in all areas with a few exceptions. Also from FY 2001 to FY 2002, Surface Transportation experienced an increase of about $3 billion, Air Transportation increased by $3 billion, and Maritime Transportation decreased by about $6 billion.

Loans

DOT gives direct loans and loan guarantees to non-Federal entities for the Amtrak Corridor Improvement Program, Railroad Rehabilitation Improvement Program, Alameda Corridor Transportation Authority Loan, TIFIA Loan, Maritime Guaranteed Loan, and to the Office of Small and Disadvantaged Business Utilization Guaranteed Loan Program.

Intra-Departmental Eliminations

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

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

Transportation Equity Act for the 21st Century

Federal funding for transportation infrastructure—improving the Nation's highways, transit rail and bus systems, intercity passenger rail service, airports and bridges—is the largest component in DOT's budget. Infrastructure funding focuses on ensuring a safe, efficient, accessible and convenient transportation system that meets vital National interests and enhances the quality of life of the American people.

The Administration is working toward reauthorizing TEA-21 by creating a version that would take effect for the next 6 years after TEA-21 expires at the end of FY 2003.

Significant financing features existing under TEA-21 financing include the following:

Guaranteed Investment Levels. Highway and transit discretionary programs are guaranteed a floor (a minimum level of spending) by new budget categories that effectively establish a budgetary "firewall" between each of those programs and all other domestic discretionary programs.

Authorizations and Investment. The minimum level of spending amount for highways is keyed to the projected receipts to the Highway Account of the Highway Trust Fund and will be adjusted as new receipt projections and actual receipts become available.

Increases and Decreases. Any increase in receipts to the Highway Account is reserved for the Federal-aid highway and highway safety construction programs.

Obligation Limitations. Spending limitations are applied to most programs. However, obligation limitations set aside each year for certain programs (e.g., Woodrow Wilson Memorial Bridge) do not expire if not used by the end of the fiscal year, but can be carried over to future years.

Using Innovative Financing to Supplement Federal Funds. The Transportation Infrastructure Finance and Innovation Act (TIFIA) of TEA-21 continues to use innovative financing techniques that move construction projects ahead faster, and supplement Federal funds with private and non-Federal public investment. TIFIA's purpose is to fill gaps in market funding or to leverage additional non-Federal resources by direct Federal loans, loan guarantees, and standby lines of credit.

Stewardship

DOT's total non-Federal physical property investments were $40 billion, $37 being from surface transportation non-Federal physical property improvements, and about $3 billion from air transportation physical property investments. Total human capital investments for DOT were $30 million for FY 2002, of which $21 million was from surface transportation capital

investments, and $8.7 million was from maritime transportation human capital investments. Total research and development investments for DOT in FY 2002 was $450 million, from which $324 million was from surface transportation investments, $107 million was from air transportation investments, and $19 million was from maritime transportation investments.

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FUTURE STEPS

The Department of Transportation (DOT) is undertaking a number of initiatives to meet its performance and strategic goals.

During this time period, homeland and national security continues to be one of the top priorities of DOT. The events of September 11 underscore the importance of transportation security as part of America's homeland and national security. DOT is working to ensure a seamless transition of both the Coast Guard and the Transportation Security Administration (TSA) to the Department of Homeland Security (DHS) on March 1, 2003.

For FY 2003, DOT's proposed budget totals $59.3 billion. When proposed funding for the Coast Guard and TSA are removed from this figure, the budget request totals $51.3 billion.

DOT has several performance and financial priorities for the upcoming fiscal year. Below are these initiatives with their corresponding budget request. (Note: Figures shown do not reflect amounts being requested for the Coast Guard and TSA in FY 2003).

Safety. DOT's top priority continues to be safety. A total of $12.7 billion is requested for safety activities and initiatives for FY 2003.

Homeland and National Security. As stated above, DOT is committed to complete the transfer of the Coast Guard and the TSA to DHS and continue the good working relationship between DOT and DHS. In the remaining portion of DOT's FY 2003 budget request, $758 million is requested for homeland and national security.

Mobility. Another major DOT strategic priority is the free flow of passengers and goods. The FY 2003 budget requests $34.0 billion to improve mobility.

Environment. DOT's objective is to advance the benefits of transportation while minimizing the negative environmental impacts. The 2003 budget requests $3.6 billion for environmental initiatives.

Financial Systems. Delphi, DOT's modern financial systems initiative, is moving DOT away from the legacy system into an advanced financial systems environment. DOT has implemented Delphi in all of its organizations – except for FAA, FHWA, MARAD, FMCSA, and Volpe—which will implement Delphi in 2003.

Streamlining Financial Practices. Through the electronic transmission of data and information for both our internal processes (i.e., employee travel, salary payments, procurement), and our external processes (i.e., payments to grantees and vendors, etc.), we are making things easier and quicker for all of our customers and cutting administrative costs.

Another challenge for DOT is the reauthorization of its surface and aviation programs which expire at the end of FY 2003. DOT looks forward to working with the Congress and the appropriate stakeholders during the reauthorization of these critical infrastructure programs.

Along with DOT's successes, the Department will also address several management challenges in the upcoming year. The DOT Inspector General (OIG) has identified several challenges and these detailed on the following pages.

CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2002 AND 2001

Department of Transportation

Report Number: FI-2003-018
Date Issued: January 27, 2003

: ACTION: Report on Consolidated Financial Statements for Fiscal Years 2002 and 2001, DOT
FI-2003-018

Date: January 27, 2003

: Kenneth M. Mead
Inspector General

Reply To Attn. of: Meche:x61496

: The Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Department of Transportation (DOT) Consolidated Financial Statements for Fiscal Years (FY) 2002 and 2001. For the first time, the DOT Consolidated Financial Statements include the Transportation Security Administration (TSA), which was established on November 19, 2001. TSA and the U. S. Coast Guard will transfer to the Department of Homeland Security in March 2003. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

This report presents our unqualified opinion on the DOT Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Financing, and the Combined Statement of Budgetary Resources as of, and for the years ended, September 30, 2002, and September 30, 2001. The DOT Consolidated Financial Statements show assets of about $84 billion, liabilities of $42 billion, operating costs of $63 billion, and total budgetary resources of $105 billion.

The unqualified, or "clean," opinion did not come without extraordinary effort by DOT employees and the auditors. Early in FY 2002, the DOT Chief Financial Officer recognized that the creation of TSA could cause significant challenges for preparing and auditing the DOT Consolidated Financial Statements. In addition to the extra work needed to start up a new agency, DOT also had a major financial management initiative underway at the same time to prepare its larger and more complex agencies to implement the new DOT accounting system, Delphi.

This report identifies significant financial issues that demonstrate the need to fully implement automated systems and internal controls to avoid the extra manual efforts every year to prepare financial statements. However, with the leadership of DOT senior management, especially the DOT Chief Financial Officer and Deputy Chief Financial Officer, the Federal Transit Administrator, and the TSA Chief Financial Officer, and the hard work by DOT employees to address these issues timely, the clean opinion was attained.

We identified the following material weaknesses affecting the DOT Consolidated Financial Statements.

- Last year, we reported that a headquarters account created by former Federal Transit Administration (FTA) employees existed to hold obligations which were adjusted using inappropriate accounting procedures. This account had a negative $77 million obligation balance as of September 30, 2001. While addressing this issue during FY 2002, FTA discovered that this account contained the remaining balance of what at one time was a

$562 million overobligation that had occurred 19 years earlier. After a thorough review of its financial records, FTA found that the remaining balance of the FY 1984 overobligation was about $29 million as of September 30, 2002.

Rather than report the Antideficiency Act violation in FY 1984, former FTA employees engaged in inappropriate actions, such as (1) using funds from other appropriations, some of which had expired for obligation purposes; (2) maintaining records outside the accounting system; and (3) manipulating financial information on reports to Treasury and the Office of Management and Budget (OMB) to prevent detection. Other internal control weaknesses also resulted in adjustments of about $8 billion to correct the FY 2002 Consolidated Financial Statements. Corrective actions have been taken and are in process.

- DOT has 25 major financial systems. OMB Circular A-130 requires agencies to secure computer systems commensurate with the risk resulting from the loss, misuse, unauthorized access to, or modification of, the systems. Only 10 of the 25 major financial application systems have been certified as adequately secured. Unauthorized access to any DOT information system could jeopardize the integrity of financial information systems. DOT also needs to enhance its network security and complete background checks on contractor personnel working on DOT information systems. In separate reports, we made recommendations to improve computer security and controls.

- Use of cost-reimbursable contracts is more risky for the Government because contractors have little incentive to control costs. The Federal Aviation Administration (FAA) had serious deficiencies in controls over cost-reimbursable contracts. For contracts totaling $2 billion, FAA did not obtain incurred-cost audits as required. FAA also had a backlog of about 1,400 contracts totaling $6 billion that were not closed timely. We made recommendations in a separate report to strengthen FAA processes.

- TSA obligated about $1 billion to contract with 74 private companies already providing passenger security screening services for air carriers. Although TSA contract rates were t be based on actual costs to air carriers, we found six contractors increased billing rates fro 58 to 97 percent above those charged to air carriers, and TSA initially was performing virtually no monitoring. We made recommendations for corrective actions in a July 2002 memorandum and in a separate report to be issued in February 2003. TSA has hired independent contractors to audit, administer, and monitor these contracts.

- Under contract with OIG, KPMG LLP (KPMG) found that TSA did not have sufficient personnel or established policies and procedures to ensure accurate reporting of amounts c its financial statements. For example, expenses and liabilities totaling about $1 billion wer understated. TSA corrected its accounting records and reported appropriate amounts in its financial statements.

We also identified the following key issues involving internal control weaknesses and compliance with laws and regulations. While they are important, they did not affect our audit opinion.

- Last year, we reported significant deficiencies in accounting for FAA property. Under contract with OIG, KPMG found that FAA did not adhere to established policies and procedures concerning property reporting during FY 2002, and made recommendations fo improvement in a separate report. FAA needs to integrate its property system with DOT's new accounting system, Delphi. FAA plans to integrate its property and financial systems by October 2003.

- FAA overstated its legal liabilities by about $514 million. FAA corrected its estimate and adjusted its financial statements. KPMG made recommendations in a separate report to improve communication and coordination within FAA.

- Delphi has been implemented in 10 of DOT's smaller agencies, but the computer system lacked basic system controls and contained nine high vulnerabilities in system security. DOT also needs better plans to continue operations in case of system failure or catastrophic events. DOT is working to resolve these issues.

- An interface deficiency existed between the Federal Highway Administration (FHWA) gr

- DOT was not in compliance with the Federal Financial Management Improvement Act of 1996 because the DOT accounting system did not (1) provide the data necessary for preparing the DOT Consolidated Financial Statements, (2) comply with the U.S. Government standard general ledger, and (3) comply with requirements for implementing managerial cost accounting standards. DOT also needs to enhance computer security. DOT plans to have compliant and secure financial systems by September 2004.

- DOT spent about $37 million obtained from Treasury miscellaneous receipts accounts between FYs 1998 and 2001, rather than using appropriated funds. DOT had no authority to spend Treasury's money. When the transactions were corrected during FY 2002, FHWA and the Office of the Secretary prior year appropriations were overobligated by about $5 million. We recommended corrective actions in a separate report.

- DOT did not confirm about $1.9 billion of intragovernmental balances with its trading partners. The General Accounting Office (GAO) reported this area as one impediment to an opinion on the Financial Report of the United States Government. The unreconciled difference among Federal entities for FY 2001 was $21 billion. Although our audit tests did not identify significant differences, DOT needs to do its part to resolve this Governmentwide issue.

- The performance measures presented in the Management Discussion and Analysis did not provide information about the cost-effectiveness of programs nor relate to the Statement of Net Cost. Of the 64 performance measures, 14 were based on FY 2001 rather than FY 2002 performance data. None of the measures was linked to the cost of achieving targeted results.

- DOT distributed its operating costs into four components on the Consolidated Statement

of Net Cost: Surface, Air, Maritime, and Cross-Cutting Transportation Programs. This presentation inappropriately combined agencies and programs with separate and distinct goals.

This report includes one new recommendation to confirm intragovernmental balances. DOT and its agencies have ongoing corrective actions to address these internal control and compliance issues. A draft of this report was provided to the DOT Chief Financial Officer on January 24, 2003. She agreed with the report.

We appreciate the cooperation and assistance of DOT and KPMG LLP representatives. If we can answer any questions, please call me at (202) 366-1959, or John Meche at (202) 366-1496.

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DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT
ON THE DEPARTMENT OF TRANSPORTATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEARS 2002 AND 2001

To the Secretary

The Department of Transportation (DOT), Office of Inspector General (OIG), audited the DOT Consolidated Financial Statements and accompanying notes as of, and for the years ended, September 30, 2002, and September 30, 2001. In our audit of the DOT Consolidated Financial Statements for Fiscal Years (FY) 2002 and 2001, we found:

- the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;

- five material internal control weaknesses concerning DOT's financial, accounting, and information security programs; and reportable conditions concerning property, liabilities, obligations, and performance measures;

- noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) regarding: (1) DOT's accounting system, (2) financial system interfaces, (3) computer security over financial information systems, (4) managerial cost accounting standards, and (5) overobligation of funds;

- financial information in the Management Discussion and Analysis was materially consistent with the financial statements, except 14 of 64 performance measures were based on FY 2001 rather than FY 2002 performance data; and

- supplementary and stewardship information was consistent with management representations and the financial statements.

We performed our work in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. The following sections discuss these conclusions. Our audit objectives, scope, and methodology are discussed in Exhibit A. We believe that our audit provides a reasonable basis for our opinion.

A. UNQUALIFIED OPINION ON FINANCIAL STATEMENTS

In our opinion, the DOT Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Financing, and the Combined Statement of Budgetary Resources, including accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the DOT assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations as of September 30, 2002, and September 30, 2001.

Under contract with OIG, KPMG LLP (KPMG) audited the financial statements of the Federal Aviation Administration (FAA) and Transportation Security Administration (TSA) as of and for the period ended September 30, 2002. KPMG rendered unqualified opinions on the FAA and TSA financial statements.

B. CONSIDERATION OF INTERNAL CONTROLS

In planning and performing our audit, we considered DOT's internal controls over financial reporting and compliance with laws and regulations. We do not express an opinion on internal controls and compliance because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB Bulletin 01-02 audit guidance, not to express an opinion on internal controls.

For the controls we tested, we found five material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance that would be material to the financial statements, may occur and not be detected promptly by employees in the normal course of performing their duties. Our internal control work would not necessarily disclose all material weaknesses or reportable conditions.

Our work also identified the need to improve internal controls over financial reporting and compliance in four other areas. These reportable weaknesses in internal controls, although not considered material weaknesses, represent significant deficiencies in the design and operation of internal controls, which could adversely affect the DOT Consolidated Financial Statements.

Material Weaknesses

The following sections describe the material weaknesses that we identified. On December 26, 2002, as required by the Federal Managers' Financial Integrity Act of 1982, the Secretary of Transportation reported four of the five material weaknesses to the President and Congress. The other material weakness concerning TSA financial management was identified after the 2002 report was issued.

Federal Transit Administration (FTA) Financial Management

Last year, we reported that a headquarters account created by former FTA employees existed to hold obligations which were adjusted using inappropriate accounting procedures. This account had a negative $77 million obligation balance as of September 30, 2001. While addressing this issue during FY 2002, FTA discovered that this account contained the remaining balance of what at one time was a $562 million overobligation that had occurred 19 years earlier.

Rather than report the Antideficiency Act violation in FY 1984, former FTA employees engaged in inappropriate actions, such as (1) using funds from other appropriations, some of which had expired for obligation purposes, (2) maintaining records outside the accounting system, and (3) manipulating financial information on reports to OMB and Treasury to prevent detection. After a thorough review of its financial records, FTA found that the remaining balance of the FY 1984 overobligation was about $29 million as of September 30, 2002. This labor-intensive effort identified a material internal control weakness involving many areas of FTA financial practices as the following examples indicate.

- Adjustments totaling about $8 billion were needed to correct the FY 2002 Consolidated Financial Statements.

- Interface deficiencies between the new DOT accounting system (Delphi) and FTA's financial feeder systems (TEAM and ECHO) prevented FTA from electronically processing transactions. For example, about $350 million in ECHO payments had to be manually processed into Delphi.

- In June 2002, when FTA implemented Delphi, significant obligation and expense transactions were not electronically transferred to Delphi. For example, when FTA manually processed transactions, about $64 million in valid obligations were not entered into Delphi.

FTA corrected its financial records and provided accurate amounts for the financial statements. In a separate report, we recommended that FTA report a violation of the Antideficiency Act that occurred in FY 1984 and ensure that new policies and procedures are implemented. FTA is in the process of reporting the Antideficiency Act violation to OMB and Congress and implementing new internal control policies and procedures.

DOT Information Security Program

In September 2002, we issued our second annual report on DOT's Information Security Program as required by the Government Information Security Reform Act. We found that DOT's Chief Information Officer lacked authority to enforce DOT security guidance and weaknesses existed in management controls, network security, system security, infrastructure-critical systems and asset protection, and E-government and personnel security.

Specifically, we found unsecured network connections to contractors and unauthorized telephone line (dial-up) computer connections; no system security certification and accreditation reviews on 78 percent (438 out of 561) of mission-critical systems, including 15 of the 25 major financial systems; 79 high vulnerabilities on DOT's web sites; and no background checks on 24 percent of the contractor personnel we reviewed. Unauthorized access to any DOT information system could jeopardize the integrity of financial information systems. We made recommendations in separate reports to improve computer security and controls.

FAA Oversight of Cost-Reimbursable Contracts

FAA's oversight of its cost-reimbursable contracts, as required by acquisition regulations, was deficient, lacked accountability, and did not adequately protect FAA from fraud, waste, and abuse. This vulnerability was significant because FAA awarded about 800 cost-reimbursable contracts totaling $3.4 billion in FY 2001. For example, we found that cost-reimbursable contracts totaling $2 billion did not have the required incurred-cost audits, and about 1,400 contracts totaling $6 billion were not closed timely. In a separate report, we recommended that FAA ensure contract audits are obtained and establish better policies and procedures to enhance oversight of its contract management functions.

TSA Security Screening Contracts

In February 2002, TSA assumed responsibility for passenger security screening at the Nation's airports. To do this, TSA contracted at an estimated cost of $1 billion with 74 private companies that already were on site providing passenger security screening services for air carriers. Of the 74 contractors, 13 accounted for about 93 percent of the total passenger screening costs. Although contract rates for TSA were to be based on actual costs incurred providing screening services for air carriers, we found that 6 of the 13 contractors increased billing rates from 58 to 97 percent above those charged to air carriers and TSA initially was performing virtually no monitoring of these contracts. We made recommendations for corrective action in a July 2002 memorandum and in a separate report to be issued in February 2003. TSA has hired independent contractors to audit, administer, and monitor these contracts.

TSA Financial Management

On November 19, 2001, the President signed the Aviation and Transportation Security Act that created TSA. From the first day of its existence, DOT and TSA were faced with many significant challenges and short statutory milestones. Getting organized and building a financial management organization with only a few Federal employees was very challenging for TSA.

Under contract with OIG, KPMG found that TSA did not have sufficient personnel or established policies and procedures to ensure accurate reporting of amounts on its financial statements concerning (1) expenses and liabilities of about $1 billion; (2) purchase orders and other obligations of $322 million; (3) equipment purchases of $309 million; and (4) accounts receivable from air carriers and passenger fees of $157 million. TSA corrected its accounting records and reported appropriate amounts on its financial statements. KPMG made recommendations in a separate report to improve TSA financial management.

Reportable Conditions

Internal control weaknesses existed because of (1) the lack of an integrated property and accounting system in FAA; (2) inadequate coordination concerning reporting procedures for FAA legal liabilities; (3) computer security weaknesses in Delphi; and (4) an interface deficiency between FHWA's grants management system and DOT's existing accounting system, DAFIS.

FAA Property, Plant, and Equipment

Last year, we reported significant deficiencies in accounting for FAA property, plant, and equipment. Under contract with OIG, KPMG audited the FY 2002 FAA financial statements and reported that FAA did not adhere to established policies and procedures to ensure its property accounts were properly reported. In a separate report, KPMG made recommendations to improve property accounting; reconcile the property system and DAFIS throughout the year, record property additions and disposals, and capitalize labor and travel costs. FAA still needs to integrate its property accounting system with Delphi. FAA plans to integrate the two systems by October 2003.

FAA Legal Liabilities

FAA overstated its legal liabilities by about $514 million. This occurred because the FAA Chief Counsel, when preparing the estimate, incorrectly included cases deemed to be *reasonably possible* of loss with those deemed to be *probable* of loss. FAA also incorrectly included cases where the likelihood of loss was deemed to be *remote*. KPMG made recommendations in a separate report to improve communication and coordination within FAA.

Delphi Computer System Controls

Our ongoing review of Delphi[1] identified that the system security functions need to ensure access to Delphi only by authorized personnel. We found that Delphi lacked basic system controls, such as (1) passwords not properly configured to prevent guessing; (2) no systematic way to identify and remove user accounts for terminated employees; and (3) programmers given access to production systems. Using a commercial scanning tool, we also identified nine high vulnerabilities in Delphi's security system. Access to the Delphi computer room also was not adequately secured. These deficiencies occurred partially because Delphi operates on a stand-alone server, and security responsibilities that are normally provided by a central security function, as was provided for DAFIS, must now be performed by Delphi managers.

DOT also needs a better plan for Delphi to continue operations in case of system failure or catastrophic events such as tornadoes. We will make specific recommendations in a separate report to be issued later. DOT agreed with our findings and corrective actions already are underway.

FHWA's Grants Management System

Last year, we identified an electronic interface deficiency between FHWA's Fiscal Management Information System (FMIS) and DAFIS, and recommended corrective action. FMIS records initial obligations for Federal-aid grants to states. However, when FMIS interfaces with DAFIS, all obligations are not electronically transferred into DAFIS. This occurs due to problems resulting from upgrades and changes that were made to the FMIS system. FHWA also did not reconcile obligated balances between FMIS and DAFIS. As of September 30, 2002, valid obligations of about $388 million were understated. FHWA plans to resolve this interface deficiency during the Delphi implementation process.

C. COMPLIANCE WITH LAWS AND REGULATIONS

Our objective was not to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to selected provisions of laws and regulations that would be reportable under U.S. generally accepted government auditing standards or under OMB guidance. Our work disclosed the following instances of noncompliance with FFMIA and other laws and regulations.

Federal Financial Management Improvement Act of 1996

Under FFMIA, we are required to report whether or not DOT financial management systems substantially comply with: (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government standard general ledger at the transaction level. On January 4, 2001, OMB issued *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, including factors for determining compliance and auditor reporting responsibilities. To meet the FFMIA audit requirement, we performed tests of compliance with the three FFMIA section 803(a) requirements and the revised OMB guidance, including financial management systems; the standard general ledger; and accounting standards.

DOT did not meet FFMIA requirements for financial management systems because: (1) DOT's accounting system, DAFIS, cannot produce auditable financial statements; (2) interface deficiencies exist between DAFIS and FMIS and between Delphi and FTA's financial feeder systems; (3) DAFIS does not contain all of the U.S. Government standard general ledger accounts; (4) DOT has not implemented managerial cost accounting standards; and (5) five material weaknesses existed concerning DOT's financial, accounting, and information security programs.

Financial Management System Requirements

DOT's major agencies use DAFIS, which cannot produce financial statements based on the information included within the system. For example, DOT made about 860 adjustments, totaling $51 billion, outside DAFIS to prepare the financial statements. These adjustments were recorded in a financial statement module, a tool used to process the adjustments. However, all DOT agencies did not use the financial statement module to prepare the financial statements and adjustments were not recorded in DAFIS. For example, the Coast Guard and Maritime Administration (MARAD) did not use the financial statement module.

Ten of DOT's agencies use the new accounting system, Delphi. Although Delphi is being used, the system is under development and does not yet fully meet all FFMIA requirements for financial management systems. For example, none of the 10 DOT agencies on Delphi used the full capabilities in Delphi to prepare their FY 2002 financial statements. Delphi is being evaluated as to compliance with FFMIA as part of its implementation. As discussed in Section B, the Delphi computer system contains vulnerabilities and security control weaknesses. DOT plans to have all agencies on Delphi by October 2003.

Interface deficiencies exist between DAFIS and FMIS, and between Delphi and FTA's financial feeder systems. The Joint Financial Management Improvement Program (JFMIP) *Core*

Financial System Requirements and *Grant Financial System Requirements* and OMB guidance require that, to be compliant with FFMIA, integrated financial management systems must maintain data accuracy between the core financial system and feeder systems. As discussed in Section B, an interface deficiency between DAFIS and FMIS resulted in recorded obligations in DAFIS being understated by $388 million. Interface deficiencies between Delphi and FTA's financial feeder systems prevented FTA from electronically processing transactions. DOT plans to resolve these deficiencies during the Delphi implementation process.

United States Government Standard General Ledger

DAFIS does not comply with the U.S. Government standard general ledger (SGL) at the transaction level because it does not contain all of the SGL accounts. As a result, about 860 adjustments, totaling $51 billion, were made outside DAFIS to prepare the financial statements. Delphi is compliant with the SGL, and DOT plans to have Delphi fully operational in all agencies by October 2003.

Federal Cost Accounting Standards

DOT agencies, except FAA and Coast Guard, are just beginning to identify planning requirements for implementation of cost accounting systems. The Statement of Federal Financial Accounting Standards (SFFAS) Number 4, *Managerial Cost Accounting Standards*, requires that beginning in FY 1998, each reporting entity should provide reliable and regular reporting of full costs of their activities and outputs. DAFIS does not have the capability to capture full costs, including direct and indirect costs assigned to DOT programs. DOT's goal is to be compliant with cost accounting standards by September 2004.

During FY 2002, DOT demonstrated its commitment to implementing cost accounting standards by appointing a full-time cost accounting project manager and forming a steering group with representatives from each DOT agency to coordinate the Departmentwide implementation of cost accounting standards. These are positive steps, but extensive efforts will be needed to complete implementation by September 2004.

FAA made progress by implementing its cost accounting system in its Air Traffic Services and Commercial Space Transportation lines of business. FAA also is working on developing a labor distribution system. However, FAA still needs to improve the system and develop the cost accounting system for its other three lines of business. FAA plans to complete its cost accounting system implementation by September 2003.

As discussed in Section B, material weaknesses exist concerning (1) FTA financial management; (2) computer security; (3) FAA oversight of cost-reimbursable contracts; (4) TSA security screener contracts; and (5) TSA financial management.
On December 26, 2002, as required by the Federal Managers' Financial Integrity Act of 1982, the Secretary of Transportation reported four of the five material weaknesses in DOT's 2002 report, and also reported that DOT was taking remedial and progressive actions in these areas that will bring DOT into substantial compliance with FFMIA when its actions are successfully implemented. The other material weakness concerning TSA financial management was identified after the 2002 report was issued.

Antideficiency Act Violations

Title 31, United States Code, Section 1341(a) provides that an officer or employee of the U.S. Government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation. As discussed in Section B, a $562 million overobligation occurred in FY 1984, and FTA still needs about $29 million to pay the remaining overobligation balance.

DOT also spent about $37 million obtained from Treasury miscellaneous receipts accounts between FYs 1998 and 2001, rather than using appropriated funds. DOT had no authority to spend Treasury's money. When the transactions were corrected during FY 2002, FHWA and Office of the Secretary prior year appropriations were overobligated by about $5 million. We made recommendations in a separate report. DOT is in the process of reporting both Antideficiency Act violations.

Intragovernmental Balances

OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, requires that reporting entities reconcile intragovernmental asset, liability, and revenue amounts by confirming balances with their trading partners. Some DOT agencies only partially confirmed or reconciled their intragovernmental balances, but most did not. However, our testing found no material differences. Notwithstanding, DOT intragovernmental asset, liability, and revenue amounts of about $1.9 billion were not confirmed or reconciled with trading partners.

Confirming and reconciling these balances is important to the Financial Report of the United States Government. Last year, GAO reported that one impediment to an opinion on the Government Consolidated Financial Statements that must be overcome is the Government's inability to account for billions of dollars of transactions among Federal entities. GAO attributed part of this problem to agencies not reconciling balances with their trading partners. The unreconciled difference among Federal entities for FY 2001 was about $21 billion.

Recommendation. We recommend that the DOT Chief Financial Officer establish a special reporting procedure to verify that DOT agencies confirm and reconcile intragovernmental balances with trading partners.

Performance Data

Under OMB Bulletin 01-02, our responsibility is to obtain an understanding of internal controls relating to existence and completeness of performance data. DOT agencies are responsible for establishing and maintaining adequate internal controls. The FY 2002 DOT Performance and Accountability Report contains 39 primary and 25 supplementary performance measures which were in the FY 2002 DOT Consolidated Financial Statements. The overall presentation complied with requirements of OMB Bulletin 01-09 to report performance measures consistent with goals and objectives from agencies' strategic and performance plans.

Linking to Statement of Net Cost and Measuring Cost-Effectiveness

According to OMB Bulletin 01-09:

> Entities should strive to develop and report objective measures that . . . provide information about the efficiency and cost effectiveness of programs. The discussion of performance . . . should be clearly linked to cost categories . . . featured in the Statement of Net Cost. . . . To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what is planned . . . to improve financial or program performance.

DOT does not have systems in place to allocate costs by major program and the performance measures presented in the financial statements did not provide information about cost-effectiveness. Consequently, none of the performance measures was linked to the cost of achieving targeted results or to the Statement of Net Cost.

DAFIS does not have the capability to accurately identify program costs. DOT is in the process of replacing DAFIS, and plans to have Delphi in full operation by October 2003. FAA also is developing a separate cost accounting system, which FAA expects will be fully operational by September 30, 2003.

Assessing Internal Controls

We performed various procedures to assess internal controls relating to performance data. While our work disclosed no material internal control weaknesses, we were not required to, and we did not, test the validity or accuracy of performance data as part of the DOT Consolidated Financial Statement audit. However, DOT is facing a significant challenge to ensure the incoming data are accurate and complete.

DOT relies on third-party organizations outside the Federal Government, such as states; grantees; transit authorities; commercial airlines; and airports, for some of its performance data. States, for example, report on a calendar-year basis, and DOT did not receive some FY 2002 performance information in time to incorporate it into the DOT Consolidated Financial Statements. Of the 64 performance measures, 14 were based on FY 2001 rather than FY 2002 performance data.

Reporting of Planned Actions

To enhance the usefulness of performance information, OMB Bulletin 01-09 encourages entities to include an explanation of what is planned to improve financial or program performance. The Management Discussion and Analysis overview includes general comments on how to improve performance; however, specific plans to improve financial performance were not included.

Statement of Net Cost Presentation

According to the Cost Accounting Implementation Guide issued by JFMIP, the Statement of Net Cost is pertinent to reporting performance results, and provides financial information that can be related to outputs and outcomes of an entity's major programs and activities. OMB Bulletin 01-

09 requires an entity to report performance measures that can be clearly linked to cost categories in the Statement of Net Cost.

In September 2002, DOT issued guidance for preparing the FY 2002 DOT Consolidated Financial Statements that established the major program areas on the DOT Consolidated Statement of Net Cost would be Surface, Air, Maritime, and Cross-Cutting Transportation Programs. This presentation inappropriately combines DOT agencies and programs with separate and distinct goals.

For example, the Maritime Transportation category combined separate and distinct programs in Coast Guard and MARAD, such as the cost for maintaining MARAD's Ready Reserve Fleet were combined with Coast Guard's Search and Rescue, Drug Interdiction, and Recreational Boating Safety. Under Maritime Transportation Costs, DOT reported Coast Guard operating expenses of $3.8 billion as a major program cost. However, these costs represented total operating and maintenance costs that should have been allocated among Coast Guard programs.

To improve financial management, DOT has initiated a project to replace DAFIS. Delphi is being designed to produce financial statements, as well as cost accounting information. Delphi is scheduled to be fully operational by October 2003.

D. CONSISTENCY OF OTHER INFORMATION

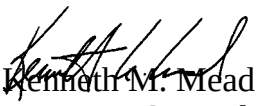
Management's Discussion and Analysis, required supplementary information (including stewardship information), and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We are not required to, and we do not, express an opinion on this information. We compared this information for consistency with the DOT Consolidated Financial Statements and discussed the methods of measurement and presentation with DOT officials. Based on this work, except for FY 2002 performance measures that were based on FY 2001 performance data (Part C of this report), we found no material inconsistencies with the DOT Consolidated Financial Statements nor nonconformance with OMB guidance.

E. PRIOR AUDIT COVERAGE

Our report on the DOT Consolidated Financial Statements for FYs 2001 and 2000 expressed an unqualified opinion and made one recommendation that FTA discontinue use of the headquarters account and eliminate the negative obligation balance before transferring to Delphi. As discussed in Section B, FTA took corrective actions. In March 1998, we also recommended that DOT ensure DAFIS, or its replacement, is the primary source of information for preparing financial statements. This item remains open until Delphi is fully implemented and demonstrates it can provide the information needed to prepare the DOT Consolidated Financial Statements.

Since we issued our report on the DOT Consolidated Financial Statements for FYs 2001 and 2000, a total of 10 reports were issued related to the DOT Consolidated Financial Statements. The list of reports is in Exhibit B.

This report is intended for information and use by DOT, OMB, GAO, and Congress. This report is a matter of public record, and its distribution is not limited.



Kenneth M. Mead
Inspector General

EXHIBIT A. OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives for the DOT Consolidated Financial Statements for FYs 2002 and 2001 were to determine whether: (1) principal DOT Consolidated Financial Statements and accompanying notes are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; (2) DOT has adequate internal controls over financial reporting, including safeguarding assets; (3) DOT has complied with laws and regulations that could have a direct and material effect on the DOT Consolidated Financial Statements or that have been specified by OMB, including FFMIA; (4) financial information in the Management Discussion and Analysis is materially consistent with the information in the principal DOT Consolidated Financial Statements; (5) internal controls ensured the existence and completeness of reported data supporting performance measures; and (6) supplementary and stewardship information is consistent with management representations and the DOT Consolidated Financial Statements.

DOT is responsible for (1) preparing the DOT Consolidated Financial Statements for FYs 2002 and 2001 in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that broad control objectives of the Federal Managers' Financial Integrity Act are met; (3) ensuring that DOT financial management systems substantially comply with FFMIA requirements; and (4) complying with applicable laws and regulations.

OIG is responsible for obtaining reasonable assurance about whether (1) the DOT Consolidated Financial Statements for FYs 2002 and 2001 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) management maintained effective internal controls. The objectives of these controls are:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with laws and regulations: Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and Governmentwide policies identified by OMB audit guidance.

OIG also is responsible for (1) obtaining sufficient understanding of internal controls over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the DOT Consolidated Financial Statements for FYs 2002 and 2001.

To fulfill these responsibilities, we examined the amounts and disclosures in the financial statements; assessed accounting principles and estimates; evaluated internal controls; observed physical inventories; and evaluated the presentation of the financial statements. We reviewed

the work of KPMG on the FAA and TSA financial statements to determine whether the work was performed in accordance with U.S. generally accepted government auditing standards. We also examined the validity of financial transactions and interviewed financial management officials.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to DOT. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the DOT Consolidated Financial Statements for FY 2002 ended September 30, 2002, and FY 2001 ended September 30, 2001. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. We also caution that our internal control testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

EXHIBIT B. FINANCIAL-RELATED REPORTS

TITLE	REPORT NUMBER	DATE ISSUED
Quality Control Review of Fiscal Years 2002 and 2001 Financial Statements, FAA`	QC-2003-017	January 27, 2003
Quality Control Review of Fiscal Year 2002 Financial Statements, TSA	QC-2003-016	January 27, 2003
Financial Statements for Fiscal Years 2002 and 2001, Highway Trust Fund	FI-2003-015	January 24, 2003
Actuarial Estimates for Retired Pay and Medical Benefits, USCG	FI-2003-014	January 22, 2003
Terminal Service Cost Accounting Practices, FAA	FI-2003-013	January 21, 2003
Top Management Challenges, DOT	PT-2003-012	January 21, 2003
Information Security Program, DOT	FI-2002-115	September 27, 2002
Vessel Documentation User Fees, USCG	FI-2002-110	September 18, 2002
Spending Money from Treasury Miscellaneous Receipts Accounts, DOT	FI-2002-108	September 12, 2002
Oversight of Cost-Reimbursable Contracts, FAA	FI-2002-092	May 8, 2002

Management Challenges

The information in the following section of the report has been provided by the Office of Inspector General, in accordance with the Reports Consolidation Act of 2000.

TOP MANAGEMENT CHALLENGES

Department of Transportation

Report Number: PT-2003-012

Date Issued: January 17, 2003

Memorandum

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

ACTION: DOT's Top Management Challenges
PT-2003-012

Date: January 17, 2003

Kenneth M. Mead
Inspector General

Reply to Attn. of: J-1

The Secretary
Thru: The Deputy Secretary

The past year has been one of significant challenge and change for the Department of Transportation (DOT) and indeed the Nation. It is already clear that 2003 will continue that trend. DOT faces significant challenges in the missions for which it was created and in smoothly transitioning the Coast Guard and the Transportation Security Administration to the new Department of Homeland Security. Most items on our 2003 list of top management challenges directly relate to DOT's ongoing missions; the last two items are relevant to DOT during the transition and will then move to the Department of Homeland Security.

- **Accomplishing DOT's Core Missions of Safety and Mobility During and After an Effective Transition of TSA and Coast Guard (page 111)**
- **Reducing Fatalities and Injuries on Our Highways, Emphasizing Seat Belt Law Enforcement (page 115)**
- **Reducing the Risk of Aviation Accidents Due to Operational Errors and Runway Incursions (page 118)**
- **Reversing FAA's Spiraling Operating Costs, Improving Aviation System Capacity, and Reauthorizing AIR-21 (page 121)**
- **Clamping Down on Fraud, Obtaining Better Value in Highway and Bridge Investments, and Reauthorizing TEA-21 (page 127)**
- **Determining the Future of Intercity Passenger Rail (page 131)**
- **Ensuring Highway Safety as the Southern Border Is Opened to Mexican Motor Carriers Under NAFTA (page 135)**
- **Strengthening Computer Security and Investment Controls for DOT's Multi-Billion Dollar Information Technology Investment (page 137)**
- **Continuing to Improve Transportation Security (page 141)**
- **Meeting Coast Guard's Safety and Security Missions (page 146)**

The Financial Challenges. Reflecting on the coming year, a few things are already clear. It is becoming increasingly important for each agency to operate effectively and efficiently to ensure we get the most benefit for each taxpayer dollar spent. Trust fund revenues are lower than expected, increasing the calls for additional financial support from General Fund

resources. For example, over the next 6 years the estimated tax revenues in the Aviation Trust Fund are expected to be about 19 percent lower than was anticipated before September 11, 2001. At the same time, however, the economic forces and the demands of national security have combined to limit the General Fund's ability to supplement and sustain transportation spending. In the decision making process, the Government must take into consideration the financial effects of creating a new agency, continuing the war on terrorism, and growing defense outlays necessary to protect the Nation's interests at home and abroad.

The Performance Challenges. With respect to DOT specifically, forces set in motion by the September 11, 2001 terrorist attacks necessarily turned much of the Department's attention to security issues and have now resulted in the establishment of the Department of Homeland Security—the largest reorganization of the Federal Government in over 50 years. DOT will need to effectively transfer the Transportation Security Administration and the Coast Guard to that new agency, while finding ways to work effectively with the Department of Homeland Security on DOT's continuing supportive role in transportation security and the overlapping responsibilities for transportation safety and security.

As much of the security focus moves to the new Department—and with three major reauthorizations pending (the Aviation Investment and Reform Act for the 21st Century, the Transportation Equity Act for the 21st Century, and intercity passenger rail)—the Department has an important opportunity to renew its focus on the management of its safety and mobility missions. The Department's success will be critical to the effective functioning of transportation, which is an important economic engine that comprises almost 11 percent of the economy's gross domestic product. In view of the magnitude and importance of this effort, it is the first item on our list of DOT's top management challenges.

Our list also covers the other major challenges facing DOT in 2003; these include implementing the President's Management Agenda (parts of which are woven into several of our management challenges). In addition, DOT's challenges in 2003 will include the reauthorization of the Aviation Investment and Reform Act for the 21st Century, reauthorization of the Transportation Equity Act for the 21st Century, and determination of how best to structure and fund an intercity passenger rail system.

Changes From Last Year's List. With respect to the airline industry, the airline economic environment is in great upheaval, with two major carriers in bankruptcy reorganization and the other network carriers working to reorganize their operations to avoid similar fates. We are not listing this as a top management issue because airline competition has been generally left to the discipline of market forces since airline price and service deregulation. Nevertheless, the Department clearly does need to closely monitor developments so as to be prepared to recommend national policy changes should private market efforts fail, threatening large segments of the domestic airline industry and air service to small communities. We note as well that the Department continues to have ongoing responsibilities for international competition and for monitoring the domestic competitive environment for evidence of anti-competitive behavior.

We are also no longer listing the Maritime Administration's (MARAD) Ship Disposal Program because, while further action is needed, sufficient progress has been made to warrant removal

from the list of the Department's top management issues. MARAD has succeeded in removing 14 vessels from its Fleets since 2000, and it obtained additional funding for disposal efforts in fiscal year 2003. The State of Virginia and MARAD are working on the common goal to mitigate the environmental threat these vessels pose in the James River Reserve Fleet. Also, in its Report to Congress on the Progress of the Vessel Disposal Program (June 2002), MARAD itself cited Program accomplishments, including: (1) posting of an acquisition announcement seeking innovative solutions for vessel disposal, (2) proposing legislation to promote greater use of these vessels as artificial reefs, (3) ongoing negotiations with the Environmental Protection Agency on exporting some vessels, and (4) various partnership initiatives. Despite these accomplishments, the Department needs to continue to monitor the Program's progress and ensure adequate funding is provided for disposal efforts.

Our top management challenges for 2003 are detailed below, and the Exhibit provides a comparison of this year's list with the items from our 2002 list. In presenting this list, we recognize that the Department will face many other significant issues in the coming year. The absence of a particular issue from this list is not intended to suggest that it is unimportant to the Department, but rather that we do not consider it among the key challenges at this time.

1 Accomplishing DOT's Core Missions of Safety and Mobility During and After an Effective Transition of TSA and Coast Guard

In the aftermath of the September 11 attacks and with the creation of the Transportation Security Administration (TSA), the last 16 months have presented DOT with unprecedented challenges—including hiring nearly 62,000 screeners to check passengers and carry-on baggage at all airports and implementing explosives detection equipment at the majority of airports nationwide. At the same time, TSA significantly expanded the Federal Air Marshals program with more flights being guarded now than any time in history. Meeting these challenges was, understandably and necessarily, the top priority of the Department's senior managers.

With the March 2003 transfer of the Coast Guard and TSA to the newly created Department of Homeland Security, the coming year presents DOT with the opportunity to focus on challenges central to the Department's core missions of improving transportation safety and mobility. Further, as the Department will continue to have a supporting role in transportation security, DOT must also use the next year to establish an effective relationship with the new Department of Homeland Security. The Department should also take full advantage of this opportunity for management renewal by following through on major DOT management initiatives, including the development of effective financial and cost accounting systems that will enable the Department to better track and manage its performance and budget.

In managing its core missions, both during and after the Coast Guard and TSA transition to the Department of Homeland Security, DOT managers will need to place priority on:

a. ***Focusing on Safety and Mobility in All Modes of Transportation.*** This time of transition presents DOT with a broader opportunity to once again focus on effective management of its core safety and mobility missions. DOT will need to work with Congress on the reauthorizations of its major programs, including the Aviation Investment and Reform Act for the 21st Century (AIR-21), the Transportation Equity Act for the 21st Century (TEA-21), and intercity passenger rail. DOT's programs are a substantial and visible part of the services the public receives from the Federal Government. The President's Budget Request for DOT in Fiscal Year (FY) 2003[2] was $59.3 billion; $47.4 billion of that will remain with DOT once TSA and the Coast Guard have been transferred to the Department of Homeland Security. DOT's impact goes beyond that, however, as its safety and mobility missions are critical to the transportation industry—an important economic engine that comprises almost 11 percent of the gross domestic product and impacts the entire gross domestic product.

b. ***Establishing an Effective Framework for Working With the Transportation Industry and Homeland Security on Regulatory and Programmatic Security Issues.*** DOT's continuing responsibilities for transportation safety and efficiency will inevitably overlap with the Department of Homeland Security's responsibilities for

transportation security, requiring close interaction between the two Departments to strike an appropriate balance in implementing, regulating, funding, and overseeing programs that benefit the traveling public. DOT will play a continuing and supportive role in transportation security, including primary responsibility over the safe transport of hazardous materials, which will require ongoing coordination with the Department of Homeland Security.

c. ***Following Through on Major DOT Management Initiatives, Including Full Implementation of the New Delphi Accounting System and Managerial Cost Accounting Standards.*** The Delphi system, which was initiated in 1997, is now operational in seven of DOT's smaller Operating Administrations and staff offices.[3] Delphi has not yet been implemented in four of DOT's largest Operating Administrations (Federal Aviation Administration, Federal Highway Administration, Federal Motor Carrier Safety Administration, and Maritime Administration), which account for more than 80 percent of DOT's FY 2003 budget (not including TSA and Coast Guard) and represent most of the volume of transactions anticipated for Delphi operations.

Bringing the four larger and more complex Operating Administrations onto Delphi has proven to be a challenge, as evidenced by the repeated schedule slippages. They were scheduled to begin using Delphi between December 2002 and May 2003. However, that effort has again slipped to the March through October 2003 timeframe, with a total implementation cost of about $103 million.

Delphi should provide DOT with reliable automated financial data for the first time. However, to support the President's Management Agenda goal of integrated budget and performance data, DOT also needs to implement managerial cost accounting standards and labor distribution systems that interface with Delphi. The ultimate goal is to provide reliable cost and performance data that will tell decision makers what programs really cost and what they are achieving for that cost. DOT plans to implement managerial cost accounting standards in all Operating Administrations by September 2004.

The Federal Aviation Administration (FAA), which is DOT's largest Operating Administration, planned to have a fully operational cost accounting system including a labor distribution system called Cru-X to capture labor hours and costs associated with specific functions and services by September 30, 2002. However, Cru-X for FAA's air traffic controllers, with annual labor costs of about $3.1 billion, omitted important internal controls related to the controllers signing in and signing out for their work shifts and for recording time while not directing air traffic.

We brought this issue to the attention of the new FAA Administrator, and she directed that appropriate internal controls for recording of air traffic controllers' time be incorporated into the Cru-X labor distribution system. FAA needs to identify specific action plans to implement the Administrator's direction and provide milestones for starting and completing its corrective actions.

Without a fully functioning labor distribution system, FAA will not have a credible cost accounting system, nor will it be able to credibly claim it is a performance-based organization. To date, FAA has spent $38 million and is 5 years behind its original

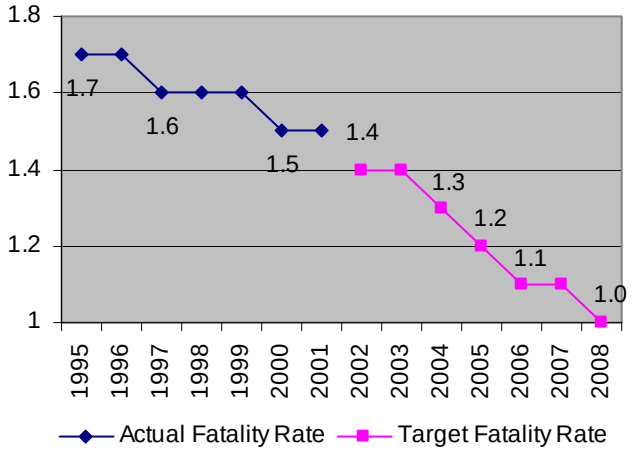
schedule for having a fully operational cost accounting system. The Federal Aviation Reauthorization Act of 1996 required FAA to develop a cost accounting system. FAA plans to have an operational cost accounting and labor distribution system by September 2003 unless the implementation schedule slips again.

For further information, the following reports can be seen on the management challenges page of the Office of Inspector General (OIG) web site, at http://www.oig.dot.gov/challenges:

- *FAA Financial Statements for Fiscal Years 2001 and 2000*
- *DOT Consolidated Financial Statements for Fiscal Years 2001 and 2000*
- *FAA Cost Accounting System and Practices–2001 Status Assessment*
- *FAA Air Traffic Services Planned Labor Distribution Reporting*
- *DOT Implementing a New Financial Management System*

2 Reducing Fatalities and Injuries on Our Highways, Emphasizing Seat Belt Law Enforcement

Figure 1. Highway Fatalities Per 100 Million Vehicle Miles Traveled

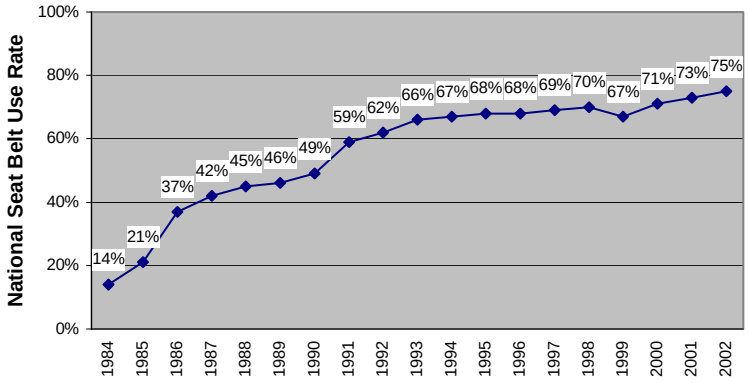


In 2001, more than 42,000 people were killed and more than 3 million injured in traffic crashes on the Nation's highways. As shown in Figure 1, DOT has established a goal of reducing traffic fatalities to 1 per 100 million vehicle miles traveled by 2008. To achieve this goal, DOT needs to pursue the following ongoing efforts to reduce deaths and injuries on the Nation's highways, in addition to continuing the fight against driving while under the influence of alcohol or drugs.

a. ***Increase Seat Belt Use.*** The National Highway Traffic Safety Administration (NHTSA) estimates that raising seat belt use to 85 percent from the present rate of 75 percent would save 4,600 lives annually. The most effective means of increasing seat belt use is enactment and enforcement of primary seat belt laws, which allow police to stop drivers and issue citations solely for not using a seat belt.

Currently, 18 States, the District of Columbia, and Puerto Rico have primary seat belt laws. We see no credible basis to forecast increases in seat belt use in excess of the recent trend of 1 percentage point per year unless additional States enact and enforce primary enforcement laws. If the trend in seat belt use of the last 9 years continues, as shown in Figure 2, NHTSA will fall short of its 2003 goal of 78 percent.

Figure 2. National Seat Belt Use 1984 to 2002



b. ***Improve the Credibility and Integrity of the Commercial Driver's License (CDL) Program.*** In our May 2002 report, we stated existing Federal standards and State controls were not sufficient to defend against the alarming threat posed by individuals who seek to fraudulently obtain CDLs. For example, we found that only 4 of 13 States that we visited had laws requiring applicants to demonstrate that they are citizens or legally present in the United States. Since 1998, we have conducted over 70 criminal investigations in 12 States involving CDLs. To date, these cases have resulted in 81 indictments, 63 convictions, and over $480,000 in fines, restitution and other monetary recoveries. In addition, hundreds of truckers have had their licenses suspended or revoked, or have had to be retested in order to ensure that they were qualified to drive commercial vehicles.

As a consequence of the fraudulent testing and licensing of commercial drivers, highway safety has been compromised and States have incurred additional expense to retest thousands of commercial drivers as a result of State and Federal investigations. DOT needs to counter fraudulent licensing by strengthening and clarifying Federal standards for issuing CDLs and by requiring the States to make use of covert procedures in the monitoring of driver examiners.

c. ***Continue Implementation of the Transportation Recall Enhancement, Accountability, and Documentation (TREAD) Act.*** Over the past 2 years, NHTSA has made substantial progress in meeting the TREAD Act requirements, completing 10 of 15 final rulemakings. Several rules were complex and controversial, such as requiring a tire pressure warning device in new vehicles, updating existing tire standards, and establishing early warning reporting requirements for vehicle and equipment manufacturers. Of the five remaining rulemakings, the two regarding the safety of child restraints and updating existing tire standards appear to be controversial from the comments received on the proposed rules. Neither of these rules has met its statutory deadline.

The success of the TREAD Act also depends on the quality and usefulness of a new information system being developed to track vehicle defects and help identify trends. This system is currently scheduled for completion in March 2003. Manufacturers must begin reporting additional warning data for entry into this new system by August 31, 2003. The Office of Inspector General recently initiated an audit to evaluate the progress NHTSA has made in implementing recommendations from our January 2002 report.

For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

- *Review of NHTSA's Progress in Implementing Strategies to Increase the Use of Seat Belts*
- *Improving the Testing and Licensing of Commercial Drivers*
- *Progress and Challenges in Implementing the TREAD Act*
- *NHTSA Office of Defects Investigation*
- *Disqualifying Commercial Drivers*

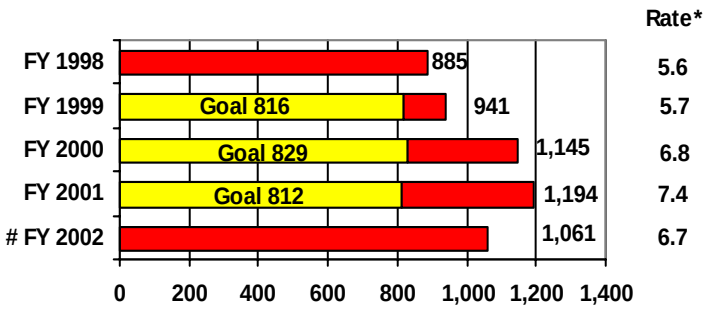
3 Reducing the Risk of Aviation Accidents Due to Operational Errors and Runway Incursions

Overall, this has been a very safe year for the aviation industry. There has been only one fatal commercial aviation accident in the United States during the last 14 months, and FAA has made further progress in reducing the risk of aviation accidents due to operational errors and runway incursions. Operational errors (incidents that could result in collisions in the air) and runway incursions (incidents that could result in collisions on the ground) decreased by 11 percent and 17 percent, respectively, over FY 2001 levels. While reduced air traffic operations contributed to a reduction of these incidents, FAA initiatives to reduce operational errors and runway incursions at specific facilities were also contributing factors.

Notwithstanding these improvements, operational errors and runway incursions remain on our list of top management challenges because (1) at least three serious operational errors and one serious runway incursion occurs, on average, every 10 days (in which collisions were barely averted); and (2) FAA now projects that air traffic, measured in terms of operations, will return to its pre-September 11 growth pattern between 2005 and 2007. FAA needs to continue initiatives to further reduce the risk of aviation accidents by:

a. ***Reducing the Number of Operational Errors***. The number of operational errors was down from an all-time high of almost 1,200 in FY 2001 to 1,061 in FY 2002, as shown in Figure 3. FAA initiatives to reduce operational errors included issuing guidance to improve regional operational error reduction plans, and establishing a system to rate the severity of operational errors so FAA can focus resources on reducing the most serious errors. *However, some operational errors still pose a significant safety risk, with an average of three operational errors per day and one serious error every 3 days (in which a collision was barely averted).* To reduce operational errors further, FAA needs to ensure that air traffic controllers who make operational errors receive training. FAA also needs to reexamine its new severity rating system to ensure that it accurately reflects the safety risk of operational errors.

Figure 3. Operational Errors FY 1998—FY 2002



\# FAA missed its FY 2002 goal of no more than 568 operational errors with less than 80 percent of required separation by 7 percent, with 607 such errors.
* Rate is per 1 million air traffic operations.

b. ***Reducing Runway Incursions.*** Runway incursions declined from 407 in FY 2001 to 338 in FY 2002 (see Figure 4), due in part to FAA's aggressive

Figure 4. Runway Incursions FY 1998—FY 2002

actions to reduce these incidents. FAA established a system to categorize runway incursions by severity risk and has reduced the number of close calls (those runway incursions in the two highest categories) from 53 in FY 2001 to 37 in FY 2002. *However, there is still an average of one runway incursion per day and an average of one close call every 10 days.* In view of the potential loss of life in a runway accident, this is still too many. For example, in October 2001, a runway accident between a commercial aircraft and a business jet killed 118 people in Milan, Italy. While this accident occurred outside the United States, the potential exists for similar accidents to occur here. To reduce runway incursions further, FAA needs to follow through on its plans to train pilots to avoid runway incursions and use technology to warn pilots and controllers of potential incidents.

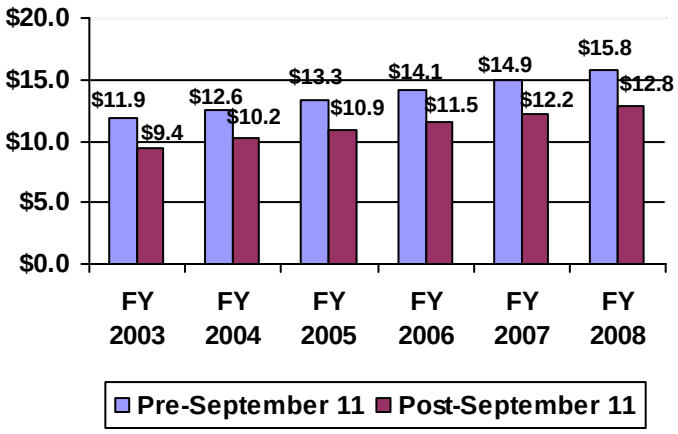
For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

- *FAA's FY 2003 Budget Request*
- *Despite Significant Management Focus, Further Actions Are Needed to Reduce Runway Incursions*
- *Further Actions Are Needed to Reduce Runway Incursions*
- *Actions to Reduce Operational Errors and Deviations Have Not Been Effective*
- *FAA's Actions to Expand the Controller-in-Charge Program*

4 Reversing FAA's Spiraling Operating Costs, Improving Aviation System Capacity, and Reauthorizing AIR-21

Figure 5. Aviation Trust Fund: Estimated Tax Revenues

($ in billions)



FAA is facing critical issues this year involving increasing capacity in the National Airspace System, carrying out cost-effective and timely acquisitions, and improving business operations by controlling costs. In our view, FAA needs to act more like a business, in the sense that it pays much greater attention to cost-effectiveness and controlling its costs, particularly in view of the steep declines in projected Aviation Trust Fund revenues compared to pre-September 11, 2001 estimates, as shown in Figure 5.

Within this context, a combination of management and legislative actions are needed. Reauthorization of AIR-21 provides FAA with an opportunity to seek needed legislative changes. The most critical actions include:

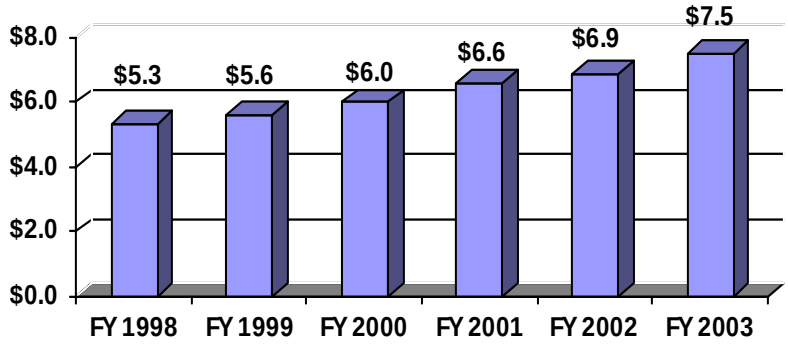
a. ***Containing Inordinate Increases in Operating Costs That Are Due to "Personnel Reform," and Tightening Accountability for Performance Agency-Wide.*** FAA's budget has increased $5 billion over the past 6 years—escalating from $9.0 billion in FY 1998 to $14 billion in FY 2003. This growth has largely been driven by inordinate increases in the agency's operating costs. FAA's Operations budget, which is 73 percent payroll costs, has increased from $5.3 billion in FY 1998 to $7.5 billion in FY 2003, an increase of over 41 percent (see Figure 6).

While FAA has taken extensive advantage of the flexibilities provided by personnel reform by substantially increasing salaries, there has been little corresponding management accountability for costs. Containing the growth

in operating costs continues to be a top management challenge that FAA must address.

Figure 6. FAA's Operations Budget FY 1998 through FY 2003

($ in billions)



Note: FY 2002 figures exclude approximately $200 million in supplemental funds that were appropriated specifically for security related purposes. FY 2003 figures include approximately $400 million in retirement and healthcare costs, which are now included directly in all Federal agencies' budgets per Office of Management and Budget instructions.

A key tool FAA needs to effectively manage its costs is an accurate cost accounting system. As part of its cost accounting system, FAA is developing a labor distribution system, called Cru-X, which would account for and distribute its air traffic controller labor costs of about $3.1 billion annually to specific facilities and functions for FAA to better assess its workload and performance. However, Cru-X for FAA's air traffic controllers omitted important internal controls related to controllers signing in and signing out for their work shifts and for recording time while not directing air traffic. As a result, the Cru-X system would provide no assurance that the time worked by air traffic controllers would be accurately recorded and properly paid.

We brought the Cru-X deficiency to the attention of the new FAA Administrator and she directed that appropriate internal controls for recording of air traffic controllers' time be incorporated into the Cru-X labor distribution system. FAA needs to identify specific action plans to implement the Administrator's direction and provide milestones for starting and completing the corrective actions.

Lastly, FAA needs to become proactive in taking actions to offset costs. For example, FAA needs to ensure that future agreements with its workforces include quantified offsetting gains in productivity, and that managers use flexibilities of personnel reform judiciously in terms of employee salaries, bonuses, and awards.

FAA also needs to take actions on existing opportunities that could help defray operating costs. For example, in our FY 2002 report on flight service stations, we reported that FAA could save at least $500 million over 7 years by consolidating automated flight service stations in conjunction with deployment of new flight service software. In FY 2000, we reported that FAA could also save over $57 million annually by contracting out low-activity visual flight rule towers that are still operated by the agency. Actions such

as these offer an important opportunity to follow through on one of the President's Management Agenda goals for strategic management of human capital.

b. ***Reshaping Air Traffic Control (ATC) Into a Performance-Based Organization,*** in part by appointing a Chief Operating Officer and making meaningful use of the ATC Subcommittee, both of which were authorized by AIR-21 more than 2 years ago. The pending reauthorization of AIR-21 also affords the Congress and FAA with an opportunity to consider additional tools to enable better, more economical acquisitions and personnel systems for the ATC system. One very important tool is the development and operation of a cost accounting system, as required by the 1996 Reauthorization of FAA, and an effective labor distribution system. Without such financial systems, FAA cannot credibly claim to be, nor function as, a performance-based organization.

c. ***Re-Baselining Costs and/or Milestones for Modernization Projects That Will Cost Much More Than Anticipated or That Have Had Substantial Schedule Slips.*** FAA spends almost $3 billion annually on modernization projects designed to improve the National Airspace System. Progress has been made with some acquisitions, most notably Free Flight Phase 1, but several major efforts need senior management level attention over the next year. These projects include the Standard Terminal Automation Replacement System (STARS), Local Area Augmentation System (LAAS), and Integrated Terminal Weather System (ITWS).

- STARS has a long history of cost overruns and schedule delays. The original STARS program estimate was $940 million. In March 2002, after the full program estimate rose to $1.69 billion, FAA reduced the approved program from 182 to 74 sites and reduced the estimated cost to $1.33 billion. Moreover, STARS is not FAA's only terminal

  modernization program. For example, while waiting for STARS, FAA also moved forward with a "bridge" program known as Common ARTS. Common ARTS provides the functions that STARS will eventually have after STARS development is complete. Common ARTS has now replaced aging systems at more than 140 facilities. In total, since 1996, FAA has spent more than $1 billion on terminal modernization programs.

- LAAS is a new precision approach and landing system that is expected to boost airport arrival rates under all weather conditions. FAA intended to have LAAS (Category I) operational in 2004. It is now clear that this milestone cannot be met because of additional development work, evolving requirements, and unresolved issues regarding how the new system will be certified as safe for pilots to use. Moreover, the more demanding Category II/III service (planned for 2005) is now a research and development effort with an uncertain end date.

- ITWS provides air traffic managers with enhanced weather information that does not require meteorological interpretation. FAA planned to complete deployment of the new weather system in 2004 at a cost of about $286 million. However, production costs are three times more expensive than planned, and FAA cannot execute the

program as planned.

FAA needs to develop metrics to assess progress with major acquisitions, strengthen contract oversight, make greater use of Defense Contract Audit Agency audits, and institute cost control mechanisms for software-intensive contracts. With schedule slips and cost overruns in major acquisitions, it should be noted that FAA is not getting as much for its $3 billion annual investment as it originally expected.

d. ***Addressing Future Capacity Issues.*** While there is still time to avoid a repeat of the gridlock conditions prevalent in the summer of 2000. FAA needs to be strategically positioned—through a combination of new runways, better air traffic management technology, and greater use of non-hub airports—for when the demand for air travel rebounds. FAA needs to continue to make major modifications to the Operational Evolution Plan (FAA's blueprint for increasing capacity over the next 10 years) to address changes in schedule and funding requirements in key programs and clarify anticipated benefits. In addition, FAA needs to address the uncertainty regarding the airlines' ability to purchase and install new technologies (estimated at $11 billion) called for in the Plan due to the decline in airline revenue since early 2001.

It is generally accepted that new runways are the most effective way to increase capacity. In the 10 years prior to the FAA's Operational Evolution Plan, six new runways had been completed, including new runways at Dallas and Phoenix. When the Operational Evolution Plan was first published in June 2001, it included provisions to add 15 new runways, but that was before September 11 and before the effects of the economic slowdown became more pronounced. Since then, a new runway has opened in Detroit, and a runway in Cleveland has been added to the Operational Evolution Plan. However, plans for a new runway in Charlotte and a second new runway in Dallas/Fort Worth Airports have been deferred. These runways are no longer in the Operational Evolution Plan.

FAA's Operational Evolution Plan tracks 12 runways still scheduled for completion in the next 10 years. During 2003, Denver, Houston, Miami, and Orlando Airports expect to complete runway projects. However, construction on several other runway projects has been delayed from 3 months to 2 years. Given the challenges that airports are facing, it is incumbent on FAA to continue closely monitoring new runway projects.

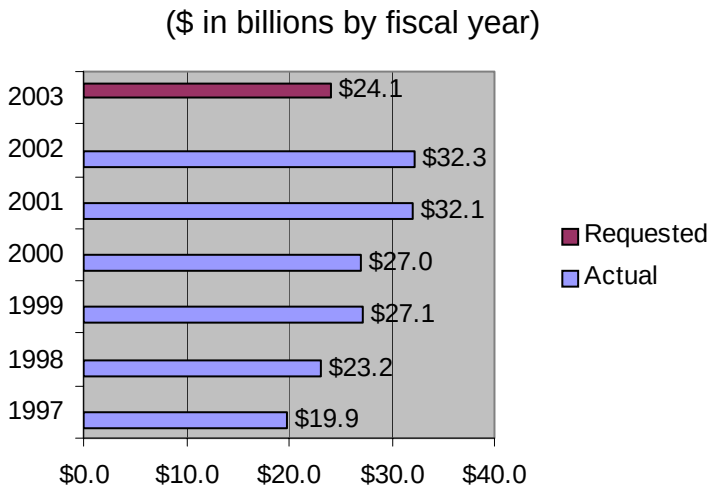
e. ***Achieving a Balance in the Use of Airport Improvement Program (AIP) Grants and Passenger Facility Charges (PFC) for Airport Security and Capacity Projects.*** In the past, these funds have been used in large part for projects that increased airport capacity, such as construction of new runways. However, new security requirements present the possibility that AIP and PFC funds may be used increasingly for security initiatives. To ensure that airport improvement projects continue to progress so that airports will be ready to meet increased capacity demands when air travel rebounds, Congress and the Department will need to strike a balance between security and capacity in the use of these two funding sources.

For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

- *FAA's Fiscal Year 2003 Budget Request*
- *Automated Flight Service Stations: Significant Benefits Could Be Realized by Consolidating AFSS Sites in Conjunction with Deployment of OASIS*
- *FAA Air Traffic Services Planned Labor Distribution Reporting*
- *Actions to Enhance Capacity and Reduce Delays and Cancellations*
- *Compensation Issues Concerning Air Traffic Managers, Supervisors, and Specialists*
- *Actions to Improve Performance of the National Aviation System*
- *FAA's Actions to Expand the Controller-in-Charge Program*
- *Technical Support Services Contract: Better Management Oversight and Sound Business Practices Are Needed*
- *Contract Towers: Observations on FAA's Study of Expanding the Program*
- *Staffing: Supervisory Reductions Will Require Enhancements in FAA's Controller-in-Charge Program*
- *Personnel Reform: Recent Actions Represent Progress but Further Effort Is Needed to Achieve Comprehensive Change*

5 Clamping Down on Fraud, Obtaining Better Value in Highway and Bridge Investments, and Reauthorizing TEA-21

Figure 7. FHWA Historical Funding Levels



Investments in highway infrastructure have a significant impact on achieving transportation goals to increase mobility, improve safety, and promote economic growth. TEA-21, the legislation that authorized highway investments, is scheduled to be reauthorized this year. A great deal of attention is also being focused on determining an appropriate level of highway funding this year. Figure 7 shows historical Federal Highway Administration (FHWA) highway funding levels. Regardless of the level of funding authorized, our work reviewing 18 large highway and transit projects has identified a number of opportunities to get more from each dollar invested. Better value can be obtained by:

a. ***Refocusing FHWA Oversight to Ensure That Major Projects Are Delivered Approximately On-Time and On-Budget.*** Key actions in this regard include:

- freeing up FHWA oversight resources by delegating more responsibility to the States for contract-level actions, such as approving contract awards, change orders, and design modifications, and by strengthening FHWA's program-level involvement and stewardship.

- improving State management practices in areas such as preparing cost estimates, designing projects, processing contractor claims, and maintaining accountability over funds.

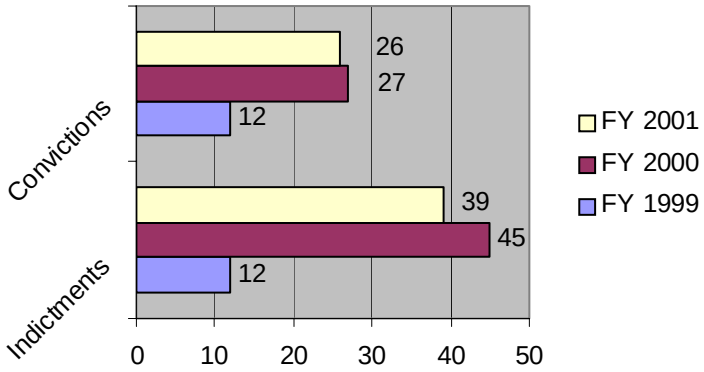
- using proven project management tools including project management plans, finance plans, reliable cost estimates, and integrated project schedules.

- modernizing FHWA's staffing structure to better meet oversight needs. FHWA needs to move from an engineering culture to a more multi-disciplined workforce

with the management, financial, environmental, program analysis, and engineering oversight skills necessary to review modern highway projects and programs.

b. *Promoting Efforts to Prevent, Detect, and Prosecute Fraud in the Federal-Aid Highway Programs.*

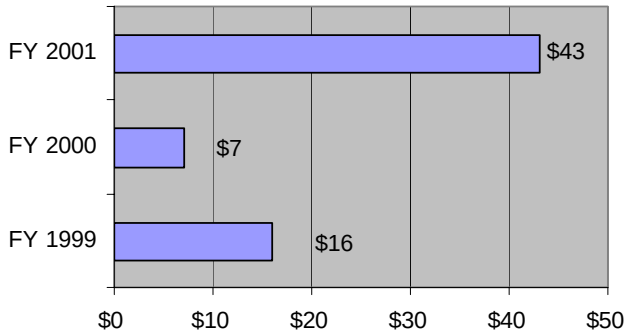
Figure 8. Judicial Results of Infrastructure Fraud—Convictions and Indictments



In the past 3 years, the OIG has seen increases in fraud case work and judicial actions involving highway and transit projects, with indictments tripling, convictions doubling, and monetary recoveries tripling from $15.8 million to $43.2 million (see Figures 8 and 9). Although our work does not suggest abuse on the scale that was experienced in the 1950's and 1960's, the recent cases have involved some of the largest fraud schemes in the history of the Federal-aid highway program.

Figure 9. Judicial Results of Infrastructure Fraud—Recoveries

($ in millions)



These schemes have included bid rigging, bribery and kickbacks, false claims, and product substitution. We have also seen more scandals and fraud schemes, such as "front companies and pass throughs," involving the Disadvantaged Business Enterprise program, which is intended to promote minority participation in contracting on DOT-funded transportation infrastructure projects. To strengthen DOT's ability to prevent, detect, and prosecute fraud, the Department should work with Congress and the States to:

- strengthen debarment and suspension sanctions by (1) debarring contractors and subcontractors convicted of civil or criminal offenses involving fraud, (2) suspending contractors and subcontractors indicted for civil or criminal offenses involving fraud from bidding on new transportation contracts, and (3) explicitly considering contractors' past performance and compliance with laws and regulations pertaining to fraud when awarding new contracts.

- increase scrutiny of cost proposals, change orders, and claims from prime contractors and subcontractors to detect and deter fraud.

- provide specialized training at the State level to enhance fraud prevention.

- allow monetary recoveries from judgments in Federal criminal and civil highway/transit fraud cases to be returned to the affected State, and require those funds to be used exclusively for fraud prevention programs.

For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

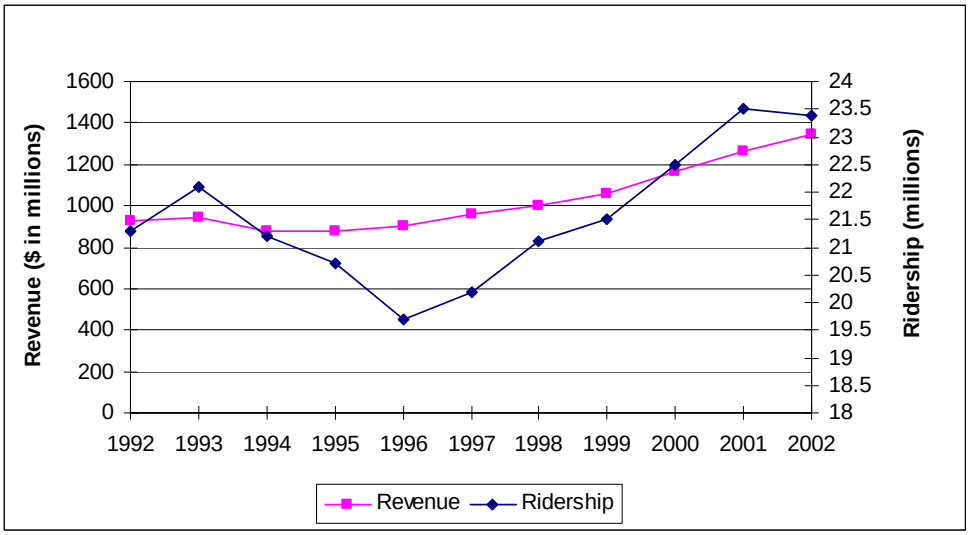
- *Springfield Interchange Project*
- *Improving the Delivery of Transportation Projects*
- *FHWA Actions to Recover Excess Reserves from Central Artery Owner Controlled Insurance Program*
- *Inspector General's Remarks Before the 2nd National Conference on Highway Construction and Public Transportation Fraud*
- *Management of Large Highway and Transit Projects*
- *Report on the October 2001 Finance Plan for the Central Artery/Tunnel Project*
- *Status of Issues Related to the Woodrow Wilson Bridge Corridor Reconstruction Project*
- *October 2000 Finance Plan for the Central Artery/Tunnel Project Boston, Massachusetts*
- *Central Artery/Ted Williams Tunnel Project Highlights Need for Effective Federal Oversight (June 7, 2000)*
- *Central Artery/Ted Williams Tunnel Project Highlights Need for Effective Federal Oversight (May 3, 2000)*
- *Current Costs and Funding of the Central Artery/Ted Williams Tunnel Project*
- *Report on the Baseline Reviews of Four Highway/Transit Mega Projects*

Determining the Future of Intercity Passenger Rail

6 In the summer of 2002, Amtrak, the country's provider of intercity passenger rail service, lost access to the short-term credit market and threatened shutdown of its entire system. This crisis was averted when the Department arranged a loan of $100 million and Congress voted to provide an additional $205 million in supplemental appropriations. Amtrak's authorization ended in December 2002 and reauthorization will be debated in the coming months.

In the short run, Amtrak is likely to require at least $1 billion in Federal grant support in 2003[4] to preserve the current system and keep open all options for the Congress and the Administration in defining the future of passenger rail. Otherwise, we are likely to face the same threats of system shutdown and cessation of service as last year. To this point, insufficient alternative planning has been done for preserving commuter and some intercity services in such a scenario. We understand that Amtrak and the Department are working to develop such alternatives, and these efforts need to be brought to fruition at the earliest possible date.

Figure 10. Passenger Revenue and Ridership Growth Since 1992

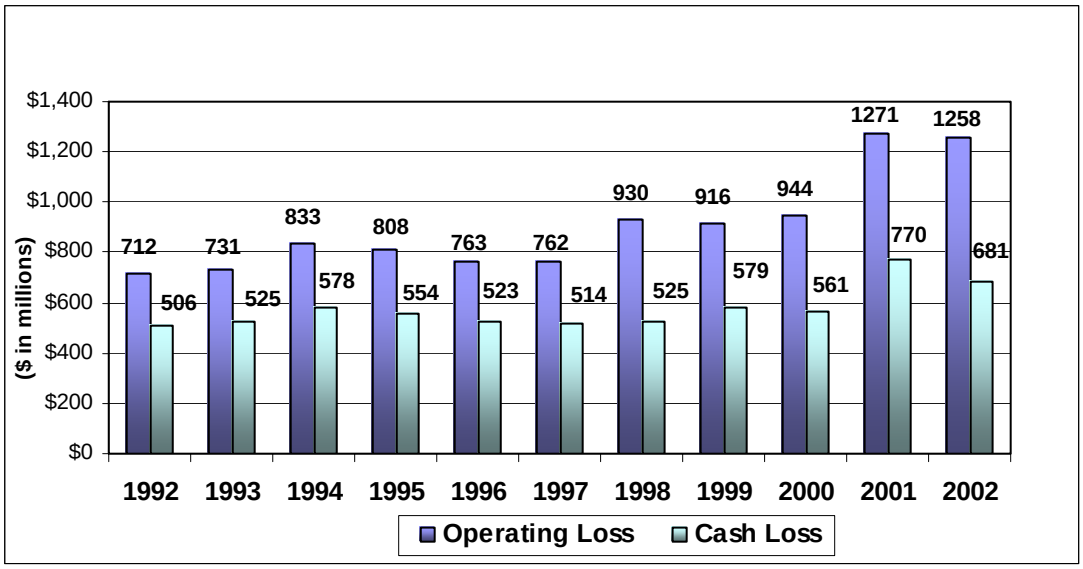


In 1997, Congress established a deadline of December 2002 for Amtrak to eliminate its need for Federal operating subsidies (Amtrak was assumed to need continuing capital subsidies) and directed the Office of Inspector General to reassess Amtrak's financial performance and needs each year. Although Amtrak has shown sustained growth in ridership and revenue over this period (see Figure 10), it has been less successful in reducing its losses. Not only has Amtrak not met its mandate for operating self-sufficiency, but it is farther from the self-sufficiency goal now than it was in 1997, as shown in Figure 11.

It is evident that the current intercity passenger rail system cannot be run without both capital

and operating subsidies. Amtrak projects that, over the next 25 years, it will need to invest about $30 billion in capital projects just to sustain the system as currently structured. Amtrak also projects that it will need between $550 million and $625 million each year to cover losses sustained from operating the current system.

Figure 11. Growth in Amtrak's Operating and Cash Losses 1992 Through 2002



Amtrak continues to operate despite the fact that its current authorization has expired. It is now time for Congress, the Administration, Amtrak, and State and local stakeholders to decide on a sustainable intercity passenger rail system, determine Amtrak's roles and responsibilities within that system, and develop a credible funding plan that invites Federal and State Government participation.

Although Amtrak has operated the Nation's intercity passenger rail service as an integrated system for the past 31 years, the discussion over its reauthorization will undoubtedly consider other options. Recent proposals have included alternatives such as breaking the system into separate entities for operating trains and supplying infrastructure, or introducing competition by competitively bidding train operations. While its future is being determined, Amtrak must take more aggressive action to control expense growth (see Figure 12) and pay down long-term debt.

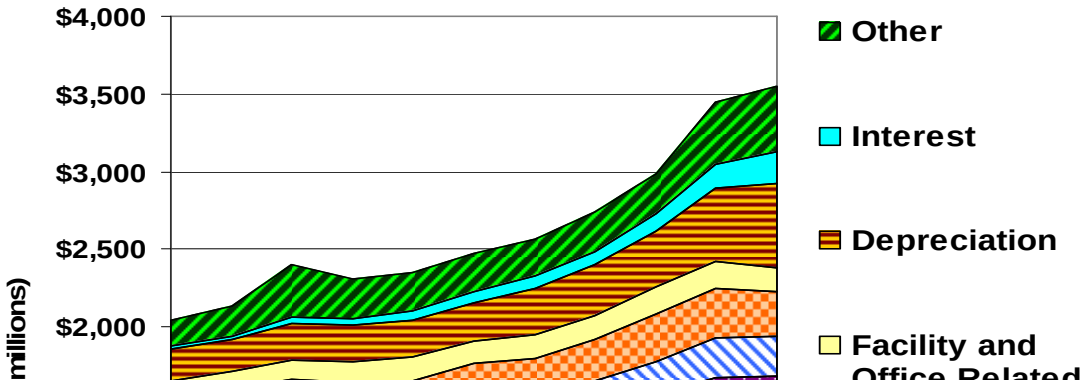
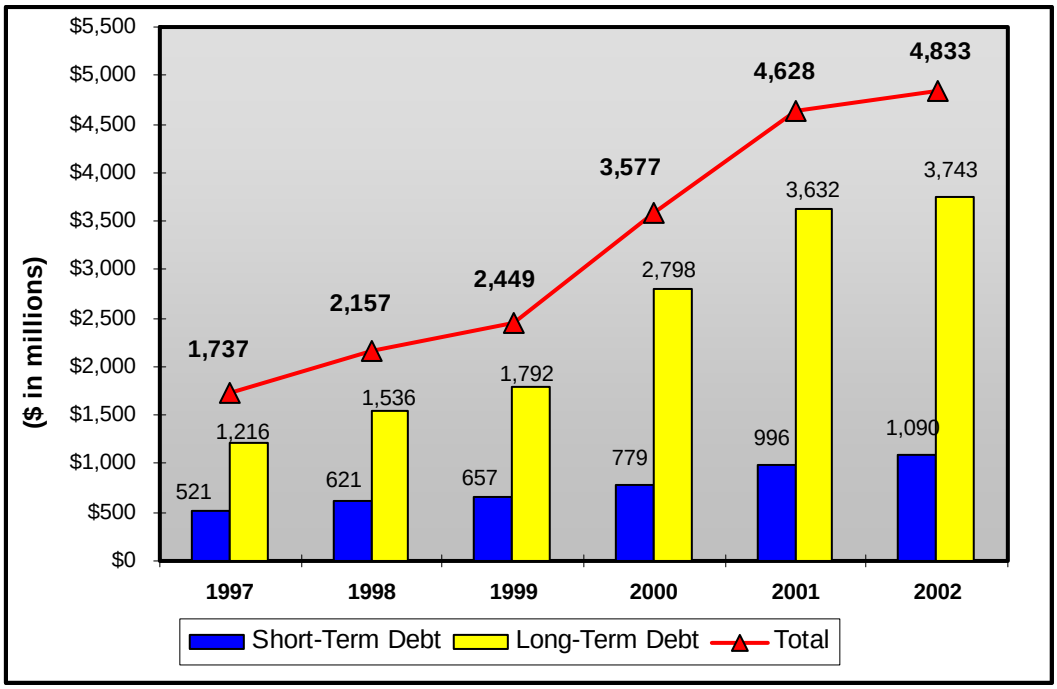


Figure 12. Growth in Amtrak's Expenses, 1992 Through 2002

Amtrak is burdened with a heavy debt load and substantial principal and interest payments that must be satisfied in the coming years. Between 1997 and 2002, Amtrak's total debt grew by $3.1 billion, from $1.7 billion to $4.8 billion, representing an overall increase of 178 percent (see Figure 13). Amtrak faces formidable challenges in meeting its rapidly growing debt service.

Figure 13. Amtrak's Short-Term and Long-Term Debt and Capital Lease Obligations



For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

- *Amtrak's Financial Condition*
- *Amtrak's Performance, Budget, and Passenger Rail Service Issues*
- *2001 Assessment of Amtrak's Financial Performance and Requirements*
- *2000 Assessment of Amtrak's Financial Performance and Requirements*

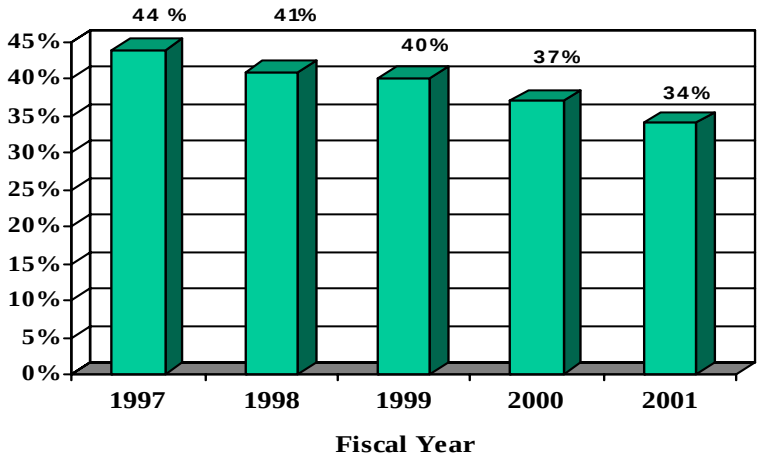
7 Ensuring Highway Safety as the Southern Border Is Opened to Mexican Motor Carriers Under NAFTA

As Mexican trucks and buses begin to operate throughout the United States as provided in the North American Free Trade Agreement (NAFTA), the key to a successful oversight program will be effective use of safety inspection resources and implementation of procedures. This will require:

a. ***Reevaluating Overall Resource Requirements for the U.S.-Mexico Border***, including inspection staff and facility requirements, based on the amount of long-haul traffic that materializes. As of January 2, 2003, the Federal Motor Carrier Safety Administration (FMCSA) has received 162 applications from Mexican carriers requesting long-haul authority. However, no one knows how many Mexican motor carriers will ultimately apply for and be granted authority to operate long-haul vehicles. As that traffic materializes, FMCSA will need to assess the adequacy of its inspection resources, including those beyond the border States.

b. ***Monitoring the Safety Performance of Mexican Motor Carriers and Drivers.*** FMCSA needs to implement motor carrier and driver monitoring systems and ensure that all Federal and State inspectors have access to current, accurate, and timely information on drivers, vehicles, and motor carriers. Our work has found that, as the number of inspections of Mexican commercial vehicles seeking to enter the U.S. commercial zones increased, the percentage of vehicles that had to be placed out of service for safety and other violations declined (from 44 percent in FY 1997 to 34 percent in FY 2001 as shown in Figure 14). The out-of-service rate for commercial vehicles inspected nationwide in the United States has been about 24 percent since 2000.

Figure 14. Commercial Vehicle Out-of-Service Rates



c. ***Placing Commercial Vehicles Out of Service in Any State Where They Operate Improperly.*** In August 2002, FMCSA issued a new rule that requires the States to place Mexican commercial vehicles out of service if they do not have U.S. operating authority. FMCSA needs to ensure that all States implement the new rule and

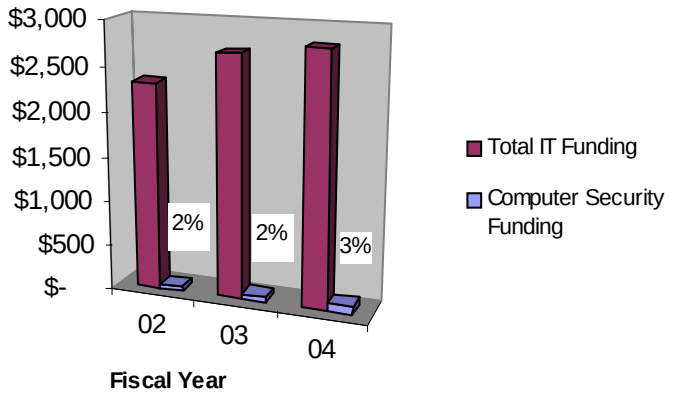
have access to timely information to determine if Mexican commercial vehicles are operating improperly, such as whether they have been authorized to operate beyond the commercial zones. (Commercial zones at the U.S.-Mexico border generally extend from 3 to 20 miles north of U.S. border cities.)

For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

- *Implementation of Commercial Motor Carrier Safety Requirements at the U.S.-Mexico Border*
- *Implementation of Commercial Vehicle Safety Requirements at the U.S.-Mexico Border*
- *Motor Carrier Safety at the U.S.-Mexico Border*
- *Status of Implementing the North American Free Trade Agreement's Cross Border Trucking Provisions*

8 Strengthening Computer Security and Investment Controls for DOT's Multi-Billion Dollar Information Technology Investment

In support of the President's Management Agenda to better and more fully use information technology (IT) in providing services to the public, DOT needs to strengthen computer security and IT investment controls on a Department-wide basis. This must be done with a view toward cost-effective system acquisitions and reducing system vulnerabilities to cyber attacks. DOT is responsible for one of the largest IT investment portfolios among civilian agencies. Excluding TSA and Coast Guard, DOT has an annual IT budget around $2.5 billion and invests 2 to 3 percent of its IT budget in computer security, as shown in Figure 15.

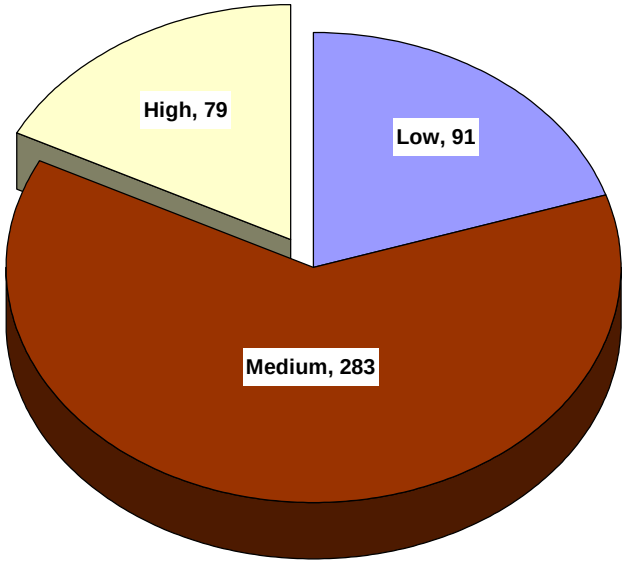


(Source: Exhibit 53--IT Portfolio)

Figure 15. DOT Computer Security Funding as a Percentage of Total IT Investment (in millions)

DOT reported its information security program as a material internal control weakness under the Federal Managers' Financial Integrity Act last year, and the Congress recently gave DOT's computer security an "F." In the past year, there have been some noteworthy improvements such as adding intrusion detection systems and more sophisticated firewall security. Still, our work shows that further actions remain necessary, and DOT systems remain at risk. For example, hundreds of vulnerabilities were found on DOT web sites during FY 2002, as shown in Figure 16. These vulnerabilities were rated as high, medium, and low. They provided opportunities for attackers to gain unauthorized access to DOT computers. High vulnerabilities may provide an attacker with immediate access into a computer system by executing remote commands. Medium and low vulnerabilities may provide an attacker with useful information, such as password files, to compromise DOT computers. DOT immediately took corrective actions on the vulnerabilities we found. Also, starting in FY 2003, DOT is using a commercial scanning tool to check all web sites for potential vulnerabilities.

Figure 16. Vulnerabilities Found on DOT Web Sites in FY 2002



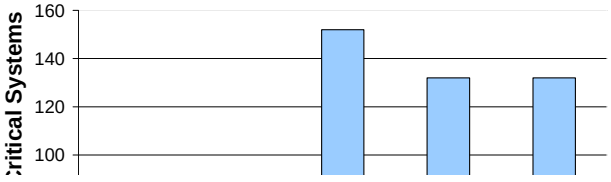
During the coming year, DOT should strengthen this important aspect of its infrastructure by:

a. ***Appointing and Empowering a Chief Information Officer (CIO).*** This position, which has been vacant for the last 2 years in spite of the Department's recruitment efforts, must be filled to provide strong leadership in this vital area. In addition, DOT needs to provide the CIO with the authority to carry out the intended mission and to hold the Operating Administrations accountable for following the CIO's guidance. In the past, the Operating Administrations have not effectively implemented the guidance and have not been held accountable for doing so.

b. ***Securing Network Entry Points and Infrastructure-Critical Assets.*** With extensive reliance on computers for critical, high-visibility functions such as controlling air traffic, DOT must properly control access to its own computer systems, and these systems must be adequately secured from intruders. A simple and effective management control is to periodically perform reviews to certify that major computer systems are adequately secured. However, DOT has made limited progress by having completed such reviews on only 112 of 528 mission-critical systems during FYs 2001 and 2002. DOT has to double the number of system certification reviews in the upcoming years in order to meet the Department's goal of having all mission-critical systems certified for adequate security by December 2005, as shown in Figure 17.

c. ***Increasing Departmental Oversight of IT Investments Through the Capital***

Figure 17. Certification and Accreditation of Mission-Critical Systems (Excluding TSA & Coast Guard)



Planning Process. While DOT is responsible for one of the largest IT investments among civilian agencies, the departmental CIO has little oversight over these investments. Over 90 percent of IT investments are controlled by the Operating Administrations. In 2002, DOT issued new IT capital planning guidance that established a DOT Investment Review Board chaired by the Deputy Secretary with assistance from the CIO and other departmental senior officials to review major IT investment decisions.

Establishing the Investment Review Board is a step in the right direction to implement this cultural change in DOT. However, to ensure that the Board could influence major IT investment decisions, DOT needs to take other initiatives such as obtaining explicit senior management support from the Operating Administrations, issuing clear guidance to identify investments for review, and developing a system to implement decisions issued by the Board.

For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

- *Computer Security Challenges Within the Department of Transportation*
- *DOT Web Security*
- *DOT Information Security Program*
- *Computer Security and Operational Stability of FAA Labor Distribution (Cru-X) System*
- *DOT Consolidated Financial Statements for Fiscal Years 2001 and 2000*
- *Replacement of FAA Telecommunications Systems*
- *DOT Web Privacy*

Continuing to Improve Transportation Security

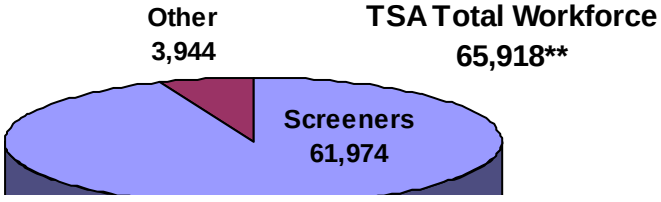
9 TSA efforts for 2002 mostly focused on addressing aviation security and meeting deadlines established in the Aviation and Transportation Security Act. TSA met the unprecedented challenge to hire and train a federalized workforce to screen all passengers and their carry-on baggage by November 19, 2002, and, for the most part, to deploy the necessary equipment and federalized workforce to meet the December 31, 2002 deadline to screen all checked baggage. At the same time, TSA significantly expanded the Federal Air Marshals program with more flights being guarded now than any time in history.

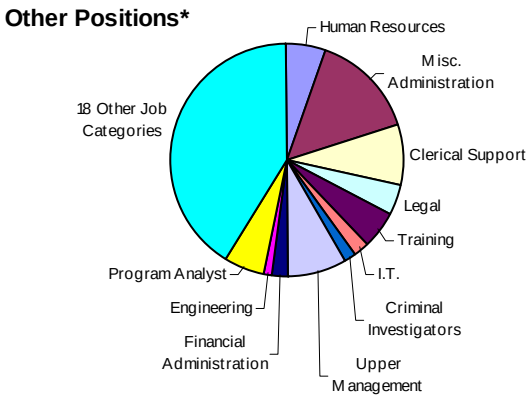
However, TSA's work is not done. Until TSA is transferred to the Department of Homeland Security in March 2003, DOT must continue to take the lead for the Government's increased aviation security responsibilities, including completing deployment of explosives detection equipment to the remaining airports where alternate screening methods are employed, and developing plans for expanding security in all modes of transportation. After that, the primary responsibility will move with TSA to the new Department of Homeland Security. To solidify progress made thus far, TSA needs to:

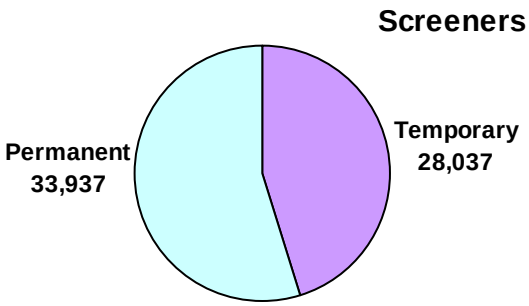
a. ***Train and Effectively Manage Airport Security Personnel.*** Since January 2002, TSA has hired and trained nearly 62,000 screeners responsible for screening passengers and their checked and carry-on baggage. The next challenge is ensuring that this large and in some cases inexperienced workforce retains and expands its skills and quickly becomes a world-class security force. However, before it begins expanding the screener skill set, TSA must first execute a screener performance measurement system in order to know where and how to best concentrate its training efforts.

   TSA could face a significant challenge in training the screening workforce, as it balances the training needed to expand the skills of the current workforce with the training needed for new hires. Also, more than 45 percent of current TSA screeners were hired as "temporary" employees. TSA will either have to transition this staff into more permanent positions or replace them with new employees with additional training needs. In terms of overall numbers, Figure 18 depicts the composition of the TSA workforce.

Figure 18. TSA Workforce Composition




Other Positions*
Human Resources
Misc. Administration
Clerical Support
Legal
Training
I.T.
Criminal Investigators
Upper Management
Financial Administration
Engineering
Program Analyst
18 Other Job Categories


Screeners
Permanent
33,937
Temporary
28,037

b. ***Effectively Deploy Advanced Security Technologies at Airports Nationwide.*** Although TSA made every effort to meet the December 31 deadline to screen all checked baggage using explosives detection equipment, deployment of the equipment was not completed at all the Nation's commercial airports. At airports not completed, TSA exercises its authority to implement alternate screening methods. However, these alternate methods are only short-term, temporary solutions for screening checked baggage as TSA continues on with its deployment efforts.

To meet the deadline, an estimated 1,100 explosives detection systems (EDS) and 6,000 explosives trace detection machines are being deployed at airports nationwide. TSA executed a two-phase deployment approach. The initial phase is an interim solution for screening all checked baggage where some airports will use EDS, with trace machines used only for resolving alarms; others will use trace machines exclusively; and some will use a mix of EDS and trace machines to screen checked baggage.

In phase two, at a future date not yet established, TSA will move the EDS machines into baggage systems at the largest airports. It is unclear how much this will cost and who will have to pay for it. TSA needs to ensure that equipment is properly integrated into airport baggage systems, and that it can be relied on to perform as expected.

c. ***Control Costs for Security Spending.*** TSA faces significant challenges in providing effective security in a way that avoids waste of taxpayer dollars. TSA initially focused its resources on hiring and training a screening workforce and deploying sufficient EDS. This was an enormous undertaking requiring billions of dollars by an organization building from the ground up with no management infrastructure in place. TSA has made interim adjustments along the way to compensate for this lack of infrastructure, such as contracting with the Defense Contract Management Agency to administer the airport screener contracts. Now, TSA faces the challenge of building the infrastructure to monitor and control costs, especially given the large number and dollar volume of contracts it is managing, about $8.5 billion at the end of calendar year 2002 and continuing to grow. There has also been growth on individual contracts. An example of a significant cost growth is the contract with NCS Pearson for hiring of screeners and human resources support from February to December 2002. The initial contract cost of $104 million grew to an estimated $700 million.

TSA has requested $5.3 billion for FY 2003, which consists of an original budget request of $4.8 billion, plus a budget amendment request of $546 million. These requirements are against projected revenues from the security fee of $1.7 billion. Clearly, TSA will require a large infusion of cash from the General Fund at a time when the General Fund is already strained to pay for vastly increased fiscal needs throughout the Federal Government. Within this context, the need for TSA to build cost control mechanisms into its infrastructure is critical. Since TSA is expected to move to the Department of Homeland Security by March 1, 2003, controls are important now in terms of defining the scope of its missions, establishing employee compensation, controlling salaries, overseeing contracts, and utilizing space at airports. Once TSA moves to the Department of Homeland Security, it will have the opportunity to build upon existing infrastructure from other Operating Administrations within the new Department.

Over the last few months, TSA has recognized the need for better contract administration and has implemented increased controls over some key contracts. In its 2002 Federal Managers' Financial Integrity Act report to Congress and the President, DOT reported a material weakness in TSA's administration of airport screener contracts. As we recommended, TSA hired the Defense Contract Management Agency to administer the airport screener contracts and also hired the Defense Contract Audit Agency to audit costs of the airport screener contracts, the NCS Pearson contract, and other major contracts.

d. ***Strengthen Security in Transit, Rail, Motor Carrier, and Ships.*** Although much of the emphasis thus far has been on aviation security, TSA is also responsible for security for the Nation's 3.9 million miles of public roads, 2.2 million miles of oil and natural gas pipelines, 120,000 miles of major railroads, 5,000 public use airports, 550 transit operators, and 350 ports on the coasts and inland waterways. To strengthen the security of the transportation system, TSA needs to develop meaningful risk assessments that recognize known as well as evolving threat scenarios and target limited resources to the areas of greatest vulnerability, as well as develop an integrated strategic plan to prioritize funding needs. DOT and TSA need to finalize Memorandums of Agreement between TSA and DOT Operating Administrations outlining their respective security roles and responsibilities.

For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

- *Progress in Implementing Provisions of the Aviation and Transportation Security Act*
- *Key Challenges Facing the Transportation Security Administration*
- *Key Budget Issues Facing the Transportation Security Administration*
- *Key Issues Concerning Implementation of the Aviation and Transportation Security Act*

Meeting Coast Guard's Safety and Security Missions

10

In the aftermath of September 11, homeland and national security was elevated to be commensurate with Coast Guard's highest operational priority, its search and rescue mission. In the coming year, the Coast Guard must decide how it can best meet its continuing missions. At the same time, the Coast Guard is also embarking on a capital acquisition—the Deepwater Capability Replacement Project—that is monumental in scope and central to accomplishing all of its missions. As this acquisition was planned prior to September 11, the Coast Guard needs to update the requirements for this project in light of its enhanced security responsibilities, and because it could potentially impact other Coast Guard missions and other planned capital investments. In the coming year, Coast Guard needs to:

a. ***Find the Correct Balance Between the Newly Elevated Security Mission, the Search and Rescue Mission, and Its Other Traditional Core Missions.*** Immediately after the September 11 terrorist attacks, Coast Guard redeployed 58 percent of its resources to the security of the Nation's ports, waterways, and coastal areas. While the immediate redeployment demonstrated Coast Guard's flexibility and multi-mission capabilities in meeting urgent national priorities, it diverted substantial resources from other traditional core missions such as marine environmental protection, fisheries enforcement, aids to navigation, and illegal migrant interdiction. Coast Guard has since redistributed its resources to provide a better balance among its various missions and has indicated that in FY 2003 it will maintain this balance by devoting 27 percent of its resources to its security mission. The Homeland Security Act requires Coast Guard to ensure there are no substantial reductions in its missions or capability to perform them.

b. ***Stabilize Requirements for the Deepwater System Procurement and Develop a Realistic and Affordable Capital Investment Plan.*** The Coast Guard is implementing the largest acquisition project in its history—the Integrated Deepwater System Project—to replace or modernize its deepwater ships and aircraft used in homeland and national security, search and rescue, drug interdiction, the interception of illegal immigrants, fisheries regulation, defense operations, and other at-sea operations.

Complicating this procurement is the fact that the $17 billion Deepwater system was planned prior to September 11. However, significant changes in Coast Guard's mission requirements since that time will require Coast Guard to reevaluate certain aspects of the Deepwater project. For example, Coast Guard is considering arming more of its helicopters and adding more secure information handling capabilities. Despite this, no changes were made to project requirements before the contract was awarded in June 2002. Coast Guard is also exploring an acceleration of the Deepwater project in response to the Homeland Security Act that could increase annual capital funding requirements. It is unclear the extent to which the Coast Guard's enhanced security role will affect the procurement's timetable and budget requirements.

The Coast Guard needs to update and stabilize its requirements for the Deepwater project. This is especially important because the project's cost growth could consume more funding. Even at the current annual level of $500 million, Deepwater consumes the vast majority of the Coast Guard's projected capital budget. Coast Guard must also fund the modernization of the National Distress and Response System (NDS—the 911 system for mariners in distress); replacement of Coast Guard's utility boat and buoy tender fleet; preservation of Great Lakes and polar ice breaking capability; modernization of aids to navigation; and rehabilitation of aged buildings, piers, and other shore facilities (see Figure 19).

Figure 19. Five Year Capital Investment Plan

(millions of dollars, budget year dollars)

Project	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Deepwater	$500	$550	$562	$574	$606
NDS	$90	$134	$137	$74	$0
Other*	$146	$68	$70	$138	$198
Total	**$736**	**$752**	**$769**	**$786**	**$804**

* Such as rehabilitating shore facilities and replacing small boats used for search and rescue.

To preserve the overall integrity of its capital plan, the Coast Guard needs to make some tough decisions now before further proceeding with the Deepwater procurement.

For further information, the following reports can be seen on the management challenges page of the OIG web site, at http://www.oig.dot.gov/challenges:

- *U.S. Coast Guard Budget and Management Issues (March 19, 2002)*
- *U.S. Coast Guard Budget and Management Issues (February 14, 2002)*
- *Planning Process for the National Distress and Response System Modernization Program*
- *Coast Guard Small Boat Station Search and Rescue Program*
- *U.S. Coast Guard Fiscal Year 2002 Budget Request for Modernization*

In addition to being published as an OIG report, this year's report will, by law, be incorporated into DOT's Accountability Report, which will be delivered to Congress and the Office of

Management and Budget in January 2003 and is designed to provide a comprehensive overview of the Department's performance and financial status.

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

#

Exhibit. Comparison of 2003 and 2002 OIG Top Management Challenges Lists

Items in 2003 List	Related Items in 2002 list
Accomplishing DOT's Core Missions of Safety and Mobility During and After an Effective Transition of TSA and Coast Guard	None
Reducing Fatalities and Injuries on Our Highways, Emphasizing Seat Belt Law Enforcement	Implementing TREAD Act Provisions to Improve Detection of Motor Vehicle Safety Defects and Identifying Strategies to Achieve Goals for Increasing Seat Belt Use
Reducing the Risk of Aviation Accidents Due to Operational Errors and Runway Incursions Reversing FAA's Spiraling Operating Costs, Improving Aviation System Capacity, and Reauthorizing AIR-21	Following Through on Aviation Safety, Capacity, and Modernization Efforts in a Post 9/11 World
None	Implementing the Airline Stabilization Act and Addressing Changes in the Competitive Structure of Air Services, Including Service to Small and Medium-Sized Communities
Clamping Down on Fraud, Obtaining Better Value in Highway and Bridge Investments, and Reauthorizing TEA-21	Substantially Strengthening Oversight of Federal Highway and Transit Funds to Ensure Funds Are Used Effectively and Efficiently and Are Protected From Fraud, Waste, and Abuse
Determining the Future of Intercity Passenger Rail	Deciding the Appropriate Structure and Funding of Intercity Passenger Rail Service, Including the Future of Amtrak
Ensuring Highway Safety as the Southern Border Is Opened to Mexican Motor Carriers Under NAFTA	Ensuring Motor Carrier Safety at the U.S.-Mexico Border and Improving Oversight of the Commercial Drivers License Program
Strengthening Computer Security and Investment Controls for DOT's Multi-Billion Dollar Information Technology Investment	Addressing Department-wide Management Practices and Managing Program Performance (Presidential Management Initiatives; Computer Security; Contract Oversight; New Financial Systems; Government Performance and Results Act; and the Transportation Administrative Service Center)
Continuing to Improve Transportation Security	Strengthening Transportation Security and Establishing the Transportation Security Agency
Meeting Coast Guard's Safety and Security Missions	Stabilizing Coast Guard's Missions and Budget Requirements in Light of Post 9/11 Priorities
None	Improving Performance in Maritime Administration's Title XI Loan and Ship Scrapping Programs

EXHIBIT
PERFORMANCE MEASURE COMPLETENESS AND RELIABILITY (DETAIL)

Each table includes a description of a performance measure and associated data provided by the agencies in charge of the measure. The Scope statement gives an overview of the data collection strategy for the underlying data behind the performance measure. The Statistical Issues statement has comments, provided by the Bureau of Transportation Statistics (BTS) and the agency in charge of the measure, that discuss variability of the measure and other points. The Completeness statement indicates steps taken by the proprietary agencies to address data quality issues. The Reliability statement gives the reader a feel for how the performance data are used in program management decision making inside DOT.

For further information about the source and accuracy (S&A) of these data, please refer to the BTS S&A compendium available at www.bts.gov/statpol/SAcompendium.html.

Tables detailing performance measure scope, statistical issues, data completeness, and performance measure reliability can be found on the DOT website, where the DOT FY 2002 Performance and Accountability Report will be published: www.dot.gov

ACRONYMS

AASHTO - American Association of State Highway and Transportation Officials
AC - Advisory Circular
ADA - Americans with Disabilities Act
ADHS - Appalachian Development Highway System
ADS-B - Automated Dependent Surveillance Broadcast
AIM - Activation Information Management
AIP - Airport Improvement Program
AIR-21 - Wendell H. Ford Aviation Investment and Reform Act for the 21st Century
AMASS - Airport Movement Area Safety System
ANCA - Airport Noise and Capacity Act
AOPA - Aircraft Owners and Pilots Association
APF - Afloat Preposition Force
API - American Petroleum Institute
APTA - American Public Transportation Association
ARC - Appalachian Regional Commission
ARSR-4 - Air Route Surveillance Radar
ARTCC - Air Route Traffic Control Center
ASAP - Aviation Safety Action Program
ASDE-X - Airport Surface Detection Equipment
ATC - Air Traffic Control
ATCSCC - Air Traffic Control System Command Center
ATIP – Automated Track Inspection Program
ATOS – Air Transportation Oversight System
AVP - Advanced Vehicle Technologies Program
BAC - Blood Alcohol Concentration
BARD - Boating Accident Report Database
BRR - Bridge Replacement and Rehabilitation
BTS - Bureau of Transportation Statistics
CAEP - Committee on Aviation Environmental Protection
CAFE - Corporate Average Fuel Economy
CBT - Computer Based Training
CCF - Capital Construction Fund Program
CDM - Collaborative Decision Making
CDS - Construction-differential Subsidy
CGA – Common Ground Alliance
CHRIS – Corporate Human Resources Information System
CMAQ - Congestion Mitigation and Air Quality Improvement Act
CMC – Crisis Management Center
COOP - Continuity of Operations
COTS – Commercial-off-the-shelf
CSI - Customer Satisfaction Index
CSXT – CSX Transportation
CUSEC - Central U.S. Earthquake Consortium
CVISN – Commercial Vehicle Information Systems and Networks
CY - Calendar Year
DAFIS – Departmental Accounting and Financial Information System
DAMIS - Drug and Alcohol Management Information Statistics
DARPA - Department of Defense's Advanced Research Projects Administration
DGPS - Differential Global Positioning System
DIY – Do It Yourself
DME - Dakota, Minnesota and Eastern Railroad
DMS – Docket Management System

DOD - Department of Defense
DOI - Department of Interior
DOT - Department of Transportation
DP - Departure Procedures
DRC - Day Reporting Center
DSR - Display System Replacements
DWI - Driving While Intoxicated
EAS - Essential Air Service
EDS – Explosive Detection Systems
EHRIS – Enterprise Human Resources Information System
EPA - Environmental Protection Agency
ETD – Explosives Trace Detection
FAA - Federal Aviation Administration
FACTS - Federal Agencies' Centralized Trial-Balance System
FAH - Federal-Aid Highway Program
FFP1 - Free Flight Phase 1
FFP2 - Free Flight Phase 2
FHMRs - Federal Hazardous Materials Regulations
FHWA - Federal Highway Administration
FLHP - Federal Lands Highway Program
FMCSA - Federal Motor Carrier Safety Administration
FMCSRs - Federal Motor Carrier Safety Regulations
FMS – Financial Statements Module
FMVSS - Federal Motor Vehicle Safety Standard
FOQA – Flight Operational Quality Assurance
FRA - Federal Railroad Administration
FTA - Federal Transit Administration
FY - Fiscal Year
GA - General Aviation
GAMA - General Aviation Manufacturers Association
GAO - General Accounting Office
GPRA - Government Performance and Results Act
GPS - Global Positioning System
GT - Gross Tons
HAZMAT - Hazardous Materials
HEPA – High Efficiency Particulate Arresting
HMIS - Hazardous Materials Information System
HMPE - Hazardous Materials Program Evaluation
HMR - Hazardous Materials Regulations
HR - Human Resources
HTF - Highway Trust Fund
IC - Interstate Construction
ICAO - International Civil Aviation Organization
ICC - Interstate Commerce Commission
ICCTA - Interstate Commerce Commission Termination Act of 1995
IG - Inspector General
IHMP – Intermodal Hazardous Materials Program
ISTEA - Intermodal Surface Transportation Efficiency Act of 1991
ITOP - Information Technology Omnibus Procurement
IT - Information Technology
ITS - Intelligent Transportation Systems
IVHS - Intelligent Vehicle/Highway System
IVI – Intelligent Vehicle Initiative
JARC - Job Access and Research Commute
LAHSO – Land and Hold Short Operations
LDR – Labor Distribution Reporting
LORAN - Long Range Aid to Navigation
MARAD - Maritime Administration
MARITECH - Maritime Technology
MSC - Military Sealift Command
MCSAP – Motor Carrier Safety Assistance Program

MSP - Maritime Security Program
MTA - Mass Transit Account
MTMC - Military Traffic Management Command
MTS - Marine Transportation System
NAFTA - North America Free Trade Agreement
NAPT - National Association of Pupil Transportation
NAS - National Airspace System
NASS - National Accident Sampling System
NBI - National Bridge Institute
NCAP – New Car Assessment Program
NDR - National Driver Register
NDRF - National Defense Reserve Fleet
NDRS - National Distress and Response System
NEC - Northeast Corridor
NEMA - National Emergency Management Association
NHS - National Highway System
NHTSA - National Highway Traffic Safety Administration
NOCC - National Operations Control Center
NOPUS - National Occupant Protection Use Survey
NPIAS - National Plan of Integrated Airport Systems
NPMS – National Pipeline Mapping System
NPRG - National Partnership for Reinventing Government
NRP - North American Route Program
NSTC - National Science and Technology Council
NSVI – Nighttime, Single Vehicle Injury
OA - Operating Administration
ODS - Operating Differential Subsidy
OET - Office of Emergency Transportation
OFD - Ocean Freight Differential Program
OHMS - Office of Hazardous Materials Safety
OIG - Office of Inspector General
OLI - Operation Lifesaver, Inc.
OMB - Office of Management and Budget
OPDS - Offshore Petroleum Discharge System
OPM - Office of Personnel Management
OPS - Office of Pipeline Safety
PFAST - Passive Final Approach Spacing Tool
PFC - Passenger Facility Charge Program
PM-10 – Particulate Matter
PRISM - Performance Registration and Information Systems Management
PTC - Positive Train Control
PWC – Personal Watercraft
QAR – Quality Assurance Review
RBS - Recreational Boating Safety Program
R&D - Research and Development
R,E&D - Research, Engineering and Development
RIAT - Runway Incursion Action Team
RLV - Reusable Launch Vehicles
ROS - Reduced Operating Status
RRIF - Railroad Rehabilitation and Improvement Financing Program
RRF - Ready Reserve Force
RSAC - Railroad Safety Advisory Committee
RSPA - Research and Special Programs Administration
SACP - Safety Assurance and Compliance Program
SADD - Students Against Destructive Decisions
SAR - Search and Rescue
SBU - Strategic Business Units
SLSDC - Saint Lawrence Seaway Development Corporation
SMA - Surface Movement Advisor
SOFA – Switching Operations Fatality Analysis
SPAS – Safety Performance Analysis Systems

STAR - Standard Terminal Arrival Route
STARS - Standard Terminal Automation Replacement System
STB - Surface Transportation Board
STP - Surface Transportation Program
SUP – Suspected Unapproved Parts
TASC - Transportation Administrative Service Center
TEA-21 - Transportation Equity Act for the 21st Century
TEU - Twenty-foot Equivalent Units
TIFIA - Transportation Infrastructure Finance and Innovation Act
TIP - Threat Image Projection
TMA - Traffic Management Advisor
TPR - Transit Planning and Research
TREAD – Transportation Recall Enhancement, Accountability, and Documentation
TEServ – Travel Expense Service
TSI - Transportation Safety Institute
TTI (D) - Thoracic Trauma Index as Measured on an Anthropomorphic dummy
TVU – Transportation Virtual University
URET - User Request Evaluation Tool
UTC - University Transportation Centers
U.S. - United States
USCG - United States Coast Guard
USDA – United States Department of Agriculture
VANTIS - Value Added Niche Information Technology Services
VCA - Voluntary Compliance Agreement
VISA - Voluntary Intermodal Sealift Agreement
VMT - Vehicle-Miles-Traveled
VRE - Virginia Railway Express
WMATA - Washington Metropolitan Area Transit Authority
WMDs – Weapons of Mass Destruction
WRIF - War Risk Insurance Fund Program

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U.S. Department of Transportation
Consolidated Balance Sheet
As of September 30, 2002
(Dollars in Thousands)

	FY 2002 DOT Total	FY 2001 DOT Total As Restated
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 29,968,650	$ 26,107,269
Investments (Note 4)	31,338,570	39,198,357
Accounts Receivable, Net (Note 5)	612,172	688,221
Other Assets (Note 6)	91,564	147,419
Total Intragovernmental Assets:	62,010,956	66,141,266
Cash and Other Monetary Assets (Note 7)	25,208	48,662
Investments (Note 4)	27	27
Accounts Receivable, Net (Note 5)	330,441	159,901
Loans Receivable and Related		
Foreclosed Property, Net (Note 8)	1,205,244	918,087
Inventory and Related Property, Net (Note 9)	1,957,935	2,491,834
General Property, Plant and Equipment, Net (Note 10)	18,522,444	16,805,849
Other Assets (Note 6)	411,542	194,773
Total Assets	$ 84,463,797	$ 86,760,399
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	$ 108,870	$ 179,496
Debt (Note 12)	1,157,090	901,293
Other Intragovernmental Liabilities (Note 13)	1,149,953	1,132,826
Total Intragovernmental Liabilities:	2,415,913	2,213,615
Accounts Payable	2,361,655	3,528,850
Loan Guarantees (Note 8)	384,288	400,363
Federal Employee and Veterans'		
Benefits Payable (Note 14)	30,138,868	28,790,360
Environmental and Disposal Liabilities (Note 15)	1,041,322	1,010,053
Other Liabilities (Notes 13, 16 & 17)	5,885,366	3,907,674
Total Liabilities	$ 42,227,412	$ 39,850,915
Commitments and Contingencies (Note 17)		
Net Position		
Unexpended Appropriations	$ 14,076,956	$ 13,152,581
Cumulative Results of Operations	28,159,429	33,756,903
Total Net Position	42,236,385	46,909,484
Total Liabilities and Net Position	$ 84,463,797	$ 86,760,399

U.S. Department of Transportation
Consolidated Statement of Net Cost
For the Year Ended September 30, 2002
(Dollars in Thousands)

Program Costs (Notes 18 & 19)		**FY 2002 DOT Total**		**FY 2001 DOT Total As Restated**
Surface Transportation:				
Intragovernmental Gross Costs	$	231,694		
Less: Intragovernmental Earned Revenue		88,972		
Intragovernmental Net Costs		142,722		
Gross Costs with the Public		39,760,081		
Less: Earned Revenues from the Public		320,738		
Net Costs with the Public		39,439,343		
Total Net Cost	$	39,582,065	$	36,072,271
Air Transportation:				
Intragovernmental Gross Costs	$	1,475,002		
Less: Intragovernmental Earned Revenue		99,063		
Intragovernmental Net Costs		1,375,939		
Gross Costs with the Public		13,556,439		
Less: Earned Revenues from the Public		1,671,716		
Net Costs with the Public		11,884,723		
Total Net Cost	$	13,260,662	$	10,673,315
Maritime Transportation:				
Intragovernmental Gross Costs	$	1,654,898		
Less: Intragovernmental Earned Revenue		538,142		
Intragovernmental Net Costs		1,116,756		
Gross Costs with the Public		6,109,969		
Less: Earned Revenues from the Public		29,620		
Net Costs with the Public		6,080,349		
Total Net Cost	$	7,197,105	$	12,756,673
Cross-Cutting Programs:				
Intragovernmental Gross Costs	$	124,619		
Less: Intragovernmental Earned Revenue		361,614		
Intragovernmental Net Costs		(236,995)		
Gross Costs with the Public		341,798		
Less: Earned Revenues from the Public		2,386		
Net Costs with the Public		339,412		
Total Net Cost	$	102,417	$	3,284
Costs Not Assigned to Programs	$	2,451,881	$	2,583,535
Less Earned Revenues Not Attributed to Programs		6,304		195,892
Net Cost of Operations	$	62,587,826	$	61,893,186

U.S. Department of Transportation
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2002
(Dollars in Thousands)

	FY 2002 Cumulative Results of Operations	FY 2002 Unexpended Appropriations
Beginning Balances	$ 32,198,417	$ 13,042,782
Prior Period Adjustments (+/-)	1,389,360	11
Beginning Balances, As Adjusted	33,587,777	13,042,793
Budgetary Financing Sources:		
Appropriations Received		16,862,323
Appropriations Transferred-In/Out (+/-)		500,688
Other Adjustments (Rescissions, etc.) (+/-)	15,472	(1,293,362)
Appropriations Used	14,496,269	(15,035,486)
Non-Exchange Revenue	41,895,048	
Donations/Forfeitures of Cash/Cash Equivalents	744	
Transfers-In/Out Without Reimbursement (+/-)	(238,801)	
Other Budgetary Financing Sources	327,178	
Other Financing Sources:		
Donations and Forfeitures of Property	11,944	
Transfers-In/Out Without Reimbursement (+/-)	56,148	
Imputed Financing From Costs Absorbed by Others	582,158	
Other (+/-)	13,318	
Total Financing Sources	57,159,478	1,034,163
Net Cost of Operations (+/-)	62,587,826	
Ending Balances	$ 28,159,429	$ 14,076,956

U.S. Department of Transportation
Combined Statement of Budgetary Resources
For the Year Ended September 30, 2002
(Dollars in Thousands)

	FY 2002 DOT Total Budgetary	FY 2002 DOT Total Non-Budgetary Financing Accounts
Budgetary Resources (Note 20):		
Budget Authority:		
Appropriations Received	$ 67,123,839	$ -
Borrowing Authority	217,473	1,328,108
Contract Authority	44,374,187	-
Net Transfers	(1,005,604)	-
Other	-	-
Unobligated Balance:		
Beginning of Period	75,693,442	7,785
Net Transfers, Actual	1,487,584	-
Spending Authority From Offsetting Collections:		
Earned		
Collected	4,359,356	34,003
Receivable from Federal Sources	192,189	25,552
Change in Unfilled Customer Orders		
Advance Received	(79,577)	-
Without Advance from Federal Sources	92,585	-
Transfers from Trust Funds	6,712,993	106
Subtotal	$ 11,277,546	$ 59,661
Recoveries of Prior Year Obligations	577,097	24,000
Temporarily Not Available Pursuant to Public Law	(55,841,363)	-
Permanently Not Available	(39,622,897)	(609,188)
Total Budgetary Resources	$ 104,281,304	$ 810,366

Combined Statement of Budgetary Resources

For the Year Ended September 30, 2002
(Dollars in Thousands)

Status of Budgetary Resources:	**FY 2002 DOT Total Budgetary**	**FY 2002 DOT Total Non-Budgetary Financing Accounts**
Obligations Incurred		
Direct	$ 77,806,931	$ 809,850
Reimbursable	2,467,059	-
Subtotal	$ 80,273,990	$ 809,850
Unobligated Balance:		
Apportioned	13,232,195	-
Exempt from Apportionment	9,799,655	-
Other Available	32,899	-
Unobligated Balance Not Available	942,565	516
Total Status of Budgetary Resources	$ 104,281,304	$ 810,366
Relationship of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Period	$ 61,552,427	$ 2,956,058
Obligated Balance Transferred, Net (+/-)	-	-
Obligated Balance, Net, End of Period:		
Accounts Receivable	(687,120)	(194,181)
Unfilled Customer Orders from Federal Sources	(683,124)	-
Undelivered Orders	62,474,904	3,521,561
Accounts Payable	7,187,105	3,450
Outlays:		
Disbursements	78,462,208	238,678
Collections	(16,782,216)	(27,355)
Subtotal	$ 61,679,992	$ 211,323
Less: Offsetting Receipts	659,765	6,754
Net Outlays	$ 61,020,227	$ 204,569

U.S. Department of Transportation
Consolidated Statement of Financing
For the Year Ended September 30, 2002
(Dollars in Thousands)

		FY 2002 DOT Total
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$	81,083,840
Less: Spending Authority From Offsetting Collections and Recoveries		11,938,304
Obligations Net of Offsetting Collections and Recoveries	$	69,145,536
Less: Offsetting Receipts		666,519
Net Obligations	$	68,479,017
Other Resources:		
Donations and Forfeitures of Property	$	11,944
Transfers In/Out Without Reimbursement		56,148
Imputed Financing from Costs Absorbed by Others		582,158
Other:		
Other VNTSC Resources		12,694
Other Transit Resources		684
Other Miscellaneous Resources		(60)
Net Other Resources Used to Finance Activities	$	663,568
Total Resources Used to Finance Activities	$	69,142,585
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	$	6,330,766
Resources that Fund Expenses Recognized in Prior Periods		587,833
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy		(323,017)
Other		(136,850)
Resources That Finance the Acquisition of Assets		3,134,564
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations		524,700
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$	10,117,996
Total Resources Used to Finance the Net Cost of Operations	$	59,024,589

U.S. Department of Transportation
Consolidated Statement of Financing
For the Year Ended September 30, 2002
(Dollars in Thousands)

		FY 2002 DOT Total
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring/Generating Res. in Future Periods:		
Increase in Annual Leave Liability	$	206,294
Increase in Environmental and Disposal Liability		372,500
Upward/Downward Reestimates of Credit Subsidy Expense		(103,158)
Increase in Exchange Revenue Receivable from the Public		(134,559)
Other:		
Increase in Coast Guard Liabilities		1,594,002
Increase in FAA Liabilities		135,571
Other Miscellaneous Increases		41,241
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$	2,111,891
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	$	1,207,738
Revaluation of Assets or Liabilities		108,671
Other:		
Other TASC Components		125,088
Other FAA Components		16,883
Other Miscellaneous Components		(7,034)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	$	1,451,346
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	$	3,563,237
Net Cost of Operations	$	62,587,826

Note 1. Significant Accounting Policies:

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Federal Financial Management Act of 1994 (FFMA), Title IV of the Government Management Reform Act of 1994 (GMRA). The statement has been prepared from the books and records of DOT in accordance with Office of Management and Budget (OMB) requirements for form and content for entity financial statements and DOT's accounting policies and procedures. OMB Bulletin
No. 01-09, "Form and Content of Agency Financial Statements," has been used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources. All financial statements, with the exception of the Statement of Budgetary Resources, are presented on a consolidated basis (material intra-agency transactions and balances have been eliminated). The Statement of Budgetary Resources is presented on a combined basis.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the agency net position. Agency assets include both entity assets (those which are available for use by the agency) and non-entity assets (those which are managed by the agency but not available for use in its operations). Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the agency as a whole.

The Statement of Changes in Net Position reports beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated June 2002.

The Statement of Financing is intended to be a bridge between an entity's budgetary and financial (i.e., proprietary) accounting. The Statement of Financing illustrates the relationship between net obligations derived from an entity's budgetary accounts and net cost of operations derived from an entity's proprietary accounts by identifying and explaining key differences between the two numbers. Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in Note 21 to the financial statements.

The Department is required to be in substantial compliance with all applicable accounting principles and standards established, issued, and implemented by the Federal Accounting Standards Advisory Board (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish Generally Accepted Accounting Principles (GAAP) for the Federal Government. The Federal Financial Management Improvement Act (FFMIA) of 1996 requires the Department to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

B. Reporting Entity

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; international transportation agreements; conducting planning and research for the future; and helping cities and States meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data, including various trust funds, revolving funds, appropriations and special funds of the following organizations:

Office of The Secretary (OST)
Federal Aviation Administration (FAA)
United States Coast Guard (USCG)
Federal Highway Administration (FHWA)
Federal Motor Carrier Safety Administration (FMCSA)
Federal Railroad Administration (FRA)
National Highway Traffic Safety Administration (NHTSA)
Maritime Administration (MARAD)
Federal Transit Administration (FTA)
Bureau of Transportation Statistics (BTS)
Surface Transportation Board (STB)
Office of Inspector General (OIG)
Research and Special Programs Administration (RSPA)
Transportation Security Administration (TSA)

Effective December 29, 2002, the Secretary of Transportation realigned service functions, formerly performed by TASC, by placing these service providers in OST, the organization responsible for service policies. In addition, legislation was signed on November 25, 2002, to create a new Department of Homeland Security (DHS) as of January 24, 2003. The DHS Reorganization Plan dated November 25, 2002, indicates that both the USCG and TSA will be transferred from DOT to DHS on March 1, 2003.

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data have not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 23.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated June 2002. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 2002, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, Aquatic Resources Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from offsetting collections and user fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds with the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the

U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U.S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest that must be paid to borrow funds. Lockboxes have been established with financial institutions to collect payments, and these funds are transferred directly to Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

G. Receivables

Accounts receivable consist of amounts owed to the Department by other Federal agencies and the public. Federal accounts receivable are generally the result of the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Public accounts receivable are generally the result of the provision of goods and services or the levy of fines and penalties from the Department's regulatory activities. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts, which is based on historical collection experience and/or an analysis of the individual receivables.

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of reparable, excess, obsolete, and unserviceable items are made to appropriate allowance accounts. Operating materials and supplies at Coast Guard small cutters and shore units are accounted for in the property system but not inventoried for financial statement purposes, since the amount is not material.

I. Investments in U.S. Government Securities

Investments that consist of U.S. Government Securities are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated. DOT currently has a capitalization threshold of $200,000 for structures and facilities and for internal use software, and $25,000 for other property, plant and equipment. Capitalization at lesser amounts is permitted. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. The straight line method is generally used to depreciate capitalized assets.

FASAB standards require DOT stewardship assets to be omitted from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Stewardship Reporting section of this statement.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet data. Available budgetary resources include new budget authority, spending authority from offsetting collections, recoveries of unexpired budget authority through downward adjustments of prior year obligations, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and permanent indefinite appropriations or borrowing authority. Unfunded liabilities are not considered to be covered by such budgetary resources. Examples of unfunded liabilities are actuarial liabilities for future Federal Employees' Compensation Act payments and actuarial estimates of the present value of USCG pension and medical expenses. The Government, acting in its sovereign capacity, can abrogate liabilities arising from other than contracts.

M. Borrowings Payable to Treasury

FAA borrowing involves loans from the Treasury to fund expenses in the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until FAA receives an appropriation to liquidate the principal and interest.

FRA has direct loans from Treasury and guaranteed loans made by the Federal Financing Bank (FFB) to railroads and guaranteed by FRA under provisions of the Railroad Rehabilitation and Improvement Program, the Amtrak Corridor Improvement Program and the Alameda Corridor Improvement Program. FRA records these loans as though they were direct loans.

OST borrows from the Treasury to finance loans to disadvantaged transportation-related businesses using revolving lines of credit. These OST loans are made through the Short Term Lending Program that provides assistance to disadvantaged, minority and women-owned businesses and is administered by the Office of Small and Disadvantaged Business Utilization.

N. Interest Payable to Treasury

FAA owes interest to Treasury based on its debt to Treasury as a result of borrowing for the Aircraft Purchase Loan Guarantee Program. Through FRA, the Amtrak Corridor Improvement Program and Railroad Rehabilitation Programs are required to make periodic interest payments to Treasury based on their debt to the U.S. Government.

O. Contingencies

The criteria for recognizing contingencies for claims are: (1) a past event or exchange transaction has occurred as of the date of the statements; (2) a future outflow or other sacrifice of resources is probable; and (3) the future outflow or sacrifice of resources is measurable (reasonably estimated). DOT recognizes material contingent liabilities in the form of claims, legal action, administrative proceedings and environmental suits that have been brought to the attention of legal counsel, some of which will be paid by the Treasury Judgment Fund. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Accruals for other leave (e.g., credit hours and compensatory leave) are also recorded in the financial statement. Under the Transportation Administrative Service Center, the liability for accrued annual leave is a funded item. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expended as taken.

Air Traffic Controllers covered under the Federal Employees Retirement System (FERS) are eligible, upon retirement, for a sick leave buy back option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty percent of the value of his or her accumulated sick leave as of the

effective date of retirement.

Q. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Employing agencies are required to recognize pensions and other post retirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefits is the responsibility of the administering agency, the Office of Personnel Management. Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

The USCG Military Retirement System is a defined benefit plan which covers all active duty and reserve members of the USCG. This plan was established under authority of the United States Code, Titles 10 and 14. This system is funded on a "pay-as-you-go" basis.

R. Comparative Data

Comparative data for the prior year has been presented for the Balance Sheet, the Statement of Net Cost, and their related notes.

Note 2. Non-Entity Assets:

(Dollars in Thousands)

Intragovernmental:	FY 2002	FY 2001
Fund Balance with Treasury	$ 62,181	$ (6,237)
Accounts Receivable	38,773	535
Other	104	-
Total Intragovernmental	$ 101,058	$ (5,702)
Accounts Receivable	$ 19,288	$ 16,132
Other Assets	-	-
Total Non-Entity Assets	$ 120,346	$ 10,430
Total Entity Assets	84,343,451	86,749,969
Total Assets	$ 84,463,797	$ 86,760,399

Note 3. Fund Balance with Treasury:

Fund Balances:	FY 2002	FY 2001
Trust Funds	$ 4,260,272	$ 4,337,319
Revolving Funds	293,664	583,391
Appropriated Funds	24,610,996	20,884,284
Other Fund Types	803,718	302,275
Total	$ 29,968,650	$ 26,107,269

Status of Fund Balance with Treasury:	FY 2002	FY 2001
Unobligated Balance		
Available	$ 7,740,176	$ 4,840,599
Unavailable	1,155,138	1,152,720
Obligated Balance Not Yet Disbursed	21,073,336	20,113,950
Total	$ 29,968,650	$ 26,107,269

Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Other Fund Types include uncleared Suspense Accounts, which temporarily hold collections pending clearance to the applicable account, and Deposit Funds, which are established to record amounts held temporarily until ownership is determined.

Fund Balance with Treasury for FY 2001 has been restated to correct a previously reported error in FAA revolving funds and other fund types. However, the restatement does not change the total reported Fund Balance with Treasury as of September 30, 2001.

Note 4. Investments:

(Dollars in Thousands)

As of September 30, 2002: Intragovernmental Securities:	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Marketable	$ 277,715	$ (1,237)	$ 276,478	$ (635)	$ 275,843
Non-Marketable:					
Par Value	12,001,271	2,339	12,003,610	-	12,003,610
Market-Based	18,932,314	(454)	18,931,860	-	18,931,860
Subtotal	$ 31,211,300	$ 648	$ 31,211,948	$ (635)	$ 31,211,313
Accrued Interest	127,257		127,257		127,257
Total Intragovernmental	$ 31,338,557	$ 648	$ 31,339,205	$ (635)	$ 31,338,570
Other Securities:					
Private Stock	$ 27	$ -	$ 27	$ 25	$ 52
Total Public	$ 27	$ -	$ 27	$ 25	$ 52
As of September 30, 2001:					
Intragovernmental Securities:					
Marketable	$ 85,216	$ 909	$ 86,125	$ -	$ 86,125
Non-Marketable:					
Par Value	14,789,076	(2,866)	14,786,210	-	14,786,210
Market-Based	24,114,775	-	24,114,775	-	24,114,775
Subtotal	$ 38,989,067	$ (1,957)	$ 38,987,110	$ -	$ 38,987,110
Accrued Interest	211,247		211,247		211,247
Total Intragovernmental	$ 39,200,314	$ (1,957)	$ 39,198,357	$ -	$ 39,198,357

Total Public	$ 27	$ -	$ 27	$ -	$ 27

Investments in Federal securities include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. Non-Federal securities include those issued by state and local governments, Government-sponsored enterprises, and other private corporations.

Marketable Federal securities can be bought and sold on the open market. Non-marketable par value Treasury securities are issued by the Bureau of Public to Federal accounts and are purchased and redeemed at par exclusively through Treasury's Federal Investment Branch. Non-marketable market-based Treasury securities are also issued by the Bureau of Public Debt to Federal accounts. They are not traded on any securities exchange but mirror the prices of particular Treasury securities trading in the Government securities market. Amortization is done using the interest or straight-line method. Private corporation stock consists of common stock in Coast Guard's Gift Fund.

Note 5. Accounts Receivable:

(Dollars in Thousands)

Intragovernmental:	Gross Amount Due	Allowance for Uncollectible Amounts	FY 2002 Net Amount Due	FY 2001 Net Amount Due
Accounts Receivable	$ 612,172	$ -	$ 612,172	$ 688,211
Accrued Interest	-	-	-	10
Total Intragovernmental	$ 612,172	$ -	$ 612,172	$ 688,221
Public:				
Accounts Receivable	$ 448,764	$ 118,509	$ 330,255	$ 159,861
Accrued Interest	186	-	186	40
Total Public	$ 448,950	$ 118,509	$ 330,441	$ 159,901
Total Receivables	$ 1,061,122	$ 118,509	$ 942,613	$ 848,122

Allowance for Uncollectible Amounts is based on historical data or actual amounts that are determined to be uncollectible based upon review of individual receivables. Accrued interest includes interest, penalties and other administrative charges pertaining to accounts receivable.

Note 6. Other Assets

(Dollars in Thousands)

	FY 2002	FY 2001
Intragovernmental:		
Advances and Prepayments	$ 53,744	$ 52,283
Undistributed Assets and Payments	37,820	95,136
Total Intragovernmental	$ 91,564	$ 147,419
Public:		
Advances to the States	$ 97,573	$ 109,780
Other Advances and Prepayments	156,056	84,993
Undistributed Assets and Payments	157,913	-
Total Public	$ 411,542	$ 194,773

Intragovernmental Other Assets are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods or services not yet received and undistributed assets and payments for which DOT is awaiting documentation. Public Other Assets are comprised of advances to the States and advances to employees and contractors.

Note 7. Cash, Foreign Currency and Other Monetary Assets:

	FY 2002	FY 2001
Cash	$ 24,765	$ 48,217
Other Monetary Assets	443	445
Total Cash and Other Monetary Assets	$ 25,208	$ 48,662

Cash consists of undeposited collections and imprest fund balances. Other Monetary Assets consist of USCG Cadet Savings Accounts.

Note 8. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

DOT administers the following direct loan and/or loan guarantee programs:

(1) Amtrak Corridor Improvement Program
(2) Railroad Rehabilitation Improvement Program
(3) Alameda Corridor Transportation Authority Loan
(4) Transportation Infrastructure Finance Innovation Act (TIFIA) Loan
(5) Maritime (Title XI) Guaranteed Loan
(6) Federal Ship Financing Fund (Title XI)
(7) Office of Small & Disadvantaged Business Utilization (OSDBU) Guaranteed Loan Program

An analysis of loans receivable, allowance for subsidy costs, liability for loan guarantees, foreclosed property, modifications, reestimates, and administrative costs associated with the direct loans and loan guarantees is provided in the following sections:

Direct Loans Obligated Prior to FY 1992 (Present Value Method):

(Dollars in Thousands)

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Value of Assets Related to Direct Loans
(1) Amtrak Corridor	$ 2,511	$ -	$ 2,511
(2) Railroad Rehab Improv	39,418	1,102	40,520
Total	$ 41,929	$ 1,102	$ 43,031

Direct Loans Obligated After FY 1991:

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
(2) Railroad Rehab Improv	$ 104,370	$ 8	$ -	$ 104,378
(3) Alameda Corridor	400,000	110,675	112,853	623,528
(4) TIFIA Loan	350,714	-	(5,162)	345,552
Total	$ 855,084	$ 110,683	$ 107,691	$ 1,073,458

Total Amount of Direct Loans Disbursed (Post-1991):

Direct Loan Programs	Current Year	Prior Year
(2) Railroad Rehab Improv	$ 101,131	$ -
(3) Alameda Corridor	-	400,000
(4) TIFIA Loan	50,716	300,000
Total	$ 151,847	$ 700,000

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Direct Loans Disbursed (Current reporting year):

Direct Loan Programs	Fees and Other Collections	Other	Total
(2) Railroad Rehab Improv	$ (7)	$ -	$ (7)
(4) TIFIA Loan	-	(106)	(106)
Total	$ (7)	$ (106)	$ (113)

Subsidy Expense for New Direct Loans Disbursed (Prior reporting year):

(4) TIFIA Loan		$ (7,770)	$ (7,770)
Total		$ (7,770)	$ (7,770)

Total Direct Loan Subsidy Expense:

Direct Loan Programs	Current Year	Prior Year
(4) TIFIA Loan	$ 106	$ 7,770
Total	$ 106	$ 7,770

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

Beginning Balance, Changes, and Ending Balance	FY 2002	FY 2001
Beginning Balance of the Subsidy Cost Allowance	$ 7,770	$ -
Add: Other Subsidy Costs	106	-
Ending Balance of the Subsidy Cost Allowance	$ 7,876	$ -

Defaulted Guaranteed Loans from Post-1991 Guarantees:

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
(5) MARAD Guar Loan	$ 459,375	$ 2,965	$ 7,000	$ (380,585)	$ 88,755
Total	$ 459,375	$ 2,965	$ 7,000	$ (380,585)	$ 88,755

Guaranteed Loans Outstanding:

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(5) MARAD Guar Loan	$ 3,303,275	$ 3,303,275
(6) Fed Ship Fin Fund	108,473	108,473
(7) OSDBU Guar Loan	4,791	3,593
Total	$ 3,416,539	$ 3,415,341
New Guaranteed Loans Disbursed (Current reporting year):		
(5) MARAD Guar Loan	$ 724,734	$ 724,734
(7) OSDBU Guar Loan	4,791	3,593
Total	$ 729,525	$ 728,327
New Guaranteed Loans Disbursed (Prior reporting year):		
(5) MARAD Guar Loan	$ 492,764	$ 492,764
(7) OSDBU Guar Loan	6,592	4,952
Total	$ 499,356	$ 497,716

Liability for Loan Guarantees (Present Value Method for pre-1992 guarantees):

Loan Guarantee Programs	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
(5) MARAD Guar Loan	$ 383,993	$ 383,993
(7) OSDBU Guar Loan	295	295
Total	$ 384,288	$ 384,288

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees (Current reporting year):

Loan Guarantee Programs	Defaults	Fees and Other Collections	Total
(5) MARAD Guar Loan	$ -	$ 22,688	$ 22,688
(7) OSDBU Guar Loan	129	-	129
Total	$ 129	$ 22,688	$ 22,817

Subsidy Expense for New Loan Guarantees (Prior reporting year):

(5) MARAD Guar Loan	$ -	$ 18,738	$ 18,738
(7) OSDBU Guar Loan	166	-	166
Total	$ 166	$ 18,738	$ 18,904

Modifications and Reestimates (Current reporting year):

Loan Guarantee Programs	Technical Reestimates	Total
(5) MARAD Guar Loan	$ 77,883	$ 77,883
	$ 77,883	$ 77,883

Modifications and Reestimates (Prior reporting year):

(5) MARAD Guar Loan	$ 186,407	$ 186,407
	$ 186,407	$ 186,407

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	Current Year	Prior Year
(5) MARAD Guar Loan	$ 16,365	$ (187,192)
(7) OSDBU Guar Loan	129	166
Total	$ 16,494	$ (187,026)

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(5) MARAD Guar Loan	0%	6%	0%	0%	6%
(7) OSDBU Guar Loan	0%	3%	0%	0%	3%

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance	FY 2002	FY 2001
Beginning Balance of the Loan Guarantee Liability	$ (400,192)	$ (213,167)
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component:		
Default Costs (net of recoveries)	285,770	62,691
Fees and Other Collections	(67,166)	(61,275)
Total of the Above Subsidy Expense Components	$ 218,604	$ 1,416
Adjustments:		
Interest Accumulation on the Liability Balance	(31,106)	(40,116)
Other	(93,121)	47
Ending Balance of the Loan Guarantee Liability Before Reestimates	$ (305,815)	$ (251,820)
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	(77,883)	(148,373)
Total of the Above Reestimate Components	$ (77,883)	$ (148,373)
Ending Balance of the Loan Guarantee Liability	$ (383,698)	$ (400,193)

Administrative Expense:

Loan Guarantee Programs		
(5) MARAD Guar Loan	$	3,973
(7) OSDBU Guar Loan		80
Total	$	4,053

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups: (1) Pre-1992 means the direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans obligations or loan guarantees, and (2) Post-1991 means the direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees. The Act provides that, for direct loan obligations or loan guarantee commitments made after FY 1991, the present value of the subsidy costs (which arises from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy at present value, and loan guarantee liabilities are reported at present value. Foreclosed property is valued at the net realizable value. Loans receivable, net, or their value of assets related to direct loans, is not the same as the proceeds that they would expect to receive from selling their loans.

Note 9. Inventory and Related Property:

(Dollars in Thousands)

	Cost	Allowance for Loss	FY 2002 Net	FY 2001 Net
Inventory:				
Inventory Held for Current Sale	$ 126,437	$ (6)	$ 126,443	$ 143,967
Inventory Held in Reserve for Future Sale	3,409	-	3,409	365,737
Excess, Obsolete and Unserviceable Inventory	29,991	11,406	18,585	24,657
Inventory Held for Repair	419,096	82,963	336,133	-
Inventory Work In Process	(307)	-	(307)	(214)
Other	13,643	-	13,643	14,294
Total Inventory	$ 592,269	$ 94,363	$ 497,906	$ 548,441
Operating Materials and Supplies:				
Items Held for Use	$ 1,127,543	$ -	$ 1,127,543	$ 1,553,680
Items Held in Reserve for Future Use	15,546	-	15,546	17,897
Excess, Obsolete and Unserviceable Items	71,861	47,044	24,817	21,482
Items Held for Repair	400,098	107,975	292,123	350,334
Other	-	-	-	-
Total Operating Materials & Supplies	$ 1,615,048	$ 155,019	$ 1,460,029	$ 1,943,393
Total Inventory and Related Property			$ 1,957,935	$ 2,491,834

All DOT inventory is in FAA, USCG, and TASC. Valuation methods used include moving weighted average, standard price/specific identification, and last acquisition price.

DOT operating materials and supplies are in USCG, FAA, and MARAD. Valuation methods used include weighted average, moving weighted average, historical cost, last acquisition price, standard price/specific identification, and standard repair cost. The only restrictions on use are that USCG consumption must be in accordance with USCG Directives and FAA is not permitted to donate.

Inventory and related property for FY 2001 has been restated to reflect a reduction of $416.4 million in the gross value of FAA's operating materials and supplies. This is due to the reclassification of exchange and repair spare parts to equipment, where it can be depreciated based on the period benefited.

Note 10. General Property, Plant and Equipment:

(Dollars in Thousands)

Major Classes	Service Life *	Acquisition Value	Accumulated Depreciation	FY 2002 Net Book Value	FY 2001 Net Book Value
Land		$ 133,630	$ -	$ 133,630	$ 138,220
Buildings and Structures	Various	6,061,139	3,096,522	2,964,617	2,837,276
Furniture and Fixtures	Various	74,737	51,931	22,806	394
Equipment	Various	11,859,114	5,288,113	6,571,001	6,532,309
ADP Software	Various	137,627	35,395	102,232	100,353
Electronics	6-10	155,277	101,844	53,433	75,650
Assets Under Capital Lease	Various	127,143	56,392	70,751	71,802
Leasehold Improvements	Various	37,882	8,682	29,200	18,397
Aircraft	11-20	2,088,624	1,265,106	823,518	810,170
Ships and Vessels	>20	3,648,700	1,516,888	2,131,812	2,178,375
Small Boats	11-20	307,346	108,478	198,868	179,179
Other Vehicles	1-5	18,599	16,466	2,133	2,539
Construction in Progress		5,417,432	-	5,417,432	3,861,185
Property Not in Use		2,283	1,272	1,011	-
Total		$ 30,069,533	$ 11,547,089	$ 18,522,444	$ 16,805,849

Depreciation is computed using the straight line method. Property Not in Use consists of decommissioned assets awaiting disposition.

Net book value of multi-use heritage assets is now included in general property, plant and equipment, while "physical quantity" information is included in the Heritage Assets section of Required Supplemental Stewardship Information.

*** Key:**

Range of Service Life

1-5 - 1 to 5 years
6-10 - 6 to 10 years
11-20 - 11 to 20 years
>20 - Over 20 years

Note 11. Liabilities Not Covered by Budgetary Resources:

(Dollars in Thousands)

Intragovernmental:	FY 2002	FY 2001
Debt	$ 774,460	$ 28
Other Liabilities	233,867	225,128
Total Intragovernmental	$ 1,008,327	$ 225,156
Accounts Payable	$ 1	$ -
Federal Employee and Veterans' Benefits Payable	30,138,478	28,789,852
Environmental and Disposal Liabilities	1,041,322	1,010,053
Other Liabilities	1,531,154	1,267,632
Total Liabilities Not Covered by Budgetary Resources	$ 33,719,282	$ 31,292,693
Total Liabilities Covered by Budgetary Resources	8,508,130	8,558,222
Total Liabilities	$ 42,227,412	$ 39,850,915

Note 12. Debt:

(Dollars in Thousands)

Intragovernmental Debt:	FY 2001 Beginning Balance	Net Change During Fiscal Year	FY 2001 Ending Balance	Net Change During Fiscal Year	FY 2002 Ending Balance
Debt to the Treasury	$ 808,584	$ 89,302	$ 897,886	$ 255,957	$ 1,153,843
Debt to the Fed Financing Bank	3,549	(142)	3,407	(160)	3,247
Total Intragovernmental Debt	$ 812,133	$ 89,160	$ 901,293	$ 255,797	$ 1,157,090

Net Change During Fiscal Year includes new borrowing, repayments and net change in accrued payables. Debt to the Treasury and to the Federal Financing Bank is for FRA direct loans to railroads, FHWA direct loans under the Transportation Infrastructure Finance and Innovation Act (TIFIA), MARAD Title XI guaranteed loans, and the FAA Aircraft Purchase Loan Guarantee Program.

Note 13. Other Liabilities:

(Dollars in Thousands)

Intragovernmental:	Non-Current	Current	FY 2002 Total
Advances and Prepayments	$ -	$ 171,488	$ 171,488
Accrued Pay and Benefits	1,354	264,106	265,460
Undisbursed Loans	194,180	-	194,180
FECA Billings	130,586	100,297	230,883
Uncleared Disbursements and Collections	15	6,567	6,582
Deferred Credits	-	4,739	4,739
Deposit Funds	-	(433)	(433)
Other Accrued Liabilities	-	277,054	277,054
Total Intragovernmental	$ 326,135	$ 823,818	$ 1,149,953

Public:			
Accrued Unbilled State Payments	$ 19,422	$ 2,178,191	$ 2,197,613
Other Accrued Unbilled Payments	6,069	22,715	28,784
Accrued Unrecorded Grantee Liabilities	-	1,445,488	1,445,488
Accrued Pay and Benefits	817,504	693,794	1,511,298
Legal Claims	94,498	76,939	171,437
Deferred Credits	245,712	71	245,783
Capital Leases	64,398	13,698	78,096
Advances and Prepayments	-	23,824	23,824
Uncleared Disbursements and Collections	65,133	12,152	77,285
Deposit Funds	-	(7,339)	(7,339)
Other Accrued Liabilities	105,425	7,672	113,097
Total Public	$ 1,418,161	$ 4,467,205	$ 5,885,366

Intragovernmental:	Non-Current	Current	FY 2001 Total
Advances and Prepayments	$ -	$ 333,362	$ 333,362
Accrued Pay and Benefits	-	94,163	94,163
Undistributed and Unapplied Collections	-	3,571	3,571
Deferred Credits	-	1,082	1,082
Deposit Funds	-	(3,329)	(3,329)
FECA Billings	125,853	98,019	223,872
Undisbursed Loans	175,920	-	175,920
Other Accrued Liabilities	-	304,185	304,185
Total Intragovernmental	$ 301,773	$ 831,053	$ 1,132,826

Public:

Accrued Unbilled State Payments	$ -	$ 2,177,972	$ 2,177,972
Other Accrued Unbilled Payments	-	46,119	46,119
Accrued Pay and Benefits	747,994	500,586	1,248,580
Undistributed and Unapplied Collections	(19,528)	(23,935)	(43,463)
Advances and Prepayments from Others	-	10,823	10,823
Deposit Funds	-	2,221	2,221
Deferred Credits	59,335	-	59,335
Legal Claims	189,809	-	189,809
FAA Return Rights	10,100	-	10,100
Capital Leases	80,323	58	80,381
Other Accrued Liabilities	109,346	16,451	125,797
Total Public	$ 1,177,379	$ 2,730,295	$ 3,907,674

Accrued pay and benefits pertain to unpaid pay and benefits, and may be either current or non-current. Agency expenses for payments made under the Federal Employees Compensation Act (FECA) are forwarded to the Department of Labor (DOL). Funding for FECA is normally appropriated to agencies in the fiscal year two years subsequent to the actual FECA billing from DOL.

Legal claims liabilities for FY 2001 have been restated to reflect a $489.2 million reduction in FAA's legal claims. The previously stated amount erroneously included certain claims that are not considered probable of loss.

Note 14. Federal Employee and Veterans' Benefits:

(Dollars in Thousands)

	Value of Projected Plan Benefits FY 2002	FY 2001
Pensions:		
USCG Retired Pay	$ 17,663,500	$ 16,130,300
Other Retirement Benefits:		
USCG Military Health Care	11,323,000	11,458,900
Other Post-Employment Benefits:		
Federal Employees Compensation Act Actuarial Liability	1,152,368	1,201,160
Total Federal Employee and Veterans Benefits	$ 30,138,868	$ 28,790,360

The Coast Guard Military Retirement System (covering both retirement pay and health care benefits) is funded through annual appropriations and, as such, is essentially a pay-as-you-go system. Consequently, the only assets in the system are unintentional overpayments in the past which are due to be repaid by participants. The unfunded figures reported above reflect the actuarial accrued liability for both retired pay and health care benefits. Calculation of these numbers is a multi-step process. First, an "actuarial present value of accumulated plan benefits" is derived from the future payments that are attributable under the retirement plan's provisions to a member's credited service as of the valuation date (e.g., benefits to retired members or their beneficiaries). The accumulated plan benefits are converted to a present value of future benefits by applying assumptions to reflect the time value of money and the probability of payment between the valuation date and expected date of payments. The significant actuarial assumptions used in this conversion include: life expectancy, cost of living increases, and investment return. The present value of future benefits is then converted to an unfunded accrued liability by subtracting the present value of future employer/employee normal contributions as well as any assets in the system.

Federal Employees' Compensation Act 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 liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2002
5.20% in year 1, 5.20% in year 2, and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	COLA	CPIM
2003	1.80%	4.31%
2004	2.67%	4.01%
2005	2.40%	4.01%
2006+	2.40%	4.01%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage of change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Note 15. Environmental and Disposal Liabilities:

(Dollars in Thousands)

Public:	FY 2002	FY 2001
Environmental Cleanup Liabilities:		
FAA Environmental Remediation	$ 311,914	$ 325,019
FAA Environmental Cleanup and Decommissioning	262,762	262,762
USCG Environmental Remediation and Cleanup	94,146	102,272
MARAD Environmental Cleanup (PCB, Lead, Oil)	372,500	-
Asset Disposal Liabilities:		
MARAD Scrapping of 115 Non-Retention Vessels	-	320,000
Total Public	$ 1,041,322	$ 1,010,053

Environmental cleanup generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). Environmental remediation includes the fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup associated with normal operations or as a result of an accident. Cost estimates for environmental and disposal liabilities are not adjusted for inflation and are subject to revision as a result of changes in technology and environmental laws and regulations.

Environmental and disposal liabilities for FY 2001 have been restated to reflect a reduction of approximately $1.1 billion in the estimate of FAA's environmental cleanup and decommissioning liability.

Note 16. Leases:

ENTITY AS LESSEE:

Capital Leases: (Dollars in Thousands)

Summary of Assets Under Capital Lease by Category:	FY 2002	FY 2001
(1) Land and Buildings	$ 125,991	$ 110,514
(2) Machinery and Equipment	1,152	1,234
(3) Other	-	-
Accumulated Depreciation	(56,392)	(39,946)
Net Assets Under Capital Lease	$ 70,751	$ 71,802

Description of Lease Arrangements: Capital leases cover land and buildings at FAA's Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, Oklahoma, and at the William J. Hughes Technical Center (WJHTC) located in Pomona, New Jersey. FAA's capital lease payments are funded annually. FAA and USCG also have capital leases on machinery and equipment.

Future Payments Due:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	Totals
Year 1 (2003)	$ 13,425	$ 273	$ -	$ 13,698
Year 2 (2004)	13,425	273	-	13,698
Year 3 (2005)	12,768	273	-	13,041
Year 4 (2006)	10,535	187	-	10,722
Year 5 (2007)	10,417	108	-	10,525
After 5 Years (2008+)	43,128	-	-	43,128
Total Future Lease Payments	$ 103,698	$ 1,114	$ -	$ 104,812
Less: Imputed Interest	26,507	209	-	26,716
Executory Costs	-	-	-	-
Net Capital Lease Liability	$ 77,191	$ 905	$ -	$ 78,096

Liabilities Covered by Budgetary Resources	$ -
Liabilities Not Covered by Budgetary Resources	$ 78,096

Operating Leases:

Description of Lease Arrangements: Operating leases include a RSPA lease for the Transportation Safety Institute North Campus, FAA leases for property, aircraft, equipment, and telecommunications, and TSA leases for property.

Future Payments Due:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	Totals
Year 1 (2003)	$ 63,073	$ -	$ 1,428	$ 64,501
Year 2 (2004)	54,614	-	1,193	55,807
Year 3 (2005)	49,679	-	956	50,635
Year 4 (2006)	45,027	-	686	45,713
Year 5 (2007)	39,762	-	683	40,445
After 5 Years (2008+)	71,796	-	2,820	74,616
Total Future Lease Payments	$ 323,951	$ -	$ 7,766	$ 331,717

ENTITY AS LESSOR:

Capital Leases:

N/A

Operating Leases:

Description of Lease Arrangements FAA leases Ronald Reagan Washington National Airport and Washington Dulles International Airport to the Metropolitan Washington Airports Authority, the airports' sponsor. The lease took effect in March 1987 for $3 million per year for a 50-year term. Subsequent annual rental payments are adjusted by applying the Implicit Price Deflator for the Gross National Product published by the Department of Commerce. Additionally, the parties may renegotiate the level of lease payments attributable to inflation costs every ten years. Upon lease expiration, the airports and facilities, originally valued at $244 million, together with any improvements thereto, will revert to the Federal Government. In addition, FAA leases equipment to foreign governments and leases parcels of Government-owned land, generally for agriculture.

Future Projected Receipts:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	Totals
Year 1 (2003)	$ 12,783	$ 90	$ 5	$ 12,878
Year 2 (2004)	12,733	90	1	12,824
Year 3 (2005)	12,495	90	-	12,585
Year 4 (2006)	12,560	90	-	12,650
Year 5 (2007)	12,452	90	-	12,542
After 5 Years (2008+)	30,784	448	-	31,232
Total Future Operating Lease Receivables	$ 93,807	$ 898	$ 6	$ 94,711

Note 17. Contingencies:

Legal Proceedings. As of September 30, 2002 and 2001, FAA recognized contingent liabilities of $499.8 million and $445.8 million, respectively, for asserted and pending legal claims reasonably possible of loss. Of the yearend contingent liabilities for legal claims of $169.9 million as of September 30, 2002, FAA estimated that $1.7 million would be paid from agency appropriations with the remaining $168.2 million to be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of the Treasury. Of the $189.8 million legal claims liabilities as of September 30, 2001, FAA estimated that $2.1 million would be paid from agency appropriations and $187.7 million would be paid from the Judgment Fund.

As of September 30, 2002 and 2001, Coast Guard had pending or potential lawsuits, administrative actions and claims of 325 and 330, respectively, that could result in liabilities to Coast Guard funds or the Judgment Fund. Claims of 236 and 275, respectively, were against the Oil Spill Liability Trust Fund. This fund exists for the purpose of facilitating rapid oil spill response and administering a compensation program in oil spill situations.

Amount of loss due to litigation and claims for MARAD was estimated at $2.6 million. Of the $2.6 million, $848,000 was probable and could be reasonably estimated and is included in liabilities not covered by budgetary resources.

Grant Programs. The Federal Highway Administration and the Federal Transit Administration have Advance Construction and Full Funding Grant Agreements authorizing states and transit authorities to establish project budgets and incur costs with their own funds in advance of appropriations. Of the over $30 billion authorized under these programs, some portion has been liquidated by the states and transit authorities.

FAA has legal authority to issue Letters of Intent (LOIs) to enter into Airport Improvement Program (AIP) grant obligations; but these LOIs do not create obligations. Through September 30, 2002, FAA issued LOIs covering FY 1988 through FY 2014 totaling $4.3 billion. As of fiscal yearend, FAA had obligated $2.7 billion of this total amount, leaving $1.6 billion unobligated. FAA anticipates obligating $293 million in FY 2003. As of September 30, 2001, LOIs covering FY 1998 through FY 2014 totaled $3.9 billion. Of this amount, FAA had obligated $2.4 billion, leaving $1.5 billion unobligated as of September 30, 2001.

FY 2002 AIP grant authority totaled $3.5 billion, including $1.7 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors have claimed $1.4 billion, and $355 million remains available from unused or newly enacted contract authority to those sponsors through FY 2004, or in the case of non-hub primary airport locations, through FY 2005. In FY 2001, AIP grant authority was $3.1 billion, including $1.4 billion in entitlements to specific locations. Of entitlements to specific locations, the sponsors had claimed $1.1 billion and $298 million remained available from unused or newly enacted contract authority to those sponsors through FY 2003, or in the case of non-hub primary airport locations, through FY 2004.

Contract Options and Negotiations. As of September 30, 2002 and 2001, FAA had $19.9 billion and $17.9 billion, respectively, in unobligated contracts. The terms of these contracts give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

As of September 30, 2002 and 2001, FAA had a total of $42.1 million and $106.4 million, respectively, in commitments (funds reserved for possible future obligations) under unexpired appropriations. The commitments were for purchases of goods and services for which contract negotiations have not been completed (i.e., agency obligations had not been incurred) at the end of each respective fiscal year.

Return Rights Program. The FAA Return Rights Program pertains to employees who previously accepted transfers to overseas or certain domestic locations for a period of 2 to 4 years, and entitles the employees to a future return move at Government expense. As of September 30, 2002 and 2001, 154 and 202 employees, respectively, were contractually entitled to these "return rights."

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations where commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the U.S. foreign policy. FAA may issue: (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier.

FAA maintains standby non-premium war-risk insurance policies for 38 carriers having approximately 974 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the premium insurance program was expanded by the Air Transportation Safety and System Stabilization Act to include all scheduled domestic air carriers. Under this program, the FAA provided temporary war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks on September 11, 2001. As of September 30, 2001, $121.68 billion of war risk insurance was extended to 74 carriers for a period of 30 days, and coverage has been subsequently extended, typically for 60-day periods. As of September 30, 2002, $114 billion of war risk coverage was extended to 72 carriers until October 16, 2002. The most recent period of coverage is December 16, 2002, to February 13, 2003, in which $112.5 billion of war risk coverage is extended to 71 carriers.

The issuance of temporary war-risk coverage to all scheduled domestic carriers provides necessary insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by the FAA and are assessed per departure. During FY 2002 and 2001, the FAA recognized insurance premium revenue of $74.6 million and $4.6 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage.

In the past, the FAA has insured a small number of air carrier operations and establishes a maximum liability for losing one aircraft. Typically, the maximum liability for both hull loss and liability, per aircraft, is $1.75 billion.

No claims for losses were pending as of September 30, 2002. Since the inception of the Aviation Insurance Program (including the predecessor Aviation War Risk Insurance Program dating back to 1951), only four claims, all involving minor dollar amounts, have been paid. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.

Overflight User Fees. The FAA issued an interim final rule (IFR) on August 1, 2000, that required certain aircraft operators to pay fees for air traffic control and related services provided by the FAA to aircraft that operate in U.S.-controlled airspace but neither take off or land in the U.S. The authority to charge these fees is contained in the Federal Aviation Reauthorization Act of 1996, as amended. Several airlines and an air carrier association challenged this IFR in the U.S. Court of Appeals. On July 13, 2001, the Court, in its preliminary opinion, ruled in favor of the airlines. The FAA ceased all billing and collection activities under the IFR. In August 2001, the FAA issued a Final Rule on overflight fees, thereby allowing the agency to resume charging and collecting fees. The same group of plaintiffs brought suit against the Final Rule. The FAA filed a motion for reconsideration of the Court's ruling on the IFR. The Court granted this motion on December 28, 2001, allowing the IFR to remain in place. The FAA continued to collect fees throughout FY 2002, while litigation under both the IFR and the Final Rule continued. The financial statements include $27.6 million and $29.3 million in Overflight Fee revenue for the years ended September 30, 2002 and 2001, respectively. While the FAA believes it will prevail, those revenues remain at risk until the litigation has come to a final resolution.

Environmental. The FAA is a party to two major environmental remediation projects in which the extent of liability is unknown. A study is in process to determine the magnitude and scope of the remediation required at the two sites. Of the total environmental liability reported as of September 30, 2002, the amount related to these two sites is $67.7 million. This liability includes the FAA's share of the known remediation cost and the cost to complete the study.

Note 18. Net Cost by Program:

(Dollars in Thousands)

Program Costs	FY 2002	FY 2001
Surface		
Mass Transit	$ 6,912,429	$ 6,784,288
Highway Surface Transportation	7,138,989	6,650,186
National Highway System	5,874,660	5,256,026
Interstate Maintenance	4,583,450	3,980,379
Highway Minimum Guarantee	3,050,915	3,038,069
Bridge Program	3,000,457	2,845,309
Other Highway Programs	1,205,002	2,273,533
Congestion Mitigation and Air Quality	919,250	953,114
High Priority Projects	1,132,525	802,426
Highway Minimum Allocation	94,073	-
Highway Emergency Relief	280,890	724,265
Federal Railroad Administration Grants	1,066,576	554,664
Federal Lands Highways	598,148	442,918
Highway Safety Programs	622,294	434,619
Appalachian Development Highway	318,159	352,550
Highway Planning	504,403	-
DOT Allocated Highway Programs	425,350	-
Highway Research and Development	345,630	278,011
Department of Interior Allocated Highway Programs	280,798	-
Federal Motor Carrier Safety	267,129	201,092
Woodrow Wilson Bridge	196,320	118,612
Other Rail Programs	17,535	11,858
Rail Safety and Operations	96,660	102,050
Alameda Corridor	58,561	-
Bureau of Transportation Statistics	44,538	-
Other Highway Trust Fund Programs	303,297	85,658
Research and Special Programs Administration	129,454	86,982
State Infrastructure Bank	7,840	-
Alaska Railroad	36,315	31,560
Next Generation High Speed Rail	29,361	26,826
Rail Research	20,275	24,574
Surface Transportation Board	20,782	12,702
Total Surface Program Costs	$ 39,582,065	$ 36,072,271

Air		
Air Traffic Services	$ 7,236,665	$ 6,906,967
Airports	2,933,542	2,178,576
Regulation and Certification	923,493	798,688
Aviation Security	1,430,653	160,403
Research and Acquisition	514,862	486,295
Other Federal Aviation Administration Programs	210,086	132,806
Commercial Space	11,361	9,580
Total Air Program Costs	$ 13,260,662	$ 10,673,315
Maritime		
Coast Guard Operating Expenses	$ 3,830,128	$ 3,205,509
Coast Guard Retired Pay	2,247,751	8,527,834
Coast Guard Acquisition and Construction	468,661	327,671
Maritime Guaranteed Loan	134,304	212,855
Maritime Security Program	96,192	98,405
Coast Guard Reserve Training	79,515	78,374
Maritime Ocean Freight Differential Program	54,331	141,006
Maritime Operations and Training	137,848	82,049
Coast Guard Boat Safety	62,036	60,088
Coast Guard Oil Spill Liability	52,370	66,427
Coast Guard Research, Development, Test & Evaluation	19,067	18,421
Coast Guard Alteration of Bridges	10,453	9,151
Coast Guard Environmental Compliance & Restoration	9,619	11,329
Maritime Operating Differential Subsidy	5,088	(27,131)
Maritime Vessel Operations Revolving Fund	(11,931)	(57,060)
Other Coast Guard Programs	1,581	2,947
Other Maritime Programs	92	(1,202)
Total Maritime Program Costs	$ 7,197,105	$ 12,756,673
Cross-Cutting		
Transportation Administrative Service Center	$ 97,783	$ -
Volpe National Transportation Systems Center	4,634	3,285
Transportation Statistics	-	(1)
Total Cross-Cutting Program Costs	$ 102,417	$ 3,284

The Transportation Administrative Systems Center is now being listed under Cross-Cutting Program Costs. In FY 2001 it had been listed as Costs Not Assigned to Programs.

Note 19. Gross Cost and Earned Revenue by Budget Functional Classification:

Gross Cost and Earned Revenue by Budget Functional Classification:

(Dollars in Thousands)

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
FY 2002:			
054 Defense-Related Activities	$ 486,147	$ 318,668	$ 167,479
304 Pollution Control and Abatement	61,989	-	61,989
401 Ground Transportation	39,860,830	408,219	39,452,611
402 Air Transportation	15,031,441	1,770,779	13,260,662
403 Water Transportation	7,216,731	249,094	6,967,637
407 Other Transportation	655,800	365,491	290,309
808 Other General Government	2,393,443	6,304	2,387,139
Total	$ 65,706,381	$ 3,118,555	$ 62,587,826
FY 2001:			
054 Defense-Related Activities	$ 83,647	$ 348,410	$ (264,763)
304 Pollution Control and Abatement	90,668	12,912	77,756
401 Ground Transportation	36,116,269	130,980	35,985,289
402 Air Transportation	10,866,644	193,331	10,673,313
403 Water Transportation	13,143,625	199,945	12,943,680
407 Other Transportation	423,901	287,225	136,676
451 Community Development	2	-	2
808 Other General Government	2,341,934	701	2,341,233
Total	$ 63,066,690	$ 1,173,504	$ 61,893,186

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification:

FY 2002:			
054 Defense-Related Activities	$ 18,849	$ 318,668	$ (299,819)
304 Pollution Control and Abatement	(14,311)	-	(14,311)
401 Ground Transportation	217,225	87,649	129,576
402 Air Transportation	1,475,092	99,063	1,376,029
403 Water Transportation	1,650,360	219,474	1,430,886
407 Other Transportation	139,088	362,937	(223,849)
808 Other General Government	132	132	-
Total	$ 3,486,435	$ 1,087,923	$ 2,398,512

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
FY 2001:			
054 Defense-Related Activities	$ 19,511	$ 348,410	$ (328,899)
304 Pollution Control and Abatement	17,968	-	17,968
401 Ground Transportation	219,062	74,476	144,586
402 Air Transportation	1,326,709	63,219	1,263,490
403 Water Transportation	1,070,325	133,163	937,162
407 Other Transportation	380,321	283,804	96,517
808 Other General Government	25,403	701	24,702
Total	$ 3,059,299	$ 903,773	$ 2,155,526

Note 20. Statement of Budgetary Resources:

	(Dollars in Thousands)
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of September 30, 2002:	$ 81,083,840
Available Contract Authority as of September 30, 2002:	$ 44,374,187
Available Borrowing Authority as of September 30, 2002:	$ 1,545,581

Borrowing Authority pertains to FRA.

Adjustments during FY 2002 to Beginning Balance of Budgetary Resources:

Rescissions	$ (121,595)
Prior Year Recoveries	271,705
Temporarily Not Available	55,769,263
Cancelled Authority	(9,754)
Permanently Not Available	5,127,195
Offsetting Security Fee Collections	1,128,316
Liquidated Contract Authority	28,912,607
Other Adjustments	470,096
Total Adjustments to Budgetary Resources	$ 91,547,833

Existence, Purpose, and Availability of Permanent Indefinite Appropriations:

FAA has permanent indefinite appropriations for the Facilities and Equipment, Grants-in-Aid, and Research, Development and Engineering appropriations in order to fully fund special projects that were on-going and spanned several years.

Additional Disclosures:

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

There are no material differences between the information required by SFFAS Number 7 and the amounts described as "actual" in the "Budget of the United States Government" for FY 2004. The "Budget of the United States Government" for FY 2004 is not final at this time.

Note 21. Incidental Custodial Collections:

Revenue Activity: (Dollars in Thousands)

Sources of Cash Collections:	FY 2002	FY 2001
Miscellaneous Receipts	$ 20,792	$ 26,592
User Fees	16,146	24,009
Fines, Penalties and Forfeitures	8,642	47,609
General Fund Proprietary	3,100	1,238
Refunds, Recoveries & Cancelled Checks & Accounts	7,346	2,155
USCG Registration and Filing Fees	866	1,022
Total Cash Collections	$ 56,892	$ 102,625
Accrual Adjustment	9,500	5,912
Total Custodial Revenue	$ 66,392	$ 108,537

Disposition of Collections:

Transferred to Treasury (General Fund)	$ 56,892	$ 102,625
(Increase) Decrease in Amounts to be Transferred	9,500	5,912
Net Custodial Revenue Activity	$ -	$ -

Note 22. Dedicated Collections:

(Dollars in Thousands)

Aquatic Resources Trust Fund	FY 2002	FY 2001
Other Assets	$ 61,959	$ 64,966
TOTAL ASSETS	**$ 61,959**	**$ 64,966**
Liabilities Payable	$ 3,251	$ 2,553
Other Liabilities	19,422	25,091
TOTAL LIABILITIES	**$ 22,673**	**$ 27,644**
TOTAL NET POSITION	**$ 39,286**	**$ 37,322**
TOTAL LIABILITIES AND NET POSITION	**$ 61,959**	**$ 64,966**
BEGINNING BALANCES	$ 37,322	$ 33,410
OTHER FINANCING SOURCES	64,000	64,000
TOTAL FINANCING SOURCES	$ 101,322	$ 97,410
NET COST OF OPERATIONS	(62,036)	(60,088)
ENDING BALANCES	**$ 39,286**	**$ 37,322**

Oil Spill Liability Trust Fund	FY 2002	FY 2001
Investments	$ 1,007,378	$ 1,129,248
Other Assets	106,056	60,883
TOTAL ASSETS	**$ 1,113,434**	**$ 1,190,131**
Liabilities Payable	$ 339	$ 964
Other Liabilities	2,511	38
TOTAL LIABILITIES	**$ 2,850**	**$ 1,002**
TOTAL NET POSITION	**$ 1,110,584**	**$ 1,189,129**
TOTAL LIABILITIES AND NET POSITION	**$ 1,113,434**	**$ 1,190,131**
BEGINNING BALANCES	$ 1,189,129	$ 1,275,025
BUDGETARY FINANCING SOURCES	-	73,828
OTHER FINANCING SOURCES	(26,175)	(93,297)
TOTAL FINANCING SOURCES	$ 1,162,954	$ 1,255,556
NET COST OF OPERATIONS	(52,370)	(66,427)
ENDING BALANCES	**$ 1,110,584**	**$ 1,189,129**

Highway Trust Fund and Airport and Airway Trust Fund dedicated collections are described in their stand-alone financial statements.

Note 23. Saint Lawrence Seaway Development Corporation:

Condensed Information:

(Dollars in Thousands)

	FY 2002	FY 2001
Cash and Short-Term Time Deposits	$ 14,156	$ 13,724
Long-Term Time Deposits	98	294
Accounts Receivable	93	170
Inventories	262	259
Property, Plant and Equipment	81,626	82,855
Deferred Charges	1,722	1,816
Other Assets	616	531
TOTAL ASSETS	**$ 98,573**	**$ 99,649**
Current Liabilities	$ 1,839	$ 1,830
Actuarial Liabilities	1,722	1,817
TOTAL LIABILITIES	**$ 3,561**	**$ 3,647**
Invested Capital	$ 96,595	$ 97,791
Cumulative Results of Operations	(1,583)	(1,789)
TOTAL NET POSITION	**$ 95,012**	**$ 96,002**
TOTAL LIABILITIES AND NET POSITION	**$ 98,573**	**$ 99,649**

Deferred Maintenance:

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition*	Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$ 73,741
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	13,843
MARAD	Vessels, Ready Reserve Force	Condition Assessment Survey	3	34,457
	Real Property, Anchorage	Condition Assessment Survey	4	8,124
	Real Property, Buildings	Condition Assessment Survey	3	33,000
USCG	Aircraft	Condition Assessment Survey	Variable	20,281
	Vessels	Condition Assessment Survey	Variable	18,672
	Shore Facilities	Condition Assessment Survey	Variable	429,411
	Electronics Systems	Condition Assessment Survey	Variable	19,474
			Total	$ 651,003

*Asset Condition Rating Scale:

1 - Excellent
2 - Good
3 - Fair
4 - Poor
5 - Very Poor

**Acceptable Condition is:

FAA Buildings	3 - Fair
FAA Other Structures and Facilities	3 - Fair
MARAD Vessels, Ready Reserve Force	1 - Excellent - Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD Real Property, Anchorage	3 - Fair - Adequate water depth, shore power, and mooring capabilities.
MARAD Real Property, Buildings	3 - Fair - Buildings are safe and inhabitable.
USCG Aircraft	1 - Excellent
USCG Vessels	1 - Excellent
USCG Shore Facilities	1 - Excellent
USCG Electronic Systems	1 - Excellent

Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.

The Coast Guard continues to use the same methodology which was developed for the FY 2000 report. This includes: 1) the evaluation of the value of planned vessel, aircraft, or electronic systems overhauls and depot-level projects, which were held awaiting funding at fiscal year end; 2) the value of inventory reorders called for by logistics stocking algorithms, which were held awaiting funding at fiscal year enc and 3) the value of broken (repairable) inventory items needing repair which were held awaiting funding at fiscal year end.

Intragovernmental Balances by Trading Partner:

Intragovernmental Assets by Trading Partner: (Dollars in Thousands)

Trading Partner	Fund Balance with Treasury	Investments	Accounts Receivable	Other Assets
Department of the Treasury	$ 29,968,650	$ 31,338,570	$ 257,380	$ 6,691
Department of Defense	-	-	237,709	59,499
U.S. Capitol Police	-	-	16,908	-
Department of State	-	-	5,877	-
Department of Interior	-	-	5,653	-
Department of Veterans Affairs	-	-	3,295	168
Department of Justice	-	-	2,733	-
General Services Administration	-	-	2,027	200
Natl. Aero. and Space Admin.	-	-	1,621	-
Environmental Protection Agency	-	-	1,509	-
Department of Health & Human Serv.	-	-	1,455	-
Securities and Exchange Comm	-	-	1,347	-
Department of Commerce	-	-	704	-
Department of Agriculture	-	-	532	-
Library of Congress	-	-	485	-
Department of Energy	-	-	440	-
U.S. Agency for International Devel.	-	-	278	-
Department of Education	-	-	172	-
Dept. of Housing & Urban Devel.	-	-	125	-
U.S. House of Representatives	-	-	120	-
Fed. Emergency Mgmt. Admin.	-	-	109	-
Broadcasting Board of Governors	-	-	106	-
Department of Labor	-	-	101	-
U.S. Postal Service	-	-	60	-
Other Miscellaneous Agencies	-	-	71,426	25,006
Total	$ 29,968,650	$ 31,338,570	$ 612,172	$ 91,564
Total Intragovernmental Assets	$ 62,010,956			

Intragovernmental Liabilities by Trading Partner: (Dollars in Thousands)

Trading Partner	Accounts Payable	Debt	Other Liabilities
Department of the Treasury	$ 2,684	$ 1,157,090	$ 488,776
Department of Defense	45,780	-	239,600
Department of Labor	26	-	228,377
Office of Personnel Management	1,214	-	65,245
Social Security Administration	1	-	12,533
General Services Administration	13,260	-	(363)
U.S. Capitol Police	-	-	9,876
Department of Agriculture	-	-	7,225
Natl. Aero. and Space Admin.	-	-	6,855
Department of Commerce	25	-	1,010
Department of Interior	1,597	-	825
Department of Energy	65	-	848
Department of Justice	317	-	431
Environmental Protection Agency	-	-	428
Tennessee Valley Authority	353	-	-
Department of State	-	-	296
Fed. Emerg. Mgmt. Admin.	-	-	220
U.S. Postal Service	-	-	88
Department of Health & Human Serv.	137	-	17
National Science Foundation	-	-	9
Other Miscellaneous Agencies	43,411	-	87,657
Total	$ 108,870	$ 1,157,090	$ 1,149,953

Total Intragovernmental Liabilities $ 2,415,913

Intragovernmental Earned Revenues and Related Costs: (Dollars in Thousands)

Trading Partner	Intragovernmental Earned Revenue
Department of Defense	$ 660,850
Department of the Treasury	66,384
Environmental Protection Agency	53,918
Department of Veterans Affairs	27,098
U.S. Capitol Police	24,052
Department of Justice	16,106
Department of Health & Human Serv.	14,846
Natl. Aero. and Space Admin.	14,130
General Services Administration	13,361
Department of Commerce	11,636
Department of State	10,349
Department of Energy	9,824
Department of Agriculture	6,559
Social Security Administration	5,263
Fed. Emerg. Mgmt. Admin.	4,348
Department of Education	4,108
Dept. of Housing & Urban Devel.	3,813
Department of Interior	3,805
Securities and Exchange Comm	2,645
Department of Labor	2,174
U.S. Agency for International Devel.	2,151
Office of Personnel Management	1,838
Library of Congress	1,814
U.S. Postal Service	1,753
Federal Deposit Insurance Corp.	1,489
Broadcasting Board of Governors	1,233
Small Business Administration	878
National Institute for Literacy	870
US House of Representatives	735
Federal Trade Commission	653
Natl. Archives & Records Admin.	593
Central Intelligency Agency	63
National Mediation Board	33
Other Miscellaneous Agencies	118,551
Total	$ 1,087,923

Budget Functional Classification	Gross Cost to Generate Intragovernmental Earned Revenue
054 Defense-Related Activities	$ 318,668
401 Ground Transportation	70,181
402 Air Transportation	1,427,986
403 Water Transportation	220,115
407 Other Transportation	474,006
808 Other General Government	4,890
Total	$ 2,515,846

Intragovernmental Non-Exchange Revenue:

(Dollars in Thousands)

Trading Partner	Transfers-In	Transfers-Out
Executive Office of the President	$ 87,500	$ -
Department of the Treasury	113,142	(50,094)
General Services Administration	-	(26,970)
Environmental Protection Agency	-	(15,000)
Department of Interior	-	(6,105)
Department of Defense	23,168	(9,029)
Other Miscellaneous Agencies	20,250	(11,361)
Total	$ 244,060	$ (118,559)

HERITAGE ASSETS SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2002
NUMBER OF PHYSICAL UNITS

Heritage Assets:	Units as of 09/30/01	Additions	Withdrawals	Units as of 09/30/02
Personal Property:				
Collections				
Artifacts	17,715	1,293	132	18,876
Display Models	473	1	1	473
Museum	450	1	0	451
Other Collections	98	0	0	98
Total Collections	18,736	1,295	133	19,898
Other Non-Collection Types				
Sunken Vessels	59	0	0	59
Sunken Aircraft	1	0	0	1
Total Non-Collection Types	60	0	0	60
Total Personal Property Heritage Assets	18,796	1,295	133	19,958

Heritage Assets:	Units as of 09/30/01	Additions	Withdrawals	Units as of 09/30/02
Real Property:				
Buildings and Structures	420	545	61	904
Memorials	2	0	0	2
Recreational Areas	2	0	0	2
Other Historical Areas	24	0	10	14
Total Real Property Heritage Assets	448	545	71	922

Artifacts are those of the U.S. Coast Guard and Maritime Administration. Maritime Administration artifacts are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies. Coast Guard artifacts can be divided into four general areas: ship's equipment, lighthouse and other aids-to-navigation items, military uniforms, and display models. The addition of artifacts is the result of gifts to the Coast Guard.

Ship's equipment is generally acquired when the ship is decommissioned and includes small items such as sextants, ship's clocks, wall plaques, steering wheels, bells, binnacles, engine order telegraphs, and ship's name boards. Conditions vary, but much is worn out from decades of use.

Aids-to-navigation items include fog and buoy bells, lanterns, lamp changing apparatus, and lighthouse lenses. Buoy equipment tends to be worn out and is usually acquired only when new technology makes it obsolete. Classical lighthouse lenses vary greatly in condition. The condition is normally dependent on how long the item has been out of service and not maintained. Most of the good lenses go to local museums or Coast Guard bases as display items.

Military uniforms are generally donated by retired Coast Guard members, and include clothing as well as insignia and accoutrements. Most clothing is in fair to good condition, particularly full dress items which saw little daily wear.

Display Models are mostly of Coast Guard vessels and aircraft. These are often builders' models. In addition to being accurate and valuable, they are generally in very good condition. Builders' models are acquired by the Coast Guard as part of the contracts with the ship or aircraft builders. The withdrawal of display models was due to wear and tear.

Museum and Other Collections are owned by the Maritime Administration. They are merchant marine artifacts, composed of ships' operating equipment, obtained from obsolete ships. They are inoperative and in need of preservation and restoration. Museum items are on loan to organizations whose purpose is historic preservation, education, and remembrance, open to the public during regularly scheduled hours. Other collections are on loan to public and private entities, the display of which is incidental to maritime affairs, such as county and state buildings, port authorities, pilots associations, public and college libraries, and other organizations.

Non-Collection Type heritage assets are sunken vessels and aircraft owned by the Coast Guard under the property clause of the U.S. Constitution, Articles 95 and 96 of the International Law of the Sea Convention, and the sovereign immunity provisions of Admiralty law. Despite the passage of time or the physical condition of these assets, they remain Government-owned until the Congress of the United States formally declares them abandoned. The USCG desires to retain custody of these assets to safeguard the remains of crew members who were lost at sea, to prevent the unauthorized handling of explosives or ordnance which may be aboard, and to preserve culturally valuable relics of the USCG's long and rich tradition of service to our nation in harm's way.

Buildings and Structures include Union Station in Washington, D.C. Union Station is an elegant and unique turn-of-the-century rail station in which one finds a wide variety of elaborate, artistic workmanship characteristic of the period. Union Station is listed on the National Register of Historic Places. The station consists of the renovated original building and a parking garage which was added by the U.S. Park Service. The Federal Railroad Administration received title to Union Station through appropriated funds and assumption of a mortgage. Mortgage payments are made by Union Station Venture Limited which manages the property. Union Station Redevelopment Corporation, a non-profit group instrumental in the renovation of the station, sublets the operation of the station to Union Station Venture Limited.

As a matter of public law and policy, Coast Guard does not acquire or retain heritage buildings and structures without an operational use. Most real property, even if designated as historical, is acquired for operational use and is transferred to other government agencies or public entities when no longer required for operations. In the majority of cases, therefore, any historical property owned by Coast Guard is multi-use heritage. All multi-use heritage assets are reflected on the balance sheet.

Of the Coast Guard buildings and structures designated as heritage, including memorials, recreational areas and other historical areas, over two-thirds are multi-use heritage. The remaining are historical lighthouses, which are no longer in use and awaiting disposal; their related assets; and a gravesite.

During the past year, Coast Guard performed a comprehensive review of buildings and structures to validate historical classification. In addition to reviewing assets currently classified as heritage and multi-use heritage, civil engineering facilities were also tasked with evaluating other assets, which due to year of construction and/or co-location with a historical lighthouse, could also be reclassified as heritage. This validation resulted in an increase of heritage assets but had no effect on the balance sheet.

Financial information for multi-use heritage assets is presented in the principal statements and notes.

NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT SUMMARY
NUMBER OF PHYSICAL UNITS AND ACQUISITION COSTS

SEPTEMBER 30, 2002

(Dollars in Thousands)

National Defense Reserve Fleet Vessels	Units	Original Cost	Capital Acquisition Improvements	MARAD Acquisition Total	Cost
Ready Reserve Fleet Vessels	76	$ 859,163	$ 591,078	$ 1,450,241	$ 1,101,458
Retention Vessels	65	244,757	43,022	287,779	232,554
Scrap Ships	133	2,833,730	280,313	3,114,043	571,427
Total	274	$ 3,937,650	$ 914,413	$ 4,852,063	$ 1,905,439

All DOT National Defense Property, Plant, and Equipment (PP&E) is in the Maritime Administration (MARAD). The data continue to be refined. Capital improvements reflect all costs on record, some dating to the late 1970's.

Original cost is the original cost of the assets to MARAD or the cost to the Federal entity that originally purchased the assets and subsequently transferred the assets to MARAD. The MARAD acquisition cost is the value of the assets transferred and/or acquired by MARAD as if they were recorded under FASAB No. 6, Accounting for Property, Plant and Equipment (PP&E). FASAB No. 6 requires the cost of general PP&E transferred from other Federal entities to be the cost recorded by the transferring entity for the PP&E, net of accumulated depreciation or amortization. If the receiving entity cannot ascertain those amounts, the cost of the PP&E shall be its fair value at the time transferred. In this case, fair value is equal to the net book value of the assets as if depreciation took place since the date of the original acquisition.

NONFEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2002
TRANSPORTATION INVESTMENTS
(Dollars in Thousands)

Surface Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Highway Administration					
Federal Aid Highways (HTF)	$19,967,116	$ 22,741,808	$ 24,920,221	$ 25,876,082	$ 29,377,231
Other Highway Trust Fund Programs	119,276	124,705	42,269	85,807	211,883
General Fund Programs	173,230	90,587	151,011	44,159	31,616
Appalachian Development System	187,173	137,265	157,219	23,801	146,306
Federal Motor Carrier	0	0	91,822	125,261	149,091
Federal Transit Administration					
Discretionary Grants	$ 1,872,945	$ 1,523,668	$ 1,199,725	$ 721,774	$ 495,322
Formula Grants	1,729,350	2,174,323	2,791,855	3,978,247	4,283,634
Capital Investment Grants	0	248,844	1,071,361	1,902,425	2,371,521
Washington Metro	183,626	161,834	108,518	115,856	89,227
Interstate Transfer Grants	2,693	10,602	836	2,716	8,155
Physical Property Investments	$24,235,409	$ 27,213,636	$ 30,534,837	$ 32,876,128	$ 37,163,986

Surface Transportation Nonfederal

Air Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Aviation Administration					
Airport Improvement Program	$ 1,436,541	$ 1,612,867	$ 1,375,293	$ 2,178,576	$ 2,933,542
Air Transportation Nonfederal Physical Property Investments	$ 1,436,541	$ 1,612,867	$ 1,375,293	$ 2,178,576	$ 2,933,542
Total Nonfederal Physical Property Investments	$25,671,950	$ 28,826,503	$ 31,910,130	$ 35,054,704	$ 40,097,528

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

The **Federal Transit Administration** provides grants to State and local transit authorities and agencies.

Discretionary grants provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Discretionary grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related activities.

Formula grants provide capital assistance to urban and nonurban areas and may be used for a wide variety of mass transit purposes, including planning, construction of facilities, and purchases of buses and railcars. Funding also includes providing transportation to meet the special needs of elderly individuals and individuals with disabilities.

Capital investment grants were created in the Transportation Equity Act for the 21st Century (TEA-21) to replace Discretionary grants. They continue to provide capital grants for new fixed guideway systems and extensions to existing fixed guideway systems (new starts), fixed guideway modernization, and bus and bus-related facilities.

Washington Metro provides funding to support the construction of the Washington Metrorail System.

Interstate Transfer Grants provided Federal funding from FY 1976 through FY 1995 to allow States and localities to fund transit capital projects substituted for previously withdrawn segments of the Interstate Highway System.

The **Federal Aviation Administration** (FAA) makes project grants for airport planning and development under the Airport Improvement Program (AIP) to maintain a safe and efficient nationwide system of public-use airports that meet both present and future needs of civil aeronautics. FAA works to improve the infrastructure of the nation's airports, in cooperation with airport authorities, local and State governments, and metropolitan planning authorities.

HUMAN CAPITAL INVESTMENT EXPENSES
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2002
(Dollars in Thousands)

Surface Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Highway Administration					
National Highway Institute Training	$ 2,716	$ 2,540	$ 7,304	$ 3,202	$ 9,146
Federal Transit Administration					
National Transit Institute Training	3,116	3,600[5]	3,790	3,550[6]	3,946[2]
Research and Special Programs Administration					
Hazardous Materials (MAZMAT) Training	3,849	5,014	7,778	7,771	7,763
Surface Transportation Human Capital Investments	$ 9,681	$ 11,154	$ 18,872	$ 14,523	$ 20,855

Maritime Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Maritime Administration					
State Maritime Academies Training[7]	$ 7,900	$ 7,550	$ 7,773	$ 8,257	$ 8,257
Additional Maritime Training	453	463	463	463	463
Maritime Transportation Human Capital Investments	$ 8,353	$ 8,013	$ 8,236	$ 8,720	$ 8,720
Total Human Capital Investments	$ 18,034	$ 19,167	$ 27,108	$ 23,243	$ 29,575

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

The National Transit Institute of the **Federal Transit Administration** develops and offers training courses to improve transit planning and operations. Technology courses cover such topics as alternative fuels, turnkey project delivery systems, communications-based train controls, and integration of advanced technologies.

The **Research and Special Programs Administration** administers Hazardous Material Training (Hazmat). The purpose of Hazmat Training is to train State and local emergency personnel on the handling of hazardous materials in the event of a hazardous material spill or storage problem.

RESEARCH AND DEVELOPMENT INVESTMENTS
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2002
(Dollars in Thousands)

Surface Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Highway Administration					
Intelligent Transportation Systems	$ 189,612	$ 286,105	$ 144,734	$ 103,980	$ 124,950
Other Applied Research & Development	123,739	137,588	132,634	118,425	183,142
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	5,966	5,912	5,476	1,931	1,931[8]
Transit University Transportation Center	2,556	2,280	8,971	3,492	8,168
Research Training and Human Resources	24	0	0	0	0
Discretionary/Capital Investment Grants	48	48	24	0	0
Research and Special Programs Administration					
Applied Research and Development					
Research and Technology	$ 1,738	$ 2,540	$ 1,963	$ 3,318	1,608
Pipeline Safety	792	1,780	1,980	1,404	4,000
Hazardous Materials	313	758	1,326	1,366	233
Emergency Transportation	35	204	198	244	137
Surface Transportation Research and Development Investments	$ 324,82	$ 437,215	$ 297,306	$ 234,160	$ 324,169

Air Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Aviation Administration					
Research and Development Plant	$ 11,254	$ 14,290	$ 12,800	$ 46,988	$ 44,480
Applied Research	103,274	118,834	99,777	120,395	59,150
Development	48,237	18,358	7,175	3,419	603
Administration	54,179	36,466	46,219	10,130	3,020
Air Transportation Research and Development Investments	$ 216,944	$ 187,948	$ 165,971	$ 180,932	$ 107,253

Maritime Transportation:

U.S. Coast Guard

Applied Research, Development, Test and Evaluation:					
Marine Safety	$ 9,416	$ 10,069	$ 8,936	$ 8,860	$ 9,171
Comprehensive Law Enforcement	4,228	4,521	4,013	3,978	4,117
Marine Environmental Protection	3,230	3,454	3,065	3,038	3,144
Waterways Management	2,701	2,889	2,563	2,545	2,634
Maritime Transportation Research and Development Investments	$ 19,575	$ 20,933	$ 18,577	$ 18,421	$ 19,066
Total Research and Development Investments	$ 561,342	$ 646,096	$ 481,854	$ 433,513	$ 450,488

The **Federal Highway Administration's** research and development programs are earmarks in the appropriations bills for the fiscal year. Typically these programs are related to safety, pavements, structures, and environment. Intelligent Transportation Systems were created to promote automated highways and vehicles to enhance the national highway system. The output is in accordance with the specifications within the appropriations act.

The **Federal Transit Administration** supports research and development in the following program areas:

Research and development in Transit Planning and Research supports two major areas: the National Research Program and the Transit Cooperative Research Program. The National Research Program funds the research and development of innovative transit technologies such as safety-enhancing commuter rail control systems, hybrid electric buses, and fuel cell and battery-powered propulsion systems. The Transit Cooperative Research Program focuses on issues significant to the transit industry with emphasis on local problem-solving research.

Transit University Transportation Centers, combined with funds from the Highway Trust Fund, provide continued support for research, education, and technology transfer.

Research and development activities were funded under the Research Training and Human Resources program until FY 1993. Since FY 1993, these activities have been funded under the Transit Planning and Research Program.

Discretionary Grants funded the National Research Program in FY 1992.

The **Research and Special Programs Administration** funds research and development activities for the following organizations and activities:

The Office of Pipeline Safety is involved in research and development in information systems, risk assessment, mapping, and non-destructive evaluation.

The Office of Hazardous Materials is involved in research, development, and analysis in regulation compliance, safety, and information systems.

The Office of Emergency Transportation is involved in research and development in mapping software for the Crisis Management Center, transportation policy, and outreach efforts.

The Office of Research and Technology is involved in research and development for the University of Technology and Education.

The **Federal Aviation Administration** (FAA) conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Research priorities include aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved in-flight icing and ground de-icing operations; better tools to predict and warn of weather hazards, turbulence and wake vortices; aviation medicine, and human factors.

The **U.S. Coast Guard** funds research, development, testing, and evaluation in the following program areas:

Marine Safety research supports the Coast Guard and Departmental goal of safety by eliminating deaths, injuries, and property damage associated with maritime transportation, fishing, and recreational boating. Two major initiatives show great potential to help reduce the number of accidents on U.S. waterways: the development of risk management analytical tools for marine inspection and regulatory missions, and the development of fatigue countermeasures that minimize human error and reduce crew fatigue. The first pinpoints root-cause safety problems from the galaxy of components that can malfunction on complex marine

engineering systems. The second addresses the 80% of maritime mishaps in which human error was the direct cause or was a major contributing factor. Other Marine Safety research and development initiatives are focused on more traditional research areas such as: improving the Computer-Assisted Search Planning (CASP) system used in tactical search and rescue (SAR) operations by more accurately applying all information available on wind, currents, survivor characteristics (i.e., life raft or personal flotation device); reducing the threat of shipboard fires by testing and evaluating ship fire safety systems; improving the coordination of Coast Guard operations through the use of new communications systems; and encouraging state-of-the-art marine engineering design through membership in the Ship Structure Committee (SSC), an interagency consortium that coordinates research to enhance marine safety.

Comprehensive Law Enforcement research supports the Coast Guard's performance goal of maritime security and DOT's strategic goal of national security. These research projects evaluate detection capability improvements, including identifying new technology to counter threats to Coast Guard detection and search devices, resulting in increased probability of detecting illegal smuggling and immigration.

Marine Environmental Protection research supports the Coast Guard's performance goal of protection of natural resources and DOT's strategic goal of human and natural environment. Marine Environmental Protection R&D projects focus on pollution prevention and response improvements, including developing predictive models and automated tools to improve spill response, and evaluating in-situ burning as a spill response tool. The Coast Guard R&D program supports pollution response strategies by improving the Coast Guard's ability to mobilize and respond to major oil and hazardous substance discharges, mitigating the effects on the environment from these pollutants, and improving cleanup capabilities. The Federal Oil Pollution Research and Technology Plan maps the coordination of activities among responsible Federal agencies and industry to upgrade spill response technology by developing, testing, and evaluating state-of-the-art training and command and control systems, equipment, and procedures.

Waterways management research supports the Coast Guard and Departmental mobility goal and the Departmental goal of economic growth and trade. Both of these goals rely on establishing an accessible, seamless, efficient, and flexible maritime transportation system. Coast Guard R&D is working to develop computerized tools to more effectively and efficiently manage their Aids to Navigation system.

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[1] For security reasons, specifics concerning the weaknesses and vulnerabilities we identified and our audit procedures are not discussed in this report, but were provided to DOT managers during the audit.

[2] At the time this Top Management Challenges report was prepared, DOT's FY 2003 budget had not been finalized. FY 2003 budget figures shown in this report are based on FY 2003 Budget in Brief, Office of the Secretary of Transportation publication, dated February 4, 2002, unless otherwise noted.

[3] The seven Operating Administrations/Offices operating on Delphi are the Federal Transit Administration, Federal Railroad Administration, National Highway Traffic Safety Administration, Research and Special Programs Administration, Bureau of Transportation Statistics, Surface Transportation Board, and the Office of the Secretary (including the Office of Inspector General and the Transportation Administrative Service Center).

[4] Unless otherwise stated, all years are fiscal years based on Amtrak's fiscal year of October 1 to September 30, the same as the Federal fiscal year.

[5] Estimate based on enacted budget authority for FY 1997, FY 1998, and FY 1999.

[6] Estimates based on enacted budget authority for FY 1998, FY 1999, FY 2000, and FY 2001, outlayed based on approved outlay rates for the National Transit Institute (5%, 4%, 50%, and 5%).

[7] Does not include funding for the Student Incentive Payment (SIP) Program which produces graduates who are obligated to serve in a reserve component of the United States armed forces.

[8] Estimate is based on the FY 2001 amount.