FINANCIAL MANAGEMENT PERFORMANCE HIGHLIGHTS

DOT's budget is supported primarily by two types of revenue sources: trust funds and direct receipts, and general funds. Trust funds derive from revenue from special fees, such as motor fuel taxes and airline ticket taxes. More than two-thirds of the Department's funding is derived from trust funds and other fees. 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. General revenue funds are obtained from the general taxes of the United States.

TRANSPORTATION EQUITY ACT FOR THE 21ST CENTURY (TEA-21)

On June 9, 1998, the President signed into law the Transportation Equity Act for the 21st Century (TEA-21) authorizing highway safety, transit, and other surface transportation programs for the next 6 years. TEA-21 builds on the initiatives established in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). This new Act combines the continuation and improvement of current programs with new initiatives to meet the challenges of improving safety as traffic continues to increase at records levels, to protect and enhance communities and the natural environment while providing transportation, and to advance America's economic growth and competitiveness through efficient and flexible transportation.

Significant Features of TEA-21 include:

- ✓ Assurance of a guaranteed level of Federal funds for surface transportation through FY 2003.
- ✓ Extension of the Disadvantaged Business Enterprises program.
- ✓ Strengthening of safety programs across DOT.
- ✓ Continuation of the program structure established under the ISTEA legislation and addition of new programs.
- ✓ Investment in research and its application.
- ✓ Extension of the highway-user taxes through September 30, 2005, at the same rates in effect prior to TEA-21 enactment.

Significant features of TEA-21 financing include:

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

- ✓ ***Authorizations and Spending:*** The minimum level of spending for highways is keyed to the projected receipts of the Highway Account of the Highway Trust Fund and will be adjusted as new receipt projections and actual receipts become available. The guaranteed funding for transit programs has a single component—the minimum level of spending amount—which is not keyed to Trust Fund receipts.

- ✓ ***Increases and Decreases:*** A portion of any increase in receipts to the Highway Account is reserved for the Federal-aid highway and highway safety construction programs allocated by the Secretary of Transportation—programs that are not apportioned by statutory formula. Should decreases be necessary, the reductions would be made in succeeding fiscal years and applied proportionally to all Federal-aid highway and highway safety construction programs except Emergency Relief.

- ✓ ***Obligation Limitations:*** Spending limitations are applied to most programs. However, obligation limitations set aside each year for certain programs do not expire if not used by the end of the fiscal year, but can be carried over to future years.

INNOVATIVE FINANCING

DOT continues to build on opportunities provided by transportation legislation by using innovative financing techniques that move construction projects ahead faster, cut red tape, and supplement Federal funds with private and non-Federal public investment. The Transportation Infrastructure Finance and Innovation Act (TIFIA) of TEA-21 will continue this practice by filling gaps in market funding and leveraging additional non-Federal resources. It provides Federal credit assistance to major transportation investments of critical national importance, or which cross jurisdictions or traditional modal boundaries and sometimes have trouble getting funded despite their value. They will be funded through direct Federal loans, loan guarantees, and standby lines of credit. Project selection is based on the extent to which it generates economic benefits, leverages private capital, and promotes innovative technologies.

Examples of qualifying projects are intermodal facilities, border crossing infrastructure, expansion of multi-state highway trade corridors and other investments with regional and national benefits.

TIFIA's $530 million contract authority could support up to $10.6 billion of credit assistance for everything from roads and bridges to freight transfer facilities to MagLev systems. To qualify, a project must cost at least $100 million or 50 percent of a State's annual apportionment of Federal-aid funds, whichever is less, it must be supported in whole or in part from user charges or other non-Federal dedicated funding sources, and it must be included in a State's transportation plan.

Another major innovative financing initiative is State Infrastructure Banks (SIBs). SIBs use Federal seed capital to leverage private investment through loans and credit enhancement assistance, and are meant to serve as ongoing, revolving loan funds. As projects are implemented, loans are repaid to the SIB, and the proceeds are used for new projects in a continuing cycle. Thirty-nine States were authorized to capitalize SIBs using to ISTEA funds. TEA-21 establishes a new SIB pilot program for four or more States. These States may continue to capitalize the SIBs using TEA-21 funds. The previous capitalization limit, 10 percent of a State's Federal funds, has been lifted, enabling these States to determine the level of funds they need to make their SIBs work.

AUDITED FINANCIAL STATEMENTS

For FY 1998 DOT prepared its third audited consolidated financial statement which presented to the American public a comprehensive overview of DOT's major programs, overall financial position, and resulting benefits and services.

The separate Saint Lawrence Seaway Development Corporation financial statement, prepared per the requirements of the Government Corporation Control Act, received a clean opinion, as it has since its inception.

The Highway Trust Fund financial statement covering approximately 60 percent of DOT budgetary resources received an unqualified opinion on the Balance Sheet, the Statement of Net Cost and the Statement of Changes in Net Position. The OIG was unable to express an opinion on the FAA Financial Statement, the DOT Consolidated Financial Statement or the new Statement of Budgetary Resources and Statement of Financing of the Highway Trust Fund. There were continuing material weaknesses in both FAA and Coast Guard relating to the validation and valuation of property, plant and equipment and inventory and related property. New questions were also encountered as a result of auditing the new financial statement formats.

FAA and Coast Guard are addressing the asset management problems through the execution of detailed corrective action plans extending over multiple years and involving numerous offices. These are expected to be completed by the end of FY 1999 and validated by audit. Problems with the new financial statement formats will be addressed to the extent possible in the Department's current core accounting system and with the implementation of a new DAFIS Financial Statements Module II. However, complete resolution of some of the problems with the financial statement formats may have to await the full implementation of Delphi, the Department's commercial off-the-shelf (COTS) core accounting system replacement, which is currently scheduled for June 2001.

Financial Statement Progress

	FY 93	FY 94	FY 95	FY 96**	FY 97	FY 98
Financial Statements						
Prepared	9	9	8*	4	4	4
Audited	5	9	8	4	4	4
Results of Audits						
Opinions: Unqualified	1	2	4	2	1	2***
Qualified	1	2	3	--	1	--
Disclaimed	3	5	1	2	2	2

*Only eight FY 1995 statements were prepared and audited because, in FY 1994, Washington Metropolitan Area Transit Authority refinanced its debt eliminating any federal liability and reporting responsibility.

**Coverage of DOT accounts changed from FY 1995 to FY 1996 with the Government Management Reform Act requirement that financial statements, beginning with FY 1996, be prepared and audited for all DOT activities instead of limiting coverage to trust, revolving and commercial funds. Except for three stand-alone statements, the FY 1996 Consolidated Financial Statement replaced most individual statements reducing the number of statements from eight to four.

***The Highway Trust Fund received an unqualified opinion on three of five financial statements. The remaining two new statements received a disclaimer.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

DOT has one outstanding material weakness reportable under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). DOT's Intermodal Data Network which connects local area networks within DOT agencies was found vulnerable to unauthorized access. This material weakness was identified in FY 1996 and remains outstanding for correction as of December 1999. Appropriate procedures have already been established, and all that remains is to finalize disaster recovery plans.

FMFIA Section 2: Material Weaknesses Pending
Intermodal Data Network vulnerability to unauthorized access.
FMFIA Section 4: Material Nonconformances Pending
None

We reported a concern in FY 1998 relative to FAA headquarters' Property Management Program. Many improvements have been made in FAA's property area. We conducted physical inventories and have been reconciling the property systems with the general ledger accounts in the Departmental Accounting and Financial Information System (DAFIS). We are continuing to develop detailed support files for work-in-process, and have provided tools for FAA personnel to assist in the reconciliation of all property accounting systems.

Finally, we have been working hard to set up and reinforce internal controls throughout the Department to eliminate fraud. The FAA Headquarters had an embezzlement of funds which was quickly discovered.

YEAR 2000 (Y2K) DOT FIXES ITS FINANCIAL SYSTEMS

Over the past year, all critical Department-wide financial systems' application software was renovated and validated to be Y2K ready. These systems include: DAFIS, the Consolidated Uniform Payroll System (CUPS), the Consolidated Personnel Management Information System (CPMIS) and the Integrated Personnel and Payroll System (IPPS).

Full Y2K implementation of these systems required that the computer environment, telecommunications and feeder and extractor systems also be Y2K ready. All the Department-wide systems operate in the same computing environment, ICEMAN, which is contracted with the U.S. Department of Agriculture by FAA. With the Y2K validation of ICEMAN platform in January 1999, these Department-wide applications were installed and operating in a Y2K production environment. During the first quarter of FY 1999, ICEMAN supported integrated and forward date testing of applications in this Y2K environment.

The telecommunications systems which support both the Department-wide systems, as well as the feeder and extractor systems, were Y2K upgraded before the end of calendar year 1998. Successful ICEMAN testing of telecommunications also took place before year end.

By far the most critical issue is all the feeder and extractor systems that interface with the Department-wide financial systems, especially DAFIS. Because CUPS and DAFIS are payments systems, DOT interchanged files with U.S. Department of the Treasury. The DOT interface files successfully tested with Treasury's payment systems.

DOT identified and tracked the progress of DAFIS major feeder and extractor systems to ensure timely completion of their renovation or replacement work. All 54 major interfacing systems are currently Y2K ready. Major financial interfacing systems include both mission critical and non-mission critical from an agency perspective.

Although the critical Department-wide financial applications are Y2K ready, they will not be permanently "Y2K fixed." DAFIS, for example, is using a temporary fix, called Windowing, for performing Y2K date calculations and comparisons. The ultimate solution is to migrate the current system to take advantage of COTS software that is fully Y2K compliant – a process that is currently taking place in DOT's Delphi Program.

DOT Y2K SUCCESS

Under the careful watch of the entire world, the Department of Transportation and the transportation industry moved safely and efficiently into the new century. DOT fulfilled the mandate given by President Clinton and Vice President Gore to address and overcome the Y2K challenge. Just a few months ago, many people doubted that DOT systems would have a successful transition to the Year 2000 but it occurred without major incident and with only a few minor incidents. At the same time, an unprecedented outreach effort to our industry and Government partners was conducted that produced the successful transition we saw in those first days and since.

In its November 1999 Y2K progress report to OMB, DOT listed over 600 mission critical systems and over 650 non-mission critical systems which it had renovated or replaced at a cost of about $450 million. Final costs will be contained in the February reporting. For DOT financial systems, similar results were reported. Although some minor incidents were reported, the four departmental financial systems (DAFIS, CUPS, IPPS, and CPMIS), which handle DOT-wide accounting, payroll and personnel, operated effectively during and after the transition to the New Year. The multiple internal and external interfacing systems to the departmental systems performed successfully as well in the transition to the new century.

Without doubt, this success was due to the extraordinary effort of thousands of dedicated DOT employees. For more than two years, DOT employees and contractors have been diligently working to prepare DOT's internal systems. This was culminated with many individuals working round the clock over the holiday weekend to monitor and report on the worldwide transition to the New Year.

DEBT COLLECTION

The Oracle Financials Accounts Receivable application within the Coast Guard was placed into production during March 1999, bringing the pilot project undertaken by the Coast Guard on behalf of the DOT CFO to a successful conclusion. All new civil fines and penalties receivables are now entered into the new system. The balance of existing accounts in the legacy system were moved into Oracle as of August 1999. The last accounts receivable type, “Reimbursables,” will be in production before the end of calendar year 1999. This is a major step forward in complying with the requirements of the Debt Collection Improvement Act (DCIA).

This new system provides users with accurate, easy to retrieve information regarding monies owed the Coast Guard. It includes management alerts (flags) which inform the appropriate personnel when actions are required relating to billing, collection or referral of specific receivables. Additionally, the new system allows for more accurate and faster billings and quicker collections through the use of electronic lockbox transmissions. All lockboxes for collections will be automated by the end of calendar year 1999.

Several improvements have been made to support interactions with customers. These include custom billing letters which provide better explanations of charges, recording of customer calls into an electronic file to reduce misunderstandings and the ability to service customers when DAFIS is offline.

Debt Management Performance Highlights ($ in Millions)

	FY 1998	FY 1999
Direct Loans and Non-Credit Receivables	$1,146	$1,081
Collection of Receivables	152	182
Delinquent Debt	191	151
Write Offs	22	67

Payment Performance Highlights				
	FY 1998		FY 1999	
EFT:	**# of Transactions**	**% of Total**	**# of Transactions**	**% of Total**
Salaries	2,642,000	96.8	2,528,000	98.4
USCG Ret. Pay	367,000	93.9	393,000	97.9
Vendor & Misc.	555,000	55.0	980,000	64.2