U.S. Department of Transportation

AGENCY FINANCIAL REPORT

FISCAL YEAR 2016

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FOREWORD

The United States Department of Transportation's (DOT or Department) Agency Financial Report (AFR) for fiscal year (FY) 2016 provides an overview of the Department's financial performance and results to the Congress, the President, and the American people. The report details information about our stewardship over the financial resources entrusted to us. In addition, the report provides information about our performance as an organization, our achievements, our initiatives, and our challenges.

The AFR, the first in a series of reports required by the Office of Management and Budget (OMB), provides readers with an overview of the Department's highest priorities, as well as our strengths and challenges.

The Department's FY 2016 annual reporting includes the following two components:

AGENCY FINANCIAL REPORT (AFR)

The following AFR report is organized into three major sections:

The Management's Discussion and Analysis section provides executive-level information on the Department's history, mission, organization, and key activities; analysis of financial statements; systems, controls, and legal compliance; accomplishments for the fiscal year; and management and performance challenges. The FY 2016 high-level summary of performance information will be found on page 15 of the AFR. Detailed performance data are included in the Annual Performance Report (APR).

The Financial Report section provides a message from the Chief Financial Officer; the Department's consolidated and combined financial statements; the notes to the financial statements; and reports from the DOT Office of Inspector General and the independent auditors.

The Other Information section provides Improper Payments Information Act reporting details and other statutory reporting requirements including a revised OMB requirement; the Schedule of Spending; the Schedule of Net Cost by Strategic Goal; reporting on Affiliated Activities; the Summary of Financial Statement Audit and Management Assurances; the Inspector General's Statement on DOT's major management and performance challenges; Freeze the Footprint; and Civil Monetary Penalty Inflation Adjustments.

ANNUAL PERFORMANCE REPORT (APR)

The APR will be produced in conjunction with the FY 2018* President's Budget Request and will provide the detailed performance information and descriptions of results by each key performance measure. This report will also include trend data and a discussion of DOT performance.

* Available February 2017.

The APR report satisfies the reporting requirements of the following major legislation:

- Reports Consolidation Act of 2000;
- Government Performance and Results Act of 1993;
- Chief Financial Officers Act of 1990;
- Government Management Reform Act of 1994;
- Federal Managers' Financial Integrity Act of 1982;
- Federal Financial Management Improvement Act of 1996; and
- Improper Payments Information Act of 2002.

The reports will be available on DOT's Web site at: http://www.dot.gov/.

MESSAGE FROM THE SECRETARY

ANTHONY R. FOXX

This document presents the U.S. Department of Transportation's (DOT) Agency Financial Report for Fiscal Year (FY) 2016. Consistent with statute, the report provides information on DOT's financial operations and performance for the fiscal year that ended on September 30, 2016. As Secretary, I have been privileged to lead DOT in its critical work to maintain and improve the safety and efficiency of our transportation system. Supported by DOT's successful financial performance, we made significant progress toward our strategic goals and objectives in FY 2016. As we begin FY 2017, DOT will continue to lead in promoting safety and critical transportation investments that will strengthen our Nation's economy, and help develop a transportation system that will promote commerce and opportunity for all citizens.

OVERVIEW OF THE FY 2016 FINANCIAL RESULTS

Again this year, the independent auditors tasked with reviewing our financial statements have provided an unmodified opinion. This demonstrates our successful efforts to ensure that across the Department taxpayer resources are used effectively and efficiently. There is, however, always room for improvement. For example, although the Department made significant improvements in FY 2016, control issues related to information technology (IT) systems that support the grant programs of the Federal Transit Administration (FTA) continue to be a material weakness in FY 2016. In addition, the FTA had a second material weakness related to the lack of sufficient oversight of an external service provider that manages FTA's grants management system. We take any material weakness seriously, and the Department will continue to work to remediate these issues during FY 2017. As in prior years, I can represent that the financial and performance information from our systems included in this report is substantially complete and reliable. Further, with the exceptions noted in my accompanying correspondence to the President, the Department is able to provide reasonable assurance that its internal controls and financial management systems meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

The DOT's financial performance in FY 2016 supported successful operations and positive achievements across our many transportation programs. In FY 2017, the Department will continue its progress, and focus on the following broad themes: enhancing and increasing safety, closing the infrastructure gap, and modernizing our transportation system.

STRATEGIC GOALS

Close the Infrastructure Deficit

Our Nation's infrastructure has long been our economic backbone, but investments have decreased, transportation spending has been reduced, and congestion and maintenance backlogs have increased.

Fixing America's Surface Transportation (FAST) Act—In December 2015, President Obama signed the Fixing America's Surface Transportation (FAST) Act into law, the first long-term transportation bill in 10 years. This brings an end to a long period of uncertainty for State DOTs, with 36 short-term extensions. The FAST Act increases funding by roughly 11 percent over five years. This goes a long way towards building a 21st century transportation system, but is far short of what is needed to reduce road congestion and meet increasing demands on our transportation systems. While we should celebrate this bill as a milestone, members of the Congress should understand that more needs to be done.

Since last December, we have focused on distributing as much available funding as possible to states and other grantees through formula dollars and discretionary grant opportunities. Our implementation efforts are focused on five key areas:

- **Safety** is our top priority and we have taken steps to implement FAST Act provisions in this area as quickly as possible.
- To aid in **project delivery**, the FAST Act speeds up review and the permitting processes while still protecting our Nation's environmental and historic treasures, and we have a number of guidance and rulemaking documents underway to implement these provisions.
- The FAST Act provides dedicated Federal funding for **freight** programs, addressing the challenges outlined in our *Beyond Traffic* study, to deal with these growing needs.
- Building on the Administration's successful Build America Investment Initiative, the FAST Act establishes a "National Surface Transportation and **Innovative Finance** Bureau" (later established as the "Build America Bureau").
- The **research** and innovation deployment piece of the FAST Act goes hand-in-hand with the Department's efforts, and as a result, we have begun the competition for University Transportation Centers (UTC) grants, encouraging innovative transportation solutions.

Build America Bureau—The Build America Bureau (the Bureau) was formally established in July 2016 and is responsible for driving transportation infrastructure development projects by streamlining credit and grant opportunities; providing technical assistance; and encouraging innovative best practices in project planning, financing, delivery, and monitoring. To achieve this vision, the Bureau draws upon the full resources of DOT to best utilize the expertise of all of the Operating Administrations, while promoting a culture of innovation and customer service. The Bureau builds on the foundation established by the Build America Transportation Investment Center (BATIC), the single point of contact and coordination for States, municipalities, and project sponsors using Federal transportation expertise; applying for Federal transportation credit programs; and exploring ways to access private capital in public private partnerships. The Bureau combines the BATIC, Transportation Infrastructure Finance and Innovation Act (TIFIA), and Railroad Rehabilitation & Improvement Financing (RRIF) loan programs; Private Activity Bonds (PABs); and the new Fostering Advancements in Shipping and Transportation for the Long-term Achievement of National Efficiencies (FASTLANE) grant program within the Office of the Under Secretary of Transportation for Policy. The first round of FASTLANE grants totaled nearly $800 million and will be combined with other funding from Federal, State, local, and private sources to support $3.6 billion in infrastructure investment in 15 States and the District of Columbia.

Ladders of Opportunity—Transportation plays a critical role in connecting communities to economic opportunity. The DOT can help more Americans achieve their goals and lead fulfilling lives by ensuring that our transportation system provides reliable, safe, and affordable ways to reach jobs, education, and other essential services.

Our Ladders of Opportunity initiative puts the Department at the forefront of connecting people to opportunities, creates pathways to good jobs through transportation projects and training programs, and revitalizes communities that have been isolated by a lack of transportation—sometimes even by the transportation system itself. The Department has invested considerable effort into educating Americans about the powerful role that transportation can play in making sure everyone gets a fair chance. For example, in September 2016, FTA announced the award of $5 million to help American Indian and Alaska Native tribal citizens initiate, improve and enhance transit service in American Indian Country. FTA's Tribal Transit Program, which provides a transportation lifeline to rural tribal citizens by connecting them with employment, education, healthcare, and other vital services, will provide grants to 34 tribes for 35 competitively selected transit-related projects in 12 States. The Tribal Transit Program targets the transportation challenges many Native Americans face on tribal land by providing grants to fund buses, vans and transportation planning.

We are also working to implement the FAST Act and its myriad tools to expand opportunity, including new workforce programs, eligibility to support Transit Oriented Development with our core credit programs, and additional tools and funding for local planners.

To help build and restore connections, develop workforce capacity, and catalyze neighborhood revitalization, we launched the Ladders of Opportunity Transportation Employment Pilot (LadderSTEP) program in seven cities last year, where we are helping mayors complete transportation projects that will help remove barriers to opportunities and promote good economic development. By bringing together mayors, other local officials, non-profit organizations, and private investors, DOT is demonstrating that our Ladders of Opportunity goals are well within the reach of communities across America.

While we are excited by the progress we have made in our seven pilot cities, we continue to identify and elevate best practices that can spark replication and influence public transportation investment strategies—identifying barriers and opportunities to scale. Allowing the Federal Government to extend requested assistance beyond the distribution of funds has proven useful in convening partners across sectors to remove barriers to opportunity. But what has truly transformed each of these seven communities is their ability and desire to leverage funds towards transformative projects that support effective land use policy and transportation investment to enhance the quality of life for current and future generations.

Smart City Challenge—The Department launched the Smart City Challenge in response to DOT's *Beyond Traffic* framework. The bold initiatives proposed, demonstrated that the future of transportation is not just about using technology to make our systems safer and more efficient – it's about using these advanced tools to make life better for all people, especially those living in underserved communities.

In June 2016, DOT selected Columbus, OH, as the winner of the Department's Smart City Challenge. As winner of the Challenge, Columbus will receive up to $40 million from DOT and up to $10 million from Paul G. Allen's Vulcan Inc. to supplement the $90 million that the City has already raised from other private partners to carry out its plan. Using these resources, Columbus will work to reshape its transportation system to become part of a fully-integrated city that harnesses the power and potential of data, technology, and creativity to reimagine how people and goods move throughout their city. While Columbus is the winner of the Challenge, we believe each city has come out of this process with a stronger sense of how to address transportation challenges with technology and innovation.

The Smart City Challenge generated a significant amount of excitement and interest amongst cities. The seven finalist cities that were announced at South by Southwest (SXSW) in March—Austin, Columbus, Denver, Kansas City, Pittsburgh, Portland, and San Francisco—rose to the Smart City Challenge in an extraordinary way. They presented innovative concepts, proposing to create new first of a kind corridors for autonomous vehicles to move city residents, to electrify city fleets, and to collectively equip over 13,000 buses, taxis, and cars with vehicle-to-vehicle (V2V) communication.

Build on DOT's Legacy of Safety

My overriding priority is to ensure that our transportation systems are the safest and most efficient in the world. We will work to ensure that Americans experience the highest level of safety when they enter a car, board a plane, or ride on a bus or train. We work closely with our State partners to reduce the number of motor coach, truck, vehicle, aviation, pipeline, and pedestrian accidents, and we plan to continue this important work in 2017. In FY 2016, the Department stepped up safety regulation efforts in many areas including issuance of a final rule by FTA to administer a comprehensive safety program to improve the safety of Federally-funded public transportation systems which puts in place the essential foundation for FTA to help further improve safety for the millions of daily transit users and for those who operate and maintain the systems. Our initiatives include improving roadway, transit, bike, and pedestrian safety, combatting distracted driving, stopping impaired driving and other dangerous behaviors, and addressing risks in other surface transportation modes and in aviation.

In early 2016, DOT and 18 automakers finalized a historic agreement on a set of broad-ranging actions, known as Proactive Safety Principles, to help make our roads safer and help avoid the sort of safety crisis that generates the wrong kind of record-setting and headlines. DOT is also pressing forward with new guidance to promote the development of automated safety technologies which could greatly decrease the number of crashes.

In March 2016, DOT announced a key safety agreement with automakers requiring more than 99% of new vehicles to have automatic emergency braking standard by the year 2022. This safety technology could prevent thousands of crashes every year.

MODERNIZE THE TRANSPORTATION SYSTEM USING TECHNOLOGY AND PROCESS INNOVATION

Finally, we must continue to work to bring our Department and transportation system into the 21st century. In the past few years we have made great strides towards capitalizing on V2V communication, advancing the use of autonomous vehicles, and integrating Unmanned Aircraft Systems (UAS) into our National Airspace System.

V2V Technology—V2V communications, the wireless exchange of data among vehicles, offers opportunities for significant safety improvements. Our vision is that all roadway vehicles will be able to communicate with each other, providing a rich communications dataset to support a new generation of active safety applications and systems. In September 2015, we selected three locations for connected vehicle pilots. These pilots have been a success thus far, making our vision of a connected vehicle environment a reality, and we will continue to pilot and deploy this technology in the year ahead.

Automated Vehicles—We are witnessing a revolution in auto technology that has the potential to save thousands of lives. To achieve that potential, we need to establish safety guidelines for manufacturers that clearly outline how we expect automated vehicles to function. In September 2016, DOT issued the Federal Automated Vehicle Policy, laying a path forward for safe testing and deployment of new auto technologies that have enormous potential for improving roadway safety and mobility. This policy is an unprecedented and proactive step by the Federal Government to harness the benefits of transformative technology by providing a framework for how to do it safely. The policy envisions greater transparency as DOT works with manufacturers to ensure that safety is appropriately addressed on the front-end of development.

New technologies developed in the 20th century, such as seat belts and air bags, were once controversial, but have now saved hundreds of thousands of American lives. The Federal Automated Vehicle Policy is the first in a series of proactive approaches to new, lifesaving technologies to bring them to the roads safely and quickly while leaving innovators to dream up new solutions.

Unmanned Aircraft System (UAS)—In June 2016, DOT and the Federal Aviation Administration finalized the first operational rules for routine commercial use of small UAS, opening pathways to full integration into the Nation's airspace. The rule could generate more than $82 billion for the U.S. economy and create more than 100,000 new jobs over the next 10 years by harnessing new innovations safely to advance critical scientific research and save lives. We are part of a new era in aviation, and the potential for UAS will make it safer and easier to do certain jobs, gather information, and deploy disaster relief. We look forward to working with the aviation community to support innovation, while maintaining our standards as the safest and most complex airspace in the world.

CONCLUSION

In addition to this Financial Report, more detailed performance information and results will be released in the Department's Annual Performance Report in February 2017. The accompanying material provides a useful summary of our activities over the past year. Our financial operations and many ongoing initiatives in support of our country's transportation systems provide solid evidence of the work we do and the progress we made in 2016. I am proud of our accomplishments, and I am pleased to present this report.

Sincerely,

Anthony R. Foxx

MANAGEMENT'S DISCUSSION AND ANALYSIS

DOT MISSION AND VALUES

MISSION

The Department's mission is to serve the United States by ensuring a fast, safe, efficient, accessible, and convenient transportation system that meets our vital national interests and enhances the quality of life of the American people, today and into the future.

VALUES

Professionalism

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

Teamwork

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

Customer Focus

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

ORGANIZATION

HISTORY

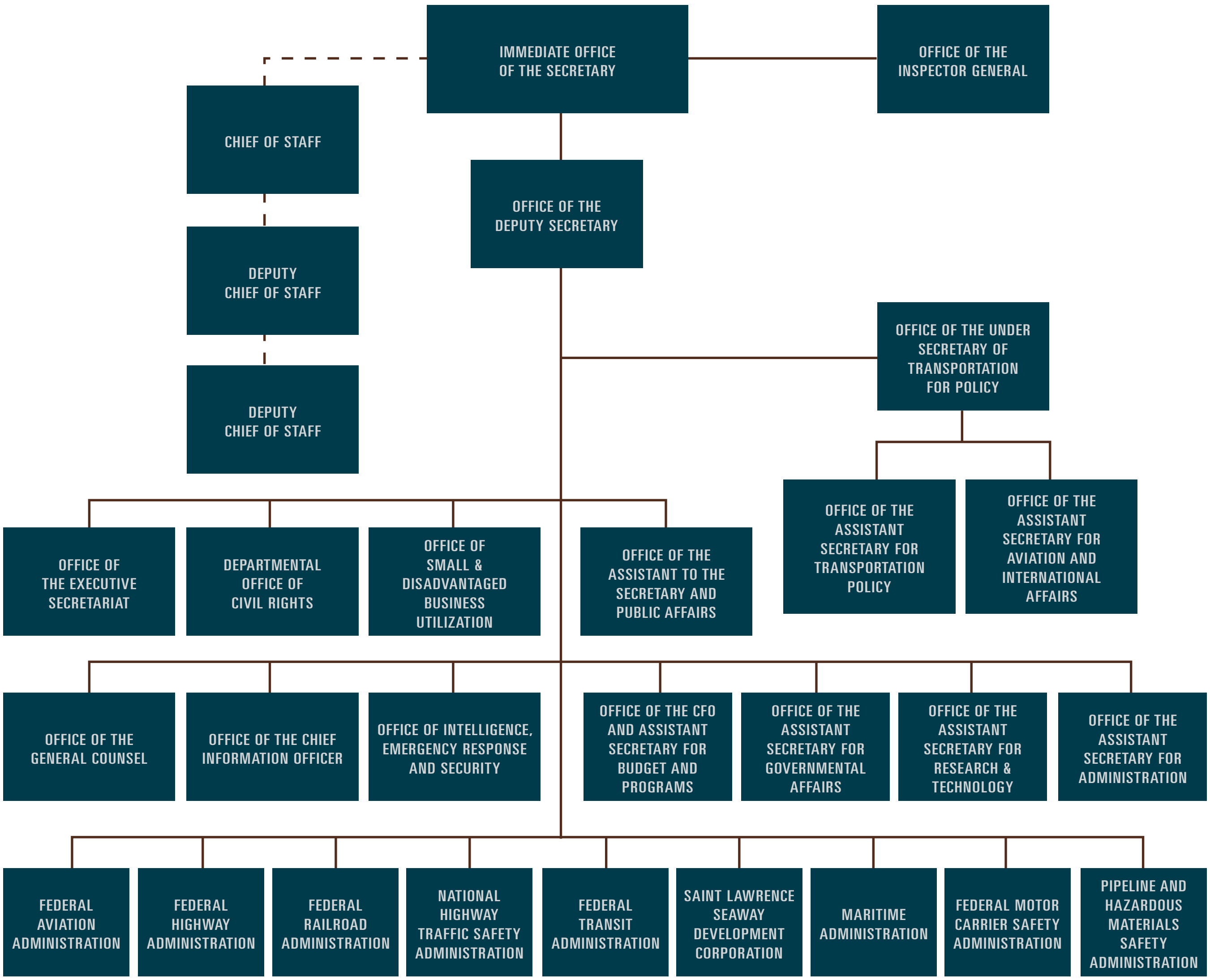
Established in 1967, DOT sets Federal transportation policy and works with State, local, and private-sector partners to promote a safe, secure, efficient, and interconnected national transportation system of roads, railways, pipelines, airways, and seaways. DOT's overall objective of creating a safer,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

HOW DOT IS ORGANIZED

DOT employs more than 55,000 people in the Office of the Secretary (OST) and through 10 Operating Administrations (OAs) and Bureaus, each with its own management and organizational structure.

OST provides overall leadership and management direction, administers aviation economic and consumer protection programs, and provides administrative support. The Office of Inspector General (OIG), while formally part of DOT, is independent by law. Pursuant to the Surface Transportation Board (STB) Reauthorization Act of 2015 (P.L. 114-110), as of FY 2016, STB became an independent agency and no longer an Operating Administration of the DOT.

ORGANIZATIONAL CHART



OVERVIEW OF LEGISLATIVE AUTHORITIES

The Secretary of Transportation, under the direction of the President, exercises leadership in transportation matters. Section 101 of Title 49 United States Code describes the United States Department of Transportation purposes as follows:

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

(b) A Department of Transportation is necessary in the public interest and to—

  (1) ensure the coordinated and effective administration of the transportation programs of the United States Government;

  (2) make easier the development and improvement of coordinated transportation service to be provided by private enterprise to the greatest extent feasible;

  (3) encourage cooperation of Federal, State, and local governments, carriers, labor, and other interested persons to achieve transportation objectives;

  (4) stimulate technological advances in transportation, through research and development or otherwise;

  (5) provide general leadership in identifying and solving transportation problems; and

  (6) develop and recommend to the President and the Congress transportation policies and programs to achieve transportation objectives considering the needs of the public, users, carriers, industry, labor, and national defense.

OPERATING ADMINISTRATIONS AND INDEPENDENT ORGANIZATIONS

OFFICE OF THE SECRETARY (OST)

The Office of the Secretary oversees the formulation of national transportation policy and promotes intermodal transportation. Other responsibilities include negotiating and implementing international transportation agreements, assuring the fitness of U.S. airlines, enforcing airline consumer protection regulations, issuing regulations to prevent alcohol and illegal drug misuse in transportation systems, and preparing transportation legislation.

FEDERAL AVIATION ADMINISTRATION (FAA)

The Federal Aviation Administration's mission is to provide the safest, most efficient airspace system in the world.

FEDERAL HIGHWAY ADMINISTRATION (FHWA)

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

FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION (FMCSA)

The Federal Motor Carrier Safety Administration's primary mission is to reduce crashes, injuries, and fatalities involving large trucks and buses.

FEDERAL RAILROAD ADMINISTRATION (FRA)

The mission of the Federal Railroad Administration is to enable the safe, reliable, and efficient transportation of people and goods for a strong America, now and in the future.

FEDERAL TRANSIT ADMINISTRATION (FTA)

The Federal Transit Administration's mission is to improve public transportation for passengers and America's communities.

MARITIME ADMINISTRATION (MARAD)

The Maritime Administration's mission is to improve and strengthen the U.S. marine transportation system to meet the economic, environmental, and security needs of the Nation.

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)

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

OFFICE OF INSPECTOR GENERAL (OIG)

The Inspector General Act of 1978, as amended, established the Office of Inspector General as an independent and objective organization within the DOT. OIG is committed to fulfilling its statutory responsibilities and supporting members of Congress, the Secretary, senior Department officials, and the public in achieving a safe, efficient, and effective transportation system.

PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION (PHMSA)

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

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (SLSDC)

The Saint Lawrence Seaway Development Corporation's mission is to serve the marine transportation industries by providing a safe, secure, reliable, efficient, and competitive deep draft international waterway, in cooperation with the Canadian St. Lawrence Seaway Management Corporation.

PERFORMANCE SUMMARY AND HIGHLIGHTS

DOT is the primary agency in the Federal Government responsible for ensuring the movement of people and goods throughout the United States and to international destinations. Working closely with other Federal and international agencies, the State and local governments, private industry, and non-profit sectors, we seek to meet the Nation's vital national interests and enhance the quality of life for all its citizens.

A complete report of DOT's performance for 2016 will be found in the Combined Performance Plan and Report that will be released with the FY 2018 President's Budget. A brief discussion of DOT's strategic, programmatic goals follows.

SAFETY

Safety is DOT's top priority. DOT's goal is to bring a Department-wide focus to reducing transportation-related fatalities and injuries. DOT tracks the safe movement of people and products on the roadways, in the air, on transit systems, on railroads, and through pipelines.

Roadway Safety

The size of the Nation's roadway system prevents DOT from releasing reliable real-time data. The most recent available data is from 2015. In 2015, there were 35,092 motor vehicle traffic fatalities in the United States. This represents a 7.2 percent increase from 2014. An estimated 2.44 million people were injured in motor vehicle traffic crashes, an increase of 4.5 percent over 2014. Overall, 2015 vehicle miles traveled (VMT) also increased by 3.5 percent from 2014 to 3,131 billion, the largest increase since 1992. There were increases in fatalities across most categories. Human choices were also a factor in the increase of fatalities, including distraction, alcohol impairment, and speeding.

Passenger vehicle occupant fatalities accounted for 59 percent of the overall increase in fatalities. Occupant fatalities increased by 6.6 percent over 2014. In 2015, 22,441 passengers were killed in crashes, the highest number since 2009. Unrestrained passenger vehicle occupant fatalities increased by 4.9 percent to 9,874.

In 2015, 4,976 motorcyclists died in crashes, the highest number since 2012. This was an increase of 8.3 percent from 2014. According to 2015 figures, in States without universal helmet laws, 58 percent of motorcyclists killed were not wearing helmets, as compared to 8 percent in States with universal helmet laws.

In 2015, 5,376 pedestrians were killed. This was an increase over 9.5 percent from 2014. This was the highest number since 1996. Pedalcyclist fatalities, 818 in 2015, increased 12.2 percent from 2014, the highest number since 1995.

There were 295 bus crash-related fatalities in 2015, an increase from the 281 fatalities in 2014. Finally, there were 4,067 fatalities in crashes involving large trucks, which are 4.1 percent more fatalities than in 2014, and the highest since 2008. Of the 4,067 fatalities, 16.4 percent were occupants of large trucks, 10.1 percent were non-occupants, and 73.5 percent were occupants of other vehicles.

ROADWAY SAFETY (FHWA, FMCSA, NHTSA)

Performance Measure	2013	2014	2015 Target	2015 Actual	Met or Not Met
AGENCY PRIORITY GOAL: Highway fatality rate per 100 million vehicle-miles traveled (VMT).	1.09(r)	1.08	1.02	1.12	Not met
Passenger vehicle occupant fatality rate per 100 million VMT.	0.79	0.77	0.82	TBD	
Motorcyclist rider fatality rate per 100,000 motorcycle registrations	55.54	54.48	62	TBD	
Non-occupant (pedestrian and bicycle) fatality rate per 100 million VMT.	0.19	0.19	0.15	0.21	Not met
Large truck and bus fatality rate per 100 million total VMT.	0.143	0.138	0.114	TBD	

Notes: TBD = to be determined. VMT = vehicle-miles traveled. Roadway safety data reported for 2016 will not be available until Fall 2017. Data reported for 2015 is still preliminary. Prior year information may have been updated from previous reports.

Aviation Safety

Aviation fatality rates are at historic lows and continue to drop over time. However, the FAA recognizes the need to continue addressing precursors to accidents in order to continue to improve the current level of safety in the national airspace. The FAA is on track to meet the General Aviation (GA) Fatal Accident Rate for its second consecutive year. The Commercial Aviation Fatality Rate is once again well below target, showcasing the great strides undertaken to ensure the safety of the American public. Although the fatal accident rate is beginning to decline, too many lives are still being lost. Last year, 384 people died in 238 general aviation accidents. The US has the largest and most diverse GA community in the world, with more than 220,000 aircraft, including amateur-built aircraft, rotorcraft, balloons, and highly sophisticated turbojets. Inflight Loss of control—mainly stalls—accounts for the largest number of GA fatal accidents.

Runway safety is also a high priority for FAA. FAA's voluntary safety reporting culture has contributed to an increase in reporting of runway safety events. As a result, FAA has been able to act on this precursor information instead of responding to accidents and fatalities which has reduced the risk. Nevertheless, in the near term, the metric is expected to continue to rise as FAA enhances its ability to detect and encourage reporting of such events. This metric is limited to the rate of Category A and B runway incursions, which are the most serious.

AVIATION SAFETY (FAA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
AGENCY PRIORITY GOAL: Number of U.S.-registered, commercial air carrier fatalities per 100 million persons onboard	6.1	0.1	6.7	0.6	Met
AGENCY PRIORITY GOAL: Number of fatal general aviation accidents per 100,000 flight hours	1.09	1.03	1.04	0.92	Met
AGENCY PRIORITY GOAL: Category A&B runway incursions per million operations	0.282	0.302	0.395	0.372	TBD

Notes: TBD = to be determined. The FY 2015 and 2016 numbers are still preliminary and subject to change.

Pipeline Safety

PHMSA projects 29 pipeline incidents involving death or major injury, which is within the target range. While pipelines are by many measures the safest mode for transporting hazardous liquid and natural gas, the products they carry are inherently dangerous. Coordination with State pipeline agencies and private industry on initiatives to strengthen the security, safety, and reliability of pipelines along with a continued focus on excavation or construction related damage have played an important role in reducing the number of deaths and injuries resulting from pipeline incidents.

Corrosion failure and equipment failure together account for over 40 percent of major hazardous liquid spills that have occurred since 2010. Human factor issues resulting in continued third party damage continue to play a role in pipeline incidents/accidents.

PIPELINE AND HAZARDOUS MATERIALS SAFETY (PHMSA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Pipeline incidents involving death or major injury	29	34	24–33	29	Met
Hazardous materials incidents involving death or major injury	27	39	20–31	18	Met

Notes: Prior year information may have been updated from previous years. FY 2016 data is still preliminary.

Rail Safety

From FY 2006 through FY 2015, total train accidents declined by 38 percent, total derailments declined by 39 percent, total highway-rail grade crossing incidents declined by 28 percent, and the number of highway-rail grade crossing fatalities decreased by 31 percent. The number of fatal accidents involving railroad employees is now about half the number in early 1990s.

RAILROAD SAFETY (FRA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Rail-related accidents and incidents per million train-miles	16.130	15.661	15.890	15.039	Met

Notes: Prior year information may have been updated from previous reports. FY 2016 data are preliminary.

TRANSIT SAFETY (FTA)

Performance Measure	2013	2014	2015 Target	2015 Actual	Met or Not Met
Transit fatalities per 100 million passenger-miles traveled	0.524	0.566	0.543	0.471	Met

Notes: Prior year information may have been updated from previous reports. FY 2015 data is still preliminary.

STATE OF GOOD REPAIR

DOT's goals also include ensuring that our Nation proactively maintains critical transportation infrastructure in a state of good repair. Recent reports on the condition of key facilities—highways, bridges, transit systems, passenger rail, and airport runways—reveal that many fall short of a state of good repair and thus compromise the safety, capacity, and efficiency of the U.S. transportation system. DOT helps its State and local government partners achieve a state of good repair through new resources aimed at improving the condition of our infrastructure. DOT also encourages its government and industry partners to make optimal use of existing capacity, minimize life-cycle costs, and apply sound asset management principles throughout the system.

The percent of travel on National Highway System (NHS) pavement with a ride quality rating of good or very good improved from 55.0 percent in 2010 to 58.7 percent in 2014. The preliminary estimate for 2015 is 60.0 percent. Based on recent trends and projections, it is anticipated that the targets for the pavement condition measure will be met. The percent of deck area on structurally deficient NHS bridges declined from 8.4 percent in 2007 to an estimated 5.3 percent in 2016. However, 5,143 bridges on the NHS are still classified as structurally deficient. The Bridges of Opportunity initiative is continuing to bring an emphasis to NHS bridges in serious or worse condition. FHWA is working to advance sound asset management practices that, when more fully implemented, will enable partner agencies to more effectively invest scarce financial resources. FHWA issued the Asset Management Final Rule on October 24, 2016. The focus of the Final Rule is to implement the MAP-21 and FAST Act provisions, which require States to develop and implement a Risk-Based Asset Management Plan for the NHS to improve or preserve the condition and performance of the NHS. FHWA has also undertaken efforts to improve pavement durability, which will have a positive impact on pavement condition measures.

MAINTAIN OR IMPROVE ROADWAY CONDITIONS (FHWA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Percent VMT on NHS roadways with good to very good ride quality	58.7%	60.0%	61.4%	N/A	Met
Percent of deck area on NHS structurally deficient bridges	6.0%	5.6%	5.5%	5.3%	Met

Notes: N/A = not available. NHS = National Highway System. VMT = vehicle-miles traveled. Prior year information may have been updated from previous years. 2015 roadway data is preliminary. 2016 actual data will be available January 2018.

RUNWAY CONDITIONS (FAA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Percent of runway pavement in excellent, good, or fair condition for paved runways in the National Plan of Integrated Airport Systems	97.6%	97.7%	93%	97.6%	Met

Note: FY 2016 data is preliminary.

ECONOMIC COMPETITIVENESS

DOT is committed to supporting the U.S. economy by fostering smart, strategic investments that serve the traveling public and facilitate freight movement.

Implementing the Data Communications Program (Data Comm) (FAA)

DataComm allows pilots and air traffic controllers to communicate through a digital interface that augments traditional methods of voice communications. DataComm is critical to the success of NextGen, enabling efficiencies not possible with the current voice system. These services will enhance safety by reducing communication errors, increase controller productivity by reducing communication time between controllers and pilots, and increase airspace capacity and efficiency while reducing delays, fuel burn and carbon emissions.

Considerably ahead of schedule, the FAA accomplished its goal to achieve Initial Operational Capability (IOC) at 6 cumulative sites by February of 2016. As of September 30th, 46 sites have achieved IOC, vastly outpacing the FAA's initial target.

DATA COMMUNICATIONS (DATA COMM) PROGRAM (FAA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
AGENCY PRIORITY GOAL: Complete Independent Operational Capability at 6 cumulative sites for tower services	N/A	N/A	6	46	Met

Note: N/A = not available.

ROADWAY CONGESTION (FHWA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Travel time reliability in urban areas	1.36	1.36	1.37	1.36	Met
Travel time reliability in top 25 domestic trade corridors	17.0	18.8	18.5	20.8	Not Met

Notes: Travel time reliability is the extra time needed in the worst congestion as a percentage of the average time needed to travel certain routes. This percentage can be used as an index to calculate additional time needed to reach a given destination on schedule.

TRANSIT RIDERSHIP (FTA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Total number of urban and rural transit boardings, based on calendar year data reported to the National Transit Database (NTD).	10.7B	10.5B	10.8B	10.3B	Not Met
Increase in the transit market share among commuters to work in at least 10 of the top 50 urbanized areas by population, when compared to a 2010 baseline.(Based on prior year's Census data, i.e. 2016 results are based on 2015 American Community Survey data)	3	4	5	N/A	N/A

Notes: N/A = not available. NTD = National Transit Database. Transit boardings for 2016 are preliminary. Data for transit market share will not be available until December 2016.

MARINE HIGHWAY ROUTE CARGO TRAFFIC (FAA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Number of Twenty Foot Equivalent (TEU) containers transported across America's Marine Highway routes	16,191	30,000	35,000	35,214	Met

Note: TEU = Twenty Foot Equivalent.

QUALITY OF LIFE

Fostering quality of life in communities by integrating transportation policies, plans, and investments with coordinated housing and economic development policies continues DOT's efforts to focus policy on where people live. The Department will pursue coordinated, place-based policies and investments that increase transportation choices and access to public transportation services for all Americans. Based on preliminary data, DOT met 2 out of 3 quality-of-life goals.

CONNECTED AND ACCESSIBLE TRANSPORTATION ROUTES (FHWA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Number of States and MPOs taking programmatic steps to correct gaps in connectivity and accessibility. New measure.	N/A	N/A	16	26	Met

Notes: MPO = Metropolitan Planning Organization. N/A = not available. Preliminary result as of June 30, 2016.

EXPAND ACCESS AND CHOICE

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Number of State DOTs with ADA transition plans that include the Public Rights of Way (FHWA)	24	26	32	31	Not Met
Number of Key Rail Stations Verified as Accessible and Fully Compliant. (FTA)	567	607	531	607	Met

Notes: ADA = Americans with Disabilities Act. DOT = department of transportation.

ENVIRONMENTAL SUSTAINABILITY

Although the transportation sector is a significant source of greenhouse gas (GHG) emissions, the Department is working to address and mitigate this challenge through strategies such as fuel economy standards for cars and trucks, more environmentally sound construction and operational practices, and expanding opportunities for shifting freight from less fuel-efficient modes to more fuel-efficient modes.

Aviation Impacts

In FY 2016, FAA changed its aviation energy efficiency goal from the reduction in aviation fuel burned to Carbon Neutral Growth based on a 2005 baseline of 133Tg of CO_2 emissions level. Since 2010, annual Tg of CO_2 emission results have been 113.3 Tg (2010), 114.6 Tg (2011), 113.3 Tg (2012), 114.3 Tg (2013), 115.2 Tg (2014), and 119 Tg (2015). These are measured on the calendar year and figures will not be available until the following year.

The FAA will likely miss its goal of reducing the US population exposed to significant aircraft noise around airports. Several trends, including the increase in population around major airports, more accurate noise modeling through improvements in the tools, and updated inputs, combined to increase the affected population above our target for FY 2016.

AVIATION ENVIRONMENTAL IMPACTS (FAA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Amount of CO_2 emissions reduced in the National Airspace System against the 2005 baseline.	115.2 Tg of CO_2	119 Tg of CO_2	≤133 Tg of CO_2	TBD	TBD
U.S. population exposed to significant aircraft noise around airports.	321,000	340,000	328,000	343,000	Not Met

Notes: CO_2 = carbon dioxide. N/A = not available. TBD = to be determined. Tg = teragrams. CO_2 data will be available in January 2017.

Hazardous Liquid Pipeline Spills

In 2016, PHMSA modified its metric to report on only the major hazardous liquid pipeline spills. The previous metric was hazardous liquid pipeline spills with environmental consequences. Major hazardous liquid pipeline spills (greater than 10,000 gallons) are the largest class of spills, and the most likely to result in environmental harm. Major spills account for 96 percent of all volume released into the environment from hazardous liquid pipelines.

Of spills reported from 2011 to 2015, the largest share of spills was attributable to corrosion failure, with both age and material frequently contributing to the failure. Further, pipeline operators may be more attuned to reporting requirements and guidance on the definition of environmental consequences, thus increasing the number of reported spills.

Other Environmental Indicators

ALTERNATIVE FUEL VEHICLES (FTA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Percent of alternative-fuel and hybrid vehicles in the Transit Revenue Service Fleet—based on prior year's NTD data (i.e., 2016 results are based on 2015 NTD data).	50%	50%	50%	50%	Met

Notes: NTD = National Transit Database. 2014 number was revised.

FHWA published a report summarizing results of a pilot program, *2013-2015 Climate Resilience Pilot Program: Outcomes, Lessons Learned, and Recommendations.* The report highlights analysis methods and lessons learned from 19 vulnerability assessment and adaptation options studies undertaken by transportation agencies across the country. FHWA is working on an update to the Climate Change and Extreme Weather Vulnerability Assessment Framework. Together with the final pilot program report, this resource will provide a clear path for transportation agencies large and small, inland and coastal, to conduct assessments and integrate the results into decision making. Additionally, a total of 31 States plus the District of Columbia are now using INVEST, the Sustainable Highways Self-Evaluation Tool, to assess the level of implementation of sustainable practices in their transportation planning; project development, design and construction, and operations and maintenance activities.

ADAPT TO CLIMATE CHANGE (FHWA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Number of State DOTs, MPOs serving a TMA, and Federal land management agencies that have conducted vulnerability assessments of the highway system to climate change and/or extreme weather events.	65	71	79	95	Met

Notes: DOT = department of transportation. MPO = Metropolitan Planning Organization. TMA = Transportation Management Area.

SHIP DISPOSAL (MARAD)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Ratio of incoming vessels to vessels removed.	1.0	1.0	1.0	1.0	Met
Cumulative number of ships (2010–2017) safely removed from the Suisun Bay Reserve Fleet for disposal.	52	54	50	55	Met

NATIONAL SECURITY AND OTHER

DOT proactively prepares to use internal authorities for the safety and resilience of the U.S. transportation systems and supports the transportation missions of the Department of Homeland Security (DHS) and other Federal departments and agencies to improve the security of domestic and intermodal transportation sectors. The Department is responsible for a number of modal emergency-preparedness programs that provide the Department of Defense (DoD) and civilian agencies with assured access to commercial transportation during times of national emergency. In the same way, DOT complies with the Small Business Act by ensuring that small businesses have an opportunity to compete and be selected for a fair amount of the agency's contract dollars.

NATIONAL SECURITY AND EMERGENCY RESPONSE (MARAD)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
Total operating days U.S.-flagged, foreign commercial ships enrolled in the Maritime Security Program are available to meet DOD requirements.	21,600	21,659	19,200	20,661	Met
Percentage of DoD-required shipping capacity complete with crews available within mobilization timelines.	96%	97%	94%	TBD	TBD
Percentage of DoD-designated commercial ports available for military use within DoD-established timelines.	94%	100%	87%	99%	Met
Number of U.S. Merchant Marine Academy graduates.	224	227	202	223	Met
Number of State Maritime Academy graduates.	734	765	660	TBD	TBD

Notes: DoD = Department of Defense. TBD = to be determined. Data for DoD required shipping capacity will be available in November 2016. Data for State Maritime Academy graduates will be available in January 2017.

FINANCIAL HIGHLIGHTS

The financial statements and financial data presented in this report have been prepared from the accounting books and records of DOT in conformity with generally accepted accounting principles (GAAP). GAAP for Federal entities are the standards and other authoritative pronouncements prescribed by the Federal Accounting Standards Advisory Board (FASAB). Department management is responsible for the integrity and fair presentation of the financial information presented in these statements.

During FY 2016, broad Department funding levels remained flat from continuing resolution authorizations even as the Fixing America's Surface Transportation Act, or the "FAST Act," Public Law (P.L.) 114-94, greatly restored Highway Trust Fund (HTF) funding levels. Higher funding levels resulting from the FAST Act were slightly offset by continued expenditure of previous disaster relief authorizations and expiring American Recovery and Reinvestment Act of 2009 (ARRA) monies.

Since 2012, the Airport and Airway Trust Fund (AATF) and the HTF have been granted extensions of authority to collect excise taxes and to make expenditures. Following several extensions of the FAA Modernization and Reform Act of 2012, Public Law (P.L.) 112-95, the FAA Extension, Safety and Security Act of 2016, P.L. 114-190, extended AATF authority through September 30, 2017. Following several extensions of the Moving Ahead for Progress in the 21st Century (MAP-21), P.L. 112-141, which extended and expanded the previous law, the "FAST Act" extended MAP-21 policies and HTF authority through September 30, 2020 and transferred an additional $70 billion from the Treasury general fund to the HTF. The law allocated $51.9 billion to the Highway Account and $18.1 billion to the Mass Transit Account.

In January 2013, the Disaster Relief Appropriations Act of 2013 provided the Department with $13 billion (subject to a 5.1 percent sequestration reduction for nonexempt budgetary accounts) for Hurricane Sandy recovery, relief and future resiliency efforts. As of September 30, 2016, the Department had obligated $7 billion and expended $3.1 billion as the projects are long-term by design.

OVERVIEW OF FINANCIAL POSITION

Assets

The Consolidated Balance Sheets report total assets of $138.3 billion at the end of FY 2016, compared with $80.9 billion at the end of FY 2015. The Fund Balance with Treasury line item decreased by $1.9 billion primarily as the result of ARRA funding disbursements for high-speed rail, transit and highway infrastructure projects. Investments increased by $57.4 billion, primarily as a result of the FAST Act restoration transfers from the Treasury's General Fund.

The Department's assets reflected in the Consolidated Balance Sheets are summarized in the following table:

ASSETS BY TYPE

Dollars in Thousands	2016	%	2015	%
Fund Balance With Treasury	$32,395,776	23.4	$34,265,425	42.4
Investments	80,034,930	57.9	22,652,315	28.0
General Property, Plant and Equipment	13,475,244	9.8	13,772,180	17.0
Direct Loans and Guarantees, Net	10,968,657	7.9	8,912,154	11.0
Inventory and Related Property, Net	937,585	0.7	909,960	1.1
Accounts Receivable	306,702	0.2	285,048	0.4
Cash and Other Assets	151,998	0.1	84,280	0.1
Total Assets	**$138,270,892**	**100**	**$80,881,362**	**100**

Liabilities

The Department's Consolidated Balance Sheets report total liabilities of $23.8 billion at the end of FY 2016, as summarized in the table below. This number represents a $3.3 billion increase from the previous year's total liabilities of $20.5 billion. The Debt line increased by $1.9 billion as borrowings from Treasury were required to support higher disbursement levels in the Department's credit loan programs.

LIABILITIES BY TYPE

Dollars in Thousands	2016	%	2015	%
Debt	$10,868,042	45.6	$8,972,231	43.8
Grant Accrual	7,918,633	33.3	6,361,980	31.1
Other Liabilities	2,388,556	10.0	2,570,698	12.5
Environmental and Disposal Liabilities	1,102,669	4.6	1,118,668	5.5
Federal Employee Benefits Payable	869,658	3.7	930,066	4.5
Accounts Payable	508,075	2.1	424,386	2.1
Loan Guarantees	161,961	0.7	105,985	0.5
Total Liabilities	**$23,817,594**	**100**	**$20,484,014**	**100**

RESULTS OF OPERATIONS

Net Costs

The Department's Net Cost of Operations was $80.6 billion for FY 2016. Surface and air costs represent 98.3 percent of the Department's total net cost of operations. Surface transportation program costs represent the largest investment for the Department at 78.3 percent of the net cost of operations. Air transportation is the next largest investment at 20 percent of total net cost of operations.

NET COSTS

Dollars in Thousands	2016	%	2015	%
Surface Transportation	$63,066,926	78.3	$58,933,336	77.5
Air Transportation	16,148,627	20.0	15,856,993	20.8
Maritime Transportation	450,828	0.6	373,745	0.5
Cross-Cutting Programs	434,515	0.5	425,459	0.6
Costs Not Assigned to Programs	478,116	0.6	449,182	0.6
Net Cost of Operations	**$80,579,012**	**100**	**$76,038,715**	**100**

Net Position

The Department's Consolidated Balance Sheets and Consolidated Statement of Changes in Net Position report a Net Position of $114.5 billion at the end of FY 2016, an 89.5 percent increase from the $60.4 billion from the previous fiscal year. The increase is mainly attributable to excess of HTF increased funding levels over expenditures in FY 2016. Net Position is the sum of Unexpended Appropriations and Cumulative Results of Operations.

RESOURCES

Budgetary Resources

The Combined Statements of Budgetary Resources provide information on how budgetary resources were made available to the Department for the year and their status at fiscal year-end. For FY 2016, the Department had total budgetary resources of $210.7 billion, which represents a 43.4 percent increase from FY 2015 levels of $146.9 billion. Budget Authority of $210.7 billion consisted of $48.7 billion in unobligated authority carried over from prior years, $89.3 billion in appropriations, $62 billion in borrowing and contract authority, and $10.6 billion in spending authority from offsetting collections. The Department's FY 2016 obligations incurred totaled $161.1 billion compared with FY 2015 obligations incurred of $98.8 billion.

Net Outlays reflect the actual cash disbursed against previously established obligations. For FY 2016, the Department had net outlays of $80.1 billion compared to FY 2015 levels of $76.2 billion, a 5 percent increase.

RESOURCES

Dollars in Thousands	2016	2015	% (Decrease)
Total Budgetary Resources	$210,668,653	$146,885,017	43.4
Obligations Incurred	161,120,491	98,772,682	63.1
Net Outlays	80,115,073	76,229,498	5.0

HERITAGE ASSETS AND STEWARDSHIP LAND INFORMATION

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

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

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

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

Financial information for Heritage assets and Stewardship Land is presented in the Financial Report section of this report in the Notes to the Principal Statements and Required Supplementary Information.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

FY 2016 FMFIA ASSURANCE LETTER TO THE PRESIDENT

THE SECRETARY OF TRANSPORTATION
WASHINGTON, DC 20590

November 10, 2016

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to report on the effectiveness of the internal control and financial management systems for the U.S. Department of Transportation (DOT) during Fiscal Year (FY) 2016. This letter provides DOT's FY 2016 Federal Managers' Financial Integrity Act (FMFIA) assurance statement, and summarizes noteworthy internal control and management efforts in support of that assurance for the fiscal year that ended on September 30, 2016.

The FMFIA holds Federal managers accountable for establishing and maintaining effective internal control and financial management systems. All DOT organizations are subject to Sections 2 and 4 of FMFIA, except the Saint Lawrence Seaway Development Corporation, which reports separately under the Government Corporations Control Act of 1945.

DOT management is responsible for establishing and maintaining effective internal control to meet the objectives of Section 2 and 4 of FMFIA. DOT conducted its internal control assessment in accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*[1]. Based on the results of the assessment, DOT can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2016, except for three material weaknesses and a nonconformance. Two of the material weaknesses and the nonconformance were also reported in FY 2015.

The first repeat material weakness is related to compliance with the Federal Information Security Management Act (FISMA) within DOT's Cybersecurity and Information Assurance program. The second repeat material weakness resulted from a series of findings related to general Information Technology (IT) controls over the Federal Transit Administration's (FTA) grants management systems. The new material weakness is related to the lack of FTA oversight and monitoring of its external service provider's controls over a new grants management system. The two FTA material weaknesses affect DOT's ability to comply with the Federal Financial Management Improvement Act (FFMIA) financial management system requirements, and therefore DOT is also reporting a nonconformance with FFMIA.

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[1] The title of OMB Circular No. A-123 was modified to Management's Responsibility for Internal Control and Enterprise Risk Management on July 15, 2016.

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The President

FMFIA (Public Law (P.L.) 97-255)

In FY 2016, DOT reviewed the control deficiencies that resulted from the assessments and audits performed during FY 2016 and open items from previous assessments and audits. DOT considered the identified control deficiencies separately and in the aggregate to identify issues that may rise to the level of a significant deficiency or material weakness.

DOT is reporting three material weaknesses under Section 2, two of which also result in a repeat nonconformance under Section 4 for the fiscal year that ended on September 30, 2016.

OMB Circular A-123, Appendix A: Internal Control over Financial Reporting

DOT management is responsible for establishing and maintaining effective internal control over financial reporting. In FY 2016, DOT conducted an assessment of the effectiveness of its internal control over financial reporting, including safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123, Appendix A. DOT assessed and tested controls over several business processes. Appendix A activities in FY 2016 included conducting an entity, process, and transaction level review of the controls over financial reporting.

In addition, an assessment was performed of the Department-wide financial management system, Delphi, including obtaining an annual Statement on Standards for Attestation Engagements 16 (SSAE 16) Service Organization Control (SOC) Type II Report for the Enterprise Services Center to determine if a financial system nonconformance exists.

As stated above, a repeat material weakness related to general IT controls over FTA's grants management system and a new material weakness related to the lack of FTA oversight and monitoring of its external service provider's controls over a new grants management were identified by the external auditors for FY 2016. The FTA has developed corrective action plans to address the material weaknesses, which are summarized in the FFMIA section below.

Based on the results of the Appendix A assessment, DOT provides reasonable assurance that its internal control over financial reporting was operating effectively as of June 30, 2016, except for the two material weaknesses stated above.

OMB Memorandum: Conducting Acquisition Assessments under OMB Circular A-123

In compliance with OMB Circular A-123, DOT conducted a comprehensive and standardized entity level review of the acquisition function to assess the strengths and weaknesses of the acquisition processes. This assessment included an evaluation of the organizational alignment and leadership, policies and processes, human capital, and information management and stewardship of the acquisition function.

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Government Charge Card Abuse Prevention Act (Charge Card Act) of 2012 (P.L. 112-194) OMB Circular A-123, Appendix B: Improving the Management of Government Charge Card Programs

The Charge Card Act establishes reporting and audit requirement responsibilities for executive branch agencies. DOT has reviewed the Purchase and Travel Card programs for compliance with the Charge Card Act, and can provide reasonable assurance that appropriate policies and controls are in place to mitigate the risk of fraud and inappropriate charge card practices.

DOT also reviewed the Travel, Purchase, and Fleet Card programs for compliance with OMB Circular A-123, Appendix B requirements. Based on the results of the evaluation, DOT can provide reasonable assurance that it is in compliance with OMB Circular A-123, Appendix B.

The Improper Payments Information Act of 2002 (IPIA; P.L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248)

OMB Circular A-123, Appendix C: Requirements for Effective Estimation and Remediation of Improper Payments

During FY 2016, DOT conducted reviews of its programs and, based on the results, provides reasonable assurance that the Department conformed to the requirements of IPIA, as amended by IPERA and IPERIA, and OMB Circular A-123, Appendix C.

In its report, *DOT's FY 2015 Improper Payment Reporting Does Not Comply with IPERA Requirements*, issued on May 13, 2016, the OIG determined that one DOT program did not meet the reduction target rate as required by IPERA. DOT met most of IPERA's compliance requirements by: (1) publishing the FY 2015 Agency Financial Report (AFR); (2) conducting program specific risk assessments; (3) publishing improper payment estimates; (4) publishing corrective action plans; and (5) reporting an improper payment rate of less than 10 percent for each program and activity susceptible to significant improper payments.

A description and results of this review are reported in the Other Information section of DOT FY 2016 AFR.

Federal Information Security Management Act of 2002 (FISMA) (P.L. 107-347)

In FY 2015, the Departmental Cybersecurity and Information Assurance program was identified by OIG as having made progress, but DOT was still not adequately in compliance with FISMA, which remains a repeat Section 2 material weakness under FMFIA. The OIG issued nine (9) recommendations, in addition to the recommendations that remained open from previous OIG FISMA reports.

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The President

During FY 2016, DOT continued execution of improvements in cybersecurity with a significant focus on implementation of Continuous Diagnostics and Mitigation (CDM) capabilities in coordination with the Department of Homeland Security, activation of EINSTEIN 3A capabilities on the Internet connection at DOT Headquarters to provide e-mail and domain name service (DNS) protection, the remediation of critical and high vulnerabilities on public facing websites, execution of phishing exercises across the agency to both assess DOT exposure to phishing attacks and raise awareness of phishing mitigation strategies among DOT personnel, closed more than half of the agency's open FISMA recommendations, and continued implementation of Information Security Continuous Monitoring (ISCM) within DOT component OAs.

The corrective actions in place to address this material weakness are reported in the Management's Discussion and Analysis section of the DOT FY 2016 AFR.

Federal Financial Management Improvement Act of 1996 (FFMIA) (P.L. 104-208)
OMB Circular A-123, Appendix D: Compliance with FFMIA

FFMIA requires establishing and maintaining financial management systems that substantially comply with the following three FFMIA Section 803(a) requirements: Federal Financial Management System Requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level.

Based on the results of the OMB Circular A-123, Appendix A, and Appendix D assessments, DOT has determined that financial management systems were in compliance with FFMIA for FY 2016 except for two material weaknesses related to FTA's IT controls.

As discussed above, a repeat material weakness related to general IT controls over FTA's grants management systems and a new material weakness related to FTA's lack of oversight and monitoring of its external service provider's controls over a new grants management system were identified by the external auditors for FY 2016. Based on FTA's material weaknesses regarding general IT controls, which affects DOT's ability to comply with FFMIA financial management system requirements, DOT is reporting a nonconformance with FFMIA.

During FY 2016, FTA performed several corrective actions to address the repeat material weakness and nonconformance related to general IT controls, which includes but is not limited to the following:

- Updating FTA's continuous monitoring policy to include reviews of its contractor's continuous monitoring scan results and Plan of Action and Milestones (POA&M).
- Creating an audit checklist that FTA's Information System Security Manager (ISSM) will leverage on a monthly basis to sign and date after reviewing documentation and remediation of vulnerabilities.
- Requesting a patch fix to strengthen the grant system's application password complexity configurations to comply with DOT's Cybersecurity Compendium requirements.

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The President

During FY 2017, FTA will implement the following corrective actions to address the two material weaknesses and a nonconformance:

- Implementing controls and establishing policies and procedures to disable/lock user accounts due to inactivity, in accordance with DOT's Cybersecurity Compendium.
- Designing and implementing policies and procedures to request, obtain, and review its contractor's SSAE 16 Report and evaluate any deficiencies and user entity considerations noted in the report.
- Developing and implementing a Service Level Agreement with its contractor that defines the expected level of service and identifies and delineates the service provider roles and responsibilities.

The target remediation dates for these corrective actions are reported in the Management's Discussion and Analysis section of the DOT FY 2016 AFR.

Disaster Relief Appropriations Act, 2013 (P.L. 113-2)
OMB Memorandum: Accountability for Funds Provided by the Disaster Relief Appropriations Act (March 12, 2013)

Based on reviews of DOT's spending practices of Hurricane Sandy recovery-related funding, DOT provides reasonable assurance that it has implemented the appropriate policies and controls to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to Hurricane Sandy.

Federal Funding Accountability and Transparency Act (FFATA) (P.L. 109-282)
OMB Memorandum: Improving Data Quality for USAspending.gov (June 12, 2013)

The DOT has reviewed the financial reporting data reported to USAspending.gov, and can provide assurance that (1) the prime Federal award financial data reported on USAspending.gov is correct at the reported percentage of accuracy, and that DOT has adequate internal controls over the underlying spending; and (2) that DOT has implemented OMB-approved processes to ensure data completeness and accuracy on USAspending.gov by using control totals with financial system data, and comparing financial data to actual award documents.

FY 2016 FMFIA ASSURANCE LETTER TO THE PRESIDENT (continued)

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The President

OMB Circular No. A-11: Preparation, Submission, and Execution of the Budget
IT Resource Statements

As required by OMB Circular, A-11:

- The Chief Information Officer (CIO) affirms that he has reviewed and approved the major IT investments portion of the budget request.
- The Chief Financial Officer (CFO) and CIO affirm that the CIO had a significant role in reviewing the planned IT support for major program objectives, and significant increases and decreases in IT resources.
- The CFO and CIO affirm that the IT Portfolio included appropriate estimates of all IT resources included in the budget request.

In the third quarter of FY 2016, the CIO, CFO and Senior Procurement Executive (SPE) issued a memorandum to require all OAs to submit full year Spend Plans. The CIO has reviewed these Spend Plans but continues to work with the OA CIOs, CFO, and SPE to improve the review process to ensure the CIO has a significant role in reviewing the requests and ensuring all requests are appropriately included in the IT Portfolio.

As a result of our FMFIA assessment in FY 2016, I conclude that the Department has made substantial progress in enhancing its internal controls and financial management program. Additional enhancements are underway in FY 2017.

Sincerely,

Anthony R. Foxx

ANALYSIS OF ENTITY'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The FMFIA requires agencies to conduct an annual evaluation of its internal control and financial management systems and report the results to the President and the Congress. The agency then prepares an annual Statement of Assurance to report on the effectiveness of its internal control and financial management systems' conformance based on the assessment.

For FY 2016, ending September 30, 2016, the Secretary of Transportation provided the President and the Congress a Statement of Assurance stating that DOT can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2016, with the exception of three material weaknesses and a nonconformance. Two of the material weaknesses and the nonconformance were also reported in FY 2015.

The first repeat material weakness is related to compliance with the Federal Information Security Management Act of 2002 (FISMA), as amended,[1] within DOT's Cybersecurity and Information Assurance program. The second repeat material weakness resulted from a series of findings related to general information technology (IT) controls over FTA's grants management systems. The new material weakness is related to the lack of FTA oversight and monitoring of its external service provider's controls over a new grants management system. The two FTA material weaknesses affect DOT's ability to comply with the Federal Financial Management Improvement Act (FFMIA) financial management system requirements, resulting in DOT reporting a nonconformance with FFMIA.

As a subset of the FMFIA Statement of Assurance, DOT is also required to report on the effectiveness of internal control over financial reporting. A separate discussion on internal controls follows at the end of this section.

FMFIA Annual Assurance Process

DOT management is responsible for establishing and maintaining effective internal control to meet the objectives of Section 2 and 4 of FMFIA. DOT is required to provide assurances related to FMFIA and FFMIA in the annual Statement of Assurance. The Statement of Assurance represents the Secretary of Transportation's informed judgment as to the overall adequacy and effectiveness of internal control within the Agency related to operations, reporting and compliance.

The head of each OA or Departmental office submits an annual FMFIA Statement of Assurance representing the overall adequacy and effectiveness of management controls within the organization to DOT's Office of Financial Management. Any identified FMFIA material weaknesses, significant deficiencies and/or system nonconformances are reported internally, as well as corrective actions put in place. Guidance for completing the OA or Departmental office Statement of Assurance and reporting on deficiencies is issued annually by DOT's Office of Financial Management.

[1] The Federal Information Security Modernization Act of 2014 amends FISMA to, among other things, (1) reestablish the oversight authority of the Director of OMB with respect to agency information security policies and practices, and (2) set forth the authority for the Secretary of the Department of Homeland Security (DHS) to administer the implementation of such policies and practices for information systems.

Objectives of Control Mechanisms

The objectives of internal control put in place within the Department's operations are consistent with the objectives of FMFIA Section 2 and 4, which include:

- Obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets;
- Audit findings are promptly resolved; and
- Financial systems conform to principles, standards, and related requirements prescribed by the Comptroller General.

Criteria for Reporting Material Weaknesses

A material weakness is defined by OMB Circular A-123 Appendix A:

- A significant deficiency that the Agency Head determines to be significant enough to report outside of the Agency as a material weakness. In the context of the Government Accountability Office Green Book, nonachievement of a relevant principle and related component result in a material weakness.
- A material weakness in internal control over operations might include, but is not limited to, conditions that:
  - Impact the operating effectiveness of Entity-Level Controls;
  - Impair fulfillment of essential operations or mission;
  - Deprive the public of needed services; or
  - Significantly weaken established safeguards against fraud, waste, loss, unauthorized use, or misappropriation of funds, property, other assets, or conflicts of interest.
- A material weakness in internal control over reporting is a significant deficiency in which the Agency Head determines significant enough to impact internal or external decision making and reports outside of the Agency as a material weakness.
- A material weakness in internal control over external financial reporting is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
- A material weakness in internal control over compliance is a condition where management lacks a process that reasonably ensures preventing a violation of law or regulation that has a direct and material effect on financial reporting or significant effect on other reporting or achieving Agency objectives.

Assessing Internal Controls

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*,[2] defines management's responsibility for enterprise risk management

[2] The title of OMB Circular No. A-123 was modified to *Management's Responsibility for Internal Control and Enterprise Risk Management* on July 15, 2016.

and internal control. The assurance statement is based on assessments performed during FY 2016. The assessments for FY 2016 included the following, utilizing applicable guidance:

- Appendix A, *Internal Control Over Financial Reporting*[3]
- Appendix B, *Improving the Management of Government Charge Card Programs*
- Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*
- Appendix D, *Compliance With the Federal Financial Management Improvement Act*
- *Conducting Acquisition Assessment under OMB Circular A-123*

Management's Statement of Assurance, as it relates to OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* is located in the preceding section of this report.

FMFIA Material Weaknesses

Status of Internal Control

For FY 2016, DOT is reporting three material weaknesses and a nonconformance. Two of the material weaknesses and the nonconformance were also reported in FY 2015.

As stated above, the first repeat material weakness is related to compliance with FISMA within DOT's Cybersecurity and Information Assurance program. The second repeat material weakness resulted from a series of findings related to general IT controls over FTA's grants management systems. The new material weakness is related to the lack of FTA oversight and monitoring of its external service provider's controls over a new grants management system. The two FTA material weaknesses affect DOT's ability to comply with the FFMIA financial management system requirements, and therefore DOT is also reporting a nonconformance with FFMIA.

The corrective actions and remediation activities are provided in the FISMA and FFMIA sections preceding this section.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

FFMIA requires that each agency implement and maintain systems that comply substantially with the following three FFMIA Section 803(a) requirements: (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level. In FY 2016, DOT reported two material weaknesses related to FTA's IT controls. The two FTA material weaknesses affect DOT's ability to comply with the FFMIA financial management system requirements, and therefore DOT is also reporting a nonconformance with FFMIA.

One repeat material weakness resulted from a series of findings related to general IT controls over FTA's grants management systems. The new material weakness is related to the lack of FTA oversight and monitoring of its external service provider's controls over a new grants management system.

[3] The title of OMB Circular No. A-123, Appendix A was modified to *Internal Control Over Reporting* on July 15, 2016 when the new OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* was issued. The updated OMB Circular No. A-123, Appendix A, *Internal Control Over Reporting* has not been issued, however. Therefore, DOT utilized the guidance provided in A-123, Appendix A, *Internal Control Over Financial Reporting* for the FY 2016 assessment.

During FY 2016, FTA performed several corrective actions to address the repeat material weakness and nonconformance related to general IT controls, which includes but is not limited to the following remediation activities:

- Reinforced FTA's vulnerability scanning procedures and processes to appropriately and timely scan its systems for vulnerabilities on a monthly basis.
- Updated FTA's continuous monitoring policy to include reviews of its contractor's continuous monitoring scan results and Plan of Action and Milestones and created an audit checklist that FTA's Information System Security Manager will sign and date once a month upon reviewing documentation and remediating vulnerabilities.
- Strengthened the grant system's application password complexity configurations to comply with DOT's Cybersecurity Compendium requirements.

To further address the repeat material weakness related to general IT controls, FTA will implement controls and establish policies and procedures to disable/lock user accounts due to inactivity, in accordance with DOT's Cybersecurity Compendium by December 31, 2016.

To address the new material weakness related to FTA's lack of oversight and monitoring of its external service provider's controls over a new grants management system, FTA will implement the following remediation activities:

- Design and implement policies and procedures to request, obtain, and review its contractor's Statement on Standards for Attestation Engagements 16 Report and evaluate any deficiencies and user entity considerations noted in the report by December 31, 2016.
- Develop and implement a Memorandum of Understanding with its contractor that defines the expected level of service and identifies and delineates the roles and responsibilities of the service provider and the end user entity by December 31, 2016.

FEDERAL INFORMATION SECURITY MANAGEMENT IMPROVEMENT ACT OF 2002 (FISMA), AS AMENDED[4]

FISMA requires Federal agencies to identify and provide security protection commensurate with the risk and magnitude of potential harm resulting from the loss, misuse of, unauthorized access to, disclosure of, disruption to, or modification of information collected to be maintained by or on behalf of an agency. FISMA also requires that each agency report annually on the adequacy and effectiveness of information security policies, procedures, and practices, and on FISMA compliance. OMB further requires that agency heads submit a signed letter that provides a comprehensive overview of these areas. For DOT, this report and signed letter were delivered to OMB on November 10, 2016. In addition, FISMA requires that agencies have an independent evaluation performed over their information security programs and practices. At DOT, this annual evaluation is performed by OIG. For FY 2016 the annual FISMA report was finalized on November 10, 2016 as required by OMB and the Department of Homeland Security (DHS). The full FY 2016 FISMA report is expected to be available in late November 2016 and can be found at www.oig.dot.gov.

DOT has 11 OAs that for FY 2016 operated a total of 457 information systems, a decrease of 6 systems over the FY 2015 adjusted inventory, of which 317 belong to FAA. FAA's air traffic control system has been designated by the President as part of

[4] The Federal Information Security Modernization Act of 2014 amends FISMA to, among other things, (1) reestablish the oversight authority of the Director of OMB with respect to agency information security policies and practices, and (2) set forth the authority for the Secretary of DHS to administer the implementation of such policies and practices for information systems.

the critical national infrastructure. Other systems owned by DOT include safety-sensitive surface transportation systems and financial systems used to manage and disburse over $99 billion in Federal funds each year.

As reviewed in FY 2016, DOT's cyber security program continues to have deficiencies in its enterprise and systems controls. Specifically, DOT needs to make progress in critical areas, such as:

- Implementation of a comprehensive risk management program and management of common controls;
- Continuing implementation of the use of Personal Identity Verification (PIV) cards for access to information systems;
- Continuing implementation of the Department's continuous monitoring programs;
- Improving oversight of incident response and contingency planning and testing; and
- Improving management oversight of contractor-operated systems to comply with information security requirements.

As part of its commitment to improve security posture, DOT made improvements during FY 2016 including:

- Continued execution of improvements in cybersecurity with a significant focus on implementation of Continuous Diagnostics and Mitigation (CDM) capabilities in coordination with DHS;
- Activation of EINSTEIN 3 Accelerated capabilities on the Internet connection at DOT Headquarters (HQ) to provide e-mail and domain name service protection;
- Remediation of critical and high vulnerabilities on public facing Web sites, execution of phishing exercises across the agency to both assess DOT exposure to phishing attacks and raise awareness of phishing mitigation strategies among DOT personnel; and
- Continued implementation of Information Security Continuous Monitoring over OA information systems.

For FY 2017, subject to the availability of resources, the Department plans to:

- Update DOT cybersecurity policy to address recent legislative changes and audit recommendations by July 30, 2017;
- Complete its deployment and integration of Managed Trusted Internet Protocol Services at DOT HQ by January 31, 2017;
- Complete CDM Phase 1 implementation activities within its purview by June 30, 2017;
- Fully implement the revised Federal cyber incident reporting guidelines by June 30, 2017;
- Perform another series of phishing exercises across all DOT OAs by September 30, 2017;
- Engage with DOT OAs and the General Services Administration to begin leveraging the Login.gov authentication service for authentication to DOT internet-facing web sites and applications by March 31, 2017; and
- Continue integration of cybersecurity risk management into IT governance through reviews of OA cybersecurity investments, and cybersecurity reviews of submitted OA IT spend plans and acquisitions by September 30, 2017.

FINANCIAL SYSTEM INITIATIVES

DOT continues to improve financial management and reporting by working with our shared service provider, the Enterprise Services Center (ESC), to automate processes and implement a financial data warehouse.

The ESC, which operates as a division of DOT located at FAA's Mike Monroney Aeronautical Center in Oklahoma City, OK, is one of four Federal Shared Service Providers (SSP) designated by OMB. In order to remain competitive, ESC recognizes the need to drive down costs and deliver exceptional financial services to DOT and other Federal customers.

The Department has been working with ESC on several key initiatives aimed at automating processes, strengthening internal controls, and improving financial reporting. The initiatives are as follows:

Integration of Financial and Procurement System

The Department is currently in the process of implementing a procurement system, ESC PRISM, that is fully integrated with the core accounting system, Delphi. This integration improves internal controls by automating the funds control process. In addition, commitments and obligations are sent to Delphi electronically, reducing manual entry of transactions in Delphi. As a result, manual processes are eliminated, which reduces the potential for errors and produces cost savings.

In November 2015, the Department successfully migrated two OAs onto ESC PRISM and has five more OAs to implement in the coming years.

Expansion of eInvoicing

During FY 2016, the Department continued efforts to deploy its existing eInvoicing system to the vendor community. eInvoicing is currently utilized by the Department's grantees to submit electronic invoices using an online portal. System enhancements were made to accommodate functionality needed for vendor invoice submission. Once fully deployed, the eInvoicing system will eliminate the manual entry of invoice data in Delphi resulting in significant cost savings.

Improve Financial Reporting

The Department has initiated a project to develop a consolidated financial Enterprise Data Warehouse/Business Intelligence (EDWBI) service with the goal of providing OAs with the improved financial reporting needed to achieve their mission. EDWBI will provide OAs with a new financial business intelligence (BI) capability while improving the overall performance of the Department's financial reporting systems. The Department completed a component of the overall EDWBI project in FY 2016 and implemented an enterprise data quality tool which will be used to identify anomalies in data recorded in Delphi.

Implementation of the Digital Accountability and Transparency Act (DATA Act)

The Department continues to work with OMB and the Department of Treasury to implement the requirements of the DATA Act. DOT complied with the initial reporting requirements for object class and program activity due in January 2016 and April 2016. In August 2016, the Department updated its implementation plan to address the Department of Treasury's DATA Act Playbook released in June 2016.

In addition, DOT completed a Federal Award Identification Number (FAIN) study in 2016. The purpose of the study was to trace award identification numbers (IDs) for financial assistance transactions through the various Departmental award and financial systems and USASpending to determine whether the award ID changed. DOT is using the results of this study to establish guidance governing the standardization of unique FAIN under OMB's Memorandum M-15-12 to increase transparency of Federal spending by making Federal spending data accessible, searchable, and reliable.

SSAE-16 EXAMINATION ON DOT SYSTEMS

ESC is one of four Federal Shared Service Providers designated by OMB to provide financial management systems and services to other Government agencies. ESC supports other Federal entities, including the National Endowment for the Arts, the Commodity Futures Trading Commission, the Institute of Museum and Library Services, the National Credit Union Administration, the Securities and Exchange Commission, the Consumer Product Safety Commission, and the Government Accountability Office. OMB requires Shared Service Providers to provide client agencies with an independent auditors report in accordance with the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Attestation Engagements 16 (SSAE-16) examination.

SSAE-16 includes a review of general, application, and operational controls over DOT ESC. ESC performs services including accounting, financial management, systems and implementation, media solutions, telecommunications, and data center services for DOT and other Federal organizations.

This is the sixth year that an SSAE-16 examination has been conducted on DOT's Delphi financial system and Consolidated Automation System for Time and Labor Entry (CASTLE) system. A Statement on Auditing Standards 70 (SAS-70) audit was completed for the previous six years. Effective for reports dated after June 15, 2011, SAS-70 was replaced with the new standard SSAE-16.

Delphi and CASTLE are hosted, operated, and maintained by FAA at the Mike Monroney Aeronautical Center in Oklahoma City, OK, under the overall direction of the DOT Chief Financial Officer.

This year's SSAE-16 audit of Delphi and CASTLE was conducted by KPMG LLP. KPMG concluded that management presented its description of ESC controls fairly in all material respects and that the controls, as described, were suitably designed and operating effectively for all stated control objectives.

MANAGEMENT CHALLENGES ACCOMPLISHMENTS FY 2016

OIG issues an annual report on the Department's top management challenges to provide a forward-looking assessment for the coming fiscal year. The Reports Consolidation Act of 2000 requires OIG to identify and summarize the most significant management challenges facing the Department each year.

For FY 2016, OIG identified eight significant challenges. What follows is a report on the progress DOT made against these challenges.

(1) ADDRESSING THE INCREASING PUBLIC SAFETY RISKS POSED BY THE TRANSPORTATION OF HAZARDOUS MATERIALS

One of the Department's missions is to protect people and the environment from the risks of hazardous materials transportation. As such, the Pipeline and Hazardous Materials Safety Administration (PHMSA), Federal Aviation Administration (FAA), and Federal Railroad Administration (FRA) have worked continuously to find new ways to reduce the risk of fatalities, injuries, environmental and property damage, and transportation disruptions. Vulnerabilities in the various modes of hazardous materials transportation remain; however, our work shows that to best address safety concerns, the Department will need to continue to focus on meeting congressional mandates, leveraging programs that can promote sound operating practices, and enforcing safety regulations, as we have done during FY 2016.

Federal Aviation Administration Accomplishments

In 2006, FAA established the Hazardous Materials Voluntary Disclosure Reporting Program (HM VDRP). This program allows air carriers to voluntarily disclose violations of hazmat regulations without receiving civil penalties. The program is designed to encourage compliance with regulations, foster safe operating practices, and promote the development of internal evaluation programs by air carriers. Specifically,

- The FAA strengthened its policy to close HM VDRP cases only after sufficient evidence that comprehensive fixes and self-audits were completed is provided and verified.
- The FAA plans to improve an existing VDRP system to collect data for the HM VDRP. This existing system already uses an external web portal for data collection. In FY 2016, the FAA developed technical requirements and a work schedule, and started its work on the modification to the existing system.
- The FAA implemented a tracking system at FAA headquarters to verify that HM VDRP submissions are being addressed by regional offices consistent with FAA's policies and guidance.

In order to avoid inconsistent implementation of the HM VDRP, the FAA held regular meetings and discussions throughout FY2016 to help division managers from the agency's field offices become more familiar with FAA policy and requirements. FAA headquarters provided feedback to division managers on a quarterly basis and collaborated closely on disposition of reports. Division managers have also participated in discussions pertaining to revisions to FAA's policy and guidance.

(2) INTEGRATING UNMANNED AIRCRAFT SYSTEMS SAFELY INTO THE NATIONAL AIRSPACE SYSTEM

Unmanned Aircraft Systems (UAS) technology is rapidly advancing, with analysts predicting that as much as $93 billion will be invested in the technology worldwide over the next decade. Safely integrating UAS into the National Airspace System (NAS), however, presents a significant challenge for FAA—in part because unmanned aircraft vary widely. Given the industry's rapid expansion, the Congress included in the FAA Modernization and Reform Act of 2012 multiple steps FAA must take to safely integrate UAS into the NAS. As FAA works to meet this goal, it must address technological and regulatory challenges while ensuring that safety remains the top priority.

Federal Aviation Administration Accomplishments

FAA continues to participate in and guide the development of industry consensus of technology standards for integration of UAS into the NAS. Efforts include:

- Radio Technical Commission for Aeronautics (RTCA) Special Committee 228 development of Minimum Operational Performance Standards (MOPS).
  - Completion date: September 2016—Publication of Command and Control MOPS.
  - Target date: December 2016—Publication of Detect and Avoid MOPS.
- American Society for Testing and Materials development of industry consensus standards for design, production, and qualification of UAS and control stations.
  - Target date: Ongoing.
- International Civil Aviation Organization Remotely Piloted Aircraft Systems Panel development of Standards and Recommended Practices amendments to the Annexes to the Convention on International Aviation.
  - Target date: March 2018.
- Joint Authorities for the Rulemaking of Unmanned Systems development of technical, safety, and operational standards.
  - Target date: Ongoing.
- Publication of the final Small UAS Rule.
  - Completion date: August 29, 2016.
- Upgrade existing UAS events tracking database to incorporate increased levels of automation and analytical capability.
  - Target date: Ongoing.
- Publication of updated Aviation Safety Inspector oversight guidance.
  - Completion date: June 2016.
- Develop and implement an electronic registration system for small UAS, including the ability to register commercial aircraft.
  - Completion date: June 22, 2016.

(3) ADOPTING EFFECTIVE PRACTICES FOR MANAGING FAA ACQUISITIONS

FAA faces several key challenges in its efforts to provide effective contract and acquisition management, a critical element in ensuring the success and long-term viability of its many programs and systems. OIG found that FAA continues to award high-dollar contracts without fully addressing and mitigating risk in the acquisition planning and contract award stages, often resulting in large cost overruns and delays in system implementation. Failure to address and mitigate risk in major aviation system contracts could significantly delay the implementation of FAA's Next Generation Air Transportation System (NextGen), as many of these acquisitions are central to FAA's plans to transition to a more reliable, efficient, and modern aviation system.

Federal Aviation Administration Accomplishments

FAA is poised to successfully meet the challenge of managing our major acquisitions. FAA's Acquisition Management System (AMS) provides a solid framework for using the best methods and approaches to structure major acquisitions to effectively manage cost, schedule, and risk associated with the acquisition. Provided in AMS is a framework for testing products prior to taking delivery and paying a vendor, as well as user acceptance testing prior to implementing a system into a production environment. The AMS calls for a thorough review of the risks and cost estimates for major acquisitions prior to making an investment decision, and before awarding a contract. FAA continues to employ these methods and builds upon this solid foundation.

In January 2016, FAA adopted changes to the AMS that allowed it to more effectively manage risk associated with major acquisitions. These revisions focused on areas that received the most user feedback and recommendations from the IG: market analysis, effective cost and price analysis, and consistent assessment of proposed contract actions through the Chief Financial Officer review process.

(4) ENHANCING NHTSA'S EFFORTS TO IDENTIFY AND INVESTIGATE VEHICLE SAFETY DEFECTS

The National Highway Traffic Safety Administration (NHTSA) plays a key role in improving the safety of the Nation's highways by setting and enforcing motor vehicle safety performance standards, investigating safety defects, and conducting research on driver behavior and traffic safety. Large-scale recalls from automotive manufacturers—such as recent ones involving a faulty General Motors ignition switch—highlight the safety risk posed by vehicle safety defects and have prompted reviews of how NHTSA can improve its processes for identifying and investigating defects. Sustained focus on fully implementing such recommendations is essential to the Department's highway safety efforts.

National Highway Transit Safety Administration Accomplishments

In FY 2016, NHTSA implemented a multi-faceted plan to strengthen its Office of Defects Investigations and address the 2015 OIG Audit Recommendations. Key elements of the initiative focused on the following activities:

- Developing a method for assessing and improving the quality of early warning reporting data to help identify potential issues.
- Creating quality control process to help ensure complaints are reviewed thoroughly and within a specified timeframe.

- Updating standardized procedures for identifying, researching, and documenting safety defect trends that consider additional sources of information beyond consumer complaints, such as special crash investigation reports and early warning data.

- Conducting a consumer outreach campaign to promote greater awareness of how to file a complaint including the information they should include and to encourage greater compliance with recall campaigns. NHTSA completed the following activities as part of this campaign:

  - NHTSA convened a "Retooling Recalls" workshop on April 28, 2015, that brought together leading transportation officials, automotive industry representatives, safety advocates, and researchers to examine the reasons for low recall repair rates, options for improving the process, and boosting consumer compliance with recalls.
  - On January 21, 2016, NHTSA launched a new public awareness campaign, Safe Cars Save Lives, that urges consumers to check for open recalls at least twice a year and to get their vehicles fixed as soon as parts are available. The campaign encourages consumers to get into the habit of checking their vehicle identification number (VIN) twice a year at a minimum using NHTSA's free VIN look up tool. The campaign also includes a suite of safety videos to help inform consumers on how to check their VINs, how recalls and investigations work, and information on what every car owner should know.
  - NHTSA also issued an Advance Notice of Proposed Rulemaking on January 21, 2016, that seeks to identify additional ways to notify vehicle owners, purchasers, and dealers of safety-related defects and noncompliance issues. For more information, see Advanced Notice of Proposed Rulemaking.

(5) IMPROVING OVERSIGHT OF FHWA'S AND FTA'S SURFACE TRANSPORTATION PROGRAMS

DOT receives over $50 billion in Federal dollars annually to fund projects to build, repair, and maintain the Nation's surface transportation system. DOT remains committed to strengthening its oversight for highway, rail, and transit projects to maximize Federal investments. As part of this effort, DOT must enhance its risk-based oversight of projects and grant controls, fully implement Moving Ahead for Progress in the 21st Century Act (MAP-21) requirements to improve performance management and project delivery, and continue to exercise vigilant oversight of Hurricane Sandy recovery projects. At the same time, DOT must address longstanding deficiencies within the Nation's highway and bridge systems and move forward effectively with a new tunnel safety program.

Federal Transit Administration Accomplishments

The Federal Transit Administration (FTA) completed the following activities toward improving oversight of its surface transportation program:

- FTA is developing a Program Oversight Findings Management Standard Operating Procedure (SOP) that builds upon existing standard operating procedures. It will specify the manner in which FTA identifies, tracks, and corrects grantee deficiencies.

- FTA has updated its Triennial Review SOP to improve the consistency of the triennial review process across all FTA regions and grantees. Review guides are utilized by all FTA triennial review contractors and FTA regional offices to carry out program oversight reviews in a consistent manner.

- FTA is establishing a Performance and Quality Assurance division within its Office of Program Oversight to enhance consistency and quality of program oversight data and activities for staff and contractors across all FTA regions.
- FTA has strengthened its annual grantee program oversight needs assessment. A new centralized process for finalizing program oversight review selections, which assesses nine distinct subject areas, promotes the efficient and effective allocation of Federal oversight resources.

The FTA has successfully implemented its new Public Transportation Emergency Relief Program and Disaster Relief Appropriation Act (DRAA) of 2015. During this period, FTA:

- Published an Interim Final Rule and Final Rule on its Emergency Relief Program requirements;
- Established a Memorandum of Agreement (MOA) with the Federal Emergency Management Agency;
- Completed damage assessments with the affected transit agencies;
- Allocated approximately $9.3 billion of DRAA funds—including $3.6 billion allocated through a competitive process to protect against future storms;
- Published an Emergency Relief Program manual;
- Implemented a robust grant review process for the DRAA funds; and
- Implemented a risk-based oversight approach with heightened scrutiny for the DRAA funds, including examining risks associated with each grantee and every grant or project.

Moving forward, FTA plans to:

- Update and implement enhanced review processes for Emergency Relief Program grants;
- Establish formal criteria and documentation requirements for assigning ratings of low, medium, and high risk; and
- Update and implement enhanced controls for its existing regular reviews of Emergency Relief Program grants.

Federal Highway Administration Accomplishments

In FY 2016, the Federal Highway Administration (FHWA) continued with its rulemaking efforts to update the National Bridge Inspection Standards regulations as required by MAP-21, and completed the following activities to implement MAP-21 related requirements and initiatives:

- Updated the Fiscal Management Information System (FMIS 5.0) to improve bridge obligation data, including more comprehensive cost and geospatial data. The system went live in October 2015, with enhancements occurring during FY 2016.
- Developed and published two guidance documents—the *Tunnel Operation, Maintenance, Inspection, and Evaluation Manual* and the *Specifications for the National Tunnel Inventory*—for the collection and reporting of tunnel inspection data.

- Awarded, via the National Highway Institute, a contract to develop both instructor-led and virtual tunnel inspector training for a Tunnel Inspection Refresher Course. A kickoff meeting was held in November 2015 and the course will run through early 2017.
- Initiated the development of an oversight program for the National Tunnel Inspection Program in FY 2015. The completion of this program and its implementation is projected to be April 2017.
- Completed the preliminary National Tunnel Inventory (NTI) using data from the States and Federal agencies in December 2015. The database to house this data has been completed and is in the process of being tested. A complete inventory is expected by 2018.
- Delivered the National Highway Institute Tunnel Safety Inspection course 21 times.
- Issued guidance in August 2016 that provided clarification on the applicability of the National Bridge and Tunnel Inspection Standards to bridges and tunnels on highways dedicated to publically accessible transit buses.
- Assisted 10 Division Offices with their annual National Bridge Inspection Standards compliance reviews.
- Completed the National Bridge and Tunnel Inventories Report and submitted to the Congress on February 1, 2016. Included in the report was a summary of the cost to replace and rehabilitate structurally deficient bridges. As a result of this action, the OIG closed its recommendation—MH-2014-089 (4).
- Completed the study and report on the cost-effectiveness, feasibility, and benefits of element-level bridge inspection data collection and reporting in May 2016. The report is currently being reviewed by the Office of Management and Budget.

To strengthen the risk-based oversight and financial control of its projects, FHWA completed the following activities:

- Fully implemented the use of financial plan statistical forms for major projects to ensure that the review and acceptance of a major project's initial financial plan been documented before authorizing Federal funds construction.
- Prepared a draft update of existing project management plan guidance for major projects which will be posted in the Federal Register for review and comment by December 2016. This guidance describes when a project management plan update should be prepared.
- Drafted updated funds management guidance, which is on track to be completed by December 2016.

(6) REMOVING HIGH RISK MOTOR CARRIERS FROM THE NATION'S ROADS

Maintaining the integrity of its safety programs is a top priority for the Department, and our criminal investigations bolster these safety efforts by identifying and prosecuting the most egregious violators of DOT regulations. A longstanding concern is reducing motor carrier fatalities and better enforcing related safety regulations. Since FY 2010, we have opened 138 investigations involving motor carrier safety. Criminal and civil prosecutions through the Department of Justice send a strong message to companies and individuals who evade DOT regulations or consider regulatory penalties "the cost of doing business." OIG safety investigations identified challenges for the Federal Motor Carrier Safety Administration (FMCSA) as it seeks to remove unsafe motor carriers from the Nation's highways.

Federal Motor Carrier Safety Administration Accomplishments

FMCSA has nearly doubled the number of Imminent Hazard (IH) orders issued in FY 2016 compared to FY 2015. This included a significant increase in driver IH orders, removing the most unsafe drivers from the roadways.

In FY 2016 FMCSA implemented its authorities under the Patterns of Safety Violations rule, which is focused on removing motor carriers from operation that have had continual safety and compliance problems.

FMCSA tripled its use of Denial of Access authorities and issued 57 out-of-service orders using this enforcement tool in FY 2016. The use of these tools, in conjunction with implementation of a new high risk criteria that focuses on conducting investigations of the highest risk carriers within 90 days, has dramatically improved FMCSA's effectiveness.

FMCSA continues its focus on identifying reincarnated carriers. The Utility for Risk Based Screening and Assessment (URSA) was deployed on February 19, 2016 to screen all applications for operating authority for reincarnation, instead of only Household Goods and Passenger Carriers. The URSA algorithm is integrated with the Unified Registration System and has screened over 30,000 applications since launch, flagging over 4,000 of them for further investigation.

FMCSA has made significant progress implementing the Performance Registration Information Systems Management (PRISM) program across the country, which helps to identify reincarnated carriers by focusing on registrations at the vehicle level, along with its authority for issuing unilateral Records Consolidation orders to reincarnate carriers.

(7) PROTECTING THE DEPARTMENT AGAINST MORE COMPLEX AND AGGRESSIVE CYBER SECURITY THREATS

Recent attacks on public and private sector information systems, carried out by increasingly well-funded and organized attackers, have significantly damaged the national and economic security interests of the United States. DOT uses more than 450 information systems to conduct business and operate some of the Nation's most critical transportation systems. Many of these systems have data that are of potential interest to hackers. Effective contingency planning along with resolving longstanding vulnerabilities is critical to reducing the risk of catastrophic cybercrime and maintain continuity of the Department's vital systems in the event of a malicious attack.

The Department is committed to cybersecurity as a leading priority, and has already taken action to improve the security posture of the agency and address known weaknesses, including:

- Execution of a network assessment for 10 of the 11 DOT OAs and the CIO's IT Shared Services (ITSS) organization. As a result of the assessment, the Department achieved an 18 percent improvement in visibility of network infrastructure devices, identified 149 devices for priority replacement, and remediated 72 percent of 2,385 serious configuration vulnerabilities within 30 days of initial identification.

- Leveraging new capabilities developed during the network assessment, the CIO's ITSS organization remediated 97 percent of critical vulnerabilities identified by the Department of Homeland Security (DHS) within 45 days of identification.
- Execution of an agency-wide Phishing exercise program, with supplemental training, for all DOT contract and Federal personnel, which achieved a reduction in click-through rates from 55 percent of 1,250 users in a 2015 exercise to an average 5.44 percent click-through rate for 68,310 users in 2016 exercises.
- Deployment and authorization of a new agency personnel security system for 10 of 11 OAs, modeled after solutions in other Federal agencies, implementing Federally-compliant encryption, and leveraging DOT PIV cards for strong authentication to the system.
- Remediation of critical vulnerabilities in 95 percent of approximately 4,370 Government-issued Apple iOS devices within 30 days of initial identification and availability of patches or upgrades from the vendor.
- Implementation of EINSTEIN 3 Accelerated protective capabilities on DOT Internet connections to protect agency users and systems.
- Continued implementation of Continuous Diagnostics and Mitigation Phase 1 capabilities across the DOT enterprise, with assistance from DHS and the General Services Administration.

(8) DEVELOPING AND SUSTAINING AN EFFECTIVE AND SKILLED DOT WORKFORCE

The people who work for the Department are its most vital asset in maintaining a safe and vibrant transportation system. Maintaining an effective and skilled workforce in an evolving and more fiscally constrained environment will present a significant challenge to the Department's leadership. Our work continues to highlight DOT's efforts to use its resources wisely and identify a number of areas where the Department can make improvements to support the hiring, development, placement, and performance of its workforce.

Federal Highway Administration Accomplishments

As a result of FHWA's Strategic Workforce Assessment, FHWA has changed several training and staffing practices including:

- Updating the Discipline Support System, notably transitioning sponsorship for disciplines as well as creating new disciplines;
- Developing a Leadership Development Program;
- Concentrating Tier 2 technical assistance/technical deployment activities with the Resource Center;
- Establishing a new Performance Management Implementation Coordination function within the Resource Center;
- Changing the Alternative Duty Location program; and
- Creating guidance for hybrid positions.

In addition, the Office of Human Resources completed and distributed the FHWA Annual Workforce Plan, which enables the development of individual office plans by providing an example and guidance. The FHWA will continue to hold discussions with individual offices to discuss issues including workforce planning.

Maritime Administration Accomplishments

MARAD has initiated a Knowledge Management Team to strengthen knowledge transfer among employees. MARAD has also established and is implementing a Position Enrichment and Realignment initiative to better position the organization for future mission requirement by building a highly effective pipeline for leadership positions.

MARAD will continue to operate a robust training program, including internal and external training and tuition assistance, to further the skills of the workforce.

FINANCIAL REPORT

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

SHOSHANA M. LEW

I am proud to issue the Department of Transportation's (DOT/Department) Agency Financial Report (AFR), which marks DOT's 10th consecutive unmodified or *clean* opinion of our financial statements. This report is an affirmation of our continued commitment to achieving financial management excellence and represents our accountability in reporting for Fiscal Year (FY) 2016. Once again, we can provide reasonable assurance that the Department's internal controls and financial management systems meet the objectives required by statute and the Office of Management and Budget (OMB). This achievement reflects hard work and shared commitment across our individual Operating Administrations (OAs) to careful stewardship of taxpayer dollars as we implement programs across the Department.

To complement the AFR, in early FY 2017, we will publish the Annual Performance Report, and a Summary of Performance and Financial Information, which provides a concise briefing of the past year's outcomes.

The Department acknowledges several highlights in FY 2016, including passage and initial implementation of the Fixing America's Surface Transportation (FAST) Act, which included a range of new grant programs; creating the Department's Build America Bureau pursuant to new authority in the FAST Act; making progress toward implementing the Digital Accountability and Transparency Act of 2014 (DATA Act); and supporting a thorough financial audit. Timely, accurate, and transparent financial information is critical to supporting all of our Department's successful activities.

ANNUAL FINANCIAL AUDIT

The public accounting firm serving as our independent auditor has provided an unmodified opinion on our FY 2016 financial statements, providing reasonable assurance that the financial statements are reported fairly, in all material respects, in accordance with U.S. Generally Accepted Accounting Principles. We value this independent insight and view it as an opportunity to identify areas for ongoing improvement as we promote the prudent, effective, and efficient use of funds across the Department. Careful consideration of the annual audit results remains an important iterative process as we implement strong safeguards over taxpayer resources and solid internal controls over accounting and recording processes.

We acknowledge that this year, auditors identified one area needing improvement by noting two material weaknesses related to information technology (IT) systems supporting the grant programs of the Federal Transit Administration (FTA). This was due to the lack of sufficient monitoring of an external service provider, system access issues, and maintaining appropriate controls. Corrective actions are currently underway to improve oversight of FTA's external service provider, and we continue to work diligently to correct the remaining weaknesses.

Additionally, the Department made progress in improving our compliance with the Federal Information Security Management Act (FISMA) through the continued execution of improvements in cyber security. However, efforts in this area continue, as DOT's cyber security program continues to have deficiencies impacting our compliance with the requirements outlined in FISMA. This is a government-wide challenge that DOT, like other Departments, must continue to address.

FY 2016 HIGHLIGHTS

As we look at the past fiscal year in retrospect, we note several operational highlights:

Fixing America's Surface Transportation (FAST) Act

In December 2015, the FAST Act was passed and signed into law. The FAST Act provided funding and program policies to guide the Nation's surface transportation programs through FY 2020. It also temporarily offset anticipated funding shortfalls in the Highway Trust Fund, by supplementing revenues from the gas tax with a transfer from the general fund, sufficient to pay for five years of funding levels as authorized in the FAST Act.

The FAST Act also included new and re-established grant programs to address pressing infrastructure and capital needs such as, but not limited to, increasing efficient freight movement, reducing growing congestion, and replacing or rehabilitating aging transit vehicles and facilities. These new programs, coupled with the multi-year funding certainty for grantees provided by the FAST Act, represent a down payment towards addressing the Nation's infrastructure deficit. However, Federal investment continues to fall short of funding levels necessary to efficiently address the Nation's aging infrastructure and the capacity needs to accommodate a growing population and changing economic patterns. This Department has elaborated upon those changes in a needs assessment entitled, *Beyond Traffic*.

Ensuring the swift and proper implementation of the FAST Act is one of Secretary Foxx's top priorities. While the program offices were hard at work identifying and implementing programmatic changes within the FAST Act, the Budget and Financial Management Community concentrated on incorporating the FAST Act's new programs and funding provisions into the Department's budgets and operating procedures. For example, proper incorporation required reconfiguration of several account structures, revisions to budget justification materials, and ongoing monitoring and oversight of new grant programs and grant awards through improved internal controls. To ensure efficient and effective delivery of grant programs, the Department streamlined its internal review processes, and has provided the public with regular information about program status.

Build America Bureau

During FY 2016, DOT established the new Build America Bureau (the Bureau) to comply with a provision included in the FAST Act to bring the Department's various surface transportation innovative finance programs into a single, combined center. While the Bureau represents one of the most significant organizational changes in the Department over the last decade, the Bureau will continue to leverage established internal controls and financial processes to ensure effective oversight of funding awards and loans.

Previously, the Department's various innovative finance programs were managed by disparate DOT organizations and operated on different paths. In an effort to streamline credit opportunities, the Bureau will serve as a single point of contact for the Department's partners as related to innovative financing, provide access to critical credit and grant programs with greater speed and transparency, and also provide technical assistance to help encourage best practices in project planning, financing, delivery, and monitoring.

Digital Accountability and Transparency Act of 2014 (DATA Act)

Two years ago, Congress passed the DATA Act, which aims to make information on Federal expenditures more easily accessible and transparent to the public. The DATA Act requires all agencies to report with more specificity and to expand the amount of data than is currently reported to improve the public's ability to understand and track Federal spending. DOT is on track and committed to the challenge of meeting the requirements of the DATA Act by May 2017.

As part of our strategy in implementing the DATA Act, we determined that DOT could benefit from standardizing the way we report grants, loans, and other forms of financial assistance. In response, we developed a standard Financial Assistance Identification Number (FAIN) structure which will ultimately be used by all OAs to number and identify financial assistance awards. Implementing a standard FAIN structure across DOT will make data more searchable, accessible, and reliable, and will further interoperability across DOT programs.

CONCLUSION

With this report, the Department has once again provided assurance to the American public that DOT is a responsible steward of taxpayer dollars. Through rigorous execution of our program funds, we support all modes of transportation, including air, sea, ground, inland waterways, and pipelines. The Department's financial management and budget community continues to work together to sustain and enrich the Department's financial health, improve business processes, increase data transparency and reliability, and deliver results for the American people. I am proud of the Department's continued financial management accomplishments.

Shoshana M. Lew

OFFICE OF INSPECTOR GENERAL QUALITY CONTROL REVIEW

U.S. Department of Transportation

Office of the Secretary of Transportation

Office of Inspector General

Memorandum

Subject: **ACTION:** Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2016 and 2015, Department of Transportation Report Number: QC-2017-013

Date: November 15, 2016

From: Calvin L. Scovel III
Inspector General

C. L. Scovel III

Reply to Attn. of: JA-20

To: The Secretary

We respectfully submit our report on the quality control review (QCR) of the Department of Transportation's (DOT) audited consolidated financial statements for fiscal years 2016 and 2015.

KPMG LLP of Washington, DC, under contract to the Office of Inspector General (OIG), completed the audit of DOT's consolidated financial statements as of and for the years ended September 30, 2016, and September 30, 2015 (see attachment). The contract required KPMG to perform the audit in accordance with generally accepted Government auditing standards and Office of Management and Budget (OMB) Bulletin 15–02, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the consolidated financial statements present fairly, in all material respects, DOT's financial position as of September 30, 2016, and September 30, 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG's Fiscal Year 2016 Audit Report, dated November 14, 2016

KPMG reported two material weaknesses and two significant deficiencies in internal control over financial reporting. In addition, KPMG reported two instances of noncompliance with tested laws and regulations.

Material Weaknesses

1. **Lack of Sufficient General Information Technology Controls at the Federal Transit Administration (FTA)**. KPMG's testing of DOT's significant financial information technology (IT) systems revealed control deficiencies in FTA's IT environment, specifically in its grant systems. Deficiencies exist in certain IT system access and detective controls. Furthermore, FTA's procedures and controls were not sufficient to ensure compliance with the Department's cyber security policies. These deficiencies pose significant risks to the integrity of FTA's data that are consolidated into DOT's financial statements.

2. **Lack of Sufficient Monitoring of External Service Provider at the FTA**. FTA lacked proper oversight and monitoring of external service provider controls. FTA also did not execute a service level agreement with the external service provider that properly delineates the roles and responsibilities of the service provider and FTA. As a result, control deficiencies could go undetected and pose a significant risk to the completeness, accuracy, and integrity of FTA's financial information, and in turn, adversely affect DOT's ability to produce accurate and timely financial statements.

Significant Deficiencies

1. **Lack of Sufficient Controls Over Grant Accrual at the FTA**. FTA's estimation methodology for its grant accrual as of September 30, 2016, contained numerous errors. FTA made inconsistent adjustments to grantee survey results and failed to maintain evidence for the changes. FTA also included or excluded certain grantees from its weighted average accrual period calculation for certain major expenditure categories. In addition, FTA did not use the best available data to perform the retrospective review of the prior year grant accrual. As a result, FTA's grant accrual as of September 30, 2016, was understated by an estimated $117 million.

2. **Lack of Sufficient Controls Over Subsidy Estimates at the Federal Highway Administration (FHWA)**. KPMG's testing of FHWA's direct loans revealed numerous errors in FHWA's application of inputs and assumptions used for cash flow projections for both the initial subsidy cost estimation and subsidy cost re-estimations. As a result, FHWA's subsidy cost allowance, as of September 30, 2016, may be misstated.

Instances of Noncompliance With Laws and Regulations

1. **Noncompliance with the Anti-Deficiency Act**. During fiscal year 2013, the Federal Railroad Administration (FRA) committed Anti-Deficiency Act violations obligating $1.12 million and $41,000 in excess of the apportioned amounts. The funds were appropriated and used for the intended purpose, but were executed prior to OMB apportionment approval. DOT reported these violations to the President, the U.S. Congress, the Comptroller General, and OMB on September 26, 2026, and as a result, DOT is not in compliance with the Anti-Deficiency Act.

2. **Noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)**. As a result of the material weaknesses in FTA's general IT controls, DOT's financial management systems did not substantially comply with the requirements of FFMIA.

We performed a QCR of KPMG's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on DOT's consolidated financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG is responsible for its report and the conclusions expressed in that report. However, our QCR disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted Government auditing standards.

KPMG made 18 recommendations to strengthen DOT's financial, accounting, and system controls. DOT officials concurred with KPMG's recommendations. The Department also committed to submitting to OIG by December 31, 2016 a detailed action plan to address the KPMG's findings. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

We appreciate the cooperation and assistance of DOT's representatives and KPMG. If you have any questions, please contact me at (202) 366-1959, or Louis C. King, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.

Attachment

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INDEPENDENT AUDITORS' REPORT

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Secretary and Inspector General
U.S. Department of Transportation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Transportation ("Department" or "DOT"), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of net cost, and changes in net position and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Transportation as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Other Information, Foreword, Message from the Secretary, and Message from the Chief Financial Officer, and Assistant Secretary for Budget and Programs is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2016, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in accompanying Exhibits I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in

KPMG

internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Exhibit I Sections A and B to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II Sections C and D to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02, and which is described in Exhibit III Section E.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed an instance, described in Exhibit III Section F, in which the Department's financial management systems did not substantially comply with the Federal financial management systems requirements of FFMIA. The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level.

Department's Responses to Findings

The Department's responses to the findings identified in our audit are described and presented on page 67, were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 14, 2016

U.S. Department of Transportation
Independent Auditors' Report
Internal Control Over Financial Reporting

EXHIBIT I
MATERIAL WEAKNESSES

A. Lack of Sufficient General Information Technology Controls at the Federal Transit Administration

Background

DOT operations rely on a series of interconnected networks and information technology (IT) systems to carry out the Federal Government's national transportation plan. The Department is comprised of twelve Operating Administrations (OAs), including the Federal Transit Administration (FTA), each with its own management team, organizational structure, and IT systems.

During FY2015, several control deficiencies were identified in FTA's IT environment, specifically over the grant management, payment, and interface IT systems, and were reported as a material weakness.

During FY2016, FTA operated the legacy grant management IT system during the first five months of the fiscal year before replacing the legacy system with a new grant management IT system. In addition, FTA implemented a new version of the grant payment IT system at the beginning of the fiscal year. We identified the following control deficiencies over the systems that were in operation and processed transactions during FY2016.

Condition

During our FY2016 testing of the significant DOT financial IT systems, we identified several control deficiencies in the FTA's IT environment, specifically over the grant IT systems. We have classified the deficiencies identified into the following three categories:

Provisioning of Access and Segregation of Duties:

Preventive controls, such as provisioning of IT access, are controls designed to reduce the risk of unauthorized and/or inappropriate access to the relevant IT systems. When IT personnel or users are given, or can gain, access privileges beyond those necessary to perform their assigned duties, a breakdown in segregation of duties can occur. This unauthorized access could result in inappropriate and/or unauthorized transactions or changes to programs or data that affect the financial statements. Deficiencies were identified over certain IT system access controls in the FTA's grant systems.

Vulnerability Management:

Detective controls, such as credentialed vulnerability scanning, are controls designed to detect whether systems are exposed to risks related to misconfiguration or out-of-date patches. Deficiencies were identified over certain vulnerability management controls in the FTA's grants systems. Specifically, management does not proactively manage vulnerabilities by performing consistent and/or sufficient vulnerability scans for certain systems. As a result, the related systems are at risk of privilege escalation, data leakage, denial-of-service, or unauthorized modification of data held within databases that are necessary for the complete and accurate presentation of the financial statements.

System Audit Log Reviews and Change Management:

Detective controls, such as system audit logs and change management, are controls designed to determine that changes to IT systems are authorized, tested, approved, properly implemented, and documented. FTA's audit log reviews lack the precision necessary to reliably and timely detect unauthorized or inappropriate activities or changes made to the relevant IT systems, which may allow such activities to occur, and be undetected by management within a reasonable time.

U.S. Department of Transportation
Independent Auditors' Report
Internal Control Over Financial Reporting

EXHIBIT I
MATERIAL WEAKNESSES

Criteria

The U.S. General Accountability Office (GAO)'s *Federal Information System Controls Audit Manual* (FISCAM), defines the objectives used to evaluate General Information Technology Controls (GITC) in five key control areas: security management, access control, configuration management, segregation of duties, and contingency planning. FISCAM and the standards and guidelines issued by the National Institute of Standards and Technology (NIST), Special Publication 800-53 define IT security and related business process application control objectives supporting the structure, policies, and procedures that apply to the use, operability, interface, edit, and monitoring controls of a financial IT application. In addition, the DOT Cyber Security Compendium, version 4.0, dated November 2015, provides DOT's policies, procedures, and controls related to the security of DOT information systems that support DOT's mission, operations, and assets, including those provided or managed by another Federal agency, contractor, grantee, or other source.

Cause

FTA does not have sufficient procedures and controls in place to ensure compliance with the requirements of FISCAM and the underlying Federal IT security requirements, as documented in the DOT Cyber Security Compendium, version 4.0, dated November 2015.

Effect

The aforementioned IT control deficiencies pose a significant risk to the completeness, accuracy, and integrity of FTA's financial information, which could ultimately affect DOT's ability to produce accurate and timely financial statements.

Recommendations

We recommend that the Chief Information Officers of DOT and FTA:

1. Develop policies, procedures and controls to address the provisioning of IT access, vulnerability management, system audit log review, and change management control deficiencies identified in the FTA grant IT systems;
2. Monitor progress to ensure that procedures and controls are appropriately designed, implemented, and maintained; and,
3. Establish procedures and controls, at the appropriate level of precision, for unusual or infrequent events (e.g. system implementations) by establishing an IT steering committee that is composed of management from all relevant stakeholder functional areas, including the IT office, program office, and financial reporting office to ensure that system implementation meets the needs of all users and that policies, procedures, and system controls are appropriately redesigned, as necessary, to respond to the process changes resulting from the system implementation.

U.S. Department of Transportation
Independent Auditors' Report
Internal Control Over Financial Reporting

EXHIBIT I
MATERIAL WEAKNESSES

B. Lack of Sufficient Monitoring of External Service Provider at the Federal Transit Administration

Background

FTA utilizes an external service provider to manage the grant management IT system, which includes the IT environment, processes, and security controls over the operating system and databases. As the end user entity, FTA is responsible for monitoring and assessing the external control environment and addressing potential risks to the control environment associated with any deficiencies identified in the Statement on Standards for Attestation Engagements (SSAE) No. 16 report, as well as adequately considering, documenting, and instituting end user controls that complement the relevant external service provider controls.

Condition

During our FY2016 testing of FTA's grant management IT systems, we noted a lack of oversight and monitoring of external service provider controls, including the complimentary end user entity controls. Our testing noted that FTA did not comply with DOT's Cyber Security Compendium requirements to obtain and review the external service provider's SSAE No. 16 report and evaluate any deficiencies and end user entity considerations, noted in the report.

In addition, we noted that FTA did not execute a Service Level Agreement with the external service provider that defines the level of service expected from the service provider that identifies and delineates the roles and responsibilities of the service provider and FTA.

Criteria

The standards and guidelines, issued by NIST, Special Publication 800-53 define IT security and related business process application control objectives supporting the structure, policies, and procedures that apply to the use, operability, interface, edit, and monitoring controls of a financial IT application. In addition, the DOT Cyber Security Compendium, version 4.0, dated November 2015, provides DOT's policies, procedures, and controls related to the security of DOT information systems that support DOT's mission, operations, and assets, including those provided or managed by another Federal agency, contractor, grantee, or other source. Specifically, the NIST special publication and the DOT Cyber Security Compendium, Control DOT-SA-9, state that organizations should:

A. Require that providers of external information systems services comply with organizational information security requirements and employ in accordance with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance;

B. Define and document government oversight and user roles and responsibilities with regard to external information system services; and

C. Employ to monitor security control compliance by external service providers on an ongoing basis.

Cause

FTA does not have sufficient policies and procedures in place requiring the receipt and review of the SSAE No. 16 report of an external service provider to allow for appropriate monitoring of controls related to the FTA database and operating systems hosted by the external service provider.

Effect

Undetected control deficiencies at an external service provider and insufficient end user controls at FTA pose a significant risk to the completeness, accuracy, and integrity of FTA's financial information, which could ultimately affect DOT's ability to produce accurate and timely financial statements.

Recommendation

We recommend that the Chief Information Officer of FTA:

1. Execute a Service Level Agreement with all external service providers that defines the level of service expected from the service provider and appropriately identifies and delineates the roles and responsibilities of the service provider and the end user entity;
2. Design and implement policies and procedures to formally request, obtain, and review the external service provider's SSAE No. 16 report, and evaluate any deficiencies and end user considerations noted in the report; and,
3. Document the required procedures for assessing the impact of identified deficiencies, noted in the external service provider's SSAE No. 16 report, which may impact FTA, to ensure appropriate end user controls are in place to mitigate those noted deficiencies.

U.S. Department of Transportation
Independent Auditors' Report
Internal Control Over Financial Reporting

EXHIBIT II
SIGNIFICANT DEFICIENCY

C. Lack of Sufficient Controls over Grant Accrual at the Federal Transit Administration

Background

The FTA provides grants to eligible recipients, which includes states, local governments, and transit authorities for the development of public transportation. On a monthly basis, FTA estimates, using an established accrual methodology, a grant accrual to recognize expenditures incurred by grantees, but not yet requested for reimbursement from FTA.

FTA validates the reasonableness of the grant accrual estimation process by performing a retrospective review over the grant accrual for the periods ending June 30 and September 30. The retrospective review analyzes the Federal share of expenditures reported on each grant project's Federal Financial Report (FFR), the report used to submit financial information about individual grant awards less cumulative disbursements for the related project.

Condition

During our review of the application of the estimation methodology for the grant accrual, as of September 30, 2016, we noted the numerous errors, including the inclusion and/ or exclusion of incorrect program elements and appropriation codes within the major expenditure categories used to arrive at the grantee's annual disbursement data. The inconsistent adjustment of grantee survey results and the failure to maintain evidence for the changes. The inclusion and/ or exclusion of certain grantees from the weighted average accrual period calculation for certain major expenditure categories.

In addition, we noted that FTA did not use the best available data to perform the retrospective review of the September 30, 2015 grant accrual and, as a result, the analysis illustrated inaccurate conclusions about the reasonableness of the estimation methodology.

Criteria

The Federal Accounting Standards Advisory Board (FASAB) develops generally accepted accounting principles for federal entities through the issuance of Statements of Federal Financial Accounting Standards (SFFAS) and Other Pronouncements. SFFAS No. 5 *Accounting for Liabilities of the Federal Government,* paragraph No. 19 states that a liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date. In addition, paragraph No. 25 states that many grant and certain entitlement programs are non-exchange transactions. When the federal government creates an entitlement program or gives a grant to state or local governments, the provision of the payments is determined by federal law rather than through an exchange transaction.

In addition to the SFFAS, FASAB provides implementation guidance in the form of Technical Releases (TR). Specifically TR No. 12: *Accrual Estimate for Grant Programs,* paragraph No. 14 states that agencies must accumulate sufficient relevant and reliable data on which to base accrual estimates. Each agency should prepare grant accrual estimates based upon the best available data at the time the estimates are made. In addition, paragraph No. 16 states that in the absence of sufficient relevant and reliable historical data on which to base accrual estimates, agencies should prepare estimates based upon the best available data at the time the estimates are made. Finally, paragraph No. 26 states that as part of the agencies' internal control procedures to ensure that grant accrual estimates for the basic financial statements were reasonable, agencies should validate grant accrual estimates by comparing the estimates with subsequent grantee reporting.

U.S. Department of Transportation
Independent Auditors' Report
Internal Control Over Financial Reporting

EXHIBIT II
SIGNIFICANT DEFICIENCY

Cause

Controls are not properly designed, implemented, and operating effectively to ensure that FTA's grant accrual retrospective review is performed at the appropriate level of precision, using the most relevant and reliable data inputs, to validate the reasonableness of the financial statement grant accrual estimation methodology. In addition, controls are not properly designed, implemented, and operating effectively to ensure that FTA's grant accrual calculation is complete and accurate.

Effect

The FTA grant accrual, as of September 30, 2016, is understated by an estimated $117 million, as a result of, the inconsistent and/or incorrect data inputs and/or assumptions used in the calculation.

Recommendations

We recommend that FTA:

1. Enhance the grant accrual retrospective review policies, procedures, and controls to ensure that the retrospective review is performed at the appropriate level of precision, using relevant and reliable data inputs (complete and accurate FFR data);
2. Establish procedures and controls over the completeness and accuracy of the data inputs used in the grant accrual calculation;
3. Enhance the methodology and consider creating a user checklist of each of the program elements and appropriation codes that should be selected as inputs;
4. Establish policies and procedures for handling deviations from the standard methodology, including maintaining the evidence to support the deviation;
5. Establish a review control, with the appropriate level of precision, over the grant accrual calculation; and,
6. Perform an analysis and calculate an independent grant accrual for abnormalities in grantee spending patterns, in particular when a grantee is placed on suspension or restricted drawdowns as the billing cycle days for such grantees are not indicative of the true accrual period for that expenditure category.

D. Lack of Sufficient Controls over Subsidy Estimates at the Federal Highway Administration

Background

The Federal Highway Administration (FHWA) manages the Transportation Infrastructure Finance and Innovation Act (TIFIA) program, which provides direct loans in accordance with the Federal Credit Reform Act. FHWA estimates the initial subsidy cost of loans during the loan approval process. FHWA then re-estimates the subsidy costs for the loans in the year in which the loan reaches substantial disbursement (i.e., 90% disbursement) and for each subsequent year for the life of the loan.

FHWA prepares cash flow projections based on the principal and interest schedule, the probability of default, and recoveries in the event of default, which are loaded into the Office of Management and Budget's Credit Subsidy Calculator (the Subsidy Calculator) to estimate the net present value of the subsidy costs.

Condition

During our review of five direct TIFIA loans, we noted numerous errors in the application of inputs and assumptions used in the cash flow projections by FHWA during the initial subsidy cost estimate, as well as the subsidy cost re-estimates of five loans. Specifically, we noted the misapplication of rates within the default probability curves and the use of incorrect interest, fees, and recovery rates.

U.S. Department of Transportation
Independent Auditors' Report
Internal Control Over Financial Reporting

EXHIBIT II
SIGNIFICANT DEFICIENCY

Criteria

FASAB Technical Release No. 6 *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*, paragraph 17, states agencies must accumulate sufficient relevant and reliable data on which to base cash flow projections. It is important to note that agencies should prepare all estimates and re-estimates based upon the best available data at the time the estimates are made. Agencies should prepare and report re-estimates of the credit subsidies, in accordance with SFFAS No. 2, 18, and 19, to reflect the most recent data available as discussed in the re-estimate section of Technical Release No. 6. Guidance, on the types of supporting documentation that is acceptable, can be found in paragraphs 20-22 of this technical release. Paragraph 40 states the cash flow estimation process, including all underlying assumptions, should be reviewed and approved at the appropriate level including revisions and updates to the original model. The OMB Circular A-11 also provides guidance on re-estimating credit subsidies.

Cause

Controls are not designed, implemented, and operating effectively to ensure that FHWA cash flow projections, used in the subsidy cost estimates, are based on relevant and reliable data inputs and that all assumptions are properly applied, documented and supported.

Effect

The FHWA subsidy cost allowance, as of September 30, 2016, may be misstated as a result of the inconsistent and/or incorrect data inputs and/or assumptions used in the calculation.

Recommendations

We recommend that FHWA:

1. Establish a review control, with the appropriate level of precision, over the cash flow projections to ensure that the inputs to the Subsidy Calculator are relevant and reliable;
2. Review the overall cash flow model functionality and implementation to ensure that all assumptions are properly applied, documented, and supported in the execution of the cash flow projections; and,
3. Consider automating the calculations that are performed manually to reduce the risk of misapplication of assumptions due to human error.

U.S. Department of Transportation
Independent Auditors' Report
Compliance and Other Matters

EXHIBIT III
INSTANCES OF NONCOMPLIANCE

E. Noncompliance with the Anti-Deficiency Act

Condition

Known Anti-Deficiency Act Violations:

FRA

During FY2013, the Federal Railroad Administration (FRA) committed Anti-Deficiency Act violations when obligating $1.12 million and $41 thousand in excess of the apportioned amounts on two category B[1] project budget lines in the Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail accounts, respectively. The amounts represent funds that were appropriated and used for the intended purpose, but were executed prior to Office of Management and Budget (OMB) apportionment approval. At no point did total obligations exceed unobligated balances, both apportioned and unapportioned. The DOT reported these violations to the President, the Congress, the Comptroller General, and OMB on September 26, 2016.

Criteria

Title 31 U.S. Code (U.S.C.) Section 1517 states that an officer or an employee of the United States Government may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by regulations as specified by Title 31 U.S.C. Section 1514. If an officer or employee of an executive agency or of the District of Columbia government violates subsection (a) of this section, the head of the executive agency or the Mayor of the District of Columbia, as the case may be, shall report immediately to the President and the Congress (identical letters to the Speaker of the House of Representatives and the President of the Senate) all relevant facts and a statement of actions taken. A copy of each report shall also be transmitted to the Comptroller General on the same date the report is transmitted to the President and the Congress.

Cause

At the time that the violations occurred, FRA did not follow the established policies and procedures designed to prevent Anti-Deficiency Act violations.

Effect

DOT is not in compliance with the Anti-Deficiency Act.

Recommendations

We recommend that DOT:

1. Follow established policies and procedures designed to prevent Anti-Deficiency Act violations; and,
2. Increase training and communications with personnel responsible for performing the established policies and procedures.

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[1] Apportioned amounts appear on different groups of lines in the application of budgetary resources section of an apportionment. Amounts are identified in an apportionment as follows:

- By time (Category A);
- Project (Category B);
- A combination of project and time period (Category AB); and,
- For future years (only for multi-year/no-year accounts) (Category C).

You must report obligations to Treasury with the same categories as used on the apportionment.

U.S. Department of Transportation
Independent Auditors' Report
Compliance and Other Matters

EXHIBIT III
INSTANCES OF NONCOMPLIANCE

F. Noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)

Condition

As discussed in the Internal Control over Financial Reporting section of this report, we identified two material weaknesses related to general information technology controls at FTA that affects DOT's ability to comply with the Federal financial management system requirements of FFMIA.

Criteria

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

Cause

There are not adequate general information technology controls at FTA to ensure DOT's financial management systems comply with the requirements of FFMIA.

Effect

DOT's financial management systems did not substantially comply with the requirements of FFMIA.

Recommendation

We recommend that DOT improve its general information technology controls at FTA, as noted above, to ensure that DOT's financial management systems comply with the requirements of the FFMIA.

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITORS' REPORT

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

Memorandun

NOV 14 2016

Subject: Management's Response to the Audit Report on the Consolidated Financial Statements for Fiscal Year (FY) 2016

From: Shoshana M. Lew
Chief Financial Officer and Assistant Secretary for Budget and Programs

To: Calvin L. Scovel, III
Inspector General, Department of Transportation

M. Hannah Padilla
Partner, KPMG LLP

The Department of Transportation (DOT) is pleased to respond to the report on our Consolidated Financial Statements for FY 2016. We take great pride in our ability to sustain strong and vigilant financial management, as demonstrated in our achievement of an unmodifie audit opinion.

We concur with the two material weaknesses and two significant deficiencies contained in the report on internal controls over financial reporting, and with two instances of non-compliance found in certain provisions of selected laws and regulations that you reviewed. We concur witl all recommendations. Corrective actions have already begun to address these issues. DOT plai to submit a detailed corrective action plan along with estimated completion dates of the actions to the Inspector General no later than December 31, 2016, to address the findings contained in the report.

We appreciate the professionalism and cooperation exhibited by your office during the audit. Our combined efforts and teamwork made the difference in successfully meeting the objectives of the financial audit process. Please refer any questions to the Director of the Office of Financial Management, Ms. Jennifer Funk.

PRINCIPAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

As of September 30

Dollars in Thousands	2016	2015
Assets		
Intragovernmental		
Fund Balance With Treasury *(Note 2)*	$32,395,776	$34,265,425
Investments, Net *(Note 3)*	80,034,930	22,652,315
Accounts Receivable *(Note 4)*	150,558	119,522
Advances and Prepayments *(Note 5)*	78,405	50,883
Total Intragovernmental	**112,659,669**	**57,088,145**
Accounts Receivable, Net *(Note 4)*	156,144	165,526
Direct Loan and Loan Guarantees, Net *(Note 6)*	10,968,657	8,912,154
Inventory and Related Property, Net *(Note 7)*	937,585	909,960
General Property, Plant and Equipment, Net *(Note 8)*	13,475,244	13,772,180
Other *(Note 5)*	73,593	33,397
Total Assets	**$138,270,892**	**$80,881,362**
Stewardship property, plant and equipment *(Note 9)*		
Liabilities (Note 10)		
Intragovernmental		
Accounts Payable	$8,016	$3,941
Debt *(Note 11)*	10,868,042	8,972,231
Other *(Note 14)*	1,105,241	1,448,688
Total Intragovernmental	**11,981,299**	**10,424,860**
Accounts Payable	500,059	420,445
Loan Guarantee Liability *(Note 6)*	161,961	105,985
Federal Employee Benefits Payable	869,658	930,066
Environmental and Disposal Liabilities *(Note 12)*	1,102,669	1,118,668
Grant Accrual *(Note 13)*	7,918,633	6,361,980
Other *(Note 14)*	1,283,315	1,122,010
Total Liabilities	**$23,817,594**	**$20,484,014**
Commitments and contingencies *(Note 16)*		
Net Position		
Unexpended Appropriations—Funds From Dedicated Collections *(Note 17)*	$1,227,531	$1,213,328
Unexpended Appropriations—Other Funds	21,490,915	24,224,817
Cumulative Results of Operations—Funds From Dedicated Collections *(Note 17)*	79,835,672	23,945,246
Cumulative Results of Operations—Other Funds	11,899,180	11,013,957
Total Net Position—Funds From Dedicated Collections	**81,063,203**	**25,158,574**
Total Net Position—Other Funds	**33,390,095**	**35,238,774**
Total Net Position	**114,453,298**	**60,397,348**
Total Liabilities and Net Position	**$138,270,892**	**$80,881,362**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF NET COST

For the periods ended September 30

Dollars in Thousands	2016	2015
Program costs *(Note 18)*		
Surface Transportation		
Gross Costs	$63,957,073	$59,784,069
Less: Earned Revenue	890,147	850,733
Net Program Costs	**63,066,926**	**58,933,336**
Air Transportation		
Gross Costs	16,642,761	16,385,736
Less: Earned Revenue	494,134	528,743
Net Program Costs	**16,148,627**	**15,856,993**
Maritime Transportation		
Gross Costs	936,878	739,936
Less: Earned Revenue	486,050	366,191
Net Program Costs	**450,828**	**373,745**
Cross-Cutting Programs		
Gross Costs	695,181	666,541
Less: Earned Revenue	260,666	241,082
Net Program Costs	**434,515**	**425,459**
Costs Not Assigned to Programs	478,710	449,402
Less: Earned Revenues Not Attributed to Programs	594	220
Net Cost of Operations	**$80,579,012**	**$76,038,715**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the periods ended September 30

Dollars in Thousands	2016 Dedicated Collections	2016 All Other Funds	2016 Total	2015 Dedicated Collections	2015 All Other Funds	2015 Total
Cumulative Results of Operations						
Beginning Balance	$23,945,246	$11,013,957	$34,959,203	$27,392,597	$10,820,502	$38,213,099
Budgetary Financing Sources						
Other Adjustments	—	(703)	(703)	—	—	—
Appropriations Used	1,927,364	78,567,292	80,494,656	1,096,984	15,713,053	16,810,037
Non-Exchange Revenue *(Note 19)*	56,182,353	38,677	56,221,030	55,386,197	19,092	55,405,289
Donations/Forfeitures of Cash/Cash Equivalents	872	—	872	2,431	—	2,431
Transfers-in/(out) Without Reimbursement	70,117,123	(69,890,570)	226,553	8,025,086	(8,062,500)	(37,414)
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	—	38,824	38,824	—	40,902	40,902
Transfers-in/(out) Without Reimbursement	(1,888,382)	1,881,832	(6,550)	(1,673,061)	1,741,128	68,067
Imputed Financing	356,130	98,302	454,432	381,286	118,456	499,742
Other	366	(74,819)	(74,453)	1,822	(6,057)	(4,235)
Total Financing Sources	**126,695,826**	**10,658,835**	**137,354,661**	**63,220,745**	**9,564,074**	**72,784,819**
Net Cost of Operations	70,805,400	9,773,612	80,579,012	66,668,096	9,370,619	76,038,715
Net Change	55,890,426	885,223	56,775,649	(3,447,351)	193,455	(3,253,896)
Cumulative Results of Operations	**$79,835,672**	**$11,899,180**	**$91,734,852**	**$23,945,246**	**$11,013,957**	**$34,959,203**
Unexpended Appropriations						
Beginning Balance	1,213,328	24,224,817	25,438,145	1,141,499	26,932,115	28,073,614
Budgetary Financing Sources						
Appropriations Received *(Note 1U)*	1,987,724	75,901,793	77,889,517	1,145,700	13,610,044	14,755,744
Appropriations Transferred-in/(out)	—	12,166	12,166	1,865	9,135	11,000
Other Adjustments	(46,157)	(80,569)	(126,726)	21,248	(613,424)	(592,176)
Appropriations Used	(1,927,364)	(78,567,292)	(80,494,656)	(1,096,984)	(15,713,053)	(16,810,037)
Total Budgetary Financing Sources	14,203	(2,733,902)	(2,719,699)	71,829	(2,707,298)	(2,635,469)
Total Unexpended Appropriations	**$1,227,531**	**$21,490,915**	**$22,718,446**	**$1,213,328**	**$24,224,817**	**$25,438,145**
Net Position	**$81,063,203**	**$33,390,095**	**$114,453,298**	**$25,158,574**	**$35,238,774**	**$60,397,348**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the periods ended September 30

Dollars in Thousands	2016 Budgetary	2016 Non-Budgetary Credit Reform Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources *(Note 20)*				
Unobligated Balance, Brought Forward, October 1	$47,888,817	$223,518	$51,002,674	$243,295
Recoveries of Prior Year Unpaid Obligations	691,778	10,872	937,714	—
Other Changes in Unobligated Balance	(122,124)	—	(528,492)	—
Unobligated Balance From Prior Year Budget Authority, Net	**48,458,471**	**234,390**	**51,411,896**	**243,295**
Appropriations *(Note 1U)*	89,313,027	—	26,377,847	—
Borrowing Authority	—	4,966,665	—	4,169,831
Contract Authority	57,048,794	—	53,968,762	—
Spending Authority From Offsetting Collections	10,177,773	469,533	10,295,131	418,255
Total Budgetary Resources	**$204,998,065**	**$5,670,588**	**$142,053,636**	**$4,831,381**
Status of Budgetary Resources				
New Obligations and Upward Adjustments	$155,838,976	$5,281,515	$94,164,819	$4,607,863
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	30,596,579	32,445	29,528,746	14,428
Exempt From Apportionment, Unexpired Accounts	—	—	291,367	—
Unapportioned, Unexpired Accounts	18,278,645	356,628	17,785,989	209,090
Unexpired Unobligated Balance, End of Year	48,875,224	389,073	47,606,102	223,518
Expired Unobligated Balance, End of Year	283,865	—	282,715	
Unobligated Balance, End of Year	**49,159,089**	**389,073**	**47,888,817**	**223,518**
Total Budgetary Resources	**$204,998,065**	**$5,670,588**	**$142,053,636**	**$4,831,381**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

COMBINED STATEMENTS OF BUDGETARY RESOURCES (continued) For the periods ended September 30

Dollars in Thousands	2016 Budgetary	2016 Non-Budgetary Credit Reform Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Reform Financing Accounts
Change in Obligated Balances				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$108,262,227	$12,703,163	$109,639,711	$10,529,022
New Obligations and Upward Adjustments	155,838,976	5,281,515	94,164,819	4,607,863
Outlays (Gross)	(159,139,290)	(2,795,536)	(94,614,589)	(2,433,722)
Actual Transfers, Unpaid Obligations	10,000	—	10,000	—
Recoveries of Prior Year Unpaid Obligations	(691,778)	(10,872)	(937,714)	—
Unpaid Obligations, End of Year (Gross)	104,280,135	15,178,270	108,262,227	12,703,163
Uncollected Payments				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(881,429)	(762,819)	(1,273,596)	(615,395)
Change in Uncollected Payments, Federal Sources	(62,965)	22,793	392,167	(147,424)
Uncollected Payments, Federal Sources, End of Year	(944,394)	(740,026)	(881,429)	(762,819)
Obligated Balance, Start of Year (Net)	107,380,798	11,940,344	108,366,115	9,913,627
Obligated Balance, End of Year (Net)	**$103,335,741**	**$14,438,244**	**$107,380,798**	**$11,940,344**
Budget Authority and Outlays, Net				
Budget Authority, Gross	$156,539,594	$5,436,198	$90,641,740	$4,588,086
Actual Offsetting Collections	(10,136,066)	(1,065,285)	(10,639,795)	(1,626,723)
Change in Uncollected Payments, Federal Sources	(62,965)	22,793	392,167	(147,424)
Recoveries of Prior Year Paid Obligations	20,898	—	19,763	
Budget Authority, Net	**$146,361,461**	**$4,393,706**	**$80,413,875**	**$2,813,939**
Outlays, Gross	$159,139,290	$2,795,536	$94,614,589	$2,433,722
Actual Offsetting Collections	(10,136,066)	(1,065,285)	(10,639,795)	(1,626,723)
Outlays, Net	149,003,224	1,730,251	83,974,794	806,999
Distributed Offsetting Receipts	(70,618,402)	—	(8,552,295)	—
Agency Outlays, Net	**$78,384,822**	**$1,730,251**	**$75,422,499**	**$806,999**

The accompanying notes are an integral part of these financial statements

NOTES TO THE PRINCIPAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The U.S. Department of Transportation (DOT or Department) serves as the strategic focal point in the Federal Government's national transportation plan. It partners with cities and States to meet local and national transportation needs by providing financial and technical assistance; ensuring the safety of all transportation modes; protecting the interests of the American traveling public; promoting international transportation treaties; and conducting planning and research for the future.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management team and organizational structure. Collectively, they provide services and oversight to ensure the best possible transportation system serves the American public. The Department's consolidated financial statements present the financial data for various trust funds, revolving funds, appropriations and special funds of the following organizations (referred to as Operating Administrations):

- Office of the Secretary (OST) [includes OST Working Capital Fund, Volpe National Transportation Center, and Office of the Assistant Secretary for Research and Technology]
- 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 Inspector General (OIG)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)

The U.S. Saint Lawrence Seaway Development Corporation (SLSDC) is a wholly owned Government corporation and an Operating Administration of the Department. However, SLSDC's financial data is not included in the DOT consolidated financial statements as they are subject to separate reporting requirements under the Government Corporation Control Act and the dollar value of its activities is not material to that of the Department taken as a whole. Condensed information about SLSDC's financial position is presented in the Other Information section.

Pursuant to the Surface Transportation Board Reauthorization Act of 2015 (P.L. 114-110), as of October 1, 2015, the Surface Transportation Board (STB) became an independent agency and is no longer an Operating Administration of the DOT. For reporting purposes, the expired STB Treasury Appropriation/Fund Symbols for FY 2015 and prior will remain on DOT's books and records until canceled, as these funds were appropriated to DOT and obligated as such.

On December 4, 2015, the President signed into law the Fixing America's Surface Transportation Act, or "FAST Act" (P.L. 114-94). The FAST Act created the National

Surface Transportation and Innovative Finance Bureau, which integrates the current Federal credit programs of the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation and Infrastructure Financing (RRIF) programs into OST under the Office of the Undersecretary for Transportation for Policy.

The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards (SFFAS) 47 in December 2014. SFFAS 47 establishes principles to identify organizations for which elected officials are accountable. The Statement provides guidance for determining what organizations Federal Agencies should report upon, whether such organizations are considered "consolidation entities" or "disclosure entities," and what information should be presented about those organizations. The Statement also requires information to be provided about related party relationships of such significance that it would be misleading to exclude information. SFFAS 47 is effective for periods beginning after September 30, 2017 and could impact the Department's financial statements. Management is currently performing an analysis to determine the impact of the Statement.

B. BASIS OF PRESENTATION

The consolidated financial statements have been prepared to report the Department's financial position and results of operations as required by the Chief Financial Officers Act of 1990 (CFO Act) and Title IV of the Government Management Reform Act of 1994. The statements have been prepared from the DOT books and records in accordance with Office of Management and Budget (OMB) form and content requirements for entity financial statements and DOT's accounting policies and procedures. Material intradepartmental transactions and balances have been eliminated from the principal statements for presentation on a consolidated basis, except for the Combined Statement of Budgetary Resources, which is presented on a combined basis in accordance with OMB Circular A-136, *Financial Reporting Requirements*, as revised, and as such, intraentity transactions have not been eliminated. Unless otherwise noted, all dollar amounts are presented in thousands.

The Consolidated Balance Sheets and certain accompanying notes to the consolidated financial statements present agency assets, liabilities, and net position (which equals total assets minus total liabilities) as of the reporting dates. Agency assets substantially consist of entity assets (those which are available for use by the agency). Nonentity assets (those which are managed by the agency, but not available for use in its operations) are immaterial to the consolidated financial statements taken as a whole. Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

The Consolidated Statements of Net Cost presents the gross costs of programs, less earned revenue, to arrive at the net cost of operations, for both the programs and the Department, as a whole for the reporting periods.

The Consolidated Statements of Changes in Net Position report beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending net position balances.

The Combined Statements of Budgetary Resources provide information about how budgetary resources were made available, as well as the status of budgetary resources at the end of the reporting periods. Recognition and measurement of budgetary information reported on these statements is based on budget terminology, definitions, and guidance presented in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2016.

A Statement of Custodial Activity is not presented since DOT custodial activity is incidental to departmental operations and is not considered material to the consolidated financial statements taken as a whole. DOT custodial activity is presented in Note 21.

On the Consolidated Balance Sheets and in certain accompanying notes to the consolidated financial statements, transaction balances are classified as either being intragovernmental or with the public. Intragovernmental transactions and balances result from exchange transactions made between DOT and other Federal Government entities while those classified as "with the public" result from exchange transactions between DOT and non-Federal entities. For example, if DOT purchases goods or services from the public and sells them to another Federal entity, the costs would be classified as "with the public," but the related revenues would be classified as "intragovernmental." This could occur, for example, when DOT provides goods or services to another Federal Government entity on a reimbursable basis. The purpose of this classification is to enable the Federal Government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

DOT accounts for dedicated collections separately from other funds. Funds from dedicated collections are financed by specifically identified revenues, provided to the Government by non-Federal sources, often supplemented by other financing sources which remain available over time. Funds from dedicated collections are required, by statute, to be used for designated activities, benefits or purposes.

C. BUDGETS AND BUDGETARY ACCOUNTING

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2016. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, the U.S. Congress (Congress) provides budget authority, primarily in the form of appropriations, to the DOT Operating Administrations to incur obligations in support of agency programs. For fiscal year (FY) 2016 and FY 2015, the Department was accountable for trust fund appropriations, general fund appropriations, revolving fund activity, borrowing authority, and contract authority. DOT recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through warrants and trust fund transfers.

Programs are financed from authorizations enacted in authorizing legislation and codified in Title 23 and 49 of the United States Code (U.S.C.). The DOT receives its budget authority in the form of direct appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. Contract authority permits programs to incur obligations in advance of an appropriation, offsetting collections or receipts. Subsequently, Congress provides an appropriation for the liquidation of the contract authority to allow payments to be made for the obligations incurred. Funds apportioned by statute under Titles 23 and 49 of the U.S.C., Subtitle III by the Secretary of Transportation for activities in advance of the liquidation of appropriations are available for a specific time period.

D. BASIS OF ACCOUNTING

The Department is required to be in substantial compliance with all applicable accounting principles and standards developed and issued 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 United States Standard General Ledger requirements at the transaction level.

Transactions are recorded on an accrual and a budgetary accounting 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. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints.

E. FUNDS WITH THE U.S. TREASURY

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 liabilities and finance authorized purchases. Lockboxes have been established with financial institutions to collect certain payments, and these funds are transferred directly to the U.S. Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

F. INVESTMENTS IN U.S. GOVERNMENT SECURITIES

Investments, consisting of U.S. Government Securities, are reported at cost, adjusted for amortized cost, net of premiums or discounts, and are held to maturity. Premiums or discounts are amortized into interest income over the term of the investment using the interest method. The Department has the intent and the ability to hold investments to maturity. Investments, redemptions, and reinvestments are controlled and processed by the U.S. Treasury. DOT has nonmarketable par value and market-based Treasury securities. DOT also has marketable securities issued by the Treasury at market price.

G. RECEIVABLES

Accounts Receivable

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 Receivable

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (resulting from the interest rate differential between the loans and U.S. Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. INVENTORY AND RELATED OPERATING MATERIALS AND SUPPLIES

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Inventory costs include material, labor, and applicable manufacturing overhead.

Inventory held for sale includes both purchased inventory and refurbished inventory. Purchased inventory held for sale is valued using historical cost, applying the weighted moving average cost flow method. Refurbished inventory held for sale is valued using the standard cost method, updated monthly. In prior years, refurbished inventory held for sale was valued using average weighted cost.

Inventory held for repair may be accounted for using the allowance method or the direct method. In FY 2016, the FAA implemented a new inventory reporting system and transitioned from using the allowance method to the direct method for valuing inventory held for repair. The change in accounting method, in conjunction with the new inventory reporting system, serves to simplify the valuation process and increases transparency within the financial reporting systems. There is no change in the net value of unserviceable inventory held for repair as a result of the change in valuation method and it had no effect on the net ending balances reported in prior years.

In prior years, inventory held for repair represented both inventory in need of repair and refurbished inventory available for exchange. With the transition to the new inventory reporting system, FAA changed the criteria for identifying the category to which inventory is assigned to more closely align with the category definitions in SFFAS Number 3, *Accounting for Inventory and Related Property*. As such, the refurbished inventory available for exchange is reclassified to inventory held for sale.

Inventory may be classified as "excess, obsolete, and unservicable" and an allowance is established for the excess, obsolete, and unservicable inventory at 100 percent book value.

Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. They are valued based on the weighted moving average cost method or on the basis of actual prices paid. Operating materials and supplies are expensed using the consumption method of accounting. Operating materials and supplies may be classified as excess, obsolete, and unservicable and an allowance is established based on the condition of various asset categories and historical experience with disposing of such assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. PROPERTY AND EQUIPMENT

DOT Operating Administrations have varying methods of determining the value of general purpose property and equipment and how it is depreciated. DOT currently has a capitalization threshold of $200 thousand for structures and facilities and for internal use software, and $100 thousand for other property, plant and equipment. Capitalization at lesser amounts is permitted. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs, as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. The straight line method is generally used to depreciate capitalized assets.

DOT's heritage assets, consisting of Union Station in Washington, D.C., the Nuclear Ship Savannah, and collections of maritime artifacts, are considered priceless and are not capitalized in the Consolidated Balance Sheet (See Note 9).

J. ADVANCES AND PREPAYMENTS

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses or capitalized, as appropriate, when the related goods and services are received.

K. LIABILITIES

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities, which are covered by available budgetary resources as of the balance sheet date. Available budgetary resources include new budget authority, spending authority from offsetting collections, recoveries of unexpired budget authority through downward adjustments of prior year obligations, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and permanent indefinite appropriations or borrowing authority. Unfunded liabilities are not considered to be covered by such budgetary resources. An example of an unfunded liability is actuarial liabilities for future Federal Employees' Compensation Act payments. The Government, acting in its sovereign capacity, can abrogate liabilities arising from transactions other than contracts.

L. CONTINGENCIES

The criteria for recognizing contingencies for claims are (1) a past event or exchange transaction has occurred as of the date of the statements; (2) a future outflow or other sacrifice of resources is probable; and (3) the future outflow or sacrifice of resources is measurable (reasonably estimable). DOT recognizes material contingent liabilities in the form of claims, legal actions, administrative proceedings and environmental suits that have been brought to the attention of legal counsel, some of which will be paid from the Judgment Fund administered by the U.S. Treasury.

The Department has entered into contractual commitments that require future use of financial resources, specifically for long-term lease obligations. The Department is committed to various leases primarily covering administrative office space, technical facilities and fleet vehicles with GSA and other vendors, when granted the authority.

Specificially, FAA and MARAD have general procurement provisions, pursuant to USC Title 49 Section 40110(c)(1) and Title 46 Section 50303, respectively. Leases may contain escalation clauses tied to changes in inflation, taxes or renewal options. Although most have short termination arrangements, the Department intends to remain in the leases. Depending on lease terms they are either recorded as capital or operating leases. (See Note 15).

M. ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored leave, and sick leave in certain circumstances, are accrued based on latest pay rates and unused hours of leave. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements, including the National Air Traffic Controllers Association (NATCA) agreement, Article 25, Section 13. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned and not taken. Nonvested leave is expensed when used.

N. RETIREMENT PLAN

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, Federal Employee Retirement System (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 postretirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefit plans is the responsibility of the administering agency, the U.S. Office of Personnel Management (OPM). Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

O. FEDERAL EMPLOYEES HEALTH BENEFIT (FEHB) PROGRAM

Most Department employees are enrolled in the FEHB Program, which provides current and postretirement health benefits. OPM administers these programs and is responsible for reporting the related liabilities. OPM contributes the 'employer' share for retirees via an appropriation and the retirees contribute their portion of the benefit directly to OPM. OPM calculates the U.S. Government's service cost for covered employees each fiscal year. The Department has recognized the employer cost of these postretirement benefits for covered employees as an imputed cost.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. FEDERAL EMPLOYEES GROUP LIFE INSURANCE (FEGLI) PROGRAM

Most Department employees are entitled to participate in the FEGLI Program. Participating employees can obtain basic term life insurance where the employee pays two-thirds of the cost and the Department pays one-third of the cost. OPM administers this program and is responsible for reporting the related liabilities. OPM calculates the U.S. Government's service cost for the postretirement portion of the basic life coverage each fiscal year. Because OPM fully allocates the Department's contributions for basic life coverage to the preretirement portion of coverage, the Department has recognized the entire service cost of the postretirement portion of basic life coverage as an imputed cost.

Q. FEDERAL EMPLOYEES COMPENSATION ACT (FECA) BENEFITS

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the FECA. The actual costs incurred are reflected as a liability because DOT will reimburse the U.S. Department of Labor (DOL) 2 years after the actual payment of expenses. Future revenues will be used to reimburse DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under FECA.

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

DOT recognizes two types of environmental liabilities: unfunded environmental remediation liability and unfunded asset disposal liability. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual liability is charged to current year expense.

The asset disposal liability is the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous material when an asset presently in service is shut down. DOT estimates the asset disposal liability at the time that an asset is placed in service. For assets placed in service through FY 1998, the increase or decrease in the estimated environmental cleanup liablility is charged to expense. Assets placed in service in FY 1999 and after do not contain any known hazardous materials, and therefore do not have associated environmental liabilities.

There are no known possible changes to these estimates based on inflation, deflation, technology, or applicable laws and regulations.

S. USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amount of assets, liabilities and contingent liability disclosures as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Significant estimates underlying the accompanying financial statements include the accruals of accounts and grants payable, and accrued legal, contingent, environmental, and disposal liabilities. Additionally, the Federal Credit Reform Act of 1990 (FCRA) requires the Department to use estimates in determining the reported amount of direct loan and loan guarantees, the loan guarantee liability and the loan subsidy costs associated with future loan performance.

T. ALLOCATION TRANSFERS

DOT is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a recipient (child) entity. Allocation transfers are legal delegations by one Federal agency of its authority to obligate budget authority and outlay funds to another Federal agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent obligations and outlays incurred by the receiving entity (child) are charged to this allocation account as the delegated activity is executed on the parent entity's behalf. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived.

DOT allocates funds, as the parent agency, to the following non-DOT Federal agencies in accordance with applicable public laws and statutes: U.S. Bureau of Indian Affairs, U.S. Bureau of Reclamation, U.S. Forest Service, U.S. National Park Service, U.S. Bureau of Land Management, U.S. Fish and Wildlife Service, U.S. Department of the Army, Appalachian Regional Commission, Tennessee Valley Authority, U.S. Army Corps of Engineers, Internal Revenue Service (IRS), U.S. Department of Housing and Urban Development, Denali Commission, U.S. Department of Navy, and the U.S. Department of Energy.

DOT receives allocations of funds, as the child agency, from the following non-DOT Federal agencies in accordance with applicable laws and statutes: U.S. Department of Agriculture, U.S. Department of the Interior, U.S. Department of the Navy, U.S. Department of the Army, U.S. Department of the Air Force, and the U.S. Department of Defense (DoD).

U. REVENUES AND OTHER FINANCING SOURCES

Funds From Dedicated Collections Excise Tax Revenues (Nonexchange)

Two significant DOT programs, the Highway Trust Fund (HTF) and the Airport and Airway Trust Fund (AATF), receive nonexchange funding support from the dedicated collection of excise taxes.

The DOT September 30, 2016 financial statements reflect excise taxes certified by the IRS through June 30, 2016 and excise taxes distributed by the U.S. Treasury, Office of Tax Analysis (OTA) for the period July 1, 2016 to September 30, 2016, as specified by FASAB Statement of Federal Financial Accounting Standard (SFFAS) Number 7, Accounting for Revenue and Other Financing Sources. The HTF and AATF receive their budget authority in the form of contract authority and direct appropriations. Contract authority permits programs to incur obligations in advance of an appropriation, offsetting collections, or receipts and authorizes the collections and deposits of excise taxes into and making expenditures from the HTF and AATF. Subsequently,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Congress authorizes DOT to liquidate the contract authority only as appropriated. The excise tax revenue received in the HTF and AATF accounts remain invested until needed and is thereby liquidated and withdrawn from the investments.

Appropriations (Financing Source)

DOT receives annual, multiyear and no-year appropriations. Appropriations are recognized as financing sources when related program and administrative expenses are incurred. Additional amounts are obtained from offsetting collections and user fees (e.g., overflight fees and registry certification fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is received from gifts of donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income is recognized as revenue on the accrual basis rather than when received.

Effective February 18, 2012, the FAA Modernization and Reform Act of 2012, P.L. 112-95, extended AATF authority to collect excise taxes and make expenditures through September 30, 2015. Effective October 1, 2015, The Airport and Airway Extension Act of 2015, P.L. 114-55 further extended the FAA's programmatic and financing authorities, the Airport Improvement Program contract authority, and the authority to collect and deposit excise taxes into and make expenditures from the AATF to March 31, 2016.

On March 30, 2016, the President signed the Airport and Airway Extension Act of 2016, P.L. 114-141, which extended authorization for FAA programs from March 31, 2016 until July 15, 2016. The FAA Extension, Safety, and Security Act of 2016, P.L. 114-190, was signed on July, 15, 2016 which extended the AATF authorizations and related revenue authorities through September 30, 2017.

On July 6, 2012, the President signed P.L. 112-141, Moving Ahead for Progress in the 21st Century (MAP-21), which extended the preceding law, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, through September 30, 2012 and provided new surface transportation authorization from October 1, 2012, through September 30, 2014. The existing and new programs authorized by MAP-21 created a streamlined, performance-based, and multimodal program to address many of the challenges facing the U.S. transportation system. On August 8, 2014, the President signed the Highway and Transportation Funding Act of 2014, which extended surface transportation authorization and Moving Ahead for Progress in the 21st Century (MAP-21) policies through May 31, 2015.

Effective May 29, 2015, Congress passed The Highway and Transportation Funding Act of 2015, P. L. 114-21, extending MAP-21, from May 31, 2015 to July 31, 2015. On July 31, 2015, the President signed the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015, which further extended surface transportation authorization and MAP-21 policies through October 29, 2015 and transferred $8.1 billion from the Treasury general fund in FY 2015. The law allocated $6.1 billion to the Highway Account and $2 billion to the Mass Transit Account. The Surface Transportation Extension Act of 2015 was signed on October 29, 2015, to further extend the HTF operations to November 20, 2015.

On November 20, 2015, the Surface Transportation Extension Act of 2015, Part II (P.L. 114-73) was signed and further extended HTF operations from November 20,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2015 to December 4, 2015. On December 4, 2015, the President signed into law the Fixing America's Surface Transportation Act, or "FAST Act" (P.L. 114-94), providing funding for surface transportation through September 30, 2020 and transferred an additional $70 billion from the Treasury general fund in FY 2016. The law allocated $51.9 billion to the Highway Account and $18.1 billion to the Mass Transit Account. These allocations over the course of the last few years have caused significant fluctuations in many of the transfer activities and 'Distributed Offsetting Receipts' in the DOT's financial records.

In October 2012, Hurricane Sandy significantly impacted certain areas within the northeastern United States. On January 6, 2013, Congress enacted P.L. 113–2 that appropriated $13 billion (which was subject to a 5.1 percent sequestration reduction) to several DOT Operating Administrations for the recovery and relief efforts of transit systems most affected by Hurricane Sandy. FTA Emergency Relief Program received $11 billion for recovery and rebuilding projects, resiliency projects, and community development block grants and the FHWA Emergency Relief Program received $2 billion for immediate use in rebuilding roads, bridges, seawalls, and tunnels. As the remainder of the anticipated construction projects related to the destruction caused by Hurricane Sandy include certain complex improvements to the transit systems and are long term, by design, DOT had obligated only $7.0 billion and expended $3.1 billion of these monies as of September 30, 2016.

Effective October 1, 2016, the DOT is operating under a continuing resolution (CR), P.L. 114-223, to continue Government operations. The CR will be in effect through December 9, 2016, predominantly at FY 2016 levels.

V. FIDUCIARY ACTIVITIES

Fiduciary assets and liabilities are not assets and liabilities of the Department and, as such, are not recognized on the Balance Sheet. The MARAD Title XI Escrow Fund contains fiduciary activity as detailed in Note 23.

W. RELATED PARTIES

The Secretary of Transportation has possession of two long-term notes with the National Railroad Passenger Corporation (more commonly referred to as Amtrak). The first note is for $4 billion and matures in 2975 and, the second note is for $1.1 billion and matures in 2082 with renewable 99-year terms. Interest is not accruing on these notes as long as the current financial structure of Amtrak remains unchanged. If the financial structure of Amtrak changes, both principal and accrued interest are due and payable. The Department does not record the notes in its financial statements since the notes, with maturity dates of 2975 and 2082, are considered fully uncollectible due to the lengthy terms and Amtrak's history of operating losses.

In addition, the Secretary of Transportation has possession of all the preferred stock shares (109,396,994) of Amtrak. Congress, through the Department, has continued to fund Amtrak since 1972; originally through grants, then, beginning in 1981, through the purchase of preferred stock, and then, through grants again after 1997. The Amtrak Reform and Accountability Act of 1997 changed the structure of the preferred stock by rescinding the voting rights with respect to the election of the Board of Directors and by eliminating the preferred stock's liquidation preference over the common stock. The Act also eliminated further issuance of preferred stock to the Department. The Department does not record the Amtrak preferred stock in its financial statements because, under the Corporation's current financial structure, the preferred shares do not have a liquidation preference over the common shares, the preferred shares do not have any voting rights, and dividends are neither declared nor in arrears.

Amtrak is not a department, agency or instrumentality of the United States Government or the Department. The nine members of Amtrak's Board of Directors are appointed by the President of the United States and are subject to confirmation by the United States Senate. Once appointed, Board Members, as a whole, act independently without the consent of the United States Government or any of its officers to set Amtrak policy, determine its budget and decide operational issues. The Secretary of Transportation is statutorily appointed to the nine-member Board. Traditionally, the Secretary of Transportation has designated the FRA Administrator to represent the Secretary at Board meetings.

X. SUBSEQUENT EVENTS

In October 2016, Hurricane Matthew significantly impacted certain areas within the southeastern United States. Currently, DOT, in conjunction with other federal entities, is assessing the estimated financial impact of the affected areas. DOT is expecting states impacted by Hurricane Matthew to apply for emergency relief in the near future, however; the amounts are unknown as of the date of this report.

Y. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the current year presentation.

In FY 2016, the FAA transitioned from using the allowance method to using the direct method for valuing inventory held for repair. The FAA also changed the criteria for identifying the category to which inventory is assigned to improve the visibility of items that are in need of repair. The inventory balances for the year ended September 30, 2015 have been reclassified for consistency with the current year presentation.

Z. TAXES

DOT, as a Federal entity, is not subject to Federal, State, or local income taxes and, accordingly, does not record a provision for income taxes in the accompanying financial statements.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balances With Treasury as of September 30, 2016 and 2015, consist of the following:

Dollars in Thousands	2016	2015
Fund Balances		
Trust Funds	$6,084,717	$5,684,525
Revolving Funds	1,583,569	1,062,214
General Funds	24,356,647	27,163,921
Other Fund Types	370,843	354,765
Total	**$32,395,776**	**$34,265,425**
Status of Fund Balance With Treasury		
Unobligated Balance		
Available	$21,428,681	$19,952,693
Unavailable	2,489,026	2,437,104
Obligated Balance Not Yet Disbursed	7,693,395	11,354,655
Non-Budgetary Fund Balance With Treasury	784,674	520,973
Total	**$32,395,776**	**$34,265,425**

Fund Balances with Treasury are the aggregate amounts of the Department's accounts with Treasury for which the Department is authorized to make expenditures and pay liabilities. Other Fund Types include 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.

Unobligated fund balances are reported as not available when they are not legally available for obligation. However, balances that are not available can be used for upward adjustments of obligations that were incurred during the period of availability or for paying claims attributable to that time period.

The DOT is funded with appropriations from trust funds and the General Fund of the Treasury. While amounts appropriated from the General Fund of the Treasury are included in fund balance with Treasury, trust fund investments are not. Trust fund investments are redeemed, as needed, to meet DOT's cash disbursement needs, at which time the funds are transferred into fund balance with Treasury. The DOT also receives contract authority which allows obligations to be incurred in advance of an appropriation. The contract authority is subsequently funded, as authorized, from the trust fund allowing for the liquidation of the related obligations. Thus, investments and contract authority are not part of fund balance with Treasury; however, their balances will be transferred from the trust fund to fund balance with Treasury over time to liquidate obligated balances and unobligated balances as they become obligated, and thus are necessarily included in the Status of fund balance with Treasury section of this footnote. These investments and contract authority amounts offset the Obligated Balance not yet Disbursed, therefore the unobligated and obligated balances presented may not equal related amounts reported on the Combined Statements of Budgetary Resources.

NOTE 3. INVESTMENTS

Dollars in Thousands	Cost	Amortized Discount	Investments (Net)	Market Value
Intragovernmental Securities	Investments as of September 30, 2016 consist of the following:			
Marketable	$47,831	$(113)	$47,718	$48,011
Non-Marketable Par Value	78,029,101	—	78,029,101	78,029,100
Non-Marketable Market-Based	1,871,802	18,539	1,890,341	1,895,335
Subtotal	**79,948,734**	**18,426**	**79,967,160**	**79,972,446**
Accrued Interest Receivable	67,770	—	67,770	
Total Intragovernmental Securities	**$80,016,504**	**$18,426**	**$80,034,930**	**$79,972,446**
Intragovernmental Securities	Investments as of September 30, 2015 consist of the following:			
Marketable	$42,685	$(56)	$42,629	$42,839
Non-Marketable Par Value	20,382,748	—	20,382,748	20,382,748
Non-Marketable Market-Based	2,125,792	39,678	2,165,470	2,171,014
Subtotal	**22,551,225**	**39,622**	**22,590,847**	**22,596,601**
Accrued Interest Receivable	61,468	—	61,468	
Total Intragovernmental Securities	**$22,612,693**	**$39,622**	**$22,652,315**	**$22,596,601**

Investments include nonmarketable par value and market-based Treasury securities and marketable securities issued by the Treasury. Nonmarketable par value Treasury securities are issued by the Bureau of Fiscal Service to Federal accounts and are purchased and redeemed at par exclusively through Treasury's Federal Investment Branch. Nonmarketable market-based Treasury securities are also issued by the Bureau of Fiscal Service to Federal accounts. They are not traded on any securities exchange but mirror the prices of particular Treasury securities trading in the Government securities market. Marketable Federal securities can be bought and sold on the open market. The premiums and discounts are amortized over the life of the nonmarketable market-based and marketable securities using the interest method.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with dedicated collections. The cash receipts collected from the public that meet the definition of dedicated collections are deposited in the U.S. Treasury, which uses the cash for Government purposes. Nonmarketable par value Treasury securities are issued to DOT as evidence of these receipts. These securities provide DOT with authority to draw upon the U.S. Treasury to make future expenditures. When DOT requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures, in the same way that the Government finances all other expenditures.

NOTE 4. ACCOUNTS RECEIVABLE

Dollars in Thousands	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
	Accounts Receivable as of September 30, 2016 consist of the following:		
Intragovernmental			
Accounts Receivable	$150,553	$ —	$150,553
Accrued Interest	5	—	5
Total Intragovernmental	**150,558**	**—**	**150,558**
Public			
Accounts Receivable	179,960	(24,559)	155,401
Accrued Interest	1,731	(988)	743
Total Public	**181,691**	**(25,547)**	**156,144**
Total Accounts Receivable	**$332,249**	**$(25,547)**	**$306,702**
	Accounts Receivable as of September 30, 2015 consist of the following:		
Intragovernmental			
Accounts Receivable	$119,517	$ —	$119,517
Accrued Interest	5	—	5
Total Intragovernmental	**119,522**	**—**	**119,522**
Public			
Accounts Receivable	187,373	(22,254)	165,119
Accrued Interest	1,418	(1,011)	407
Total Public	**188,791**	**(23,265)**	**165,526**
Total Accounts Receivable	**$308,313**	**$(23,265)**	**$285,048**

NOTE 5. OTHER ASSETS

Intragovernmental Other Assets are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods and services not yet received. Public Other Assets are comprised of advances to States, employees, and contractors.

Other Assets consist of the following as of September 30, 2016 and 2015

Dollars in Thousands	2016	2015
Intragovernmental		
Advances and Prepayments	$78,405	$50,883
Total Intragovernmental Other Assets	**$78,405**	**$50,883**
Public		
Advances to States for Right of Way	$254	$254
Other Advances and Prepayments	72,839	32,643
Other	500	500
Total Public Other Assets	**$73,593**	**$33,397**

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups:

(1) Pre-1992—Direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or loan guarantees; and

(2) Post-1991—Direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees.

The act, as amended, governs direct loan obligations and loan guarantee commitments made after FY 1991, and the resulting direct loans and loan guarantees. Consistent with the act, SFFAS number 2, Accounting for Direct Loans and Loan Guarantees, requires Federal agencies to recognize the present value of the subsidy costs (which arises from interest rate differentials, interest supplements, defaults [net of recoveries], fee offsets, and other cash flows) 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. The value of assets for direct loans and defaulted guaranteed loans is not the same as the proceeds that would be expected from the sale of the loans. DOT does not have any loans obligated prior to FY 1992.

Interest on the loans is accrued based on the terms of the loan agreement. DOT does not accrue interest on nonperforming loans that have filed for bankruptcy protection. DOT management considers administrative costs to be insignificant.

DOT administers the following direct loan and/or loan guarantee programs:

(1) The Railroad Rehabilitation Improvement Program is used to acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of tract, bridges, yards, buildings, and shops; refinance outstanding debt incurred; and develop or establish new intermodal or railroad facilities.

(2) The Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Program provides Federal credit assistance for major transportation investments of critical national importance such as highway, transit, passenger rail, certain freight facilities, and certain port projects with regional and national benefits. The TIFIA credit program is designed to fill market gaps and leverages substantial private coinvestment by providing supplemental and subordinate capital.

(3) The Federal Ship Financing Fund (Title XI) offers loan guarantees to qualified ship owners and shipyards. Approved applicants are provided the benefit of long-term financing at stable interest rates.

(4) The OST Minority Business Resource Center Guaranteed Loan Program helps small businesses gain access to the financing needed to participate in transportation-related contracts.

An analysis of loans receivable, allowance for subsidy costs, liability for loan guarantees, foreclosed property, modifications, and reestimates associated with direct loans and loan guarantees is provided in the following sections:

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (continued)

DIRECT LOANS

Obligated After FY 1991 Dollars in Thousands

Direct Loan Programs	2016 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$1,071,220	$ —	$(10,823)	$1,060,397
(2) TIFIA Loans	10,595,856	—	(687,596)	9,908,260
Total	**$11,667,076**	**$ —**	**$(698,419)**	**$10,968,657**

Direct Loan Programs	2015 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$967,635	$3,125	$(23,569)	$947,191
(2) TIFIA Loans	8,618,621	—	(653,658)	7,964,963
Total	**$9,586,256**	**$3,125**	**$(677,227)**	**$8,912,154**

Total Amount of Direct Loans Disbursed (Post-1991) Dollars in Thousands

Direct Loan Programs	2016	2015
(1) Railroad Rehabilitation Improvement Program	$193,642	$101,616
(2) TIFIA Loans	1,962,655	1,721,600
Total	**$2,156,297**	**$1,823,216**

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (continued)

DIRECT LOANS (continued)

Subsidy Expense for Direct Loans by Program and Component Dollars in Thousands

Subsidy Expense for New Direct Loans Disbursed

Direct Loan Programs	2016 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
(1) Railroad Rehabilitation Improvement Program	$ —	$2,087	$(2,087)	$(3,069)	$(3,069)
(2) TIFIA Loans	—	131,326	—	(3,212)	128,114
Total	**$ —**	**$133,413**	**$(2,087)**	**$(6,281)**	**$125,045**

Direct Loan Programs	2015 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
(1) Railroad Rehabilitation Improvement Program	$ —	$4,196	$(4,196)	$ —	$ —
(2) TIFIA Loans	—	88,551	—	—	88,551
Total	**$ —**	**$92,747**	**$(4,196)**	**$ —**	**$88,551**

Modifications and Reestimates

Direct Loan Programs	2016 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(1) Railroad Rehabilitation Improvement Program	$ —	$ —	$(4,437)	$(4,437)
(2) TIFIA Loans	—	(9,716)	(109,890)	(119,606)
Total	**$ —**	**$(9,716)**	**$(114,327)**	**$(124,043)**

Direct Loan Programs	2015 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(1) Railroad Rehabilitation Improvement Program	$ —	$(14)	$(8,297)	$(8,311)
(2) TIFIA Loans	—	8,342	331,077	339,419
Total	**$ —**	**$8,328**	**$322,780**	**$331,108**

Total Direct Loan Subsidy Expense

Direct Loan Programs	2016	2015
(1) Railroad Rehabilitation Improvement Program	$(7,506)	$(8,311)
(2) TIFIA Loans	8,508	427,970
Total	**$1,002**	**$419,659**

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (continued)

DIRECT LOANS (continued)

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

Direct Loan Programs	2016 Interest Differential	Defaults	Fees and Other Collections	Other	Total
(1) Railroad Rehabilitation Improvement Program	– 2.59%	8.62%	– 6.03%	0.00%	0.00%
(2) TIFIA Loans					
Risk Category 1	– 0.20%	7.04%	0.00%	0.00%	6.84%

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans) Dollars in Thousands

Beginning Balance, Changes, and Ending Balance	2016	2015
Beginning Balance of the Subsidy Cost Allowance	$677,227	$341,961
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Interest rate differential costs	—	—
Default Costs (Net of Recoveries)	133,413	92,747
Fees and Other Collections	(2,087)	(4,196)
Other subsidy costs	(6,281)	—
Total of the Above Subsidy Expense Components	**125,045**	**88,551**
Adjustments		
Loans Written Off	—	(136,643)
Subsidy Allowance Amortization	18,103	48,054
Other	2,087	4,196
Ending Balance of the Subsidy Cost Allowance Before Reestimates	**822,462**	**346,119**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	(9,716)	8,328
Technical/Default Reestimate	(114,327)	322,780
Total of the Above Reestimate Components	**(124,043)**	**331,108**
Ending Balance of the Subsidy Cost Allowance	**$698,419**	**$677,227**

The economic assumptions of the TIFIA upward and downward reestimates were the result of a reassessment of risk levels, as well as estimated changes in future cash flows on loans.

The Railroad Rehabilitation Improvement Program's upward and downward reestimates were the result of an update for actual cash flows and changes in technical assumptions.

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (continued)

GUARANTEED LOANS

Defaulted Guaranteed Loans From Post-1991 Guarantees

Dollars in Thousands

Loan Guarantee Programs	2016 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Assets Related to Default Guaranteed Loans Receivable, Net
(4) OST Minority Business Resource Center	$500	$ —	$ —	$(500)	$ —

Loan Guarantee Programs	2015 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Assets Related to Default Guaranteed Loans Receivable, Net
(4) OST Minority Business Resource Center	$531	$ —	$ —	$(531)	$ —

Guaranteed Loans Outstanding

Dollars in Thousands

Loan Guarantee Programs	2016 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$1,537,716	$1,537,716
(4) OST Minority Business Resource Center	632	474
Total	$1,538,348	$1,538,190

New Guaranteed Loans Disbursed

Loan Guarantee Programs	2016 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$329,500	$329,500
(4) OST Minority Business Resource Center	400	300
Total	$329,900	$329,800

Loan Guarantee Programs	2015 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(4) OST Minority Business Resource Center	$850	$638

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (continued)

GUARANTEED LOANS (continued)

Liability for Loan Guarantees (Present Value Method Post-1991 Guarantees) Dollars in Thousands

Loan Guarantee Programs	2016 Liabilities for Post-1991 Guarantees, Present Value
(3) Federal Ship Financing Fund (Title XI)	$161,816
(4) OST Minority Business Resource Center	144
Total	$161,960

Subsidy Expense for Loan Guarantees by Program and Component Dollars in Thousands

Loan Guarantee Programs	2016 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)	$ —	$30,989	$ —	$ —	$30,989
(4) OST Minority Business Resource Center	—	9	—	—	9
Total	$ —	$30,998	$ —	$ —	$30,998

Loan Guarantee Programs	2015 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(4) OST Minority Business Resource Center	$ —	$18	$ —	$ —	$18
Total	$ —	$18	$ —	$ —	$18

Modifications and Reestimates

Loan Guarantee Programs	2016 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(3) Federal Ship Financing Fund (Title XI)	$ —	$16,297	$(8,565)	$7,732
(4) OST Minority Business Resource Center	—	—	166	166
Total	$ —	$16,297	$(8,399)	$7,898

Loan Guarantee Programs	2015 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —	$(41,050)	$(41,050)
(4) OST Minority Business Resource Center	—	—	(321)	(321)
Total	$ —	$ —	$(41,371)	$(41,371)

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	2016	2015
(3) Federal Ship Financing Fund (Title XI)	$38,721	$(41,050)
(4) OST Minority Business Resource Center	175	(303)
Total	$38,896	$(41,353)

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (continued)

GUARANTEED LOANS (continued)

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

Loan Guarantee Programs	2016 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)					
Risk Category 4	0.00%	13.54%	– 5.43%	0.00%	8.11%
(4) OST Minority Business Resource Center	0.00%	2.50%	0.00%	0.00%	2.50%

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees) Dollars in Thousands

Beginning Balance, Changes, and Ending Balance	2016	2015
Beginning Balance of the Loan Guarantee Liability	$105,985	$147,693
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	30,998	18
Total of the Above Subsidy Expense Components	**30,998**	**18**
Adjustments		
Fees Received	17,072	—
Claim Payments to Lenders	—	(372)
Interest Accumulation on the Liability Balance	1	3
Other	7	14
Ending Balance of the Loan Guarantee Liability Before Reestimates	**154,063**	**147,356**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	16,297	—
Technical/Default Reestimate	(8,399)	(41,371)
Total of the Above Reestimate Components	**7,898**	**(41,371)**
Ending Balance of the Loan Guarantee Liability	**$161,961**	**$105,985**

The Federal Ship Financing Fund (Title XI) upward interest rate reestimate was the result of an increase in the discount rates from the time of loan obligation to the time of loan disbursement and the downward technical reestimate was primarily the result of loan guarantee reductions in the principal outstanding as well as the reassessment of risk levels on high-risk loans.

The sufficiency of DOT's loan and loan guarantee portfolio reserves at September 30, 2016, is subject to future market and economic conditions. DOT continues to evaluate market risks in light of evolving economic conditions. The impact of such risks on DOT's portfolio reserves, if any, cannot be fully known at this time and could cause results to differ from estimates. Under the Federal Credit Reform Act, reserve reestimates are automatically covered by permanent indefinite budget authority, thereby providing DOT with sufficient resources to cover losses incurred without further Congressional action.

NOTE 7. INVENTORY AND RELATED PROPERTY

Inventory and Related Property as of September 30, 2016 consists of the following:

Dollars in Thousands	Cost	Allowance for Loss	Net
Inventory			
Inventory Held for Current Sale	$228,800	$ —	$228,800
Excess, Obsolete, and Unserviceable Inventory	3,514	(3,514)	—
Inventory Held for Repair	380,366	—	380,366
Other	49,021	—	49,021
Total Inventory	**661,701**	**(3,514)**	**658,187**
Operating Materials and Supplies			
Items Held for Use	235,915	(1,372)	234,543
Items Held in Reserve for Future Use	26,567	—	26,567
Excess, Obsolete, and Unserviceable Items	2,949	(1,857)	1,092
Items Held for Repair	32,677	(15,481)	17,196
Total Operating Materials & Supplies	**298,108**	**(18,710)**	**279,398**
Total Inventory and Related Property			**$937,585**

Inventory and Related Property as of September 30, 2015 consists of the following:

Dollars in Thousands	Cost	Allowance for Loss	Net
Inventory			
Inventory Held for Current Sale	$245,715	$ —	$245,715
Excess, Obsolete, and Unserviceable Inventory	9,595	(9,595)	—
Inventory Held for Repair	344,044	—	344,044
Other	47,377	—	47,377
Total Inventory	**646,731**	**(9,595)**	**637,136**
Operating Materials and Supplies			
Items Held for Use	229,799	(1,421)	228,378
Items Held in Reserve for Future Use	26,773	—	26,773
Excess, Obsolete, and Unserviceable Items	1,772	(1,239)	533
Items Held for Repair	32,505	(15,365)	17,140
Total Operating Materials & Supplies	**290,849**	**(18,025)**	**272,824**
Total Inventory and Related Property			**$909,960**

Inventory is held for sale to the FAA field locations and other domestic entities and foreign governments and is classified as either held for sale, held for repair, or excess, obsolete, and unservicable. Other inventory consists of raw materials and work in progress. Collectively, FAA's inventory is used to support our Nation's airspace system and is predominately located at the FAA Mike Monroney Aeronautical Center in Oklahoma City.

Operating materials and supplies consist primarily of unissued materials and supplies to be used in the repair and maintenance of FAA-owned aircraft and to support the training vessels and day-to-day operations at the U.S. Merchant Marine Academy.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

Dollars in Thousands

General Property, Plant and Equipment as of September 30, 2016 consist of the following:

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation Amortization	Book Value
Land and Improvements	10–40	$105,002	$(2,523)	$102,479
Buildings and Structures	20–40	6,597,791	(3,609,960)	2,987,831
Furniture and Fixtures	7–10	439	(412)	27
Equipment	5–15	18,449,794	(11,396,464)	7,053,330
Internal Use Software	3–10	3,148,852	(1,290,887)	1,857,965
Assets Under Capital Lease	6–10	107,998	(50,417)	57,581
Leasehold Improvements	3	196,032	(113,508)	82,524
Aircraft	20	515,103	(399,321)	115,782
Ships and Vessels	15–25	1,936,590	(1,870,284)	66,306
Small Boats	10–18	29,393	(28,708)	685
Construction-in-Progress	N/A	1,150,734	—	1,150,734
Total		**$32,237,728**	**$(18,762,484)**	**$13,475,244**

Dollars in Thousands

General Property, Plant and Equipment as of September 30, 2015 consist of the following:

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation Amortization	Book Value
Land and Improvements	10–40	$105,985	$(2,521)	$103,464
Buildings and Structures	20–40	6,674,278	(3,856,105)	2,818,173
Furniture and Fixtures	7–10	479	(358)	121
Equipment	5–15	18,329,911	(11,047,847)	7,282,064
Internal Use Software	3–10	2,651,950	(1,042,481)	1,609,469
Assets Under Capital Lease	6–10	108,320	(46,565)	61,755
Leasehold Improvements	3	173,574	(108,919)	64,655
Aircraft	20	515,448	(388,664)	126,784
Ships and Vessels	15–25	1,936,590	(1,840,682)	95,908
Small Boats	10–18	29,393	(27,582)	1,811
Construction-in-Progress	N/A	1,607,976	—	1,607,976
Total		**$32,133,904**	**$(18,361,724)**	**$13,772,180**

The construction-in-progress primarily relates to national airspace assets, which are derived from centrally-funded national systems development contracts, site preparation and testing, raw materials, and internal labor changes. The accumulation of costs to be capitalized for assets in PP&E typically flow into and remain in the CIP account until the asset is ready for deployment and placed in service. Once placed in service, the asset balance is transferred from the CIP category to its respective asset category.

NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

DOT has title to both personal and real property heritage assets.

PERSONAL PROPERTY HERITAGE ASSETS

Implied within the MARAD's mission is the promotion of the Nation's rich maritime heritage; including the collection, maintenance, and distribution of maritime artifacts removed from agency-owned ships prior to their disposal. As ships are assigned to a nonretention status, artifact items are collected, inventoried, photographed, and relocated to secure shoreside storage facilities. This resulting inventory is made available on a long-term loan basis to qualified organizations for public display purposes.

MARAD artifacts and other collections are generally on loan to single-purpose memorialization and remembrance groups, such as AMVETS National Service Foundation and other preservation societies. MARAD maintains a Web-based inventory system that manages the artifact loan process. The program also supports the required National Historic Preservation Act processing prior to vessel disposal. Funding for the maintenance of heritage items is typically the responsibility of the organization requesting the loan of a heritage asset. The artifacts and other collections are composed of ships' operating equipment obtained from obsolete ships. The ships are inoperative and in need of preservation and restoration. As all items are durable and restorable, disposal is not a consideration. The artifacts and other collections are removed from inventory when determined to be in excess of the needs of the collection or destroyed while on loan. The following table shows the number of physical units added and withdrawn as of September 30, 2016.

	Units as of 9/30/2015	Additions	Withdrawals	Units as of 9/30/16
Heritage Assets				
Personal Property				
Artifacts	735	12	(2)	745
Other Collections	6,954	37	(865)	6,126
Total Personal Property Heritage Assets	**7,689**	**49**	**(867)**	**6,871**

REAL PROPERTY HERITAGE ASSETS

Washington's Union Station supports DOT's mobility mission, facilitating the movement of intercity and commuter rail passengers through the Washington, D.C. metropolitan area. FRA has an oversight role in the management of Washington's Union Station. FRA received title through legislation and sublets the property to Union Station Venture Limited, which manages the property.

Union Station is an elegant and unique turn-of-the-century rail station in which a wide variety of elaborate, artistic workmanship characteristic of the period is found. Union Station is listed on the National Register of Historic Places. The station consists of the renovated original building and a parking garage, which was added by the National Park Service.

NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT (continued)

The Nuclear Ship *Savannah* is the world's first nuclear-powered merchant ship. It was constructed as a joint project of the MARAD and the Atomic Energy Commission (AEC) as a signature element of President Eisenhower's "Atoms for Peace" program. In 1965, the AEC issued a commercial operating license and ended its participation in the joint program. The ship remains licensed and regulated by the U.S. Nuclear Regulatory Commission (NRC), successor to the AEC. The Nuclear Ship *Savannah* is listed on the National Register of Historic Places. The ship is a boldly styled passenger/cargo vessel powered by a nuclear reactor.

Actions taken by MARAD since FY 2006 have stabilized the ship and rehabilitated portions of its interior for workday occupancy by staff and crew. The ship is currently located in Baltimore, MD, where it is being prepared for continued "SAFSTOR" (The NRC method of preparing nuclear facilities for storage and decontamination) retention under the provisions of its NRC license.

MARAD also has 35 buildings that encircle the central quadrangle of the U.S. Merchant Marine Academy and the William S. Barstow house, which are listed on the National Register of Historic Places.

NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources are those liabilities for which Congressional action is needed before budgetary resources can be provided. Intragovernmental Liabilities are those liabilities that are with other Federal Government entities. The $219.9 million of liability for nonentity assets is primarily related to downward loan subsidy reestimates.

Liabilities Not Covered by Budgetary Resources as of September 30, 2016 and 2015, consist of the following:

Dollars in Thousands	2016	2015
Intragovernmental		
Unfunded FECA Liability	$192,251	$196,700
Unfunded Employment Related Liability	3,275	3,583
Liability for Nonentity Assets	219,894	407,862
Other Liabilities	46,866	17,244
Total Intragovernmental	**462,286**	**625,389**
Federal Employee Benefits Payable	869,658	930,066
Environmental and Disposal Liabilities *(Note 12)*	1,102,669	1,118,668
Accrued Pay and Benefits	551,364	560,453
Legal Claims	67,392	14,610
Capital Lease Liabilities	61,489	67,450
Other Liabilities	56,963	22,167
Total Liabilities Not Covered by Budgetary Resources	**3,171,821**	**3,338,803**
Total Liabilities Covered by Budgetary Resources	20,645,773	17,145,211
Total Liabilities	**$23,817,594**	**$20,484,014**

NOTE 11. DEBT

Debt balances and activities as of and for the years ended September 30, 2016 and 2015, consist of the following:

Dollars in Thousands	2015 Beginning Balance	2015 Net Borrowing	2015 Ending Balance	2016 Net Borrowing	2016 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$8,185,001	$787,230	$8,972,231	$1,895,811	$10,868,042
Total Intragovernmental Debt	**$8,185,001**	**$787,230**	**$8,972,231**	**$1,895,811**	**$10,868,042**

As part of its credit reform program, DOT borrows from the U.S. Treasury to fund certain transactions disbursed in its financing accounts. Borrowings are needed to fund the unsubsidized portion of anticipated loan disbursements and to transfer the credit subsidy related to downward reestimates from the financing account to the receipt account or when available cash is less than claim payments.

During FY 2016, DOT's U.S. Treasury borrowings carried interest rates ranging from 1.09 percent to 4.97 percent. The maturity dates for these borrowings occur from September 2017 to September 2053. Loans may be repaid in whole or in part without penalty at any time. Borrowings from the U.S. Treasury are considered covered by budgetary resources, as no congressional action is necessary to pay the debt.

NOTE 12. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and Disposal Liabilities as of September 30, 2016 and 2015, consist of the following:

Dollars in Thousands	2016	2015
Environmental Remediation	$600,767	$756,700
Asset Disposal	501,902	361,968
Total Environmental and Disposal Liabilities	**$1,102,669**	**$1,118,668**

ENVIRONMENTAL REMEDIATION

Environmental remediation generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). Environmental remediation includes the remediation of fuels, solvents, and other contamination associated with releases to the environment where DOT owns the property, leases the property, or is identified as a responsible party by a regulatory agency.

As of September 30, 2016 and 2015, DOT's environmental remediation liability primarily includes the removal of contaminants on the Nuclear Ship *Savannah* and remediation at various sites managed by the FAA and MARAD. In addition to the amount recorded and disclosed, there is a foreseeable environmental liability related to sites with MARAD and numerous other external parties, where the loss is probable and the estimate cannot be determined. There were no amounts recorded related to the MARAD sites.

ASSET DISPOSAL

The National Maritime Heritage Act requires that MARAD dispose of certain merchant vessels owned by the U.S. Government, including nonretention ships in the fleet. Residual fuel, asbestos, and solid polychlorinated biphenyls (PCB) sometimes exist onboard MARAD's nonretention ships. Nonretention ships are those MARAD vessels that no longer have a useful application and are pending disposition. The asset disposal liability as of September 30, 2016, includes the estimated cost of disposing 94 ships. In addition, DOT records an asset disposal liability for the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials when an asset is removed from service.

Estimating the Department's cost estimates for environmental cleanup and asset disposal liabilities requires making assumptions about future activities and is inherently uncertain. These liabilities are not adjusted for inflation and are subject to revision as a result of changes in technology and environmental laws and regulations.

See Note 16 for contingent environmental liabilities.

NOTE 13. GRANT ACCRUAL

Grantees primarily include State and local governments and transit authorities. The grant accrual consists of an estimate of grantee expenses incurred, but not yet paid, by DOT.

Grant Accruals by DOT Operating Administrations as of September 30, 2016 and 2015, were as follows:

Dollars in Thousands	2016	2015
Federal Highway Administration	$5,060,719	$3,864,832
Federal Transit Administration	1,663,086	1,335,238
Federal Aviation Administration	722,695	742,418
Other Operating Administrations	472,133	419,492
Total Grant Accrual	**$7,918,633**	**$6,361,980**

NOTE 14. OTHER LIABILITIES

Other Liabilities as of September 30, 2016 consist of the following:

Dollars in Thousands	Noncurrent	Current	Total
Intragovernmental			
Advances and Prepayments	$14,031	$548,203	$562,234
Accrued Pay and Benefits	—	80,324	80,324
FECA Billings	104,261	88,386	192,647
Other Accrued Liabilities	—	270,036	270,036
Total Intragovernmental	**$118,292**	**$986,949**	**$1,105,241**
Public			
Advances and Prepayments	$ —	$154,418	$154,418
Accrued Pay and Benefits	45,546	774,853	820,399
Deferred Credits	—	94,377	94,377
Legal Claims *(Note 16)*	—	67,392	67,392
Capital Leases *(Note 15)*	53,185	8,304	61,489
Other Accrued Liabilities	—	85,240	85,240
Total Public	**$98,731**	**$1,184,584**	**$1,283,315**

Other Liabilities as of September 30, 2015 consist of the following:

Dollars in Thousands	Noncurrent	Current	Total
Intragovernmental			
Advances and Prepayments	$89,939	$669,177	$759,116
Accrued Pay and Benefits	—	62,998	62,998
FECA Billings	108,159	89,011	197,170
Other Accrued Liabilities	(3,026)	432,430	429,404
Total Intragovernmental	**$195,072**	**$1,253,616**	**$1,448,688**
Public			
Advances and Prepayments	$1,972	$141,583	$143,555
Accrued Pay and Benefits	60,877	714,232	775,109
Deferred Credits	—	55,378	55,378
Legal Claims *(Note 16)*	—	14,610	14,610
Capital Leases *(Note 15)*	59,146	8,304	67,450
Other Accrued Liabilities	—	65,908	65,908
Total Public	**$121,995**	**$1,000,015**	**$1,122,010**

NOTE 15. LEASES

ENTITY AS LESSEE

Capital Leases as of September 30, 2016 and 2015, were comprised of the following:

Dollars in Thousands	2016	2015
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$106,966	$107,288
Software	1,032	1,032
Accumulated Amortization	(50,417)	(46,565)
Net Assets Under Capital Lease	**$57,581**	**$61,755**

As of September 30, 2016, DOT's future payments due on assets under capital lease were:

Fiscal Year	
Future Payments Due by Fiscal Year	Dollars in Thousands
2017	$8,304
2018	8,085
2019	8,092
2020	7,593
2021	7,116
2022+	38,474
Total Future Lease Payments	**77,664**
Less: Imputed Interest	16,175
Net Capital Lease Liability	**$61,489**

The capital lease payments disclosed in the preceding table primarily relate to FAA and are authorized to be funded annually as codified in U.S.C. Title 49, Section 40110(c)(1), which addresses general procurement authority. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.

OPERATING LEASES

Fiscal Year	Land, Buildings, Machinery & Other
Future Payments Due by Fiscal Year	Dollars in Thousands
2017	$267,110
2018	208,170
2019	177,806
2020	156,327
2021	138,654
2022+	394,769
Total Future Lease Payments	**$1,342,836**

Operating lease expenses incurred were $311 million and $321 million for the years ended September 30, 2016 and 2015, respectively, including General Services Administration (GSA) leases that have a short termination privilege; however, DOT intends to remain in the leases. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

NOTE 16. COMMITMENTS AND CONTINGENCIES

LEGAL CLAIMS

As of September 30, 2016 and 2015, DOT's contingent liabilities, in excess of amounts accrued (Note 14), for asserted and pending legal claims reasonably possible of loss were estimated at $104.9 million and $102.7 million, respectively. DOT has one pending legal claim with a reasonably possible potential for loss, but an estimate of the loss cannot be made at this time. DOT does not have material amounts of known unasserted claims. As of September 30, 2016 and 2015, DOT's contingent liabilities for asserted and pending legal claims with a probable loss were estimated at $67.4 million and $14.6 million, respectively.

GRANT PROGRAMS

FHWA preauthorizes States to establish construction budgets without having received appropriations from Congress for such projects. FHWA has authority to approve projects using advance construction under 23 U.S.C. 115(a). FHWA does not guarantee the ultimate funding to the States for these "advance construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the States can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. As of September 30, 2016 and 2015, FHWA has preauthorized $50.6 billion and $50.4 billion, respectively, under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2016 and 2015.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment Program (New Starts/Small Starts), authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of Congress appropriating New Starts funds to the project. As of September 30, 2016 and September 30, 2015, FTA had approximately $1.4 billion and $1.7 billion, respectively, in funding commitments under FFGAs, which Congress had not yet appropriated. Congress must first provide the budget authority (appropriations) to allow FTA to incur obligations for these programs. Until Congress appropriates funds, FTA is not liable to grantees for any costs incurred. There is no liability related to these commitments reflected in the DOT consolidated financial statements at September 30, 2016 and 2015.

FAA's Airport Improvement Program (AIP) provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security and environmental concerns. FAA's share of eligible costs for large and medium primary hub airports is 75 percent with the exception of noise program implementation, which is 80 percent of the eligible costs. For remaining airports (small primary, reliever, and general aviation airports), FAA's share is 90 percent of the eligible costs.

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into a series of annual AIP grant agreements. FAA records an obligation when a grant is awarded. As of September 30, 2016, FAA had letters of intent extending through FY 2029 totaling $7.5 billion. As of September 30, 2016, FAA had obligated $6.5 billion of this total amount, leaving $1.0 billion unobligated. As of September 30, 2015, FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2015, FAA had obligated $6.4 billion of this total amount, leaving $1.0 billion unobligated.

ENVIRONMENTAL LIABILITIES

As of September 30, 2016, FAA has estimated contingent liabilities categorized as reasonably possible of $178.2 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions, or uncertainties within a defined project scope. The FAA is a party to environmental remediation sites in the Pacific Islands in which the extent of liability is unknown. Studies to determine the magnitude and scope of the remediation required at these sites have not yet commenced. The FAA is also a party to certain environmental remediation sites in New Jersey for which remediation is the responsibility of other Federal agencies; therefore, a liability has not been recorded for these sites.

AVIATION INSURANCE PROGRAM

Until December 2014, the Aviation Insurance Revolving Fund, a fund from dedicated collections, provided insurance products to address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. On December 11, 2014, Congress allowed the FAA's authority to provide Premium War Risk Insurance to expire.

FAA continues to provide war risk insurance for certain U.S. Government-contracted operations, as permitted by 49 USC 44305. Coverage is provided without premium to air carriers at the written request of other U.S. Government agencies. The scope of coverage under this Non-Premium War Risk Insurance program includes hull, bodily injury, personal injury, and property damage. FAA is currently providing coverage only for certain DoD, United States Transportation Command-contracted air carrier operations.

Because insurance policies are issued only at the request of other federal departments and agencies total coverage in force fluctuates throughout the fiscal year. The coverage in force at any given point in time does not represent a potential liability against the Aviation Insurance Revolving Fund because the Secretary of Defense has entered into an indemnity agreement with the Secretary of Transportation and will fully reimburse the Fund for all losses paid by the FAA on behalf of DoD.

MARINE WAR RISK INSURANCE PROGRAM

MARAD is authorized to issue hull and liability insurance under the Marine War Risk Insurance Program for vessel operations for which commercial insurance is not available on reasonable terms and conditions, when the vessel is considered to be in the interest of national defense or national economy of the United States. MARAD may issue (1) premium-based insurance for which a risk based premium is charged and (2) nonpremium insurance for vessels under charter operations for the Military Sealift Command.

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS

DOT administers certain dedicated collections, which are specifically identified revenues, often supplemented by other financing sources, that remain available over time. Descriptions of the significant dedicated collections related to these accounts are as follows:

HIGHWAY TRUST FUND

The HTF was created by the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. Over the years, the use of the fund has been expanded to include mass transit and other surface transportation programs such as highway safety and motor carrier safety programs. The Highway Revenue Act of 1982 established two accounts within the HTF, the Highway Account and the Mass Transit Account. The HTF consists of the Highway Corpus Trust Fund and certain accounts of FHWA, FMCSA, FRA, FTA, and NHTSA. The HTF's programs and activities are primarily financed from excise taxes collected on specific motor fuels, truck taxes, and fines and penalties. Overall, there are 72 separate treasury symbols in the HTF.

MASS TRANSIT ACCOUNT

Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) legislation (P.L. 109-59) changed the way FTA programs are funded. Beginning in FY 2006, the FTA formula and bus grant programs are funded 100 percent by the HTF.

AIRPORT AND AIRWAY TRUST FUND

The AATF was authorized by the Airport and Airway Revenue Act of 1970 to provide funding for the Federal commitment to the Nation's aviation system.

Funding currently comes from several aviation-related excise tax collections from passenger tickets, passenger flight segments, international arrivals/departures, cargo waybills, and aviation fuels.

The following is a list of other funds from dedicated collections for which DOT has program management responsibility.

OTHER DEDICATED COLLECTIONS

- Aviation Insurance Revolving Fund
- Pipeline Safety
- Emergency Preparedness Grant
- Aviation User Fees
- Aviation Operations
- Grants-in-Aid for Airports
- Aviation Facilities and Equipment
- Aviation Research, Engineering and Development
- Essential Air Service and Rural Airport Improvement Fund
- Contributions for Highway Research Program
- Cooperative Work, Forest Highways
- Payment to Air Carriers

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

- Technical Assistance, United States Dollars Advanced from Foreign Governments
- Gifts and Bequests, Maritime Administration
- Special Studies, Services and Projects
- Equipment, Supplies, etc., for Cooperating Countries
- War-Risk Insurance Revolving Fund
- International Highway Transportation Outreach Program
- Trust Fund Share of Pipeline Safety
- Advances from State Cooperating Agencies, Foreign Governments, and Other Federal Agencies

For the periods ended September 30, 2016 and 2015, respectively, funds from dedicated collections are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented. In addition, this note presents only the funds from dedicated collections that are financing sources available for future expenses, and funds that have been expended but have not yet achieved their designated purpose, such as construction in progress. As such, PP&E that has been placed in service, that was funded from dedicated collections, are excluded from this note; these funds are no longer available for future expenditure and have been used for their intended purpose.

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

Dollars in Thousands	Highway Trust Fund	Airport and Airway Trust Fund	Mass Transit	Other Funds From Dedicated Collections	Fiscal Year 2016 Total Funds From Dedicated Collections
Balance Sheet					as of September 30, 2016
Assets					
Fund Balance With Treasury	$4,588,712	$871,041	$137,292	$2,873,675	$8,470,720
Investments, Net	64,628,822	13,460,234	—	1,945,874	80,034,930
Accounts Receivable, Net	40,161	—	2,388	5,049,949	5,092,498
Property, Plant & Equipment	154,040	—	—	1,549,595	1,703,635
Other	177,685	—	—	347,092	524,777
Total Assets	**$69,589,420**	**$14,331,275**	**$139,680**	**$11,766,185**	**$95,826,560**
Liabilities and Net Position					
Accounts Payable	$67,344	$4,936,435	$ —	$379,515	$5,383,294
FECA Liabilities	20,798	—	—	987,611	1,008,409
Grant Accrual	6,441,184	—	5,092	722,695	7,168,971
Other Liabilities	186,071	—	1,445	1,015,167	1,202,683
Unexpended Appropriations	—	—	1,190	1,226,341	1,227,531
Cumulative Results of Operations	62,874,023	9,394,840	131,953	7,434,856	79,835,672
Total Liabilities and Net Position	**$69,589,420**	**$14,331,275**	**$139,680**	**$11,766,185**	**$95,826,560**
Statement of Net Cost					for the period ended September 30, 2016
Program Costs	$56,037,667	$ —	$33,055	$15,405,837	$71,476,559
Less Earned Revenue	177,057	—	—	501,837	678,894
Net Program Costs	**55,860,610**	**—**	**33,055**	**14,904,000**	**70,797,665**
Costs Not Attributable to Programs	—	—	—	7,735	7,735
Net Cost of Operations	**$55,860,610**	**$ —**	**$33,055**	**$14,911,735**	**$70,805,400**
Statement of Changes in Net Position					for the period ended September 30, 2016
Beginning Net Position	$7,122,728	$9,412,775	$166,198	$8,456,873	$25,158,574
Budgetary Financing Sources	111,588,473	(17,935)	—	16,671,377	128,241,915
Other Financing Sources	23,432	—	—	(1,555,318)	(1,531,886)
Net Cost of Operations	55,860,610	—	33,055	14,911,735	70,805,400
Change in Net Position	55,751,295	(17,935)	(33,055)	204,324	55,904,629
Net Position End of Period	**$62,874,023**	**$9,394,840**	**$133,143**	**$8,661,197**	**$81,063,203**

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

Dollars in Thousands	Highway Trust Fund	Airport and Airway Trust Fund	Mass Transit	Other Funds From Dedicated Collections	Fiscal Year 2015 Total Funds From Dedicated Collections
Balance Sheet					as of September 30, 2015
Assets					
Fund Balance With Treasury	$4,242,243	$906,751	$169,974	$2,385,638	$7,704,606
Investments, Net	7,667,196	12,769,545	—	2,215,574	22,652,315
Accounts Receivable, Net	53,517	—	—	4,366,699	4,420,216
Property, Plant & Equipment	149,542	—	—	2,101,966	2,251,508
Other	184,124	—	2,717	332,673	519,514
Total Assets	**$12,296,622**	**$13,676,296**	**$172,691**	**$11,402,550**	**$37,548,159**
Liabilities and Net Position					
Accounts Payable	$60,035	$4,263,521	$ —	$291,781	$4,615,337
FECA Liabilities	19,773	—	—	1,047,899	1,067,672
Grant Accrual	4,901,588	—	5,049	742,418	5,649,055
Other Liabilities	192,498	—	1,444	863,579	1,057,521
Unexpended Appropriations	—	—	1,254	1,212,074	1,213,328
Cumulative Results of Operations	7,122,728	9,412,775	164,944	7,244,799	23,945,246
Total Liabilities and Net Position	**$12,296,622**	**$13,676,296**	**$172,691**	**$11,402,550**	**$37,548,159**
Statement of Net Cost					for the period ended September 30, 2015
Program Costs	$52,122,262	$ —	$37,978	$14,959,830	$67,120,070
Less Earned Revenue	181,026	—	—	512,469	693,495
Net Program Costs	**51,941,236**	**—**	**37,978**	**14,447,361**	**66,426,575**
Costs Not Attributable to Programs	—	—	—	241,521	241,521
Net Cost of Operations	**$51,941,236**	**$ —**	**$37,978**	**$14,688,882**	**$66,668,096**
Statement of Changes in Net Position					for the period ended September 30, 2015
Beginning Net Position	$10,149,807	$9,556,238	$203,811	$8,624,240	$28,534,096
Budgetary Financing Sources	48,900,385	(143,463)	365	15,825,240	64,582,527
Other Financing Sources	13,772	—	—	(1,303,725)	(1,289,953)
Net Cost of Operations	51,941,236	—	37,978	14,688,882	66,668,096
Change in Net Position	(3,027,079)	(143,463)	(37,613)	(167,367)	(3,375,522)
Net Position End of Period	**$7,122,728**	**$9,412,775**	**$166,198**	**$8,456,873**	**$25,158,574**

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

Intragovernmental Costs and Exchange Revenues for the fiscal year ended September 30, 2016 consist of the following:

Dollars in Thousands	Intra-governmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$106,761	$44,505,798	$44,612,559
Less Earned Revenue	65,862	68,535	134,397
Net Program Costs	**40,899**	**44,437,263**	**44,478,162**
Mass Transit Program			
Gross Costs	36,883	12,677,943	12,714,826
Less Earned Revenue	223,085	—	223,085
Net Program Costs	**(186,202)**	**12,677,943**	**12,491,741**
Other Surface Transportation Programs			
Gross Costs	564,545	6,065,143	6,629,688
Less Earned Revenue	35,680	496,985	532,665
Net Program Costs	**528,865**	**5,568,158**	**6,097,023**
Total Surface Transportation Program Costs	**383,562**	**62,683,364**	**63,066,926**
Air Transportation			
Gross Costs	2,592,414	14,050,347	16,642,761
Less Earned Revenue	271,233	222,901	494,134
Net Program Costs	**2,321,181**	**13,827,446**	**16,148,627**
Maritime Transportation			
Gross Costs	40,078	896,800	936,878
Less Earned Revenue	343,744	142,306	486,050
Net Program Costs	**(303,666)**	**754,494**	**450,828**
Cross-Cutting Programs			
Gross Costs	65,920	629,261	695,181
Less Earned Revenue	255,468	5,198	260,666
Net Program Costs	**(189,548)**	**624,063**	**434,515**
Costs Not Assigned to Programs	72,504	406,206	478,710
Less: Earned Revenues Not Attributed to Programs	552	42	594
Net Cost of Operations	**$2,283,481**	**$78,295,531**	**$80,579,012**

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES (continued)

Intragovernmental Costs and Exchange Revenues for the fiscal year ended September 30, 2015 consist of the following:

Dollars in Thousands	Intra-governmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$162,958	$41,661,483	$41,824,441
Less Earned Revenue	59,883	65,191	125,074
Net Program Costs	**103,075**	**41,596,292**	**41,699,367**
Mass Transit Program			
Gross Costs	36,251	11,565,691	11,601,942
Less Earned Revenue	204,034	—	204,034
Net Program Costs	**(167,783)**	**11,565,691**	**11,397,908**
Other Surface Transportation Programs			
Gross Costs	538,661	5,819,025	6,357,686
Less Earned Revenue	51,505	470,120	521,625
Net Program Costs	**487,156**	**5,348,905**	**5,836,061**
Total Surface Transportation Program Costs	**422,448**	**58,510,888**	**58,933,336**
Air Transportation			
Gross Costs	2,575,929	13,809,807	16,385,736
Less Earned Revenue	290,108	238,635	528,743
Net Program Costs	**2,285,821**	**13,571,172**	**15,856,993**
Maritime Transportation			
Gross Costs	42,226	697,710	739,936
Less Earned Revenue	352,130	14,061	366,191
Net Program Costs	**(309,904)**	**683,649**	**373,745**
Cross-Cutting Programs			
Gross Costs	65,723	600,818	666,541
Less Earned Revenue	236,857	4,225	241,082
Net Program Costs	**(171,134)**	**596,593**	**425,459**
Cost Not Assigned to a Program	66,453	382,949	449,402
Less: Earned Revenues Not Attributed to Programs	23	197	220
Net Cost of Operations	**$2,293,661**	**$73,745,054**	**$76,038,715**

The Department has several sources of intragovernmental earned revenue stemming from work being performed at several of its operating administrations. The primary source of intragovernmental earned revenue in the Surface transportation program is related to the work FTA is performing in connection to the New York Lower Manhattan Recovery project. Air transportation intragovernmental earned revenue is primarily related to the FAA Franchise Fund activities. The Franchise Fund provides accounting services and information technology support services to other Federal agencies, and the logistics center sells parts to the Department of Defense (DoD). The FAA also has a reimbursable agreement with the DoD to operate and maintain the long range radar and other facilities as part of the National Defense Program. Maritime earned revenue primarily consists of resources for the Ready Reserve Fleet (RRF), which are maintained in an advanced state of surge sealift readiness for the transport of cargo to a given area of operation to satisfy combatant commanders' critical war fighting requirements. The vessel maintenance, activation and operation costs, as well as RRF infrastructure support costs and additional DoD/Navy sponsored sealift activities and special projects, are provided by reimbursement from the National Defense Sealift Fund. Crosscutting earned revenue is comprised of funded agreements with both agencies for administrative services provided by Volpe, the Working Capital Fund and the Transit Benefit Program.

NOTE 19. EXCISE TAXES AND OTHER NON-EXCHANGE REVENUE

The IRS collects various excise taxes that are deposited into the HTF and AATF. OTA distributes the amount collected/revenue recognized bimonthly and adjusts the allocations to reflect actual collections quarterly. The IRS submits certificates of actual tax collections to DOT 4 months after the quarter end and, accordingly, the DOT financial statements include actual excise tax revenue certified through June 30, 2016, and excise tax revenue allocated by OTA for the quarter ended September 30, 2016. As a result, total taxes recognized in the DOT FY 2016 financial statements include the OTA allocation of $13.3 billion for the quarter ended September 30, 2016, and the actual amounts certified through June 30, 2016 of $40.8 billion.

For the years ended September 30, 2016 and 2015, respectively, excise taxes and associated nonexchange revenue, which are reported on the Consolidated Statements of Changes in Net Position, were as follows.

NONEXCHANGE REVENUE

Dollars in Thousands	September 30, 2016	September 30, 2015
Highway Trust Fund		
Excise Taxes and Other Nonexchange Revenue		
Gasoline	$26,137,755	$25,372,004
Diesel and Special Motor Fuels	10,260,123	10,339,498
Trucks	5,931,533	6,205,061
Investment Income	123,849	1,848
Fines and Penalties	119,513	24,186
Total Taxes	**42,572,773**	**41,942,597**
Less: Transfers	(1,105,310)	(1,127,776)
Other Nonexchange Revenue	28	42
Net Highway Trust Fund Excise Taxes & Other Nonexchange Revenue	**41,467,491**	**40,814,863**
Federal Aviation Administration		
Excise Taxes and Other Nonexchange Revenue		
Passenger Ticket	9,910,134	9,837,876
International Departure	3,396,371	3,310,720
Fuel (Air)	637,178	641,836
Waybill	475,959	496,671
Investment Income	266,741	272,683
Tax Refunds and Credits	(13,441)	(19,052)
Other	20,940	29,887
Net Federal Aviation Administration Excise Taxes & Other Nonexchange Revenue	**14,693,882**	**14,570,621**
Other Miscellaneous Net Nonexchange Revenue	59,657	19,805
Total Nonexchange Revenue	**$56,221,030**	**$55,405,289**

NOTE 20. COMBINED STATEMENT OF BUDGETARY RESOURCES

The amount of direct and reimbursable new obligations and upward adjustments against amounts apportioned under Category A, B, and Exempt from Apportionment, as defined in OMB Circular A-11, Part 4, *Instructions on Budget Execution*, are as follows.

			2016			2015
Dollars in Thousands	**Direct**	**Reimbursable**	**Total**	**Direct**	**Reimbursable**	**Total**
Category A	$9,306,713	$463,606	$9,770,319	$9,987,931	$492,726	$10,480,657
Category B	149,819,088	1,531,082	151,350,170	86,742,561	1,195,240	87,937,801
Exempt From Apportionment	2	—	2	25,549	328,675	354,224
Total	**$159,125,803**	**$1,994,688**	**$161,120,491**	**$96,756,041**	**$2,016,641**	**$98,772,682**

Dollars in Thousands	2016	2015
Available Contract Authority at Year-End	$19,272,627	$18,443,710
Available Borrowing Authority at Year-End	$4,966,665	$4,169,831
Undelivered Orders at Year-End[1]	$110,570,964	$113,786,307

[1] The amounts reported for undelivered orders only include balances obligated for goods and services not delivered and do not include prepayments.

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

TERMS OF BORROWING AUTHOURITY USED

Under the provisions of the Federal Credit Reform Act of 1990, DOT's direct loan and loan guarantee programs are authorized to borrow funds from Treasury to support its credit programs. All loan drawdowns are dated October 1 of the applicable fiscal year. Interest is payable at the end of each fiscal year based on activity for that fiscal year. Principal can be repaid at any time funds become available. Repayment is effectuated by a combination of loan recoveries and upward reestimates.

EXISTENCE, PURPOSE, AND AVAILABILITY OF PERMANENT INDEFINITE APPRORPRIATIONS

DOT has permanent indefinite budgetary authority for use in their credit programs that is provided from, and more details are available in, the Federal Credit Reform Act of 1990. This funding is available for reestimates and interest on reestimates. DOT's credit programs are explained in detail in Note 6.

UNOBLIGATED BUDGETARY RESOURCES

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. Unobligated balances of budgetary resources that are unapportioned primarily represent contract authority, which has no limitation, and are not available for obligation.

NOTE 20. COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)

STATEMENT OF BUDGETARY RESOURCES VS. BUDGET OF THE UNITED STATES GOVERNEMENT

The reconciliation for the year ended September 30, 2015, is presented in the following table. The reconciliation for the fiscal year ended September 30, 2016, is not presented, because the submission of the Budget of the United States (Budget) for FY 2018, which presents the execution of the FY 2016 budget, occurs after publication of these financial statements. The DOT Budget Appendix can be found on the OMB Web site and will be available in early February 2017.

Dollars in Millions	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$146,885	$98,773	$(8,552)	$84,782
Funds Not Reported in the Budget				
Expired Funds	(371)	—	—	—
Distributed Offsetting Receipts	—	—	8,552	—
Other	2	9	—	—
Budget of the United States Government	**$146,516**	**$98,782**	**$ —**	**$84,782**

Other differences represent financial statement adjustments, timing differences, and other immaterial differences between amounts reported in the Department's Statement of Budgetary Resources and the Budget of the United States.

NOTE 21. INCIDENTAL CUSTODIAL COLLECTIONS

Cash collections that are "custodial" are not revenue to the DOT, but are collected on behalf of other federal entities or funds. Custodial collections are considered to be incidental to the DOT's operations. The following table presents custodial collections and the disposition of those collections for the years ended September 30, 2016 and 2015:

REVENUE ACTIVITY

Dollars in Thousands

Sources of Cash Collections	2016	2015
Miscellaneous Receipts	$42,437	$38,006
User Fees	343	—
Fines, Penalties, and Forfeitures	49,211	206,830
Total Cash Collections	**91,991**	**244,836**
Accrual Adjustment	5,719	1,799
Total Custodial Revenue	**97,710**	**246,635**
Disposition of Collections		
Transferred to Treasury's General Fund	91,991	244,836
Increase (Decrease) in Amounts To Be Transferred	5,719	1,799
Net Custodial Activity	**$ —**	**$ —**

NOTE 22. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and nonbudgetary resources available to the reporting entity with its net cost of operations.

For the years ended September 30, 2016 and 2015

Dollars in Thousands	2016	2015
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$161,120,491	$98,772,682
Less: Spending Authority From Offsetting Collections, Recoveries and Other Changes to Obligated Balances	11,667,809	12,862,798
Obligations Net of Offsetting Collections and Recoveries	149,452,682	85,909,884
Less: Distributed Offsetting Receipts	(70,618,402)	(8,552,295)
Net Obligations	**78,834,280**	**77,357,589**
Other Resources		
Donations and Forfeitures of Property	38,824	40,902
Transfers in/out Without Reimbursement	(6,550)	68,067
Imputed Financing From Costs Absorbed by Others	454,432	499,742
Other	(74,453)	(4,235)
Net Other Resources Used To Finance Activities	**412,253**	**604,476**
Total Resources Used To Finance Activities	**79,246,533**	**77,962,065**
Resources Used To Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(3,164,304)	942,683
Resources That Fund Expenses Recognized in Prior Periods	277,198	379,695
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	**(879,087)**	(1,626,546)
Other/Change in Unfilled Customer Orders	76,640	323,590
Special Transfers From the U.S. Treasury	(70,100,000)	(8,068,000)
Anticipated Resources not yet Realized	—	
Resources That Finance the Acquisition of Assets	4,027,515	3,804,707
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	70,169,610	8,241,921
Total Resources Used To Finance Items Not Part of the Net Cost of Operations	**407,572**	**3,998,050**
Total Resources Used To Finance the Net Cost of Operations	**$78,838,961**	**$73,964,015**

NOTE 22. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET (continued)

Dollars in Thousands	2016	2015
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	$4,267	$10,301
Increase in Environment and Disposal Liability	—	1,579
Upward/Downward Reestimates of Credit Subsidy Expense	(337,709)	150,013
Change in Exchange Revenue Receivable From the Public	3,188	(8,395)
Change in Other Liabilities	50,460	8,039
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**(279,794)**	**161,537**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	1,387,933	1,369,903
Revaluation of Assets or Liabilities	(53,546)	(83,278)
Other Expenses and Adjustments Not Otherwise Classified Above	685,458	626,538
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**2,019,845**	**1,913,163**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**1,740,051**	**2,074,700**
Net Cost of Operations	**$80,579,012**	**$76,038,715**

NOTE 23. FIDUCIARY ACTIVITIES

The Title XI Escrow Fund was authorized pursuant to the Merchant Marine Act of 1936, as amended. The fund was originally established to hold guaranteed loan proceeds pending construction of MARAD-approved and financed vessels.

The act was recently amended to allow the deposit of additional cash security items such as reserve funds or debt reserve funds. Individual shipowners provide funds to serve as security on MARAD-guaranteed loans. Funds deposited and invested by MARAD remain the property of individual shipowners. In the event of default, MARAD will use the escrow funds to offset the shipowners' debt to the Government.

Fund investments are limited to U.S. Government securities purchased by MARAD through the Treasury.

SCHEDULE OF FIDUCIARY ACTIVITY

For the year ended September 30, 2016 and 2015

Dollars in Thousands	2016	2015
Fiduciary Net Assets, Beginning of Year	$14,263	$16,797
Contributions	236	4
Investment Earnings	9,443	8,800
Disbursements to and on Behalf of Beneficiaries	(16,595)	(11,338)
Increases/(Decreases) in Fiduciary Net Assets	(6,916)	(2,534)
Fiduciary Net Assets, End of Year	**$7,347**	**$14,263**

FIDUCIARY NET ASSETS

As of September 30, 2016 and 2015

Dollars in Thousands	2016	2015
Fiduciary Fund Balance With Treasury	$5,041	$12,006
Investments in Treasury Securities	2,306	2,257
Total Fiduciary Net Assets	**$7,347**	**$14,263**

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

DEFERRED MAINTENANCE AND REPAIR (Unaudited)

For the Period Ended September 30, 2016

			Cost To Return to Acceptable Condition Dollars in Thousands	
DOT Entity	**Major Class of Asset**	**Description**	**Beginning Balance**	**Ending Balance**
FAA	Staffed Facilities	Buildings, structures, and facilities at major and nonmajor airports	$249,381	$233,685
	Unstaffed Faculties	Long range radars; unstaffed infrastructure and fuel storage tanks	630,700	707,060
MARAD	Vessels	Ready Reserve Force ships and vessels at various locations	24,907	29,780
	Buildings	Real property structure—U.S. Merchant Marine Academy	71,640	71,640
Total			**$976,628**	**$1,042,165**

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when they should have been or were scheduled to be performed and delayed until a future period. Maintenance and repairs are the act of keeping fixed assets in acceptable condition, and they include 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.

DOT's reporting of DM&R includes the Operating Administrations of FAA and MARAD, which include facilities critical to our Nation's airspace and maritime operations.

The FAA deferred maintenance includes facilities that must be maintained at 90 to 95 percent of prescribed levels to be considered in fair condition or better. DM&R are estimated using condition assessment surveys to establish Facilities Condition Index scores and lifecycle short forecasts. The estimates includes FAA's buildings, structures and facilities both staffed and unstaffed. The staffed facilities that directly support air traffic control operations are assessed for DM&R and lifecycle costs on a rotating basis by a qualified engineering firm. DM&R for unstaffed infrastructure facilities is determined by facility surveys.

DM&R estimates for the FAA long-range radar facilities supporting critical airspace system facilities were computed through actual onsite facility assessments based on the Plant (facility) Replacement Value as estimated by the long-range radar planning and requirements specialist located in FAA's service centers. DM&R calculations for fuel storage tanks are determined based on the age of the structure.

The DM&R at MARAD includes Ready Reserve Force (RRF) vessels at various locations, National Defense Reserve Fleet (NDRF) and facilities, and the U.S. Merchant Marine Academy (USMMA). MARAD maintains RRF vessels in accordance with their assigned readiness status and current condition status. The current condition status is a function of required repairs of deficiencies and their impact on the ability to activate and operate a vessel in accordance with the readiness status. MARAD ship managers prioritize preventive maintenance actions, repair, and upgrade actions in accordance with the activities' impact to readiness. Exclusions were made for environmental initiatives work not normally considered maintenance because these represent enhancements for energy savings impacting the environment or other environmental impacts.

NDRF and fleet facilities are required to maintain updated facility condition assessment documentation and fleet craft servicing plans to ensure facilities are maintaining acceptable operational and infrastructural conditions for mission accomplishment. In support of this, appropriate planning and budgeting is performed throughout the year. Priorities are assigned based upon annual budget guidance. The NDRF fleets and facilities acceptable condition is determined by the fleet organization's ability to accomplish the fleet mission, meet all fleet policy objectives, and comply with annual budget guidance. During FY 2015, MARAD made a change in its DM&R determinations and calculations for the fleets whereby it uses the basis of "acceptable conditions" requirements for accomplishing mission and meeting all policy objectives. Prior year DM&R determinations and calculations were based purely upon budget requests and funding, resulting in relatively high costs. MARAD Resource Management Board has concluded that it has sufficient resources to fund requirements necessary to maintain NDRF and fleet facilities in acceptable condition. Projects that would improve fleet conditions beyond just acceptable conditions remain in budget submissions mainly for visibility purposes and to support future decisions if critical factors change and the improvements themselves become mission critical. This change resulted in zero DM&R costs for NDRF and fleet facilities.

The USMMA has initiated in-depth use of the Computerized Maintenance Management System, or CMMS, maintenance program late in FY 2015. This program was primarily used to track maintenance and repairs on the USMMA property and equipment and generating preventative maintenance schedules on a predetermined period. DM&R activities are prioritized based on life and safety concerns as determined by the USMMA Department of Public Works management and USMMA environmental department. Acceptable condition standards must meet the established maintenance standards and operate efficiently under normal life expectancy. Scheduled maintenance is sufficient to maintain the current condition or meet the minimum standards while requiring additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy.

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited)

For the period ended September 30, 2016

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budgetary Resources						
Unobligated Balance, Brought Forward, October 1	$24,842,750	$3,835,013	$16,044,559	$482,538	$2,907,475	$48,112,335
Recoveries of Prior Year Unpaid Obligations	—	326,705	96,662	46,184	233,099	702,650
Other Changes in Unobligated Balance	33,879	(56,189)	(74,549)	(4,527)	(20,738)	(122,124)
Unobligated Balance From Prior Year Budget Authority, Net	**24,876,629**	**4,105,529**	**16,066,672**	**524,195**	**3,119,836**	**48,692,861**
Appropriations *(Note 1U)*	(37,389)	12,933,191	2,409,602	538,283	73,469,340	89,313,027
Borrowing Authority	—	—	—	—	4,966,665	4,966,665
Contract Authority	41,731,061	3,350,000	10,575,251	—	1,392,482	57,048,794
Spending Authority From Offsetting Collections	263,414	8,690,971	374	501,186	1,191,361	10,647,306
Total Budgetary Resources	**$66,833,715**	**$29,079,691**	**$29,051,899**	**$1,563,664**	**$84,139,684**	**$210,668,653**
Status of Budgetary Resources						
New Obligations and Upward Adjustments	$42,357,987	$25,143,633	$11,683,989	$887,393	$81,047,489	$161,120,491
Unobligated Balance, End of Year						
Apportioned, Unexpired Accounts	8,844,799	1,645,492	17,361,780	256,202	2,520,751	30,629,024
Unapportioned, Unexpired Accounts	15,630,929	2,146,960	1,282	401,948	454,154	18,635,273
Unexpired Unobligated Balance, End of Year	**24,475,728**	**3,792,452**	**17,363,062**	**658,150**	**2,974,905**	**49,264,297**
Expired Unobligated Balance, End of Year	—	143,606	4,848	18,121	117,290	283,865
Unobligated Balance, End of Year	**24,475,728**	**3,936,058**	**17,367,910**	**676,271**	**3,092,195**	**49,548,162**
Total Budgetary Resources	**$66,833,715**	**$29,079,691**	**$29,051,899**	**$1,563,664**	**$84,139,684**	**$210,668,653**
Change in Obligated Balances						
Unpaid Obligations						
Unpaid Obligations, Brought Forward, October 1 (Gross)	$64,483,381	$8,763,626	$23,755,966	$279,650	$23,682,767	$120,965,390
New Obligations and Upward Adjustments	42,357,987	25,143,633	11,683,989	887,393	81,047,489	161,120,491
Outlays (Gross)	(43,581,630)	(24,252,669)	(12,422,160)	(900,254)	(80,778,113)	(161,934,826)
Actual Transfers, Unpaid Obligations	—	—	—	—	10,000	10,000
Recoveries of Prior Year Unpaid Obligations	—	(326,705)	(96,662)	(46,184)	(233,099)	(702,650)
Unpaid Obligations, End of Year (Gross)	**63,259,738**	**9,327,885**	**22,921,133**	**220,605**	**23,729,044**	**119,458,405**
Uncollected Payments						
Uncollected Payments, Federal Sources, Brought Forward, October 1	(464,315)	(192,715)	(7,892)	(98,178)	(881,148)	(1,644,248)
Change in Uncollected Payments, Federal Sources	(102,870)	(8,492)	22	15,424	55,744	(40,172)
Uncollected Payments, Federal Sources, End of Year	**(567,185)**	**(201,207)**	**(7,870)**	**(82,754)**	**(825,404)**	**(1,684,420)**
Obligated Balance, Start of Year (Net)	64,019,066	8,570,911	23,748,074	181,472	22,801,619	119,321,142
Obligated Balance, End of Year (Net)	**$62,692,553**	**$9,126,678**	**$22,913,263**	**$137,851**	**$22,903,640**	**$117,773,985**

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited) (continued)

For the period ended September 30, 2016

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budget Authority and Outlays, Net						
Budget Authority, Gross	$41,957,086	$24,974,162	$12,985,227	$1,039,469	$81,019,848	$161,975,792
Actual Offsetting Collections	(160,544)	(8,692,372)	(911)	(517,532)	(1,829,992)	(11,201,351)
Change in Uncollected Customer Payments, Federal Sources	(102,870)	(8,492)	22	15,424	55,744	(40,172)
Recoveries of Prior Year Paid Obligations	—	9,798	516	7	10,577	20,898
Budget Authority, Net	**$41,693,672**	**$16,283,096**	**$12,984,854**	**$537,368**	**$79,256,177**	**$150,755,167**
Outlays, Gross	$43,581,630	$24,252,669	$12,422,160	$900,254	$80,778,113	$161,934,826
Actual Offsetting Collections	(160,544)	(8,692,372)	(911)	(517,532)	(1,829,992)	(11,201,351)
Outlays, Net	**43,421,086**	**15,560,297**	**12,421,249**	**382,722**	**78,948,121**	**150,733,475**
Distributed Offsetting Receipts	—	(15,674)	(26,785)	(31,778)	(70,544,165)	(70,618,402)
Agency Outlays, Net	**$43,421,086**	**$15,544,623**	**$12,394,464**	**$350,944**	**$8,403,956**	**$80,115,073**

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited)

For the period ended September 30, 2015

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budgetary Resources						
Unobligated Balance Brought Forward, October 1	$26,148,140	$4,036,511	$17,064,981	$522,098	$3,474,239	$51,245,969
Recoveries of Prior Year Unpaid Obligations	—	372,325	139,587	31,402	394,400	937,714
Other Changes in Unobligated Balance	15,306	(70,812)	(74,758)	(9,215)	(389,013)	(528,492)
Unobligated Balance From Prior Year Budget Authority, Net	**26,163,446**	**4,338,024**	**17,129,810**	**544,285**	**3,479,626**	**51,655,191**
Appropriations *(Note 1U)*	—	12,513,845	2,291,887	345,920	11,226,195	26,377,847
Borrowing Authority	—	—	—	—	4,169,831	4,169,831
Contract Authority	39,410,648	3,220,000	10,040,192	—	1,297,922	53,968,762
Spending Authority From Offsetting Collections	(125,213)	9,269,316	(36,518)	359,039	1,246,762	10,713,386
Total Budgetary Resources	**$65,448,881**	**$29,341,185**	**$29,425,371**	**$1,249,244**	**$21,420,336**	**$146,885,017**
Status of Budgetary Resources						
New Obligations and Upward Adjustments	$40,606,131	$25,506,172	$13,380,812	$766,706	$18,512,861	$98,772,682
Unobligated Balance, End of Year						
Apportioned, Unexpired Accounts	9,616,171	1,576,264	16,040,437	228,168	2,082,134	29,543,174
Exempt From Apportionment, Unexpired Accounts	—	—	—	4,540	286,827	291,367
Unapportioned, Unexpired Accounts	15,226,579	2,111,705	609	239,148	417,038	17,995,079
Unexpired Unobligated Balance, End of Year	**24,842,750**	**3,687,969**	**16,041,046**	**471,856**	**2,785,999**	**47,829,620**
Expired Unobligated Balance, End of Year	—	147,044	3,513	10,682	121,476	282,715
Unobligated Balance, End of Year	**24,842,750**	**3,835,013**	**16,044,559**	**482,538**	**2,907,475**	**48,112,335**
Total Budgetary Resources	**$65,448,881**	**$29,341,185**	**$29,425,371**	**$1,249,244**	**$21,420,336**	**$146,885,017**

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited) (continued)

For the period ended September 30, 2015

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Change in Obligated Balances						
Unpaid Obligations						
Unpaid Obligations, Brought Forward, October 1 (Gross)	$65,694,303	$8,587,739	$22,427,470	$314,600	$23,144,621	$120,168,733
New Obligations and Upward Adjustments	40,606,131	25,506,172	13,380,812	766,706	18,512,861	98,772,682
Outlays (Gross)	(41,817,053)	(24,957,960)	(11,912,729)	(770,254)	(17,590,315)	(97,048,311)
Actual Transfers, Unpaid Obligations	—	—	—	—	10,000	10,000
Recoveries of Prior Year Unpaid Obligations	—	(372,325)	(139,587)	(31,402)	(394,400)	(937,714)
Unpaid Obligations, End of Year (Gross)	**64,483,381**	**8,763,626**	**23,755,966**	**279,650**	**23,682,767**	**120,965,390**
Uncollected Payments						
Uncollected Payments, Federal Sources, Brought Forward, October 1	(754,348)	(223,569)	(44,746)	(100,836)	(765,492)	(1,888,991)
Change in Uncollected Payments, Federal Sources	290,033	30,854	36,854	2,658	(115,656)	244,743
Uncollected Payments, Federal Sources, End of Year	**(464,315)**	**(192,715)**	**(7,892)**	**(98,178)**	**(881,148)**	**(1,644,248)**
Obligated Balance, Start of Year (Net)	64,939,955	8,364,170	22,382,724	213,764	22,379,129	118,279,742
Obligated Balance, End of Year (Net)	**$64,019,066**	**$8,570,911**	**$23,748,074**	**$181,472**	**$22,801,619**	**$119,321,142**
Budget and Authority and Outlays, Net						
Budget Authority, Gross	$39,285,435	$25,003,161	$12,295,561	$704,959	$17,940,710	$95,229,826
Actual Offsetting Collections	(164,821)	(9,314,982)	(4,267)	(362,386)	(2,420,062)	(12,266,518)
Change in Uncollected Customer Payments, Federal Sources	290,033	30,854	36,854	2,658	(115,656)	244,743
Recoveries of Prior Year Paid Obligations	—	14,811	—	—	—	14,811
Budget Authority, Net	**$39,410,647**	**$15,733,844**	**$12,328,148**	**$345,231**	**$15,404,992**	**$83,222,862**
Outlays, Gross	$41,817,053	$24,957,960	$11,912,729	$770,254	$17,590,315	$97,048,311
Actual Offsetting Collections	(164,821)	(9,314,982)	(4,267)	(362,386)	(2,420,062)	(12,266,518)
Outlays, Net	**41,652,232**	**15,642,978**	**11,908,462**	**407,868**	**15,170,253**	**84,781,793**
Distributed Offsetting Receipts	—	(7,850)	(24,383)	(43,776)	(8,476,286)	(8,552,295)
Agency Outlays, Net	**$41,652,232**	**$15,635,128**	**$11,884,079**	**$364,092**	**$6,693,967**	**$76,229,498**

MARINE WAR RISK INSURANCE PROGRAM

For FY 2016 and FY 2015, MARAD wrote nonpremium war risk insurance with a total coverage per year of $485.8 million and $463.7 million, respectively. The DoD has fully indemnified MARAD for any losses arising out of the nonpremium insurance. There have been no losses and no claims are outstanding for this nonpremium insurance. There is approximately $48.6 million in the Marine War Risk Insurance fund to reimburse operators that may be covered by premium insurance in future periods. MARAD has not issued premium war risk insurance in approximately 20 years. MARAD would have to request Presidential authority to write any premium insurance and no such request is pending at this time.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI)

NON-FEDERAL PHYSICAL PROPERTY ANNUAL STEWARDSHIP INFORMATION TRANSPORTATION INVESTMENTS (Unaudited)

For the fiscal years ended September 30

Dollars in Thousands	2012	2013	2014	2015	2016
Surface Transportation					
Federal Highway Administration					
Federal Aid Highways (HTF)	$39,048,865	$40,380,481	$41,408,224	$40,255,642	$40,367,987
Other Highway Trust Fund Programs	99,127	134,204	44,974	27,936	55,621
General Fund Programs	3,203,055	1,282,624	563,358	274,327	255,273
Appalachian Development System	288,473	280,380	60,925	247,924	230,623
Federal Motor Carrier	(15,998)	—	19	—	—
Total Federal Highway Administration	**42,623,522**	**42,077,689**	**42,077,500**	**40,805,829**	**40,909,504**
Federal Transit Administration					
Discretionary Grants	12,682	6,672	9,595	4,871	6,151
Formula Grants	171,134	133,830	98,421	42,735	32,682
Capital Investment Grants	2,439,812	2,111,680	2,072,587	2,239,409	1,968,027
Washington Metro Area Transit Authority	91,153	148,469	73,356	97,921	265,177
Formula and Bus Grants	8,197,321	8,091,511	9,126,685	8,863,115	9,466,025
Total Federal Transit Administration	**10,912,102**	**10,492,162**	**11,380,644**	**11,248,051**	**11,738,062**
Total Surface Transportation Non-Federal Physical Property Investments	**$53,535,624**	**$52,569,851**	**$53,458,144**	**$52,053,880**	**$52,647,566**
Air Transportation					
Federal Aviation Administration					
Airport Improvement Program	$3,139,685	$3,602,949	$3,189,449	$3,159,617	$3,127,758
Total Air Transportation Non-Federal Physical Property Investments	**3,139,685**	**3,602,949**	**3,189,449**	**3,159,617**	**3,127,758**
Total Non-Federal Physical Property Investments	**$56,675,309**	**$56,172,800**	**$56,647,593**	**$55,213,497**	**$55,775,324**

FHWA reimburses States for construction costs on projects related to the Federal Highway System of roads. The main programs in which the States participate are the National Highway System, Interstate Systems, Surface Transportation, and Congestion Mitigation/Air Quality Improvement programs. The States' contribution is 10 percent for the Interstate System and 20 percent for most other programs.

FTA provides grants to State and local transit authorities and agencies.

Formula Grants provide capital assistance to urban and nonurban areas and may be used for a wide variety of mass transit purposes, including planning, construction of facilities, and purchases of buses and railcars. Funding also includes providing transportation to meet the special needs of elderly individuals and individuals with disabilities.

Capital Investment Grants, which replaced discretionary grants in FY 1999, provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Capital Investment Grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related facilities.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

The Washington Metropolitan Area Transit Authority provides funding to support the construction of the Washington Metrorail System.

FAA makes project grants for airport planning and development under the 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, State and local governments, and metropolitan planning authorities.

HUMAN CAPITAL INVESTMENT EXPENSES ANNUAL STEWARDSHIP INFORMATION (Unaudited)

For the fiscal years ended September 30

Dollars in Thousands	2012	2013	2014	2015	2016
Surface Transportation					
Federal Highway Administration					
National Highway Institute Training	$508	$1,184	$587	$738	$790
Federal Motor Carrier Safety Administration					
Safety Grants	1,342	2,669	4,585	2,843	1,778
Federal Transit Administration					
National Transit Institute Training	3,550	2,926	3,358	4,098	3,763
National Highway Traffic Safety Administration					
Section 403 Highway Safety Programs	118,169	127,644	124,750	129,465	144,379
Highway Traffic Safety Grants	514,816	517,788	633,512	654,573	688,898
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	17,808	18,127	17,204	22,922	25,385
Total Surface Transportation Human Capital Investments	**656,193**	**670,338**	**783,996**	**814,639**	**864,993**
Maritime Transportation					
Maritime Administration					
State Maritime Academies Training[1]	13,746	11,208	10,281	13,319	22,202
Additional Maritime Training	—	2,400	2,274	323	262
Total Maritime Transportation Human Capital Investments	**13,746**	**13,608**	**12,555**	**13,642**	**22,464**
Total Human Capital Investments	**$669,939**	**$683,946**	**$796,551**	**$828,281**	**$887,457**

[1] Does not include funding for the Student Incentive Payment (SIP) program, which produces graduates who are obligated to serve in a reserve component of the United States armed forces. Does not include funding for maintenance and repair (M&R).

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

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

FMCSA provides Motor Carrier Safety Assistance Program High Priority Grants to educate the general public about truck safety issues.

The FTA National Transit Institute 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.

NHTSA programs authorized under the HTF provide resources to State and local governments, private partners, and the public to effect changes in driving behavior on the Nation's highways to increase safety belt usage and reduce impaired driving. NHTSA provides technical assistance to all States on the full range of components of the impaired driving system as well as conducting demonstrations, training, and public information/education on safety belt usage.

PHMSA administers hazardous materials (hazmat) training. The purpose of hazmat training is to train State and local emergency personnel on the handling of hazmat in the event of a hazmat spill or storage problem.

MARAD's State Maritime Academies (SMA) program provides most of the Nation's pool of newly skilled U.S. merchant marine officers needed to serve the Nation's commercial maritime transportation needs. This program supports the competitiveness of a viable and robust merchant marine and contributes to national defense and homeland security. The SMA program provides funding for the Student Incentive Payment (SIP) program and training ship maintenance and repair for federally owned training ships (all part of the National Defense Reserve Fleet).

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

RESEARCH AND DEVELOPMENT INVESTMENTS ANNUAL STEWARDSHIP INFORMATION
(Unaudited)

For the fiscal years ended September 30

Dollars in Thousands	2012	2013	2014	2015	2016
Surface Transportation					
Federal Highway Administration					
Intelligent Transportation Systems	$100,467	$103,510	$58,719	$35,530	$14,922
Other Applied Research and Development	12,042	9,977	12,444	4,095	2,793
Federal Railroad Administration					
Railroad Research and Development Program	13,742	5,301	4,317	3,010	3,608
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	21,700	22,518	15,922	8,031	16,086
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Applied Research and Development Pipeline Safety	8,073	7,862	10,449	15,815	4,213
Applied Research and Development Hazardous Materials	1,636	1,666	1,635	4,304	4,402
Office of the Assistant Secretary for Research and Technology					
Applied Research and Development					
Research and Technology	5,792	5,755	7,043	—	5,426
Total Surface Transportation Research and Development Investments	**163,452**	**156,589**	**110,529**	**70,785**	**51,450**
Air Transportation					
Federal Aviation Administration					
Research and Development Plant	18,974	26,086	12,479	17,711	19,766
Applied Research	133,932	119,952	155,883	106,363	110,363
Development[1]	1,311	312	40	93,972	138,483
Administration	37,482	35,929	32,572	34,321	39,959
Total Air Transportation Research and Development Investments	**191,699**	**182,279**	**200,974**	**252,367**	**308,571**
Total Research and Development Investments	**$355,151**	**$338,868**	**$311,503**	**$323,152**	**$360,021**

[1] The large increase to Development and decrease to Applied Research in FY 2015 is due to the reclassification of existing work to better align with OMB A-11 research definitions.

FHWA 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.

FTA supports research and development in transit planning and research in 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 problemsolving research.

FRA research and development projects contribute vital inputs to its safety regulatory processes; to railroad suppliers; to railroads involved in transportation of freight, intercity passengers, and commuters; and to railroad employees and their labor organizations. FRA-owned facilities provide the infrastructure necessary to conduct experiments and test theories, concepts, and new technologies in support of the research and develpment program.

PHMSA 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 nondestructive evaluation. The Office of Hazardous Materials is involved in research, development, and analysis in regulation compliance, safety, and information systems.

The OST Office of the Assistant Secretary for Research and Technology (formerly Research and Innovative Technology Administration) is the research and innovation focal point in advancing DOT strategic goals. This office works across the Department by collaborating with partners from other Federal agencies, State and local governments, universities, stakeholder organizations, transportation professionals, and system operators.

FAA conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Research priorities include aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved ground and inflight deicing operations; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine; and human factors.

OTHER INFORMATION

SCHEDULE OF SPENDING

The Schedule of Spending (SOS) presented in the following table is an overview of the fiscal year (FY) 2016 resources of DOT. The schedule shows the available funds (money) and how they were spent. The schedule is presented to help the public better understand the amount of money that was provided to DOT, how DOT spent the money, and to whom the money was paid. The SOS presents total budgetary resources and fiscal year-to-date total obligations for the reporting entity. The data used to populate this schedule are the same underlying data to populate the Statement of Budgetary Resources (SBR).

SCHEDULE OF SPENDING (Unaudited)

For the period ended September 30

Dollars in Thousands	2016 Budgetary	2016 Non-Budgetary Credit Reform Financing Accounts	2015 Budgetary	2015 Non-Budgetary Credit Reform Financing Accounts
What Money Is Available To Spend?				
Total Resources	$204,998,065	$5,670,588	$142,053,636	$4,831,381
Less Amount Available but Not Agreed To Be Spent	30,596,579	32,445	29,820,113	14,428
Less Amount Not Available To Be Spent	18,562,510	356,628	18,068,704	209,090
Total Amounts Agreed To Be Spent	**$155,838,976**	**$5,281,515**	**$94,164,819**	**$4,607,863**
How Was the Money Spent/Issued?				
Surface Transportation				
1. Personnel Compensation and Benefits	$961,001	$ —	$960,047	$ —
2. Contractual Services and Supplies	2,133,367	—	2,069,956	—
3. Acquisition of Assets	396,876	5,202,659	465,496	4,502,513
4. Grants and Fixed Charges	54,743,735	47,530	54,788,463	66,227
5. Other	69,993,739	164	8,057,936	(1,004)
Air Transportation				
1. Personnel Compensation and Benefits	7,742,689	—	7,597,842	—
2. Contractual Services and Supplies	5,589,728	—	5,484,502	—
3. Acquisition of Assets	460,793	—	391,688	—
4. Grants and Fixed Charges	3,407,622	—	3,424,343	—
5. Other	7,942,802	—	8,607,797	—
Maritime Transportation				
1. Personnel Compensation and Benefits	101,445	—	100,321	—
2. Contractual Services and Supplies	391,986	—	420,665	—
3. Acquisition of Assets	10,914	—	14,289	—
4. Grants and Fixed Charges	379,217	30,903	218,796	39,755
5. Other	(27,069)	—	(27,119)	—
Cross-Cut Transportation				
1. Personnel Compensation and Benefits	111,495	—	165,684	—
2. Contractual Services and Supplies	602,576	—	582,267	—
3. Acquisition of Assets	12,886	—	25,218	—
4. Grants and Fixed Charges	26,099	—	—	—
5. Other	1,496	—	(63,808)	—
Not Assigned				
1. Personnel Compensation and Benefits	147,691	—	143,654	—
2. Contractual Services and Supplies	99,163	—	124,594	—
3. Acquisition of Assets	4,686	—	4,636	—
4. Grants and Fixed Charges	603,998	259	2,005,155	372
5. Other	41	—	(1,397,603)	—
Total Amounts Agreed To Be Spent	**$155,838,976**	**$5,281,515**	**$94,164,819**	**$4,607,863**

SCHEDULE OF NET COST BY STRATEGIC GOAL

The Schedule of Net Cost by Strategic Goal reports the DOT operational net cost to reflect the net cost of operations by each of the Department's six goals in its FY 2016 Budget submission to provide the linkage between cost and performance as related to each goal. DOT programs are generally complex and incorporate significant projects within multiple Operating Administrations (OA) and organizations within the OAs. These projects are linked to multiple organizational and Department-wide strategic goals. This complexity makes it difficult to track the costs related to the Department-wide strategic goals. Additionally, in order to determine the costs by strategic goals, OAs would need to analyze each project and determine allocation of costs to appropriate strategic goals.

SCHEDULE OF NET COST BY STRATEGIC GOAL (Unaudited)

For the period ended September 30, 2016

	Strategic Goal Areas						
Dollars in Thousands	Safety	State of Good Repair	Livable Communities	Environmental Sustainability	Economic Competitive-ness	Organization Excellence	Total
Surface Transportation							
Federal Highway Administration	$9,958,993	$20,878,832	$3,329,821	$4,406,366	$6,233,646	$261,602	$45,069,260
Federal Transit Administration	138,364	4,557,443	110,332	17,456	7,625,451	77,888	12,526,934
Federal Railroad Administration	1,032,589	1,246,607	774,960	206,394	563,996	25,015	3,849,561
Federal Motor Carrier Safety Administration	537,058	—	—	—	2,610	27,492	567,160
National Highway Safety Administration	935,340	—	1,917	22,757	—	—	960,014
Pipeline and Hazardous Materials Safety Administration	93,008	—	—	—	—	—	93,008
Surface Transportation Board	—	—	—	—	989	—	989
Subtotal	**12,695,352**	**26,682,882**	**4,217,030**	**4,652,973**	**14,426,692**	**391,997**	**63,066,926**
Air Transportation							
Federal Aviation Administration	7,621,239	1,044,340	—	495,801	5,383,421	1,603,826	16,148,627
Subtotal	**7,621,239**	**1,044,340**	**—**	**495,801**	**5,383,421**	**1,603,826**	**16,148,627**
Maritime Transportation							
Maritime Administration	—	—	—	13,842	403,698	33,288	450,828
Subtotal	**—**	**—**	**—**	**13,842**	**403,698**	**33,288**	**450,828**
Other Programs							
Office of the Secretary	95,824	87,510	329,492	90,737	101,575	108,517	813,655
Office of Inspector General	—	—	—	—	—	98,976	98,976
Subtotal	**95,824**	**87,510**	**329,492**	**90,737**	**101,575**	**207,493**	**912,631**
Total Net Cost	**$20,412,415**	**$27,814,732**	**$4,546,522**	**$5,253,353**	**$20,315,386**	**$2,236,604**	**$80,579,012**

AFFILIATED ACTIVITIES

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

The U.S. Saint Lawrence Seaway Development Corporation (SLSDC), a wholly owned Government corporation and operating administration of the Department, is responsible for the operation and maintenance of the U.S. portion of the St. Lawrence Seaway. This responsibility includes maintaining and operating two U.S. locks, controlling vessel traffic, and promoting trade development activities on the seaway.

AFFILIATED ACTIVITIES (Unaudited) For the periods ended September 30

Dollars in Thousands	2016	(Reclassified) 2015
Condensed Information		
Cash and Short-Term Time Deposits	$29,784	$29,942
Due from SIBC	2,866	2,906
Long-Term Time Deposits	1,982	2,755
Accounts Receivable	49	63
Inventories	403	299
Other Current Assets	15	18
Property, Plant and Equipment	141,417	133,640
Deferred Charges	3,891	4,078
Other Assets	762	657
Total Assets	**$181,189**	**$174,358**
Current Liabilities	$6,544	$7,214
Actuarial Liabilities	3,891	4,078
Total Liabilities	**10,435**	**11,292**
Invested Capital	156,606	148,798
Cumulative Results of Operations	14,148	14,268
Total Net Position	**170,754**	**163,066**
Total Liabilities and Net Position	**$181,189**	**$174,358**
Operating Revenues	$18,585	$19,590
Operating Expenses	22,564	21,913
Operating Income (Loss)	**(3,979)**	**(2,323)**
Other Financing Sources	3,859	3,548
Operating Revenues and Other Financing Sources Over (Under) Operating Expenses	**(120)**	**1,225**
Beginning Cumulative Results of Operations (Deficit)	14,268	13,043
Ending Cumulative Results of Operations (Deficit)	**$14,148**	**$14,268**

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unmodified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Lack of sufficient general information technology controls at FTA	1	0	0	0	0	1
Lack of sufficient oversight of an external service provider at FTA	0	1	0	0	0	1
Total material weaknesses	**1**	**1**	**0**	**0**	**0**	**2**

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control Over Financial Reporting (FMFIA, Section 2)

Statement of Assurance	Modified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FTA—material weakness	1	1	0	0	0	2
Total material weaknesses	**1**	**1**	**0**	**0**	**0**	**2**

Effectiveness of Internal Control Over Operations (FMFIA, Section 2)

Statement of Assurance	Modified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FISMA noncompliance	1	0	0	0	0	1
Total material weaknesses	**1**	**0**	**0**	**0**	**0**	**1**

Conformance With Financial Management System Requirements (FMFIA, Section 4)

Statement of Assurance	Systems conform, except for the below Nonconformance

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FTA—Lack of substantial compliance with system requirements	1	0	0	0	0	1

Conformance With Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
1. System requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
2. Accounting standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at transaction level	No lack of substantial compliance noted	No lack of substantial compliance noted

Notes: FFMIA = Federal Financial Management Improvement Act. FISMA = Federal Information Security Management Act. FMFIA = Federal Managers' Financial Integrity Act. FTA = Federal Transit Administration. USSGL = United States Standard General Ledger.

Memorandum

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

Subject: **INFORMATION**: DOT's Fiscal Year 2017 Top Management Challenges Department of Transportation Report Number PT-2017-007

Date: November 15, 2016

From: Calvin L. Scovel III Inspector General

Calvin L. Scovel III

Reply to Attn. of: J-1

To: The Secretary Deputy Secretary

Safe, efficient, and innovative transportation is one of the building blocks of the U.S. economy, and essential to creating opportunities that enhance our quality of life. Every year, the Department of Transportation (DOT) invests more than $70 billion to maintain, protect, and enhance the Nation's transportation system. DOT has recently taken a number of steps toward improving transportation safety and oversight in aviation, surface transportation, hazardous materials transport, and other critical areas. Through our audits and investigations, our office supports DOT's efforts to enhance effectiveness and accountability in the Department's wide range of programs.

As always, safety remains at the forefront of DOT's mission and its highest priority. However, emerging transportation technologies pose new challenges to this mission. For example, while the Federal Aviation Administration (FAA) has increased efforts to integrate unmanned aircraft systems (UAS) into domestic airspace, the number of UAS sightings by pilots and other sources has also increased dramatically, by more than 362 percent from 2014 to 2015. Our work has found that FAA still lacks an effective risk-based oversight system to ensure UAS operators comply with all Federal regulations and requirements. DOT is also facing the emerging challenge of overseeing the safety of autonomous vehicles (i.e., driverless cars), which are already beginning to travel on U.S. roadways.

At the same time, DOT must continue to address ongoing surface transportation safety issues. We have identified a number of opportunities to improve safety, including enhancing processes for collecting and analyzing vehicle recall data and removing high-risk motor carriers and unqualified drivers from roads. In addition, the Federal Transit Administration faces challenges in determining how best to collect safety data and set safety goals, standards, and performance measures for transit operators as it carries out its enhanced oversight role. Other key priorities for DOT include ensuring the integrity of the Nation's highways, bridges, and tunnels; strengthening guidance on compliance with railroad bridge safety standards; and better enforcing pipeline safety regulations.

Moreover, DOT must meet these safety goals while enhancing the stability and resilience of critical transportation systems. Our work demonstrates that DOT must do more to fulfill existing information technology (IT) security requirements for its 450-plus systems and undertake new strategies to mitigate increasing cybersecurity threats. Improved contingency planning is particularly critical to ensure the National Airspace System (NAS) can effectively respond to major disruptions in air traffic systems. While taking steps to increase the resilience of existing systems, DOT and FAA must also ensure that the Department's multibillion-dollar investments in programs to expand the capacity and efficiency of the NAS stay on track and address risks.

Meeting DOT's goals across all areas requires sound financial stewardship and management of its sizeable investments. As such, DOT must take advantage of all opportunities available to improve its internal controls and enhance accountability. Our work has highlighted areas where the Department can better manage its resources and increase oversight of contracts and grants to improve program performance. These include using sound management strategies for high-risk contracts, ensuring its acquisition workforce has the needed skills and financial management tools, and improving financial stewardship in areas such as cost accounting and contract closeout. DOT can also take steps to better leverage its fraud detection and prevention resources at hand, including increasing OIG referrals and harnessing data to better predict high-risk areas for fraud, waste, and abuse.

Finally, DOT faces the significant cross-modal challenge of implementing a growing list of mandated and recommended improvements to its safety, security, and financial management. For example, our work has found that the Department faces delays in fully meeting provisions of the Moving Ahead for Progress in the 21st Century Act while meeting more recent requirements established by the Fixing America's Surface Transportation Act—including establishing a new credit bureau to streamline credit and grant opportunities. At the same time, DOT will need to address new legislative requirements for aviation safety, as well as continue work on a number of mandates and recommendations that are vital to improve pipeline safety and rail transport of hazardous materials.

We remain committed to assisting DOT as it works to improve the management and execution of its programs and protect its resources. We considered several criteria in identifying DOT's top management challenges for fiscal year 2017, including their impact on safety, documented vulnerabilities, large dollar implications, and the ability of the Department to effect change. In the enclosed report, we identify and discuss the following challenges:

- Maintaining Transportation Safety While Keeping Pace With Rapidly Evolving Technologies
- Bolstering Vehicle and Surface Transportation Safety
- Strengthening Cybersecurity Strategies To Address Increasing Threats
- Strengthening Controls To Detect and Prevent Fraud, Waste, and Abuse
- Enhancing the Capacity, Efficiency, and Resiliency of the National Airspace System
- Increasing Oversight of Critical Transportation Infrastructure
- Enhancing Oversight of Acquisition and Financial Management
- Managing Existing and New Mandates and Initiatives

We appreciate DOT's commitment to taking prompt actions in response to the issues we have identified. The final report and DOT's response will be included in the Department's Annual Financial Report, as required by law. The Department's response is included in its entirety in the appendix to this report. If you have any questions regarding this report, please contact me at (202) 366-1959. You may also contact Joseph W. Comé, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-0377.

#

cc: DOT Audit Liaison, M-1

CHAPTER 1

MAINTAINING TRANSPORTATION SAFETY WHILE KEEPING PACE WITH RAPIDLY EVOLVING TECHNOLOGIES

As new technologies evolve in the field of transportation and beyond, new safety challenges arise alongside them. Without a doubt, the growing demand for unmanned and autonomous vehicles—both in the air and on the ground—represents substantial commercial opportunities for U.S. businesses. The Federal Aviation Administration (FAA) recently forecasted 1.9 million units in potential annual sales of Unmanned Aircraft Systems (UAS) in 2016, which could increase to 4.3 million units sold annually by 2020. Similarly, several companies are developing and testing the use of autonomous vehicles (i.e., driverless cars), and the number is expected to grow over the next decade. Keeping pace with these rapidly evolving technologies, while also maintaining safety, presents significant regulatory and oversight challenges for the Department of Transportation (DOT).

KEY CHALLENGES

- Overseeing an expanding and dynamic UAS industry
- Preparing to oversee and regulate autonomous vehicles

OVERSEEING AN EXPANDING AND DYNAMIC UAS INDUSTRY

The growing demand for commercial UAS—for purposes ranging from pipeline monitoring and precision agriculture to package delivery and filmmaking—presents one of the most significant safety challenges for FAA in decades. In June 2016, FAA published a new rule regulating the use of small UAS[1] (i.e., systems weighing less than 55 pounds)—an important step forward in advancing the integration of UAS technology into the National Airspace System (NAS). However, the rule does not yet permit several high-profile aspects of potential UAS use, such as delivering packages beyond the line of sight of the pilot, which underscores the need for further regulatory efforts. Until then, FAA will continue to accommodate some UAS operations through regulatory waivers and exemptions.

As the number of UAS operations in the NAS increases, FAA faces additional oversight and enforcement challenges. UAS sightings by pilots and other sources[2] have increased dramatically, with over 1,100 UAS events reported in 2015 compared to just 238 in 2014, according to UAS event data. According to FAA, the number of monthly reports has increased from over 60 in August 2015 to over 100 in August 2016. As shown in the figure below, 71 percent of reported sightings occurred at altitudes at or above the 400 feet maximum FAA-authorized altitude for civil UAS—with 42 percent of those sightings between 400 feet and 3,000 feet, and 29 percent of sightings reported at altitudes at or above 3,000 feet, approaching areas where other aircraft operate, thus presenting potential safety risks.[3]

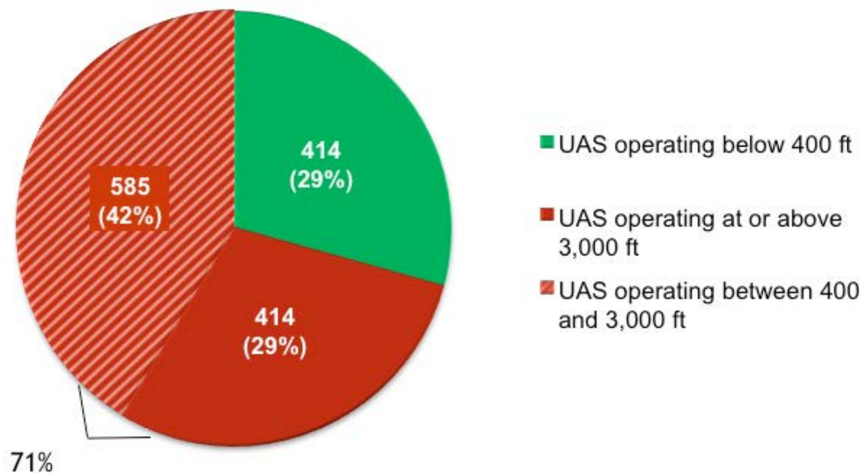
While FAA has taken some steps to advance UAS technology, the Agency has not established a risk-based system for UAS oversight. FAA safety inspectors have received only limited UAS-related training and guidance, and FAA field offices, which are responsible for oversight, do not receive sufficient operational information regarding civil UAS operators. In the absence of a risk-based oversight system, FAA inspectors respond primarily to incidents only after they are reported. Further, FAA lacks a

[1] 14 CFR Part 107 (June 2016).

[2] While sightings are primarily reported by pilots, reports also come from air traffic controllers, law enforcement officers, and the general public.

[3] It is important to note that FAA has not verified the validity of the reports received by air traffic, but the data indicate that a number of UAS operators may be flying their aircraft outside of FAA guidelines.

FIGURE. UAS EVENT REPORTS ABOVE AND BELOW 400 FEET



Source: OIG analysis of FAA data reported between November 2014 and January 2016

robust data reporting and tracking system for UAS activity, and the information available is difficult to analyze and collected in a fragmented manner throughout the Agency. As a result, FAA is currently restricted to a reactive approach to UAS oversight, rather than proactively identifying and mitigating risks with a rapidly advancing technology.

While FAA has made strides in advancing safe UAS integration, continued progress will require developing sufficient guidance and training for inspectors, establishing the capacity for integrated UAS data and analysis, and implementing an effective process to verify and evaluate UAS operators' compliance with regulations. Furthermore, in partnership with other Government agencies, FAA must continue testing UAS detection technology to mitigate hazards posed by UAS near airports, while also assessing the operational impacts of UAS on airports, navigation, and air traffic services as directed by Congress in the FAA Extension, Safety, and Security Act of 2016.[4] At the same time, FAA will need to continue testing the UAS collision risk to manned aircraft and develop a system to manage UAS in low-altitude airspace as called for in the act.

PREPARING TO OVERSEE AND REGULATE AUTONOMOUS VEHICLES

The rapid development of emerging vehicle automation technologies holds promising long-term safety benefits but also poses near-term safety, oversight, and regulatory challenges. In January 2016, Secretary Foxx announced a 10-year, nearly $4 billion investment to accelerate the development and adoption of safe vehicle automation through pilot programs that will test connected vehicle systems throughout the country and ensure a national framework for connected and autonomous vehicles by working with industry.

The Secretary also announced a number of vehicle safety goals and initiatives for 2016 that included developing guidelines for the safe deployment of self-driving vehicles. For example, in September 2016, DOT issued its Federal Automated Vehicles Policy, which sets the framework for the next 50 years with guidance for the safe and rapid development of advanced automated vehicle safety technologies. To meet these goals, the Department faces the significant challenge of testing and developing new tools and standards necessary for overseeing and regulating this new era in automotive

[4] Pub. L. No. 114-190 (2016).

innovation. The National Highway Traffic Safety Administration will have to consider seeking new authorities as necessary to recognize the challenges that these new automation technologies pose and ensure that these vehicles are as safe as standard motor vehicles. While still in its early stages, this is an important and rapidly developing opportunity to adapt to a changing technological landscape while meeting DOT's primary safety mission.

RELATED PRODUCTS

The following related documents can be found on the OIG Web site at http://www.oig.dot.gov.

- *FAA's Progress and Challenges in Integrating Unmanned Aircraft Systems Into the National Airspace System*, December 10, 2014
- *FAA Faces Significant Barriers To Safely Integrate Unmanned Aircraft Systems Into the National Airspace System,* June 26, 2014

For more information on the issues identified in this chapter, please contact Matthew Hampton, Assistant Inspector General for Aviation Audits, at (202) 366–0500 or Barry DeWeese, Assistant Inspector General for Surface Transportation Audits, at (202) 366–5630.

CHAPTER 2

BOLSTERING VEHICLE AND SURFACE TRANSPORTATION SAFETY

Maintaining the integrity of its safety programs remains the Department of Transportation's (DOT) top priority. Our audit and investigative work has highlighted improvements the Department can make to enhance the safety of the Nation's highways, mass transit systems, motor carriers, and commercial drivers.

KEY CHALLENGES

- Enhancing processes for collecting and analyzing vehicle safety recall data
- Implementing the Federal Transit Administration's (FTA) role in overseeing the safety of the nation's rail transit system
- Removing high-risk motor carriers and unqualified drivers from the Nation's roads

ENHANCING PROCESSES FOR COLLECTING AND ANALYZING VEHICLE SAFETY RECALL DATA

Large-scale recalls from automotive manufacturers have highlighted the safety risk posed by vehicle safety defects. For example, since 2014, General Motors has recalled nearly 9 million U.S. vehicles for a defect involving a faulty ignition switch after it received more than 100 reports of death and more than 200 injury claims. In addition, the National Highway Traffic Safety Administration (NHTSA) has launched a recall of Takata airbags installed in tens of millions of U.S. vehicles due to a safety defect that may cause the inflator to explode unexpectedly. To address these and other risks, NHTSA has recognized the importance of conducting periodic reviews of its safety processes and strengthening its internal controls for collecting and analyzing vehicle safety recall data. NHTSA's Office of Defects Investigations (ODI) continues to make progress in addressing the 17 recommendations from our 2015 audit, which found ODI's processes were insufficient for verifying that manufacturers submit complete and accurate early warning reporting data. NHTSA concurred with all 17 recommendations, and based on the Agency's actions, we have closed 12 of them. However, in our view, NHTSA has not completed implementation of five recommendations that would enhance the collection and analysis of early warning reporting data and the process for reviewing complaints. Further, in February 2016, we reported that additional efforts are needed to enhance ODI's quality control mechanisms for complying with the policies and plans established to address our 2011 recommendations. In particular, ODI must develop and implement internal control mechanisms to address documentation and testing weaknesses. The two recommendations included in our 2016 report remain open.

NHTSA will also need to follow through on its internal plans and assessments, such as its *Path Forward* and its June 2015 Workforce Assessment, which describe NHTSA's plans to implement the lessons learned from recent high-profile safety defects. Specifically, NHTSA wants to improve its ability to hold manufacturers accountable by collecting information more efficiently, auditing carmakers and their suppliers, expanding its expertise on new technologies, improving data mining techniques, better managing the investigation process, and strengthening communications. However, sustained management effort will be needed to implement these plans, and close monitoring will remain vital to ensure that NHTSA effectively sustains these improvements.

IMPLEMENTING FTA'S ENHANCED ROLE IN OVERSEEING THE SAFETY OF THE NATION'S RAIL TRANSIT SYSTEM

FTA faces significant challenges in carrying out its critical and evolving role in safety oversight responsibilities. Under the State Safety Oversight program created in 1991,[5] FTA oversees State safety oversight agencies that monitor the safety of rail transit agencies. In 2012, we identified challenges and actions for FTA to take if it were granted enhanced rail transit safety oversight and enforcement authority. These challenges included collecting effective safety data, developing and implementing safety goals and performance measures, establishing national rail transit safety standards, and conducting enhanced oversight and enforcement. Since then, the Moving Ahead for Progress in the 21st Century Act (MAP-21)[6] and the Fixing America's Surface Transportation (FAST) Act[7] enhanced FTA's safety authority, including allowing it to assume State safety oversight responsibilities in the absence of an effective State safety oversight agency.

We recently completed an assessment of FTA's actions to assume and relinquish direct safety oversight of rail transit agencies. In October 2015, FTA assumed direct oversight of the Washington Metropolitan Area Transit Authority after a January 2015 incident on a Metrorail train where 1 passenger died and 91 people were injured. As part of our review, we also provided an update on FTA's progress toward addressing the safety oversight challenges we identified in 2012. Overall, we found that FTA has actions underway to develop policies and procedures for assuming direct safety oversight of a transit agency and for transferring it back to a State safety oversight agency but lacks milestones for finalizing those policies and procedures. Additionally, FTA has taken actions to address issues we identified in 2012 but faces challenges in acquiring and retaining safety oversight personnel and resources; establishing a data-driven, risk-based oversight system; and establishing robust safety performance

[5] Section 3029 of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), Pub. L. No. 102–240.

[6] Pub. L. No. 112–141, § 20021 (2012).

[7] Pub. L. No. 114–94, § 3013 (2015).

criteria and enforceable safety standards. We made recommendations to strengthen FTA's ability to assume and relinquish direct safety oversight and to improve its rail transit safety oversight overall.

REMOVING HIGH-RISK MOTOR CARRIERS AND UNQUALIFIED DRIVERS FROM THE NATION'S ROADS

Our criminal investigations have identified challenges for the Federal Motor Carrier Safety Administration (FMSCA) as it seeks to prevent unsafe motor carriers and unqualified drivers from operating on the Nation's highways. We focus our investigations on entities that repeatedly engage in unsafe practices, such as carriers that are placed out of service and reincarnate under new identities, unqualified individuals who obtain fraudulent Commercial Driver Licenses (CDL), and drivers or entities that falsify driver qualification and vehicle maintenance requirements. In some cases, these unsafe practices led or contributed to multivehicle collisions and fatalities.

Since October 2011, we opened 134 motor carrier safety investigations. Forty-one involved reincarnated carriers and 52 involved frauds related to CDLs. In fiscal year 2016, our investigations resulted in the prosecution of 2 unsafe carriers that continued to operate after being placed out of service, as well as 5 separate CDL medical certificate and test-taking fraud schemes that allowed over 3,500 unqualified individuals to obtain CDLs. Sometimes these schemes involved public officials. For example, we identified five Department of Motor Vehicles (DMV) test centers that were used to illegally issue CDLs in New York State. Eleven individuals, including State DMV officials, were found guilty on charges related to applicants cheating on CDL tests.

To reduce the risks associated with unsafe carriers or unlicensed drivers, FMCSA must take stringent enforcement action against motor carriers that violate safety regulations and ensure that unsafe carriers are placed out of service and not re-issued authority under new identities. Additionally, we continue to collaborate with FMCSA and the States to revoke licenses and/or retest the individuals associated with the schemes to reduce the threat to the traveling public.

RELATED PRODUCTS

The following related documents can be found on the OIG Web site at http://www.oig.dot.gov.

- *Improvements in FTA's Safety Oversight Policies and Procedures Could Strengthen Program Implementation and Address Persistent Challenges,* November 2, 2016
- *Florida Man Pleads Guilty in Fraudulent CDL Testing Scheme*, July 21, 2016
- *Louisiana Trucking Company Co-Owner Sentenced for Falsifying an Application for Motor Carrier Operating Certificate*, May 25, 2016
- *Louisiana Commercial Driver's License Examiner Pleads Guilty for Falsifying Test Results*, May 4, 2016
- *Massachusetts Man Sentenced for Illegally Operating a Transportation Service,* May 4, 2016
- *Philadelphia Trucking Firm Associate Pleads Guilty in CDL Fraud Case,* April 21, 2016
- *New York Man Sentenced in CDL Test-Taking Scheme*, April 13, 2016

- *Additional Efforts Are Needed To Enhance NHTSA's Full Implementation of OIG's 2011 Recommendations*, February 24, 2016
- *Florida School Owner Sentenced to Prison for His Role in Fraudulent CDL Testing Scheme*, January 11, 2016
- *South Carolina Man Sentenced for False Statements in Connection With Third Party CDL Testing*, December 15, 2015
- *General Motors Agrees to Deferred Prosecution Agreement and a $900 Million Forfeiture*, September 16, 2015
- *NHTSA's Efforts To Identify Safety-Related Vehicle Defects*, June 23, 2015
- *Inadequate Data and Analysis Undermine NHTSA's Efforts To Identify and Investigate Vehicle Safety Concerns*, June 18, 2015
- *Challenges to Improving Oversight of Rail Transit Safety and Implementing an Enhanced Federal Role,* January 31, 2012
- *Process Improvements Are Needed for Identifying and Addressing Vehicle Safety Defects*, October 6, 2011
- *Letter to Chairmen Rockefeller and Pryor Regarding Whether Former NHTSA Employees Exerted Undue Influence on Safety Defect Investigations*, April 4, 2011

For more information on the issues identified in this chapter, please contact Barry DeWeese, Assistant Inspector General for Surface Transportation Audits, at (202) 366–5630 or Michelle McVicker, Principal Assistant Inspector General for Investigations, at (202) 366–1967.

CHAPTER 3

STRENGTHENING CYBERSECURITY STRATEGIES TO ADDRESS INCREASING THREATS

Each year, the threats posed by cybercriminals evolve into new and more dangerous forms, while security organizations must continually develop approaches to keep pace and thwart potential attacks. As security threats become increasingly sophisticated and more numerous, the Department of Transportation (DOT) faces the challenge of reevaluating and expanding traditional approaches to securing information technology (IT) systems. The Department must work to fulfill existing requirements while also implementing new strategies to meet the additional security demands of mobile technology, cloud-based computing, and other technological developments.

KEY CHALLENGES

- Maximizing benefits from personal identity verification (PIV) cards
- Coordinating technological initiatives to efficiently improve security
- Extending security boundaries to cover all DOT information

MAXIMIZING BENEFITS FROM PIV CARDS

Attackers have grown increasingly proficient at impersonating system, network, security, and database administrators, as well as other IT personnel with administrative privileges, to gain unauthorized access to Federal systems and the information they contain. To help mitigate this risk, the Office of Management and Budget (OMB) requires agencies to implement the full use of PIV[8] credentials for access to Federal facilities and their information systems, including logging onto agency computers.

DOT has successfully supplied PIV cards to 100 percent of its employees. However, we continue to observe weaknesses in establishing required PIV use to access applications and facilities. For example, in 2015, DOT had only enabled 140 of its 445 systems for PIV access, including systems containing sensitive information. In a recent audit of PIV use for accessing personally identifiable information (PII), we reported that DOT has not fully implemented its PIV use for authentication of users' identities for access. Furthermore, DOT implementation of PIV for facilities remains a challenge. For example, the Federal Aviation Administration (FAA) has not yet established PIV access at 530 facilities, though it plans to do so by the end of fiscal year 2018. Until DOT establishes full use of PIV cards across all its Operating Administrations, it will face increased security risks and will be unable to ensure that system users and individuals who access facilities and systems are correctly identified as authorized personnel.

COORDINATING TECHNOLOGICAL INITIATIVES TO EFFICIENTLY IMPROVE SECURITY

As the complexity and sophistication of cyberattacks grows, it is even more important, beyond taking preventive measures, for organizations to be able to actively monitor and mitigate security weaknesses as soon as possible during or after an attack. To address this challenge, the Department of Homeland Security, OMB, and National Institute of Standards and Technology (NIST) conceived programs and concepts such as Continuous Diagnostics and Mitigation[9] and Information Security Continuous Monitoring.[10] However, our work has found that DOT has not yet effectively implemented these measures. For example, we recently reported that DOT's continuous monitoring program lacks sufficient maturity to be effective, leaving the Department's systems vulnerable to exploitable hardware and software. We also found that DOT's Operating Administrations continue to use different tools for hardware and software management and to identify and resolve vulnerabilities, rather than a DOT-wide integrated security approach.[11] By eliminating redundancy through automated and integrated continuous monitoring tools, DOT should gain expected efficiencies that can aid in network defense and reduce the human factor risk and errors.

Furthermore, recent trends in mobile technology and workplace transformation highlight the importance of effectively implementing an integrated approach to monitoring and securing DOT's network. As the technological sophistication of employees grows, so does the complexity of end-user computing environments. Traditional methods of managing desktop computer security and delivering applications to users do not provide the flexibility IT departments need to support modern-day organizations. DOT will now have to deal with a surge in the number of remote and mobile employees; a proliferation of alternative endpoint devices, such as smartphones, tablets, and thin clients;[12] and smartphone users who want instant access to corporate applications across all their devices—all of which pose new and evolving security risks.

[8] A PIV card is a smart card that contains the necessary data for the holder to be granted access to Federal facilities and information systems and assure appropriate levels of security for all applicable applications.

[9] The Continuous Diagnostics and Mitigation (CDM) program is a dynamic approach to fortifying the cybersecurity of government networks and systems. CDM provides Federal departments and agencies with capabilities and tools that identify cybersecurity risks on an ongoing basis, prioritize these risks based upon potential impacts, and enable cybersecurity personnel to mitigate the most significant problems first. Congress established the CDM program to provide adequate, risk-based, and cost-effective cybersecurity and more efficiently allocate cybersecurity resources.

[10] Information Security Continuous Monitoring (ISCM) is the automated identification, prioritization, and detection of risks. ISCM provides an organization the ability to discover risks, prioritize resolving the most critical problems, delegate mitigation, correct deficiencies, and update an enterprise dashboard for management visibility/decision making/audit compliance while reducing the level of risk for the organization.

[11] Hardware asset management, software asset management, configuration management, and vulnerability management are just a few of the critical, foundational controls involved in ISCM.

[12] A thin client is a client machine that relies on the server to perform the data processing. Either a dedicated thin client terminal or a regular PC with thin client software is used to send keyboard and mouse input to the server and receive screen output in return.

EXTENDING SECURITY BOUNDARIES TO COVER ALL DOT INFORMATION

Federal law requires agency heads to ensure that their information and information systems are secure, and to delegate to their chief information officers the authority to ensure compliance with Federal requirements. However, DOT's Office of the Chief Information Officer has not ensured that the Security Operations Center (Center) has access to all departmental systems or required the Center to consider incident risk, thus limiting the Center's ability to effectively monitor, detect, and eradicate cyber incidents throughout DOT. In addition, we recently reported that DOT's monitoring of cybersecurity incidents is ineffective and incomplete due to lack of access to FAA's and cloud service providers' systems.

DOT also faces challenges as the industry moves towards extending desktop virtualization and cloud computing. We have reported that moving applications and data to a public or private cloud does not absolve organizations of their accountability to protect their data. Instead, it requires the Department to address how it will share security responsibilities with its cloud providers and manage risks. Changes in how data are stored and managed affect incident response structures and measures and further demonstrate the importance of keeping identity management and access protection at the core of DOT's cloud strategy. In addition, solid IT governance practices will be required to ensure that an Operating Administration's IT infrastructure continues to support and enable the achievement of its strategies and objectives.

DOT also needs to address security vulnerabilities in contracted network space. We recently reported that the Volpe Center does not follow NIST's and DOT's policies and procedures for establishing agreements with clients that connect networks owned by third parties to its network. For example, the Federal Motor Carrier Safety Administration (FMCSA) has contracted with Volpe and has connections with third parties. Volpe had not required a security agreement with FMCSA regarding this connection. We also identified vulnerabilities in the network space that Volpe hosts for DOT's Operating Administrations, such as outdated and unpatched operating systems and the use of default passwords.

RELATED PRODUCTS

The following related documents can be found on the OIG Web site at http://www.oig.dot.gov.

- *DOT Cybersecurity Incident Handling and Reporting Is Ineffective and Incomplete,* October 13, 2016
- *The Volpe Center's Information Technology Infrastructure Is at Risk for Compromise,* March 22, 2016
- *DOT Lacks an Effective Process for Its Transition to Cloud Computing,* June 16, 2016
- *Multiple DOT Operating Administrations Lack Effective Information System Disaster Recovery Plans and Exercises,* March 3, 2016
- *FISMA 2015: DOT Has Made Major Success in PIV Implementation, But Problems Persist in Other Cybersecurity Areas,* November 05, 2015
- *FISMA 2014: DOT Has Made Progress But Significant Weaknesses In Its Information Security Remain,* November 14, 2014

- *FISMA 2013: DOT Has Made Progress, but Its Systems Remain Vulnerable to Significant Security Threats*, November 22, 2013
- *Security Weaknesses in DOT's Common Operating Environment Expose Its Systems and Data to Compromise,* September 10, 2013
- *FISMA 2012: Ongoing Weaknesses Impede DOT's Progress Toward Effective Information Security*, November 14, 2012
- *FISMA 2011: Persistent Weaknesses in DOT's Controls Challenge the Protection and Security of Its Information Systems,* November 14, 2011
- *FISMA 2010: Timely Actions Needed To Improve DOT's Cybersecurity,* November 15, 2010

For more information on the issues identified in this chapter, please contact Louis C. King, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366–1407.

CHAPTER 4

STRENGTHENING CONTROLS TO DETECT AND PREVENT FRAUD, WASTE, AND ABUSE

In 2015, the Department of Transportation (DOT) awarded over $55 billion in grants to States, cities, airports, and other transportation authorities, and another $6 billion in contracts to roughly 1,000 vendors. The Association of Certified Fraud Examiners estimates that the typical organization loses 5 percent of its revenues to fraud each year, highlighting the importance of robust internal controls and a strong fraud detection and prevention program. Our audit and investigative work continues to identify opportunities where the Department can enhance its internal controls to better oversee major programs and grants. DOT can also do more to leverage its fraud detection and prevention resources at hand, including increasing OIG referrals and harnessing data to better predict high-risk areas for fraud, waste, and abuse.

KEY CHALLENGES

- Enhancing internal controls to protect Federal investments
- Strengthening Disadvantaged Business Enterprises (DBE) program oversight
- Leveraging fraud detection and prevention resources
- Analyzing data to proactively identify risks

ENHANCING INTERNAL CONTROLS TO PROTECT FEDERAL INVESTMENTS

Effective internal controls are key to successfully managing DOT's programs and minimizing program and financial risks. Our work continues to identify instances where weak controls could result in overpayments and other issues, particularly in DOT's multibillion-dollar Federal grant programs. For example, the Federal Highway Administration (FHWA), which oversees the management of over $37 billion annually in Federal financial assistance at State departments of transportation (State DOTs), is regularly challenged to ensure compliance with multiple Federal requirements across thousands of projects. In a recent audit of FHWA's controls related to State-managed project agreements, we found that State DOTs advertised projects prior to FHWA authorization and verification that they complied with all Federal requirements. In fact, because of our audit, FHWA requested and received reimbursement of about $10.5 million from a State DOT for a construction project that was awarded prior to FHWA authorization. Strengthening its procedures and controls will allow FHWA to reduce the amount of Federal funds at risk.

In addition to addressing compliance issues, DOT agencies can strengthen internal controls by providing close monitoring for at-risk grantees. Our recent work discussed how the Federal Transit Administration (FTA) can enhance its processes to better safeguard millions of dollars in grant funds. FTA awards to more than 2,000 urban and rural transit operators over $10 billion in grant funds and technical assistance each year. If FTA becomes aware that a grantee has a significant internal control weakness or does not comply with Federal requirements, the Agency can temporarily restrict the grantee's access to Federal grant funds while the grantees work to mitigate those risks. Our audit found that FTA monitored grantees' progress on corrective actions but lacks policies and guidance on the Federal funding restriction process. As a result, it is difficult for FTA Headquarters to track issues over time and across multiple transit agencies to gain assurance that its regional offices provide sufficient oversight of at-risk grantees.

Our work has also emphasized the importance of implementing effective controls at the Maritime Administration (MARAD), an agency whose mission—and resultant internal control risk—has increased to include oversight of a number of grants for port development projects. Since 2010, we have issued 5 MARAD-specific reports with 46 recommendations and 7 departmentwide reports with 15 MARAD-related recommendations. Most recently, in December 2015, we reported that MARAD did not thoroughly document its risk mitigation strategies and that its controls for program implementation, monitoring, and oversight were deficient. MARAD has since taken action to address 11 of the 16 recommendations from this report and plans to address the remaining recommendations by December 2018. Sustained management attention will be required to effectively implement these improvements to its oversight and processes.

STRENGTHENING DBE PROGRAM OVERSIGHT

DOT continues to experience a number of challenges in administering and overseeing its DBE program, including identifying and deterring DBE fraud. DOT's DBE program was created to help socially and economically disadvantaged individuals who own and control small businesses to participate in DOT contracting opportunities. Three Operating Administrations—the Federal Aviation Administration (FAA), FTA, and FHWA—distribute over $3 billion each year to DBE firms for transportation projects, which are administered by State and local transportation agencies, or grantees.

The DBE program's overall effectiveness and integrity depends on sustained DOT leadership, guidance, and oversight. In April 2013, we made several recommendations for DOT to strengthen its oversight, such as to formally assign one departmental office the responsibility and accountability for managing the DBE program, develop performance measures, and develop an oversight and compliance plan. More recently, in 2015, we found FAA and airports also do not provide adequate oversight and guidance to ensure DBE firms are paid promptly. While DOT and airports are taking steps to address the challenges that DBEs face, the number of new firms doing business at the Nation's largest airports has declined, and major barriers impede the success of new and existing disadvantaged firms. Such barriers include infrequent turnover of DBE firms, high entry costs, and inexperience with the airport bidding process.

Strong oversight is key to weeding out bad actors who attempt to fraudulently claim funds under the program. DBE fraud often involves prime contractors and non-DBE subcontractors who conspire with DBE firms to fraudulently meet DBE participation criteria. DBE fraud investigations currently represent 38 percent of our active grant and procurement fraud investigations, which focus on the most egregious violators. In the past 5 years, our DBE fraud investigations have produced 43 indictments, 41 convictions, and over $200 million in financial recoveries. For example, in 2016, a New York prime contractor was convicted of fraudulently using a DBE to obtain $70 million in FTA-funded work at the World Trade Center Transportation Hub. We opened 16 new DBE fraud cases in fiscal year 2015, but have seen an increase with 23 new cases in fiscal year 2016, indicating that increased oversight is warranted to better identify and prevent DBE fraud.

LEVERAGING FRAUD DETECTION AND PREVENTION RESOURCES

Effective stewardship of taxpayer dollars requires diligent attention to identify and prevent instances of fraud, waste, and abuse. Better leveraging its anti-fraud resources could significantly improve DOT's ability to proactively detect and mitigate fraud risks. As one of these resources, we perform a robust outreach training program to inform our internal and external stakeholders about our commitment to safeguarding DOT resources and making the Nation's transportation system safe and efficient. Examples of our outreach include a recurring role for our special agents as guest instructors at the FAA and Pipeline and Hazardous Materials Safety Administration safety academies to train aviation and pipeline safety inspectors in fraud awareness and detection. Our outreach efforts contributed to the overall initiation of over 200 investigations during fiscal year 2016 in matters involving significant public safety concerns and enhanced stewardship of DOT's financial resources.

Despite our best efforts to partner with DOT Operating Administrations, we continue to witness impediments to consistent case referrals to our office. For example, over the course of 5 years, one Operating Administration conducted hundreds of hazardous materials inspections each year; yet, it did not refer any of those matters to our office for review. After reviewing those cases, we determined that 17 should have been referred to us for potential criminal violations. To best harness our robust anti-fraud resources, we will continue to work with the Department and its Operating Administrations to improve collaboration, and raise their awareness about OIG's authorities and their obligations to provide us information in the timeliest manner possible.

ANALYZING DATA TO PROACTIVELY IDENTIFY RISKS

At its most effective, fraud prevention proactively identifies and mitigates risks to stop fraudulent incidents before they start. DOT has opportunities to harness data to better predict and target possible areas of fraud, waste, and abuse, and our office is committed to increasing our risk-based data analytics work and assisting the Department in this challenge.

In particular, mining and analyzing data from electronic databases can uncover hidden patterns, trends, anomalies, relationships, and predictive behavior that can transform the information into actionable information. We have successfully used data analytics in the past on our audit and investigative work, including the use of data from the Federal Motor Carrier Safety Administration's complaints and registration databases to proactively identify investigative leads for Operation Boxed Up, a nationwide initiative aimed at removing unscrupulous household goods movers before they further victimize American consumers. Effectively leveraging data to identify outliers, patterns of abuse, or other areas of concern can increase both the effectiveness and efficiency of the Department's anti-fraud efforts.

RELATED PRODUCTS

The following related documents can be found on the OIG Web site at http://www.oig.dot.gov.

- *Federal Jury in NYC Convicts DCM Erectors, Inc. and Chief Executive Officer on DBE Fraud,* August 10, 2016
- *FTA Monitored Grantees' Corrective Actions but Lacks Policies and Guidance to Oversee Grantees with Restricted Access to Federal Funds,* April 12, 2016
- *MARAD's Efforts To Address Program Management Challenges*, March 8, 2016
- *Judge Orders Pennsylvania Contractors to Pay $1.33 Million in Restitution to FHWA for DBE Fraud Scheme Involving Hundreds of Bridge Projects,* February 3, 2016
- *Weaknesses in MARAD's Management Controls for Risk Mitigation, Workforce Development, and Program Implementation Hinder the Agency's Ability To Meet Its Mission*, December 10, 2015
- *New Disadvantaged Business Enterprise Firms Continue To Face Barriers to Obtaining Work at the Nation's Largest Airports,* November 3, 2015
- *FTA Has Not Fully Implemented Key Internal Controls for Hurricane Sandy Oversight and Future Emergency Relief Efforts*, June 12, 2015
- *Civil Judgment of $5.8 Million Entered Against Sound Solutions for Defrauding the FAA,* May 28, 2015
- *MARAD Has Taken Steps To Develop a Port Infrastructure Development Program but Is Challenged in Managing Its Current Port Projects*, August 2, 2013
- *New Disadvantaged Business Enterprise Firms Face Barriers to Obtaining Work at the Nation's Largest Airports,* June 12, 2014
- *Weaknesses in the Department's Disadvantaged Business Enterprise Program Limit Achievement of Its Objectives,* April 23, 2013
- *USMMA Security Controls Were Not Sufficient To Protect Sensitive Data From Unauthorized Access*, May 30, 2012
- *Title XI Loan Guarantee Program: Actions Are Needed To Fully Address OIG Recommendations*, December 7, 2010

For more information on the issues identified in this chapter, please contact Barry DeWeese, Assistant Inspector General for Surface Transportation Audits, at (202) 366–5630; Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits, at (202) 366–5225; or Michelle McVicker, Principal Assistant Inspector General for Investigations, at (202) 366–1967.

CHAPTER 5

ENHANCING THE CAPACITY, EFFICIENCY, AND RESILIENCY OF THE NATIONAL AIRSPACE SYSTEM

The Federal Aviation Administration (FAA) operates the safest aviation system in the world and continues to work with stakeholders to implement new technologies that are providing near-term benefits to airspace users. However, FAA faces ongoing challenges with its investments to deliver specific capabilities and programs required to implement the Next Generation Air Transportation System (NextGen). Many of these are delayed and face undefined costs, unquantified benefits, and evolving requirements. At the same time, FAA must ensure the National Airspace System (NAS) remains stable by developing more realistic resiliency and contingency plans and staffing enough fully certified controllers at the busiest, most critical air traffic control facilities.

KEY CHALLENGES

- Keeping near-term NextGen investment priorities on track and addressing key risks
- Defining the costs and benefits of the NextGen transformational programs
- Enhancing redundancy and contingency plans for air traffic operations to mitigate disruptions
- Ensuring enough fully certified controllers at critical air traffic facilities

KEEPING NEAR-TERM NEXTGEN INVESTMENT PRIORITIES ON TRACK AND ADDRESSING KEY RISKS

In July 2013, FAA tasked the NextGen Advisory Committee (NAC) with reviewing FAA's plans for NextGen and recommending priorities for investment. FAA in response worked with industry to develop an implementation plan for the four highest priority capabilities: (1) advancing performance based navigation (PBN),[13] (2) improving access to closely spaced parallel runways, (3) enhancing airport surface operations, and (4) developing data communications for controllers and pilots. FAA has reported progress in all four areas, including implementation of Wake Recategorization, a capability that allows more aircraft arrivals and departures at airports with closely spaced parallel runways. However, delays continue in all four areas, particularly with new PBN procedures. For example, PBN has been delayed due to community concerns regarding aircraft noise—a high-risk issue due to the public's heightened level of interest at other airports implementing similar procedures. Another key risk to optimizing use of PBN procedures is the lack of advanced controller tools. We are currently assessing FAA's process for managing the implementation risks for the four prioritized capabilities and plan to issue a report later this year.

DEFINING THE COSTS AND BENEFITS OF THE NEXTGEN TRANSFORMATIONAL PROGRAMS

In 2008, FAA identified six "transformational" programs[14] required to implement NextGen and introduce new capabilities. FAA continues to make changes to the scope, cost, and schedules of these programs since our 2012 report, which noted that a lack of firm costs, schedules, and performance baselines would limit visibility into the programs' benefits. FAA has made some progress by approving costs and schedules

[13] PBN is a blanket term for more precise Global Positioning System (GPS)-based navigation methods that allow optimal routing in all phases of flight.

[14] The six transformational programs are: Automatic Dependent Surveillance–Broadcast (ADS-B), System Wide Information Management (SWIM), Data Communications (DataComm), NAS Voice System (NVS), Common Support Services-Weather (CSS-Wx), and Collaborative Air Traffic Management–Technologies (CATM-T).

for initial segments of the six programs. For example, FAA approved funding of $2 billion for the first segment of DataComm and $2.7 billion for three segments of the Automatic Dependent Surveillance–Broadcast system (ADS-B), including the recently completed ground-based infrastructure and the ongoing development and implementation of ADS-B services and applications.[15] However, FAA has not fully identified the *total* costs, the number of segments, their capabilities, or completion schedules for any of the six programs. Cost estimates for the transformational programs now total over $5.3 billion (compared to $2.1 billion in 2012) and extend beyond 2020. Moreover, FAA's progress in implementing the programs continues to be hindered by a lack of finalized requirements and complex integration issues with automation systems that controllers rely on to manage air traffic.

In addition, FAA has not adjusted anticipated user benefits for its transformational programs or determined when the programs will start delivering benefits. Many benefits remain unquantified as to how they will improve the flow of air traffic or controller workforce productivity. For example, FAA's ADS-B program currently focuses on the ADS-B *Out* capability (the broadcast of information to ground systems), which is mandated for airspace users to equip by January 1, 2020. However, ADS-B *Out* will provide few benefits to airspace users except in airspace where radar is limited or nonexistent. FAA expects more widespread benefits through ADS-B *In*—which will enable display of the information in the cockpit—but those requirements and implementation dates continue to evolve. Similarly, DataComm is expected to begin allowing controllers and pilots to reroute air traffic around severe weather in the 2020 timeframe. However, FAA has not determined how this will affect productivity or how much more traffic the controller workforce can safely handle. Finally, while the six programs as currently defined will help replace and modernize aging systems, they will not meet FAA's original vision of NextGen as a transformational shift in air traffic management for the foreseeable future.

ENHANCING REDUNDANCY AND CONTINGENCY PLANS FOR AIR TRAFFIC OPERATIONS TO MITIGATE DISRUPTIONS

Unexpected events and emergencies that disrupt air traffic control can have a long-lasting and devastating impact on the Nation's economy, airlines, and passengers. On September 26, 2014, an FAA contract employee deliberately started a fire that destroyed critical telecommunications equipment at FAA's Chicago Air Route Traffic Control Center (Chicago Center) in Aurora, IL. As a result of the damage, Chicago Center was unable to control air traffic for more than 2 weeks, thousands of flights were delayed and cancelled into and out of Chicago O'Hare and Midway airports, and aviation stakeholders and airlines reportedly lost over $350 million. The incident demonstrated that FAA's contingency plans do not ensure redundancy and resiliency for sustained operations. Moreover, the damage to Chicago Center highlighted weaknesses in FAA's current air traffic control infrastructure, which has limited flexibility to respond to system failures and quickly return to normal operations. While FAA has begun to develop new contingency plans, which include airspace divestment[16] for the major Center facilities, the plans are incomplete. For instance, FAA has not validated or procured the necessary hardware (i.e., switches, circuits, and cabling) needed to support the new plans. In addition, FAA has not fully developed divestment plans to manage the loss of air traffic control or identified various facilities' specific roles and responsibilities to support the new plans. As a result, it is unclear whether the new contingency plans are realistic, fully executable, or will actually mitigate the impact of future disruptions.

[15] DataComm will allow controllers to send digital messages to pilots. ADS-B technology uses satellite-based GPS and is intended to allow FAA to transition from ground-based radar to a satellite-based system for improving surveillance and management of air traffic.

[16] Airspace divestment means the ability to quickly shift control of airspace from one major Center facility to another.

ENSURING ENOUGH FULLY CERTIFIED CONTROLLERS AT CRITICAL AIR TRAFFIC FACILITIES

FAA employs nearly 14,000 air traffic controllers and is planning to hire over 6,300 more in the next 5 years. Although FAA's controller staffing levels at its critical facilities are generally consistent with the Agency's Controller Workforce Plan, we found there are unresolved issues with the validity of the plan. For example, industry experts and FAA facility managers have raised concerns about how to account for the contribution of trainees to overall staffing resources. Our review found that when excluding controllers-in-training, six of eight large Terminal Radar and Approach Control facilities (e.g., New York, Chicago, and Atlanta) had staffing levels below the staffing range, while some en route facilities had more controllers than the Controller Workforce Plan required. This was due in part to significant weaknesses with the process that FAA uses to determine the staffing ranges in its plans. For example, FAA uses historical data to anticipate the controller retirement pattern at each critical facility and then places and trains enough new controllers to account for those expected losses. However, predicted losses can be difficult to anticipate at the facility level, largely because FAA's historical data and nationwide trends may not apply to an individual critical facility. In addition, FAA's current training times and processes vary by location and are largely based on the proficiency of the new trainees, adding to the uncertainty of how many controllers to train. Without better models, FAA will continue to face challenges in ensuring its critical facilities are well staffed.

RELATED PRODUCTS

The following related documents can be found on the OIG Web site at http://www.oig.dot.gov.

- *FAA Continues To Face Challenges in Ensuring Enough Fully Trained Controllers at Critical Facilities,* January 11, 2016
- *FAA's Contingency Plans and Security Protocols Were Insufficient at Chicago Air Traffic Control Facilities,* September 29, 2015
- *ADS-B Benefits Are Limited Due to a Lack of Advanced Capabilities and Delays in User Equipage,* September 11, 2014
- *Status of Transformational Programs and Risks To Achieve NextGen Goals,* April 23, 2012

For more information on the issues identified in this chapter, please contact Matthew Hampton, Assistant Inspector General for Aviation Audits, at (202) 366–0500.

CHAPTER 6

INCREASING OVERSIGHT OF CRITICAL SURFACE TRANSPORTATION INFRASTRUCTURE

The Department of Transportation (DOT) plays a key oversight role for the more than 100,000 projects underway at any time to build and maintain the Nation's surface transportation systems. As part of this effort, DOT must make proactive improvements in several areas: use of Federal-aid funds on transportation projects; the integrity of the Nation's highways, bridges, and tunnels; guidance on compliance with railroad bridge safety standards; and pipeline safety enforcement.

KEY CHALLENGES

- Strengthening stewardship of the Federal Highway Administration's (FHWA) Federal-aid funds
- Ensuring the integrity of the Nation's highway bridges and implementing a new tunnel safety program
- Improving guidance to ensure compliance with railroad bridge safety standards
- Addressing willful violations of pipeline safety regulations

STRENGTHENING STEWARDSHIP OF FHWA'S FEDERAL-AID FUNDS

DOT's 2013 biennial report to Congress on the status of the Nation's highways, bridges, and transit noted a significant funding gap between the amount needed to maintain and improve the conditions and performance of roads and bridges and the amount that Government agencies actually provide. Thus, it is imperative that FHWA ensure the most efficient use of Federal investments in this critical infrastructure.

Each year FHWA provides about $40 billion in Federal funding to States to construct and improve highways and bridges. Our work has identified key areas where FHWA can ensure that States use these funds more efficiently and better deter fraud, waste, and abuse. For example, we recently found that FHWA is not enforcing a law[17] requiring States to repay Federal expenditures for preliminary engineering (PE) projects in a timely manner. FHWA provides billions of dollars to States to help them achieve the design and related ground work needed before a highway or bridge project advances to physical construction or acquires property needed for the construction project (i.e., right-of-way[18]). States are required to repay the Highway Trust Fund the full amount of Federal aid expended on PE when a project does not acquire right-of-way or start construction within 10 years after the PE funds were made available. However, FHWA Headquarters has not enforced PE oversight requirements or clarified its guidance on PE to Division Offices, and Division Office officials do not consider State compliance with PE repayment requirements to be a high risk. As a result, FHWA cannot ensure that States repaid funds or requested extensions when required.

ENSURING THE INTEGRITY OF THE NATION'S HIGHWAY BRIDGES AND IMPLEMENTING A NEW TUNNEL SAFETY PROGRAM

Four years after the enactment of the Moving Ahead for Progress in the 21st Century Act (MAP-21),[19] FHWA has not implemented key requirements to improve bridge safety programs or addressed several of our related recommendations. In 2009, we recommended that FHWA improve its bridge inspection and inventory standards—actions later mandated in MAP-21—but the Agency's rulemaking process to implement these improvements has extended more than a year beyond the statutory deadline of October 1, 2015, for a final rule. Additionally, in 2015, although we found that FHWA implemented a data-driven, risk-based approach to oversee States' bridge inspection programs, we identified issues and recommended oversight improvements, such as addressing gaps in program guidance and implementing a comprehensive national bridge safety risk management process. While FHWA agreed to our recommendations, delays in implementing these actions will hinder FHWA's ability to ensure the safety and integrity of the Nation's more than 600,000 bridges, of which approximately one-fourth are deficient. Timely actions are also critical for FHWA to implement MAP-21's minimum condition requirements for bridges in the National Highway System beginning in fiscal year 2017 and enforce a funding penalty on States that do not comply with requirements.

[17] 23 U.S. Code (U.S.C.) § 102(b).

[18] Right-of-way is new real property that must be acquired in order to construct or complete a transportation project.

[19] Pub. L. 112–141.

FHWA has made progress toward MAP-21 requirements to establish a national tunnel inspection program. In 2015, FHWA issued the National Tunnel Inspection Standards (NTIS). This is its first regulation on tunnel inspection standards with qualifications, certification procedures, and formal training for tunnel inspectors as well as periodic State inspections and reports. Since then, FHWA has established its initial national tunnel inventory and a training and certification program for Federal and State tunnel safety inspectors nationwide. Because of upcoming regulatory deadlines, FHWA will face challenges ensuring States and other tunnel owners complete their initial safety inspections of all existing tunnels by August 2017 and update their inventory within 3 months of inspection, as required by NTIS. To meet MAP-21 mandates, FHWA will need to develop procedures for States to report and rectify critical structural or safety deficiencies found from such inspections.

IMPROVING GUIDANCE TO ENSURE COMPLIANCE WITH RAILROAD BRIDGE SAFETY STANDARDS

We recently made a number of recommendations to the Federal Railroad Administration (FRA) for improving its oversight of railroad bridge safety. Everything transported by rail likely travels across 1 or more of approximately 100,000 U.S. railroad bridges. While structural failures of railroad bridges are rare, the severity of a train accident is usually compounded when a bridge is involved, regardless of the cause of the accident. In 2010, FRA issued a rule on Bridge Safety Standards that requires railroad track owners to implement bridge management programs that include procedures for determining bridge load capacities and inspecting bridges. However, our work found that FRA had not developed guidance for its bridge safety specialists for conducting bridge safety reviews, following up on instances of noncompliance, and recommending civil penalties. Such guidance is needed to ensure FRA appropriately addresses all regulatory instances of noncompliance and that track owners mitigate bridge safety risks. We also found that FRA had not developed guidance for its bridge safety specialists on prioritizing track owners for bridge safety reviews and does not maintain a comprehensive list of track owners who must comply with its Bridge Safety Standards. Therefore, until FRA finalizes its new guidance, it is difficult for FRA to ensure it effectively deploys oversight resources to highest-risk track owners.

ADDRESSING WILLFUL VIOLATIONS OF PIPELINE SAFETY REGULATIONS

The Pipeline and Hazardous Materials Safety Administration (PHMSA) develops and enforces regulations for the safe, reliable, and environmentally sound operation of the Nation's 2.5 million-mile pipeline transportation system. However, PHMSA has faced challenges enforcing some key regulatory safeguards. There have been a number of serious pipeline-related incidents over the past several years. From 2011 to 2015, there were 140 serious pipeline incidents resulting in 59 fatalities. Many of these were due to violations of safety regulations, such as those included in the Natural Gas Pipeline Safety Act (PSA).[20] Historically, however, it has not been possible to prosecute many such violations due to language in the PSA's Section 60123(a). The section requires that the violation be committed "knowingly and willfully," which is unusual in a sophisticated industry that is well versed in regulations.

Our Office of Investigations has had more success prosecuting cases under Title 49 U.S.C. Section 5124, which establishes the penalty for violating hazardous materials transportation laws and regulations and penalizes "reckless" violations (i.e., display of deliberate indifference or conscious disregard to the consequences of their conduct).

[20] Pub. L. No. 90-481 (1968).

In the past 5 years, Federal charges were brought under Section 5124 against 23 individuals and companies. By contrast, in the past 10 years, Federal charges under Section 60123(a) were brought against only four individuals and companies.

In the past 10 years, there has been only one successful prosecution of a utility company for violations of the PSA's Section 60123(a)—our office's recent case against the Pacific Gas and Electric Company (PG&E). We conducted an investigation with PHMSA, the National Transportation Safety Board (NTSB), and the Department of Justice after a natural gas pipeline ruptured in San Bruno, CA, in September 2010. The rupture created a crater 72 feet long and 26 feet wide. Massive amounts of natural gas escaped and ignited, resulting in a fire that destroyed 38 homes, damaged 70, and killed 8 people. On August 9, 2016, a Federal jury in U.S. District Court, San Francisco, CA, found PG&E guilty of multiple willful violations of the PSA and of obstructing NTSB's investigation. As with the hazardous material transportation laws, charging reckless violations of the PSA would likely result in more successful prosecutions, and deter future pipeline incidents that could result in fatalities, injuries, and environmental damage.

RELATED PRODUCTS

The following related documents can be found on the OIG Web site at http://www.oig.dot.gov.

- *FHWA Does Not Effectively Ensure States Account for Preliminary Engineering and Reimburse Funds as Required,* August 25, 2016
- *PG&E Convicted of Obstruction and Multiple Violations of the Natural Gas Pipeline Safety Act,* August 9, 2016
- *FRA Lacks Guidance on Overseeing Compliance With Bridge Safety Standards,* April 21, 2016
- *Oversight of Major Transportation Projects: Opportunities To Apply Lessons Learned,* June 8, 2015
- *Most FHWA ARRA Projects Will Be Closed Out Before Funds Expire, but Weaknesses in the Project Close-Out Process Persist,* March 2, 2015
- *FHWA Effectively Oversees Bridge Safety, but Opportunities Exist To Enhance Guidance and Address National Risks,* February 18, 2015
- *FHWA Met Basic Requirements but Can Strengthen Guidance and Controls for Financial and Project Management Plans*, January 27, 2015
- *DOT's Suspension and Debarment Program Continues To Have Insufficient Controls,* October 15, 2014
- *FHWA Has Not Fully Implemented All MAP-21 Bridge Provisions and Prior OIG Recommendations,* August 21, 2014

For more information on the issues identified in this chapter, please contact Barry J. DeWeese, Assistant Inspector General for Surface Transportation Audits, at (202) 366–5630 or Michelle McVicker, Principal Assistant Inspector General for Investigations, at (202) 366–1967.

CHAPTER 7

ENSURING OVERSIGHT OF ACQUISITION AND FINANCIAL MANAGEMENT

In fiscal year 2015, the Department of Transportation (DOT) distributed approximately $67 billion in contracts and grants, and must continue to improve its internal controls and accountability in managing these sizable investments. Our work has identified areas where DOT can more diligently manage its resources and oversight of contracts and grants to improve program performance and help prevent fraud, waste, and abuse of taxpayer funds. These include using sound management strategies for high-risk contracts, ensuring its acquisition workforce has the needed skills and financial management tools, and improving financial stewardship in areas such as cost accounting and contract closeout.

KEY CHALLENGES

- Increasing oversight of high-risk contracts
- Keeping current on new acquisition skills and financial tools
- Improving financial stewardship

INCREASING OVERSIGHT OF HIGH-RISK CONTRACTS

In recent years, the Office of Management and Budget (OMB) and the Office of Federal Procurement Policy (OFPP) have focused on improving Government acquisition by reducing dollars obligated under high-risk contracts. These include noncompetitive contracts, cost-reimbursement contracts, and time-and-materials or labor-hour contracts. Governmentwide guidance called on agencies to maximize the use of full and open competition and to govern the appropriate use and oversight of all contract types to minimize risk and maximize value to the Government. Our work has found that DOT faces challenges in overseeing high-risk contracts such as cost-reimbursable, sole-source, and multiple award service contracts. These contract types are often used without considering the possibility of using less risky contract types and frequently lack sufficient management oversight. For example:

- **Cost-Reimbursable Contracts:** Cost-reimbursable contracts are considered high risk because of the potential for cost escalation and the fact that the Government pays a contractor's costs of performance regardless of whether work is completed. However, this contract type involves significantly more Government oversight than do fixed-price contracts. The Federal Acquisition Regulation (FAR)[21] provides that this contract type should only be used when circumstances do not allow the agency to define its requirements to allow for a fixed-price contract. FAR also requires contracting officers to document the rationale for using this contract type. Our prior review of six Operating Administrations found that they did not (1) perform adequate acquisition planning and document their justifications for using this contract type or (2) consistently assess oversight risks, properly designate oversight personnel, or verify that contractors' accounting systems are adequate to provide valid and reliable cost data.
- **Sole-Source Contracts:** Sole-source contracts are higher risk because they are negotiated without the benefit of a competition and carry the risk of overspending.

[21] FAR 16.301-2.

Our recent review of the Federal Aviation Administration's (FAA) sole-source contracts found that the Agency took limited actions to reduce its use of sole-source contracts between fiscal years 2008 and 2014. During this period, the Agency awarded a total of 624 sole-source contracts, with a total value of about $2.2 billion. In our review of 34 sole-source contracts, we found 29 did not fully comply with key pre-award requirements—such as conducting market analysis and developing independent government cost estimates. These requirements are essential in helping to ensure that acquisitions are adequately planned, sole-source awards are properly justified, and prices can be demonstrated to be fair and reasonable.

- **Multiple Award Service Contracts:** While this type of contract is not by its nature high risk, the various task orders issued under them frequently lack sufficient oversight and competition. Our reviews of large, multiple award service contracts have found that DOT agencies do not always ensure adequate competition of task orders or provide sufficient contractor oversight. For example, our review of FAA's Systems Engineering 2020 (SE-2020) contracts,[22] valued at $7 billion, found that FAA had not ensured adequate competition for task orders, identified potential conflicts of interest, documented task order decisions, or ensured contract oversight staff had needed skills. These ineffective contracting practices can result in schedule and cost overruns and increase the risk of receiving services that do not meet DOT's needs. We are continuing our focus in this area, through our ongoing reviews of FAA's SE-2020 contracts and a multiple vendor vehicle known as eFAST, which is a multibillion-dollar FAA contracting vehicle for small businesses.

KEEPING CURRENT ON NEW ACQUISITION SKILLS AND FINANCIAL TOOLS

OFPP has recognized that achieving good results from contracting tools is directly linked to the skills, judgment, and capacity of the acquisition workforce. As DOT's acquisition workload changes or increases with the growing complexity of Federal programs, it will require more resources and new skills to ensure sound acquisition management and reduce program risks—an area where our work has identified several challenges for DOT. For example:

- **Contracting Certification and Warrant Requirements:** We reported in 2015 on difficulties DOT encountered with fully complying with contracting officer (CO) certification and warrant requirements. COs that do not fully comply with these requirements may not have the necessary training and qualifications to effectively award and administer the Department's significant portfolio of contracts. Of the 63 COs we reviewed, 15 (24 percent) did not fully comply with these requirements. For example, 10 COs with expired certifications approved over 3,000 contract actions and obligated over $731 million. High-risk contracts generally require more in-depth knowledge and experience—including a broader range of skills such as accounting, cost and price analysis, and program management—than competitively awarded fixed-price contracts.
- **Modular Contracting:** Modular contracting—which divides a contract into manageable segments—is intended to reduce program risk and to incentivize contractor performance while meeting the Government's need for timely access to rapidly changing technology. The Federal Chief Information Officer community has recognized that many of the Government's troubled information technology projects ran over budget or behind schedule because they used acquisition

[22] SE-2020 is a portfolio of contracts that FAA is using to obtain professional and technical services to support its development and implementation of the Next Generation Air Transportation System—the Agency's effort to modernize and maintain the National Airspace System.

approaches that were planned to deliver functionality in terms of years rather than incrementally. We found that FAA attempted to acquire or is acquiring individual major investment systems for air traffic modernization—such as En Route Automation Modernization (ERAM)[23] and Automatic Dependent Surveillance-Broadcast (ADS-B)[24]—in one "grand design" to deliver capabilities over many years. For example, FAA structured its $2 billion-plus ERAM program as a traditional, large-scale contract with enormous tasks that span several years instead of using modular contracting. Transitioning to incremental acquisition approaches could serve to mitigate cost and schedule issues with these major acquisitions.

- **Using Incentives To Lower Costs and Encourage Improved Delivery:** As budgetary constraints continue to reduce available resources, there is increased need for contracting officers to have the skills to effectively use incentives to motivate contractors to provide efficient and economical performance. Yet we have found that DOT faces challenges in managing contract incentives. For example, we reported that performance measures (i.e., earned award and incentive fees) that FAA used on its Air Traffic Control Optimum Training Solution (ATCOTS) contract to help train the influx of new air traffic controllers were not effective at motivating the contractor to meet established goals and manage costs. Our ongoing review of FAA's ADS-B contract has also found that FAA has not effectively used incentives to encourage improved performance.

IMPROVING FINANCIAL STEWARDSHIP

To be an effective steward of taxpayer dollars, DOT must establish and maintain internal controls to achieve effective operations, perform reliable financial reporting, and comply with applicable laws and regulations. Our work has identified several areas where DOT faces challenges in meeting this critical management responsibility:

- **Oversight of Hurricane Sandy Relief Funds:** In response to the widespread damage caused by Hurricane Sandy, Congress enacted the Disaster Relief Appropriations Act (DRAA)[25] in 2013, appropriating over $10 billion for the Federal Transit Administration's (FTA) Public Transportation Emergency Relief Program for relief, recovery, and resiliency efforts in the affected areas. Our recent work identified that FTA's oversight practices did not fully ensure that recipients used DRAA funds properly and in compliance with FTA procurement requirements. Specifically, we found (1) New York City Transit drew down $17.7 million in DRAA funds for procurement actions that FTA determined were ineligible for inclusion in a grant, (2) FTA did not enforce its requirement that Port Authority Trans-Hudson Corporation have an approved project management plan in place before drawing down Federal funds for the project, and (3) FTA lacks effective processes for tracking and following up on grantee and project-specific issues identified by the project management oversight contractor. While FTA agreed to take action to address these issues, continued vigilance is needed as there are still 26 active Hurricane Sandy grants, with some not estimated for completion until 2025.
- **Debt Collection Practices:** Our work in 2015 found that weak internal controls at DOT contributed to an increase in outstanding debt owed the Federal Government by individuals and non-Federal entities and an increased risk that these debts would not be collected. From fiscal year 1999 to September 30, 2013, DOT's reported delinquent debt increased by over 300 percent, from approximately

[23] ERAM replaced aging air traffic control hardware and software at facilities that manage high-altitude traffic.

[24] ADS-B is expected to allow FAA to transition from ground-based radar to a satellite-based system for managing air traffic.

[25] Pub. L. No. 113–2, January 29, 2013.

$170 million to $737 million. In one case, over $1 million in debts were not referred to the Department of Treasury for collection until they were on average 115 days past the then 180-day statutory limit for referral.[26] Developing and implementing DOT-wide policies and procedures for accurately identifying and reporting delinquent debt and recoveries and collecting debts in a timely manner are key to addressing the Department's delinquent debt. In response to our recommendations, DOT is working to finalize a departmental order that establishes guidance and policy on managing delinquent debt. Implementation of this recommendation could put $494.1 million in funds to better use.

- **Contract Closeout:** Timely and effective closeout ultimately protects the Government's interests and helps agencies efficiently manage residual contract funds. However, in 2015, we found that DOT lacked sufficient closeout guidance and had not implemented oversight procedures or performance metrics to assess whether the Operating Administrations comply with Federal and departmental closeout requirements.

- **Uniform Guidance Compliance:** The Federal Highway Administration (FHWA) has not ensured States' compliance with modified regulations in OMB's Uniform Guidance[27] when administering highway and bridge construction projects involving Federal funds. These revised and consolidated regulations are part of a larger Federal effort to improve performance and outcomes, while helping ensure the financial integrity of taxpayer dollars in partnership with non-Federal stakeholders. In a recent audit, we found FHWA does not comply with the Uniform Guidance's requirements for recording indirect cost rates and project end dates in project agreements[28] and modifications. FHWA's noncompliance with these requirements puts DOT funds at risk. For example, FHWA will be challenged to verify which costs are eligible for reimbursement without the recording of project end dates—as costs beyond this date are ineligible. FHWA officials stated that they will eventually revise the Agency's fiscal management information system to include fields for recording this information, but has not established a timeframe for doing so.

RELATED PRODUCTS

The following related documents can be found on the OIG Web site at http://www.oig.dot.gov.

- *FTA Can Improve Its Oversight of Hurricane Sandy Relief Funds,* July 21, 2016
- *FAA Lacks Adequate Controls To Accurately Track and Award Its Sole Source Contracts*, May 9, 2016
- *FTA Did Not Adequately Verify PATH's Compliance With Federal Procurement Requirements for the Salt Mitigation of Tunnels Project,* March 28, 2016
- *FAA Reforms Have Not Achieved Expected Cost, Efficiency, and Modernization Outcomes,* January 15, 2016
- *Weak Internal Controls for Collecting Delinquent Debt Put Millions of DOT Dollars at Risk*, July 9, 2015
- *FAA Has Not Sufficiently Addressed Key Weaknesses Related to Its ATCOTS Contract,* December 10, 2015

[26] With the passage of the DATA Act (Pub. L. No. 113-101, May 9, 2014), the referral requirement was reduced to 120 days.

[27] 2 CFR § Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (2014), known as the Uniform Guidance.

[28] A State DOT must first enter into a project agreement with FHWA to be eligible for Federal funding for a proposed highway or bridge construction project. By signing the project agreement, FHWA authorizes construction to begin and the State to incur reimbursable costs, advertise for contract bids, and award construction contracts.

- *The Department Does Not Fully Ensure Compliance With Contract Closeout Requirements*, July 23, 2015
- *Some Deficiencies Exist in DOT's Enforcement and Oversight of Certification and Warrant Authority for Its Contracting Officers*, April 9, 2015
- *FAA Needs To Improve ATCOTS Contract Management To Achieve Its Air Traffic Controller Training Goals*, December 18, 2013
- *DOT Does Not Fully Comply With Revised Federal Acquisition Regulations on the Use and Management of Cost-Reimbursement Awards*, August 5, 2013
- *Weaknesses in Program and Contract Management Contribute To ERAM Delays and Put Other NextGen Initiatives at Risk*, September 13, 2012
- *FAA's Contracting Practices Are Insufficient To Effectively Manage Its Systems Engineering 2020 Contracts*, March 28, 2012
- *FAA Policies and Plans Are Insufficient To Ensure an Adequate and Effective Acquisition Workforce*, August 3, 2011

For more information on the issues identified in this chapter, please contact Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits, at (202) 366–5225.

CHAPTER 8

MANAGING EXISTING AND NEW MANDATES AND INITIATIVES

The Department of Transportation (DOT) is taking action on several fronts to meet a number of congressional mandates and to carry out initiatives addressing recommendations from our office and others. In 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21)[29] set new performance management requirements and project delivery initiatives. DOT faces delays in fully implementing these provisions while meeting more recent requirements established by the Fixing America's Surface Transportation (FAST) Act.[30] At the same time, new legislative requirements for aviation safety will require significant efforts to meet provisions on pilot safety and foreign repair station oversight. Regulations and recommendations on pipeline safety and rail transport of hazardous materials also require actions to ensure robust safety and enforcement measures. Finally, in the financial arena, the FAST Act also requires DOT to fully establish its newly created credit bureau to streamline credit opportunities and grants within the Department.

KEY CHALLENGES

- Implementing performance management requirements and accelerating project delivery
- Managing new safety requirements from the FAA Extension Act
- Addressing pipeline and hazardous materials safety recommendations and mandates
- Implementing initiatives for increasing enforcement of regulations for transport of hazardous materials by rail
- Harnessing new financing methods in DOT's credit programs

[29] Pub. L. 112-141 (2012).

[30] Pub. L. 114-94 (2015).

IMPLEMENTING PERFORMANCE MANAGEMENT REQUIREMENTS AND ACCELERATING PROJECT DELIVERY

In 2012, MAP-21 established requirements for States to employ performance-based investment management of DOT's highway and transit programs, including linking State transportation performance plans to Federal-aid highway funds through an asset management plan. DOT plans to finalize the rulemakings[31] needed to meet these requirements in fiscal year 2017. After those rules are in place, the challenge for DOT will be adjusting its risk-based oversight to ensure that States consistently comply with the rules and that the rules achieve desired outcomes. Additionally, MAP-21 called for DOT to implement initiatives to accelerate highway, bridge, and transit project delivery. These changes include rulemakings to streamline the environmental review process and reports to Congress on environmental actions. DOT has implemented half of the actions it initially identified. However, DOT will need to revise a large number of its planned actions to comply with FAST Act requirements for mandated rulemakings and program guidance. We plan to report on DOT's progress implementing these key provisions later this year.

MANAGING NEW SAFETY REQUIREMENTS FROM THE FAA EXTENSION ACT

The Federal Aviation Administration (FAA) has several ongoing initiatives to enhance aviation safety. However, FAA faces challenges to implement new requirements called for in the FAA Extension, Safety, and Security Act of 2016 (Extension Act).[32] These include several efforts to address pilot safety issues and new requirements for oversight of foreign repair stations.

Specifically, in line with our recent report, the Extension Act includes provisions to train pilots on monitoring, establish inspector guidance for tracking and assessing pilot proficiency in manual flight, and ensure that air carriers implement new pilot training requirements. Until FAA ensures that air carrier training programs adequately address these provisions, it is missing opportunities to ensure that pilots maintain the skills needed to fly safely and recover from an automation failure or unexpected event.

Another key safety aspect of commercial air travel reflected in the Extension Act is ensuring air carriers have the information they need on a pilot's training and background to make informed hiring decisions. We have monitored FAA's efforts to establish a pilot records database since it was first mandated in 2010. We reported last year that FAA's progress has been limited; currently, FAA does not expect to have the database ready for use by the act's deadline of April 2017. In response to our recommendation, FAA has accelerated efforts to launch its portion of the database. One of FAA's most significant challenges is deciding how to obtain and input air carrier records as far back as 2005, as the act requires. FAA will have to resolve issues related to differences in recordkeeping systems and the amount and type of data carriers maintain on pilots. This portion of the database requires a rulemaking initiative, which is expected to be issued in 2018 at the earliest. We will continue to track FAA's ability to meet near- and long-term goals in these areas.

The Extension Act also requires FAA to consider the recommendations of a Pilot Fitness Aviation Rulemaking Committee in determining whether to implement additional screening for mental health conditions. This effort is in response to the recent Germanwings accident in which a pilot intentionally crashed the plane into a remote

[31] Rulemakings pending include establishing a process for development of a State risk-based asset management plan, including defining minimum standards for developing and operating bridge and pavement management systems, and a rulemaking for setting performance targets and measures covering bridges and pavement.

[32] FAA Extension, Safety, and Security Act of 2016, Pub. L. No. 114-190, July 15, 2016.

area of the French Alps. According to the rulemaking committee, the best strategy for minimizing the risks related to pilot mental fitness is to create an environment that encourages voluntary disclosure—an extremely difficult task given the misperceptions that all mental illness is career ending. In response to a congressional request, we plan to evaluate this subject later this year.

Under the act, FAA must also ensure the Agency's safety assessment system prioritizes inspections at foreign repair stations performing heavy maintenance for U.S. carriers, using risk-based oversight and data to track corrective actions. However, we continue to find weaknesses in FAA's ability to obtain data necessary to assess risk and effectively monitor foreign repair stations covered under the United States and European Union (EU) Aviation Safety Agreement. Currently, foreign authorities are only required to provide FAA with repair station inspection results pertaining to those FAA regulations that differ from the EU—not complete facility inspection reports. In response to our recommendation last year, FAA is working to develop procedures to obtain these facility inspection reports, which should enhance its ability to assess risk. Further, the Extension Act requires FAA to issue a rulemaking on alcohol and controlled substances testing and ensure completion of pre-employment background checks for safety-sensitive repair station employees. FAA faces challenges in implementing such policies at foreign repair stations where laws differ from those in the United States.

ADDRESSING PIPELINE AND HAZARDOUS MATERIALS SAFETY RECOMMENDATIONS AND MANDATES

Since 2005, the Pipeline and Hazardous Materials Administration (PHMSA) has received 263 mandates and recommendations aimed at improving its ability to prevent or mitigate pipeline and hazardous materials accidents. While PHMSA has implemented 173—or nearly two-thirds—of these mandates and recommendations, the Agency has missed about 75 percent of its mandated deadlines and 85 percent of its internal deadlines.

Our work has found that PHMSA lacks sufficient processes, oversight, and project management to address safety recommendations and mandated and internal deadlines in a timely manner—including those requiring rulemakings or non-rulemaking activities, such as advisory bulletins and studies. For example, in 2011, PHMSA received a National Transportation Safety Board (NTSB) recommendation to eliminate from a regulation a "grandfather" clause that exempts operators from testing gas transmission pipelines installed before 1970. In response, PHMSA developed a rulemaking, but did so more than 2 years after its internal deadline.

Currently, 20 of PHMSA's 81 mandates (25 percent) remain unimplemented, including 8 pipeline safety rulemaking mandates from the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011.[33] Three of our recommendations remain open, as well as more than half of NTSB's 118 safety recommendations and 7 recommendations from the Government Accountability Office.

PHMSA's delays with rulemakings stem in part from ineffective coordination with the three other Operating Administrations involved with the transportation of hazmat—FAA, the Federal Motor Carrier Safety Administration, and the Federal Railroad Administration (FRA). Our work found that PHMSA has not adequately coordinated, as required by a DOT Order,[34] on rulemaking and international standards development with these agencies, limiting its ability to resolve disputes in a timely manner.

[33] Pub. L. 112-90 (2012).

[34] DOT Order 1100.74A, Department of Transportation Organization Manual: Pipeline and Hazardous Materials Safety Administration, September 2010.

PHMSA has recently identified many areas for improvement related to rulemakings and is developing plans to address them through organizational changes. However, it is too soon to determine whether these plans, once finalized, will adequately address the Agency's ability to meet mandates and recommendations in full and on time.

IMPLEMENTING INITIATIVES FOR INCREASING ENFORCEMENT OF REGULATIONS FOR TRANSPORT OF HAZARDOUS MATERIALS BY RAIL

FRA is responsible for enforcing PHMSA regulations to ensure U.S. railroads safely transport hazardous materials. We found, however, that FRA pursues only limited civil penalties for violations of hazardous materials regulations because its policies and procedures focus on timely penalty processing and avoiding litigation. Further, our work examining FRA's program oversight found that the Agency has not conducted a comprehensive evaluation of risks associated with hazardous materials transportation that appropriately addresses national-level risk. FRA agreed with our recommendations on these issues and noted that several of our recommendations augment efforts FRA had already initiated. However, as FRA puts new initiatives in place, it will need to change not only policy and processes, but the behavior of its legal and enforcement staff in both headquarters and the regions to address concerns about imposing sufficient penalties to deter future violations and referring suspected criminal activities directly to OIG.

HARNESSING NEW FINANCING METHODS IN DOT'S CREDIT PROGRAMS

Effectively implementing mandated changes in DOT's credit programs, such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation and Improvement Financing (RRIF), will require sustained management attention. These programs leverage private investment and help fund projects that are not supported by dedicated sources. In 2014, DOT established the Build America Transportation Investment Center (BATIC) to serve as a single point of contact between project sponsors and DOT. The purpose of BATIC is to streamline the process of getting public and private sectors working together to plan and implement infrastructure projects. Since BATIC's inception, DOT credit programs have issued credit instruments totaling roughly $10 billion to 21 projects that support up to $26 billion in transportation infrastructure. Recognizing BATIC's impact on funding for infrastructure projects, Congress, in the 2015 FAST Act, mandated the restructuring of DOT credit programs to consolidate the TIFIA and RRIF programs with BATIC. In July 2016, 7 months after the enactment of the FAST Act, Secretary Foxx announced the launching of the Build America Bureau that addresses this mandate. However, DOT is still identifying the numbers and capabilities of staff needed to support the Bureau's operations and has yet to appoint its Executive Director.

RELATED PRODUCTS

The following related documents can be found on the OIG Web site at http://www.oig.dot.gov.

- *Insufficient Guidance, Oversight, and Coordination Hinder PHMSA's Full Implementation of Mandates and Recommendations,* October 14, 2016
- *FRA's Oversight of Hazardous Materials Shipments Lacks Comprehensive Risk Evaluation and Focus on Deterrence*, February 24, 2016

- *Enhanced FAA Oversight Could Reduce Hazards Associated With Increased Use of Flight Deck Automation*, January 7, 2016
- *FAA Delays in Establishing a Pilot Records Database Limit Air Carriers' Access to Background Information*, August 20, 2015
- *FAA Has Not Effectively Implemented Repair Station Oversight in the European Union*, July 16, 2015
- *FHWA Has Not Fully Implemented All MAP-21 Bridge Provisions and Prior OIG Recommendations, August 21, 2014*

For more information on the issues identified in this chapter, please contact Barry J. DeWeese, Assistant Inspector General for Surface Transportation Audits, at (202) 366–5630; Matthew Hampton, Assistant Inspector General for Aviation Audits, at (202) 366–0500; or Michelle McVicker, Principal Assistant Inspector General for Investigations, at (202) 366–1967.

EXHIBIT

COMPARISON OF FISCAL YEARS 2017 AND 2016 TOP MANAGEMENT CHALLENGES

Fiscal Year 2017 Challenges	Fiscal Year 2016 Challenges
• Maintaining Transportation Safety While Keeping Pace With Rapidly Evolving Technologies • Enhancing the Capacity, Efficiency, and Resiliency of the National Airspace System	• Integrating Unmanned Aircraft Systems Safely Into the National Airspace System
• Bolstering Vehicle and Surface Transportation Safety	• Enhancing NHTSA's Efforts To Identify and Investigate Vehicle Safety Defects • Addressing the Increasing Public Safety Risks Posed by the Transportation of Hazardous Materials
• Strengthening Cybersecurity Strategies To Address Increasing Threats	• Protecting the Department Against More Complex and Aggressive Cyber Security Threats
• Strengthening Controls To Detect and Prevent Fraud, Waste, and Abuse	• Removing High-Risk Motor Carriers From the Nation's Roads
• Increasing Oversight of Critical Transportation Infrastructure	• Improving Oversight of FHWA's and FTA's Surface Infrastructure Programs
• Enhancing Oversight of Acquisition and Financial Management	• Adopting Effective Practices for Managing FAA Acquisitions
• Managing Existing and New Mandates and Requirements	
	• Developing and Sustaining an Effective and Skilled DOT Workforce

APPENDIX. DEPARTMENT RESPONSE

Memorandum

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

Subject: **INFORMATION:** Management Response to the Office of Inspector General (OIG) Draft Report: *DOT's Fiscal Year 2017 Top Management Challenges*

October 31, 2016

From: Shoshana M. Lew
Chief Financial Officer and
Assistant Secretary for Budget and Programs

Shoshana M. Lew

To: Mitchell Behm
Deputy Inspector General

For fifty years the Department of Transportation (DOT) has been working to ensure that the Nation's transportation system is safe, efficient, accessible, and environmentally friendly. We are moving towards the ambitious vision of a transportation network that matches the changing demographics of where people live and work; fosters safety, innovation and adapts to evolving technology; and provides access to opportunity for people and communities across America. The combination of emerging and ongoing complex issues cited in the Office of Inspector General's (OIG) Fiscal Year 2017 Top Management Challenges Report aligns with several efforts the Department has initiated or identified. Highlights are as follows:

Investing in the Safe Integration of Emerging Technologies: Our top priority is to make the U.S. transportation system the safest in the world. As emerging technologies and "not yet conceived" innovations increasingly reach deeper into transportation, the Department must not only keep pace, but also ensure public safety. In October 2016, the Secretary announced a new Advisory Committee on Automation in Transportation which will serve as a critical resource for the Department in framing Federal policy for the continued development and deployment of automated transportation. In September 2016, the National Highway Transportation Safety Administration (NHTSA) issued a Federal Automated Vehicles policy, which includes a 15-point safety assessment framework for highly automated vehicles. Further, the Federal Aviation Administration (FAA) recently announced new rules for small unmanned aircraft systems. With these new rules, FAA has created an environment in which emerging technologies can be rapidly introduced while protecting the safety of the world's busiest and most complex airspace.

Using U.S. Air Space in Safer, More Efficient and Environmentally Sound Ways:
The United States has the safest aviation system in the world. FAA continues to develop and deploy technologies to use U.S. air space in safer, more efficient and environmentally sound ways. The Next Generation Air Transportation System (NextGen) is a comprehensive suite of state-of-the-art technologies and procedures that enable aircraft to move more directly from Point A to Point B. We have measured $1.6 billion in benefits to airlines and the flying public all across the National Airspace System (NAS) from NextGen capabilities and we estimated an

APPENDIX. DEPARTMENT RESPONSE

additional $11.7 billion in benefits over the next 15 years. In October, 2016, FAA issued the NextGen Priorities Joint Implementation Plan, a rolling plan to re-examine the needs of NAS and its users and milestones through 2019.

Enforcing our Safety Regulatory Authority to Ensure Safety: We continue to use our safety regulatory authority over automobiles, aviation, rail, trucks, motor coaches, pipelines, and hazardous materials as cost-effectively as possible to reduce crashes and injuries, and implement our expanded regulatory authority for public transit. For example, NHTSA proactively pursued several enforcement actions against vehicle and vehicle equipment manufacturers for violating the Vehicle Safety Act requirements, including global equipment manufacturer Takata, which resulted in the largest civil penalty ever imposed by NHTSA—$200 million. In fiscal year 2016, Federal Motor Carrier Safety Administration (FMCSA) nearly doubled the number of Imminent Hazard orders, removing unsafe motor carriers and drivers from the Nation's roads. And, within the past year, the Federal Transit Administration met key targets for carrying out new statutory safety responsibilities while initiating the unprecedented direct Federal safety oversight of the Washington Metropolitan Area Transit Authority. In addition, the United States Attorney in San Francisco conducted a six-week criminal trial, with substantial support from the Pipeline and Hazardous Materials Safety Administration (PHMSA), the DOT Office of the General Counsel, and the DOT OIG, that resulted in a five-count criminal conviction of Pacific Gas and Electric for violating PHMSA pipeline regulations in connection with the San Bruno pipeline explosion.

Strengthening the Integrity of Surface Transportation Programs: DOT influences the integrity of Federally-funded roadway infrastructure through program guidance and technical assistance provided to State departments of transportation. Building upon its previous efforts, the Federal Highway Administration (FHWA) has several actions underway to further strengthen its oversight, including a national review on Preliminary Engineering (PE) projects and a development of a new PE risk tool. Since April 2015, FHWA began collecting annual element level data for National Highway Bridges and in August 2016, issued guidance that clarified the applicability of National Bridge and Tunnel Inspection Standards. Further, the Federal Railroad Administration has made significant changes in its oversight of railroad bridge safety including enhanced oversight of bridge specialists, a renewed focus on enforcement, and more thorough reviews of railroad bridge management practices.

Continuing Evolution of Cyber Security: The Department's cyber security program continues to evolve and adapt to increasing legislative requirements, Federal initiatives, administrative imperatives, and cyber threats, through tailored application of the National Institute of Standards and Technology's risk management framework, efficient allocation of available personnel, and increased application of data analytic tools and automation capabilities to protect agency systems, information, and stakeholders. With OIG recognition of progress in the Department's annual Federal Information Security Modernization Act audit, and no major cyber security incidents this fiscal year, the Office of the Chief Information Officer's focus will be on a strategy of collaboration with operating administrations and other partners to streamline policies and guidance, implement enterprise cyber security shared services and capabilities, simplify systems through smart use of these capabilities and common controls, and further integrate cyber security risk management program into the Department's IT governance framework.

APPENDIX. DEPARTMENT RESPONSE

Exercising Rigorous Management and Oversight of Contracts and Grants; and Enhancing Controls to Deter Fraud, Waste, and Abuse: The Department is committed to exercising rigorous management and oversight of its contracts and grants to improve program performance and help prevent fraud, waste, and abuse. For example, the Department's Senior Procurement Executive established an Acquisition Strategy Review Board to review all acquisition plans for procurements greater than $20 million and all high-risk contracts over $10 million. Operating Administrations have also enhanced their oversight efforts. FAA uses a National Acquisition Evaluation Program and Support Contract Review Board to ensure documentation supports all business decisions and projects do not create redundant solutions. In the area of grants management and oversight, the Department periodically assesses and tests controls over its payment and grants management business process and leverages results of its improper payments reviews and other audits to identify and remedy payment control weaknesses.

Implementing Existing and New Mandates: In December 2015, President Obama signed the Fixing America's Surface Transportation (FAST) Act into law, the first long-term transportation bill in 10 years. This brings an end to a long period of uncertainty for state DOTs, with 36 short-term extensions. The FAST Act increases funding by roughly 11 percent over five years. This goes a long way towards building a 21st century transportation system, but is far short of what is needed to reduce road congestion and meet increasing demands on our transportation systems. While we should celebrate this bill as a milestone, based upon studies conducted by various stakeholders, more needs to be done.

Since last December, we have focused on distributing as much available funding as possible to states and other grantees through formula dollars and discretionary grant opportunities. Our implementation efforts are focused on five key areas:

- **Safety** is our top priority and we have taken steps to implement FAST Act provisions in this area as quickly as possible.
- To aid in **project delivery**, the FAST Act speeds up review and the permitting processes while still protecting our Nation's environmental and historic treasures, and we have a number of guidance and rulemaking documents underway to implement these provisions.
- The FAST Act provides dedicated Federal funding for **freight** programs, addressing the challenges outlined in our *Beyond Traffic* study, to deal with these growing needs.
- Building on the Administration's successful Build America Investment Initiative, the FAST Act establishes a "National Surface Transportation and **Innovative Finance** Bureau" (later established as the "Build America Bureau").
- The **research** and innovation deployment piece of the FAST Act goes hand-in-hand with the Department's efforts, and as a result, we have begun the competition for University Transportation Centers (UTC) grants, encouraging innovative transportation solutions.

We appreciate the opportunity to respond to the OIG draft report. Please contact Madeline M. Chulumovich, Director, Office of Audit Relations and Program Improvement, at (202) 366-6512 with any questions or if you would like to obtain additional details.

IPIA (AS AMENDED BY IPERA AND IPERIA) REPORTING DETAILS

The Improper Payments Information Act of 2002 (IPIA; P.L. 107-300),[1] as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248), requires agencies to report information on improper payments[2] (IP) to the President, Congress, and the public. The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, provides agencies with guidance for implementing IPIA.

DOT performed IP management reviews in accordance with IPIA and supporting guidance from OMB. The results of our risk assessments, IP sampling and estimation, payment recapture audit, and Do Not Pay (DNP) implementation are provided in the following sections.

I. RISK ASSESSMENT

In FY 2014, DOT initiated Department-wide risk assessments to determine if our programs are susceptible to significant IPs. We completed the triennial reviews in FY 2015 and plan to conduct our next Department-wide risk assessments in FY 2017. During FY 2016, we evaluated FY 2015 legislative and funding changes and concluded that none of the changes necessitated that a program perform an IP risk assessment.

When conducting our risk assessments, DOT considers both quantitative and qualitative risk factors when assessing the susceptibility of a program to make IPs. We associate a risk weight of 20 percent to the quantitative factors and assess the materiality of expenditures by determining the total amount of program disbursements made in the prior fiscal year. The qualitative risk factors receive a risk weight of 80 percent and include assessments of the following:

- Quality of internal payment processing controls.
- Quality of monitoring controls.
- Quality of external payment processing controls.
- Human capital risk.
- Age of program.
- Complexity of program.
- Nature of program payments and recipients.

IPIA defines a program or activity as susceptible to significant IPs when annual IPs exceed 1.5 percent and $10 million of outlays, or $100 million of outlays regardless of the error rate. A risk assessment, statutory law, OMB, or DOT management may identify a program or activity as susceptible to significant IPs and require it to report annual estimates. During FY 2016, eight DOT programs or activities were susceptible to significant IPs and subject to the annual IPIA reporting requirements. DOT's programs and the source identifying them as susceptible to significant IPs are as follows:

[1] Unless otherwise indicated, the acronym "IPIA" refers to "IPIA, as amended by IPERA and IPERIA."

[2] IPIA defines an *improper payment* as a payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

Operating Administration	Program or Activity	Source Identifying Program as Susceptible to Significant IPs
Federal Aviation Administration (FAA)	Facilities and Equipment—Disaster Relief Appropriations Act (F&E—DRAA)	Disaster Relief Appropriations Act of 2013
Federal Highway Administration (FHWA)	Highway Planning and Construction	Former Section 57 of OMB Circular A-11 (2002) and Disaster Relief Appropriations Act of 2013
Federal Railroad Administration (FRA)	Grants to the National Railroad Passenger Corporation (Amtrak)	IP Risk Assessment and Disaster Relief Appropriations Act of 2013
	High-Speed Intercity Passenger Rail (HSIPR)	IP Risk Assessment
Federal Transit Administration (FTA)	Emergency Relief Program—Disaster Relief Appropriations Act (ERP—DRAA)	Disaster Relief Appropriations Act of 2013
	Formula Grants and Passenger Rail Investment and Improvement Act Projects (Formula Grants)	Former Section 57 of OMB Circular A-11 (2002) and IP Risk Assessment
Maritime Administration (MARAD)	Electronic Invoicing System—Ship Manager Payments (EIS)	IP Risk Assessment
Office of the Inspector General (OIG)	Disaster Relief Appropriations Act (DRAA)	Disaster Relief Appropriations Act of 2013

IP = improper payments. OMB = Office of Management and Budget.

OMB Circular A-123, Appendix C, permits agencies to request relief when the program reduces its IP estimates below the statutory thresholds for two consecutive years. FAA's Airport Improvement Program (AIP) met these criteria and, in accordance with Appendix C guidance, we requested and received OMB approval for relief from the annual IP reporting requirements for this program starting in FY 2016.

II. SAMPLING AND ESTIMATION

For FY 2016, a statistician prepared, an agency official certified, and DOT submitted all of our sampling and estimation plans[3] to OMB in accordance with OMB Circular A-123, Appendix C requirements. DOT's statistical sampling and estimation process begins with obtaining data extracts from Delphi, DOT's financial system of record. The Enterprise Service Center (ESC), DOT's service provider, reconciles the data extracts to the OA's financial statements to ensure completeness. Next, the statistician and DOT officials collaborate to identify the final payment populations for sampling.

We derive IP rates based on probability samples with estimates for sampling error. The statistician designs and refines the sampling plans considering the nature and distribution of payments made by our programs. For contract programs, DOT uses a single-stage random selection methodology in which the statistician draws a sample from DOT payments.

For our grant-related programs, DOT typically employs a multi-stage random selection methodology. The first stage involves generating a sample from DOT payments to grant recipients. At the second stage, the statistician develops a sample from the list of invoices the grant recipient applied to the DOT payment. Next, DOT typically samples and tests invoice line items to determine if the expenditures are proper from the sampled grant recipient invoice. After DOT confirms IPs within the sample, the statistician extrapolates the results to arrive at the IP estimates.

III. IMPROPER PAYMENT REPORTING

The IP Reduction Outlook table summarizes amounts for DOT's programs or activities susceptible to significant IPs. The table includes improper payment percent (IP %) and improper payment dollar (IP $) results from our FY 2015 and FY 2016 management reviews. The future year IP % represents our reduction targets.

[3] DOT's FY 2016 IPIA management reviews included payments from OIG's Disaster Relief Act funding. OIG management conducted a census of OIG-DRAA payments instead of performing a statistical sample.

TABLE 1. IMPROPER PAYMENT REDUCTION OUTLOOK ($ IN MILLIONS)

Program or Activity	PY Outlays[1]	PY IP %	PY IP $	CY Outlays[1,3]	CY IP%	CY IP $	CY Over-payment $	CY Under-payment $
	2015 Testing (Based on FY 2014 Actual Payment Activity)[2]			2016 Testing (Based on FY 2015 Actual Payment Activity)[3]				
FAA AIP	$3,117.09	0.04%	$1.27	*OMB granted relief starting in FY 2016.*				
FAA F&E—DRAA[4,5]	9.58	0.00	—	$8.65	1.59%	$0.14	$0.14	$ —
FHWA Highway Planning and Construction[4,6,8]	44,424.55	1.08	479.20	43,307.01	0.26	110.85	110.85	—
FRA Grants to Amtrak[4,6,8]	1,363.12	0.31	4.24	1,119.78	0.16	1.75	1.59	0.16
FRA HSIPR[6,8]	1,113.59	0.03	0.36	1,156.46	0.51	5.95	5.95	—
FTA ERP—DRAA[4,6,8]	570.44	0.03	0.17	361.81	0.09	0.33	0.33	—
FTA Formula Grants[6]	9,419.66	0.05	5.09	9,287.96	0.95	88.12	88.12	0.003
MARAD RRF[5]	277.66	0.25	0.69	255.30	0.09	0.23	0.07	0.16
OIG—DRAA[4,5]	N/A	N/A	N/A	0.60	0.42	0.003	0.003	—
Total[7]	**$60,295.68**	**0.81%**	**$491.02**	**$55,497.57**	**0.37%**	**$207.38**	**$207.06**	**$0.32**

Program or Activity	CY + 1 Est. Outlays	CY + 1 Est. IP %	CY + 1 Est. IP $	CY + 2 Est. Outlays	CY + 2 Est. IP %	CY + 2 Est. IP $	CY + 3 Est. Outlays	CY + 3 Est. IP %	CY + 3 Est. IP $
	2017 Testing (Based on FY 2016 Actual and Estimated Payment Activity)			2018 Testing (Based on FY 2017 Estimated Payment Activity)			2019 Testing (Based on FY 2018 Estimated Payment Activity)		
FAA F&E—DRAA[4,5]	$3.12	1.58%	$0.05	$3.07	1.57%	$0.05	$1.65	1.56%	$0.03
FHWA Highway Planning and Construction[4,6,8]	44,837.07	0.55	246.60	43,751.00	0.50	218.76	43,954.00	0.45	197.79
FRA Grants to Amtrak[4,6,8]	1,412.89	0.28	3.96	1,552.00	0.27	4.19	1,686.00	0.26	4.38
FRA HSIPR[6,8]	2,104.46	1.00	21.04	3,062.00	0.90	27.56	758.00	0.80	6.06
FTA ERP—DRAA[4,6,8]	552.13	0.27	1.49	700.00	0.26	1.82	800.00	0.25	2.00
FTA Formula Grants[6]	9,950.40	0.94	93.53	9,815.00	0.93	91.28	10,818.00	0.92	99.53
MARAD EIS[5]	240.44	0.089	0.21	218.57	0.088	0.19	219.48	0.087	0.19
OIG—DRAA[4,5]	0.10	0.41	0.0004	2.50	0.40	0.01	1.20	0.39	0.005
Total[7]	**$59,100.60**	**0.62%**	**$366.89**	**$59,104.15**	**0.58%**	**$343.85**	**$58,238.33**	**0.53%**	**$309.99**

AIP = Airport Improvement Program. CY = current year. DRAA = Disaster Relief Appropriations Act of 2013. EIS = Electronic Invoicing System. ERP = Emergency Relief Program. F&E = Facilities and Equipment. FY = fiscal year. HSIPR = High-Speed Intercity Passenger Rail. IP = improper payment. N/A = not applicable. PY = prior year. RFF = Ready Reserve Force.

[1] PY and CY Outlays represent the payment populations sampled to estimate IPs.

[2] For FY 2015 testing, the program reviewed payments made from October 1, 2013 to September 30, 2014.

[3] For FY 2016 testing, the program reviewed payments made from October 1, 2014 to September 30, 2015, except for the OIG—DRAA program, which reviewed payments made from October 1, 2012, to September 30, 2015.

[4] Program or activity includes DRAA funding.

[5] A DOT official provided CY+1, CY+2, and CY+3 Estimated Outlays since they are not reported as separate line items on the September 2016 Monthly Treasury Statement or FY 2017 President's Budget at Mid-Session Review.

[6] The program's CY+1 Estimated Outlays were sourced from the September 2016 Monthly Treasury Statement. To maintain consistency with the program's sampling plan, CY+1 Estimated Outlays consists of FY 2016 disbursements plus the absolute value of FY 2016 collections. Adjustments to disbursements or collections were not included in CY+1 Estimated Outlays. The program's CY+2 and CY+3 Estimated Outlays were sourced from the FY 2017 President's Budget at Mid-Session Review. To maintain consistency with the program's sampling plan, CY+2 Estimated Outlays consists of Budget Year (FY 2017) outlays plus the absolute value of offsetting collections from non-Federal sources. Offsetting collections from Federal sources were not included in the CY+2 Estimated Outlays. The program's CY+3 Estimated Outlays were calculated using the same approach as CY+2 Estimated Outlays except with Budget Year+1 (FY 2018) data.

[7] The total figures represent the cumulative results of DOT programs susceptible to significant IPs and are not statistical estimates for all of DOT's programs and activities.

[8] FHWA, FRA, and FTA set reduction targets at the top end of the CY IP estimate's statistical range at the 95% confidence interval. The factors influencing FHWA's, FRA's, and FTA's reduction targets included: past IP estimates; the inherent uncertainty and variability associated with estimates derived from probability sampling; and the 2-year delay for corrective actions to affect the IP estimate. FHWA and FRA Grants to Amtrak also considered prior year reduction targets and set future year reduction targets at levels less than those established in FY 2015. FRA HSIPR also took into account the expected rise in outlays associated with the cancellation of appropriated funding.

IV. IMPROPER PAYMENT ROOT CAUSE CATEGORIES

The IPs Root Cause Category Matrix table provides detailed reasons for DOT's IPs. The table also provides overpayment and underpayment breakouts for DOT's programs or activities susceptible to significant IPs. DOT added sub-categories to the Insufficient Documentation category.

TABLE 2. IMPROPER PAYMENT ROOT CAUSE CATEGORY MATRIX ($ IN MILLIONS)

Reason for Improper Payment		FAA F&E—DRAA		FHWA Highway Planning and Construction		FRA Grants to Amtrak		FRA HSIPR	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program design or structural issue									
Inability to authenticate eligibility									
Failure to verify:	Death data								
	Financial data								
	Excluded party data								
	Prisoner data								
	Other eligibility data								
Administrative or process error made by:	Federal agency	$0.14		$0.01					
	State or local agency			78.45				$2.53	
	Other party					$1.47	$0.16		
Medical necessity									
Insufficient documentation to determine:				32.39		0.13		3.42	
Federal agency									
State or local agency				32.39				3.11	
Other party						0.13		0.31	
Total		**$0.14**	**$ —**	**$110.85**	**$ —**	**$1.59**	**$0.16**	**$5.95**	**$ —**

Reason for Improper Payment		FTA ERP—DRAA		FTA Formula Grants		MARAD EIS		OIG—DRAA	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program design or structural issue									
Inability to authenticate eligibility									
Failure to verify:	Death data								
	Financial data								
	Excluded party data								
	Prisoner data								
	Other eligibility data								
Administrative or process error made by:	Federal agency					$0.016	$0.16	$0.002	
	State or local agency	$0.01		$73.25	$0.003				
	Other party								
Medical necessity									
Insufficient documentation to determine:		0.32		14.87		0.059		0.001	
Federal agency						0.059		0.001	
State or local agency		0.32		14.87					
Other party									
Total		**$0.33**	**$ —**	**$88.12**	**$0.003**	**$0.075**	**$0.16**	**$0.003**	**$ —**

DRAA = Disaster Relief Appropriations Act of 2013. EIS = Electronic Invoicing System. ERP = Emergency Relief Program. F&E = Facilities and Equipment. HSIPR = High-Speed Intercity Passenger Rail.

V. IMPROPER PAYMENT CORRECTIVE ACTIONS

DOT plans to take the following corrective actions for programs with FY 2016 IP estimates above the statutory threshold of 1.5 percent and $10 million, or $100 million regardless of the error rate. We targeted the corrective actions by addressing the root causes of IPs.

FHWA HIGHWAY PLANNING AND CONSTRUCTION CORRECTIVE ACTIONS

Improper Payment Category	Corrective Action	Target Completion Date
Administrative or process error made by Federal agency	FHWA will advise Federal staff of the root cause for their IPs.	3/31/2017
Administrative or process error made by State and local agency	FHWA will advise select grant recipients of the root cause for their IPs and coordinate issue specific corrective actions with those grantees.	3/31/2017
	FHWA will provide training to its staff on methods to: • Identify improper payment risk areas; and • Evaluate State DOT financial systems.	06/30/2017
Insufficient documentation to determine	FHWA will reissue guidance on documentation retention contained in the Project Funds Management Guide for State Grants.	3/31/2017

VI. INTERNAL CONTROL OVER PAYMENTS

The Department ensures that payment controls are in place and operating effectively through periodic self-assessments. Annually, we assess the effectiveness of our internal controls over financial reporting in accordance with the requirements of OMB Circular A-123, Appendix A. These reviews periodically assess and test controls over our payment and grants management business processes. Furthermore, the Department leverages the results of our triennial IP risk assessments, IP sampling and estimation, payment recapture audit, and DNP implementation to identify and remedy payment control weaknesses.

For programs above IPIA statutory thresholds, DOT performed an assessment to determine the status of internal control over payments. The assessment involved evaluating 29 attributes associated with the internal control standards. The FY 2016 internal controls over payments assessment results are as follows.

TABLE 3. STATUS OF INTERNAL CONTROLS

Internal Control Standards	FHWA Highway Planning and Construction
Control environment	3
Risk assessment	3
Control activities	3
Information and communication	3
Monitoring	4

Legend:
4 = Sufficient controls are in place to prevent IPs.
3 = Controls are in place to prevent IPs but there is room for improvement.
2 = Minimal controls are in place to prevent IPs.
1 = Controls are not in place to prevent IPs.

VII. ACCOUNTABILITY

For programs above IPIA statutory thresholds, DOT plans to take the following steps to ensure agency officials are held accountable for reducing and recapturing IPs:

FHWA Highway Planning and Construction. FHWA's Office of the Chief Financial Officer (HCF) administers the implementation of FHWA's IPIA requirements. FHWA develops IP reduction targets, implements corrective actions, and coordinates the recapture of IPs identified during IPIA reviews. In addition to the IPIA-related sampling, FHWA conducts additional transaction testing of States and territories for improper payments under its Financial Integrity Review and Evaluation (FIRE) program. FHWA, through the FIRE program and other risk-based oversight, incorporates additional reviews, including focus areas such as inactive projects, grant administration, and procurement under the administration of State DOTs using Federal funds.

FHWA's HCF monitors FIRE Program findings and recommendations to address identified procedure and internal control weaknesses to ensure they are addressed by its accessible units (AU). The AUs develop responses for procedural and internal control weaknesses based on the various reviews completed for FIRE and other program evaluations. HCF monitors the AUs' implementation periodically and assesses the AUs' yearly performance documentation. The HCF monitors the AUs' progress to ensure timely and effective response actions were completed.

VIII. Agency Information Systems and Other Infrastructure

DOT and, more specifically, FHWA possess the internal controls, human capital, and information systems necessary to identify and reduce IPs to the targeted reduction rates.

IX. BARRIERS

DOT and, more specifically, FHWA have not identified statutory or regulatory barriers that may limit corrective actions in reducing IPs.

X. RECAPTURE OF IMPROPER PAYMENTS REPORTING

During FY 2016, the Office of Financial Management's (OFM) payment integrity center performed the payment recapture audit. OFM collaborated with ESC to identify overpayments, initiate collection actions, and explore opportunities to improve departmental payment processes. In order to maintain a cost-effective program, all DOT programs and activities were included within the scope of the payment recapture audit.

The FY 2016 audit's scope included DOT payments and financial transactions processed by ESC. We concentrated on payments made between October 2012 and March 2016; however, DOT does not limit the scope of the payment recapture audit to a specific time period. OFM's payment integrity center maintains more than 5 years of payment data and we typically expand the scope of the payment time period when changing parameters or logic.

DOT considers all overpayments identified through the FY 2016 audit to be collectable. ESC typically recoups overpayments directly from the payee, by offsetting a payee's future payment, or by submitting a debt to the Department of Treasury's Offset Program. In most cases, ESC is able to recover the overpayment directly from the payee. During FY 2016, DOT determined certain overpayments identified in prior audits were uncollectable due to the Department of Treasury closing debts with open balances or management's decision to halt recovery actions.

Grant payments continue to represent the greatest proportion of overpayments identified through the payment recapture audit. DOT attributes the cause for grant-related overpayments to administrative errors made by entities external to the Department. During FY 2016, OFM and ESC collaborated on the development of preventive controls to detect potential errors prior to payment. The implementation and refinement of these preventive controls will continue into FY 2017.

TABLE 4-1. OVERPAYMENT RECAPTURES WITH RECAPTURE AUDIT PROGRAMS

	Overpayments Recaptured Through Payment Recapture Audits (Dollars in Millions)									
	Contracts					Grants				
Activity	Amount Identified	Amount Recap-tured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recap-tured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target
DOT payments[1]	$0.41	$0.36	86.71%	90.00%	90.00%	$2.31	$2.48	107.02%	90.00%	90.00%

	Overpayments Recaptured Through Payment Recapture Audits (Dollars in Millions)						
	Other					Total	
Activity	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured
DOT payments [1]	$0.02	$0.02	98.16%	90.00%	90.00%	$2.74	$2.85

CY = current year.

[1] DOT programs reviewed: FAA Operations, FAA Aviation Insurance Revolving Fund, FAA Administrative Services Franchise Fund, FAA Grants-in-aid for Airports, FAA Facilities and Equipment, FAA Research Engineering and Development, FAA Aviation User Fees, FHWA Emergency Relief Program, FHWA Highway Infrastructure Investment-Recovery Act, FHWA Highway Infrastructure Programs, FHWA Appalachian Development Highway System, FHWA Federal-aid Highways, FHWA TIFIA Program, FMCSA National Motor Carrier Safety Program, FMCSA Motor Carrier Safety Grants, FMCSA Motor Carrier Safety Operations and Programs, FRA Operating Subsidy Grants to Amtrak, FRA Emergency Railroad Rehabilitation and Repair, FRA Capital and Debt Service Grants to Amtrak, FRA Safety and Operations, FRA Grants to Amtrak, FRA Intercity Passenger Rail Grant Program, FRA Rail Line Relocation and Improvement Program, FRA Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service, FRA Next Generation High-speed Rail, FRA Pennsylvania Station Redevelopment Project, FRA Railroad Research and Development, FRA Rail Safety Technology Program, FTA Transit Capital Assistance-Recovery Act, FTA Fixed Guideway Infrastructure Investment-Recovery Act, FTA Administrative Expenses, FTA Job Access and Reverse Commute Grants, FTA Washington Metropolitan Area Transit Authority, FTA Formula Grants, FTA Capital Investment Grants, FTA Discretionary Grants, FTA Transit Formula Grants, FTA Public Transportation Emergency Relief Program, FTA Transit Research, FTA Technical Assistance and Training, MARAD Ready Reserve Force, MARAD Maritime Security Program, MARAD Operations and Training, MARAD Maritime Guaranteed Loan (title XI) Program, MARAD Ship Disposal, MARAD Assistance to Small Shipyards, MARAD Vessel Operations Revolving Fund, MARAD Port of Guam Improvement Enterprise Fund, MARAD Miscellaneous Trust Funds, NHTSA Operations and Research, NHTSA Highway Traffic Safety Grants, NHTSA Operations and Research, OIG Salaries and Expenses, OST Salaries and Expenses, OST Supplemental Discretionary Grants for a National Surface Transportation System-Recovery Act, OST Financial Management Capital, OST Office of Civil Rights, OST Transportation Planning Research and Development, OST National Infrastructure Investments, OST New Headquarters Building, OST Minority Business Resource Center Program, OST Cyber Security Initiatives, OST Working Capital Fund, OST Essential Air Service and Rural Airport Improvement Fund, OST Payments to Air Carriers, OST Volpe National Transportation Systems Center, OST Small and Disadvantaged Business Utilization and Outreach, OST Research and Technology, PHMSA Operational Expenses, PHMSA Hazardous Materials Safety, PHMSA Pipeline Safety, and PHMSA Emergency Preparedness Grants.

XI. ADDITIONAL COMMENTS

In May 2016, OIG issued a report regarding DOT's FY 2015 implementation of IPIA reporting requirements and OMB guidance. The OIG determined that one program, FHWA's Highway Planning and Construction, did not meet its FY 2015 IP reduction targets and, therefore, did not comply with the IPIA requirement. DOT is pleased to report that the program reduced IPs to a level less than their FY 2016 IP reduction targets. DOT considers the program compliant with IPIA for the FY 2016 reporting period.

We expect OIG to determine that DOT is noncompliant with one of six FY 2016 IPIA requirements, however. Three programs, FAA's F&E—DRAA, FRA's HSIPR, and FTA's Formula Grants, did not meet their reduction targets published in DOT's FY 2015 AFR, likely making DOT noncompliant for the FY 2016 reporting period. OIG will review DOT's FY 2016 IPIA implementation and determine compliance in FY 2017.

TABLE 4-2. OVERPAYMENT RECAPTURES WITHOUT RECAPTURE AUDIT PROGRAMS

	Overpayments Recaptured Outside of Payment Recapture Audits (Dollars in Millions)	
Activity	**Amount Identified**	**Amount Recaptured**
Statistical samples conducted under IPIA—contract payments	$0.106	$ —
Statistical samples conducted under IPIA—other payments	0.533	0.350
Voluntarily returned—contract payments	0.339	0.339
Voluntarily returned—other payments	0.486	0.486
Offset future payment—contract payments	0.007	0.007
OIG review—other payments	37.694	0.208
Post-payment reviews—contract payments	0.434	0.501
Post-payment reviews—other payments	0.160	0.002
Total	**$39.758**	**$1.892**

IPIA = Improper Payments Information Act of 2002.

TABLE 5. DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDITS

	(Dollars in Millions)								
Activity	**Amount Recaptured**	**Type of Payment**	**Agency Expenses To Administer the Program**	**Payment Recapture Auditor Fees**	**Financial Management Improvement Activities**	**Original Purpose**	**Office of Inspector General**	**Returned to Treasury**	**Other**
DOT payments	$0.3576	Contract	N/A	N/A	N/A	$0.3554	N/A	$0.0022	N/A
DOT payments	2.4759	Grants	N/A	N/A	N/A	2.4759	N/A	—	N/A
DOT payments	0.0151	Other	N/A	N/A	N/A	0.0151	N/A	—	N/A
Total	**$2.8485**		**N/A**	**N/A**	**N/A**	**$2.8463**	**N/A**	**$0.0022**	**N/A**

N/A = not applicable.

TABLE 6. AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS

	(Dollars in Millions)				
Program or Activity	**Type of Payment**	**Amount Outstanding (0–6 months)**	**Amount Outstanding (6 months–1 year)**	**Amount Outstanding (over 1 year)**	**Amount Determined To Not Be Collectable**
DOT payments	Contract	$0.0580	$0.0148	$12.5383	$0.0063
DOT payments	Grants	0.0478	—	0.0999	—
DOT payments	Other	—	0.0003	0.0004	—
Total		**$0.1058**	**$0.0151**	**$12.6386**	**$0.0063**

XII. AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE

An important part of the Department's program integrity efforts designed to prevent, identify, and reduce IPs is integrating Treasury Department's DNP Business Center into our existing processes. DOT utilizes the DNP Business Center to perform online searches, screen payments against the DNP databases, and augment OFM's payment integrity center.

At DOT, we follow established preenrollment, preaward, and prepayment processes for all acquisition and financial assistance awards. Preenrollment procedures include cross-referencing applicants against General Services Administration's System for Award Management (SAM) exclusion records. We also review Federal and commercial databases to verify past performance, Federal Government debt, integrity, and business ethics. As part of our preaward process and prior to entering into an agreement, we further require grant recipients assistance to verify that the entities they transact with are not excluded from receiving Federal funds. For prepayment processes, ESC verifies an entity against both SAM and the Internal Revenue Service's Taxpayer Identification Number Match Program before establishing them as a vendor in our core financial accounting system.

The Department performs postpayment reviews to adjudicate conclusive matches identified by the DNP Business Center. The adjudication process involves verifying payee information against internal sources, reviewing databases within the DNP Business Center, and confirming whether DOT applied appropriate business rules at the time of payment.

DOT utilizes the DNP Business Center's analytics capabilities to improve the quality and integrity of information within our financial systems. In FY 2015, DOT and ESC engaged the DNP Analytics Services to match our vendor records with the Social Security Administration's (SSA) Death Master File. The review identified high-risk vendor records and enabled us to classify our vendor records into risk-based categories for further evaluation. During FY 2016, DOT deactivated high-risk vendors because of this review, thereby decreasing the likelihood of making IPs to deceased individuals.

In November 2014, the DNP Business Center upgraded its capabilities by automating the adjudication process through the DNP portal and providing better matching against SAM. While this upgrade significantly improved DOT's adjudication procedures, differences between ESC and Treasury Department payment file formats prevented the DNP Business Center from matching payments made from November 2014 through July 2015. The file format differences were resolved in August 2015 and DOT engaged the DNP Analytics Service to review the unmatched payment backlog. During FY 2016, DOT completed the review of the unmatched payment backlog and determined that all potential improper payments were proper.

TABLE 7. RESULTS OF THE DO NOT PAY INITIATIVE IN PREVENTING IMPROPER PAYMENTS

	Number of Payments Reviewed for Possible Improper Payments	Millions of Dollars of Payments Reviewed for Possible Improper Payments	Number of Payments Stopped	Millions of Dollars of Payments Stopped	Number of Potential Improper Payments Reviewed and Determined Accurate	Millions of Dollars of Potential Improper Payments Reviewed and Determined Accurate
Reviews with the IPERIA-specified databases[(1)]	529,869	$71,921.83	0	$0	381	$0.25
Reviews with databases not listed in IPERIA	N/A	N/A	N/A	N/A	N/A	N/A

IPERIA = Improper Payments Elimination and Recovery Improvement Act of 2012. N/A = not applicable.

[(1)] In FY 2016, DOT screened payments against the SSA's Death Master File and GSA's SAM Exclusion Records databases.

FREEZE THE FOOTPRINT

Several Executive Office of the President initiatives have focused on the aggressive disposal of excess properties held by Federal agencies. The "Freeze the Footprint" initiative, implemented by OMB Management Procedures Memorandum 2013-02, requires Federal agencies to reduce their domestic office and warehouse inventory, in square footage (SF) terms, from their FY 2012 baseline levels. The initiative was updated by OMB Management Procedures Memorandum 2015-01 to "Reduce the Footprint."

In response to this mandate, the Department has undertaken numerous efforts to avoid unnecessary real property costs including the implementation of new asset management processes, the utilization of new real property data management tools, the training and certification of real estate contracting officers, and the consolidation, colocation, and disposal of facilities and regional offices. The Department's partnership with GSA on the Client Portfolio Planning (CPP) initiative to create a comprehensive real property portfolio management plan has resulted in several recently completed, currently ongoing and planned consolidation projects. Systematic reviews are performed on all leases expiring within five years to consider all available options in the current market place. New lease and construction projects under consideration undergo a rigorous evaluation and approval process. To help with the analysis required by these reviews, the ARCHIBUS Space Management tool provides current space primary use and occupancy/utilization data to guide decision making. Additionally, the Department regularly updates the Real Estate Management System (REMS) to track the inventory of all DOT operating administrations.

The largest portion of DOT's real property portfolio consists of technical facilities, or en route centers, to support the National Airspace System. FAA's transition to its Next Generation Air Transportation System (NextGen), a system designed to enhance how aircraft are tracked and routed through the airspace, will permit the replacement of some legacy ground-based navigational and communication facilities with modern satellite-based systems.

The Department's comparison of its FY 2015 leased and owned space to its FY 2012 baseline is summarized in the table below.

EXHIBIT I. FREEZE THE FOOTPRINT BASELINE COMPARISON

	Fiscal Year 2012 Baseline	Prior Fiscal Year 2015[(1)]	Change (2012–2015)
Square footage (in millions)	13	13	—

[(1)] FY 2015 is the most recent period for which data are available, as fiscal year square footage data are not verified and finalized until the end of the calendar year.

After several years of reductions, several projects have resulted in a temporary increase of the Department's footprint. A project to consolidate regional headquarter buildings has resulted in a temporary overlap of 220,000 SF as the Department was required to enter into new lease obligations before expiration of the previously existing ones. The Department has also experienced some mission growth that has required the acquisition of new office space and facilities, such as the required oversight of a metropolitan rail transportation system and new border inspection duties.

DOT has also implemented several cost savings or cost avoidance initiatives, such as improvements in energy efficiency and disposition of assets. The High Performance

Sustainable Buildings initiative improves the efficiency of building operations by acquiring sustainable buildings within the lease portfolio, enhances the management of utility data and performance, and provides related training and awareness. Sustainable practices include the optimization of building energy performance, water conservation, enhancing indoor environmental quality, and reducing the impact of materials on the environment. Another tool, the Real Property Disposal Cost Control Measure, monitors the monthly and year-to-date cost savings/avoidance of disposed assets.

EXHIBIT II. REPORTING OF OPERATION AND MAINTENANCE COSTS—OWNED AND DIRECTLY LEASED BUILDINGS(1)

	Fiscal Year 2012 Baseline	Prior Fiscal Year 2015(2)	Change (2012–2015)
Operation and maintenance costs(3) (in millions)	$95.4	$89.7	($5.7)

(1) The baseline and prior fiscal year operation and maintenance cost totals have been adjusted to be consistent with Office of Management and Budget reporting guidance to report costs for owned and directly leased facilities as identified by Data Element #3 in the Federal Real Property Council's "Guidance for Real Property Inventory Reporting."

(2) FY 2015 is the most recent period for which data are available, as fiscal year square footage data are not verified and finalized until the end of the calendar year.

(3) Annual operating costs, as defined by the Federal Real Property Council guidance for real property inventory, consists of recurring maintenance and repair costs, utilities, cleaning and/or janitorial costs, roads/grounds expense, and in some cases annual rental costs for leased properties.

Through the numerous real property control processes and management tools placed in operation, the Department ensures compliance with the objectives of "Freeze the Footprint" initiative and, more recently, the "Reduce the Footprint" initiative, to reduce its domestic office and warehouse inventory, in terms of both SF and cost.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

On November 2, 2015, the President signed the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 ("the 2015 Act"). The 2015 Act amended the Federal Civil Penalties Inflation Adjustment Act of 1990 to improve the effectiveness of civil monetary penalties and to maintain their deterrent effect.

The 2015 Act requires agencies to report on civil monetary penalty adjustments annually.

The following are the civil penalties that DOT may impose, authority for imposing the penalty, year the penalty was enacted or adjusted by Congress, latest year of inflation adjustments, current penalty level, DOT OA that is responsible for the penalty, and location for additional penalty adjustment details.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
Ports and Waterways Safety Act of 1972, as amended	Maximum penalty for each violation of the Seaway Rules and Regulations at 33 CFR part 401	1978	2016	$88,613	Saint Lawrence Seaway Development Corporation	Federal Register 81 (28 June 2016): 41817–41818. https://federalregister.gov/a/2016-15118
Vision 100 – Century of Aviation Reauthorization Act of 2003 (Vision 100), Section 503, P. L. 108-176; 117 Stat. 2490	General civil penalty for violation of certain aviation economic regulations and statutes	2003	2016	$32,140	Office of the Secretary of Transportation (OST)	Federal Register 81 (10 August 2016): 52763–52766. https://federalregister.gov/a/2016-19003
Vision 100, Section 503, P. L. 108-176; 117 Stat. 2490	General civil penalty for violation of certain aviation economic regulations and statutes involving an individual or small business concern	2003	2016	$1,414	OST	Federal Register 81 (10 August 2016): 52763–52766. https://federalregister.gov/a/2016-19003
Vision 100, Section 503, P. L. 108-176; 117 Stat. 2490	Civil penalties for individuals or small businesses for violations of most provisions of Chapter 401 of Title 49, including the anti-discrimination provisions of sections 40127 and 41705 and rules and orders issued pursuant to these provisions	2003	2016	$12,856	OST	Federal Register 81 (10 August 2016): 52763–52766. https://federalregister.gov/a/2016-19003
Vision 100, Section 503, P. L. 108-176; 117 Stat. 2490	Civil penalties for individuals or small businesses for violations of 49 U.S.C. 41719 and rules and orders issued pursuant to that provision	2003	2016	$6,428	OST	Federal Register 81 (10 August 2016): 52763–52766. https://federalregister.gov/a/2016-19003
Vision 100, Section 503, P. L. 108-176; 117 Stat. 2490	Civil penalties for individuals or small businesses for violations of 49 U.S.C. 41712 or consumer protection rules and orders issued pursuant to that provision	2003	2016	$3,214	OST	Federal Register 81 (10 August 2016): 52763–52766. https://federalregister.gov/a/2016-19003
49 U.S.C. 213, Rail Safety Improvement Act of 2008 (RSIA), P. L. 110-432, Sec. 302(a)	Minimum penalty for violations of rail safety statutes, regulations, and orders	1992	2016	$839	Federal Railroad Administration (FRA)	Federal Register 81 (1 July 2016). 43105–43114. https://www.federalregister.gov/d/2016-15641
49 U.S.C. 213, RSIA, P. L. 110-432, Sec. 302(a)	Ordinary maximum penalty for violations of rail safety statutes, regulations, and orders	2008	2016	$27,455	FRA	Federal Register 81 (1 July 2016). 43105–43114. https://www.federalregister.gov/d/2016-15641
49 U.S.C. 213, RSIA, P. L. 110-432, Sec. 302(a)	Aggravated maximum penalty for violations of rail safety statutes, regulations, and orders	2008	2016	$109,819	FRA	Federal Register 81 (1 July 2016). 43105–43114. https://www.federalregister.gov/d/2016-15641

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION (continued)

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
MAP-21 P. L. 112-141, sec. 32110, 126 Stat. 405, 782, 49 U.S.C. 525	Appendix A II Subpoena	2012	2016	$1,028	Federal Motor Carrier Safety Administration (FMCSA)	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21 P. L. 112-141, sec. 32110, 126 Stat. 405, 782, 49 U.S.C. 525	Appendix A II Subpoena	2012	2016	$10,282	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
P. L. 98-554, sec. 213(b), 98 Stat. 2829, 2841-2843, 49 U.S.C. 521(b)(7), 55 FR 11224	Appendix A IV (a) Out-of-service order (operation of CMV by driver)	1990	2016	$1,782	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
P. L. 98-554, sec. 213(a), 98 Stat, 2829, 49 U.S.C. 521(b)(7), 55 FR 11224	Appendix A IV (b) Out-of-service order (requiring or permitting operation of CMV by driver)	1990	2016	$17,816	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
P. L. 98-554, sec. 213(a), 98 Stat 2829, 49 U.S.C. 521(b)(7), FR 11224	Appendix A IV (c) Out-of-service order (operation by driver of CMV or intermodal equipment that was placed out of service)	1990	2016	$1,782	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
P. L. 98-554, sec. 213(a), 98 Stat 2829, 49 U.S.C. 521(b)(7), 55 FR 11224	Appendix A IV (d) Out-of-service order (requiring or permitting operation of CMV or intermodal equipment that was placed out of service)	1990	2016	$17,816	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
49 U.S.C. 521(b)(2)(B), 49 CFR 396.9(d)(3)	Appendix A IV (e) Out-of-service order (failure to return written certification of correction)	1990	2016	$891	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21, P. L. 112-141, sec. 32503, 126 Stat. 405, 803, 49 U.S.C. 521(b)(2)(F)	Appendix A IV (g) Out-of-service order (failure to cease operations as ordered)	2012	2016	$25,705	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
P. L. 98-554, sec. 213(a), 98 Stat, 2829, 2841-2843, 49 U.S.C. 521(b)(7)	Appendix A IV (h) Out-of-service order (operating in violation of order)	1984	2016	$22,587	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
TEA-21, P. L. 105-178, sec. 4015(b), 112 Stat. 411-12, 49 U.S.C. 521(b)(2)(A), 521(b)(7), 65 FR 56521, 56530	Appendix A IV (i) Out-of-service order (conducting operations during suspension or revocation for failure to pay penalties)	1998	2016	$14,502	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
P. L. 98-554, sec. 213(a), 98 Stat, 2829, 2841-2843, 49 U.S.C. 521(b)(7)	Appendix A IV (j) (conducting operations during suspension or revocation)	1984	2016	$22,587	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), P. L. 109-59, sec. 4102(a), 119 Stat. 1144, 1715, 49 U.S.C. 521(b)(2)(B)(i)	Appendix B (a)(1) Recordkeeping—maximum penalty per day	2005	2016	$1,194	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION (continued)

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
SAFETEA-LU, P. L. 109-59, sec. 4102(a), 119 Stat. 1144, 1715, 49 U.S.C. 521(b)(2)(B)(i)	Appendix B (a)(1) Recordkeeping—maximum total penalty	2005	2016	$11,940	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, sec. 4102(a), 119 Stat. 1144, 1715, 49 U.S.C. 521(b)(2)(B)(ii)	Appendix B (a)(2) Knowing falsification of records	2005	2016	$11,940	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
TEA-21, P. L. 105-178, sec. 4015(b), 112 Stat. 107, 411-12, 49 U.S.C. 521(b)(2)(A)	Appendix B (a)(3) Non-recordkeeping violations	1998	2016	$14,502	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
TEA-21, P. L. 105-178, sec. 4015(b), 112 Stat. 107, 411-12, 49 U.S.C. 521(b)(2)(A)	Appendix B (a)(4) Non-recordkeeping violations by drivers	1998	2016	$3,626	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, 119 Stat. 1144, 1715; sec. 4102(b), 119 Stat. 1715-16, 49 U.S.C. 31310(i)(2)(A)	Appendix B (a)(5) Violation of 49 CFR 392.5 (first offense)	2005	2016	$2,985	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, 119 Stat. 1144, 1715; sec. 4102(b), 119 Stat. 1715-16, 49 U.S.C. 31310(i)(2)(A)	Appendix B (a)(5) Violation of 49 CFR 392.5 (second or subsequent conviction)	2005	2016	$5,970	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
P. L. 99-570, sec. 12012(b), 100 Stat. 3207-184-85, 49 U.S.C. 521(b)(2)(C)	Appendix B (b) Commercial driver's license (CDL) violations	1986	2016	$5,391	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, sec. 4102(b), 119 Stat. 1144, 1715, 49 U.S.C. 31310(i)(2)(A)	Appendix B (b)(1): Special penalties pertaining to violation of out-of-service orders (first conviction)	2005	2016	$2,985	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, 119, sec. 4102(b), Stat. 1144, 1715, 49 U.S.C. 31310(i)(2)(A)	Appendix B (b)(1) Special penalties pertaining to violation of out-of-service orders (second or subsequent conviction)	2005	2016	$5,970	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
P. L. 99-570, sec. 12012(b), 100 Stat. 3207-184-85, 49 U.S.C. 521(b)(2)(C)	Appendix B (b)(2) Employer violations pertaining to knowingly allowing, authorizing employee violations of out-of-service order (minimum penalty)	1986	2016	$5,391	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, sec. 4102(b), 119 Stat. 1144, 1715, 49 U.S.C. 31310(i)(2)(C)	Appendix B (b)(2) Employer violations pertaining to knowingly allowing, authorizing employee violations of out-of-service order (maximum penalty)	2005	2016	$29,849	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 403(a), 109 Stat. 956, 49 U.S.C. 31310(j)(2)(B)	Appendix B (b)(3) Special penalties pertaining to railroad-highway grade crossing violations	1995	2016	$15,474	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION (continued)

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
P. L. 103-272, sec. 31139(f), 108 Stat. 745, 1006-1008, 49 U.S.C. 31139(g)(1)	Appendix B (d) Financial responsibility violations	1994	2016	$15,909	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21, P. L. 112-141, sec. 32503, 126 Stat. 405, 803, 49 U.S.C. 521(b)(2)(F)	Appendix B (f)(1) Operating after being declared unfit by assignment of a final "unsatisfactory" safety rating (generally)	2012	2016	$25,705	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21, P. L. 112-141, sec. 32108(a), 126 Stat. 405, 782, 49 U.S.C. 14901(a)	Appendix B (g)(1) New Appendix B (g)(1): Violations of the commercial regulations (CR) (property carriers)	2012	2016	$10,282	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21 P. L. 112-141, sec. 32919(a), 126 Stat. 405, 827, 49 U.S.C. 14916(c)	Appendix B (g)(2) Violations of the CRs (brokers)	2012	2016	$10,282	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21, P. L. 112-141, sec. 32108(a), 126 Stat. 405, 782, 49 U.S.C. 14901(a)	Appendix B (g)(3) Violations of the CRs (passenger carriers)	2012	2016	$25,705	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21, P. L. 112-141, sec. 32108(a), 126 Stat. 405, 782, 49 U.S.C. 14901(a)	Appendix B (g)(4) Violations of the CRs (foreign motor carriers, foreign motor private carriers)	2012	2016	$10,282	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MCSIA of 1999, P. L. 106-59, sec. 219(b), 113 Stat. 1748, 1768, 49 U.S.C. 14901 note	Appendix B (g)(5) Violations of the CRs (foreign motor carriers, foreign motor private carriers before implementation of North American Free Trade Agreement land transportation provisions)—maximum penalty for intentional violation	1999	2016	$14,140	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MCSIA of 1999, P. L. 106-59, sec. 219(c), 113 Stat. 1748, 1768, 49 U.S.C. 14901 note	Appendix B (g)(5) Violations of the CRs (foreign motor carriers, foreign motor private carriers before implementation of North American Free Trade Agreement land transportation provisions)—maximum penalty for a pattern of intentional violations	1999	2016	$35,351	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21, P. L. 112-141, sec. 32108, 126 Stat. 405, 782, 49 U.S.C. 14901(b)	Appendix B (g)(6) Violations of the CRs (motor carrier or broker for transportation of hazardous wastes)—minimum penalty	2012	2016	$20,564	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21 P. L. 112-141, sec. 32108, 126 Stat. 405,782, 49 U.S.C. 14901(b)	Appendix B (g)(6) Violations of the CRs (motor carrier or broker for transportation of hazardous wastes)—maximum penalty	2012	2016	$41,128	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 914, 49 U.S.C. 14901(d)(1)	Appendix B (g)(7): Violations of the CRs (HHG carrier or freight forwarder, or their receiver or trustee)	1995	2016	$1,547	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 914, 49 U.S.C. 14901(e)	Appendix B (g)(8) Violation of the CRs (weight of HHG shipment, charging for services)—minimum penalty for first violation	1995	2016	$3,095	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973

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Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 914, 49 U.S.C. 14901(e)	Appendix B (g)(8) Violation of the CRs (weight of HHG shipment, charging for services)	1995	2016	$7,737	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 868-869, 915, 49 U.S.C. 13702, 14903	Appendix B (g)(10) Tariff violations	1995	2016	$154,742	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 915-916, 49 U.S.C. 14904(a)	Appendix B (g)(11) Additional tariff violations (rebates or concessions)—first violation	1995	2016	$309	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 915-916, 49 U.S.C. 14904(a)	Appendix B (g)(11) Additional tariff violations (rebates or concessions)—subsequent violations	1995	2016	$387	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 916, 49 U.S.C. 14904(b)(1)	Appendix B (g)(12): Tariff violations (freight forwarders)—maximum penalty for first violation	1995	2016	$774	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 916, 49 U.S.C. 14904(b)(1)	Appendix B (g)(12): Tariff violations (freight forwarders)—maximum penalty for subsequent violations	1995	2016	$3,095	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 916, 49 U.S.C. 14904(b)(2)	Appendix B (g)(13): Service from freight forwarder at less than rate in effect—maximum penalty for first violation	1995	2016	$774	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 916, 49 U.S.C. 14904(b)(2)	Appendix B (g)(13): Service from freight forwarder at less than rate in effect—maximum penalty for subsequent violation(s)	1995	2016	$3,095	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 916, 49 U.S.C. 14905	Appendix B (g)(14): Violations related to loading and unloading motor vehicles	1995	2016	$15,474	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21, P. L. 112-141, sec. 32108, 126 Stat. 405, 782, 49 U.S.C. 14901	Appendix B (g)(16): Reporting and recordkeeping under 49 U.S.C. subtitle IV, part B (except 13901 and 13902(c))—minimum penalty	2012	2016	$1,028	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 916-917, 49 U.S.C. 14907	Appendix B (g)(16): Reporting and recordkeeping under 49 U.S.C. subtitle IV, part B—maximum penalty	1995	2016	$7,737	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 917, 49 U.S.C. 14908	Appendix B (g)(17): Unauthorized disclosure of information	1995	2016	$3,095	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973

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Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 917, 49 U.S.C. 14910	Appendix B (g)(18): Violation of 49 U.S.C. subtitle IV, part B, or condition of registration	1995	2016	$774	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
ICC Termination Act of 1995, P. L. 104-88, sec. 103, 100 Stat. 803, 916, 49 U.S.C. 14905	Appendix B (g)(21)(i): Knowingly and willfully fails to deliver or unload HHG at destination	1995	2016	$15,474	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, sec. 4209(2), 119 Stat. 1144, 1758, 49 U.S.C. 14901(d)(2)	Appendix B (g)(22): HHG broker estimate before entering into an agreement with a motor carrier	2005	2016	$11,940	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, sec. 4209(d)(3), 119 Stat. 1144, 1758, 49 U.S.C. 14901(d)(3)	Appendix B (g)(23): HHG transportation or broker services—registration requirement	2005	2016	$29,849	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, sec. 4103(2), 119 Stat. 1144, 1716, 49 U.S.C. 521(b)(2)(E)	Appendix B (h): Copying of records and access to equipment, lands, and buildings—maximum penalty per day	2005	2016	$1,194	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
SAFETEA-LU, P. L. 109-59, sec. 4103(2), 119 Stat. 1716, 49 U.S.C. 521(b)(2)(E)	Appendix B (h): Copying of records and access to equipment, lands, and buildings—maximum total penalty	2005	2016	$11,940	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21 P. L. 112-141, sec. 32505, 126 Stat. 405, 804, 49 U.S.C. 524	Appendix B (i)(1): Evasion of regulations under 49 U.S.C. ch. 5, 51, subchapter III of 311 (except 31138 and 31139), 31302-31304, 31305(b), 31310(g)(1)(A), 31502—minimum penalty for first violation	2012	2016	$2,056	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21 P. L. 112-141, sec. 32505, 126 Stat. 405, 804, 49 U.S.C. 524	Appendix B (i)(1): Evasion of regulations under 49 U.S.C. ch. 5, 51, subchapter III of 311 (except 31138 and 31139), 31302-31304, 31305(b), 31310(g)(1)(A), 31502—maximum penalty for first violation	2012	2016	$5,141	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21 P. L. 112-141, sec. 32505, 126 Stat. 405, 804 (2012) (49 U.S.C. 524). MAP-21 P. L. 112-141, sec. 32505, 126 Stat. 405, 804, 49 U.S.C. 524	Appendix B (i)(1): Evasion of regulations under 49 U.S.C. ch. 5, 51, subchapter III of 311 (except 31138 and 31139), 31302-31304, 31305(b), 31310(g)(1)(A), 31502—minimum penalty for subsequent violation(s)	2012	2016	$2,570	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21 P. L. 112-141, sec. 32505, 126 Stat. 405, 804, 49 U.S.C. 524	Appendix B (i)(1): Evasion of regulations under 49 U.S.C. ch. 5, 51, subchapter III of 311 (except 31138 and 31139), 31302-31304, 31305(b), 31310(g)(1)(A), 31502—maximum penalty for subsequent violation(s)	2012	2016	$7,711	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
MAP-21 P. L. 112-141, sec. 32505, 126 Stat. 405, 804, 49 U.S.C. 14906	Appendix B (i)(2): Evasion of regulations under 49 U.S.C. subtitle IV, part B—minimum penalty for first violation	2012	2016	$2,056	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973

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Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
MAP-21 P. L. 112-141, sec. 32505, 126 Stat. 405, 804, 49 U.S.C. 14906	Appendix B (i)(2): Evasion of regulations under 49 U.S.C. subtitle IV, part B—minimum penalty for subsequent violation(s)	2012	2016	$5,141	FMCSA	Federal Register 81 (27 June 2016). 41453–41465. https://www.federalregister.gov/d/2016-14973
49 U.S.C. 60101 et seq., and any regulation or order issued thereunder	Penalty for each violation of provision of 49 U.S.C. 60101 et seq., and any regulation or order issued thereunder for each day the violation continues	2012	2016	$205,638	Pipeline and Hazardous Materials Safety Administration (PHMSA)	Federal Register 81 (30 June 2016). 42564–42566. https://www.federalregister.gov/d/2016-15529
49 U.S.C. 60101 et seq., and any regulation or order issued thereunder	Maximum penalty for a related series of violations of provision of 49 U.S.C. 60101 et seq., and any regulation or order issued thereunder	2012	2016	$2,056,380	PHMSA	Federal Register 81 (30 June 2016). 42564–42566. https://www.federalregister.gov/d/2016-15529
49 U.S.C. 60103;49 U.S.C. 60111	An administrative civil penalty which may be in addition to other penalties assessed under 49 U.S.C. 60101, et seq.	1996	2016	$75,123	PHMSA	Federal Register 81 (30 June 2016). 42564–42566. https://www.federalregister.gov/d/2016-15529
49 U.S.C. 60129	An administrative civil penalty for violating any standard or order under 49 U.S.C. 60129	2005	2016	$1,194	PHMSA	Federal Register 81 (30 June 2016). 42564–42566. https://www.federalregister.gov/d/2016-15529
SAFETEA-LU, P. L. 109-59, 119 Stat. 1942	Maximum penalty for a single violation of 49 U.S.C. 30112 (a)(1) involving school buses or school bus equipment, or of the prohibition on school system purchases and leases of 15 passenger vans as specified in 49 U.S.C. 30112 (a)(2)	2005	2016	$11,940	National Highway Traffic Safety Administration (NHTSA)	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
SAFETEA-LU, P. L. 109-59, 119 Stat. 1942	Maximum penalty for a related series of violations of 49 U.S.C. 30112 (a)(1) involving school buses or school bus equipment, or of the prohibition on school system purchases and leases of 15 passenger vans as specified in 49 U.S.C. 30112 (a)(2)	2005	2016	$17,909,550	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
MAP-21, P. L. 112-141	Maximum civil penalty for persons knowingly or willfully submitting materially false or misleading information to NHTSA after certifying that the information was accurate pursuant to 49 U.S.C. 30166(0)	2012	2016	$5,141	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
MAP-21, P. L. 112-141	Maximum civil penalty for a related series of daily violations of 49 U.S.C. 30166 (0)	2012	2016	$1,028,190	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
The Anti Car Theft Act of 1992, P. L. 102-519, 204, 106 Stat. 3393	Penalty for each violation of the reporting requirements related to maintaining the Nation Motor Vehicle Title Information System	1992	2016	$1,677	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
The Motor Vehicle Information and Cost Savings Act (Cost Savings Act), P. L. 92-513, 86 Stat. 953	Civil penalty for each violation of a bumper standard established pursuant to the Cost Savings Act.	1972	2016	$2,750	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
Cost Savings Act, P. L. 92-513, 86 Stat. 953	Maximum civil penalty for a related series of violation of the bumper standards established pursuant to the Cost Savings Act.	1972	2016	$3,062,500	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION (continued)

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
Cost Savings Act, P. L. 92-513, 86 Stat. 953	Civil penalty for each violation of 49 U.S.C. 32308(a) related to providing information on crashworthiness and damage susceptibility	1972	2016	$2,750	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
Cost Savings Act, P. L. 92-513, 86 Stat. 953	Maximum civil penalty for a related series of violations of 49 U.S.C. 3230(a)	1972	2016	$1,500,000	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
The Energy Independence and Security Act of 2007, P. L. 110-140, 121 Stat. 1507	Civil penalty for each violation related to the tire information fuel efficiency information program under 49 U.S.C. 32304A	2007	2016	$56,917	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
The American Automobile Labeling Act, P. L. 102-388, §210, 106 Stat. 1556	Civil penalty for willfully failing to affix, or failing to maintain, the label required by the Act	1992	2016	$1,677	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
MAP-21, P. L. 112-141	Civil penalty for each violation of 49 U.S.C. Chapter 327 or a regulation issued thereunder related to odometer tampering and disclosure	2012	2016	$10,282	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
MAP-21, P. L. 112-141	Maximum civil penalty for a related series of violations of 49 U.S.C. Chapter 327 or a regulation issued thereunder	2012	2016	$1,028,190	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
MAP-21, P. L. 112-141	Civil penalty for violations of 49 U.S.C. Chapter 327 or a regulation issued thereunder with intent to defraud	2012	2016	$10,282	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
The Motor Vehicle Theft Law Enforcement Act of 1984 (Vehicle Theft Act), P. L. 98-547, §608, 98 Stat. 2762	Civil penalty for each violation of 49 U.S.C. 33114(a)(1)-(4)	1984	2016	$2,259	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
Vehicle Theft Act, P. L. 98-547, §608, 98 Stat. 2762	Maximum penalty for a related series of violations of 49 U.S.C. 33114(a)(1)-(4)	1984	2016	$564,668	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
Anti Car Theft Act of 1992	Civil penalty per day for violations of the Anti Car Theft Act related to operation of a chop shop	1992	2016	$167,728	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
The Energy Policy and Conservation Act (EPCA) of 1975, P. L. 94-163, §508, 89 Stat. 912	Civil penalty for each violation of 49 U.S.C. 32911(a)	1975	2016	$40,000	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
EPCA, P. L. 94-163, §508, 89 Stat. 912	Civil penalty for each .1 of a mile a gallon by which the applicable average fuel economy standard under that section exceeds the average fuel economy for automobiles to which the standard applies manufactured by the manufacturer during the model year, multiplied by the number of those automobile and reduced by the credits available to the manufacturer	1975	2016	$14	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
EPCA, P. L. 95-619, 402, 92 Stat. 3255	Maximum penalty that the Secretary of Transportation is permitted to establish under 49 U.S.C. 32912(c)	1978	2016	$25	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
49 U.S.C. § 32902(k)	Penalties under the Medium and Heavy Duty Vehicle Fuel Efficiency Program - Maximum penalty per vehicle or engine for violations of 49 CFR 535	2011	2016	$39,391	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800

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Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
FAST Act, P. L. 114-94	Maximum civil penalty for each violation of the Safety Act under 49 U.S.C. 30165(a)(1) and 49 U.S.C. 30165(a)(3)	2016	2016	$21,000	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
FAST Act, P. L. 114-94	Maximum civil penalty for a related series of violations of the Safety Act under 49 U.S.C. 30165(a)(1) and 49 U.S.C. 30165(a)(3)	2016	2016	$105,000,000	NHTSA	Federal Register 81 (5 July 2016). 43524–43529. https://www.federalregister.gov/d/2016-15800
P. L. 100-710, 102 Stat. 4747	Maximum civil penalty for a single violation of any provision under 46 U.S.C. Chapter 313 and all of Sub-title III related MARAD regulations, except section 31329, specified in 46 U.S.C. 31309	1988	2016	$19,787	Maritime Administration (MARAD)	Federal Register 81 (30 June 2016). 42548–42552. https://www.federalregister.gov/d/2016-15566
P. L. 100-710, 102 Stat. 4747	Maximum civil penalty for a single violation of 31329 of 46 U.S.C. as it relates to the court sales of documented vessels, specified in 46 U.S.C. 31330	1988	2016	$49,467	MARAD	Federal Register 81 (30 June 2016). 42548–42552. https://www.federalregister.gov/d/2016-15566
P. L. 101-225, 103 Stat. 1908	Maximum civil penalty for a single violation of 56101 of 46 U.S.C. as it relates to approvals required to transfer a vessel to a noncitizen, specified in 46 U.S.C. 56101(e)	1989	2016	$18,936	MARAD	Federal Register 81 (30 June 2016). 42548–42552. https://www.federalregister.gov/d/2016-15566
P. L. 84-612, 70 Stat. 332	Maximum civil penalty for a single violation of 46 U.S.C. 50113 related to use and performance reports by operators of vessels as specified in 46 U.S.C. 50113(b)	1956	2016	$125	MARAD	Federal Register 81 (30 June 2016). 42548–42552. https://www.federalregister.gov/d/2016-15566
Defense Production Act, 64 Stat. 799	Maximum civil penalty for a single violation of 50 U.S.C. 4501, specified in 50 U.S.C. 4513, at 46 CFR 340.9	1950	2016	$25,000	MARAD	Federal Register 81 (30 June 2016). 42548–42552. https://www.federalregister.gov/d/2016-15566
P. L. 105-277, 112 Stat. 2681-620	Maximum civil penalty per day for a single violation of 46 U.S.C. 12151 for engaging in fishing operations as defined in section 3 of the Magnu-son-Stevens Fishery Conservation and Management Act, within the Exclusive Economic Zone, specified in 46 U.S.C. 12151(c)	1998	2016	$145,023	MARAD	Federal Register 81 (30 June 2016). 42548–42552. https://www.federalregister.gov/d/2016-15566
49 U.S.C. 46301(a)(1)	Maximum penalty for each violation by a person other than an individual or small business concern under 49 U.S.C. 46301(a)(1)(A) or (B)	2003	2016	$32,140	Federal Aviation Administration (FAA)	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46301(a)(1)	Maximum penalty for each violation by an airman serving as an airman under 49 U.S.C. 46301(a)(1)(A) or (B) (but not covered by 46301(a)(5)(A) or (B)	2003	2016	$1,414	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46301(a)(1)	Maximum penalty for each violation by an individual or small business concern under 49 U.S.C. 46301(a)(1)(A) or (B) (but not covered in49 U.S.C. 46301(a)(5))	2003	2016	$1,414	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46301(a)(5)(A)	Maximum penalty for each violation by an individual or small business concern (except an airman serving as an airman) under 49 U.S.C. 46301(a)(5)(A)(i) or (ii)	2003	2016	$12,856	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514

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Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment	Current Penalty Level	OA	Location for Penalty Update Details
49 U.S.C. 46301(a)(5)(B)(i)	Maximum penalty for each violation by an individual or small business concern related to the transportation of hazardous materials	2003	2016	$12,856	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46301(a)(5)(B)(ii)	Maximum penalty for each violation by an individual or small business concern related to the registration or recordation under 49 U.S.C. chapter 441, of an aircraft not used to provide air transportation	2003	2016	$12,856	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46301(a)(5)(B)(iii)	Maximum penalty for each violation by an individual or small business concern of 49 U.S.C. 44718(d), relating to limitation on construction or establishment of landfills	2003	2016	$12,856	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46301(a)(5)(B)(iv)	Maximum penalty for each violation by an individual or small business concern of 49 U.S.C. 44725, relating to the safe disposal of life-limited aircraft parts	2003	2016	$12,856	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46301(b)	Maximum penalty for each violation related to tampering with a smoke alarm device	1987	2016	$4,126	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46302	Maximum penalty for each violation related to knowingly providing false information about alleged violation involving the special aircraft jurisdiction of the United States	1984	2016	$22,587	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46318	Maximum penalty for interference with cabin or flight crew	2000	2016	$34,172	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
49 U.S.C. 46319	Maximum penalty per day of permanent closure of an airport without providing sufficient notice	2003	2016	$12,856	FAA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
51 U.S.C. 50917	Penalty for violation of a requirement of the Commercial Space Launch Act, as amended, a regulation issued under the Act, or any term or candition of a license or permit issued or transferred under the Act	2014	2016	$225,867	FAA	Federal Register 81. (5 July 2016). 43463–43469. https://www.federalregister.gov/d/2016-15744
MAP-21, P.L. 112-141, 49 U.S.C. 5123(a)(3)*	Minimum penalty for violations of the hazardous materials statutes, regulations, special permits, approvals, and orders related to training	2012	2016	$463	FAA; FMCSA; FRA; PHMSA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
MAP-21, P.L. 112-141, 49 U.S.C. 5123(a)(1)*	Ordinary maximum penalty for violations of the hazardous materials transportation statutes, regulations, special permits, approvals, and orders	2012	2016	$77,114	FAA; FMCSA; FRA; PHMSA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514
MAP-21, P.L. 112-141, 49 U.S.C. 5123(a)(2)*	Aggravated maximum penalty for violations of the hazardous materials transportation statutes, regulations, special permits, approvals, and orders	2012	2016	$179,933	FAA; FMCSA; FRA; PHMSA	Federal Register 81 (3 August 2016). 51079–51081. https://www.federalregister.gov/d/2016-18514

* Penalty update details are also found in the following interim final rulemakings: Federal Register 81 (29 June 2016): 42266–42268, https://www.federalregister.gov/d/2016-15404; Federal Register 81 (27 June 2016): 41453–41465, https://www.federalregister.gov/d/2016-14973; Federal Register 81 (1 July 2016): 43101–43105, https://www.federalregister.gov/d/2016-15642.

LIST OF ACRONYMS

A

AATF	Airport and Airway Trust Fund
ADA	Americans with Disabilities Act
AEC	Atomic Energy Commission
AFR	Agency Financial Report
AICPA	American Institute of Certified Public Accountants
AIP	Airport Improvement Program
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act of 2009
ARTCC	Air Route Traffic Control Center
AU	Assessable Units

B

BATIC	Build America Transportation Investment Center

C

CDM	Continuous Diagnostics and Monitoring
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CIO	Chief Information Officer
COE	Common Operating Environment
CPP	Client Portfolio Planning
CSRS	Civil Service Retirement System
CY	current year

D

DHS	Department of Homeland Security
DM&R	Deferred Maintenance and Repairs
DoD	Department of Defense
DOL	Department of Labor
DOT	Department of Transportation
DRAA	Disaster Relief Appropriations Act

E

ERAM	En Route Automation Modernization
ERP	Emergency Relief Program
ESC	Enterprise Service Center

F

F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees Compensation Act Benefits
FEGLI	Federal Employees Group Life Insurance Program
FEHB	Federal Employees Health Benefit Program
FEMA	Federal Emergency Management Agency
FERS	Federal Employee Retirement System
FFGA	Full Funding Grant Agreement
FFMIA	Federal Financial Management Improvement Act of 1996
FHWA	Federal Highway Administration
FIRE	Financial Integrity Review and Evaluation
FISMA	Federal Information Security Management Act of 2002
FMCSA	Federal Motor Carrier Safety Administration
FMFIA	Federal Managers' Financial Integrity Act of 2002
FRA	Federal Railroad Administration
FTA	Federal Transit Administration
FY	fiscal year

G

GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GHG	greenhouse gas
GSA	General Services Administration

H

HSIPR	High-Speed Intercity Passenger Rail
HTF	Highway Trust Fund

I

IP	improper payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
IT	information technology

J, K

L

LUST	Leaking Underground Storage Tank

M

MAP-21	Moving Ahead for Progress in the 21st Century
MARAD	Maritime Administration

N

NAS	National Airspace System
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NHS	National Highway System
NHTSA	National Highway Traffic Safety Administration
NIST	National Institute of Standards and Technology
NRC	Nuclear Regulatory Commission
NTSB	National Transportation Safety Board

O

OA	Operating Administration
OFM	Office of Financial Management
OICO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OST	Office of the Secretary
OTA	U.S. Treasury, Office of Tax Analysis

P

PCB	polychlorinated biphenyls
PHMSA	Pipeline and Hazardous Materials Safety Administration
PIV	Personal Identity Verification
P.L.	Public Law
PRIIA	Passenger Rail Investment and Improvement Act of 2008
PY	performance year
PY	prior year

Q

R

RCRA	Resource Conservation and Recovery Act of 1976
RITA	Research and Innovative Technology Administration
RRF	Ready Reserve Force
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
RTD	Regional Transportation District

S

SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAS 70	Statement on Auditing Standards 70
SFFAS	Statement of Federal Financial Accounting Standard
SIP	Student Incentive Payment
SLSDC	Saint Lawrence Seaway Development Corporation
SMA	State Maritime Academies
SOS	Schedule of Spending
SSAE-16	Statements on Standards for Attestation Engagements 16
STB	Surface Transportation Board

T

TIFIA	Transportation Infrastructure Finance and Innovation Act
TIGER	Transportation Investment Generating Economic Recovery
TSCA	Toxic Substances Control Act

U

U.S.C	United States Code
USMMA	U.S. Merchant Marine Academy
USSGL	United States Standard General Ledger

V

V2V	vehicle-to-vehicle

W

WCF	Working Capital Fund
WMATA	Washington Metropolitan Area Transit Authority

X, Y, Z

U.S. Department of Transportation

Office of the Secretary of Transportation
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