U.S. Department of Transportation

AGENCY FINANCIAL REPORT

Fiscal Year 2017

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FOREWORD

The United States Department of Transportation's (DOT or Department) Agency Financial Report (AFR) for fiscal year (FY) 2017 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 2017 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 2017 high-level summary of performance information will be found on page 9 of the AFR. Detailed performance data are included in the Annual Performance Report (APR).

The Financial Report section provides a message from the Acting 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 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; Reduce the Footprint; Fraud Reduction Report; Grants Oversight and New Efficiency (GONE) Act; and Civil Monetary Penalty Inflation Adjustments.

ANNUAL PERFORMANCE REPORT (APR)

The APR will be produced in conjunction with the FY 2019* 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's performance.

* Available February 2018.

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 the DOT's website at: https://www.transportation.gov/.

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

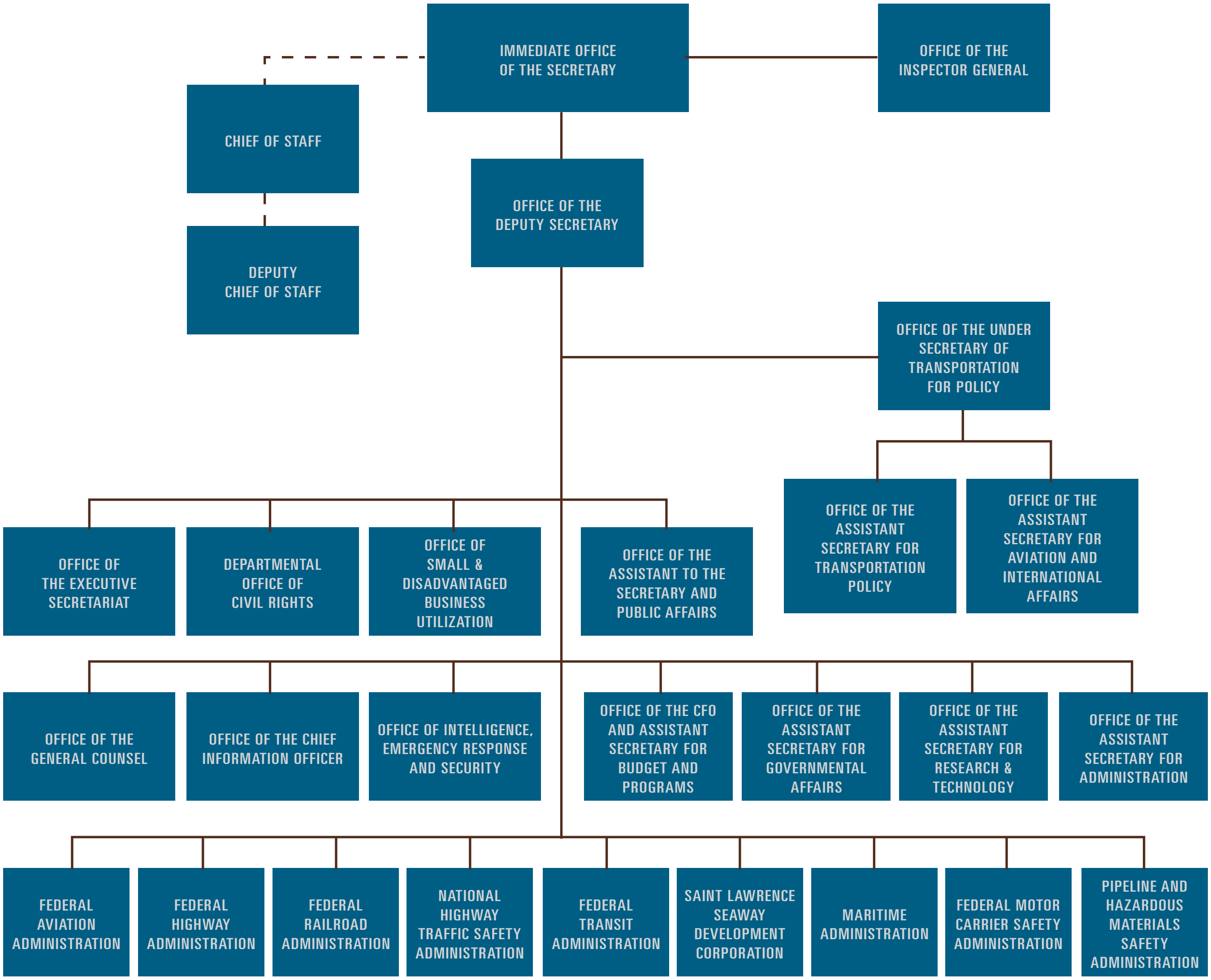
Established in 1966, DOT sets Federal transportation policy and works with State, local, and private-sector partners to promote a safe, secure, efficient, and interconnected national transportation system of roads, railways, pipelines, airways, and seaways. DOT's overall objective of creating a safer, 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.

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. The 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 our Nation has the safest, most efficient, and most modern transportation system in the world. This improves the quality of life for all American people and communities, from rural to urban, and increases the productivity and competitiveness of American workers and businesses.

A complete report of DOT's performance for FY 2017 will be found in the Combined Performance Plan and Report that will be released with the FY 2019 President's Budget. A brief discussion of DOT's safety goal follows.

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

In FY 2016, there were 37,461 motor vehicle traffic fatalities in the United States, a 5.6-percent increase from FY 2015. Fatalities increased across all segments of the population—occupants of cars, SUVs, vans, and trucks as well as pedestrians, bicyclists, and motorcyclists.

Alcohol-impaired driving fatalities rose at a lower rate of 1.7 percent in FY 2016 to 10,497, and speeding-related fatalities increased by 4 percent to 10,111. Two specific risk areas saw decreases from FY 2015: distracted driving and drowsy driving fatalities declined by 2.2 percent and 3.5 percent, respectively.

Pedestrians saw the greatest percent increase in fatalities at 9 percent to 5,987. This is the highest number of pedestrian deaths since 1990. Bicyclists had a much smaller fatality increase in FY 2016 of 1.3 percent to 840. Occupant fatalities increased by 4.7 percent in passenger vehicles and by 8.6 percent in large trucks in FY 2016.

Motorcyclist fatalities increased by 5.1 percent in FY 2016 to 5,286. This is the largest number of fatalities in this category since 2008. Riders 60 or older accounted for more than 50 percent (156 of 257) of the increase in motorcyclist fatalities. Motorcyclists not wearing helmets continues to be a contributing factor in the number of motorcycle-related fatalities. NHTSA estimates that motorcycle helmets saved 1,859 lives in FY 2016. An additional 802 lives could have been saved if all riders had worn helmets. In FY 2015, the year with the most recent statistics, motorcycle helmet use was nearly 80 percent in States with universal helmet laws compared to 43 percent in those without the helmet laws.

The overall fatality rate in FY 2016 was 1.18 per 100 million vehicle-miles traveled (VMT), 2.6 percent higher than in FY 2015. The VMT also increased in FY 2016 by 2.2 percent. This increases the risk exposure to vehicle crashes and was likely a contributing factor in the higher number of fatalities in FY 2016. This measure is also sensitive to changes in the economy. Historically, as unemployment and gas prices go down, discretionary travel goes up, especially by younger drivers. The number of drivers 16 to 20 years old involved in fatal crashes increased by 3.6 percent in FY 2016.

ROADWAY SAFETY (FHWA, FMCSA, NHTSA)

Performance Measure	2014	2015	2016 Target	2016 Actual	Met or Not Met
AGENCY PRIORITY GOAL: Highway fatality rate per 100 million VMT	1.08	1.13	1.02	1.18	Not met
Passenger vehicle occupant fatality rate per 100 million VMT	0.78	0.81	0.82	TBD	TBD
Motorcyclist rider fatality rate per 100,000 motorcycle registrations	54.48	57.85	62	TBD	TBD
Non-occupant (pedestrian and bicycle) fatality rate per 100,000 population(1)	0.19	0.21	1.78	2.19	Not met
Large truck and bus fatality rate per 100 million total VMT	0.138	0.140	0.114	0.144	Not met

TBD = to be determined. VMT = vehicle-miles traveled.

(1) In FY 2016, this measure changed from fatalities per 100 million VMT to fatalities per 100,000 population to better align with the DOT Strategic Plan. The 1.78 target in 2016 reflects this change.

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

AVIATION SAFETY

Aviation fatality rates are at historic lows and continue to drop over time. However, 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. FAA is on track to meet the General Aviation (GA) Fatal Accident Rate for its third 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 declining, too many lives are still being lost. In FY 2017, 347 people died in 209 GA accidents. The United States 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. This metric is limited to the rate of Category A and B runway incursions, which are the most serious.

AVIATION SAFETY (FAA)

Performance Measure	2015	2016	2017 Target	2017 Actual	Met or Not Met
AGENCY PRIORITY GOAL: Number of U.S.-registered, commercial air carrier fatalities per 100 million persons onboard	0.1	0.6	6.4	0.3	Met
AGENCY PRIORITY GOAL: Number of fatal general aviation accidents per 100,000 flight hours	0.99	0.91	1.01	0.84	Met
AGENCY PRIORITY GOAL: Category A&B runway incursions per million operations	0.302	0.380	0.395	0.130	Projected to meet

Notes: Prior-year information may have been updated from previous reports. FY 2016 and 2017 data are preliminary.

PIPELINE AND HAZARDOUS MATERIALS 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 to strengthen the safety and reliability of pipelines along with a continued focus on preventing excavation- or construction-related damage have played an important role in reducing the number of deaths and major injuries from pipeline incidents.

Preliminary data for FY 2017 show 13 confirmed hazardous materials incidents involving death or major injury. PHMSA is projected to achieve its target of fewer than 31 hazardous materials incidents involving death and or major injury, with 29 incidents projected by the end of the year. Hazmat incidents involving death or major injury have declined an average of 5 percent every five years since 1988. In FY 2016, 30 percent of hazmat incidents involving death or major injury were the result of crashes/rollovers of cargo tank motor vehicles (down from 40 percent in FY 2015). PHMSA continues to analyze incident data to identify potential contributions to cargo tank rollovers by focusing on top safety rulemakings, the safe transportation of energy products, risk-based inspection and outreach activities, and improving data quality.

PIPELINE AND HAZARDOUS MATERIALS SAFETY (PHMSA)

Performance Measure	2015	2016	2017 Target	2017 Actual	Met or Not Met
Pipeline incidents involving death or major injury	34	33	32	30	Met
Hazardous materials incidents involving death or major injury	39	27	31	13	Met

Notes: Prior-year information may have been updated from previous reports. FY 2017 data are preliminary.

RAIL SAFETY

The rate of train accidents and incidents per million train-miles has fallen 4 percent in the past decade. From FY 2008 through FY 2017, total train accidents declined by 35 percent, total derailments declined by 35 percent, total highway-rail grade crossing incidents declined by 18 percent, and the number of highway-rail grade crossing fatalities decreased by 15 percent.

RAIL SAFETY (FRA)

Performance Measure	2015	2016	2017 Target	2017 Actual	Met or Not Met
Rail-related accidents and incidents per million train-miles	15.838	16.185	15.925	15.850	Met

Notes: Prior-year information may have been updated from previous reports. FY 2017 data are preliminary.

TRANSIT SAFETY (FTA)

Performance Measure	2015	2016	2017 Target	2017 Actual	Met or Not Met
Transit fatalities per 100 million passenger-miles traveled	0.471	0.510	0.500	0.577	Not met

Notes: Prior-year information may have been updated from previous reports. FY 2017 data are preliminary.

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.

Since FY 2012, the Airport and Airway Trust Fund (AATF) and the Highway Trust Fund (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 Fixing America's Surface Transportation Act, or "FAST Act" (P.L.114-94), 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.

During FY 2017, broad Department funding levels remained flat from continuing resolution authorizations. In December 2015, the FAST Act greatly restored HTF funding levels. During FY 2017, the Department continued to spend down authority received from the FAST Act, which is intended to supplement emergency relief authorizations and funding through FY 2020.

OVERVIEW OF FINANCIAL POSITION

Assets

The Consolidated Balance Sheets report total assets of $127.2 billion at the end of FY 2017, compared with $138.3 billion at the end of FY 2016. The Fund Balance with Treasury line item decreased by $2.7 billion, primarily the result of funding cancellation of high-speed rail projects. Investments decreased by $12 billion as HTF expenditures exceeded excise tax collections.

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

ASSETS BY TYPE

Dollars in Thousands	2017	%	2016	%
Fund Balance With Treasury	$29,729,631	23.4	$32,395,776	23.4
Investments	68,052,871	53.5	80,034,930	57.9
Direct Loans and Guarantees, Net	14,693,297	11.6	10,968,657	7.9
General Property, Plant and Equipment	13,151,814	10.3	13,475,244	9.8
Inventory and Related Property, Net	947,285	0.7	937,585	0.7
Accounts Receivable	229,691	0.2	306,702	0.2
Cash and Other Assets	438,704	0.3	151,998	0.1
Total Assets	**$127,243,293**	**100**	**$138,270,892**	**100**

Liabilities

The Department's Consolidated Balance Sheets report total liabilities of $27.8 billion at the end of FY 2017, as summarized in the table below. This number represents a $3.9 billion increase from the previous year's total liabilities of $23.8 billion. The Debt line increased by $3.4 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	2017	%	2016	%
Debt	$ 14,298,084	51.5	$10,868,042	45.6
Grant Accrual	7,513,159	27.1	7,918,633	33.3
Other Liabilities	3,123,372	11.2	2,388,556	10.0
Environmental and Disposal Liabilities	1,203,762	4.3	1,102,669	4.6
Federal Employee Benefits Payable	881,188	3.2	869,658	3.7
Accounts Payable	667,703	2.4	508,075	2.1
Loan Guarantees	75,858	0.3	161,961	0.7
Total Liabilities	**$27,763,126**	**100**	**$23,817,594**	**100**

RESULTS OF OPERATIONS

Net Costs

The Department's Net Cost of Operations was $79.6 billion for FY 2017. Surface and air costs represent 98.4 percent of the Department's total net cost of operations. Surface transportation program costs represent the largest investment for the Department at 77.5 percent of the net cost of operations. Air transportation is the next largest investment at 20.9 percent of total net cost of operations.

NET COSTS

Dollars in Thousands	2017	%	2016	%
Surface Transportation	$61,700,255	77.5	$63,066,926	78.3
Air Transportation	16,586,959	20.9	16,148,627	20.0
Maritime Transportation	335,781	0.4	450,828	0.6
Cross-Cutting Programs	468,615	0.6	434,515	0.5
Costs Not Assigned to Programs	507,490	0.6	478,116	0.6
Net Cost of Operations	**$79,599,100**	**100**	**$80,579,012**	**100**

Net Position

The Department's Consolidated Balance Sheets and Consolidated Statement of Changes in Net Position report a Net Position of $99.5 billion at the end of FY 2017, a 13.1 percent decrease from the $114.5 billion from the previous fiscal year. The decrease is mainly attributable to the excess of expenditures over HTF funding levels in FY 2017. 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 2017, the Department had total budgetary resources of $145.6 billion, which represents a 30.9 percent decrease from FY 2016 levels of $210.7 billion. Budget Authority of $145.6 billion consisted of $50.7 billion in unobligated authority carried over from prior years, $21.2 billion in appropriations, $61.7 billion in borrowing and contract authority, and $12 billion in spending authority from offsetting collections. The Department's FY 2017 obligations incurred totaled $95.6 billion compared with FY 2016 obligations incurred of $161.1 billion.

Net Outlays reflect the actual cash disbursed against previously established obligations. For FY 2017, the Department had net outlays of $82.9 billion compared to FY 2016 levels of $80.1 billion, a 3.4 percent increase.

RESOURCES

Dollars in Thousands	2017	2016	% (Decrease)
Total Budgetary Resources	$145,553,949	$210,668,653	(30.9)
New Obligations and Upward Adjustments	95,644,818	161,120,491	(40.6)
Agency Outlays, Net	82,862,002	80,115,073	3.4

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 Program, 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 2017 FMFIA ASSURANCE LETTER TO THE PRESIDENT

THE SECRETARY OF TRANSPORTATION
WASHINGTON, DC 20590

November 9, 2017

The President
The White House
Washington, DC 20500

Dear Mr. President:

This letter reports on the effectiveness of the internal control and financial management systems for the U.S. Department of Transportation (DOT) during fiscal year (FY) 2017. It also provides DOT's FY 2017 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, 2017.

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 managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of FMFIA. DOT conducted its assessment of risk and internal control in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.* 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, 2017.

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

In FY 2017, DOT reviewed the control deficiencies that resulted from the assessments and audits performed during FY 2017, and open items from previous assessments and audits. DOT considered the identified control deficiencies both separately and in the aggregate to identify issues that may rise to the level of a significant deficiency, material weakness, or financial system non-compliance.

DOT is reporting no material weaknesses under Section 2 of FMFIA and no instances of financial system non-compliance related to Section 4 for the fiscal year that ended on September 30, 2017.

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Management's Responsibility for Enterprise Risk Management and Internal Control
OMB Circular A-123, Appendix A: Internal Control over Financial Reporting [1]

DOT management is responsible for establishing and maintaining effective internal control over financial reporting. 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. During FY 2017, DOT documented and assessed internal controls over several business processes. Appendix A activities in FY 2017 included conducting an entity, process, and transaction level assessment of the controls over financial reporting.

In addition, an assessment was performed on the Department-wide financial management system, Delphi, including obtaining an annual Statement on Standards for Attestation Engagements 18 (SSAE 18) Service Organization Control (SOC) Type II Report from the Enterprise Services Center (ESC) to determine if financial systems complied with Federal Financial Management system requirements.

Based on the results of the assessment, DOT can provide reasonable assurance that internal control over financial reporting was operating effectively and no material weaknesses were identified as of June 30, 2017.

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 these programs are in compliance with OMB Circular A-123, Appendix B.

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[1] 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. However, the updated OMB Circular No. A-123, Appendix A, has not been issued. Therefore, DOT utilized the guidance provided in A-123, Appendix A, *Internal Control over Financial Reporting* for the FY 2017 assessment.

FY 2017 FMFIA ASSURANCE LETTER TO THE PRESIDENT (continued)

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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 2017, DOT conducted reviews of its programs and based on the results, can provide 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 Fiscal Year 2016 Improper Payment Reporting Does Not Comply with IPERA Requirements*, issued on May 10, 2017, the OIG determined that three DOT programs did not meet their reduction target rates as required by IPERA. DOT met most of the IPERA compliance requirements by publishing the FY 2016 AFR, conducting program specific risk assessments, publishing improper payment estimates, publishing corrective action plans, and 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 our improper payment reviews are reported in the Other Information section of the DOT FY 2017 AFR.

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

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

Based on the results of the FFMIA Compliance Determination Framework provided in OMB Circular A-123, Appendix D and management's assessments of its internal controls within financial management systems as described under the OMB Circular A-123, Appendix A section above, DOT determined that financial management systems were in compliance with FFMIA.

Information Technology (IT) Resource Statements
OMB Circular A-11: Preparation, Submission, and Execution of the Budget

As required by OMB Circular A-11, DOT affirms the following:

(a) The Chief Information Officer (CIO) has reviewed and provided significant input in approving the IT investments portion of the budget request across all DOT Operating Administrations, in accordance with the Federal Aviation Administration (FAA) authorization, FAA General Procurement Authority, and FAA Air Traffic Control Modernization Reviews (49 §§ U.S.C. 106, 40110, 40121). Therefore, the Department has fully implemented this facet of the CIO Common Baseline under the Federal IT Acquisition Reform Act (FITARA).

FY 2017 FMFIA ASSURANCE LETTER TO THE PRESIDENT (continued)

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(b) The CFO and CIO certify that the CIO had a significant role in reviewing the planned IT support for major programs and the significant increases and decreases in IT resources reflected in the budget.

(c) The CIO and CFO certify that the IT Portfolio included appropriate estimates of all IT resources included in the budget request.

(d) The CIO certifies that incremental development practices were used across all DOT Operating Administrations.

In FY 2016, the DOT CIO, DOT CFO and DOT Senior Procurement Executive (SPE) began requiring all Operating Administrations to submit full year Spend Plans. The CIO has reviewed these Spend Plans and continues to work with Operating Administrations CIOs, the DOT CFO, and the DOT SPE to improve the review process to ensure that the CIO has a significant role in reviewing the requests and ensuring all requests are appropriately included in the IT Portfolio.

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 can provide reasonable assurance that all appropriate policies and controls have been implemented to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to Hurricane Sandy.

Based on the results of our FMFIA assessment in FY 2017, I conclude that the Department has made substantial progress in enhancing the effectiveness of its internal control and financial management systems. Additional enhancements are underway in FY 2018.

Sincerely,

Elaine L. Chao

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 their internal control and financial management systems and report the results to the President and the Congress. Each agency then prepares an annual Statement of Assurance to report on the effectiveness of its internal control and financial management systems' compliance based on the assessment.

For FY 2017, ending September 30, 2017, the Secretary of Transportation provided the President and the Congress a Statement of Assurance stating that DOT can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2017.

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 controls to meet the objectives of Sections 2 and 4 of FMFIA. DOT is required to provide assurances related to FMFIA and the Federal Financial Management Improvement Act (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 system 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 weakness, significant deficiency, and/or system noncompliance 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.

Objectives of Control Mechanisms

The objectives of internal control put in place within the Department's operations are consistent with the objectives of FMFIA Sections 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, *Management's Responsibility for Enterprise Risk Management and Internal Control*, 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 results 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 defines management's responsibility for Enterprise Risk Management (ERM) and internal control. The Statement of Assurance is based on assessments performed during FY 2017. The assessments for FY 2017 included the following, utilizing applicable guidance:

- Appendix A, *Internal Control Over Financial Reporting*[1]
- 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*

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.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

FFMIA requires that each agency implement and maintain financial management systems that comply substantially with the following three FFMIA Section 803(a) requirements: (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Standard General Ledger (USSGL) at the transaction level.

[1] 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 2017 assessment.

Based on the results of the FFMIA Compliance Determination Framework utilized from OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act* and management's assessments of its internal controls within the financial management system, Delphi, DOT has determined that financial management systems were in compliance with FFMIA for FY 2017.

FEDERAL INFORMATION SECURITY MODERNIZATION ACT OF 2014 (FISMA)

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. 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 2017, the annual FISMA report was finalized and submitted, as required by OMB and the Department of Homeland Security (DHS), on October 31, 2017. Beginning this fiscal year, the OIG has separated its FISMA-required assessment and submission to OMB from a narrative audit report of cybersecurity at DOT. The narrative report is expected to be available in December 2017 and will be found at www.oig.dot.gov.

In 2017, OST and the 10 OAs and Bureaus operated a total of 476 information systems, an increase of 19 systems over the FY 2016 adjusted inventory, of which 343 belong to FAA. FAA's air traffic control system has been designated by the President as part of 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 2017, 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:

- 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;
- Continuing maturation of the Department's risk management program;
- Improving oversight of 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 2017 including:

- Continued implementation of Information Security Continuous Monitoring over OA information systems, with 83 of the 476 systems converted to an ongoing authorization process;
- Completion of security performance and compliance reviews of all DOT OAs;

- Deployment and implementation of Managed Trusted Internet Protocol Services (MTIPS) at DOT, including migration of EINSTEIN 3A services provided by DHS, and termination of the legacy Trusted Internet Connection (TIC) at DOT;
- Execution of phishing awareness exercises across all DOT OAs, producing a reduction in the average click-through rate for assessed employees to below 8 percent, a reduction of approximately 3 percent over the FY 2016 rate;
- Planning and award of contracts to mitigate the risks identified through the DOT Network Assessment of FY 2016, through an initiative titled Network Assessment Risk Mitigation (NARM), including reengineering of DOT networks to be more secure and resilient and to incorporate automation capabilities;
- Planning and award of contracts to migrate from DOT's legacy data center and disaster recovery site in Frederick, Maryland, to a highly available, resilient Federal shared-service data center in Stennis, Mississippi, managed by the National Aeronautics and Space Administration;
- Initiated two engagements with the General Services Administration (GSA) and DOT OAs to leverage GSA's Login.gov authentication service to provide authentication services to DOT mission applications and websites;
- Continued deployment of Continuous Diagnostics and Mitigation (CDM) capabilities in coordination with DHS, expanding to include the U.S. Merchant Marine Academy (USMMA) and the FAA administrative and mission support networks; and
- Continued vigilance upon, and mitigation of, critical and high vulnerabilities on public-facing websites, maintaining no more than one critical vulnerability older than 30 days for 75 percent of the year and rapidly mitigating those when escalated to senior IT leaders.

For FY 2018, subject to the availability of resources, the Department plans to:

- Update DOT cybersecurity policy to address legislative changes, National Institute of Standards and Technology (NIST) guidance, and audit recommendations by September 30, 2018;
- Perform another series of phishing exercises across all DOT OAs by September 30, 2018;
- Coordinate with DHS to complete the deployment of the agency CDM risk management dashboard by March 31, 2018;
- Begin deployment of CDM Phase 2 capabilities for credential and privilege access management by June 30, 2018;
- Complete the migration to the Stennis data center and close the Frederick data center by January 31, 2018; and
- Complete Phase 1, and begin Phase 2, of DOT's NARM initiative to mitigate risks within the DOT network.

FINANCIAL MANAGEMENT SYSTEMS STRATEGY

DOT is committed to improving the effectiveness and efficiency of its financial management systems and functions through a shared services approach to support the mission. Routine functions, such as system upgrades, operations and maintenance, and acquisitions support, are performed by DOT's Federal Shared Service Provider (FSSP), the Enterprise Services Center (ESC) in Oklahoma City, Oklahoma. The ESC operates under FAA and has been an OMB-designated FSSP since 2014. As an FSSP, DOT and ESC work collaboratively with the General Services Administration's (GSA) Unified Shared Services Management (USSM) and the Office of Financial Innovation and Transformation (OFIT) at Treasury to ensure our shared services follow the required guidelines for service delivery, pricing, governance, and service-level metrics.

DOT's goal is to not only maintain but evolve its existing financial management systems and services by leveraging technology, innovation, and best practices to support new financial requirements and continue to provide management with accurate and timely financial information. DOT's priorities are to improve current capabilities and increase efficiency and standardization. The following financial systems are used to achieve effective financial management control and oversight: a Department-wide instance of Oracle Federal Financials (Delphi), the Departmental Procurement System (DP2), GSA's Electronic Travel System (E2 Solutions), and OA-specific Financial Assistance Systems.

In FY 2017, DOT implemented Exadata, a high-performance Oracle-engineered database system, to improve system performance and worked toward upgrading Delphi to the latest version of Oracle E-Business Suite version 12.2.6. Also, ESC implemented the Scaled Agile Framework (SAFe) for projects impacting financial systems to improve the delivery of system enhancements and new technologies to improve DOT's ability to support evolving financial and reporting requirements in a timely manner.

The Department is working on several key initiatives aimed at automating processes, strengthening internal controls, and improving financial reporting.

Integration of Delphi and DP2

The Department continued its Department-wide rollout of DP2, which is a procurement management system, fully integrated with Delphi. This integration between our procurement and financial systems improves internal controls by automating the funds control process and reduces the potential for error by automating the commitments and obligations processes. In addition, DP2 eliminates nearly all previous manual data entry steps and significantly increases efficiencies. In FY 2017, the Department successfully migrated two DOT OAs to DP2; the remaining three will be migrated in FY 2018.

Expansion of Electronic Invoicing (eInvoicing)

During FY 2017, the Department continued implementation of its eInvoicing system to the vendor community. This system, currently used by the Department's grantees, offers vendors the capability to submit invoices electronically through an online portal.

In addition, DOT further automated its invoice payment process by adding functionality to enable DOT's invoice approvers to electronically route and approve documents in Delphi. Four Department offices migrated to the new invoice approval functionality in FY 2017. The remaining offices are scheduled to migrate in early FY 2018.

DOT also began work to build an interface between Delphi and GSA's system of record for vendor information, SAM.gov, and began developing an e-Authentication integration that will eliminate both manual paperwork for vendors and manual processing for DOT.

Once fully deployed, DOT's eInvoicing system will eliminate the manual entry of vendor and invoice data and will consolidate invoice approvals in Delphi, resulting in significant process improvements and efficiencies.

Improved Financial Reporting

The Department began developing a consolidated financial Enterprise Data Warehouse/ Business Intelligence (EDWBI) service with the goal of providing improved financial reporting to strengthen decision-making capabilities and achieve the mission of the Department. EDWBI will provide users with dashboard views of business activities that they can customize to focus on their critical needs and interests. As part of this effort, the Department acquired system tools and completed several components of the overall EDWBI project in FY 2017. Successes included populating the data warehouse with some historical data, configuring standard reports and dashboards, and providing users with access to financial data via a more flexible reporting tool.

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

The DATA Act called for establishing and implementing Government-wide data standards for financial data to provide consistent, reliable, and searchable spending data and make it easily accessible and understandable to the public. The Department successfully met the mandated implementation date and completed two quarterly submissions to the Treasury. In addition to improving the public's ability to understand and track Federal spending, the Department can claim the following achievements as a direct result of DATA Act requirements and efforts:

- Streamlined budget object class spending codes in accordance with OMB requirements, which improves data required for future rounds of Budget Formulation and Presentation;
- Reconciled spending activities with the program activities reported in the President's Budget request, which will also improve future Budget Formulation and Presentation;
- Initiated collaboration between the procurement and financial communities and ensured that agencies with shared funding streams established consistent records and financial procedures;
- Ensured that all required data are now being reported to the public;
- Provided enhanced visibility and accountability between grants management systems and DOT's financial system and improved programmatic alignment with funds availability; and
- Identified several areas for both Government-wide and DOT-wide financial process improvement for long-term efforts.

SSAE-18 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, Commodity Futures Trading Commission, Institute of Museum and Library Services, National Credit Union Administration, Securities and Exchange Commission, Consumer Product Safety Commission, and 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 18 (SSAE-18) examination.

SSAE-18 includes a review of general, application, and operational controls over DOT's 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 first year that an SSAE-18 examination has been conducted on DOT's Delphi financial system and PRISM system. A Statements on Standards for Attestation Engagements 16 (SSAE-16) examination was completed for the previous six years. Effective for reports dated after May 1, 2017, SSAE-16 was replaced with the new standard SSAE-18.

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

This year's SSAE-18 audit of Delphi and PRISM 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.

FY 2017 DOT IG MANAGEMENT CHALLENGES REPORT

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 2017, OIG identified eight significant challenges. What follows is a report on the progress DOT made against these challenges.

1) MAINTAINING TRANSPORTATION SAFETY WHILE KEEPING PACE WITH RAPIDLY EVOLVING TECHNOLOGIES

1a) Overseeing an expanding and dynamic Unmanned Aircraft Systems (UAS) industry—FAA

FAA conducted weekly Flight Standards District Offices (FSDO) UAS Focal Point Outreach meetings to update aviation safety inspectors on the latest UAS issues and guidance. It also offered the following Aviation Safety Inspector, UAS-based electronic Learning Management System (eLMS) courses during FY 2017:

- Introduction to Unmanned Aircraft Systems (27100179): 758 completions.
- Unmanned Aircraft Systems—Initial (27100222): 689 completions.
- Part 107 Small Unmanned Aircraft Systems (sUAS) (27100258): 3,768 completions.

Additionally, FAA reinforced its existing commercial UAS inspection process by revising Order 1800.56R, *National Flight Standards Work Program Guidelines*, to include UAS risk-based surveillance. FAA published this revision on July 25, 2017.

1b) Preparing to oversee and regulate autonomous vehicles—NHTSA

NHTSA and the Department developed and released a resource guide, *Automated Driving Systems (ADS): A Vision for Safety 2.0*, to help pave the way for safe deployment of ADS technologies. The resource provides guidance for technology developers to encourage best practices and prioritize safety, as well as technical assistance for States and policymakers.

During FY 2017, NHTSA began conducting initial testing of automated vehicle technology currently in production (e.g., test track and on road, highway auto pilot, traffic jam assist, self parking). NHTSA also utilized cutting edge technology, including surrogate test vehicles and advanced equipment, to test complex scenarios, build upon collaborative research with industry, and remain at the forefront of testing highly automated driving systems. Based on findings from testing and a new collaborative research program with academia, industry, and standards bodies, NHTSA will continue to develop safety test procedures, including Federal Motor Vehicle Safety Standards (FMVSS) test procedures for vehicles without traditional controls.

2) BOLSTERING VEHICLE AND SURFACE TRANSPORTATION SAFETY

2a) Enhancing processes for collecting and analyzing vehicle safety recall data—NHTSA

NHTSA continued to implement its multifaceted plan to strengthen Office of Defects Investigations and address the 2015 OIG Audit Recommendations. NHTSA closed three of the remaining five 2015 OIG Audit Recommendations (# 8, 9, and 11).

2b) Implementing the oversight of safety for the Nation's rail transit system—FTA

FTA extended deadlines to FY 2018 for the following activities related to its role in safety oversight responsibilities:

- Finalize, issue, and communicate policies and procedures for assuming direct safety oversight authority, including criteria and decision-making processes (December 29, 2017);
- Finalize plan to create a data-driven and risk-based safety oversight system (December 31, 2017);
- Update FTA's methodology to meet the triennial audit requirement for all State Safety Oversight Agencies (SSOAs) (December 31, 2017);
- Finalize a plan to periodically update the National Safety Plan (December 31, 2017); and
- Finalize, issue, and communicate policies and procedures for relinquishing oversight authority to efficiently transition responsibilities to the SSOA (June 30, 2018).

2c) Removing high-risk motor carriers from the Nation's roads—FMCSA

FMCSA implemented its authority to issue unilateral Records Consolidation Orders to "reincarnated" motor carriers, which link the carrier's multiple safety records into a single record for additional enforcement action and continued monitoring. Specifically, FMCSA completed the following through June 30, 2017:

- 1,685 high-risk carrier investigations;
- 21,047 warning letters;
- 11,039 carrier investigations;
- 21,171 new entrant safety audits; and
- 2,534,138 roadside inspections.

3) STRENGTHENING CYBERSECURITY STRATEGIES TO ADDRESS INCREASING THREATS

3a) Maximizing benefits from Personal Identity Verification (PIV) cards—OST

Depending on availability of resources, the Department will continue to execute its strategy according the revised plan and timeline described below:

- FY 2018 Q2: Issue clarifying guidance and direction to DOT OAs on PIV authentication for information systems and facilities, update inventory of OA systems and facilities requiring PIV access, and document plans for enhancements.
- FY 2019 Q4: Require configuration of information systems and facilities requiring PIV for authentication and access, subject to availability of funds.

3b) Coordinating technological initiatives to efficiently improve security—OST

The Continuous Diagnostics and Mitigation (CDM) program has progressed on schedule, and the Department is planning for the Operational Readiness Review (ORR) to occur by the end of the first quarter of FY 2018. At that point, the Department also expects the initial operational capability of CDM Phase 1 to be prepared for data ingest, including hardware asset management, software asset management, configuration settings management, and vulnerability management configuration.

During the second quarter of FY 2018, the Department will pull data from the Information Technology Shared Services (ITSS) environments to support governance, risk, and compliance processes. As the Department's plans and strategies are subject to availability of resources, the following timeline for remaining CDM phases remains notional:

- FY 2018—Deployment of CDM Phase 2 capabilities for privilege and credential management, as well as trust and behavioral analytics (date established by DHS); and
- FY 2019 or FY 2020—Award for CDM Phase 3 capabilities from DHS, followed by implementation.

Note, the OIG is not currently in scope for the DHS or DOT CDM program. The DOT Office of the Chief Information Officer (OCIO) continues to broker discussions between OIG CIO and DHS to determine the best path forward for OIG.

3c) Extending security boundaries to cover all DOT information—FAA, FMCSA

FAA's 39 major systems in the National Airspace System (NAS) utilize Internet Protocol (IP) technology, known as Operational IP (OPIP) NAS systems. The NAS Cyber Operations (NCO) integrated 10 additional OPIP NAS systems in FY 2017. The NCO monitors these OPIP systems and serves as the focal point for all coordination of NAS cyber security activities. When NCO validates that a reportable cybersecurity incident has occurred, it notifies the FAA Security Operations Center (SOC) within a timeframe that ensures compliance with Federal Incident Notification Guidelines.

FMCSA migrated its systems out of the Volpe Datacenter; therefore, it is no longer necessary for third party contractors to sign an agreement with the Volpe Datacenter. FMCSA will continue to work with the Department to strengthen its security posture in mission applications.

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

4a) Enhancing internal controls to protect Federal investments—FHWA, FTA

DOT and its OAs can strengthen internal controls by providing close monitoring for at-risk grantees.

Responding to this challenge, FTA signed Order 2400.1, *Procedures for Administering Remedies and Sanctions* on December 15, 2016. In Section 10, "Documentation and Tracking," the Order specifies that the corrective actions required and taken will be documented in formal correspondence to the recipient, which is stored in a central site monitored by an FTA headquarters office. Also, on December 22, 2016, FTA finalized *Grants A to Z Standard Operating Procedure (SOP) C.1.7 Payment Review*. This SOP includes procedures for reviewing invoices from grantees on drawdown restriction.

FHWA will use its performance year (PY) 2018 Compliance Assessment Program (CAP) to determine the level of risk based on a statistically valid sample population. If the PY 2018 CAP results determine that authorizations to advertise projects were not in accordance with Federal regulations, then FHWA will take additional measures commensurate with the level of risk identified. The PY 2018 CAP tool was issued and analysis of the results is on target to be completed by September 30, 2018.

4b) Strengthening Disadvantaged Business Enterprises (DBE) program oversight—FAA

FAA distributes funding to DBE firms for transportation projects, which are administered by State and local transportation agencies or grantees. Although FAA is 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.

In response to these barriers, FAA implemented a Comprehensive DBE Oversight and Compliance Plan, which included a substantial review of program documents and reports, training, technical assistance, complaint investigations, and airport onsite compliance reviews. Executing on this plan, FAA published information regarding DOT resources that can assist small businesses seeking opportunities at our Nation's airports, specifically including FAA's Small Business Office in this year's Airport Minority Advisory Council conference and posting technical assistance to the FAA website.

FAA also provided area-specific training at a number of conferences. Training addressed goal setting, prompt payment, and DBE certification at the following conferences and offices:

- FAA Office of Civil Rights' National Civil Rights Training Conference for Airports. For example, FAA provided training on how to properly set goals for car rental concessionaires at airports, including training conducted at the FAA Office of Civil Rights' National Civil Rights Training Conference for Airports. This training is available on the FAA website.

- Unified Certification Programs offices in Texas and California. Since February 2017, FAA has assessed and documented Unified Certification Program processing timeframes for certification. Certification reviews were required to assess processing timeframes for applications and to ensure that Unified Certification Program staff completed mandatory certification.
- American Contract Compliance Association Conference.
- ACI-NA's Business of Airports Conference.
- Airport Minority Advisory Council Conference.

Finally, FAA analyzed and addressed any significant or noteworthy changes in DBE participation at major airports. All Core 30 airports were required to submit a goal shortfall analysis and action plan to address the shortfall to the regional specialists for approval as applicable. In February 2017, FAA issued a best practices memo to airports that provided information on identifying opportunities for new DBEs. In August 2017, FAA implemented new matchmaking feature within our web-based reporting system that matches certified DBE firms with airport business opportunities.

4c) Leveraging fraud detection and prevention resources—OIG

Effective stewardship of taxpayer dollars requires diligent attention to identify and prevent instances of fraud, waste, and abuse. The Department and its OAs have the opportunity to leverage antifraud resources through OIG to improve their ability to proactively detect and mitigate fraud risks. To increase the use of the OIG's antifraud resources, OIG will continue to work with the Department and its OAs to improve collaboration and raise awareness of these resources.

4d) Analyzing data to proactively identify risks—OIG

DOT has opportunities to harness data to better predict and target possible areas of fraud, waste, and abuse, and OIG is committed to increasing the use of risk-based data analytics and assisting the Department in this challenge.

5) ENHANCING THE CAPACITY, EFFICIENCY, AND RESILIENCY OF THE NATIONAL AIRSPACE SYSTEM—FAA

5a) Keeping near-term NextGen investment priorities on track and addressing key risks

In FY 2017, FAA established near-term NextGen priorities in collaboration with industry stakeholders through the NextGen Advisory Committee (NAC). These priorities are included in NextGen's overall risk management framework. As planned, FAA held three NAC meetings on October 5, 2016; February 22, 2017; and June 28, 2017.

FAA also held monthly NextGen Priorities Integration Working Group status meetings throughout FY 2017. During each status meeting, leadership discussed risks and mitigation strategies, as well as assigned solutions. In addition to regularly scheduled NAC working group meetings, FAA held calls and bimonthly meetings with industry leadership to understand industry risk. Per FAA's risk management process, identified risks were assigned to the appropriate program or portfolio managers for mitigation, or they were elevated to the NextGen Management Board or another higher level body for mitigation and resolution. The NextGen Management Board reviewed risks and mitigations and tracked the status at the direction of the FAA Deputy Administrator and Chief NextGen Officer.

5b) Defining the costs and benefits of the NextGen transformational programs

FAA approved four NextGen Final Investment Decisions in FY 2017, following the Acquisition Management System (AMS) policy, which is in compliance with OMB Circular A-11. FAA gathered contract cost, benefits, and schedule information for the four programs and is managing them against their baselines:

- En Route Automation Modernization (ERAM) Tech Refresh Segment 1;
- ERAM Sector Enhancements;
- Collaborative Air Traffic Management Technologies (CATMT) Work Package 4; and
- NextGen Distance Measuring Equipment (DME).

In January 2017, the FAA Joint Resources Council (JRC) approved the yearly update of the NAS Enterprise Architecture (EA) with particular focus on the Infrastructure Roadmaps. FAA wrote the 2017 NextGen Implementation Plan (NGIP), which is currently under review for public release.

Late in FY 2016, FAA published the Future of the NAS report. This report describes the future evolution of the NAS. The report helps FAA and the industry plan for the future and prioritizes investments. The EA, NAS Segment Implementation Plan, and annual Capital Investment Plan will align with the Future of the NAS report and balance long-term planning with critical sustainment needs.

5c) Enhancing redundancy and contingency plans for air traffic operations to mitigate disruptions

FAA established the Air Traffic Organization (ATO) Operational Contingency Group (ATOC) as a permanent office in December 2016. The ATOC group unifies contingency and continuity operations throughout the NAS with a focus on air traffic operations with a mission to support continuous service delivery to the flying public.

FAA recently began a detailed review of all En Route and Core 30 airport facility contingency plans by the FAA ATOC national team with the aid of the Service Center staff on a rotating basis. The FAA Service Center already assists the facilities with an annual validation of Operational Contingency Plans (OCPs) per the 1900.47e order, "Air Traffic Control Operational Contingency Plans" revised on May 1, 2017. FAA completed surveys of the facilities and identified key data that will improve the response times in reconfiguring systems to effectively achieve an airspace divestment. The facility continuity plans do address roles and responsibilities for divestment.

FAA also convened a series of meetings with NextGen program officials to identify how NextGen capabilities can functionally enhance the resiliency and continuity strategy of NAS operations and mitigate the impact of future air traffic control disruptions. FAA developed a list of NextGen programs that benefit contingency planning. As these new technologies are deployed, the FAA will update local facility contingency plans as applicable.

5d) Ensuring enough fully certified controllers at critical air traffic facilities

In FY 2017, FAA exceeded its Air Traffic Controller hiring goal of 1,781, hiring a total of 1,889 Air Traffic Controllers. This represents an increase of 6.1 percent over the intended hiring goal. FAA fully implemented its Priority Placement Tool to prioritize the placement of new controllers to the facilities with the greatest need. This model has allowed FAA to place these employees at facilities where they are needed most and will have the most operational impact, ultimately balancing the staffing at Air Traffic Control facilities.

FAA also continued the use and modification of the MITRE model to move current controllers within the system from Air Traffic Control facilities that would not be adversely impacted to facilities with the greatest need. As a result, nearly 500 certified controllers were moved to higher level facilities with the greatest need on an average of three months compared to the previous average of two years. This model allowed FAA to place new controllers at facilities where they are more likely to certify and move our current Certified Professional Controllers (CPCs) to higher level facilities which increase the likelihood of certification. The projected CPC count increased from 86.3 percent to 93.6 percent during the same time period.

FAA continues to modify the model and target remaining facilities that have historically faced challenges with initiatives to balance systemwide controller staffing. This includes incentives and programs that target these facilities while ensuring continued placement to all facilities and facilitating the movement of controllers to ensure a balance of CPCs in training.

6) INCREASING OVERSIGHT OF CRITICAL TRANSPORTATION INFRASTRUCTURE

6a) Strengthening stewardship of Federal-aid to Highways funds—FHWA

To enhance its oversight, FHWA conducted a national review to evaluate State Departments of Transportation practices and controls associated with allocating and recovering preliminary engineering (PE) costs in a single project agreement or cost center. In addition, FHWA developed a program assessment tool to assist its Division Offices with evaluating whether State DOTs have adequate controls in place to ensure compliance with the PE requirements. FHWA is also updating its PE Order 5020.1 to clarify roles and responsibilities, providing extensions, and tracking projects approaching the 10-year limit. The Order has been drafted and is undergoing management review. FHWA plans to complete the updated PE policy by January 2018.

6b) Ensuring the integrity of the Nation's highway bridges and implementing a new tunnel safety program—FHWA

Since April 2015, FHWA has collected element-level data for National Highway System (NHS) bridges annually. FHWA continues to assist States experiencing National Bridge Inspection Standards (NBIS) compliance issues in specific program areas. FHWA will also continue to deliver training on element-level bridge inspection to bridge owners upon request.

FHWA has updated its guidance on documenting the NBIS oversight reviews, and established a consolidated location for storing this guidance. In addition, all the FHWA Division Offices were trained on a process to provide oversight to the NBIS.

FHWA will continue to focus and direct its limited resources on addressing the greatest tunnel safety risks and priorities by collecting tunnel data, as well as providing tunnel inspector certification training and tunnel inspector refresher training. FHWA began development of an oversight process for the National Tunnel Inspection Standards that builds off the successes of the similar process for bridges. These actions will lay the groundwork for the new National Tunnel Safety Inspection Program.

6c) Improving guidance to ensure compliance with railroad bridge safety standards—FRA

FRA implemented all six OIG recommendations between April 2016 and January 2017; OIG has closed these recommendations. FRA took the following actions to address the recommendations:

- Implemented its plan to identify and regularly update a comprehensive list of entities regulated by FRA's bridge safety standards.
- Issued guidance to implement a data-driven, risk-based methodology for prioritizing bridge safety review and to instruct bridge safety specialists how to conduct their oversight reviews.
- Required bridge safety specialists report all instances of regulatory noncompliance in their reviews as defects.
- Issued guidance that defines how bridge safety specialists should track and follow up on identified issues of regulatory noncompliance to verify that owners take remedial actions, as well as when and how bridge safety specialists should recommend civil penalties for noncompliance with bridge safety standards.

6d) Addressing willful violations of pipeline safety regulations—PHMSA

PHMSA carries out its safety programs for pipelines and hazardous materials under two different enabling statutes: Federal Pipeline Safety Laws at 49 U.S.C. § 60101 *et seq.* and Federal Hazardous Materials Transportation Laws at 49 U.S.C. § 5101 *et seq*. Congress has established two different criminal standards for violations of these two chapters.

Under the existing pipeline statute, PHMSA has worked closely with the OIG and Department of Justice (DOJ) in appropriate cases. The OIG and DOJ can also conduct their own investigations and decide to bring a criminal prosecution against a pipeline operator. PHMSA has made criminal referrals to OIG and DOJ which have been declined for various reasons; however, PHMSA stands ready to assist on criminal cases under our current statutes and referral process.

In addition, PHMSA has taken a number of other actions in recent years to address willful pipeline safety violations and intends to continue these efforts. For example, PHMSA continues to emphasize better training for Federal and State pipeline inspectors to spot potential criminal violations and to forward possible criminal cases to PHMSA's Office of the Chief Counsel (PHC) for referral to the OIG or DOJ, or in the case of State inspectors, directly to the OIG. PHMSA will continue to work with DOJ and the OIG to raise the awareness of Federal prosecutors on pipeline safety matters, PHMSA enforcement, and the prosecution of "knowing and willful" violations.

PHMSA has also modified its Pipeline Violation Report and various training procedures to help regional staff pursue civil administrative enforcement actions for deliberate and egregious violations. PHMSA revised the "culpability" assessment factor on its Violation Report to cover (1) deliberate noncompliance and (2) efforts to evade compliance or conceal noncompliance. These penalty assessment criteria enable PHMSA to assess higher civil penalties for safety violations that may not be appropriate for criminal prosecution or where OIG or DOJ has declined prosecution.

7) ENSURING OVERSIGHT OF ACQUISITION AND FINANCIAL MANAGEMENT

7a) Increasing oversight of high-risk contracts—OST

DOT established the Acquisition Strategy Review Board (ASRB) in 2013 as a Department-wide acquisition planning review function consisting of representatives from the Office of the Senior Procurement Executive (OSE), Office of the Chief Information Officer (OCIO), and the Office of the Chief Financial Officer (OCFO). The ASRB reviews high dollar value/high risk acquisitions and provides OAs with a single unified review forum for feedback on acquisitions of strategic value. With the ASRB in place, OST considers this management challenge to be closed.

7b) Keeping current on new acquisition skills and financial tools—OST, FAA

FAA's AMS Procurement Guidance T3.1.4, Delegations was revised in January 2017, updating authorities and warrant requirements to better reflect FAA mission, process, and personnel needs. All 1102 series Contracting Officer Warrants were reissued by FAA on March 1, 2017. The reissuance standardized the language cited on warrants, eliminated inconsistencies that may have existed on previous warrants, and ensured warrant compliance with delegation standards published in AMS.

The *Agile Program Management Practices for the Federal Aviation Administration* was published to the FAA Acquisition System Toolset (FAST) through its January 2017 update, to be used where practicable to promote the efficient delivery of capabilities through focused iteration of planning, execution, and monitoring. FAA also hosted the Acquisition Hot Topics Training, *Screening Information Request (SIR) from a Cost/Price Perspective* on April 4, 2017. This training provided training on how to integrate effective evaluation criteria and cost principles into solicitations to promote the receipt of quality cost proposals and successful source selections.

OST now tracks all DOT contracting officer certifications and warrants in the Federal Acquisition Institute Training Application System (FAITAS); therefore, OST considers this management challenge to be closed.

7c) Improving financial stewardship—FRA, FTA, FHWA

The OIG has identified several areas where DOT faces challenges in meeting this critical management responsibility:

- Oversight of Hurricane Sandy relief funds;
- Debt collection practices;
- Contract closeout; and
- Uniform guidance compliance.

In 2017 FRA closed one GAO and 10 OIG recommendations to improve its Financial Management Oversight. In May 2017, the audit "Review of Major Western Capital Programs" closed. FTA has closed one recommendation, and is in process of closing the remaining four recommendations. FHWA revised its Fiscal Management Information System to include specific fields for recording project agreement end dates, indirect cost rates, and the CFDA number as required by the Uniform Guidance.

8) MANAGING EXISTING AND NEW MANDATES AND INITIATIVES

8a) Implementing performance management requirements and accelerating project delivery—OST

DOT continues to implement the Project Delivery initiatives of MAP-21, with revisions to comply with FAST Act requirements. Process improvements required by MAP-21 are finalized and in effect, with updates for FAST Act requirements pending. The following are accomplishments for FY 2017:

- **MAP-21 §1303—Letting of Contracts for CM/GC**: Regulation on CM/GC—***Complete***.
- **MAP-21 §1305—Efficient Environmental Reviews for Project Decision-making**:
  - Regulation to allow for the use of programmatic approaches—***In Progress*** (Draft regulations published September 29, 2017).
  - Guidance on designation of lead agency—***Complete***.
- **MAP-21 §1307—Assistance to Affected Federal and State Agencies**: Guidance on MOA with Federal and State agency—***In progress*** (MAP-21 Q&As finalized; FAST Act update underway).
- **MAP-21 Limitation on Claims**:
  - Regulation on revising deadline for filing a claim to 150 days—***In Progress*** (draft regulations published September 29, 2017).
  - Guidance on filing deadline for judicial review—***Complete***.
- **MAP-21 §1309—Accelerating Completion of Complex Projects**: Guidance on enhancements for technical assistance for complex projects—***Complete***.
- **MAP-21 §1309—Accelerated Decision-making in Environmental Reviews**: Regulation on accelerated decision making on environmental reviews—***In Progress*** (draft regulations published September 29, 2017).
- **MAP-21 §1323—Review of Federal Project and Program Delivery**: Report to Congress on review of CEs, EAs, and EISs for post-2005 projects—***In Progress*** (undergoing internal DOT clearance process).

8b) Managing new safety requirements from the FAA Extension Act—FAA

Repair Stations

FAA published two changes to FAA Order 8900.1 to address safety requirements for repair stations, consistent with the oversight and audit reporting requirements specified in the aviation safety agreement and the aviation safety agreement and the Maintenance Annex Guidance (MAG).

- January 13, 2017: Assigning the FAA Coordinator (International Field Office Branch) oversight and audit reporting requirements responsibilities.
- December 28, 2016: Further expanding and integrating the International Field Office's role in the oversight of part 145 repair stations located outside of the United States.

FAA also completed the review of the Safety Assurance System (SAS) on October 30, 2016 and determined that FAA Order 8900.1 policy and guidance materials cover the risk-based oversight of repair stations located outside the United States. SAS contains the tools and resources necessary to ensure it considers inspections and accounts for the frequency and seriousness of corrective actions of part 145 repair stations that conduct scheduled heavy maintenance work on part 121 air carrier aircraft.

Finally, FAA completed development of an online briefing for FAA aviation safety inspectors (ASIs) for the oversight and audit reporting of part 145 repair stations located outside of the United States. This training was completed on July 31, 2017.

Pilot Training

The FAA published Notice 8900.399, *Enhanced Pilot Training and Qualification*, on January 4, 2017. This Notice was directed to part 121 principal operations inspectors (POI) to provide them with information and policy about the new requirements. This included information for POIs to encourage their assigned carriers to develop a plan to meet those requirements, and provided SAS custom data collection tools for POIs to use to evaluate revisions to training programs to meet the new requirements.

Pilot Records Database

FAA submitted the Pilot Records Database (PRD) rulemaking, which is going through executive review. Phase II of the PRD web application was completed ahead of schedule in June 2017, and Phase III was completed ahead of schedule in July 2017.

The Office of the Inspector General closed AV2015-079, recommendation 1, *Develop a clearly defined and expedited schedule for the development and implementation of a PRD, including cost estimates and project timeline*, in March 2017.

Pilot Mental Fitness

The Aviation Rulemaking Committee's Recommendation # 2 regarding Psychological Testing was considered and actions were previously taken in FY 2016. As a result, no further actions were required in FY 2017.

Alcohol and Controlled Substances Testing

FAA developed a Notice of Proposed Rulemaking (NPRM) in December 2016. The notice required foreign repair station employees who perform maintenance on part 121 aircraft be covered under a drug and alcohol testing program consistent with U.S. Federal and State laws where the repair station is located.

8c) Addressing pipeline and hazardous materials safety recommendations and mandates—PHMSA

Since 2016, PHMSA took several actions to address challenges, beginning with the implementation of organizational changes. This included the establishment of an Executive Director/Chief Safety Officer to ensure consistency and continuity of operations. PHMSA also formed a new crosscutting office, the Office of Planning and Analytics (OPA), led by an Associate Administrator to enhance agencywide planning and project management, data analysis, and rulemaking capabilities. Other changes included creating a new Regulatory Steering Committee (RSC) and governance framework to oversee the regulatory development process.

These organizational changes have allowed PHMSA to streamline and accelerate its response to audits and Congressional mandates, as well as recommendations from the OIG, GAO, and National Transportation Safety Board (NTSB), as shown in the table below.

	Beginning in FY 2017	Received in FY 2017	Closed in FY 2017	Remaining Open
Congressional Mandates	41	N/A	14	27
OIG Recommendations	5	10	8	7
GAO Recommendations	9	4	6	7
NTSB Recommendations	62	6	16	52

GAO = Government Accountability Office. N/A = not applicable. NTSB = National Transportation Safety Board. OIG = Office of Inspector General.

During FY 2017, PHMSA reassessed its regulatory process after the issuance of President Trump's Executive Orders (E.O.s) on regulatory reform to ensure alignment with the direction of the new Administration. PHMSA conducted an initial review of its rulemakings, existing regulations, and other policies for impact on the regulated industry. From this review, PHMSA identified potential deregulatory actions to offset any significant regulatory actions, as required by the E.O.s. PHMSA continues to implement the E.O.s and advance its regulatory agenda, including rulemaking actions that respond to mandates under the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (PSA11), the Fixing America's Surface Transportation Act of 2015 (FAST Act) and Protecting Our Infrastructure of Pipelines and Enhancing Safety Act of 2016 (PIPES Act), as well as OIG, GAO, and NTSB recommendations.

In response to Section 3 of the PIPES Act, beginning on October 28, 2016 and every 90 days thereafter, PHMSA posted to its public website the status of outstanding final rules required for pipeline safety. In fact, PHMSA exceeds the PIPES Act mandate by also listing the status of rulemakings mandated by the FAST Act and the status of additional pipeline rulemakings that are not tied to a statutory mandate.

In response to Section 10 of the PIPES Act, PHMSA convened a working group to consider the development of a voluntary information sharing (VIS) system to improve gas transmission and hazardous liquid pipeline facility integrity risk analysis. The system would accomplish this by encouraging collaborative efforts for improving inspection information feedback and information sharing. The VIS working group convened in December 2016, and its next meeting will occur on November 29 and 30, 2017.

PHMSA is also committed to continually improving internal processes and coordination with other DOT OAs on rulemaking development. PHMSA is taking steps to further streamline the intermodal coordination process on rulemaking, international standards development, and other mission-related activities. PHMSA remains focused on enhancing its oversight controls and policies for timely implementation of Congressional mandates and recommendations. PHMSA also plans to monitor the progress in addressing recommendations from NTSB, GAO, and OIG, as well as efforts to coordinate and address OAs' safety concerns.

8d) Implementing initiatives for increasing enforcement of regulations for transport of hazardous materials by rail—FRA

FRA implemented OIG's seven recommendations between May 2016 and February 2017, which have now been closed by OIG. FRA completed the following:

- Issued guidance on available tools and related data inputs for resource allocation decisions;
- Developed a secure tool that provides training and access to inspection data;
- Updated guidance on recommending penalties and information included in a violation report;
- Strengthened processing procedures by requiring attorneys to document considerations of assessment factors for every hazardous materials violation; and
- Amended policy and procedures to require that staff report to OIG all suspected criminal violations and instances of fraud, waste, and abuse.

FRA continues to complete the following:

- Provides regional hazardous materials specialists with access to information on penalty amounts for closed violations; and
- Periodically performs a comprehensive hazardous material transportation risk assessment that identifies and assesses the relationships associated with achieving program objectives.

8e) Harnessing new financing methods in DOT's credit programs—OST

The structure of the Build America Bureau (the Bureau) includes elements that promote effective implementation of mandated changes in DOT's credit programs, including the following:

- **Bureau funding:** To establish the Bureau, the FAST Act provided temporary transfer authority for the two-year period ending December 2017. The Bureau, in coordination with other offices throughout DOT, will continue to work with Congress and OMB to seek legislation that provides a more permanent approach to fund transfers and enables the Bureau to fully implement its staffing plans to achieve FAST Act requirements.

- **Consolidation of program guides:** The Bureau consolidated program guides for the Transportation Infrastructure Finance and Innovation (TIFIA) and Railroad Rehabilitation and Improvement Financing (RRIF) Programs to provide a more centralized resource for State and local governments. The Bureau released the consolidated Credit Programs Guide in January 2017, and it will continue to make additional updates based on clarification and consolidation of credit program applications.
- **Establishment of the Credit Review Team (CRT):** The CRT conducts thorough assessments of each request for Bureau financial assistance and provides informed recommendations to the Council on Credit and Finance (CCF). Weekly CRT meetings include Departmental experts in finance, policy, legal, and project development, as well as representatives from each of the OAs. The CRT structure and approach has created a more efficient process for consideration and communication of key project issues, challenges, and opportunities.

FINANCIAL REPORT

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

I am pleased to report in the Department of Transportation's (DOT/Department) Agency Financial Report (AFR), for the 11th consecutive year, an unmodified or *clean* opinion of our financial statements. This report affirms our continued commitment to achieving financial management excellence and represents our accountability in reporting for Fiscal Year (FY) 2017. Once again, we can provide reasonable assurance that the Department's internal control and financial management systems meet the objectives required by statute and the Office of Management and Budget (OMB). This achievement reflects the hard work of all our individual Operating Administrations (OAs) as well as our shared commitment to careful stewardship of taxpayer dollars as we implement programs across the Department.

We will also publish the Annual Performance Report in early FY 2018. This publication provides a concise briefing of the past year's outcomes.

The Department acknowledges several highlights in FY 2017, including ensuring a successful and smooth transition between Administrations, supporting a thorough financial audit, working toward implementing a robust and consistent approach to Enterprise Risk Management (ERM), and successfully implementing the Digital Accountability and Transparency Act of 2014 (DATA Act).

DOT's success in providing timely, accurate, and transparent financial information is instrumental in supporting all the Department's successful activities.

ANNUAL FINANCIAL AUDIT

The public accounting firm serving as our independent auditor has provided an unmodified opinion on our FY 2017 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.

During FY 2017, the Department made substantial improvements in many areas including the remediation of deficiencies in FTA's general systems controls and their oversight of an FTA external service provider, which resulted in the resolution of two information technology (IT) material weaknesses from FY 2016. However, the audit did identify areas for improvement including the controls over the FAA's environmental cleanup and decommissioning liability and the FHWA's loan subsidy re-estimates. Corrective actions are currently underway and we continue to work diligently to resolve these deficiencies.

FY 2017 HIGHLIGHTS

As we look back on Fiscal Year 2017, we note several operational highlights:

Successful Transition to the New Administration

Preparing for the orderly transition of government from one Administration to the next requires thoughtful planning over many months. Using teamwork, shared expertise and dedication to detail, DOT was very successful in preparing the new leadership team for their new roles in managing the Department.

All DOT OAs and each office within the Office of the Secretary worked together to create a comprehensive repository of information that has helped the new team better understand the complexity of the Department. This one-stop SharePoint site contains more than 700 pages of information and is available on both mobile devices and Departmental laptop computers.

DOT career staff transferred knowledge and information to provide the new leadership with the necessary tools to immediately begin leading the Department. This included, formulating the FY 2018 budget submission, addressing the new President's Executive Orders, and assisting the Secretary with a myriad of pressing transportation matters. I am very proud of the Department's role in providing the American people with a seamless change from one Administration's leadership team to another.

Enterprise Risk Management

In July 2016, OMB issued revisions to Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, which requires agencies to modernize their risk management and internal control efforts. OMB's policy changes direct agencies to implement Enterprise Risk Management (ERM) capabilities that are coordinated with strategic planning and internal control processes. Through its update, OMB intends to improve mission delivery, reduce costs, and focus on corrective actions towards mitigating key risks.

Over the past year, the Department has been working toward implementing a robust and consistent approach to ERM. Each OA successfully built upon existing capabilities and developed an initial risk profile that identified risks from their programs and activities. The OA risk profiles were aggregated, categorized, and prioritized into a Departmental ERM framework, which is becoming a key resource for DOT leadership to identify challenges and develop solutions.

We acknowledge that the ERM discipline is a continuous process and that the Department has yet to address the full spectrum of evolving risks, challenges, and opportunities. We are committed to advancing our ERM implementation which will result in earlier risk identification, better risk responses, and ultimately lead to more effective, efficient, and resilient transportation systems.

Digital Accountability and Transparency Act of 2014 (DATA Act)

The DATA Act was signed into law May 9, 2014, establishing Government-wide data standards for financial data to provide consistent, reliable, and searchable spending data. After a three-year implementation effort, DOT successfully met Treasury's mandated reporting deadline, and was the 7th out of 78 agencies to provide Treasury with validated and certified data.

DOT is the second largest grant-making entity in the Federal government, distributing grants through programs that encompass every mode and channel of American transportation. The DOT DATA Act implementation vastly improved the accuracy of DOT reporting its 80+ financial assistance programs and billions of contract dollars.

In addition to improving the public's ability to understand and track Federal spending, the Department recognizes the following achievements as a direct result of DATA Act requirements and efforts:

- Streamlined budget object class spending codes in accordance with OMB requirements, which improves data required for future rounds of Budget Formulation and Presentation;
- Reconciled spending activities with the program activities reported in the President's Budget request, which will also improve future Budget Formulation and Presentation;
- Initiated collaboration between the procurement and financial communities and ensured that agencies with shared funding streams established consistent records and financial procedures;
- Ensured that all required data is now being reported to the public;
- Provided enhanced visibility and accountability between grants management systems and DOT's financial system and improved programmatic alignment with funds availability; and
- Identified several areas for both Government-wide and DOT-wide financial process improvement for long-term efforts.

CONCLUSION

With this year's AFR, the Department can once again provide 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 confident that the Department will continue to build upon these financial management accomplishments in the year ahead.

Lana Hurdle

OFFICE OF INSPECTOR GENERAL QUALITY CONTROL REVIEW

Memorandum

U.S. Department of Transportation
Office of Inspector General

Subject: **ACTION:** Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2017 and 2016, Department of Transportation
Report Number: QC2018008

Date: November 15, 2017

From: Calvin L. Scovel III
Inspector General

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 2017 and 2016.

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, 2017, and September 30, 2016 (see attachment). The contract required KPMG to perform the audit in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 17–03, *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, 2017, and September 30, 2016, 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 (GAAP).

KPMG's Fiscal Year 2017 Audit Report, dated November 13, 2017

KPMG reported two significant deficiencies in internal control over financial reporting. KPMG also reported one potential instance of reportable noncompliance with tested laws and regulations.

Significant Deficiencies

Lack of Sufficient Controls Over Management's Calculation of the Environmental Clean-up and Decommissioning (EC&D) Liability Assumptions and Methodology, and Management Approval of Journal Entries. Controls were not properly implemented and operating effectively over the estimation and recording of EC&D liability to ensure compliance with GAAP. During fiscal year 2017, management implemented a new cost model that contained mathematical inaccuracies that impacted its calculation of the liability. Management also could not provide sufficient audit evidence to support the data input into this model. Furthermore, certain costs were included in the liability that did not meet GAAP. Finally, the journal entry review did not have the level of detail or precision to identify these errors. These errors resulted in a material overstatement of approximately $600 million in EC&D liability and related expenses in the interim June 30, 2017 financial statements.

Lack of Sufficient Controls over Subsidy Estimates for the Transportation Infrastructure Finance and Innovation Act (TIFIA) Direct Loan Program. Controls were not operating effectively to ensure that cash flow projections used in subsidy cost estimates and re-estimates were based on the best available information and reflected both relevant and reliable data inputs. Additionally, the cash flow model used to prepare the cash flow projections for all loans did not appropriately account for expected defaults due to the misapplication of the default probable curve. As a result, the TIFIA subsidy cost allowance may be misstated.

Instance of Noncompliance with Laws and Regulations

Potential Noncompliance with the Anti-Deficiency Act. Pending the outcome of further review, DOT may have committed a violation of the Anti-Deficiency Act during fiscal year 2017, as a result of possible misuse of its annual appropriated funds related to lobbying activities.

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 eight recommendations to strengthen DOT's controls over FAA's EC&D liability, subsidy estimates for the TIFIA loan program, and the potential Anti-Deficiency Act violation. DOT officials concurred with KPMG's recommendations, and committed to submitting to OIG by December 31, 2017, 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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cc: The Secretary
DOT Audit Liaison, M-1

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 United States Department of Transportation ("Department" or "DOT"), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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, 2017 and 2016, 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

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, and Message from the Chief Financial Officer and Assistance 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, 2017, 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*.

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 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit I as items A and B, that we consider 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 or other matter that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03, and which is described in Exhibit II Item C.

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 disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) 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 56. The Department's responses 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 13, 2017

Department of Transportation
Independent Auditors' Report
Internal Control over Financial Reporting

EXHIBIT I
SIGNIFICANT DEFICIENCIES

A. Lack of Sufficient Controls over Management's Calculation of the Environmental Clean-up and Decommissioning (EC&D) Liability Assumptions and Methodology and Management's Approval of Journal Entries (JEs)

Background

The Federal Aviation Administration (FAA) has title to various real property and other assets for use in its operations. Prior to October 1, 1988, these assets may have been constructed with environmental containments, such as lead-based paint and asbestos, etc. The FAA develops an estimate for the environmental cleanup and decommissioning (EC&D) liability, which encompasses the estimated costs to remove, contain, and/or dispose of the hazardous materials when the assets are decommissioned. The EC&D liability is estimated by multiplying the number of assets by an average cost of disposal. The number of assets used in this calculation is obtained from FAA's property, plant, & equipment (PP&E) detailed records. During fiscal year (FY) 2017, the Office of Investment Planning and Analysis created a new cost model related to the EC&D liability. The cost model was created for the 13 largest asset types within the EC&D liability. The Office of Investment Planning and Analysis is responsible for the calculation of the liability and preparation of the manual journal entry to record the liability. The Director of the Office of Investment Planning and Analysis reviews and approves the entry. The entry is then provided to the Financial Statements and Reporting Division for review and approval prior to recording to the general ledger.

Criteria

Statement of Federal Financial Accounting Statement 6: *Accounting for Property, Plant, and Equipment* states:

85. Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associate PP&E.

86. Hazardous waste is a solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed.

87. Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs.

88. This standard applies only to cleanup costs from Federal operations known to result in hazardous waste which the Federal Government is required by Federal, state and/or local statutes and/or regulations that have been approved as of the balance sheet date, regardless of the effective date, to cleanup (i.e., remove, contain or dispose of).

95. The estimate shall contemplate:

- the cleanup plan, including
- level of restoration to be performed
- current legal or regulatory requirements,
- current technology; and
- current cost which is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period.

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

EXHIBIT I
SIGNIFICANT DEFICIENCIES

The *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States, Principle No. 10, *Design Control Activities* provides that management should design control activities to respond to risks and achieve objectives. Principle No. 10 states:

10.03 Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

10.08 Management designs control activities for appropriate coverage of objectives and risks in the operations. Operational processes transform inputs into outputs to achieve the organization's objectives. Management designs entity-level control activities, transaction control activities, or both depending on the level of precision needed so that the entity meets its objectives and addresses related risks.

Condition

Controls are not properly implemented and operating effectively over the estimation calculation and recording of the EC&D liability to ensure compliance with generally accepted accounting principles (GAAP). Based on a review of the new estimation methodology, in conjunction with our review of the interim financial statements, as of and for the period ended June 30, 2017, we noted the following:

- There was a significant increase in the EC&D liability over the prior year of approximately $600 million as of June 30, 2017. Based on our review of the increase, we noted that clean-up and decommissioning costs were erroneously included in the liability as the inclusion of such costs is not in accordance with GAAP. Specifically, management included total costs to clean and decommission the specified real property assets and not solely the costs associated with removing, containing and/or disposing hazardous wastes.
- Management could not readily provide sufficient audit evidence to support data inputs in the updated cost model.
- The cost model contained various mathematical inaccuracies used in the final calculation of the liability.
- The evidence supporting the estimate calculation and resulting adjustment to the financial statements was not accurate.
- The journal entry review was not performed at a level of detail or precision necessary to identify the deficiencies described above, resulting in a material erroneous posting to the general ledger, and interim financial statements.

Based on the conditions identified above, management ultimately reverted to the previous methodology to compute and record the EC&D liability estimate for year-end financial statement preparation.

Cause

There was a lack of coordiation between the Office of Investment Planning and Analysis and the Financial Statements and Reporting Division to ensure that the EC&D cost model was developed properly in accordance with GAAP. The new model was not supported by sufficient audit evidence. There was insufficient time alloted during the review process to ensure the EC&D journal entry was accurate and substantiated by sufficient, appropriate evidence.

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

EXHIBIT I
SIGNIFICANT DEFICIENCIES

Effect

Management recorded an overstatement of the EC&D liability and related expense in the interim financial statements of approximately $600 million, as of and for the period ended June 30, 2017.

Recommendations

We recommend that management:

1. Continue to refine the EC&D estimation methodology to ensure that the methodology is based on relevant, sufficient, and reliable data that is supported by sufficient appropriate audit evidence.
2. Review any refinements to the methodology to ensure that the estimate is presented and disclosed in the financial statements in conformity with applicable accounting principles.
3. Establish appropriate communication channels with personnel outside of the Financial Statements and Reporting Division to ensure proper communication and coordination related to the calculation of material financial statement information.
4. Perform an adequate review and approval of the accounting estimates, including:
   - Review of sources of relevant factors.
   - Review of development of assumptions.
   - Review of reasonableness of assumptions and resulting estimates.
   - Consideration of changes in previously established methods to arrive at accounting estimates.

B. Lack of Sufficient Controls over Subsidy Estimates for the Transportation Infrastructure Finance and Innovation Act Direct Loan Program.

Background

The Department's Build America Better Bureau (the Bureau) manages the Transportation Infrastructure Finance and Innovation Act (TIFIA) program, which provides direct loans in accordance with the Federal Credit Reform Act. The Bureau estimates the initial subsidy cost of loans during the loan approval process and then re-estimates the subsidy costs on an annual basis for the life of the loan.

The Bureau 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 (CSC2) to estimate the net present value of the subsidy costs.

Condition

Controls are not operating effectively to ensure that the cash flow projections that are used in the subsidy cost estimates and re-estimates are based on the best available information, and reflect both relevant and reliable data inputs. Specifically, we selected a sample of one initial loan subsidy estimate and fourteen subsidy re-estimates from populations of twelve and fifty-one, respectively. Based on our review of the subsidy cost estimates and re-estimates, we noted for two loans, certain inputs used in the cash flow projections were inaccurate or were not updated to reflect the most relevant and reliable data available. We also noted that for six loans, the recovery rate was revised. Although management did provide sufficient explanations to support the revised recovery rates, there was not adequate documentation

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

EXHIBIT I
SIGNIFICANT DEFICIENCIES

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supporting the considerations to revise the recovery rates. Additionally, we noted that the cash flow model used to prepare the cash flow projections of all loans does not appropriately account for expected defaults due to the misapplication of the default probability curve.

Criteria

FASAB SFFAS 18 *Amendments to Accounting Standards For Direct Loans and Loan Guarantees in Statement of Federal Financial Accounting Standards No. 2*, paragraph 9, states credit programs should re-estimate the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees as required in this standard. There are two kinds of re-estimates: (a) interest rate re-estimates, and (b) technical/default re-estimates.

FASAB Technical Release 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*, states:

17. 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 this technical release. The OMB Circular A-11 also provides guidance on re-estimating credit subsidies. Guidance on the types of supporting documentation that is acceptable is found in paragraphs 20-22 of this technical release.

20. Documentation must be provided to support the assumptions used by the agency in the subsidy calculations. This documentation will not only facilitate the agency's review of the assumptions, a key internal control, it will also facilitate the auditor's review. Documentation should be complete and stand on its own, i.e., a knowledgeable independent person could perform the same steps and replicate the same results with little or no outside explanation or assistance.

40. 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.

Cause

The agency uses a manual process, which resulted in input errors. In addition there is a lack of sufficient review of the CSC2 inputs and output files by the Bureau.

Effect

The TIFIA subsidy cost allowance, may be misstated as a result of the inconsistent and/or incorrect data inputs and/or assumptions used in the calcuation.

Recommendation

We recommend that DOT:

1. Establish a review control, with the appropriate level of precision, over the cash flow projections to ensure that the inputs are relevant and reliable;

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

EXHIBIT I
SIGNIFICANT DEFICIENCIES

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.

Department of Transportation
Independent Auditors' Report
Compliance and Other Matters

EXHIBIT II
OTHER MATTER

C. Potential noncompliance with the Anti-Deficiency Act

Condition

Pending the outcome of further review, DOT is examining whether it may have committed a violation of the Anti-Deficiency Act (ADA) during fiscal year 2017 as a result of the potential misuse of the Department's annual appropriated funds related to lobbying activities. Such review includes a current U.S. Government Accountability Office (U.S. GAO) inquiry and pending DOT response related to the potential violation of the Anti-lobbying related provision of DOT's Appropriations Act.

Recommendation

We recommend that the Department complete the internal reviews currently planned or being performed, and properly report the results in compliance with the ADA, if necessary.

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITORS' REPORT

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

Memorandum

NOV 14 2017

Subject: Management's Response to the Audit Report on the Consolidated Financial Statements for Fiscal Year (FY) 2017

From: Lana Hurdle
Acting 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 2017. We take great pride in our ability to sustain strong and vigilant financial management, as demonstrated in our achievement of an unmodified audit opinion.

We concur with the two significant deficiencies contained in the report on internal controls over financial reporting, and with one instance of non-compliance or other matter noted in certain provisions of selected laws and regulations that you reviewed. We concur with all recommendations. Corrective actions to address these issues have already begun. DOT plans to submit a detailed corrective action plan along with estimated completion dates of the actions to the Inspector General no later than December 31, 2017, 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	2017	2016
Assets		
Intragovernmental		
Fund Balance With Treasury *(Note 2)*	$29,729,631	$32,395,776
Investments, Net *(Note 3)*	68,052,871	80,034,930
Accounts Receivable *(Note 4)*	105,267	150,558
Advances and Prepayments *(Note 5)*	58,675	78,405
Total Intragovernmental	**97,946,444**	**112,659,669**
Accounts Receivable, Net *(Note 4)*	124,425	156,144
Direct Loan and Loan Guarantees, Net *(Note 6)*	14,693,297	10,968,657
Inventory and Related Property, Net *(Note 7)*	947,285	937,585
General Property, Plant and Equipment, Net *(Note 8)*	13,151,814	13,475,244
Other *(Note 5)*	380,029	73,593
Total Assets	**$127,243,293**	**$138,270,892**
Stewardship Property, Plant and Equipment *(Note 9)*		
Liabilities (Note 10)		
Intragovernmental		
Accounts Payable	$16,043	$8,016
Debt *(Note 11)*	14,298,084	10,868,042
Other *(Note 14)*	1,807,278	1,105,241
Total Intragovernmental	**16,121,404**	**11,981,299**
Accounts Payable	651,661	500,059
Loan Guarantee Liability *(Note 6)*	75,858	161,961
Federal Employee Benefits Payable	881,188	869,658
Environmental and Disposal Liabilities *(Note 12)*	1,203,762	1,102,669
Grant Accrual *(Note 13)*	7,513,159	7,918,633
Other *(Note 14)*	1,316,094	1,283,315
Total Liabilities	**$27,763,126**	**$23,817,594**
Commitments and contingencies *(Note 16)*		
Net Position		
Unexpended Appropriations—Funds From Dedicated Collections *(Note 17)*	$1,002,687	$1,227,531
Unexpended Appropriations—Other Funds	20,264,564	21,490,915
Cumulative Results of Operations—Funds From Dedicated Collections *(Note 17)*	67,251,593	79,835,672
Cumulative Results of Operations—Other Funds	10,961,323	11,899,180
Total Net Position—Funds From Dedicated Collections	**68,254,280**	**81,063,203**
Total Net Position—Other Funds	**31,225,887**	**33,390,095**
Total Net Position	**99,480,167**	**114,453,298**
Total Liabilities and Net Position	**$127,243,293**	**$138,270,892**

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	2017	2016
Program costs *(Note 18)*		
Surface Transportation		
Gross Costs	$62,626,151	$63,957,073
Less: Earned Revenue	925,896	890,147
Net Program Costs	**61,700,255**	**63,066,926**
Air Transportation		
Gross Costs	17,100,036	16,642,761
Less: Earned Revenue	513,077	494,134
Net Program Costs	**16,586,959**	**16,148,627**
Maritime Transportation		
Gross Costs	711,912	936,878
Less: Earned Revenue	376,131	486,050
Net Program Costs	**335,781**	**450,828**
Cross-Cutting Programs		
Gross Costs	709,741	695,181
Less: Earned Revenue	241,126	260,666
Net Program Costs	**468,615**	**434,515**
Costs Not Assigned to Programs	508,723	478,710
Less: Earned Revenues Not Attributed to Programs	1,233	594
Net Cost of Operations	**$79,599,100**	**$80,579,012**

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	2017 Dedicated Collections	2017 All Other Funds	2017 Total	2016 Dedicated Collections	2016 All Other Funds	2016 Total
Cumulative Results of Operations						
Beginning Balance	$79,835,672	$11,899,180	$91,734,852	$23,945,246	$11,013,957	$34,959,203
Budgetary Financing Sources						
Other Adjustments	—	(867)	(867)	—	(703)	(703)
Appropriations Used	1,041,061	8,541,563	9,582,624	1,927,364	78,567,292	80,494,656
Non-Exchange Revenue *(Note 19)*	56,790,429	81,055	56,871,484	56,182,353	38,677	56,221,030
Donations/Forfeitures of Cash/Cash Equivalents	775	—	775	872	—	872
Transfers-in/(out) Without Reimbursement	123,735	18,128	141,863	70,117,123	(69,890,570)	226,553
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	—	15,691	15,691	—	38,824	38,824
Transfers-in/(out) Without Reimbursement	(1,073,607)	1,086,094	12,487	(1,888,382)	1,881,832	(6,550)
Imputed Financing	282,246	99,158	381,404	356,130	98,302	454,432
Other	297	(928,594)	(928,297)	366	(74,819)	(74,453)
Total Financing Sources	**57,164,936**	**8,912,228**	**66,077,164**	**126,695,826**	**10,658,835**	**137,354,661**
Net Cost of Operations	69,749,015	9,850,085	79,599,100	70,805,400	9,773,612	80,579,012
Net Change	(12,584,079)	(937,857)	(13,521,936)	55,890,426	885,223	56,775,649
Cumulative Results of Operations	**$67,251,593**	**$10,961,323**	**$78,212,916**	**$79,835,672**	**$11,899,180**	**$91,734,852**
Unexpended Appropriations						
Beginning Balance	1,227,531	21,490,915	22,718,446	1,213,328	24,224,817	25,438,145
Budgetary Financing Sources						
Appropriations Received *(Note 1U)*	852,852	7,620,810	8,473,662	1,987,724	75,901,793	77,889,517
Appropriations Transferred-in/(out)	2,956	10,000	12,956	—	12,166	12,166
Other Adjustments	(39,591)	(315,598)	(355,189)	(46,157)	(80,569)	(126,726)
Appropriations Used	(1,041,061)	(8,541,563)	(9,582,624)	(1,927,364)	(78,567,292)	(80,494,656)
Total Budgetary Financing Sources	(224,844)	(1,226,351)	(1,451,195)	14,203	(2,733,902)	(2,719,699)
Total Unexpended Appropriations	**$1,002,687**	**$20,264,564**	**$21,267,251**	**$1,227,531**	**$21,490,915**	**$22,718,446**
Net Position	**$68,254,280**	**$31,225,887**	**$99,480,167**	**$81,063,203**	**$33,390,095**	**$114,453,298**

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	2017 Budgetary	2017 Non-Budgetary Credit Reform Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources *(Note 20)*				
Unobligated Balance, Brought Forward, October 1	$49,159,089	$389,073	$47,888,817	$223,518
Recoveries of Prior Year Unpaid Obligations	1,496,133	29,155	691,778	10,872
Other Changes in Unobligated Balance	(351,081)	(27,618)	(122,124)	—
Unobligated Balance From Prior Year Budget Authority, Net	**50,304,141**	**390,610**	**48,458,471**	**234,390**
Appropriations *(Note 1U)*	21,210,393	—	89,313,027	—
Borrowing Authority	—	4,122,413	—	4,966,665
Contract Authority	57,556,287	—	57,048,794	—
Spending Authority From Offsetting Collections	11,556,396	413,709	10,177,773	469,533
Total Budgetary Resources	**$140,627,217**	**$4,926,732**	**$204,998,065**	**$5,670,588**
Status of Budgetary Resources				
New Obligations and Upward Adjustments	$91,089,764	$4,555,054	$155,838,976	$5,281,515
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	30,154,391	55,826	30,596,579	32,445
Unapportioned, Unexpired Accounts	19,168,682	315,852	18,278,645	356,628
Unexpired Unobligated Balance, End of Year	49,323,073	371,678	48,875,224	389,073
Expired Unobligated Balance, End of Year	214,380	—	283,865	—
Unobligated Balance, End of Year	**49,537,453**	**371,678**	**49,159,089**	**389,073**
Total Budgetary Resources	**$140,627,217**	**$4,926,732**	**$204,998,065**	**$5,670,588**

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	2017 Budgetary	2017 Non-Budgetary Credit Reform Financing Accounts	2016 Budgetary	2016 Non-Budgetary Credit Reform Financing Accounts
Change in Obligated Balances				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$104,280,135	$15,178,270	$108,262,227	$12,703,163
New Obligations and Upward Adjustments	91,089,764	4,555,054	155,838,976	5,281,515
Outlays (Gross)	(91,241,377)	(4,859,632)	(159,139,290)	(2,795,536)
Actual Transfers, Unpaid Obligations	10,000	—	10,000	—
Recoveries of Prior Year Unpaid Obligations	(1,496,133)	(29,155)	(691,778)	(10,872)
Unpaid Obligations, End of Year (Gross)	102,642,389	14,844,537	104,280,135	15,178,270
Uncollected Payments				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(944,394)	(740,026)	(881,429)	(762,819)
Change in Uncollected Payments, Federal Sources	(329,544)	110,160	(62,965)	22,793
Uncollected Payments, Federal Sources, End of Year	(1,273,938)	(629,866)	(944,394)	(740,026)
Obligated Balance, Start of Year (Net)	103,335,741	14,438,244	107,380,798	11,940,344
Obligated Balance, End of Year (Net)	**$101,368,451**	**$14,214,671**	**$103,335,741**	**$14,438,244**
Budget Authority and Outlays, Net				
Budget Authority, Gross	$90,323,076	$4,536,122	$156,539,594	$5,436,198
Actual Offsetting Collections	(11,267,505)	(1,412,293)	(10,136,066)	(1,065,285)
Change in Uncollected Payments, Federal Sources	(329,544)	110,160	(62,965)	22,793
Recoveries of Prior Year Paid Obligations	40,564	—	20,898	—
Budget Authority, Net	**$78,766,591**	**$3,233,989**	**$146,361,461**	**$4,393,706**
Outlays, Gross	$91,241,377	$4,859,632	$159,139,290	$2,795,536
Actual Offsetting Collections	(11,267,505)	(1,412,293)	(10,136,066)	(1,065,285)
Outlays, Net	79,973,872	3,447,339	149,003,224	1,730,251
Distributed Offsetting Receipts	(559,209)	—	(70,618,402)	—
Agency Outlays, Net	**$79,414,663**	**$3,447,339**	**$78,384,822**	**$1,730,251**

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 consolidated into the DOT consolidated financial statements as 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. The SLSDC is subject to separate reporting requirements under the Government Corporation Control Act.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On December 4, 2015, former President Obama 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 Improvement 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 fiscal year (FY) 2018 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2017.

A Statement of Custodial Activity is not presented, as 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 2017. 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 FY 2017 and FY 2016, 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 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 unserviceable.

Within the FAA's Franchise Fund, inventory is held for sale to the FAA field locations and other domestic entities and foreign governments. Inventory consists of materials and supplies that the FAA uses to support our Nation's airspace system and is predominantly located at the FAA Mike Monroney Aeronautical Center in Oklahoma City. Inventory costs include material, labor, and applicable manufacturing overhead.

Inventory held for sale includes both purchased inventory and refurbished inventory. Inventory held for sale is valued using historical cost, applying the weighted moving average cost flow method.

FAA field locations frequently exchange non-operational repairable units with the Franchise Fund. These components are classified as "held for repair" and valued using the direct method.

Inventory may be deemed to be "excess, obsolete, and unserviceable" if, for example, the quantity exceeds projected demand for the foreseeable future or if the item has been technologically surpassed. The "excess, obsolete, and unserviceable" inventory is determined to have no residual net realizable value; therefore, a loss is recognized to write off the inventory in the current period. In prior years, an allowance was established for the book value of the "excess, obsolete, and unserviceable" inventory, until its final disposition.

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 unserviceable and an allowance is established based on the condition of various asset categories and historical experience with disposing of such assets.

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 cost. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Specifically, 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 terms, the leases 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 after 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.

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) two years after the actual payment of expenses. Future revenues will be used to reimburse DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under FECA.

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

DOT recognizes two types of environmental liabilities: unfunded environmental remediation 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 liability 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 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 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, 2017 financial statements reflect excise taxes certified by the IRS through June 30, 2017, and excise taxes distributed by the U.S. Treasury, Office of Tax Analysis (OTA) for the period June 30, 2017, to September 30, 2017, 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, 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 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, former President Obama signed, into law, 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 December 4, 2015, former President Obama 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 have caused significant fluctuations between FY 2016 and FY 2017 in many of the transfer activities and "Distributed Offsetting Receipts" in DOT's financial records. In FY 2017, there were no new General Fund resources provided for the Highway Trust Fund.

Effective October 1, 2017, the DOT is operating under a continuing resolution (CR), P.L. 115-56, to continue Government operations. The CR will be in effect through December 8, 2017, predominantly at FY 2017 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. RECLASSIFICATIONS

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

In prior years, FAA recognized a loss for "excess, obsolete, and unserviceable" inventory by establishing an allowance. Beginning in FY 2017, the FAA wrote off "excess, obsolete, and unserviceable" inventory to recognize the loss. The inventory balances for the year ended September 30, 2016 have been reclassified.

Y. 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, 2017 and 2016, consist of the following:

Dollars in Thousands	2017	2016
Fund Balances		
Trust Funds	$5,833,162	$6,084,717
Revolving Funds	1,349,724	1,583,569
General Funds	22,162,538	24,356,647
Other Fund Types	384,207	370,843
Total	**$29,729,631**	**$32,395,776**
Status of Fund Balance With Treasury		
Unobligated Balance		
Available	$22,705,272	$21,428,681
Unavailable	2,601,887	2,489,026
Obligated Balance Not Yet Disbursed	4,025,730	7,693,395
Non-Budgetary Fund Balance With Treasury	396,742	784,674
Total	**$29,729,631**	**$32,395,776**

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 the balance is 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. Obligated Balance not yet Disbursed includes unpaid obligations offset by investments, contract authority, and uncollected customer payments from other federal government accounts. Therefore, the unobligated and obligated balances presented will not agree to related amounts reported on the Combined Statements of Budgetary Resources.

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. 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.

NOTE 3. INVESTMENTS

Dollars in Thousands	Cost	Amortized Discount	Investments (Net)	Market Value
Intragovernmental Securities	Investments as of September 30, 2017 consist of the following:			
Marketable	$48,010	$(331)	$47,679	$47,568
Non-Marketable Par Value	65,737,301	—	65,737,301	65,735,906
Non-Marketable Market-Based	2,209,819	(6,154)	2,203,665	2,198,284
Subtotal	**67,995,130**	**(6,485)**	**67,988,645**	**67,981,758**
Accrued Interest Receivable	64,226	—	64,226	—
Total Intragovernmental Securities	**$68,059,356**	**$(6,485)**	**$68,052,871**	**$67,981,758**
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**

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, 2017 consist of the following:		
Intragovernmental			
Accounts Receivable	$105,267	$ —	$105,267
Accrued Interest	—	—	—
Total Intragovernmental	**105,267**	**—**	**105,267**
Public			
Accounts Receivable	162,591	(39,245)	123,346
Accrued Interest	2,580	(1,501)	1,079
Total Public	**165,171**	**(40,746)**	**124,425**
Total Accounts Receivable	**$270,438**	**$(40,746)**	**$229,692**
	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**

NOTE 5. ADVANCES, PREPAYMENTS, AND 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, grantees, and contractors, for expenses not yet incurred and services not yet received.

Other Assets consist of the following as of September 30, 2017 and 2016

Dollars in Thousands	2017	2016
Intragovernmental		
Advances and Prepayments	$58,675	$78,405
Total Intragovernmental Other Assets	**$58,675**	**$78,405**
Public		
Advances to States for Right of Way	$252	$254
Other Advances and Prepayments	379,647	72,839
Other	130	500
Total Public Other Assets	**$380,029**	**$73,593**

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	2017 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$585,831	$ —	$ —	$(78,900)	$506,931
(2) TIFIA Loans	14,199,111	—	166,635	(179,380)	14,186,366
Total	**$14,784,942**	**$ —**	**$166,635**	**$(258,280)**	**$14,693,297**

Direct Loan Programs	2016 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	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**

Total Amount of Direct Loans Disbursed (Post-1991)

Dollars in Thousands

Direct Loan Programs	2017	2016
(1) Railroad Rehabilitation Improvement Program	$137,476	$193,642
(2) TIFIA Loans	4,009,103	1,962,655
Total	**$4,146,579**	**$2,156,297**

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	2017 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
(1) Railroad Rehabilitation Improvement Program	$ —	$7,974	$(7,974)	$ —	$ —
(2) TIFIA Loans	—	312,030	—	(9,273)	302,757
Total	**$ —**	**$320,004**	**$(7,974)**	**$(9,273)**	**$302,757**

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**

Modifications and Reestimates

Direct Loan Programs	2017 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(1) Railroad Rehabilitation Improvement Program	$ —	$ —	$25,789	$25,789
(2) TIFIA Loans	(11,593)	(458,479)	(10,627)	(469,106)
Total	**$(11,593)**	**$(458,479)**	**$15,162**	**$(443,317)**

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)**

Total Direct Loan Subsidy Expense

Direct Loan Programs	2017	2016
(1) Railroad Rehabilitation Improvement Program	$25,789	$(7,506)
(2) TIFIA Loans	(177,942)	8,508
Total	**$(152,153)**	**$1,002**

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	2017 Interest Differential	Defaults	Fees and Other Collections	Other	Total
(1) Railroad Rehabilitation Improvement Program	– 2.53%	8.18%	– 5.66%	0.00%	– 0.01%
(2) TIFIA Loans					
Risk Category 1	0.23%	6.62%	0.00%	0.00%	6.85%

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	2017	2016
Beginning Balance of the Subsidy Cost Allowance	$698,419	$677,227
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Interest Rate Differential Costs	—	—
Default Costs (Net of Recoveries)	320,004	133,413
Fees and Other Collections	(7,974)	(2,087)
Other Subsidy Costs	(9,273)	(6,281)
Total of the Above Subsidy Expense Components	**302,757**	**125,045**
Adjustments		
Loan Modifications	(11,593)	—
Foreclosed Property Acquired	253,424	—
Loans Written Off	(535,296)	—
Subsidy Allowance Amortization	(12,098)	18,103
Other	5,984	2,087
Ending Balance of the Subsidy Cost Allowance Before Reestimates	**701,597**	**822,462**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	(458,479)	(9,716)
Technical/Default Reestimate	15,162	(114,327)
Total of the Above Reestimate Components	**(443,317)**	**(124,043)**
Ending Balance of the Subsidy Cost Allowance	**$258,280**	**$698,419**

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 reestimates also reflected the restructuring of a loan for the State Highway (SH) 130 project due to borrower bankruptcy reorganization in June 2017. As a result of the bankruptcy reorganization, TIFIA, along with senior lenders, received a share of a new subordinated debt instrument, in addition to an equity stake. TIFIA's ultimate recovery will depend on the future performance of the project.

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

Actual interest rates for FY 2017 were lower than the interest rate assumptions that were set in advance during the budget formulation process at loan origination. Lower actual interest rates, combined with several large loans that were disbursed over this time period, have contributed to significant downward interest rate reestimates in FY 2017 compared to FY 2016.

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.

GUARANTEED LOANS

Defaulted Guaranteed Loans From Post-1991 Guarantees

Dollars in Thousands

Loan Guarantee Programs	2017 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	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)	$ —

Guaranteed Loans Outstanding

Dollars in Thousands

Loan Guarantee Programs	2017 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$1,437,616	$1,437,616
(4) OST Minority Business Resource Center	559	419
Total	$1,438,175	$1,438,035

New Guaranteed Loans Disbursed

Loan Guarantee Programs	2017 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —
(4) OST Minority Business Resource Center	250	188
Total	$250	$188

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

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	2017 Liabilities for Post-1991 Guarantees, Present Value
(3) Federal Ship Financing Fund (Title XI)	$75,753
(4) OST Minority Business Resource Center	105
Total	**$75,858**

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

Loan Guarantee Programs	2017 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —	$ —	$ —	$ —
(4) OST Minority Business Resource Center	—	6	—	—	6
Total	**$ —**	**$6**	**$ —**	**$ —**	**$6**

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**

Modifications and Reestimates

Loan Guarantee Programs	2017 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —	$(86,063)	$(86,063)
(4) OST Minority Business Resource Center	—	—	(47)	(47)
Total	**$ —**	**$ —**	**$(86,110)**	**$(86,110)**

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**

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	2017	2016
(3) Federal Ship Financing Fund (Title XI)	$(86,063)	$38,721
(4) OST Minority Business Resource Center	(41)	175
Total	**$(86,104)**	**$38,896**

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	2017 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)					
Risk Category 4	0.00%	16.26%	– 6.36%	0.00%	9.90%
(4) OST Minority Business Resource Center	0.00%	2.36%	0.00%	0.00%	2.36%

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	2017	2016
Beginning Balance of the Loan Guarantee Liability	$161,961	$105,985
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	6	30,998
Total of the Above Subsidy Expense Components	**6**	**30,998**
Adjustments		
Fees Received	—	17,072
Claim Payments to Lenders	—	—
Interest Accumulation on the Liability Balance	1	1
Other	—	7
Ending Balance of the Loan Guarantee Liability Before Reestimates	**$161,968**	**154,063**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	—	16,297
Technical/Default Reestimate	(86,110)	(8,399)
Total of the Above Reestimate Components	**(86,110)**	**7,898**
Ending Balance of the Loan Guarantee Liability	**$75,858**	**$161,961**

The Federal Ship Financing Fund (Title XI) 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, 2017, 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, 2017 consists of the following:

Dollars in Thousands	Cost	Allowance for Loss	Net
Inventory			
Inventory Held for Current Sale	$241,244	$ —	$241,244
Inventory Held for Repair	359,421	—	359,421
Other	48,427	—	48,427
Total Inventory	**649,092**	**—**	**649,092**
Operating Materials and Supplies			
Items Held for Use	239,178	(1,291)	237,887
Items Held in Reserve for Future Use	41,150	—	41,150
Excess, Obsolete, and Unserviceable Items	2,513	(1,670)	843
Items Held for Repair	35,012	(16,699)	18,313
Total Operating Materials & Supplies	**317,853**	**(19,660)**	**298,193**
Total Inventory and Related Property			**$947,285**

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
Inventory Held for Repair	380,366	—	380,366
Other	49,021	—	49,021
Total Inventory	**658,187**	**—**	**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 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. Inventory that is deemed to be excess, obsolete, and unserviceable is expected to have no net realizable value and a loss is recognized for the carrying amount. The carrying amount before identification as excess, obsolete, and unserviceable inventory was $27.2 million in FY 2017.

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, 2017 consist of the following:

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation Amortization	Book Value
Land and Improvements	10–40	$99,030	$(1,317)	$97,713
Buildings and Structures	20–40	6,743,019	(3,761,201)	2,981,818
Furniture and Fixtures	7–10	439	(439)	—
Equipment	5–15	18,026,654	(11,286,588)	6,740,066
Internal Use Software	3–10	3,465,243	(1,566,972)	1,898,271
Assets Under Capital Lease	6–10	106,063	(51,289)	54,774
Leasehold Improvements	3	200,165	(124,255)	75,910
Aircraft	20	515,103	(409,953)	105,150
Ships and Vessels	15–25	1,936,590	(1,899,886)	36,704
Small Boats	10–18	29,488	(28,976)	512
Construction-in-Progress	N/A	1,160,896	—	1,160,896
Total		**$32,282,690**	**$(19,130,876)**	**$13,151,814**

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**

Construction-in-Progress (CIP) 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, 2017.

	Units as of 9/30/2016	Additions	Withdrawals	Units as of 9/30/17
Heritage Assets				
Personal Property				
Artifacts	745	1	(22)	724
Other Collections	6,126	11	(6)	6,131
Total Personal Property Heritage Assets	**6,871**	**12**	**(28)**	**6,855**

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 $944.4 million and $219.9 million of liability for non-entity assets for FY 2017 and FY 2016, respectively, are primarily related to downward loan subsidy reestimates.

Liabilities Not Covered by Budgetary Resources as of September 30, 2017 and 2016, consist of the following:

Dollars in Thousands	2017	2016
Intragovernmental		
Unfunded FECA Liability	$183,900	$192,251
Unfunded Employment Related Liability	2,943	3,275
Liability for Nonentity Assets	944,404	219,894
Other Liabilities	46,619	46,866
Total Intragovernmental	**1,177,866**	**462,286**
Federal Employee Benefits Payable	881,188	869,658
Environmental and Disposal Liabilities *(Note 12)*	1,203,762	1,102,669
Accrued Pay and Benefits	555,616	551,364
Legal Claims	31,945	67,392
Capital Lease Liabilities	59,694	61,489
Other Liabilities	36,410	56,963
Total Liabilities Not Covered by Budgetary Resources	**3,946,481**	**3,171,821**
Total Liabilities Covered by Budgetary Resources	23,816,645	20,645,773
Total Liabilities	**$27,763,126**	**$23,817,594**

NOTE 11. DEBT

Debt balances and activities during the fiscal years ended September 30, 2017 and 2016, consist of the following:

Dollars in Thousands	2016 Beginning Balance	2016 Net Borrowing	2016 Ending Balance	2017 Net Borrowing	2017 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$8,972,231	$1,895,811	10,868,042	$3,430,042	$14,298,084
Total Intragovernmental Debt	**$8,972,231**	**$1,895,811**	**$10,868,042**	**$3,430,042**	**$14,298,084**

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 2017 and 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, 2017 and 2016, consist of the following:

Dollars in Thousands	2017	2016
Environmental Remediation	$601,436	$600,767
Asset Disposal	602,326	501,902
Total Environmental and Disposal Liabilities	**$1,203,762**	**$1,102,669**

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, 2017 and 2016, DOT's environmental remediation liability primarily includes the removal of contaminants and remediation at various sites managed by the FAA and MARAD. To help manage the cleanup of the contaminated sites, FAA established an Environmental Cleanup Program that includes three service areas, which are responsible for oversight of the contaminated sites. The service area personnel use both actual costs and an automated, parametric cost-estimating tool that provides estimates for all phases of investigation and remediation to estimate the environmental remediation liability.

NOTE 12. ENVIRONMENTAL AND DISPOSAL LIABILITIES (CONTINUED)

ASSET DISPOSAL

The FAA asset disposal liability is estimated using a combination of actual costs and project-specific cost proposals for certain targeted facilities. FAA uses the average decommissioning and cleanup costs of the targeted facilities as the cost basis for the other like facilities to arrive at the estimated liability for 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, 2017, includes the estimated cost of disposing 93 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, 2017 and 2016 were as follows:

Grant Accruals by DOT Operating Administrations as of September 30, 2017 and 2016, were as follows:

Dollars in Thousands	2017	2016
Federal Highway Administration	$4,913,121	$5,060,719
Federal Transit Administration	1,711,490	1,663,086
Federal Aviation Administration	716,428	722,695
Other Operating Administrations	172,120	472,133
Total Grant Accrual	**$7,513,159**	**$7,918,633**

NOTE 14. OTHER LIABILITIES

Other Liabilities as of September 30, 2017 consist of the following:

Dollars in Thousands	Noncurrent	Current	Total
Intragovernmental			
Advances and Prepayments	$ —	$545,828	$545,828
Accrued Pay and Benefits	—	83,203	83,203
FECA Billings	98,993	85,302	184,295
Other Accrued Liabilities	—	993,952	993,952
Total Intragovernmental	**$98,993**	**$1,708,285**	**$1,807,278**
Public			
Advances and Prepayments	$ —	$170,026	$170,026
Accrued Pay and Benefits	41,751	814,920	856,671
Deferred Credits	—	161,115	161,115
Legal Claims *(Note 16)*	—	31,945	31,945
Capital Leases *(Note 15)*	51,236	8,458	59,694
Other Accrued Liabilities	—	36,643	36,643
Total Public	**$92,987**	**$1,223,107**	**$1,316,094**

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**

NOTE 15. LEASES

ENTITY AS LESSEE

Capital Leases as of September 30, 2017 and 2016, were comprised of the following:

Dollars in Thousands	2017	2016
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$106,063	$106,966
Software	—	1,032
Accumulated Amortization	(51,289)	(50,417)
Net Assets Under Capital Lease	**$54,774**	**$57,581**

As of September 30, 2017, DOT's future payments due on assets under capital lease were:

Fiscal Year	
Future Payments Due by Fiscal Year	Dollars in Thousands
2018	8,458
2019	8,468
2020	7,913
2021	7,489
2022	7,489
2023+	33,816
Total Future Lease Payments	**73,633**
Less: Imputed Interest	13,939
Net Capital Lease Liability	**$59,694**

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
2018	$276,393
2019	242,425
2020	219,519
2021	199,810
2022	134,945
2023+	692,738
Total Future Lease Payments	**$1,765,830**

Operating lease expenses incurred were $301 million and $311 million for the years ended September 30, 2017 and 2016, 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, 2017 and 2016, DOT's contingent liabilities, in excess of amounts accrued (Note 14), for asserted and pending legal claims reasonably possible of loss were estimated at $389.5 million and $104.9 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, 2017 and 2016, DOT's contingent liabilities for asserted and pending legal claims with a probable loss were estimated at $31.9 million and $67.4 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, 2017 and 2016, FHWA has preauthorized $55.2 billion and $50.6 billion, respectively, under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2017 and 2016.

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, 2017 and September 30, 2016, FTA had approximately $1.8 billion and $1.4 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, 2017 and 2016.

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, 2017, FAA had letters of intent extending through FY 2026 totaling $7.1 billion. As of September 30, 2017, FAA had obligated $6.6 billion of this total amount, leaving $0.5 billion unobligated. 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.

ENVIRONMENTAL LIABILITIES

As of September 30, 2017, FAA has estimated contingent liabilities categorized as reasonably possible of $178.5 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 Alaska, the Pacific Islands, and New Jersey in which the extent of liability is not both probable and reasonably estimable. As a result, a liability is not recognized for these sites without further studies and negotiations with other Federal agencies.

In addition to the amounts recorded and disclosed, MARAD has contingent liabilities related to sites with MARAD and numerous other external parties, where the likelihood of loss is probable; however, an estimate cannot be determined as of September 30, 2017. There were no amounts recorded related to these sites.

Additional commitments are discussed in Note 6-Direct Loans and Loan Guarantees, Non-Federal Borrowers, and Note 15-Leases.

AVIATION INSURANCE PROGRAM

The FAA provides non-premium 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 the Non-Premium War Risk Insurance program includes hull, bodily injury, personal injury, and property damage. The FAA is currently providing coverage for certain U.S. Department of Defense (DoD) 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.

FY 2017 HURRICANE CONTINGENCIES

In August and September 2017, Hurricanes Harvey, Irma, and Maria significantly impacted certain areas within the southern United States, and Puerto Rico. Currently, DOT, in conjunction with other Federal entities, is assessing the estimated financial impact of the affected areas. Several states, as well as Puerto Rico have applied for and received emergency relief funding from existing DOT resources; however, additional requests may be provided as cost estimates are being completed. As of the date of this report, DOT has not received any supplemental funding for these three Hurricanes, with the exception of small amounts that were provided on a reimbursable basis from non-DOT agencies who have received supplemental funding.

Hurricane Maria caused significant damage to Puerto Rico. All known impairments to property, plant and equipment as of September 30, 2017 were recognized as a loss in fiscal year 2017; however, there is at least a reasonable possibility that additional losses due to impairments will be identified and recognized in fiscal year 2018.

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

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

- Contributions for Highway Research Program
- Cooperative Work, Forest Highways
- Payment to Air Carriers
- 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, 2017 and 2016, 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 2017 Total Funds From Dedicated Collections
Balance Sheet					as of September 30, 2017
Assets					
Fund Balance With Treasury	$3,961,706	$1,011,443	$117,978	$2,567,447	$7,658,574
Investments, Net	52,333,147	13,460,739	—	2,258,985	68,052,871
Accounts Receivable, Net	26,589	—	1,235	6,187,976	6,215,800
Property, Plant & Equipment	180,256	—	—	1,740,514	1,920,770
Other	154,034	—	—	334,844	488,878
Total Assets	**$56,655,732**	**$14,472,182**	**$119,213**	**$13,089,766**	**$84,336,893**
Liabilities and Net Position					
Accounts Payable	$56,347	$5,806,555	$ —	$805,257	$6,668,159
FECA Liabilities	21,005	—	—	989,799	1,010,804
Grant Accrual	6,294,860	—	3,458	716,428	7,014,746
Other Liabilities	297,780	—	1,444	1,089,680	1,388,904
Unexpended Appropriations	—	—	1,132	1,001,555	1,002,687
Cumulative Results of Operations	49,985,740	8,665,627	113,179	8,487,047	67,251,593
Total Liabilities and Net Position	**$56,655,732**	**$14,472,182**	**$119,213**	**$13,089,766**	**$84,336,893**
Statement of Net Cost					for the period ended September 30, 2017
Program Costs	$54,680,776	$ —	$18,832	$15,780,795	$70,480,403
Less Earned Revenue	217,688	—	—	522,706	740,394
Net Program Costs	**54,463,088**	**—**	**18,832**	**15,258,089**	**69,740,009**
Costs Not Attributable to Programs	—	—	—	9,006	9,006
Net Cost of Operations	**$54,463,088**	**$ —**	**$18,832**	**$15,267,095**	**$69,749,015**
Statement of Changes in Net Position					for the period ended September 30, 2017
Beginning Net Position	$62,874,023	$9,394,840	$133,143	$8,661,197	$81,063,203
Budgetary Financing Sources	41,520,869	(729,213)	—	16,939,500	57,731,156
Other Financing Sources	53,936	—	—	(845,000)	(791,064)
Net Cost of Operations	54,463,088	—	18,832	15,267,095	69,749,015
Change in Net Position	(12,888,283)	(729,213)	(18,832)	827,405	(12,808,923)
Net Position End of Period	**$49,985,740**	**$8,665,627**	**$114,311**	**$9,488,602**	**$68,254,280**

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 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

Intragovernmental Costs and Exchange Revenues for the fiscal year ended September 30, 2017 consist of the following:

Dollars in Thousands	Intra-governmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$173,685	$43,487,339	$43,661,024
Less Earned Revenue	73,213	111,517	184,730
Net Program Costs	**100,472**	**43,375,822**	**43,476,294**
Mass Transit Program			
Gross Costs	31,334	12,259,814	12,291,148
Less Earned Revenue	132,007	—	132,007
Net Program Costs	**(100,673)**	**12,259,814**	**12,159,141**
Other Surface Transportation Programs			
Gross Costs	689,127	5,984,852	6,673,979
Less Earned Revenue	41,349	567,810	609,159
Net Program Costs	**647,778**	**5,417,042**	**6,064,820**
Total Surface Transportation Program Costs	**647,577**	**61,052,678**	**61,700,255**
Air Transportation			
Gross Costs	2,526,056	14,573,980	17,100,036
Less Earned Revenue	264,234	248,843	513,077
Net Program Costs	**2,261,822**	**14,325,137**	**16,586,959**
Maritime Transportation			
Gross Costs	54,741	657,171	711,912
Less Earned Revenue	374,925	1,206	376,131
Net Program Costs	**(320,184)**	**655,965**	**335,781**
Cross-Cutting Programs			
Gross Costs	73,662	636,079	709,741
Less Earned Revenue	238,021	3,105	241,126
Net Program Costs	**(164,359)**	**632,974**	**468,615**
Costs Not Assigned to Programs	74,211	434,512	508,723
Less: Earned Revenues Not Attributed to Programs	1,125	108	1,233
Net Cost of Operations	**$2,497,942**	**$77,101,158**	**$79,599,100**

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES (continued)

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**
Cost Not Assigned to a Program	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**

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

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES (continued)

the logistics center sells inventory 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 Force (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. The U.S. Treasury, Office of Tax Analysis (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 four months after the quarter end and, accordingly, the DOT financial statements include actual excise tax revenue certified through June 30, 2017, and excise tax revenue allocated by OTA for the quarter ended September 30, 2017. As a result, total taxes recognized in the DOT FY 2017 financial statements include the OTA allocation of $13.6 billion for the quarter ended September 30, 2017, and the actual amounts certified through June 30, 2017, of $41.2 billion.

For the years ended September 30, 2017 and 2016, 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, 2017	September 30, 2016
Highway Trust Fund		
Excise Taxes and Other Nonexchange Revenue		
Gasoline	$26,603,594	$26,137,755
Diesel and Special Motor Fuels	10,735,536	10,260,123
Trucks	4,799,198	5,931,533
Investment Income	386,408	123,849
Fines and Penalties	35,006	119,513
Total Taxes	**42,559,742**	**42,572,773**
Less: Transfers	(1,154,169)	(1,105,310)
Other Nonexchange Revenue	209	28
Net Highway Trust Fund Excise Taxes & Other Nonexchange Revenue	**41,405,782**	**41,467,491**
Federal Aviation Administration		
Excise Taxes and Other Nonexchange Revenue		
Passenger Ticket	10,069,332	9,910,134
International Departure	3,844,342	3,396,371
Fuel (Air)	651,116	637,178
Waybill	504,809	475,959
Investment Income	281,797	266,741
Tax Refunds and Credits	(14,801)	(13,441)
Other	26,063	20,940
Net Federal Aviation Administration Excise Taxes & Other Nonexchange Revenue	**15,362,658**	**14,693,882**
Other Miscellaneous Net Nonexchange Revenue	103,044	59,657
Total Nonexchange Revenue	**$56,871,484**	**$56,221,030**

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.

	2017			2016		
Dollars in Thousands	**Direct**	**Reimbursable**	**Total**	**Direct**	**Reimbursable**	**Total**
Category A	$713,514	$512,989	$1,226,503	$9,306,713	$463,606	$9,770,319
Category B	92,704,178	1,714,122	94,418,300	149,819,088	1,531,082	151,350,170
Exempt From Apportionment	15	—	15	2	—	2
Total	**$93,417,707**	**$2,227,111**	**$95,644,818**	**$159,125,803**	**$1,994,688**	**$161,120,491**

Dollars in Thousands	2017	2016
Available Contract Authority at Year-End	$18,782,992	$19,272,627
Available Borrowing Authority at Year-End	$4,122,414	$4,966,665
Undelivered Orders at Year-End[1]	$108,552,996	$110,570,964

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

TERMS OF BORROWING AUTHORITY 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 APPROPRIATIONS

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 GOVERNMENT

The reconciliation for the year ended September 30, 2016, is presented in the following table. The reconciliation for the fiscal year ended September 30, 2017, is not presented, because the submission of the Budget of the United States (Budget) for FY 2019, which presents the execution of the FY 2017 budget, occurs after publication of these financial statements. The DOT Budget Appendix can be found on the OMB website and will be available in early February 2018.

Dollars in Millions	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$210,669	$161,120	$(70,618)	$150,733
Funds Not Reported in the Budget				
Expired Funds	(338)	—	—	—
Distributed Offsetting Receipts	—	—	—	—
Other	(4)	(7)	—	9
Budget of the United States Government	**$210,327**	**$161,113**	**$(70,618)**	**$150,742**

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, 2017 and 2016.

REVENUE ACTIVITY

Dollars in Thousands

Sources of Cash Collections	2017	2016
Miscellaneous Receipts	$17,564	$42,437
User Fees	7	343
Fines, Penalties, and Forfeitures	39,102	49,211
Total Cash Collections	**56,673**	**91,991**
Accrual Adjustment	(12,755)	5,719
Total Custodial Revenue	**43,918**	**97,710**
Disposition of Collections		
Transferred to Treasury's General Fund	56,673	91,991
Increase (Decrease) in Amounts To Be Transferred	(12,755)	5,719
Net Custodial Activity	**$ —**	**$ —**

NOTE 22. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the years ended September 30, 2017 and 2016

Dollars in Thousands	2017	2016
Resources Used To Finance Activities		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	$95,644,818	$161,120,491
Less: Spending Authority From Offsetting Collections, Recoveries, and Other Changes to Obligated Balances	14,366,251	11,667,809
Obligations Net of Offsetting Collections and Recoveries	81,278,567	149,452,682
Less: Distributed Offsetting Receipts	(559,209)	(70,618,402)
Net Obligations	**80,719,358**	**78,834,280**
Other Resources		
Donations and Forfeitures of Property	15,691	38,824
Transfers in/out Without Reimbursement	12,487	(6,550)
Imputed Financing From Costs Absorbed by Others	381,404	454,432
Other	(928,297)	(74,453)
Net Other Resources Used To Finance Activities	**(518,715)**	**412,253**
Total Resources Used To Finance Activities	**80,200,643**	**79,246,533**
Resources Used To Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	(1,768,307)	(3,164,304)
Resources That Fund Expenses Recognized in Prior Periods	63,419	277,198
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	**(1,418,921)**	**(879,087)**
Other/Change in Unfilled Customer Orders	(194,667)	76,640
Special Transfers From the U.S. Treasury	—	(70,100,000)
Resources That Finance the Acquisition of Assets	6,056,169	4,027,515
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	224,293	70,169,610
Total Resources Used To Finance Items Not Part of the Net Cost of Operations	**2,961,986**	**407,572**
Total Resources Used To Finance the Net Cost of Operations	**77,238,657**	**78,838,961**
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	7,646	4,267
Increase in Environment and Disposal Liability	101,093	—
Upward/Downward Reestimates of Credit Subsidy Expense	(470,486)	(337,709)
Change in Exchange Revenue Receivable From the Public	(2,176)	3,188
Change in Other Liabilities	736,704	50,460
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**372,781**	**(279,794)**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	1,379,761	1,387,933
Revaluation of Assets or Liabilities	4,553	(53,546)
Other Expenses and Adjustments Not Otherwise Classified Above	603,348	685,458
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**1,987,662**	**2,019,845**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**2,360,443**	**1,740,051**
Net Cost of Operations	**$79,599,100**	**$80,579,012**

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

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 non-budgetary resources available to the reporting entity with its net cost of operations.

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, 2017 and 2016

Dollars in Thousands	2017	2016
Fiduciary Net Assets, Beginning of Year	$7,347	$14,263
Contributions	5,436	236
Investment Earnings	26	9,443
Disbursements to and on Behalf of Beneficiaries	(7,026)	(16,595)
Increases/(Decreases) in Fiduciary Net Assets	(1,564)	(6,916)
Fiduciary Net Assets, End of Year	**$5,783**	**$7,347**

FIDUCIARY NET ASSETS

As of September 30, 2017 and 2016

Dollars in Thousands	2017	2016
Fiduciary Fund Balance With Treasury	$1,244	$5,041
Investments in Treasury Securities	4,539	2,306
Total Fiduciary Net Assets	**$5,783**	**$7,347**

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

DEFERRED MAINTENANCE AND REPAIR (Unaudited)

For the Period Ended September 30, 2017

			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	$233,685	$236,884
	Unstaffed Faculties	Long range radars; unstaffed infrastructure and fuel storage tanks	707,060	740,296
MARAD	Vessels	Ready Reserve Force ships and vessels at various locations	29,780	51,955
	Buildings	Real property structure—U.S. Merchant Marine Academy	71,640	53,148
Total			**$1,042,165**	**$1,082,283**

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 include 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. Additionally, FAA revised the methodology for computing the deferred maintenance for unstaffed infrastructure in FY 2017. FAA now maintains an itemized database that contains all active capital assets along with their associated lifecycles and replacement costs. The current computation is based upon asset lifecycles instead of the previous estimate methodology which was based upon a 2008 engineering assessment and annual sustainment requirements.

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. 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 Computerized Maintenance Management System, or CMMS, is 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, 2017

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budgetary Resources						
Unobligated Balance, Brought Forward, October 1	$24,475,728	$3,936,058	$17,367,910	$676,271	$3,092,195	$49,548,162
Recoveries of Prior Year Unpaid Obligations	—	399,674	541,286	24,845	559,483	1,525,288
Other Changes in Unobligated Balance	9,829	(55,058)	(15,838)	(3,646)	(313,986)	(378,699)
Unobligated Balance From Prior Year Budget Authority, Net	**24,485,557**	**4,280,674**	**17,893,358**	**697,470**	**3,337,692**	**50,694,751**
Appropriations *(Note 1U)*	—	13,064,322	2,680,796	523,649	4,941,626	21,210,393
Borrowing Authority	—	—	—	1,136	4,121,277	4,122,413
Contract Authority	41,559,912	3,350,000	11,169,662	—	1,476,713	57,556,287
Spending Authority From Offsetting Collections	341,056	10,001,910	1,328	369,420	1,256,391	11,970,105
Total Budgetary Resources	**$66,386,525**	**$30,696,906**	**$31,745,144**	**$1,591,675**	**$15,133,699**	**$145,553,949**
Status of Budgetary Resources						
New Obligations and Upward Adjustments	$43,053,426	$26,427,382	$14,113,430	$968,927	$11,081,653	$95,644,818
Unobligated Balance, End of Year						
Apportioned, Unexpired Accounts	7,061,192	1,943,302	17,543,399	243,962	3,418,362	30,210,217
Unapportioned, Unexpired Accounts	16,271,907	2,188,530	85,797	363,755	574,545	19,484,534
Unexpired Unobligated Balance, End of Year	**23,333,099**	**4,131,832**	**17,629,196**	**607,717**	**3,992,907**	**49,694,751**
Expired Unobligated Balance, End of Year	—	137,692	2,518	15,031	59,139	214,380
Unobligated Balance, End of Year	**23,333,099**	**4,269,524**	**17,631,714**	**622,748**	**4,052,046**	**49,909,131**
Total Budgetary Resources	**$66,386,525**	**$30,696,906**	**$31,745,144**	**$1,591,675**	**$15,133,699**	**$145,553,949**
Change in Obligated Balances						
Unpaid Obligations						
Unpaid Obligations, Brought Forward, October 1 (Gross)	$63,259,738	$9,327,885	$22,921,133	$220,605	$23,729,044	$119,458,405
New Obligations and Upward Adjustments	43,053,426	26,427,382	14,113,430	968,927	11,081,653	95,644,818
Outlays (Gross)	(43,918,192)	(25,627,323)	(12,281,966)	(844,441)	(13,429,087)	(96,101,009)
Actual Transfers, Unpaid Obligations	—	—	—	—	10,000	10,000
Recoveries of Prior Year Unpaid Obligations	—	(399,674)	(541,286)	(24,845)	(559,483)	(1,525,288)
Unpaid Obligations, End of Year (Gross)	**62,394,972**	**9,728,270**	**24,211,311**	**320,246**	**20,832,127**	**117,486,926**
Uncollected Payments						
Uncollected Payments, Federal Sources, Brought Forward, October 1	(567,185)	(201,207)	(7,870)	(82,754)	(825,404)	(1,684,420)
Change in Uncollected Payments, Federal Sources	(7,394)	(260,694)	(1,069)	(31,832)	81,605	(219,384)
Uncollected Payments, Federal Sources, End of Year	**(574,579)**	**(461,901)**	**(8,939)**	**(114,586)**	**(743,799)**	**(1,903,804)**
Obligated Balance, Start of Year (Net)	62,692,553	9,126,678	22,913,263	137,851	22,903,640	117,773,985
Obligated Balance, End of Year (Net)	**$61,820,393**	**$9,266,369**	**$24,202,372**	**$205,660**	**$20,088,328**	**$115,583,122**

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

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

For the period ended September 30, 2017

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budget Authority and Outlays, Net						
Budget Authority, Gross	$41,900,968	$26,416,232	$13,851,786	$894,205	$11,796,007	$94,859,198
Actual Offsetting Collections	(333,661)	(9,761,049)	(19,290)	(337,594)	(2,228,204)	(12,679,798)
Change in Uncollected Payments, Federal Sources	(7,394)	(260,694)	(1,069)	(31,832)	81,605	(219,384)
Recoveries of Prior Year Paid Obligations	—	19,743	19,032	5	1,784	40,564
Budget Authority, Net	**$41,559,913**	**$16,414,232**	**$13,850,459**	**$524,784**	**$9,651,192**	**$82,000,580**
Outlays, Gross	$43,918,192	$25,627,323	$12,281,966	$844,441	$13,429,087	$96,101,009
Actual Offsetting Collections	(333,661)	(9,761,049)	(19,290)	(337,594)	(2,228,204)	(12,679,798)
Outlays, Net	**43,584,531**	**15,866,274**	**12,262,676**	**506,847**	**11,200,883**	**83,421,211**
Distributed Offsetting Receipts	—	(13,286)	(132)	(48,608)	(497,183)	(559,209)
Agency Outlays, Net	**$43,584,531**	**$15,852,988**	**$12,262,544**	**$458,239**	**$10,703,700**	**$82,862,002**

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**

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
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**
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)
Anticipated Offsetting Collections	—	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**

MARINE WAR RISK INSURANCE PROGRAM

For FY 2017 and FY 2016, MARAD covered nonpremium war risk insurance with a total coverage per year of $418 million and $485.8 million, respectively. The DoD indemnifies 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 million in the Marine War Risk Insurance fund to reimburse operators that may be covered by premium insurance in future periods for national security and defense purposes. For FY 2017 and FY2016, there were no outstanding policies or obligations for the premium based war risk insurance program.

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	2013	2014	2015	2016	2017
Surface Transportation					
Federal Highway Administration					
Federal Aid Highways (HTF)	$40,380,481	$41,408,224	$40,255,642	$40,367,987	$41,720,349
Other Highway Trust Fund Programs	134,204	44,974	27,936	55,621	36,154
General Fund Programs	1,282,624	563,358	274,327	255,273	5,270
Appalachian Development System	280,380	60,925	247,924	230,623	202,625
Federal Motor Carrier	—	19	—	—	—
Total Federal Highway Administration	**42,077,689**	**42,077,500**	**40,805,829**	**40,909,504**	**41,964,398**
Federal Transit Administration					
Discretionary Grants	6,672	9,595	4,871	6,151	(17,605)
Formula Grants	133,830	98,421	42,735	32,682	19,314
Capital Investment Grants	2,111,680	2,072,587	2,239,409	1,968,027	1,906,775
Washington Metro Area Transit Authority	148,469	73,356	97,921	265,177	204,463
Formula and Bus Grants	8,091,511	9,126,685	8,863,115	9,466,025	9,459,965
Total Federal Transit Administration	**10,492,162**	**11,380,644**	**11,248,051**	**11,738,062**	**11,572,912**
Total Surface Transportation Non-Federal Physical Property Investments	**52,569,851**	**53,458,144**	**52,053,880**	**52,647,566**	**53,537,310**
Air Transportation					
Federal Aviation Administration					
Airport Improvement Program	3,602,949	3,189,449	3,159,617	3,127,758	3,285,443
Total Air Transportation Non-Federal Physical Property Investments	**3,602,949**	**3,189,449**	**3,159,617**	**3,127,758**	**3,285,443**
Total Non-Federal Physical Property Investments	**$56,172,800**	**$56,647,593**	**$55,213,497**	**$55,775,324**	**$56,822,753**

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	2013	2014	2015	2016	2017
Surface Transportation					
Federal Highway Administration					
National Highway Institute Training	$1,184	$587	$738	$790	$352
Federal Motor Carrier Safety Administration					
Safety Grants	2,669	4,585	2,843	1,778	1,737
Federal Transit Administration					
National Transit Institute Training	2,926	3,358	4,098	3,763	4,290
National Highway Traffic Safety Administration					
Section 403 Highway Safety Programs	127,644	124,750	129,465	144,379	150,619
Highway Traffic Safety Grants	517,788	633,512	654,573	688,898	678,720
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	18,127	17,204	22,922	25,385	28,276
Total Surface Transportation Human Capital Investments	**670,338**	**783,996**	**814,639**	**864,993**	**863,994**
Maritime Transportation					
Maritime Administration					
State Maritime Academies Training[1]	11,208	10,281	13,319	22,202	20,335
Additional Maritime Training	2,400	2,274	323	262	584
Total Maritime Transportation Human Capital Investments	**13,608**	**12,555**	**13,642**	**22,464**	**20,919**
Total Human Capital Investments	**$683,946**	**$796,551**	**$828,281**	**$887,457**	**$884,913**

[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).

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	2013	2014	2015	2016	2017
Surface Transportation					
Federal Highway Administration					
Intelligent Transportation Systems	$103,510	$58,719	$35,530	$14,922	$6,371
Other Applied Research and Development	9,977	12,444	4,095	2,793	1,641
Federal Railroad Administration					
Railroad Research and Development Program	5,301	4,317	3,010	3,608	2,889
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	22,518	15,922	8,031	16,086	20,318
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Applied Research and Development Pipeline Safety	7,862	10,449	15,815	4,213	712
Applied Research and Development Hazardous Materials	1,666	1,635	4,304	4,402	4,923
Office of the Assistant Secretary for Research and Technology					
Applied Research and Development					
Research and Technology	5,755	7,043	—	5,426	5,426
Total Surface Transportation Research and Development Investments	**156,589**	**110,529**	**70,785**	**51,450**	**42,280**
Air Transportation					
Federal Aviation Administration					
Research and Development Plant	26,086	12,479	17,711	19,766	21,314
Applied Research	119,952	155,883	106,363	110,363	117,736
Development[(1)]	312	40	93,972	138,483	169,961
Administration	35,929	32,572	34,321	39,959	40,016
Total Air Transportation Research and Development Investments	**182,279**	**200,974**	**252,367**	**308,571**	**349,027**
Total Research and Development Investments	**$338,868**	**$311,503**	**$323,152**	**$360,021**	**$391,307**

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

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

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 problem solving 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 development 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 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 2017 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, 2017

Dollars in Thousands	Strategic Goal Areas						
	Safety	State of Good Repair	Livable Communities	Environmental Sustainability	Economic Competitive-ness	Organization Excellence	Total
Surface Transportation							
Federal Highway Administration	$7,323,635	$18,300,865	$3,382,447	$7,011,169	$7,518,874	$241,779	$43,778,769
Federal Transit Administration	236,085	4,032,968	221,960	965,820	6,658,294	70,483	12,185,610
Federal Railroad Administration	1,371,550	997,363	824,486	176,057	706,764	22,320	4,098,540
Federal Motor Carrier Safety Administration	567,020	—	—	—	2,347	24,726	594,093
National Highway Safety Administration	951,567	—	1,517	17,206	—	—	970,290
Pipeline and Hazardous Materials Safety Administration	72,424	—	—	—	—	—	72,424
Surface Transportation Board	—	—	—	—	529	—	529
Subtotal	**10,522,281**	**23,331,196**	**4,430,410**	**8,170,252**	**14,886,808**	**359,308**	**61,700,255**
Air Transportation							
Federal Aviation Administration	7,876,705	1,062,797	—	517,115	5,483,430	1,646,912	16,586,959
Subtotal	**7,876,705**	**1,062,797**	**—**	**517,115**	**5,483,430**	**1,646,912**	**16,586,959**
Maritime Transportation							
Maritime Administration	—	—	—	19,290	839	315,652	335,781
Subtotal	**—**	**—**	**—**	**19,290**	**839**	**315,652**	**335,781**
Other Programs							
Office of the Secretary	121,012	121,012	259,312	121,012	129,656	112,681	864,685
Office of Inspector General	—	—	—	—	—	111,420	111,420
Subtotal	**121,012**	**121,012**	**259,312**	**121,012**	**129,656**	**224,101**	**976,105**
Total Net Cost	**$18,519,998**	**$24,515,005**	**$4,689,722**	**$8,827,669**	**$20,500,733**	**$2,545,973**	**$79,599,100**

AFFILIATED ACTIVITIES

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

The U.S. Saint Lawrence Seaway Development Corporation (SLSDC), a wholly owned Government corporation and OA 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	2017	(Reclassified) 2016
Condensed Information		
Cash and Short-Term Time Deposits	$40,146	$29,784
Long-Term Time Deposits	2,070	1,982
Accounts Receivable	70	49
Other Receivable	3,172	2,886
Inventories	405	403
Other Current Assets	15	15
Property, Plant and Equipment	144,404	141,417
Other Assets	776	762
Total Assets	**$191,058**	**$177,298**
Current Liabilities	$3,806	$3,658
Actuarial Liabilities	4,330	3,891
Total Liabilities	**8,136**	**7,549**
Invested Capital	159,603	156,606
Cumulative Results of Operations	23,319	13,142
Total Net Position	**182,922**	**169,748**
Total Liabilities and Net Position	**$191,058**	**$177,297**
Operating Revenues	$29,421	$18,585
Operating Expenses	24,695	22,378
Operating Income (Loss)	**4,726**	**(3,793)**
Other Financing Sources	5,164	3,859
Operating Revenues and Other Financing Sources Over (Under) Operating Expenses	**9,890**	**66**
Beginning Cumulative Results of Operations (Deficit)	10,257	10,190
Ending Cumulative Results of Operations (Deficit)	**$20,147**	**$10,256**

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	1	0	0	0
Lack of sufficient oversight of an external service provider at FTA	1	0	1	0	0	0
Total material weaknesses	**2**	**0**	**2**	**0**	**0**	**0**

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

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

Statement of Assurance	Unmodified

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

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

Statement of Assurance	Unmodified

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

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

Statement of Assurance	Systems comply

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

Conformance With Federal Financial Management Improvement Act (FFMIA)

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

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.

U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

Memorandum

Date:	November 15, 2017
Subject:	INFORMATION: DOT's Fiscal Year 2018 Top Management Challenges Report No. PT2018005
From:	Calvin L. Scovel III Inspector General
To:	The Secretary Deputy Secretary

Our Nation's businesses, public services, communities, and citizens depend on a safe and efficient transportation system. The Department of Transportation (DOT) invests nearly $80 billion each year to build, maintain, and enhance this system to support both domestic and global interests and improve our quality of life. Our office helps support the Department's mission through audits and investigations that identify improvements to the management and execution of its diverse transportation programs. As required by law, we report annually on the Department's most significant challenges to meeting its mission. Our report aims to provide a forward-looking assessment for the coming fiscal year to aid DOT's agencies in focusing attention on the most serious management and performance issues. This year, in addition to focusing on DOT-wide management issues, the Department faces the unique challenge of planning multiple recovery efforts to restore vital transportation services in communities devastated by major hurricanes.

As Secretary Elaine L. Chao has affirmed, safety remains the Department's top priority. Although DOT continues to demonstrate a strong commitment to improving the safety of our airspace, roads, pipelines, railways, and transit, key challenges remain. For example, while overseeing the safe operation of about 45,000 commercial flights a day, DOT must enhance its collaboration with industry and other stakeholders to address safety vulnerabilities such as cockpit security, the reliability of aircraft parts, and the movement of aircraft and other vehicles on airport runways. The growing use of Unmanned Aircraft Systems (UAS) and their integration into the National Airspace System (NAS) also present some of the most significant safety challenges faced by DOT and the Federal Aviation Administration (FAA) in decades.

At the same time, the Department must continue to target oversight to the greatest safety risks to our transit systems, network of highway bridges and tunnels, and pipelines. In particular, the Department faces challenges in taking on an enhanced oversight role for State or regional transit agencies while working to address numerous pipeline and hazardous materials safety recommendations and mandates from Congress, our office, and others. Effectively using data to identify and mitigate risks is also a key challenge in DOT's efforts to improve highway and vehicle safety. Important focus areas include removing unsafe vehicles and high-risk drivers from roads and harnessing new technologies, such as Positive Train Control, to improve safety.

Meeting our Nation's transportation needs both now and in the future also requires adapting to evolving challenges and risks. A key watch area remains the Department's efforts to modernize the NAS to prepare for the anticipated growth in air travel. In particular, FAA will need to mitigate risks as it implements new, complex capabilities while also enhancing existing infrastructure that air traffic controllers rely on to manage traffic. In addition, rising demands on the surface transportation system and constraints on public resources have prompted DOT to identify new sources to fund needed improvements to surface infrastructure projects. The Department has sought greater private sector involvement through public-private partnerships and will be challenged to ensure private partners conform to Federal requirements and meet project delivery goals. As DOT works to address growing infrastructure needs, it must also develop plans to restore damaged transportation systems in Texas, Florida, and Puerto Rico in the wake of catastrophic hurricanes. It will be important for the Department to draw from lessons learned from prior disaster recovery efforts to carry out effective recovery projects, build in resiliency improvements, and protect taxpayer funds.

The Department also faces the challenge of reshaping the programs and policies that protect all its transportation systems in the face of increasing cyberattacks and security breaches. To minimize threats against DOT's more than 450 information systems and resolve existing vulnerabilities, DOT must ensure it can recruit and maintain a skilled workforce that can adapt to evolving threats and plan effective cybersecurity strategies.

Finally, the Department must work diligently to maximize and protect the billions of dollars it invests in reaching these and other transportation goals. DOT has multiple opportunities to better manage and oversee its major acquisitions and grants, especially those of FAA, its largest buyer, with over $5.5 billion in annual obligations for goods and services. Ensuring stewardship of taxpayer dollars also depends on strengthening its protections against fraud, waste, and abuse—including better leveraging the fraud defense mechanisms it has at hand.

We considered several criteria in identifying the Department's top management challenges for fiscal year 2018, 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 Safety and Oversight of a Diverse and Complex Aviation Industry
- Ensuring the Safety and Reliability of Surface Transportation Infrastructure
- Using Data-Driven Approaches and Technology To Reduce Highway and Rail Safety Risks

- Keeping Modernization on Track and Increasing User Benefits While Fostering Resiliency in the National Airspace System
- Integrating Unmanned Aircraft Systems and Other New Airspace Users Into the National Airspace System
- Maximizing Surface Infrastructure Investments Through Innovative Financing, Improved Project Delivery, and Effective Oversight
- Recalibrating DOT's Cybersecurity Posture To Mitigate Evolving Cybersecurity Threats and Uncertainties
- Enhancing the Department's Management and Oversight of Acquisitions To Achieve Results and Save Taxpayer Dollars
- Improving Mechanisms for Deterring Fraud, Waste, and Abuse
- Managing Response, Recovery, and Rebuilding Efforts for National Disasters and Emergencies

As always, we will continue to work closely with DOT officials to support the Department's efforts to improve safety, enhance efficiency, and protect its resources. We appreciate the Department's commitment to taking prompt actions in response to the challenges we have identified. The final report and the Department's response will be included in the Department's Annual Financial Report, as required by law.

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.

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cc: DOT Audit Liaison, M-1

CHAPTER 1

MAINTAINING SAFETY AND OVERSIGHT OF A DIVERSE AND COMPLEX AVIATION INDUSTRY

DOT, the Federal Aviation Administration (FAA), Congress, and industry maintain one of the world's safest aviation systems, which carries over 2.5 million people on approximately 45,000 flights every day. However, as DOT continues to seek ways to ensure safety efforts keep pace with a rapidly evolving airline industry, new and longstanding oversight needs present several challenges.

KEY CHALLENGES

- Enhancing interagency communication and working with stakeholders to improve cockpit safety and security
- Keeping pace with a dynamic and evolving regional airline industry
- Strengthening the investigative process and proactively removing suspected unapproved parts from the aviation supply chain
- Addressing reports of increased runway safety incidents

ENHANCING INTERAGENCY COMMUNICATION AND WORKING WITH STAKEHOLDERS TO IMPROVE COCKPIT SAFETY AND SECURITY

Incidents in 2012 and 2015 in the United States and abroad[1] have drawn attention to flight deck safety and security, including securing cockpit doors. FAA has improved its intelligence analysis capability, analysis of potential vulnerabilities, and process to notify manufacturers and air carriers of unsafe aircraft conditions that could be exploited by terrorists. However, our work has found that FAA may be missing collaboration opportunities that could enhance cockpit safety and security. For example, FAA does not coordinate with the Transportation Security Administration (TSA) at the field office level to identify emerging flight deck security vulnerabilities because FAA has not clarified inspectors' roles in areas where FAA and TSA regulations converge. In addition, while FAA has identified access to the cockpit as a security vulnerability, it has not, for example, reached out to industry to address crew complacency in performing cockpit door transitions (i.e., when the cockpit door is opened in flight). FAA could also do more, in our view, to provide air carriers with all information necessary to select and implement security procedures that may protect the cockpit more effectively. Enhanced communication with key industry stakeholders will be critical to FAA's efforts to ensure the safety of the traveling public.

KEEPING PACE WITH A DYNAMIC AND EVOLVING REGIONAL AIRLINE INDUSTRY

Regional air carriers have been a growing industry segment over the last several years and now operate over 10,000 flights a day and serve approximately 20 percent of all airline passengers.[2] These carriers operate in a unique and competitive environment and present a multifaceted oversight challenge for FAA. While they must meet the same safety standards as mainline carriers, they operate under a business model that requires them to keep costs low, yet they do not benefit from upward trends in ticket prices, additional revenue from baggage fees, or passenger enplanements. Therefore, their operations are strongly impacted by changes such as service expansion, airline

[1] On March 24, 2015, Germanwings Flight 9525 crashed in the Alps, killing all 150 people onboard. The crash was determined to have been caused by the deliberate and planned action of the co-pilot. In March 2012, JetBlue Airways Flight 191 was diverted after the first officer locked the captain out of the cockpit due to the captain's erratic behavior.

[2] According to the Regional Airline Association, the average plane size flown by regional carriers grew from 24 seats in 1990 to 61 in 2015, and the average trip increased from 194 miles in 1990 to 478 miles in 2015.

consolidations,[3] or new pilot requirements—all of which have taken place in recent years. Moreover, preliminary results from our ongoing work show that FAA has not provided inspectors with the tools and guidance necessary to proactively identify and mitigate operational risks at regional carriers. For example, FAA inspectors did not recognize the multiple indicators of financial distress, as defined in FAA guidance, at one carrier before that carrier filed for bankruptcy. Furthermore, even when inspectors are able to identify areas of risk, FAA guidance is vague regarding how inspectors should adjust surveillance. As a result, FAA may not be well positioned to respond to key changes in the regional carrier industry that could have important safety implications. We expect to make recommendations for improvement in our final report.

A recent significant change that this industry has experienced is the increase in required hours of flight experience to 1,500 hours for new pilot hires.[4] FAA issued this rule in 2013 in response to congressionally mandated changes regarding pilot training and experience requirements.[5] Regional carrier officials state that these requirements have reduced the pool of qualified pilots available to hire and affected the experience levels of new hires. However, FAA has not analyzed the impact of the 1,500-hour rule on the pilot population or reviewed industry's concerns regarding a pilot shortage, and it has no plans for such a study. We believe this will be an important safety watch item for the Agency going forward.

STRENGTHENING THE INVESTIGATIVE PROCESS AND PROACTIVELY REMOVING SUSPECTED UNAPPROVED PARTS FROM THE AVIATION SUPPLY CHAIN

The traveling public depends on FAA and the aviation industry to ensure that U.S. aircraft are properly maintained and airworthy. Part of this responsibility is to detect and monitor for Suspected Unapproved Parts (SUP)—aircraft parts that may have been manufactured without FAA approval, including counterfeit parts. Yet FAA's process for monitoring and investigating SUPs is not as effective as it could be because of recordkeeping weaknesses and the lack of management controls to capture and accurately report the number of SUP cases. For example, our recent analysis of all 265 SUP entries in FAA's database revealed 16 duplicate, 86 incomplete, and 28 invalid entries. Furthermore, FAA's oversight of industry actions to remove unapproved parts is ineffective because FAA does not confirm that operators take appropriate action to remove unapproved parts from their inventories. For example, an FAA inspector investigated a case to determine whether tens of thousands of privately owned commercial aircraft parts, which were for sale online, were unapproved. However, the inspector did not physically account for the location and quantities of the parts but instead accepted a letter from the owner stating that he had removed the ad from his eBay site and had not sold any parts. FAA is taking corrective actions in response to our 2017 recommendations to strengthen its management controls and ensure consistent investigations of SUPs. However, ensuring that the hundreds of thousands of aircraft parts installed on airplanes are manufactured or repaired according to standards continues to be a challenge for FAA and the aviation industry.

ADDRESSING REPORTS OF INCREASED RUNWAY SAFETY INCIDENTS

Reducing runway incursions—incidents involving unauthorized aircraft, vehicles, or people on a runway—has been a longstanding challenge for FAA. FAA has undertaken a number of safety initiatives since 2007, but reported incursions have increased over the last several years, with a 53-percent rise in total incursions between fiscal years

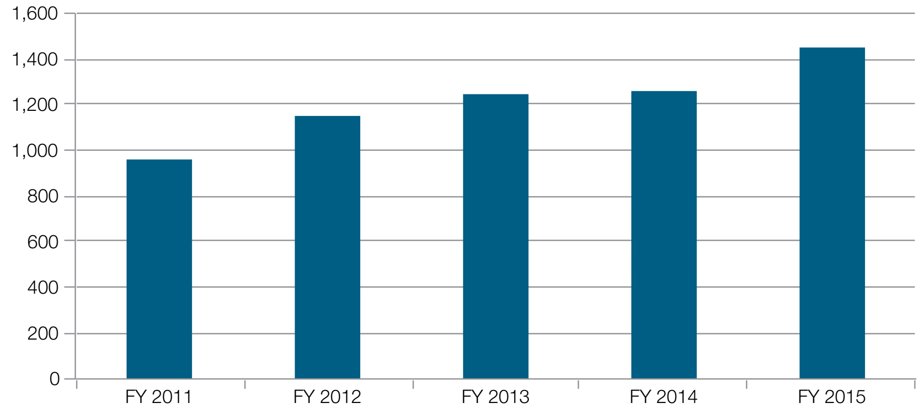
[3] Regional airlines have purchased other airlines to expand operations. For example, SkyWest Inc. purchased ExpressJet in 2011. Airlines also merge their operating certificates to streamline operations. For example, in 2014, Republic Airways Holdings merged its Chautauqua Airlines certificate with Shuttle America's certificate.

[4] This rule requires each commercial airline pilot to obtain an Airline Transport Pilot license, which requires 1,500 hours of flight experience (unless applicants have qualifying educational or military experience).

[5] Pub. L. No. 111-216.

2011 and 2015 (see figure). While the number of serious incidents is relatively low, there was a 114-percent rise in the rate of serious incidents reported over the same timeframe. To help mitigate runway incursions, FAA initiated a Call to Action forum in 2015 that focused on developing short-, medium-, and long-term efforts.

FIGURE. TOTAL NUMBER OF RUNWAY INCURSIONS, FISCAL YEARS 2011–2015



Source: OIG analysis

However, addressing runway incidents remains a significant safety challenge for FAA, as the total number of incursions still increased in fiscal year 2016 by 7 percent compared to the previous year. There have been several close calls at major airports where aircraft have come within a few feet of colliding with each other.[6] We have repeatedly reported on FAA's efforts to address this issue and are currently evaluating the Agency's progress in implementing the 2015 Call to Action initiatives.

RELATED DOCUMENTS

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

- *FAA Has Taken Steps To Identify Flight Deck Vulnerabilities but Needs To Enhance Its Mitigation Efforts,* June 26, 2017
- *Enhancements Are Needed to FAA's Oversight of the Suspected Unapproved Parts Program,* May 30, 2017
- *Letter to Ranking Member Peter DeFazio and Ranking Member Rick Larsen regarding Regional Air Carrier Pilot Pay and Qualifications,* March 2, 2017
- *Management Limitations May Hinder FAA's Ability To Fully Implement and Assess the Effectiveness of Its Runway Safety Initiatives,* September 25, 2014
- *FAA Operational and Programmatic Deficiencies Impede Integration of Runway Safety Technologies,* 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.

[6] For example, in February 2016 at the Dallas/Fort Worth International Airport, a commercial plane crossed a runway while a regional jet was departing, causing the regional jet's pilot to take evasive action. In July 2017 at the San Francisco International Airport, instead of landing on a runway, a commercial airplane pilot attempted to land on a taxiway where four other aircraft were awaiting takeoff. This incident has not been officially classified and is currently under investigation by the National Transportation Safety Board.

CHAPTER 2

ENSURING THE SAFETY AND RELIABILITY OF SURFACE TRANSPORTATION INFRASTRUCTURE

The Department plays a crucial role in ensuring that the millions of miles of roads, bridges, tunnels, tracks, and oil and gas pipelines across the Nation are safe and reliable. Our audit work has identified weaknesses in the safety performance and oversight of surface transportation infrastructure, highlighting the need for stronger efforts to identify and mitigate safety risks. In particular, the Department faces challenges in targeting inspections and enforcement to the areas of greatest risk, as well as implementing recommendations and mandates intended to enhance safety.

KEY CHALLENGES

- Transitioning effectively to an enhanced transit safety role
- Implementing effective highway bridge and tunnel safety programs
- Meeting regulatory requirements for hazardous materials and pipelines

TRANSITIONING EFFECTIVELY TO AN ENHANCED TRANSIT SAFETY ROLE

The Federal Transit Administration (FTA) faces significant challenges in carrying out its safety oversight responsibilities for our Nation's network of rail transit systems. Since the State Safety Oversight program was created in 1991,[7] FTA has received enhanced authority to oversee the State agencies that monitor the safety of rail transit agencies, including allowing it to assume the State's responsibilities in the absence of an effective State safety oversight agency.[8] In October 2015, FTA used this authority to assume 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.

However, as we reported last year, FTA can do more to transition effectively to its enhanced oversight role. Specifically, FTA has actions underway to develop policies and procedures for assuming direct safety oversight of a transit agency and for returning it to a State safety oversight agency but lacks milestones for finalizing those policies and procedures. We also reported that FTA continues to face challenges in acquiring and retaining safety oversight personnel and resources; establishing a data-driven, risk-based oversight system; and establishing robust safety performance criteria and enforceable safety standards. We made seven recommendations to strengthen FTA's ability to assume and relinquish direct safety oversight and to improve its rail transit safety oversight overall. Until FTA implements these recommendations, the Agency will continue to face challenges in meeting its safety oversight mission.

IMPLEMENTING EFFECTIVE HIGHWAY BRIDGE AND TUNNEL SAFETY PROGRAMS

According to the Federal Highway Administration (FHWA), nearly one-fourth of the Nation's more than 600,000 bridges are deficient.[9] Yet, 5 years after the enactment of the Moving Ahead for Progress in the 21st Century Act (MAP-21), FHWA has not fully implemented key requirements to improve bridge safety or completed actions necessary to close several of our related recommendations. In 2009, we recommended that FHWA improve its bridge inspection and inventory standards—actions later

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

[8] The Moving Ahead for Progress in the 21st Century Act (MAP-21), Pub. L. No. 112–141, § 20021 (2012), and the Fixing America's Surface Transportation Act (FAST Act), Pub. L. No. 114–94, § 3013 (2015), enhanced FTA's safety authority.

[9] Deficient bridges include those that have experienced significant deterioration or have substandard geometric characteristics, such as narrow lane widths or low clearances for the traffic on or under the bridge.

mandated in MAP-21—but the Agency's rulemaking process to make these improvements is more than 2 years behind schedule. Additionally, while FHWA has taken steps we recommended to use a data-driven, risk-based approach to oversee State bridge inspection programs, our 2015 work identified more opportunities to improve the Agency's oversight, which FHWA has committed to address but not yet fully completed. These include addressing gaps in program guidance and fully implementing a comprehensive national bridge safety risk-management process.

Tunnel safety also presents a challenge for FHWA. To its credit, the Agency has made progress toward MAP-21 requirements to establish a national tunnel inspection program. For example, in 2015, FHWA issued the National Tunnel Inspection Standards. 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. Similar to FHWA's oversight approach for bridges, the Agency plans to initiate a data-driven, risk-based approach to oversee States' tunnel inspection programs in 2018. Going forward, it will be critical for FHWA to pursue a rigorous and timely oversight process to best ensure the safety of the Nation's almost 500 highway tunnels nationwide.

MEETING REGULATORY REQUIREMENTS FOR PIPELINES AND HAZARDOUS MATERIALS

The Pipeline and Hazardous Materials Safety Administration (PHMSA) is responsible for the safety of the Nation's nearly 2.75 million-mile pipeline transportation system. From 2012 to 2016, there were 144 serious pipeline incidents resulting in 63 fatalities, demonstrating the need for stronger safety oversight. Between 2005 and 2015, PHMSA received 263 mandates and recommendations from Congress, our office, the National Transportation Safety Board (NTSB), and others aimed at improving its ability to prevent or mitigate pipeline and hazardous materials incidents. However, PHMSA lacks sufficient processes, oversight, and project management skills to address its mandates and internal deadlines in a timely manner. PHMSA completed 173—or nearly two-thirds—of these mandates and recommendations by 2016, but the Agency missed about 75 percent of its mandated deadlines and 85 percent of its internal deadlines.

PHMSA has faced particular challenges with carrying out efforts requiring rulemakings and non-rulemaking activities, such as advisory bulletins and studies. For example, in 2011, PHMSA received an 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. As we reported last year, PHMSA's delays with rulemakings stem in part from ineffective coordination with the three other Operating Administrations involved with the transportation of hazardous materials—FAA, the Federal Motor Carrier Safety Administration, and the Federal Railroad Administration. PHMSA did not adequately coordinate with these agencies on rulemaking and international standards development, limiting its ability to resolve disputes in a timely manner.

PHMSA has begun improving how it handles rulemakings by developing, for example, a rulemaking prioritization process. However, it is too soon to determine whether these efforts will adequately address the Agency's ability to effectively meet mandates and recommendations.

RELATED DOCUMENTS

The following related documents can be found on the OIG website 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
- *Insufficient Guidance, Oversight, and Coordination Hinder PHMSA's Full Implementation of Mandates and Recommendations,* October 14, 2016
- *FHWA Effectively Oversees Bridge Safety, but Opportunities Exist To Enhance Guidance and Address National Risks,* February 18, 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 DeWeese, Assistant Inspector General for Surface Transportation Audits, at (202) 366–5630.

CHAPTER 3

USING DATA-DRIVEN APPROACHES AND TECHNOLOGIES TO REDUCE HIGHWAY AND RAIL SAFETY RISKS

Transportation along the Nation's roads, highways, and rail lines presents some of the most significant safety challenges for the Department. In 2015, the National Highway Traffic Safety Administration (NHTSA), Federal Motor Carrier Safety Administration (FMCSA), and Federal Railroad Administration (FRA) reported 35,843 fatalities combined. While maintaining the integrity of its safety programs remains the Department's top priority, our work continues to highlight improvements the Department can make to remove high-risk vehicles and drivers from roads and enhance overall safety. This includes harnessing technologies that promote safety and improving its collection and analysis of critical safety data.

KEY CHALLENGES

- Improving data use to meet safety goals
- Removing high-risk motor carriers from the Nation's roads
- Harnessing technology to promote safety

IMPROVING DATA USE TO MEET SAFETY GOALS

DOT has opportunities in a number of areas to improve how it targets oversight to significant safety risks. For example, since 2014, our work has recommended that NHTSA's Office of Defects Investigations (ODI) improve how it collects and analyzes safety data to remove unsafe vehicles from roads. Since October 2008, NHTSA has overseen recalls due to a safety defect in Takata airbags installed in tens of millions of U.S. vehicles, highlighting the importance of continued diligence in this area. NHTSA has taken action in response to recommendations we made in 2015 and 2016, which included improvements to ODI's processes for determining which potential safety issues warrant investigation, enhancing ODI's quality control mechanisms for complying with its policies, and overseeing recalls. NHTSA's challenge going forward will be implementation and followthrough. In particular, NHTSA needs to continue to assess and improve its internal controls for identifying and addressing vehicle safety defects. NHTSA will also need to continue working with stakeholders to enhance the collection and analysis of early warning and vehicle defect data.

Similarly, enhanced data collection and analysis can greatly improve safety for more than 3.5 million U.S. commercial motor vehicle drivers. To reduce driver fatigue and fatigue-related crashes, FMCSA's hours-of-service regulations limit the number of hours a driver can work per day to 14 hours. However, drivers who experience excessive delays at shipping and receiving facilities—known as driver detention—may also drive unsafely due to fatigue or the desire to recover lost income, increasing the risk of crashes that result in fatalities, injuries, and financial costs. The Fixing America's Surface Transportation Act of 2015 (FAST Act) directed the Secretary to issue regulations on collecting data on loading and unloading delays, and directed us to report on the impact of loading and unloading delays in areas such as the economy and efficiency of the transportation system. Preliminary results from our ongoing work show that FMCSA's current data on these delays have limited usefulness for assessing the impacts of detention.

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

Fatalities involving large trucks and buses have increased in recent years, based on FMCSA data—from 4,043 in 2011 to 4,726 in 2015, with FMCSA's preliminary quarterly reported figures for 2016 at 4,702. FMCSA's Compliance, Safety, Accountability program seeks to identify and remove high-risk motor carriers from roads through steps such as targeted roadside inspections of trucks and onsite compliance reviews of carriers. Compliance reviews are an important tool for identifying carrier safety performance and compliance issues and ultimately correcting carrier behavior through timely enforcement of safety regulations. In July 2017, we reported that FMCSA made several policy and program changes, in response to recommendations by NTSB and the Department's Independent Review Team, to improve the effectiveness of these reviews. For example, the Agency established a new prioritization policy that narrows its focus to those high-risk carriers requiring immediate intervention and implemented new tools to check the quality of its compliance reviews. However, because FMCSA has not yet assessed the effectiveness of its new tools and processes, the Agency may continue to face challenges balancing the quality and quantity of its compliance reviews and adapting distribution of oversight resources to changing conditions, such as budget constraints and industry growth. A related and more complex challenge will be to improve FMCSA's information systems and associated data to ensure that its safety investigators are conducting effective compliance reviews.

HARNESSING TECHNOLOGY TO PROMOTE SAFETY

While the rapid development of and demand for emerging vehicle automation technologies holds promising long-term safety benefits, it also poses oversight and regulatory challenges.[10] In September 2016, the Department and NHTSA issued the Federal Automated Vehicle Policy, which provided an initial framework, guidance, and best practices to help manufacturers and other entities in the safe design, development, testing, and deployment of highly automated vehicles. In September 2017, the

[10] Harnessing technology will also require the Department to keep pace with new and evolving risks associated with cybersecurity. For more details on the Department's cybersecurity challenges, see chapter 7.

Department issued revised guidance that builds on the previous policy and incorporates feedback received through public comments and congressional hearings. Moving forward, the Department and NHTSA will have to identify ways to quickly adapt oversight efforts to recognize and address 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 opportunity to adapt to a changing technological landscape while meeting DOT's primary safety mission.

Technology can also play a key role in improving rail and transit safety, particularly through the use of Positive Train Control (PTC). PTC is an advanced system designed to automatically stop a train before collisions, derailments, and other incidents occur. The Rail Safety Improvement Act of 2008[11] required PTC to be implemented across a significant portion of the Nation's rail system by December 31, 2015. Congress extended the deadline by 3 years to December 31, 2018, with the possibility of an additional 2-year extension for limited, justifiable circumstances. To date, FRA and the Federal Transit Administration (FTA) have provided more than $915 million in grants to support railroads' mandated use of PTC systems, and we are currently reviewing FRA and FTA's oversight of these grants. According to the most recent update from FRA, only 27 percent of freight-rail route miles and 23 percent of passenger-rail route miles had fully operational PTC systems as of the first quarter of 2017. The Department will need to diligently monitor the railroads' deployment of PTC to ensure these critical safety actions are taken.

RELATED DOCUMENTS

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

- *FMCSA Strengthened Controls for Timely and Quality Reviews of High-Risk Carriers, but Data Challenges Remain To Assess Effectiveness,* July 25, 2017
- *Additional Efforts Are Needed To Enhance NHTSA's Full Implementation of OIG's 2011 Recommendations,* February 24, 2016
- *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
- *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.

[11] Pub. L. No. 110-432.

CHAPTER 4

KEEPING MODERNIZATION ON TRACK AND INCREASING USER BENEFITS WHILE FOSTERING RESILIENCY IN THE NATIONAL AIRSPACE SYSTEM

Through its multibillion-dollar Next Generation Air Transportation System (NextGen) program, the Federal Aviation Administration (FAA) aims to modernize the Nation's air traffic control system and provide safer, more efficient air traffic management by 2025. FAA has made progress in working with industry to identify and implement high-priority capabilities that will deliver tangible benefits to users within the National Airspace System (NAS). However, FAA continues to face challenges with managing risks and deploying new and complex capabilities while also enhancing critical infrastructure and minimizing costly disruptions to the NAS.

KEY CHALLENGES

- Mitigating risks with high-priority NextGen investments and delivering benefits to airspace users
- Keeping key air traffic infrastructure projects on track
- Strengthening the resiliency of the NAS

MITIGATING RISKS WITH HIGH-PRIORITY NEXTGEN INVESTMENTS AND DELIVERING BENEFITS TO AIRSPACE USERS

FAA has successfully worked with industry to identify and launch key NextGen priorities. In 2013, FAA tasked the NextGen Advisory Committee (NAC) with reviewing FAA's NextGen plans and recommending priorities for investment. That same year,[12] the NAC identified four top priorities critical to delivering near-term benefits and advancing NextGen: (1) advancing Performance Based Navigation (PBN), (2) improving access to closely spaced parallel runways (known as Multiple Runway Operations or MRO), (3) enhancing airport surface operations, and (4) developing data communications (DataComm) for controllers and pilots.

FAA collaborated with industry representatives to develop an implementation plan for capabilities in the four original priority areas. FAA has since made important progress and reported that it completed about 93 percent of its milestones between October 1, 2014, and March 31, 2017. FAA's progress includes implementation of Wake Recategorization (RECAT), a capability that reduces separation between aircraft on arrivals and departures at 12 airports nationwide. Additionally, FAA deployed DataComm at a total of 55 airport towers about 2.5 years ahead of schedule.

However, many risks to completing all the priority capabilities remain. Moreover, as we recently reported, the Agency lacks a comprehensive process for working with industry to effectively identify and mitigate risks for these initiatives, which could hinder its ability to deliver benefits as planned. This is particularly the case for surface operations, as FAA and industry will face complex challenges, such as introducing new technologies, integrating systems, and obtaining benefits by 2020. To continue progress toward major program milestones, FAA will need to mitigate the following key risk areas that will materially affect the delivery, capabilities, and benefits of its NextGen priorities (see table).

[12] The NAC added the Data Communications program as its fourth priority in February 2014.

TABLE. KEY RISKS TO IMPLEMENTING NEXTGEN INVESTMENT PRIORITIES AND DELIVERING BENEFITS

Priority	Key Risk Areas
MRO	• Timely completion of safety analysis • Aircraft fleet mix at specific airports
PBN	• Community outreach to reduce concerns about aircraft noise • Mixed equipage • Implementation of new automated controller tools to help controllers manage traffic in the vicinity of airports and limit the impacts of mixed equipage. • Effective controller training and use of time-based approaches at all facilities
Surface Operations	• Execution of the Terminal Flight Data Manager[13] program for electronic flight strips[14] and other surface management technologies • Complex systems integration issues • Data sharing among FAA and the airlines to improve surface traffic management
DataComm	• Industry cooperation with purchasing and installing new avionics • Resolving avionics issues with over 700 Boeing 757 and 767 aircraft • Displaying information on controller displays at facilities that manage high-altitude traffic by 2019
Cross-cutting/All Priorities	• Training for controllers and flight crews • Measurement and realization of benefits • Interdependencies between capabilities

Source: OIG analysis

KEEPING KEY AIR TRAFFIC INFRASTRUCTURE ON TRACK

As FAA works to deliver NextGen capabilities, it also faces the challenge of maintaining and upgrading key air traffic control infrastructure. This includes the En Route Automation Modernization (ERAM) system, a $2.7 billion system that air traffic controllers rely on to manage high-altitude traffic nationwide.

FAA completed ERAM deployment at the last of 20 sites in 2015 after a 4-year delay and cost increases of over $500 million. FAA has now embarked on a series of overlapping technical refresh and enhancement programs that will impact all the system's hardware, including elements of the main operating system, and introduce new capabilities. Two of these efforts have a combined value in excess of $575 million and will span through 2023. FAA has other replacement efforts planned by 2025 but has not yet developed reliable cost estimates.

Completing these ERAM-related efforts presents risk and challenges to FAA given the critical role the automation system plays in supporting new PBN routes and Data Communications—both high-priority NextGen investments for FAA and industry. Unanticipated problems with ERAM efforts will have a direct impact on FAA's ability to deliver NextGen benefits to airspace users between now and 2020. In addition, since 2014, ERAM has experienced a number of outages—two of which were significant and caused major traffic disruptions on the west and east coasts. Given these risks and challenges, FAA's ERAM efforts will be an important watch item for the Department, FAA, Congress, and other stakeholders going forward.

[13] Terminal Flight Data Manager is a new $795 million surface management system designed to introduce electronic flight strips into FAA towers and integrate other surface surveillance technologies into one efficient system.

[14] Electronic flight strips replace today's paper flight progress strips with modern, real-time data-sharing displays for tower controllers. With today's paper strips, tower controllers must physically hand off a flight progress strip from controller to controller, while an electronic version is distributed automatically, reducing controller workload and operational complexity.

STRENGTHENING THE RESILIENCY OF THE NATIONAL AIRSPACE SYSTEM

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. For example, in 2014, an FAA contract employee deliberately started a fire that destroyed critical telecommunications equipment at FAA's Chicago Air Route Traffic Control Center, delaying thousands of flights and reportedly costing aviation stakeholders over $350 million. The incident demonstrated that FAA faces significant challenges in strengthening the redundancy and resiliency of the NAS.

While FAA has taken steps to improve the effectiveness of its operational contingency plans since the Chicago incident, significant work remains. As we reported in January 2017, FAA's air traffic facilities are not fully prepared to respond effectively to major system disruptions, in part because the Agency lacks the necessary controller training and the required resiliency and flexibility for its key air traffic control infrastructure. For instance, many of the new technologies and capabilities that can improve the continuity of air traffic operations, such as the new NAS Voice System,[15] will not be available for years. Although the Agency has established new requirements for transferring airspace and managing air traffic control responsibilities to other facilities in the event of an incident, these plans remain incomplete. As a result, it is unclear when the new contingency plans will be in place and whether they will strengthen the resiliency of the NAS.

RELATED DOCUMENTS

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

- *FAA Has Made Progress Implementing NextGen Priorities, but Additional Actions Are Needed To Improve Risk Management,* October 18, 2017
- *Letter to Chairman Bill Shuster and Chairman Frank L. LoBiondo Regarding FAA's July 2016 NextGen Business Case,* August 15, 2017
- *Although FAA Has Taken Steps To Improve Its Operational Contingency Plans, Significant Work Remains To Mitigate the Effects of Major System Disruptions,* January 11, 2017
- *FAA's Contingency Plans and Security Protocols Were Insufficient at Chicago Air Traffic Control Facilities,* September 29, 2015

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 5

INTEGRATING UNMANNED AIRCRAFT SYSTEMS AND OTHER AIRSPACE USERS INTO THE NATIONAL AIRSPACE SYSTEM

The proliferation of nontraditional aviators and rapidly advancing diverse technologies into the National Airspace System (NAS) brings both opportunities and challenges for the Federal Aviation Administration (FAA), the Department, and airspace users. The growing use of Unmanned Aircraft Systems (UAS)—for commercial purposes

[15] NAS Voice System is expected to standardize the voice communication infrastructure among FAA air traffic facilities by replacing 11 aging analog voice communication systems with a single digital technology.

ranging from filmmaking and precision agriculture to package delivery—represents a substantial economic opportunity for the United States but also presents one of the most significant safety challenges FAA has faced in decades. Similarly, the demand for using private, commercial providers to transport satellites and other cargo into space has increased in recent years. Safe integration of these rapidly evolving technologies into the NAS will continue to present significant regulatory and oversight challenges for DOT.

KEY CHALLENGES

- Meeting the regulatory challenges of an evolving and diverse commercial UAS industry
- Developing strategies for overseeing operations and mitigating risks as UAS integration continues
- Managing commercial space launch activities as the industry grows and expands

MEETING THE REGULATORY CHALLENGES OF AN EVOLVING AND DIVERSE COMMERCIAL UAS INDUSTRY

FAA recently forecast that the number of UAS in the United States is likely to be about 4 million by 2021, increasing from 1.1 million in 2016. The growing demand for commercial UAS presents new regulatory challenges for FAA, which must develop rules to govern UAS use while maintaining safety. To advance the safe integration of UAS in domestic airspace, FAA published a new rule in June 2016[16] for small UAS (i.e., systems weighing less than 55 pounds). However, the rule does not permit several potential uses for UAS that are highly valued by industry, such as operating beyond line of sight or at night. To accommodate these operations, the rule allows operators to apply for waivers from its provisions. As of September 2017, the Agency has received more than 10,800 waiver applications and reviewed nearly 5,900, issuing approvals for more than 1,200 of these for waivers. However, just over 5,000 applications are still pending, and the Agency's backlog continues to grow.

FAA plans to collect safety and risk-mitigation data derived from the waiver process to inform future UAS policy decisions and rulemakings.[17] According to FAA data, the most requested waivers are for night flying, operations over people, and beyond visual line of sight operations. FAA continues to work on a number of rulemakings that cover some of these expanded operations, but it is unclear when many of these rulemakings will be issued for public comment. For example, the proposed rule for allowing operations over people was originally scheduled to be issued nearly a year ago. We are currently assessing FAA's UAS waiver approval and oversight processes and plan to report out next year.

DEVELOPING STRATEGIES FOR OVERSEEING OPERATIONS AND MITIGATING RISKS AS UAS INTEGRATION CONTINUES

The growing number of UAS operators also presents significant oversight and risk mitigation challenges for FAA. The Agency is in the early stages of developing a risk-based oversight process for commercial UAS operators. For example, FAA recently published national program guidelines that instruct Flight Standards field offices to plan at least one operator inspection per year. However, this guidance does not include risk or operational factors to consider when selecting which UAS operators to visit, and it did not take effect until the beginning of fiscal year 2018.

[16] 14 CFR Part 107 (June 2016).

[17] As noted in the summary to FAA's June 2016 Part 107 rule (see previous citation).

Developing an effective oversight strategy is particularly important given the safety issues that arise as UAS increasingly operate in the same airspace as manned aircraft. UAS sightings by pilots and other sources have increased dramatically, with over 1,290 events reported in the first 7 months of 2017 and more than 1,800 reported in 2016, as compared to about 1,100 in 2015 and just 238 in 2014, according to FAA's UAS event data. However, FAA still lacks a cohesive system for tracking and analyzing UAS sightings and incidents, which is an essential element of a risk-based oversight system. This limits the Agency's ability to identify, analyze, and mitigate safety risks.

Another UAS oversight challenge for FAA is the limited pool of data available to inspectors should they need to contact a UAS operator or take enforcement action in the event of an incident or violation. A U.S. Court of Appeals decision in May 2017[18] ruled that FAA's 2015 regulation requiring owners of model aircraft to register with FAA exceeded the Agency's statutory authority. FAA is finalizing a rule to account for this court decision. In addition, FAA recently established an aviation rulemaking committee to develop standards and provide recommendations to the Agency for remotely identifying and tracking UAS owners and operators, as directed by Congress in the FAA Extension, Safety, and Security Act of 2016.[19] This act also calls on FAA to develop a system that manages UAS in low-altitude airspace at or below 400 feet. These efforts in response to the act could help FAA with the challenge of identifying and managing small UAS operations in the NAS.

Furthermore, prosecuting UAS owners who violate FAA regulations or engage in illegal flight activities has been challenging. Since 2016, our Office of Investigations has opened 20 cases involving illegal operation of UAS. However, 13 of these cases were closed with no prosecutorial action for reasons such as inability to prove criminal intent and a lack of prior prosecutions.

MANAGING COMMERCIAL SPACE LAUNCH ACTIVITIES AS THE INDUSTRY GROWS AND EXPANDS

The growing demand for commercial space launches presents a significant new oversight challenge for FAA. Since the retirement of the space shuttle fleet in 2011, the United States has relied on private, commercial providers to transport satellites and other cargo into space. For example, the National Aeronautics and Space Administration (NASA) has been using commercial providers such as SpaceX and Orbital ATK to carry cargo to the International Space Station. This industry has grown over the last decade. According to FAA, the U.S. commercial space launch industry had estimated revenues of $1.2 billion in 2016—compared with $617 million in 2015—and FAA has licensed 37 commercial space launches from October 2014 through August 2017. Additionally, as noted by the Government Accountability Office last year, private companies and States, such as California, have been developing spaceports to support the expected growth of the commercial launch industry, and several U.S. companies are developing launch vehicles that will carry revenue passengers into space.[20]

FAA's oversight of the industry currently includes supervising and coordinating commercial launch and reentry operations; issuing licenses and permits; regulating civil aircraft that may be used for space support activities; and certifying the aircraft, pilots, mechanics, and equipment associated with commercial space activities. Regardless of the pace of industry growth, FAA and the Department will face several safety and policy challenges that will need to be addressed. These include integrating commercial space launches with other aircraft operating in the NAS, aligning new procedures and technologies with its NextGen modernization plans, and coordinating

[18] *Taylor v. Huerta*, 856 F.3d 1089 (D.C. Cir. 2017).

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

[20] GAO, *Commercial Space Industry Developments and FAA Challenges*, Testimony Before the Subcommittee on Aviation, Committee on Transportation and Infrastructure, U. S. House of Representatives, June 22, 2016 (GAO-16-765T).

oversight and regulatory issues as well as defining roles and responsibilities with other Federal agencies, including NASA, the Department of Commerce, and the Department of Defense.

RELATED DOCUMENTS

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

- *FAA Lacks a Risk-Based Oversight Process for Civil Unmanned Aircraft Systems,* December 1, 2016
- *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 E. Hampton, Assistant Inspector General for Aviation Audits, at (202) 366–0500.

CHAPTER 6

MAXIMIZING SURFACE INFRASTRUCTURE INVESTMENTS THROUGH INNOVATIVE FINANCING, IMPROVED PROJECT DELIVERY, AND EFFECTIVE OVERSIGHT

The Department receives over $50 billion in Federal dollars annually to fund projects to build, repair, and maintain the Nation's surface transportation system. However, the Nation's infrastructure needs continue to outpace financial resources. To maximize taxpayer investments while making vital infrastructure improvements, DOT will be challenged to balance innovative financing arrangements with effective oversight, improve its processes for delivering major projects, and enhance stewardship of billions of dollars in annual highway, rail, and transit grants.

KEY CHALLENGES

- Overseeing infrastructure investments using alternative funding
- Accelerating project delivery
- Enhancing stewardship of Federal transportation funds

OVERSEEING ALTERNATIVE FUNDING FOR INFRASTRUCTURE INVESTMENTS

Rising demands on the transportation system and constraints on public resources have prompted the Department toward new and innovative funding sources for key infrastructure projects. In particular, the Department has sought greater private sector involvement in the provision of highway and transit infrastructure through public-private partnerships (P3). P3s allow a private partner to participate in some combination of the design, construction, financing, operations, and maintenance of a project, including the collection of toll revenues with a public sponsor. Most public sponsors of P3 projects are State departments of transportation.

The use of P3s marks a shift from traditional ways of procuring and financing highway projects solely with Government funding. However, P3s must conform to the same Federal requirements as other Federal-aid projects, presenting significant oversight challenges for the Department. The Federal Highway Administration (FHWA) oversees Federal-aid highway, bridge, and tunnel projects where P3s are being considered or used, and FHWA and its State counterparts are responsible for ensuring that P3 projects demonstrate compliance with Federal requirements. If a P3 private partner does not perform as intended, it may increase the risk of additional public sponsor involvement and can impede the mobility of the traveling public. As the Department pursues more of these and other alternate financing arrangements, stewardship will be key to ensure private partners conform to Federal requirements and meet their project delivery goals.

ACCELERATING PROJECT DELIVERY

DOT has taken steps in recent years to improve its timelines for completing key infrastructure projects in response to congressional mandates. In particular, the Moving Ahead for Progress in the 21st Century Act of 2012 (MAP-21) Subtitle C[21] and the Fixing America's Surface Transportation Act of 2015 (FAST Act)[22] mandated that DOT implement initiatives to accelerate delivery of projects funded by FHWA, the Federal Transit Administration (FTA), and the Federal Railroad Administration (FRA). For example, the FAST Act codified FHWA's Every Day Counts (EDC) initiative, which the Agency began in 2009, to accelerate project delivery, enhance road and bridge safety and durability, reduce traffic congestion, and improve environmental sustainability.[23] The FAST Act also included changes to Federal law intended to streamline the environmental review process, such as expedited environmental reviews for reconstruction in the aftermath of emergencies.

Over the past 4 years, the Department has implemented nearly three-quarters of these MAP-21 Subtitle C initiatives, including integrating planning and environmental reviews and developing a process to exclude projects of limited Federal assistance. However, DOT has experienced delays in completing the remaining MAP-21 initiatives because it had to revise a large number of those actions to comply with the more recent FAST Act. We recently made multiple recommendations to improve DOT's ability to achieve the full range of Subtitle C's intended benefits—such as accelerating project delivery and reducing the costs of transportation projects. These include developing and implementing an oversight mechanism to periodically evaluate the performance of States that assume DOT's environmental review responsibilities and establishing target completion dates for the remaining planned actions for MAP-21 Subtitle C provisions already in progress. In June 2017, DOT reached out to the public through the Federal Register to identify and reduce rules that slow down the completion of projects across the Nation.

ENHANCING STEWARDSHIP OF FEDERAL SURFACE TRANSPORTATION FUNDS

DOT also faces challenges in implementing effective internal controls to safeguard billions of dollars in infrastructure grants. For example, FTA provided over $11.7 billion in grant funds in fiscal year 2016 to grantees across its 10 regions. Our recent work has shown that challenges persist in areas we have highlighted for years in FTA's oversight and management of its grantees, particularly for high-dollar New Starts projects.[24] These challenges include effectively using its oversight contractors

[21] Pub. L. No. 112–141, § 20021 (2012), Subtitle C.

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

[23] As part of the EDC, every 2 years, FHWA is expected to work with State departments of transportation, local governments, tribes, private industry, and other stakeholders to identify and select new sets of innovative technologies and practices that warrant widespread deployment.

[24] Each New Starts project totals at least $300 million for new construction or seeks $100 million or more in funding for improvements to existing transit programs.

to proactively assess the cost, schedule, and financial risks of major projects and directing its resources at monitoring grantees to ensure they take timely and effective actions to address identified risks.

In particular, our review of four major projects in FTA's three western regions found that FTA did not mitigate key financial risks. Specifically, it did not ensure that grantees completed all critical third-party agreements prior to FTA's funding approval. Third-party agreements establish terms and conditions for requirements such as utility relocation and public/private funding arrangements; without them, projects can experience higher costs and schedule delays. We also found that insufficient FTA reviews of financial reports allowed one grantee's use of incorrect indirect rates to go undetected for several years, and we determined that FTA put at least $37 million in Federal funds at risk of overpayment if it reimbursed the grantee for ineligible or unsupported expenditures. We made five recommendations to FTA to strengthen its New Starts project oversight and processes. FTA has completed actions to close one of these recommendations.

Similarly, our recent audit work has highlighted the need for FHWA to improve oversight of roughly $40 billion in Federal funding annually to States to construct and improve U.S. highways and bridges. This includes funds spent on preliminary engineering (PE) when FHWA authorizes States to spend Federal funds on the design and related ground work needed before a highway or bridge project advances to construction or acquires right-of-way.[25] For example, we reported last year that FHWA is not consistently enforcing a law[26] requiring States to repay Federal expenditures for PE if the project in question does not acquire right-of-way or begin construction in the 10 years following the obligation of Federal funds. In addition, our review found that FHWA did not have effective processes to track Federal funds spent on PE or ensure that States repay PE funds when warranted. As a result, we projected that $3.3 billion of Federal funds authorized during fiscal years 2000 through 2004 were at risk of not being repaid to the Highway Trust Fund or were used ineffectively due to FHWA's inaction. All seven recommendations we made to FHWA to improve its oversight of PE funds remain open. Strengthening its controls on PE will remain critical if FHWA is to ensure that States use these funds efficiently.

The Department also plays an important role in the oversight of the Transportation Investment Generating Economic Recovery (TIGER) discretionary grant program. Since 2009, Congress has appropriated $5.6 billion for TIGER grants to fund infrastructure improvement projects that enhance public safety and connectivity and the efficient movement of passengers and goods. Projects funded under the TIGER program have included roadway improvements, freight rail enhancements, and local transit projects, among others. The Office of the Under Secretary of Transportation for Policy leads the review of project applications—including evaluations of applicants' Benefit Cost Analyses (BCA)—for TIGER grant awards based on the program's national goals and each project's anticipated outcomes. BCAs are an important part of the project selection process as they inform decision makers on the economic merit of projects under consideration for TIGER funding. We are currently assessing OST's policies and procedures for evaluating BCA in determining which TIGER grant applications are forwarded for further review. Ultimately, while the TIGER grant program aims to provide significant economic opportunities to U.S. communities and promote transportation growth, DOT must continue to take steps to ensure that selected projects are best positioned to meet the program's intended mission.

[25] Right-of-way is new real property that must be acquired in order to construct or complete a transportation project.

[26] According to 23 U.S. Code (U.S.C.) § 102(b).

RELATED DOCUMENTS

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

- *Review of Major Western Capital Projects Points to Overall Improvements Needed in FTA's Financial Guidance and Oversight,* May 9, 2017
- *Vulnerabilities Exist in Implementing Initiatives Under MAP-21 Subtitle C to Accelerate Project Delivery,* March 6, 2017
- *FHWA's Oversight Does Not Ensure Division Offices Fully Comply With Project Agreement and Modification Requirements,* February 7, 2017
- *FHWA Does Not Effectively Ensure States Account for Preliminary Engineering Costs and Reimburse Funds as Required,* August 25, 2016
- *Oversight of Major Transportation Projects: Opportunities To Apply Lessons Learned,* June 8, 2015
- *MWAA's Financial Management Controls Are Not Sufficient To Ensure Eligibility of Expenses on FTA's Dulles Rail Project Grant,* January 16, 2014
- *Improvements Needed in FTA's Grant Oversight Program,* August 2, 2012
- *Actions Needed To Improve FTA's Oversight of the Dulles Corridor Metrorail Project's Phase 1,* July 26, 2012
- *Financial Analysis of Transportation-Related Public Private Partnerships,* July 28, 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.

CHAPTER 7

RECALIBRATING DOT'S CYBERSECURITY POSTURE TO MITIGATE EVOLVING CYBERSECURITY THREATS AND UNCERTAINTIES

As cyberattacks on the Federal Government and security breaches become increasingly common, protecting the Department's more than 450 information technology (IT) systems presents a significant challenge. To prevent such attacks and minimize their impact, the Department must reshape its cybersecurity program to ensure its workforce and strategies can keep pace with rapidly evolving developments as well as resolve longstanding and emerging cybersecurity vulnerabilities, particularly within the Federal Aviation Administration (FAA).

KEY CHALLENGES

- Addressing competency gaps and shortages in the IT cybersecurity workforce
- Responding to security challenges posed by the use of cloud service providers
- Planning for threats targeting the Internet of Things (IoT) and intelligent transportation systems
- Increasing FAA's ability to withstand cyberattacks and enhancing DOT coordination with FAA

ADDRESSING COMPETENCY GAPS AND SHORTAGES IN THE IT CYBER-SECURITY WORKFORCE

Skilled cybersecurity professionals are essential to deflect attacks and protect DOT from compromises. However, as noted by the Government Accountability Office (GAO) in a 2016 report,[27] DOT lacks an effective process for planning its IT workforce. For example, DOT has not fully identified or developed staffing requirements for its mission-critical IT positions, competency needs, or strategies to fill specific IT competency gaps. As a result, it will be difficult for the Department to ensure its cybersecurity staff has the necessary expertise to implement critical cybersecurity enhancements. This issue is exacerbated by the Federal and private sectors' growing demand for cybersecurity professionals, which is outpacing supply by approximately 40,000 jobs in the United States alone, according to industry reports. Globally, there will be a shortage of 2 million cybersecurity professionals by 2019. To remain competitive with the many Federal and private employers seeking to hire and retain these professionals, DOT must understand its workforce needs and competencies and leverage this knowledge to develop strong recruitment and retention strategies.

RESPONDING TO SECURITY CHALLENGES POSED BY THE USE OF CLOUD SERVICE PROVIDERS

Use of cloud computing has grown in popularity in both the public and private sectors, due to its potential operational efficiencies and cost savings. As DOT moves toward cloud computing for transportation management services, securing its information from cyberattacks will pose significant challenges. For example, the Department must ensure it maintains accountability for data stored on third-party servers. Last year, we reported that the Federal Transit Administration (FTA) replaced its legacy financial system with a new grant management system using a cloud provider but did not execute a Service Level Agreement defining security requirements (including roles and responsibilities), as required by DOT policy. In addition, FTA did not effectively assess and monitor the service provider's security controls or address potential risks the provider identified. FTA has addressed these matters. As DOT pursues additional cloud solutions, it will be critical to clearly define all security requirements with providers and monitor their performance.

PLANNING FOR THREATS TARGETING IOT AND INTELLIGENT TRANSPORTATION SYSTEMS

DOT must also address transportation risks associated with another rapidly evolving cybersecurity area, the Internet of Things, or IoT. IoT refers to technologies and devices that sense information and communicate it to the internet or other networks and, in some cases, act on that information.[28] Examples include digital thermostats, smart watches, and cameras that are capable of accessing the internet. While convenient, IoT devices also present increased cybersecurity and privacy risks.[29] For example, some IoT devices that rely on voice activation must listen to users at all times to function properly, enabling the device to transmit obtained private information. In addition, video-enabled IoT devices can be used to capture private or business information of unsuspecting personnel.

DOT also faces cybersecurity challenges related to the use of intelligent transportation systems, such as traffic-light synchronization and navigation and mapping technologies, which apply information and communications technology to surface

[27] GAO, *Key Practices Help Ensure Strong Integrated Program Teams; Selected Departments Need to Assess Skill Gaps* (Report No. GAO-17-8), November 2016.

[28] GAO, *Internet of Things: Communities Deploy Projects by Combining Federal Support With Other Funds and Expertise* (Report No. GAO-17-570), July 2017.

[29] GAO, *Technology Assessment: Internet of Things: Status and implications of an increasingly connected world* (Report No. GAO-17-75), May 2017.

transportation to increase safety and mobility.[30] DOT's main focus in this area is on connected vehicles (i.e., vehicles connected to internet networks), which benefit from IoT technologies and are subject to the same cybersecurity weaknesses. For example, as noted by GAO in a 2017 vehicle cybersecurity report,[31] hackers remotely accessed a vehicle through the entertainment system to control the brakes, endangering the driver. Because of the potential for loss of life and other severe consequences, it is critical that cybersecurity be embedded into the process as DOT works to develop appropriate guidance and standards in this area.

INCREASING FAA'S ABILITY TO WITHSTAND CYBERATTACKS AND ENHANCING DOT COORDINATION WITH FAA

Our annual Federal and Information Security Management Act (FISMA) reports continue to find that DOT faces some of its most significant cybersecurity challenges at FAA, which owns over 300—or about 70 percent—of DOT's major information systems. In particular, as FAA has expanded its use of technology, its vulnerability to cyberattacks has expanded. For example, FAA's cyberattack surface—the set of ways in which an adversary can enter a system and cause damage—now includes:

- **Global Positioning System (GPS) technology—**FAA is transitioning from radar to GPS technology to monitor and control aircraft. However, GPS can be jammed or "spoofed" to send incorrect information.
- **Connections between air traffic control information systems and networks—** Some air traffic control systems are legacy systems that lack required security controls, and they may be particularly vulnerable to cyberattacks when connected to new networks.
- **Wireless technologies on aircraft—**Passengers increasingly have access to wireless networks and the internet, increasing cyberattack risks.
- **Airlines' use of IoT—**Airlines are using IoT to perform functions such as increasing fuel efficiency and automating repairs, opening up potential vulnerabilities to hackers.

Despite the increase in the cyberattack surface in its systems and those of its users, FAA has not resolved longstanding cybersecurity issues. For example, our FISMA report last year noted that FAA's unresolved security weaknesses increased from 1,780 to 2,733 between fiscal years 2015 to 2016, in addition to untracked weaknesses.

One reason that DOT faces challenges promoting cybersecurity at FAA is that, historically, FAA has conducted its security-related efforts separately from the Department. For example, in our 2016 report on cybersecurity incident handling, we identified a number of cybersecurity efforts that FAA performs at least partially independently of the Department. These include operating the National Airspace Systems Cyber Operations—which monitors the cybersecurity of the National Airspace System—tracking security weaknesses outside the Department's central system, deploying information security continuous monitoring products, and developing common control procedures. In addition, DOT's recent enterprise-wide network assessment did not include FAA networks.

[30] Federal Highway Administration, *History of Intelligent Transportation Systems* (Report No. FHWA-JPO-16-329), May 2016.

[31] GAO, *Vehicle Cybersecurity: DOT and Industry Have Efforts Under Way, but DOT Needs to Define Its Role in Responding to a Real-world Attack* (Report No. GAO-16-350), March 2016.

RELATED DOCUMENTS

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

- *Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2016 and 2015,* November 15, 2016
- *FISMA 2016: DOT Continues To Make Progress, but the Department's Information Security Posture Is Still Not Effective,* November 9, 2016
- *DOT Cybersecurity Incident Handling and Reporting Is Ineffective and Incomplete,* October 13, 2016
- *FISMA 2015: DOT Has Major Success in PIV Implementation, but Problems Persist in Other Cybersecurity Areas,* November 5, 2015
- *FISMA 2014: DOT Has Made Progress but Significant Weaknesses in Its Information Security Remain,* November 14, 2014

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

CHAPTER 8

ENHANCING THE DEPARTMENT'S MANAGEMENT AND OVERSIGHT OF ACQUISITIONS TO ACHIEVE RESULTS AND SAVE TAXPAYER DOLLARS

A continuing challenge for the Government and DOT is spending taxpayer dollars wisely and protecting them from waste and abuse. With more than half of DOT's nearly $79 billion annual budget disseminated through contracts and grants, it is imperative that these funds result in the best value for the taxpayer. Our work has identified a number of areas where DOT can better manage and oversee contracts and grants to improve program performance, achieve cost savings, and help prevent fraud, waste, and abuse.

KEY CHALLENGES

- Increasing management attention to Federal Aviation Administration (FAA) acquisitions—the Department's largest buyer
- Enhancing oversight of multiple-award contracts and other types of agreements to successfully manage risk
- Ensuring financial integrity within the Department's small business programs

INCREASING MANAGEMENT ATTENTION ON FAA ACQUISITIONS—THE DEPARTMENT'S LARGEST BUYER

FAA is by far the largest procurer within the Department, obligating over $5.5 billion annually for goods and services. Most of these funds go to large and complex contracting efforts aimed at improving FAA's management of the National Airspace System (NAS). While FAA is reporting some success in meeting this challenge based on improved delivery of NAS technologies and capabilities through its acquisitions, we have identified contract management weaknesses that have increased costs and delays in implementing FAA technology deliverables integral to Next Generation Air Transportation System (NextGen) programs. Such weaknesses include inadequately defined requirements, insufficient efforts to assess and address acquisition-specific risks, overreliance on a "grand design" versus an incremental modular contracting approach, inadequately managed incentive awards, and unwillingness to enforce key contract terms and conditions. For example, FAA's acquisition planning for Automatic Dependent Surveillance-Broadcast (ADS-B), a major NextGen initiative intended to replace antiquated radar, exhibited weaknesses associated with acquisition approach, source-selection practices, and price analysis, which could have contributed to FAA paying millions more than necessary for delivered services. Additionally, FAA allowed the ADS-B contractor to deliver partially completed installations, despite contract provisions calling for complete installation, and awarded incentives even though the system was experiencing service outages.

To more effectively focus management attention on FAA's acquisition and other agreement costs, the Agency must be more transparent in how it reports its spending on contracts and other instruments. For example, our recent review of DOT's use and management of other transaction agreements (OTA) found that FAA does not report hundreds of millions of dollars in OTA awards to USAspending.gov, limiting public visibility of FAA's expenditures.[32] Moreover, we found FAA had five times more OTAs than it initially identified. Similarly, in 2016, we found that, due to data transfer errors, FAA did not report to the Department (and ultimately Congress) 81 high-risk, sole-source contracts valued at $166 million during fiscal years 2012 through 2014. Our prior work has also found that FAA did not report cost overruns associated with early segments of acquisitions, thereby masking the true costs and progress of its major acquisitions.

ENHANCING OVERSIGHT OF MULTIPLE-AWARD CONTRACTS AND OTHER TYPES OF AGREEMENTS TO SUCCESSFULLY MANAGE RISK

Multiple-award contracts are used by agencies to help accelerate acquisition timeframes, reduce acquisition costs, and quickly meet mission requirements; however, they are not without risks. Our reviews of several of DOT's large-dollar, multiple-award service contracts and procurement vehicles found that DOT's usage does not always comply with Federal, DOT, or FAA requirements. For example, our recent review of the Electronic FAA Accelerated and Simplified Tasks (eFAST) vehicle (valued at $7.4 billion) shows that FAA does not always verify contractor eligibility; it awarded $67 million in 8(a) awards[33] to firms that were no longer eligible. In addition, on the Volpe Transportation Information Project Support (V-TRIPS) contract (valued at $234 million), we identified nearly $8.7 million in improperly recorded transactions. Such shortfalls create greater risk that DOT will not meet its needs in the most economical and efficient manner or that appropriated funds may be used for unintended purposes.

Similarly, other types of agreements—such as OTAs and cooperative agreements—also create opportunities and risks. For example, OTAs can provide important flexibilities for agencies when the requirements of a particular project cannot be easily met through traditional procurement instruments. However, OTAs also pose performance and financial risks because they are not subject to the same controls as contracts or grants. Therefore, use of OTAs requires clear, comprehensive guidance to address proper usage and related pitfalls—an area in which DOT is lacking, particularly at

[32] The Federal Funding Accountability and Transparency Act, Pub. L 109-282, as amended, currently requires agencies to report all Federal awards of $25,000 or more to a publicly available website.

[33] The 8(a) status is part of a business development program administered by the Small Business Administration and makes the firm eligible for a broad range of assistance—such as financial and procurement assistance, mentoring, and training—to help it compete in the general marketplace. An 8(a) firm must be owned and controlled at least 51 percent by socially and economically disadvantaged individuals.

FAA—its primary user of OTAs. For example, FAA advance payments to some OTA recipients exceeded their immediate financial need and did not match recipients' near-term costs as required under Federal grant rules. As a result, recipients earned more than $372,000 in interest on Federal funds that could have been put to better use.

ENSURING FINANCIAL INTEGRITY WITHIN THE DEPARTMENT'S SMALL BUSINESS PROGRAMS

Nearly 29 million small businesses account for 99.7 percent of all businesses and are responsible for employing approximately 56 million people (nearly half of the private workforce) in the United States. DOT recognizes the economic importance of these businesses' contributions and offers several programs to promote small business opportunities. Our work continues to identify several areas where DOT can strengthen its management of these efforts. For example, we found that DOT's Office of Small and Disadvantaged Business Utilization (OSDBU) lacked effective internal control practices, which led to noncompliance with Federal and Departmental procurement and financial management policies and increased the potential for appropriations law violations. Our reviews of DOT's Disadvantaged Businesses Enterprise Programs (DBE) also identified various issues with compliance or program effectiveness. For example, we found in our most recent airport DBE audit that DOT had not developed a "train-the-trainer" program to ensure that FAA, Federal Highway Administration (FHWA), and Federal Transit Administration (FTA) personnel provide consistent guidance and training to certification staff—a DOT Order requirement since 2014.[34] Lastly, small firms seeking to do business at large U.S. airports face various barriers, including infrequent turnover of existing DBE firms, high entry costs, and difficulty receiving timely payments. While DOT and airports are taking steps to address these obstacles, ensuring all DBEs have a fair opportunity to compete for contracts and concessions will continue to present a challenge for DOT, as the number of such firms doing business at the Nation's largest airports declined by 31 percent between 2012 and 2014.[35]

RELATED DOCUMENTS

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

- *OSDBU Lacks Effective Processes for Establishing, Overseeing, and Managing Its Small Business Transportation Resource Centers*, September 26, 2017
- *DOT and FAA Lack Adequate Controls Over Their Use and Management of Other Transaction Agreements*, September 11, 2017
- *Greater Adherence To ADS-B Contract Terms May Generate Better Performance and Cost Savings for FAA,* September 5, 2017
- *Opportunities Exist for FAA To Strengthen Its Award and Oversight of eFAST Procurements,* May 8, 2017
- *New Disadvantaged Business Enterprise Participation Is Decreasing at the Nation's Largest Airports, and Certification Barriers Exist,* January 17, 2017
- *Weaknesses Identified in Volpe's Cost Accounting Practices for the V-TRIPS Contract,* May 9, 2016

[34] DOT Order 4220.1, Disadvantage Business Enterprise Program Coordination and Oversight (February 2014), directs the Departmental Office of Civil Rights to oversee the development of a "train-the-trainer" program for Operating Administration staff so that they may deliver consistent training and guidance to their recipients on all aspects of the DBE program.

[35] Strengthening DBE oversight to counter fraud is another challenge for DOT, as discussed in chapter 9.

- *FAA Lacks Adequate Controls To Accurately Track and Award Its Sole-Source Contracts,* May 9, 2016
- *FAA Reforms Have Not Achieved Expected Cost, Efficiency, and Modernization Outcomes,* January 15, 2016
- *New Disadvantaged Business Enterprise Firms Continue To Face Barriers To Obtaining Work at the Nation's Largest Airports,* November 3, 2015
- *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

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 and Charles A. Ward, Assistant Inspector General for Audit Operations and Special Reviews, at (202) 366–1249.

CHAPTER 9

IMPROVING MECHANISMS FOR DETERRING FRAUD, WASTE, AND ABUSE

The Department of Transportation manages an annual budget of more than $79 billion. Effective stewardship of these taxpayer dollars is a continual challenge and requires diligent attention to proactively identify and prevent instances of fraud, waste, and abuse. DOT has opportunities to better leverage its existing fraud detection and prevention resources, including increasing Office of Inspector General (OIG) referrals and strengthening oversight in high-risk fraud areas.

KEY CHALLENGES

- Developing a more effective process for referring potential criminal violations to OIG
- Preventing known bad actors from receiving Federal funds
- Strengthening Disadvantaged Business Enterprise (DBE) program oversight to prevent fraud

DEVELOPING A MORE EFFECTIVE PROCESS FOR REFERRING POTENTIAL CRIMINAL VIOLATIONS TO OIG

The Department's mission to ensure a safe, efficient, and accessible transportation system requires proper stewardship of funds and effective enforcement of laws and regulations. OIG plays a crucial role in fulfilling this mission by detecting and preventing fraud, waste, abuse, and mismanagement. In order for our office to fulfill this role, Operating Administrations, in consultation with OIG, should determine whether circumstances indicate that a potential criminal violation warrants referral to OIG or to the Department of Justice.[36] While the Department and its Operating Administrations retain discretion to determine whether conduct rises to the level of a potential criminal violation,[37] our office is the only DOT organization with the authority to employ criminal investigators or to conduct criminal investigations. When we receive

[36] See DOT Order 8000.8, sec. 6.a(1) – (8).

[37] See DOT Order 8000.8, sec. 7.

potential criminal referrals, we evaluate the information to determine whether the alleged activity falls within our investigative jurisdiction; if so, we open investigations in situations where there may be a significant impact on the Department's mission. In fiscal year 2016, we received 82 notifications of potential criminal violations from DOT's Operating Administrations. These notifications resulted in the initiation of 60 criminal investigations. So far, these investigations have resulted in the filing of criminal charges in 15 separate cases. Six convictions have been obtained, and further investigation and judicial action are still pending in some cases.

However, Operating Administrations do not always notify our office of potential violations, even when circumstances may warrant it. For example, our 2016 audit of the Federal Railroad Administration's (FRA) oversight of transportation of hazardous materials by rail found that FRA did not refer any potential criminal violations in our sample to our office during the 5 years prior to the audit. In response to our recommendations, FRA revised its referral policy to allow its enforcement personnel to directly refer potential criminal matters to our office and has since made 10 referrals. We began another audit in April 2017 to assess whether the Department and other Operating Administrations have sufficient policies and procedures to promptly refer cases of potential criminal violations in appropriate circumstances. We are also expanding our risk-based data analytics work to assist the Department by predicting and targeting possible areas of fraud, waste, and abuse. Our new Data Analytics unit, established last year, will work directly with our ongoing audit and investigation teams to identify key data, such as outliers or patterns of abuse to increase the effectiveness of DOT's anti-fraud efforts. Effectively leveraging data and establishing sound referral policies will aid the Department's efforts to prosecute crimes, recover wasted funds, and prevent future offenses.

PREVENTING KNOWN BAD ACTORS FROM RECEIVING FEDERAL FUNDS

As a steward of billions in taxpayer dollars, DOT must adhere to Federal suspension and debarment (S&D) regulations to prevent federally funded contract or grant awards to irresponsible parties. The S&D program is intended to provide immediate protection to the Government and taxpayers from those who engage in dishonest or illegal conduct or are lacking in business integrity. S&D actions are among the Government's strongest tools to deter unethical and unlawful use of Federal funds because one Federal agency's S&D action applies Governmentwide.

However, the Department has previously faced challenges in complying with Federal S&D requirements and its own S&D program. For example, although the Department requires that decisions to suspend or disbar an organization be made within 45 days, our work in 2014 found that it took, on average, 205 days to take an S&D action. In addition, DOT did not have adequate controls in place to ensure it was entering accurate and timely data into the Governmentwide database of federally excluded parties. While DOT has taken steps to strengthen its S&D program in response to our recommendations, making timely S&D decisions and accurately reporting those decisions remain critical to reducing the risk of doing business with unethical and dishonest parties.

DOT can also do more to identify parties that may warrant S&D review or action. Currently, DOT initiates S&D actions based on referrals from our office, but does not do so in response to other potential sources of information, such as media reports or other agencies' reviews or audits.[38] By improving its S&D identification, reporting, and oversight procedures, DOT will be better positioned to protect the Government from doing business with bad actors and prevent the unethical and unlawful use of Federal funds.

[38] DOT Order 4200.5F, "Suspension and Debarment, and Ineligibility Procedures," states that Operating Administrations and Secretarial Offices "shall be proactive in responding to information and referrals regarding potential suspension and debarment 'actions'" from a variety of information sources.

STRENGTHENING DBE PROGRAM OVERSIGHT TO PREVENT FRAUD

A significant challenge for DOT is addressing Disadvantaged Business Enterprise (DBE) program fraud, which our audits and investigations have found to be one of the Department's highest-risk and most persistent fraud areas. DOT's DBE program was created to help level the playing field by increasing opportunities for socially and economically disadvantaged individuals who own and control small businesses participate in DOT contracting opportunities. Annually, DBEs receive $4.7 billion of Federal funds from DOT federally assisted contracts under transportation projects, which are administered through State and local transportation agencies and subject to DOT oversight. DBE fraud often involves prime contractors and non-DBE subcontractors who conspire with DBE firms to circumvent DBE participation criteria. DBE fraud currently represents 30.5 percent of our active grant and procurement fraud investigations, which focus on the most egregious violators. Over the past 5 years, our DBE fraud investigations have produced 44 indictments, 40 convictions, and over $56 million in financial recoveries, and we continue to open new investigations.

Since 2013, our audits have identified weaknesses and recommended steps for strengthening DOT's oversight of DBE programs and protecting DBE funding from fraud. For example, we found that recipients of DOT's DBE funds did not always verify that firms applying for DBE certification met program eligibility requirements, especially those related to ownership and control. Strong oversight is needed to ensure that only certified DBEs are performing the work, rather than acting as "front companies" for ineligible firms. DOT is taking steps to address issues our reports have identified, including clarifying that the Secretary and Deputy Secretary have overall accountability and decision-making responsibility for the DBE program, as well as defining the management roles of the Office of the Secretary offices and Operating Administrations. However, strong and diligent oversight remains critical to remove bad actors who attempt to fraudulently claim funds through the DBE program.

RELATED DOCUMENTS

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

- *FRA's Oversight of Hazardous Materials Shipments Lacks Comprehensive Risk Evaluation and Focus on Deterrence,* February 24, 2016
- *DOT's Suspension and Debarment Program Continues To Have Insufficient Controls,* October 15, 2014
- *Management Advisory: Suspended or Debarred Firms Are Listed on State DBE Directories as Eligible for DBE Participation,* September 26, 2013
- *Weaknesses in the Department's Disadvantaged Business Enterprise Program Limit Achievement of Its Objectives,* April 23, 2013

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 10

MANAGING RESPONSE, RECOVERY, AND REBUILDING EFFORTS FOR NATIONAL DISASTERS AND EMERGENCIES

Recent events such as Hurricanes Harvey, Irma, and Maria, which caused significant destruction in the United States and its territories this year, are reminders of the vulnerabilities our citizens and critical transportation infrastructure face during and after catastrophic events. Beyond the immediate risks posed to public safety, natural disasters and emergencies within the United States and globally have repercussions on the Nation's transportation systems, commerce, and overall economy. Other events such as bridge collapses, train derailments, and pipeline breaks further highlight the need to commit significant Federal resources to response and recovery efforts. The magnitude and duration of such efforts can extend for years, presenting significant leadership and oversight challenges for the Department as it works to support resiliency and protect federally funded assets and disaster relief projects.

KEY CHALLENGES

- Effectively responding to disasters and fostering a resilient transportation infrastructure
- Applying lessons from prior relief efforts to safeguard taxpayer funds

EFFECTIVELY RESPONDING TO DISASTERS AND FOSTERING A RESILIENT TRANSPORTATION INFRASTRUCTURE

DOT plays a significant Federal role in assisting States and localities when transportation infrastructure is damaged or destroyed by natural or manmade disasters. Past disaster relief efforts show that an effective response requires—before devastating events occur—a well-defined and coordinated approach to mobilize resources immediately. Under the National Response Framework,[39] DOT's emergency support responsibilities include emergency airspace management, transportation safety, restoration of transportation infrastructure, and damage and impact assessment. Additionally, DOT must be prepared to support Federal, State, tribal, and local agencies carry out their emergency response responsibilities. In the aftermath of Hurricane Katrina, for example, DOT successfully redeployed personnel to support the affected region since State and local agencies were overburdened. This included transporting people via air and bus to safe locations across the country and moving thousands of truckloads of goods, such as meals, water, ice, and generators.

After a disaster or emergency occurs, one of DOT's statutory roles is to provide and oversee relief funds. For example, since fiscal year 2012, Congress has appropriated about $5.7 billion to the Federal Highway Administration's (FHWA) Emergency Relief Program (ERP) to repair or rebuild roads that sustained serious damage from catastrophic failures or natural disasters. Additionally, when rebuilding or replacing storm-damaged infrastructure, DOT has emphasized using this funding to make the transportation system more resilient[40]—i.e., to better anticipate and prepare for, respond to, and recover rapidly from disruptions. Our work has identified areas where DOT can do more to ensure that State DOTs plan for resilience improvements and enhance its stewardship of ERP funds. For example, while FHWA's updated

[39] The Department of Homeland Security National Response Framework guide details how Federal agencies respond to all types of National emergencies and disasters as part of the National Preparedness System.

[40] DOT Fiscal Years 2014 through 2018 Strategic Plan.

(in 2013) Emergency Relief Manual now focuses more on infrastructure resilience, it does not define "resilience improvement" or inform States how to incorporate resilience improvement and best practices into their ERP-funded projects.

The Federal Transit Administration (FTA) also published an emergency relief manual for States and transit agencies in 2015 to guide their recovery efforts and usage of FTA's ERP. Implementing this fairly recent guidance could be a challenge for FTA, if public transportation agencies affected by recent weather events—such as the Metropolitan Transit Authority of Harris County in Houston, TX, or the Puerto Rico Department of Transportation and Public Works—seek reimbursement of emergency-related expenses under the terms of FTA's ERP.

APPLYING LESSONS FROM PRIOR RELIEF EFFORTS TO SAFEGUARD TAXPAYER FUNDS

After a significant disaster, such as the recent Gulf Coast hurricanes, DOT must provide meaningful oversight of taxpayer dollars expended for recovery efforts—and then be prepared to sustain that oversight for years. This challenge can be complicated by the unique effects and transportation needs that follow each disaster or emergency. In addition, certain oversight and acquisition requirements for receiving Federal aid are often relaxed in these situations to facilitate timelier relief. Therefore, it is critical that DOT and its agencies have effective guidance, criteria, and procedures for expending funds from their emergency relief programs; visibility into how those taxpayer funds are used; and the ability to reapply requirements after the emergency period ends.

Our prior work has noted several areas where FTA can apply lessons learned as it plans future emergency relief and recovery efforts. For example, after the widespread damage caused by Hurricane Sandy in 2012, Congress enacted the Disaster Relief Appropriations Act (DRAA)[41] in 2013, appropriating over $10 billion for FTA's Public Transportation Emergency Relief Program.[42] We found, however, that FTA's oversight practices did not fully ensure its grantees' proper use of DRAA funds. 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 lacked effective processes for tracking grantee and project-specific issues, which risked delays and cost overruns in recovery and resiliency efforts. While the $17.7 million has been recovered with interest, and FTA is working on the remaining issues, continued vigilance is needed as over $2.9 billion in Hurricane Sandy funds are yet to be obligated—and some projects are not estimated for completion until 2025. The destruction caused by recent natural disasters underscores the need for sustained management attention on these issues to effectively implement response and recovery efforts, ensure the safety and sustainability of the Nation's transportation infrastructure, and efficiently and prudently deploy resources and Federal funds.

As the Department embarks on relief efforts in response to recent and future potential disasters, we will continue to review DOT's and FTA's implementation and oversight of emergency plans, including identifying further lessons learned that can benefit DOT's relief efforts.

[41] Pub. L. No. 113–2, January 29, 2013.

[42] FTA's ERP was authorized by Congress in 2012 under the Moving Ahead for Progress in the 21st Century Act (MAP-21), Pub. L. No. 112-141.

RELATED DOCUMENTS

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

- *FTA Can Improve Its Oversight of Hurricane Sandy Relief Funds*, July 21, 2016
- *FTA Did Not Adequately Verify PATH's Compliance With Federal Procurement Requirements for the Salt Mitigation of Tunnels Project,* March 28, 2016
- *FTA Has Not Fully Implemented Key Internal Controls for Hurricane Sandy Oversight and Future Emergency Relief Efforts,* June 12, 2015
- *Initial Assessment of FTA's Oversight of the Emergency Relief Program and Hurricane Sandy Relief Funds,* December 3, 2013

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 Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits, at (202) 366–5225.

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 2018 Top Management Challenges

October 31, 2017

From: Lana Hurdle
Acting Chief Financial Officer and
Assistant Secretary for Budget and Programs

To: Mitchell Behm
Deputy Inspector General

The OIG's Fiscal Year 2018 Top Management Challenges report refers to many of the priorities and risks the Secretary of Transportation has identified. Safety has consistently been DOT's priority-it is the core of the Department's mission. We are strengthening safety in all modes of transportation by taking a systematic approach to safety, which includes promoting the use of performance-based standards, improving data quality and analysis to further evidence-based policy making, and working closely with stakeholders to better understand safety vulnerabilities. Another top priority, as consistently emphasized by the President, is modernizing and investing in our country's infrastructure. If we fail to maintain our infrastructure and transportation systems, then deterioration could impact the safety and mobility of our citizens, impede the flow of goods and services within our economy and put our nation's commerce at risk of sudden disruption. A third priority cited by the Secretary is innovation. Emerging technologies can offer benefits in safety and efficiency thus advancing DOT's mission of providing safe, clean, accessible, and efficient transportation.

The fourth priority, which in many ways is government's number one mission, is accountability. DOT must ensure that every dollar spent on airports, roads, and transit is used to the maximum benefit of the taxpayer. The Department is committed to streamlining regulations while exercising proper management and oversight of its contracts and grants to improve program performance and prevent fraud, waste, and abuse. In addition, we want to ensure that efficient and effective internal controls, processes, and procedures are in place and appropriately implemented. We expect the Office of Inspector General to be a partner in these efforts, and the Department and its Operating Administrations (OAs) will work with OIG to identify fraud, waste, abuse, or mismanagement in the Department's programs, activities, or operations.

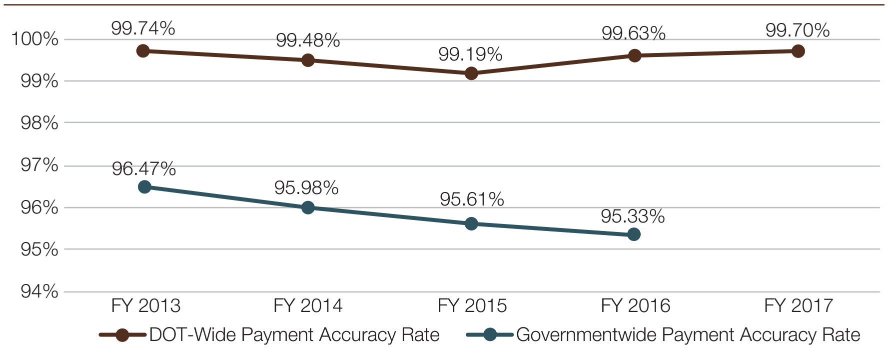
We appreciate the opportunity to respond to the OIG draft report. Please contact Madeline M. Chulumovich, Director, Office of Audit Relations and Program Improvement, at (202) 266-6512, with any questions.

PAYMENT INTEGRITY REPORTING

DOT, as a steward of taxpayer dollars, exercises rigorous management and oversight over its program expenditures. Our FY 2017 *Payment Integrity Report* demonstrates our commitment to reducing improper payments[1] (IP) through robust internal control programs and by establishing aggressive goals. We are proud to improve upon our prior year results and to consistently report payment accuracy rates above 99%, which compares favorably to the Government-wide rate.

DOT's Payment Integrity Center is responsible for coordinating IP reviews, reporting results, and monitoring the progress of corrective actions in accordance with Improper Payments Information Act of 2002 (IPIA; P.L. 107-300),[2] 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), Office of Management and Budget (OMB) Circular No. A-123 Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, and OMB Circular No. A-136, *Financial Reporting Requirements*. The results of our FY 2017 IP reviews are reported in this section.[3]

DOT-WIDE PAYMENT ACCURACY



I. DOT PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS

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. Four DOT programs or activities were identified as being susceptible to significant IPs and subject to the FY 2017 IPIA reporting requirements.

- The **Federal Highway Administration's (FHWA) Highway Planning and Construction (HPC) program** which supports State and local governments in the design, construction, and maintenance of the Nation's highway system. Additionally, the program includes emergency relief funds for the repair or reconstruction of highways and roads which have suffered serious damage as a result of natural disasters or catastrophic failures from external causes.

- The **Federal Railroad Administration's (FRA) High-Speed Intercity Passenger Rail (HSIPR) program** which provides grants to increase the efficiency of the Nation's passenger rail corridors.

[1] 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.

[2] Unless otherwise indicated, the acronym "IPIA" refers to "IPIA, as amended by IPERA and IPERIA."

[3] More detailed information on DOT's FY 2017 and prior IP reviews and all of the information previously reported in our AFRs that is not included in this section is available on www.paymentaccuracy.gov.

- The **Federal Transit Administration's (FTA) Emergency Relief Program—Disaster Relief Appropriations Act (ERP-DRAA)** which funds recovery and relief efforts in areas affected by Hurricane Sandy.
- The **Office of the Inspector General's (OIG) Disaster Relief Appropriations Act (DRAA)** activity which supports oversight of FTA's DRAA initiatives.

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. DOT requested and received OMB approval for relief from the annual IP reporting requirements for four programs or activities starting in FY 2017.

- Federal Aviation Administration Facilities and Equipment—Disaster Relief Appropriations Act
- FRA Grants to National Railroad Passenger Corporation
- FTA Formula Grants and Passenger Rail Investment and Improvement Act Projects for the Washington Metropolitan Area Transit Administration
- Maritime Administration Ready Reserve Force Ship Manager Payments

II. PAYMENT ACCURACY REPORTING

During FY 2017, a statistician prepared and an agency official certified DOT's sampling and estimation plans[4] 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 Services 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 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 samples and tests line items from the grant recipient's invoice to determine if the expenditures are proper. After DOT officials confirm IPs within the samples, the statistician extrapolates the results to arrive at the IP estimates.

The FY 2017 Payment Accuracy Results table provides the estimated amounts and percentages properly and improperly paid along with reduction targets by DOT program or activity.

[4] DOT's FY 2017 IPIA management reviews included payments from the OIG's Disaster Relief Act funding. OIG management conducted a census of OIG-DRAA payments instead of performing a statistical sample.

FY 2017 PAYMENT ACCURACY RESULTS ($ IN MILLIONS)

Program or Activity	Outlays[1]	Proper Payment Amount	Proper Payment Rate	Improper Payment Amount	Improper Payment Rate	FY 2017 Reduction Target Rate	Reduction Target Met	FY 2018 Reduction Target Rate
FHWA HPC[2,3]	$43,909.36	$43,776.71	99.70%	$132.65	0.30%	0.55%	Yes	0.50%
FRA HSIPR[4]	2,102.91	2,098.79	99.80	4.12	0.20	1.00	Yes	0.19
FTA ERP—DRAA[2]	551.81	547.16	99.16	4.65	0.84	0.27	No	0.83
OIG DRAA[2]	0.1054	0.1027	97.48	0.0027	2.52	0.41	No	2.50
Total[5]	**$46,564.19**	**$46,422.77**	**99.70%**	**$141.42**	**0.30%**	**0.62%**	**Yes**	**0.49%**

DRAA = Disaster Relief Appropriations Act of 2013. ERP = Emergency Relief Program. HPC = Highway Planning and Construction. HSIPR = High-Speed Intercity Passenger Rail.

[1] Outlays represent the payment populations sampled to estimate IPs. For FY 2017 testing, the program or activity reviewed payments made from October 1, 2015, to September 30, 2016.

[2] Program or activity includes Disaster Relief Appropriations Act of 2013 funding.

[3] FHWA set a higher reduction target than our FY 2017 results; however, the target maintains the reduction trend set in FY 2016. The factors influencing FHWA's reduction target included: past IP estimates; the inherent uncertainty and variability associated with estimates derived from probability sampling; and, the two-year delay for corrective actions to affect the IP estimate.

[4] OMB approved FRA's HSIPR request for relief from annual reporting requirements starting in FY 2018.

[5] The total figures represent the cumulative results of DOT programs and activities susceptible to significant IPs and are not a statistical estimate for all of DOT's programs and activities.

The FY 2017 Root Cause for Improper Payments table provides detailed reasons for DOT's estimated IPs along with overpayment and underpayment amounts and percentages by program or activity.

FY 2017 ROOT CAUSE FOR IMPROPER PAYMENTS ($ IN MILLIONS)

		Administrative or Process Error Made by:			Insufficient Documentation To Determine:				
Program or Activity	**Payment Type**	**Federal Agency**	**State or Local Agency**	**Other Party**	**Federal Agency**	**State or Local Agency**	**Other Party**	**Program Total**	**Percent of Program Total**
FHWA HPC	Overpayments	$ —	$126.92	$ —	$ —	$ —	$ —	**$126.92**	**95.68%**
	Underpayments	—	5.73	—				**5.73**	**4.32**
FRA HSIPR	Overpayments	—	0.004	—	—	2.38	1.67	**4.05**	**98.31**
	Underpayments	—	0.07	—				**0.07**	**1.69**
FTA ERP—DRAA	Overpayments	—	4.47	—	—	0.18	—	**4.65**	**100.00**
	Underpayments	—	—	—				**—**	**0.00**
OIG DRAA	Overpayments	0.003	—	—	—	—	—	**0.003**	**100.00**
	Underpayments	—	—	—				**—**	**0.00**
DOT Total[1]	**Overpayments**	**$0.003**	**$131.39**	**$ —**	**$ —**	**$2.56**	**$1.67**	**$135.62**	**95.90%**
	Underpayments	**$ —**	**$5.80**	**$ —**				**$5.80**	**4.10%**

DRAA = Disaster Relief Appropriations Act of 2013. ERP = Emergency Relief Program. HPC = Highway Planning and Construction. HSIPR = High-Speed Intercity Passenger Rail.

[1] The total figures represent the cumulative results of DOT programs and activities susceptible to significant IPs and are not a statistical estimate for all of DOT's programs and activities.

III. CORRECTIVE ACTIONS

The FHWA HPC program is the only DOT program that reported an IP estimate above the statutory threshold of 1.5 percent and $10 million, or $100 million regardless of the error rate. FHWA plans to take the following corrective actions:

FHWA HIGHWAY PLANNING AND CONSTRUCTION CORRECTIVE ACTIONS

Improper Payment Category	Corrective Action	Target Completion Date
Administrative or process error made by: State or local agency	FHWA will advise select grant recipients of the root cause for their IPs and coordinate issue specific corrective actions with those grantees.	3/31/2018
	FHWA will perform a total of at least 20 risk-based evaluations of State DOT financial systems.	7/31/2018
	FHWA will conduct a workgroup to develop improvements to reduce the risk of improper payments by reviewing existing State DOT billing practices.	7/31/2018

IV. ACCOUNTABILITY, AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE, AND BARRIERS

DOT's Deputy Chief Financial Officer (DCFO) is the senior accountable official responsible for completion of the improper payments-related remediation plans. The DCFO's performance plan contains accountability mechanisms, which include closure of corrective actions associated with improper payment remediation plans. 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 the Administration'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.

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.

DOT and, more specifically, FHWA have not identified statutory or regulatory barriers that may limit corrective actions in reducing IPs.

V. RECAPTURE OF IMPROPER PAYMENTS REPORTING

During FY 2017, federal personnel within DOT's Payment Integrity Center performed the payment recapture audit. DOT Payment Integrity Center personnel collaborated with the Enterprise Services Center (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 2017 audit scope included payments and financial transactions processed by ESC. The audit concentrated on payments made between April 2016 through March 2017; however, DOT does not limit the scope of the payment recapture audit to a specific time period. The DOT Payment Integrity Center maintains more than 6 years of payment data and expands the scope of the payment time period when changing parameters or logic.

DOT considers all overpayments identified through the FY 2017 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 Treasury's Offset Program. In most cases, ESC is able to recover the overpayment directly from the payee. In FY 2017, all overpayments recaptured through the audit program were returned to the DOT program or activity's original purpose.

The amount of grant-related overpayments identified through the payment recapture audit significantly decreased in FY 2017. DOT attributes the decrease in grant-related overpayments to the development of internal controls that detect potential errors before or soon after payment. For FY 2018, the DOT Payment Integrity Center, in collaboration with ESC, will continue to refine preventive controls and plans to conduct exploratory analysis of enhanced controls to reduce improper payments.

FY 2017 OVERPAYMENT PAYMENT RECAPTURES WITH AND WITHOUT RECAPTURE AUDIT PROGRAMS ($ IN MILLIONS)

	Payment Recapture Audits			Outside of Payment Recapture Audits			Total		
Program or Activity	**Amount Identified**	**Amount Recovered**	**Percent Recaptured**	**Amount Identified**	**Amount Recovered**	**Percent Recaptured**	**Amount Identified**	**Amount Recovered**	**Percent Recaptured**
DOT Payments	$0.98	$0.93	95.15%	$2.14	$1.23	57.44%	**$3.12**	**$2.16**	**69.31%**
OIG Reviews				9.53	11.54	121.04	**9.53**	**11.54**	**121.04**
Total	**$0.98**	**$0.93**	**95.15%**	**$11.67**	**$12.77**	**109.40%**	**$12.65**	**$13.70**	**108.29%**

Identified = Amount of overpayments identified in FY 2017. Actual overpayment may have been made in FY 2017 or prior FYs.

Recaptured = Amount of overpayments recaptured in FY 2017. The overpayment may have been identified in FY 2017 or prior FYs.

FY 2017 AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDIT PROGRAMS ($ IN MILLIONS)

Program or Activity	Amount and Percent Outstanding (0–6 months)	Amount and Percent Outstanding (6 months to 1 year)	Amount and Percent Outstanding (over 1 year)	Amount and Percent Determined Uncollectable	Total Amount and Percent Outstanding
DOT Payments	$0.12 1.94%	$ — 0.00%	$6.28 98.06%	$ — 0.00%	$6.40 100.00%

CUMULATIVE RESULTS OF PAYMENT RECAPTURE AUDIT PROGRAMS (FYs 2004–2017) ($ IN MILLIONS)

Program or Activity	Amount and Percent Identified	Amount and Percent Recaptured	Amount and Percent Outstanding	Amount and Percent Uncollectable
DOT Payments	$20.83 100%	$14.42 69.24%	$6.40 30.73%	$0.01 0.03%

FRAUD REDUCTION REPORT

The Fraud Reduction and Data Analytics Act of 2015 (FRDA), enacted on June 30, 2016, requires agencies to enhance their financial and administrative controls; bolster procedures to assess and mitigate fraud risks; and improve the development and use of data analytics for the purpose of identifying, preventing, and responding to fraud, including improper payments.

DOT is employing a phased approach to establish a fraud risk management program in accordance with FRDA requirements. The approach enables us to utilize a maturity model to build out and adapt the program over time. We will implement FRDA requirements in three phases:

- Phase 1: Develop DOT's Fraud Risk Management Implementation Plan
- Phase 2: Establish DOT's Fraud Risk Management Program
- Phase 3: Implement DOT's Fraud Risk Management Framework

During FY 2017, DOT finalized our Fraud Risk Management Implementation Plan and initiated efforts to gather information on fraud, waste, and abuse involving DOT programs or activities. The plan provides a schedule and milestones on identifying risks and vulnerabilities to fraud. The plan also incorporates the GAO Fraud Risk Management Framework, which OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, endorses as a leading practice for managing fraud risk.

One component of the GAO's Fraud Risk Management Framework is to commit to combating fraud by creating an organizational structure and culture conducive to fraud risk management. Our implementation plan establishes notional roles and responsibilities to aid in the development of formal governance, financial and administrative controls, and other steps to curb fraud.

In the latter half of FY 2017, we started the second phase of our approach by aggregating the results of existing fraud risk management activities. We plan to use DOT's fraud data to advance efforts in assessing fraud risk and to mature our Fraud Risk Management Program.

FEDERAL REAL PROPERTY INITIATIVE—REDUCE THE FOOTPRINT

Several OMB initiatives have focused on the aggressive disposal of excess properties held by Federal agencies. The "Freeze the Footprint" (FTF) initiative, implemented by OMB Management Procedures Memorandum No. 2013-02, required Federal agencies to make more efficient use of their real property assets and to reduce their domestic office and warehouse inventory, in square footage (SF) terms, from their FY 2012 baseline levels. This initiative was superseded by OMB Management Procedures Memorandum No. 2015-01, the "Reduce the Footprint" (RTF) initiative, which recalculated the Federal Real Property Profile (FRPP) data asset cohort in FY 2015. The new baseline is scheduled to remain in effect through FY 2020.

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, where possible. The Department's partnership with GSA on the Client Portfolio Planning initiative to create a comprehensive real property portfolio management plan has resulted in several completed, ongoing, and planned consolidation projects. Systematic reviews are performed on all leases expiring within five years to consider all available options in the current marketplace. New lease and construction projects 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 OAs.

The Department's comparison of its FY 2016 leased and owned space to its FY 2015 baseline is summarized in the table below.

EXHIBIT I. REDUCE THE FOOTPRINT POLICY BASELINE COMPARISON

	FY 2015 Baseline (FTF)	Prior FY 2016[1] (RTF)	Change (2015–2016)
Square footage (in millions)	13.0	12.1[2]	(0.9)

[1] FY 2015 is the most recent period for which data are available, as square footage data are not verified and finalized until the end of the calendar year.

[2] Management Procedures Memorandum No. 2015-01 requires new agency FRPP data to be recalculated based on a "Reduce the Footprint" data asset cohort, which is slightly different from the "Freeze the Footprint" data asset cohort. Comparison of FY 2015 FTF data (13,021,425 SF) to FY 2015 RTF data (12,890,094 SF) results in a difference of 131,331 SF.

In FY 2016, the Department achieved an office and warehouse reduction of 768,717 SF through consolidation, colocation, and disposition. However, recent expansion of the Department's mission may slightly tamper with the measurement results of office and warehouse space reduction efforts. For example, as required by the Grow America Act, the Department is in the process of acquiring office space and facilities to conduct new border inspection duties and to oversee the operation of a metropolitan rail transportation system.

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, enhancement of indoor environmental quality, and reduction of 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 and cost avoidance of disposed assets.

EXHIBIT II. REPORTING OF OPERATION AND MAINTENANCE COSTS—OWNED AND DIRECTLY LEASED BUILDINGS

	FY 2015 Reported Cost (FTF)	Prior FY 2016[2] (RTF)	Change (2015–2016)
Operation and maintenance costs[1] (in millions)	$89.7	$90.6[3]	$0.8

[1] 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.

[2] FY 2016 is the most recent period for which data are available, as fiscal year SF data are not verified and finalized until the end of the calendar year.

[3] Management Procedures Memorandum No. 2015-01 requires new agency FRPP data to be recalculated based on a “Reduce the Footprint” data asset cohort, which is slightly different from the “Freeze the Footprint” data asset cohort. Comparison of FY 2015 FTF data operating cost ($89,727,692) to FY 2015 RTF data operating cost ($90,553,528) results in a difference of -$825,836.

Due to a required change in the grouping of assets reported in the most recent reporting year compared to the previous year’s baseline measurement, reported operation and maintenance cost are slightly higher than the previous year. However, a comparison of FY 2016 RTF operation and maintenance cost of $90,553,528 to FY 2015 RTF operation and maintenance cost of $92,177,992 shows a cost savings of $1,624,464.

The Department will continue to seek opportunities to reduce office and warehouse space use. Through the numerous real property control processes, management tools placed in operation, and efforts of a Department-wide team of dedicated professionals, the Department ensures compliance with the objectives of the “Freeze the Footprint” initiative and, more recently, the “Reduce the Footprint” initiative, to reduce its domestic office and warehouse inventory, in terms of both square footage 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 table shows the civil penalties that the 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 (PWSA)	Maximum penalty for each violation of the Seaway Rules and Regulations at 33 CFR part 401	1978	2017	$90,063	Saint Lawrence Seaway Development Corporation (SLSDC)	Federal Register 82 (13 January 2017): 4172–4173. https://www.federalregister.gov/d/2016-32050
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://www.federalregister.gov/d/2016-19003[1]
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[1]
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[1]
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[1]
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[1]
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	2017	$853	Federal Railroad Administration (FRA)	Federal Register 82 (3 April 2017). 16127–16136. https://www.federalregister.gov/d/2017-06220
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	2017	$27,904	FRA	Federal Register 82 (3 April 2017). 16127–16136. https://www.federalregister.gov/d/2017-06220

(1) OST will complete a DOT-wide rule update in 2018. This update will include civil penalty adjustments for OST for 2018. Therefore, OST has not yet adjusted its civil monetary penalties, and Federal Register 81 (August 10, 2016) contains the current civil penalty amounts.

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
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	2017	$111,616	FRA	Federal Register 82 (3 April 2017). 16127–16136. https://www.federalregister.gov/d/2017-06220
MAP-21 P. L. 112–141, sec. 32110, 126 Stat. 405, 782, 49 U.S.C. 525	Appendix A II Subpoena	2012	2017	$1,045	Federal Motor Carrier Safety Administration (FMCSA)	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
MAP-21 P. L. 112–141, sec. 32110, 126 Stat. 405, 782, 49 U.S.C. 525	Appendix A II Subpoena	2012	2017	$10,450	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$1,811	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$18,107	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$1,811	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$18,107	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$906	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$26,126	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$22,957	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$14,739	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$22,957	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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) Record-keeping— maximum penalty per day	2005	2017	$1,214	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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) Record-keeping— maximum total penalty	2005	2017	$12,135	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316

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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
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	2017	$12,135	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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-record-keeping violations	1998	2017	$14,739	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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-record-keeping violations by drivers	1998	2017	$3,685	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$3,034	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$6,068	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$5,479	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$3,034	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$6,068	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$5,479	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$30,337	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$15,727	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$16,169	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$26,126	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$10,450	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$10,450	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316

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. 32108(a), 126 Stat. 405, 782, 49 U.S.C. 14901(a)	Appendix B (g)(3) Violations of the CRs (passenger carriers)	2012	2017	$26,126	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$10,450	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$14,371	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$35,929	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$20,900	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$41,801	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$1,572	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$3,146	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$7,864	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$157,274	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$314	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$393	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$787	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316

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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, 916, 49 U.S.C. 14904(b)(1)	Appendix B (g)(12): Tariff violations (freight forwarders)—maximum penalty for subsequent violations	1995	2017	$3,146	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$787	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$3,146	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$15,727	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$1,045	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$7,864	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$3,146	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$787	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$15,727	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$12,135	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$30,337	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$1,214	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$12,135	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$2,090	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316

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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. 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	2017	$5,225	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$2,612	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$7,837	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$2,090	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$5,225	FMCSA	Federal Register 82 (12 April 2017). 17584–17593. https://www.federalregister.gov/d/2017-07316
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	2017	$209,002	Pipeline and Hazardous Materials Safety Administration (PHMSA)	Federal Register 82 (27 April 2017). 19325–19328. https://www.federalregister.gov/d/2017-08530
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	2017	$2,090,022	PHMSA	Federal Register 82 (27 April 2017). 19325–19328. https://www.federalregister.gov/d/2017-08530
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	2017	$76,352	PHMSA	Federal Register 82 (27 April 2017). 19325–19328. https://www.federalregister.gov/d/2017-08530
49 U.S.C. 60129	An administrative civil penalty for violating any standard or order under 49 U.S.C. 60129	2005	2017	$1,214	PHMSA	Federal Register 82 (27 April 2017). 19325–19328. https://www.federalregister.gov/d/2017-08530
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[2]

[2] NHTSA did not release inflation adjustments in 2017. Therefore, the July 5, 2016 Federal Register notice reflects the current amount for all penalties, except CAFE.

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, 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[2]
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[2]
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[2]
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[2]
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[2]
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[2]
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[2]
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[2]
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[2]
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[2]
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[2]
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[2]
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[2]

[2] NHTSA did not release inflation adjustments in 2017. Therefore, the July 5, 2016 Federal Register notice reflects the current amount for all penalties, except CAFE.

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
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[2]
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[2]
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[2]
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[2]
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[2]
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[2]
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	$5.50[3]	NHTSA	Federal Register 82 (12 July 2017). 32140–32145. https://www.federalregister.gov/d/2017–14525
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[2]
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[2]
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 Subtitle III related MARAD regulations, except section 31329, specified in 46 U.S.C. 31309	1988	2017	$20,111	Maritime Administration (MARAD)	Federal Register 82 (24 April 2017). 18871–18873. https://www.federalregister.gov/d/2017-08198
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	2017	$50,276	MARAD	Federal Register 82 (24 April 2017). 18871–18873. https://www.federalregister.gov/d/2017-08198

[2] NHTSA did not release inflation adjustments in 2017. Therefore, the July 5, 2016 Federal Register notice reflects the current amount for all penalties, except CAFE.
[3] NHTSA published an interim final rule on July 5, 2016 adjusting civil penalty amounts, including the CAFE penalty, pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. Following petitions for reconsideration, NHTSA published a final rule regarding the CAFE penalty on December 28, 2016. NHTSA indefinitely delayed the effective date of the final rule and sought public comment on the appropriate inflationary adjustment to the CAFE penalty in notices published in the Federal Register on July 12, 2017. During reconsideration, the CAFE penalty rate will remain at $5.50 per tenth of a mile per gallon, which was the civil penalty rate prior to NHTSA's inflationary adjustment.

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. 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	2017	$19,246	MARAD	Federal Register 82 (24 April 2017). 18871–18873. https://www.federalregister.gov/d/2017-08198
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	2017	$127	MARAD	Federal Register 82 (24 April 2017). 18871–18873. https://www.federalregister.gov/d/2017-08198
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	2017	$25,409	MARAD	Federal Register 82 (24 April 2017). 18871–18873. https://www.federalregister.gov/d/2017-08198
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 Magnuson-Stevens Fishery Conservation and Management Act, within the Exclusive Economic Zone, specified in 46 U.S.C. 12151(c)	1998	2017	$147,396	MARAD	Federal Register 82 (24 April 2017). 18871–18873. https://www.federalregister.gov/d/2017-08198
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	2017	$32,666	Federal Aviation Administration (FAA)	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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	2017	$1,437	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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 in 49 U.S.C. 46301(a)(5))	2003	2017	$1,437	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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	2017	$13,066	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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	2017	$13,066	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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	2017	$13,066	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]

[4] FAA's civil penalty adjustments for 2017 are included in the April 10, 2017 Federal Register 82. However, FAA later published a correction to that Federal Register specifying that the effective date of the maximums and minimums is April 10, 2017, instead of the originally published date of January 15, 2017. Refer to the July 7, 2017 Federal Register 82 for further information on the correction: https://www.federalregister.gov/d/2017-14223.

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
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	2017	$13,066	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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	2017	$13,066	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
49 U.S.C. 46301(b)	Maximum penalty for each violation related to tampering with a smoke alarm device	1987	2017	$4,194	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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	2017	$22,957	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
49 U.S.C. 46318	Maximum penalty for interference with cabin or flight crew	2000	2017	$34,731	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
49 U.S.C. 46319	Maximum penalty per day of permanent closure of an airport without providing sufficient notice	2003	2017	$13,066	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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 condition of a license or permit issued or transferred under the Act	2014	2017	$229,562	FAA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[4]
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	2017	$471	FAA; FMCSA; FRA; PHMSA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[5]
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	2017	$78,376	FAA; FMCSA; FRA; PHMSA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[5]
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	2017	$182,877	FAA; FMCSA; FRA; PHMSA	Federal Register 82. (10 April 2017). 17097–17101. https://www.federalregister.gov/d/2017-06766[5]

[4] FAA's civil penalty adjustments for 2017 are included in the April 10, 2017 Federal Register 82. However, FAA later published a correction to that Federal Register specifying that the effective date of the maximums and minimums is April 10, 2017, instead of the originally published date of January 15, 2017. Refer to the July 7, 2017 Federal Register 82 for further information on the correction: https://www.federalregister.gov/d/2017-14223.

[5] Penalty update details are also found in the following rulemakings: Federal Register 82 (12 April 2017): 17584-17593. https://www.federalregister.gov/d/2017-07316, Federal Register 82 (3 April 2017): 16127-16136. https://www.federalregister.gov/d/2017-06220, Federal Register 82 (19 April 2017): 18397-18400. https://www.federalregister.gov/d/2017-07908.

GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT

The Grants Oversight and New Efficiency (GONE) Act requires agencies to provide a summary of the total number of Federal grant and cooperative agreement awards and balances not closed out, but for which the period of performance ended more than two years prior. Following are grant recipient categories and balances which meet the current reporting criteria as of September 30, 2017.

Category	2–3 Years	> 3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements With Zero Dollar Balances	4,295	4,187	2,482
Number of Grants/Cooperative Agreements With Undisbursed Balances	1,797	998	375
Total Amount of Undisbursed Balances	$206,414,753.56	$168,746,842.11	$41,849,181.37

The majority of DOT's challenges leading to delays in grant and cooperative agreement award closeout involve facilitating closeout across Federal, State, local, and/or tribal government entities.

- DOT financial assistance funds major infrastructure projects and, due to their large-scale nature, tend to extend over a long period of time. Also, there are often a number of activities prior to closeout, such as final reports and audits, to ensure all Federal and State requirements have been met. Completion and coordination of these Federal and State requirements often extend the project closeout timeline.

  Planned corrective actions:

  - Some DOT agencies are implementing risk-based approaches to closing projects that have been completed for several years but for which final acceptance documentation was not submitted.
  - Some DOT agencies are performing periodic inactive obligation reviews and continue to emphasize a proactive approach to project funds management and timely project closeout.
  - Some DOT agencies are conducting new financial management training for Federal and State professionals and are expanding technical assistance to States. NHTSA, for example, has enlisted the support of the Governors Highway Safety Association help provide training to their constituents on fiscal issues.
- Prior to the implementation of the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (2 CFR 200) on December 26, 2014, FHWA project agreements did not include a Project Agreement End Date (PAED). Without the PAED requirement, there had been no requirement for States and local agencies to document project agreement completion date and initiate a closeout process.

  Planned corrective action:

  - FHWA systems have been updated to include a unique PAED in accordance with 2 CFR 200, which will be used to help ensure projects are completed on time and final claims are submitted within 90 days.

LIST OF ACRONYMS

A

AATF	Airport and Airway Trust Fund
ADS	Automated Driving Systems
ADS-B	Automatic Dependent Surveillance-Broadcast
AEC	Atomic Energy Commission
AFR	Agency Financial Report
AICPA	American Institute of Certified Public Accountants
AIP	Airport Improvement Program
AMS	Acquisition Management System
APR	Annual Performance Report
ASRB	Acquisition Strategy Review Board
ATOC	Air Traffic Operational Contingency Group
AU	accessible units

B

BCA	Benefit Cost Analysis

C

CAP	Compliance Assessment Program
CDM	Continuous Diagnostics and Mitigation
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
CIP	Construction-In-Progress
CMV	commercial motor vehicle
CPC	Certified Professional Controller
CR	commercial regulations
CR	continuing resolution
CRT	Credit Review Team
CSRS	Civil Service Retirement System

D

DATA	Digital Accountability and Transparency Act
DBE	Disadvantaged Business Enterprise
DCFO	Deputy Chief Financial Officer
DHS	Department of Homeland Security
DM&R	Deferred Maintenance and Repairs
DoD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
DRAA	Disaster Relief Appropriations Act

E

E.O.	Executive Order
EA	Enterprise Architecture
EDC	Every Day Counts
EDWBI	Enterprise Data Warehouse/Business Intelligence
EPCA	Energy Policy and Conservation Act of 1975
ERAM	En Route Automation Modernization
ERM	Enterprise Risk Management
ERP	Emergency Relief Program
ESC	Enterprise Services Center

F

FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FAST	FAA Acquisition System Toolkit
FAST Act	Fixing America's Surface Transportation Act of 2015
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees Compensation Act
FEGLI	Federal Employees Group Life Insurance
FEHB	Federal Employees Health Benefit
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
FRDA	Fraud Reduction and Data Analytics Act of 2015
FRPP	Federal Real Property Profile
FSSP	Federal Shared Service Provider
FTA	Federal Transit Administration
FTF	Freeze the Footprint
FY	fiscal year

G

GA	General Aviation
GAAP	generally accepted accounting principles
GAO	Government Accountability Office
GONE Act	Grants Oversight and New Efficiency Act
GPS	Global Positioning System
GSA	General Services Administration

H

HCF	FHWA Office of the Chief Financial Officer
HHG	household goods
HPC	Highway Planning and Construction
HSIPR	High-Speed Intercity Passenger Rail
HTF	Highway Trust Fund

I

ICC	Interstate Commerce Commission
IG	Inspector General
IoT	Internet of Things
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

M

MAP-21	Moving Ahead for Progress in the 21st Century
MARAD	Maritime Administration
MCSIA	Motor Carrier Safety Improvement Act of 1999
MRO	Multiple Runway Operations

N

NAC	NextGen Advisory Committee
NARM	Network Assessment Risk Management
NAS	National Airspace System
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NBIS	National Bridge Inspection Standards
NCO	NAS Cyber Operation
NDRF	National Defense Reserve Fleet
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
OCIO	Office of the Chief Information Officer
ODI	Office of Defects Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPA	Office of Planning and Analytics
OPIP	Operational Internet Protocol
OPM	Office of Personnel Management
OSDBU	Office of Small and Disadvantaged Business Utilization
OST	Office of the Secretary
OTA	other transaction agreements
OTA	U.S. Treasury, Office of Tax Analysis

P

P3	public-private partnerships
PAED	Project Agreement End Date
PBN	Performance Based Navigation
PCB	polychlorinated biphenyls
PE	preliminary engineering
PHMSA	Pipeline and Hazardous Materials Safety Administration
PIPES Act	Protecting Our Infrastructure of Pipelines and Enhancing Safety Act
PIV	Personal Identity Verification
P.L.	Public Law
POI	principal operations inspector
PRD	Pilot Records Database
PSA11	Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011
PTC	Positive Train Control
PY	performance year

Q

QCR	quality control review

R

RCRA	Resource Conservation and Recovery Act of 1976
RRIF	Railroad Rehabilitation and Improvement Financing
RRF	Ready Reserve Force
RSI	Required Supplementary Information
RSIA	Rail Safety Improvement Act of 2008
RSSI	Required Supplementary Stewardship Information
RTF	Reduce the Footprint

S

S&D	suspension and disbarment
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAS	Safety Assurance System
SF	square footage
SFFAS	Statement of Federal Financial Accounting Standards
SIP	Student Incentive Payment
SLSDC	Saint Lawrence Seaway Development Corporation
SMA	State Maritime Academies
SOP	Standard Operating Procedure
SPE	Senior Procurement Executive
SSAE-18	Statements on Standards for Attestation Engagements 18
SSOA	State Safety Oversight Agency
STB	Surface Transportation Board
SUP	Suspected Unapproved Parts

T

TEA-21	Transportation Improvement Act for the 21st Century
TIFIA	Transportation Infrastructure Finance and Innovation Act
TIGER	Transportation Investment Generating Economic Recovery
TSA	Transportation Security Administration
TSCA	Toxic Substances Control Act

U

UAS	Unmanned Aircraft Systems
U.S.C.	United States Code
USMMA	U.S. Merchant Marine Academy
USSGL	United States Standard General Ledger

V

VIS	voluntary information sharing
VMT	vehicle-miles traveled
V-TRIPS	Volpe Transportation Information Project Support