



U.S. Department  
of Transportation



# 2018

## AGENCY FINANCIAL REPORT



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# FOREWORD

The United States Department of Transportation's (DOT or Department) Agency Financial Report (AFR) for fiscal year (FY) 2018 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 2018 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 2018 high-level summary of performance information will be found on page 11 of the AFR. Detailed performance data are included in the Annual Performance Report (APR).

The Financial Report section provides the Department's consolidated and combined financial statements; the notes to the financial statements; required supplementary information (RSI); required supplementary stewardship information (RSSI); and reports from the DOT Office of Inspector General (OIG) and the independent auditors.

The Other Information section provides Improper Payments Information Act (IPIA) of 2002 reporting details and other statutory reporting requirements, including the Summary of Financial Statement Audit and Management Assurances; the Inspector General's FY 2019 Top Management Challenges; Fraud Reduction Report; Reduce the Footprint; Civil Monetary Penalty Adjustment for Inflation; and Grants Oversight and New Efficiency Act (GONE Act).

## **ANNUAL PERFORMANCE REPORT (APR)**

The APR will be produced in conjunction with the FY 2020\* 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 2019.

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 (CFO Act) of 1990;
- Government Management Reform Act of 1994;
- Federal Managers' Financial Integrity Act (FMFIA) of 1982;
- Federal Financial Management Improvement Act (FFMIA) of 1996;
- Improper Payments Information Act (IPIA) of 2002; and
- Grants Oversight and New Efficiency (GONE) Act of 2016.

The reports will be available on DOT's website at <https://www.transportation.gov/>.

# MESSAGE FROM THE SECRETARY

It is the U.S. Department of Transportation's (DOT) mission to ensure a safe, efficient, accessible, and convenient transportation system that meets vital national interests, strengthens competitiveness and economic growth, and improves the American people's quality of life. As Secretary, I am pleased to lead DOT in its critical work to maintain and improve the safety and efficiency of our country's transportation systems.

DOT's Annual Financial Report for Fiscal Year (FY) 2018 provides information on the Department's financial operations and performance for the fiscal year that ended on September 30, 2018.

## OVERVIEW OF THE FY 2018 FINANCIAL RESULTS

The public accounting firm serving as the Department's independent auditor has provided an unmodified opinion on our FY 2018 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. This demonstrates the Department's efforts to ensure that taxpayer resources are used effectively and efficiently. There is, however, always room for improvement. As noted in the accompanying correspondence to the President, the Department can provide reasonable assurance that its internal controls and financial management systems meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

As FY 2019 begins, DOT will continue to promote safety, invest in infrastructure, drive innovation and increase accountability.

## STRATEGIC GOALS

The DOT's Strategic Plan helps guide the Department's programs within the context of four strategic goals: Safety, Infrastructure, Innovation, and Accountability. Together, these goals form a vision to help build a stronger and more prosperous America, both today and for many years to come.

**Safety:** This has consistently been DOT's top strategic and organizational goal and the Department approaches it from every angle, including infrastructure design and funding, vehicle design, and operating standards. Human error is the leading cause of transportation injuries and fatalities and the Department strives to address this safety concern. In FY 2018, the Department also worked with State, Tribal and local partners to improve and enhance data collection, develop and enforce safety standards, conduct campaigns to promote transportation safety and develop safer design of infrastructure.

The Department has adopted a systemic approach to safety oversight and management. This approach uses data and performance measures to determine priorities, evaluate risk mitigation strategies, guide safety standards and ensure the effective integration of those standards into organizational structures and business processes. Safety-based standards and measures improve communication between decision makers, stakeholders and the traveling public.

Infrastructure: Targeted transportation investments promote mobility and accessibility for both people and freight. Our country's highways, bridges, transit assets, ports and waterways, airport and air traffic facilities, and passenger rail facilities face growing maintenance and modernization needs. The Department is committed to revitalizing America's infrastructure using federal dollars as seed money to encourage additional infrastructure investment by states, localities and private sector partners. Utilizing significantly increased levels of appropriations from Congress in the March 2018 omnibus funding bill, more investment is reaching areas and projects, especially in rural America which has many unmet transportation needs.

In FY 2018, the Department made available more than \$63.9 billion in FY 2018 multi-modal discretionary and formula transportation investments and \$1.6 billion in FY 2017 discretionary funds. This marks a significant step forward in funding the Administration's infrastructure principles and goals.

**Innovation:** The transportation sector is rapidly evolving into one of the most innovative and dynamic areas of our country's economy. The development and convergence of robotics, artificial intelligence, sensors, mapping, data and communications are driving innovation in the transportation sector. Emerging technologies have the potential to transform the future use, operation, adaptability, and development of the transportation system. In FY 2018, DOT continued to engage with new technologies to address legitimate public concerns about safety, security and privacy without hampering innovation. For example, the Department issued new Federal guidance for automated vehicles, and launched a drones pilot program—the results of which will help guide rulemaking.

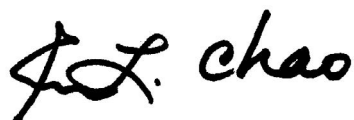
**Accountability:** The Department has begun streamlining regulations and improving the organizational effectiveness of the modes. By streamlining business processes and investing in workforce development, the Department is enhancing its responsiveness and adaptability to the demands of a rapidly evolving industry.

## CONCLUSION

In addition to this Financial Report, more detailed performance information and results will be released in the Department's Annual Performance Report in February 2019.

The accompanying material provides a useful summary of the Department's activities over the past year in support of our country's transportation systems in FY 2018. I am pleased to work with the talented and commitment men and women at DOT in advancing this important mission.

Sincerely,



Elaine L. Chao





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## DOT MISSION AND VALUES

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### 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

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### HISTORY

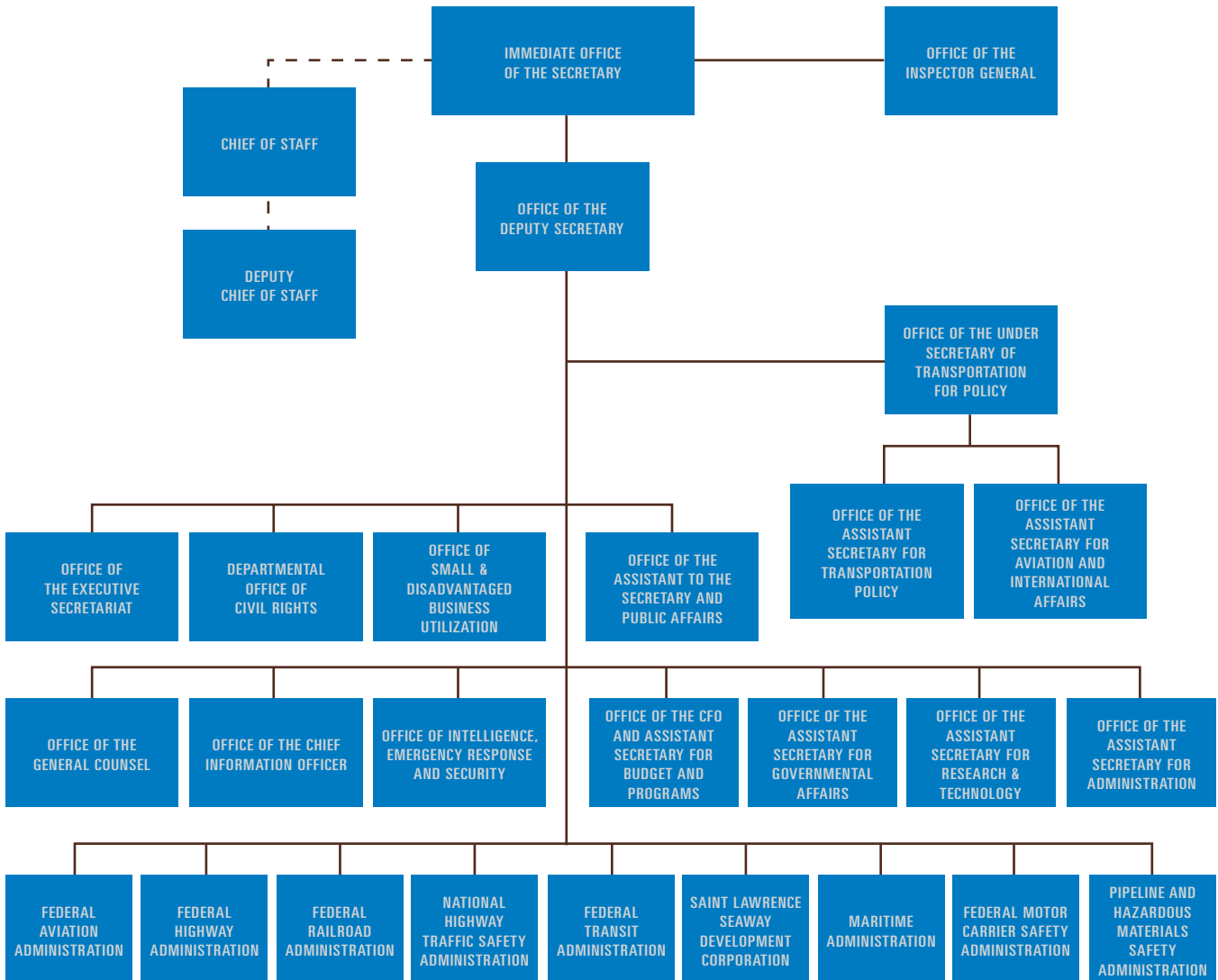
Established in 1966, DOT sets Federal transportation policy and works with State, local, and private-sector partners to promote a safe, secure, efficient, and interconnected national transportation system of roads, railways, pipelines, airways, and seaways. DOT's overall objective of creating a safer, 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 54,000 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), although formally part of DOT, is independent by law.

ORGANIZATIONAL CHART



## OVERVIEW OF LEGISLATIVE AUTHORITIES

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The Secretary of Transportation, under the direction of the President, exercises leadership in transportation matters. Section 101 of Title 49 United States Code (U.S.C.) 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

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### 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.

### 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 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.

**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 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.

**NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)**

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

**FEDERAL TRANSIT ADMINISTRATION (FTA)**

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

**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.

**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.

**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.

**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 the transportation of hazardous materials by pipeline and other modes of transportation.



## 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 system improves the quality of life for all American people and communities from rural to urban, and it increases the productivity and competitiveness of American workers and businesses.

A complete report of DOT's performance for FY 2018 will be included in the Combined Performance Plan and Report that will be released with the FY 2020 President's Budget.

DOT's top priority is to make the U.S. transportation system the safest in the world. The Nation has made good progress in reducing overall transportation-related fatalities and injuries during the past two decades, even though the U.S. population and travel increased significantly.

DOT focuses on mitigating risks and encouraging behavior change by using a data-driven systemic safety approach to identify risks, enhance standards and programs, and evaluate effectiveness. DOT's Systemic Safety Approach is supported by the following goals.

### ROADWAY SAFETY

During the past 15 years, the number of fatalities on the Nation's roadways has dropped by 16 percent. That success, however, has been tempered by recent increases in roadway fatalities during the past 2 years. During FY 2017, an estimated 37,150 people died in crashes on the Nation's roadways. An average of 102 people died each day in motor vehicle crashes, one fatality every 14 minutes. Each lost life leaves grief and loss in its wake. This loss highlights the need to redouble efforts to stem the tide of short-term increases and to ensure that the long-term downward trend continues.

Human error continues to contribute to a significant number of transportation safety incidents. New technologies and innovations have the potential to improve safety in all modes of surface travel, while new data sources and more powerful analytical tools can help DOT identify problem areas and prioritize safety strategies more quickly.

Performance Measure		2016	2017	2018	2019	2020
Motor vehicle-related roadway fatalities per 100 million vehicle-miles traveled (VMT)	Targets	1.02	1.02	1.02	1.02	1.01
	Actuals	1.18	1.16	TBD	N/A	N/A

N/A = not available.

Motor Vehicle-Related Fatality Supporting Indicators		2016	2017	2018	2019	2020
Passenger fatalities per 100 million VMT	Targets	0.75	0.75	0.75	0.74	0.74
	Actuals	0.75	0.73	TBD	N/A	N/A
Large truck and bus fatalities per 100 million VMT	Targets	0.114	0.114	0.114	0.114	0.114
	Actuals	0.144	*	TBD	N/A	N/A
Non-occupant fatalities (pedestrian, bicycle) per 100,000 population	Targets	2.19	2.15	2.15	2.10	2.10
	Actuals	2.22	2.15	TBD	N/A	N/A
Motorcycle fatalities per 100,000 motorcycle registrations	Targets	62	62	62	62	61
	Actuals	60.9	**	TBD	N/A	N/A

N/A = not available. VMT = vehicle miles traveled.

Note: all data is by Calendar Year

\* This data is not available until December 2018. \*\* This data is not available until early 2019.

### RAIL SAFETY

FRA works to improve rail safety through a comprehensive safety program that targets inspections and other oversight activities to railroads and regions with below average performance. Subject matter experts provide ongoing technical assistance to railroads and field personnel to address challenges.

Highway-rail grade crossing and trespass incidents account for almost all rail-related deaths. The number of grade crossing deaths has averaged more than 250 and the number of trespass deaths has averaged more than 450 per year since 2009. Strategies to reduce incidents include public education, engineering recommendations, and greater use of data analytics.

Reduce Rail-Related Fatalities (FRA)		2017	2018	2019	2020
Highway-rail grade crossing incident rate per million train-miles	Targets	2.79	2.85	2.84	2.84
	Actuals	2.995*	3.015	N/A	N/A
Rail right-of-way trespass incident rate per million train-miles	Targets	N/A	1.55	1.51	1.48
	Actuals	1.448*	1.448	N/A	N/A

N/A = not available.

Note: Targets and actuals based on preliminary data as of July 31, 2018, and subject to change due to subsequently provided information.

### TRANSIT SAFETY

Thousands of people suffer annually from transit-related injuries. FTA is focused on reducing that number in the coming years by using a variety of strategies including the development of a National Safety Plan, implementation of a State Safety Oversight Program (SSO), and provision of temporary direct safety oversight when necessary.

Performance Measure		2017	2018	2019	2020
Total transit injuries	Targets	*	23,000	22,900	22,800
	Actuals	23,715	21,410**	N/A	N/A

N/A = not available.

Note: All measures are based on Calendar Year.

\* This was a new performance measure starting in 2018, so no target for 2017 is available. \*\* The 2018 Actual data is a projected number based on January-September data.

### PIPELINE AND HAZARDOUS MATERIALS (HAZMAT) SAFETY

PHMSA protects people and the environment by advancing the safe transportation of energy and other HAZMAT that are essential to our daily lives. These materials include oil, natural gas, and petroleum products transported by pipeline, rail, and truck. Each HAZMAT delivery carries a safety risk requiring the care of pipeline operators, packagers, shippers, and carriers to avoid leaks and spills of these products. PHMSA invests in programs that prevent incidents before they occur. These programs include safety standards that assist shippers preparing and carriers transporting HAZMAT safely and prevention programs that prepare communities and first responders for the unique threats these HAZMAT and pipelines pose.

**IMPROVE SAFE DELIVERY OF PIPELINE PRODUCTS AND HAZMAT**

Pipeline Products and HAZMAT Delivery Data		2017	2018	2019	2020
Safe delivery rate of hazardous liquids by pipeline <sup>1</sup>	Targets	Over 99.9%	Over 99.9%	Over 99.9%	Over 99.9%
	Actuals	Over 99.9%	Over 99.9%	N/A	N/A
Pipeline hazardous liquid products (net) spilled (barrels)	Targets	60,007	58,941	58,941	51,192
	Actuals	74,858	40,769	N/A	N/A
Safe delivery rate of HAZMAT by modes other than pipeline <sup>2</sup>	Targets	Over 99.9%	Over 99.9%	Over 99.9%	Over 99.9%
	Actuals	Over 99.9%	Over 99.9%	N/A	N/A
HAZMAT incidents reported annually	Targets	17,363	17,363	17,363	17,363
	Actuals	17,363	17,882	N/A	N/A

N/A = not available.

<sup>1</sup> Approximately 16.2 billion barrels of hazardous liquid product moved annually through pipelines with a reported 58,941 barrels spilled in 2016.

<sup>2</sup> Hazardous materials safe delivery rate is meant to relate the number of HAZMAT incidents to the total HAZMAT freight transported. This rate is expressed as a percentage and is calculated as follows:  $100\% - (\text{number of hazardous materials incidents/amount of HAZMAT freight transported})/100$ . This metric will be replaced in FY 2019.

**SUPPORTING GOAL: REDUCE SERIOUS PIPELINE INCIDENTS (PHMSA)**

Performance Measure		2017	2018	2019	2020
Incidents involving death or major injury resulting from the transport of hazardous materials by all modes, including pipelines	Targets	63	63	63	63
	Actuals	44	52	N/A*	N/A*

N/A = not available.

\* This APG measure will be replaced in FY2019 with one that only measures fatalities.

**AVIATION SAFETY**

Aviation fatality rates are at historic lows and continue to decrease over time. FAA has an imperative to be smarter about how it assures safety as the aviation industry grows more complex. FAA recognizes the need to identify precursors to accidents to improve safety. To that end, FAA is leveraging strategies such as supporting the installation of new safety-enhancing technology in general aviation aircraft, continuing implementation of new Airman Testing and Training Standards to improve airman training and testing, and working in partnership with industry on a data-driven approach to understand fatal accident causes and develop safety enhancements to mitigate the risk.

**REDUCE GENERAL AVIATION FATAL ACCIDENTS PER 100,000 FLIGHT HOURS**

Performance Measure		2017	2018	2019	2020
U.S. general aviation fatal accidents per 100,000 flight hours	Targets	1.10	1.00	0.98	0.97
	Actuals	0.84	0.89*	N/A	N/A

N/A = not available.

\* This data is preliminary; final data will be available in early 2019.

## FINANCIAL HIGHLIGHTS

The financial statements and financial data presented in this report were 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 Disaster Tax Relief and Airport and Airway Extension Act of 2017 (P.L. 115-63) and the Consolidated Appropriations Act of 2018 (P.L. 115-141) extended AATF authority through September 30, 2018. On October 5, 2018, President Trump signed the FAA Reauthorization Act of 2018 (P.L. 115-254), which extended the AATF authorizations and related revenue authorities to September 30, 2023. 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 of 2015, or "FAST Act," (P.L. 114-94) extended MAP-21 policies and HTF authority through September 30, 2020.

The FAST Act greatly restored HTF funding levels. During FY 2018, 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 2018, compared with \$127.2 billion at the end of FY 2017. The Fund Balance with Treasury line item increased by \$7.2 billion, primarily the result of an increase of appropriations. Investments decreased by \$10.3 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	2018	%	2017	%
Fund Balance With Treasury	\$36,887,851	29.0	\$29,729,631	23.4
Investments	57,780,741	45.4	68,052,871	53.5
Direct Loans and Guarantees, Net	17,081,395	13.4	14,693,297	11.6
General Property, Plant and Equipment	12,741,027	10.0	13,151,814	10.3
Inventory and Related Property, Net	969,154	0.8	947,285	0.7
Accounts Receivable	259,144	0.2	229,691	0.2
Advances, Prepayments, and Other Assets	1,492,304	1.2	438,704	0.3
<b>Total Assets</b>	<b>\$127,211,616</b>	<b>100</b>	<b>\$127,243,293</b>	<b>100</b>



## Liabilities

The Department's Consolidated Balance Sheets report total liabilities of \$30 billion at the end of FY 2018, as summarized in the table below. This number represents a \$2.2 billion increase from the previous year's total liabilities of \$27.8 billion. The Debt line increased by \$2.4 billion because borrowings from Treasury were required to support higher disbursement levels in the Department's credit loan programs.

### LIABILITIES BY TYPE

Dollars in Thousands	2018	%	2017	%
Debt	\$16,710,004	55.7	\$14,298,084	51.5
Grant Accrual	7,799,796	26.0	7,513,159	27.1
Other Liabilities	2,808,308	9.3	3,123,372	11.2
Environmental and Disposal Liabilities	1,102,308	3.7	1,203,762	4.3
Federal Employee Benefits Payable	869,087	2.9	881,188	3.2
Accounts Payable	638,486	2.1	667,703	2.4
Loan Guarantees	88,118	0.3	75,858	0.3
<b>Total Liabilities</b>	<b>\$30,016,107</b>	<b>100</b>	<b>\$27,763,126</b>	<b>100</b>

## RESULTS OF OPERATIONS

### Net Costs

The Department's Net Cost of Operations was \$78.9 billion for FY 2018, as summarized in the following table. Surface and air costs represent 98.1 percent of the Department's total net cost of operations. Surface transportation program costs represent the largest investment for the Department, at 77.3 percent of the net cost of operations. Air transportation is the next largest investment, at 20.8 percent of total net cost of operations.

### NET COSTS

Dollars in Thousands	2018	%	2017	%
Surface Transportation	\$60,932,066	77.3	\$61,700,255	77.5
Air Transportation	16,427,798	20.8	16,586,959	20.9
Maritime Transportation	516,574	0.7	335,781	0.4
Cross-Cutting Programs	462,023	0.6	468,615	0.6
Costs Not Assigned to Programs	519,984	0.6	507,490	0.6
<b>Net Cost of Operations</b>	<b>\$78,858,445</b>	<b>100</b>	<b>\$79,599,100</b>	<b>100</b>

### Net Position

The Department's Consolidated Balance Sheets and Consolidated Statement of Changes in Net Position report a Net Position of \$97.2 billion at the end of FY 2018, a 2.3 percent decrease from the \$99.5 billion from the previous fiscal year. The decrease is mainly attributable to the excess of expenditures over HTF funding levels in FY 2018. 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 2018, the Department had total budgetary resources of \$155.6 billion, which represents a 6.9 percent increase from FY 2017 levels of \$145.6 billion. Budget Authority of \$155.5 billion consisted of \$50.6 billion in unobligated authority carried over from previous years, \$30.9 billion in appropriations, \$62.4 billion in borrowing and contract authority, and \$11.6 billion in spending authority from offsetting collections. The Department's FY 2018 obligations incurred totaled \$99.9 billion compared with FY 2017 obligations incurred of \$95.6 billion.

Net Outlays reflect the actual cash disbursed against previously established obligations. For FY 2018, the Department had net outlays of \$81 billion compared with FY 2017 levels of \$82.9 billion, a 1 percent decrease.

**RESOURCES**

Dollars in Thousands	2018	2017	% (Decrease)
Total Budgetary Resources	155,562,850	\$145,553,949	6.9
New Obligations and Upward Adjustments	99,900,218	95,644,818	4.4
Agency Outlays, Net	81,038,034	82,862,002	(1.0)

**HERITAGE ASSETS AND STEWARDSHIP LAND INFORMATION**

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

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

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

The Department holds transportation investments 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 were 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 were 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 2018 FMFIA ASSURANCE LETTER TO THE PRESIDENT



THE SECRETARY OF TRANSPORTATION  
WASHINGTON, DC 20590

November 8, 2018

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) 2018. It also provides DOT's FY 2018 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, 2018.

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 Section 2 and 4 of FMFIA. DOT conducted its assessment of risk and internal control in accordance with Office of Management and Budget (OMB) Circular No. 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, 2018.

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

In FY 2018, DOT reviewed the control deficiencies that resulted from the assessments and audits performed during FY 2018 and open items from previous assessments and audits. DOT considered the identified control deficiencies separately and in the aggregate to identify issues that may rise to the level of a significant deficiency, 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, 2018.

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The President

**Management's Responsibility for Enterprise Risk Management and Internal Control**  
***OMB Circular A-123, Appendix A: Internal Control over Financial Reporting***<sup>1</sup>

DOT management is responsible for establishing and maintaining effective internal control over reporting. DOT assessed the effectiveness of its internal control over 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 2018, DOT documented and assessed internal controls over several business processes. Appendix A activities in FY 2018 included conducting an entity, process, and transaction level assessment of the controls over 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 provides reasonable assurance that internal control over reporting was operating effectively and no material weaknesses were identified as of June 30, 2018.

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

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

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

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<sup>1</sup> 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.



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The President

**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 Payment Integrity Improvement***

DOT conducted reviews of its programs during FY 2018, and based on the results, provides reasonable assurance that the Department conformed to the requirements of IPIA, as amended by IPERA and IPERIA, and OMB Circular A-123, Appendix C.

In its report, *DOT's Fiscal Year 2017 IPERA Compliance Review*, issued on May 14, 2018, the OIG determined that two DOT programs did not meet their reduction target rates as required by IPERA. DOT did comply with the remaining IPERA compliance requirements by: (1) publishing the FY 2017 Agency Financial Report (AFR); (2) publishing improper payment estimates; (3) publishing corrective action plans; and (4) 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 2018 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 Standard General Ledger (USSGL) at the transaction level.

Based on the results of the FFMIA Compliance Determination Framework utilized from 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, the DOT has determined that financial management systems complied with FFMIA.

**Disaster Relief Appropriations Act, 2013 (P.L. 113-2)**

***OMB Memorandum: Accountability for Funds Provided by the Disaster Relief Appropriations Act (March 12, 2013)***


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

Page 4  
The President

**Conclusion**

Based on the results of our FMFIA assessment in FY 2018, I conclude that the Department has made substantial progress in enhancing the effectiveness of its internal controls and financial management program. Additional enhancements are underway in FY 2019.

Sincerely,

Handwritten signature in black ink that reads "J. L. Chao". The signature is written in a cursive style with a large initial "J" and "L".

## 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 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 2018, ending September 30, 2018, the Secretary of Transportation provided the President and 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, 2018.

A separate discussion on internal controls follows at the end of this section.

### FMFIA Annual Assurance Process

DOT management is responsible for managing risks and maintaining effective internal control 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) of 1996 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*:

- 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 (GAO) 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 in which 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 2018. The assessments for FY 2018 included the following, utilizing applicable guidance:

- Appendix A, *Management of Reporting and Data Integrity Risk*
- Appendix B, *Improving the Management of Government Charge Card Programs*
- Appendix C, *Requirements for Payment Integrity Improvement*
- Appendix D, *Compliance with the Federal Financial Management Improvement Act*

Management's Statement of Assurance, as it relates to OMB Circular A-123 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.

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 control within the financial management system, Delphi, DOT has determined that its financial management system is in compliance with FFMIA for FY 2018.

### 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 2018, the annual FISMA report was finalized and submitted, as required by OMB and the Department of Homeland Security (DHS), on October 31, 2018. As with last year, OIG separated its FISMA-required assessment and submission to OMB from a narrative audit report of cyber security at DOT. The narrative report is expected to be published in December 2018 and will be available at [www.oig.dot.gov](http://www.oig.dot.gov).

In 2018, OST and the 10 OAs operated a total of 459 information systems, a decrease of 17 systems over the FY 2017 adjusted inventory, of which 338 belong to FAA and 21 were identified as departmental high-value assets (HVAs). 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 more than \$99 billion in Federal funds each year.

As reviewed in FY 2018, DOT's cyber security program continues to have weaknesses in its enterprise and systems controls. To be specific, 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; and
- improving oversight of contingency planning and testing.

Consistent with its authorities under the Federal Information Technology Acquisition Reform Act (FITARA) and FISMA, in FY 2018, the DOT Office of the Chief Information Officer (OCIO) initiated an agency information technology (IT) transformation activity, with specific focus on modernization, optimization, automation, and realignment to improve both business outcomes and performance and to reduce attack surface and cyber security and privacy risks. Specific initiatives and accomplishments during FY 2018 included:

- continued implementation of Information Security Continuous Monitoring over OA information systems, with 80 of the 459 systems converted to an ongoing authorization process;

- completion of integrated IT spending reviews for the OAs subject to OCIO FITARA oversight, identifying potential duplication, misalignment, risks, and explicit gaps within OA cyber security programs and plans;
- improved performance on the annual Executive Order (E.O.) 13800 risk management assessment from an overall score of “At Risk” in FY 2017 to “Managing Risk” as of the most recent FY 2018 Q3 assessment;
- initiation of a multiple-award acquisition for enterprisewide cyber security services and support for award in early FY 2019 to improve internal controls, deliver cyber services and cyber outcomes, and reduce cyber security risks;
- migration of systems and infrastructure 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, and closure of the legacy data center, improving the overall risk posture of the agency and establishing an anchor site for future data center consolidation;
- finalization of an agreement between the General Services Administration (GSA) and DOT to leverage GSA’s Login.gov authentication service on a broader basis for public authentication to agency websites and applications, and deployment of the service in multiple agency systems;
- completion of the agency’s Continuous Diagnostics and Mitigation (CDM) dashboard, and connection of the dashboard to the Federal enterprise dashboard operated by DHS; and
- securing 53 percent of DOT websites with HTTPS/HSTS in accordance with Federal requirements, an increase from the 37.6 percent sites secured at the same time last fiscal year.

For FY 2019, subject to the availability of resources, the Department plans to:

- update the inventory of DOT HVA systems by December 31, 2018;
- implement the remaining requirements of DHS Binding Operational Directive 18-01 for secured web and trusted e-mail by January 31, 2019;
- complete the integration of CDM-assisted network admission control (NAC) with the network infrastructure deployed via the DOT Network Assessment Risk Mitigation (NARM) initiative by June 30, 2019;
- update DOT cyber security policy to address legislative changes, National Institute of Standards and Technology (NIST) guidance, and audit recommendations by September 30, 2019;
- perform another series of phishing exercises across all DOT OAs by September 30, 2019;
- perform at least two cyber exercises to test the DOT cyber incident response plan by September 30, 2019; 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 continues to improve the effectiveness and efficiency of its financial management systems and business processes through a shared services approach. DOT shared services are operated by the Enterprise Services Center (ESC) in Oklahoma City, Oklahoma. ESC provides both business operational support and financial management systems services to DOT and non-DOT customers. ESC continually works to streamline processes to standardize business activities to gain efficiencies. DOT and ESC also work collaboratively with the General Services Administration's (GSA) Office of Shared Solutions and Performance Improvement (OSSPI) and the Office of Financial Innovation and Transformation (OFIT) at Treasury to ensure these offerings follow the required guidelines for service delivery.

In FY 2018, DOT upgraded Delphi to the latest version of Oracle E-Business Suite version 12.2.6 to maintain vendor support and gain system efficiencies and enhancements. DOT also fully deployed automated invoice approval functionality to enable all DOT offices to electronically route and approve invoices for payment in Delphi. In addition, DOT completed development on an E-authentication integration with GSA's login.gov that will reduce both paperwork for vendors and manual processing for DOT.

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

### Integration of Delphi and Departmental Procurement Platform (DP2)

DOT continued its Department-wide rollout of DP2, which is 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 2018, the Department successfully migrated two DOT OAs to DP2; the remaining two will be migrated in FY 2019.

### Expansion of Electronic Invoicing (eInvoicing)

During FY 2018, the Department continued implementation of its eInvoicing system to the vendor community. This system, currently used by DOT's grantees, offers vendors the capability of submitting invoices electronically through an online portal.

DOT continued work on an interface between Delphi and GSA's system of record for vendor information, SAM.gov, to complete data cleanse of existing vendor records required for full integration with SAM.gov. Deployment of the full interface with SAM.gov is anticipated in mid-FY 2019.

After it is 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

DOT continued developing a consolidated financial Enterprise Data Warehouse/ Business Intelligence (EDWBI) service with the goal of providing improved financial reporting to strengthen decision-making capabilities. EDWBI will provide users with standard reporting, as well as dashboard views of business activities that they can customize to focus on their critical needs and interests. As part of this effort, DOT tested several tools with a cross functional workgroup in FY 2018. Successes included

populating a centralized data warehouse with four years of historical data, configuring standard reports and dashboards, and providing users with access to financial data via a more flexible reporting tool.

#### Improved Reporting for the Digital Accountability and Transparency Act of 2014 (DATA Act)

The DATA Act calls for establishing and implementing Government-wide data standards for financial data to provide consistent, reliable, and searchable spending data and to make it easily accessible and understandable to the public. DOT has continued to meet all submission deadlines for FY 2018. In addition to providing detailed information to the public on federal spending, DOT continued to evaluate internal processes to improve the quality of the data submitted:

- conducted internal control assessment to identify areas for improvement to improve data accuracy and timely reporting;
- began work on the Data Quality Plan to define DOT's plans for evaluating, tracking, and resolving data quality issues; and
- developed an automated tool to assist OAs in reviewing and resolving data warning reports returned from Treasury for each submission.

#### 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 Institute of Museum and Library Services, the U.S. Commodity Futures Trading Commission, the Consumer Product Safety Commission, the National Credit Union Administration, the U.S. Government Accountability Office (historical data), and the U.S. Securities and Exchange Commission. 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, for DOT and other Federal organizations.

Delphi is 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 examination of Delphi for the period covering October 1, 2017, through June 30, 2018, 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.

# FINANCIAL REPORT



## OFFICE OF INSPECTOR GENERAL QUALITY CONTROL REVIEW




U.S. DEPARTMENT OF TRANSPORTATION  
**OFFICE OF INSPECTOR GENERAL**

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## Memorandum

Date: November 15, 2018

Subject: ACTION: Quality Control Review of the Independent Auditor's Report on the Department of Transportation's Audited Consolidated Financial Statements for Fiscal Years 2018 and 2017 | Report No. QC2019010

From: Calvin L. Scovel III   
Inspector General

To: The Secretary

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I respectfully submit our report on our quality control review (QCR) of the independent auditor's report on the Department of Transportation's (DOT) audited consolidated financial statements for fiscal years 2018 and 2017.

We contracted with the independent public accounting firm KPMG LLP to audit DOT's financial statements as of and for the fiscal years ended September 30, 2018, and September 30, 2017, and to provide a report on internal control over financial reporting and compliance with laws and other matters. The contract required that the audit be performed in accordance with U.S. generally accepted Government auditing standards, Office of Management and Budget audit guidance, and the Governmental Accountability Office's and Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual*.<sup>1</sup>

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

cc: DOT Audit Liaison, M-1

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<sup>1</sup> *Financial Audit Manual*, volumes 1, 2, and 3, GAO-18-601G, GAO-18-625G, and GAO-18-626G, June 2018.

QC2019010

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## KPMG's Report

In its audit of DOT, KPMG reported

- that the financial statements<sup>2</sup> were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles,
- that DOT had two significant deficiencies<sup>3</sup> that KPMG did not consider a material weakness<sup>4</sup> in internal control over financial reporting, and
- no instances of reportable noncompliance with provisions of laws tested or other matters.

KPMG made four recommendations to address the significant deficiencies in internal controls over financial reporting (see attachment 1).

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## Significant Deficiencies

**Weaknesses in general information technology controls.** KPMG identified the following general information technology control (GITC) deficiencies related to access controls and segregation of duties:

- Monitoring controls were not operating effectively over the periodic review of access, including privileged access granted to users;
- Proper segregation of duties was not in place over users' access rights;
- Policies related to the review of audit logs were not documented; and
- Logical access configurations were not properly designed or configured.

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<sup>2</sup> The financial statements are included in the Agency's Financial Report (see attachment 3).

<sup>3</sup> A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

<sup>4</sup> A material weakness 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.

**Weaknesses in controls over subsidy estimates for the Transportation Infrastructure Finance and Innovation Act (TIFIA) Direct Loan Program.**

Controls were not operating effectively to ensure that the cash flow projections that are used in the subsidy cost estimates and re-estimates were based on the best available information and reflect relevant and reliable data inputs. For two loans, the total principal used in the cash flow projections was erroneously excluded from the calculations. In addition, the cash flow model used for all loans did not appropriately account for expected defaults due to a misapplication of the default probability curve.

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**Recommendations**

KPMG made four recommendations to strengthen DOT's general information technology controls, and controls over its TIFIA loan subsidy estimates. KPMG recommended that DOT management

1. Develop sufficient procedures and controls to address the identified GITC control deficiencies.
2. Monitor progress to ensure that the GITC procedures and controls are implemented and operating effectively.
3. Perform a thorough and detailed review of the overall TIFIA cash flow model functionality and implementation to ensure that all assumptions are properly applied in the execution of the cash flow projections.
4. Consider automating the calculations that are performed manually to reduce the risk of misapplication of assumptions due to human error.

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**Quality Control Review**

In connection with the contract, we performed a review of KPMG's report dated November 13, 2018, related documentation, and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted Government auditing standards, was not intended to enable us to express, and we do not express, an opinion on DOT's financial statements or conclusions about the effectiveness of internal control over financial reporting or compliance with laws and other matters. KPMG is responsible for its report and the conclusions expressed therein. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted Government auditing standards.



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## Agency Comments and OIG Response

On November 10, 2018, KPMG provided DOT with its draft report, and received DOT's response on November 14, 2018 (see attachment 2). DOT agreed with the deficiencies KPMG found.

DOT concurred with KPMG's four recommendations and committed to developing a corrective action plan to address the deficiencies by December 31, 2018. We agree with KPMG's recommendations and are not making any additional recommendations.

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## Actions Required

We consider all four of KPMG's recommendations open and unresolved pending receipt of the corrective action plan.

## 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, 2018 and 2017, 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. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 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*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Transportation as of September 30, 2018 and 2017, 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 LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

## INDEPENDENT AUDITORS' REPORT (continued)

**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 Foreword, Message from the Secretary, and Other Information sections 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, 2018, 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.

## INDEPENDENT AUDITORS' REPORT (continued)



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 the accompanying Exhibit 1 as items 2018-01 and 2018-02, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

We also performed tests of the Department's 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 Response to Findings*

The Department's response to the findings identified in our audit is described and presented in the section Management's Response to the Independent Auditors' Report. The Department's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

*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 results 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, 2018

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

**EXHIBIT I  
SIGNIFICANT DEFICIENCIES**

**2018 – 01: Weaknesses in General Information Technology Controls**

**Background**

The Department's operations rely on a series of interconnected networks and information technology (IT) systems to provide support for the operations of the Department in fulfilling its mission. The core accounting system, Delphi, is hosted, operated, and maintained by the Federal Aviation Administration at the Mike Monroney Aeronautical Center in Oklahoma City, OK, under the overall direction of the Department's Chief Financial Officer.

**Criteria**

The U.S. General Accountability Office (GAO)'s *Standards for Internal Control in the Federal Government*, sets the standards for an effective internal control system and provides an overall framework for designing, implementing, and operating an effective internal control system. The standards require entities to design appropriate types of control activities to include limiting access to resources and records to authorized individuals, and to periodically compare resources with the recorded accountability to help reduce the risk of errors, fraud, misuse, or unauthorized alteration. In addition, the DOT Cyber Security Compendium, version 4.2, dated March 2018, provides DOT's policies, procedures, and controls related to the security of DOT information systems that support DOT's mission, operations, and assets, including those provided or managed by another Federal agency, contractor, grantee, or other source.

**Condition**

During our review of general information technology controls, we identified certain control deficiencies related to access controls and segregation of duties as listed below:

- Monitoring controls were not operating effectively over the periodic review of access, including privileged access, granted to users;
- Proper segregation of duties were not in place over users' access rights;
- Policies related to the review of audit logs were not documented; and,
- Logical access configurations are not properly designed or configured.

**Cause**

Management does not have sufficient procedures and controls in place to ensure compliance with the DOT Cyber Security Compendium, version 4.2 dated March 2018.

**Effect**

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

**Recommendations**

We recommend that management:

1. Develop sufficient procedures and controls to address the identified control deficiencies.

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2. Monitor progress to ensure that the procedures and controls are implemented and operating effectively.

**2018 – 02: Weaknesses in 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 the cash flow projections based on the principal and interest schedules, the probability of default and recoveries in the event of a default, which are loaded into the Office of Management and Budget's Credit Subsidy Calculator (CSC) 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 relevant and reliable data inputs.

We selected a sample of eleven subsidy cost estimates/re-estimates from the populations of fifty-seven estimates/re-estimates. Based on our review of the subsidy cost estimates and re-estimates, we noted for one loan, the total principal used in the cash flow projections was erroneously excluded from the calculation. Because of this error, we inspected the remaining forty-six input files and noted that for one additional loan, the same issue existed.

Additionally, we performed procedures over a sample of eleven loans and 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 a 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,



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**EXHIBIT I  
SIGNIFICANT DEFICIENCIES**

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***

Management uses a manual process which resulted in input errors that the review process did not identify. In addition, DOT did not properly consider all relevant data when determining the application of the default rate.

***Effect***

The TIFIA subsidy cost allowance, may be misstated as a result of the incorrect data inputs and/or assumptions used in the calculation. In order to determine the impact of these errors on the consolidated financial statements, we performed additional analyses over the balances and noted that the impact of these errors were immaterial, both quantitatively and qualitatively, to the consolidated financial statements.

***Recommendation***

We recommend that DOT:

1. Perform a thorough and detailed review of the overall cash flow model functionality and implementation to ensure that all assumptions are properly applied, in the execution of the cash flow projections.
2. Consider automating the calculations that are performed manually to reduce the risk of misapplication of assumptions due to human error.

## MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITORS' REPORT



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

# Memorandum

NOV 14 2018

**Subject:** Management's Response to the Audit Report on the Consolidated Financial Statements for Fiscal Year (FY) 2018

  
**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

I am pleased to respond to the report on the Department of Transportation's (DOT) Consolidated Financial Statements for fiscal year 2018. We take great pride in our ability to sustain strong and vigilant financial management, as demonstrated in our achievement of an unmodified audit opinion. This achievement reflects the hard work of all our individual Operating Administrations as well as our shared commitment to careful stewardship of taxpayer dollars as we implement programs across the Department.

We view the audit as an opportunity to identify areas for ongoing improvement as we promote the prudent, effective and efficient use of funds across the Department. We concur with the two significant deficiencies contained in the report on internal controls over financial reporting and the corresponding recommendations. Corrective actions are already underway and we will submit a detailed plan along with estimated completion dates of the actions to the Inspector General no later than December 31, 2018, to address the findings contained in the report.

I 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	2018	2017
<b>Assets</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$36,887,851	\$29,729,631
Investments, Net (Note 3)	57,780,741	68,052,871
Accounts Receivable (Note 4)	154,995	105,267
Advances and Prepayments (Note 5)	69,579	58,675
<b>Total Intragovernmental</b>	<b>94,893,166</b>	<b>97,946,444</b>
Accounts Receivable, Net (Note 4)	104,149	124,425
Direct Loan and Loan Guarantees, Net (Note 6)	17,081,395	14,693,297
Inventory and Related Property, Net (Note 7)	969,154	947,285
General Property, Plant and Equipment, Net (Note 8)	12,741,027	13,151,814
Advances, Prepayments, and Other Assets (Note 5)	1,422,725	380,029
<b>Total Assets</b>	<b>\$127,211,616</b>	<b>\$127,243,293</b>
Stewardship Property, Plant and Equipment (Note 9)		
<b>Liabilities (Note 10)</b>		
Intragovernmental		
Accounts Payable	\$28,803	\$16,043
Debt (Note 11)	16,710,004	14,298,084
Other (Note 14)	1,353,951	1,807,278
<b>Total Intragovernmental</b>	<b>18,092,758</b>	<b>16,121,404</b>
Accounts Payable	609,683	651,661
Loan Guarantee Liability (Note 6)	88,118	75,858
Federal Employee Benefits Payable	869,087	881,188
Environmental and Disposal Liabilities (Note 12)	1,102,308	1,203,762
Grant Accrual (Note 13)	7,799,796	7,513,159
Other (Note 14)	1,454,357	1,316,094
<b>Total Liabilities</b>	<b>\$30,016,107</b>	<b>\$27,763,126</b>
Commitments and contingencies (Note 16)		
<b>Net Position</b>		
Unexpended Appropriations—Funds From Dedicated Collections (Combined) (Note 17)	\$1,089,345	\$1,002,687
Unexpended Appropriations—Other Funds (Combined)	28,022,957	20,264,564
Cumulative Results of Operations—Funds From Dedicated Collections (Combined) (Note 17)	56,566,295	67,251,593
Cumulative Results of Operations—Other Funds (Combined)	11,516,912	10,961,323
<b>Total Net Position—Funds From Dedicated Collections</b>	<b>57,655,640</b>	<b>68,254,280</b>
<b>Total Net Position—Other Funds</b>	<b>39,539,869</b>	<b>31,225,887</b>
<b>Total Net Position</b>	<b>97,195,509</b>	<b>99,480,167</b>
<b>Total Liabilities and Net Position</b>	<b>\$127,211,616</b>	<b>\$127,243,293</b>

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	2018	2017
Program costs		
<b>Surface Transportation</b>		
Gross Costs	\$61,897,507	\$62,626,151
Less: Earned Revenue	965,441	925,896
<b>Net Program Costs</b>	<b>60,932,066</b>	<b>61,700,255</b>
<b>Air Transportation</b>		
Gross Costs	16,978,757	17,100,036
Less: Earned Revenue	550,959	513,077
<b>Net Program Costs</b>	<b>16,427,798</b>	<b>16,586,959</b>
<b>Maritime Transportation</b>		
Gross Costs	921,871	711,912
Less: Earned Revenue	405,297	376,131
<b>Net Program Costs</b>	<b>516,574</b>	<b>335,781</b>
<b>Cross-Cutting Programs</b>		
Gross Costs	713,065	709,741
Less: Earned Revenue	251,042	241,126
<b>Net Program Costs</b>	<b>462,023</b>	<b>468,615</b>
Costs Not Assigned to Programs	522,489	508,723
Less: Earned Revenues Not Attributed to Programs	2,505	1,233
<b>Net Cost of Operations</b>	<b>\$78,858,445</b>	<b>\$79,599,100</b>

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	2018			2017		
	Dedicated Collections (Combined)	All Other Funds (Combined)	Total	Dedicated Collections (Combined)	All Other Funds (Combined)	Total
<b>Unexpended Appropriations</b>						
Beginning Balance	\$1,002,687	\$20,264,564	\$21,267,251	\$1,227,531	\$21,490,915	\$22,718,446
<b>Budgetary Financing Sources</b>						
Appropriations Received (Note 1U)	1,360,754	15,587,589	16,948,343	852,852	7,620,810	8,473,662
Appropriations Transferred-in/(out)	(199)	11,039	10,840	2,956	10,000	12,956
Other Adjustments	(23,874)	(48,604)	(72,478)	(39,591)	(315,598)	(355,189)
Appropriations Used	(1,250,023)	(7,791,631)	(9,041,654)	(1,041,061)	(8,541,563)	(9,582,624)
Total Budgetary Financing Sources	86,658	7,758,393	7,845,051	(224,844)	(1,226,351)	(1,451,195)
<b>Total Unexpended Appropriations</b>	<b>\$1,089,345</b>	<b>\$28,022,957</b>	<b>\$29,112,302</b>	<b>\$1,002,687</b>	<b>\$20,264,564</b>	<b>\$21,267,251</b>
<b>Cumulative Results of Operations</b>						
Beginning Balance	\$67,251,593	\$10,961,323	\$78,212,916	\$79,835,672	\$11,899,180	\$91,734,852
<b>Budgetary Financing Sources</b>						
Other adjustments	177	—	177	—	(867)	(867)
Appropriations Used	1,250,023	7,791,631	9,041,654	1,041,061	8,541,563	9,582,624
Non-Exchange Revenue (Note 18)	59,520,102	21,905	59,542,007	56,790,429	81,055	56,871,484
Donations/Forfeitures of Cash/Cash Equivalents	4,959	—	4,959	775	—	775
Transfers-in/(out) Without Reimbursement	107,406	(25,367)	82,039	123,735	18,128	141,863
<b>Other Financing Sources (Non-Exchange)</b>						
Donations and Forfeitures of Property	—	36,568	36,568	—	15,691	15,691
Transfers-in/(out) Without Reimbursement	(1,031,300)	1,068,191	36,891	(1,073,607)	1,086,094	12,487
Imputed Financing	375,582	105,916	481,498	282,246	99,158	381,404
Other	97	(497,154)	(497,057)	297	(928,594)	(928,297)
<b>Total Financing Sources</b>	<b>60,227,046</b>	<b>8,501,690</b>	<b>68,728,736</b>	<b>57,164,936</b>	<b>8,912,228</b>	<b>66,077,164</b>
Net Cost of Operations	70,912,344	7,946,101	78,858,445	69,749,015	9,850,085	79,599,100
Net Change	(10,685,298)	555,589	(10,129,709)	(12,584,079)	(937,857)	(13,521,936)
<b>Cumulative Results of Operations</b>	<b>\$56,566,295</b>	<b>\$11,516,912</b>	<b>\$68,083,207</b>	<b>\$67,251,593</b>	<b>\$10,961,323</b>	<b>\$78,212,916</b>
<b>Net Position</b>	<b><u>\$57,655,640</u></b>	<b><u>\$39,539,869</u></b>	<b><u>\$97,195,509</u></b>	<b><u>\$68,254,280</u></b>	<b><u>\$31,225,887</u></b>	<b><u>\$99,480,167</u></b>

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	2018		2017	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources (Note 19)</b>				
Unobligated Balance From Prior Year Budget Authority, Net	\$50,120,181	\$506,242	\$50,304,141	\$390,610
Appropriations (Note 1U)	30,865,941	—	21,210,393	—
Borrowing Authority	—	3,037,732	—	4,122,413
Contract Authority	59,412,220	—	57,556,287	—
Spending Authority From Offsetting Collections	11,205,930	414,604	11,556,396	413,709
<b>Total Budgetary Resources</b>	<b><u>\$151,604,272</u></b>	<b><u>\$3,958,578</u></b>	<b><u>\$140,627,217</u></b>	<b><u>\$4,926,732</u></b>
<b>Memorandum (Non-Add) Entries</b>				
Net Adjustments to Unobligated Balance Brought Forward, Oct 1	\$581,894	\$134,564	\$1,142,415	\$1,538
<b>Status of Budgetary Resources</b>				
New Obligations and Upward Adjustments	\$96,122,045	\$3,778,173	\$91,089,764	\$4,555,054
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	35,289,640	11,155	30,154,391	55,826
Unapportioned, Unexpired Accounts	19,973,087	169,250	19,168,682	315,852
Unexpired Unobligated Balance, End of Year	55,262,727	180,405	49,323,073	371,678
Expired Unobligated Balance, End of Year	219,500	—	214,380	—
<b>Unobligated Balance, End of Year</b>	<b><u>55,482,227</u></b>	<b><u>180,405</u></b>	<b><u>49,537,453</u></b>	<b><u>371,678</u></b>
<b>Total Budgetary Resources</b>	<b><u>\$151,604,272</u></b>	<b><u>\$3,958,578</u></b>	<b><u>\$140,627,217</u></b>	<b><u>\$4,926,732</u></b>
<b>Outlays, Net</b>				
Outlays, Net	80,722,462	2,564,347	79,973,872	3,447,339
Distributed Offsetting Receipts	(2,248,775)	—	(559,209)	—
<b>Agency Outlays, Net</b>	<b><u>\$78,473,687</u></b>	<b><u>\$2,564,347</u></b>	<b><u>\$79,414,663</u></b>	<b><u>\$3,447,339</u></b>

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. The SLSDC is subject to separate reporting requirements under the Government Corporation Control Act and undergoes its own annual financial statement audit. SLSDC's financial statements are available via their website.

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)

The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, in December 2014, which is effective for FY 2018. Prior to FY 2018, the Department reported reporting entity considerations in accordance with FASAB Statement of Federal Accounting Concepts 2 (SFFAC 2), *Entity and Display*. 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. The Department analyzed its existing relationships with other organizations and determined that our relationship with the National Passenger Railroad Corporation (Amtrak) required disclosure. No other relationships were identified that met the requirements for consolidation or disclosure. Further information regarding the Department’s relationship with Amtrak can be found in Note 23.

**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. Intradepartmental activity reported in a fund from dedicated collections is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the Balance Sheet and Statement of Changes in Net Position on a combined basis. 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.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Combined Statements of Budgetary Resources provide information about how budgetary resources were made available, as well as the status of budgetary resources at the end of the reporting periods. Recognition and measurement of budgetary information reported on these statements is based on budget terminology, definitions, and guidance presented in OMB Circular A-11, Preparation, Submission, and Execution of the Budget, dated June 2018.

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 20.

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 “intra-governmental.” 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 June 2018. 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 2018 and FY 2017, 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.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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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's consolidated financial statements are prepared in accordance 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.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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**

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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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. Liabilities not requiring budgetary resources are liabilities that have not in the past required and will not in the future require the use of budgetary resources (i.e. custodial collections).

**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



## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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**

The Federal Employees Compensation Act (FECA) (Public Law 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the DOT for these paid claims.

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

**R. ENVIRONMENTAL AND DISPOSAL LIABILITIES**

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

The asset disposal liability is the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous material when an asset presently in service is shut down. DOT estimates the asset disposal liability at the time that an asset is placed in service. For assets placed in service through FY 1998, the increase or decrease in the estimated environmental cleanup 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.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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. All financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived.

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

DOT receives allocations of funds, as the child agency, from the following non-DOT Federal agencies in accordance with applicable laws and statutes: U.S. Department of Agriculture, U.S. Department of the Interior, U.S. Department of the Navy, U.S. Department of the Army, U.S. Department of the Air Force, and the U.S. Department of Defense (DoD). This activity is included in the financial statements of the parent agency and is not included in the DOT financial statements.

**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.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The DOT September 30, 2018 financial statements reflect excise taxes certified by the IRS through June 30, 2018 and excise taxes distributed by the U.S. Treasury, Office of Tax Analysis (OTA) for the period June 30, 2018 to September 30, 2018, 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 July 15, 2016, the FAA Extension, Safety, and Security Act of 2016, P.L. 114-190, Airport and Airway Extension Act of 2015, P.L. 114-55 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 September 30, 2017. On September 29, 2017, President Trump signed the Disaster Tax Relief and Airport and Airway Extension Act of 2017, which extended the AATF authorizations and related revenue authorities to March 31, 2018. On March 23, 2018, President Trump signed the Consolidated Appropriations Act for FY 2018 (P.L. 115-141) which further extended the AATF authorization to September 30, 2018. On September 29, 2018, President Trump signed the Airport and Airway Extension Act of 2018, Part II (P.L. 115-250) which further extended the AATF authorization to October 7, 2018. On October 5, 2018, President Trump signed the FAA Reauthorization Act of 2018 (P.L. 115-254) which extended the AATF authorizations and related revenue authorities to September 30, 2023.

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. In FY 2018 and 2017, there were no new General Fund resources provided for the Highway Trust Fund.

On February 9th, 2018, the President signed the Bipartisan Budget Act of 2018 (P.L. 115-123), which, among other things, appropriated \$1.8 billion to several DOT Operating Administrations for disaster assistance related to Hurricanes Harvey, Irma, and Maria; and wildfires that occurred in 2017.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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Effective October 1, 2018, the DOT is operating under a continuing resolution (CR), P.L. 115-245, to continue Government operations. The CR will be in effect through December 7, 2018, predominantly at FY 2018 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 22.

**W. SUBSEQUENT EVENTS**

In October 2018, Hurricane Michael significantly impacted certain areas within the southeastern United States. Currently, DOT, in conjunction with other Federal entities, is assessing the estimated financial impact of the affected areas. DOT is expecting states impacted by Hurricane Michael to apply for emergency relief in the near future, however; the amounts are unknown as of the date of this report.

**X. RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform with the current year presentation. Specifically, due to significant revisions in OMB Circular A-136 Financial Reporting Requirements in FY 2018, the Statement of Budgetary Resources and certain notes to the consolidated financial statements have been reclassified to conform to changes in reporting requirements.

**Y. TAXES**

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

## NOTE 2. FUND BALANCE WITH TREASURY

Fund Balances With Treasury as of September 30, 2018 and 2017, consist of the following:

Dollars in Thousands	2018	2017
<b>Status of Fund Balance With Treasury</b>		
Unobligated Balance		
Available	\$29,423,763	\$22,705,272
Unavailable	2,752,430	2,601,887
Obligated Balance Not Yet Disbursed	4,472,710	4,025,730
Non-Budgetary Fund Balance With Treasury	238,948	396,742
<b>Total</b>	<b>\$36,887,851</b>	<b>\$29,729,631</b>

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.

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.

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

## NOTE 3. INVESTMENTS

Dollars in Thousands	Cost	Amortized Discount	Investments (Net)	Market Value
<b>Intragovernmental Securities</b>				
<i>Investments as of September 30, 2018 consist of the following:</i>				
Marketable	\$39,156	\$(256)	\$38,900	\$38,006
Non-Marketable Par Value	55,423,869	—	55,423,869	55,423,869
Non-Marketable Market-Based	2,249,669	(11,678)	2,237,991	2,212,635
<b>Subtotal</b>	<b>57,712,694</b>	<b>(11,934)</b>	<b>57,700,760</b>	<b>57,674,510</b>
Accrued Interest Receivable	79,981	—	79,981	—
<b>Total Intragovernmental Securities</b>	<b><u>\$57,792,675</u></b>	<b><u>\$(11,934)</u></b>	<b><u>\$57,780,741</u></b>	<b><u>\$57,674,510</u></b>
<b>Intragovernmental Securities</b>				
<i>Investments as of September 30, 2017 consist of the following:</i>				
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
<b>Subtotal</b>	<b>67,995,130</b>	<b>(6,485)</b>	<b>67,988,645</b>	<b>67,981,758</b>
Accrued Interest Receivable	64,226	—	64,226	—
<b>Total Intragovernmental Securities</b>	<b><u>\$68,059,356</u></b>	<b><u>\$(6,485)</u></b>	<b><u>\$68,052,871</u></b>	<b><u>\$67,981,758</u></b>

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
<i>Accounts Receivable as of September 30, 2018 consist of the following:</i>			
<b>Intragovernmental</b>			
Accounts Receivable	\$154,995	\$ —	\$154,995
Accrued Interest	—	—	—
<b>Total Intragovernmental</b>	<b>154,995</b>	<b>—</b>	<b>154,995</b>
<b>Public</b>			
Accounts Receivable	149,497	(46,311)	103,186
Accrued Interest	3,262	(2,299)	963
<b>Total Public</b>	<b>152,759</b>	<b>(48,610)</b>	<b>104,149</b>
<b>Total Accounts Receivable</b>	<b><u>\$307,754</u></b>	<b><u>\$(48,610)</u></b>	<b><u>\$259,144</u></b>

Dollars in Thousands	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
<i>Accounts Receivable as of September 30, 2017 consist of the following:</i>			
<b>Intragovernmental</b>			
Accounts Receivable	\$105,267	\$ —	\$105,267
Accrued Interest	—	—	—
<b>Total Intragovernmental</b>	<b>105,267</b>	<b>—</b>	<b>105,267</b>
<b>Public</b>			
Accounts Receivable	162,591	(39,245)	123,346
Accrued Interest	2,580	(1,501)	1,079
<b>Total Public</b>	<b>165,171</b>	<b>(40,746)</b>	<b>124,425</b>
<b>Total Accounts Receivable</b>	<b><u>\$270,438</u></b>	<b><u>\$(40,746)</u></b>	<b><u>\$229,692</u></b>

## 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, 2018 and 2017*

Dollars in Thousands	2018	2017
<b>Intragovernmental</b>		
Advances and Prepayments	\$69,579	\$58,675
<b>Total Intragovernmental Other Assets</b>	<b><u>\$69,579</u></b>	<b><u>\$58,675</u></b>
<b>Public</b>		
Advances to States for Right of Way	\$260	\$252
Advances and Prepayments	1,422,379	379,647
Other	86	130
<b>Total Public Other Assets</b>	<b><u>\$1,422,725</u></b>	<b><u>\$380,029</u></b>



## 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 leverage 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	2018 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	\$506,576	\$ —	\$ —	\$(98,509)	\$408,067
(2) TIFIA Loans	16,492,138	—	166,635	(235,068)	16,423,705
<b>Total</b>	<b><u>\$16,998,714</u></b>	<b><u>\$ —</u></b>	<b><u>\$166,635</u></b>	<b><u>\$(333,577)</u></b>	<b><u>\$16,831,772</u></b>

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
<b>Total</b>	<b><u>\$14,784,942</u></b>	<b><u>\$ —</u></b>	<b><u>\$166,635</u></b>	<b><u>\$(258,280)</u></b>	<b><u>\$14,693,297</u></b>

Total Amount of Direct Loans Disbursed (Post-1991)

Dollars in Thousands

Direct Loan Programs	2018	2017
(1) Railroad Rehabilitation Improvement Program	\$ —	\$137,476
(2) TIFIA Loans	2,629,508	4,009,103
<b>Total</b>	<b><u>\$2,629,508</u></b>	<b><u>\$4,146,579</u></b>

Subsidy Expense for Direct Loans by Program and Component

Dollars in Thousands

## Subsidy Expense for New Direct Loans Disbursed

Direct Loan Programs	2018 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
(1) Railroad Rehabilitation Improvement Program	\$ —	\$ —	\$ —	\$ —	\$ —
(2) TIFIA Loans	—	253,633	—	(124)	253,509
<b>Total</b>	<b><u>\$ —</u></b>	<b><u>\$253,633</u></b>	<b><u>\$ —</u></b>	<b><u>\$(124)</u></b>	<b><u>\$253,509</u></b>

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
<b>Total</b>	<b><u>\$ —</u></b>	<b><u>\$320,004</u></b>	<b><u>\$(7,974)</u></b>	<b><u>\$(9,273)</u></b>	<b><u>\$302,757</u></b>

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

## DIRECT LOANS (continued)

## Modifications and Reestimates

	2018 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
<b>Direct Loan Programs</b>				
(1) Railroad Rehabilitation Improvement Program	\$ —	\$ —	\$22,080	\$22,080
(2) TIFIA Loans	1,535	(262,279)	16,543	(245,736)
<b>Total</b>	<u>\$1,535</u>	<u>\$(262,279)</u>	<u>\$38,623</u>	<u>\$(223,656)</u>

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

## Total Direct Loan Subsidy Expense

	2018	2017
<b>Direct Loan Programs</b>		
(1) Railroad Rehabilitation Improvement Program	\$22,080	\$25,789
(2) TIFIA Loans	9,308	(177,942)
<b>Total</b>	<u>\$31,388</u>	<u>\$(152,153)</u>

## Budget Subsidy Rates for Direct Loans for the Current Year Cohort

	2018 Interest Differential	Defaults	Fees and Other Collections	Other	Total
<b>Direct Loan Programs</b>					
(1) Railroad Rehabilitation Improvement Program	- 2.57%	5.24%	- 2.67%	0.00%	0.00%
(2) TIFIA Loans					
Risk Category 1	0.24%	6.41%	0.00%	0.00%	6.64%

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.

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

## DIRECT LOANS (continued)

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)		Dollars in Thousands	
Beginning Balance, Changes, and Ending Balance	2018	2017	
Beginning Balance of the Subsidy Cost Allowance	\$258,280	\$698,419	
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component			
Default Costs (Net of Recoveries)	253,633	320,004	
Fees and Other Collections	—	(7,974)	
Other Subsidy Costs	(124)	(9,273)	
<b>Total of the Above Subsidy Expense Components</b>	<b>253,509</b>	<b>302,757</b>	
Adjustments			
Loan Modifications	1,535	(11,593)	
Foreclosed Property Acquired	—	253,424	
Loans Written Off	—	(535,296)	
Subsidy Allowance Amortization	43,909	(12,098)	
Other	—	5,984	
<b>Ending Balance of the Subsidy Cost Allowance Before Reestimates</b>	<b>557,233</b>	<b>701,597</b>	
Add or Subtract Subsidy Reestimates by Component			
Interest Rate Reestimate	(262,279)	(458,479)	
Technical/Default Reestimate	38,623	15,162	
<b>Total of the Above Reestimate Components</b>	<b>(223,656)</b>	<b>(443,317)</b>	
<b>Ending Balance of the Subsidy Cost Allowance</b>	<b>\$333,577</b>	<b>\$258,280</b>	

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. Actual interest rates used for FY 2018 loan disbursements were lower than the interest rate assumptions used during the budget formulation process at loan origination. The significant downward interest rate reestimate resulted from a combination of the lower actual interest rates used and the large loan disbursement amounts made over this time period.

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

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

## GUARANTEED LOANS

## Defaulted Guaranteed Loans From Post-1991 Guarantees

Dollars in Thousands

Loan Guarantee Programs	2018 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Assets Related to Default Guaranteed Loans Receivable, Net
(3) Federal Ship Financing Fund (Title XI)	\$249,623	\$—	\$—	\$—	\$249,623
(4) OST Minority Business Resource Center	480	15	—	(495)	—
<b>Total</b>	<b>\$250,103</b>	<b>\$15</b>	<b>\$-</b>	<b>\$(495)</b>	<b>\$249,623</b>

Loan Guarantee Programs	2017 Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Assets Related to Default Guaranteed Loans Receivable, Net
(3) Federal Ship Financing Fund (Title XI)	\$—	\$—	\$—	\$—	\$—
(4) OST Minority Business Resource Center	500	—	—	(500)	—
<b>Total</b>	<b>\$500</b>	<b>\$—</b>	<b>\$—</b>	<b>\$(500)</b>	<b>\$—</b>

## Guaranteed Loans Outstanding

Dollars in Thousands

Loan Guarantee Programs	2018 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	\$1,324,868	\$1,324,868
(4) OST Minority Business Resource Center	568	426
<b>Total</b>	<b>\$1,325,436</b>	<b>\$1,325,294</b>

## New Guaranteed Loans Disbursed

Loan Guarantee Programs	2018 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	\$203,927	\$203,927
(4) OST Minority Business Resource Center	—	—
<b>Total</b>	<b>\$203,927</b>	<b>\$203,927</b>

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
<b>Total</b>	<b>\$250</b>	<b>\$188</b>

## 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	2018 Liabilities for Post-1991 Guarantees, Present Value
(3) Federal Ship Financing Fund (Title XI)	\$88,021
(4) OST Minority Business Resource Center	97
<b>Total</b>	<b><u>\$88,118</u></b>

## Subsidy Expense for Loan Guarantees by Program and Component

Dollars in Thousands

Loan Guarantee Programs	2018 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)	\$—	\$33,187	\$(13,154)	\$—	\$20,033
(4) OST Minority Business Resource Center	—	—	—	—	—
<b>Total</b>	<b><u>\$—</u></b>	<b><u>\$33,187</u></b>	<b><u>\$(13,154)</u></b>	<b><u>\$—</u></b>	<b><u>\$20,033</u></b>

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
<b>Total</b>	<b><u>\$—</u></b>	<b><u>\$6</u></b>	<b><u>\$—</u></b>	<b><u>\$—</u></b>	<b><u>\$6</u></b>

## Modifications and Reestimates

Dollars in Thousands

Loan Guarantee Programs	2018 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(3) Federal Ship Financing Fund (Title XI)	\$—	\$—	\$(16,427)	\$(16,427)
(4) OST Minority Business Resource Center	—	—	(14)	(14)
<b>Total</b>	<b><u>\$—</u></b>	<b><u>\$—</u></b>	<b><u>\$(16,441)</u></b>	<b><u>\$(16,441)</u></b>

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)
<b>Total</b>	<b><u>\$—</u></b>	<b><u>\$—</u></b>	<b><u>\$(86,110)</u></b>	<b><u>\$(86,110)</u></b>

## Total Loan Guarantee Subsidy Expense

Dollars in Thousands

Loan Guarantee Programs	2018	2017
(3) Federal Ship Financing Fund (Title XI)	\$3,606	\$(86,063)
(4) OST Minority Business Resource Center	(14)	(41)
<b>Total</b>	<b><u>\$3,592</u></b>	<b><u>\$(86,104)</u></b>

## 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 Dollars in Thousands

Loan Guarantee Programs	2018 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI) Risk Category 4	0.00%	15.69%	- 6.22%	0.00%	9.47%
(4) OST Minority Business Resource Center	0.00%	0.00%	0.00%	0.00%	0.00%

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	2018	2017
Beginning Balance of the Loan Guarantee Liability	\$75,858	\$161,961
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	33,187	6
Fees and other collections	(13,154)	—
<b>Total of the Above Subsidy Expense Components</b>	<b>20,033</b>	<b>6</b>
Adjustments		
Fees Received	12,938	—
Foreclosed Property and Loans Acquired	249,623	—
Claim Payments to Lenders	(247,989)	—
Interest Accumulation on the Liability Balance	1	1
Other	(5,905)	—
<b>Ending Balance of the Loan Guarantee Liability Before Reestimates</b>	<b>\$104,559</b>	<b>161,968</b>
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	—	—
Technical/Default Reestimate	(16,441)	(86,110)
<b>Total of the Above Reestimate Components</b>	<b>(16,441)</b>	<b>(86,110)</b>
<b>Ending Balance of the Loan Guarantee Liability</b>	<b>\$88,118</b>	<b>\$75,858</b>

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, 2018, 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, 2018 consists of the following:

Dollars in Thousands	Cost	Allowance for Loss	Net
<b>Inventory</b>			
Inventory Held for Current Sale	\$249,468	\$ —	\$249,468
Inventory Held for Repair	366,620	—	366,620
Other	47,190	—	47,190
<b>Total Inventory</b>	<b>663,278</b>	<b>—</b>	<b>663,278</b>
<b>Operating Materials and Supplies</b>			
Items Held for Use	245,788	(2,075)	243,713
Items Held in Reserve for Future Use	40,338	-	40,338
Excess, Obsolete, and Unserviceable Items	3,094	(2,058)	1,036
Items Held for Repair	38,983	(18,194)	20,789
<b>Total Operating Materials &amp; Supplies</b>	<b>328,203</b>	<b>(22,327)</b>	<b>305,876</b>
<b>Total Inventory and Related Property</b>			<b><u>\$969,154</u></b>

Inventory and Related Property as of September 30, 2017 consists of the following:

Dollars in Thousands	Cost	Allowance for Loss	Net
<b>Inventory</b>			
Inventory Held for Current Sale	\$241,244	\$ —	\$241,244
Inventory Held for Repair	359,421	—	359,421
Other	48,427	—	48,427
<b>Total Inventory</b>	<b>649,092</b>	<b>—</b>	<b>649,092</b>
<b>Operating Materials and Supplies</b>			
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
<b>Total Operating Materials &amp; Supplies</b>	<b>317,853</b>	<b>(19,660)</b>	<b>298,193</b>
<b>Total Inventory and Related Property</b>			<b><u>\$947,285</u></b>

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. 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 \$6.9 million in FY 2018 and \$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, 2018 consist of the following:

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation Amortization	Book Value
Land and Improvements	10-40	\$99,961	\$(2,350)	\$97,611
Buildings and Structures	20-40	6,759,341	(3,820,687)	2,938,654
Furniture and Fixtures	7-10	439	(439)	—
Equipment	5-15	18,109,428	(12,189,959)	5,919,469
Internal Use Software	3-10	3,878,337	(1,877,322)	2,001,015
Assets Under Capital Lease	6-10	107,699	(51,311)	56,388
Leasehold Improvements	3	196,836	(127,892)	68,944
Aircraft	20	515,103	(418,778)	96,325
Ships and Vessels	15-25	1,934,207	(1,917,900)	16,307
Small Boats	10-18	29,614	(29,087)	527
Construction-in-Progress	N/A	1,545,787	—	1,545,787
<b>Total</b>		<b><u>\$33,176,752</u></b>	<b><u>\$(20,435,725)</u></b>	<b><u>\$12,741,027</u></b>

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
<b>Total</b>		<b><u>\$32,282,690</u></b>	<b><u>\$(19,130,876)</u></b>	<b><u>\$13,151,814</u></b>

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, 2018.

	Units as of 9/30/2017	Additions	Withdrawals	Units as of 9/30/18
<b>Heritage Assets</b>				
Personal Property				
Artifacts	724	1	—	725
Other Collections	6,131	6	(1)	6,136
<b>Total Personal Property Heritage Assets</b>	<b><u>6,855</u></b>	<b><u>7</u></b>	<b><u>(1)</u></b>	<b><u>6,861</u></b>

### REAL PROPERTY HERITAGE ASSETS

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

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

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

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

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

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

## NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources are those liabilities for which Congressional action is needed before budgetary resources can be provided. Intragovernmental Liabilities are those liabilities that are with other Federal Government entities. The \$511.2 million and \$944.4 of liability for nonentity assets for FY 2018 and FY 2017, respectively, are primarily related to downward loan subsidy reestimates.

Liabilities Not Covered by Budgetary Resources as of September 30, 2018 and 2017, consist of the following:

Dollars in Thousands	2018	2017
<b>Intragovernmental</b>		
Unfunded FECA Liability	\$176,965	\$183,900
Unfunded Employment Related Liability	26,255	2,943
Liability for Nonentity Assets	511,203	944,404
Other Liabilities	5,574	2,863
<b>Total Intragovernmental</b>	<b>719,997</b>	<b>1,134,110</b>
Federal Employee Benefits Payable	869,087	881,188
Environmental and Disposal Liabilities (Note 12)	1,102,308	1,203,762
Unfunded Accrued Pay and Benefits	532,398	555,616
Legal Claims	29,477	31,945
Capital Lease Liabilities	63,859	59,694
Other Liabilities	37,227	36,410
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>3,354,353</b>	<b>3,902,725</b>
Total Liabilities Covered by Budgetary Resources	26,626,072	23,816,645
Total Liabilities Not Requiring Budgetary Resources	35,682	43,756
<b>Total Liabilities</b>	<b>\$30,016,107</b>	<b>\$27,763,126</b>

## NOTE 11. DEBT

Debt balances and activities during the fiscal years ended September 30, 2018 and 2017, consist of the following:

Dollars in Thousands	2017 Beginning Balance	2017 Net Borrowing	2017 Ending Balance	2018 Net Borrowing	2018 Ending Balance
<b>Intragovernmental Debt</b>					
Debt to the Treasury	\$10,868,042	\$3,430,042	\$14,298,084	\$2,411,920	\$16,710,004
<b>Total Intragovernmental Debt</b>	<b>\$10,868,042</b>	<b>\$3,430,042</b>	<b>\$14,298,084</b>	<b>\$2,411,920</b>	<b>\$16,710,004</b>

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 2018 and FY 2017, 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 2020 to September 2058. 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, 2018 and 2017, consist of the following:

Dollars in Thousands	2018	2017
Environmental Remediation	\$548,362	\$601,436
Asset Disposal	553,946	602,326
<b>Total Environmental and Disposal Liabilities</b>	<b>\$1,102,308</b>	<b>\$1,203,762</b>

## 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, 2018 and 2017, 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 and 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, 2018, includes the estimated cost of disposing 86 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, 2018 and 2017, were as follows:

Dollars in Thousands	2018	2017
Federal Highway Administration	\$5,172,694	\$4,913,121
Federal Transit Administration	1,773,190	1,711,490
Federal Aviation Administration	695,106	716,428
Other Operating Administrations	158,806	172,120
<b>Total Grant Accrual</b>	<b><u>\$7,799,796</u></b>	<b><u>\$7,513,159</u></b>

## NOTE 14. OTHER LIABILITIES

Other Liabilities as of September 30, 2018 consist of the following:

Dollars in Thousands	Noncurrent	Current	Total
<b>Intragovernmental</b>			
Advances and Prepayments	\$—	\$516,887	\$516,887
Accrued Pay and Benefits	—	104,103	104,103
FECA Billings	96,737	80,699	177,436
Liability for Nonentity Assets	—	511,203	511,203
Other Accrued Liabilities	—	44,322	44,322
<b>Total Intragovernmental</b>	<b>\$96,737</b>	<b>\$1,257,214</b>	<b>\$1,353,951</b>
<b>Public</b>			
Advances and Prepayments	\$—	\$329,423	\$329,423
Accrued Pay and Benefits	41,038	793,559	834,597
Deferred Credits	—	159,498	159,498
Legal Claims (Note 16)	—	29,477	29,477
Capital Leases (Note 15)	54,866	8,993	63,859
Other Accrued Liabilities	—	37,503	37,503
<b>Total Public</b>	<b>\$95,904</b>	<b>\$1,358,453</b>	<b>\$1,454,357</b>

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

Dollars in Thousands	Noncurrent	Current	Total
<b>Intragovernmental</b>			
Advances and Prepayments	\$—	\$545,828	\$545,828
Accrued Pay and Benefits	—	83,203	83,203
FECA Billings	98,993	85,302	184,295
Liability for Nonentity Assets	—	944,404	944,404
Other Accrued Liabilities	—	49,548	49,548
<b>Total Intragovernmental</b>	<b>\$98,993</b>	<b>\$1,708,285</b>	<b>\$1,807,278</b>
<b>Public</b>			
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
<b>Total Public</b>	<b>\$92,987</b>	<b>\$1,223,107</b>	<b>\$1,316,094</b>



## NOTE 15. LEASES

## ENTITY AS LESSEE

## CAPITAL LEASES

Capital Leases as of September 30, 2018 and 2017,  
were comprised of the following:

Dollars in Thousands	2018	2017
<b>Summary of Assets Under Capital Lease by Category</b>		
Land, Buildings & Machinery	\$107,699	\$106,063
Software	—	—
Accumulated Amortization	(51,311)	(51,289)
<b>Net Assets Under Capital Lease</b>	<b><u>\$56,388</u></b>	<b><u>\$54,774</u></b>

As of September 30, 2018,  
DOT's future payments due on assets under capital lease were:

Fiscal Year	Dollars in Thousands
<b>Future Payments Due by Fiscal Year</b>	
2019	8,993
2020	8,453
2021	8,043
2022	8,059
2023	8,038
2024+	36,724
<b>Total Future Lease Payments</b>	<b><u>78,310</u></b>
Less: Imputed Interest	14,451
<b>Net Capital Lease Liability</b>	<b><u>\$63,859</u></b>

The capital lease payments disclosed in the preceding table 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.

## NOTE 15. LEASES (continued)

**OPERATING LEASES**

Operating lease expenses incurred were \$296.4 million and \$301 million for the years ended September 30, 2018 and 2017, respectively. For FY 2018, the Federal operating lease expense incurred was \$182.9 million and the non-Federal operating lease expense incurred was \$113.5 million. General Services Administration (GSA) leases include terms with a short termination privilege. However, DOT intends to remain in the leases. Any estimates of lease termination dates would be subjective, and any projection of future lease payments would be arbitrary.

As of September 30, 2018,  
DOT's future payments due on assets under operating lease were:

Fiscal Year	Land, Buildings, Machinery & Other
<b>Future Payments Due by Fiscal Year</b>	
	<b>Dollars in Thousands</b>
2019	\$297,474
2020	268,467
2021	246,360
2022	185,685
2023	175,459
2024+	883,717
<b>Total Future Lease Payments</b>	<b><u>\$2,057,162</u></b>

The operating lease amounts due after five years do not include estimated payments for leases with annual renewal options.

## NOTE 16. COMMITMENTS AND CONTINGENCIES

### LEGAL CLAIMS

As of September 30, 2018 and 2017, DOT's contingent liabilities, in excess of amounts accrued (Note 14), for asserted and pending legal claims reasonably possible of loss were estimated at \$311.2 million and \$389.5 million, respectively. DOT does not have material amounts of known unasserted claims. As of September 30, 2018 and 2017, DOT's contingent liabilities for asserted and pending legal claims with a probable loss were estimated at \$29.5 million and \$31.9 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, 2018 and 2017, FHWA has preauthorized \$60.8 billion and \$55.2 billion, respectively, under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2018 and 2017.

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, 2018 and September 30, 2017, FTA had approximately \$1.3 billion and \$1.8 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, 2018 and 2017.

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, 2018, FAA had letters of intent extending through FY 2026 totaling \$7.3 billion. As of September 30, 2018, FAA had obligated \$6.7 billion of this total amount, leaving \$0.6 billion unobligated. 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.

**NOTE 16. COMMITMENTS AND CONTINGENCIES (continued)****ENVIRONMENTAL LIABILITIES**

As of September 30, 2018, FAA has estimated contingent liabilities categorized as reasonably possible of \$157.5 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.

**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 2018 HURRICANE CONTINGENCIES**

In September 2018, Hurricane Florence significantly impacted certain areas along the eastern coast of the United States. Currently, DOT, in conjunction with other Federal entities, is assessing the estimated financial impact of the affected areas. Several states 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 this hurricane, with the exception of small amounts that were provided on a reimbursable basis from non-DOT agencies.

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

## 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.

### MASS TRANSIT ACCOUNT

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

### AIRPORT AND AIRWAY TRUST FUND

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

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

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

### OTHER DEDICATED COLLECTIONS

- Aviation Insurance Revolving Fund
- Pipeline Safety
- Emergency Preparedness Grant
- Aviation User Fees
- Aviation Operations
- Grants-in-Aid for Airports
- Aviation Facilities and Equipment
- Aviation Research, Engineering and Development
- Essential Air Service and Rural Airport Improvement Fund
- Contributions for Highway Research Program
- Cooperative Work, Forest Highways
- Payment to Air Carriers
- Technical Assistance, United States Dollars Advanced from Foreign Governments
- Gifts and Bequests, Maritime Administration

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

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- 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, 2018 and 2017, 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 2018 Total Funds From Dedicated Collections
<b>Balance Sheet</b>					
					as of September 30, 2018
<b>Assets</b>					
Fund Balance With Treasury	\$3,295,751	\$1,135,600	\$104,072	\$2,932,265	\$7,467,688
Investments, Net	41,216,458	14,280,515	—	2,283,768	57,780,741
Accounts Receivable, Net	67,444	—	824	6,354,756	6,423,024
Property, Plant & Equipment	193,637	—	—	2,073,678	2,267,315
Other	134,257	—	—	269,995	404,252
<b>Total Assets</b>	<b><u>\$44,907,547</u></b>	<b><u>\$15,416,115</u></b>	<b><u>\$104,896</u></b>	<b><u>\$13,914,462</u></b>	<b><u>\$74,343,020</u></b>
<b>Liabilities and Net Position</b>					
Accounts Payable	\$41,101	\$6,192,534	\$—	\$547,861	\$6,781,496
FECA Liabilities	21,384	—	—	971,092	992,476
Grant Accrual	6,685,597	—	2,080	695,106	7,382,783
Other Liabilities	407,552	—	1,444	1,121,629	1,530,625
Unexpended Appropriations	—	—	652	1,088,693	1,089,345
Cumulative Results of Operations	37,751,913	9,223,581	100,720	9,490,081	56,566,295
<b>Total Liabilities and Net Position</b>	<b><u>\$44,907,547</u></b>	<b><u>\$15,416,115</u></b>	<b><u>\$104,896</u></b>	<b><u>\$13,914,462</u></b>	<b><u>\$74,343,020</u></b>
<b>Statement of Net Cost</b>					
					for the period ended September 30, 2018
Program Costs	\$56,001,451	\$1	\$12,729	\$15,714,983	\$71,729,164
Less Earned Revenue	244,936	5	—	571,879	816,820
<b>Net Program Costs</b>	<b><u>55,756,515</u></b>	<b><u>(4)</u></b>	<b><u>12,729</u></b>	<b><u>15,143,104</u></b>	<b><u>70,912,344</u></b>
Costs Not Attributable to Programs	—	—	—	—	—
<b>Net Cost of Operations</b>	<b><u>\$55,756,515</u></b>	<b><u>\$(4)</u></b>	<b><u>\$12,729</u></b>	<b><u>\$15,143,104</u></b>	<b><u>\$70,912,344</u></b>
<b>Statement of Changes in Net Position</b>					
					for the period ended September 30, 2018
Beginning Net Position	\$49,985,740	\$8,665,627	\$114,311	\$9,488,602	\$68,254,280
Budgetary Financing Sources	43,484,098	557,950	(210)	16,927,487	60,969,325
Other Financing Sources	38,590	—	—	(694,211)	(655,621)
Net Cost of Operations	55,756,515	(4)	12,729	15,143,104	70,912,344
Change in Net Position	(12,233,827)	557,954	(12,939)	1,090,172	(10,598,640)
<b>Net Position End of Period</b>	<b><u>\$37,751,913</u></b>	<b><u>\$9,223,581</u></b>	<b><u>\$101,372</u></b>	<b><u>\$10,578,774</u></b>	<b><u>\$57,655,640</u></b>

## 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
<b>Balance Sheet</b>					
					as of September 30, 2017
<b>Assets</b>					
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
<b>Total Assets</b>	<b><u>\$56,655,732</u></b>	<b><u>\$14,472,182</u></b>	<b><u>\$119,213</u></b>	<b><u>\$13,089,766</u></b>	<b><u>\$84,336,893</u></b>
<b>Liabilities and Net Position</b>					
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
<b>Total Liabilities and Net Position</b>	<b><u>\$56,655,732</u></b>	<b><u>\$14,472,182</u></b>	<b><u>\$119,213</u></b>	<b><u>\$13,089,766</u></b>	<b><u>\$84,336,893</u></b>
<b>Statement of Net Cost</b>					
					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
<b>Net Program Costs</b>	<b><u>54,463,088</u></b>	<b><u>—</u></b>	<b><u>18,832</u></b>	<b><u>15,258,089</u></b>	<b><u>69,740,009</u></b>
Costs Not Attributable to Programs	—	—	—	9,006	9,006
<b>Net Cost of Operations</b>	<b><u>\$54,463,088</u></b>	<b><u>\$—</u></b>	<b><u>\$18,832</u></b>	<b><u>\$15,267,095</u></b>	<b><u>\$69,749,015</u></b>
<b>Statement of Changes in Net Position</b>					
					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)
<b>Net Position End of Period</b>	<b><u>\$49,985,740</u></b>	<b><u>\$8,665,627</u></b>	<b><u>\$114,311</u></b>	<b><u>\$9,488,602</u></b>	<b><u>\$68,254,280</u></b>



## NOTE 18. 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, 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, 2018, and excise tax revenue allocated by OTA for the quarter ended September 30, 2018. As a result, total taxes recognized in the DOT FY 2018 financial statements include the OTA allocation of \$14.1 billion for the quarter ended September 30, 2018, and the actual amounts certified through June 30, 2018 of \$43.3 billion.

For the years ended September 30, 2018 and 2017, 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, 2018	September 30, 2017
<b>Highway Trust Fund</b>		
Excise Taxes and Other Nonexchange Revenue		
Gasoline	\$26,686,291	\$26,603,594
Diesel and Special Motor Fuels	11,086,448	10,735,536
Trucks	6,124,334	4,799,198
Investment Income	748,639	386,408
Fines and Penalties	27,036	35,006
<b>Total Taxes</b>	<b>44,672,748</b>	<b>42,559,742</b>
Less: Transfers	(1,310,141)	(1,154,169)
Other Nonexchange Revenue	804	209
<b>Net Highway Trust Fund Excise Taxes &amp; Other Nonexchange Revenue</b>	<b>43,363,411</b>	<b>41,405,782</b>
<b>Federal Aviation Administration</b>		
Excise Taxes and Other Nonexchange Revenue		
Passenger Ticket	10,484,955	10,069,332
International Departure	4,093,269	3,844,342
Fuel (Air)	689,249	651,116
Waybill	540,403	504,809
Investment Income	299,257	281,797
Tax Refunds and Credits	(15,353)	(14,801)
Other	37,624	26,063
<b>Net Federal Aviation Administration Excise Taxes &amp; Other Nonexchange Revenue</b>	<b>16,129,404</b>	<b>15,362,658</b>
Other Miscellaneous Net Nonexchange Revenue	49,192	103,044
<b>Total Nonexchange Revenue</b>	<b>\$59,542,007</b>	<b>\$56,871,484</b>

## NOTE 19. 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:

Dollars in Thousands	2018			2017		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	\$806,798	\$528,766	\$1,335,564	\$713,514	\$512,989	\$1,226,503
Category B	96,830,278	1,734,375	98,564,653	92,704,178	1,714,122	94,418,300
Exempt From Apportionment	1	—	1	15	—	15
<b>Total</b>	<b>\$97,637,077</b>	<b>\$2,263,141</b>	<b>\$99,900,218</b>	<b>\$93,417,707</b>	<b>\$2,227,111</b>	<b>\$95,644,818</b>

Dollars in Thousands	2018	2017
Available Contract Authority at Year-End	\$16,777,998	\$18,782,992
Available Borrowing Authority at Year-End	\$3,037,732	\$4,122,414

Dollars in Thousands	2018 Federal	2018 NonFederal
Undelivered Orders at Year-End, unpaid	\$649,858	\$110,510,905
Undelivered Orders at Year-End, paid	\$475,804	\$1,422,713

The undelivered orders balance, unpaid and paid, as of September 30, 2017 were \$108.5 and \$0.97 billion, respectively.

### 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 BALANCE FROM PRIOR YEAR BUDGET AUTHORITY, NET

The unobligated balance from prior year budget authority is presented net of transfers, recoveries from prior year obligations, and balances withdrawn for cancelled authority. As a result, the amount will not equal the prior year unobligated balance, end of year total.

The net adjustments to unobligated balance brought forward presented as a memorandum entry does not include non-expenditure transfers of prior year balances and may not include all adjustments made to beginning balances.

## NOTE 19. COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)

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

The reconciliation for the year ended September 30, 2017, is presented in the following table. The reconciliation for the fiscal year ended September 30, 2018, is not presented, because the submission of the Budget of the United States (Budget) for FY 2020, which presents the execution of the FY 2018 budget, occurs after publication of these financial statements. The DOT Budget Appendix can be found on the OMB Web site and will be available in early February 2019.

Dollars in Millions	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$145,554	\$95,645	\$(560)	\$83,421
Funds Not Reported in the Budget				
Expired Funds	(260)		—	—
Other	7	6	—	(2)
<b>Budget of the United States Government</b>	<b><u>\$145,301</u></b>	<b><u>\$95,651</u></b>	<b><u>\$(560)</u></b>	<b><u>\$83,419</u></b>

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 20. CUSTODIAL ACTIVITY

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, 2018 and 2017:

REVENUE ACTIVITY	Dollars in Thousands	
	2018	2017
<b>Sources of Cash Collections</b>		
Miscellaneous Receipts	\$30,647	\$17,564
User Fees	317	7
Fines, Penalties, and Forfeitures	30,383	39,102
<b>Total Cash Collections</b>	<b>61,347</b>	<b>56,673</b>
Accrual Adjustment	(6,846)	(12,755)
<b>Total Custodial Revenue</b>	<b>54,501</b>	<b>43,918</b>
<b>Disposition of Collections</b>		
Transferred to Treasury's General Fund	61,347	56,673
Increase (Decrease) in Amounts To Be Transferred	(6,846)	(12,755)
<b>Net Custodial Activity</b>	<b>\$—</b>	<b>\$—</b>

## NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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

## NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET (continued)

For the years ended September 30, 2018 and 2017

Dollars in Thousands	2018	2017
<b>Resources Used To Finance Activities</b>		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments	\$99,900,218	\$95,644,818
Less: Spending Authority From Offsetting Collections, Recoveries, and Other Changes to Obligated Balances	13,567,955	14,366,251
Obligations Net of Offsetting Collections and Recoveries	86,332,263	81,278,567
Less: Distributed Offsetting Receipts	(2,248,775)	(559,209)
<b>Net Obligations</b>	<b>84,083,488</b>	<b>80,719,358</b>
Other Resources		
Donations and Forfeitures of Property	36,568	15,691
Transfers in/out Without Reimbursement	36,891	12,487
Imputed Financing From Costs Absorbed by Others	481,498	381,404
Other	(497,057)	(928,297)
<b>Net Other Resources Used To Finance Activities</b>	<b>57,900</b>	<b>(518,715)</b>
<b>Total Resources Used To Finance Activities</b>	<b>\$84,141,388</b>	<b>80,200,643</b>
<b>Resources Used To Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	\$3,523,142	(1,768,307)
Resources That Fund Expenses Recognized in Prior Periods	545,727	63,419
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(1,814,910)	(1,418,921)
Other/Change in Unfilled Customer Orders	(115,160)	(194,667)
Resources That Finance the Acquisition of Assets	5,668,962	6,056,169
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(807,633)	76,260
<b>Total Resources Used To Finance Items Not Part of the Net Cost of Operations</b>	<b>7,000,128</b>	<b>2,813,953</b>
<b>Total Resources Used To Finance the Net Cost of Operations</b>	<b>\$77,141,260</b>	<b>\$77,386,690</b>
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	\$6,339	7,646
Increase in Environment and Disposal Liability	—	101,093
Upward/Downward Reestimates of Credit Subsidy Expense	(702,636)	(470,486)
Change in Exchange Revenue Receivable From the Public	(3,394)	(2,176)
Change in Other Liabilities	5,293	736,704
<b>Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods</b>	<b>(694,398)</b>	<b>372,781</b>
Components Not Requiring or Generating Resources		
Depreciation and Amortization	1,766,618	1,379,761
Revaluation of Assets or Liabilities	4,851	4,553
Other Expenses and Adjustments Not Otherwise Classified Above	640,114	455,315
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources</b>	<b>2,411,583</b>	<b>1,839,629</b>
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>1,717,185</b>	<b>2,212,410</b>
<b>Net Cost of Operations</b>	<b>\$78,858,445</b>	<b>\$79,599,100</b>

## NOTE 22. 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.

Dollars in Thousands	For the year ended September 30, 2018 and 2017	
	2018	2017
Fiduciary Net Assets, Beginning of Year	\$5,783	\$7,347
Contributions	206,267	5,436
Investment Earnings	69	26
Disbursements to and on Behalf of Beneficiaries	(201,527)	(7,026)
Increases/(Decreases) in Fiduciary Net Assets	4,809	(1,564)
<b>Fiduciary Net Assets, End of Year</b>	<b><u>\$10,592</u></b>	<b><u>\$5,783</u></b>

Dollars in Thousands	As of September 30, 2018 and 2017	
	2018	2017
Fiduciary Fund Balance With Treasury	\$5,743	\$1,244
Investments in Treasury Securities	4,849	4,539
<b>Total Fiduciary Net Assets</b>	<b><u>\$10,592</u></b>	<b><u>\$5,783</u></b>

## NOTE 23. DISCLOSURE ENTITIES

Amtrak is a private, for-profit corporation under 49 U.S.C. § 24301 and District of Columbia law and is not a department, agency, or instrumentality of the federal government. Amtrak is governed by an independent Board of Directors comprised of 10 directors. The Secretary of Transportation (Secretary), who is a director by statute, and 8 of the other Amtrak directors, are appointed by the U.S. President with the advice and consent of the Senate. The President of Amtrak also is a board member and is appointed by the Board. Amtrak provides intercity passenger railroad service as a transportation alternative to highway, bus, passenger car, and airline services in certain markets, in addition to serving as a contractor in various capacities for several commuter rail agencies. Amtrak's mission is delivering intercity transportation with superior safety, customer service and financial excellence, which is directly tied to the statutorily defined mission of Amtrak "to provide efficient and effective intercity passenger rail mobility consisting of high quality service that is trip-time competitive with other intercity travel options and that is consistent with the goals set forth in [49 U.S.C. § 24101(c)]." 49 U.S.C. § 24101(b). As a private, for-profit organization, Amtrak does not take actions on behalf of the federal government but benefits the national economy by providing a transportation option in 46 states and the District of Columbia. Key financial indicators are revenue growth and targeted decrease in adjusted operating earnings, which are reviewed on a regular basis (monthly/quarterly/annually) and compared with the comparable period in the prior year to show trends. Amtrak publishes an annual audited financial statement and monthly unaudited performance reports. These documents are available on Amtrak's website.

The federal government (through the Department of Transportation) owns 100% of Amtrak's preferred stock (109,396,994 shares of \$100 par value). 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 (see Section 415(c), Pub. L. 105-134, 111 Stat. 2590 (December 2, 1997)). The Act also eliminated further issuance of preferred stock to the Department. Each share of preferred stock is convertible into 10 shares of common stock. Four common stockholders (private sector corporations) own 9,385,694 shares of \$10 par value common stock. The common stockholders have voting rights for "amendments to Amtrak's Articles of Incorporation proposed by the Board of Directors and for certain other extraordinary events." Although preferred stock is convertible to common stock, the Department would not convert its holdings without Congressional authorization. The Department does not recognize 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. In addition to the purchase/ownership of the Amtrak preferred stock, the Department has provided funding to Amtrak, since 1972, primarily through grants and loans.

Amtrak receives grants from DOT, through the Federal Railroad Administration (FRA), that cover a portion of the corporation's annual operating expenses and capital investments. Funding provided to Amtrak through grant agreements are included in DOT's annual budget. DOT's responsibility to obligate and administer federal grants to Amtrak, 49 U.S.C. § 24319, and ability to execute loan agreements with Amtrak, 45 U.S.C. § 822, provides DOT with general regulatory oversight associated with

## NOTE 23. DISCLOSURE ENTITIES (continued)

the use of federal grant and loan funding that applies to all FRA grant programs. 45 U.S.C. § 822 and 49 U.S.C. § 24319 provides DOT general regulatory oversight and the responsibility to obligate and administer federal grants and loans. As of September 30, 2018, DOT has 14 open grants with Amtrak with an undelivered orders balance of approximately \$1.5 billion.

In 2016, DOT entered into a loan agreement with Amtrak under the Railroad Rehabilitation and Improvement Financing (RRIF) program (2016 RRIF loan). The amount of the loan is \$2,450,000,000. The final maturity of the loan is the earlier of (a) twenty-nine (29) years from the date of the first disbursement under the financing agreement and (b) September 15, 2045. The interest rate is 2.23% and the credit risk premium, payable pro rata at each disbursement, is 5.80% or \$142,100,000. Amtrak is required to maintain funds in a dedicated debt service reserve account at amounts specified in the loan agreement. The loan shall be disbursed solely to pay directly for or to reimburse Amtrak for its prior payment of allowable costs incurred in connection with project elements.

In each fiscal year for which Amtrak draws down funds under its 2016 RRIF loan and/or makes repayments towards the loan, the Department records amounts paid out to Amtrak and amounts Amtrak repays to the Department in its financial system. The RRIF loan is accounted for in accordance with SFFAS 2 (see Note 6). As of September 30, 2018, the undelivered order balance of the RRIF loan is \$2.3 billion and the amount disbursed is \$137 million.

In addition, to the grants and loans provided to Amtrak, the Department has possession of two long-term notes with 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 recognize the long-term 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 the event of an Amtrak bankruptcy, the federal government would be at risk of financial loss as a result of longstanding debt and the 2016 RRIF loan. However, such risk of loss is limited given that each of these debts is secured with real property and/or equipment. In general, the federal government's losses in a bankruptcy would be offset by the value of the collateral. The risk of loss and delay in full and timely payments due to bankruptcy are part of most credit relationships, and are not unique to the federal government/Amtrak credit relationship.

## REQUIRED SUPPLEMENTARY INFORMATION (RSI)

## DEFERRED MAINTENANCE AND REPAIR (Unaudited)

For the Period Ended September 30, 2018

DOT Entity	Major Class of Asset	Description	Cost To Return to Acceptable Condition Dollars in Thousands	
			Beginning Balance	Ending Balance
FAA	Staffed Facilities	Buildings, structures, and facilities at major and nonmajor airports	\$236,884	\$281,300
	Unstaffed Facilities	Long range radars; unstaffed infrastructure and fuel storage tanks	740,296	808,253
MARAD	Vessels	Ready Reserve Force ships and vessels at various locations	51,955	62,806
	Buildings	Real property structure—U.S. Merchant Marine Academy	53,148	42,460
<b>Total</b>			<b>\$1,082,283</b>	<b>\$1,194,819</b>

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when they should have been or were scheduled to be performed and delayed until a future period. Maintenance and repairs are the act of keeping fixed assets in acceptable condition, and they include preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.

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

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

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



## REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

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. 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)

For the period ended  
September 30, 2018**COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited)**

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
<b>Budgetary Resources</b>						
Unobligated Balance From Prior Year Budget Authority, Net	\$23,354,737	\$4,545,635	\$17,718,547	\$651,444	\$4,356,060	\$50,626,423
Appropriations (Note 1U)	—	15,775,415	4,077,125	996,655	10,016,745	30,865,940
Borrowing Authority	—	—	—	150,846	2,886,886	3,037,732
Contract Authority	43,529,303	3,350,000	11,024,222	—	1,508,695	59,412,220
Spending Authority From Offsetting Collections	366,946	9,681,311	3,309	428,054	1,140,915	11,620,535
<b>Total Budgetary Resources</b>	<b>\$67,250,986</b>	<b>\$33,352,361</b>	<b>\$32,823,203</b>	<b>\$2,226,999</b>	<b>\$19,909,301</b>	<b>\$155,562,850</b>
<b>Memorandum (Non-Add) entries</b>						
Net adjustments to unobligated balance brought forward, Oct 1	—	276,111	108,670	28,697	302,980	716,458
<b>Status of Budgetary Resources</b>						
New Obligations and Upward Adjustments	\$44,426,456	\$27,586,029	\$15,233,090	\$1,347,581	\$11,307,062	\$99,900,218
Unobligated Balance, End of Year						
Apportioned, Unexpired Accounts	5,558,384	3,379,391	17,507,314	703,502	8,152,204	35,300,795
Unapportioned, Unexpired Accounts	17,266,146	2,237,279	80,697	163,432	394,783	20,142,337
Unexpired Unobligated Balance, End of Year	22,824,530	5,616,670	17,588,011	866,934	8,546,987	55,443,132
Expired Unobligated Balance, End of Year	—	149,662	2,102	12,484	55,252	219,500
<b>Unobligated Balance, End of Year</b>	<b>22,824,530</b>	<b>5,766,332</b>	<b>17,590,113</b>	<b>879,418</b>	<b>8,602,239</b>	<b>55,662,632</b>
<b>Total Budgetary Resources</b>	<b>\$67,250,986</b>	<b>\$33,352,361</b>	<b>\$32,823,203</b>	<b>\$2,226,999</b>	<b>\$19,909,301</b>	<b>\$155,562,850</b>
<b>Outlays, Net</b>						
Outlays, Net	43,704,512	16,999,008	12,782,746	865,684	8,934,859	83,286,809
Distributed Offsetting Receipts	—	(1,009,081)	(1,027)	(145,028)	(1,093,639)	(2,248,775)
<b>Agency Outlays, Net</b>	<b>\$43,704,512</b>	<b>\$15,989,927</b>	<b>\$12,781,719</b>	<b>\$720,656</b>	<b>\$7,841,220</b>	<b>\$81,038,034</b>

## 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
<b>Budgetary Resources</b>						
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
<b>Total Budgetary Resources</b>	<b>\$66,386,525</b>	<b>\$30,696,906</b>	<b>\$31,745,144</b>	<b>\$1,591,675</b>	<b>\$15,133,699</b>	<b>145,553,949</b>
<b>Memorandum (Non-Add) entries</b>						
Net adjustments to unobligated balance brought forward, Oct 1	—	342,343	549,065	21,199	231,346	1,143,953
<b>Status of Budgetary Resources</b>						
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
<b>Unobligated Balance, End of Year</b>	<b>23,333,099</b>	<b>4,269,524</b>	<b>17,631,714</b>	<b>622,748</b>	<b>4,052,046</b>	<b>49,909,131</b>
<b>Total Budgetary Resources</b>	<b>\$66,386,525</b>	<b>\$30,696,906</b>	<b>\$31,745,144</b>	<b>\$1,591,675</b>	<b>\$15,133,699</b>	<b>\$145,553,949</b>
<b>Outlays, Net</b>						
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)
<b>Agency Outlays, Net</b>	<b>\$43,584,531</b>	<b>\$15,852,988</b>	<b>\$12,262,544</b>	<b>\$458,239</b>	<b>\$10,703,700</b>	<b>\$82,862,002</b>

## MARINE WAR RISK INSURANCE PROGRAM

For FY 2018 and FY 2017, MARAD covered nonpremium war risk insurance with a total coverage per year of \$349.2 million and \$418 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 2018 and FY2017, 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	2014	2015	2016	2017	2018
<b>Surface Transportation</b>					
Federal Highway Administration					
Federal Aid Highways (HTF)	\$41,408,224	\$40,255,642	\$40,367,987	\$41,720,349	\$42,305,868
Other Highway Trust Fund Programs	44,974	27,936	55,621	36,154	37,572
General Fund Programs	563,358	274,327	255,273	5,270	258,033
Appalachian Development System	60,925	247,924	230,623	202,625	202,311
Federal Motor Carrier	19	-	-	-	-
<b>Total Federal Highway Administration</b>	<b>42,077,500</b>	<b>40,805,829</b>	<b>40,909,504</b>	<b>41,964,398</b>	<b>42,803,784</b>
Federal Transit Administration					
Discretionary Grants	9,595	4,871	6,151	(17,605)	3,482
Formula Grants	98,421	42,735	32,682	19,314	13,696
Capital Investment Grants	2,072,587	2,239,409	1,968,027	1,906,775	1,660,848
Washington Metro Area Transit Authority	73,356	97,921	265,177	204,463	180,696
Formula and Bus Grants	9,126,685	8,863,115	9,466,025	9,459,965	10,106,692
<b>Total Federal Transit Administration</b>	<b>11,380,644</b>	<b>11,248,051</b>	<b>11,738,062</b>	<b>11,572,912</b>	<b>11,965,414</b>
<b>Total Surface Transportation Non-Federal Physical Property Investments</b>	<b>\$53,458,144</b>	<b>\$52,053,880</b>	<b>\$52,647,566</b>	<b>\$53,537,310</b>	<b>\$54,769,198</b>
<b>Air Transportation</b>					
Federal Aviation Administration					
Airport Improvement Program	\$3,189,449	\$3,159,617	\$3,127,758	\$3,285,443	\$3,166,777
<b>Total Air Transportation Non-Federal Physical Property Investments</b>	<b>\$3,189,449</b>	<b>\$3,159,617</b>	<b>\$3,127,758</b>	<b>\$3,285,443</b>	<b>\$3,166,777</b>
<b>Total Non-Federal Physical Property Investments</b>	<b>\$56,647,593</b>	<b>\$55,213,497</b>	<b>\$55,775,324</b>	<b>\$56,822,753</b>	<b>\$57,935,975</b>

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.

Dollars in Thousands	For the fiscal years ended September 30				
	2014	2015	2016	2017	2018
<b>HUMAN CAPITAL INVESTMENT EXPENSES ANNUAL STEWARDSHIP INFORMATION (Unaudited)</b>					
<b>Surface Transportation</b>					
Federal Highway Administration					
National Highway Institute Training	\$587	\$738	\$790	\$352	\$127
Federal Motor Carrier Safety Administration					
Safety Grants	4,585	2,843	1,778	1,737	1,119
Federal Transit Administration					
National Transit Institute Training	3,358	4,098	3,763	4,290	2,519
National Highway Traffic Safety Administration					
Section 403 Highway Safety Programs	124,750	129,465	144,379	150,619	155,504
Highway Traffic Safety Grants	633,512	654,573	688,898	678,720	686,615
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	17,204	22,922	25,385	28,276	25,093
<b>Total Surface Transportation Human Capital Investments</b>	<b>783,996</b>	<b>814,639</b>	<b>864,993</b>	<b>863,994</b>	<b>870,977</b>
<b>Maritime Transportation</b>					
Maritime Administration					
State Maritime Academies Training <sup>(1)</sup>	10,281	13,319	22,202	20,335	24,375
Additional Maritime Training	2,274	323	262	584	456
<b>Total Maritime Transportation Human Capital Investments</b>	<b>12,555</b>	<b>13,642</b>	<b>22,464</b>	<b>20,919</b>	<b>24,831</b>
<b>Total Human Capital Investments</b>	<b>\$796,551</b>	<b>\$828,281</b>	<b>\$887,457</b>	<b>\$884,913</b>	<b>\$895,808</b>

<sup>(1)</sup> 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.

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

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	2014	2015	2016	2017	2018
<b>Surface Transportation</b>					
Federal Highway Administration					
Intelligent Transportation Systems	\$58,719	\$35,530	\$14,922	\$6,371	\$4,923
Other Applied Research and Development	12,444	4,095	2,793	1,641	1,122
Federal Railroad Administration					
Railroad Research and Development Program	4,317	3,010	3,608	2,889	2,721
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	15,922	8,031	16,086	20,318	33,330
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Applied Research and Development Pipeline Safety	10,449	15,815	4,213	712	15,074
Applied Research and Development Hazardous Materials	1,635	4,304	4,402	4,923	5,066
Office of the Assistant Secretary for Research and Technology					
Applied Research and Development					
Research and Technology	7,043	—	5,426	5,426	20,445
<b>Total Surface Transportation Research and Development Investments</b>	<b>110,529</b>	<b>70,785</b>	<b>51,450</b>	<b>42,280</b>	<b>82,681</b>
<b>Air Transportation</b>					
Federal Aviation Administration					
Research and Development Plant	12,479	17,711	19,766	21,314	25,887
Applied Research	155,883	106,363	110,363	117,736	103,265
Development <sup>(1)</sup>	40	93,972	138,483	169,961	141,540
Administration	32,572	34,321	39,959	40,016	40,046
<b>Total Air Transportation Research and Development Investments</b>	<b>200,974</b>	<b>252,367</b>	<b>308,571</b>	<b>349,027</b>	<b>310,738</b>
<b>Total Research and Development Investments</b>	<b>\$311,503</b>	<b>\$323,152</b>	<b>\$360,021</b>	<b>\$391,307</b>	<b>\$393,419</b>

<sup>(1)</sup> The large increase to Development and decrease to Applied Research in FY 2015 is due to the reclassification of existing work to better align with OMB A-11 research definitions.

## 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 problemsolving research.

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

## 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	
None noted	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**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	
None noted	0	0	0	0	0	0	0
<b>Total material weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

Statement of Assurance	Unmodified						
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance	
None noted	0	0	0	0	0	0	0
<b>Total material weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

Statement of Assurance	Systems comply						
Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance	
None noted	0	0	0	0	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. USSGL = United States Standard General Ledger.



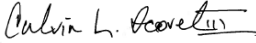
U.S. DEPARTMENT OF TRANSPORTATION  
OFFICE OF INSPECTOR GENERAL

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## Memorandum

Date: November 15, 2018

Subject: INFORMATION: DOT's Fiscal Year 2019 Top Management Challenges  
Report No. PT2019006

From: Calvin L. Scovel III   
Inspector General

To: The Secretary  
Deputy Secretary

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America's citizens, businesses, and communities require an efficient and safe transportation system to support travel and daily life. Each year, the Department of Transportation (DOT) invests nearly \$80 billion to build, maintain, and enhance this system. The Office of Inspector General (OIG) supports the Department's mission through audits and investigations that identify ways to improve DOT's many programs. As required by law, we report annually on the Department's most significant challenges to managing its programs and meeting its goals.

Above all, the Department's top priority is safety. For example, the Federal Aviation Administration (FAA) has worked for several years to update its strategy for overseeing the safety of the aviation industry—one of the largest and most complex in the world. Nevertheless, in April 2018, the first U.S. commercial passenger fatality in 9 years raised concerns about FAA's safety oversight. FAA faces challenges identifying and mitigating operational and maintenance risks as it works with industry to implement its oversight strategy.

At the same time, FAA must address other safety issues in the National Airspace System, including reducing safety risks on airport runways, integrating Unmanned Aircraft Systems into the same airspace as piloted aircraft, and ensuring safe aircraft evacuations in emergencies. Moreover, FAA is undertaking a multibillion-dollar effort to modernize the Nation's air traffic control systems, which it considers key to enhancing safety and efficiency. To that end, FAA has made progress on implementing new capabilities, including more efficient flight routes, but continues to face significant challenges in deploying other complex technologies while enhancing infrastructure in cost-effective ways.

Meeting the Department's safety mission also requires dedicating significant focus to safety risks within our rail systems and highways. Due to several passenger rail incidents during the last 10 years, Congress required and the U.S. rail industry committed to implementing positive train control (PTC) systems. These systems use advanced train control technology to prevent collisions, overspeed derailments, and other incidents. With a statutory deadline for PTC implementation rapidly approaching in December 2018 and billions of dollars in Federal funding and loans dedicated for PTC systems, it is critical that the Department maintain focus on this complex safety challenge.

In addition, over 40,000 people lost their lives each year in motor vehicle crashes in 2016 and 2017. While most crashes involved impaired driving, speeding, or a lack of seatbelts, some were caused by vehicle defects. Over the past several years, we have made recommendations to help the National Highway Traffic Safety Administration's (NHTSA) Office of Defects Investigation (ODI) strengthen how it investigates possible vehicle defects and oversees recalls. Follow-through by NHTSA remains critical to address these highway safety risks.

While working to enhance transportation safety, the Department must also safeguard its considerable financial investments, resources, and assets. For example, DOT provides over \$50 billion a year to build, repair, maintain, and oversee millions of miles of roads, bridges, tunnels, tracks, and oil and gas pipelines across the Nation. However, infrastructure needs currently outpace departmental resources. As a result, the Department faces challenges in efficiently using these resources while targeting inspections and enforcement actions to the greatest safety risks.

DOT's assets also include over 450 information technology systems, which it relies on to meet critical mission needs. The Department's cybersecurity program must protect these systems from increasingly sophisticated cyber attacks. Our work has shown that the Department remains challenged to standardize its processes, increase network visibility, and resolve longstanding weaknesses to reduce its vulnerability to cyber threats.

Finally, the Department must work diligently to fulfill its stewardship responsibilities when awarding billions in contracts and grants each year. To efficiently meet its research and procurement goals, DOT uses innovative acquisition approaches, timesaving multiple-award vehicles, and partnerships with industry and State and local governments. While innovation can deliver benefits, DOT must exercise strong oversight to achieve desired program outcomes; safeguard taxpayer dollars from fraud, waste, and abuse; and mitigate risks.

We considered several criteria to identify the Department's top management challenges for fiscal year 2019, including safety impact, documented

vulnerabilities, large dollar implications, and the Department's ability to effect change. In the enclosed report, we identify and discuss the following challenges:

- Effectively implementing FAA's new safety oversight strategy
- Protecting against a wide range of threats to aviation safety and security
- Maintaining focus on the railroad industry's implementation of positive train control
- Improving NHTSA's data use, processes, and oversight of vehicle safety defects
- Providing effective stewardship over surface infrastructure safety and investments
- Modernizing the National Airspace System while introducing new capabilities and making sound investment decisions
- Systematizing cybersecurity strategies to deter surging cyber threats
- Harnessing innovative procurement and financing practices while maintaining oversight of acquisitions, grants, and assets

As always, we will continue to work closely with DOT officials to support the Department's efforts to improve safety, enhance efficiency, and protect resources. We appreciate the Department's commitment to prompt action in response to the challenges we have identified. The final report and the Department's response will be included in DOT'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) 366-1427.

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cc: DOT Audit Liaison, M-1

## CHAPTER 1

### EFFECTIVELY IMPLEMENTING FAA'S NEW SAFETY OVERSIGHT STRATEGY

The Federal Aviation Administration (FAA) is charged with overseeing one of the world's largest and most complex aviation systems, which carries over 2.5 million people on approximately 45,000 flights every day. In recent years, FAA has worked to revamp its strategy for overseeing the safety of the aviation industry. For example, in 2015, FAA established requirements for all commercial passenger air carriers to implement a formal, top-down approach to managing safety risks, known as a safety management system (SMS). In addition, FAA developed and began using a new risk-based oversight system, the Safety Assurance System. However, recent events—such as the Southwest Airlines accident in April 2018, resulting in the first U.S. commercial passenger fatality in 9 years—have raised concerns about FAA's safety oversight. Proactively identifying and mitigating operational and maintenance safety risks—as well as effectively balancing industry collaboration and enforcement—remain key challenges for FAA as it works to implement its new oversight strategy and ensure the safety of the traveling public.

#### KEY CHALLENGES

- Implementing effective air carrier oversight by proactively identifying and mitigating significant operational and maintenance safety risks.
- Balancing collaboration and enforcement in air carrier safety oversight.

#### IMPLEMENTING EFFECTIVE AIR CARRIER OVERSIGHT BY PROACTIVELY IDENTIFYING AND MITIGATING SIGNIFICANT OPERATIONAL AND MAINTENANCE SAFETY RISKS

The effectiveness of FAA's new risk-based oversight system depends on safety data that can enable the Agency to identify and target its oversight to areas of greatest risk. To supplement industry's wide array of safety reporting systems, FAA established a consolidated hotline in 2014 for stakeholders to submit safety concerns, in addition to allowing various FAA offices to receive complaints. However, we recently reported that FAA did not adequately address safety concerns or forward them to the appropriate group for investigation. Specifically, despite multiple letters and emails from the Allied Pilots Association (APA), a local FAA office did not investigate safety concerns regarding American Airlines' flight test program, which is used to verify the airworthiness of aircraft following major repairs. Further, when APA escalated its concerns in a letter to the Federal Aviation Administrator, the Administrator's office did not send the letter to the Agency's Office of Audit and Evaluation, which is responsible for investigating safety concerns. Instead, the letter was routed back to the local FAA office, where the concerns remained unresolved. In response to our recommendations, FAA committed to strengthen its processes for identifying and addressing safety concerns.

FAA's safety oversight strategy also depends on air carriers' ability to identify hazards and implement corrective actions that mitigate risk. Specifically, under SMS, air carriers must identify root causes for hazards and proactively manage risk to prevent accidents. However, recent events—including the April 2018 Southwest Airlines engine failure—have raised concerns that FAA's oversight may not ensure air carriers sufficiently meet these responsibilities. The National Transportation Safety Board is currently investigating the accident, but preliminary reports indicate similarities with

a 2016 engine incident on a Southwest Airlines aircraft. It is unclear what actions the carrier took to manage the risk to prevent a future similar failure. In addition, we recently received a hotline complaint regarding a number of operational issues at Southwest Airlines, such as alleged pilot training deficiencies, raising concerns about FAA's oversight of the carrier. As such, in July 2018 we began an audit to assess FAA's oversight of Southwest Airlines' systems for managing risk.

Furthermore, FAA's safety oversight strategy relies on a strong safety culture within the Agency and industry. However, FAA's internal reports have cautioned about changes in airline safety culture and the potential impacts on safety and airline maintenance workforces. For example, FAA recognizes the impact a single inspector can have on the safety culture and established standards that require inspectors to act impartially and avoid the appearance of preferential treatment when they perform their official duties. Nonetheless, our recent work regarding FAA's oversight of the American Airlines flight test program found that an inspector had developed a personal relationship with the head of the carrier's flight test program and appeared to give the carrier preferential treatment when safety concerns were raised. The inspector also worked with the carrier to limit future complaints. Ensuring that FAA's inspector workforce meets standards of impartiality remains a key oversight challenge for the Agency to protect its safety culture and effectively identify and mitigate risks.

### BALANCING COLLABORATION AND ENFORCEMENT IN AIR CARRIER SAFETY OVERSIGHT

In 2015, FAA implemented a new Compliance Philosophy as part of its safety oversight strategy. The Compliance Program, as it is now known,<sup>1</sup> is based on the premise that the greatest safety risk in the industry does not arise from a specific event or its outcome, but rather from an operator who is unwilling or unable to comply with rules and best practices for safety. The overarching goal of the new program is to achieve rapid compliance, eliminate a safety risk or deviation, and ensure positive and permanent changes.

FAA's Compliance Program emphasizes the Agency's preference for collaborating with air carriers through education and training over penalizing carriers as a means to address discrepancies. This program calls for FAA to work with air carriers to address the root causes of violations of safety regulations rather than imposing enforcement actions—a change in the way FAA and the airlines previously addressed compliance and safety issues. A key challenge the Agency faces is striking a balance between collaboration and enforcement and accurately assessing whether an air carrier is willing and able to correct its deficiencies.

Recently, incidents at Allegiant Airlines—and the subsequent media attention—have raised concerns about improper air carrier maintenance practices at the airline.<sup>2</sup> For example, congressional committees have questioned why FAA changed its oversight priorities from enforcement to compliance and whether this approach effectively addresses safety concerns. Given these concerns and challenges, we are currently reviewing FAA's oversight of air carrier maintenance programs. Specifically, we are examining FAA's independent reviews, complaints to the FAA hotline, and other sources to see whether inspectors conducting routine oversight of Allegiant and American Airlines found similar discrepancies. In addition, we are assessing whether airlines implement effective corrective actions to address the root causes of problems.

<sup>1</sup> On October 31, 2018, FAA renamed its Compliance Philosophy to Compliance Program.

<sup>2</sup> In April 2018, high-profile media reports detailed longstanding maintenance issues at Allegiant Airlines, including a series of mid-air breakdowns, aborted takeoffs, and unscheduled landings.

## RELATED DOCUMENTS AND RECOMMENDATIONS

The following documents as well as the current status of OIG recommendations can be found on our website at <http://www.oig.dot.gov>.

Title	Total Recommendations	Open Recommendations
<i>FAA Has Not Fully Addressed Safety Concerns Regarding the American Airlines Flight Test Program (July 10, 2018)</i>	7	5
<b>Total</b>	<b>7</b>	<b>5</b>

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 2

### PROTECTING AGAINST A WIDE RANGE OF THREATS TO AVIATION SAFETY AND SECURITY

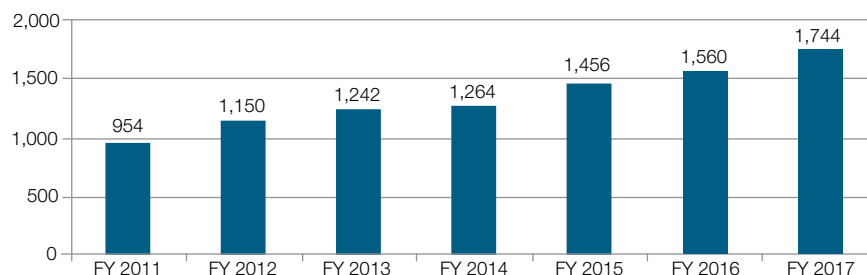
The Federal Aviation Administration (FAA) is responsible for maintaining the safety of a diverse, complex, and rapidly evolving aviation industry. Our work and recent events have highlighted challenges for FAA in several wide-ranging areas that have garnered significant public and congressional interest. These challenges include addressing runway safety risks, ensuring safe emergency evacuations, strengthening oversight of Unmanned Aircraft Systems (UAS), improving cockpit safety and security, and enhancing oversight of aviation drug and alcohol testing.

#### KEY CHALLENGES

- Addressing runway safety risks.
- Safely evacuating airline passengers in the event of an aircraft incident.
- Strengthening oversight of Unmanned Aircraft Systems in the National Airspace System.
- Enhancing interagency coordination to improve cockpit security.
- Ensuring effective oversight of FAA's drug and alcohol testing program.

#### ADDRESSING RUNWAY SAFETY RISKS

Recent incidents in which collisions between passenger aircraft were narrowly avoided at our Nation's major airports have called attention to concerns about runway safety. For example, in July 2017, a commercial pilot at the San Francisco International Airport attempted to land on a taxiway where four other aircraft were awaiting takeoff. Much of our work in this area has focused on FAA's efforts to reduce runway incursions—incidents involving unauthorized aircraft, vehicles, or people on a runway—a long-standing challenge for FAA. While FAA has undertaken a number of safety initiatives in this area since 2007, reports of incursions have increased, with a nearly 83-percent rise in total incursions reported between fiscal years 2011 and 2017 (see figure 1). In addition, while the number of serious runway incursions is relatively low, there have been several incidents where two aircraft have come within a few feet of colliding with each other, posing significant safety risks.

**FIGURE 1. TOTAL NUMBER OF RUNWAY INCURSIONS, FISCAL YEARS 2011–2017**

Source: OIG analysis of FAA data

To help mitigate runway incursions, FAA initiated a Call to Action forum in 2015 with representatives from industry, labor, and Government. The forum resulted in 22 initiatives intended to mitigate runway incursions and improve safety. In June 2018, we reported that FAA had completed 10 of the 22 initiatives—including educating pilots on signs, markings, and other visual aids at high-risk airports. However, the Agency faces challenges in fully implementing the initiatives still in progress, including dedicating funding and fully implementing new technologies, which could take years to complete. In addition, FAA did not establish quantifiable goals or other metrics to measure the initiatives' effectiveness in reducing runway incursions. As a result, FAA will be limited in its ability to prioritize and adjust the initiatives based on their effectiveness. Going forward, the Agency will continue to face challenges in reducing runway safety risks. As such, we plan to further assess FAA's efforts to analyze data, identify risks, and track actions for mitigating incidents on runways.

### SAFELY EVACUATING AIRLINE PASSENGERS IN THE EVENT OF AN AIRCRAFT INCIDENT

Recent events have highlighted that the ability to safely evacuate an aircraft during an accident or incident can save lives. In particular, two high-profile accidents—the British Airways accident in September 2015 and the American Airlines accident in October 2016—resulted in mostly minor injuries when passengers and crew evacuated<sup>3</sup> and drew attention to the important role of effective evacuation standards. FAA's standards<sup>4</sup> for evacuating passenger aircraft require that the aircraft be fully evacuated in 90 seconds or less during a simulated evacuation drill. However, FAA has not updated these standards significantly since the 1990s, despite significant changes in the airline industry and consumer behavior. For example, the number of aircraft seats has increased, but the size of seats and distance between them—known as seat pitch—has decreased.

Following its investigation of the American Airlines accident, the National Transportation Safety Board (NTSB) identified the need for research on the effects of passengers evacuating with carry-on baggage—which can present undue risks and delays—and improved communication between flight crew and flight attendants during evacuations. NTSB's report showed that it took passengers and flight crews over 2 minutes to evacuate—significantly longer than FAA's 90-second evacuation standard for simulated tests. Due to the American Airlines accident, along with the potential for more reductions in seat pitch, aviation industry stakeholders have asked FAA to conduct more realistic evacuation testing and to address concerns such as passengers slowing evacuations by taking baggage off planes. To meet its safety goals, FAA will be challenged to identify the best ways to quickly evacuate commercial aircraft and

<sup>3</sup> In September 2015, during a British Airways accident at McCarran International Airport, 157 passengers and crew evacuated the aircraft, resulting in a total of 19 minor injuries and 1 serious injury, according to the National Transportation Safety Board. In October 2016, the emergency evacuation of an American Airlines flight at Chicago O'Hare International Airport resulted in 20 minor injuries and 1 serious injury.

<sup>4</sup> 14 CFR § 25.803 and 14 CFR Part 25, Appendix J.



implement evacuation standards that keep pace with a changing industry. We are currently assessing FAA's aircraft emergency evacuation standards and its process for determining whether aircraft meet them.

### STRENGTHENING OVERSIGHT OF UNMANNED AIRCRAFT SYSTEMS IN THE NATIONAL AIRSPACE SYSTEM

The growing demand for UAS commercial operations—ranging from filmmaking and precision agriculture to package delivery—represents a substantial economic opportunity for the United States but also presents one of FAA's most significant safety challenges. Since December 2015, FAA has processed more than 1.1 million UAS registrations for commercial operators and hobbyists, and reports of UAS sightings by pilots and other sources have increased significantly since 2014.

To advance the safe integration of commercial UAS in domestic airspace, FAA published a rule for small UAS (i.e., systems weighing less than 55 pounds) in June 2016. However, the rule does not permit several potential UAS operations that are highly valued by industry and also considered as higher risk by FAA, such as operating a small UAS beyond line of sight or over people. To accommodate these operations, the rule allows FAA to issue waivers. We found that FAA has faced several challenges with reviewing requests for waivers, including processing applications with limited information and responding to the large volume of requests since the small UAS rule was published. For example, the Agency has a significant backlog of requests to operate UAS in the same airspace with manned aircraft. More than two-thirds of the almost 9,000 waiver requests for these types of operations were still pending review as of May 2018.

Further, FAA faces several challenges in developing a risk-based oversight system for commercial UAS operations. While the Agency has developed guidance for planning annual UAS inspections, its UAS oversight is neither data-driven nor proactive and lacks key elements of a risk-based oversight system. In addition, FAA's ability to perform meaningful risk-based surveillance is hindered by limited access to detailed data on UAS operators, FAA inspections, and risks. As a result, FAA is not well-positioned to identify and mitigate safety risks in this rapidly evolving industry and is missing opportunities to gather information that can help shape rulemaking and impact policies.

### ENHANCING INTERAGENCY COORDINATION TO IMPROVE COCKPIT SECURITY

Incidents in 2012 and 2015<sup>5</sup> in the United States and abroad drew attention to flight deck safety and security, including securing cockpit doors. Recognizing these challenges, FAA has improved its intelligence analysis capability, analysis of potential vulnerabilities, and process to notify manufacturers and air carriers about 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 did not coordinate with the Department of Homeland Security's Transportation Security Administration (TSA) at the field-office level to identify emerging flight deck security vulnerabilities. This was in part because FAA had not clarified inspectors' roles in areas where FAA and TSA regulations converge. In addition, we reported last year that FAA has identified access to the cockpit as a security vulnerability. FAA was also missing opportunities to provide air carriers with all the information necessary to select and implement security procedures that

<sup>5</sup> 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.

may protect the cockpit more effectively. Enhanced communication with key industry stakeholders and TSA will be critical to FAA’s efforts to ensure the safety and security of the traveling public.

### ENSURING EFFECTIVE OVERSIGHT OF FAA’S DRUG AND ALCOHOL TESTING PROGRAM

Effective drug and alcohol testing programs in the transportation industry are crucial to ensuring the safety of the traveling public. NTSB recently highlighted this challenge in its *2017–2018 Most Wanted List of Transportation Safety Improvements*, stating that marijuana decriminalization, increased popularity of dangerous synthetic drugs, and a significant rise in the use and abuse of over-the-counter and prescription medication, along with alcohol, have led to an epidemic of impairment in transportation. Recent OIG investigations have reinforced the importance of maintaining strong substance abuse inspection programs. For example, in 2016, our special agents arrested a former JetBlue Airways pilot after the pilot was charged with operating an aircraft under the influence of alcohol, and in 2018, a former Alaska Airlines pilot pleaded guilty to operating a commercial aircraft under the influence of alcohol.

In light of this important safety concern, our office is conducting a series of reviews on drug-testing programs within the transportation industry—beginning with an audit of FAA’s inspection program. Specifically, FAA’s Drug Abatement Division oversees the aviation industry’s compliance with drug and alcohol testing laws and regulations, covering pilots, mechanics, and flight dispatchers at approximately 7,000 regulated aviation companies. Given the changing landscape of drug use in the United States, developing a risk-based inspection schedule to maximize the Agency’s resources will remain key to mitigating the safety risks presented by impaired pilots, mechanics, and other safety-sensitive staff.

### RELATED DOCUMENTS AND RECOMMENDATIONS

The following documents as well as the current status of OIG recommendations can be found on our website at <http://www.oig.dot.gov>.

Title	Total Recommendations	Open Recommendations
<i>Opportunities Exist for FAA To Strengthen Its Review and Oversight Processes for Unmanned Aircraft System Waivers</i> (November 7, 2018)	8	8
<i>FAA Faces Challenges in Implementing and Measuring the Effectiveness of Its 2015 Runway Safety Call to Action Initiatives</i> (June 27, 2018)	3	3
<i>FAA Has Taken Steps To Identify Flight Deck Vulnerabilities but Needs To Enhance Its Mitigation Efforts</i> (June 26, 2017)	6	2
<i>FAA Lacks a Risk-Based Oversight Process for Civil Unmanned Aircraft Systems</i> (December 1, 2016)	6	4
<b>Total</b>	<b>23</b>	<b>17</b>

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.  
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## CHAPTER 3

### MAINTAINING FOCUS ON THE RAILROAD INDUSTRY'S IMPLEMENTATION OF POSITIVE TRAIN CONTROL

Over the last decade, several fatal rail accidents have led Congress to require and the U.S. rail industry to commit to implementing positive train control (PTC) systems on certain rail main lines. PTC systems use communication-based/processor-based train control technology to prevent train-to-train collisions, overspeed derailments, incursions into established work zone limits, and movement of a train through a switch in the improper position. The importance of PTC was evident in December 2017 when an Amtrak train derailed in Dupont, WA, after entering a curve with a 30-mile per hour limit at nearly 80 miles per hour. The crash resulted in 3 fatalities and 62 injuries and, according to the National Transportation Safety Board, could have been prevented with the use of PTC. With a statutory deadline for PTC implementation rapidly approaching and billions of dollars in Federal funding and loans dedicated to PTC, it is critical that the Department maintain focus on this complex safety initiative.

#### KEY CHALLENGES

- Keeping railroads on track with meeting statutory deadlines.
- Increasing attention to oversight of Federal funding support and identifying shortfalls.

#### KEEPING RAILROADS ON TRACK WITH MEETING STATUTORY DEADLINES

The Rail Safety Improvement Act of 2008 (RSIA)<sup>6</sup> required PTC systems to be implemented across a significant portion of the Nation's rail system by December 31, 2015, including Class I railroad<sup>7</sup> main lines handling poison or toxic-by-inhalation hazardous materials and any railroad main lines with regularly scheduled intercity or commuter rail passenger service. Citing funding and technical challenges, the industry did not meet this deadline, and Congress extended it by 3 years—to December 31, 2018—with the possibility of an additional 2-year extension if a railroad meets the statutory criteria set forth in the Positive Train Control Enforcement and Implementation Act of 2015.<sup>8</sup>

Since the enactment of RSIA, the Department has been tasked with overseeing PTC implementation and funding support, including grants and loans. Three separate DOT agencies—the Federal Railroad Administration (FRA), Federal Transit Administration (FTA), and the Office of the Secretary of Transportation's Build America Bureau—have provided over \$2 billion for PTC implementation to 29 rail systems as of September 30, 2017. FRA is leading the oversight of implementation and has taken several actions to support railroads implementing PTC systems. For example, FRA built a PTC testbed in Pueblo, CO; established a PTC task force to track implementation status; publicly reports on a quarterly basis each railroad's progress toward full implementation of a PTC system; frequently holds meetings with individual railroads; reviews and approves railroads' various required documents (including requests to conduct PTC system testing on the general rail system and PTC Implementation, Development, and Safety Plans); hosted three symposia to discuss the statutory and regulatory requirements for PTC system implementation; and provided hundreds of hours of technical assistance. Despite these efforts, several railroads may not fully implement PTC systems on all required route miles by December 31, 2018, and will need to request FRA's approval of an alternative schedule and sequence with a deadline not later than December 31, 2020, as permitted by the statutory mandate, in order to

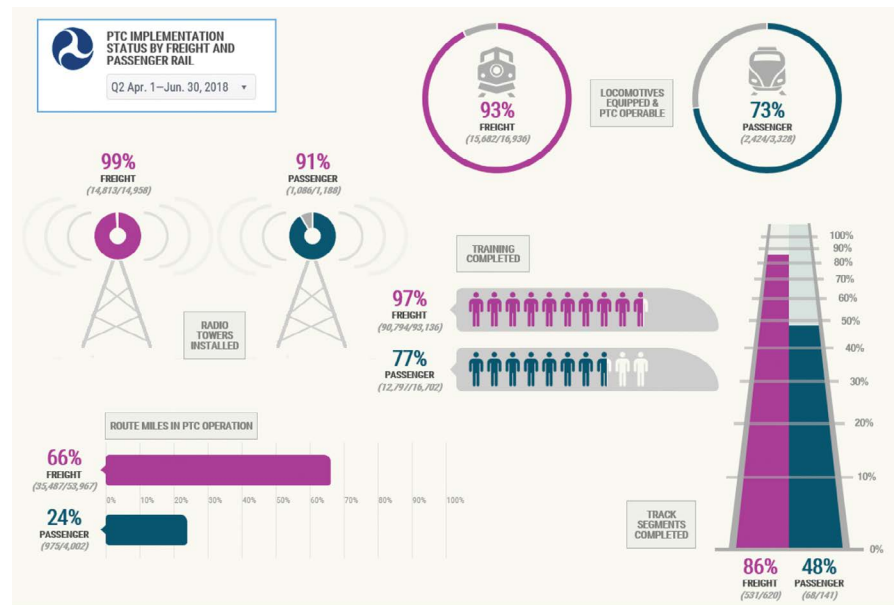
<sup>6</sup> Pub. L. No. 110-432 (2008).

<sup>7</sup> The Surface Transportation Board defines a Class I railroad as a railroad with an annual operating revenue greater than \$447,621,226; the figure was last updated in 2017.

<sup>8</sup> 49 U.S.C. § 20157.

complete testing and prove interoperability. As shown in figure 2 below, as of June 30, 2018, freight railroads have made significant progress in implementing PTC systems, but passenger railroads still have over 50 percent of track segments to complete. Continuing efforts to monitor the rail industry’s progress and maintaining a sense of urgency will be a critical challenge for the Department as the deadline for railroads to achieve full PTC implementation approaches.

**FIGURE 2. PTC IMPLEMENTATION STATUS BY FREIGHT AND PASSENGER RAIL**



Source: FRA

**INCREASING ATTENTION TO OVERSIGHT OF FEDERAL FUNDING SUPPORT AND IDENTIFYING SHORTFALLS**

As the railroads work to implement PTC, the Department faces the challenge of overseeing the considerable Federal investment dedicated to PTC. As of the end of fiscal year 2017, approximately 60 percent of the U.S. rail systems required to implement PTC were receiving financial support from the Federal Government. Specifically, as of September 30, 2017, 37 funding recipients had received Federal assistance for projects that vary greatly based on the type of railroad, interoperability needs, and available communication systems. As we reported in March 2018, approximately \$2.3 billion in Federal funds had been obligated to implement PTC as of September 30, 2017. Of this amount, the Department obligated \$1.3 billion through various Federal grants and issued approximately \$1 billion through a 2015 loan. At that time, more than half of the recipients reported spending over 50 percent of their funds, and about 40 percent reported spending over 75 percent. We also noted that although the deadline for PTC implementation is at the end of 2018, only 4 of 37 funding recipients had completely expended their Federal funds. Some funding recipients also expressed concerns about potential shortfalls in funding to operate and maintain PTC, which could result in funds being shifted from other safety priorities.

Since we issued our report, Congress has made additional funds available to railroads for PTC implementation. For example, on August 24, 2018, the Department announced that it awarded another \$203.7 million in grants from the Fiscal Year

2018 Consolidated Rail Infrastructure and Safety Improvements program to assist 28 PTC deployment projects in 15 States. However, as we have reported, DOT's financial oversight methods, including FRA's and FTA's own tracking programs and tools, vary depending on the type of funding program issuing the grants. As such, the Department may need to consult with the rail systems to provide accurate and detailed information on PTC-specific funding. Going forward, the Department will remain challenged to maintain oversight of the diverse financial support provided to rail systems, while monitoring the funding implications for any shortfalls that could crowd out other safety-critical projects.

## RELATED DOCUMENTS AND RECOMMENDATIONS

The following documents as well as the current status of OIG recommendations can be found on our website at <http://www.oig.dot.gov>.

Title	Total Recommendations	Open Recommendations
<i>Federal Funding Support for Positive Train Control Implementation (March 28, 2018)</i>	0	0
<i>Observations on Federal Funding Support for Positive Train Control Implementation (March 1, 2018)</i>	n/a	n/a
<b>Total</b>	<b>n/a</b>	<b>n/a</b>

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.

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## CHAPTER 4

### IMPROVING NHTSA'S DATA USE, PROCESSES, AND OVERSIGHT OF VEHICLE SAFETY DEFECTS

According to the National Safety Council, over 40,000 people lost their lives each year in motor vehicle crashes in 2016 and 2017. Another 4.57 million people sustained serious injuries in 2017 alone. While most fatalities caused by motor vehicle crashes involve impaired driving, speeding, or a lack of seatbelts, some involve a vehicle defect. For example, 15 fatalities and 220 injuries have been linked to the high-profile defect that caused Takata airbags to deploy improperly during crashes and severely injure vehicle occupants with metal shrapnel. The National Highway Traffic Safety Administration's (NHTSA) Office of Defects Investigation (ODI) is responsible for investigating possible safety defects and overseeing safety recall campaigns to assess recall effectiveness. Since 2011, we have reported on a number of opportunities for ODI to strengthen its defect investigations and recall management.

#### KEY CHALLENGES

- Strengthening processes for identifying, investigating, and mitigating safety defects.
- Enhancing controls for effectively managing vehicle recalls.

## STRENGTHENING PROCESSES FOR IDENTIFYING, INVESTIGATING, AND MITIGATING SAFETY DEFECTS

Our body of work assessing NHTSA's ODI over the past 7 years has underscored the Agency's need to identify and address dangerous safety issues. These include high-profile defects, such as Toyota's stuck throttles, General Motors' ignition switch failures, and Takata's exploding airbags. For example, ODI did not always adequately document why a possible vehicle safety defect was or was not investigated. We also identified weaknesses in the ODI workforce, including the need for a workforce assessment, training, and proper supervision. In addition, since 2014, we have made numerous recommendations to help ODI improve how the Agency collects and analyzes safety data to remove unsafe vehicles from roads. For example, in 2015, we recommended assessing and improving the quality of early warning data, expanding early warning data verification processes, and enhancing supervisory reviews of early warning data analyses. Moreover, the vehicle safety issues at Toyota, General Motors, and Takata prompted significant public safety criminal investigations by our Office of Investigations and others. These investigations resulted in a combined \$3.1 billion in financial recoveries.

In response to our audit recommendations, NHTSA has improved its processes for determining which safety issues warrant investigation and enhanced ODI's quality control mechanisms for complying with Agency policies. However, NHTSA faces challenges in following through on its actions to address our recommendations and improve its ability to identify and take action on safety defects. For example, the Agency has not yet developed sufficient quality control mechanisms to ensure it can fully implement our recommendations regarding data use. It is critical that NHTSA continue to strengthen its collection and analysis of early warning data and vehicle defects, enhance defect investigations using risk-based processes, and increase enforcement to mitigate the impact of serious safety defects on drivers.

## ENHANCING CONTROLS FOR EFFECTIVELY MANAGING VEHICLE RECALLS

NHTSA's ODI is also responsible for overseeing safety recalls conducted by vehicle and equipment manufacturers. For example, since November 2008, NHTSA has been overseeing recalls of Takata airbags.<sup>9</sup> NHTSA estimates that 37 million vehicles are currently involved in the Takata recalls, and that number could grow to 70 million vehicles by the end of 2019.

However, earlier this year we reported that ODI lacks adequate processes and oversight for passenger vehicle recalls, such as using its authority to verify recall information. We found multiple examples of recalls, including those involving Takata airbags, that had not received sufficient scrutiny and were missing information. For example, manufacturers must submit to NHTSA information on defect remedies, owner notification letters, and dealer repair instructions, but many recalls lacked this information. In addition, ODI has not fully demonstrated a risk-based approach to decision-making or to prioritizing its oversight of scope, remedies, and implementation of vehicle recalls. As a result, ODI cannot be reasonably sure that vehicle recalls are adequate or that critical safety information is collected and clearly communicated to the public.

ODI agreed to create a process with management controls to monitor whether high-risk recalls quickly and completely address underlying safety concerns. Going forward, NHTSA will be challenged to incorporate lessons learned from the Takata recalls and follow through on its planned actions to improve monitoring efforts.

<sup>9</sup> In January 2017, following an investigation by our office and other partners, Takata pleaded guilty to fraud based on repeated, systematic falsification of the test data it provided to vehicle manufacturers that purchased its airbags.

## RELATED DOCUMENTS AND RECOMMENDATIONS

The following documents as well as the current status of OIG recommendations can be found on our website at <http://www.oig.dot.gov>.

Title	Total Recommendations	Open Recommendations
<i>NHTSA's Management of Light Passenger Vehicle Recalls Lacks Adequate Processes and Oversight</i> (July 18, 2018)	6	6
<i>Additional Efforts Are Needed To Ensure NHTSA's Full Implementation of OIG's 2011 Recommendations</i> (February 24, 2016)	2	0
<i>NHTSA's Efforts To Identify Safety-Related Vehicle Defects</i> (June 23, 2015)	n/a	n/a
<i>Inadequate Data and Analysis Undermine NHTSA's Efforts To Identify and Investigate Vehicle Safety Concerns</i> (June 18, 2015)	17	0
<i>Process Improvements Are Needed for Identifying and Addressing Vehicle Safety Defects</i> (October 6, 2011)	10	0
<b>Total</b>	<b>35</b>	<b>6</b>

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.

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## CHAPTER 5

### PROVIDING EFFECTIVE STEWARDSHIP OVER SURFACE INFRASTRUCTURE SAFETY AND INVESTMENTS

The Department provides more than \$50 billion each year to build, maintain, and oversee our Nation's surface infrastructure, including millions of miles of roads, bridges, tunnels, tracks, and oil and gas pipelines. However, infrastructure needs have outpaced the Department's financial resources. To effectively address these needs while ensuring safety, the Department must make sure that its oversight and enforcement actions target areas of greatest risk. At the same time, DOT will be challenged to maximize all available funding sources, improve its process for delivering projects, and enhance its oversight of infrastructure investments.

#### KEY CHALLENGES

- Mitigating safety risks in surface transportation.
- Improving the efficient and effective use of limited infrastructure dollars.
- Ensuring effective oversight of surface infrastructure investments.

#### MITIGATING SAFETY RISKS IN SURFACE TRANSPORTATION

Transportation safety is the primary goal of the Secretary and the Department. In working to meet this goal, the Department faces the overall challenge of targeting its oversight and enforcement resources to ensure its State, local, and private industry counterparts comply with safety-related laws and requirements.



For example, the Pipeline and Hazardous Materials Safety Administration (PHMSA)<sup>10</sup> lacks a comprehensive, current workforce management plan to ensure it has aligned its staff to effectively meet its mission and identify its future resource needs. For instance, the Agency is taking on an expanded role in reviewing permits for liquefied natural gas (LNG) export terminals, 14 of which are awaiting Federal review. When those facilities become operational, PHMSA will inspect the operators' compliance with DOT's LNG safety regulations. In addition, in 2016 Congress mandated that PHMSA establish safety regulations for small-scale LNG facilities.<sup>11</sup> Over time, demand for PHMSA oversight for LNG facilities may increase, as U.S. LNG exports are projected to rise from about 3 billion cubic feet per day in 2018 to 15 billion cubic feet per day in 2030.<sup>12</sup>

Bridge and tunnel safety present a challenge for the Federal Highway Administration (FHWA). According to the Agency, about 8 percent of the Nation's more than 615,000 bridges are in poor condition.<sup>13</sup> In 2009, we recommended that FHWA improve its bridge inspection and inventory standards—actions later mandated in the Moving Ahead for Progress in the 21st Century Act<sup>14</sup> (MAP-21)—but the Agency's rulemaking process to make these improvements is more than 4 years behind its schedule. We also made recommendations for FHWA to improve its oversight of bridge safety, and since then the Agency has taken steps to implement a data-driven, risk-based approach to oversee State bridge inspection programs. However, the Agency has not fully implemented a recommendation we made in 2015 to develop a comprehensive national bridge safety risk-management process. To its credit, FHWA has made progress toward MAP-21 requirements to establish a data-driven national tunnel inspection program. Going forward, it will be critical for FHWA to pursue a rigorous and timely oversight process to ensure the safety of the Nation's almost 500 highway tunnels.

The Federal Transit Administration (FTA) also faces oversight challenges as it continues transitioning to its enhanced safety role. By April 15, 2019, 30 States with rail transit systems must establish an FTA-certified State Safety Oversight (SSO) program, as required by MAP-21. The purpose of the SSO program is to oversee safety at rail transit systems. Going forward, FTA will evaluate all SSO programs annually. In addition to certifying and evaluating SSO programs, FTA provides Federal funds through the SSO Formula Grant Program for eligible States to develop or carry out their SSO programs. FTA has made significant progress in certifying 25 programs, but several remain at risk of missing the deadline, jeopardizing funding for transit operators throughout those States. If a State fails to meet the certification deadline, FTA cannot award any new grants to transit operators within that State until its SSO program is certified. Such a lack of funding could affect transit safety and availability.

Ensuring the safety of our Nation's roads also requires addressing the increase in fatalities involving large trucks and buses. According to data from the Federal Motor Carrier Safety Administration (FMCSA), fatalities in crashes involving large trucks or buses grew from 4,397 in 2012 to 4,844 in 2017, a 10.2-percent increase. Last year, the National Academy of Sciences made six recommendations to improve FMCSA's Compliance, Safety, Accountability program. This 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. In response, FMCSA developed a congressionally mandated corrective action plan. The Agency may continue to face complex challenges as it works to implement its corrective action plan and improve its information systems and associated safety performance data throughout the motor carrier industry.

<sup>10</sup> According to PHMSA, its 213 Federal inspection and enforcement staff—and 382 State inspectors—are responsible for regulating nearly 3,000 companies that operate 2.8 million miles of pipelines, 152 LNG plants, 403 underground gas storage fields, and over 8,100 hazardous liquid breakout tanks.

<sup>11</sup> Small-scale LNG facilities can produce as little as 200 cubic feet per day. In comparison, Cheniere's Sabine Pass LNG export facility in Cameron Parish, LA, has a production capacity of 2.7 billion cubic feet per day.

<sup>12</sup> According to the U.S. Energy Information Administration.

<sup>13</sup> Bridges in poor condition include those that have experienced significant deterioration. With the implementation of National Performance Management Measures, FHWA revised its nomenclature and criteria for bridges classified as structurally deficient to be equivalent to those classified to be in poor condition.

<sup>14</sup> Pub. L. No. 112-141 (2012).



## IMPROVING THE EFFICIENT AND EFFECTIVE USE OF LIMITED INFRASTRUCTURE DOLLARS

Another goal of the Secretary and the Department is to use transportation infrastructure dollars to more efficiently and effectively meet growing demands on the Nation's system. A key challenge DOT faces is ensuring that available Federal aid is applied towards those projects that have the greatest potential to reduce traffic congestion, enhance economic viability and safety, and improve project delivery. For example, DOT's Better Utilizing Investments to Leverage Development (BUILD) discretionary grant program recently made \$1.5 billion available to support surface transportation infrastructure projects with a regional or local impact. The Department prioritizes rural communities within this program. DOT's challenge is to ensure that it awards BUILD's three-fold annual increase in funding in a timely, fair, and competitive process to maximize benefits for the recipients. Our prior work found that DOT encountered problems with aspects of this process with BUILD's predecessor, the Transportation Investment Generating Economic Recovery (TIGER) program. Issues included the lack of effective guidance on cost-benefit analysis reviews and insufficient documentation for key decisions made during the application review and awarding processes. DOT has completed steps to correct these issues, and the audit recommendations related to them have been closed.

DOT's goals also include improving the timeliness of transportation projects. The Department has taken steps in recent years towards this goal for key infrastructure projects in response to congressional mandates in MAP-21 Subtitle C<sup>15</sup> and the Fixing America's Surface Transportation Act of 2015 (FAST Act).<sup>16</sup> For example, FHWA has taken actions to close four of the five recommendations we made in 2017 to address vulnerabilities in its plans to meet Subtitle C that could impede DOT's initiative to accelerate project delivery and reduce project costs.

A key component of project acceleration will be to address the FAST Act's provisions for streamlining the environmental review process for transportation projects. For example, the act requires DOT to undertake several actions to align Federal environmental reviews and improve its implementation of the National Environmental Policy Act (NEPA).<sup>17</sup> Additionally, an Executive Order signed by the President in 2017 established a goal of completing all environmental reviews of major infrastructure projects within 2 years.<sup>18</sup> Given that the median time to complete an environmental impact statement<sup>19</sup> for transportation projects is more than 4 years, it will be a challenge for DOT to ensure more timely reviews and authorization decisions. To meet these goals, DOT will need to effectively implement an April 2018 memorandum of understanding it signed with other Federal agencies and update its NEPA implementing procedures.

<sup>15</sup> Pub. L. No. 112-141 (2012).

<sup>16</sup> Pub. L. No. 114-94 (2015).

<sup>17</sup> Pub. L. No. 91-190 (January 1, 1970), and as amended—establishes the framework for Federal environmental reviews and requires Federal agencies to evaluate the potential environmental effects of proposed actions on the human environment.

<sup>18</sup> Executive Order 13807, Establishing Discipline and Accountability in the Environmental Review and Permitting Process for Infrastructure Projects, August 15, 2017.

<sup>19</sup> NEPA requires Federal agencies to prepare an environmental impact statement for projects with major actions that significantly affect the quality of the human environment.

<sup>20</sup> Right-of-way is new real property that must be acquired in order to construct or complete a transportation project.

<sup>21</sup> According to 23 U.S. Code (U.S.C.) § 102(b).

## ENSURING EFFECTIVE OVERSIGHT OF SURFACE INFRASTRUCTURE INVESTMENTS

Strong internal controls are essential to provide effective stewardship over the Department's billions of dollars in surface transportation investments. For example, in a 2016 audit report we highlighted the need for FHWA to improve oversight of funds spent on preliminary engineering (PE)—i.e., Federal funds spent by States on design and related ground work before a highway or bridge project advances to construction or acquires right-of-way.<sup>20</sup> We reported that FHWA was not consistently enforcing a law<sup>21</sup> 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. 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 inefficiently due to FHWA's inaction. All seven recommendations we made to FHWA to improve its oversight of PE funds remain open.<sup>22</sup>

Effective oversight is also critical for the funds that FTA provides to grantees across its 10 regions each year—over \$11.5 billion in fiscal year 2017 alone. Our work has identified longstanding challenges in FTA's oversight of its grantees. For example, we reviewed four major projects in FTA's three western regions and found that insufficient FTA reviews of financial reports allowed one grantee's use of incorrect indirect rates to go undetected for several years. As a result, the grantee reimbursed \$11.9 million in Federal funds. FTA has completed actions to close all five of our recommendations to strengthen its project oversight and processes, but strong oversight will remain key to mitigate financial risks.

## RELATED DOCUMENTS AND RECOMMENDATIONS

The following documents as well as the current status of OIG recommendations can be found on our website at <http://www.oig.dot.gov>.

Title	Total Recommendations	Open Recommendations
<i>DOT Has Completed FAST Act Requirements on Aligning Federal Environmental Reviews</i> (November 6, 2018)	0	0
<i>Initial Audit of Florida International University Pedestrian Bridge Project – Assessment of DOT's TIGER Grant Review and Selection Processes</i> (October 29, 2018)	0	0
<i>PHMSA Has an Opportunity To Refine Its Guidance and Performance Reporting for the Pipeline Safety Research and Development Program</i> (May 30, 2018)	3	3
<i>Improvements Are Needed To Strengthen the Benefit-Cost Analysis Process for the TIGER Discretionary Grant Program</i> (February 28, 2018)	4	0
<i>PHMSA Has Improved Its Workforce Management but Planning, Hiring, and Retention Challenges Remain Oversight</i> (November 21, 2017)	3	3
<i>PHMSA Is Establishing Controls for Technical Assistance Grants but Needs To Improve Its Award and Oversight Processes</i> (July 19, 2017)	3	0
<i>Review of Major Western Capital Projects Points to Overall Improvements Needed in FTA's Financial Guidance and Oversight</i> (May 9, 2017)	5	0
<i>Vulnerabilities Exist in Implementing Initiatives Under MAP-21 Subtitle C to Accelerate Project Delivery</i> (March 6, 2017)	5	1
<i>Improvements in FTA's Safety Oversight Policies and Procedures Could Strengthen Program Implementation and Address Persistent Challenges</i> (November 2, 2016)	7	0
<i>Insufficient Guidance, Oversight, and Coordination Hinder PHMSA's Full Implementation of Mandates and Recommendations</i> (October 14, 2016)	5	3

<sup>22</sup> FHWA has requested closure of two of the seven recommendations; however, these recommendations remain open pending an ongoing OIG review of the Agency's proposed actions.

Title	Total Recommendations	Open Recommendations
<i>FHWA Does Not Effectively Ensure States Account for Preliminary Engineering Costs and Reimburse Funds as Required</i> (August 25, 2016)	7	7
<i>Oversight of Major Transportation Projects: Opportunities To Apply Lessons Learned</i> (June 8, 2015)	n/a	n/a
<i>FHWA Effectively Oversees Bridge Safety, but Opportunities Exist To Enhance Guidance and Address National Risks</i> (February 18, 2015)	5	4
<i>FHWA Has Not Fully Implemented All MAP-21 Bridge Provisions and Prior OIG Recommendations</i> (August 21, 2014)	5	0
<i>PHMSA's State Pipeline Safety Program Lacks Effective Management and Oversight</i> (May 7, 2014)	7	0
<b>Total</b>	<b>59</b>	<b>21</b>

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.

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## CHAPTER 6

### MODERNIZING THE NATIONAL AIRSPACE SYSTEM WHILE INTRODUCING NEW CAPABILITIES AND MAKING SOUND INVESTMENT DECISIONS

Through its multibillion-dollar Next Generation Air Transportation System (NextGen) program, the Federal Aviation Administration (FAA) is modernizing the Nation's air traffic control system with the goal of providing safer, more efficient air traffic management by 2025. FAA has made progress in working with industry to implement high-priority capabilities that will deliver tangible benefits to users within the National Airspace System (NAS), including new more efficient flight routes. However, the Agency continues to face challenges with deploying new and complex capabilities while enhancing infrastructure in a cost-effective manner.

#### KEY CHALLENGES

- Addressing barriers to implementation of new flight routes.
- Providing new capabilities to airspace users while modernizing systems.
- Replacing existing radar with a new system financed by the auction of electromagnetic spectrum.
- Strengthening management oversight of developmental funding for air traffic management.

#### ADDRESSING BARRIERS TO IMPLEMENTATION OF NEW FLIGHT ROUTES

A cornerstone of NextGen is advancing Performance-Based Navigation (PBN), a top investment priority for both FAA and industry. New PBN flight procedures can

provide significant benefits to airspace users, such as more direct flight paths, enhanced airspace capacity, improved on-time airport arrival rates, and reduced aircraft emissions and fuel burn. As part of its PBN implementation efforts, FAA established the Metroplex program in 2010 to increase efficiency in congested, metropolitan areas with multiple airports.

FAA and industry have since prioritized 12 locations where flight procedure improvements are expected to yield near-term benefits. FAA has implemented PBN procedures at 7 of these 12 locations. However, our past work has identified challenges to implementing PBN and achieving the full range of expected benefits. These challenges include community concerns about aircraft noise, a lack of automated decision support tools for controllers, and the need to streamline the development of new flight procedures to accelerate benefits. FAA now expects to complete the remaining sites in 2021—4 years later than originally planned. We are currently assessing FAA’s progress in its implementation of Metroplex, identification of program benefits achieved, and resolution of barriers to PBN. We are also assessing the soundness of FAA’s methods to develop benefit estimates.

### PROVIDING NEW CAPABILITIES TO AIRSPACE USERS WHILE MODERNIZING SYSTEMS

As it works to deliver new NAS capabilities, such as PBN routes, FAA must also maintain and upgrade important air traffic control systems such as the multibillion-dollar En Route Automation Modernization (ERAM) system. Air traffic controllers rely on ERAM to manage high-altitude air traffic at 20 facilities nationwide.

FAA has begun a series of overlapping ERAM component sustainment (or “tech refresh”) and enhancement efforts that will replace the system’s hardware and introduce improvements for the controller workforce through 2025.<sup>23</sup> The current cost of ERAM, including the ongoing technical refresh and system enhancement efforts, is more than \$3.2 billion. This excludes upgrades that FAA plans to undertake beyond 2023, which do not yet have approved costs and schedules.

At the same time, FAA is beginning to integrate Data Communications (DataComm)<sup>24</sup>—one of the highest-priority NextGen investments for FAA and industry. Working with the airlines, FAA plans to implement DataComm for controllers and pilots at high-altitude facilities beginning in 2019 through 2021 at a cost of over \$691 million. Deploying DataComm at the 20 facilities with ERAM while replacing system hardware (and implementing other enhancements) represents a significant system integration challenge.

### REPLACING EXISTING RADAR WITH A NEW SYSTEM FINANCED BY THE AUCTION OF ELECTROMAGNETIC SPECTRUM

FAA manages air traffic and collects weather information with an aging radar infrastructure that has been in service longer than originally planned, making it increasingly difficult and expensive to maintain. FAA has partnered with three other agencies<sup>25</sup> in the Spectrum Efficient National Surveillance Radar (SENSR)<sup>26</sup> program to auction Government-owned electromagnetic spectrum frequencies and use the revenue to develop and deploy new radar systems.

Given the significant investment, coordination, and development efforts required to procure, test, and implement a new national air and weather surveillance system, the House Appropriations Committee requested that we examine FAA’s efforts to carry out

<sup>23</sup> Although ERAM was not fully implemented nationwide until March 2015, some of the original hardware was installed as early as 2004.

<sup>24</sup> DataComm is expected to provide two-way digital communications between controllers and flight crews by reducing radio voice communications, improving accuracy, safety, and reducing time.

<sup>25</sup> FAA’s three partner agencies are the National Oceanic and Atmospheric Administration (NOAA), Department of Defense, and Department of Homeland Security.

<sup>26</sup> The SENSR program is a cross-agency program formed by FAA and three other partner agencies to assess the feasibility of vacating and auctioning a band of Government-owned radio frequency valued in the billions of dollars. Proceeds from the auction will be used to finance the deployment of a new system to meet the needs of all four agencies, providing surveillance for air traffic, weather, law enforcement, and national defense. However, in August 2018, NOAA removed a key weather requirement and largely withdrew from the program due to the associated risks. NOAA plans to remain in an advisory role.

the program. Preliminary results from our ongoing work show that the Agency faces a number of high risks and challenges in advancing SENSr, including an aggressive schedule and uncertainties regarding how much revenue the auction will generate. The new radar systems are currently estimated to cost \$12 billion. As our work continues, we will focus on recommending ways to promote the coordination, planning, and risk mitigation FAA needs to move forward with this ambitious and wide-reaching effort.

### STRENGTHENING MANAGEMENT OVERSIGHT OF DEVELOPMENTAL FUNDING FOR AIR TRAFFIC MANAGEMENT

FAA annually spends millions of dollars on research and air traffic development projects through its capital account and faces challenges in managing these efforts while providing adequate oversight. These projects are part of a development, testing, and demonstration process that FAA uses to limit risks in new air traffic management concepts. FAA manages each one with project-level agreements (PLA)—an internal control mechanism for documenting agreed-upon work and managing project execution.

As we reported in March 2018, FAA lacked effective management controls and a clearly established framework for managing the oversight of developmental projects and addressing persistent problems. For example, in a review of 22 PLAs from the \$1.7 billion spent during fiscal years 2009 to 2015, we found that 12 did not align with FAA's high-priority NextGen investment decisions, primarily because they were for support or implementation work. Furthermore, FAA had not defined which types of projects were eligible for developmental funding, and lacked standard operating procedures until 2016, 8 years after it began to use PLAs. We also found that FAA's Office of NextGen had not effectively executed and measured the outcomes of NextGen developmental projects, including tracking expenditures by PLA and obtaining deliverables for the projects.

FAA is currently working to address our recommendations to improve its management and oversight of NextGen developmental funding. Better management of these funds is especially important given that FAA expects to receive about \$322.7 million this fiscal year and has estimated a need for an additional \$1.4 billion for the next 4 years for developmental projects. Addressing our concerns will help FAA meet the continuing challenge of achieving better outcomes for its air traffic management development efforts.

### RELATED DOCUMENTS AND RECOMMENDATIONS

The following documents as well as the current status of OIG recommendations can be found on our website at <http://www.oig.dot.gov>.

Title	Total Recommendations	Open Recommendations
<i>FAA Has Taken Steps To Address ERAM Outages, but Some Vulnerabilities Remain</i> (November 7, 2018)	3	3
<i>FAA Needs To Strengthen Its Management Controls Over the Use and Oversight of NextGen Developmental Funding</i> (March 6, 2018)	6	4
<i>FAA Has Made Progress Implementing NextGen Priorities, but Additional Actions Are Needed To Improve Risk Management</i> (October 18, 2017)	0	0

Title	Total Recommendations	Open Recommendations
<i>FAA Has Not Effectively Deployed Controller Automation Tools That Optimize Benefits of Performance-Based Navigation</i> (August 20, 2015)	4	0
<i>FAA Faces Significant Obstacles in Advancing the Implementation and Use of Performance-Based Navigation Procedures</i> (June 17, 2014)	3	1
<b>Total</b>	<b>16</b>	<b>8</b>

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 7

### SYSTEMATIZING CYBERSECURITY STRATEGIES TO DETER SURGING CYBER THREATS

To accomplish its mission, DOT relies on over 450 information technology systems. The Department’s cybersecurity program is critical to protect these systems from malicious attacks or other compromises that may inhibit DOT’s ability to carry out its missions. As cyber threats continually evolve and expand, the Department faces significant challenges in strengthening its systems while adapting to new and rising threats. To address cybersecurity concerns, the Department needs to standardize its processes, increase network visibility, resolve longstanding weaknesses, and implement congressionally mandated aviation cybersecurity initiatives.

#### KEY CHALLENGES

- Standardizing cybersecurity processes to manage enterprise-wide cybersecurity risks.
- Increasing network visibility to proactively prevent and respond to security incidents.
- Resolving longstanding security weaknesses to strengthen information technology infrastructure.
- Implementing congressionally mandated aviation cybersecurity initiatives.

#### STANDARDIZING CYBERSECURITY PROCESSES TO MANAGE ENTERPRISE-WIDE CYBERSECURITY RISKS

The Federal Information Security Modernization Act (FISMA) of 2014<sup>27</sup> requires Federal agencies to implement procedures that cost-effectively reduce risk to a reasonable level. However, our annual FISMA evaluations consistently find the Department faces challenges in implementing processes to protect information and information systems.

For example, during our 2017 FISMA review, 71 DOT systems at 8 Operating Administrations were not authorized to operate by a senior official as required. In addition, DOT lacked an effective process for Operating Administrations to assess, authorize, and monitor common security controls—controls that support multiple information systems. This inconsistent implementation of processes throughout the Department exposes it to increased and undetected cybersecurity risks.

<sup>27</sup> Pub. L. No. 113-283 (2014).

## INCREASING NETWORK VISIBILITY TO PROACTIVELY PREVENT AND RESPOND TO SECURITY INCIDENTS

DOT policy<sup>28</sup> requires that DOT's Office of Chief Information Officer (OCIO) have full network visibility over all departmental systems, including those that contractors and other Government organizations operate on behalf of DOT's Operating Administrations. However, during a 2016 audit of DOT's cybersecurity incident handling, we found that the Department's Security Operations Center (SOC) did not have access to all departmental systems to monitor them for security incidents. In addition, the Department had not established a ranking scheme to address incidents based on the seriousness of the risk they pose. Our recommendations to address these deficiencies remain open, challenging DOT's ability to effectively combat cyber threats.

## RESOLVING LONGSTANDING SECURITY WEAKNESSES TO STRENGTHEN INFORMATION TECHNOLOGY INFRASTRUCTURE

FISMA requires Federal agencies to develop processes to remediate security weaknesses. However, the Department has faced longstanding challenges in tracking and effectively resolving identified weaknesses. As stated in our 2017 FISMA report, DOT had 4,529 open security weaknesses documented in its Cybersecurity Assessment and Management (CSAM) system. This is approximately the same amount of unaddressed weaknesses that we reported a decade ago (4,286).

Over the last 10 years, we have consistently found that the CSAM database does not include all known security weaknesses. For example, FAA did not track in CSAM the weaknesses that the Government Accountability Office (GAO) identified in its 2015 report on the air traffic control information security program, which resulted in 185 recommendations.<sup>29</sup> Furthermore, OCIO did not report security weakness to CSAM for open recommendations from our previous FISMA reports. Incomplete information on security weaknesses in CSAM challenges the Department's ability to assess risk and funding requirements and resolve its longstanding security weaknesses.

## IMPLEMENTING CONGRESSIONALLY MANDATED AVIATION CYBERSECURITY INITIATIVES

The Department faces some of its most significant cybersecurity challenges at FAA, which owns over 300—or about 70 percent—of DOT's information technology investments. Specifically, FAA operates a vast network of systems and facilities for managing air traffic in the National Airspace System (NAS). This complex network has evolved over the years into an amalgam of diverse legacy radars and newer satellite-based systems for tracking aircraft, as well as a new initiative for controllers and pilots to share information through data link communications.

In 2016, the FAA Extension, Safety, and Security Act<sup>30</sup> directed FAA to establish a new “total systems” approach to enhance its ongoing cybersecurity efforts for securing the NAS. Preliminary results from our ongoing work<sup>31</sup> show that FAA has taken initial steps in addressing the act's requirements, such as completing a strategic plan with cybersecurity goals and objectives, developing a risk model to assess FAA operations, and establishing a research and development (R&D) plan to outline further cyber initiatives. However, FAA will be challenged to continue to implement the risk model across all of its lines of business and operations, establish priorities for its cyber R&D efforts, and coordinate ongoing efforts with other agencies (such as the Departments of Defense and Homeland Security) to prevent duplicative efforts and maximize the Federal investment in cybersecurity research.

<sup>28</sup> Departmental Cybersecurity Compendium, Supplement to DOT Order 1351.37 Departmental Cybersecurity Policy dated March 2018, Version 4.2.

<sup>29</sup> GAO, *FAA Needs to Address Weaknesses in Air Traffic Control Systems* (GAO-15-221), January 2015. In the Highlights for this report, GAO notes that it also recommended additional actions to addresses security control weaknesses in a separate report with limited distribution.

<sup>30</sup> Pub. L. No. 114-190 (2016).

<sup>31</sup> At the request of the Chairmen and Ranking Members of the House Committee on Transportation and Infrastructure and the Subcommittee on Aviation, we are assessing FAA's progress in addressing the act's cybersecurity requirements.



**RELATED DOCUMENTS AND RECOMMENDATIONS**

The following documents as well as the current status of OIG recommendations can be found on our website at <http://www.oig.dot.gov>.

Title	Total Recommendations	Open Recommendations
<i>FISMA 2017: DOT's Information Security Posture Is Still Not Effective</i> (January 24, 2018)	8	8
<i>DOT Cybersecurity Incident Handling and Reporting Is Ineffective and Incomplete</i> (October 13, 2016)	4	4
<b>Total</b>	<b>12</b>	<b>12</b>

For more information on the issues identified in this chapter, please contact Louis C. King, Assistant Inspector General for Financial and Information Technology Audits at (202) 366-1407, and Matthew E. Hampton, Assistant Inspector General for Aviation Audits, at (202) 366-0500.

**CHAPTER 8**

**HARNESSING INNOVATIVE PROCUREMENT AND FINANCING PRACTICES WHILE MAINTAINING OVERSIGHT OF ACQUISITIONS, GRANTS, AND ASSETS**

DOT annually obligates more than \$70 billion for contracts and grants. To award contracts and grants in a timely manner and achieve effective outcomes for its projects, the Department increasingly relies on innovative acquisition approaches; time-saving multiple-award vehicles; and partnerships with industry, State and local governments, and other stakeholders. While innovation in acquisitions and grant awards can deliver important benefits, strong oversight remains essential to achieve desired program outcomes; safeguard Federal assets and investments from fraud, waste, and abuse; and mitigate risks to the Department’s mission.

**KEY CHALLENGES**

- Implementing innovative and streamlined acquisition practices while managing risk.
- Strengthening agency oversight of DOT assets, contracts, and grants.
- Defining new roles and responsibilities as use of public-private partnerships increases.

**IMPLEMENTING INNOVATIVE AND STREAMLINED ACQUISITION PRACTICES WHILE MANAGING RISK**

DOT relies on innovative agreements as well as streamlined multiple-award vehicles to strategically acquire a wide range of supplies and services to meet mission needs. For example, the Federal Aviation Administration (FAA) uses multiple-award vehicles<sup>32</sup> to support major initiatives such as the Next Generation Air Transportation System (NextGen) and meet DOT procurement targets for small and disadvantaged businesses. While multiple-award vehicles can streamline the process for meeting acquisition goals, our work has identified oversight vulnerabilities that increase risk. For instance, the Electronic FAA Accelerated and Simplified Tasks (eFAST) web-based contracting vehicle is FAA’s preferred method for making small business awards.

<sup>32</sup> A multiple-award schedule (vehicle) is a schedule of contracts awarded by an agency for similar or comparable supplies, or services, established with more than one supplier, at varying prices. Multiple-award contracts are intended to streamline the award and ordering process and enable the Government to obtain high-quality supplies and services and take advantage of the latest available technological changes.



However, we reported last year that FAA did not consistently apply its own procurement policies during the eFAST award process. For example, FAA's policy states that performance-based contracting methods<sup>33</sup> will be applied to eFAST contracts to the maximum extent practicable; yet, none of the 40 eFAST procurements we examined used these methods.

Similarly, FAA's multibillion-dollar Systems Engineering (SE) 2020 multiple-award contracts are intended to save the Government time and money by using market-based pricing and providing the ability to award task orders on pre-competed contracts. However, we recently reported that despite efforts by FAA management to encourage customers to use SE2020 as the primary vehicle for satisfying NextGen business needs, the Agency did not award as many task orders as anticipated. FAA practices that contributed to the underutilization of SE2020 included (a) using high assessment fees—initially up to 10 percent<sup>34</sup>—to fund program management task orders; (b) lengthy task order processing times; and (c) insufficient policies and guidance for multiple-award contract planning, such as estimating contract hours and costs. These practices, and, according to FAA, a constrained budget environment, resulted in the Agency not achieving its overall program goals for SE2020. To achieve the full benefits of multiple-award contracts and avoid similar shortcomings on SE2025—the successor contract vehicle to SE2020—FAA must ensure that it consistently implements adequate policies and procedures rooted in Governmentwide best practices.

In addition, DOT faces oversight challenges while seeking to meet its research goals through innovative procurement methods. Several DOT agencies—including FAA, the Federal Highway Administration, the National Highway Traffic Safety Administration, and the Pipeline and Hazardous Materials Safety Administration—conduct critical safety and modernization research through partnerships with third parties using a variety of delivery methods. These include cooperative agreements<sup>35</sup> and other transaction agreements (OTA).<sup>36</sup> However, our audit on the Department's use of OTAs last year found that FAA in particular did not encourage competition, properly implement cost-benefit analyses, or monitor cost sharing when making awards with this innovative mechanism. In our ongoing work on DOT's oversight of research and development awards, we are similarly examining whether the Department's use of cooperative agreements has properly considered competitive procedures and potential conflicts of interest. Overall, as the Department continues to pursue innovative and streamlined procurement practices, it must ensure it meets key objectives for enhancing competition, controlling spending, and achieving program goals.

## STRENGTHENING AGENCY OVERSIGHT OF DOT ASSETS, CONTRACTS, AND GRANTS

Our work continues to identify challenges and opportunities to improve the Department's oversight of assets, contracts, and grants in order to put taxpayer dollars to better use. For example, over the past 2 years, one-third of the 617 cases opened by our Office of Investigations involved procurement and grant fraud and resulted in 42 convictions, 29 years of incarceration, and \$18.3 million in financial recoveries. These significant case outcomes, often worked in cooperation with the Department, serve in part to help deter contract and grant fraud within the Federal Government.

In addition, our audits of disaster-recovery spending in the wake of Hurricane Sandy demonstrate that the Department has opportunities to improve its oversight of recipients' use of disaster-recovery funds and guard federally funded assets against future natural disasters. For example, DOT grant recipients experienced more than

<sup>33</sup> Performance-based contracting methods are designed to give contractors the freedom to determine how to meet the Government's performance objectives as long as appropriate performance quality levels are achieved and payment is made only for services that meet these levels.

<sup>34</sup> After several months, FAA subsequently lowered the assessment fee to 5 percent and reimbursed the 5 percent difference to customers who paid the initial 10 percent assessment. FAA eliminated the assessment fee in September 2015; instead, SE2020 vendors directly charge for program management costs within each task order.

<sup>35</sup> A cooperative agreement is a legal instrument of financial assistance between a Federal awarding agency and a non-Federal entity that is used to carry out a public purpose authorized by a law other than acquiring property or services for the Federal Government's direct benefit. A cooperative agreement is different from a grant in that it provides for substantial collaboration between the Federal awarding agency and the non-Federal entity.

<sup>36</sup> OTAs are legally binding instruments that may be used to engage industry and academia for a broad range of research and prototyping activities. OTAs are not contracts, grants, or cooperative agreements. As such, they are not subject to the Federal laws and regulations that apply to Government procurement contracts (e.g., the FAR) or financial assistance.

\$171 million in damage to their rolling stock<sup>37</sup> during Hurricane Sandy. Preliminary results from our ongoing work indicate that while the Federal Transit Administration's (FTA) Emergency Relief Manual provides suggestions for protecting rolling stock during such emergencies, FTA has additional opportunities to encourage transit agencies to take actions in response to these suggestions and to share lessons learned with other transit agencies.

The Department also can improve management of its real property assets. Our recent examination of FAA's portfolio of Agency-leased offices and warehouses—representing a total potential value of \$1.4 billion—found issues with inadequate management. These included inaccurate data in FAA's real estate database and an ineffective strategic planning process for identifying opportunities to more efficiently use existing space and comply with the Agency's space utilization standards. As a result of these weaknesses, FAA missed opportunities to realize cost savings, including an estimated \$14.6 million in potential missed rent reduction opportunities on unused or vacant space.

Finally, the Department's oversight efforts for a range of acquisitions and grant programs have relied in part on contractor assistance. For instance, the Federal Railroad Administration (FRA) has recently turned to Monitoring and Technical Assistance Contractors for oversight of its \$8 billion High-Speed Intercity Passenger Rail program. Similarly, FTA has used Project Management Oversight Contractors to oversee federally funded major capital projects, including some Hurricane Sandy recovery projects. While such actions can supplement DOT staff and bring expertise to the review of engineering plans, schedules, and financial plans, our work has found that a consistent process must be set up for documenting contractor reviews and ensuring they are properly executed. DOT agencies have taken action to address our recommendations in these areas; however, the use of contractors for contract and grant oversight will continue to pose both opportunities and challenges as the Department works to ensure effective stewardship of its grants and contracts. Given the Department's upcoming major buying initiatives, such as the Maritime Administration's planned major acquisition for training ships, ensuring strong oversight using DOT's acquisition resources will remain a significant challenge for the Department.

## DEFINING NEW ROLES AND RESPONSIBILITIES AS USE OF PUBLIC-PRIVATE PARTNERSHIPS INCREASES

Rising demands on the transportation system and constraints on public resources have led the Department to seek innovative financing arrangements for transportation projects, such as enabling greater private sector involvement in delivering highway and transit infrastructure through public-private partnerships (P3).<sup>38</sup> P3s allow a private partner to participate in some combination of a project's design, construction, financing, operations, and maintenance. However, the transfer of responsibilities to the private sector poses risk to all parties—including the Federal Government—if the private partner is unable to meet performance standards or becomes financially insolvent during the project.

P3s are complex transactions and mark a shift away from traditional ways of procuring and financing projects solely with Government funding. With increased use of P3s, the Department will need to apply sufficient due diligence and technical expertise. FHWA—which is responsible for stewardship and oversight of Federal-aid highway, bridge, and tunnel P3 projects—issued guidance in January 2015 outlining staff oversight roles for P3s. However, preliminary results from our ongoing review of FHWA's processes for approving and monitoring P3 projects show that the guidance does

<sup>37</sup> Rolling stock includes vehicles such as buses, vans, cars, railcars, locomotives, trolley cars and buses, and ferry boats, as well as vehicles used for support services, as defined in the Buy America regulations, 49 CFR § 661.3.

<sup>38</sup> P3s are contractual agreements between public agencies and private sector entities for delivering and financing transportation projects.

not reflect organizational changes that have impacted its roles and responsibilities. For example, the Department’s recently established Build America Bureau provides information, expertise, and Federal financing to facilitate P3 projects through various financial credit assistance and grants, but FHWA has not incorporated these changes into its guidance. Defining roles and responsibilities for all parties involved in exercising oversight will help to ensure private partners conform to Federal requirements and meet their project delivery goals. We expect to make recommendations for improvement in our final report.

**RELATED DOCUMENTS AND RECOMMENDATIONS**

The following documents as well as the current status of OIG recommendations can be found on our website at <http://www.oig.dot.gov>.

Title	Total Recommendations	Open Recommendations
<i>FAA’s Management and Oversight Are Inadequate To Secure Timely and Cost-Efficient Agency-Leased Offices and Warehouses</i> (April 11, 2018)	12	12
<i>Improvements Could Be Made in FAA’s Award and Oversight of SE2020 Acquisition Program Task Orders</i> (February 28, 2018)	11	11
<i>DOT and FAA Lack Adequate Controls Over Their Use and Management of Other Transaction Agreements</i> (September 11, 2017)	17	15
<i>Opportunities Exist for FAA To Strengthen Its Award and Oversight of eFAST Procurements</i> (May 8, 2017)	8	1
<i>FTA Did Not Adequately Verify PATH’s Compliance With Federal Procurement Requirements for the Salt Mitigation of Tunnels Project</i> (March 28, 2016)	3	0
<b>Total</b>	<b>51</b>	<b>39</b>

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.

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## Appendix. Department Response



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

# Memorandum

**Subject: INFORMATION:** Management Response to the  
Office of Inspector General (OIG) Draft Report:  
DOT's Fiscal Year 2019 Top Management Challenges

*Lana Hurdle  
10/26/18*

**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 (FY) 2019 Top Management Challenges report refers to many of the risks the Department of Transportation (DOT or Department) has identified and is actively addressing. Safety is the top priority of the Department, and we have adopted a systemic approach to safety oversight and management. This approach uses data and performance measures to determine priorities, evaluate risk mitigation strategies, guide safety standards, and ensure the effective integration of those standards into organizational structures and business process.

A second Departmental priority is investing in the nation's infrastructure, while also providing thorough attention, accountability, and oversight of these investments. For example, through discretionary grant-making, the Department is actively targeting Federal investments toward transportation projects that address high-priority infrastructure and safety needs. Without appropriate investment, deteriorating infrastructure could affect the safety and mobility of our nation's citizens, harm the flow of services, and risk disrupting our nation's commerce and economy.

Supporting innovation, while also ensuring the safe integration of new technologies into our transportation system, is a third priority of the Department. Emerging technologies can offer benefits in efficiency, access to transportation, and safety. DOT is working with the public and private sectors to safely develop, test, and integrate these new technologies into our existing transportation systems.

A fourth priority, which in many ways is the government's number one mission, is accountability. DOT must ensure that every dollar spent is used to the maximum benefit of the taxpayer. The Department is committed to regulatory reform that advances its core safety mission while making rules more streamlined and cost-effective. Accountability at the Department also means exercising proper management and oversight of its contracts and grants

**Appendix.** Department Response

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. For example, to help strengthen oversight of DOT assets, DOT is implementing a shared services model for delivering its acquisitions, human resources, and information technology (IT) functions. This effort will streamline management and ensure policies and practices are applied consistently while providing opportunities to procure goods and services on a larger, more strategic scale.

We expect the Office of Inspector General to be a partner in these efforts, and the Department 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.

#### **Appendix.** Department Response

## PAYMENT INTEGRITY REPORTING

DOT, as a steward of taxpayer dollars, exercises rigorous management and oversight over its program expenditures. DOT's Payment Integrity Center is responsible for coordinating improper payment (IP) reviews, reporting results, and monitoring the progress of corrective actions in accordance with the Improper Payments Information Act of 2002 (IPIA; P.L. 107-300),<sup>1</sup> 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 No. A-123 Appendix C, *Requirements for Payment Integrity Improvement*, and OMB Circular No. A-136, *Financial Reporting Requirements*. The results of DOT's FY 2018 IP reviews are reported in this section.<sup>2</sup>

### 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. Three DOT programs or activities were identified as being susceptible to significant IPs and subject to the FY 2018 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. In addition, the program includes emergency relief funds for the repair or reconstruction of highways and roads that have suffered serious damage as a result of natural disasters or catastrophic failures from external causes.
- 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 Inspectors General's (OIG) 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 2 consecutive years. DOT requested and received OMB approval for relief from the annual IP reporting requirements for the Federal Railroad Administration's (FRA) High-Speed Intercity Passenger Rail (HSIPR) Program starting in FY 2018.

During FY 2018, DOT evaluated FY 2017 legislative and payment changes and concluded that none of the changes necessitated an IP risk assessment. The Department conducted IP risk assessments for most programs and activities in FY 2017 and plans to perform the next round of assessments in FY 2020.

### II. PAYMENT ACCURACY REPORTING

During FY 2018, a statistician prepared and an agency official certified DOT's sampling and estimation plans<sup>3</sup> 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

<sup>1</sup> Unless otherwise indicated, the acronym "IPIA" refers to "IPIA, as amended by IPERA and IPERIA."

<sup>2</sup> More detailed information on DOT's FY 2018 IP reviews and results previously reported in the Department's AFRs that are not included in this section is available on [www.paymentaccuracy.gov](http://www.paymentaccuracy.gov).

<sup>3</sup> DOT's FY 2018 IPIA management reviews included payments from the OIG's Disaster Relief Appropriations Act funding. OIG management conducted a census of OIG DRAA payments instead of performing a statistical sample.

(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.

DOT derives 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 the Department's programs. For 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 2018 Payment Accuracy Results table provides the estimated amounts and percentages properly and improperly paid, along with reduction targets, by DOT program or activity.

#### FY 2018 PAYMENT ACCURACY RESULTS (\$ IN MILLIONS)

Program or Activity	Outlays <sup>(1)</sup>	Estimated Proper Payment Amount	Proper Payment Rate	Estimated Improper Payment Amount	Improper Payment Rate	FY 2019 Reduction Target Rate
FHWA HPC <sup>(2)</sup>	\$45,004.60	\$44,007.60	97.78%	\$997.00	2.22%	1.50%
FTA ERP-DRAA <sup>(2,3)</sup>	\$534.29	\$525.33	98.32%	\$8.96	1.68%	2.00%
OIG DRAA <sup>(2)</sup>	\$0.79	\$0.79	99.96%	\$0.0003	0.04%	0.03%

DRAA = Disaster Relief Appropriations Act of 2013. ERP = Emergency Relief Program. FHWA = Federal Highway Administration. FTA = Federal Transit Administration. HPC = Highway Planning and Construction. OIG = Office of Inspector General.

<sup>(1)</sup> Outlays represent the payment populations sampled to estimate IPs. For FY 2018 testing, the program or activity reviewed payments made from October 1, 2016, to September 30, 2017.

<sup>(2)</sup> Program or activity includes Disaster Relief Appropriation Act of 2013 funding.

<sup>(3)</sup> FTA established a reduction target higher than its FY 2018 estimate; however, the target is within the estimate's FY 2017 and FY 2018 confidence intervals. Factors influencing FTA's reduction target include confidence intervals of IP estimates derived from statistically valid and rigorous sampling plans and the 2-year delay for corrective actions to affect the IP estimate.

The FY 2018 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 2018 ROOT CAUSE FOR IMPROPER PAYMENTS (\$ IN MILLIONS)

Program or Activity	Payment Type	Estimated Amounts of Administrative or Process Error Made by:		Estimated Amounts of Insufficient Documentation to Determine:		Program Total
		Federal Agency	State or Local Agency	Federal Agency	State or Local Agency	
FHWA HPC	Overpayments	\$—	\$893.36	\$—	\$18.96	\$912.32
	Underpayments	—	84.68			84.68
FTA ERP—DRAA	Overpayments	—	6.15	—	0.84	6.98
	Underpayments	—	1.97			1.97
OIG DRAA	Overpayments	0.0001	—	—	—	0.0001
	Underpayments	0.0002	—			0.0002
DOT Total <sup>(1)</sup>	Overpayments	\$0.0001	\$899.50	\$—	\$19.80	\$919.30
	Underpayments	\$0.0002	\$86.65			\$86.65

DRAA = Disaster Relief Appropriations Act of 2013. ERP = Emergency Relief Program. FHWA = Federal Highway Administration. FTA = Federal Transit Administration. HPC = Highway Planning and Construction. OIG = Office of Inspector General.

<sup>(1)</sup> 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.	3/31/2019
	FHWA will conduct additional transaction testing in FY 2019 in addition to IPIA testing to continue to assess potential risk areas for improper payments in State-administered processes.	7/31/2019
Insufficient documentation by State or local agency	FHWA will reemphasize the guidance produced in 2018 to division offices highlighting the need to ensure State processes include adequate record retention.	7/31/2019

### 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.** The FHWA 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 IPs 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.

HCF monitors the 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. HCF also 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 2018, Federal personnel within DOT's Payment Integrity Center performed the payment recapture audit. DOT Payment Integrity Center personnel collaborated



with the ESC to identify overpayments, initiate collection actions, and explore opportunities to improve departmental payment processes. To maintain a cost-effective program, all DOT programs and activities were included within the scope of the payment recapture audit.

The FY 2018 audit scope included payments and financial transactions processed by ESC. The audit concentrated on payments made from April 2017 through March 2018; 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 may expand the scope of the payment time period when changing parameters or logic.

DOT considers all overpayments identified through the FY 2018 audit to be collectable. ESC typically recoups overpayments directly from the payee, by offsetting a payee's future payment, or by submitting a debt to the Department of Treasury's Offset Program. In most cases, ESC is able to recover the overpayment directly from the payee. In FY 2018, all overpayments recaptured through the audit program were returned to the DOT program's or activity's original purpose.

The amount of overpayments identified through the payment recapture audit significantly increased compared with previous years. In FY 2018, the DOT Payment Integrity Center placed emphasis on analyzing grant recipient credit memorandums. The analysis proved that grant recipients are submitting credit memorandums to resolve past billing errors; however, more analysis is needed to determine the root causes and frequency of the billing errors. For FY 2019, the DOT Payment Integrity Center plans to continue its analysis of grant recipient credit memorandums and plans to begin identifying root causes.

#### FY 2018 OVERPAYMENT PAYMENT RECAPTURES WITH AND WITHOUT RECAPTURE AUDIT PROGRAMS (\$ IN MILLIONS)

Program or Activity	Payment Recapture Audits			Outside of Payment Recapture Audits			Total		
	Amount Identified	Amount Recovered	Percent Recaptured	Amount Identified	Amount Recovered	Percent Recaptured	Amount Identified	Amount Recovered	Percent Recaptured
DOT payments	\$8.68	\$8.71	100.39%	\$1.15	\$1.42	123.84%	\$9.82	\$10.13	103.13%
OIG reviews				33.04	18.82	56.98	33.04	18.82	56.98
<b>TOTAL</b>	<b>\$8.68</b>	<b>\$8.71</b>	<b>100.39%</b>	<b>\$34.18</b>	<b>\$20.24</b>	<b>59.22%</b>	<b>\$42.86</b>	<b>\$28.95</b>	<b>67.56%</b>

Identified = amount of overpayments identified in FY 2018. Actual overpayment may have been made in FY 2018 or previous FYs.

Recaptured = amount of overpayments recaptured in FY 2018. The overpayment may have been identified in FY 2018 or previous FYs.

#### FY 2018 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 Outstanding
DOT Payments	— 0.00%	— 0.00%	\$6.39 100.00%	— 0.00%	\$6.39 100%

Identified = amount of overpayments identified in FY 2018. Actual overpayment may have been made in FY 2018 or previous FYs.

Recaptured = amount of overpayments recaptured in FY 2018. The overpayment may have been identified in FY 2018 or previous FYs.

#### CUMULATIVE RESULTS OF PAYMENT RECAPTURE AUDIT PROGRAMS (FYs 2004-2018) (\$ IN MILLIONS)

Program or Activity	Amount and Percent Identified	Amount and Percent Recaptured	Amount and Percent Outstanding	Amount and Percent Uncollectable
DOT Payments	\$29.51 100%	\$23.12 78.34%	\$6.39 21.64%	\$0.01 0.02%

Identified = amount of overpayments identified in FY 2018. Actual overpayment may have been made in FY 2018 or previous FYs.

Recaptured = amount of overpayments recaptured in FY 2018. The overpayment may have been identified in FY 2018 or previous FYs.

## VI. AGENCY IMPROVEMENT OF PAYMENT ACCURACY WITH THE DO NOT PAY INITIATIVE

An important part of the Department's program integrity efforts is integrating Department of the Treasury (Treasury) Do Not Pay (DNP) Business Center into DOT's existing processes. DOT uses the DNP Business Center to perform online searches, screen payments against the DNP databases, and augment DOT's Payment Integrity Center capabilities. The Department has neither identified a material amount of IPs nor realized a reduction of IPs attributable to implementing DNP capabilities. Rather, the DNP implementation has proven that DOT has robust and effective internal controls over ensuring that eligible entities receive Federal funds.

### 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.

The Department is committed to preventing and detecting fraud within its programs and is taking steps to prevent fraudulent activity in the future by implementing a fraud risk management program. DOT's phased approach enables the Department to use a maturity model to build out and adapt the program over time. The plan to implement FRDA requirements includes 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 2018, DOT updated the Fraud Risk Management Implementation Plan and continued efforts to gather information on fraud, waste, and abuse involving DOT programs and activities. The plan provides a schedule and milestones for developing a structured approach to assess fraud risk in accordance with the *Standards for Internal Control in the Government*. The plan also incorporates the Government Accountability Office (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.

When fraud occurs with departmental funds, historically it routinely involves grant funds. The primary sources of grant-related fraud confirmed in FY 2018 were fraud in the Disadvantaged Business Enterprise (DBE) program and false claims made on infrastructure projects administered by grant recipients in which Federal funds comprised a portion of the project funding. The Department acknowledges that this area experiences persistent fraud and is working to prevent fraud in the DBE program by providing oversight, guidance, and technical assistance to recipients of Federal funding. In addition, the Department's OAs have taken additional steps to address DBE fraud. For example, FHWA has budgeted for a staff member to do onsite visits to State DOTs to provide technical assistance in providing oversight of DBE participation to detect fraud. Further, the Department adheres to Federal suspension and debarment regulations to prevent irresponsible parties from receiving federally

funded grant awards. In addition, each OA has its own controls to prevent fraud. For example, the FTA conducts triennial reviews of its grant programs to ensure Federal funds are not mismanaged.

The Department had only \$3.2 million of confirmed fraud within its programs compared with overall net outlays of \$81.0 billion in FY 2018. Besides grant-related activity, DOT did not identify significant amounts of confirmed fraud in FY 2018 related to payroll, beneficiary, large contracts, or charge cards. DOT will continue to monitor the financial and administrative controls over these activities as the Department implements its 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, requires 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.

In response, the Department has undertaken numerous efforts to avoid unnecessary real property costs, including the implementation of new asset management processes; utilization of new real property data management tools; training and certification of real estate contracting officers; and 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 5 years to consider all available options in the current marketplace. New lease and construction projects under consideration undergo a rigorous evaluation and approval process. To help with the analysis required by these reviews, the ARCHIBUS Space Management tool provides current space primary use and occupancy/utilization data to guide decision making. Additionally, the Department regularly updates the Real Estate Management System (REMS) to track the inventory of all DOT OAs.

The Department’s comparison of its FY 2017 leased and owned office and warehouse property 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 2017 <sup>(1)</sup> (RTF)	Change (2015–2017)
Square footage (in millions)	13.0	12.2 <sup>(2)</sup>	(0.8)

FTF = Freeze the Footprint. RTF = Reduce the Footprint.

<sup>(1)</sup> FY 2017 is the most recent period for which data are available, because FY SF data are not verified and finalized until the end of the calendar year.

<sup>(2)</sup> Management Procedures Memorandum No. 2015–01 requires agency FRPP data to be recalculated based on a RTF data asset cohort, which is slightly different from the FTF 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 2017, after reversing distorting adjustments, the Department achieved an additional reduction of office and warehouse space of 41,839 SF through consolidation, colocation, and disposition. Recent expansion of the Department’s mission, however, has slightly tampered 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 new 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, conservation of water, 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 OPERATING AND MAINTENANCE COSTS—OWNED AND DIRECTLY LEASED BUILDINGS**

	FY 2015 Reported Cost (FTF)	Prior FY 2017 <sup>(1)</sup> (RTF)	Change (2015–2017)
Operation and maintenance costs <sup>(2)</sup> (in millions)	\$89.7	\$100.7 <sup>(3)</sup>	(\$11.0)

FTF = Freeze the Footprint. RTF = Reduce the Footprint.

<sup>(1)</sup> FY 2017 is the most recent period for which data are available, because FY SF data are not verified and finalized until the end of the calendar year.

<sup>(2)</sup> Annual operating costs, as defined by the Federal Real Property Council guidance for real property inventory, consist 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.

<sup>(3)</sup> Management Procedures Memorandum No. 2015-01 requires new agency FRPP data to be recalculated based on an RTF data asset cohort, which is slightly different than the FTF data asset cohort. A comparison of the FY 2015 FTF data operating cost of \$89.7 million with the FY 2015 RTF data operating cost of \$90.5 million shows a difference of – \$0.8 million.

A comparison of the FY 2017 RTF operation and maintenance cost of \$100.7 million with the FY 2015 RTF operation and maintenance cost of \$92.2 million shows an increase of \$8.5 million. The increase is primarily due to Air Traffic Organization (ATO) engineering survey allocations of higher assessed replacement and repair cost estimates of DOT-owned facilities.

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 FTF initiative and, more recently, the RTF initiative to reduce its domestic office and warehouse inventory, in terms of both SF and cost.

## CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

On November 2, 2015, the President signed the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (“the 2015 Act”). The 2015 Act amended the Federal Civil Penalties Inflation Adjustment Act of 1990 to improve the effectiveness of civil monetary penalties and to maintain their deterrent effect.

The 2015 Act requires agencies to report on civil monetary penalty adjustments annually.

The following table shows the civil penalties that the DOT may impose, the authority for imposing the penalty, year penalty was enacted or adjusted by Congress, the latest year of inflation adjustments, current penalty level, DOT Operating Administration (OA) that is responsible for the penalty, and the 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
33 U.S.C. 1232	Maximum civil penalty for each violation of the Seaway Rules and Regulations at 33 CFR part 401	1978	2018	\$91,901	Saint Lawrence Seaway Development Corporation (SLSDC)	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(1)	General civil penalty for violations of certain aviation economic regulations and statutes	2003	2018	\$33,333	Office of the Secretary of Transportation (OST)	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(1)	General civil penalty for violation of certain aviation economic regulations and statutes involving an individual or small business concern	2003	2018	\$1,466	OST	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(5)(A)	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	2018	\$13,333	OST	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(5)(C)	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	2018	\$6,666	OST	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(5)(D)	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	2018	\$3,334	OST	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. Ch. 213	Minimum rail safety penalty	1992	2018	\$870	Federal Railroad Administration (FRA)	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. Ch. 213	Ordinary maximum rail safety penalty	2008	2018	\$28,474	FRA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. Ch. 213	Maximum penalty for an aggravated rail safety violation	2008	2018	\$113,894	FRA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123	Minimum penalty for hazardous materials training violations	2012	2018	\$481	FRA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123	Maximum penalty for ordinary hazardous materials violations	2012	2018	\$79,976	FRA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>

## 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. 5123	Maximum penalty for aggravated hazardous materials violations	2012	2018	\$186,610	FRA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 525	Appendix A II Subpoena	2012	2018	\$1,066	Federal Motor Carrier Safety Administration (FMCSA)	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 525	Appendix A II Subpoena	2012	2018	\$10,663	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(7)	Appendix A IV (a) Out-of-service order (operation of CMV by driver)	1990	2018	\$1,848	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(7)	Appendix A IV (b) Out-of-service order (requiring or permitting operation of CMV by driver)	1990	2018	\$18,477	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(7)	Appendix A IV (c) Out-of-service order (operation by driver of CMV or intermodal equipment that was placed out of service)	1990	2018	\$1,848	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(7)	Appendix A IV (d) Out-of-service order (requiring or permitting operation of CMV or intermodal equipment that was placed out of service)	1990	2018	\$18,477	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(B)	Appendix A IV (e) Out-of-service order (failure to return written certification of correction)	1990	2018	\$924	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(F)	Appendix A IV (g) Out-of-service order (failure to cease operations as ordered)	2012	2018	\$26,659	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(7)	Appendix A IV (h) Out-of-service order (operating in violation of order)	1984	2018	\$23,426	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(A) and (b)(7)	Appendix A IV (i) Out-of-service order (conducting operations during suspension or revocation for failure to pay penalties)	1998	2018	\$15,040	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(7)	Appendix A IV (j) (conducting operations during suspension or revocation)	1984	2018	\$23,426	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(B)(i)	Appendix B (a)(1) Recordkeeping—maximum penalty per day	2005	2018	\$1,239	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(B)(i)	Appendix B (a)(1) Recordkeeping—maximum total penalty	2005	2018	\$12,383	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(B)(ii)	Appendix B (a)(2) Knowing falsification of records	2005	2018	\$12,383	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(A)	Appendix B (a)(3) Non-recordkeeping violations	1998	2018	\$15,040	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(A)	Appendix B (a)(4) Non-recordkeeping violations by drivers	1998	2018	\$3,760	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 31310(i)(2)(A)	Appendix B (a)(5) Violation of 49 CFR 392.5 (first conviction)	2005	2018	\$3,096	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>

## 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. 31310(i)(2)(A)	Appendix B (a)(5) Violation of 49 CFR 392.5 (second or subsequent conviction)	2005	2018	\$6,192	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 521(b)(2)(C)	Appendix B (b) Commercial driver's license (CDL) violations	1986	2018	\$5,591	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$3,096	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$6,192	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$5,591	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$30,956	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 31310(j)(2)(B)	Appendix B (b)(3) Special penalties pertaining to railroad-highway grade crossing violations	1995	2018	\$16,048	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 31138(d)(1), 31139(g)(1)	Appendix B (d) Financial responsibility violations	1994	2018	\$16,499	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(1)	Appendix B (e)(1) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (transportation or shipment of hazardous materials)	2012	2018	\$79,976	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(3)	Appendix B (e)(2) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (training)--minimum penalty	2012	2018	\$481	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(1)	Appendix B (e)(2): Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (training)--maximum penalty	2012	2018	\$79,976	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(1)	Appendix B (e)(3) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (packaging or container)	2012	2018	\$79,976	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(1)	Appendix B (e)(4): Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (compliance with FMCSRs)	2012	2018	\$79,976	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(2)	Appendix B (e)(5) Violations of Hazardous Materials Regulations (HMRs) and Safety Permitting Regulations (death, serious illness, severe injury to persons; destruction of property)	2012	2018	\$186,610	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>



## 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. 521(b)(2)(F)	Appendix B (f)(1) Operating after being declared unfit by assignment of a final "unsatisfactory" safety rating (generally)	2012	2018	\$26,659	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(1)	Appendix B (f)(2) Operating after being declared unfit by assignment of a final "unsatisfactory" safety rating (hazardous materials)-- maximum penalty	2012	2018	\$79,976	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(2)	Appendix B (f)(2): Operating after being declared unfit by assignment of a final "unsatisfactory" safety rating (hazardous materials)-- maximum penalty if death, serious illness, severe injury to persons; destruction of property	2012	2018	\$186,610	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14901(a)	Appendix B (g)(1): Violations of the commercial regulations (CR) (property carriers)	2012	2018	\$10,663	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14916(c)	Appendix B (g)(2) Violations of the CRs (brokers)	2012	2018	\$10,663	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14901(a)	Appendix B (g)(3) Violations of the CRs (passenger carriers)	2012	2018	\$26,659	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14901(a)	Appendix B (g)(4) Violations of the CRs (foreign motor carriers, foreign motor private carriers)	2012	2018	\$10,663	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$14,664	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$36,662	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$21,327	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$42,654	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$1,604	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$3,210	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14901(e)	Appendix B (g)(8) Violation of the CRs (weight of HHG shipment, charging for services) subsequent violation	1995	2018	\$8,025	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>



## 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. 13702, 14903	Appendix B (g)(10) Tariff violations	1995	2018	\$160,484	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14904(a)	Appendix B (g)(11) Additional tariff violations (rebates or concessions)—first violation	1995	2018	\$320	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14904(a)	Appendix B (g)(11) Additional tariff violations (rebates or concessions)—subsequent violations	1995	2018	\$401	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14904(b)(1)	Appendix B (g)(12): Tariff violations (freight forwarders)—maximum penalty for first violation	1995	2018	\$803	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14904(b)(1)	Appendix B (g)(12): Tariff violations (freight forwarders)—maximum penalty for subsequent violations	1995	2018	\$3,210	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$803	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$3,210	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14905	Appendix B (g)(14): Violations related to loading and unloading motor vehicles	1995	2018	\$16,048	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$1,066	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14907	Appendix B (g)(16): Reporting and recordkeeping under 49 U.S.C. subtitle IV, part B—maximum penalty	1995	2018	\$8,025	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14908	Appendix B (g)(17): Unauthorized disclosure of information	1995	2018	\$3,210	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14910	Appendix B (g)(18): Violation of 49 U.S.C. subtitle IV, part B, or condition of registration	1995	2018	\$803	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14905	Appendix B (g)(21)(i): Knowingly and willfully fails to deliver or unload HHG at destination	1995	2018	\$16,048	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14901(d)(2)	Appendix B (g)(22): HHG broker estimate before entering into an agreement with a motor carrier	2005	2018	\$12,383	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 14901 (d)(3)	Appendix B (g)(23): HHG transportation or broker services—registration requirement	2005	2018	\$30,956	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$1,239	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$12,383	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>

## 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. 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	2018	\$2,133	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$5,332	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$2,665	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$7,997	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$2,133	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$5,332	FMCSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 60122(a)(1)	Maximum penalty for each pipeline safety violation	2012	2018	\$213,268	Pipeline and Hazardous Materials Safety Administration (PHMSA)	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 60122(a)(1)	Maximum penalty for a related series of pipeline safety violations	2012	2018	\$2,132,679	PHMSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 60122(a)(2)	Maximum penalty for liquefied natural gas pipeline safety violation	1996	2018	\$77,910	PHMSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 60122(a)(3)	Maximum penalty for discrimination against employees providing pipeline safety information	2005	2018	\$1,239	PHMSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123	Maximum penalty for hazardous materials violation	2012	2018	\$79,976	PHMSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123	Maximum penalty for hazardous materials violation that results in death, serious illness, or severe injury to any person or substantial destruction of property	2012	2018	\$186,610	PHMSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123	Minimum penalty for hazardous materials training violations	2012	2018	\$481	PHMSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 30165(a)(2)(A)	Maximum penalty per school bus related violation of the Safety Act	2005	2018	\$12,383	National Highway Traffic Safety Administration (NHTSA)	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>

## 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. 30165(a)(2)(B)	Maximum penalty amount for a series of school bus related violations of the Safety Act	2005	2018	\$18,574,064	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 30165(a)(4)	Maximum penalty per violation for filing false or misleading reports	2012	2018	\$5,332	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 30165(a)(4)	Maximum penalty amount for a series of violations related to filing false or misleading reports	2012	2018	\$1,066,340	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 30505	Maximum penalty amount for each violation of the reporting requirements related to maintaining the National Motor Vehicle Title Information System	1992	2018	\$1,739	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32507(a)	Maximum penalty amount for each violation of a bumper standard under the Motor Vehicle Information and Cost Savings Act (Pub. L. 92-513, 86 Stat. 953, (1972))	1972	2018	\$2,852	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32507(a)	Maximum penalty amount for a series of violations of a bumper standard under the Motor Vehicle Information and Cost Savings Act (Pub. L. 92-513, 86 Stat. 953, (1972))	1972	2018	\$3,176,131	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32308(b)	Maximum penalty amount for each violation of 49 U.S.C. 32308(a) related to providing information on crashworthiness and damage susceptibility	1972	2018	\$2,852	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32308(b)	Maximum penalty amount for a series of violations of 49 U.S.C. 32308(a) related to providing information on crashworthiness and damage susceptibility	1972	2018	\$1,555,656	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32308(c)	Maximum penalty for each violation related to the tire fuel efficiency information program	2007	2018	\$59,029	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32309	Maximum civil penalty for willfully failing to affix, or failing to maintain, the label requirement in the American Automobile Labeling Act (Pub. L. 102-388, 106 Stat. 1556 (1992))	1992	2018	\$1,739	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32709	Maximum penalty amount per violation related to odometer tampering and disclosure	2012	2018	\$10,663	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32709	Maximum penalty amount for a related series of violations related to odometer tampering and disclosure	2012	2018	\$1,066,340	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32710	Maximum penalty amount per violation related to odometer tampering and disclosure with intent to defraud	2012	2018	Three times actual damages or \$10,663, whichever is greater	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 33115(a)	Maximum penalty amount for each violation of the Motor Vehicle Theft Law Enforcement Act of 1984 (Vehicle Theft Act), sec. 608, Pub. L. 98-547, 98 Stat. 2762 (1984)	1984	2018	\$2,343	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>

## 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. 33115(a)	Maximum penalty amount for a related series of violations of the Motor Vehicle Theft Law Enforcement Act of 1984 (Vehicle Theft Act), sec. 608, Pub. L. 98-547, 98 Stat. 2762 (1984)	1984	2018	\$585,619	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 33115(b)	Maximum civil penalty for violations of the Anti-Car Theft Act (Pub. L. 102-519, 106 Stat. 3393 (1992)) related to operation of a chop shop	1992	2018	\$173,951 Per day	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 32902	Maximum civil penalty for a violation under the medium- and heavy-duty vehicle fuel efficiency program	1975	2018	\$40,852	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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 <sup>(1)</sup>	NHTSA	Federal Register 81 (5 July 2016). 43524-43529. <a href="https://www.federalregister.gov/d/2016-158002">https://www.federalregister.gov/d/2016-158002</a>
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 <sup>(1)</sup>	NHTSA	Federal Register 81 (5 July 2016). 43524-43529. <a href="https://www.federalregister.gov/d/2016-158002">https://www.federalregister.gov/d/2016-158002</a>
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 <sup>(1)</sup>	NHTSA	Federal Register 82 (12 July 2017). 32140-32145. <a href="https://www.federalregister.gov/d/2017-14525">https://www.federalregister.gov/d/2017-14525</a>
49 U.S.C. 30165(a)(1), 30165(a)(3)	Maximum penalty amount for each violation of the Safety Act	2016	2018	\$21,780	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 30165(a)(1), 30165(a)(3)	Maximum penalty amount for a related series of violations of the Safety Act	2016	2018	\$108,895,910	NHTSA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
46 U.S.C. 31309	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 for violations of 46 U.S.C. 31329	1988	2018	\$20,521	Maritime Administration (MARAD)	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
46 U.S.C. 31330	Maximum civil penalty for a single violation of 46 U.S.C. 31329 as it relates to the court sales of documented vessels	1988	2018	\$51,302	MARAD	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
46 U.S.C. 56101(e)	Maximum civil penalty for a single violation of 46 U.S.C. 56101 as it relates to approvals required to transfer a vessel to a noncitizen	1989	2018	\$19,639	MARAD	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>

<sup>(1)</sup> On December 28, 2016, NHTSA published a final rule regarding some aspects of its IFR provisions related to Corporate Average Fuel Economy (CAFE) penalties (81 FR 95489). On July 12, 2017, NHTSA announced that it was reconsidering that final rule (82 FR 32140). Accordingly, the CAFE civil penalty provisions included in 49 U.S.C. 32912(b)-(c) and 49 CFR 578.6(h)(2) have not been adjusted in the FY 2018 Department-wide final rule. Instead, they will be addressed in a separate final rule for which an NPRM has been issued (83 FR 13904). The provision in 49 CFR 578.6(h)(1), establishing the maximum civil penalty for each violation of 49 U.S.C. 32911(a), will also be addressed in that notice.

## 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
46 U.S.C. 50113(b)	Maximum civil penalty for failure to file an AMVER report	1956	2018	\$130	MARAD	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
50 U.S.C. 4513	Maximum civil penalty for violating procedures for the use and allocation of shipping services, port facilities and services for national security and national defense operations	1950	2018	\$25,928	MARAD	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
46 U.S.C. 12151	Maximum civil penalty for violations in applying for or renewing a vessel's fishery endorsement	1998	2018	\$150,404	MARAD	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(1)	Violation by a person other than an individual or small business concern under 49 U.S.C. 46301(a)(1)(A) or (B)	2003	2018	\$33,333	Federal Aviation Administration (FAA)	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(1)	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	2018	\$1,466	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(1)	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	2018	\$1,466	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(5)(A)	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	2018	\$13,333	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$13,333	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(5)(B)(ii)	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	2018	\$13,333	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(a)(5)(B)(iii)	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	2018	\$13,333	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
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	2018	\$13,333	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46301(b)	Tampering with a smoke alarm device	1987	2018	\$4,280	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46302	Knowingly providing false information about alleged violation involving the special aircraft jurisdiction of the United States	1984	2018	\$23,426	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46318	Interference with cabin or flight crew	2000	2018	\$35,440	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 46319	Permanent closure of an airport without providing sufficient notice	2003	2018	\$13,333	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>

## 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. 46320	Operating an unmanned aircraft and in so doing knowingly or recklessly interfering with a wildfire suppression, law enforcement, or emergency response effort	2016	2018	\$20,408	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
51 U.S.C. 50917(c)	Violation of 51 U.S.C. 50901-50923, a regulation issued under these statutes, or any term or condition of a license or permit issued or transferred under these statutes	2014	2018	\$234,247	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(1)	Violation of hazardous materials transportation law	2012	2018	\$79,976	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(2)	Violation of hazardous materials transportation law resulting in death, serious illness, severe injury, or substantial property destruction	2012	2018	\$186,610	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(3)	Minimum penalty for violation of hazardous materials transportation law relating to training	2012	2018	\$481	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>
49 U.S.C. 5123(a)(3)	Maximum penalty for violation of hazardous materials transportation law relating to training	2012	2018	\$79,976	FAA	<a href="https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule">https://www.transportation.gov/regulations/revisions-civil-penalty-amounts-final-rule</a>

## 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, 2018.

### FY 2018 GONE ACT SUMMARY TABLE FOR THE ANNUAL FINANCIAL REPORT

Category	2–3 Years	> 3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements With Zero Dollar Balances	3,121	1,204	720
Number of Grants/Cooperative Agreements With Undisbursed Balances	1,124	248	107
Total Amount of Undisbursed Balances	\$122.8 million	\$55.0 million	\$10.0 million

In FY 2018, DOT closed out 6,471 awards, nearly one-half of the awards that the Department listed in the FY 2017 GONE Act submission. In terms of undisbursed funds, DOT was able to close out more than \$198.2 million of the undisbursed dollars reported in 2017, resulting in a 51 percent decrease in the total amount undisbursed.

Although each DOT Awarding Agency has unique challenges, common themes impact the ability to close out awards.

- Staffing shortages and turnover. Closeout is a labor-intensive process and requires skilled personnel devoted to the task. Many Agencies experience outright shortages of personnel, and changes in duty assignments complicate the process of closing out awards. Emphasis for closing out awards has fallen behind the need for processing new and continuing awards, although the Awarding Agencies at DOT are now placing a higher value on closeouts.
- Challenges associated with construction awards. Many awards from DOT focus on construction, and these awards pose unique challenges for closeout. In many cases, the number of activities that need to be completed and closed out require additional audits and/or legal intervention for reconciliation by awardees and subawardees before an Agency can fully close the award.
- Challenges associated with type of awardee. Many DOT awards are made to States and tribal organizations, which have specific criteria for administration. Because many awards were issued before the consolidation of Administrative Requirements and Cost Principles in 2 CFR Part 200 in 2014, the different organizations have different requirements. These differences lengthen the process for closing out awards. The awards that are formula-based have additional challenges for closing out.

DOT remains confident that its Awarding Agencies will be able to improve its closeout abilities for older and current awards. The following strategies have been implemented:

- Increased awareness and training for Agency personnel on the need for timely closeout of awards;
- Development of guidance and policies to facilitate greater efficiencies in closing out awards;



- Development of a risk-based approach for recipients to assist in closing out subawards in a more timely fashion; and
- Increased followup on awards under audit or litigation.

**REVISIONS TO THE 2017 AFR FOR GONE ACT**

In accordance with OMB instructions, DOT is submitting a revised table for its 2017 AFR.

**FY 2017 GONE ACT REVISED SUMMARY TABLE FOR THE ANNUAL FINANCIAL REPORT**

Category	2-3 Years	> 3-5 Years	> 5 Years
Number of Grants/Cooperative Agreements With Zero Dollar Balances	6,373	2,352	1,386
Number of Grants/Cooperative Agreements With Undisbursed Balances	2,162	473	249
Total Amount of Undisbursed Balances	\$201.8 million	\$149.9 million	\$34.3 million

In FY 2017, DOT reported 1,139 awards that did not meet the criteria for inclusion in the GONE Act. This inclusion occurred primarily because of an error in the assignment of Project Award End Dates (PAED), which was not discovered until after reporting for the 2017 GONE Act was complete. The error was corrected for FY 2018.



## LIST OF ACRONYMS

### A

AATF	Airport and Airway Trust Fund
ADS	Automated Driving Systems
ADSB	Automatic Dependent SurveillanceBroadcast
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
ATO	Air Traffic Organization
ATOC	Air Traffic Operational Contingency Group
AU	accessible units

### B

BCA	Benefit Cost Analysis
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### 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	ConstructionInProgress
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
DNP	Do Not Pay
DoD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor

DP2	Departmental Procurement Platform
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
eInvoicing	Electronic Invoicing
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 2014
FITARA	Federal Information Technology Acquisition Reform Act
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**

HAZMAT	hazardous material
HCF	FHWA Office of the Chief Financial Officer
HHG	household goods
HPC	Highway Planning and Construction
HSIPR	HighSpeed Intercity Passenger Rail
HTF	Highway Trust Fund
HVA	high-value asset

**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**

MAP21	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	network admission control
NAC	NextGen Advisory Committee
NARM	Network Assessment Risk Mitigation
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
OFIT	Office of Financial Innovation and Transformation
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
OSSPI	Office of Shared Solutions and Performance Improvement
OST	Office of the Secretary
OTA	other transaction agreements
OTA	U.S. Treasury, Office of Tax Analysis

**P**

P3	publicprivate partnerships
PAED	Project Award 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
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**R**

RCRA	Resource Conservation and Recovery Act of 1976
REMS	Real Estate Management System
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
SAFETEALU	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**

TEA21	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	vehiclemiles traveled
VTRIPS	Volpe Transportation Information Project Support



**U.S. Department of Transportation**

Office of the Secretary of Transportation  
Assistant Secretary for Budget & Programs

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