Office of Inspector General
Audit Report

QUALITY CONTROL REVIEW OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2014 AND 2013

Department of Transportation

Report Number: QC-2015-011

Date Issued: November 17, 2014

Memorandum

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

Subject: **<u>ACTION</u>:** Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2014 and 2013, Department of Transportation
Report Number: QC-2015-011

Date: November 17, 2014

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: The Secretary

We respectfully submit our report on the quality control review (QCR) of the Department of Transportation's (DOT) audited consolidated financial statements for fiscal years 2014 and 2013.

KPMG LLP of Washington, DC, under contract to the Office of Inspector General (OIG), completed the audit of DOT's consolidated financial statements as of and for the years ended September 30, 2014, and September 30, 2013 (see attachment). The contract required that the audit be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget (OMB) Bulletin 14–02, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the financial statements present fairly, in all material respects, DOT's financial position as of September 30, 2014, and September 30, 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG's Fiscal Year 2014 Audit Report

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

Material Weakness

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

Significant Deficiencies

1. **Lack of Sufficient Controls over Undelivered Orders.** Deficiencies exist in DOT's internal controls for monitoring undelivered orders and timely deobligation of unused funds. Controls for eight operating administrations were inadequate and/or ineffective, and contributed to potential misstatements in undelivered orders as of September 30, 2014, totaling approximately $358.5 million.

2. **Lack of Sufficient Controls over Unfilled Customer Orders Without Advance Funding.** The Federal Highway Administration (FHWA) does not properly record and adjust its balances for certain unfilled customer orders (UCO).[1] Specifically, FHWA does not properly record UCOs with non-Federal entities for which it has not received funding in advance of work performance. FHWA's authority to enter into agreements with non-Federal entities without advance funding is unusual, and the Agency has not formally documented its procedures for recording these unique UCOs. While there is no specific Federal guidance for these transactions, the undocumented procedures that FHWA follows represent a departure from Federal guidance for recording UCOs with other Federal agencies. A lack of documented procedures increases the risk and likelihood that financial statements may be materially misstated.

   Furthermore, FHWA did not timely deobligate unused UCOs for which it did not receive advance funding. This untimely deobligation occurred because DOT's financial systems could not produce a report on open UCO balances with sufficient detail to allow FHWA to implement necessary monitoring

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[1] FHWA's Office of Federal Lands Highway has the authority to enter into reimbursable agreements with Federal agencies and non-Federal entities such as State, local and Tribal governments, and the public, to provide highway-related goods or services. Unfilled customer orders represent the amount of goods or services that have yet to be furnished.

controls. As of September 30, 2014, the Department's UCOs without advance funding were potentially overstated by approximately $116 million.

Noncompliance with Laws and Regulations

1. **Noncompliance with the Anti-Deficiency Act**. As first identified in fiscal year 2013, and pending the completion of review, the Federal Railroad Administration may have committed anti-deficiency violations by obligating $1.2 million and $40 thousand prior to OMB's apportionment approval.

2. **Noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)**. The previously discussed material weakness related to general IT controls at FTA affects DOT's ability to comply with FFMIA financial management system requirements. FTA's general IT controls are not adequate to ensure that DOT's financial management systems comply with FFMIA's requirements.

We performed a QCR of KPMG's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on DOT's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG is responsible for its report dated November 14, 2014, and the conclusions expressed in that report. However, our QCR disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted Government auditing standards.

KPMG made 10 recommendations to strengthen DOT's financial, accounting, and system controls. DOT officials concurred with KPMG's recommendations. The Department also committed to submitting a detailed action plan to address the findings contained in KPMG's audit report to OIG by December 31, 2014. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

We appreciate the cooperation and assistance of DOT's representatives and KPMG. If you have any questions, please contact me at x61959, or Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at x61427.

Attachment

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Transportation ("Department" or "DOT"), which comprise the consolidated balance sheets as of September 30, 2014 and 2013 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; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Transportation as of September 30, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Notes 1 and 19, the consolidated financial statements reflect actual excise tax revenues deposited in the Highway Trust Fund and the Airport and Airway Trust Fund through June 30, 2014, and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Other Information, Foreword, Message from the Secretary, and Message from the Chief Financial Officer and Assistant Secretary for Budget and Programs sections as listed in the Table of Contents of the DOT Agency Financial Report 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 audit 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, 2014, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Exhibit I section A to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DOT'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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which are described in Exhibit III sections D and E.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed an instance, described in Exhibit III section E, in which the Department's financial management systems did not substantially comply with the Federal financial management systems requirements.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the applicable Federal accounting standards or the United States Government Standard General Ledger at the transaction level.

Department's Responses to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

November 14, 2014

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

Criteria

The Federal Information Security Management Act (FISMA) of 2002 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 by or maintained on behalf of the agency. This protection is required for the information and information systems that support the Department of Transportation's ("Department" or "DOT") mission, operations, and assets, including those provided or managed by another Federal agency, contractor, grantee, or other source. DOT ensures compliance with FISMA through the policies, procedures, and controls listed in the DOT Cyber Security Compendium, version 3.0 dated September 2013.

Background

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

Condition

During our FY2014 testing of the significant DOT financial IT systems, we identified several control deficiencies in the FTA's IT environment, specifically the grant systems. We have classified the deficiencies identified into the following two categories:

Provisioning of Access:

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

System Audit Log Reviews:

Detective controls, such as system audit logs, are controls designed to determine that changes to IT systems are authorized, tested, approved, properly implemented, and documented. FTA's audit log reviews lack the precision necessary to reliably and timely detect unauthorized or inappropriate activities, which may allow such activities to go undetected by management for lengthy periods of time.

Cause

FTA does not have sufficient procedures and controls in place to ensure compliance with the DOT Cyber Security Compendium, version 3.0 dated September 2013.

Effect

The aforementioned IT control deficiencies pose a significant risk to the integrity of FTA's data that are consolidated into DOT's financial statements, which could ultimately affect DOT's ability to perform its financial reporting duties accurately and timely.

Recommendations

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

1. Develop procedures and controls to address the provisioning of access and system audit log review control deficiencies identified in the FTA financial IT systems; and,
2. Monitor progress to ensure that procedures and controls are appropriately designed, implemented, and maintained.

B. Lack of Sufficient Controls over Undelivered Orders

Criteria

US Code Title 31 Section 1501 states that an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is (a) in writing, in a way and form, and (b) for a purpose authorized by law, and executed before the end of the period of availability.

US Code Title 31 Section 1554 states that the head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1108 (c) of this title.

The United States Standard General Ledger Supplement No. S2 Treasury Financial Manager defines an Undelivered Order (Obligation) as the amount of goods and/or services ordered, which have not been actually or constructively received and for which amounts have not been prepaid or advanced. This includes amounts specified in other contracts or agreements such as grants, program subsidies, undisbursed loans and claims, and similar events for which an advance or prepayment has not occurred.

Statement of Federal Financial Accounting Concepts (SFFAC) No 1, *Objective of Federal Financial Reporting* Issued by the Federal Accounting Standards Advisory Board (FASAB), states Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with federal accounting standards.

The Standards for Internal Control in the Federal Government issued by the Government Accountability Office (GAO) states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Background

In carrying out its mission, DOT incurs obligations by entering into contracts or agreements for the purchase of goods and services from other Federal agencies and the public, and for the execution of grant agreements with state and local governments and other grantees. These obligations are recorded as undelivered orders in the DOT consolidated financial statements on the statement of budgetary resources.

Once an obligation is satisfied and/or no longer required, funds are required to be de-obligated, which reduces the balance of undelivered orders and potentially releases the funds for other uses. As of September 30, 2014, DOT reported $117 billion in obligations.

Each OA is responsible for developing and implementing policies and procedures to review obligated balances, as required by public law.

Condition

We noted deficiencies in internal controls over the monitoring of grant and non-grant undelivered orders that may impact the accuracy and existence of undelivered orders presented in the financial statements. Specifically, exceptions were noted in obligations, supported by contracts or agreements, that were entered into over one year ago and in the current year had no transactions recorded against the original contract or agreement (i.e., aged undelivered orders representing $18 billion as of September 30, 2014).

During our review of statistical samples totaling 527 items, selected at various intervals during the year, over aged undelivered orders and undelivered orders supported by an agreement or contract executed in the current year (i.e., current undelivered orders), we noted that for 21 items, totaling $12.1 million, the period of performance or procured project/service in the related contract/agreement had ended or been completed; however, the unused obligation balances for these items were not de-obligated timely in accordance with DOT policies.

Cause

As each OA is responsible for developing and implementing policies and procedures to review obligated balances, as required by public law, we noted that controls over the timely review and monitoring of grant and non-grant undelivered orders were not properly designed and implemented and/or controls were not operating effectively at certain OAs to identify unused obligation balances for timely de-obligation.

Effect

Undelivered orders were potentially overstated as of September 30, 2014 by approximately $358.5 million. Furthermore, the lack of adequate processes to review undelivered orders increases the risk that material misstatements may occur and not be detected.

Recommendations

We recommend:

1. FTA revise their process for monitoring obligations in order to timely identify and de-obligate stale obligations;
2. DOT continues to provide training related to grants management, including the need for timely monitoring and close-out of projects; and,
3. All other OAs continue to timely review and monitor grant and non-grant undelivered orders to ensure that the recorded undelivered orders represent goods and services ordered and obligated, but not yet received, or potential amounts still to be claimed.

C. Lack of Sufficient Controls over Unfilled Customer Orders without Advance

Criteria

The Standards for Internal Control in the Federal Government issued by the GAO states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Statements of Federal Financial Accounting Standards (SFFAS) No. 7: *Accounting for Revenue and Other Financing Sources*, states:

> 78. Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34. In addition, the reporting entity should provide this information for each of its major budget accounts as supplementary information. Small budget accounts may be aggregated.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Section 20 (4) states:

> You record spending authority from offsetting collections and the offsetting collections in the program and financing schedule of an account. In the simplest case, you record gross budget authority equal to the cash collections for the year and record the cash collections as an offset to the budget authority. Net budget authority will equal zero in such cases. In other cases, you must adjust spending authority from cash collections to yield the amount available as budget authority.

OMB Circular No. A-136, *Financial Reporting Requirements*, section II.4.1 states:

> Reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of this Circular.

Background

A reimbursable agreement is an arrangement whereby FHWA agrees to provide goods or services to another agency in return for reimbursement of costs incurred or agrees to reimburse another agency for its costs in providing goods or services to FHWA.

Pursuant to authority in the "Economy Act" and prior to enactment of the *Moving Ahead for Progress in the 21st Century Act* (MAP-21) on July 6, 2012, the Office of Federal Lands Highway (FLH), an office within the FHWA, had the ability enter into interagency reimbursable agreements with Federal Government entities, without an advance of funds, to provide engineering services for planning and designing highways on Federally owned lands, as well as constructions contracts for building parkways and park roads, Indian reservations roads, defense access roads and other roads on Federal lands. OMB classifies such authority, under Circular A-11, as spending authority from offsetting collections and a signed reimbursable agreement as an unfilled customer order (UCO).

On the Department's financial statements, UCOs without an advance represent the total amount of unearned reimbursable agreements/orders accepted without an advance of funds to provide goods and/or services to other Federal Government agencies, State, local or tribal governments, and to the public, as permitted by law.

Section 1119 of MAP-21 extended this authority to non-Federal entities under 23 U.S.C. 201(d):

> *(d) REIMBURSABLE AGREEMENTS – In carrying out work under reimbursable agreements with any State, local, or tribal governments under this title, the Secretary –*
> *(1) May, without regard to any other provision of law (including regulations), record obligations against accounts receivable from the entity; and*
> *(2) Shall credit amounts received from the entity to the appropriate account, which shall occur not later than 90 days after the date of the original request by the Secretary for payment*

Condition

Based on our review of FHWA's undocumented procedures for recording UCOs with non-Federal entities without an advance of funds, we have identified that FHWA does not record a UCO for the entire amount of the signed reimbursable agreement, and instead, records an estimated amount of the UCO that FHWA anticipates incurring obligations for in the current fiscal year. This is a departure from the guidance outlined in OMB Circular A-11 for recording UCOs without an advance of funds entered into with other Federal entities.

Furthermore, we have identified that at year-end FHWA does not record an adjustment to "true-up" the estimated UCO that was recorded upon execution of the reimbursable agreement to match the actual obligations incurred against the UCO in the fiscal year.

In addition, our review of a statistical sample of 18 items, from a population $1 billion of UCOs without an advance, we noted six invalid items, totaling $2 million, where the related period of performance for the UCO had either ended and/or the project had been completed; however, the unused UCO balance for these items was not properly de-obligated by management, as required.

Cause

FHWA has not formally documented the recognition and measurement decisions made by management when accounting for UCOs with non-Federal entities without an advance of funds.

In addition, DOT is unable to provide a report that reflects all open UCO balances, by agreement number, as of the period-end date. Therefore, DOT is unable to implement adequate controls over the review and monitoring of open UCO balances, at an appropriate level of precision, to determine if balances are complete, accurate, and valid.

Effect

Incomplete documentation of accounting policies and procedures for unique transactions, specifically the appropriate accounting treatment for the recognition and measurement of UCOs with non-Federal entities without an advance of funds, increases the risk and likelihood that the financial statements may be materially misstated.

In addition, the Department's UCOs without an advance were potentially overstated, as of September 30, 2014, by approximately $116 million.

Recommendations

We recommend that:

1. FHWA work with OMB to develop and document policies and procedures on the appropriate accounting treatment for the execution and year-end reporting of UCOs entered into with non-Federal entities without an advance of funds; and,
2. DOT, in conjunction with FHWA, develop a report that reflects a complete population of open UCO balances, by agreement number, as of a period-end date and that FHWA use this report to monitor and review its open UCO balances for completeness, accuracy, and validity.

D. Noncompliance with the Anti-Deficiency Act

Criteria

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

Condition

<u>Potential Anti-Deficiency Act Violations:</u>

<u>FRA</u>

Pending the outcome of further review, the Federal Railroad Administration (FRA) may have committed Anti-Deficiency Act violations during fiscal year 2013 as a result of obligating $1.2 million and $40 thousand in excess of the apportioned amounts on two category B[1] project budget lines in the Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail accounts, respectively. The amounts represent funds that were appropriated and used for the intended purpose, but were executed prior to OMB apportionment approval.

Cause

At the time that the potential violations occurred, FRA did not have sufficient controls in place to require an appropriate level of oversight over fund status monitoring to prevent Anti Deficiency Act violations.

Effect

DOT may not be in compliance with the Anti-Deficiency Act.

Recommendations

We recommend that DOT:

1. Complete the investigation into potential additional Anti-Deficiency Act violations at the FRA; and,
2. Implement appropriate policies and procedures to prevent future violations.

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

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

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

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

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

DOT's fiscal year 2014 Agency Financial Report (AFR) is attached in its entirety. Refer to AFR page 9 for the Management Discussion and Analysis section and AFR page 41 for the Financial Report section including the Financial Statements and Notes.

U.S. Department of Transportation

AGENCY FINANCIAL REPORT

FISCAL YEAR 2014

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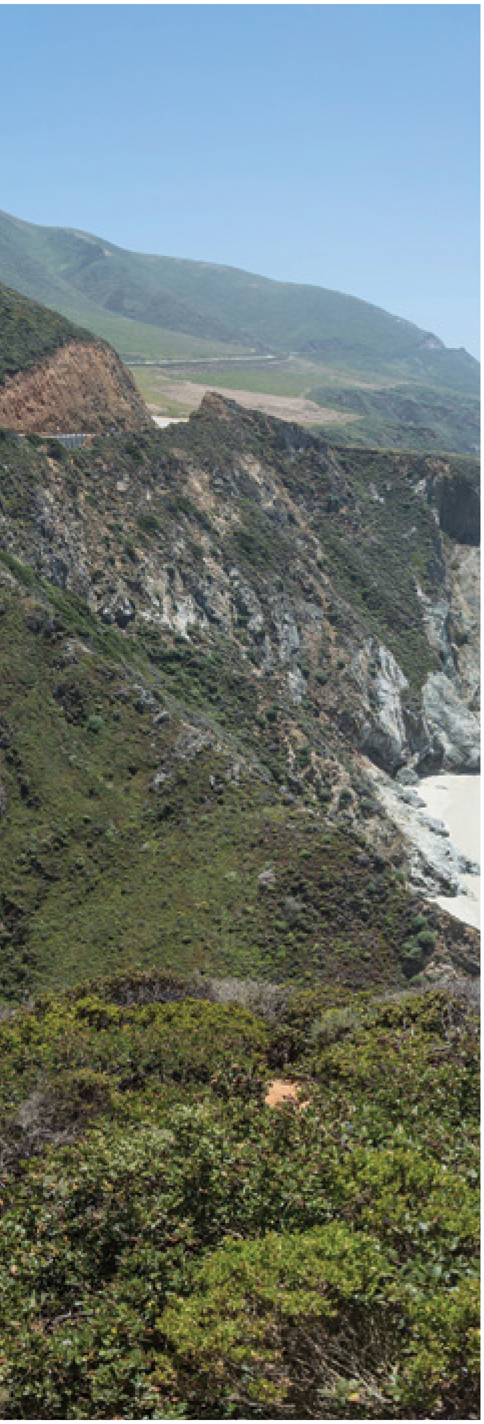


FOREWORD

The United States Department of Transportation's (DOT's or Department's) Agency Financial Report (AFR) for fiscal year (FY) 2014 provides an overview of the Department's financial performance and results to 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 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 2014 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; key activities; analysis of financial statements; systems; controls and legal compliance; accomplishments for the fiscal year; and management and performance challenges. The FY 2014 high-level summary of performance information is on page 13 of the AFR. Detailed performance data are included in the Annual Performance Report.

The Financial Report section provides a message from the Chief Financial Officer, the Department's consolidated and combined financial statements, the notes to the financial statements, and a report from the DOT Office of Inspector General and the Independent Auditors.

The Other Information section provides Improper Payments Information Act reporting details and other statutory reporting requirements including a revised OMB requirement, the Schedule of Spending. The Net Cost by Goal, reporting on Other DOT Nonaffiliated Activities, and the Inspector General's Statement on DOT's major management and performance challenges are also in this section.

ANNUAL PERFORMANCE REPORT (APR)

The APR will be produced in conjunction with the FY 2015* President's Budget Request and will provide the detailed performance information and descriptions of results by each key performance measure. This report will also include trend data and a discussion of DOT performance.

* Available February 2015.

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

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

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


SV
SILVER LINE
GRAND OPENING
JULY 26, 2014

MESSAGE FROM THE SECRETARY

ANTHONY R. FOXX

This document presents the U.S. Department of Transportation's (DOT) Agency Financial Report for Fiscal Year (FY) 2014. As Secretary, I have been privileged over the past 16 months to lead DOT in its critical work to maintain and improve the safety and efficiency of our transportation system. Despite a growing infrastructure deficit, increasing safety demands, and significant budgetary challenges, the extraordinary efforts of our more than 55,000 dedicated men and women who serve the Department have established a remarkable record over the past year. Looking forward to FY 2015, DOT will continue to lead in promoting safety and critical transportation investments that will strengthen our Nation's economy.

OVERVIEW OF THE FY 2014 FINANCIAL RESULTS

Again this year, the independent auditors tasked with reviewing our financial statements have provided an unmodified opinion. This demonstrates our successful efforts to ensure that across the Department taxpayer resources are used effectively and efficiently. However, there is always room for improvement. For example, the auditors identified a material weakness related to issues associated with IT systems supporting grant programs of the Federal Transit Administration (FTA). We take any material weakness seriously and the Department will work to remediate this issue during FY 2015. The financial and performance information from our systems included in this report are substantially complete and reliable. Further, with the exceptions noted in my accompanying correspondence to the President, the Department is able to provide reasonable assurance that its internal controls and financial management systems meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

The DOT's successful financial performance has allowed us to make significant progress toward our strategic goals and objectives in FY 2014. Looking forward to 2015, the Department will continue to focus on the following broad themes: enhancing and increasing safety, closing the infrastructure gap, and modernization of our transportation system.

STRATEGIC GOALS

Build on DOT's Legacy of Safety

My overriding priority is to ensure that our transportation systems are the safest and most efficient in the world. We will work to ensure that Americans experience the highest level of safety when they get in a car, board a plane, or ride on a bus or train. Over the past year, we have worked closely with our state partners to reduce the number of motor coach, truck, vehicle, and pedestrian accidents, and we plan to continue this progress in 2015. Our continuing initiatives include improving roadway, transit, bike, and pedestrian safety, combatting distracted driving and other dangerous behaviors, and addressing risks in other surface transportation modes and in aviation.

Close the Infrastructure Deficit
The American Society of Civil Engineers has estimated that the Nation's transportation deficit exceeds $3 trillion. A great deal of work is required for the US to maintain our existing infrastructure and build additional capacity to meet the needs of our growing population and support our economic growth. The infrastructure deficit could compromise the safety, capacity, and efficiency of our transportation systems. To address this gap, we must move ahead with long-term legislation to reauthorize these important programs. We must develop a transportation plan that forecasts our needs far into the future. Also, our planning and investments should promote opportunities for citizens and encourage state and local governments to use all methods of bringing transportation projects to fruition, including public-private partnerships.

Providing a Strong Surface Transportation Reauthorization Plan – It is with this sentiment that the President and I introduced the GROW America Act, a $302 billion, four year transportation reauthorization proposal that provides increased and stable funding for our Nation's highways, bridges, transit and rail system. This proposal will provide State and local governments with the certainty they need to effectively plan and start construction on projects that will support millions of well-paying jobs over the next several years. It will also enable more transformative transportation projects that will improve the Nation's global competitiveness and mobility in communities across the country.

Developing a 30-Year National Transportation Plan – America has always sought to push the limits of mobility and infrastructure in order to anticipate the needs of a growing country. In the past, it was "good enough" to forecast the needs of a Nation and tailor resource allocation to stay ahead of the demand for transportation services. No longer. Our transport systems require new thinking and an intellectual reset of how we approach transportation policy development and implementation. To address changing trends, DOT has undertaken an effort to scope out a comprehensive, long-term, proactive transportation plan for the future. Broader than a standard strategic plan, this 30-year transportation plan will comprehensively outline the state of our transportation network—a system of systems—to inform the general public, policy makers, and industry. We expect this plan to provoke a frank conversation among the users, developers, managers and public officials who will shape the network and frame critical policy choices.

Creating Ladders of Opportunity – Investments in "Ladders of Opportunity" represent a way to connect people with jobs, schools, medical facilities, and centers of commerce. As we plan for population growth, we must be mindful of the numerous communities that currently lack access to reliable transportation options. The Department supports approaches that advance transportation accessibility for all Americans, resulting in new opportunities and better jobs.

Encouraging Public-Private Partnerships – In addition, we need to engage private sector investment in our infrastructure. Investments in economic growth are projects that create jobs and provide efficient transport for goods and services. Besides conventional funding sources, we have many options for promoting growth through the Build America Transportation Investment Center. Announced on July 17, the Center will serve as a one-stop shop for State and local governments, public and private developers and investors seeking to utilize innovative financing strategies for transportation infrastructure projects.

MODERNIZE THE TRANSPORTATION SYSTEM USING TECHNOLOGY AND PROCESS INNOVATION

Finally, we must work to bring our Department and our transportation system into the 21st century with efforts like NextGen, vehicle to vehicle technology, and increasing the use of data and analytics to improve performance management.

Advancing NextGen – NextGen is transforming the way that airplanes traverse the sky. It affects all of us: from the pilots that fly the planes, the passengers who enjoy the flights and the controllers who direct traffic. For close to six decades we have used World War II era technology to guide air traffic. NextGen upgrades that system with satellite-based technology. That will give pilots the precise locations of other airplanes around them. Satellite landing procedures will let pilots arrive at airports more predictably and more efficiently. Most importantly, NextGen will enhance the safety of what is already the safest airspace in the world.

Promoting Efficiency, Effectiveness, and Economic Growth – The Administration is committed to creating a government that will make a significant, tangible, and positive difference in the lives of the American people and the economy. To help accomplish this, DOT will focus on programs that deliver better, faster, smarter services to citizens and businesses; increase quality and value in our core administrative functions; and continue to enhance productivity and cost savings across the Department. This will include a particular emphasis on DOT-funded data, research, and analytics. Through these initiatives, we will empower individuals and businesses to increase significantly the public's return on investment through innovation, job creation, and greater economic prosperity.

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 2015. The accompanying material provides a useful summary of our activities over the past year. Our financial operations and our many ongoing initiatives in support of our country's transportation systems provide solid evidence of the work we do and the progress we made in 2014. I am proud of our accomplishment, and pleased to present this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DOT MISSION AND VALUES

MISSION

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

VALUES

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

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

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

ORGANIZATION

HISTORY

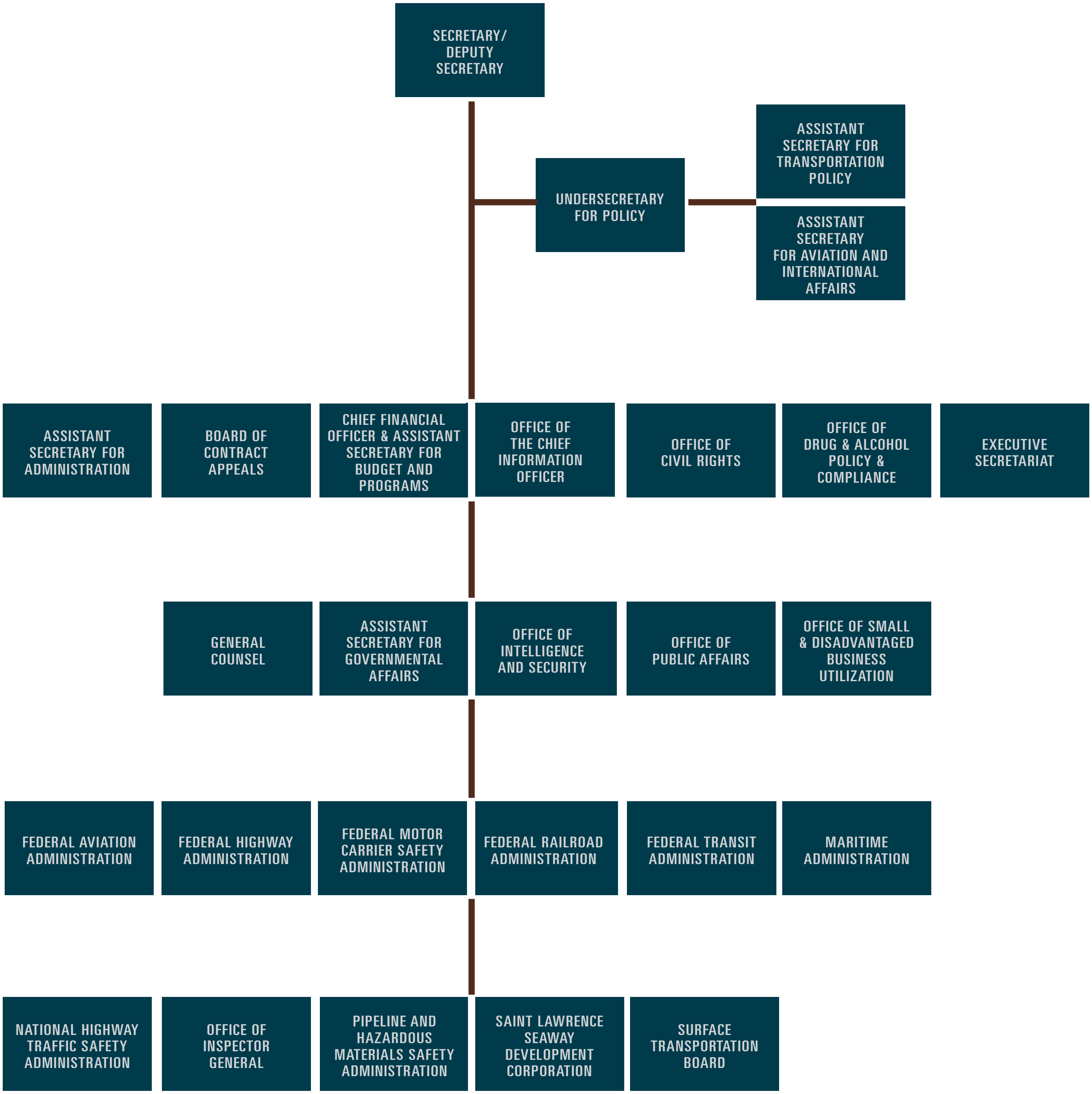
Established in 1967, DOT sets Federal transportation policy and works with State, local, and private sector partners to promote a safe, secure, efficient, and interconnected national transportation system of roads, railways, pipelines, airways, and seaways. DOT's overall objective of creating a safer,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

HOW DOT IS ORGANIZED

DOT employs more than 57,000 people in the Office of the Secretary (OST) and through 11 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) and the Surface Transportation Board (STB), while formally part of DOT, are independent by law.

ORGANIZATIONAL CHART



OVERVIEW OF LEGISLATIVE AUTHORITIES

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

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

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

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

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

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

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

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

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

OPERATING ADMINISTRATIONS AND INDEPENDENT ORGANIZATIONS

OFFICE OF THE SECRETARY (OST)

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

FEDERAL AVIATION ADMINISTRATION (FAA)

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

FEDERAL HIGHWAY ADMINISTRATION (FHWA)

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

FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION (FMCSA)

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

FEDERAL RAILROAD ADMINISTRATION (FRA)

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

FEDERAL TRANSIT ADMINISTRATION (FTA)

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

MARITIME ADMINISTRATION (MARAD)

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

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)

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

OFFICE OF INSPECTOR GENERAL (OIG)

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

PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION (PHMSA)

PHMSA's mission is to protect people and the environment from the risks inherent in transportation of hazardous materials by pipeline and other modes of transportation.

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION (SLSDC)

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

SURFACE TRANSPORTATION BOARD (STB)

The Surface Transportation Board is charged with promoting substantive and procedural regulatory reform in the economic regulation of surface transportation, and with providing an efficient and effective forum for the resolution of disputes and the facilitation of appropriate business transactions.

PERFORMANCE HIGHLIGHTS

The Department of Transportation will report against "Transportation for a New Generation," DOT's Strategic Plan for Fiscal Years 2014–2018. This is the first year reporting under this Strategic Plan.

An overview of the Department's strategic goals is provided below, and a complete analysis of DOT's successes and challenges related to FY 2014 performance targets will be included in the Annual Performance Report (APR). A brief discussion of the Department's results by strategic goal follows.

SAFETY

Safety is DOT's number one priority. The Department tracks the safe movement of Americans and products on the roadways, in the air, on transit systems, on railroads, and through pipelines. The Department has preliminary or final 2014 results for 6 of the 13 safety goals that will be included in the APR.

The Department does not anticipate meeting the 2014 target for the Roadway Fatality Rate. The Department is on track, however, to meet the passenger vehicle occupant fatality and the motorcyclist rider fatality rate targets. Fatalities have declined by about 26 percent from 2005 to 2011. A statistical projection of traffic fatalities for the first half of 2014 shows an estimated 15,740 people died in motor vehicle traffic crashes. This number is a decrease of 4.2 percent compared with the 16,150 fatalities that were projected to have occurred in the first half of 2013. While it is too soon to speculate in the contributing factors of this decline, it should be noted that there has been a historic downward trend in traffic fatalities. Such deaths are at a 60-year low.

STATE OF GOOD REPAIR

Recent reports on the condition of key facilities—highways, bridges, transit systems, passenger rail, and airport runways—reveal that many fall short of a state of good repair and thus compromise the safety, capacity, and efficiency of the U.S. transportation system. DOT helps its State and local government partners achieve a state of good repair through new resources aimed at improving the condition of our infrastructure. DOT also encourages its government and industry partners to make optimal use of existing capacity, minimize life-cycle costs, and apply sound asset management principles throughout the system. Preliminary results show that the Department met or exceeded the target for all good-repair goals for the year in which data are currently available. The Department will work to finalize results for all state-of-good-repair performance measures before the release of the APR.

ECONOMIC COMPETITIVENESS

DOT has established a goal to support the U.S. economy by fostering smart, strategic investments that serve the traveling public and facilitate freight movement. The Department's central strategies for achieving maximum economic returns on its policies and investments include leading the development of intercity, high-speed passenger rail and a competitive air transportation system; increasing travel-time reliability in freight-significant highway corridors; improving the performance of freight-rail and maritime networks; advancing transportation interests in targeted markets around the world; and expanding opportunities in the transportation sector for small businesses. Preliminary results for the most current year available show that the Department met or exceeded 15 out of the 20 targets for the economic competitiveness goals.

QUALITY OF LIFE

Fostering quality of life in communities by integrating transportation policies, plans, and investments with coordinated housing and economic development policies continues DOT's efforts to focus policy on where people live. The benefits that DOT will work to achieve include improvements in the public transit user experience, provision of additional pedestrian and bicycle networks, and improved access to transportation for people with disabilities, older adults, and lower income populations. The Department will pursue coordinated, place-based policies and investments that increase transportation choices and access to public transportation services for all Americans. Based on preliminary data, DOT met FY 2014 targets for three of the eight quality-of-life goals. The Department is awaiting final data for the two remaining goals and results will be discussed in the APR.

ENVIRONMENTAL SUSTAINABILITY

While the transportation sector is a significant source of greenhouse gas (GHG) emissions, the Department is working to address and mitigate this challenge through strategies such as fuel economy standards for cars and trucks, more environmentally sound construction and operational practices, and expanded opportunities for shifting freight from less fuel-efficient modes to more fuel-efficient modes. The Department has met 9 out of 12 targets for which current data is available. Of particular concern is a substantial uptick in hazardous liquid pipeline spills with environmental consequences. A full analysis of this and all the environmental performance results will be included in the APR.

PERFORMANCE SUMMARY TABLES

SAFETY PERFORMANCE SUMMARY

	Actual					2014		2014
Performance Measure	**2009**	**2010**	**2011**	**2012**	**2013**	**Target**	**Actual**	**Target Met or Not Met**
Highway Fatality Rate per 100 Million Vehicle-Miles Traveled (VMT). (NHTSA, FHWA, FMCSA)	1.15	1.11	1.10(r)	1.13(r)	1.11*	1.02	***	Not Met (2013)
Passenger Vehicle Occupant Fatality Rate per 100 Million VMT. (NHTSA, FHWA, FMCSA)	0.89	0.84	0.80(r)	0.81(r)	N/A	0.85	***	Met (2012)
Motorcyclist Rider Fatality Rate per 100,000 Motorcycle Registrations. (NHTSA, FHWA, FMCSA)	56.36	54.82	54.66(r)	58.63(r)	N/A	63	***	Met (2012)
Non-Occupant (Pedestrian and Bicycle) Fatality Rate per 100 Million VMT. (NHTSA, FHWA, FMCSA)	0.17	0.17	0.18(r)	0.19(r)	N/A	0.16	***	Not Met (2012)
Large Truck and Bus Fatality Rate per 100 Million Total VMT. (NHTSA, FHWA, FMCSA)	0.122(r)	0.133(r)	0.137(r)	0.141(r)	N/A	0.114	***	Not Met (2012)
Number of Commercial Air Carrier Fatalities per 100 Million Persons Onboard. (FAA)	6.7	0.3	0.0	0.0(r)	1.1*	7.2	0.6*	Potentially Met
Number of Fatal General Aviation Accidents per 100,000 Flight Hours. (FAA)	1.16	1.10	1.13*	1.10(r)	1.07*	1.05	1.05*	Potentially Met
Category A&B Runway Incursions per Million Operations. (FAA)	0.227	0.117	0.138	0.356	0.220(r)	0.395	0.309*	Potentially Met
Pipeline Incidents Involving Death or Major Injury. (PHMSA)	48(r)	38(r)	34(r)	32(r)	27*	39	26*	Potentially Met
Hazardous Materials Incidents Involving Death or Major Injury. (PHMSA)	29	23(r)	32(r)	32(r)	29*	33	29*	Potentially Met
Transit Fatalities per 100 Million Passenger-Miles Traveled. (FTA)	N/A	0.533	0.547	0.613(r)	N/A	0.543	***	Not Met (2012)
Rail-Related Accidents and Incidents per Million Train-Miles. (FRA)†	16.904(r)	16.874(r)	15.194(r)	15.028(r)	16.150(r)	16.300	15.658*	Potentially Met
Cumulative Number of States and Localities That Adopt Roadway Designs That Accommodate All Road Users (Complete Streets). (OST)	N/A	214(r)	246(r)	398(r)	398*	270	**	Potentially Met

Notes: (r) Revised. * Preliminary estimate. ** Results available in Jan. 2015 and reported in Annual Performance Report. *** Results available after 2016 Annual Performance Report. † Actual results might differ from previous reports and are subject to change, due to subsequently obtained information. FY 2013 preliminary estimates are based on 9 months of preliminary data.

PERFORMANCE SUMMARY TABLES (continued)

STATE OF GOOD REPAIR PERFORMANCE SUMMARY

Performance Measure	Actual 2009	2010	2011	2012	2013	2014 Target	2014 Actual	2014 Target Met or Not Met
Percent of Travel on the National Highway System (NHS) Roads With Pavement Performance Standards Rated "Good". (FHWA)	57%	58%	58%	57.1%(r)	57%*	57%(r)	***	Potentially Met (2013)
Percent of Deck Area (i.e., the Roadway Surface of a Bridge) on NHS Bridges Rated Structurally Deficient. (FHWA)	8.2%(r)	8.3%(r)	7.8%(r)	7.1%	6.7%	7.7%	6.0%*	Met
Backlog of Transit Capital Assets in Need of Replacement or Refurbishment (as Defined by an Estimated Condition Rating of 2.5 or Lower). (FTA)	N/A	$77.7 billion	N/A	$85.9 billion	N/A^	$94 billion	***	Potentially Met (2012)
Percent of Runway Pavement in Excellent, Good, or Fair Condition for Paved Runways in the National Plan of Integrated Airport Systems. (FAA)	97%	97.2%	97.4%	97.5%	97.5%	93%	97.6%	Met

Notes: (r) Revised. * Preliminary estimate. *** Results available after 2016 Annual Performance Report. ^ 2011 and 2012 Actuals available following release of Conditions and Performance Report.

ECONOMIC COMPETITIVENESS PERFORMANCE SUMMARY

Performance Measure	Actual 2009	2010	2011	2012	2013	2014 Target	2014 Actual	2014 Target Met or Not Met
Travel Time Reliability in Urban Areas as Measured by the Travel Time Index. (FHWA)	1.19	1.21	1.21	1.20(r)	1.21*	1.21	***	Potentially Met (2013)
Travel Time Reliability in Freight Significant Corridors. (FHWA)	13.8	13.7	13.8	13.9(r)	15.0	17.0	18.6	Not Met
Number of Corridor Programs That Will Achieve Initial Construction. (FRA)	N/A	N/A	N/A	3	1	N/A	N/A	N/A
Cumulative Number of Individual Construction Projects That Will Achieve Initial Construction. (r) (FRA)	N/A	N/A	N/A	8	48(r)	60(r)	57* (as of the end of Q3)	Potentially Met
Cumulative Number of Planning, Preliminary Engineering/Environmental Analysis, and Construction Passenger Rail Projects That Are Substantially Complete (FRA)	N/A	N/A	N/A	N/A	36	51	50 (at the end of Q3)	Potentially Met
Average Daily Airport Arrival and Departure Capacity at Core Airports. (FAA)	101,691	101,668	87,338	88,591	87,616(r)	58,166	58,554*	Potentially Met
Percent of NAS On-Time Arrivals at Core Airports. (FAA)	88.98%	90.55%	90.41%	92.5%	90.62%	88.0%	90.64%*^	Potentially Met
Percent of Operational Availability for the Reportable Facilities That Support Core Airports. (FAA)	99.78%	99.79%	99.72%	99.8%	99.74%	99.7%	99.74%	Potentially Met
Cumulative Number of Continental U.S. En Route Air Traffic Control Centers Achieving Initial Operating Capability on ERAM. (FAA) (r)	2	2	2	9	17	N/A	20	N/A
Cumulative Number of U.S. En Route Air Traffic Control Centers Achieving an Operational Readiness Decision on ERAM. (FAA) (r)	N/A	N/A	N/A	2	11	15	16	Met

PERFORMANCE SUMMARY TABLES (continued)

ECONOMIC COMPETITIVENESS PERFORMANCE SUMMARY (continued)

	Actual					2014		2014
Performance Measure	**2009**	**2010**	**2011**	**2012**	**2013**	**Target**	**Actual**	**Target Met or Not Met**
Percent of Time the U.S. Portion of the St. Lawrence Seaway System and Locks Are Available. (SLSDC)	99.4%	99.8%	99.0%	99.7%	98.3%	99.1%	97.2%	Not Met
Ships Available To Meet DOD's Requirements for Commercial Sealift Capacity (as Measured by the Number of Ships Contractually Enrolled in the Maritime Security Program). (MARAD)	59	60	60	60	60	60	60	Met
Operating Days in U.S. Foreign Commerce and Available To Meet DOD's Requirements (as Measured by the Number of Ship Operating Days That Ships Enrolled in the MSP Were Actually Operating in U.S. Foreign Commerce). (MARAD)	N/A	21,436	21,557	21,593	21,794	19,200	22,050	Met
Number of Twenty Foot Equivalent (TEU) Containers Transported Across America's Marine Highway Corridors. (MARAD)	N/A	N/A	1,061	8,221	9,498	15,000	19,655	Met
Number of U.S. Merchant Marine Academy (USMMA) Graduates. (MARAD)	198	198	205	219	189(r)	210	224	Met
Number of State Maritime Academy Graduates. (MARAD)	N/A	575	545	642(r)	658(r)	657	**	Potentially Met
Review Air Carriers To Ensure They Meet the Requisite Standards for Obtaining or Retaining Economic Authority To Operate. (OST)	22	20	26	27	**	18	19	Met
Reach New or Expanded Bilateral and Multilateral Agreements To Remove Market-Distorting Barriers to Trade in Transportation. (OST)	4	7	4	4	5	3	**	Met (2012)
Percent of Total Dollar Value of DOT Direct Contracts Awarded to Small, Disadvantaged Businesses. (OST)	13.36%	14.50%(r)	19.45%(r)	17.98%(r)	19.30%	5%	20%*	Met (2013)
Percent of Total Dollar Value of DOT Direct Contracts Awarded to Women-Owned Businesses. (OST)	10.94%	7.85%(r)	11.14%(r)	8.77%(r)	11.44%(r)	5%	12%	Met (2013)

Notes: (r) Revised. * Preliminary estimate. ** Results available in Jan. 2015 and reported in Annual Performance Report.

PERFORMANCE SUMMARY TABLES (continued)

QUALITY OF LIFE PERFORMANCE SUMMARY

					Actual	2014		2014
Performance Measure	**2009**	**2010**	**2011**	**2012**	**2013**	**Target**	**Actual**	**Target Met or Not Met**
States With Policies That Improve Transportation Choices for Walking and Bicycling. (FHWA)	N/A	21	24	26	28	27	**	Met
Number of Created and/or Significantly Improved Pedestrian and Bicycle Transportation Networks. (FHWA)	N/A	N/A	N/A	N/A	N/A	25	**	**
States That Have Developed an Americans With Disabilities Act (ADA) Transition Plan That Is Current and Includes the Public Rights-of-Ways. (FHWA)	N/A	N/A	13	17	23	1,825(r)	24*	Potentially Not Met
Number of Calendar Year Transit Boardings Reported by Urbanized Area Transit Providers. (FTA)	9.9 billion	9.9 billion	10.1 billion	10.3 billion	10.3 billion#	N/A	N/A	Potentially Met (2013)
Number of Transit Boardings Reported by Rural Area Transit Providers. (FTA)	131 million	138 million	144 million	135 million	TBD^	N/A	N/A	Not Met (2012)
Number of Key Rail Stations Verified as Accessible and Fully Compliant. (FTA)	N/A	N/A	513	522	567*	531	607	Met
Number of Intercity Rail Passenger-Miles Traveled. (FRA)	6.16 billion	5.90 billion	6.33 billion	6.53 billion	6.80 billion	6.60 billion	**	Met
Percentage of Intercity Passenger Rail Stations That Comply With the Requirements of ADA. (FRA)	N/A	N/A	N/A	N/A	0%(r)	2%	**	Not Met

Notes: (r) Revised. * Preliminary estimate. ** 2014 Actual available after release of the Financial Report. # Projection from trends. ^ 2013 Actual available late 2014.

PERFORMANCE SUMMARY TABLES (continued)

ENVIRONMENTAL SUSTAINABILITY PERFORMANCE SUMMARY

	Actual					2014		2014 Target Met or Not Met
Performance Measure	2009	2010	2011	2012	2013	Target	Actual	
NAS Energy Efficiency (Decreased Energy Use Measured by Fuel Burned per Miles Flown). (FAA) *Revised Methodology*.	(19.41%)	(19.08%)	(22.28%)	(22.72%)	(21.66%)	(18%)	(22.4%)	Met
U.S. Population Exposed to Significant Aircraft Noise Around Airports. (FAA)	291,768	317,596	315,293	319,901(r)	315,000	319,000	356,000	Met
Hazardous Liquid Pipeline Spills With Environmental Consequences. (PHMSA)	112(r)	94(r)	117(r)	123	121*	107	167*	Not Met
Percent Reduction in DOT Building Energy Intensity Use. (OST)	15.0%	23.4%	26.4%	24.0%	19.6%	27%	**	**
Percent Reduction of Vehicle Fleet Petroleum Use. (OST)	14%	5%	4.9%	14.5%	22.1%	14%	**	Met (2013)
Percent Improvement in Water Efficiency. (OST)	3.3%	(1.2%)	(9.7%)	0.9%	24.1%	14%	**	Met (2013)
Percent Recycling and Waste Diversion. (OST)	N/A	N/A	N/A	11%	20%	40%	**	Met (2013)
Percent of All Applicable Contracts That Meet Sustainability Requirements. (OST)	N/A	N/A	95%	95%	95%	95%	**	Met (2013)
Percent Reduction in Green-House Gas Emissions From Facilities and Fleets. (OST)	N/A	7.9%	15.4%	29%	29.4%	7%	**	Met (2013)
Percent Reduction in Green-House Gas Emissions From Employee Business Travel and Commuting. (OST)	N/A	N/A	(4.7%)	0.1%	27.3%	5%	**	**
Cumulative Number of Ships (2010–2017) Safely Removed From the Suisun Bay Reserve Fleet for Disposal. (MARAD)	N/A	11	26	36	44	32	52	Met
Percent of Alternative-Fuel and Hybrid Vehicles in the Transit Revenue Service Fleet. (FTA)	43%	44%	45%*	46%	TBD^	46%	***	Met (2012)

Notes: (r) Revised. * Preliminary estimate. ** Results available in Jan. 2015 and reported in Annual Performance Report. *** Results available after the Annual Performance Report. ^ 2013 Actual available late 2014.

FINANCIAL HIGHLIGHTS

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

During FY 2014, funding levels remained high for specific disaster relief authorizations while broader funding levels remained flat from continuing resolution authorizations or shrank from expiring American Recovery and Reinvestment Act of 2009 (ARRA) monies. In January 2013, the Disaster Relief Appropriations Act of 2013 provided Department Operating Administrations with $13 billion (subject to a 5.1 percent sequestration reduction for nonexempt budgetary accounts) for Hurricane Sandy recovery, relief, and future resiliency efforts. As of September 30, 2014, the Department had obligated only $3.7 billion and expended $1.5 billion as the projects are long-term by design. The Department disbursed a remaining $1.4 billion of previously obligated ARRA funding in FY 2014, down from the $2.9 billion disbursed in FY 2013.

In FY 2012, the Airport and Airway Trust Fund (AATF) and the Highway Trust Fund (HTF) were granted extensions of authority to collect excise taxes and to make expenditures. The FAA Modernization and Reform Act of 2012, Public Law (P.L.) 112-95, extended AATF authority through September 30, 2015. Moving Ahead for Progress in the 21st Century (MAP-21), P.L. 112-141, extended HTF surface transportation authority through September 30, 2014, and provided $12.6 billion (less sequestration reductions of $900 million) in appropriations from Treasury's general fund in FY 2014. The Highway and Transportation Funding Act of 2014 subsequently extended HTF authority and MAP-21 policies through May 31, 2015, and provided another $10.8 billion from the Treasury general fund and the Environmental Protection Agency's Leaking Underground Storage Tank (LUST) fund to replenish funding levels.

OVERVIEW OF FINANCIAL POSITION

Assets

The Consolidated Balance Sheet reports total assets of $86.7 billion at the end of FY 2014 compared with $78.6 billion at the end of FY 2013. The Fund Balance with Treasury line item decreased by $3.2 billion primarily as a result of $1.5 billion in disaster relief disbursements of FY 2013 funding received in the aftermath of Hurricane Sandy and $1.4 billion in remaining ARRA funding disbursements for high speed rail, transit, and highway infrastructure projects. Investments increased by $9.9 billion, as restoration transfers from the Treasury general fund and excise tax collections increased the HTF investment balance by $8.7 billion over expenditures and the AATF investment balance increased by $1.1 billion as excise tax collections exceeded expenditures.

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

ASSETS BY TYPE

Dollars in Thousands	2014	%	2013	%
Fund Balance With Treasury	$37,335,087	43.1	$40,581,338	51.7
Investments	25,713,597	29.7	15,820,956	20.1
General Property, Plant and Equipment	13,914,590	16.0	14,002,887	17.8
Direct Loans and Guarantees, Net	8,508,423	9.8	6,877,433	8.8
Inventory and Related Property, Net	900,787	1.0	879,595	1.1
Accounts Receivable	281,161	0.3	266,276	0.3
Cash and Other Assets	90,040	0.1	142,646	0.2
Total Assets	**$86,743,685**	**100.0**	**$78,571,131**	**100.0**

Liabilities

The Department's Consolidated Balance Sheet reports total liabilities of $20.5 billion at the end of FY 2014, as summarized in the table below. This represents an $811 million increase from the previous year's total liabilities of $19.6 billion. The largest increase was to the Debt line item as the Department borrowed $1.2 billion from Treasury to disburse new loans made through the Transportation Infrastructure Finance and Innovation Act (TIFIA) program.

LIABILITIES BY TYPE

Dollars in Thousands	2014	%	2013	%
Debt	$8,185,001	40.0	$6,958,855	35.4
Grant Accrual	6,451,084	31.5	6,593,732	33.6
Other Liabilities	2,978,850	14.6	3,403,304	17.3
Federal Employee Benefits Payable	995,250	4.9	1,048,503	5.3
Environmental and Disposal Liabilities	1,165,195	5.7	919,195	4.7
Accounts Payable	533,899	2.6	546,295	2.8
Loan Guarantees	147,693	0.7	176,134	0.9
Total Liabilities	**$20,456,972**	**100.0**	**$19,646,018**	**100.0**

RESULTS OF OPERATIONS

Net Costs

The Department's total net cost of operations for FY 2014 was $77 billion. Surface and air costs represent 98.6 percent of the Department's net cost of operations. Surface transportation program costs represent the largest investment for the Department at 77.8 percent of the Department's net cost of operations. Air transportation is the next largest investment for the Department at 20.8 percent of total net cost of operations.

NET COSTS

Dollars in Thousands	2014	%	2013	%
Surface Transportation	$59,904,020	77.8	$59,782,379	77.6
Air Transportation	15,967,217	20.8	16,084,567	20.9
Maritime Transportation	267,101	0.4	337,691	0.4
Cross-Cutting Programs	412,724	0.5	393,251	0.5
Costs Not Assigned to Programs	403,157	0.5	436,442	0.6
Net Cost of Operations	**$76,954,219**	**100.0**	**$77,034,330**	**100.0**

Net Position

The Department's Consolidated Balance Sheet and Consolidated Statement of Changes in Net Position report a net position of $66.3 billion at the end of FY 2014, a 12.5 percent increase from the $58.9 billion from the previous fiscal year. The increase is mainly attributable to HTF restoration funding received in FY 2014 over the emergency relief funding received in FY 2013. Net position is the sum of unexpended appropriations and cumulative results of operations.

RESOURCES

Budgetary Resources

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Department for the year and their status at fiscal year-end. For the 2014 fiscal year, the Department had total budgetary resources of $168.4 billion, which represents a 14.1 percent increase from FY 2013 levels of $147.6 billion. Budget authority of $168.4 billion consisted of $57.6 billion in unobligated authority carried over from prior years, $39.9 billion in appropriations, $61.6 billion in borrowing and contract authority, and $9.2 billion in spending authority from offsetting collections. The Department's FY 2014 obligations incurred totaled $117.1 billion compared with FY 2013 obligations incurred of $90.9 billion.

Net outlays reflect the actual cash disbursed against previously established obligations. For FY 2014, the Department had net outlays of $77.4 billion compared to FY 2013 levels of $78.1 billion, a 1 percent decrease. Disbursements have begun to increase as new emergency relief activities are undertaken.

RESOURCES

Dollars in Thousands	2014	2013	% (Decrease)
Total Budgetary Resources	$168,350,014	$147,578,744	14.1
Obligations Incurred	117,104,045	90,865,064	28.9
Net Outlays	77,368,622	78,122,743	(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 the Federal Railroad Administration.

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

Financial information for Heritage assets and Stewardship Land is presented in the Financial Report section of this report in the notes to the principal statements and required supplementary information.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

FY 2014 FMFIA ASSURANCE LETTER TO THE PRESIDENT

THE SECRETARY OF TRANSPORTATION
WASHINGTON, DC 20590

November 12, 2014

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to report on the effectiveness of the internal controls and financial management systems for the U.S. Department of Transportation (DOT) during Fiscal Year (FY) 2014. This report is based on our successful implementation of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

The FMFIA holds Federal managers accountable for establishing and maintaining effective internal controls and financial 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.

The DOT is able to provide reasonable assurance that the internal controls and financial management systems in effect during the period of October 1, 2013, through September 30, 2014, met the objectives of both Sections 2 and 4 of the FMFIA, except for two material weaknesses. One weakness is related to compliance with the Federal Information Security Management Act (FISMA), and a second weakness is related to inappropriate access and segregation of duties with respect to the Federal Transit Administration (FTA) grant systems – the Transportation Electronic Award Management (TEAM) system and the web-based Electronic Clearing House Operation (ECHO) system. Based on the FTA material weakness, the DOT is citing non-conformance with Federal Financial Management Improvement Act (FFMIA) requirements.

In FY 2014, DOT conducted its assessment of internal controls and compliance with applicable laws and regulations in accordance with OMB Circular A-123.

FMFIA

For FY 2014, DOT utilized its standardized FMFIA Internal Control Program approach for managing control and compliance activities. The DOT identified and documented meaningful Components and Assessable Units (AU). Inherent risk assessments were conducted to classify and prioritize each AU. Management Control Reviews, leveraging the five standards of internal controls (as prescribed by the Committee of Sponsoring Organizations of the Treadway Commission and the U.S. Government Accountability Office) were conducted to identify, assess, document, and communicate key management and programmatic internal controls, and related risks or weaknesses.

In FY 2014, the DOT reviewed the financial data reported to USAspending.gov and can provide reasonable assurance that it has adequate controls in place to meet the requirements of the Federal Funding Accountability and Transparency Act (FFATA).

FY 2014 FMFIA ASSURANCE LETTER TO THE PRESIDENT (continued)

FISMA Compliance

The Departmental Cybersecurity and Information Assurance program was identified by the Inspector General (IG) as having made progress, but DOT was still not adequately in compliance with FISMA in 2014, which remains a material weakness under FMFIA. The IG issued eight recommendations in 2014, in addition to the recommendations that remained open from previous IG FISMA reports.

In 2014, DOT continued to improve cybersecurity, implementing a new agency cyber incident response program, and a new security awareness training for DOT employees. Also, DOT made progress in 2014 on the Administration's Cyber Cross-Agency Priority (CAP) Goals. This included increasing the required usage of Personal Identity Verification (PIV) cards for network access from three percent to 23 percent of agency personnel, increasing continuous diagnostic and monitoring of agency computers to 95 percent, and increasing compliance with Trusted Internet Connection capabilities from 72 percent to 85 percent.

The Chief Information Officer is continuing corrective actions and tracking progress. In addition to continued implementation of Administration CAP goal initiatives, DOT anticipates that further remediation in the coming year will address the following key areas and capabilities:

- Recruiting additional personnel to expand and enhance program capabilities;
- Planning and beginning the implementation of new FY 2015 Cybersecurity CAP goals;
- Continuing progress on implementing mandatory use of PIV cards for network login;
- Improving both continuous monitoring capabilities and Cybersecurity CAP goal performance on continuous monitoring, through participation in the Federal Continuous Diagnostics and Mitigation (CDM) program;
- Improving DOT internet boundary controls;
- Updating DOT policy and guidance;
- Continuing improvements to oversight of component-level program implementations; and
- Continuing progress in closing remaining open audit recommendations.

OMB Circular A-123 Appendix A, Management's Responsibility for Internal Controls over Financial Reporting

In FY 2014, DOT conducted an assessment of the effectiveness of internal controls over financial reporting, including safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123, Appendix A. DOT assessed and tested controls over five key business processes, including Cash Management, Grants Management, Credit Card Management, Travel Management, and Procure to Pay. Appendix A activities in FY 2014 included evaluating entity-level, process-level, and transaction-level controls over financial reporting for the five identified business processes.

Based on the results of the Appendix A review, DOT can provide reasonable assurance that its internal controls over financial reporting were operating effectively, with the exception of the material weakness identified by external auditors related to FTA's grant management systems, outlined in the FFMIA section below.

FY 2014 FMFIA ASSURANCE LETTER TO THE PRESIDENT (continued)

OMB A-123 Appendix B, Improving the Management of Government Charge Card Programs

In FY 2014, DOT conducted a review of the Travel, Purchase, and Fleet Card programs for compliance with OMB Circular A-123, Appendix B requirements in reducing the risk of fraud, waste, and abuse of government charge card programs. Based on the results of the review, DOT can provide reasonable assurance that the appropriate policies and controls are in place to mitigate the risk of fraud and inappropriate charge card practices for the charge card programs.

OMB A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments

In FY 2014, DOT conducted a review of the programs and activities administered by the Department deemed susceptible to significant improper payments, in accordance with the Improper Payments Elimination Recovery Act of 2010 (IPERA) and Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). These programs included:

- Federal Aviation Administration (FAA) Airport Improvement Program
- Federal Highway Administration (FHWA) Federal-Aid Grant Program
- Federal Railroad Administration (FRA) High-Speed Intercity Passenger Rail Program
- Federal Transit Administration (FTA) Formula Grant
- Federal Transit Administration (FTA) Capital Improvement Grant

Based on the results of the review, DOT can provide reasonable assurance that internal controls and policies are in place to meet the requirements of IPERA in reducing improper payments and enhancing payment accuracy. Detailed results from the assessment are included in the DOT 2014 Agency Financial Report.

OMB A-123, Acquisition Assessment

In FY 2014, DOT conducted a comprehensive and standardized entity-level review of the acquisition function to assess the strengths and weaknesses of the process. Based on an evaluation of the organizational alignment and leadership, policies and processes, human capital, and information management and stewardship of the acquisition function, DOT can provide reasonable assurance regarding the prevention and prompt detection of unauthorized acquisitions.

Disaster Relief Appropriations Act (DRAA)

In FY 2014, DOT conducted a review of the programs that received funds under the Disaster Relief Appropriations Act. The programs include:

- FAA Facilities and Equipment
- FHWA Emergency Relief Program
- FRA Grants to the National Railroad Passenger Corporation
- FTA Public Transit Emergency Relief Program

FY 2014 FMFIA ASSURANCE LETTER TO THE PRESIDENT (continued)

Based on an evaluation of the spending practices and processes for these programs, DOT can provide reasonable assurance that it has implemented the proper internal controls and procedures to prevent waste, fraud, and abuse to support recovery priorities and the integrity of Federal funds purposed for disaster relief efforts.

Federal Financial Management Improvement Act (FFMIA)

The FFMIA states that each Agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction-level.

Based on the results of the financial statement audit, FMFIA, FISMA, and the in-progress Appendix D reviews, DOT can provide reasonable assurance that the Department implemented and maintained financial management systems that substantially comply with Federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board, and the United States Government Standard General Ledger at the transaction-level, with the exception of a non-conformance triggered by a material weakness identified by external auditors related to FTA's grant management systems.

FTA was identified as having a material weakness related to inappropriate access and segregation of duties with respect to its grant systems – TEAM and ECHO-Web. FTA has developed corrective action plans to address the non-conformance for these systems through:

- Procedures for enhancing the access authorization process;
- Quarterly spot-checks of new TEAM users;
- Verifying whether roles are valid in the system; and
- Detective controls to identify inappropriate system changes.

Government Charge Card Abuse Prevention Act

Consistent with existing guidance in OMB Circular A-123, Appendix B, the Government Charge Card Abuse Prevention Act establishes additional reporting and audit requirement responsibilities for executive branch agencies. Based on a review of the policies and procedures in place for the Travel, Purchase, and Fleet card programs, DOT can provide reasonable assurance that it has met the requirements of the Charge Card Act to avoid improper payments and misuse of its charge card programs.

As a result of our FMFIA reviews in FY 2014, I conclude that the Department has made substantial progress in enhancing its internal controls and financial management program. Additional enhancements are underway in FY 2015.

Sincerely,

Anthony R. Foxx

SYSTEM, CONTROLS, AND LEGAL COMPLIANCE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

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

For the FY ending September 30, 2014, the Secretary of Transportation provided the President and Congress a Statement of Assurance stating that the Department of Transportation (DOT) is able to provide reasonable assurance that its controls and financial management systems met the objectives of the FMFIA, with the exception of two material weaknesses. One weakness related to compliance with the Federal Information Security Management Act (FISMA), and a second weakness related to inappropriate access and segregation of duties with respect to the Federal Transit Administration (FTA) grants management systems—Transportation Electronic Award Management (TEAM) and the web-based Electronic Clearing House Operation (ECHO). Based on the FTA material weakness, the DOT is citing nonconformance with Federal Financial Management Improvement Act (FFMIA) requirement.

As a subset of the FMFIA Statement of Assurance, DOT is also required to report on the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of OMB Circular A-123. A separate discussion on internal controls follows at the end of this section.

FMFIA ANNUAL ASSURANCE PROCESS

The FMFIA review is an agency self-assessment of the adequacy of financial controls in all areas of the Department's operations—program, administrative, and financial management.

Objectives of Control Mechanisms

The objectives of internal controls within the Department's operations include:

1. Financial and other resources are safeguarded from unauthorized use or disposition;
2. Transactions are executed in accordance with authorizations;
3. Records and reports are reliable;
4. Applicable laws, regulations, and policies are observed;
5. Resources are efficiently and effectively managed; and
6. Financial systems conform to Governmentwide standards.

Under FMFIA, DOT management is responsible for establishing appropriate control mechanisms to ensure Departmental resources are sufficiently protected from fraud, waste, and abuse and to meet the objectives of the Department. The head of each Operating Administration (OA) and Departmental office submits an annual statement of assurance representing the overall adequacy and effectiveness of management controls within the organization to DOT's Office of Financial Management. Any identified FMFIA material weaknesses and material nonconformances are also reported, as well as corrective actions in place to resolve the challenges. Specific guidance for completing the self-assessment and end of fiscal year assurance statement and reporting on deficiencies is issued annually by DOT's Office of Financial Management.

CRITERIA FOR REPORTING MATERIAL WEAKNESSES AND NONCONFORMANCES

Criteria for Reporting a Material Weakness

A material weakness under the FMFIA falls into one or more of the categories, below, plus merits the attention of the Executive Office of the President or the relevant congressional oversight committees for the Secretary to report it in the Department's Statement of Assurance. The criteria for reporting a material weakness include:

1. Significant weakness of the safeguards (controls) against waste, loss, unauthorized use or misappropriation of funds, property, or other assets;
2. Violates statutory authority, or results in a conflict of interest;
3. Deprives the public of significant services, or seriously affects safety or the environment;
4. Impairs significantly the fulfillment of the agency's mission; and
5. Would result in significant adverse effects on the credibility of the agency.

Criteria for Reporting a Material Nonconformance

A material nonconformance under the FMFIA falls into one or more of the categories, below, plus merits the attention of the Executive Office of the President or the relevant congressional oversight committees for the Secretary to report it in the Department's Statement of Assurance. The criteria for reporting a nonconformance include:

1. Prevent the primary accounting system from centrally controlling financial transactions and resource balances; and
2. Prevent compliance of the primary accounting system, subsidiary system, or program system under the Office of Management and Budget Circular A-127.

FY 2014 FMFIA MATERIAL WEAKNESS AND NONCONFORMANCE

Status of Internal Controls

For FY 2014, DOT is reporting two material weaknesses, one related to compliance with FISMA and a second related to inappropriate access and segregation of duties for FTA's grants management systems. Based on the FTA material weakness, the DOT is citing nonconformance with FFMIA requirements.

The Departmental Cybersecurity and Information Assurance program was identified by the OIG as having made progress, but DOT systems were still vulnerable and were identified as a material weakness related to FISMA compliance. During FY 2014, DOT continued execution of improvements in cybersecurity, cyber incident response, and security awareness training. The DOT Office of the Chief Information Officer (OCIO) is continuing corrective action and advancement of the Department's program through its established management processes and, in the coming year, anticipates further remediation in key areas (e.g., cybersecurity, internet boundary controls) and program capabilities.

FTA was identified by external auditors as having a material weakness related to its grants management systems—TEAM and ECHO. FTA has developed corrective action plans to address the identified gaps by developing procedures to enhance the access authorization process, perform quarterly reviews of new system users, and verify user roles and responsibilities.

ASSESSING INTERNAL CONTROLS

OMB Circular A-123 defines management's responsibility for establishing and maintaining effective internal controls. The guidance requires agencies to maintain documentation of the controls in place, assessment process, and methodology used to assert its position regarding effectiveness of internal controls. Agencies are also required to test the controls as part of the overall FMFIA assessment process. The assurance statement related to the assessment performed under Appendix A, B, C, and D is a subset of the overall Statement of Assurance reported.

For Appendix A, DOT assessed internal controls over financial reporting over five business processes for each Operating Administration (OA): Cash Management, Grants Management, Travel Management, Credit Card Management, and Procure to Pay. For Appendix B, government charge card programs were assessed for four OAs: FHWA, FAA, MARAD, and OST. Their Travel, Fleet, and Purchase card programs were reviewed, as applicable. For Appendix C, risk-susceptible programs were assessed and improper payment estimates were reported; and for Appendix D, financial systems were assessed for adherence to Federal Financial Management Improvement Act (FFMIA) requirements.

Management's assurance statement, as it relates to OMB Circular A-123, is based on the controls in place from October 1, 2013 to September 30, 2014. The assurance statement is located in the following section of this report.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

Management conducted an assessment of the effectiveness of internal controls over its financial systems in compliance with applicable laws and regulations, including the FMFIA and OMB Circular A-123, Management's Responsibility for Internal Control. The FFMIA requires that agency financial management systems routinely provide reliable and timely financial information for managing day-to-day operations, as well as produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements. Based on the results of management's assessment of its internal controls within financial management systems, the Secretary has determined that our financial management systems were in compliance with FFMIA for FY 2014, with the exception of a nonconformance triggered by a material weakness identified by external auditors related to the FTA grant management systems. FTA has developed corrective action plans to address the identified gaps by developing procedures to enhance the access authorization process, perform quarterly reviews of new system users, and verify user roles and responsibilities.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (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 the 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. This report and signed letter were delivered to OMB November 14, 2014. In addition, FISMA requires that agencies have an independent evaluation performed of agency information security programs and practices. At the DOT, this annual evaluation is performed by the OIG. This year's FY 2014 annual FISMA report was finalized on November 14, as required by OMB and the Department of Homeland Security (DHS).

DOT has 11 Operating Administrations that for FY 2014 operated a total of 452 information systems, an increase of 15 systems over the FY 2013 adjusted inventory, of which 316 belong to the FAA. FAA's air traffic control system has been designated by the President as part of the critical national infrastructure. Other systems owned by the Department include safety-sensitive surface transportation systems and financial systems used to manage and disburse over $110 billion in Federal funds each year.

DOT's cyber security program continues to have deficiencies in its enterprise and systems controls. DOT specifically needs to make progress in critical areas, such as improving specialized security training, improving oversight of configuration management, improving oversight of cloud computing, continuing implementation of the use of Personal Identification Verification (PIV) cards, continuing improvement in the Department's continuous monitoring program, improving oversight of contingency planning and testing, and continuing to improve the Department's weakness management and remediation processes. Also required is continued progress on remaining open recommendations.

As part of its commitment to improve the agency's security posture, DOT made improvements during 2014 through the issuance of a new DOT cyber incident response plan, updates to existing guidance on cybersecurity controls, and security authorization and continuous monitoring. DOT also made progress on Administration cybersecurity priority goals to include continued participation in the DHS Continuous Diagnostics and Monitoring (CDM) program, increased continuous monitoring capabilities from 57 to 95 percent of agency assets, reduction of weaknesses documented in plans of action and milestones by approximately 22 percent, and increased mandatory use of PIV cards to securely access DOT networks from 7 to 31 percent of agency personnel. The full FY 2014 FISMA report is available at www.oig.dot.gov.

FINANCIAL SYSTEM INITIATIVES

The DOT uses Oracle Federal Financials software as its agencywide financial management and accounting system of record (called Delphi). DOT was the first cabinet agency to migrate all of its Operating Administrations (OAs) to a Financial Systems Integration Office (FSIO)-certified, commercial off-the-shelf based financial system. The Oracle system provides real-time access to accounting information and fund availability. The consolidation of accounting activities using one financial system improves internal controls, reduces redundant processes, improves communications, gains efficiencies, as well as provides monitoring and control of Federal accounting standards and financial policies.

In May, 2014, DOT completed the Financial System Modernization (FSM) initiative to upgrade Delphi from Oracle E-Business Suite Release 11.5.10 to Release 12.1.3. This multiple-year, Departmentwide program was led by the Office of the Assistant Secretary for Budget and Programs/CFO and included Departmentwide executive sponsorship in addition to participation and support from each Operating Administration (OA). There are several benefits of R12 including premium product support, avoidance of IT risk exposure, improved reconciliations, and the automation of prior year recoveries.

In conjunction with the upgrade to Release 12.1.3, Delphi was brought into compliance with Homeland Security Presidential Directive 12 (HSPD-12) and OMB Memorandum M-11-11. HSPD-12 requires agencies to issue Personal Identity Verification (PIV) smart-cards and OMB M-11-11 requires the use of the PIV credentials as the common means of authentication for access to an agency's facilities, networks, and information systems.

Oracle's Identity Management (IDM) software was implemented to provide the infra-structure required for Delphi to accept PIV credentials for system authentications. The PIV standard establishes common processes for identity proofing and credential issuance and provides a high level of trust in the credentials thereby ensuring strong identity assurance. Benefits include enhanced security and reduced identity fraud.

In FY 14, The Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) replaced the functionality of FACTS I, FACTS II, IFCS, and IRAS reporting systems as the primary means of reporting agency trial balance data. GTAS improves the quality of financial data, streamlines agency reporting, replaces legacy systems, and implements data standardization.

SSAE-16 EXAMINATION ON DOT SYSTEMS

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

The Statements on Standards for Attestation Engagements (SSAE) 16 examination includes a review of general, application, and operational controls over the DOT ESC. The ESC performs services that include accounting, financial management, systems and implementation, media solutions, telecommunications, and data center services for DOT and other Federal organizations.

This is the fourth year that an SSAE-16 examination has been conducted on DOT's Delphi financial system and Consolidated Automation System for Time and Labor Entry (CASTLE) system. A Statement on Auditing Standards (SAS) 70 audit was completed for the previous 6 years. Effective for reports dated after June 15, 2011, SAS-70 was replaced with the new standard SSAE-16.

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

This year's SSAE-16 examination of Delphi and CASTLE was conducted by KPMG LLP (KPMG). 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.

INSPECTOR GENERAL'S FY 2014 TOP MANAGEMENT CHALLENGES

DEPARTMENT OF TRANSPORTATION OFFICE OF INSPECTOR GENERAL APPROACH

The OIG issues an annual report on the Department's top management challenges to provide a forward-looking assessment for the coming fiscal year. The Reports Consolidation Act of 2000 requires OIG to identify and summarize the most significant management challenges facing the Department in FY 2014.

In selecting the challenges for each year's list, the OIG continually focuses on the Department's key goals to improve transportation safety, capacity, and efficiency. In addition to the OIG's vigilant oversight of DOT programs, budgetary issues, and progress milestones, it also draws from several dynamic factors to identify key challenges. These challenges include new initiatives, cooperative goals with other Federal departments, recent changes in the Nation's transportation environment and industry, and global issues that could have implications for the United States' traveling public. As such, the challenges included on the OIG's list vary each year to reflect the most relevant issues and provide the most useful and effective oversight to DOT agencies.

For FY 2014, the OIG identified the following seven significant challenges:

- **Improving FAA's Oversight of the Aviation Industry and the Operations of the National Airspace System**
  - Why is this issue significant?
    - The FAA operates the world's safest air transportation system and has a number of initiatives under way to enhance safety in the National Airspace System (NAS). However, recent aircraft accidents and incidents, as well as recent OIG audit work, underscore the need for FAA to further improve its pilot safety initiatives, controller workforce management, repair station and runway oversight, and safety data analysis.
  - Actions taken.
    - The FAA's aviation safety record continues to be the model for the world. In 2012, over 790 million persons traveled on board U.S. commercial carriers with zero fatalities. Tentative data for 2013 also indicate zero fatalities for passengers on U.S. commercial air carriers. These exemplary statistics are the result of FAA identifying and taking proactive actions to address known and suspected system hazards that contribute to accidents. FAA continues its efforts to address risk factors and further improve aviation safety. For example, FAA has achieved a 57 percent reduction in significant runway incursion incidents over the last decade.
    - Another critical area for the FAA is the training of its safety and operations personnel. The FAA is meeting the challenge posed by a large number of retirements in its air traffic control workforce, hiring and training a new cadre of controllers that will be able to take advantage of new capabilities being introduced under the Next Generation Air Transportation System (NextGen) program. The FAA is providing its safety inspectors with a more comprehensive, data-driven approach for

analyzing repair station performance, thereby enabling the agency to better allocate scarce resources to facilities in greatest need, to identify deficiencies, and to verify corrective actions in order to ensure the safety of aircraft in flight. Once aircraft are airborne, FAA is taking steps to further ensure that safe distances between aircraft are maintained based on agency-established separation standards. Due to the implementation of voluntary safety reporting, new electronic safety separation loss detection programs, and a proactive safety management system, over the past decade FAA has greatly enhanced its ability to identify precursors, root causes, and trends of safety risks throughout the entire airspace system. Lessons being learned through this process are also being incorporated into training programs for FAA's operational personnel.

- **Identifying and Addressing Root Causes of Problems With NextGen and Setting Investment Priorities**
  - Why is this issue significant?
    - The Next Generation Air Transportation System is a multibillion-dollar transportation infrastructure project that is necessary to modernize our Nation's aging air traffic system and provide safer and more efficient air traffic management. NextGen is also a complex undertaking that involves new technologies and procedures and multiple stakeholders whose priorities may conflict. In response to a more constrained budget environment and the need for more realistic plans, the FAA is working with industry to set investment priorities for NextGen and make tradeoffs among programs, plans, and funding profiles. Since the effort began almost a decade ago, the IG has reported on cost increases and delays with modernization projects and other key management challenges that FAA must address to successfully transform the NAS.
  - Actions taken.
    - FAA and the NextGen Advisory Committee reached agreement on near-term NextGen priorities and delivered a joint implementation plan to Congress on October 17, 2014. This significant accomplishment documents FAA's agreement with the aviation industry and provides a detailed implementation plan that will guide deployment of NextGen ATC systems over the next 3 years.
    - In addition, during FY 2014, FAA completed deployment of ground station infrastructure for the Automatic Dependent Surveillance-Broadcast (ADS-B) system, which provides the critical link between satellites and aircraft. Having completed the design, testing, installation, and implementation of the system with about 700 facilities, FAA has already begun delivering the benefits of the system in locations across the country.
    - FAA will also complete the En-Route Automation Modernization (ERAM) system at all en-route Air Traffic Control centers by the spring of 2015. This system provides FAA with a contemporary IT backbone to manage the deluge of data that will be required for full NextGen implementation. ERAM provides the capability to handle increased air traffic in an environment that will provide airlines with more efficient routes, saving fuel, reducing emissions, and potentially enhancing system capacity.

- **Continuing Actions To Strengthen Highway, Transit, and Pipeline Safety**
  - Why is this issue significant?
    - The Department plays a key role in improving and overseeing the Nation's surface transportation systems that are critical to efficiently move people and energy resources, promote interstate commerce, and grow the U.S. economy. Sustained focus on the safety requirements enacted in the MAP-21 will be an essential part of the Department's oversight across multiple modes of transportation.
  - Actions taken.
    - Partly as a result of the Department's actions described below, the Nation's highways continue to grow safer. In 1995, 41,796 people lost their lives on the Nation's highways. By 2013, this number had been cut to 33,561, a reduction of 20 percent. While each and every fatality is one too many, this reduction occurred amidst significant increases in risk exposure from factors including increased vehicle miles traveled, motorcycle use including people riding without sufficient protective gear, and distractions presented by rapidly emerging new technologies.
    - The long-term trends demonstrate that the Department's efforts to improve safety have been successful, including those intended to increase seat belt use, improve roadway infrastructure and markings, and prevent impaired driving. For example, the use of seat belts has increased tremendously to 87 percent in 2013 from only 60 percent of vehicle occupants in 1995, thanks to the NHTSA's unflagging efforts. Safer vehicles have also been introduced pursuant to statutory and regulatory requirements.
    - Under the PHMSA's oversight, State pipeline safety programs have reduced the rate of serious pipeline incidents for gas distribution pipelines by approximately two-thirds over the last 30 years. The Department has been proactive in addressing new risk factors, proposing regulations with enhanced safety requirements for the increasing carriage of flammable liquids, including crude oil from the Bakken.
    - The FHWA will continue with its rulemaking efforts to update the National Bridge Inspection Standards regulations as required by MAP-21. The update will address risk-based bridge inspection intervals, national certification of bridge inspectors, the reporting of bridge inspection critical findings, and other improvements to the regulations. FHWA will also collect element level data for bridges covered under the National Highway System beginning in April 2015 and annually thereafter.
    - FHWA developed two guidance documents—the Tunnel Operation, Maintenance, Inspection, and Evaluation Manual and the Specifications for the National Tunnel Inventory—for the collection and reporting of tunnel inspection data. These documents will be published concurrent with the final rule regarding tunnel inspection standards that is expected to be published by October 2015.
    - The FTA has made great strides in implementing its new safety responsibilities under MAP-21, reflecting the most significant program change in the Agency's history. FTA has established a new Office of Transit Safety

and Oversight and hired its first Associate Administrator for this new office. FTA has been actively involved in three NTSB-led investigations, issued a Dear Colleague letter on safety to transit agencies, and issued three Safety Advisories to address immediate safety concerns. FTA also continues to develop a National Safety Program, a new rulemaking on Agency Safety Plans, and updated rules on the State Safety Oversight Program and the Safety Certification Training Program. FTA has also made grants available to States to enhance its State Safety Oversight Programs and continues to promote adoption of a Safety Management Systems Approach in the transit industry.

- **Improving Oversight of Surface Infrastructure Investments and Implementing Statutory Requirements**
  - Why is this issue significant?
    - In late 2012, Hurricane Sandy substantially damaged transit infrastructure in the mid-Atlantic and northeastern United States. To assist State and local agencies in their recovery and resiliency efforts, DOT received approximately $13 billion (less a 5.1 percent sequestration reduction) in relief funds. DOT is responsible for effective stewardship of these funds as well as billions in Federal funds provided annually to States and localities to construct and maintain the Nation's roadways, bridges, transit systems, and ports. At the same time, FTA and FHWA must meet new requirements of MAP-21. These requirements include accelerating project delivery, employing performance management, and making oversight activities more risk based. The Maritime Administration (MARAD) must also continue to correct management vulnerabilities with its port projects as it works to develop a framework for port infrastructure projects.
  - Actions taken.
    - FTA has been involved in a massive effort to implement its new Emergency Relief Program to support critical recovery efforts of transit systems in areas that were devastated by Hurricane Sandy. FTA has established a Hurricane Sandy Recovery Office in New York to assist in managing the $11 billion appropriated for recovery and resiliency efforts. FTA is managing nearly 20 percent of all Federal funds appropriated for Hurricane Sandy assistance. During FY 2014, FTA awarded grants through a multibillion-dollar discretionary Resilience Program (the second largest discretionary transportation program in U.S. history, after the ARRA High Speed Rail program). FTA continues to implement a vigorous oversight plan for these funds to prevent improper payments and to promote recovery in the affected region.
    - MARAD continues to take steps that mitigate project-related risk and vulnerabilities associated with port infrastructure projects. The agency is incorporating policy and procedural guidelines into a single Port Infrastructure Program Manual, with a target completion date of February 27, 2015. The only MARAD-contracted infrastructure project in progress is the Port of Guam, which is currently on schedule and within budget. This is a result of management and risk mitigation controls put in place by the MARAD since the project began in 2008.

- **Implementing Requirements To Address the Federal Railroad Administration's Expanded and Traditional Responsibilities**
    - Why is this issue significant?
        - The Rail Safety Improvement Act (RSIA) and the Passenger Rail Investment and Improvement (PRIIA) Acts of 2008 directed the FRA to broaden its safety-related responsibilities, establish a National Rail Plan, and develop a grant program to fund rail investment. Five years later, the Agency has only disbursed 16 percent of $10.1 billion in grant funds for the High Speed Intercity Passenger Rail Program. FRA's progress toward defining rail safety priorities and completing requirements for new responsibilities has also been limited. Going forward, FRA will need to expedite required rulemakings to mitigate rail safety hazards and address national transportation needs, provide its oversight staff with the training needed to carry out new responsibilities, and ensure that policies and procedures governing its traditional responsibilities reflect the current regulatory environment.
    - Actions taken.
        - FRA has substantially completed most PRIIA and RSIA mandates and made considerable progress overseeing High-Speed and Intercity Passenger Rail grants. FRA has begun disbursing grant funds for the High Speed Rail program. FRA's long-range planning strategy recognizes different stakeholders' needs and priorities and the need to address planning issues at the regional and State levels. This strategy entails the release of materials that cumulatively fulfill the goals of the National Rail Plan. FRA has released several of these documents, such as the final State rail plan guidance.
- **Managing Acquisitions and Contracts To Achieve Results and Save Taxpayer Dollars**
    - Why is this issue significant?
        - In FY 2012, DOT obligated approximately $62 billion on contracts and grants. Investing and administering these funds wisely and fulfilling the President's Executive Order and OMB initiatives to deliver an efficient, effective, and accountable Government continues to be a challenge for DOT management.
    - Actions taken.
        - To further enhance oversight of high-risk acquisitions, the Office of the Senior Procurement Executive (OSPE) established and conducted 10 Acquisition Strategy Review Board (ASRB) reviews during FY 2014. These reviews are a collaborative effort between OSPE and the Assistant Secretary for Administration, the Office of the Chief Financial Officer, and the Office of the Chief Information Officer and has focused efforts to: (1) minimize the use of high-risk contracts; (2) enhance contract planning and competition; (3) initiate active involvement of Program and Project Managers with the requisite certification levels; (4) ensure clearly articulated consideration for small business opportunities; and (5) intensify awareness of "sourcing opportunities," which offer the potential for enhanced productivity and reduced costs.

- The Department's efforts have strengthened contract and grant management and provided enhanced oversight, producing tangible results. For example, the Department is one of only three Federal agencies to achieve an A+ rating from the Small Business Administration for meeting/exceeding our small business goals in every category in fiscal year 2013. The use of competitively awarded contracts has increased. The Department also saved funds through strategic sourcing of services and commodities.

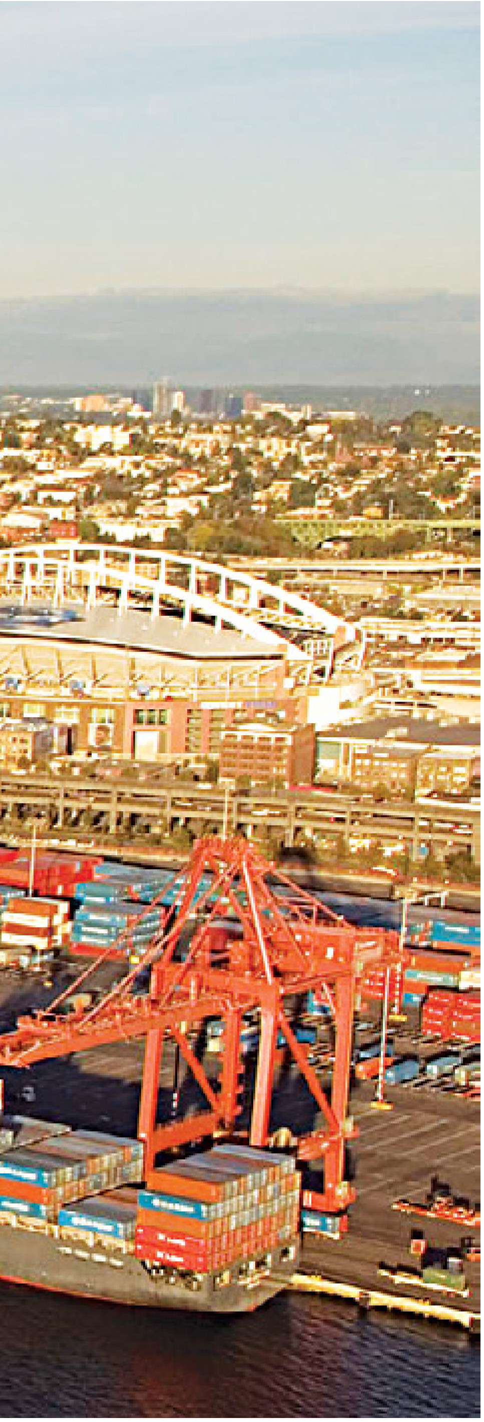
- **Building a Secure and Modern Information Technology (IT) Infrastructure**
  - Why is this issue significant?
    - Securing DOT's IT infrastructure remains a top priority since breaches by computer hackers have placed a number of major entities at risk and exposed individuals' personal information to unauthorized access. For the last 3 fiscal years, the Department has declared the deficiencies in its information security program to be a material weakness. In addition, to build a secure and modern IT infrastructure, DOT needs an enterprise architecture (EA)—a blueprint for aligning DOT's strategic vision with its IT infrastructure. An effective EA looks beyond immediate IT needs, uses a standardized technology platform, and ensures new IT projects fit into the overall strategy.
  - Actions taken.
    - The DOT Chief Information Officer has made significant progress improving cybersecurity during this past year, both in deploying and enhancing capabilities required by the Administration's Cross-Agency Priority (CAP) Goals for Cybersecurity and in implementing specific enhancements to the Department's own systems. The Department's cybersecurity efforts must continuously address the massive efforts by hackers using increasingly sophisticated and dangerous methods to disrupt the Department's and the Federal Government's IT infrastructure. Despite the scale of the threat, the Department's Chief Information Security Office continues to successfully maintain full operational capability for the Department's information technology infrastructure.
    - In addition, PIV use for mandatory access of network accounts has tripled over the course of FY 2014. Once in the network, after the initial PIV access has been granted, the number of DOT Systems that support PIV authentication has nearly quadrupled to 117 systems over the course of the year, while the other systems still benefit from additional password authentication.
    - During FY 2014, the Department doubled its continuous monitoring of IT systems, now covering 95 percent of required assets, and has continued to make significant strides. During the year, DOT submitted an Information Security Continuous Monitoring Strategy and Plan that was accepted by OMB and DHS. It also signed a memorandum of agreement with DHS for participation in the Federal Continuous Diagnostics and Mitigation (CDM) program and has been an active participant in program activities. Further, all but three DOT Components (75 percent of the agency) have documented Component-level Continuous Monitoring

strategies and plans, and are in the process of implementation. All DOT Components are using the Continuous Monitoring guidance issued by the DOT Chief Information Security Officer.

- DOT has taken a targeted approach to strengthening the EA program at DOT. Specifically, DOT has completed the Enterprise Architecture Roadmap that represents a high-level plan to modernize the Department's business processes, services, and infrastructure to deliver enterprise IT solutions over a 3-year horizon. The Department also chartered an Enterprise Architecture Board (EAB) under the DOT Investment Review Board (IRB). The EAB promotes the EA as the Departmental blueprint for improving IT integration and ensuring interoperability across IT platforms where necessary. In addition, the Department has made significant progress towards closing OIG recommendations through completion of an EA Configuration Management Plan, IT Security Cost Estimating Guide, and other artifacts.

The significant challenges identified by OIG for FY 2015 will be discussed in the Other Information of this report.

FINANCIAL REPORT



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

SYLVIA I. GARCIA

I am pleased to issue the Department of Transportation's (DOT) Fiscal Year 2014 Agency Financial Report (AFR). In addition to this information, DOT is preparing our Annual Performance Report, which will be published in early 2015. Fiscal Year 2014 was a noteworthy year, beginning with the first government shutdown in over 15 years and ending with enactment of a short-term extension of the surface transportation authorization to keep the Highway Trust Fund solvent through spring of next year. While managing these unique challenges the Department was able to make significant progress in the area of financial management, including the modernization of our core accounting system, designation as a Federal shared service provider and conclusion of a successful financial audit.

ANNUAL FINANCIAL AUDIT

The public accounting firm serving as our independent auditor has provided an unmodified opinion on our financial statements. This is the thirteenth "clean" opinion in the past fourteen years. The annual audit process is an opportunity to identify areas that need improvement as we promote the effective and efficient use of funds across the Department. In this year's audit, the auditors identified a material weakness as part of their examination related to IT systems supporting grant programs of the Federal Transit Administration (FTA). Key aspects of this finding were associated with system access issues and appropriate controls. Corrective actions are underway and we will continue to monitor our progress in this area. Another area where the Department has dedicated significant time and energy is improving our compliance with the Federal Information Security Management Act (FISMA). The efforts in this area continue, as we are not yet adequately in compliance with all of the Act's requirements. With these few exceptions, the Department was able to provide reasonable assurance that its internal controls and financial management systems meet the objectives required by statute and the Office of Management and Budget (OMB).

Our annual audit provided a useful independent review. While the Department is disciplined in maintaining adequate internal controls over accounting and recording processes, we value the independent insight. Consideration of these annual audit results remains an important component of our efforts to strengthen our safeguards of taxpayer resources. Our entire senior leadership recognizes the value of accurate and timely financial information for decision making, and the financial management community can be proud of the audit results again this year.

FINANCIAL SYSTEMS MODERNIZATION

During FY 2014 we completed our Financial System Modernization (FSM) project. In support of this initiative, DOT's financial management system, Delphi, was upgraded to Oracle's latest version of the Enterprise Business Suite (EBS), Release 12 (R12). The capabilities of R12 leverage the latest advances in business technology to make more informed decisions, reduce costs, and increase performance, while also taking advantage of the enhanced functionality of the new accounting system, principally through a new sub-ledger accounting structure. This multi-year project involved the close cooperation of all of DOT's Operating Administrations, which collaborated on this project to solve issues and provide joint leadership.

FEDERAL SHARED SERVICE PROVIDER INITIATIVE

Also significant during 2014 was DOT's participation in the Administration's Federal shared service provider initiative. This program will streamline the way we deliver services internally, with a particular focus on the core administrative functions that are common across the government. One of the key initiatives in this effort is to expand the use of high-quality, high-value shared services among Federal agencies. In April, OMB and the Treasury Department announced the designation of DOT's Enterprise Services Center as one of four shared service providers for financial management to provide core accounting and other services to Federal agencies. DOT is committed to supporting this important financial management initiative, and this remains a key focus in 2015, as we prepare to provide services to additional Federal departments.

CONCLUSION

In 2014, across DOT our financial management and budget community completed an incredible amount of work and together we sustained and improved the Department's financial health. I would like to express my appreciation to my team, the CFO executives in the operating administrations and their teams for their professionalism and valuable, consistent efforts to plan, execute, and account for the Department's resources. They provide the foundation for our success as good stewards of public dollars.

Sylvia I. Garcia

Sylvia I. Garcia

OFFICE OF INSPECTOR GENERAL QUALITY CONTROL REVIEW

Memorandum

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

Subject: **<u>ACTION</u>:** Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2014 and 2013, Department of Transportation
Report Number: QC-2015-011

Date: November 17, 2014

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: The Secretary

We respectfully submit our report on the quality control review (QCR) of the Department of Transportation's (DOT) audited consolidated financial statements for fiscal years 2014 and 2013.

KPMG LLP of Washington, DC, under contract to the Office of Inspector General (OIG), completed the audit of DOT's consolidated financial statements as of and for the years ended September 30, 2014, and September 30, 2013 (see attachment). The contract required that the audit be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget (OMB) Bulletin 14–02, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the financial statements present fairly, in all material respects, DOT's financial position as of September 30, 2014, and September 30, 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG's Fiscal Year 2014 Audit Report

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

Material Weakness

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

Significant Deficiencies

1. **Lack of Sufficient Controls over Undelivered Orders.** Deficiencies exist in DOT's internal controls for monitoring undelivered orders and timely deobligation of unused funds. Controls for eight operating administrations were inadequate and/or ineffective, and contributed to potential misstatements in undelivered orders as of September 30, 2014, totaling approximately $358.5 million.

2. **Lack of Sufficient Controls over Unfilled Customer Orders Without Advance Funding.** The Federal Highway Administration (FHWA) does not properly record and adjust its balances for certain unfilled customer orders (UCO).[1] Specifically, FHWA does not properly record UCOs with non-Federal entities for which it has not received funding in advance of work performance. FHWA's authority to enter into agreements with non-Federal entities without advance funding is unusual, and the Agency has not formally documented its procedures for recording these unique UCOs. While there is no specific Federal guidance for these transactions, the undocumented procedures that FHWA follows represent a departure from Federal guidance for recording UCOs with other Federal agencies. A lack of documented procedures increases the risk and likelihood that financial statements may be materially misstated.

   Furthermore, FHWA did not timely deobligate unused UCOs for which it did not receive advance funding. This untimely deobligation occurred because DOT's financial systems could not produce a report on open UCO balances with sufficient detail to allow FHWA to implement necessary monitoring

[1] FHWA's Office of Federal Lands Highway has the authority to enter into reimbursable agreements with Federal agencies and non-Federal entities such as State, local and Tribal governments, and the public, to provide highway-related goods or services. Unfilled customer orders represent the amount of goods or services that have yet to be furnished.

controls. As of September 30, 2014, the Department's UCOs without advance funding were potentially overstated by approximately $116 million.

Noncompliance with Laws and Regulations

1. **Noncompliance with the Anti-Deficiency Act**. As first identified in fiscal year 2013, and pending the completion of review, the Federal Railroad Administration may have committed anti-deficiency violations by obligating $1.2 million and $40 thousand prior to OMB's apportionment approval.

2. **Noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)**. The previously discussed material weakness related to general IT controls at FTA affects DOT's ability to comply with FFMIA financial management system requirements. FTA's general IT controls are not adequate to ensure that DOT's financial management systems comply with FFMIA's requirements.

We performed a QCR of KPMG's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on DOT's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG is responsible for its report dated November 14, 2014, and the conclusions expressed in that report. However, our QCR disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted Government auditing standards.

KPMG made 10 recommendations to strengthen DOT's financial, accounting, and system controls. DOT officials concurred with KPMG's recommendations. The Department also committed to submitting a detailed action plan to address the findings contained in KPMG's audit report to OIG by December 31, 2014. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

We appreciate the cooperation and assistance of DOT's representatives and KPMG. If you have any questions, please contact me at x61959, or Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at x61427.

Attachment

OFFICE OF INSPECTOR GENERAL QUALITY CONTROL REVIEW (continued)

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

Assistant Secretary for Budget and Programs and Chief Financial Officer

1200 New Jersey Avenue, SE
Washington, DC 20590

November 14, 2014

MEMORANDUM TO: Calvin L. Scovell, III
Inspector General, US DOT

M. Hannah Padilla
Partner, KPMG LLP

FROM: Sylvia I. Garcia
Chief Financial Officer and Assistant Secretary for Budget and Programs

SUBJECT: Management's Response to the Audit Report on the Consolidated Financial Statements for Fiscal Years (FY) 2014

The Department of Transportation (DOT) is pleased to respond to the unmodified audit report on our Consolidated Financial Statements for FY 2014. We take great pride in our ability to sustain strong and vigilant financial management.

The annual audit process is an opportunity to identify areas that need improvement. The audit identified one material weakness and two significant deficiencies on internal controls over financial reporting and two instances of non-compliance with certain provisions of selected laws and regulations we concur with all findings and recommendations. Corrective actions have already begun to address these issues. The Department plans to submit a detailed action plan along with estimated completion dates of the actions to the Inspector General no later than December 31, 2014, to address the findings contained in your report.

We appreciate the professionalism and cooperation exhibited by your office during the audit. Our combined efforts and teamwork made the difference in successfully meeting the objectives of the financial audit process.

INDEPENDENT AUDITORS' REPORT

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Transportation ("Department" or "DOT"), which comprise the consolidated balance sheets as of September 30, 2014 and 2013 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; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Transportation as of September 30, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Notes 1 and 19, the consolidated financial statements reflect actual excise tax revenues deposited in the Highway Trust Fund and the Airport and Airway Trust Fund through June 30, 2014, and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Other Information, Foreword, Message from the Secretary, and Message from the Chief Financial Officer and Assistant Secretary for Budget and Programs sections as listed in the Table of Contents of the DOT Agency Financial Report 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 audit 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, 2014, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Exhibit I section A to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DOT'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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which are described in Exhibit III sections D and E.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed an instance, described in Exhibit III section E, in which the Department's financial management systems did not substantially comply with the Federal financial management systems requirements.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the applicable Federal accounting standards or the United States Government Standard General Ledger at the transaction level.

Department's Responses to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

November 14, 2014

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

EXHIBIT I
MATERIAL WEAKNESS

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

Criteria

The Federal Information Security Management Act (FISMA) of 2002 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 by or maintained on behalf of the agency. This protection is required for the information and information systems that support the Department of Transportation's ("Department" or "DOT") mission, operations, and assets, including those provided or managed by another Federal agency, contractor, grantee, or other source. DOT ensures compliance with FISMA through the policies, procedures, and controls listed in the DOT Cyber Security Compendium, version 3.0 dated September 2013.

Background

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

Condition

During our FY2014 testing of the significant DOT financial IT systems, we identified several control deficiencies in the FTA's IT environment, specifically the grant systems. We have classified the deficiencies identified into the following two categories:

Provisioning of Access:

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

System Audit Log Reviews:

Detective controls, such as system audit logs, are controls designed to determine that changes to IT systems are authorized, tested, approved, properly implemented, and documented. FTA's audit log reviews lack the precision necessary to reliably and timely detect unauthorized or inappropriate activities, which may allow such activities to go undetected by management for lengthy periods of time.

Cause

FTA does not have sufficient procedures and controls in place to ensure compliance with the DOT Cyber Security Compendium, version 3.0 dated September 2013.

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

EXHIBIT I
MATERIAL WEAKNESS

Effect

The aforementioned IT control deficiencies pose a significant risk to the integrity of FTA's data that are consolidated into DOT's financial statements, which could ultimately affect DOT's ability to perform its financial reporting duties accurately and timely.

Recommendations

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

1. Develop procedures and controls to address the provisioning of access and system audit log review control deficiencies identified in the FTA financial IT systems; and,
2. Monitor progress to ensure that procedures and controls are appropriately designed, implemented, and maintained.

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

EXHIBIT II
SIGNIFICANT DEFICIENCIES

B. Lack of Sufficient Controls over Undelivered Orders

Criteria

US Code Title 31 Section 1501 states that an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is (a) in writing, in a way and form, and (b) for a purpose authorized by law, and executed before the end of the period of availability.

US Code Title 31 Section 1554 states that the head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1108 (c) of this title.

The United States Standard General Ledger Supplement No. S2 Treasury Financial Manager defines an Undelivered Order (Obligation) as the amount of goods and/or services ordered, which have not been actually or constructively received and for which amounts have not been prepaid or advanced. This includes amounts specified in other contracts or agreements such as grants, program subsidies, undisbursed loans and claims, and similar events for which an advance or prepayment has not occurred.

Statement of Federal Financial Accounting Concepts (SFFAC) No 1, *Objective of Federal Financial Reporting* Issued by the Federal Accounting Standards Advisory Board (FASAB), states Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with federal accounting standards.

The Standards for Internal Control in the Federal Government issued by the Government Accountability Office (GAO) states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Background

In carrying out its mission, DOT incurs obligations by entering into contracts or agreements for the purchase of goods and services from other Federal agencies and the public, and for the execution of grant agreements with state and local governments and other grantees. These obligations are recorded as undelivered orders in the DOT consolidated financial statements on the statement of budgetary resources.

Once an obligation is satisfied and/or no longer required, funds are required to be de-obligated, which reduces the balance of undelivered orders and potentially releases the funds for other uses. As of September 30, 2014, DOT reported $117 billion in obligations.

Each OA is responsible for developing and implementing policies and procedures to review obligated balances, as required by public law.

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

EXHIBIT II
SIGNIFICANT DEFICIENCIES

Condition

We noted deficiencies in internal controls over the monitoring of grant and non-grant undelivered orders that may impact the accuracy and existence of undelivered orders presented in the financial statements. Specifically, exceptions were noted in obligations, supported by contracts or agreements, that were entered into over one year ago and in the current year had no transactions recorded against the original contract or agreement (i.e., aged undelivered orders representing $18 billion as of September 30, 2014).

During our review of statistical samples totaling 527 items, selected at various intervals during the year, over aged undelivered orders and undelivered orders supported by an agreement or contract executed in the current year (i.e., current undelivered orders), we noted that for 21 items, totaling $12.1 million, the period of performance or procured project/service in the related contract/agreement had ended or been completed; however, the unused obligation balances for these items were not de-obligated timely in accordance with DOT policies.

Cause

As each OA is responsible for developing and implementing policies and procedures to review obligated balances, as required by public law, we noted that controls over the timely review and monitoring of grant and non-grant undelivered orders were not properly designed and implemented and/or controls were not operating effectively at certain OAs to identify unused obligation balances for timely de-obligation.

Effect

Undelivered orders were potentially overstated as of September 30, 2014 by approximately $358.5 million. Furthermore, the lack of adequate processes to review undelivered orders increases the risk that material misstatements may occur and not be detected.

Recommendations

We recommend:

1. FTA revise their process for monitoring obligations in order to timely identify and de-obligate stale obligations;
2. DOT continues to provide training related to grants management, including the need for timely monitoring and close-out of projects; and,
3. All other OAs continue to timely review and monitor grant and non-grant undelivered orders to ensure that the recorded undelivered orders represent goods and services ordered and obligated, but not yet received, or potential amounts still to be claimed.

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

EXHIBIT II
SIGNIFICANT DEFICIENCIES

C. Lack of Sufficient Controls over Unfilled Customer Orders without Advance

Criteria

The Standards for Internal Control in the Federal Government issued by the GAO states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

Statements of Federal Financial Accounting Standards (SFFAS) No. 7: *Accounting for Revenue and Other Financing Sources,* states:

> 78. Recognition and measurement of budgetary resources should be based on budget concepts and definitions contained in OMB Circulars A-11 and A-34. In addition, the reporting entity should provide this information for each of its major budget accounts as supplementary information. Small budget accounts may be aggregated.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Section 20 (4) states:

> You record spending authority from offsetting collections and the offsetting collections in the program and financing schedule of an account. In the simplest case, you record gross budget authority equal to the cash collections for the year and record the cash collections as an offset to the budget authority. Net budget authority will equal zero in such cases. In other cases, you must adjust spending authority from cash collections to yield the amount available as budget authority.

OMB Circular No. A-136, *Financial Reporting Requirements*, section II.4.1 states:

> Reporting entities should ensure that information in the financial statements is presented in accordance with GAAP for Federal entities and the requirements of this Circular.

Background

A reimbursable agreement is an arrangement whereby FHWA agrees to provide goods or services to another agency in return for reimbursement of costs incurred or agrees to reimburse another agency for its costs in providing goods or services to FHWA.

Pursuant to authority in the "Economy Act" and prior to enactment of the *Moving Ahead for Progress in the 21st Century Act* (MAP-21) on July 6, 2012, the Office of Federal Lands Highway (FLH), an office within the FHWA, had the ability enter into interagency reimbursable agreements with Federal Government entities, without an advance of funds, to provide engineering services for planning and designing highways on Federally owned lands, as well as constructions contracts for building parkways and park roads, Indian reservations roads, defense access roads and other roads on Federal lands. OMB classifies such authority, under Circular A-11, as spending authority from offsetting collections and a signed reimbursable agreement as an unfilled customer order (UCO).

On the Department's financial statements, UCOs without an advance represent the total amount of unearned reimbursable agreements/orders accepted without an advance of funds to provide goods and/or services to other Federal Government agencies, State, local or tribal governments, and to the public, as permitted by law.

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

EXHIBIT II
SIGNIFICANT DEFICIENCIES

Section 1119 of MAP-21 extended this authority to non-Federal entities under 23 U.S.C. 201(d):

> *(d) REIMBURSABLE AGREEMENTS – In carrying out work under reimbursable agreements with any State, local, or tribal governments under this title, the Secretary –*
>
> > *(1) May, without regard to any other provision of law (including regulations), record obligations against accounts receivable from the entity; and*
> >
> > *(2) Shall credit amounts received from the entity to the appropriate account, which shall occur not later than 90 days after the date of the original request by the Secretary for payment*

Condition

Based on our review of FHWA's undocumented procedures for recording UCOs with non-Federal entities without an advance of funds, we have identified that FHWA does not record a UCO for the entire amount of the signed reimbursable agreement, and instead, records an estimated amount of the UCO that FHWA anticipates incurring obligations for in the current fiscal year. This is a departure from the guidance outlined in OMB Circular A-11 for recording UCOs without an advance of funds entered into with other Federal entities.

Furthermore, we have identified that at year-end FHWA does not record an adjustment to "true-up" the estimated UCO that was recorded upon execution of the reimbursable agreement to match the actual obligations incurred against the UCO in the fiscal year.

In addition, our review of a statistical sample of 18 items, from a population $1 billion of UCOs without an advance, we noted six invalid items, totaling $2 million, where the related period of performance for the UCO had either ended and/or the project had been completed; however, the unused UCO balance for these items was not properly de-obligated by management, as required.

Cause

FHWA has not formally documented the recognition and measurement decisions made by management when accounting for UCOs with non-Federal entities without an advance of funds.

In addition, DOT is unable to provide a report that reflects all open UCO balances, by agreement number, as of the period-end date. Therefore, DOT is unable to implement adequate controls over the review and monitoring of open UCO balances, at an appropriate level of precision, to determine if balances are complete, accurate, and valid.

Effect

Incomplete documentation of accounting policies and procedures for unique transactions, specifically the appropriate accounting treatment for the recognition and measurement of UCOs with non-Federal entities without an advance of funds, increases the risk and likelihood that the financial statements may be materially misstated.

In addition, the Department's UCOs without an advance were potentially overstated, as of September 30, 2014, by approximately $116 million.

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

EXHIBIT II
SIGNIFICANT DEFICIENCIES

Recommendations

We recommend that:

1. FHWA work with OMB to develop and document policies and procedures on the appropriate accounting treatment for the execution and year-end reporting of UCOs entered into with non-Federal entities without an advance of funds; and,
2. DOT, in conjunction with FHWA, develop a report that reflects a complete population of open UCO balances, by agreement number, as of a period-end date and that FHWA use this report to monitor and review its open UCO balances for completeness, accuracy, and validity.

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

EXHIBIT III
INSTANCES OF NONCOMPLIANCE

D. Noncompliance with the Anti-Deficiency Act

Criteria

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

Condition

Potential Anti-Deficiency Act Violations:

FRA

Pending the outcome of further review, the Federal Railroad Administration (FRA) may have committed Anti-Deficiency Act violations during fiscal year 2013 as a result of obligating $1.2 million and $40 thousand in excess of the apportioned amounts on two category B[1] project budget lines in the Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail accounts, respectively. The amounts represent funds that were appropriated and used for the intended purpose, but were executed prior to OMB apportionment approval.

Cause

At the time that the potential violations occurred, FRA did not have sufficient controls in place to require an appropriate level of oversight over fund status monitoring to prevent Anti Deficiency Act violations.

Effect

DOT may not be in compliance with the Anti-Deficiency Act.

Recommendations

We recommend that DOT:

1. Complete the investigation into potential additional Anti-Deficiency Act violations at the FRA; and,
2. Implement appropriate policies and procedures to prevent future violations.

---

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

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

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

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

EXHIBIT III
INSTANCES OF NONCOMPLIANCE

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

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

PRINCIPAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

As of September 30

Dollars in Thousands	2014	2013
Assets		
Intragovernmental		
Fund Balance With Treasury *(Note 2)*	$37,335,087	$40,581,338
Investments, Net *(Note 3)*	25,713,597	15,820,956
Accounts Receivable *(Note 4)*	113,305	118,389
Other *(Note 5)*	71,473	121,002
Total Intragovernmental	**63,233,462**	**56,641,685**
Accounts Receivable, Net *(Note 4)*	167,856	147,887
Direct Loan and Loan Guarantees, Net *(Note 6)*	8,508,423	6,877,433
Inventory and Related Property, Net *(Note 7)*	900,787	879,595
General Property, Plant and Equipment, Net *(Note 8)*	13,914,590	14,002,887
Other *(Note 5)*	18,567	21,644
Total Assets	**$86,743,685**	**$78,571,131**
Stewardship property, plant and equipment *(Note 9)*		
Liabilities (Note 10)		
Intragovernmental		
Accounts Payable	$6,062	$12,622
Debt *(Note 11)*	8,185,001	6,958,855
Other *(Note 14)*	1,879,138	2,017,413
Total Intragovernmental	**10,070,201**	**8,988,890**
Accounts Payable	527,837	533,673
Loan Guarantee Liability *(Note 6)*	147,693	176,134
Federal Employee Benefits Payable	995,250	1,048,503
Environmental and Disposal Liabilities *(Note 12)*	1,165,195	919,195
Grant Accrual *(Note 13)*	6,451,084	6,593,732
Other *(Note 14)*	1,099,712	1,385,891
Total Liabilities	**$ 20,456,972**	**$19,646,018**
Commitments and contingencies *(Note 16)*		
Net Position		
Unexpended Appropriations—Funds From Dedicated Collections *(Note 17)*	$1,141,499	$951,055
Unexpended Appropriations—Other Funds	26,932,115	29,852,703
Cumulative Results of Operations—Funds From Dedicated Collections *(Note 17)*	27,392,597	17,544,519
Cumulative Results of Operations—Other Funds	10,820,502	10,576,836
Total Net Position—Funds From Dedicated Collections	**28,534,096**	**18,495,574**
Total Net Position—Other Funds	**37,752,617**	**40,429,539**
Total Net Position	**66,286,713**	**58,925,113**
Total Liabilities and Net Position	**$86,743,685**	**$78,571,131**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30

Dollars in Thousands	2014	2013
Program costs *(Note 18)*		
Surface Transportation		
Gross Costs	$60,808,232	$60,688,695
Less: Earned Revenue	904,212	906,316
Net Program Costs	**59,904,020**	**59,782,379**
Air Transportation		
Gross Costs	16,594,038	16,745,291
Less: Earned Revenue	626,821	660,724
Net Program Costs	**15,967,217**	**16,084,567**
Maritime Transportation		
Gross Costs	727,049	726,195
Less: Earned Revenue	459,948	388,504
Net Program Costs	**267,101**	**337,691**
Cross-Cutting Programs		
Gross Costs	658,244	656,020
Less: Earned Revenue	245,520	262,769
Net Program Costs	**412,724**	**393,251**
Costs Not Assigned to Programs	403,955	436,796
Less: Earned Revenues Not Attributed to Programs	798	354
Net Cost of Operations	**$76,954,219**	**$77,034,330**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30

Dollars in Thousands	2014 Dedicated Collections	2014 All Other Funds	2014 Total	2013 Dedicated Collections	2013 All Other Funds	2013 Total
Cumulative Results of Operations						
Beginning Balance	$17,544,519	$10,576,836	$28,121,355	$25,768,480	$9,542,605	$35,311,085
Budgetary Financing Sources						
Appropriations Used	2,828,625	30,094,245	32,922,870	4,447,910	15,189,102	19,637,012
Non-Exchange Revenue *(Note 19)*	52,832,312	44,734	52,877,046	49,587,166	111,738	49,698,904
Donations/Forfeitures of Cash/Cash Equivalents	834	—	834	617	—	617
Transfers-in/(out) Without Reimbursement	22,504,619	(21,452,800)	1,051,819	5,883,105	(5,884,367)	(1,262)
Other	666	37	703	—	(98)	(98)
Other Financing Sources (Non-Exchange)						
Donations and Forfeitures of Property	—-	43,784	43,784	—	78,599	78,599
Transfers-in/(out) Without Reimbursement	(1,521,741)	1,581,000	59,259	(2,297,274)	2,404,446	107,172
Imputed Financing	562,476	126,266	688,742	545,973	147,585	693,558
Other	1,157	(600,251)	(599,094)	9,718	(379,620)	(369,902)
Total Financing Sources	**77,208,948**	**9,837,015**	**87,045,963**	**58,177,215**	**11,667,385**	**69,844,600**
Net Cost of Operations	67,360,870	9,593,349	76,954,219	66,401,176	10,633,154	77,034,330
Net Change	9,848,078	243,666	10,091,744	(8,223,961)	1,034,231	(7,189,730)
Cumulative Results of Operations	**$27,392,597**	**$10,820,502**	**$38,213,099**	**$17,544,519**	**$10,576,836**	**$28,121,355**
Unexpended Appropriations						
Beginning Balance	951,055	29,852,703	30,803,758	1,108,929	21,652,656	22,761,585
Budgetary Financing Sources						
Appropriations Received *(Note 1U)*	3,156,214	27,227,785	30,383,999	4,592,701	24,670,226	29,262,927
Appropriations Transferred-in/(out)	940	10,024	10,964	7,500	2,990	10,490
Other Adjustments	(138,085)	(64,152)	(202,237)	(310,165)	(1,284,067)	(1,594,232)
Appropriations Used	(2,828,625)	(30,094,245)	(32,922,870)	(4,447,910)	(15,189,102)	(19,637,012)
Total Budgetary Financing Sources	190,444	(2,920,588)	(2,730,144)	(157,874)	8,200,047	8,042,173
Total Unexpended Appropriations	**$1,141,499**	**$26,932,115**	**$28,073,614**	**$951,055**	**$29,852,703**	**$30,803,758**
Net Position	**$28,534,096**	**$37,752,617**	**$66,286,713**	**$18,495,574**	**$40,429,539**	**$58,925,113**

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	2014 Budgetary	2014 Non-Budgetary Credit Reform Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources *(Note 20)*				
Unobligated Balance, Brought Forward, October 1	$56,450,680	$263,000	$47,267,503	$285,030
Recoveries of Prior Year Unpaid Obligations	915,784	38,617	1,038,978	6,960
Other Changes in Unobligated Balance	(26,452)	(30,941)	(142,166)	—
Unobligated Balance From Prior Year Budget Authority, Net	**57,340,012**	**270,676**	**48,164,315**	**291,990**
Appropriations *(Note 1U)*	39,945,121	—	35,632,671	—
Borrowing Authority	—	7,422,435	46,532	2,249,068
Contract Authority	54,178,887	—	53,366,583	—
Spending Authority From Offsetting Collections	8,604,967	587,916	7,488,163	339,422
Total Budgetary Resources	**$160,068,987**	**$8,281,027**	**$144,698,264**	**$2,880,480**
Status of Budgetary Resources				
Obligations Incurred	$109,066,313	$8,037,732	$88,247,584	$2,617,480
Unobligated Balance, End of Year				
Apportioned	31,870,402	25,286	38,053,122	24,576
Exempt From Apportionment	324,455	—	327,758	—
Unapportioned	18,807,817	218,009	18,069,800	238,424
Unobligated Balance, End of Year	**51,002,674**	**243,295**	**56,450,680**	**263,000**
Total Budgetary Resources	**$160,068,987**	**$8,281,027**	**$144,698,264**	**$2,880,480**

The accompanying notes are an integral part of these financial statements

PRINCIPAL STATEMENTS (continued)

COMBINED STATEMENTS OF BUDGETARY RESOURCES (continued)

For the periods ended September 30

Dollars in Thousands	2014 Budgetary	2014 Non-Budgetary Credit Reform Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Reform Financing Accounts
Change in Obligated Balances				
Unpaid Obligations				
Unpaid Obligations, Brought Forward, October 1 (Gross)	$109,281,959	$4,729,125	$111,942,788	$4,421,232
Obligations Incurred	109,066,313	8,037,732	88,247,584	2,617,480
Outlays (Gross)	(107,802,777)	(2,199,218)	(89,878,926)	(2,302,627)
Actual Transfers, Unpaid Obligations	10,000	—	9,491	—
Recoveries of Prior Year Unpaid Obligations	(915,784)	(38,617)	(1,038,978)	(6,960)
Unpaid Obligations, End of Year (Gross)	109,639,711	10,529,022	109,281,959	4,729,125
Uncollected Payments				
Uncollected Payments, Federal Sources, Brought Forward, October 1	(1,385,061)	(306,098)	(1,249,122)	(222,706)
Change in Uncollected Payments, Federal Sources	111,465	(309,297)	(135,939)	(83,392)
Uncollected Payments, Federal Sources, End of Year	(1,273,596)	(615,395)	(1,385,061)	(306,098)
Obligated Balance, Start of Year (Net)	107,896,898	4,423,027	110,693,666	4,198,526
Obligated Balance, End of Year (Net)	**$108,366,115**	**$9,913,627**	**$107,896,898**	**$4,423,027**
Budget Authority and Outlays, Net				
Budget Authority, Gross	$102,728,975	$8,010,351	$96,533,949	$2,588,490
Actual Offsetting Collections	(8,719,340)	(953,401)	(7,377,632)	(460,425)
Change in Uncollected Customer Payments From Federal Sources	111,465	(309,297)	(135,939)	(83,392)
Anticipated offsetting collections	—	—	—	—
Budget Authority, Net	**$94,121,100**	**$6,747,653**	**$89,020,378**	**$2,044,673**
Outlays, Gross	$107,802,777	$2,199,218	$89,878,926	$2,302,627
Actual Offsetting Collections	(8,719,340)	(953,401)	(7,377,632)	(460,425)
Outlays, Net	99,083,437	1,245,817	82,501,294	1,842,202
Distributed Offsetting Receipts	(22,960,632)	—	(6,220,753)	—
Agency Outlays, Net	**$76,122,805**	**$1,245,817**	**$76,280,541**	**$1,842,202**

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 United States (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)
- Surface Transportation Board (STB)

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

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 (GMRA). The statements have been prepared from the DOT books and records in accordance with Office of Management and Budget (OMB) form and content

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

requirements for entity financial statements and DOT's accounting policies and procedures. Material intra-departmental transactions and balances have been eliminated from the principal statements for presentation on a consolidated basis, except for the 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, intra-entity transactions have not been eliminated. Unless otherwise noted, all dollar amounts are presented in thousands.

The Consolidated Balance Sheets and in certain notes 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). Non-entity 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 present the gross costs of programs less earned revenue, to arrive at the net cost of operations for both the programs and the agency as a whole for the reporting periods.

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

The Combined Statements of Budgetary Resources provide information about how budgetary resources were made available, as well as their status at the end of the reporting periods. Recognition and measurement of budgetary information reported on these statements is based on budget terminology, definitions, and guidance presented in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2014.

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

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

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

C. BUDGETS AND BUDGETARY ACCOUNTING

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, dated July 2014. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, the U.S. Congress (Congress) provides budget authority, primarily in the form of appropriations, to the DOT Operating Administrations to incur obligations in support of agency programs. For fiscal year (FY) 2014 and FY 2013, the Department was accountable for trust fund appropriations, general fund appropriations, revolving fund activity, borrowing authority, and contract authority. DOT recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through warrants and trust fund transfers.

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

D. BASIS OF ACCOUNTING

The Department is required to be in substantial compliance with all applicable accounting principles and standards developed and issued by the Federal Accounting Standards Advisory Board (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish generally accepted accounting principles (GAAP) for the Federal Government. The Federal Financial Management Improvement Act (FFMIA) of 1996 requires the Department to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government 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. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The market value is calculated by multiplying the total number of shares by the market price on the last day of the fiscal year.

G. RECEIVABLES

Accounts Receivable

Accounts receivable consist of amounts owed to the Department by other Federal agencies and the public. Federal accounts receivable are generally the result of the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Public accounts receivable are generally the result of the provision of goods and services or the levy of fines and penalties from the Department's regulatory activities. Amounts due from the public are presented, net of an allowance for loss on uncollectible accounts, which is based on historical collection experience and/or an analysis of the individual receivables.

Loans Receivable

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

H. INVENTORY AND RELATED OPERATING MATERIALS AND SUPPLIES

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at year-end include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of reparable, excess, obsolete, and unserviceable items are made to appropriate allowance accounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. PROPERTY AND EQUIPMENT

DOT OAs 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 $25 thousand for other property, plant and equipment. Capitalization at lesser amounts is permitted. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. The straight line method is generally used to depreciate capitalized assets.

DOT's heritage assets, consisting of Union Station in Washington, DC, 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 incurred, which are covered by realized 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 other than contracts. Liabilities Not Covered by Budgetary Resources are those liabilities that Congressional action is needed before budgetary resources can be provided.

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. Department of the Treasury (Treasury).

The Department has entered into contractual commitments that require future use of financial resources, specifically for long-term lease obligations. The Department is committed to various leases primarily covering administrative office space, technical facilities and fleet vehicles. Leases may contain escalation clauses tied to changes in inflation, taxes or renewal options. Although most have short termination arrangements, the Department intends to remain in the leases. Depending on lease terms, 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 since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Employing agencies are required to recognize pensions and other post retirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such 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 post-retirement health benefits. The Office of Personnel Managment (OPM) administers these programs and is responsible for reporting the related liabilities. OPM contributes the 'employer' share for retirees via an appropriation and the retirees contribute their portion of the benefit directly to OPM. OPM calculates the U.S. Government's service cost for covered employees each fiscal year. The Department has recognized the employer cost of these post-retirement benefits for covered employees as an imputed cost.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. FEDERAL EMPLOYEES GROUP LIFE INSURANCE (FEGLI) PROGRAM

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

Q. FEDERAL EMPLOYEE COMPENSATION ACT (FECA) BENEFITS

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

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

DOT recognizes two types of environmental liabilities: unfunded environmental remediation liability and unfunded asset disposal liability. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The asset disposal liability includes both the cost to remove and dismantle an asset when that asset is no longer in service and the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials. DOT estimates the environmental remediation and asset disposal costs at the time a DOT-owned asset is placed in service.

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

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 allocation of trust fund receipts by Treasury's Office of Tax Analysis (OTA), accruals of accounts and grants payable, accrued workers' compensation, and accrued legal, contingent, environmental and disposal liabilities. Additionally, the Federal Credit

Reform Act of 1990 (FCRA) requires the Department to use estimates in determining the reported amount of direct loan and loan guarantees, the loan guarantee liability and the loan subsidy costs associated with future loan performance.

T. ALLOCATION TRANSFERS

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

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

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 non-exchange funding support from the dedicated collection of excise taxes.

Excise taxes collected are initially deposited to the general fund of the U.S. Treasury. The Internal Revenue Service (IRS) does not receive sufficient information at the time the taxes are collected to determine how these payments should be distributed to specific funds from dedicated collections. Therefore, the U.S. Treasury makes initial semi-monthly distributions to dedicated collection funds based on estimates prepared by Treasury Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. When actual tax receipt amounts are certified by the IRS, generally four months after each quarter-end, adjustments are made to the estimated receipt/revenue amounts previously provided by OTA, at which time the difference is transferred by the U.S. Treasury to the HTF and AATF accounts.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The DOT September 30, 2014 financial statements reflect excise taxes certified by the IRS through June 30, 2014 and excise taxes estimated by OTA for the period July 1, 2014 to September 30, 2014 as specified by FASAB Statement of Federal Financial Accounting Standard (SFFAS) Number 7, *Accounting for Revenue and Other Financing Sources*. Actual tax collections data for the quarter ended September 30, 2014 will not be available from the IRS until January 2015.

Appropriations (Financing Source)
DOT receives annual, multi-year and no-year appropriations. Appropriations are recognized as revenues 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.

Fluctuations in appropriations used are caused by the availability of funding and the timing of many programs at DOT. These programs include the sunset of the ARRA funding and the start up of the Hurricane Sandy relief activity, increases in credit reform and grant activities.

Effective February 18, 2012, the FAA Modernization and Reform Act of 2012, P.L. 112-95, extended AATF authority to collect excise taxes and make expenditures through September 30, 2015.

On July 6, 2012, the President signed P.L. 112-141, Moving Ahead for Progress in the 21st Century (MAP-21) which extended the preceding law, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, through September 30, 2012 and provided new surface transportation authorization from October 1, 2012 through September 30, 2014. The existing and new programs authorized by MAP-21 created a streamlined, performance-based, and multimodal program to address many of the challenges facing the U.S. transportation system. The law provided to the Highway Account $12.6 billion (less a $900 million sequestration rescission) and $6.2 billion (less a $316 million sequestration rescission) in FY 2014 and FY 2013, respectively, from the Treasury general fund. On August 8, 2014, the President signed the Highway and Transportation Funding Act of 2014 which extended surface transportation authorization and MAP-21 policies through May 31, 2015 and transferred an additional $10.8 billion (which comprised of $9.8 billion from the Treasury general fund and $1 billion from the Environmental Protection Agency's Leaking Underground Storage Tank Fund) to the Highway Trust Fund. The law allocated $8.8 billion to the Highway Account and $2 billion to the Mass Transit Account. These allocations over the course of the last few years cause significant fluctuations in many of the Transfer activities and 'Distributed Offsetting Receipts' in the DOT's financial records.

In October 2012, Hurricane Sandy significantly impacted certain areas within the northeastern United States. On January 6, 2013, Congress enacted Public Law 113–2 that appropriated $13 billion (which was subject to a 5.1% sequestration reduction due to the Balanced Budget and Emergency Deficit Control Act) to several DOT operating administrations for the recovery and relief efforts of transit systems most affected by Hurricane Sandy. FTA Emergency Relief Program received $11 billion for recovery and rebuilding projects, resiliency projects and community development block grants and the FHWA Emergency Relief Program received $2 billion for immediate use in rebuilding roads, bridges, seawalls and tunnels. As the remainder of the anticipated construction projects related to the destruction caused by Hurricane Sandy include certain complex improvements to the transit systems and are long-term, by design, DOT had obligated only $3.7 billion and expended $1.5 billion of these monies as of September 30, 2014.

On September 19, 2014 the President signed The Continuing Appropriations Resolution, 2015, P.L. 113-164 to continue government operations through December 11, 2014, predominantly, at FY 2014 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. In accordance with the provisions of FASAB SFFAS Number 31, *Accounting for Fiduciary Activities*, this activity is reported separately in a note disclosure. The Maritime Administration Title XI Escrow Fund contains fiduciary activity as detailed in Note 22 to the Principal Financial Statements.

W. RELATED PARTIES

The Secretary of Transportation has possession of two long term notes with the National Railroad Passenger Service Corporation (more commonly referred to as Amtrak). The first note is for $4 billion and matures in 2975 and; the second note is for $1.1 billion and matures in 2082 with renewable 99 year terms. Interest is not accruing on these notes as long as the current financial structure of Amtrak remains unchanged. If the financial structure of Amtrak changes, both principal and accrued interest are due and payable. The Department does not record the notes in its financial statements since the present value of the notes, discounted according to rates published in OMB M-14-5 Appendix C, *Discount Rates for Cost-Effectiveness, Lease Purchase, and Related Analyses*, with maturity dates of 2975 and 2082, was immaterial to the consolidated financial statements taken as a whole at September 30, 2014.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amtrak is not a department, agency or instrumentality of the United States Government or the Department. The nine members of Amtrak's Board of Directors are appointed by the President of the United States and are subject to confirmation by the United States Senate. Once appointed, Board Members, as a whole, act independently without the consent of the United States Government or any of its officers to set Amtrak policy, determine its budget and decide operational issues. The Secretary of Transportation is statutorily appointed to the nine member Board. Traditionally, the Secretary of Transportation has designated the FRA Administrator to represent the Secretary at Board meetings. (See Note 16).

X. RECLASSIFICATIONS

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

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balances With Treasury as of September 30 consist of the following:

	2014	2013
Fund Balances		
Trust Funds	$5,648,415	$5,765,787
Revolving Funds	1,115,805	1,121,275
General Funds	30,237,184	33,383,181
Other Fund Types	333,683	311,095
Total	**$37,335,087**	**$40,581,338**
Status of Fund Balance With Treasury		
Unobligated Balance		
Available	$21,165,096	$25,455,513
Unavailable	3,016,698	3,005,765
Obligated Balance Not Yet Disbursed	12,839,468	11,059,764
Non-Budgetary Fund Balance With Treasury	313,825	1,060,296
Total	**$37,335,087**	**$40,581,338**

Fund Balances with Treasury are the aggregate amounts of the Department's accounts with Treasury for which the Department is authorized to make expenditures and pay liabilities. Other Fund Types include uncleared suspense accounts, which temporarily hold collections pending clearance to the applicable account, and deposit funds, which are established to record amounts held temporarily until ownership is determined.

The U.S. Treasury processes cash receipts and disbursements. DOT receives appropriations as budget authority, which permits it to incur obligations and make outlays (payments). In addition, DOT also receives contract authority to permit the incurrence of obligations in advance of an appropriation. The contract authority is subsequently replaced with the appropriation or the spending authority from offsetting collections to first cover and then liquidate the obligations. As a result, DOT does not have typical Fund Balance with Treasury amounts as funds remain invested in securities until needed to make payments. These investments and contract authority amounts offset the Obligated balance not yet disbursed, therefore the unobligated and obligated balances presented above may not equal related amounts reported on the Combined Statements of Budgetary Resources.

NOTE 3. INVESTMENTS

	Cost	Amortized Discount	Investments (Net)	Market Value
Intragovernmental Securities	Investments as of September 30, 2014 consist of the following:			
Marketable	$42,637	$(2)	$42,635	$42,630
Non-Marketable Par Value	23,454,844	—	23,454,844	23,454,844
Non-Marketable Market-Based	2,137,204	15,921	2,153,125	2,154,366
Subtotal	**25,634,685**	**15,919**	**25,650,604**	**25,651,840**
Accrued Interest Receivable	62,993	—	62,993	
Total Intragovernmental Securities	**$25,697,678**	**$15,919**	**$25,713,597**	**$25,651,840**
Intragovernmental Securities	Investments as of September 30, 2013 consist of the following:			
Marketable	$42,895	$(236)	$42,659	$42,697
Non-Marketable Par Value	13,764,511	—	13,764,511	13,764,511
Non-Marketable Market-Based	1,936,922	20,697	1,957,619	1,962,650
Subtotal	**15,744,328**	**20,461**	**15,764,789**	**15,769,858**
Accrued Interest Receivable	56,167	—	56,167	
Total Intragovernmental Securities	**$15,800,495**	**$20,461**	**$15,820,956**	**$15,769,858**

The $10 billion increase in the investments account are caused by the excess of excise tax receipts, transfers, and income from investments over the drawdown and outlays in both the Highway Trust Fund and the Airport and Airway Trust Fund.

Investments include non-marketable par value and market-based Treasury securities and marketable securities issued by the Treasury. Non-marketable 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. Non-marketable 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 non-marketable 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 Federal Government purposes. Non-Marketable 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. This is the same way that the Government finances all other expenditures.

Treasury securities are an asset of DOT and a liability of the U.S. Treasury. Because the DOT and the U.S. Treasury are both a part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Governmentwide financial statements.

NOTE 4. ACCOUNTS RECEIVABLE

	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
	Accounts Receivable as of September 30, 2014 consist of the following:		
Intragovernmental			
Accounts Receivable	$113,305	$ —	$113,305
Accrued Interest	—	—	—
Total Intragovernmental	**113,305**	**—**	**113,305**
Public			
Accounts Receivable	185,733	(20,955)	164,778
Accrued Interest	3,181	(103)	3,078
Total Public	**188,914**	**(21,058)**	**167,856**
Total Accounts Receivable	**$302,219**	**$(21,058)**	**$281,161**
	Accounts Receivable as of September 30, 2013 consist of the following:		
Intragovernmental			
Accounts Receivable	$118,384	$ —	$118,384
Accrued Interest	5	—	5
Total Intragovernmental	**118,389**	**—**	**118,389**
Public			
Accounts Receivable	161,136	(15,782)	145,354
Accrued Interest	2,610	(77)	2,533
Total Public	**163,746**	**(15,859)**	**147,887**
Total Accounts Receivable	**$282,135**	**$(15,859)**	**$266,276**

NOTE 5. OTHER ASSETS

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

Other Assets consist of the following as of September 30

	2014	2013
Intragovernmental		
Advances and Prepayments	$71,473	$121,002
Total Intragovernmental Other Assets	**$71,473**	**$121,002**
Public		
Advances to States for Right of Way	$252	$2,982
Other Advances and Prepayments	17,728	18,097
Other	587	565
Total Public Other Assets	**$18,567**	**$21,644**

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 has calculated the allowance for pre-1992 loans using the allowance for loss method.

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

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

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

(2) The Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Program provides Federal credit assistance for major transportation investments of critical national importance such as highway, transit, passenger rail, certain freight facilities, and certain port projects with regional and national benefits. The TIFIA credit program is designed to fill market gaps and leverages substantial private co-investment 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 Prior to FY 1992 (Allowance for Loss Method)

Direct Loan Programs	2014 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$ —	$ —	$ —	$ —

	2013 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$77	$ —	$ —	$77

Obligated After FY 1991

Direct Loan Programs	2014 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$890,821	$1,621	$(29,472)	$862,970
(2) TIFIA Loans	7,957,942	—	(312,489)	7,645,453
Total	**$8,848,763**	**$1,621**	**$(341,961)**	**$8,508,423**

Direct Loan Programs	2013 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
(1) Railroad Rehabilitation Improvement Program	$847,827	$624	$(38,221)	$810,230
(2) TIFIA Loans	6,426,427	3,250	(373,757)	6,055,920
Total	**$7,274,254**	**$3,874**	**$(411,978)**	**$6,866,150**

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Programs	2014	2013
(1) Railroad Rehabilitation Improvement Program	$84,802	$158,255
(2) TIFIA Loans	1,468,018	1,664,979
Total	**$1,552,820**	**$1,823,234**

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

DIRECT LOANS (continued)

Subsidy Expense for Direct Loans by Program and Component

Subsidy Expense for New Direct Loans Disbursed

Direct Loan Programs	2014 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
(1) Railroad Rehabilitation Improvement Program	$ —	$7,037	$(7,037)	$ —	$ —
(2) TIFIA Loans	—	136,382	—	—	136,382
Total	**$ —**	**$143,419**	**$(7,037)**	**$ —**	**$136,382**

Direct Loan Programs	2013 Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
(1) Railroad Rehabilitation Improvement Program	$ —	$13,784	$(13,784)	$ —	$ —
(2) TIFIA Loans	—	98,381	—	—	98,381
Total	**$ —**	**$112,165**	**$(13,784)**	**$ —**	**$98,381**

Modifications and Re-estimates

Direct Loan Programs	2014 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
(1) Railroad Rehabilitation Improvement Program	$ —	$ —	$(5,544)	$(5,544)
(2) TIFIA Loans	—	—	(216,580)	(216,580)
Total	**$ —**	**$ —**	**$(222,124)**	**$(222,124)**

Direct Loan Programs	2013 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
(1) Railroad Rehabilitation Improvement Program	$ —	$ —	$(11,953)	$(11,953)
(2) TIFIA Loans	—	—	(77,363)	(77,363)
Total	**$ —**	**$ —**	**$(89,316)**	**$(89,316)**

Total Direct Loan Subsidy Expense

Direct Loan Programs	2014	2013
(1) Railroad Rehabilitation Improvement Program	$(5,544)	$(11,953)
(2) TIFIA Loans	(80,198)	21,018
Total	**$(85,742)**	**$9,065**

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

DIRECT LOANS (continued)

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

Direct Loan Programs	2014 Interest Differential	Defaults	Fees and Other Collections	Other	Total
(1) Railroad Rehabilitation Improvement Program	0.00%	3.87%	– 3.87%	0.00%	0.00%
(2) TIFIA Loans					
Risk Category 1	0.03%	7.04%	0.00%	0.00%	7.07%

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 re-estimates.

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

Beginning Balance, Changes, and Ending Balance	2014	2013
Beginning Balance of the Subsidy Cost Allowance	$411,978	$397,873
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	143,419	112,165
Fees and Other Collections	(7,037)	(13,784)
Total of the Above Subsidy Expense Components	**136,382**	**98,381**
Adjustments		
Subsidy Allowance Amortization	8,688	(8,744)
Other	7,037	13,784
Ending Balance of the Subsidy Cost Allowance Before Reestimates	**564,085**	**501,294**
Add or Subtract Subsidy Re-estimates by Component		
Technical/Default Re-estimate	(222,124)	(89,316)
Total of the Above Re-estimate Components	**(222,124)**	**(89,316)**
Ending Balance of the Subsidy Cost Allowance	**$341,961**	**$411,978**

The economic assumptions of the TIFIA upward and downward re-estimates were the result of a reassessment of risk levels as well as estimated changes in future cash flows on loans. The Department has made cash flow estimate changes for the Pocahontas Parkway TIFIA loan for $197 million. On May 14, 2014, the Department sold the loan and assigned all rights under the loan agreement to private lenders for $60.6 million. The increased costs for this event is reflected in the subsidy cost allowance.

The Railroad Rehabilitation Improvement Program's upward reestimate was a result of an update for change in the discount rate between time of loan obligation and disbursement and 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

Loan Guarantee Programs	2014 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)	$ —	$ —	$ —	$ —	$ —

Loan Guarantee Programs	2013 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)	$97,418	$2,061	$5,800	$(94,073)	$11,206

Guaranteed Loans Outstanding

Loan Guarantee Programs	2014 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) Federal Ship Financing Fund (Title XI)	$1,598,945	$1,598,945
(4) OST Minority Business Resource Center	5,112	3,834
Total	$1,604,057	$1,602,779

New Guaranteed Loans Disbursed

Loan Guarantee Programs	2014 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	2,345	1,759
Total	$2,345	$1,759

Loan Guarantee Programs	2013 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	395	296
Total	$395	$296

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

GUARANTEED LOANS (continued)

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

Loan Guarantee Programs	2014 Liabilities for Post-1991 Guarantees, Present Value
(3) Federal Ship Financing Fund (Title XI)	$147,059
(4) OST Minority Business Resource Center	634
Total	**$147,693**

Subsidy Expense for Loan Guarantees by Program and Component

Loan Guarantee Programs	2014 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —	$ —	$ —	$ —
(4) OST Minority Business Resource Center	—	108	—	—	108
Total	**$ —**	**$108**	**$ —**	**$ —**	**$108**

Loan Guarantee Programs	2013 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —	$ —	$ —	$ —
(4) OST Minority Business Resource Center	—	26	—	—	26
Total	**$ —**	**$26**	**$ —**	**$ —**	**$26**

Modifications and Re-estimates

Loan Guarantee Programs	2014 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —	$(29,553)	$(29,553)
(4) OST Minority Business Resource Center	—	—	98	98
Total	**$ —**	**$ —**	**$(29,455)**	**$(29,455)**

Loan Guarantee Programs	2013 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
(3) Federal Ship Financing Fund (Title XI)	$ —	$ —	$(26,239)	$(26,239)
(4) OST Minority Business Resource Center	—	—	114	114
Total	**$ —**	**$ —**	**$(26,125)**	**$(26,125)**

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	2014	2013
(3) Federal Ship Financing Fund (Title XI)	$(29,553)	$(26,239)
(4) OST Minority Business Resource Center	206	140
Total	**$(29,347)**	**$(26,099)**

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

GUARANTEED LOANS (continued)

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

Loan Guarantee Programs	2014 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(3) Federal Ship Financing Fund (Title XI)					
Risk Category 3	0.00%	12.32%	(4.89%)	0.00%	7.43%
Risk Category 4	0.00%	14.66%	(4.89%)	0.00%	9.77%
Risk Category 5	0.00%	18.28%	(4.89%)	0.00%	13.39%
(4) OST Minority Business Resource Center	0.00%	1.76%	0.00%	0.00%	1.76%

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 re-estimates.

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

Beginning Balance, Changes, and Ending Balance	2014	2013
Beginning Balance of the Loan Guarantee Liability	$176,134	$192,829
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component		
Default Costs (Net of Recoveries)	108	26
Fees and Other Collections	—	—
Total of the Above Subsidy Expense Components	**108**	**26**
Adjustments		
Fees Received	—	(445)
Foreclosed Property and Loans Acquired	—	605
Claim Payments to Lenders	(134)	(25)
Interest Accumulation on the Liability Balance	—	9,000
Other	1,040	269
Ending Balance of the Loan Guarantee Liability Before Re-estimates	**177,148**	**202,259**
Add or Subtract Subsidy Re-estimates by Component		
Technical/Default Re-estimate	(29,455)	(26,125)
Total of the Above Re-estimate Components	**(29,455)**	**(26,125)**
Ending Balance of the Loan Guarantee Liability	**$147,693**	**$176,134**

During FY 2014, MARAD sold the one vessel remaining in its foreclosed property inventory.

The sufficiency of DOT's loan and loan guarantee portfolio reserves at September 30, 2014 is subject to future economic and market 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, 2014 consists of the following:

	Cost	Allowance for Loss	Net
Inventory			
Inventory Held for Current Sale	$91,441	$ —	$91,441
Excess, Obsolete and Unserviceable Inventory	7,456	(7,456)	—
Inventory Held for Repair	636,312	(140,018)	496,294
Other	38,189	(1,957)	36,232
Total Inventory	**773,398**	**(149,431)**	**623,967**
Operating Materials and Supplies			
Items Held for Use	233,426	(1,174)	232,252
Items Held in Reserve for Future Use	27,854	—	27,854
Excess, Obsolete and Unserviceable Items	2,086	(1,373)	713
Items Held for Repair	30,541	(14,540)	16,001
Total Operating Materials & Supplies	**293,907**	**(17,087)**	**276,820**
Total Inventory and Related Property			**$900,787**

Inventory and Related Property as of September 30, 2013 consists of the following:

	Cost	Allowance for Loss	Net
Inventory			
Inventory Held for Current Sale	$90,738	$ —	$90,738
Excess, Obsolete and Unserviceable Inventory	13,945	(13,945)	—
Inventory Held for Repair	613,198	(140,456)	472,742
Other	49,976	(10,590)	39,386
Total Inventory	**767,857**	**(164,991)**	**602,866**
Operating Materials and Supplies			
Items Held for Use	235,023	(1,173)	233,850
Items Held in Reserve for Future Use	28,099	—	28,099
Excess, Obsolete and Unserviceable Items	1,358	(811)	547
Items Held for Repair	27,000	(12,767)	14,233
Total Operating Materials & Supplies	**291,480**	**(14,751)**	**276,729**
Total Inventory and Related Property			**$879,595**

Inventory consists of supplies and materials used to support FAA National Airspace System (NAS) located at the Mike Monroney Aeronautical Center in Oklahoma City.

Primarily, operating supplies and material consist of unissued materials and supplies that will be used in repair and maintenance of various activities within FAA 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

General Property, Plant and Equipment as of September 30, 2014 consist of the following:

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation Amortization	Book Value
Land and Improvements	10-40	$103,825	$(2,381)	$101,444
Buildings and Structures	20-40	6,529,898	(3,719,417)	2,810,481
Furniture and Fixtures	7-10	14,899	(13,606)	1,293
Equipment	5-15	18,502,342	(11,205,074)	7,297,268
ADP Software	3-10	2,094,796	(851,964)	1,242,832
Assets Under Capital Lease	6-10	113,679	(46,278)	67,401
Leasehold Improvements	3	172,860	(108,254)	64,606
Aircraft	20	500,108	(362,843)	137,265
Ships and Vessels	15-25	1,936,590	(1,811,057)	125,533
Small Boats	10-18	29,931	(26,542)	3,389
Construction-in-Progress	N/A	2,063,078	—	2,063,078
Total		**$32,062,006**	**$(18,147,416)**	**$13,914,590**

General Property, Plant and Equipment as of September 30, 2013 consist of the following:

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation Amortization	Book Value
Land and Improvements	10-40	$103,807	$(2,484)	$101,323
Buildings and Structures	20-40	6,371,549	(3,570,462)	2,801,087
Furniture and Fixtures	7-10	439	(248)	191
Equipment	5-15	18,793,151	(11,368,015)	7,425,136
ADP Software	3-10	1,410,891	(723,900)	686,991
Assets Under Capital Lease	6-10	115,095	(43,198)	71,897
Leasehold Improvements	3	162,633	(99,385)	63,248
Aircraft	20	501,410	(348,814)	152,596
Ships and Vessels	15-25	1,936,590	(1,781,384)	155,206
Small Boats	10-18	29,931	(25,159)	4,772
Construction-in-Progress	N/A	2,540,440	—	2,540,440
Total		**$31,965,936**	**$(17,963,049)**	**$14,002,887**

The FAA is currently testing and implementing the En Route Automation Modernization (ERAM) system to upgrade air traffic management of the en route airspace and to enable certain NextGen system capabilities. When fully deployed, the ERAM system will operate at 20 air route traffic control centers across the nation. FAA has fully deployed ERAM at 16 air route traffic control centers as of September 30, 2014 and expects to deploy the four remaining sites by the end of FY 2015. As of September 30, 2014, construction in progress includes $468 million related to the ERAM system.

The ERAM system will replace four legacy air traffic systems currently being depreciated over their remaining service lives. The net acquisition cost of the four air traffic legacy systems in use was $417 million at September 30, 2014, down from $1,899 million at September 30, 2013, and had a net book value of $97 million and $439

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET (continued)

million, respectively. Depreciation on these air traffic legacy systems was $16 million and $171 million in FY 2014 and 2013, respectively. For the legacy assets not already retired or placed in Not in Use status, FAA adjusted the useful life to end one year from ERAM's site specific Operational Readiness Decision date.

NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

PERSONAL PROPERTY HERITAGE ASSETS

Implied within the MARAD's mission is the promotion of the nation's rich maritime heritage. One aspect of this entails the collection, maintenance and distribution of maritime artifacts removed from agency-owned ships prior to their disposal. As ships are assigned to a non-retention status, artifact items are collected, inventoried, photographed and relocated to secure shore-side 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 preservation societies. MARAD maintains a web-based inventory system that manages the artifact loan process. The program also supports required National Historical 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 destroyed while on loan. The table below shows the number of physical units added and withdrawn as of September 30, 2014.

	Units as of 9/30/2013	Additions	Withdrawals	Units as of 9/30/14
Heritage Assets				
Personal Property				
Artifacts	707	33	(8)	732
Other Collections	6,913	50	(76)	6,887
Total Personal Property Heritage Assets	**7,620**	**83**	**(84)**	**7,619**

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

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, DC metropolitan area. The 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.

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

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

NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources are those liabilities that Congressional action is needed before budgetary resources can be provided. Intragovernmental Liabilities are those liabilities that are with other governmental entities. The $686 million of liability for nonentity assets is primarily related to downward loan subsidy re-estimates.

Liabilities Not Covered by Budgetary Resources as of September 30

	2014	2013
Intragovernmental		
Unfunded FECA Liability	$202,325	$215,908
Unfunded Employment Related Liability	5,562	4,257
Liability for Nonentity Assets	686,005	421,887
Other Liabilities	10,510	43,176
Total Intragovernmental	**904,402**	**685,228**
Federal Employee Benefits Payable	995,250	1,048,503
Environmental and Disposal Liabilities *(Note 12)*	1,165,195	919,195
Accrued Pay and Benefits	560,776	606,932
Legal Claims	10,671	3,988
Capital Lease Liabilities	73,409	78,449
Other Liabilities	23,299	24,300
Total Liabilities Not Covered by Budgetary Resources	**3,733,002**	**3,366,595**
Total Liabilities Covered by Budgetary Resources	16,723,970	16,279,423
Total Liabilities	**$20,456,972**	**$19,646,018**

NOTE 11. DEBT

Debt activities during the fiscal year ended September 30

	2013 Beginning Balance	2013 Net Borrowing	2013 Ending Balance	2014 Net Borrowing	2014 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$5,192,662	$1,765,579	$6,958,241	$1,226,760	$8,185,001
Debt to the Federal Financing Bank	936	(322)	614	(614)	—
Total Intragovernmental Debt	**$5,193,598**	**$1,765,257**	**$6,958,855**	**$1,226,146**	**$8,185,001**

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 fiscal year 2014, DOT's U.S. Treasury borrowings carried interest rates ranging from .89% to 5.27%. The maturity dates for these borrowings occur from September 2016 to September 2051. Loans may be repaid in whole or in part without penalty at any time. The borrowing from the Federal Financing Bank was paid in full during fiscal year 2014. Borrowings from the U.S. Treasury and the Federal Financing Bank 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 consist of the following:

	2014	2013
Public		
Environmental Remediation	$813,400	$550,538
Asset Disposal	351,795	368,657
Total Public	**$1,165,195**	**$919,195**

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 fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup activities associated with normal operations or the result of an accident. 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.

As of September 30, 2014 and 2013, DOT's environmental remediation liability primarily includes the removal of contaminants on the Nuclear Ship *Savannah* and remediation at various sites managed by the FAA and MARAD. In addition to the amount recorded and disclosed, there is a foreseeable environmental liability related to a site with MARAD and numerous other external parties, where the loss is probable and the estimate cannot be determined. There were no amounts recorded related to the MARAD site.

ASSET DISPOSAL

The National Maritime Heritage Act requires that MARAD dispose of certain merchant vessels owned by the U.S. Government, including non-retention ships in the Fleet. Residual fuel, asbestos, and solid polychlorinated biphenyls (PCB) sometimes exist onboard MARAD's non-retention ships. Non-retention ships are those MARAD vessels that no longer have a useful application and are pending disposition. The asset disposal liability as of September 30, 2014 includes the estimated cost of disposing 102 ships. In addition, FAA records an asset disposal liability upon the decommissioning of an asset to cover preparatory costs required to meet regulatory standards allowing for the safe disposition of the asset.

NOTE 13. GRANT ACCRUAL

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

Grant Accruals by DOT Operating Administrations as of September 30 were as follows:

	2014	2013
Federal Highway Administration	$3,720,849	$4,083,423
Federal Transit Administration	1,620,676	1,411,143
Federal Aviation Administration	719,252	772,822
Other	390,307	326,344
Total Grant Accrual	**$6,451,084**	**$6,593,732**

NOTE 14. OTHER LIABILITIES

Other Liabilities as of September 30, 2014 consist of the following:

	Non-Current	Current	Total
Intragovernmental			
Advances and Prepayments	$252,746	$690,011	$942,757
Accrued Pay and Benefits	—	31,379	31,379
FECA Billings	109,585	93,307	202,892
Other Accrued Liabilities	23,667	678,443	702,110
Total Intragovernmental	**$385,998**	**$1,493,140**	**$1,879,138**
Public			
Other Accrued Unbilled Payments	$ —	$31,153	$31,153
Advances and Prepayments	—	138,736	138,736
Accrued Pay and Benefits	10,575	761,270	771,845
Deferred Credits	—	50,114	50,114
Legal Claims *(Note16)*	—	10,671	10,671
Capital Leases *(Note 15)*	64,542	8,867	73,409
Other Accrued Liabilities	—	23,784	23,784
Total Public	**$75,117**	**$1,024,595**	**$1,099,712**

NOTE 14. OTHER LIABILITIES (continued)

Other Liabilities as of September 30, 2013 consist of the following:

	Non-Current	Current	Total
Intragovernmental			
Advances and Prepayments	$266,349	$974,786	$1,241,135
Accrued Pay and Benefits	—	91,209	91,209
FECA Billings	122,814	93,682	216,496
Other Accrued Liabilities	25,000	443,573	468,573
Total Intragovernmental	**$414,163**	**$1,603,250**	**$2,017,413**
Public			
Other Accrued Unbilled Payments	$ —	$40,958	$40,958
Advances and Prepayments	—	144,829	144,829
Accrued Pay and Benefits	73,820	970,037	1,043,857
Deferred Credits	—	48,230	48,230
Legal Claims *(Note 16)*	—	3,988	3,988
Capital Leases *(Note 15)*	69,324	9,125	78,449
Other Custodial Liability	—	254	254
Other Accrued Liabilities	—	25,326	25,326
Total Public	**$143,144**	**$1,242,747**	**$1,385,891**

FTA received $2.75 billion from Federal Emergency Management Agency (FEMA) in FY 2003 to rebuild parts of the transit system that was destroyed during the World Trade Center attacks on September 11, 2001. The $253 million of Non-Current Intragovernmental Governmental Advances and Prepayments is the remaining portion of those funds and is expected to be paid out as the project progresses. The current portion of the advances and prepayments for this same project is approximately $307 million.

NOTE 15. LEASES

ENTITY AS LESSEE

Capital Leases as of September 30 were comprised of the following:

	2014	2013
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$112,647	$114,063
Software	1,032	1,032
Accumulated Amortization	(46,278)	(43,198)
Net Assets Under Capital Lease	**$67,401**	**$71,897**

Fiscal Year	
Future Payments Due	
2015	$8,867
2016	8,639
2017	8,639
2018	8,640
2019	8,634
2020+	53,669
Total Future Lease Payments	**97,088**
Less: Imputed Interest	23,679
Net Capital Lease Liability	**$73,409**

The capital lease payments disclosed above primarily relate to FAA and are authorized to be funded annually as codified in the United States Code - Title 49 - Section 40110(c)(1) which addresses general procurement authority. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.

OPERATING LEASES

Fiscal Year	Land, Buildings, Machinery & Other
Future Payments Due	
2015	$294,234
2016	264,378
2017	237,644
2018	177,210
2019	150,259
2020+	521,496
Total Future Lease Payments	**$1,645,221**

Operating lease expenses incurred were $322 million and $326 million for the years ended September 30, 2014 and 2013, respectively, including General Services Administration (GSA) leases that have a short termination privilege; however, DOT intends to remain in the leases. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

NOTE 16. COMMITMENTS AND CONTINGENCIES

LEGAL CLAIMS

As of September 30, 2014 and 2013, DOT's contingent liabilities, in excess of amounts accrued (Note 14), for asserted and pending legal claims reasonably possible of loss were estimated at $23.5 million and $88.7 million, respectively. DOT does not have material amounts of known unasserted claims. As of September 30, 2014 and 2013, DOT's contingent liabilities for asserted and pending legal claims with a probable loss were estimated at $11 million and $4 million, respectively.

GRANT PROGRAMS

FHWA pre-authorizes 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. For the periods ended September 30, 2014 and 2013, FHWA has pre-authorized $46 billion and $45.9 billion each under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2014 and 2013.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment Program (New 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, 2014 and September 30, 2013, FTA had approximately $1.8 billion and $1.86 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, 2014 and 2013.

FAA's Airport Improvement Program 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 95 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 Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. As of September 30, 2014, FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2014, FAA had obligated $6.2 billion of this total amount leaving $1.2 billion unobligated. As of September 30, 2013, FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2013, FAA had obligated $6.0 billion of this total amount, leaving $1.4 billion unobligated.

ENVIRONMENTAL LIABILITIES

As of September 30, 2014, FAA has estimated contingent liabilities, categorized as reasonably possible of $263.9 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.

NATIONAL RAILROAD PASSENGER SERVICE CORPORATION (AMTRAK)

The United States and the Department are not at risk if Amtrak fails and they do not guarantee the indebtedness of Amtrak, whose debt is secured primarily by assets of the corporation. Amtrak has been operating with an accumulated deficit and is dependent upon appropriations from Congress to continue operations. Amtrak has been receiving federal funds from Congress through the Department since approximately 1972. For FY 2014 and FY 2013, the Department issued grants to Amtrak for $1.4 billion and $1.6 billion, respectively. These grants were for both operating and capital improvements. Refer to Note 1W (Significant Accounting Policies) for additional information.

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 are as follows:

HIGHWAY TRUST FUND

The Highway Trust Fund (HTF) is comprised of the Highway Corpus Trust Fund and certain accounts of the FHWA, FMCSA, FTA, FRA and NHTSA. The HTF was created in 1956 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. Overall, there are 72 separate treasury symbols in the HTF.

HTF's programs and activities are primarily financed from excise taxes collected on specific motor fuels, truck taxes, and fines and penalties. The Highway Revenue Act of 1982 established two accounts within the HTF, the Highway Account and the Mass Transit Account.

MASS TRANSIT ACCOUNT

Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) legislation (PL 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. On July 6, 2012, the President signed PL112-141 *Moving Ahead for the Programs in the 21st Century* (MAP-21) which provides current SAFETEA-LU programs and funding through September 30, 2014. The Highway and Transportation Funding Act of 2014 signed on August 8, 2014, extended MAP-21 to May 31, 2015.

AIRPORT AND AIRWAY TRUST FUND

The Airport and Airway Trust Fund (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 the 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
- 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, 2014 and 2013, respectively, funds from dedicated collections are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented.

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

	Highway Trust Fund	Airport & Airway Trust Fund	Mass Transit	Other Funds From Dedicated Collections	Total Funds From Dedicated Collections
Balance Sheet					as of September 30, 2014
Assets					
Fund Balance With Treasury	$4,150,148	$843,426	$212,344	$2,465,582	$7,671,500
Investments, Net	10,695,954	12,813,678	—	2,203,965	25,713,597
Accounts Receivable, Net	41,584	—	4,587	4,228,435	4,274,606
Property, Plant & Equipment	162,004	—	—	2,470,534	2,632,538
Other	190,775	—	259	286,319	477,353
Total Assets	**$15,240,465**	**$13,657,104**	**$217,190**	**$11,654,835**	**$40,769,594**
Liabilities and Net Position					
Accounts Payable	$73,707	$4,100,866	$ —	$382,464	$4,557,037
FECA Liabilities	19,077	—	—	1,116,159	1,135,236
Grant Accrual	4,816,865	—	11,935	719,252	5,548,052
Other Liabilities	181,009	—	1,444	812,720	995,173
Unexpended Appropriations	—	—	(54,857)	1,196,356	1,141,499
Cumulative Results of Operations	10,149,807	9,556,238	258,668	7,427,884	27,392,597
Total Liabilities and Net Position	**$15,240,465**	**$13,657,104**	**$217,190**	**$11,654,835**	**$40,769,594**
Statement of Net Cost					for the period ended September 30, 2014
Program Costs	$52,897,166	$ —	$92,731	$14,942,154	$67,932,051
Less Earned Revenue	154,596	—	—	629,653	784,249
Net Program Costs	**52,742,570**	**—**	**92,731**	**14,312,501**	**67,147,802**
Costs Not Attributable to Programs	—	—	—	213,068	213,068
Net Cost of Operations	**$52,742,570**	**$ —**	**$92,731**	**$14,525,569**	**$67,360,870**
Statement of Changes in Net Position					for the period ended September 30, 2014
Beginning Net Position	$1,332,763	$8,375,676	$362,695	$8,424,440	$18,495,574
Budgetary Financing Sources	61,523,685	1,180,562	(66,153)	15,719,406	78,357,500
Other Financing Sources	35,929	—	—	(994,037)	(958,108)
Net Cost of Operations	52,742,570	—	92,731	14,525,569	67,360,870
Change in Net Position	8,817,044	1,180,562	(158,884)	199,800	10,038,522
Net Position End of Period	**$10,149,807**	**$9,556,238**	**$203,811**	**$8,624,240**	**$28,534,096**

NOTE 17. FUNDS FROM DEDICATED COLLECTIONS (continued)

	Highway Trust Fund	Airport & Airway Trust Fund	Mass Transit	Other Funds From Dedicated Collections	Total Funds From Dedicated Collections
Balance Sheet					as of September 30, 2013
Assets					
Fund Balance With Treasury	$4,305,483	$964,255	$376,918	$2,340,818	$7,987,474
Investments, Net	1,956,740	11,855,481	—	2,008,735	15,820,956
Accounts Receivable, Net	19,351	—	809	4,565,171	4,585,331
Property, Plant & Equipment	160,950	—	—	2,668,415	2,829,365
Other	187,150	—	733	258,503	446,386
Total Assets	**$6,629,674**	**$12,819,736**	**$378,460**	**$11,841,642**	**$31,669,512**
Liabilities and Net Position					
AATF Amounts Due to FAA	$46,071	$4,444,060	$ —	$376,243	$4,866,374
FECA Liabilities	27,771	—	—	1,174,294	1,202,065
Grant Accrual	5,022,883	—	14,320	772,822	5,810,025
Other Liabilities	200,186	—	1,445	1,093,843	1,295,474
Unexpended Appropriations	—	—	11,656	939,399	951,055
Cumulative Results of Operations	1,332,763	8,375,676	351,039	7,485,041	17,544,519
Total Liabilities and Net Position	**$6,629,674**	**$12,819,736**	**$378,460**	**$11,841,642**	**$31,669,512**
Statement of Net Cost					for the period ended September 30, 2013
Program Costs	$51,316,262	$ —	$151,209	$15,487,742	$66,955,213
Less Earned Revenue	165,853	—	1,652	629,290	796,795
Net Program Costs	**51,150,409**	**—**	**149,557**	**14,858,452**	**66,158,418**
Costs Not Attributable to Programs	—	—	—	242,758	242,758
Net Cost of Operations	**$51,150,409**	**$ —**	**$149,557**	**$15,101,210**	**$66,401,176**
Statement of Changes in Net Position					for the period ended September 30, 2013
Beginning Net Position	$10,069,034	$6,384,206	$526,960	$9,897,209	$26,877,409
Budgetary Financing Sources	42,351,313	1,991,470	(14,708)	15,432,849	59,760,924
Other Financing Sources	62,825	—	—	(1,804,408)	(1,741,583)
Net Cost of Operations	51,150,409	—	149,557	15,101,210	66,401,176
Change in Net Position	(8,736,271)	1,991,470	(164,265)	(1,472,769)	(8,381,835)
Net Position End of Period	**$1,332,763**	**$8,375,676**	**$362,695**	**$8,424,440**	**$18,495,574**

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

Intragovernmental Costs and Exchange Revenues for the fiscal year ended September 30, 2014 consist of the following:

	Intra-governmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$188,121	$42,080,133	$42,268,254
Less Earned Revenue	32,623	70,422	103,045
Net Program Costs	**155,498**	**42,009,711**	**42,165,209**
Mass Transit Program			
Gross Costs	37,068	12,407,537	12,444,605
Less Earned Revenue	310,211	—	310,211
Net Program Costs	**(273,143)**	**12,407,537**	**12,134,394**
Other Surface Transportation Programs			
Gross Costs	540,118	5,555,255	6,095,373
Less Earned Revenue	41,772	449,184	490,956
Net Program Costs	**498,346**	**5,106,071**	**5,604,417**
Total Surface Transportation Program Costs	**380,701**	**59,523,319**	**59,904,020**
Air Transportation			
Gross Costs	2,597,088	13,996,950	16,594,038
Less Earned Revenue	255,006	371,815	626,821
Net Program Costs	**2,342,082**	**13,625,135**	**15,967,217**
Maritime Transportation			
Gross Costs	8,427	718,622	727,049
Less Earned Revenue	411,437	48,511	459,948
Net Program Costs	**(403,010)**	**670,111**	**267,101**
Cross-Cutting Programs			
Gross Costs	68,739	589,505	658,244
Less Earned Revenue	242,039	3,481	245,520
Net Program Costs	**(173,300)**	**586,024**	**412,724**
Costs Not Assigned to Programs	52,120	351,835	403,955
Less: Earned Revenues Not Attributed to Programs	421	377	798
Net Cost of Operations	**$2,198,172**	**$74,756,047**	**$76,954,219**

NOTE 18. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES (continued)

Intragovernmental Costs and Exchange Revenues for the fiscal year ended September 30, 2013 consist of the following:

	Intra-governmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$191,911	$41,597,928	$41,789,839
Less Earned Revenue	23,860	39,298	63,158
Net Program Costs	**168,051**	**41,558,630**	**41,726,681**
Mass Transit Program			
Gross Costs	39,005	11,719,276	11,758,281
Less Earned Revenue	305,107	939	306,046
Net Program Costs	**(266,102)**	**11,718,337**	**11,452,235**
Other Surface Transportation Programs			
Gross Costs	505,716	6,634,859	7,140,575
Less Earned Revenue	152,198	384,914	537,112
Net Program Costs	**353,518**	**6,249,945**	**6,603,463**
Total Surface Transportation Program Costs	**255,467**	**59,526,912**	**59,782,379**
Air Transportation			
Gross Costs	2,621,816	14,123,475	16,745,291
Less Earned Revenue	257,142	403,582	660,724
Net Program Costs	**2,364,674**	**13,719,893**	**16,084,567**
Maritime Transportation			
Gross Costs	42,514	683,681	726,195
Less Earned Revenue	351,565	36,939	388,504
Net Program Costs	**(309,051)**	**646,742**	**337,691**
Cross-Cutting Programs			
Gross Costs	67,983	588,037	656,020
Less Earned Revenue	259,218	3,551	262,769
Net Program Costs	**(191,235)**	**584,486**	**393,251**
Cost Not Assigned to a Program	51,430	385,366	436,796
Less: Earned Revenues Not Attributed to Programs	500	(146)	354
Net Cost of Operations	**$2,170,785**	**$74,863,545**	**$77,034,330**

NOTE 19. EXCISE TAXES AND OTHER NON-EXCHANGE REVENUE

The Internal Revenue Service (IRS) collects various excise taxes that are deposited into the Highway Trust Fund (HTF) and the Airport and Airway Trust Fund (AATF). OTA estimates the amount collected/revenue recognized monthly, and adjusts the estimates 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, 2014 and excise tax revenue estimates for the quarter ended September 30, 2014. As a result, total taxes recognized in the DOT fiscal year 2014 financial statements include the OTA estimate of $12.5 billion for the quarter ended September 30, 2014 and the actual amounts certified through June 30, 2014 of $38.7 billion. The total taxes recognized for the previous two fiscal years include OTA estimates which are certified by the IRS in January of the subsequent fiscal years, as follows:

	September 30, 2013	September 30, 2012
Actual	$13,685,816	$13,630,316
Estimate	12,780,203	13,914,153
Under (Over) Accrual	**$905,613**	**$ (283,837)**

For the years ended September 30, 2014 and 2013, respectively, excise taxes and associated nonexchange revenue, which are reported on the Statement of Changes in Net Position, were as follows:

NON-EXCHANGE REVENUE

	September 30, 2014	September 30, 2013
Highway Trust Fund		
Excise Taxes and Other Non-Exchange Revenue		
Gasoline	$24,992,263	$23,462,805
Diesel and Special Motor Fuels	10,183,597	9,468,623
Trucks	5,036,970	4,647,322
Investment Income	3,574	6,366
Fines and Penalties	18,604	15,454
Total Taxes	**40,235,008**	**37,600,570**
Less: Transfers	(1,182,205)	(1,130,945)
Other Non-Exchange Revenue	94	59
Net Highway Trust Fund Excise Taxes & Other Non-Exchange Revenue	**39,052,897**	**36,469,684**

NOTE 19. EXCISE TAXES AND OTHER NON-EXCHANGE REVENUE (continued)

NON-EXCHANGE REVENUE (continued)

	September 30, 2014	September 30, 2013
Federal Aviation Administration		
Excise Taxes and Other Non-Exchange Revenue		
Passenger Ticket	9,286,011	8,769,362
International Departure	3,197,616	2,911,287
Fuel (Air)	579,940	572,289
Waybill	465,288	618,896
Investment Income	240,204	233,555
Tax Refunds and Credits	(16,341)	(18,274)
Other	52,669	34,475
Net Federal Aviation Administration Excise Taxes & Other Non-Exchange Revenue	**13,805,387**	**13,121,590**
Other Miscellaneous Net Non-Exchange Revenue	18,762	107,630
Total Non-Exchange Revenue	**$52,877,046**	**$49,698,904**

NOTE 20. COMBINED STATEMENT OF BUDGETARY RESOURCES

The amount of direct and reimbursable obligations incurred 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:

			2014			2013
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$7,935,908	$452,555	$8,388,463	$6,201,872	$506,291	$6,708,163
Category B	107,133,794	1,227,662	108,361,456	82,388,519	1,435,568	83,824,087
Exempt From Apportionment	23,930	330,196	354,126	42,607	290,207	332,814
Total	**$115,093,632**	**$2,010,413**	**$117,104,045**	**$88,632,998**	**$2,232,066**	**$90,865,064**

The increase in obligations incurred was caused by an additional transfer to the FY 2014 Restoration of the Highway Trust Fund over FY 2013 amounts; increases in the Transportation Emergency Relief funding; increases in operating expenses from the FAA and; other general program increases including grants and credit reform.

	2014	2013
Available Contract Authority at Year-End	$18,734,558	$22,065,228
Available Borrowing Authority at Year-End	$7,422,435	$2,295,600
Undelivered Orders at Year-End(1)	$112,813,173	$106,220,153

(1) The amounts reported for undelivered orders only include balances obligated for goods and services not delivered and does not include prepayments.

TERMS OF BORROWING AUTHORITY USED

Under the provisions of the Federal Credit Reform Act of 1990, DOT's direct loan and loan guarantee programs are authorized to borrow funds from Treasury to support its credit programs. All loan draw downs 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 re-estimates.

EXISTENCE, PURPOSE, AND AVAILABILITY OF PERMANENT INDEFINITE APPROPRIATIONS

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

UNOBLIGATED BUDGETARY RESOURCES

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available. Unobligated balances of budgetary resources that are unapportioned primarily represent contract authority which has no limitation and are not available for obligation.

NOTE 20. COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)

STATEMENT OF BUDGETARY RESOURCES VS BUDGET OF THE UNITED STATES GOVERNMENT

The reconciliation for the fiscal year ended September 30, 2013 is presented below. The reconciliation for the fiscal year ended September 30, 2014 is not presented, because the submission of the Budget of the United States (Budget) for FY 2016, which presents the execution of the FY 2014 budget, occurs after publication of these financial statements. The U.S. Department of Transportation Budget Appendix can be found on the OMB website (http://www.gpo.gov/fdsys) and will be available in early February 2015.

Dollars in Millions	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$147,579	$90,865	$(6,221)	$84,343
Funds Not Reported in the Budget				
Expired Funds	(795)	—	—	—
Distributed Offsetting Receipts	—	—	6,221	—
Other	(8)	(5)	—	2
Budget of the United States Government	**$146,776**	**$90,860**	**$ —**	**$84,345**

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

NOTE 21. 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.

For the years ended September 30

	2014	2013
Resources Used To Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$117,104,045	$90,865,064
Less: Spending Authority From Offsetting Collections, Recoveries and Other Changes to Obligated Balances	10,778,388	8,884,243
Obligations Net of Offsetting Collections and Recoveries	106,325,657	81,980,821
Less: Distributed Offsetting Receipts	(22,960,632)	(6,220,753)
Net Obligations	**83,365,025**	**75,760,068**
Other Resources		
Donations and Forfeitures of Property	43,784	78,599
Transfers in/out Without Reimbursement	59,259	107,172
Imputed Financing From Costs Absorbed by Others	688,742	693,558
Other	(599,094)	(369,902)
Net Other Resources Used To Finance Activities	**192,691**	**509,427**
Total Resources Used To Finance Activities	**$83,557,716**	**$76,269,495**
Resources Used To Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	6,615,943	(2,710,345)
Resources That Fund Expenses Recognized in Prior Periods	252,786	275,741
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(953,064)	(459,718)
Other/Change in Unfilled Customer Orders	(102,905)	142,518
Special Transfers From the U.S. Treasury	(22,457,894)	(5,883,800)
Resources That Finance the Acquisition of Assets	3,622,258	3,592,394
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	21,640,235	6,051,271
Total Resources Used To Finance Items Not Part of the Net Cost of Operations	**8,617,359**	**1,008,061**
Total Resources Used To Finance the Net Cost of Operations	**$74,940,357**	**$75,261,434**

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

	2014	2013
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	$6,689	$829
Increase in Environment and Disposal Liability	258,638	—
Upward/Downward Reestimates of Credit Subsidy Expense	(686,071)	(119,992)
Change in Exchange Revenue Receivable From the Public	(13,648)	(3,726)
Change in Other Liabilities	231,138	230,473
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**(203,254)**	**107,584**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	1,310,003	1,341,059
Revaluation of Assets or Liabilities	161,026	(39,884)
Other Expenses and Adjustments Not Otherwise Classified Above	746,087	364,137
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**2,217,116**	**1,665,312**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**2,013,862**	**1,772,896**
Net Cost of Operations	**$76,954,219**	**$77,034,330**

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.

SCHEDULE OF FIDUCIARY ACTIVITY

For the year ended September 30

	2014	2013
Fiduciary Net Assets, Beginning of Year	$130,183	$354,106
Contributions	86,165	305
Investment Earnings	—	91
Gain (Loss) on Disposition of Investments, Net	(6)	—
Disbursements to and on Behalf of Beneficiaries	(199,545)	(224,319)
Increases/(Decreases) in Fiduciary Net Assets	(113,386)	(223,923)
Fiduciary Net Assets, End of Year	**$16,797**	**$130,183**

FIDUCIARY NET ASSETS

As of September 30

	2014	2013
Fiduciary Fund Balance With Treasury	$286	$291
Investments in Treasury Securities	16,511	129,892
Total Fiduciary Net Assets	**$16,797**	**$130,183**

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

DEFERRED MAINTENANCE (Unaudited)

For the Periods Ended September 30

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition*	2014 Cost To Return to Acceptable Condition**	2013 Cost To Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$70,341	$89,183
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	446,000	413,297
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	2	11,555	3,936
	Real Property, Structure U.S. Merchant Marine Academy, NY	Condition Assessment Survey	1	25	10
	Real Property, Structure U.S. Merchant Marine Academy, NY	Condition Assessment Survey	2 & 3	22,525	24,640
	Real Property, Structure U.S. Merchant Marine Academy, NY	Condition Assessment Survey	4 & 5	45,320	48,100
	Other (Fleet Craft)	Condition Assessment Survey	2	26,910	26,902
Total				**$622,676**	**$606,068**

***Asset Condition Rating Scale**

1—Excellent
2—Good
3—Fair
4—Poor
5—Very Poor

****Acceptable Condition Is**

FAA Buildings	3—Fair	
FAA Other Structures and Facilities	3—Fair	
MARAD Vessels, Ready Reserve Force	1—Excellent	Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD Real Property, Buildings	3—Fair	Buildings are safe and habitable.
MARAD Real Property, Structures	3—Fair	Adequate water depth, shore power, and mooring capabilities.
	4—Poor	Structure needs major repairs. The majority of the components are marginally functional or jeopardized.
	5—Very Poor	Age and/or condition is such that the item should be replaced or undergo major renovation. Structure is not safe and is inhabitable.

Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is the act of keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited)

For the period ended September 30, 2014

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budgetary Resources						
Unobligated Balance, Brought Forward, October 1	$27,858,807	$3,606,803	$20,641,487	$559,330	$4,047,253	$56,713,680
Recoveries of Prior Year Unpaid Obligations	—	298,606	162,309	40,858	452,628	954,401
Other Changes in Unobligated Balance	18,371	(93,199)	(22,883)	(5,440)	45,758	(57,393)
Unobligated Balance From Prior Year Budget Authority, Net	**27,877,178**	**3,812,210**	**20,780,913**	**594,748**	**4,545,639**	**57,610,688**
Appropriations	—	12,385,464	2,149,643	411,109	24,998,905	39,945,121
Borrowing Authority	—	—	—		7,422,435	7,422,435
Contract Authority	39,566,372	3,480,000	9,875,989	—	1,256,526	54,178,887
Spending Authority From Offsetting Collections	101,833	7,371,311	1,753	394,566	1,323,420	9,192,883
Total Budgetary Resources	**$67,545,383**	**$27,048,985**	**$32,808,298**	**$1,400,423**	**$39,546,925**	**$168,350,014**
Status of Budgetary Resources						
Obligations Incurred	$41,397,243	$23,012,474	$15,743,317	$878,325	$36,072,686	$117,104,045
Unobligated Balance, End of Year						
Apportioned	10,737,065	1,602,316	17,011,432	223,806	2,321,069	31,895,688
Exempt From Apportionment	—	—	—	3,940	320,515	324,455
Unapportioned	15,411,075	2,434,195	53,549	294,352	832,655	19,025,826
Unobligated Balance, End of Year	26,148,140	4,036,511	17,064,981	522,098	3,474,239	51,245,969
Total Budgetary Resources	**$67,545,383**	**$27,048,985**	**$32,808,298**	**$1,400,423**	**$39,546,925**	**$168,350,014**
Change in Obligated Balances						
Unpaid Obligations						
Unpaid Obligations, Brought Forward, October 1	$66,931,375	$8,793,783	$19,141,886	$301,223	$18,842,817	$114,011,084
Obligations Incurred	41,397,243	23,012,474	15,743,317	878,325	36,072,686	117,104,045
Outlays (Gross)	(42,634,315)	(22,919,912)	(12,295,424)	(824,090)	(31,328,254)	(110,001,995)
Actual Transfers, Unpaid Obligations (Net) (+ or -)	—	—	—	—	10,000	10,000
Recoveries of Prior Year Unpaid Obligations	—	(298,606)	(162,309)	(40,858)	(452,628)	(954,401)
Unpaid Obligations, End of Year (Gross)	**65,694,303**	**8,587,739**	**22,427,470**	**314,600**	**23,144,621**	**120,168,733**
Uncollected Payments						
Uncollected Payments, Federal Sources, Brought Forward, October 1	(776,902)	(275,863)	(59,052)	(100,405)	(478,937)	(1,691,159)
Change in Uncollected Payments, Federal Sources	22,554	52,294	14,306	(431)	(286,555)	(197,832)
Uncollected Payments, Federal Sources, End of Year	**(754,348)**	**(223,569)**	**(44,746)**	**(100,836)**	**(765,492)**	**(1,888,991)**
Obligated Balance, Start of Year (Net)	66,154,473	8,517,920	19,082,834	200,818	18,363,880	112,319,925
Obligated Balance, End of Year (Net)	**$64,939,955**	**$8,364,170**	**$22,382,724**	**$213,764**	**$22,379,129**	**$118,279,742**

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

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

For the period ended September 30, 2014

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budget Authority and Outlays, Net						
Budget Authority, Gross	$39,668,205	$23,236,775	$12,027,385	$805,675	$35,001,286	$110,739,326
Actual Offsetting Collections	(124,387)	(7,423,706)	(16,058)	(431,135)	(1,677,455)	(9,672,741)
Change in Uncollected Customer Payments From Federal Sources	22,554	52,294	14,306	(431)	(286,555)	(197,832)
Budget Authority, Net	**$39,566,372**	**$15,865,363**	**$12,025,633**	**$374,109**	**$33,037,276**	**$100,868,753**
Outlays, Gross	$42,634,315	$22,919,912	$12,295,424	$824,090	$31,328,254	$110,001,995
Actual Offsetting Collections	(124,387)	(7,423,706)	(16,058)	(431,135)	(1,677,455)	(9,672,741)
Outlays, Net	**42,509,928**	**15,496,206**	**12,279,366**	**392,955**	**29,650,799**	**100,329,254**
Distributed Offsetting Receipts	—	(5,700)	(7,427)	(39,878)	(22,907,627)	(22,960,632)
Agency Outlays, Net	**$42,509,928**	**$15,490,506**	**$12,271,939**	**$353,077**	**$6,743,172**	**$77,368,622**

COMBINING STATEMENTS OF BUDGETARY RESOURCES BY MAJOR ACCOUNT (Unaudited)

For the period ended September 30, 2013

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Budgetary Resources						
Unobligated Balance Brought Forward, October 1	$30,017,656	$3,519,678	$10,055,116	$586,682	$3,373,401	$47,552,533
Recoveries of Prior Year Unpaid Obligations	—	373,663	91,161	45,265	535,849	1,045,938
Other Changes in Unobligated Balance	21,012	(85,116)	(47,331)	(2,854)	(27,877)	(142,166)
Unobligated Balance From Prior Year Budget Authority, Net	**30,038,668**	**3,808,225**	**10,098,946**	**629,093**	**3,881,373**	**48,456,305**
Appropriations	—	11,924,500	12,307,834	339,064	11,061,273	35,632,671
Borrowing Authority	—	—	—	46,532	2,249,068	2,295,600
Contract Authority	38,776,167	3,343,300	9,890,360	(10,746)	1,367,502	53,366,583
Spending Authority From Offsetting Collections	379,904	5,910,887	23,852	415,565	1,097,377	7,827,585
Total Budgetary Resources	**$69,194,739**	**$24,986,912**	**$32,320,992**	**$1,419,508**	**$19,656,593**	**$147,578,744**
Status of Budgetary Resources						
Obligations Incurred	$41,335,932	$21,380,109	$11,679,505	$860,178	$15,609,340	$90,865,064
Unobligated Balance, End of Year						
Apportioned	12,870,704	1,388,704	20,591,066	255,638	2,971,586	38,077,698
Exempt From Apportionment	—	—	—	3,605	324,153	327,758
Unapportioned	14,988,103	2,218,099	50,421	300,087	751,514	18,308,224
Total Unobligated Balance, End of Year	**27,858,807**	**3,606,803**	**20,641,487**	**559,330**	**4,047,253**	**56,713,680**
Total Budgetary Resources	**$69,194,739**	**$24,986,912**	**$32,320,992**	**$1,419,508**	**$19,656,593**	**$147,578,744**

REQUIRED SUPPLEMENTARY INFORMATION (RSI) (continued)

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

For the period ended September 30, 2013

Dollars in Thousands	Federal-Aid	FAA	FTA	MARAD	All Other	Total
Change in Obligated Balances						
Unpaid Obligations						
Unpaid Obligations, Brought Forward, October 1	$67,461,777	$9,268,750	$19,230,337	$378,340	$20,024,816	$116,364,020
Obligations Incurred	41,335,932	21,380,109	11,679,505	860,178	15,609,340	90,865,064
Outlays (Gross)	(41,866,334)	(21,481,413)	(11,676,795)	(892,030)	(16,264,981)	(92,181,553)
Actual Transfers, Unpaid Obligations	—	—	—	—	9,491	9,491
Recoveries of Prior Year Unpaid Obligations	—	(373,663)	(91,161)	(45,265)	(535,849)	(1,045,938)
Unpaid Obligations, End of Year (Gross)	**66,931,375**	**8,793,783**	**19,141,886**	**301,223**	**18,842,817**	**114,011,084**
Uncollected Payments						
Uncollected Payments, Federal Sources, Brought Forward, October 1	(521,159)	(330,705)	(58,163)	(123,682)	(438,119)	(1,471,828)
Change in Uncollected Payments, Federal Sources	(255,743)	54,842	(889)	23,277	(40,818)	(219,331)
Uncollected Payments, Federal Sources, End of Year	**(776,902)**	**(275,863)**	**(59,052)**	**(100,405)**	**(478,937)**	**(1,691,159)**
Obligated Balance, Start of Year (Net)	66,940,618	8,938,045	19,172,174	254,658	19,586,697	114,892,192
Obligated Balance, End of Year (Net)	**$66,154,473**	**$8,517,920**	**$19,082,834**	**$200,818**	**$18,363,880**	**$112,319,925**
Budget and Authority and Outlays, Net						
Budget Authority, Gross	$39,156,071	$21,178,687	$22,222,046	$790,415	$15,775,220	$99,122,439
Actual Offsetting Collections	(124,161)	(5,969,567)	(22,962)	(441,340)	(1,280,027)	(7,838,057)
Change in Uncollected Customer Payments From Federal Sources	(255,743)	54,842	(889)	23,277	(40,818)	(219,331)
Budget Authority, Net	**$38,776,167**	**$15,263,962**	**$22,198,195**	**$372,352**	**$14,454,375**	**$91,065,051**
Outlays, Gross	$41,866,334	$21,481,413	$11,676,795	$892,030	$16,264,981	$92,181,553
Actual Offsetting Collections	(124,161)	(5,969,567)	(22,962)	(441,340)	(1,280,027)	(7,838,057)
Outlays, Net	**41,742,173**	**15,511,846**	**11,653,833**	**450,690**	**14,984,954**	**84,343,496**
Distributed Offsetting Receipts	—	(2,801)	(1,156)	(41,623)	(6,175,173)	(6,220,753)
Agency Outlays, Net	**$41,742,173**	**$15,509,045**	**$11,652,677**	**$409,067**	**$8,809,781**	**$78,122,743**

AVIATION INSURANCE PROGRAM (Unaudited)

FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the foreign policy of the United States. FAA may issue non-premium insurance and premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

During FY 2014, FAA provided premium war-risk insurance to 27 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $3 billion. Under a current legislative proposal, if enacted, would reduce the number of air carriers with premium war-risk coverage and insurance in force significantly. FAA also provided non-premium war-risk insurance to 38 carriers with 2,659 aircraft for Department of Defense charter operations for Central Command.

As of September 30, 2014, there are no pending aviation insurance claims. There is approximately $2.2 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and State Department have agreed to pay claims to the carriers covered by non-premium insurance.

MARINE WAR RISK INSURANCE PROGRAM (Unaudited)

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) non-premium insurance for vessels under charter operations for the Military Sealift Command.

For FY 2014 and FY 2013, MARAD wrote non-premium war risk insurance with a total coverage per year of $463.7 million. The Department of Defense has fully indemnified MARAD for any losses arising out of the non-premium insurance. There have been no losses and no claims are outstanding for this non-premium insurance. There is approximately $47.5 million in the Marine War Risk Insurance fund to reimburse operators that may be covered by premium insurance in future periods. MARAD has not issued premium War Risk Insurance in approximately 20 years. MARAD would have to request Presidential authority to write any premium insurance and no such request is pending at this time.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI)

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

For the fiscal years ended September 30

Dollars in Thousands	2010	2011	2012	2013	2014
Surface Transportation					
Federal Highway Administration					
Federal Aid Highways (HTF)	$29,649,943	$34,556,573	$39,048,865	$40,380,481	$41,408,224
Other Highway Trust Fund Programs	155,061	148,271	99,127	134,204	44,974
General Fund Programs	11,616,036	7,906,180	3,203,055	1,282,624	563,358
Appalachian Development System	90,091	243,853	288,473	280,380	60,925
Federal Motor Carrier	—	—	(15,998)	—	19
Total Federal Highway Administration	**41,511,131**	**42,854,877**	**42,623,522**	**42,077,689**	**42,077,500**
Federal Transit Administration					
Discretionary Grants	$17,171	$25,068	$12,682	$6,672	$9,595
Formula Grants	428,696	220,047	171,134	133,830	98,421
Capital Investment Grants	1,930,185	1,924,741	2,439,812	2,111,680	2,072,587
Washington Metro Area Transit Authority	—	110,321	91,153	148,469	73,356
Formula and Bus Grants	7,345,804	7,182,145	8,197,321	8,091,511	9,126,685
Total Federal Transit Administration	**9,721,856**	**9,462,322**	**10,912,102**	**10,492,162**	**11,380,644**
Total Surface Transportation Non-Federal Physical Property Investments	**$51,232,987**	**$52,317,199**	**$53,535,624**	**$52,569,851**	**$53,458,144**
Air Transportation					
Federal Aviation Administration					
Airport Improvement Program	$4,015,463	$3,388,712	$3,139,685	$3,603,209	$3,189,449
Total Air Transportation Non-Federal Physical Property Investments	**$4,015,463**	**$3,388,712**	**$3,139,685**	**$3,603,209**	**$3,189,449**
Total Non-Federal Physical Property Investments	**$55,248,450**	**$55,705,911**	**$56,675,309**	**$56,173,060**	**$56,647,593**

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

The Federal Transit Administration provides grants to State and local transit authorities and agencies.

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.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI) (continued)

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.

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

The Federal Aviation Administration (FAA) makes project grants for airport planning and development under the Airport Improvement Program (AIP) to maintain a safe and efficient nationwide system of public-use airports that meet both present and future needs of civil aeronautics. FAA works to improve the infrastructure of the nation's airports, in cooperation with airport authorities, local and State governments, and metropolitan planning authorities.

HUMAN CAPITAL INVESTMENT EXPENSES ANNUAL STEWARDSHIP INFORMATION (Unaudited)

For the fiscal years ended September 30

Dollars in Thousands	2010	2011	2012	2013	2014
Surface Transportation					
Federal Highway Administration					
National Highway Institute Training	$109	$133	$508	$1,184	$587
Federal Motor Carrier Safety Administration					
Safety Grants	845	636	1,342	2,669	4,585
Idaho Video	9	—	—	—	—
Federal Transit Administration					
National Transit Institute Training	3,886	3,246	3,550	2,926	3,358
National Highway Traffic Safety Administration					
Section 403 Highway Safety Programs	138,221	123,340	118,169	127,644	124,750
Highway Traffic Safety Grants	565,787	576,063	514,816	517,788	633,512
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	13,153	16,974	17,808	18,127	17,204
Total Surface Transportation Human Capital Investments	**722,010**	**720,392**	**656,193**	**670,338**	**783,996**
Maritime Transportation					
Maritime Administration					
State Maritime Academies Training[(1)]	10,810	11,459	13,746	11,208	10,281
Additional Maritime Training	2,365	2,146	—	2,400	2,274
Total Maritime Transportation Human Capital Investments	**13,175**	**13,605**	**13,746**	**13,608**	**12,555**
Total Human Capital Investments	**$735,185**	**$733,997**	**$669,939**	**$683,946**	**$796,551**

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

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

The FMCSA provides Motor Carrier Safety Assistance Program High Priority grants to educate the general public about truck safety issues. CMV training grants are awarded to help people obtain their CDL license. The Idaho Video Program develops video training material utilized by the FMCSA National Training Center for the purpose of training State and local law enforcement personnel.

The National Transit Institute of the Federal Transit Administration develops and offers training courses to improve transit planning and operations. Technology courses cover such topics as alternative fuels, turnkey project delivery systems, communications-based train controls, and integration of advanced technologies.

The National Highway Traffic Safety Administration's (NHTSA) programs authorized under the Highway Trust Fund 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.

The Pipeline and Hazardous Materials Safety Administration administers Hazardous Material Training (Hazmat). The purpose of Hazmat Training is to train State and local emergency personnel on the handling of hazardous materials in the event of a hazardous material spill or storage problem.

The Maritime Administration'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	2010	2011	2012	2013	2014
Surface Transportation					
Federal Highway Administration					
Intelligent Transportation Systems	$129,993	$98,694	$100,467	$103,510	$58,719
Other Applied Research and Development	159,389	244,156	12,042	9,977	12,444
Federal Railroad Administration					
Railroad Research and Development Program	5,647	6,027	13,742	5,301	4,317
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	7,228	13,751	21,700	22,518	15,922
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Development Research and Development Pipeline Safety					
Applied Research and Development Pipeline Safety	7,362	2,365	8,073	7,862	10,449
Applied Research and Development Hazardous Materials	1,622	2,855	1,636	1,666	1,635
Research and Innovative Technology Administration					
Applied Research and Development					
Research and Technology	6,137	6,134	5,792	5,755	7,043
Total Surface Transportation Research and Development Investments	**317,378**	**373,982**	**163,452**	**156,589**	**110,529**
Air Transportation					
Federal Aviation Administration					
Research and Development Plant	5,590	5,848	18,974	26,086	12,479
Applied Research	103,042	129,954	133,932	119,952	155,883
Development	2,008	2,238	1,311	312	40
Administration	36,723	35,875	37,482	35,929	32,572
Total Air Transportation Research and Development Investments	**147,363**	**173,915**	**191,699**	**182,279**	**200,974**
Total Research and Development Investments	**$464,741**	**$547,897**	**$355,151**	**$338,868**	**$311,503**

The Federal Highway Administration's research and development programs are earmarks in the appropriations bills for the fiscal year. Typically, these programs are related to safety, pavements, structures, and environment. Intelligent Transportation Systems were created to promote automated highways and vehicles to enhance the national highway system. The output is in accordance with the specifications within the appropriations act.

The Federal Transit Administration supports research and development in the following program areas:

Research and development in Transit Planning and Research supports two major areas: the National Research Program and the Transit Cooperative Research Program. The National Research Program funds the research and development of innovative transit technologies such as safety-enhancing commuter rail control systems, hybrid electric buses, and fuel cell and battery-powered propulsion systems. The Transit Cooperative Research Program focuses on issues significant to the transit industry with emphasis on local problem-solving research.

The Federal Railroad Administration (FRA) research and development projects contribute vital inputs to its safely regulatory processes, to railroad suppliers, to railroads involved in transportation of freight, intercity passengers, 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 R&D program.

The Pipeline and Hazardous Materials Safety Administration funds research and development activities for the following organizations and activities.

The Office of Pipeline Safety is involved in research and development in information systems, risk assessment, mapping, and non-destructive evaluation.

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

The Office of the Secretary's Office of the Assistant Secretary for Research and Technology (formerly Research and Innovative Technology Administration) is the research and innovation focal point in advancing the 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.

The Federal Aviation Administration 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 in-flight de-icing operations; better tools to predict and warn of weather hazards, turbulence and wake vortices; aviation medicine, and human factors.

OTHER INFORMATION

SCHEDULE OF SPENDING

The Schedule of Spending (SOS) presented below is an overview of the FY 2014 and FY 2013 resources of DOT. The schedule shows the available funds (money) and how they were spent. The schedule is presented to help the public better understand the amount of money that was provided to DOT, how DOT spent the money, and to whom the money was paid. The SOS presents total budgetary resources and fiscal year-to-date total obligations for the reporting entity. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR).

SCHEDULE OF SPENDING (Unaudited)

For the period ended September 30

Dollars in Thousands	2014 Budgetary	2014 Non-Budgetary Credit Reform Financing Accounts	2013 Budgetary	2013 Non-Budgetary Credit Reform Financing Accounts
What Money Is Available To Spend?				
Total Resources	$160,068,987	$8,281,027	$144,698,264	$2,880,480
Less Amount Available but Not Agreed To Be Spent	32,194,857	25,286	38,380,880	24,576
Less Amount Not Available To Be Spent	18,807,817	218,009	18,069,800	238,424
Total Amounts Agreed To Be Spent	**$109,066,313**	**$8,037,732**	**$88,247,584**	**$2,617,480**
How Was the Money Spent/Issued?				
Surface Transportation				
1. Personnel Compensation and Benefits	$957,546	$ —	$909,433	$ —
2. Contractual Services and Supplies	1,932,925	—	2,291,347	—
3. Acquisition of Assets	925,635	7,986,063	312,484	2,542,186
4. Grants and Fixed Charges	58,081,153	36,177	54,633,821	35,559
5. Other	21,602,057	1	5,885,052	—
Air Transportation				
1. Personnel Compensation and Benefits	7,432,515	—	7,499,646	—
2. Contractual Services and Supplies	5,368,636	—	5,338,487	—
3. Acquisition of Assets	362,529	—	350,852	—
4. Grants and Fixed Charges	3,357,094	—	3,124,754	—
5. Other	6,491,700	—	5,066,370	—
Maritime Transportation				
1. Personnel Compensation and Benefits	100,338	—	99,787	—
2. Contractual Services and Supplies	454,911	—	496,146	92
3. Acquisition of Assets	42,588	—	26,634	—
4. Grants and Fixed Charges	231,359	15,243	190,919	39,581
5. Other	33,800	87	6,982	37
Cross-Cut Transportation				
1. Personnel Compensation and Benefits	160,589	—	155,370	—
2. Contractual Services and Supplies	606,585	—	569,236	—
3. Acquisition of Assets	25,681	—	13,618	—
4. Grants and Fixed Charges	3	—	5	—
5. Other	(62,515)	—	(52,022)	—
Not Assigned				
1. Personnel Compensation and Benefits	135,310	—	134,252	—
2. Contractual Services and Supplies	96,137	—	82,492	—
3. Acquisition of Assets	11,768	—	9,072	—
4. Grants and Fixed Charges	250,939	161	255,749	25
5. Other	467,030	—	847,098	—
Total Amounts Agreed To Be Spent	**$109,066,313**	**$8,037,732**	**$88,247,584**	**$2,617,480**

SCHEDULE OF NET COST BY STRATEGIC GOAL

The Schedule of Net Cost by Strategic Goal reports the DOT operational net cost to reflect the net cost of operations by each of the Department's six goals in its FY 2014 Budget submission to provide the linkage between cost and performance as related to each goal. DOT programs are generally complex and incorporate significant projects within multiple Operating Administrations (OA) and organizations within the OAs. These projects are linked to multiple organizational and department–wide strategic goals. This complexity makes it difficult to track the costs related to the department-wide strategic goals. Additionally, in order to determine the costs by strategic goals, OAs would need to analyze each project and determine allocation of costs to appropriate strategic goals.

SCHEDULE OF NET COST BY STRATEGIC GOAL (Unaudited)

For the period ended September 30, 2014

	Strategic Goal Areas						
Dollars in Thousands	Safety	State of Good Repair	Livable Communities	Environmental Sustainability	Economic Competitive-ness	Organization Excellence	Total
Surface Transportation							
Federal Highway Administration	$8,620,189	$20,132,603	$3,724,431	$4,821,055	$6,038,381	$ —	$43,336,659
Federal Transit Administration	233,154	2,423,601	9,357,663	29,320	13,139	115,926	12,172,803
Federal Railroad Administration	477,882	441,750	945,157	399,730	531,991	15,964	2,812,474
Federal Motor Carrier Safety Administration	532,811	—	—	—	3,107	16,490	552,408
National Highway Safety Administration	873,985	—	1,862	22,086	—	—	897,933
Pipeline and Hazardous Materials Safety Administration	74,525	—	—	—	—	—	74,525
Surface Transportation Board	—	—	—	—	—	57,218	57,218
Subtotal	**10,812,546**	**22,997,954**	**14,029,113**	**5,272,191**	**6,586,618**	**205,598**	**59,904,020**
Air Transportation							
Federal Aviation Administration	7,813,702	934,815	—	492,062	5,362,744	1,363,894	15,967,217
Subtotal	**7,813,702**	**934,815**	**—**	**492,062**	**5,362,744**	**1,363,894**	**15,967,217**
Maritime Transportation							
Maritime Administration	—	—	—	5,273	241,182	20,646	267,101
Subtotal	**—**	**—**	**—**	**5,273**	**241,182**	**20,646**	**267,101**
Other Programs							
Office of the Secretary	79,822	79,642	290,854	83,624	89,924	122,133	745,999
Office of Inspector General	—	—	—	—	—	69,882	69,882
Subtotal	**79,822**	**79,642**	**290,854**	**83,624**	**89,924**	**192,015**	**815,881**
Total Net Cost	**$18,706,070**	**$24,012,411**	**$14,319,967**	**$5,853,150**	**$12,280,468**	**$1,782,153**	**$76,954,219**

AFFILIATED ACTIVITIES

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

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

Dollars in Thousands	2014	2013
Condensed Information		
Cash and Short-Term Time Deposits	$30,357	$30,569
Long-Term Time Deposits	1,188	1,293
Accounts Receivable	74	111
Inventories	284	284
Other Current Assets	26	28
Property, Plant and Equipment	123,201	111,961
Deferred Charges	4,742	4,815
Other Assets	687	690
Total Assets	**$160,559**	**$149,751**
Current Liabilities	$4,415	$5,109
Actuarial Liabilities	4,742	4,815
Total Liabilities	**9,157**	**9,924**
Invested Capital	138,358	127,106
Cumulative Results of Operations	13,044	12,721
Total Net Position	**151,402**	**139,827**
Total Liabilities and Net Position	**$160,559**	**$149,751**
Operating Revenues	$18,297	$8,161
Operating Expenses	21,229	19,318
Operating Income (Loss)	**(2,932)**	**(11,157)**
Other Financing Sources	3,255	3,018
Operating Revenues and Other Financing Sources Over (Under) Operating Expenses	**323**	**(8,139)**
Beginning Cumulative Results of Operations (Deficit)	12,721	20,860
Ending Cumulative Results of Operations (Deficit)	**$13,044**	**$12,721**

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

TABLE 1. SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unmodified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Lack of Sufficient General Information Technology Controls at the Federal Transit Adminsitration	0	1	0	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	**0**	**1**

TABLE 2. SUMMARY OF MANAGEMENT ASSURANCES

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

Statement of Assurance	Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FTA—Material Weakness	0	1	0	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	**0**	**1**

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

Statement of Assurance	Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FISMA Noncompliance	1					1
Total Material Weaknesses	**1**	**0**	**0**	**0**	**0**	**1**

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

Statement of Assurance	Systems conform, except for the below Non-Conformance

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FTA—Lack of Substantial Compliance With System Requirements	0	1	0	0	0	1

Conformance With Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
1. System Requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

Memorandum

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

Subject: **INFORMATION:** DOT's Fiscal Year 2015 Top Management Challenges Department of Transportation Report Number PT-2015-007

Date: November 17, 2014

From: Calvin L. Scovel III *C. L. Scovel III*
Inspector General

Reply to Attn. of: J-1

To: The Secretary
Deputy Secretary

The safe and efficient movement of people, goods, and information is vital to our Nation's economic growth, global partnerships, and quality of life. The Department of Transportation (DOT) spends more than $70 billion each year on programs to protect and manage U.S. transportation systems and prepare them for increasing travel demands. It is critical that DOT carry out this mission within a framework of diligent stewardship of taxpayer funds, and we continue to support the Department's efforts through our audits and investigations.

DOT is working to address both continuing and emerging challenges with its efforts to modernize the Nation's air transportation system. A key issue is setting investment priorities and realistic plans for the Next Generation Air Transportation System (NextGen). Sustained management attention will be critical to effectively deploy NextGen foundational programs, evaluate needed changes to air traffic facilities, and safely integrate Unmanned Aircraft Systems. To maintain the Nation's excellent aviation safety record, the Department will need to better leverage safety data to reduce risks, address weaknesses with aircraft certification processes, bolster oversight of repair stations at home and abroad, and improve runway safety.

With regard to surface transportation, the Department must continue to address our prior recommendations as well as newer safety oversight requirements enacted in the Moving Ahead for Progress in the 21st Century Act (MAP-21). Key priorities include proactively identifying vehicle safety defects and unsafe motor carriers; following through on data-driven, risk-based oversight for bridges; creating a national tunnel safety program; and ensuring robust oversight of pipelines and hazardous materials. The Department is also working to fulfill other MAP-21 requirements to accelerate surface infrastructure projects nationwide and employ performance-based management. DOT must also finalize two significant infrastructure initiatives so that it is well positioned to implement a comprehensive national rail plan and an emergency relief program that effectively addresses disasters impacting public transportation.

A critical part of DOT's efforts to ensure the safety and continued improvement of transportation programs is effectively securing and channeling investments to finance them. This will require the Department to work with stakeholders to stabilize the Highway Trust Fund and strengthen credit programs that can leverage private investment for transportation projects. At the same time, DOT must better manage its own sizeable annual investments in contracts and grants to maximize program performance; meet Federal requirements; and prevent fraud, waste, and abuse of taxpayer funds.

Finally, we continue to find opportunities for the Department to better protect the hundreds of information systems it relies on to operate our Nation's transportation framework. To mitigate the risk of cybercrime and system failures, DOT will need to resolve longstanding vulnerabilities with its privacy protection policies as well as carry out Presidential directives to improve physical access controls and implement effective system monitoring and cloud computing.

We remain committed to assisting the Department as it works to improve the management and execution of its programs and protect its resources. We considered several criteria in identifying the Department's top management challenges for fiscal year 2015, including their impact on safety, documented vulnerabilities, large dollar implications, and the ability of the Department to effect change in these areas:

- Modernizing the National Airspace System and Addressing Organizational Challenges
- Enhancing Safety and Oversight of a Diverse and Dynamic U.S. Aviation Industry
- Increasing Efforts To Promote Highway, Vehicle, Pipeline, and Hazmat Safety
- Improving Oversight, Project Delivery, and System Performance of Surface Transportation Programs
- Leveraging Existing Funding Mechanisms To Finance Surface Transportation Projects in a Challenging Fiscal Environment
- Managing Acquisitions and Grants To Maximize Performance and Save Federal Funds
- Securing Information Technology Resources

We appreciate the Department's commitment to taking prompt actions in response to the issues we have identified. This report and the Department's response will be included in the Department's Annual Financial Report, as required by law. The Department's response is included in its entirety in the appendix to this report. If you have any questions regarding this report, please contact me at (202) 366-1959. You may also contact Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427.

#

cc: DOT Audit Liaison, M-1

CHAPTER 1

MODERNIZING THE NATIONAL AIRSPACE SYSTEM AND ADDRESSING ORGANIZATIONAL CHALLENGES

The Federal Aviation Administration's (FAA) Next Generation Air Transportation System (NextGen) is a complex, multibillion-dollar infrastructure project needed to modernize our Nation's aging air traffic system and provide more efficient air traffic management. For almost a decade, we have reported on FAA's longstanding challenges with this effort—challenges that have been exacerbated by unrealistic plans, budgets, and expectations for NextGen capabilities. Continuing to work toward resolution of these management problems is key to protect the investment in NextGen and prepare for emerging challenges with the introduction of unmanned aircraft and realignment of air traffic facilities that will also impact NextGen in the near future.

KEY CHALLENGES

- Addressing underlying causes for limited NextGen progress
- Implementing NextGen investment priorities
- Deploying key controller automation systems and resolving vulnerabilities
- Integrating Unmanned Aircraft Systems
- Consolidating FAA's vast network of facilities

ADDRESSING UNDERLYING CAUSES FOR LIMITED NEXTGEN PROGRESS

As we reported in February 2014, FAA's NextGen plans—which initially estimated completion by 2025 at a cost of $40 billion—have proven to be unrealistic, lacking stable investment priorities and requirements for NextGen systems. Moreover, FAA's organizational culture has historically focused primarily on operations and safety, limiting focus on modernization. Gaps in leadership have further undermined the Agency's progress on NextGen efforts; while FAA put new leadership in place in 2013, it remains unclear whether these changes will advance NextGen. These weaknesses have contributed to stakeholders' skepticism about NextGen's feasibility and airspace users' reluctance to invest in costly equipment.

IMPLEMENTING NEXTGEN INVESTMENT PRIORITIES

The success of FAA's NextGen efforts depends on the Agency's ability to set priorities, deliver benefits, and maintain stakeholder support. FAA is currently responding to a September 2013 report from the Government-industry NextGen Advisory Committee on industry's highest priorities for NextGen. Since April 2014, FAA and industry have been working to develop a master implementation plan for (1) advancing Performance-Based Navigation (PBN)—the top priority since it could provide the most near-term benefits, (2) employing closely spaced parallel runway operations, (3) enhancing airport surface operations through data sharing, and (4) developing data communications capabilities between the cockpit and air traffic control. However, several longstanding NextGen challenges could undermine FAA's efforts to finalize and execute this plan. These include addressing differing priorities between FAA and industry, resolving key barriers to implementing PBN (e.g., the lengthy development and approval process for new PBN procedures), and establishing accountability for implementing its upcoming plan.

DEPLOYING KEY CONTROLLER AUTOMATION SYSTEMS AND RESOLVING VULNERABILITIES

FAA's near- and mid-term NextGen goals also depend on the success of its efforts to deploy new automation systems that controllers use to manage air traffic. The En Route Automation Modernization (ERAM) program—a more than $2.5 billion system for processing en route flight data—is integral to achieving benefits from other NextGen surveillance and data programs. FAA is now using ERAM at all 20 of its en route air traffic facilities either on a full- or part-time basis. However, system outages this year at major air traffic facilities exposed new vulnerabilities, raising questions about ERAM's security and mid- and long-term NextGen capabilities. FAA is working to address the root causes for these outages and plans for all 20 sites to be fully operational by March 2015.

Technical challenges have also impeded FAA's efforts to modernize terminal air traffic control facilities. In 2010, FAA began its current and final phase of this effort with a goal to deploy Standard Terminal Automation Replacement System (STARS) at 11 large Terminal Radar Approach Control (TRACON) facilities by 2017 for $438 million. However, as we reported in 2014, STARS deployment remains at significant risk of cost and schedule overruns and performance shortfalls, largely due to unstable software requirements, which call for additional modifications to systems. Until FAA can determine the site-specific capabilities needed, the cost to complete the STARS effort will remain unknown.

INTEGRATING UNMANNED AIRCRAFT SYSTEMS

Integrating Unmanned Aircraft Systems (UAS)[1] into the National Airspace System (NAS) represents an enormous economic opportunity for the United States, with some forecasts projecting as much as $89 billion in UAS investment worldwide over the next 10 years. The FAA Modernization and Reform Act of 2012[2] required FAA to safely integrate UAS into the NAS no later than September 30, 2015. FAA recently took a step forward in broadening commercial UAS use by approving regulatory exemptions for six film industry companies to operate UAS on a limited basis. However, the Agency has not fully addressed the significant technological, regulatory, and management barriers to achieve safe integration for all UAS. These include reaching consensus with industry on standards for technology that would enable UAS to detect and avoid other aircraft, establishing an overall regulatory framework for UAS integration, and effectively collecting and analyzing UAS safety data to identify risks. In addition, FAA is behind in issuing a key final rule to govern small UAS operations[3] and has not finalized how it will leverage data from its six congressionally mandated test sites.

CONSOLIDATING FAA'S VAST NETWORK OF FACILITIES

An important component of FAA's NextGen efforts is the extent to which FAA realigns and consolidates the Nation's aging air traffic control facilities. FAA provided Congress with a facility consolidation and realignment plan in 2013, as required by the FAA Modernization and Reform Act of 2012. However, the plan is less comprehensive than FAA's previous plans, as it does not include en route facilities that manage high-altitude traffic.[4] FAA is in the early stages of evaluating its terminal facility consolidations and has not developed recommendations on which facilities should be realigned. Finalizing these plans and aligning them with other NextGen modernization efforts will be important to determine Agency funding and workforce requirements.

[1] UAS consist of systems of aircraft and ground control stations where operators control the movements of aircraft remotely. These aircraft can serve diverse purposes, such as enhancing border security, monitoring forest fires, and aiding law enforcement, as well as potential commercial use, such as food and package delivery.

[2] P.L. No. 112-95 (2012).

[3] The rule is intended to establish operating and performance criteria for small UAS (under 55 pounds) in the NAS that are operated within line-of-sight of a pilot or ground observer below 400 feet.

[4] En route centers guide airplanes flying at high altitudes through large sections of airspace.

RELATED PRODUCTS

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

- *Management Advisory on Weaknesses With Site-Specific Deployment Requirements and Specialist Training for STARS*, August 14, 2014
- *FAA Faces Significant Barriers To Safely Integrate Unmanned Aircraft Systems Into the National Airspace System*, June 26, 2014
- *Progress and Challenges in Meeting Expectations for NextGen*, June 25, 2014
- *FAA Faces Significant Obstacles in Advancing the Implementation and Use of Performance-Based Navigation Procedures*, June 17, 2014
- *Addressing Underlying Causes for NextGen Delays Will Require Sustained FAA Leadership and Action*, February 25, 2014
- *FAA's Implementation of the FAA Modernization and Reform Act of 2012 Remains Incomplete*, February 5, 2014
- *FAA Has Made Limited Progress in Implementing Provisions of the FAA Modernization and Reform Act of 2012*, January 28, 2014

For more information on the issues identified in this chapter, please contact Matthew Hampton, Assistant Inspector General for Aviation Audits, at (202) 366-0500.

CHAPTER 2

ENHANCING SAFETY AND OVERSIGHT OF A DIVERSE AND DYNAMIC U.S. AVIATION INDUSTRY

The Federal Aviation Administration (FAA) continues to focus its efforts on implementing new initiatives aimed at collecting and analyzing safety risk data and enhancing its safety oversight of the National Airspace System. However, our audit work indicates that FAA needs to further improve its safety data analysis, aircraft certification process, and repair station and runway safety oversight.

KEY CHALLENGES

- Leveraging data to reduce risk
- Managing FAA's aircraft certification processes
- Bolstering oversight of aircraft repair stations
- Improving runway safety

LEVERAGING DATA TO REDUCE RISK

FAA's efforts to maintain the Nation's excellent aviation safety record depend on effectively leveraging its valuable safety data sources. Two data sources, the Voluntary Disclosure Reporting Program (VDRP)[5] and the Aviation Safety Information Analysis and Sharing (ASIAS)[6] program, play a vital role in improving commercial air carrier safety. Both of these programs provide FAA with important safety information that

[5] VDRP allows air carriers to voluntarily report and correct—without civil penalty—noncompliances with airline operations, maintenance, training programs, and transport of hazardous materials.

[6] ASIAS enables authorized users to obtain data from confidential databases, as well as publicly available data sources to proactively identify and address risks that may lead to accidents.

might otherwise remain unknown and could help increase inspectors' awareness of industrywide safety issues. However, our work has found a number of oversight and data concerns that impede these programs' full potential. For example, the VDRP process does not require air carriers to identify the root cause of reported violations, and FAA does not ensure air carriers implement all corrective actions or verify whether the actions resolved the problems. FAA also does not collect, analyze, or trend VDRP data to identify safety risks at the national level, which could aid the inspection planning process. In addition, FAA does not allow its inspectors and analysts to use ASIAS data for their air carrier oversight due to proprietary data concerns. Yet, 74 percent of 292 field inspectors and analysts we surveyed stated that access to national-level data provided through ASIAS would improve air carrier safety oversight. Until such limitations are addressed, FAA is missing a significant opportunity to better target safety oversight to areas of highest risk.

MANAGING FAA'S AIRCRAFT CERTIFICATION PROCESSES

Our work has identified management weaknesses with a number of FAA's certification processes. Of particular concern are inconsistencies in FAA's program for delegating certain oversight functions, such as approving new aircraft designs, to private individuals or organizations. FAA has historically played a large role in selecting such individuals. However, under the Organization Designation Authorization (ODA) program, implemented in 2009, ODA companies now have most of this responsibility. With less FAA involvement, the Agency cannot be assured that individuals selected by companies have the qualifications to conduct certification duties on FAA's behalf. Our 2011 report identified inconsistencies in how FAA aircraft certification offices interpreted FAA's role and tracked and selected ODA personnel. For example, not all FAA offices consulted FAA's database to pre-screen performance histories of prospective ODA personnel. In response to our recommendations, FAA clarified guidance on tracking ODA employee performance history. We are conducting a follow-up review of the ODA program.

Our 2014 review of FAA's certification process for aircraft operators and repair stations also disclosed inefficiencies. For example, weaknesses in the certification process and management at one FAA office caused significant delays, some of which also impacted FAA's certification efforts nationwide. As of October 2013, there were more than 1,000 entities awaiting certification across the United States, with 138 applicants delayed more than 3 years. Several factors contributed to this backlog, including an ineffective method for prioritizing new applicants, the lack of a standardized process for new certifications, and poor communication to field inspectors on certification policy. While FAA recently issued new guidance to expedite certifications of waitlisted applicants, it is unclear how this guidance will improve the overall process and alleviate the backlog. Given the expected continued growth of the aviation industry, it is critical for FAA to establish clear standards and increase efficiency for all of its certification processes.

BOLSTERING OVERSIGHT OF AIRCRAFT REPAIR STATIONS

Under a new aviation safety agreement between the United States and the European Union (EU), National Aviation Authority (NAA) safety inspectors oversee nearly 400 EU repair stations performing maintenance on U.S.-registered aircraft for FAA. These agreements utilize similarities in partner countries' surveillance systems and regulatory requirements to minimize duplicative surveillance. In 2011, the United States expanded its partnership from 3 to 18 EU countries. However, our ongoing work shows that FAA's initial assessments to evaluate NAA's capabilities to perform inspections on its behalf were incomplete and the results were not well substantiated. In addition, inspector training, procedural, and data quality weaknesses have impeded FAA's ability to effectively monitor EU foreign repair stations to ensure they continue to meet FAA standards. The weaknesses in FAA's processes could also negatively impact its plans to expand this agreement to other countries. We plan to issue our report on these issues later this year.

IMPROVING RUNWAY SAFETY

With the millions of flights that take off and land on runways in the United States each year, runway safety remains a critical safety priority. In recent years, the total number of reported runway incursions has increased, even though overall air traffic levels have declined. FAA data show that, from fiscal year 2011 to fiscal year 2013, the most serious runway incursions increased from 7 to 11, respectively, rising up to 18 in fiscal year 2012. The total number of reported runway incursions also increased by 30 percent during that time—from 954 in fiscal year 2011 to 1,241 in fiscal year 2013. FAA has taken action to reduce runway incursions, such as enhancing pilot training and identifying higher safety risk areas at the Nation's airports. However, FAA's Runway Safety Group[7]—which is responsible for implementing and overseeing runway safety initiatives across multiple FAA lines of business—is under FAA's Air Traffic Organization, limiting its authority to coordinate and oversee other organizations' runway safety efforts. FAA's plans to improve runway safety also face operational and technical challenges. For example, FAA plans to integrate the Airport Surface Detection Equipment—Model X (ASDE-X)[8] system with Runway Status Lights (RWSL)[9] to give pilots a visible warning when runways are occupied by other aircraft but has encountered software deficiencies. Consequently, FAA reduced the number of planned RWSL systems from 23 to 17, increased the program costs by approximately $40 million, and extended completion from 2015 to 2017. Due to problems with signal accuracy and frequency interference, FAA also has halted work on a longstanding recommendation by the National Transportation Safety Board to use ASDE-X with the Automatic Dependent Surveillance-Broadcast system to provide surface alerts for pilots. Until FAA resolves these issues, it will be unable to determine how or when it can pursue efforts that will be key to enhancing pilots' ability to prevent incidents on runways and taxiways.

RELATED PRODUCTS

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

- *FAA Operational and Programmatic Deficiencies Impede Integration of Runway Safety Technologies*, June 26, 2014
- *Weak Processes Have Led to a Backlog of Flight Standards Certification Applications*, June 12, 2014
- *Further Actions Are Needed To Improve FAA's Oversight of the Voluntary Disclosure Reporting Program*, April 10, 2014
- *FAA's Safety Data Analysis and Sharing System Shows Progress, but More Advanced Capabilities and Inspector Access Remain Limited*, December 18, 2013
- *FAA Continues To Face Challenges in Implementing a Risk-Based Approach to Repair Station Oversight*, May 1, 2013

[7] FAA's Runway Safety Group tracks all reported runway incursions and categorizes them in terms of severity.

[8] ASDE-X is a surface surveillance system designed to help maintain safe separation of aircraft and vehicles on the airport surface and aid controllers in avoiding ground collisions.

[9] RWSL consists of a series of lights that automatically give pilots a visible warning when runways are unsafe to enter, cross, or depart.

- *FAA's Progress and Challenges in Advancing Safety Oversight Initiatives*, April 16, 2013
- *FAA's Efforts To Track and Mitigate Air Traffic Losses of Separation Are Limited by Data Collection and Implementation Challenges*, February 27, 2013

For more information on the issues identified in this chapter, please contact Matthew Hampton, Assistant Inspector General for Aviation Audits, at (202) 366-0500.

CHAPTER 3

INCREASING EFFORTS TO PROMOTE HIGHWAY, VEHICLE, PIPELINE, AND HAZMAT SAFETY

The Department plays a key role in improving and overseeing the Nation's surface transportation systems that are critical to efficiently move people and energy resources. Sustained focus on managing oversight data to mitigate safety risks with highways, bridges, and pipelines will be essential to the Department's efforts as well as creating new policies and training programs to fulfill key safety requirements enacted in the Moving Ahead for Progress in the 21st Century Act (MAP-21).[10]

KEY CHALLENGES

- Strengthening efforts to identify and address vehicle safety defects
- Enhancing actions that promote motor carrier safety
- Maintaining momentum on key bridge and tunnel safety initiatives
- Building on efforts to ensure pipeline and hazardous materials safety

STRENGTHENING EFFORTS TO IDENTIFY AND ADDRESS VEHICLE SAFETY DEFECTS

While the National Highway Traffic Safety Administration (NHTSA) is working to better identify and address vehicle safety defects, they remain a significant concern given the numerous related fatalities over the last 10 years. NHTSA's Office of Defects Investigation (ODI) is charged with collecting and analyzing safety-related defect data and identifying potential defects that may be unknown to vehicle manufacturers. In 2009 and 2010, reports of Toyota vehicles suddenly accelerating out of control brought significant attention to ODI's oversight of vehicle safety. Earlier this year, ODI's oversight was again questioned by the public, media, and Congress when General Motors Corporation reported an ignition switch defect to ODI that could unintentionally shut down the engine or disable power steering, power brakes, and airbags on millions of older model vehicles. Our 2011 report identified weaknesses in ODI's processes for recording, tracking, retaining, and storing information on potential vehicle safety defects. ODI has since implemented most of our recommendations by enhancing complaint tracking, investigative documentation, and staff training. However, ODI has not completed a workforce assessment that is critical to determine the number and skill mix of staff needed to meet its oversight objectives. At the request of the Secretary, we are currently reviewing NHTSA to assess how ODI manages information to identify and act on safety-related vehicle defects and determine its progress in addressing our prior recommendations.

[10] P.L. No. 112-141 (2012).

ENHANCING ACTIONS THAT PROMOTE MOTOR CARRIER SAFETY

Between 2011 and 2012, large truck and bus crashes decreased by 7.8 percent; however, associated fatalities were up by 1.8 percent.[11] Although the Federal Motor Carrier Safety Administration (FMCSA) has taken actions to remove high-risk carriers from the road, National Transportation Safety Board (NTSB) investigations of accidents continue to identify pre-existing risk factors that should have prompted strong FMCSA and State-level interventions. These risk factors included longstanding, insufficient carrier safety management practices; poor performance by carriers during roadside inspections; and data indicating the carriers posed significant crash risks. As a result, NTSB recommended that DOT conduct audits to determine why FMCSA's investigative practices may be missing certain carrier safety violations, whether its quality assurance mechanisms are sufficient; and whether its focused compliance reviews are effective. In March 2014, FMCSA and the Federal Aviation Administration (FAA) agreed that FAA would conduct a peer review of FMCSA's efforts to meet NTSB's recommendations.

We recently reported that FMCSA made progress toward a more data-driven, risk-based approach to motor carrier oversight, as called for by its Compliance, Safety, and Accountability (CSA) program.[12] However, FMCSA has yet to complete promised actions in key areas, which will make it difficult to effectively implement CSA nationwide. These include improving its processes for reviewing carrier requests to correct data on their operations or violations used to measure carrier performance and developing a plan to implement CSA enforcement interventions in all the States.

MAINTAINING MOMENTUM ON KEY BRIDGE AND TUNNEL SAFETY INITIATIVES

The proper inventory and inspection of the Nation's bridges and tunnels continues to be a top safety priority. One-fourth of the Nation's more than 600,000 bridges are deficient according to the Federal Highway Administration (FHWA). FHWA needs to maintain momentum on key initiatives in response to our recommendations to implement a data-driven, risk-based approach to overseeing States' efforts to meet National Bridge Inspection Standards (NBIS). For example, a key challenge for FHWA is to ensure that its 52 Division Offices effectively and consistently employ the Agency's metric-based approach to assessing each State's compliance with NBIS. FHWA must also continue to implement MAP-21 bridge requirements to ensure States promptly correct errors in the National Bridge Inventory. At the same time, FHWA is implementing MAP-21 requirements to establish a new national tunnel inspection program and inventory. FHWA plans to issue in fiscal year 2015 new rules on tunnel inspection standards with qualifications, certification procedures, and formal training for tunnel inspectors as well as periodic State inspections and reports on the condition of the Nation's tunnels—similar to the bridge inspection program. Once issued, FHWA will have the additional responsibilities of helping States and tunnel owners to implement the program and annually reviewing States' compliance as mandated by MAP-21.

BUILDING ON EFFORTS TO ENSURE PIPELINE AND HAZARDOUS MATERIALS SAFETY

Transport of hazardous materials (hazmat) requires the Pipeline and Hazardous Material Safety Administration (PHMSA) to have a robust oversight approach to mitigate potential catastrophes given the significant public and environmental impact. In the

[11] Latest available data reported by FMCSA as of December 31, 2013.

[12] The CSA program is the enforcement and compliance model FMCSA began using in December 2010 to improve large truck and bus safety. It is designed to measure carriers' safety performance in seven areas and identify poor performers for enforcement action.

past 4 years, there were 2,379 pipeline spills and accidents in the United States. In 2011, NTSB reported weaknesses in PHMSA and State oversight of pipeline safety[13] and included pipeline safety on its Most Wanted List for 2014.[14] Similarly, our recent review of PHMSA's State Pipeline Safety Program—which authorizes States to oversee and enforce operators' compliance with Federal pipeline safety regulations—found a lack of effective management and oversight. For example, PHMSA's guidance to States does not detail how they should consider risk factors when scheduling inspections. PHMSA also did not require reviews to determine whether States have adequate inspection procedures, comply with program evaluation requirements,[15] or audit all grant funds. In response to our recommendations, PHMSA is refining its oversight policies and procedures to ensure States fulfill their role in pipeline safety. Actions include implementing a new training program for PHMSA evaluators who review State safety programs.

PHMSA has also taken action to address weaknesses in its oversight of hazmat safety, although some vulnerabilities remain. Of particular concern is PHMSA's process for regulating applicants seeking special permits to transport hazmat under conditions not specified in Hazardous Materials Regulations. Specifically, PHMSA started developing a new information system in 2010 to improve how it reviews special permit applications. However, PHMSA did not fully implement the system because it lacked a method for accurately identifying applicants who have complex structures (e.g., those with parent-subordinate relationships or doing business under a different name). As a result, PHMSA does not use the system to process applications for new special permits. PHMSA has begun to resolve this issue by acquiring and analyzing more complete data such as companies' parent-subsidiary relationships and locations. However, the Agency stated that it needs additional time and funding to fully resolve the issue. The lack of a fully functioning company identifier undermines PHMSA's ability to combine its data with those of other agencies (i.e., FAA, FMCSA, FRA, and U.S. Coast Guard) to develop better risk profiles of special permit applicants and use Agency resources most effectively. Finally, recent increases in the transportation of crude oil by rail will require that PHMSA effectively coordinate with FRA to ensure FRA implements PHMSA's safety regulations as it oversees the safety of hazmat transported by rail.

RELATED PRODUCTS

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

- *FHWA Has Not Fully Implemented All MAP-21 Bridge Provisions and Prior OIG Recommendations*, August 26, 2014
- *PHMSA Has Addressed Most Weaknesses We Identified in Its Special Permit and Approval Processes*, July 17, 2014
- *PHMSA's State Pipeline Safety Program Lacks Effective Management and Oversight*, May 7, 2014
- *Identifying and Investigating Vehicle Safety Defects*, April 2, 2014
- *Actions Are Needed To Strengthen FMCSA's Compliance, Safety, Accountability Program*, March 5, 2014
- *Process Improvements Are Needed for Identifying and Addressing Vehicle Safety Defects*, October 6, 2011

[13] NTSB, "Pacific Gas and Electric Company Natural Gas Transmission Pipeline Rupture and Fire San Bruno, California, September 9, 2010," NTSB/PAR-11/01 PB2011-916501.

[14] The Most Wanted List represents the NTSB's advocacy priorities. It is designed to increase awareness of, and support for, the most critical changes needed to reduce transportation accidents and save lives.

[15] PHMSA's program evaluation requirements include States performing all inspections within required timeframes, having the required procedures for all types of inspections, and conducting trend analyses of pipeline operators' annual reports.

- *Letter to Chairmen Rockefeller and Pryor Regarding Whether Former NHTSA Employees Exerted Undue Influence on Safety Defect Investigations*, April 4, 2011

For more information on the issues identified in this chapter, please contact Mitchell Behm or Thomas Yatsco, Assistant Inspectors General for Surface Transportation Audits, at (202) 366-5630.

CHAPTER 4

IMPROVING OVERSIGHT, PROJECT DELIVERY, AND SYSTEM PERFORMANCE OF SURFACE TRANSPORTATION PROGRAMS

DOT receives over $50 billion in Federal dollars annually to fund projects to build, repair, and maintain the Nation's surface transportation system and received an additional $13 billion in 2013 for Hurricane Sandy-related projects. However, the Nation's infrastructure needs continue to outpace financial resources. Accordingly, it is critical that DOT continually improve its stewardship and oversight for highway, rail, and transit projects to maximize Federal dollars. As part of this effort, it must fully implement the Moving Ahead for Progress in the 21st Century Act (MAP-21) requirements to strengthen program oversight, accelerate project delivery and efficiency, and target Federal funds based on performance. At the same time, DOT must continue efforts to oversee grants for establishing a national high-speed rail program.

KEY CHALLENGES

- Improving oversight of highway and transit infrastructure programs and expediting project delivery
- Implementing tools to provide effective oversight of emergency relief funds
- Continuing the transition to performance-based infrastructure investments
- Following through on actions to implement FRA's high-speed rail grant program

IMPROVING OVERSIGHT OF HIGHWAY AND TRANSIT INFRASTRUCTURE PROGRAMS AND EXPEDITING PROJECT DELIVERY

MAP-21 provided $105 billion to the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) for fiscal years 2013 and 2014. Both agencies have efforts underway to improve oversight of this significant Federal investment. A key challenge for FHWA is following through on our recommendations to enhance its Stewardship and Oversight Agreements with States. In response, FHWA has issued new guidance and required its Division Offices to execute new stewardship and oversight agreements with their respective States in 2015. Also, FHWA has begun to implement a national, risk-based stewardship and oversight framework. This framework utilizes a risk assessment to identify areas that require enhanced review and is intended to allow for a more data-driven, consistent approach to project-level involvement to provide an appropriate level of oversight. National review personnel perform quality assurance and check program consistency and implementation across 52 Division Offices. FHWA has begun revising its 52 stewardship and oversight agreements with States and implementing the risk-based stewardship and oversight framework. While FHWA has made significant progress, it will need to institutionalize the framework it has developed across the Division Offices.

FTA is also working to address our prior recommendations to improve its grant oversight processes. Specifically, FTA must ensure that its contractors and regional offices are effectively identifying, tracking, and following up on grantee deficiencies identified in financial management reviews. In addition, FTA has a large portfolio of major transit projects across the country. FTA's challenge is to effectively use its oversight contractors to proactively assess these projects' cost, schedule, and financial risks. FTA must also direct its resources at monitoring grantees to ensure they take timely and effective actions to address identified risks, address areas of potential stakeholder disagreements, and enforce applicable third-party agreements.

MAP-21 included key directives to the Department (known as Subtitle C) to promote reforms to accelerate the delivery of surface transportation projects. The Department has developed a plan with 42 actions to implement all required sections of Subtitle C—most of which address environmental issues that occur during the planning and design phase of highway and transit projects. The Department has experienced some delays in issuing key rulemakings and guidance because it can take considerable time to complete the rulemaking process and coordinate with other Federal agencies. However, we found that the Department did not assign estimated completion dates to a number of planned actions including final rulemakings, making it difficult to gauge progress. Sustained management attention by the Department is critical to ensure the timely completion of planned actions and successful implementation of MAP-21.

IMPLEMENTING TOOLS TO PROVIDE EFFECTIVE OVERSIGHT OF EMERGENCY RELIEF FUNDS

In late 2012, Hurricane Sandy substantially damaged transit infrastructure in the mid-Atlantic and northeastern United States. To assist State and local agencies in their recovery and resiliency efforts, DOT received approximately $13 billion in relief funds—$10 billion of which was allocated to FTA.[16] Our review of FTA's initial response and oversight of its newly established Emergency Relief Program (ERP) found that FTA had not fully carried out its oversight plan, such as grantee and project risk assessments. FTA will also need to work with grantees to establish measures to mitigate identified risks and ensure that grantees who receive Sandy-related insurance proceeds do not receive duplicate reimbursements from FTA for their losses. FTA recently issued the Final Rule for its ERP. Our 2013 report noted a number of lessons learned from Federal emergency responses and best practices for Federal recipients' acquisitions that FTA can incorporate into this program to effectively address future Federal emergency relief efforts involving public transportation. These include mitigating the risk of overpayment for some services in emergencies, establishing timeframes to limit requests for emergency relief funds after events occur, setting a minimum amount for providing emergency relief funds, and reviewing a sample of emergency grantee acquisitions.

CONTINUING THE TRANSITION TO PERFORMANCE-BASED INFRASTRUCTURE INVESTMENTS

MAP-21 required DOT to implement performance-based investment management of its highway and transit programs through several key actions, which are currently underway. These include establishing new rules, performance standards, and modifications to oversight systems. In particular, DOT must fully implement performance measures that incorporate the Department's national goals: safety, infrastructure condition, congestion reduction, system reliability, freight movement and economic vitality,

[16] In response to the storm, Congress passed, and the President signed into law, the Disaster Relief Appropriations Act, P.L. No. 113-2, in January 2013.

environmental sustainability, and reduced project delivery delays. This transition may take some time for the Department to fully implement given the number of multifaceted actions required across several DOT agencies. For example, FHWA has yet to finalize related rulemakings on States' use of asset and performance management, which are behind schedule and may delay States' ability to meet MAP-21's key performance and accountability requirements.

FOLLOWING THROUGH ON ACTIONS TO IMPLEMENT FRA'S HIGH-SPEED RAIL GRANT PROGRAM

The Passenger Rail Investment and Improvement (PRIIA) Act of 2008[17] gave the Federal Railroad Administration (FRA) critical new responsibilities—including establishing major grant programs to fund high-speed rail projects and integrating rail planning for the entire country. Six years later, the Agency has disbursed approximately $2.5 billion of the over $10 billion Congress appropriated for the High Speed Intercity Passenger Rail (HSIPR) grant program.[18] Balancing oversight of its existing HSIPR grant portfolio as the Agency continues to create, develop, and refine its approach to managing and overseeing that portfolio will likely be a challenge for FRA over the next several years. At the same time, FRA's national rail planning efforts remain incomplete. While it undertook several rail planning activities, FRA has not fully articulated a national rail plan. According to FRA officials, the Agency's strategy was developed in response to the challenges of competing stakeholder expectations and limited Federal funding. Until FRA finalizes this strategic framework, it will be difficult to make effective decisions on stakeholders' roles and the funding, structure, implementation, and performance measurement of its infrastructure development program.

RELATED PRODUCTS

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

- *FHWA Has Not Fully Implemented All MAP-21 Bridge Provisions and Prior OIG Recommendations*, August 21, 2014
- *FHWA's Workforce Planning Processes Generally Align With Best Practices, but Some Components Are Inconsistently Implemented or Lack MAP-21 Consideration*, June 19, 2014
- *Initial Assessment of FTA's Oversight of the Emergency Relief Program and Hurricane Sandy Relief Funds*, December 3, 2013
- *Status of DOT's Actions To Address Subtitle C of the Moving Ahead for Progress in the 21st Century Act*, September 18, 2013
- *FHWA Is Monitoring Unexpended Recovery Act Highway Funds, but Some Funds May Remain Unused*, September 4, 2013
- *Letter to Congress on the Status of MAP-21, Subtitle C: Acceleration of Project Delivery*, May 22, 2013
- *Lessons Learned From ARRA Could Improve the Federal Highway Administration's Use of Full Oversight*, May 7, 2013
- *DOT Has Opportunities To Address Key Risk Areas for Phase 2 of the Dulles Corridor Metrorail Project Upon Approval of Federal Financing*, March 20, 2013

[17] P.L. No. 110-432 Div. B.

[18] $8 billion of which was appropriated by the American Recovery and Reinvestment Act of 2009 (ARRA). FRA has obligated nearly all of the $10.1 billion in grant funding.

- *FHWA Has Opportunities To Improve Oversight of ARRA High Dollar Projects and the Federal-Aid Highway Program*, November 14, 2012
- *Improvements Needed in the FTA's Grant Oversight Program*, August 2, 2012

For more information on the issues identified in this chapter, please contact Thomas Yatsco, Assistant Inspector General for Surface Transportation Audits, at (202) 366-5630.

CHAPTER 5

LEVERAGING EXISTING FUNDING MECHANISMS TO FINANCE SURFACE TRANSPORTATION PROJECTS IN A CHALLENGING FISCAL ENVIRONMENT

Governments at all levels in the United States are finding it difficult to keep pace with the demand for transportation investment. In 2013, the Federal Highway Administration (FHWA) identified the need for average annual capital investment of up to $86 billion to maintain and up to $146 billion to improve highway and bridge infrastructure.[19] DOT's primary Federal tool for channeling investment—the Highway Trust Fund (HTF)—devotes about $50 billion annually to highway and transit projects and has needed short-term cash infusions to stay solvent in recent years. The Department also has credit programs that can leverage private investment and help fund projects that are not supported by dedicated sources. However, process inefficiencies and challenges with managing program expansion may prevent these programs from reaching their full potential.

KEY CHALLENGES

- Ensuring the long-term solvency of the Highway Trust Fund
- Leveraging DOT credit programs to help meet demand for financing future projects

ENSURING THE LONG-TERM SOLVENCY OF THE HIGHWAY TRUST FUND

Historically, cash receipts into HTF have exceeded its expenditures, leading to a surplus that peaked at $31.1 billion at the end of fiscal year 2000. However, legislation enacted in 1998 and subsequent years significantly increased HTF expenditures, while high fuel prices, increased use of fuel-efficient cars, and a lagging economy caused HTF cash receipts to decline and its cash balance to deteriorate. Since 2008, Congress has executed a number of short-term cash infusions from the U.S. Treasury general fund to prevent shortfalls—including $11 billion earlier this year to keep the fund solvent through May 2015. Any short-term disruptions in HTF's reimbursements could have severe economic consequences, possibly causing States to suspend billions of dollars in highway projects and transit agencies to scale back or suspend public transportation services. The Department continues to face challenges in obtaining agreement among congressional and other stakeholders on the combination of reduced spending levels and alternative funding mechanisms—such as a fee for vehicle miles travelled or an increased Federal excise tax, which would bring HTF spending and revenues into balance for the long term.

[19] 2013 Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance Report.

LEVERAGING DOT CREDIT PROGRAMS TO HELP MEET DEMAND FOR FINANCING FUTURE PROJECTS

DOT's credit programs, such as the RRIF (Railroad Rehabilitation and Improvement Financing) and TIFIA (Transportation Infrastructure Finance and Innovation Act), can help the Department reduce the funding gap for surface transportation projects. However, the Department has yet to address management and process challenges in reaching these programs' full potential.

RRIF, administered by the Federal Railroad Administration (FRA), provides loans and loan guarantees for rail infrastructure projects. RRIF allows applicants to borrow up to 100 percent of a project for up to 35 years at interest rates equal to the Federal Government's cost of borrowing. However, as we recently reported, program participation has not met expectations, with only 33 RRIF loans issued to date totaling roughly $1.7 billion—less than 5 percent of the program's authorized $35 billion spending limit. Limited participation has been due to insufficient guidance on the RRIF application process, lengthy application processing times, and costs incurred by applicants to apply for RRIF loans. Based on our work, FRA is developing new guidance and a revised application process but needs to follow through to ensure these changes are implemented effectively.

TIFIA, administered by the Federal Highway Administration (FHWA), uses innovative financing mechanisms to provide loans, loan guarantees, and lines of credit to support multimodal surface transportation projects, making them more appealing to private investors. As a result, each Federal dollar can provide up to $30 in infrastructure development. In response to heavy demand, Congress increased TIFIA's annual appropriation from $122 million in fiscal year 2012 to $1 billion in fiscal year 2014 and modified the program to provide increased funding for eligible projects.[20] As a result, FHWA will need to maintain TIFIA's high level of performance while implementing new changes, such as increased program size, a revised application process, and modified program requirements.

RELATED PRODUCTS

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

- *Process Inefficiencies and Costs Discourage Participation in FRA's RRIF Program*, June 10, 2014
- *Letter to Senate Budget Committee Ranking Member Gregg Regarding DOT's Projections of Highway Trust Fund Solvency*, June 24, 2009
- *Financial Analysis of Transportation-Related Public Private Partnerships*, July 28, 2011
- *Growth in Highway Construction and Maintenance Costs*, September 26, 2007
- *Report on Highway Administration's Oversight of Load Ratings and Postings on Structurally Deficient Bridges on the National Highway System*, March 21, 2006

For more information on the issues identified in this chapter, please contact Mitchell Behm, Assistant Inspector General for Surface Transportation Audits, at (202) 366-9970.

[20] Congress increased this funding through the Moving Ahead for Progress in the 21st Century Act (MAP-21), P.L. No. 112-141.

CHAPTER 6

MANAGING ACQUISITIONS AND GRANTS TO MAXIMIZE PERFORMANCE AND SAVE FEDERAL FUNDS

DOT spent over $61 billion on contracts and grants in fiscal year 2013.[21] The President and Office of Management and Budget (OMB) have tasked the Federal Government to develop smarter acquisition processes and contracts that deliver the best value, especially given current fiscal constraints. Our work continues to find areas where the Department can more diligently manage resources and enhance oversight of contracts and grants to help prevent fraud, waste, and abuse of taxpayer funds.[22]

KEY CHALLENGES

- Improving acquisition practices for management support services
- Strengthening contract and grant management and oversight of departmental programs
- Enhancing oversight of grant recipient contracting practices

IMPROVING ACQUISITION PRACTICES FOR MANAGEMENT SUPPORT SERVICES

DOT awards more than $1 billion annually for management support services contracts in areas such as automated information systems, engineering, and technical services. Our work has identified management weaknesses in various DOT acquisition practices when obtaining support services through its award of contracts and grants.

- **Improving Management of the Air Traffic Control Optimum Training Solution (ATCOTS) Training Support Contract.** The Federal Aviation Administration (FAA) awarded the ATCOTS contract in 2008 to help train about 11,700 new air traffic controllers over 10 years. FAA extended the contract in 2012—despite the program's $89 million in cost overruns for the first 4 years of the contract and failure to achieve key contract goals to reduce controller training times and costs and produce training innovations. Since 2010 we have identified critical management weaknesses with the contract that impede FAA's ability to meet these goals. In recent testimony before the Senate Subcommittee on Financial and Contracting Oversight, we highlighted (1) lack of clearly defined training requirements, (2) insufficient contract funding for training innovations, (3) ineffective cost incentives and award fees, and (4) inadequate contract oversight and ineffective communication with contract oversight staff. FAA agreed to address these areas in response to our December 2013 report, and we will continue to monitor its progress.
- **Reducing Spending on Management Support Services Contracts.** In 2014, we reported that DOT did not meet OMB's goal for agencies to reduce spending on management support services contracts by 15 percent by the end of fiscal year 2012.[23] Instead, DOT's annual spending on management support services contracts increased by 17 percent. Over half of these involve high-risk contract types, such as time-and-materials and cost-reimbursement contracts. While DOT launched a strategic sourcing initiative to accomplish this goal, it did not develop an implementation plan, assign responsibilities for meeting spending targets, or implement OMB's suggested internal controls for overseeing obligations. The Department

[21] DOT's complete fiscal year 2014 data were not available at the time of this report.

[22] In addition to our audit work, in fiscal year 2013, contract and grant fraud represented 46 percent of our investigative caseload and resulted in over $31 million in recoveries.

[23] The 15-percent decrease is measured based on fiscal year 2010 spending levels to the end of fiscal year 2012.

agreed with our recommendations to develop a policy and plan to reduce the number of management support service contracts and institute internal controls to better manage them, but efforts on planned actions have already been delayed.

STRENGTHENING CONTRACT AND GRANT MANAGEMENT AND OVERSIGHT OF DEPARTMENTAL PROGRAMS

DOT's contract and grant programs play a critical role in maximizing resources, promoting efficient operations, and achieving DOT's missions. Yet, our work has found key areas where the Department can improve its management and accountability.

- **Improving DOT's Suspension and Debarment (S&D) Program.** Despite DOT's efforts to address our 2010 audit findings and recommendations with its S&D program, our 2014 report found continuing management weaknesses with program oversight, controls, and implementation. These include a lack of comprehensive oversight procedures and unreliable S&D data. Such weaknesses allow DOT Operating Administrations to exceed required timeframes for initiating S&D decisions and reporting to the Governmentwide System for Award Management.[24] This condition puts the Federal Government at greater risk of doing business with prohibited, unethical parties.
- **Evaluating Bid Prices for the Federal Highway Administration's (FHWA) Federal Lands Highway (FLH) Contracts.** In 2014 we reported that FLH is not thoroughly evaluating bids to ensure FHWA receives fair and reasonable prices in its fixed price road contracts. FHWA has established sealed bid contracting guidance under its Federal-aid Highway Program, but it has not done so for its FLH program. Such guidance is critical to providing thorough and consistent evaluations of bid prices and ensuring FLH gets the best possible prices on its sizeable fixed price contract awards, which totaled $305 million between October 2012 and September 2013.

ENHANCING OVERSIGHT OF GRANT RECIPIENT CONTRACTING PRACTICES

Grants represented over $55 billion of DOT's $61 billion in contract and grant spending in fiscal year 2013. However, due to weaknesses in Department oversight, recipients do not always comply with Federal grant requirements or have adequate financial controls in place to account for DOT funds. Improving DOT's recipient oversight is critical to help ensure proper stewardship of taxpayer dollars.

- **Enhancing Grants Management in the Metropolitan Washington Airport Authority (MWAA).** In January 2014, we reported weaknesses in MWAA's management of $975 million in FTA grant funds for Phase 1 of the Dulles Rail project, resulting in unsupported and unallowable costs being claimed. For example, although FTA grant regulations require recipients to document costs claimed for reimbursement, we found that MWAA's processes do not adequately document these costs, and FTA does not verify grant recipients' support for them on a regular basis. Given that $251 million in Federal funds remain available for disbursement as of September 2014, FTA must scrutinize MWAA's use of Federal grants and ensure MWAA improves its financial management controls.
- **Improving DOT's Oversight of the Disadvantaged Business Enterprise (DBE) Program.** In 2012, Congress directed us to review new DBE participation at the Nation's largest airports. In June 2014, we reported that new DBEs that received

[24] The System for Award Management (SAM) is the Governmentwide S&D system, formerly the Excluded Parties List System, managed by the General Services Administration. All Federal agencies are required to report their excluded parties in SAM, with the intent of preventing excluded parties from receiving Federal awards, certain subcontracts, or certain types of Federal assistance and benefits across the Government.

contracts and leases in fiscal year 2012 represented just 5 percent of the 1,600 DBEs doing business at the 64 largest airports. Yet, in verifying the data supporting these statistics, we found errors in over one-third of DBE reports that these airports submit annually to FAA. For example, the San Francisco airport did not report about $57 million in rental car revenue, and the Portland airport over-reported concessions revenue by about $5 million. These errors are due in part to shortfalls in the Agency's data collection system, verification process, and oversight resources—all of which limit FAA's ability to evaluate the effectiveness of the airports' DBE/ACDBE programs. For instance, FAA has only eight full-time staff assigned to oversee the entire national airport DBE program. Our April 2013 report also highlighted a number of weaknesses in the Department's management and oversight of its DBE program, including inadequate oversight of recipients' program implementation as well as the accuracy of their annual DBE awards and payments data.

RELATED PRODUCTS

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

- *DOT Suspension and Debarment Program Continues To Have Insufficient Controls*, October 15, 2014
- *FHWA's Federal Lands Highway Program Lacks Adequate Processes for Thoroughly Evaluating Contract Bid Prices*, October 9, 2014
- *New Disadvantaged Business Enterprise Firms Face Barriers to Obtaining Work at the Nation's Largest Airports*, June 12, 2014
- *MWAA's Financial Management Controls Are Not Sufficient To Ensure Eligibility of Expenses on FTA's Dulles Rail Project Grant*, January 16, 2014
- *DOT's Efforts To Reduce Spending on Management Support Services Contracts Have Been Delayed*, January 15, 2014
- *The Success of FAA's Air Traffic Controller Optimum Training Solution Relies on Sound Contracting and Program Management Practices*, January 14, 2014
- *FAA Needs To Improve ATCOTS Contract Management To Achieve Its Air Traffic Controller Training Goals*, December 18, 2013
- *Weaknesses in the Department's Disadvantaged Business Enterprise Program Limit Achievement of Its Objectives*, April 23, 2013

For more information on the issues identified in this chapter, please contact Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits, at (202) 366-5225.

CHAPTER 7

SECURING INFORMATION TECHNOLOGY RESOURCES

DOT uses 454 information systems to operate some of the Nation's most critical transportation systems. However, for the past 4 years, DOT has reported a material weakness in its information security program, which increases the risks of cybercrime, system failures, and unreliable data. To fend off cyber attacks while keeping needed data available and accurate, DOT is working to implement a number of related Presidential priorities[25] and initiatives.[26] However, longstanding cyber security weaknesses and challenges with integrating and coordinating shared security controls could hinder DOT in meeting its IT security goals.

KEY CHALLENGES

- Implementing Presidential priorities and initiatives
- Resolving longstanding security vulnerabilities
- Integrating and coordinating shared security controls

IMPLEMENTING PRESIDENTIAL PRIORITIES AND INITIATIVES

To address the wide range of persistent cyber security threats, the Administration established priorities and initiatives in a number of key areas:

- **Personal Identification Verification (PIV) Cards.** In 2013, we reported that DOT did not meet the Office of Management and Budget's (OMB) deadline requiring that all Federal personnel use PIV cards to log on to Agency computers by 2012. Although DOT reports that over 97 percent of its system users have cards, they can use the PIV card to log on to only 13 percent of its systems. In addition, DOT has not adapted all its facilities to accept PIV cards for physical access. For example, the Federal Aviation Administration will not complete upgrades needed to use PIV cards to enter its facilities until fiscal year 2018. As a result of this limited PIV use, it is difficult for DOT to ensure that only authorized personnel can access its information, systems, and facilities.
- **Continuous Monitoring.** The Administration's commitment to implement continuous monitoring challenges DOT to develop dynamic, ongoing processes that provide near real-time security information to senior leaders. OMB requires all Federal agencies to fully implement continuous monitoring[27] by 2017. However, DOT's continuous monitoring procedures are insufficient to ensure that all of its Operating Administrations comply with them. As a result, most DOT agencies still lack a comprehensive continuous monitoring program—which reduces their ability to identify and quickly respond to system security threats on an ongoing basis.
- **Cloud Computing.** In December 2010, OMB issued a "cloud first" policy that requires agencies to implement cloud-based solutions whenever a secure, reliable, and cost-effective option exists.[28] However, DOT does not have a reliable inventory of cloud-based systems, and Operating Administrations that use clouds cannot demonstrate compliance with OMB security requirements. As a result, DOT cannot ensure that it is using cloud computing in a secure manner.

RESOLVING LONGSTANDING SECURITY VULNERABILITIES

For several years, the Department has lacked effective processes to promptly address security weaknesses. OMB requires agencies to develop a plan of action and milestones (POA&M) to track and prioritize system weaknesses and remediation. While DOT issued POA&M policy and guidance, its agencies are still not adequately reporting, managing, and monitoring them in a timely manner, in part because DOT does not enforce this policy. In 2013, we reported that DOT's Operating Administrations have

[25] According to the Department of Homeland Security's guidance for conducting Federal Information Security Management Act (FISMA) work, these priorities include metrics for personal identity verification (PIV) cards and continuous monitoring of security controls.

[26] The Office of Management and Budget identifies cloud computing as a Governmentwide initiative.

[27] Implementing continuous monitoring requires that Agency security controls and organizational risks are assessed and analyzed at a frequency sufficient to support risk-based security decisions to adequately protect organization information.

[28] Cloud computing provides on-demand access to a shared pool of computing resources; can be provisioned on a scalable basis; and reportedly has the potential to deliver services faster, more efficiently, and at a lower cost than custom-developed systems.

a backlog of more than 6,700 open POA&Ms, an increase of almost 28 percent from the prior year, with some dating back to 2005. In addition, Operating Administrations were not recording all security weaknesses in the central repository that the Department uses for tracking and remediation. Unresolved POA&Ms make it difficult for DOT to ensure systems are adequately secured and protected from further compromise.

In addition, DOT has not fully addressed weaknesses related to protecting the privacy of personally identifiable information (PII). DOT has 167 systems that contain PII, including social security numbers. DOT has made progress toward its plan to reduce the amount of PII collected and stored in its systems. However, our 2014 report identified a number of longstanding, unresolved weaknesses with DOT's privacy protection policies, the processes used to complete privacy impact assessments, and technological security controls to safeguard PII confidentiality.

INTEGRATING AND COORDINATING SHARED SECURITY CONTROLS

The high degree of interconnectivity between DOT systems demands increased and more efficient security through the use of common system security controls (i.e., controls that exist in one system that can be used to protect other systems). For example, many DOT systems rely on controls provided by the Common Operating Environment. If these controls change or fail, the systems that rely on them may also be placed at risk. Our work has determined that DOT did not coordinate use of common controls within its systems or Operating Administrations to mitigate this risk and that DOT users of common controls did not verify their functionality when assessing system security. As a result, some Operating Administrations may be relying on common controls that have changed over time and are no longer adequate to protect their systems.

Related Products

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

- *Quality Control Review for the Audit of DOT Protection of Privacy Information*, June 5, 2014
- *Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2013 and 2012*, *Department of Transportation*, December 16, 2013
- *FISMA 2013: DOT Has Made Progress, but Its Systems Remain Vulnerable to Significant Security Threats*, November 22, 2013
- *Security Weaknesses in DOT's Common Operating Environment Expose Its Systems and Data to Compromise*, September 10, 2013
- *Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2012 and 2011*, *Department of Transportation*, November 15, 2012
- *FISMA 2012: Ongoing Weaknesses Impede DOT's Progress Toward Effective Information Security*, November 14, 2012
- *Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2011 and 2010*, *Department of Transportation,* November 15, 2011
- *FISMA 2011: Persistent Weaknesses in DOT's Controls Challenge the Protection and Security of Its Information Systems*, November 14, 2011

- *Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2010 and 2009, Department of Transportation*, November 15, 2010
- *FISMA 2010: Timely Actions Needed To Improve DOT's Cybersecurity*, November 15, 2010

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

EXHIBIT

COMPARISON OF FISCAL YEARS 2015 AND 2014 TOP MANAGEMENT CHALLENGES

Fiscal Year 2015 Challenges	Fiscal Year 2014 Challenges
• Modernizing the National Airspace System and Addressing Organizational Challenges	• Identifying and Addressing Root Causes of Problems With NextGen and Setting Investment Priorities
• Enhancing Safety and Oversight of a Diverse and Dynamic U.S. Aviation Industry	• Improving FAA's Oversight of the Aviation Industry and the Operations of the National Airspace System
• Increasing Efforts To Promote Highway, Vehicle, Pipeline, and Hazmat Safety	• Continuing Actions To Strengthen Highway, Transit, and Pipeline Safety
• Improving Oversight, Project Delivery, and System Performance of Surface Transportation Programs	• Improving Oversight of Surface Infrastructure Investments and Implementing Statutory Requirements
• Leveraging Existing Funding Mechanisms To Finance Surface Transportation Projects in a Challenging Fiscal Environment	
• Managing Acquisitions and Grants To Maximize Performance and Save Federal Funds	• Managing Acquisitions and Contracts To Achieve Results and Save Taxpayer Dollars
• Securing Information Technology Resources	• Building a Secure and Modern Information Technology Infrastructure
	• Implementing Requirements To Address the Federal Railroad Administration's Expanded and Traditional Responsibilities

APPENDIX. DEPARTMENT RESPONSE

Memorandum

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

Subject: ACTION: Management Position on Office of Inspector General Report on Top Management Challenges 2015

From: Sylvia I. Garcia
Chief Financial Officer and Assistant Secretary for Budget and Programs

To: Calvin L. Scovel III
Inspector General

The Department is actively engaged in all the issues discussed in the Office of Inspector General (OIG) Management Challenges report, and continues to make significant progress in achieving ever higher levels of safety in the air and on the ground. While maintaining safety as our top priority, the Department continuously utilizes its statutory authority to ensure that it serves as a prudent and effective steward of taxpayer dollars. Our information systems continue to address contemporary cybersecurity challenges, and our acquisition systems are being refined to produce significant savings and better ensure that each and every dollar is spent prudently. In addition, the Department maintains a comprehensive situational awareness of transportation issues through its daily interactions with transportation industry experts and its partners at state and local transportation authorities across the nation.

While the OIG management challenges report continues to enumerate issues identified over the last few years, it does not discuss the extensive actions the Department has taken and the significant tangible results achieved. The following sections offer highlights of accomplishments in these areas that have made a significant contribution to the well-being of the travelling public.

<u>Surface Transportation Systems Continue to Grow Safer</u>
The Department's actions continue to support the positive long-term trends that provide enhanced safety across all transportation modes.

The Nation's highways have grown safer. In 1995, 41,796 people lost their lives on the nation's highways. By 2013, this number had been cut to 33,561, **a reduction of 20 percent**. While each and every fatality is one too many, this reduction occurred amidst significant increases in risk exposure from factors including increased: vehicle miles traveled; motorcycle use including people riding without sufficient protective gear; and distractions presented by rapidly emerging new technologies.

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The long-term trends demonstrate that the Department's efforts to improve safety have been successful, including those intended to increase seat belt use, improve roadway infrastructure and markings, and prevent impaired driving. For example, the use of seat belts has increased **tremendously to 87 percent in 2013** from only 60 percent of vehicle occupants in 1995, thanks to NHTSA's unflagging efforts. Safer vehicles have also been introduced pursuant to statutory and regulatory requirements. To illustrate, the increasing market penetration of vehicles with stability control systems is estimated to have saved 2,200 lives between 2008 and 2010.

Under PHMSA's oversight, state pipeline safety programs have reduced the rate of serious pipeline incidents for gas distribution pipelines by approximately two-thirds over the last 30 years. The total number of serious incidents on distribution pipelines in calendar years 2012 and 2013 were 24 and 21, respectively, **which were the lowest number of serious incidents on record for the past 30 years.**

Finally, the Department has been proactive in addressing new risk factors, proposing regulations with enhanced safety requirements for the increasing carriage of flammable liquids, including crude oil from the Bakken that contains higher levels of dissolved natural gas. These regulations are on the "fast track" to provide the American people greatly enhanced levels of safety.

US Commercial Aviation Remains the Safest in the World

The FAA continues to maintain an aviation safety record that is the model for the world. **In 2012, over 790 million persons traveled on board US commercial carriers with *zero* fatalities.** Tentative data for 2013 also indicate ***zero*** fatalities for passengers on US commercial air carriers. These exemplary statistics are the result of FAA identifying and taking proactive actions to address known and suspected system hazards that contribute to accidents. FAA continues its efforts to address risk factors and further improve aviation safety. For example, **FAA has achieved a 57 percent reduction in significant runway incursion incidents over the last decade.**

FAA Completing Major Modernization Elements and Providing NextGen Benefits

FAA completed deployment of ground station infrastructure for the Automatic Dependent Surveillance-Broadcast (ADS-B) system, which provides the critical link between satellites and aircraft. Having completed the design, testing, installation and implementation of the system with about 700 facilities, FAA has already begun delivering the benefits of the system in locations across the country.

FAA will also complete the En-Route Automation Modernization (ERAM) system at all en-route Air Traffic Control centers by the spring of 2015. This system provides FAA with a contemporary IT backbone to manage the deluge of data that will be required for full NextGen implementation. ERAM provides the capability to handle increased air traffic in an environment that will provide airlines with more efficient routes, saving fuel, reducing emissions, and potentially enhancing system capacity.

FAA and the NextGen Advisory Committee have also reached agreement on near term NextGen priorities, and delivered a joint implementation plan to Congress on October 17,

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2014. This significant accomplishment, documents FAA's agreement with the aviation industry and provides a detailed implementation plan that will guide deployment of NextGen ATC systems over the next 3 years.

NextGen is already producing benefits. For example, in May 2014, the FAA's Houston Metroplex site went live. Airspace users can now benefit from 61 new satellite-based procedures in the Houston area. These procedures include Optimized Profile Descents, which allow pilots to reduce fuel use while the aircraft descends at a constant rate. In Atlanta, FAA implemented the new standards in June of this year. After 90 days, Delta Airlines is reporting a 2.3 minute reduction in taxi out times and a 14 to 24 percent reduction in departure queue delays. On the arrival side, Delta is also benefiting from each aircraft spending two minutes less in the TRACON airspace. These efficiencies are reducing fuel use and emissions. Last year, FAA started using new wake separation standards in Louisville, and UPS is saving 52,000 pounds of fuel per night on arrivals. The same procedures in Memphis increased airport capacity by more than 20 percent.

Highway Trust Fund Solvency Depends on Congressional Action

The solvency of the Nation's highway trust fund requires that Congress pass legislation to provide a sufficient and stable source of funding commensurate with the infrastructure needs of our nation's transportation system. In FY 2014, Secretary Foxx and his leadership team have been at the forefront in calling for long-term action to address the continuing shortfalls in the Highway Trust Fund. The insolvency of the Highway Trust Fund -- and its potential to negatively impact our economy - is not a new issue for our Nation. For the last seven years, the Highway Trust Fund has come perilously close to insolvency several times. In each case, Congress provided additional resources which addressed short-term issues but did not offer a long-term solution.

Recognizing this issue as a major transportation concern, **Secretary Foxx made the solvency of the Highway Trust Fund one of his top priorities in FY 2014**. He convened the senior leadership teams from the surface transportation operating administrations to develop a surface transportation reauthorization plan that would address improvements in program delivery while at the same time providing a long-term funding solution for the Highway Trust Fund. After many months of work, on April 29, 2014 the Department formally submitted to the Congress the "Generating Renewal, Opportunity, and Work with Accelerated Mobility, Efficiency, and Rebuilding of Infrastructure and Communities throughout America" – or "GROW AMERICA Act. The "GROW AMERICA" proposal represents a robust $302 billion surface transportation reauthorization plan that will guide the country's surface transportation programs over a four-year period. Secretary Foxx has continued his efforts in providing assistance in encouraging action on the GROW AMERICA Act.

New Procurement Systems Enhance Oversight and Produce Savings

To further enhance oversight of high risk acquisitions, the Office of the Senior Procurement Executive (OSPE) established and conducted 10 Acquisition Strategy Review Board (ASRB) reviews during FY 14. These reviews are a collaborative effort between the OSPE and the Assistant Secretary for Administration, the Office of the Chief Financial Officer, and the Office of the Chief Information Officer and has focused efforts to: (1) minimize the use of

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high-risk contracts; (2) enhance contract planning and competition; (3) initiate active involvement of Program and Project Managers with the requisite certification levels; (4) ensure clearly articulated consideration for small business opportunities; and (5) intensify awareness of "sourcing opportunities," which offer the potential for enhanced productivity and reduced costs.

Overall, the Department's efforts have strengthened contract and grant management and provided enhanced oversight, producing tangible results. For example, the Department is one of only 3 Federal agencies to achieve an A+ rating from the Small Business Administration for meeting/exceeding our small business goals in every category in fiscal year 2013. The use of competitively awarded contracts has increased, accounting for 83 percent of awards in 2013, compared to 71 percent in 2009. **The Department also saved more than $60 million in FY13/FY14 through strategic sourcing of services and commodities.**

DOT Strengthens Cybersecurity Capability to Address Major Challenges

The DOT Chief Information Officer has made significant progress improving cybersecurity during this past year, both in deploying and enhancing capabilities required by the Administration's Cross-Agency Priority (CAP) Goals for Cybersecurity, and implementing specific enhancements to the Department's own systems. The Department's cybersecurity efforts must continuously address the massive efforts by hackers using increasingly sophisticated and dangerous methods to disrupt the Department's and the Federal Government's information technology (IT) infrastructure. Despite the scale of the threat, **the Department's Chief Information Security Office continues to successfully maintain full operational capability for the Department's information technology infrastructure.**

Key actions taken this year include:

- Effective response to multiple Federal cyber incidents, breaches, and risks, and implementation of effective remediation measures;
- Successful implementation of the Continuous Diagnostics and Mitigation (CDM) component of the DOT Information Security Continuous Monitoring (ISCM) program through participation in the Federal CDM initiative led by the Department of Homeland Security;
- Enhanced capabilities for vulnerability assessment, identification and management leveraging the DHS cyber hygiene services; and
- Implementation and regular, coordinated exercise of the DOT Cyber Incident Response Plan.

Personal Identification Verification (PIV) Card Use Grows Exponentially

PIV use for mandatory access of network accounts has tripled over the course of FY14, with **100 percent of logical access for qualified accounts outside FAA now requiring the use of PIV authentication**. Once in the network, after the initial PIV access has been granted, the number of DOT Systems that support PIV authentication has nearly quadrupled to 117 systems over the course of the year, while the other systems still benefit from additional password authentication.

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In addition, during the course of FY 14, the Department instituted a standardized waiver process to ensure business and mission continuity and support in situations where PIV card usage cannot currently be made mandatory for technical reasons. The Department recognizes that the use of a DOT PIV card to access a DOT network is a first-line defensive measure. However, it has not always been clear in OIG reporting that even those systems not yet specifically PIV enabled, require additional verification factors, such as a password, after being initially accessed through the DOT PIV enabled network, providing multiple layers of authentication and protection.

DOT Nears Full Implementation of Continuous Monitoring

During FY 2014, **the Department doubled its continuous monitoring of IT systems, now covering 95 percent of required assets**, and has continued to make significant strides. During the year, DOT submitted an Information Security Continuous Monitoring Strategy and Plan that was accepted by OMB and DHS. It also signed a memorandum of agreement with DHS for participation in the Federal Continuous Diagnostics and Mitigation (CDM) program, and has been an active participant in program activities. Further, all but three DOT components (75% of the agency) have documented Component-level Continuous Monitoring strategies and plans, and are in the process of implementation. All DOT Components are using the Continuous Monitoring guidance issued by the DOT Chief Information Security Officer.

DOT Carefully Tracks and Prioritizes Action on Cybersecurity Issues

While the Department is tracking over 5000 security issues over its IT portfolio, during the fiscal year, it reduced the number of weaknesses by 22 percent. Fully sixty percent of the pending issues are considered low or very low in terms of criticality, implying they are minor documentation or process issues and not significant deficiencies. Less than 4 percent of the pending issues are considered high priority issues, and actions have been scheduled to addresses them based on the availability of necessary resources. Finally, based on the CIO's analyses, actions to remediate cyber issues have been timely. Fully 94 percent of the issues in the tracking system have been entered into the tracking system within the past 24 months, and no open issue has been in the system in excess of 5 years.

This impressive list of achievements has been accomplished despite severe resource challenges facing the Department's lead office for cyber security. Up until this year, this office functioned with only 3 full time employees. Several additional resources have been added during the course of the year and the CIO continues its efforts to secure additional resources that will be critical to ensuring sufficient cyber security for the Department.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) REPORTING (AS AMENDED BY IPERA)

The Improper Payments Information Act of 2002 (P.L. 107-300) requires agencies to review their programs and activities to identify those susceptible to significant improper payments. IPIA was amended on July 22, 2010, by the Improper Payments Elimination and Recovery Act of 2010 (P.L. 111-204). IPERA strengthens the requirements for Government agencies to carry out cost-effective programs for identifying and recovering overpayments, also known as "recapture auditing." Throughout fiscal year (FY) 2014, the U.S. Department of Transportation (DOT) began implementing the most recent amendment to IPIA, the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (P.L. 112-248). In particular, DOT implemented the Do Not Pay Initiative requirements of IPERIA Section 5. DOT plans to complete the implementation of the new reporting requirements created by IPERIA in FY 2015.

The Office of Management and Budget (OMB) Circular A-123, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," (A-123 Appendix C), dated April 14, 2011, provides guidance on the implementation of IPERA. A-123 Appendix C defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient documentation or lack of documentation, this payment must also be considered an improper payment.

The Disaster Relief Appropriations Act, 2013 (P.L. 113-2) (Disaster Relief Act) deemed all programs and activities receiving funds to be susceptible to significant improper payments. OMB issued M-13-07, Accountability for Funds Provided by the Disaster Relief Appropriations Act, dated March 12, 2013 (M-13-07) requiring agencies to calculate and report an improper payment estimate for programs and activities receiving Disaster Relief Act funds. OMB directed agencies to produce and report improper payment estimates with the same discipline and rigor as programs that are traditionally designated as susceptible to significant improper payments under IPERA. For FY 2014, DOT chose to separate the populations of payments from programs and activities receiving Disaster Relief Act and test them to the same extent as the High-Risk programs.

U.S. DEPARTMENT OF TRANSPORTATION PROCESS

DOT's process for complying with IPERA and OMB Circular A-123, Appendix C consists of the following steps:

1) Review program and activities to identify those susceptible to significant improper payments.
2) Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs identified as susceptible to significant improper payments.
3) Implement a plan to reduce erroneous payments.

4) Report estimates of the annual amounts of improper payments in programs and activities and progress in reducing them.

For FY 2014 reporting, the timeframe of payments which DOT used to complete the four-step process was a 12-month period of April 1, 2013, to March 31, 2014, for the High-Risk programs and a 14-month period of February 1, 2013, to March 31, 2014, for the Disaster Relief Act Programs.

The following sections provide information on the Risk Assessment, Statistical Sampling, Corrective Actions, Recapture of Improper Payments Reporting, and Implementation of the Do Not Pay Initiative.

I. RISK ASSESSMENT

Either the former Section 57 of OMB Circular A-11 or the Programmatic Improper Payment Risk Assessment initially identified DOT's High-Risk programs. The former Section 57 of OMB Circular A-11 identified four programs, listed in Table 1.1. The high volumes of payments coupled with the fact that third parties administer Federal funds outside the agency are characteristics of these programs. For FY 2014, these four programs continue to be considered high risk due to the results of prior year improper payment estimates and DOT's Programmatic Improper Payment Risk Assessments.

DOT's Programmatic Improper Payment Risk Assessments leverage the Assessable Units (AU) Risk Profiles compiled as part of the ongoing compliance with the Federal Managers Financial Integrity Act (FMFIA). This assessment identified one additional program, listed in Table 1.1, as being at high risk for FY 2014 due to the age of the program, administration of Federal funds by third parties outside of the agency, and the dollar amount fund appropriated to the program.

Table 1.1 lists the High-Risk programs selected for FY 2014 testing and their related population of disbursements.

TABLE 1.1. HIGH-RISK PROGRAMS SELECTED FOR TESTING

Operating Administration	Program Name	Initial Source Requiring DOT To Report an Improper Payment Estimate	Disbursements ($ millions)
Federal Aviation Administration (FAA)	Airport Improvement Program (AIP)	Former Section 57 of OMB Circular A-11	$2,752
Federal Transit Administration (FTA)	Formula Grant	Former Section 57 of OMB Circular A-11	$8,725
	Capital Investment Grant (CIG)	Former Section 57 of OMB Circular A-11	$1,996
Federal Highway Administration (FHWA)	Federal-Aid Highways, General Funded Emergency Relief Program—Disaster Relief Act[1], American Recovery and Reinvestment Act, and Other Programs[2]	Former Section 57 of OMB Circular A-11	$44,660
Federal Railroad Administration (FRA)	High-Speed Intercity Passenger Rail Program (HSIPR)	Programmatic Improper Payment Risk Assessment	$780

[1] FHWA's High-Risk Improper Payment Program includes Disaster Relief Act payments that are not directly related to Hurricane Sandy.

[2] In prior fiscal years, FHWA's High-Risk program reported improper payment results under the title Federal-Aid Grant Program. FHWA changed the program name to better reflect the composition of the High-Risk program for FY 2014 reporting.

As required by OMB M-13-07, Disaster Relief Act programs were considered as a separate population and assessed with the same discipline and rigor as programs identified as High-Risk programs through the IPERA testing.

Table 1.2 lists the Disaster Relief Act programs population selected for FY 2014 testing and their related population of disbursements.

TABLE 1.2. DISASTER RELIEF ACT PROGRAMS SELECTED FOR TESTING

Operating Administration	Program Name	Disbursements ($ millions)
FAA	Facilities and Equipment—Disaster Relief Act	$4
FTA	Public Transit Emergency Relief Program—Disaster Relief Act	$595
FHWA	General Funded Emergency Relief Program—Disaster Relief Act (Hurricane Sandy related only)[1]	$91
FRA	Grants to the National Railroad Passenger Corporation—Disaster Relief Act	$88

[1] FHWA's Disaster Relief Act Improper Payment Program includes payments directly related to Hurricane Sandy.

DOT is in the process of completing a Department-wide risk assessment for reporting in FY 2015. Based on information from the results of this risk assessment, DOT will determine if the in-scope programs for FY 2014 are still considered High-Risk programs and/or if additional programs should be considered as susceptible to significant improper payments.

Quantitative and qualitative factors will determine the susceptibility of programs making significant improper payments. For quantitative factors, DOT will review the total expenditures for each funding activity to determine if the volume of transactions may result in an error rate of 1.5 percent and $10 million, or $100 million regardless of the error rate, annually. The qualitative factors will include the following:

- Payment processing controls
- Quality of internal monitoring controls
- Human capital
- Age of the program
- Complexity of program
- Nature of payments and recipients
- Operating environment
- Additional grant programs factors
- Contract payment management

II. STATISTICAL SAMPLING

The sampling approaches have not changed from the previous year for any program except for FRA Grants to the National Railroad Passenger Corporation—Disaster Relief Act. For all programs, DOT OAs obtained the data extracts from a single source—DOT's financial system of record, Delphi. In addition, to verify both sample integrity and the accuracy of extrapolated programmatic improper payment estimates, DOT OAs collaborated with the Office of Inspector General (OIG) IPERA statistician to develop sampling and extrapolation methodologies mutually agreed upon by both parties and in compliance with OMB requirements. For FRA Grants to the National Railroad Passenger Corporation—Disaster Relief Act, an additional step was performed which involved requesting all the invoices in the population for selection of the samples. Table 2.1 lists the results of DOT improper payment testing for High-Risk programs and Table 2.2 does the same for Disaster Relief Act programs. Except for FTA Formula Grants, the estimated error amounts and percentages for DOT's High-Risk and Disaster Relief Act programs were below statutory thresholds of an error rate of 1.5 percent and $10 million, or $100 million regardless of the error rate.

TABLE 2.1. HIGH-RISK PROGRAMS SAMPLE RESULTS

Operating Administration and Program Name	Payment Sampling Population ($ millions)	Sample Size ($ millions)—Stage 1	Est. Error Amount ($ millions)	Est. Error %
FAA AIP	$2,752	$177	$5	0.20%
FTA Formula Grants[(1)]	$8,725	$439	$254	2.91%
FTA CIG	$1,996	$491	$0	0.00%
FHWA Federal-Aid Highways, General Funded Emergency Relief Program—Disaster Relief Act, American Recovery and Reinvestment Act, and Other Programs	$44,660	$417	$42	0.10%
FRA HSIPR	$780	$214	$8	1.06%

[(1)] One improper payment significantly contributed to the FTA Formula Grants estimated error rate of 2.91 percent because the grantee could not provide sufficient documentation to support the purchase of a vehicle for $23,180.

TABLE 2.2. DISASTER RELIEF ACT PROGRAM SAMPLE RESULTS

Operating Administration and Program Name	Payment Sampling Population ($ millions)	Sample Size ($ millions)—Stage 1	Est. Error Amount ($ millions)	Est. Error %
FAA Facilities and Equipment—Disaster Relief Act	$4	$2	$0	0.00%
FTA Public Transit Emergency Relief Program—Disaster Relief Act	$595	$281	$.13	0.02%
FHWA General Funded Emergency Relief Program—Disaster Relief Act (Hurricane Sandy related only)	$91	$49	$0	0.00%
FRA Grants to the National Railroad Passenger Corporation—Disaster Relief Act	$88	$69	$0.36	0.41%

III. CORRECTIVE ACTIONS

The following tables list corrective actions for the DOT programs. These corrective actions are targeted at addressing the root causes behind administrative and documentation errors caused by processing the payments incorrectly by the grantees.

TABLE 3.1. CORRECTIVE ACTIONS FOR FTA

Risk Factor	Corrective Action	Target Completion Date
Category of Error—Insufficient Documentation		
Insufficient documentation to support and/or validate financial transactions	1. Provide grantees with guidance on the retention of supporting documentation as prescribed by FTA and National Archives and Records Administration (NARA).	03/31/2015
	2. Provide select grantees with guidance on giving persons and entities producing improper payment estimates access to all necessary payment data, including access to relevant documentation as prescribed by IPERIA and OMB guidance.	03/31/2015
	3. Provide select grantees with refresher training to reiterate disbursement guidelines and process policies. It was noted, FTA implemented temporary suspensions to mitigate the risk of improper drawdowns committed by a select few grantees.	03/31/2015

Fund Stewardship

Although DOT identifies its five largest grant programs and four Disaster Relief Act programs as susceptible to significant improper payment rates, only one of these nine programs reported significant rates of improper payments above the threshold of 1.5 percent and $10 million, or $100 million regardless of the error rate, annually, as defined by IPERA, in FY 2014. To prevent any increases of the improper payments rates, DOT's OAs stress the importance of proper fund stewardship with its grant recipients via various grantee review programs.

- **FAA.** Through a grant and sponsor oversight process, continuous throughout the duration of the grant, FAA promotes proper fund stewardship. FAA receives quarterly reports on each grant to assess sponsor performance under every grant agreement. On a broader level, FAA uses a risk-based approach that increases the level of review of sponsor documentation, depending on the risk level of the Grantee.

- **FTA.** FTA uses the State Management Reviews and Triennial Reviews to ensure proper compliance with Federal Grant regulations. In addition to stressing proper financial oversight, FTA Grantee reviews delve into various focus areas, such as legal compliance, technical compliance, and procurement processes at the State and local level.

- **FHWA.** Under its Financial Integrity Review and Evaluation (FIRE) program, FHWA subjects States and territories not selected as part of the IPERA sample to a similar billing review process. The FIRE program also incorporates additional reviews, including focus areas such as inactive projects, grant administration at the local level, and procurement at the local level using Federal funds.

- **FRA.** Under a comprehensive, risk-based oversight program, FRA conducts routine monitoring, including periodic reviews of projects, as part of the management and administration of the HSIPR program. The routine monitoring activities center on recipient compliance with the FRA agreement and on the approved budget, schedule, and fund stewardship. Routine monitoring highlights potential areas of concern and opportunities for training and technical assistance.

IV. IMPROPER PAYMENT REPORTING

Table 4.1.1 summarizes improper payment amounts for the High-Risk programs and Table 4.1.2 does the same for Disaster Relief Act programs. For High-Risk programs, improper payment percent (IP%) and improper dollar (IP$) results are provided from last year's and this year's testing of payments. Data for projected future year improvements are based on the timing and significance of completing corrective actions. DOT requires at least 1 more year to fully establish improper payment baselines for the Disaster Relief Act programs.

TABLE 4.1.1. HIGH-RISK PROGRAMS IMPROPER PAYMENT REDUCTION OUTLOOK

Program Name	PY Outlays ($M)	PY IP%	PY IP$ ($M)	CY Outlays (3M)	CY IP %	CY IPS (SM)
FAA AIP	$3,653	0.07%	$2.55	$3,259	0.20%	$6.51
FTA Formula Grants	$8,092	0.73%	$59.07	$9,127	2.91%	$265.60
FTA CIG	$2,113	0.04%	$0.85	$2,101	0.00%	$0
FHWA Federal-Aid Highways, General Funded Emergency Relief Program—Disaster Relief Act, American Recovery and Reinvestment Act, and Other Programs	$42,992	0.20%	$85.98	$42,933	0.10%	$42.93
FRA HSIPR	$768	0.00%	$0.00	$1,094	1.06%	$11.59

Program Name	CY+1 Est. Outlays ($M)	CY+1 IP %	CY+1 IP$ ($M)	CY+2 Est. Outlays ($M)	CY+2 IP %	CY+2 IP$ ($M)	CY+3 Est. Outlays ($M)	CY+3 IP %	CY+3 IP$ ($M)
FAA AIP	$3,759	0.50%	$18.79	$3,315	0.50%	$16.58	$3,239	0.50%	$16.19
FTA Formula Grants	$10,318	0.50%	$51.59	$12,545	0.50%	$62.73	$14,099	0.50%	$70.4
FTA CIG	$1,833	0.25%	$4.58	$1,481	0.25%	$3.70	$712	0.25%	$1.78
FHWA Federal-Aid Highways, General Funded Emergency Relief Program—Disaster Relief Act, American Recovery and Reinvestment Act, and Other Programs	$45,172	0.25%	$112.93	$47,162	0.25%	$117.91	$48,062	0.25%	$120.16
FRA HSIPR	$2,148	0.25%	$5.37	$2,521	0.25%	$6.30	$2,286	0.25%	$5.72

TABLE 4.1.2 DISASTER RELIEF ACT PROGRAMS IMPROPER PAYMENT REDUCTION OUTLOOK

Program Name	PY Outlays ($M)	PY IP%	PY IP$ ($M)	CY Outlays (3M)	CY IP %	CY IPS (SM)
FAA Facilities and Equipment—Disaster Relief Act	N/A	N/A	N/A	$10	0.00%	$0.00
FTA Public Transit Emergency Relief Program—Disaster Relief Act	N/A	N/A	N/A	$544	0.02%	$0.10
FHWA General Funded Emergency Relief Program —Disaster Relief Act (Hurricane Sandy related only)	N/A	N/A	N/A	$154	0.00%	$0.00
FRA Grants to the National Railroad Passenger Corporation—Disaster Relief Act	N/A	N/A	N/A	$134	0.41%	$0.54

Program Name	CY+1 Est. Outlays ($M)	CY+1 IP %	CY+1 IP$ ($M)	CY+2 Est. Outlays ($M)	CY+2 IP %	CY+2 IP$ ($M)	CY+3 Est. Outlays ($M)	CY+3 IP %	CY+3 IP$ ($M)
FAA Facilities and Equipment—Disaster Relief Act	$10	N/A	N/A	$5	N/A	N/A	N/A	N/A	N/A
FTA Public Transit Emergency Relief Program—Disaster Relief Act	$915	N/A	N/A	$1,220	N/A	N/A	$1,423	N/A	N/A
FHWA General Funded Emergency Relief Program—Disaster Relief Act (Hurricane Sandy related only)	$219	N/A	N/A	$97	N/A	N/A	$63	N/A	N/A
FRA Grants to the National Railroad Passenger Corporation—Disaster Relief Act	$75	N/A	N/A	$0	N/A	N/A	$0	N/A	N/A

Overpayments and Underpayments Details

Table 4.2.1 provides overpayment and underpayment breakouts for DOT's High-Risk programs and Table 4.2.2 does the same for Disaster Relief Act programs.

TABLE 4.2.1. EXTRAPOLATED OVERPAYMENT/UNDERPAYMENT PROGRAMMATIC ESTIMATE FOR HIGH-RISK PROGRAMS

		Gross Total		Overpayment Total		Underpayment Total	
Operating Administration	Program Name	Est. Error Amount ($ millions)	Est. Error (%)	Est. Error Amount ($ millions)	Est. Error (%)	Est. Error Amount ($ millions)	Est. Error (%)
FAA	AIP	$5.60	0.20%	$4.57	0.16%	$1.03	0.04%
FTA	Formula Grant	$254.16	2.91%	$251.54	2.88%	$2.62	0.03%
	CIG	$0.00	0.00%	$0.00	0.00%	$0.00	0.00%
FHWA	Federal-Aid Highways, General Funded Emergency Relief Program—Disaster Relief Act, American Recovery and Reinvestment Act, and Other Programs	$42.43	0.10%	$42.43	0.10%	$0.00	0.00%
FRA	HSIPR	$8.30	1.06%	$8.30	1.06%	$0.00	0.00%
DOT		**$310.49**		**$306.84**		**$3.65**	

TABLE 4.2.2. EXTRAPOLATED OVERPAYMENT/UNDERPAYMENT PROGRAMMATIC ESTIMATE FOR DISASTER RELIEF ACT PROGRAMS

		Gross Total		Overpayment Total		Underpayment Total	
Operating Administration	Program Name	Est. Error Amount ($ millions)	Est. Error (%)	Est. Error Amount ($ millions)	Est. Error (%)	Est. Error Amount ($ millions)	Est. Error (%)
FAA	Facilities and Equipment—Disaster Relief Act	$0.00	0.00%	$0.00	0.00%	$0.00	0.00%
FTA	Public Transit Emergency Relief Program—Disaster Relief Act	$0.13	0.02%	$0.13	0.02%	$0.00	0.00%
FHWA	General Funded Emergency Relief Program—Disaster Relief Act (Hurricane Sandy related only)	$0.00	0.00%	$0.00	0.00%	$0.00	0.00%
FRA	Grants to the National Railroad Passenger Corporation—Disaster Relief Act	$0.36	0.41%	$0.36	0.41%	$0.00	0.00%
DOT		**$0.49**		**$0.49**		**$0.00**	

V. RECAPTURE OF IMPROPER PAYMENT REPORTING

DOT utilized Federal personnel to conduct the payment recapture audit. Federal personnel collaborated with DOT's shared service provider, the Enterprise Services Center (ESC), to identify overpayments, initiate collection actions, and explore opportunities to improve departmental payment processes. In addition, ESC implemented enhanced procedures in FY 2014 to detect and manage overpayments identified outside the payment recapture audit.

Federal personnel, working closely with ESC, did not identify any systemic payment process weaknesses. Overpayments identified in FY 2014 resulted from individual cases of duplicate payments primarily due to human input errors. In FY 2015, DOT plans to award a contract to a recovery audit firm to perform the payment recapture audit.

TABLE 5. PAYMENT RECAPTURE AUDIT REPORTING

DOT Payments	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported (CY)	Est. Amount Identified for Recovery (CY)	Amount Recovered (CY)	% of Amount Recovered out of Amount Identified (CY)
Contracts	$37.0 billion	$37.0 billion	$565,502	$502,139	88.8%
Grants	$215.4 billion	$215.4 billion	$1,055,323	$745,421	70.6%
Other	$0.7 billion	$0.7 billion	$0	$0	0.0%
Total	**$253.1 billion**	**$253.1 billion**	**$1,620,825**	**$1,247,561**	**77.0%**

CY = current year.

DOT Payments	Amount Outstanding (CY)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not To Be Collectible (CY)	% of Amount Determined Not To Be Collectable out of Amount Identified (CY)
Contracts	$63,363	11.2%	$0	0.0%
Grants	$309,901	29.4%	$0	0.0%
Other	$0	0.0%	$0	0.0%
Total	**$373,264**	**23.0%**	**$0**	**0.0%**

CY = current year.

DOT Payments	Amounts Identified for Recovery (PYs)	Amounts Recovered (PYs)	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)	Cumulative Amounts Outstanding (CY + PYs)	Cumulative Amounts Determined Not To Be Collectable (CY + PYs)
Total	**$20,226,214**	**$7,547,622**	**$21,847,039**	**$8,795,183**	**$13,051,857**	**$0**

CY = current year. PY = prior year. PYs = FY 2004 to FY 2013.

TABLE 6. PAYMENT RECAPTURE AUDIT TARGETS

DOT Payments	CY Amount Identified	CY Amount Recovered	CY Recovery Rate (Amount Recovered/ Amount Identified)	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	CY + 3 Recovery Rate Target
Contracts	$565,502	$502,139	88.8%	90.0%	90.0%	90.0%
Grants	$1,055,323	$745,421	70.6%	90.0%	90.0%	90.0%
Other	$0	$0	0.0%	90.0%	90.0%	90.0%
Total	**$1,620,825**	**$1,247,561**	**77.0%**	**90.0%**	**90.0%**	**90.0%**

CY = current year.

TABLE 7. AGING OF OUTSTANDING OVERPAYMENTS

DOT Payments	CY Amount Outstanding (0–6 months)	CY Amount Outstanding (6–12 months)	CY Amount Outstanding (over 1 year)
Contracts	$63,363	$0	$0
Grants	$309,901	$0	$0
Other	$0	$0	$0
Total	**$373,264**	**$0**	**$0**

CY = current year.

TABLE 8. DISPOSITION OF RECAPTURED FUNDS (FY 2004–FY 2014)

DOT Payments	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury
Total	$0	$243,938	$0	$8,551,245	$0	$0

TABLE 9. OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS

Source of Recovery	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)	Amount Recovered (CY)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
Voluntarily Returned—Contract Payments	$375	$375	$0	$0	$375	$375
Voluntarily Returned—Grant and Other Payments	$4,480,560	$4,480,560	$0	$0	$4,480,560	$4,480,560
Offset Future Payment—Contract Payments	$24	$24	$0	$0	$24	$24
Offset Future Payment—Grant and Other Payments	$0	$0	$0	$0	$0	$0
Post-Payment Reviews—Contract Payments	$3,719,822	$3,066,115	$35,253	$35,253	$3,906,233	$3,101,369
Post-Payment Reviews—Grant and Other Payments	$7,391,162	$7,324,932	$138	$138	$7,391,300	$7,325,069
Total	**$15,591,943**	**$14,872,006**	**$35,391**	**$35,391**	**$15,778,491**	**$14,907,397**

CY = current year. PY = prior year. PYs = FY 2011 to FY 2013.

Table 6 Notes

Federal personnel completed their identification of overpayments in October 2014. Recovery of overpayments occurs throughout the audit process and will continue through 2014. The current recovery rate of 77.0 percent is less than past recovery rates of 80 to 90 percent. DOT plans to perform quarterly payment recapture audits until a contract is awarded to a recovery audit firm.

Table 9 Notes

Overpayments identified outside the payment recapture audit were identified during FY 2014. DOT is in the process of continuing the recovery of these payments.

VI. ACCOUNTABILITY

DOT has implemented various Grantee Review programs, as highlighted in PART III of this IPERA Reporting Details Section, to hold States and local agencies accountable for improper payments. All review programs stress the importance of reducing and recapturing improper payments, and the focus on improper payments is an ongoing concern, not just an annual review exercise.

DOT's various Operating Administrations use a vast network of regional offices to ensure that DOT maintains regular communication with Grantees and with State and local officials. Operating Administrations ensure that Grantees understand the purpose of Grant Reviews during each step of the review process. This constant communication, along with the aid of Grantee staff, has enabled DOT to not only maintain a low rate of improper payments, but also achieve success in recapturing payments identified as both improper and recoverable.

VII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

DOT currently possesses the internal controls, human capital, and information systems necessary to identify and reduce improper payment to the targeted programmatic rates.

VIII. BARRIERS

DOT has not identified statutory or regulatory barriers, which may limit the Department's corrective actions in reducing improper payments.

IX. ADDITIONAL COMMENTS

None.

X. AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE

An important part of the Department's program integrity efforts designed to prevent, identify, and reduce improper payments is our adoption of Treasury's Do Not Pay Working System—the Governmentwide initiative mandated by the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (P.L. 112-248) and supporting guidance from the Office of Management and Budget (OMB)—into our existing business processes. Specifically, DOT utilizes this Working System to perform online searches and postpayment reviews against the IPERIA listed Do Not Pay databases.

At DOT, we follow existing preaward, pre-enrollment, and prepayment processes for all acquisition and financial assistance awards including procedures for cross-referencing applicants against the General Services Administration's Excluded Parties List System (EPLS), or the updated System for Award Management (SAM). It also includes a review of Federal and commercial databases to verify past performance, Federal Government debt, integrity, and business ethics. Further, the Department's shared service provider, the Enterprise Services Center (ESC), requires checks be made against two systems prior to establishing a Vendor in our core financial accounting system: SAM and the Internal Revenue Service Taxpayer Identification Number (TIN) Match Program.

In March 2013, the Department implemented postpayment review procedures to adjudicate matches within the Do Not Pay Working System. The monthly adjudication process involves verifying payee information against Departmental sources, reviewing databases within the Do Not Pay Working System, and confirming that appropriate business rules were applied when the payment was made. While our existing adjudication process has confirmed all matches were false positives, we see benefits in utilizing the Do Not Pay Working System. When feasible, DOT intends to explore opportunities to perform proactive compliance tests on Departmental financial data sources utilizing Do Not Pay Initiative resources.

Over the past fiscal year, DOT submitted payments to the Do Not Pay Working System to match against the EPLS and Death Master File (DMF) databases. As indicated in Table 7.1, the Department has adjudicated 100 percent of EPLS and 100 percent of Death Master File (DMF) postpayment matches resulting in no improper payments stopped or identified through the Do Not Pay Initiative.

TABLE 10. IMPLEMENTATION OF THE DO NOT PAY INITIATIVE TO PREVENT IMPROPER PAYMENTS[1]

	Number (#) of Payments Reviewed for Improper Payments	Dollars ($) of Payments Reviewed for Improper Payments	Number (#) of Payments Stopped	Dollars ($) of Payments Stopped	Number (#) of Improper Payments Reviewed and Not Stopped	Dollars ($) of Improper Payments Reviewed and Not Stopped
Reviews with DMF	351,502	$10,849,204,318	$0	$0	$0	$0
Review with all other databases	361,415	$19,447,219,427	$0	$0	$0	$0

[1] Table 10 includes payments reviewed from October 2013 to June 2014. Results of payments reviewed from July 2014 to September 2014 were not available for inclusion in the Annual Financial Report.

FEDERAL REAL PROPERTY INITIATIVE

The Executive Office of the President has long recognized the importance of being economical and efficient stewards of the Federal Government's real property assets and has sought to improve agency asset management programs through several initiatives. Recent initiatives have focused on the aggressive disposal of excess properties held by Federal agencies. The "Freeze the Footprint" initiative, implemented by Office of Management and Budget (OMB) Management Procedures Memorandum No. 2013-02, requires Federal agencies to reduce their domestic office and warehouse inventory, in square footage terms, from their fiscal year 2012 baseline levels.

In response to this mandate, the Department has undertaken numerous efforts to avoid unnecessary real property costs including the implementation of new asset management processes, the utilization of new real property data management tools, basic and advanced training of real estate contracting officers, and the consolidation of facilities and regional offices. In one such effort, DOT has partnered with the General Services Administration (GSA) on the Client Portfolio Planning (CPP) initiative to create a comprehensive real property portfolio management plan. 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 decisionmaking. Additionally, the Department regularly updates the Real Estate Management System (REMS) to track the inventory of all DOT operating administrations.

As the largest portion of DOT's real property portfolio consists of technical facilities, or en route centers, to support the National Airspace System, the Department expects significant potential future cost avoidance opportunities as designated facilities are decommissioned. The below summary table shows DOT's decreased footprint from FY 2012 to FY 2013. The Department expects this trend to continue as the pipeline of space reduction projects is executed.

EXHIBIT I. FREEZE THE FOOTPRINT BASELINE COMPARISON

	Fiscal Year 2012 Baseline	Prior Fiscal Year 2013[1]	Change (2012–2013)
Square Footage (in millions)	13	12.9	(.1)

[1] Fiscal year 2013 is the most recent period for which data is available, as fiscal year square footage data is not verified and finalized until the end of the calendar year.

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 both the optimization of building energy performance and significant water usage reductions. Another tool, the Real Property Disposal Cost Control Measure monitors the monthly and year-to-date cost savings/avoidance of disposed assets.

EXHIBIT II. REPORTING OF O&M COSTS—OWNED AND DIRECTLY LEASED BUILDINGS

	Fiscal Year 2012 Baseline	Prior Fiscal Year 2013[1]	Change (2012–2013)
Operation and Maintenance Costs[2] (in millions)	$261.93	$237.67	($24.26)

[1] Fiscal year 2013 is the most recent period for which data is available, as fiscal year square footage data is not verified and finalized until the end of the calendar year.

[2] Annual Operating costs, as defined by the Federal Real Property Council (FRPC) guidance for real property inventory, consists of: recurring maintenance and repair costs, utilities, cleaning and/or janitorial costs, roads/grounds expense, and in some cases annual rental costs for leased properties.

Through the numerous real property control processes and management tools placed in operation, the Department ensures compliance with the objectives of "Freeze the Footprint" initiative to reduce its domestic office and warehouse inventory, in terms of both square footage and cost.

LIST OF ACRONYMS

A

AATF	Airport and Airway Trust Fund
ADA	Americans With Disabilities Act
ADA	Anti-Deficiency Act
AEC	Atomic Energy Commission
AFR	Agency Financial Report
AICPA	American Institute of Certified Public Accountants
AIP	Airport Improvement Program
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act of 2009
AU	Assessable Units

B

BBEDCA	Balanced Budget and Emergency Deficit Control Act
BCA	Budget Control Act

C

CASTLE	Consolidated Automation System for Time and Labor Entry
CDM	Continuous Diagnostic and Monitoring
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CIO	Chief Information Officer
COE	Common Operating Environment
CSRS	Civil Service Retirement System
CY	current year

D

DHS	Department of Homeland Security
DOL	Department of Labor
DOT	Department of Transportation

E

ERAM	En Route Automation Modernization system
ESC	Enterprise Services Center

F

FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBWT	Fund Balance with Treasury
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees Compensation Act Benefits
FEGLI	Federal Employees Group Life Insurance Program
FEHB	Federal Employees Health Benefit Program
FEMA	Federal Emergency Management Agency
FERS	Federal Employee Retirement System
FFGAs	Full Funding Grant Agreements
FFMIA	Federal Financial Management Improvement Act of 1996
FHWA	Federal Highway Administration
FIRE	Financial Integrity Review and Evaluation
FISMA	Federal Information Security Management Act of 2002
FMCSA	Federal Motor Carrier Safety Administration
FMFIA	Federal Managers' Financial Integrity Act of 2002
FRA	Federal Rail Administration
FTA	Federal Transit Administration
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GHG	Greenhouse Gas
GSA	General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System

H

HTF	Highway Trust Fund

I

IG	Inspector General
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service

J, K

L

LUST	Leaking Underground Storage Tank

M

MAP-21	Moving Ahead for Progress in the 21st Century
MARAD	Maritime Administration
MD&A	Management's Discussion and Analysis
MOU	Memorandum of Understanding

N

NAS	National Airspace System
NATCA	National Air Traffic Controllers Association
NHTSA	National Highway Traffic Safety Administration
NRC	Nuclear Regulatory Commission

O

OA	Operating Administration
OI	Other Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
OST	Office of the Secretary
OTA	U.S. Treasury Office of Tax Analysis

P

PAR	Performance and Accountability Report
PCB	polychlorinated biphenyls
PHMSA	Pipeline and Hazardous Materials Safety Administration
PIV	Personal Identity Verification
P. L.	Public Law
PP&E	Property, Plant & Equipment
PRIIA	Passenger Rail Investment Improvement Act of 2008
PY	prior year

Q

QCR	Quality Control Review

R

RCRA	Resource Conservation and Recovery Act of 1976
R&D	Research and Development
RD&T	Research, Development and Technology
RITA	Research and Innovative Technology Administration
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information

S

SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAS	Statement on Auditing Standards
SBR	Statement of Budgetary Resources
SCA	Statement of Custodial Activity
SCNP	Statement of Changes in Net Position
SFFAS	Statement of Federal Financial Accounting Standards
SLSDC	U.S. Saint Lawrence Seaway Development Corporation
SNC	Statement of Net Cost
SOS	Schedule of Spending
SSAE	Statements on Standards for Attestation Engagements
STB	Surface Transportation Board

T

TBD	to be determined
TEU	Twenty Foot Equivalent
TIFIA	Transportation Infrastructure Finance and Innovation Act
TSCA	Toxic Substances Control Act

U

UDO	Undelivered Orders
USC	United States Code
USMMA	U.S. Merchant Marine Academy
USSGL	United States Standard General Ledger

V

VMT	Vehicle-Miles Traveled

W

WCF	Working Capital Fund

X, Y, Z

U.S. Department of Transportation

Office of the Secretary of Transportation
Assistant Secretary for Budget & Program Performance

1200 New Jersey Avenue, SE
Washington DC 20590